

NAVTEQ CORP
Form 10-Q
July 29, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 26, 2005

OR

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**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.

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Yes No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes No

The number of shares of the Registrant's Common Stock, \$0.001 par value, outstanding as of July 13, 2005 was 90,485,622.

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References in this Quarterly Report on Form 10-Q to NAVTEQ, the Company, we, us, and our refer to NAVTEQ Corporation and its subsidiaries.

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 described in this report. 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, 2004 | June 26, 2005 (Unaudited) |
|--|----------------------|---------------------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 30,101 | 47,731 |
| Short-term marketable securities | 45,650 | 37,038 |
| Accounts receivable, net of allowance for doubtful accounts of \$3,571 and \$4,528 in 2004 and 2005, respectively | 56,582 | 79,562 |
| Deferred income taxes | 50,696 | 47,574 |
| Prepaid expenses and other current assets | 8,348 | 10,535 |
| Total current assets | 191,377 | 222,440 |
| Property and equipment, net | 18,220 | 17,023 |
| Capitalized software development costs, net | 26,243 | 26,256 |
| Long-term deferred income taxes, net | 92,069 | 73,944 |
| Long-term marketable securities | 27,280 | 50,418 |
| Deposits and other assets | 9,519 | 10,849 |
| Total assets | \$ 364,708 | 400,930 |
| Liabilities and Stockholders Equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 13,962 | 10,306 |
| Accrued payroll and related liabilities | 28,054 | 22,681 |
| Other accrued expenses | 20,609 | 23,923 |
| Deferred revenue | 31,165 | 37,831 |
| Total current liabilities | 93,790 | 94,741 |
| Fair value of foreign currency derivative | 21,616 | 8,736 |
| Long-term deferred revenue | 13,342 | 7,989 |
| Other long-term liabilities | 3,142 | 2,179 |
| Total liabilities | 131,890 | 113,645 |
| Stockholders' equity: | | |
| Common stock, \$0.001 par value; 400,000 shares authorized; 87,741 and 89,902 shares issued and outstanding in 2004 and 2005, respectively | 88 | 90 |
| Additional paid-in capital | 741,448 | 752,398 |
| Deferred compensation expense | (12,403) | (12,809) |
| Accumulated other comprehensive loss: | | |
| Cumulative translation adjustment | (28,503) | (26,512) |
| Unrealized holding loss on available-for-sale marketable securities, net of tax | (98) | (217) |
| Total accumulated other comprehensive loss | (28,601) | (26,729) |
| Accumulated deficit | (467,714) | (425,665) |

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| | | | |
|--|----|---------|---------|
| Total stockholders' equity | | 232,818 | 287,285 |
| Total liabilities and stockholders' equity | \$ | 364,708 | 400,930 |

See accompanying notes to condensed consolidated financial statements.

NAVTEQ CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements of Income

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(In thousands, except per share data)

(Unaudited)

| | Quarter Ended | | Six Months Ended | |
|---|------------------|------------------|------------------|------------------|
| | June 27, 2004 | June 26, 2005 | June 27, 2004 | June 26, 2005 |
| Net revenue | \$ 96,600 | 122,832 | \$ 176,065 | 227,529 |
| Operating costs and expenses: | | | | |
| Database creation and distribution costs | 44,539 | 54,050 | 84,974 | 102,003 |
| Selling, general and administrative expenses | 27,216 | 31,340 | 50,312 | 63,253 |
| Total operating costs and expenses | 71,755 | 85,390 | 135,286 | 165,256 |
| Operating income | 24,845 | 37,442 | 40,779 | 62,273 |
| Other income (expense): | | | | |
| Interest income | 187 | 794 | 330 | 1,443 |
| Interest expense | (7) | (7) | (8) | (10) |
| Foreign currency loss | (393) | 63 | (722) | (10) |
| Other income (expense) | 29 | (13) | 11 | 15 |
| Income before income taxes | 24,661 | 38,279 | 40,390 | 63,711 |
| Income tax expense | 9,338 | 13,015 | 15,348 | 21,662 |
| Net income | \$ 15,323 | 25,264 | \$ 25,042 | 42,049 |
| Earnings per share of common stock: | | | | |
| Basic | \$ 0.18 | 0.28 | \$ 0.29 | 0.47 |
| Diluted | \$ 0.17 | 0.27 | \$ 0.27 | 0.45 |
| Weighted average shares of common stock outstanding: | | | | |
| Basic | 86,495 | 89,773 | 85,337 | 89,199 |
| Diluted | 91,916 | 93,854 | 91,522 | 93,678 |

See accompanying notes to condensed consolidated financial statements.

NAVTEQ CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

| | Six Months Ended | |
|---|------------------|---------------|
| | June 27, 2004 | June 26, 2005 |
| Cash flows from operating activities: | | |
| Net income | \$ 25,042 | 42,049 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Deferred income taxes | 12,608 | 18,230 |
| Depreciation and amortization | 2,833 | 4,162 |
| Amortization of software development costs | 4,115 | 6,115 |
| Foreign currency loss | 722 | 10 |
| Provision for bad debts | 568 | 1,787 |
| Stock compensation expense | 1,526 | 4,819 |
| Tax benefit on non-qualified stock options | 352 | 3,060 |
| Noncash other | 45 | 572 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (14,486) | (27,490) |
| Prepaid expenses and other current assets | (686) | (2,477) |
| Deposits and other assets | (4,003) | (1,005) |
| Accounts payable | 1,496 | (2,671) |
| Accrued payroll and related liabilities | (1,281) | (3,521) |
| Other accrued expenses | (1,080) | (3,716) |
| Deferred revenue | 28,289 | 3,256 |
| Other long-term liabilities | (224) | (714) |
| Net cash provided by operating activities | 55,836 | 42,466 |
| Cash flows from investing activities: | | |
| Acquisition of property and equipment | (5,092) | (2,532) |
| Capitalized software development costs | (5,697) | (6,128) |
| Purchases of marketable securities | | (84,287) |
| Sales of marketable securities | | 69,234 |
| Purchase of investment | | (500) |
| Cash on deposit with affiliate, net | 3,244 | |
| Net cash used in investing activities | (7,545) | (24,213) |
| Cash flows from financing activities: | | |
| Issuance of common stock | 693 | 2,667 |
| Dividends paid | (47,159) | |
| Net cash provided by (used in) financing activities | (46,466) | 2,667 |
| Effect of exchange rate changes on cash | (67) | (3,290) |
| Net increase in cash and cash equivalents | 1,758 | 17,630 |
| Cash and cash equivalents at beginning of period | 1,982 | 30,101 |
| Cash and cash equivalents at end of period | \$ 3,740 | 47,731 |
| Supplemental disclosure of cash flow information: | | |
| Cash paid during the period for interest | \$ 8 | 10 |
| Cash paid during the period for income taxes | \$ 1,714 | 426 |

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 the Company's customers on various platforms, including: self-contained hardware and software systems installed in vehicles; personal computing devices, such as mobile phones, personal digital assistants and personal navigation devices; 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 and 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, 2004 included in the Company's Annual Report on Form 10-K, as amended.

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

The Company's fiscal quarterly periods end on the Sunday preceding the calendar quarter end. The 2004 second quarter had 91 days and the 2005 second quarter had 91 days. The 2004 year to date period had 179 days and the 2005 year to date period had 177 days. The Company's fiscal year end is December 31.

Certain 2004 amounts in the condensed consolidated financial statements have been reclassified to conform to the 2005 presentation.

Stock-Based Compensation

The Company applies 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 Financial Accounting Standards Board (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. Under this method, compensation expense is recorded on the date of grant only if the fair value of the underlying stock exceeds the exercise price of the option. Prior to 2003, under the Company's stock option plan, options were granted at exercise prices that were equal to the fair value of the underlying common stock on the date of grant. Therefore, no stock-based compensation was recorded in the consolidated statements of operations. During 2003, the Company granted options at exercise prices below the fair value of the underlying common stock on the date of grant. Accordingly, the Company recorded compensation expense related to these option grants of \$210 and \$199 for the quarters ended June 27, 2004 and June 26, 2005, respectively, and \$397 and \$392 for the six months ended June 27, 2004 and June 26, 2005, respectively, in the condensed consolidated statements of income. Prior to the completion of the Company's initial public offering in August 2004, the fair value of the underlying common stock was determined by the Company's Board of Directors based on an internally-prepared valuation analysis using comparable companies, comparable merger transactions and discounted cash flow methodologies.

During 2004 and 2005, the Company granted 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. Compensation expense is recognized ratably over the vesting periods of each tranche of the RSUs using a fair value equal to the fair market value of the Company's common stock on the date of the grant. The Company recognized \$1,129 and \$2,331 of compensation expense related to these restricted stock units during the quarters ended June 27, 2004 and June 26, 2005, respectively. The Company recognized \$1,129 and \$4,427 of compensation expense related to these restricted stock units during the six months ended June 27, 2004 and June 26, 2005, respectively. The expense related to the RSUs is reported in Database Creation and Distribution Costs and Selling, General and Administrative Expenses.

Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-Based Compensation, established accounting and disclosure requirements using a fair value based method of accounting for stock-based employee compensation plans. As allowed by SFAS No. 123, the Company has elected to continue to apply the intrinsic value-based method of

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accounting described above and has furnished the pro forma disclosures required by SFAS No. 123, as amended by SFAS No. 148, Accounting for Stock Based Compensation Transition and Disclosure. The compensation expense for stock options included in the pro forma disclosures is recognized ratably over the vesting periods of each tranche of the stock options. The following table illustrates the effect on net income and earnings per share if the fair value based method had been applied in each period.

| | Quarter Ended | | Six Months Ended | |
|---|------------------|------------------|------------------|------------------|
| | June 27, 2004 | June 26, 2005 | June 27, 2004 | June 26, 2005 |
| Net income, as reported | \$ 15,323 | 25,264 | \$ 25,042 | 42,049 |
| Add: Stock-based employee compensation expense included in reported net income, net of tax | 830 | 1,670 | 946 | 3,181 |
| Deduct: Total stock-based employee compensation expense determined under fair value method for all awards, net of tax | (1,128) | (3,216) | (1,611) | (5,656) |
| Pro forma net income | \$ 15,025 | 23,718 | \$ 24,377 | 39,574 |
| Earnings per share of common stock: | | | | |
| Basic as reported | \$ 0.18 | 0.28 | \$ 0.29 | 0.47 |
| Diluted as reported | \$ 0.17 | 0.27 | \$ 0.27 | 0.45 |
| Basic pro forma | \$ 0.17 | 0.26 | \$ 0.29 | 0.44 |
| Diluted pro forma | \$ 0.16 | 0.25 | \$ 0.27 | 0.42 |

(2) Recent Accounting Pronouncements

In December 2004, the FASB issued SFAS No. 123(R), Share-Based Payment, to be effective for interim or annual periods beginning after June 15, 2005. On April 14, 2005, the Securities and Exchange Commission amended the compliance dates to require SFAS No.123(R) to be effective for fiscal years beginning after June 15, 2005. SFAS No. 123(R) supersedes 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 will adopt the new standard using the modified prospective transition method, which permits recognition of expense on or after the effective date for the portion of outstanding awards for which the requisite service has not yet been rendered. The adoption of SFAS 123(R) will result in additional expense being recorded beginning in 2006 related to the Company's share-based employee compensation programs.

(3) Comprehensive Income

Comprehensive income for the quarters and the six months ended June 27, 2004 and June 26, 2005 was as follows:

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| | Quarter Ended | | Six Months Ended | |
|--|---------------|---------------|------------------|---------------|
| | June 27, 2004 | June 26, 2005 | June 27, 2004 | June 26, 2005 |
| Net income | \$ 15,323 | 25,264 | \$ 25,042 | 42,049 |
| Foreign currency translation adjustment | 458 | 395 | 2,961 | 1,991 |
| Unrealized holding gain (loss) on available-for-sale marketable securities, net of tax | | 113 | | (119) |
| Comprehensive income | \$ 15,781 | 25,772 | \$ 28,003 | 43,921 |

(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 and the six months ended June 27, 2004 and June 26, 2005 was calculated as follows:

| | Quarter Ended | | Six Months Ended | |
|--|---------------|---------------|------------------|---------------|
| | June 27, 2004 | June 26, 2005 | June 27, 2004 | June 26, 2005 |
| Numerator: | | | | |
| Net income | \$ 15,323 | 25,264 | \$ 25,042 | 42,049 |
| Denominator: | | | | |
| Denominator for basic earnings per share - weighted average shares outstanding | 86,495 | 89,773 | 85,337 | 89,199 |
| Effect of dilutive securities: | | | | |
| Employee stock options | 4,258 | 3,746 | 3,930 | 4,113 |
| Restricted stock units | 17 | 335 | 9 | 366 |
| Warrants | 1,146 | | 2,246 | |
| Denominator for diluted earnings per share - weighted average shares outstanding and assumed conversions | 91,916 | 93,854 | 91,522 | 93,678 |
| Earnings per share: | | | | |
| Basic | \$ 0.18 | 0.28 | \$ 0.29 | 0.47 |
| Diluted | \$ 0.17 | 0.27 | \$ 0.27 | 0.45 |

Outstanding options to purchase 0 and 574 shares of common stock at June 27, 2004 and June 26, 2005, respectively, were not included in the computation of diluted earnings per share because the effect would be antidilutive.

(5) Enterprise-wide Disclosures

The Company operates in one business segment and therefore does not report operating income, identifiable assets and/or other resources related to business segments. The Company derives its revenues primarily from database license fees. Revenues for geographic data of Europe and the United States/Canada are attributed to Europe (The Netherlands) and North America (United States) based on the entity that executed the related licensing agreement. Revenues for geographic data for countries outside of Europe and the United States/Canada are attributed to Europe, and are not material.

The following summarizes net revenue on a geographic basis for the quarters and the six months ended June 27, 2004 and June 26, 2005:

| | Quarter Ended | | Six Months Ended | |
|-------------------|------------------|------------------|------------------|------------------|
| | June 27, 2004 | June 26, 2005 | June 27, 2004 | June 26, 2005 |
| Net revenue: | | | | |
| Europe | \$ 66,559 | 82,016 | \$ 121,126 | 154,001 |
| North America | 30,041 | 40,816 | 54,939 | 73,528 |
| Total net revenue | \$ 96,600 | 122,832 | \$ 176,065 | 227,529 |

The following summarizes long-lived assets on a geographic basis as of December 31, 2004 and June 26, 2005:

| | December 31, 2004 | June 26, 2005 |
|---|----------------------|------------------|
| Property and equipment, net: | | |
| Europe | \$ 5,853 | 5,107 |
| North America | 12,367 | 11,916 |
| Total property and equipment, net | \$ 18,220 | 17,023 |
| Capitalized software development costs, net: | | |
| Europe | \$ | |
| North America | 26,243 | 26,256 |
| Total capitalized software development costs, net | \$ 26,243 | 26,256 |

(6) 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 June 26, 2005, the outstanding intercompany obligation was \$84,068 and the fair value of the Swap was a liability of \$8,736.

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. A gain on the fair value of the Swap of \$5,740 was recorded for the quarter ended June 26, 2005. This gain was offset by a foreign currency translation loss of \$5,732 recognized as a result of the remeasurement of the outstanding intercompany obligation at June 26, 2005. A gain on the fair value of the Swap of \$10,857 was recorded for the six months ended June 26, 2005. This gain was offset by a foreign currency translation loss of \$10,205 recognized as a result of the remeasurement of the outstanding intercompany obligation at June 26, 2005, and a foreign currency transaction loss of \$634 recognized in earnings during the six months ended June 26, 2005 resulting from foreign currency exchange differences arising on the repayments of the intercompany obligation.

(7) 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 June 26, 2005, \$10,000 remained in the balance of short-term deferred revenue and \$3,800 remained in the balance of long-term deferred revenue related to this agreement. In addition, the customer will have 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 condensed consolidated balance sheets.

(8) Secondary Offering

In connection with a registration rights agreement between Philips Consumer Electronic Services B.V. (Philips B.V.) and the Company, Philips B.V. exercised its second demand registration right on March 11, 2005. Pursuant to this request, the Company filed a Registration Statement on Form S-3 (Reg. No. 333-123628) on March 28, 2005 with the Securities and Exchange Commission to register the Company's common stock held by Philips in a secondary public

offering, which became effective May 5, 2005. The Company's selling stockholder, Philips B.V., received all of the proceeds from the sale of shares in the offering. In the offering, Philips B.V. sold 33,101 shares of common stock, which represented its entire remaining interest in the Company.

(9) 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 has 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 has 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. More specifically, Tele Atlas's complaint alleges that the Company, through its license under U.S. Patent No. 5,161,886, controls 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 has entered into patent licenses and/or other arrangements in a manner that violates the aforesaid laws. Tele Atlas seeks preliminary and permanent injunctive relief, unspecified monetary, exemplary and treble damages, and costs and attorneys' fees of suit. Based on a preliminary review of the complaint, the Company believes that the allegations are without merit. The Company, however, is continuing to evaluate this matter with counsel. 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 its business, financial position or results of operations. A negative outcome could adversely affect our 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.

(10) Subsequent Event

On July 8, 2005, the Company acquired Picture Map International Co., Ltd., a South Korean digital map company (PMI), through its wholly owned subsidiary, NAVTEQ B.V., pursuant to a Stock Purchase Agreement (the Agreement) dated the same date by and among NAVTEQ B.V., the Company, PMI and all of the shareholders of PMI (the PMI Shareholders). Under the Agreement, NAVTEQ B.V. acquired all of the outstanding shares of PMI for an aggregate purchase price of \$28,500 (the Purchase Price), subject to post-closing adjustments based on working capital and net indebtedness. Each of the PMI Shareholders received the shareholder's proportionate share of thirty percent of the Purchase Price in cash. The PMI Shareholders also received cash through a payment agent in Korea for the remaining seventy percent of the Purchase Price, but the PMI Shareholders were then required to use this cash to purchase an aggregate of 545 shares of the Company's common stock (the NVT Stock). The number of shares of the Company's common stock issued was based on a per share price of \$36.60, the average price of the common stock as quoted on the New York Stock Exchange for the twenty consecutive trading days immediately prior to the closing date.

The Agreement contains customary representations, warranties and related indemnification provisions. In addition, to secure the indemnification obligations of the PMI Shareholders, fifteen percent of the Purchase Price has been deposited in escrow and \$500 of the Purchase Price has been deferred for payment until the second anniversary of the Closing Date. In connection with the Agreement, Mr. Yong Won Lee has entered into an Employment Agreement with PMI, under which he will continue to serve in his capacity as President of PMI. In addition, Mr. Lee has assigned all of his rights and interests to certain patents to PMI. As soon as commercially practicable after August 6, 2005, the Company is obligated to file a registration statement with the SEC under the Securities Act of 1933, as amended, to register for resale the shares of NVT Stock held by the PMI Shareholders.

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, 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 information services and other geographic information-based products and services to consumer and commercial users.

In connection with a registration rights agreement between Philips Consumer Electronic Services B.V. (Philips B.V.) and us, Philips B.V. exercised its first demand registration right on April 16, 2004. Pursuant to this request, we filed a Registration Statement on Form S-1 (Reg. No. 333-114637) on April 20, 2004 with the Securities and Exchange Commission to register our common stock in an initial public offering, which became effective on August 5, 2004. The initial public offering was completed on August 11, 2004. At closing, Philips B.V. and NavPart I B.V., received all of the proceeds from the sale of shares in the offering. Philips B.V. exercised its second demand registration right on March 11, 2005. Pursuant to this request, we filed a Registration Statement on Form S-3 (Reg. No. 333-123628) on March 28, 2005 with the Securities and Exchange Commission to register our common stock held by Philips B.V. in a secondary public offering, which became effective May 5, 2005. Our selling stockholder, Philips B.V., received all of the proceeds from the sale of shares in the offering. In the offering, Philips B.V. sold 33,101 shares of common stock, which represented its entire remaining interest in the Company.

Revenue

We generate revenue primarily through the licensing of our database in North America and Europe. 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 markets for a wider variety of products and services that use our database. This includes growth in location-enabled mobile devices, such as mobile phones, personal digital assistants (PDAs), personal navigation devices (PNDs) and other products and services that use digital map data. While use of our map database in mobile phones and in location-based products and services is still largely in development and just beginning to enter the marketplace, there are a number of personal digital assistants and personal navigation devices currently on the market in both Europe and North America that use our map database for turn-by-turn route guidance, including products offered by Garmin, Dell and Thales. 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.

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. As a consequence of Tele Atlas' acquisition of GDT in July 2004, there may be additional price pressure on our license fees in order for us to compete effectively with the combined company. 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 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.

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.

During 2004 and 2005, we granted restricted stock units (RSUs) to certain directors and employees under our 2001 Stock Incentive Plan. The RSUs are securities that require us to deliver one share of common stock to the holder for each vested unit. Compensation expense is recognized ratably over the vesting periods of each tranche of the RSUs using a fair value equal to the fair market value of our common stock on the date of the grant. We recognized \$1,129 and \$2,331 of compensation expense related to these restricted stock units during the quarters ended June 27, 2004 and June 26, 2005, respectively. We recognized \$1,129 and \$4,427 of compensation expense related to these restricted stock units during the six months ended June 27, 2004 and June 26, 2005, respectively.

We have historically obtained software, software-related consulting services, treasury services, tax consulting services, insurance services and purchasing services on favorable terms through our participation in Koninklijke Philips Electronics N.V. s (Philips) programs, which we believe have resulted in operating expense savings for us of approximately \$2,000 to \$2,500 per year. Pursuant to the separation agreement that we entered into with Philips and effective upon closing of our initial public offering, we can no longer obtain software, software-related consulting services, treasury services, tax consulting services and insurance from or through Philips. In addition, we ceased participating in Philips purchasing programs after March 31, 2005. To the extent we are unable to obtain goods and services at prices and/or terms as favorable as those previously available to us, we expect that we will incur increased operating expenses in future periods.

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

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a corresponding increase in the deferred tax asset on the consolidated balance sheet. In 2004 and the first six months of 2005, we recorded an income tax provision on our pretax income based on our expected tax rate for the full year, and will continue to do so in future periods.

In addition, as of June 26, 2005, we had U.S. interest expense carryforwards for both Federal and state income tax purposes of approximately \$200,993. 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 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 Philips controlling interest in us 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 whether it is more likely than not that the tax benefits associated with our net operating loss carryforwards together with our interest expense carryforwards will be realized. Based on that evaluation, we determined the amount of net deferred tax assets that we believe it is more likely than not that we will realize. Our estimate of the deferred tax assets that we expect are more likely than not to be realized did not require us to record an adjustment to the balance of the related valuation allowance. As of June 26, 2005, we had a valuation allowance for deferred tax assets of \$113,697 related to a portion of our U.S. net operating loss and interest expense carryforwards, and Canadian net operating loss carryforwards, research and experimental tax credits, and certain stock based compensation.

During the fourth quarter of 2004, legislation in The Netherlands was enacted that reduces statutory corporate income tax rates from 34.5% to 30% over a four-year period starting in 2005.

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 June 26, 2005, we had an accumulated deficit of \$425,665. 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.

As of June 26, 2005, our balance of cash and cash equivalents and marketable securities was \$135,187, compared to our cash and cash equivalents and marketable securities as of December 31, 2004 in the amount of \$103,031, which represents an increase of \$32,156. In addition, we have generated positive cash flow from operations for the past fourteen 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 revenue and expenses 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 June 26, 2005, we generated approximately 67% of our net revenue and incurred approximately 49% of our total expenses in foreign currencies. Our European operations reported revenue of \$82,016 for the quarter ended June 26, 2005, approximately \$2,741 (or approximately 2% of total revenue) of which was a result of an increase in the exchange rate of the euro against the dollar, as compared to the second quarter of 2004, with every one cent change in the exchange rate of the euro against the dollar resulting in approximately a \$650 change in our quarterly revenue and approximately a \$330 change in our quarterly operating income. For the six months ended June 26, 2005, we generated approximately 68% of our net revenue and incurred approximately 49% of our total expenses in foreign currencies. Our European operations reported revenue of \$154,001 for the six months ended June 26, 2005, approximately \$5,657 (or approximately 2% of total revenue) of which was a result of an increase in the exchange rate of the euro against the dollar, as compared to the first half of 2004, with every one cent change in the exchange rate of the euro against the dollar resulting in approximately a \$1,200 change in our first half revenue and approximately a \$580 change in our first half 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 24% of our revenue for the quarter ended June 26, 2005 was from two customers, accounting for approximately 15% and 9%, respectively, of our revenue. Approximately 26% of our revenue for the six months ended June 26, 2005 was from two customers, accounting for approximately 17% and 9%, respectively, of our revenue. Our top fifteen customers accounted for approximately 79% of our revenue for the quarter ended June 26, 2005. Our top fifteen customers accounted for approximately 80% of our revenue for the six months ended June 26, 2005.

The majority of our significant customers are automobile manufacturers and suppliers to automobile manufacturers. Conditions in the market for new automobiles in general 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.

Reverse Stock Split

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On April 27, 2004, our board of directors and stockholders approved a reverse split of our common stock. The ratio for our reverse split was 1-for-14, as determined by our board of

directors. We amended our amended and restated certificate of incorporation on August 5, 2004 to effect the reverse split and to change the number of authorized shares of common stock to 400,000. All previously reported share amounts have been retroactively adjusted to give effect to the reverse split.

Critical Accounting Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our condensed consolidated financial statements, which have been prepared in accordance with 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 condensed 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 licensing 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 its customer. 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 such amount), we recognize the additional licensing revenue.

Revenue from licensing arrangements consisting of an original database plus a second copy of the database is allocated equally to the two shipments of our database to the customer. The second copy of the database is considered to have a value equal to that of the original database provided under such arrangements, which is consistent with their relative fair values. 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 such customers could have a material adverse effect on our results of operations in the period in which such changes or events occur.

The allowance for doubtful accounts as reflected in our condensed 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 impact our financial results.

Database Creation, Distribution and Software Development Costs

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 American Institute of Certified Public Accountants (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, 2004 and June 26, 2005, our long-lived assets consisted of property and equipment and internal-use software. 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 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, and 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 is 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 are now allowed to deduct the deferred interest expense in tandem with our net operating loss carryforwards. Consequently, we reevaluated whether it is more likely than not that the tax benefits associated with our net operating loss carryforwards and our interest expense carryforwards will 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. As of June 26, 2005, we had a valuation allowance for deferred tax assets of \$113,697 related to a portion of our net operating loss and interest expense carryforwards, and Canadian net operating loss carryforwards, research and experimental tax credits, and certain stock based compensation.

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 impact our financial position and net income, may be required.

Results of Operations*Comparison of Quarters and Six Months Ended June 27, 2004 and June 26, 2005*

Operating Income, Net Income and Earnings Per Share of Common Stock. Our operating income increased from \$24,845 during the second quarter of 2004 to \$37,442 in the second quarter of 2005, due primarily to our revenue growth in 2005. This revenue growth was partially offset by higher operating expenses. Our net income increased from \$15,323 in the second quarter of 2004 to \$25,264 in the second quarter of 2005 due to the higher operating income and the reduction of our effective income tax rate. Basic earnings per share of common stock were \$0.18 and \$0.28 for the second quarters of 2004 and 2005, respectively. Diluted earnings per share of common stock were \$0.17 and \$0.27 for the second quarters of 2004 and 2005, respectively.

Our operating income increased from \$40,779 during the first six months of 2004 to \$62,273 in the first six months of 2005, due primarily to our revenue growth in 2005. This revenue growth was partially offset by higher operating expenses. Our net income increased from \$25,042 in the first six months of 2004 to \$42,049 in the first six months of 2005 due to the higher operating income and the reduction of our effective income tax rate. Basic earnings per share of common stock were \$0.29 and \$0.47 for the first six months of 2004 and 2005, respectively. Diluted earnings per share of common stock were \$0.27 and \$0.45 for the first six months of 2004 and 2005, respectively.

The following tables highlight 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 |
|--|---------------|---------------|--------|----------|
| | June 27, 2004 | June 26, 2005 | | |
| Net revenue | \$ 96,600 | 122,832 | 26,232 | 27.2% |
| Database creation and distribution costs | 44,539 | 54,050 | 9,511 | 21.4% |
| Selling, general and administrative expenses | 27,216 | 31,340 | 4,124 | 15.2% |
| Income tax expense | 9,338 | 13,015 | 3,677 | 39.4% |

| | Six Months Ended | | Change | % Change |
|--|------------------|---------------|--------|----------|
| | June 27, 2004 | June 26, 2005 | | |
| Net revenue | \$ 176,065 | 227,529 | 51,464 | 29.2% |
| Database creation and distribution costs | 84,974 | 102,003 | 17,029 | 20.0% |
| Selling, general and administrative expenses | 50,312 | 63,253 | 12,941 | 25.7% |
| Income tax expense | 15,348 | 21,662 | 6,314 | 41.1% |

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 second quarter and first six months of 2005. European revenue increased 23.2% from \$66,559 in the second quarter of 2004 to \$82,016 in the second quarter of 2005, and

increased 27.1% from \$121,126 in the first six months of 2004 to \$154,001 in the first six months of 2005. North American revenue increased 35.9% from \$30,041 in the second quarter of 2004 to \$40,816 in the second quarter of 2005, and increased 33.8% from \$54,939 in the first six months of 2004 to \$73,528 in the first six months of 2005. European and North American 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 increased revenue within the European operations by approximately \$2,741 and \$5,657 due to the strengthening of the euro during the second quarter of 2005 and the first six months of 2005, respectively as compared to the comparable periods in 2004. Excluding the effect of foreign currency translation, European revenue would have grown 19.1% and 22.5% for the second quarter 2005 and the first six months of 2005, respectively. Approximately 27% of our revenue in the second quarter of 2004 came from two customers (accounting for approximately 16% and 11% of net revenue, respectively), while approximately 24% of our revenue for the second quarter of 2005 came from two customers (accounting for approximately 15% and 9% of net revenue, respectively). Approximately 28% of our revenue in the first six months of 2004 came from two customers (accounting for approximately 18% and 10% of net revenue, respectively), while approximately 26% of our revenue for the first six months of 2005 came from two customers (accounting for approximately 17% and 9% of net revenue, respectively).

Database Creation and Distribution Costs. The increase in database creation and distribution costs was due primarily to increased production costs associated with the higher sales where we provided distribution services and an increased investment in our database due to geographic expansion and quality improvements. Included in database creation and distribution costs during the first six months of 2005 was approximately \$560 of costs related to our obligation to match social taxes on employee stock option exercises. In addition, there was an unfavorable foreign currency translation effect within European operations of approximately \$945 and \$2,134 due to the strengthening euro for the second quarter of 2005 and the first six months of 2005, respectively. Reducing these expenses was the capitalization of \$2,786 and \$3,133 of development costs for internal-use software in the second quarter of 2004 and 2005, respectively, and the capitalization of \$5,697 and \$6,128 of development costs for internal-use software in the first six months of 2004 and 2005, respectively.

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. Included in selling, general and administrative costs during the first six months of 2005 was approximately \$1,670 of costs related to our obligation to match social taxes on employee stock option exercises. Stock-based compensation expense of \$2,258 and \$4,441 was recorded in selling, general and administrative expense in the second quarter and the first six months of 2005, respectively, compared to \$1,339 and \$1,526 in the second quarter and the first six months of 2004, respectively. During the second quarter and the first six months of 2004, we incurred expenses of \$516 related to our initial public offering. An unfavorable foreign currency translation effect due to the strengthening euro of approximately \$352 and \$765 for the second quarter and the first six months of 2005, respectively, as compared to the comparable periods in 2004 also contributed to the increased expenses within European operations.

Income Tax Expense. The increase in income tax expense is primarily due to the increase in operating income. The effective tax rate in the second quarter and first six months of 2005 was 34.0% as compared to 37.9% and 38.0% in the second quarter and first six months of 2004, respectively. The decrease in the effective tax rate was primarily due to legislation in The Netherlands enacted during the fourth quarter of 2004 that reduces statutory corporate income tax rates from 34.5% to 30% over a four-year period starting in 2005.

Liquidity and Capital Resources

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Since 2002, we have financed our operations through cash generated from operating income. As of June 26, 2005, cash and cash equivalents and marketable securities totaled \$135,187.

On November 9, 2004, we obtained, through our operating subsidiary for North America, a new revolving line of credit that is scheduled to mature on December 1, 2005. Pursuant to the terms of the line of credit, we may borrow up to \$25,000 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 June 26, 2005, we had no 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. We previously deposited cash in excess of our short-term operational needs with Philips pursuant to deposit agreements. The deposit agreements with Philips expired on August 11, 2004, at which time we 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. Philips is not obligated to provide any future financing to us.

Cash and cash equivalents increased by \$17,630 during the six months ended June 26, 2005. The changes in cash and cash equivalents are as follows for the six months ended:

| | June 27, 2004 | June 26, 2005 |
|---|------------------|------------------|
| Cash provided by operating activities | \$ 55,836 | 42,466 |
| Cash used in investing activities | (7,545) | (24,213) |
| Cash provided by (used in) financing activities | (46,466) | 2,667 |
| Effect of exchange rates on cash | (67) | (3,290) |
| Increase in cash and cash equivalents | \$ 1,758 | 17,630 |

Operating Activities

In the first half of both 2004 and 2005, we generated positive cash flow from operations. In both periods, cash flow from operations was driven by improved operating results, which in turn was driven by increased demand for our products. Our accounts receivable balance increased \$14,486 and \$27,490 in the first six months of 2004 and 2005, respectively, due to revenue growth and the timing of billing toward the end of each respective period. During the first six months of 2004, deferred revenue increased \$28,289 due to the advance payment of \$30,000 by one of our customers.

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 half of 2005. We invested those excess funds in cash equivalents and marketable securities. During the first six months of 2005, we invested an additional \$15,053 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 \$5,697 and \$6,128 for the first six months of 2004 and 2005, respectively. We expect the capitalized costs related to software developed for internal use to be approximately \$10,000 to \$12,000 for the full year of 2005.

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 \$5,092 and \$2,532 during the first six months of 2004 and 2005, respectively. We expect total capital expenditures to be approximately \$10,000 to \$12,000 for the full year of 2005.

New Accounting Pronouncements

In December 2004, the FASB issued SFAS No. 123(R), Share-Based Payment, to be effective for interim or annual periods beginning after June 15, 2005. On April 14, 2005, the Securities and Exchange Commission amended the compliance dates to require SFAS No. 123(R) to be effective for fiscal years beginning after June 15, 2005. SFAS No. 123(R) supersedes 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. We will adopt the new standard using the modified prospective transition method, which permits recognition of expense on or after the effective date for the portion of outstanding awards for which the requisite service has not yet been rendered. We expect to record additional expense related to our share-based employee compensation programs in 2006, primarily as a result of adopting SFAS No. 123(R). However, we are still in the process of estimating the quantitative effect of this expense on our financial results.

RISK FACTORS

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, 2002, 2003 and 2004, revenue from BMW AG and Harman International Industries, Inc., our top two customers, accounted for approximately 28%, 29% and 26%, respectively, of our total revenue. In addition, during those three years, sales to our top 15 customers accounted for approximately 75%, 75% and 78% of our revenue, respectively. 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.

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 device industry (in products such as mobile phones, PDAs and PNDs), 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 services, 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%, 83% and 82% of our revenue for the years ended December 31, 2002, 2003 and 2004, respectively, 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, mobile phone 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.

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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. 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 and the United States. In July 2004, Tele Atlas acquired Geographic Data Technology, Inc. (GDT), a digital map data company in the United States, 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.

One of our primary competitors has filed a complaint against us alleging various anti-competitive and tortious acts which could adversely affect our business, results of operations and financial condition.

On April 22, 2005, Tele Atlas filed a complaint against us in the United States District Court for the Northern District of California. The complaint alleges that we have 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 we have 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. More specifically, Tele Atlas's complaint alleges that we, through our 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 have entered into patent licenses and/or other arrangements in a manner that violates the aforesaid laws. Tele Atlas seeks preliminary and permanent injunctive relief, unspecified monetary, exemplary and treble damages, and costs and attorneys' fees of suit. Based on our preliminary review of the complaint, we believe that the allegations are without merit. However, we are continuing to evaluate the matter with counsel. We intend to take all necessary steps to vigorously defend ourselves against this action; however, because this matter is in a very early stage, we cannot predict its outcome or potential effect, if any, on our business, financial condition or results of operations. A negative outcome could adversely affect our business, results of operations and financial condition. Even if we prevail in this matter, we may incur significant costs in connection with its defense, experience a diversion of management time and attention, realize a negative impact on our reputation with our customers and face similar governmental and private actions based on these allegations.

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 \$51,300 and \$28,900, respectively, and net losses of \$109,600 and \$116,500, respectively. As of December 31, 2004, we had an accumulated deficit of \$467,714. Although we have achieved an operating profit and a net profit for each of the last three 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.

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 not to 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 123 satellite and administrative offices in 19 countries worldwide. We have substantial operations in Europe. Approximately 68%, 66% and 68% of our total revenue for the years ended December 31, 2002, 2003 and 2004, respectively, 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. In some cases, this expansion may require or result in investments in or acquisitions of local companies or other strategic relationships, any of which may involve these risks.

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, 2004, we generated approximately 68% of our total revenue, and incurred approximately 48% of our total costs in foreign currencies. Our European operations reported revenue of \$267,541 for the year ended December 31, 2004. For the year ended December 31, 2004, approximately \$17,649 (or approximately 4%) of our revenue was a result of an increase in the exchange rate of the euro against the dollar, as compared to 2003, with every one cent change in the exchange ratio of the euro against the dollar resulting in a \$2,200 change in our revenue and a \$1,000 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 Europe or the United States. Given the volatility of exchange rates, we may not be able to manage effectively 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 December 31, 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 Europe and the United States, 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.

While we believe we currently have adequate internal control over financial reporting, we are required to evaluate our internal control under Section 404 of the Sarbanes-Oxley Act of 2002 and any adverse results from such evaluation could result in a loss of investor confidence in our financial reports and have an adverse effect on our stock price.

As a public reporting company, we must comply with the Sarbanes-Oxley Act of 2002 and the related rules and regulations of the Securities and Exchange Commission, including expanded disclosures and accelerated reporting requirements. Compliance with Section 404 will first apply to our annual report on Form 10-K for our fiscal year ending December 31, 2005, at which time we will be required to furnish a report by our management on our internal control over financial reporting. This report will contain among other matters, an assessment of the effectiveness of our internal control over financial reporting as of the end of our fiscal year. This assessment must include disclosure of any material weaknesses in our internal control over financial reporting identified by management. This report must also contain a statement that our auditors have issued an attestation report on management's assessment of such internal control.

While we currently believe our internal control over financial reporting is effective, we are still performing the system and process documentation and evaluation needed to comply with Section 404, which is both costly and challenging. During this process, if our management identifies one or more material weaknesses in our internal control over financial reporting, we will be unable to assert that our internal control is effective. If we are unable to assert that our internal control over financial reporting is effective as of December 31, 2005, or if our auditors are unable to attest that our management's report is fairly stated or they are unable to express an opinion on the effectiveness of our internal control, we could lose investor confidence in the accuracy and completeness of our financial reports, which could have an adverse effect on our stock price.

While we currently anticipate being able to satisfy the requirements of Section 404 in a timely fashion, we cannot be certain as to the timing of completion of our evaluation, testing and any required remediation. If we are not able to comply with the requirements of Section 404 in a timely manner or if our auditors are not able to complete the procedures required to support their attestation report, we could lose investor confidence in the accuracy and completeness of our financial reports, which could have an adverse effect on our stock price.

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 are unable to integrate acquired companies effectively, our business could be adversely affected.

We may pursue acquisitions of existing companies in order to grow our business, to expand the scope and breadth of our database and to diversify our products and services. We cannot assure you that we will be able to integrate successfully any future acquisitions, that these acquired companies will operate profitably, or that we will realize the potential benefits from these acquisitions. If we do not successfully integrate acquired companies, the attention of our management may be diverted and our business, financial condition and results of operations could be adversely affected.

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 and other intellectual 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 Europe and North America, 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 and license certain data collection tools and know how 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 Europe, the United States, 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 cause increased operating costs in order to overcome these constraints.

In addition, we are in the process of migrating our computer systems related to our database to a new platform, and during this process we are incurring both the costs associated with migrating and maintaining our legacy systems. While we cannot assure you that there will not be unanticipated costs, we do not believe that the costs associated with the migration will be material to our results of operations. Hardware failure or software errors occurring in our legacy systems or during repair or after the completion of this migration could result in errors in our

database, which could cause us to have to repair and re-ship our database to some customers and hinder our ability to timely deliver our database to our customers. Repairs and reshipments of our data could result in a material increase in our operating costs and subject us to liability from our customers and end-users. Delays in completing the migration also could inhibit our ability to enhance and improve our database, which could adversely affect our ability to compete.

We are required to achieve and maintain various quality assurance standards, and if we are unable to do so, our key customers may not do business with us.

Many of our customers, particularly those in the automotive industry, require their suppliers to maintain certain quality assurance standards and certifications, including those pursuant to the ISO series of international standards. Although we have achieved many of these certifications, we cannot assure you that we will be able to continue to meet these standards in the future or that our customers will not require us to obtain and maintain certifications under different or more stringent standards in the future, which we may or may not be able to accomplish. If we are unable to do so, those customers may refuse to do business with us, which could materially reduce our revenue and adversely affect our reputation.

Changes to financial accounting standards may affect our results of operations and cause us to change our business practices.

We prepare our financial statements to conform with generally accepted accounting principles, or GAAP, in the United States. These accounting principles are subject to interpretation by the American Institute of Certified Public Accountants, the Financial Accounting Standards Board, or FASB, the SEC and various bodies formed to promulgate and interpret appropriate accounting policies. A change in those accounting principles or interpretations could have a significant effect on our reported financial results and may affect our reporting of transactions completed before a change is announced or adopted.

Changes to those rules or the questioning of current practices may adversely affect our reported financial results or the way we conduct our business. For example, accounting policies affecting certain aspects of our business, including rules relating to employee stock option grants, have recently been revised or are under review. In December 2004, the FASB issued a revision of SFAS No. 123, Accounting for Stock-Based Compensation, which amends SFAS No. 123 to require the recognition of employee stock options as compensation expense based on their fair value at the time of grant (with limited exceptions). On April 14, 2005, the SEC amended the compliance dates to require SFAS No. 123(R) to be effective for fiscal years beginning after June 15, 2005. These new rules will require us to change our accounting policy and record an expense for our stock-based compensation plans using the fair value method and will result in additional accounting charges to us.

Risks Related to Ownership of Our Common Stock

Our stock price may be volatile, and you may not be able to resell shares of our common stock at or above the price you paid or at all.

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The price of our common stock may fluctuate widely, depending upon many factors, including the market's perception of our prospects and those of geographic data providers in

general, differences between our actual financial and operating results and those expected by investors and analysts, changes in analysts' recommendations or projections, changes in general economic or market conditions and broad market fluctuations. Broad market and industry factors may decrease the market price of our common stock, regardless of our actual operating performance. Stock prices for technology-related companies have experienced significant price and volume volatility. Companies that experience volatility in the market price of their securities often are subject to securities class action litigation. This type of litigation, if instituted against us, could result in substantial costs and divert management's attention and resources away from our business.

Our quarterly revenue and operating results are difficult to predict and if we do not meet quarterly financial expectations our stock price may experience increased volatility.

Our quarterly revenue and operating results are difficult to predict due to a variety of factors, including the timing of purchases by our customers, the introduction of new products or services by them incorporating our map database and changes in our pricing policies or those of our competitors. These or other factors, many of which are beyond our control, may result in this unpredictability continuing in the future. This could cause our operating results in some quarters to vary from market expectations and lead to volatility in our stock price. We currently do not provide guidance to the marketplace with respect to our quarterly financial results. As such, analysts' estimates may not reflect our own expectations as to our future financial performance.

If securities or industry analysts do not publish research or reports about our business, or if they change their recommendations regarding our stock adversely, our stock price and trading volume could decline.

The trading market for our common stock will be influenced by the research and reports that industry or securities analysts publish about us or our business. If one or more of the analysts who cover us downgrade our stock, our stock price would likely decline. If one or more of these analysts ceases coverage of our company or fails to regularly publish reports on us, we could lose visibility in the financial markets, which in turn could cause our stock price or trading volume to decline.

We may require additional capital in the future, which may not be available to us. Sales of our equity securities to provide this capital may dilute your ownership in us.

We may need to raise additional funds through public or private debt or equity financings in order to:

take advantage of expansion opportunities;

acquire complementary businesses or technologies;

develop new services and products; or

respond to competitive pressures.

Any additional capital raised through the sale of our equity securities may dilute your percentage ownership interest in us. Historically, we have relied on significant debt and equity

financing from Philips to operate our business. Philips is not under any obligation to provide financing to us in the future. Furthermore, any additional financing we may need may not be available on terms favorable to us or at all. The unavailability of needed financing could adversely affect our ability to execute our growth strategy.

We do not intend to pay dividends for the foreseeable future.

Except for the special cash dividend that was paid on June 18, 2004 to our common stockholders of record as of April 19, 2004, we have never declared or paid any cash dividends on our common stock. Payment of future cash dividends will be at the discretion of our board of directors after taking into account various factors, including our financial condition, operating results, current and anticipated cash needs and plans for expansion, and any limitations on dividend payments included in any financing or other agreements that we may be party to at the time. Our existing credit facility currently restricts our ability to pay dividends. Consequently, investors cannot rely on dividend income and your opportunity to achieve a return on your investment in our common stock will likely depend entirely upon any future appreciation in the price of our stock. There is no guarantee that the price of our common stock will appreciate in the future or that the price at which you purchased your shares will be maintained.

Delaware law and our certificate of incorporation and bylaws contain provisions that could delay and discourage takeover attempts that stockholders may consider favorable.

Certain provisions of our certificate of incorporation and bylaws and applicable provisions of Delaware corporate law may make it more difficult for or prevent a third party from acquiring control of us or changing our board of directors and management. These provisions include:

the ability by our board of directors to issue preferred stock with voting or other rights or preferences;

our stockholders may only take action at a meeting of our stockholders and not by written consent; and

our stockholders must comply with advance notice procedures in order to nominate candidates for election to our board of directors or to place stockholders' proposals on the agenda for consideration at meetings of the stockholders.

Any delay or prevention of a change of control transaction or changes in our board of directors or management could deter potential acquirors or prevent the completion of a transaction in which our stockholders could receive a substantial premium over the then current market price for their shares.

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 to 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 Philips 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 our 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 June 26, 2005, the outstanding intercompany obligation (net of payments) was \$84.1 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 June 26, 2005, 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 \$9.3 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 \$9.3 million.

Item 4. Controls and Procedures

Disclosure Controls and Procedures. The Company's principal executive officer and principal financial officer have concluded that the Company's disclosure controls and procedures (as defined pursuant to Rule 13a-15(e) under the Securities Exchange Act of 1934), based on their evaluation of such controls and procedures as of the end of the period covered by this report, are effective to ensure that information required to be disclosed by the Company in the reports it files under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the

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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.

Internal Control over Financial Reporting. There have been no changes in the Company's internal control over financial reporting identified in connection with management's evaluation that occurred during the Company's last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II

OTHER INFORMATION

Item 1. Legal Proceedings

See Item 1. Legal Proceedings in the Company's Quarterly Report on Form 10-Q for the quarter ended March 27, 2004, which is hereby incorporated by reference.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

On July 8, 2005, the Company acquired Picture Map International Co., Ltd., a South Korean digital map company (PMI), through its wholly owned subsidiary, NAVTEQ B.V., pursuant to a Stock Purchase Agreement (the Agreement) dated the same date by and among NAVTEQ B.V., the Company, PMI and all of the shareholders of PMI (the PMI Shareholders). Under the Agreement, NAVTEQ B.V. acquired all of the outstanding shares of PMI for an aggregate purchase price of \$28,500,000 (the Purchase Price), subject to post-closing adjustments based on working capital and net indebtedness. Each of the PMI Shareholders received the shareholder's proportionate share of thirty percent of the Purchase Price in cash. The PMI Shareholders also received cash through a payment agent in Korea for the remaining seventy percent of the Purchase Price, but the PMI Shareholders were then required to use this cash to purchase an aggregate of 545,069 shares of the Company's common stock (the NVT Stock). The number of shares of the Company's common stock issued was based on a per share price of \$36.60, the average price of the common stock as quoted on the New York Stock Exchange for the twenty consecutive trading days immediately prior to the closing date. As soon as commercially practicable after August 6, 2005, the Company is obligated to file a registration statement with the SEC under the Securities Act of 1933, as amended (Securities Act), to register for resale the shares of NVT Stock held by the PMI Shareholders.

These securities were offered and sold by us in reliance upon exemption from the registration requirements provided by Regulation S of the Securities Act, as amended, relating to sales made outside of the United States and/or Section 4(2) of the Securities Act relating to sales not involving any public offering.

No underwriters were involved in the sales and the certificates representing the securities sold and issued contain legends restricting the transfer of the securities without registration under the Securities Act or an applicable exemption from registration

Item 4. Submission of Matters to a Vote of Security Holders.

The Company's annual meeting of the stockholders was held on May 11, 2005. Richard J.A. de Lange, Christopher Galvin, Judson C. Green, Wilhelmus C.M. Groenhuysen, William Kimsey, Scott D. Miller and Dirk-Jan van Ommeren were elected as directors of the Company to serve until their successors are elected and qualified. The following is a tabulation of the votes cast for, or withheld, with respect to each nominee:

| | For | Withheld |
|----------------------------|------------|-----------------|
| Richard J.A. de Lange | 64,980,937 | 19,675,939 |
| Christopher Galvin | 84,003,988 | 652,888 |
| Judson C. Green | 83,875,187 | 781,689 |
| Wilhelmus C.M. Groenhuysen | 82,425,611 | 2,231,265 |
| William Kimsey | 82,463,340 | 2,193,536 |
| Scott D. Miller | 83,871,602 | 785,274 |
| Dirk-Jan van Ommeren | 83,875,454 | 781,422 |

There were no votes cast against, nor were there any abstentions or broker non-votes with respect to any nominee.

Item 6. Exhibits

4.1 Form of Subscription and Registration Rights Agreement by and between NAVTEQ Corporation and the Shareholders of Picture Map International Co., Ltd. (*)

10.1 Stock Purchase Agreement by and among NAVTEQ B.V., NAVTEQ Corporation, Picture Map International Co., Ltd. and All Shareholders of Picture Map International Co., Ltd. dated as of July 8, 2005. (*)

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
2002.

Certification of Principal Financial Officer pursuant to Section 906 of the Sarbanes Oxley Act of

* Incorporated herein by reference to the Company's Current Report on Form 8-K dated July 12, 2005.

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: July 29, 2005

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)