NAVTEQ CORP
Form 10-Q
October 27, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

ý	**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
	For the quarterly period ended September 25, 2005
	OR
o	**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)	**77-0170321** (I.R.S. Employer Identification No.)
222 Merchandise Mart, Suite 900 **Chicago, Illinois 60654** (Address of Principal Executive Offices, including Zip Code)	**(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.

Yes ý No o

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

Yes o No ý

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No ý

The number of shares of the Registrant s Common Stock, $0.001 par value, outstanding as of October 13, 2005 was 91,235,669.

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 Risk Factors in the Company s Quarterly Report on Form 10-Q for the quarter ended June 26, 2005. Readers are cautioned not to place undue reliance on these forward-looking statements. Readers should read this quarterly report, and the documents that we refer to in this quarterly report and have filed as exhibits to this quarterly report, with the understanding that actual future results and events may be materially different from what we currently expect.

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

NAVTEQ is a trademark of NAVTEQ Corporation.

PART I

FINANCIAL INFORMATION

Item 1. Financial Statements

NAVTEQ CORPORATION AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

(In thousands, except per share amounts)

		December 31, 2004	September 25, 2005 (Unaudited)
Assets			
Current assets:			
Cash and cash equivalents	$	30,101	39,956
Short-term marketable securities		45,650	60,935
Accounts receivable, net of allowance for doubtful accounts of $3,571 and $4,750 in 2004 and 2005, respectively		56,582	86,325
Deferred income taxes		50,696	55,244
Prepaid expenses and other current assets		8,348	15,196
Total current assets		191,377	257,656
Property and equipment, net		18,220	17,925
Capitalized software development costs, net		26,243	25,700
Long-term deferred income taxes, net		92,069	167,949
Long-term marketable securities		27,280	58,119
Acquired intangible assets, net			17,298
Goodwill			12,440
Deposits and other assets		9,519	13,040
Total assets	$	364,708	570,127
Liabilities and Stockholders Equity			
Current liabilities:			
Accounts payable	$	13,962	13,396
Accrued payroll and related liabilities		28,054	27,985
Other accrued expenses		20,609	26,518
Deferred revenue		31,165	39,800
Total current liabilities		93,790	107,699
Fair value of foreign currency derivative		21,616	7,047
Long-term deferred revenue		13,342	3,785
Other long-term liabilities		3,142	4,199
Total liabilities		131,890	122,730
Stockholders equity:			
Common stock, $0.001 par value; 400,000 shares authorized; 87,741 and 91,143 shares issued and outstanding in 2004 and 2005, respectively		88	91
Additional paid-in capital		741,448	809,848
Deferred compensation expense		(12,403)	(11,185)
Accumulated other comprehensive loss:			
Cumulative translation adjustment		(28,503)	(26,430)
Unrealized holding loss on available-for-sale marketable securities, net of tax		(98)	(377)

Total accumulated other comprehensive loss		(28,601)	(26,807)
Accumulated deficit		(467,714)	(324,550)
Total stockholders equity		232,818	447,397
Total liabilities and stockholders equity	$	364,708	570,127

See accompanying notes to condensed consolidated financial statements.

NAVTEQ CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements of Income

(In thousands, except per share data)

(Unaudited)

	Quarter Ended		Nine Months Ended	
	September 26, 2004	September 25, 2005	September 26, 2004	September 25, 2005
Net revenue	$ 97,793	123,005	$ 273,858	350,534
Operating costs and expenses:				
Database creation and distribution costs	48,166	57,377	133,140	159,380
Selling, general and administrative expenses	27,528	35,205	77,840	98,458
Total operating costs and expenses	75,694	92,582	210,980	257,838
Operating income	22,099	30,423	62,878	92,696
Other income (expense):				
Interest income	283	1,123	613	2,566
Interest expense	(2)	(6)	(10)	(16)
Foreign currency gain (loss)	(386)	96	(1,108)	86
Other income (expense)	(64)	(11)	(53)	4
Income before income taxes	21,930	31,625	62,320	95,336
Income tax expense (benefit)	8,334	(69,490)	23,682	(47,828)
Net income	$ 13,596	101,115	$ 38,638	143,164
Earnings per share of common stock:				
Basic	$ 0.16	1.11	$ 0.45	1.60
Diluted	$ 0.15	1.07	$ 0.42	1.52
Weighted average shares of common stock outstanding:				
Basic	87,669	90,701	86,114	89,700
Diluted	92,230	94,521	91,757	93,959

See accompanying notes to condensed consolidated financial statements.

NAVTEQ CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

		Nine Months Ended	
		September 26, 2004	September 25, 2005
Cash flows from operating activities:			
Net income	$	38,638	143,164
Adjustments to reconcile net income to net cash provided by operating activities:			
Deferred income taxes		19,557	(88,768)
Depreciation and amortization		4,595	6,278
Amortization of software development costs		6,503	9,491
Amortization of acquired intangible assets			756
Foreign currency (gain) loss		1,108	(86)
Provision for (recovery of) bad debts		(203)	1,826
Stock compensation expense		4,521	6,887
Tax benefit on non-qualified stock options		569	37,611
Noncash other		175	941
Changes in operating assets and liabilities, net of effects of acquisitions:			
Accounts receivable		(11,373)	(32,919)
Prepaid expenses and other current assets		(2,584)	(5,868)
Deposits and other assets		(8,635)	(1,783)
Accounts payable		(4,577)	(333)
Accrued payroll and related liabilities		(2,532)	1,470
Other accrued expenses		2,382	(2,893)
Deferred revenue		19,770	803
Other long-term liabilities		3,692	903
Net cash provided by operating activities		71,606	77,480
Cash flows from investing activities:			
Acquisition of property and equipment		(9,268)	(5,086)
Capitalized software development costs		(9,101)	(8,948)
Purchases of marketable securities		(46,973)	(148,162)
Sales of marketable securities			101,042
Payments for acquisitions, net of cash acquired			(8,234)
Purchase of investments			(1,201)
Cash on deposit with affiliate, net		65,143	
Net cash used in investing activities		(199)	(70,589)
Cash flows from financing activities:			
Issuance of common stock		806	5,147
Dividends paid		(47,159)	
Net cash provided by (used in) financing activities		(46,353)	5,147
Effect of exchange rate changes on cash		(2)	(2,183)
Net increase in cash and cash equivalents		25,052	9,855
Cash and cash equivalents at beginning of period		1,982	30,101
Cash and cash equivalents at end of period	$	27,034	39,956
Supplemental disclosure of cash flow information:			
Cash paid during the period for interest	$	10	16
Cash paid during the period for income taxes	$	2,404	569
Non-cash transactions:			
Value of common stock issued in connection with acquisition	$		19,977

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.

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Principles of Presentation

The Company s fiscal quarterly periods end on the Sunday preceding the calendar quarter end. The 2004 third quarter had 91 days and the 2005 third quarter had 91 days. The 2004 year to date period had 270 days and the 2005 year to date period had 268 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 $164 and $179 for the quarters ended September 26, 2004 and September 25, 2005, respectively, and $561 and $571 for the nine months ended September 26, 2004 and September 25, 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 $2,831 and $1,889 of compensation expense related to these restricted stock units during the quarters ended September 26, 2004 and September 25, 2005, respectively. The Company recognized $3,960 and $6,316 of compensation expense related to these restricted stock units during the nine months ended September 26, 2004 and September 25, 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 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		Nine Months Ended	
	September 26, 2004	**September 25, 2005**	**September 26, 2004**	**September 25, 2005**
Net income, as reported	$ 13,596	101,115	$ 38,638	143,164
Add: Stock-based employee compensation expense included in reported net income, net of tax	1,857	1,278	2,803	4,459
Deduct: Total stock-based employee compensation expense determined under fair value method for all awards, net of tax	(2,089)	(2,756)	(3,701)	(8,412)
Pro forma net income	$ 13,364	99,637	$ 37,740	139,211
Earnings per share of common stock:				
Basic as reported	$ 0.16	1.11	$ 0.45	1.60
Diluted as reported	$ 0.15	1.07	$ 0.42	1.52
Basic pro forma	$ 0.15	1.10	$ 0.44	1.55
Diluted pro forma	$ 0.15	1.05	$ 0.41	1.48

(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 nine months ended September 26, 2004 and September 25, 2005 was as follows:

	Quarter Ended		Nine Months Ended	
	September 26, 2004	September 25, 2005	September 26, 2004	September 25, 2005
Net income	$ 13,596	101,115	$ 38,638	143,164
Foreign currency translation adjustment	(709)	82	2,252	2,073
Unrealized holding loss on available-for-sale marketable securities, net of tax		(160)		(279)
Comprehensive income	$ 12,887	101,037	$ 40,890	144,958

(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 nine months ended September 26, 2004 and September 25, 2005 was calculated as follows:

	Quarter Ended		Nine Months Ended	
	September 26, 2004	September 25, 2005	September 26, 2004	September 25, 2005
Numerator:				
Net income	$ 13,596	101,115	$ 38,638	143,164
Denominator:				
Denominator for basic earnings per share - weighted average shares outstanding	87,669	90,701	86,114	89,700
Effect of dilutive securities:				
Employee stock options	4,398	3,484	4,086	3,903
Restricted stock units	163	336	60	356
Warrants			1,497	
Denominator for diluted earnings per share - weighted average shares outstanding and assumed conversions	92,230	94,521	91,757	93,959
Earnings per share:				
Basic	$ 0.16	1.11	$ 0.45	1.60
Diluted	$ 0.15	1.07	$ 0.42	1.52

Outstanding options to purchase 0 and 559 shares of common stock at September 26, 2004 and September 25, 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, the United States/Canada and Korea are attributed to Europe (The Netherlands), North America (United States) and Asia Pacific (Korea) based on the entity that executed the related licensing agreement. Revenues for geographic data for Central and South America are attributed to North America. Revenues for geographic data for countries outside of Europe, the Americas and Korea are attributed to Europe, and are not material.

The following summarizes net revenue on a geographic basis for the quarters and the nine months ended September 26, 2004 and September 25, 2005:

	Quarter Ended		Nine Months Ended	
	September 26, 2004	**September 25, 2005**	**September 26, 2004**	**September 25, 2005**
Net revenue:				
Europe	$ 68,323	77,215	$ 189,450	231,216
North America	29,470	42,737	84,408	116,265
Asia Pacific		3,053		3,053
Total net revenue	$ 97,793	123,005	$ 273,858	350,534

The following summarizes long-lived assets on a geographic basis as of December 31, 2004 and September 25, 2005:

	December 31, 2004	**September 25, 2005**
Property and equipment, net:		
Europe	$ 5,801	4,849
North America	12,367	12,229
Asia Pacific	52	847
Total property and equipment, net	$ 18,220	17,925
Capitalized software development costs, net:		
Europe	$	
North America	26,243	25,700
Asia Pacific		
Total capitalized software development costs, net	$ 26,243	25,700
Acquired intangible assets, net and goodwill:		
Europe	$	
North America		
Asia Pacific		29,738
Total acquired intangible assets, net	$	29,738

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(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 September 25, 2005, the outstanding intercompany obligation was $70,931 and the fair value of the Swap was a liability of $7,047.

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 $1,643 was recorded for the quarter ended September 25, 2005. This gain was offset by a foreign currency translation loss of $206 recognized as a result of the remeasurement of the outstanding intercompany obligation at September 25, 2005, and a foreign currency transaction loss of $1,436 recognized in earnings during the quarter ended September 25, 2005 resulting from foreign currency exchange differences arising on the repayments of the intercompany obligation. A gain on the fair value of the Swap of $12,501 was recorded for the nine months ended September 25, 2005. This gain was offset by a foreign currency translation loss of $10,410 recognized as a result of the remeasurement of the outstanding intercompany obligation at September 25, 2005, and a foreign currency transaction loss of $2,070 recognized in earnings during the nine months ended September 25, 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 September 25, 2005, $10,000 remained in the balance of short-term deferred revenue and $0 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) Income Taxes

During the third quarter of 2005, the Company recorded an income tax benefit of $83,270 related to the reversal of a valuation allowance for a portion of deferred tax assets. The Company also recorded the reversal of tax benefits of $2,633 related to deferred compensation. In addition, the Company reversed the valuation allowance on deferred tax assets associated with stock-based compensation, which resulted in an increase to additional paid-in capital of $34,552.

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 ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment.

Prior to 2005, the Company had provided a valuation allowance for a portion of deferred tax assets due to the uncertainty of generating sufficient future taxable income that would allow for the realization of such deferred tax assets. During the third quarter of 2005, the Company made the determination that it is more likely than not that it would be able to realize the benefits of the deferred tax assets related to net operating loss carryforwards and deferred interest credits in the United States. In reaching the determination, the Company considered both positive and negative evidence. Positive evidence included the Company s strong recent revenue growth and operating performance, expectations regarding the generation of future taxable income, the length of available carryforward periods, the Company s market position and the expected growth of the market. Negative evidence included the Company s history of operating losses through 2001 and the likelihood of increased competition and loss of a significant customer. From that analysis, the