

NAVTEQ CORP
Form 10-K
March 09, 2006

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

FORM 10-K

(Mark one)

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

For the fiscal year ended December 31, 2005

OR

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

For the transition period from to

Commission File No. 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)

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

Title of Each Class to be so Registered	Name of Each Exchange on Which Registered
Common Stock, par value \$.001 per share	New York Stock Exchange

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

Edgar Filing: NAVTEQ CORP - Form 10-K

Indicate by check mark if the registrant is a well-known seasoned issuer (as defined in Rule 405 of the Securities Act). Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes No

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 No

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

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

Yes No

As of June 26, 2005, the aggregate market value of the registrant's common stock held by non-affiliates, computed by reference to the price at which the common stock was last sold, equaled approximately \$3,370,109,834.

The number of shares of the registrant's common stock, \$0.001 par value, outstanding as of February 1, 2006 was 92,200,762.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement relating to the registrant's 2006 Annual Meeting of Stockholders, to be held on May 9, 2006, are incorporated by reference into Part III of this Annual Report on Form 10-K where indicated.

PART I

Certain statements in this document contain or may contain information that is forward-looking 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. In some cases, you can identify forward-looking statements by the terminology used for example, words and phrases such as may, should, expect, anticipate, plan, believe, estimate, predict and other comparable terminology typically would be deemed forward-looking. Actual events or results may differ materially from those described in the forward-looking statements and will be affected by a variety of risks and factors, including, without limitation, the risks described in this annual report under Item 1A. Risk Factors. Readers should carefully review this annual report in its entirety, including, but not limited to, the financial statements and notes thereto. NAVTEQ undertakes no obligation to publicly release any revisions to such forward-looking statements to reflect events or circumstances after the date hereof. You should rely only on the information contained in this document. We have not authorized anyone to provide you with information that is different. The information contained herein may only be accurate as of the date of this document.

References in this annual report to NAVTEQ, the Company, we, us, and our refer to NAVTEQ Corporation and its subsidiaries.

Item 1. Business.

Our Company

We are a leading provider of comprehensive digital map information for automotive navigation systems, mobile navigation devices and Internet-based mapping applications. Our map database enables providers of these products and services to offer dynamic navigation, route planning, location-based services and other geographic information-based products and services to consumer and commercial users. We believe that our database is the most used source of digital map information for automotive and Internet-based navigation products and services in Europe and North America, and that we are a leading provider of such information for use in mobile devices.

By developing software applications that interface with our map database, our customers offer a broad range of navigation- and geographic-based products and services to consumers and businesses. Our database enables these providers to offer:

Dynamic Navigation. Our map database enables real-time, detailed turn-by-turn route guidance through vehicle navigation systems, as well as through GPS-enabled handheld navigation devices, and other mobile devices. Customers that use our map database to provide dynamic navigation applications include vehicle navigation systems manufacturers, such as Harman Becker, Alpine and Siemens, and mobile navigation device manufacturers, such as Garmin, Dell and Thales. Every major automobile manufacturer that currently offers a navigation system in North America or Europe uses our database in one or more of its models. Since 1999, over 10 million vehicles have been equipped with navigation systems that use our database. From 2001 to 2005, the number of units of our database incorporated by our customers into mobile devices has increased an average of over 200% annually.

Route Planning. Our database enables driving directions, route optimization and map display through services provided by Internet portals and through computer software for personal and commercial use. Customers that use our map database to provide route planning applications include leading Internet portals and websites, such as AOL/MapQuest, Microsoft/MSN and Yahoo!, software developers, such as Microsoft and Rand McNally, and leading parcel and overnight delivery service companies. In 2005, there were more than 18 billion route planning transactions derived from our database in North America on the leading Internet portals and websites.

Location-Based Services. Our database enables location-specific information services, providing geographic information about people and places that is tailored to the immediate proximity of the specific user. Current applications using our map database include points of interest locators, mobile directory assistance services, emergency response systems, and vehicle-based telematics services. Customers that use our map database to provide location-based products and services include directory assistance providers, police and emergency care providers and wireless carriers.

Geographic Information Systems. Our database enables software applications that render geographic representations of information and assets for management analysis and decision making. Examples of these applications include infrastructure cataloging and tracking for government agencies and utility companies, asset tracking and fleet management for commercial logistics companies and demographic analysis, such as new location identification for restaurants and policyholder and claims analysis for insurance companies.

Our map database is a highly accurate and detailed digital representation of road transportation networks in Europe, the United States, Canada and other regions. Our database offers extensive geographic coverage, including data at various levels of detail for 53 countries on five continents, covering over 10 million miles of roadway. In Europe, our database covers virtually all main arterial roads within Western Europe's major highways network and has detailed coverage for numerous cities throughout Europe. We currently provide coverage relating to approximately 6.1 million miles of roadway in North America, which includes detailed coverage in areas in which a majority of the population live and work. Our most detailed coverage includes extensive road, route and related travel information, including attributes collected by road segment that are essential for routing and navigation, such as road classifications, details regarding ramps, road barriers, sign information, street names and addresses and traffic rules and regulations. In addition, our database currently includes over 14 million points of interest, such as airports, hotels, restaurants, retailers, civic offices and cultural sites.

We use a multi-step process to create, maintain and deliver a high-quality database. The process involves utilization of proprietary software and technologies combined with our dedicated field force of over 500 employees around the world. Due to the complexity of our database building process and the depth and breadth of the information it contains, we believe it would take substantial time and resources for a new market entrant to build a digital map database with a comparable level of detail and accuracy.

Acquisition

On July 8, 2005, we acquired Picture Map International Co., Ltd., a South Korean digital map company (PMI), through our wholly owned subsidiary, NAVTEQ B.V., pursuant to a stock purchase agreement dated the same date by and among us, NAVTEQ B.V., 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 \$28.5 million, subject to post-closing adjustments based on working capital and net indebtedness (the Purchase Price). 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.

The agreement contained customary representations, warranties and related indemnification provisions. In addition, to secure the indemnification obligations of the PMI Shareholders, fifteen percent of the Purchase Price was deposited in escrow and \$500,000 of the Purchase Price was deferred for payment until the second anniversary of the closing date. On August 18, 2005, the Company filed a registration statement on Form S-3 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. The registration statement was declared effective on September 7, 2005.

Edgar Filing: NAVTEQ CORP - Form 10-K

We originally incorporated in the State of California in August 1985 as Karlin & Collins, Inc., and reincorporated in the State of Delaware in September 1987 as Navigation Technologies Corporation. In February 2004, we changed our name to NAVTEQ Corporation. Our principal executive offices are located at 222 Merchandise Mart, Suite 900, Chicago, Illinois 60654, and our telephone number at that address is (312) 894-7000. We maintain a web site at www.navteq.com. Our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, and amendments thereto, are available on our web site free of charge as soon as reasonably practicable after we file such reports with the SEC. Information contained on, or that may be accessed through, our web site is not part of this annual report.

As of March 31, 2005, Philips Consumer Electronic Services B.V., an indirect wholly-owned subsidiary of Koninklijke Philips Electronics N.V. (Philips), owned 33,101,305 shares of common stock, or approximately 36.9% of the total issued and outstanding common stock at such time. Philips sold these shares in a secondary public offering that was consummated on May 10, 2005.

Industry Overview

Consumers have traditionally relied on printed maps for vehicle navigation and route planning information. In more recent years, the use of maps in digital form has proliferated, both as a substitute for the uses provided by paper maps and for more advanced functions. In particular, the development of the digital map database industry has been, and continues to be, accelerated by the commercialization of GPS technology. Originally developed for military applications, GPS technology has been increasingly used for consumer applications and commercial usage has begun to expand as cheaper and smaller GPS chipsets have been introduced. GPS technology provides a precise latitude and longitude of an object in digital form. The usefulness of this information is enhanced by referencing it to the location of other objects. A digital map database provides a means to accurately reference relative positions of objects to each other in an automated fashion.

We are focused primarily on the segment of the digital map database industry that provides digital map information for a wide range of navigation, mapping and geographic-related applications in vehicle navigation, mobile devices and Internet-based mapping. This segment of the industry is currently experiencing rapid growth as a result of increasing consumer acceptance of navigation systems and route planning services and the active efforts today of a variety of businesses in several industries to develop and market a wide range of applications and services that incorporate a digital map database. Currently, the principal providers of digital map information within this industry segment range from several commercial providers (primarily, NAVTEQ and Tele Atlas N.V.) to numerous governmental and quasi-governmental mapping agencies (such as Ordnance Survey in the United Kingdom) that license map data for commercial use. We believe that we are the number one provider in North America and Europe within this industry segment based on revenue.

We believe that the digital map database industry will grow and evolve due to the rapid adoption of new technologies, applications and products. A variety of businesses in several industries are actively developing and marketing a wide range of applications and services that incorporate a digital map database.

Currently, we provide our digital map database and related services in several areas, as described below.

Vehicle Navigation

Edgar Filing: NAVTEQ CORP - Form 10-K

The vehicle navigation industry, consisting primarily of automobile manufacturers and their navigation systems suppliers, is currently our primary channel. The automotive industry led the early adoption of GPS-enabled navigation technologies and is currently the largest consumer of highly detailed digital map databases such as ours. However, we believe that mobile devices will use the largest number of highly-detailed digital map databases in the near future. In 2005, more than 70% of our revenue was generated from sales of our map database for use in self-contained navigation hardware and software systems installed in vehicles. Although we expect our revenue generated from sales to the vehicle navigation industry will continue to grow, we expect that these sales as a percentage of our total revenue will

decline over time, primarily due to anticipated higher growth rates in the use of our database in GPS-enabled mobile devices. Our sales in the vehicle navigation industry are primarily in Western Europe and North America.

A number of factors are expected to continue to drive growth in the penetration of navigation systems in Europe and North America. Technological advancements and manufacturing economies from higher production volumes are expected to lead to a continual decrease in the average price of vehicle navigation systems. Additionally, as competition among automobile manufacturers intensifies, they will increasingly look for ways to differentiate their product offerings. As a result, we expect automobile manufacturers in North America to expand beyond offering navigation systems primarily in the luxury and sport utility vehicle classes to other vehicle classes.

Mobile Devices

A variety of mobile devices have been introduced in recent years that are GPS-enabled and capable of supporting dynamic navigation and location-based services applications. These include mobile phones (including smartphones), personal digital assistants (PDAs) and personal navigation devices (PNDs). Demand for navigation and location-based products and services is growing as consumers become more familiar with and depend upon real-time electronically delivered information. In addition, in the United States, the Federal Communications Commission currently has mandated that by December 31, 2005, all wireless carriers must ensure that 95% of the handsets in a carrier's total subscriber base are location-capable. This mandate is commonly referred to as E911. There is also an initiative called E112 in Europe which encourages wireless carriers to offer location-capable services. We believe that the confluence of nascent market demand for location-based services, government regulation and the desire of wireless service providers to increase their average revenue per user will continue to drive the development of location-based applications and result in accelerated growth in this area in the future.

Internet-based Mapping Applications

Leading websites and portals, such as AOL/MapQuest, Microsoft/MSN and Yahoo!, derive a substantial amount of traffic from consumers seeking route planning services such as static digital maps and point-to-point driving directions. Many of the leading websites and portals offering route planning services use our database to provide these services. The revenue we receive from these websites/portals does not represent a substantial portion of our business; however, we view this business to be an important driver of consumer awareness of digital route planning services and increased comfort levels with the more advanced dynamic navigation offerings in the vehicle and mobile device industries. In 2005, there were more than 18 billion route planning transactions derived from our database in North America on the leading Internet portals and websites.

Other Applications

Commercial enterprises and government agencies also deploy location-based applications to manage certain aspects of their business. Businesses with large fleets of vehicles benefit from understanding the changing location of the vehicles and optimizing routing in order to achieve fuel and labor efficiencies. Many consumer businesses such as insurers and retailers use geographic information to analyze their customer bases, while utility companies use precise geographic information to understand the location of their assets.

Competitive Strengths

We believe that we enjoy a number of important competitive strengths that drive our success and differentiate us in the various industries we serve, including:

Market Leadership. We are the leader in providing digital map information to automobile manufacturers and automotive navigation systems manufacturers in Europe and North America. Every major automobile manufacturer that currently offers a navigation system in Europe and North America uses our database in one or more of their models. Since 1999, over 10 million vehicles have been equipped with navigation systems using our database. We believe that we are the leading provider to Internet sites providing route planning services in North America. We also believe that our experience and reputation in serving these markets enhances our ability to

penetrate other industries utilizing highly accurate digital map data, such as the emerging location-enabled mobile device market.

Extensive Global Coverage. An important consideration to automobile manufacturers, navigation systems suppliers and Internet portals is the ability to provide a comprehensive global product offering. We offer extensive geographic coverage, including 53 countries on five continents covering over 10 million miles of roadway.

Detail and Richness of Our Database. We offer a highly-detailed database, enabling real-time, turn-by-turn route guidance to specific addresses, points of interest and other locations. Unlike basic road maps, our map database currently can have over 160 unique attributes for a particular road segment, including details regarding ramps, road barriers, sign information, street names and addresses and traffic rules and regulations. Our database also includes information on an array of points of interest, such as airports, hotels, restaurants, retailers, civic offices and cultural sites. We believe that the inclusion of detailed navigation-related information as well as points of interest make our product more useful and relevant to users, enhancing the overall navigation experience. We continue to expand the detail and breadth of coverage of the database through direct collection and third party sources.

Integrated Data Collection Process. We have a data collection process that combines proprietary technology with a global field force of over 500 trained technicians, enabling us to effectively collect, update and verify detailed road network data. We also believe that our data collection process provides superior quality and accuracy, as our field force experiences the roadway in the same manner as end-users, and that this quality and accuracy provides us with a distinct competitive advantage over comparable databases that are aggregated solely from third party sources.

Strong Business Relationships. We have long-standing, collaborative relationships with manufacturers of automobiles, vehicle navigation systems and mobile devices. We are a direct supplier to a number of the major automobile manufacturers, including BMW, DaimlerChrysler, Fiat, Ford, General Motors, Porsche, PSA Peugeot Citroën, Renault and Volkswagen. We also supply some of these automobile manufacturers and others, such as Honda and Toyota, indirectly through relationships with the major navigation systems manufacturers, including AISIN AW, Alpine, Harman Becker, Siemens and Mitsubishi. In addition, we have established relationships with a number of GPS-enabled mobile device manufacturers, such as Garmin, Dell and Thales. We work closely with these manufacturers at various points in the product life cycle to facilitate their use of our database. We strive to collaborate with our customers in their engineering, marketing, information technology and sales functions and in any other areas within their organizations that are integral to their use of our map database. We believe this approach improves the product offerings of our customers.

Consistent Global Specification. Our maintenance of common data standards and a uniform digital mapping approach worldwide enables us to deliver highly accurate, timely and consistent data to our customers. Maintaining a consistent global specification not only enables us to rapidly enhance maps and add attributes in new or existing coverage areas, but also allows us to meet our customers' objectives of uniform quality and format on a global basis. This minimizes their costs and time required to process our data and incorporate it into their products and services. To the extent we acquire digital map databases, we intend to migrate the acquired databases to our global specification.

Our Database

Our principal product is a map database that is a digital representation of road transportation networks in Europe, North America and other regions. Our database is constructed to provide the high level of accuracy and detail necessary to support a variety of applications providing dynamic navigation, route planning, location-based services and other geographic information-based products and services. We believe our digital map has the most extensive navigable geographic coverage of any commercially available today, currently including coverage at various levels of detail for 53 countries on five continents, covering over 10 million miles of roadway.

Edgar Filing: NAVTEQ CORP - Form 10-K

We devote significant resources to creating, updating and enhancing our data and maintaining its quality. We also have made significant investments in software and related tools for database creation and updating. Our database is constructed to the same overall specifications regardless of coverage area so that product developers, manufacturers and service providers generally can design a single product that can be sold globally.

We provide varying levels of coverage ranging from intertown coverage, which is our base coverage, to detailed coverage, which is our most comprehensive coverage. Detailed coverage provides sufficient detail to allow turn-by-turn route guidance to addresses, points of interest and other locations within detailed coverage areas. Road network coverage, which is the coverage level in between detailed coverage and intertown coverage, typically includes most roads in the covered area with the exception of some local, residential or rural roads (referred to as functional class 5 roads) with verification made of roads that typically contain the most complex driving and navigating decisions (referred to as functional class 1-4 roads). Intertown coverage includes the major roadways and select local travel information, and seamlessly connects the detailed coverages. Route guidance products typically incorporate both detailed and intertown information.

In the United States and Canada, our database covers close to 100% of both the population and the public road network. Detailed coverage is complete for cities and their respective surrounding areas, covering in the aggregate approximately 69% of the total combined population of North America. In Western Europe and Eastern Europe, our database covers approximately 100% and 17%, respectively, of the population of the countries listed below under Europe.

We currently offer coverage in the following countries:

North America

United States (including Puerto Rico and Virgin Islands)

Canada

Mexico

Europe

Andorra

Hungary

Romania

Austria

Ireland

Russia

Belgium

Italy

San Marino

Bulgaria

Latvia

Scotland

Croatia

Liechtenstein

Slovak Republic

Czech Republic

Lithuania

Slovenia

Denmark

Luxembourg

Spain

England (including Crown Territories, Isle of Man, Channel Islands and Gibraltar)

Monaco

Sweden

Estonia

The Netherlands

Switzerland

Finland

Northern Ireland

Vatican City

France

Norway

Wales

Germany

Poland

Greece

Portugal

Rest of World

Bahrain

Oman

South Korea

Brazil

Qatar

Taiwan

Edgar Filing: NAVTEQ CORP - Form 10-K

China (Hong Kong only)*

Saudi Arabia

United Arab Emirates

Kuwait

Singapore

Malaysia

South Africa

*We also offer data for mainland China indirectly through our Chinese joint venture, NAV2.

Creating, maintaining and delivering a comprehensive, high quality map database is a multi-step, labor-intensive process. We currently employ over 190 geographers in our centralized production facility and a global workforce of over 500 field analysts in 27 countries, all working with a consistent build methodology and using one global specification.

The major steps in building our digital map database include:

Source Acquisition. When building a map of a new area, it is generally more efficient and productive for us to start with a base map with basic road network information. Under the leadership of our field operations, we evaluate national, regional and local sources of private and publicly available information to obtain base road information and other points of interest, such as airports, hotels, restaurants, retailers, civic offices and cultural sites.

During initial database creation, our field force develops relationships with authorities at all levels responsible for the roadways in order to gather driving rules and other information and field-verify the database. In some cases, reliable third party source material may not be available. In these instances, we initiate field data collection.

Digitization. Source material may either be in a digital or analog format (such as paper maps or aerial photography). For analog sources, we must digitize the information (convert the source material into an electronic format). This work is generally accomplished in our production facility or through select outsourcing.

Geometry. The base road geometry is then associated with the appropriate longitude and latitude in a variety of ways, including field drives and the use of digital imagery.

Field Data Collection. Using proprietary tools and processes, we supplement the base map data with complex geographic data, street name information and navigation information or attributes (such as barriers, one-way restrictions, turn restrictions and other driving rules and points of interest) by direct observation using our field force.

Geocoding. We use our proprietary technologies and methods to convert the data that we have collected into our database according to our specifications. Our method consists of creating a geometric base of elements that represent objects in the real world and then applying additional data, such as street names and addresses, postal codes and one-way road information.

Edgar Filing: NAVTEQ CORP - Form 10-K

Data Validation. Throughout the data entry process, hundreds of validation tests automatically check the accuracy of the data, indicating when field verification through direct observation is needed for resolution. This is complemented by monthly reports monitoring data quality and on-site field-testing of randomly selected geographic areas.

After our maps are created, we then process the data into a variety of formats and data sets for delivery to our customers in the data extraction process.

Once initial development for an area is complete we continually update our database to reflect changes to the roadway network, points of interest, and new content, and we release these updates to our customers on a periodic basis throughout the year. The major steps in maintaining and updating our digital map database include:

Large-Scale Sources. When available, we utilize large-scale information (such as, governmental postal file information or high resolution digital imagery) to identify changes in our database.

Local Sources. We also use our field force's network of local and regional contacts to identify changes or additions to the road network. Our local field offices gather information on road conditions and plans from

multiple sources, check data quality and continually validate database information.

Customer Input. Customer and end-user feedback is captured through a comprehensive database update request process used to identify errors and anomalies in the data.

Field Data Collection. Areas requiring updates or changes to the database are integrated into our on-going data-collection drive plans in order to capture the specific attribution required for navigation through direct observation.

In connection with the licensing of our map database, we sometimes provide our customers with related distribution and technical support services. These additional services facilitate the use and adoption of our database by assisting our customers with the complexities of distributing storage media (for example, multiple formats, languages and countries) and reducing their development costs and time to market for their products and services that use our data.

Distribution services include the manufacturing and shipping of storage media to automobile manufacturers and dealers or directly to end-users as well as a complete range of services, including inventory management, order processing, on-line credit card processing, multi-currency processing, localized VAT handling and consumer call center support. We handle more than 1.5 million pieces of storage media annually (both CDs and DVDs) and some component of our distribution services are currently used by more than 20 car brands.

Technical support services include technical content support, technical software support, resident engineering and program management. Technical content support is provided to all customers to assist them in optimizing use of our data in their products and services. Technical software support provides shelf-ready, third party and custom software tools and solutions. Finally, resident engineering and program management services help define and manage broad program implementation to ensure successful product launches. Our technical support services are designed to facilitate more successful and rapid entry by our customers into the navigation market, accelerate growth of the entire navigation market and enhance the relationship between us and our customers. Our technical support service staff also work closely with both sales personnel and customers to better understand customer requirements for new product deployment.

Technology

Technology development is an integral part of our continued growth and success. Our technology team consists of approximately 250 employees, focusing on initiatives to better serve our customers' needs as well as to improve our efficiency internally. We also outsource some of our software development and data production functions to third parties located in foreign countries. This enables us to complete projects that are non-recurring, require varying or significant additional headcount or demand quick turnaround in a cost effective and timely manner.

Our customers' evolving uses and requirements for our map database drive our technology developments and innovations in data gathering, processing, delivery and deployment. Our technology effort will continue to focus on tools and services that enable us to efficiently create, manage and distribute the map database. We expect to continue to develop proprietary technology where appropriate and to purchase or license technology where cost-effective. In addition, we are currently migrating to an enhanced database platform that will enable us to support

Edgar Filing: NAVTEQ CORP - Form 10-K

electronic, incremental delivery of map data and reduce latency between data collection, database updates and distribution of information. The new system will also enable us to provide on-demand delivery of map database updates to our customers in the future.

We believe that a significant factor in the successful creation and updating of our database is our proprietary software environment. We employ an integrated, centralized approach to our database, software support and operations environments. We devote significant resources and expertise to the development of a customized data management software system. We also have built our workstation software to enable sophisticated database creation and the performance of updating tasks in a well-controlled and efficient environment. A particular capability that we have developed in this area is the ability to access the common database from any of our more than 130 satellite offices and the ability to edit portions of the data concurrently among several users. Our proprietary software enables our field force to gather data on a real-time basis on portable computers in field vehicles. Once the data has been gathered and stored on

portable computers, our field force performs further data processing at our field offices before integrating the changes into the common database.

Marketing and Database Distribution

Our marketing efforts include a direct sales force, attendance and exhibition at trade shows and conferences, advertisements in relevant industry periodicals, direct sales mailings and advertisements, electronic mailings and Internet-based marketing.

We provide our data to end-users through multiple distribution methods. 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 re-distributors. 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.

Customers

We provide our database to automobile manufacturers and dealers, navigation systems manufacturers, software developers, Internet portals, parcel and overnight delivery services companies and governmental and quasi-governmental entities, among others. Our customers include developers and marketers of vehicle and mobile navigation systems and devices, providers of route planning and map display applications, providers of location-based products and services and providers of other geographic information-based products and services. We have entered into written agreements of various types, principally license agreements, with each of our customers. The majority of these agreements, however, are not requirements contracts.

Edgar Filing: NAVTEQ CORP - Form 10-K

The following table presents a representative sample of our customers and their respective map-based applications.

Industry Type	Map-Based Applications	Representative Customers
Vehicle Navigation	Dynamic navigation Telematics services Real-time traffic data	BMW, Daimler-Chrysler, VW-Audi, PSA Peugeot Citroën, Ford, General Motors (Automotive) Harman Becker, AISIN AW, Alpine, Siemens, Denso (Navigation systems manufacturers) OnStar, ATX (Telematic) XM Satellite Radio, Sirius Satellite Radio
Mobile Devices	Map display Driving directions Dynamic navigation	Garmin, Dell, Thales, T-Info, Telcontar, PTV, Tel-Map
Internet-Based Mapping	Map display Driving directions	AOL/MapQuest, Microsoft/MSN, Yahoo! (Internet portals) Microsoft, Rand McNally (PC Software)
Other (Commercial Logistics, Geographic Information Analysis, etc.)	Asset tracking/fleet management Route optimization Geographic information Emergency response Traffic management	Leading parcel and overnight delivery service companies, PTV, ESRI Federal, state, local and quasi- government agencies

During the fiscal years ended December 31, 2003, 2004 and 2005, BMW AG (including its affiliates) represented approximately 18%, 16% and 13% of revenue, respectively. We sell copies of our database and map disks to BMW in North America and Europe pursuant to BMW's standard purchasing terms and conditions, modified in specific instances by separate agreements with BMW. BMW is not obligated to make any minimum purchases under these arrangements. We have also entered into an agreement with BMW to develop a database for South Africa and to sell copies of this database and map disks to BMW.

License Agreements

We license and distribute our database in several ways, including licensing and delivering our database to our business customers, such as application developers and service providers, who then distribute the database directly or indirectly to business and consumer end-users in connection with their products and services. We also license and distribute our database directly (or indirectly through distributors) to both business and consumer end-users. In addition to the basic license terms that typically provide for non-exclusive licenses, our license agreements generally include additional terms and conditions relating to the specific use of the data.

Edgar Filing: NAVTEQ CORP - Form 10-K

Our license fees vary depending on several factors, including the content of the data to be used by the product or service, the use for which the data has been licensed and the geographical scope of the data. The license fees paid for the licenses are usually on a per-copy basis or a per-transaction basis. In general, there is no requirement that a customer sell a minimum number of copies or transactions, although certain of the licenses require a minimum annual license fee or other minimum fee to be paid by the customer to us.

Certain of the license agreements allow our customers to require or request us to produce copies of the database on their behalf and to deliver those copies to the customer or to another distributor for redistribution to consumer end-

users. Similarly, we produce and deliver database copies to automobile manufacturers pursuant to purchase orders or other agreements, and the automobile manufacturers and their dealers redistribute the copies to automobile purchasers. If a customer elects for us to provide these database copies, or if we agree to provide these copies to an automobile manufacturer, then this customer, automobile manufacturer or another party is obligated to pay us a fee for each copy that we produce and deliver which includes a per-copy license fee and a service fee for packaging and distribution.

Competition

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 believe that the principal elements of competition in the market for map information are:

the geographic coverage of the database;

the range and specificity of the information in the database;

database accuracy;

value-added services;

content;

the price to customers for the use of the database; and

the availability of software and hardware products that are compatible with the database (or available or used in products/services that use this map information).

We currently have several major competitors, including Tele Atlas and numerous European governmental and quasi-governmental mapping agencies (e.g., Ordnance Survey in the United Kingdom) that license map data for commercial use. Governmental and quasi-governmental agencies are also 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 pressure. 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 Geographic Data Technology, Inc. (GDT) by Tele Atlas in July 2004 as well as other competitive pressures, may result in price reductions, reduced profit margins or loss of market share by us.

Intellectual Property

Our success and ability to compete are dependent, in part, upon our ability to establish and adequately protect our intellectual property rights. In this regard, we rely primarily on a combination of copyright laws (including, in Europe, database protection laws), trade secrets and patents to establish and protect our intellectual property rights in our database, software and related technology. We hold a total of more than 155 U.S. patents, which cover a variety of technologies, including technologies relating to the collection and distribution of geographical and other data, data organization and format, and database evaluation and analysis tools. Although we actively attempt to utilize patents to protect our technologies, we believe that none of our patents, individually or in the aggregate, are material to our business. We also protect our database, software and related technology, in part, through the terms of our license agreements and by confidentiality agreements with our employees, consultants, customers and others. We also claim rights in our trademarks and service marks. Certain of our marks are registered in the United States, Europe and elsewhere and we have filed applications to register certain other marks in these jurisdictions. 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.

NAVTEQ is a trademark of NAVTEQ Corporation. All other trademarks or service marks appearing in this annual report are trademarks or service marks of others.

Employees

As of December 31, 2005, we had a total of 1,942 employees. We believe that relations with our employees are good, and we have not experienced any work stoppages due to labor disputes.

International operations.

We have substantial operations in Europe and other jurisdictions and we expect a significant portion of our revenues 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, including compliance with, or changes in, the laws and regulatory requirements of various foreign countries and the European Union, difficulties in staffing and managing foreign subsidiary operations, taxes, trade barriers and business interruptions. In addition, substantially all of our expenses and revenues relating to our international operations are denominated in foreign currencies. Historically, we have not engaged in activities to hedge our foreign currency exposures, however, on April 22, 2003, we entered into a U.S. dollar/euro currency swap agreement with Philips N.V. (the parent company of our then-majority stockholder) to minimize the exchange rate exposure between the U.S. dollar and the euro on the expected repayment of an intercompany obligation. This swap agreement was subsequently assigned to an unaffiliated third party in the third quarter of 2004. See Item 7A Quantitative and Qualitative Disclosures About Market Risk for a more detailed description of the swap agreement. We are, however, and will continue to be, subject to risks related to foreign currency fluctuations until we engage in additional hedging activities, if ever. Any of these matters could increase our expenses and have a material adverse effect on our financial condition and results of operations.

The following summarizes net revenue on a geographic basis for the years ended December 31, 2003, 2004 and 2005 (in thousands):

		Years ended December 31,		
		2003	2004	2005
Net revenue:				
Europe	\$	180,959	267,541	316,208
North America		91,664	125,317	172,789
Asia Pacific				7,515
Total net revenue	\$	272,623	392,858	496,512

We derive our 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.

Edgar Filing: NAVTEQ CORP - Form 10-K

The following summarizes long-lived assets on a geographic basis as of December 31, 2004 and 2005 (in thousands):

	2004	December 31,	2005
Property and equipment, net:			
Europe	\$	5,801	5,731
North America		12,367	14,396
Asia Pacific		52	701
Total property and equipment, net	\$	18,220	20,828
Capitalized software development costs, net:			
Europe	\$		
North America		26,243	25,761
Asia Pacific			
Total capitalized software development costs, net	\$	26,243	25,761

Executive Officers of the Registrant

Edgar Filing: NAVTEQ CORP - Form 10-K

Our executive officers and their ages and positions, as of February 1, 2006, are as follows:

Name	Age	Position(s)
<i>Executive officers:</i>		
Judson C. Green(1)	53	President, Chief Executive Officer and Director
Denis M. Cohen	66	Executive Vice President
John K. MacLeod	48	Executive Vice President, NAVTEQ Connected Services
David B. Mullen	55	Executive Vice President and Chief Financial Officer
Clifford I. Fox	50	Senior Vice President, NAVTEQ Map
Winston Guillory, Jr.	49	Senior Vice President, Consumer and Business Sales
Lawrence M. Kaplan	42	Senior Vice President, General Counsel and Corporate Secretary
M. Salahuddin Khan	54	Senior Vice President, Global Marketing and Strategy
Jeffrey L. Mize	42	Senior Vice President, NAVTEQ Vehicle Sales
Richard E. Shuman	53	Senior Vice President, Asia Pacific Sales
Denise M. Doyle	33	Vice President, Business Affairs
Christine C. Moore	56	Vice President, Human Resources

(1) Serves as a member of our board of directors pursuant to the terms of his employment agreement.

Executive Officers.

Judson C. Green serves as our President and Chief Executive Officer and as a member of our board of directors. Mr. Green joined us in May 2000. Previously, Mr. Green was the President of Walt Disney Attractions, the theme park and resort segment of The Walt Disney Company, from August 1991 until December 1998, and Chairman from December 1998 until April 2000. Prior to his positions at Walt Disney Attractions, he served as Chief Financial Officer of The Walt Disney Company from December 1989 until August 1991. Mr. Green is also currently a director of Harley-Davidson, Inc. Mr. Green holds a M.B.A. from the University of Chicago Graduate School of Business and a bachelor's degree in economics from DePauw University.

Denis M. Cohen serves as our Executive Vice President. Mr. Cohen joined us as President, Europe in 1997 and has also served as our Executive Vice President, Marketing and Sales for Europe and Japan and as our Executive Vice

Edgar Filing: NAVTEQ CORP - Form 10-K

President, Sales Europe. From 1993 until 1997, Mr. Cohen was with Thomas-CSF as General Manager of Subsidiaries and Sales Offices Network Worldwide for Components Applications. Mr. Cohen holds an engineering degree from Ecole Nationale d'Electronique at Radio de Bordeaux and also holds degrees in physics and mathematics.

John K. MacLeod serves as our Executive Vice President, NAVTEQ Connected Services. Mr. MacLeod joined us in September 2000 as Executive Vice President, Marketing and Sales for North America and World Markets and also served as our Executive Vice President, Global Marketing and Strategy. From November 1999 until September 2000 he was an independent consultant. From January 1996 until November 1999, Mr. MacLeod was Senior Vice President Development and Operations, Sony Retail Entertainment division of Sony Corporation of America, which division's principal business was location-based entertainment. Mr. MacLeod holds a M.B.A. from the Stanford Graduate School of Business and a bachelor's degree in economics from Harvard.

David B. Mullen serves as our Executive Vice President and Chief Financial Officer. Prior to joining us in December 2002, he was Chief Financial Officer of Allscripts Healthcare Solutions, Inc., a healthcare technology firm, from August 1997 to September 2002. From 1995 to 1997, Mr. Mullen was Chief Financial Officer of Enterprise Systems, a publicly-held healthcare software company. Earlier he held several top management positions with CCC Information Services, a software and information services company serving the insurance industry, and spent a number of years in the audit and systems consulting practices of Ernst & Young LLP. Mr. Mullen holds a M.B.A. from the Wharton School at the University of Pennsylvania and a bachelor's degree in statistics from Princeton University.

Clifford I. Fox serves as our Senior Vice President, NAVTEQ Map. Mr. Fox joined us in June 2000 and has served in several senior level positions including Vice President and General Manager Sales for In-Vehicle Applications and Vice President Global Product Management. Previously he worked for twenty three years at Honeywell. The last nine years was spent working in various senior management positions including Director of Sales, Marketing and Engineering for the Automotive Sensor business, Director of Business Development and Director of Customer Support. Mr. Fox holds a B.S. in Physics from Iowa State University.

Winston Guillory, Jr. serves as our Senior Vice President, Consumer and Business Sales. Mr. Guillory joined us in July 2003 as Senior Vice President, North America Sales. Prior to joining us, Mr. Guillory worked from 1997 until 2002 in senior executive sales roles for Intermec Technologies, a leading provider of supply chain information products, services and technologies. Earlier he held senior sales positions with Weblink Wireless, Inc, a leading wireless company in North America, and Visual Information Technology, a provider of image processing hardware. Mr. Guillory spent the first nine years of his career at IBM in a variety of marketing and sales management roles. Mr. Guillory holds a B.B.A. in marketing from Lamar University.

Lawrence M. Kaplan serves as our Senior Vice President, General Counsel and Corporate Secretary. Mr. Kaplan joined us in 1995 as our Director of Intellectual Property and became Vice President and General Counsel in January 2001 before being promoted to Senior Vice President in December 2004. Previously, he was an attorney in private practice with the law firm of Brinks Hofer Gilson & Lione. Mr. Kaplan holds a J.D. from the University of Illinois College of Law and a B.S. in general engineering from the University of Illinois.

M. Salahuddin Khan serves as our Senior Vice President, Global Marketing and Strategy. Mr. Khan joined us in 1998 as Vice President, OEM Marketing and also served as our Senior Vice President, Technology & Development and Chief Technology Officer. Previously Mr. Khan was at Computervision Corporation for nearly twenty years, most recently as Vice President, Research and Product Development. Mr. Khan holds a B.S. in aeronautics and astronautics from the University of Southampton.

Edgar Filing: NAVTEQ CORP - Form 10-K

Jeffrey L. Mize serves as our Senior Vice President, Vehicle Sales. Mr. Mize joined us in March 2001 as Sales Director, North America Vehicle Applications. In March 2003, he was promoted to Vice President and General Manager, Europe Vehicle Applications, and relocated to Frankfurt, Germany. In January 2006, he was promoted to Senior Vice President, Vehicle Sales. In 1986, Mr. Mize began his career at the MICRO SWITCH Division of Honeywell and held a variety of sales and marketing positions in the automotive OEM and industrial factory floor automation markets. In 1998, he joined C&K Systems, a manufacturer of electronic security equipment, as the Vice President of Sales and Operations for the Americas. In 1999, Honeywell acquired C&K and Mr. Mize re-joined

Edgar Filing: NAVTEQ CORP - Form 10-K

Honeywell as a Vice President of Sales for the Security Division until joining NAVTEQ. Mr. Mize holds a B.S. in Electrical Engineering from the University of Illinois at Champaign.

Richard E. Shuman serves as our Senior Vice President, Asia-Pacific Sales. Mr. Shuman has been with us since 1987, and prior to his current position, Mr. Shuman held several other senior level positions, including General Manager, Vehicle Applications Europe, Senior Director, Automotive Business Development and Vice President, Asia-Pacific Sales. Mr. Shuman joined us from Cellular Business Systems Inc., where he was Vice President of Operations from 1984 to 1987. Prior to that, he was Regional Manager for SEI Information Technology. Mr. Shuman holds a B.A. in performance music from Roosevelt University.

Denise M. Doyle serves as our Vice President, Business Affairs. Ms. Doyle has been with us since 1999 and has held positions of increasing responsibility within the Business Affairs organization. Prior to joining us, Ms. Doyle held corporate strategy and product management positions at Miller Brewing Company, America Online, Inc. and Wilton Industries, Inc. Ms. Doyle holds a B.A. degree in international studies from St. Norbert College.

Christine C. Moore serves as our Vice President, Human Resources. Ms. Moore joined us in June 2000. Previously, Ms. Moore was with The Walt Disney Company for almost 30 years, most recently as Director, Communications and Special Projects, for the Chairman of Disney's Theme Parks and Resorts Division. During her career with Disney, Ms. Moore held a variety of positions including General Manager, Human Resources, for the Disneyland Paris project, and Manager of Administration and Personnel for the Walt Disney World Resorts. Ms. Moore holds a Masters degree from the Crummer School of Business and a B.A. in both English and history from Marshall University.

Item 1A. 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, 2003, 2004 and 2005, revenue from our largest customer, BMW AG, accounted for approximately 18%, 16% and 13%, respectively, of our total revenue. In addition, during those three years, sales to our top 15 customers accounted for approximately 75%, 78% and 76% 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 83%, 82% and 72% of our revenue for the years ended December 31, 2003, 2004 and 2005, 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.

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.

Edgar Filing: NAVTEQ CORP - Form 10-K

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. 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 N.V. and Tele Atlas North America (Tele Atlas) filed a complaint against us in the United States District Court for the Northern District of California. The complaint alleges that we 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 intentionally interfered with Tele Atlas's contractual relations and prospective economic advantage with third parties, by allegedly excluding Tele Atlas from the market for digital map data for use in navigation system applications in the United States through exclusionary and predatory practices. On August 16, 2005, Tele Atlas filed an amended complaint based on these same causes of action. Specifically, in its amended complaint, Tele Atlas alleges that we control a predominant share of variously defined markets for digital map data and have entered into exclusive contracts with digital map data customers for the purpose of acquiring or maintaining an illegal monopoly in these alleged markets. Tele Atlas also contends that these allegedly exclusive contracts have interfered with Tele Atlas' current and prospective business relationships and amount to unfair competition under California state law. In addition, Tele Atlas alleges that 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 allegedly have entered into patent licenses and/or other arrangements in a manner that violates the aforesaid laws. On November 2, 2005, the Court dismissed some, but not all, of Tele Atlas' claims for failure to state valid causes of action. On November 22, 2005, Tele Atlas filed a second amended complaint based on the same causes of actions and essentially the same allegations as in its first amended complaint and we filed an answer denying Tele Atlas' claims. Tele Atlas seeks preliminary and permanent injunctive relief, unspecified monetary, exemplary and treble damages, and costs and attorneys' fees of suit. Based on a review of the second amended complaint, we believe that the allegations are without merit. 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 position 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 our 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 \$51.3 million and \$28.9 million, respectively, and net losses of \$109.6 million and \$116.5 million, respectively. As of December 31, 2005, we had an accumulated deficit of \$296.9 million. Although we have achieved an operating profit and a net profit for each of the last four 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 134 satellite and administrative offices in 25 countries worldwide. We have substantial operations in Europe. Approximately 66%, 68% and 64% of our total revenue for the years ended December 31, 2003, 2004 and 2005, 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, 2005, we generated approximately 65% of our total revenue, and incurred approximately 48% of our total costs in foreign currencies. Our European operations reported revenue of \$316.2 million for the year ended December 31, 2005. For the year ended December 31, 2005, every one cent change in the exchange ratio of the euro against the dollar resulted in a \$2.6 million change in our revenue and a \$1.2 million change in our operating income. Our analysis does not consider the implications that such fluctuations could have on the overall economic activity that could exist in such an environment in 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 these future tax deductions in our consolidated balance sheet at December 31, 2005. 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.

We are required to evaluate our internal control over financial reporting 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.

Edgar Filing: NAVTEQ CORP - Form 10-K

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. We are now required to furnish a report by our management on our internal control over financial reporting. The report must 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. The report must also contain a statement that our auditors have issued an attestation report on management's assessment of such internal control.

This annual report includes management's report that management has assessed the effectiveness of our internal control over financial reporting for the year ended December 31, 2005, and has concluded that as of December 31, 2005, our internal control over financial reporting was effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. It also includes an attestation from our auditors that our report is fairly stated. However, if our management identifies one or more material weaknesses in our internal control over financial reporting in the future in accordance with our annual assessment, 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 for any fiscal year, 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.

Likewise, 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, NAVTEQ Connected Services and M. Salahuddin Khan, Senior Vice President, Global Marketing and Strategy 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 successfully integrate our recent acquisition of Picture Map International (PMI) or 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.

Edgar Filing: NAVTEQ CORP - Form 10-K

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, subject us to liability from our customers and end-users and harm our reputation. 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.

Edgar Filing: NAVTEQ CORP - Form 10-K

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. SFAS No. 123(R) will 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 expense 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.

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. 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 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

Our corporate headquarters are located in Chicago, Illinois. We maintain a regional headquarters in Veldhoven, The Netherlands and a production facility in Fargo, North Dakota. The table below provides additional information concerning our principal facilities, including the approximate square footage of each facility and the lease or sublease expiration date. We believe that our facilities are generally suitable to meet our needs for the foreseeable future, however, we continue to seek additional space as needed to satisfy our growth.

Location	Use/Purpose	Square Footage	Lease Expiration
Chicago, IL	Corporate Headquarters	137,147	September 30, 2007
Chicago, IL	Corporate Headquarters	11,665	March 31, 2013
Fargo, ND	Production Facility	56,500	September 30, 2011
Veldhoven, The Netherlands	European Headquarters	41,505	March 14, 2011

In addition to these facilities, we also have 134 satellite and administrative offices in 25 countries worldwide.

Item 3. Legal Proceedings.

On April 22, 2005, Tele Atlas N.V. and Tele Atlas North America (Tele Atlas) filed a complaint against us in the United States District Court for the Northern District of California. The complaint alleges that we 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 intentionally interfered with Tele Atlas' s contractual relations and prospective economic advantage with third parties, by allegedly excluding Tele Atlas from the market for digital map data for use in navigation system applications in the United States through exclusionary and predatory practices. On August 16, 2005, Tele Atlas filed an amended complaint based on these same causes of action. Specifically, in its amended complaint, Tele Atlas alleges that we control a predominant share of variously defined markets for digital map data and have entered into exclusive contracts with digital map data customers for the purpose of acquiring or maintaining an illegal monopoly in these alleged markets. Tele Atlas also contends that these allegedly exclusive contracts have interfered with Tele Atlas' current and prospective business relationships and amount to unfair competition under California state law. In addition, Tele Atlas alleges that 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 allegedly have entered into patent licenses and/or other arrangements in a manner that violates the aforesaid laws. On November 2, 2005, the Court dismissed some, but not all, of Tele Atlas' claims for failure to state valid causes of action. On November 22, 2005, Tele Atlas filed a second amended complaint based on the same causes of actions and essentially the same allegations as in its first amended complaint and we filed an answer denying Tele Atlas' claims. Tele Atlas seeks preliminary and permanent injunctive relief, unspecified monetary, exemplary and treble damages, and costs and attorneys' fees of suit. Based on a review of the second amended complaint, we believe that the allegations are without merit. 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 position 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 our 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 are subject to various other legal proceedings and claims arising in the ordinary course of our business. We do not believe that any of these other legal proceedings or claims will materially affect our business, financial position or results of operations.

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

None.

PART II**Item 5. Market for Registrant's Common Equity and Related Stockholder Matters.****Market Information**

Our common stock is listed on the New York Stock Exchange under the symbol NVT. We completed our initial public offering in August 2004. The following table sets forth the high and low sales prices per share of our common stock for each quarter of 2005 and for the third and fourth quarters of 2004:

	High	Low
2005		
4 th Quarter	\$ 53.70	\$ 38.40
3 rd Quarter	51.00	36.06
2 nd Quarter	45.23	34.30
1 st Quarter	48.57	37.30
2004		
4 th Quarter	48.37	34.70
3 rd Quarter (1)	37.55	24.00

(1) Since August 6, 2004, the first day of trading of the Company's common stock on the New York Stock Exchange.

Holdings

As of February 1, 2006, our common stock was held by 238 stockholders of record.

Dividends

Except for a special cash dividend that was paid to our common stockholders on June 18, 2004, we have never declared or paid any cash dividends on our common stock. We currently intend to retain future earnings, if any, to finance the expansion of our business and do not expect to pay any cash dividends in the foreseeable future. In addition, neither we nor our subsidiaries may pay any cash dividends with respect to any shares of any class of our capital stock in accordance with our existing revolving credit agreement. This restriction materially limits our ability to pay dividends on our common stock. Payment of future cash dividends, if any, 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 in accordance with the revolving credit agreement. Our ability to pay dividends also may be limited by financing or other agreements that we may enter into in the future.

Securities Authorized for Issuance Under Equity Compensation Plans

See Item 12. Security Ownership of Certain Beneficial Owners and Management for information regarding the Company's securities authorized for issuance under equity compensation plans.

Sale of Unregistered Securities

Edgar Filing: NAVTEQ CORP - Form 10-K

On July 8, 2005, we acquired Picture Map International Co., Ltd., a South Korean digital map company (PMI), through our wholly owned subsidiary, NAVTEQ B.V., pursuant to a stock purchase agreement dated the same date by and among us, NAVTEQ B.V., 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 \$28.5 million, 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 our common stock (the NVT Stock). The number of shares of our 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. On August 18, 2005, we filed a registration statement on Form S-3, 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. The registration statement was declared effective on September 7, 2005.

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.

Except for the shares issued in connection with the acquisition of PMI, we did not sell any equity securities during the fiscal year ended December 31, 2005 that were not registered under the Securities Act.

Repurchases of Our Common Stock

We have not repurchased any of our common stock, or announced any programs or plans to repurchase any of our common stock, during the year ended December 31, 2005.

Item 6. Selected Financial Data.

The following selected historical consolidated financial data as of December 31, 2004 and 2005 and for the years ended December 31, 2003, 2004 and 2005 have been derived from the audited consolidated financial statements of NAVTEQ, appearing elsewhere in this document. The following selected historical consolidated financial data as of December 31, 2001, 2002 and 2003 and for the years ended December 31, 2001 and 2002 have been derived from the audited consolidated financial statements of NAVTEQ, which are not included herein. The historical results presented below are not necessarily indicative of the results to be expected in any future period. The selected historical consolidated financial data should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and related notes thereto appearing elsewhere in this document.

NAVTEQ CORPORATION AND SUBSIDIARIES**(In thousands, except per share amounts)**

		Years Ended December 31,				
	2001	2002	2003	2004	2005	
Consolidated Statement of Operations Data:						
Net revenue	\$ 110,431	165,849	272,623	392,858	496,512	
Operating costs and expenses:						
Database creation and distribution costs	82,343	92,499	125,841	186,330	222,933	
Selling, general and administrative expenses	56,979	63,422	83,024	111,942	139,323	
Total operating costs and expenses	139,322	155,921	208,865	298,272	362,256	
Operating income (loss)	(28,891)	9,928	63,758	94,586	134,256	
Interest income (expense), net (1)	(17,383)	(668)	380	1,134	4,237	
Other income (expense), net (1)	(70,235)		6,163	(1,892)	498	
Income (loss) before income taxes	(116,509)	9,260	70,301	93,828	138,991	
Income tax expense (benefit) (2)		1,105	(165,514)	39,762	(31,839)	
Net income (loss)	(116,509)	8,155	235,815	54,066	170,830	
Cumulative preferred stock dividends	(91,417)	(110,464)				
Net income (loss) applicable to common stockholders	\$ (207,926)	(102,309)	235,815	54,066	170,830	
Earnings (loss) per share of common stock:						
Basic	\$ (7.31)	(2.41)	2.81	0.62	1.90	
Diluted	\$ (7.31)	(2.41)	2.69	0.59	1.81	
Weighted average shares used in per share computation:						
Basic	28,441	42,446	84,062	86,509	90,115	
Diluted	28,441	42,446	87,593	92,001	94,198	

	2001	2002	As of December 31, 2003	2004	2005
Consolidated Balance Sheet Data:					
Cash and cash equivalents	\$ 7,506	9,427	1,982	30,101	85,070
Cash on deposit with affiliate	5,000	10,000	65,307		
Marketable securities				72,930	133,728
Working capital (deficit)	(16,388)	(8,633)	82,088	97,587	190,945
Deferred income tax assets(2)			172,065	142,765	211,848
Total assets	62,476	80,327	325,165	364,708	615,888
Long-term debt(1)					
Total stockholders' equity (1)	3,571	11,237	217,911	232,818	490,064

	2001	2002	Year Ended December 31, 2003	2004	2005
Consolidated Statement of Cash Flow Data:					
Cash flow provided by (used in) operating activities	\$ (11,501)	22,234	65,948	106,422	137,753
Capital expenditures	(5,119)	(2,156)	(9,269)	(12,875)	(10,466)
Capitalized software development costs	(10,773)	(10,027)	(9,966)	(12,792)	(12,369)
Total capital expenditures and capitalized software development costs	(15,892)	(12,183)	(19,235)	(25,667)	(22,835)
Depreciation and amortization	8,541	10,563	12,030	15,568	21,568

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

(2) During 2003, the valuation allowance on deferred tax assets was partially reversed, resulting in a benefit of \$168,752. During 2004, the balance of deferred tax assets was adjusted due to changes in corporate income tax rates, primarily in the Netherlands, resulting in expense of \$3,824. During 2005, additional valuation allowance on deferred tax assets was reversed, resulting in a benefit of \$83,270. Also during 2005, the balance of deferred tax assets was adjusted due to the reversal of tax benefits related to deferred compensation, resulting in expense of \$1,836 and due to changes in corporate income tax rates, primarily in the Netherlands, resulting in expense of \$720.

Item 7. 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 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 in Item 1A. Risk Factors that could cause results to differ materially from those expressed in such forward-looking statements.

Overview

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

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., the other selling stockholder, 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 was consummated on May 10, 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. Revenue grew 44.1% and 26.4% in 2004 and 2005, respectively. The largest portion of our revenue comes from digital map data used in self-contained hardware and software systems installed in vehicles. We believe that there are two key factors that affect our performance with respect to this revenue: the number of automobiles sold for which navigation systems are either standard or an option (adoption) and the rate at which car buyers select navigation systems as an option (take-rate).

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

In addition, the market for products and services that use our database is evolving, and we believe that much of our future success depends upon the development of a wider variety of products and services that use our database. This includes growth in location-enabled mobile devices, such as mobile phones, personal 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 as a result of any decreases in our license fees will be offset by volume increases as the market for products and services that use our database grows, although we cannot assure you that these increases will occur.

Operating Expenses

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

Our operating expenses have increased as we have made investments related to the development, improvement and commercialization of our database. Our operating expenses grew 42.8% and 21.5% in 2004 and 2005, respectively. Operating expenses as a percentage of revenue were 77%, 76% and 73% in 2003, 2004 and 2005, respectively. We anticipate that operating expenses will continue to increase as our growth and

Edgar Filing: NAVTEQ CORP - Form 10-K

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 of our directors and employees under our 2001 Stock Incentive Plan. The RSUs are securities that require us to deliver to the holder one share of our common stock 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 compensation expense of \$6,224 and \$8,353 related to the grants of the restricted stock units during the years ended December 31, 2004 and 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 a separation agreement with Philips effective upon the closing of

Edgar Filing: NAVTEQ CORP - Form 10-K

the initial public offering in August 2004, we can no longer obtain software, software-related consulting services, treasury services, tax consulting services and insurance from or through Philips. We ceased participating in Philips purchasing programs after March 31, 2005.

Income Taxes

As of December 31, 2005, we had U.S. net operating loss carryforwards for Federal and state income tax purposes of approximately \$259,923 and \$104,222, respectively. The difference between the Federal and state loss carryforwards relate to certain limitations applicable to us because our principal operations were previously located in California. These include a 50% limitation on California loss carryforwards, capitalized research and development costs for California income tax purposes and a five-year limit on California net operating loss carryforwards. Net operating loss carryforwards are available to reduce future taxable income subject to expiration. Various amounts of our net operating loss carryforwards expire, if not utilized, each year until 2025. The following table details the timing of the expiration of our net operating loss carryforwards:

Year of expiration	Federal net operating loss carryforwards	State net operating loss carryforwards	Federal tax credit carryforwards
2006	\$	1,916	75
2007		817	152
2008	4,039	490	114
2009	5,715	421	28
2010	25,772	5,069	102
Thereafter through 2025	224,397	95,509	3,973
	\$	104,222	4,444

As of December 31, 2005, we also had net operating loss carryforwards in Europe and Canada of approximately \$55,372 and \$1,911, respectively. The European loss carryforwards have no expiration date and the Canadian loss carryforwards generally have a seven-year carryforward period. In addition, as of December 31, 2005, we had U.S. interest expense carryforwards for both Federal and state income tax purposes of approximately \$205,328.

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

As of June 27, 2004, we had fully reserved for the tax benefits related to the interest expense carryforwards as we believed it was more likely than not that the benefits would not be realized. At such time, we believed it was more likely than not that we would not realize the benefit associated with the interest expense carryforwards due to (1) restrictions placed on the deductibility of the interest as a result of 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, in the third quarter of 2004, whether it was more likely than not that the tax benefits associated with our net operating loss carryforwards together with our interest expense carryforwards would be realized. Based on that evaluation, we determined the amount of net deferred tax assets that we believed it was more likely than not that we would realize. Our estimate of the deferred tax assets that we expected was more likely than not to be realized did not require us to record an adjustment to the balance of the related valuation allowance prior to the third quarter of 2005.

During the third quarter of 2005, we recorded an income tax benefit of \$83,270 related to the reversal of the valuation allowance on a portion of our deferred tax assets. We also recorded the reversal of tax benefits of \$1,836 related to deferred compensation. In addition, we reversed the valuation allowance on deferred tax assets associated with stock-based

compensation, which resulted in an increase to additional paid-in capital of \$34,552. We reassessed the realizability of the deferred tax assets and made the determination that it is more likely than not that we would be able to realize the benefits of the deferred tax assets related to net operating loss carryforwards and deferred interest credits in the United States. In reaching the determination, we considered both positive and negative evidence. Positive evidence included our strong recent revenue growth and operating performance, expectations regarding the generation of future taxable income, the length of available carryforward periods, our market position and the expected growth of the market. Negative evidence included our history of operating losses through 2001 and the likelihood of increased competition and loss of a significant customer. From that analysis, we determined that sufficient evidence existed to conclude that it was more likely than not that the benefits of certain of the deferred tax assets will be realized. Accordingly, we reversed the related valuation allowance. As of December 31, 2005, we had a valuation allowance for deferred tax assets of \$2,728 related to Canadian net operating loss carryforwards and research and experimental tax credits.

During the fourth quarter of 2004, we revalued the deferred tax asset on our balance sheet due to changes in statutory corporate income tax rates, resulting in a decrease to deferred tax assets and additional income tax expense of \$3,824. This revaluation was primarily due to legislation in the Netherlands enacted during the fourth quarter of 2004 that reduced statutory corporate income tax rates from 34.5% to 30% in stages over a four-year period starting in 2005. The 2006 statutory corporate income tax rate was subsequently reduced to 29.6% in the fourth quarter of 2005.

During the fourth quarter of 2005, we again revalued the deferred tax asset on our balance sheet due to changes in statutory income tax rates in the Netherlands and changes in the apportionment of income among states in the United States, resulting in a decrease to deferred tax assets and additional income tax expense of \$720. Legislation was enacted in the Netherlands during the fourth quarter of 2005 that reduced the 2006 statutory corporate income tax rate to 29.6% from 30.5%.

Cash and Liquidity

Prior to the year ended December 31, 2002, we had been unprofitable on an annual basis since our inception, and, as of December 31, 2005, we had an accumulated deficit of \$296,884. 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.

In April 2004, we declared a special cash dividend of \$47,159, which was paid on June 18, 2004 to our common stockholders of record as of April 19, 2004.

As of December 31, 2005, our balance of cash and cash equivalents and marketable securities was \$218,798, compared to \$103,031 as of December 31, 2004, which represents an increase of \$115,767. In addition, we have generated positive cash flow from operations for the past sixteen quarters.

Foreign Currency Risk

Material portions of our revenue and expenses have been generated by our European operations, and we expect that our European operations will account for a material portion of our revenue and expenses in the future. Substantially all of our international expenses and revenue are

Edgar Filing: NAVTEQ CORP - Form 10-K

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 7A Quantitative and Qualitative Disclosures About Market Risk**. For the year ended December 31, 2005, we generated approximately 65% of our net revenue and incurred approximately 48% of our total

costs in foreign currencies. Our European operations reported revenue of \$316,208 for the year ended December 31, 2005, with every one cent change in the exchange rate of the euro against the dollar resulting in approximately a \$2,600 change in our revenue and approximately a \$1,200 change in our operating income. Our analysis does not consider the implications that these 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 revenue in the future. Approximately 13% of our revenue for the year ended December 31, 2005 was from one customer. No other customer accounted for 10% or more of our revenue for the year ended December 31, 2005. Approximately 26% of our revenue for the year ended December 31, 2004 was from two customers, accounting for approximately 16% and 10%, respectively, of our revenue. Approximately 29% of our revenue for the year ended December 31, 2003 was from two customers, accounting for approximately 18% and 12%, respectively, of our revenue. Our top fifteen customers accounted for approximately 75%, 77% and 76% of our revenue for the years ended December 31, 2003, 2004 and 2005, respectively.

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

Reverse Stock Split

On April 27, 2004, our board of directors and stockholders approved a reverse stock split of our common stock. The ratio for the reverse stock 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 consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires that we make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates based on historical experience and make various assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. We believe that, of the significant policies used in the preparation of our consolidated financial statements (see Note 1 of Notes to Consolidated Financial Statements), the following are critical accounting estimates, which may involve a higher degree of judgment and complexity. Management has discussed the development and selection of these critical accounting estimates with our Audit Committee, and our Audit Committee has reviewed this disclosure.

Revenue Recognition

We derive a substantial majority of our revenue from licensing our database. We provide our data to end-users through multiple distribution methods, primarily media or server-based. For example, our customers produce copies of our data on various media, such as CD-ROMs, DVDs and other storage media. Our customers then distribute those media to end-users directly and indirectly through retail establishments, automobile manufacturers and their dealers, and other redistributors. The media may be sold by our customer separately from its products, bundled with its products or

otherwise incorporated into its products. We also produce copies of our data and distribute those copies to end-users both directly and indirectly through automobile manufacturers and their dealers. In those cases where we produce and distribute copies to end-users, the copies are either compiled into our customers' proprietary format for use with the customers' products or are in our common database physical storage format. Additionally, some of our customers store our data on servers and distribute information, such as map images and driving directions, derived from our data over the Internet and through other communication networks.

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

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

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

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

Allowance for Doubtful Accounts

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

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

the provision recorded, fluctuations in credit loss rates in the future may affect our financial results.

Database Creation, Distribution and Software Development Costs

We have invested significant amounts in creating and updating our database and developing related software applications for internal use. Database creation and distribution costs consist of database creation and updating, database

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

Impairment of Long-lived Assets

As of December 31, 2004 and 2005, our long-lived assets consisted of property and equipment, internal-use software and acquired intangible assets. We review long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. Significant management judgment is required in determining the fair value of our long-lived assets to measure impairment, including projections of future discounted cash flows.

Realizability of Deferred Tax Assets

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

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

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

As of December 31, 2005, we had a valuation allowance for deferred tax assets of \$2,728 related to Canadian net operating loss carryforwards, and research and experimental tax credits.

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

Results of Operations

Comparison of Years Ended December 31, 2004 and 2005

Operating Income, Net Income and Net Income Per Share of Common Stock. Our operating income increased from \$94,586 in 2004 to \$134,256 in 2005, due primarily to our revenue growth in 2005. Our net income increased from \$54,066 in 2004 to \$170,830 in 2005, due primarily to the \$83,270 effect of the reversal of the valuation allowance on our deferred tax assets related to net operating loss carryforwards and deferred interest credits in 2005 and our higher operating income. Basic net income per share of common stock increased from \$0.62 in 2004 to \$1.90 in 2005. Diluted net income per share of common stock increased from \$0.59 in 2004 to \$1.81 in 2005.

Edgar Filing: NAVTEQ CORP - Form 10-K

The following table highlights changes in selected 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. In addition, the percentage changes for other income (expense) and income tax benefit (expense) as compared to the prior year are not specified below. We believe that these percentages are not meaningful since the changes are unusually large due to non-recurring items more fully described in the narrative section for each.

	2004	2005	Change	%
Net revenue	\$ 392,858	496,512	103,654	26.4%
Database creation and distribution costs	186,330	222,933	36,603	19.6%
Selling, general and administrative expenses	111,942	139,323	27,381	24.5%
Other income (expense)	(758)	4,735	5,493	
Income tax (benefit) expense	39,762	(31,839)	(71,601)	

Net Revenue. The increase in total revenue was due to a significant increase in database licensing, resulting primarily from increased unit sales to existing customers. Growth occurred in all geographic regions in 2005. European revenue increased 18.2% from \$267,541 in 2004 to \$316,208 in 2005. North American revenue increased 37.9% from \$125,317 in 2004 to \$172,789 in 2005. European and North American revenue both increased primarily due to the increase in unit sales to vehicle navigation systems vendors, automobile manufacturers and mobile device manufacturers. Foreign currency translation decreased revenue within the European operations by approximately \$666 during 2005 due to the weakening of the euro. Revenue related to sales of our database used in vehicle navigation systems as a percentage of our revenue decreased to 72% of our revenue in 2005 from 82% of our revenue in 2004. Approximately 26% of our revenue for 2004 came from two customers (accounting for approximately 16% and 10% of total revenue, respectively), while only one customer accounted for more than 10% of our revenue in 2005 (accounting for 13%).

Database Creation and Distribution Costs. The increase in database creation and distribution costs was due primarily to increased production costs of approximately \$20,700 in 2005 as compared to 2004, associated with higher sales where we provided distribution services, and our continued investment in updating, improving and maintaining the coverage of our database that resulted in an increase of approximately \$20,500 in 2005 as compared to 2004. This was offset by lower expenses related to technological enhancements to our database in both North America and Europe that resulted in a decrease of approximately \$4,200 in 2005 as compared to 2004. Reducing these expenses was the capitalization of \$12,792 and \$12,369 of development costs for internal-use software in 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 the size of our worldwide sales force and expanding the breadth of our product offerings resulting in an increase of approximately \$20,000 in 2005 as compared to 2004. Also contributing to the increase were expenses related to improving our infrastructure to support future growth that resulted in an increase of approximately \$7,700 in 2005 as compared to 2004. Included in selling, general and administrative expenses during 2005 was approximately \$2,400 of costs related to our obligation to match social taxes on employee stock option exercises.

Other Income (Expense). Interest income increased from \$1,158 in 2004 to \$4,262 in 2005 primarily due to higher average cash balances in 2005 as well as higher percentage returns on the invested cash. In addition, during 2004 we recorded a foreign currency loss of \$1,686 as compared to a foreign currency gain of \$502 in 2005. The gain in 2005 was primarily due to the strengthening of the US dollar as compared to the euro.

Income Tax (Benefit) Expense. The decrease in income tax expense is primarily due to the income tax benefit of \$83,270 recorded in the third quarter of 2005, as a result of the reversal of the valuation allowance on a portion of our deferred tax asset. In addition, we recorded expense of \$1,836 related to deferred compensation and expense of \$720 related to the revaluation of our deferred tax asset due to changes in statutory income tax rates in the Netherlands and changes in the apportionment of income among states in the United States. Excluding the effects of the net income tax benefit recorded in 2005, the effective tax rate in 2005 was 35.16% as compared to 38.3% in 2004. The decrease in the effective tax rate was primarily due to legislation in the Netherlands enacted during the fourth quarter of 2004 that reduced statutory corporate income tax rates from 34.5% to 30% in stages over a four-year period starting in 2005. The Dutch statutory corporate income tax rate for 2006 was subsequently reduced in the fourth quarter of 2005 from 30.5% to 29.6%.

Comparison of Years Ended December 31, 2003 and 2004

Operating Income, Net Income and Net Income Per Share of Common Stock. Our operating income increased from \$63,758 in 2003 to \$94,586 in 2004, due primarily to our revenue growth in 2004. Our net income decreased from \$235,815 in 2003 to \$54,066 in 2004, due primarily to the \$168,752 effect of the reversal of the valuation allowance on our deferred tax assets related to net operating loss carryforwards and other temporary items in 2003; the recording of a full income tax provision in 2004; and a tax adjustment recorded in 2004 related to changes in statutory corporate income tax rates. Basic net income per share of common stock decreased from \$2.81 in 2003 to \$0.62 in 2004. Diluted net income per share of common stock decreased from \$2.69 in 2003 to \$0.59 in 2004.

The following table highlights changes in selected 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. In addition, the percentage change for other income (expense) and income tax (benefit) expense as compared to the prior year is not specified below. We believe that these percentages are not meaningful since the changes are unusually large due to non-recurring items more fully described in the narrative section for each.

	2003	2004	Change	% Change
Net revenue	\$ 272,623	392,858	120,235	44.1%
Database creation and distribution costs	125,841	186,330	60,489	48.1%
Selling, general and administrative expenses	83,024	111,942	28,918	34.8%
Other income (expense)	6,543	(758)	(7,301)	
Income tax (benefit) expense	(165,514)	39,762	205,276	

Net Revenue. The increase in total revenue was due to a significant increase in database licensing, resulting primarily from increased unit sales to existing customers. Growth occurred in all geographic regions in 2004, as North American revenue increased 36.7% from \$91,664 in 2003 to \$125,317 in 2004, and European revenue increased 47.8% from \$180,959 in 2003 to \$267,541 in 2004. North American and European revenue both increased primarily due to the increase in unit sales to vehicle navigation systems vendors and automobile manufacturers during 2004. Foreign currency translation increased revenue within the European operations by approximately \$17,649 during 2004 due to the strengthening of the euro. Excluding the effect of foreign currency translation, European revenue would have grown 38.1%. Revenue related to sales of our database used in vehicle navigation systems as a percentage of our revenue decreased to 82% of our revenue in 2004 from 83% of our revenue in 2003. Approximately 29% of our revenue for 2003 came from two customers (accounting for approximately 18% and 12% of total revenue, respectively), while approximately 26% of our revenue for 2004 came from two customers (accounting for approximately 16% and 10% of total revenue, respectively).

Database Creation and Distribution Costs. The increase in database creation and distribution costs was due primarily to increased production costs of approximately \$29,400 in 2004 as compared to 2003, as a result of growth in database licensing activities, and our continued investment in updating, improving and maintaining the coverage of our database that resulted in an increase of approximately \$16,600 in 2004 as compared to 2003, as well as increased efforts related to technological enhancements to our database in both North America and Europe that resulted in an increase of approximately \$8,700 in 2004 as compared to 2003. In addition, there was an unfavorable foreign currency

translation effect within European operations of approximately \$5,800 due to the strengthening euro. Reducing these expenses was the capitalization of \$9,966 and \$12,792 of development costs for internal-use software in 2003 and 2004, respectively.

Selling, General and Administrative Expenses. The increase in selling, general and administrative expenses was due primarily to our investments in growing the size of our worldwide sales force and marketing initiatives to expand the breadth of our product offerings and to diversify our customer base that together resulted in an increase of approximately \$13,700 in 2004 as compared to 2003. Also contributing to the increase were expenses related to improving our infrastructure to support future growth that resulted in an increase of approximately \$12,500 in 2004 as compared to 2003 plus an unfavorable foreign currency translation effect within European operations of approximately \$2,700 due to the strengthening euro.

Other Income (Expense). As of January 1, 2003, the U.S. dollar denominated intercompany loan obligation of one of our European subsidiaries to us and one of our North American subsidiaries was re-classified from a permanent advance to an obligation that management intends to settle. This change in classification was based on management's intention that the loan be repaid in full and on the ability of the European subsidiary to repay the loan. In accordance with SFAS No. 52, Foreign Currency Translation, the foreign currency gains and losses resulting from the change in the U.S. dollar/euro exchange rate are reflected as a component of other income (expense). For the year ended December 31, 2003, we recognized a net foreign currency gain of \$6,174 compared to a net foreign currency loss of \$(1,686) for the year ended December 31, 2004. The gain in 2003 primarily occurred before we entered into a foreign currency swap agreement to hedge the exchange rate effects on the aforementioned intercompany loan (See Note 11 of Notes to Consolidated Financial Statements).

In addition, interest income increased from \$414 in 2003 to \$1,158 in 2004 primarily due to higher average cash balances in 2004 as well as higher percentage returns on the invested cash.

Income Tax Benefit (Expense). The income tax benefit in 2003 was primarily due to the reversal of the valuation allowance on deferred tax assets related to net operating loss carryforwards. During 2003, we determined that it was more likely than not that we would be able to realize the benefit of the net operating loss carryforwards in Europe and the United States. The reversal of the valuation allowance together with the recognition of changes in other temporary differences resulted in our recording of a deferred income tax benefit of \$168,752 and the recognition of a corresponding net deferred tax asset on our consolidated balance sheet. In 2004, we began recording an income tax provision based on our taxable income and applicable income tax rates in each jurisdiction, resulting in a tax provision of \$35,938. During the fourth quarter of 2004, we revalued the deferred tax asset on our balance sheet due to changes in statutory corporate income tax rates, resulting in a decrease to the asset and additional income tax expense of \$3,824, bringing the total income tax provision to \$39,762. This revaluation was primarily due to legislation in the Netherlands enacted during the fourth quarter of 2004 that reduced statutory corporate income tax rates starting in 2005 from a rate of 34.5% in 2004 to 30.0% by 2007. The 2006 statutory corporate income tax rate was subsequently reduced to 29.6% in the fourth quarter of 2005. Current income tax expense of \$3,238 in 2003 related to various foreign countries where we do not have tax loss carryforwards.

Liquidity and Capital Resources

Since 2002, we have financed our operations through cash generated from operating income. As of December 31, 2005, cash and cash equivalents and marketable securities totaled \$218,798. In April 2004, we declared a special cash dividend of \$47,159, which was paid on June 18, 2004 to our common stockholders or record as of April 19, 2004.

On November 30, 2005, we extended and increased, through our operating subsidiary for North America, our revolving line of credit that is now scheduled to mature on December 1, 2006. Pursuant to the terms of the line of credit, we may borrow up to \$50,000 at an interest rate of either U.S. LIBOR plus 0.5% or the greater of the prime rate or the Federal funds rate plus 0.5%. We are required to pay to the bank a quarterly facility fee of 7.5 basis points per annum on the average daily unused commitment. We have guaranteed our operating subsidiary's obligations under this facility. As of December 31, 2005, there were no outstanding borrowings against this line of credit.

Since the first quarter of 2002, our operations have continued to produce positive cash flows. The cash flows have been driven by increased demand for our products and our ability to deliver these products profitably and collect receivables from our customers effectively. These funds have allowed us to make investments required to grow the business and have provided us excess cash. We previously deposited cash in excess of our short-term operational needs with Philips pursuant to deposit agreements. The deposit agreements 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.

The following table presents our contractual cash obligations as of December 31, 2005:

Payments Due by Period

Contractual Cash Obligations	Total	1 year or less	1-3 years	4-5 years	After 5 Years
Operating leases	\$ 35,899	13,327	14,703	6,377	1,492

We do not have any off-balance sheet arrangements other than the operating leases identified in the table above.

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.

Cash and cash equivalents increased by \$54,969 during the year ended December 31, 2005. The changes in cash and cash equivalents for the periods ended are as follows:

		Year ended Dec. 31,		
		2003	2004	2005
Cash provided by operations	\$	65,948	106,422	137,753
Cash used in investing activities		(74,542)	(34,124)	(94,530)
Cash provided by (used in) financing activities		288	(45,766)	14,190
Effect of exchange rates on cash		861	1,587	(2,444)
Increase (decrease) in cash and cash equivalents	\$	(7,445)	28,119	54,969

Operating Activities

For each of the past three fiscal years, net cash provided by operating activities has improved significantly, primarily as a result of improved operating results driven by increased demand for our products. In general, the growth in our operating assets and liabilities has coincided with the profitable growth in our business. Accounts receivable increased \$12,061, \$10,086 and \$29,693 for the years ended December 31, 2003, 2004 and 2005, respectively, primarily due to the overall growth in our revenue. In 2004, our balance of deposits and other assets increased \$8,711 primarily due to payments for third party content for our database. Accounts payable increased \$9,876 and \$6,057 during the years ended December 31, 2003 and 2005 primarily due to expenses incurred related to the growth of our operations and the timing of the related payments. Accrued payroll and related liabilities increased \$6,536 during 2004 primarily due to the accrual of annual employee compensation programs that were paid in the first quarter of 2005. Deferred revenue decreased \$6,060 during the year ended December 31, 2003, as previous customer prepayments were recognized as revenue during the period. Deferred revenue increased \$14,431 during 2004 primarily due to a \$30,000 prepayment by a customer as described in the following paragraph, offset by revenue recognized.

Edgar Filing: NAVTEQ CORP - Form 10-K

The \$30,000 payment was the result of an agreement that we entered into with a customer during the first quarter of 2004 whereby the customer agreed to prepay \$30,000. The customer may apply a portion of the prepayment for license fees due to us in any calendar year under the agreement. In the event the prepayment is not fully exhausted by the end of calendar year 2009, the customer may extend the term of the agreement to the end of calendar year 2010. The prepayment was initially recorded as deferred revenue and will be recognized according to our revenue recognition policy as we receive royalty reports from the customer evidencing their use of the prepaid licenses. The amount of recognition for prepaid licenses will be limited to \$10,000 each fiscal year for 2004, 2005 and 2006. Accordingly, \$10,000 of the prepayment will be reported in short-term deferred revenue. With respect to the prepayment, we have no obligation to refund any unused amounts nor are there any restrictions on the nature or timing of our use of the cash received.

Investing Activities

Cash used in investing activities has primarily consisted of capitalized costs related to software developed for internal use, amounts placed on deposit with Philips, purchases of marketable securities, capital expenditures and acquisitions. We experienced temporary excess funds that were provided from operations for 2003, 2004 and 2005. We put those funds on deposit with Philips until August 11, 2004, since which we have invested such funds in cash equivalents and marketable securities. The net increases in our deposits were \$55,307 for 2003. For the year ended December 31, 2004, net deposits decreased by \$65,199 because the related deposit agreements with Philips expired upon completion of the initial public offering. Upon expiration of these deposit agreements, we invested cash balances in excess of our short-term operational needs in cash equivalents and marketable securities. During 2004 and 2005, we invested \$73,166 and \$62,260, respectively in marketable securities.

Costs for software developed for internal use have been capitalized in accordance with SOP 98-1 and are related to applications used internally to improve the effectiveness of database creation and updating activities, enhancements to internal applications that enable our core database to operate with emerging technologies and applications to facilitate usage of our map database by customers. Capitalized costs totaled \$9,966, \$12,792 and \$12,369 for 2003, 2004, and 2005, respectively. We expect the capitalized costs related to software developed for internal use to be approximately \$6,000 to \$8,000 in 2006.

We have continued to invest in property and equipment to meet the demands of growing our business by expanding our facilities and providing the necessary infrastructure. Capital expenditures totaled \$9,269, \$12,875 and 10,466 during 2003, 2004, and 2005, respectively. We expect capital expenditures to total approximately \$12,000 to \$14,000 in 2006.

Financing Activities

In April 2004, we declared a special cash dividend of \$47,159, which was paid on June 18, 2004 to our common stockholders of record as of April 19, 2004. We currently intend to retain future earnings, if any, to finance the expansion of our business and do not expect to pay any cash dividends in the foreseeable future. See Item 5. Market for Registrant's Common Equity and Related Stockholder Matters.

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 expense of approximately \$15,000 in 2006 related to our share-based employee compensation programs.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

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

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

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

Prior to April 22, 2003, we had not engaged in activities to hedge our foreign currency exposures. On that day, we entered into a U.S. dollar/euro currency swap agreement (the "Swap") with Koninklijke Philips Electronics N.V. to minimize the exchange rate exposure between the U.S. dollar and the euro on the expected repayment of the intercompany obligation. The Swap was assigned to an unaffiliated third party in the third quarter of 2004. The Swap was not designated for hedge accounting. Under the terms of the Swap, one of the Company's European subsidiaries makes payments to the other party to the Swap in euros in exchange for the U.S. dollar equivalent at a fixed exchange rate of \$1.0947 U.S. dollar/euro. The U.S. dollar proceeds obtained under the Swap are utilized to make payments of principal on the intercompany loan. The outstanding principal balance under the intercompany loan was \$187.1 million at April 22, 2003. The Swap has a maturity date of December 22, 2006 and provides for settlement on a monthly basis in proportion to the repayment of the intercompany obligation. As of December 31, 2005, the outstanding intercompany obligation (net of payments) was \$40.3 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 December 31, 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 \$4.4 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 \$4.4 million.

Item 8. Financial Statements and Supplementary Data.

See Financial Statements beginning on page F-1 following the Exhibit Index and the Financial Statement Schedule beginning immediately following the financial statements.

Item 9. Changes in and Disagreements With Accountants On Accounting and Financial Disclosure.

Not applicable.

Item 9A. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures.

As required by Rule 13a-15(b) under the Securities Exchange Act of 1934, as amended (the Exchange Act), the Company's management carried out an evaluation, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act), as of December 31, 2005. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of December 31, 2005, the Company's disclosure controls and procedures were effective to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission and that such information is accumulated and communicated to the Company's management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Management's Report on Internal Control over Financial Reporting.

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) of the Exchange Act. Management has assessed the effectiveness of our internal control over financial reporting as of December 31, 2005 based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. As a result of this assessment, management concluded that, as of December 31, 2005, our internal control over financial reporting was effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Management's assessment of the effectiveness of our internal control over financial reporting as of December 31, 2005 has been audited by KPMG LLP, an independent registered public accounting firm, as stated in their report appearing below.

Changes in 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 (i.e., the fourth quarter of 2005) that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Limitations on Controls

Management does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent or detect all errors and fraud. Any control system, no matter how well designed and operated, is based upon certain assumptions and can provide only reasonable, not absolute, assurance that its objectives will be met. Further, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the Company have been detected.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
NAVTEQ Corporation:

We have audited management's assessment, included in Management's Report on Internal Control over Financial Reporting in Item 9A of this Form 10-K, that NAVTEQ Corporation (the Company) maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). NAVTEQ Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that NAVTEQ Corporation maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also, in our opinion, NAVTEQ Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of NAVTEQ Corporation and subsidiaries as of December 31, 2004 and 2005, and the related consolidated statements of operations, stockholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2005, and our report dated February 28, 2006 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Chicago, Illinois
February 28, 2006

Item 9B. Other Information

None.

PART III

Item 10. Directors and Executive Officers.

Executive Officers and Directors.

The information required by this item relating to our directors and nominees, and compliance with Section 16(a) of the Securities Act of 1934 is included under the captions Proposal No. 1 Election of Directors, Information About the Board of Directors and Other Matters-16(a) Beneficial Ownership Reporting Compliance, respectively in our Proxy Statement related to the 2006 Annual Meeting of Stockholders and is incorporated herein by reference.

The information required by this item relating to our executive officers is included under the caption Executive Officers of the Registrant in Part I of this report and is incorporated by reference into this section.

Code of Ethics

The Company has adopted a code of ethics, known as our Code of Ethics and Business Conduct, that applies to all employees including the Company's principal executive officer, principal financial officer, principal accounting officer and controller and persons performing similar functions. This code of ethics can be found on our web site at www.navteq.com by completing the following steps:

First, click on Investor Relations;

Click on Corporate Governance; and

Finally, click on either Code of Conduct - NA, Code of Conduct - EU or Code of Conduct - Korea, for our North America, European and Korean codes of ethics, respectively.

Stockholders may also obtain a copy of the Code of Ethics and Business Conduct by submitting a request for such copy to NAVTEQ, c/o Corporate Secretary, 222 Merchandise Mart, Suite 900, Chicago, Illinois 60654.

Committee Charters and Corporate Governance Guidelines

A copy of the charters for the Audit Committee, the Compensation Committee and the Nominating and Corporate Governance Committee as well as our Corporate Governance Guidelines are available on our web site at www.navteq.com under Investor Relations Corporate Governance. Stockholders may also obtain copies of these charters and our Corporate Governance Guidelines by submitting a request for any such copy to NAVTEQ, c/o Corporate Secretary, 222 Merchandise Mart, Suite 900, Chicago, Illinois 60654.

Item 11. Executive Compensation

The information required by this item is included under the caption Information about the Board of Directors Board of Directors Compensation and Executive Compensation in our Proxy Statement related to the 2006 Annual Meeting of Stockholders and is incorporated herein by reference.

PART III

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information required by this item related to security ownership of certain beneficial owners and management is included under the caption Security Ownership of NAVTEQ in our Proxy Statement related to the 2006 Annual Meeting of Stockholders and is incorporated herein by reference.

Securities Authorized for Issuance under Equity Compensation Plans

The following table provides information as of December 31, 2005, regarding the number of shares of common stock that may be issued under the Company's equity compensation plans.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in the first column)
Equity compensation plans approved by security holders	6,089,522	\$ 7.68	9,707,444
Equity compensation plans not approved by security holders			
Total	6,089,522	\$ 7.68	9,707,444

The number of securities remaining available for future issuance under equity compensation plans set forth above represents shares available for issuance under the Company's 2001 Stock Incentive Plan.

Item 13. Certain Relationships and Related Transactions.

None.

Item 14. Principal Accountant Fees and Services.

The information required by this item is set forth under the caption "Other Matters" in our Proxy Statement related to our 2006 Annual Meeting of Stockholders and is incorporated herein by reference.

PART IV

Item 15. Exhibits, Financial Statement Schedules and Reports on Form 8-K.

- (a)(1) See Item 8.
- (a)(2) See Item 8.
- (a)(3) Exhibits. See Exhibit Index immediately following the Signature Page.
- (b) Exhibits. See Exhibit Index immediately following the Signature Page.
- (c) Additional financial statement schedules.

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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: March 8, 2006

NAVTEQ CORPORATION

By:

*/s/ Lawrence M. Kaplan
Lawrence M. Kaplan
Senior Vice President, General Counsel and Corporate
Secretary*

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signatures	Date
<i>/s/ Judson C. green</i> Judson C. Green President, Chief Executive Officer and a Director (Principal Executive Officer)	March 8, 2006
<i>/s/ david b. mullen</i> David B. Mullen Executive Vice President and Chief Financial Officer (Principal Financial Officer)	March 8, 2006
<i>/s/ neil smith</i> Neil Smith Vice President and Corporate Controller (Principal Accounting Officer)	March 8, 2006
*	March 8, 2006
Richard J.A. de Lange Director	
*	March 8, 2006
Christopher Galvin Director	
*	March 8, 2006
William Kimsey Director	

Edgar Filing: NAVTEQ CORP - Form 10-K

*
Scott D. Miller
Director

March 8, 2006

*
Dirk-Jan van Ommeren
Director

March 8, 2006

*By: /s/ Judson C. Green
Judson C. Green, as
Attorney-in-Fact

March 8, 2006

EXHIBIT INDEX

Exhibit Number	Description
3.1	Amended and Restated Certificate of Incorporation. (1)
3.2	Amended and Restated Bylaws. (1)
4.1	Specimen Common Stock Certificate. (1)
4.2	Stock Option Agreement dated as of May 15, 2002 between Navigation Technologies and Judson C. Green. (*) (2)
4.3(a)	Stock Option Agreement dated as of May 15, 2002 between Navigation Technologies and John K. MacLeod. (*) (2)
4.3(b)	Stock Option Agreement dated as of May 15, 2002 between Navigation Technologies and John K. MacLeod. (*) (2)
4.4	Registration Rights Agreement dated as of March 29, 2001 between Navigation Technologies and Philips Consumer Electronic Services B.V. (3)
4.5	Amended and Restated Agreement Regarding Registration of Shares between NAVTEQ Corporation and NavPart I B.V. (4)
4.6	Form of Subscription and Registration Rights Agreement by and between NAVTEQ Corporation and the Shareholders of Picture Map International Co., Ltd. (5)
10.1	Amended and Restated Employment Agreement dated as of April 30, 2004 between NAVTEQ Corporation and Judson C. Green. (*) (1)
10.2	Employment Agreement dated as of September 18, 2000 between Navigation Technologies and John K. MacLeod. (*) (3)
10.3	Employment Agreement dated as of December 1, 2002 between Navigation Technologies Corporation and David B. Mullen. (*) (2)
10.4	Letter Agreement dated February 3, 1998 from Navigation Technologies agreed to and accepted by M. Salahuddin Khan. (*) (3)
10.5	Letter Agreement dated February 13, 1997 from Navigation Technologies agreed to and accepted by Denis M. Cohen. (*) (3)
10.6	Form of Indemnification Agreement. (1)
10.7(i)	BMW Group International Terms and Conditions for the Purchase of Production Materials and Automotive Components dated September 24, 2001. (6)
10.7(ii)	Purchasing Terms and Conditions between BMW North America, Inc. and Navigation Technologies. (c) (7)
10.7(iii)	Agreement between BMW (South Africa) (Proprietary) Limited and Navigation Technologies B.V. commencing June 1, 1999 (the South Africa Agreement). (c) (7)
10.7(iv)	Amendment to South Africa Agreement. (c) (6)
10.7(v)	Warranty Agreement dated August 8, 1998 between Bayerische Motoren Werke and Navigation Technologies BV (the Warranty Agreement). (c) (6)
10.7(vi)	Letter regarding Warranty Agreement dated May 22, 2002 from Bayerische Motoren Werke to Navigation Technologies BV. (6)
10.7(vii)	Addendum to BMW Group International terms and conditions for the purchase of production materials and automotive components by and between BMW of North America (Buyer) and NAVTEQ (Seller). (c) (8)
10.8	Deal Request by Navigation Technologies to Koninklijke Philips Electronics N.V. dated April 22, 2003 (9)
10.9	Letter Agreement regarding Cross Currency Swap between Navigation Technologies B.V. and Koninklijke Philips Electronics N.V. dated May 23, 2003 (9)
10.10	Letter Agreement regarding Cross Currency Swap between NAVTEQ B.V. and ABN AMRO Bank N.V. dated July 27, 2004. (1)
10.11	Confirmation between ABN AMRO Bank N.V. and NAVTEQ B.V. regarding Swap Transaction dated July 27, 2004. (10)
10.12	Master Separation Agreement between Koninklijke Philips Electronics, N.V. and NAVTEQ Corporation. (1)

Edgar Filing: NAVTEQ CORP - Form 10-K

- 10.13 Credit Agreement dated as of November 9, 2004 between NAVTEQ North America, LLC and LaSalle Bank, National Association. (11)
- 10.14 Guaranty by NAVTEQ Corporation dated as of November 9, 2004 in favor of LaSalle Bank, National Association. (11)
- 10.15 Amendment No. 1 dated as of November 30, 2005 to Credit Agreement between NAVTEQ North America, LLC, NAVTEQ Corporation and LaSalle Bank, National Association. (12)
- 10.16 Memorandum regarding Director Compensation. (13)*
- 10.17 Form of Stock Option Agreement under Navteq Corporation s 2001 Stock Incentive Plan. (13)*
- 10.18 Form of Restricted Stock Unit Agreement under Navteq Corporation s 2001 Stock Incentive Plan. (13)*
- 10.19 2001 Stock Incentive Plan. (14)*
- 10.20 Form of Restricted Stock Unit Agreement for French Employees under NAVTEQ Corporation s 2001 Stock Incentive Plan. (14)*
- 10.21 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. (5)
 - 21 Subsidiaries of NAVTEQ.
 - 23 Consent of KPMG LLP
 - 24 Power of Attorney by the Directors and Certain Officers.
- 31.1 Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002.
- 31.2 Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002.
- 32.1 Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes Oxley Act of 2002.
- 32.2 Certification of Principal Financial Officer pursuant to Section 906 of the Sarbanes Oxley Act of 2002.

(*) Indicates management employment contracts or compensatory plans or arrangements.

(c) Portions omitted pursuant to a request for confidential treatment.

(1) Filed with NAVTEQ s Registration Statement on Form S-1 (Registration No. 333-114637), as amended, and incorporated herein by reference.

(2) Filed with NAVTEQ s Annual Report on Form 10-K for the year ended December 31, 2002 and incorporated herein by reference.

(3) Filed with NAVTEQ s Registration Statement on Form 10, Registration No. 000-21323 and incorporated herein by reference.

(4) Filed with NAVTEQ s Quarterly Report on Form 10-Q for the quarter ended June 27, 2004 and incorporated herein by reference.

(5) Filed with NAVTEQ s Current Report on Form 8-K filed on July 12, 2005 and incorporated herein by reference.

- (6) Filed with NAVTEQ's Amendment No. 2 to Annual Report on Form 10-K/A for the fiscal year ended December 31, 2001 and incorporated herein by reference.

- (7) Filed with NAVTEQ's Amendment No. 3 to the Annual Report on Form 10-K/A for the fiscal year ended December 31, 2001 and incorporated herein by reference.

- (8) Filed with NAVTEQ's Quarterly Report on Form 10-Q for the quarter ended September 25, 2005.

- (9) Filed with NAVTEQ's Quarterly Report on Form 10-Q for the quarter ended June 29, 2003 and incorporated herein by reference.

- (10) Filed with NAVTEQ's Quarterly Report on Form 10-Q for the quarter ended September 26, 2004 and incorporated herein by reference.
- (11) Filed with NAVTEQ's Current Report on Form 8-K filed on November 12, 2004 and incorporated herein by reference.
- (12) Filed with NAVTEQ's Current Report on Form 8-K filed on December 5, 2005 and incorporated herein by reference.
- (13) Filed with NAVTEQ's Annual Report on Form 10-K for the year ended December 31, 2004, and incorporated herein by reference.
- (14) Filed with NAVTEQ's Quarterly Report on Form 10-Q for the quarter ended March 27, 2005.

**NAVTEQ CORPORATION
AND SUBSIDIARIES**

INDEX TO FINANCIAL STATEMENTS

	Page
<u>Report of Independent Registered Public Accounting Firm</u>	<u>F-2</u>
<u>Consolidated Balance Sheets as of December 31, 2004 and 2005</u>	<u>F-3</u>
<u>Consolidated Statements of Operations for the years ended December 31, 2003, 2004, and 2005</u>	<u>F-4</u>
<u>Consolidated Statements of Stockholders' Equity and Comprehensive Income for the years ended December 31, 2003, 2004, and 2005</u>	<u>F-5</u>
<u>Consolidated Statements of Cash Flows for the years ended December 31, 2003, 2004, and 2005</u>	<u>F-6</u>
<u>Notes to Consolidated Financial Statements</u>	<u>F-7</u>
<u>Schedule II Valuation and Qualifying Accounts</u>	<u>F-28</u>

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
NAVTEQ Corporation:

We have audited the accompanying consolidated balance sheets of NAVTEQ Corporation and subsidiaries (the Company) as of December 31, 2004 and 2005, and the related consolidated statements of operations, stockholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2005. In connection with our audits of the consolidated financial statements, we have also audited the financial statement schedule as listed in the accompanying index. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of NAVTEQ Corporation and subsidiaries as of December 31, 2004 and 2005, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2005, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of NAVTEQ Corporation's internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 28, 2006 expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

/s/ KPMG LLP

Chicago, Illinois
February 28, 2006

**NAVTEQ CORPORATION
AND SUBSIDIARIES**

**Consolidated Balance Sheets
(In thousands, except per share amounts)**

	December 31, 2004	December 31, 2005
Assets		
Current assets:		
Cash and cash equivalents	\$ 30,101	85,070
Short-term marketable securities	45,650	84,299
Accounts receivable, net of allowance for doubtful accounts of \$3,571 and \$4,852 in 2004 and 2005, respectively	56,582	82,352
Deferred income taxes	50,696	42,584
Prepaid expenses and other current assets	8,348	15,203
Total current assets	191,377	309,508
Property and equipment, net	18,220	20,828
Capitalized software development costs, net	26,243	25,761
Long-term deferred income taxes	92,069	169,264
Long-term marketable securities	27,280	49,429
Acquired intangible assets		16,815
Goodwill		11,778
Deposits and other assets	9,519	12,505
Total assets	\$ 364,708	615,888
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	\$ 13,962	19,572
Accrued payroll and related liabilities	28,054	28,365
Fair value of derivative		3,265
Other accrued expenses	20,609	28,658
Deferred revenue	31,165	38,703
Total current liabilities	93,790	118,563
Fair value of derivative	21,616	
Long-term deferred revenue	13,342	3,446
Other long-term liabilities	3,142	3,815
Total liabilities	131,890	125,824
Stockholders equity:		
Common stock, \$0.001 par value; 400,000 shares authorized; 87,741 and 92,086 shares issued and outstanding in 2004 and 2005, respectively	88	92
Additional paid-in capital	741,448	822,356
Deferred compensation expense	(12,403)	(9,096)
Accumulated other comprehensive loss:		
Cumulative translation adjustment	(28,503)	(25,890)
Unrealized holding loss on available-for-sale marketable securities, net of tax	(98)	(514)
Total accumulated other comprehensive loss	(28,601)	(26,404)
Accumulated deficit	(467,714)	(296,884)
Total stockholders equity	232,818	490,064
Total liabilities and stockholders equity	\$ 364,708	615,888

See accompanying notes to consolidated financial statements.

**NAVTEQ CORPORATION
AND SUBSIDIARIES**

**Consolidated Statements of Operations
(In thousands, except per share data)**

		Years Ended December 31,		
		2003	2004	2005
Net revenue	\$	272,623	392,858	496,512
Operating costs and expenses:				
Database creation and distribution costs		125,841	186,330	222,933
Selling, general, and administrative expenses		83,024	111,942	139,323
Total operating costs and expenses		208,865	298,272	362,256
Operating income		63,758	94,586	134,256
Other income (expense):				
Interest income		414	1,158	4,262
Interest expense		(34)	(24)	(25)
Foreign currency gain (loss)		6,174	(1,686)	502
Other expense		(11)	(206)	(4)
Income before income taxes		70,301	93,828	138,991
Income tax (benefit) expense		(165,514)	39,762	(31,839)
Net income	\$	235,815	54,066	170,830
Earnings per share of common stock:				
Basic	\$	2.81	0.62	1.90
Diluted	\$	2.69	0.59	1.81
Weighted average shares of common stock outstanding:				
Basic		84,062	86,509	90,115
Diluted		87,593	92,001	94,198

See accompanying notes to consolidated financial statements.

NAVTEQ CORPORATION AND SUBSIDIARIES

Consolidated Statements of Stockholders Equity and Comprehensive Income
(In thousands)

	Common stock Shares	Common stock Amount	Additional paid-in capital	Note receivable for common stock	Deferred compensation expense	Accumulated other comprehensive income (loss)	Accumulated deficit	Total stockholders equity
Balances as of December 31, 2002	83,971	\$ 1,176	764,275	(219)		3,600	(757,595)	11,237
Exercise of stock options	182	2	286					288
Grant of stock options at exercise prices below fair market value			3,148		(3,148)			
Stock compensation expense					816			816
Comprehensive income: Foreign currency translation adjustment						(30,245)		(30,245)
Net income							235,815	235,815
Total comprehensive income								205,570
Balances as of December 31, 2003	84,153	1,178	767,709	(219)	(2,332)	(26,645)	(521,780)	217,911
Exercise of warrants	3,384	47	427					474
Reverse stock split		(1,140)	1,140					
Exercise of stock options	215	3	2,533					2,536
Dividends paid			(47,159)					(47,159)
Stock compensation expense			17,087		(10,071)			7,016
Settlement of note receivable for common stock	(11)		(289)	219				(70)
Comprehensive income: Foreign currency translation adjustment						(1,858)		(1,858)
Unrealized holding loss on available-for-sale marketable securities (net of taxes of \$61)						(98)		(98)
Net income							54,066	54,066

Edgar Filing: NAVTEQ CORP - Form 10-K

Total comprehensive income							52,110
Balances as of December 31, 2004	87,741	88	741,448	(12,403)	(28,601)	(467,714)	232,818
Common stock issued for acquisition	545	1	19,976				19,977
Exercise of stock options and vesting of restricted stock units	3,800	3	55,122				55,125

Edgar Filing: NAVTEQ CORP - Form 10-K

Stock compensation expense			5,810		3,307			9,117
Comprehensive income:								
Foreign currency translation adjustment						2,613		2,613
Unrealized holding loss on available-for-sale marketable securities (net of taxes of \$256)						(416)		(416)
Net income							170,830	170,830
Total comprehensive income								173,027
Balances as of December 31, 2005	92,086	\$	92	822,356	(9,096)	(26,404)	(296,884)	490,064

See accompanying notes to consolidated financial statements.

NAVTEQ CORPORATION

AND SUBSIDIARIES

Edgar Filing: NAVTEQ CORP - Form 10-K

Consolidated Statements of Cash Flows

(In thousands)

	Years Ended December 31,		
	2003	2004	2005
Cash flows from operating activities:			
Net income	\$ 235,815	54,066	170,830
Adjustments to reconcile net income to net cash provided by operating activities:			
Deferred income taxes	(172,076)	31,841	(77,737)
Depreciation and amortization	5,718	6,414	8,717
Amortization of software development costs	6,312	9,154	12,851
Amortization of acquired intangible assets			1,502
Foreign currency (gain) loss	(6,174)	1,686	(502)
Provision for (recovery of) bad debts	2,071	(461)	2,303
Stock compensation expense	816	7,016	9,117
Tax benefit on non-qualified stock options		1,547	40,936
Noncash other	36	308	1,804
Changes in operating assets and liabilities:			
Accounts receivable	(12,061)	(10,086)	(29,693)
Prepaid expenses and other current assets	(2,966)	(1,705)	(5,006)
Deposits and other assets	401	(8,711)	(1,483)
Accounts payable	9,876	(2,198)	6,057
Accrued payroll and related liabilities	3,231	6,536	2,100
Other accrued expenses	873	(3,823)	(3,734)
Deferred revenue	(6,060)	14,431	(823)
Other long-term liabilities	136	407	514
Net cash provided by operating activities	65,948	106,422	137,753
Cash flows from investing activities:			
Acquisition of property and equipment	(9,269)	(12,875)	(10,466)
Capitalized software development costs	(9,966)	(12,792)	(12,369)
Purchases of marketable securities		(118,100)	(198,743)
Sales of marketable securities		44,934	136,483
Purchase of investments			(1,201)
Payment for acquisition, net of cash acquired			(8,234)
Investment in joint venture		(490)	
Cash on deposit with affiliate, net	(55,307)	65,199	
Net cash used in investing activities	(74,542)	(34,124)	(94,530)
Cash flows from financing activities:			
Issuance of common stock	288	1,393	14,190
Dividends paid		(47,159)	
Net cash provided by (used in) financing activities	288	(45,766)	14,190
Effect of exchange rate changes on cash	861	1,587	(2,444)
Net increase (decrease) in cash and cash equivalents	(7,445)	28,119	54,969
Cash and cash equivalents at beginning of year	9,427	1,982	30,101
Cash and cash equivalents at end of year	\$ 1,982	30,101	85,070
Supplemental disclosure of cash flow information:			
Cash paid during the year for interest	\$ 18	24	24
Cash paid during the year for income taxes	\$ 3,290	2,569	1,425
Non-cash transactions:			
Value of common stock issued in connection with acquisition	\$		19,977

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

(amounts in thousands, except per share amounts)

(1) Description of the Business and Summary of Significant Accounting Policies

(a) *The Business*

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

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

(b) *Principles of Consolidation*

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

(c) *Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (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.

(d) Cash Equivalents

The Company considers all highly liquid debt instruments purchased with original maturities of three months or less to be cash equivalents.

(e) Marketable Securities

The Company invests in marketable securities and classifies the securities as available-for-sale under Statement of Financial Accounting Standard (SFAS) No. 115, Accounting for Certain Investments in Debt and Equity Securities. In accordance with SFAS 115, available-for-sale marketable securities are accounted for at market prices, with the unrealized gain or loss, less applicable deferred income taxes, shown as a separate component of stockholders' equity.

(f) Accounts Receivable

Accounts receivable are recorded at the invoiced amounts and do not bear interest. The allowance for doubtful accounts is recorded to provide for estimated losses resulting from uncollectible accounts, and is based principally upon specifically identified amounts where collection is deemed doubtful. Additional non-specific allowances are recorded based on historical experience and management's assessment of a variety of factors related to the general financial condition and business prospects of the Company's customer base. The Company reviews the collectibility of individual accounts and assesses the adequacy of the allowance for doubtful accounts monthly. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The Company does not have any off-balance-sheet credit exposure related to its customers.

(g) Fair Value of Financial Instruments

The carrying values of cash equivalents, cash on deposit with affiliate, receivables, payables and accrued expenses approximate their fair values due to the short maturity of these instruments.

(h) Property and Equipment

Property and equipment are stated at cost. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets. Computers and equipment and purchased software are amortized over three years. Furniture and fixtures are amortized over five years. Leasehold improvements are amortized over the lesser of their estimated useful lives or the remaining lease terms.

(i) Derivatives

The Company uses a derivative financial instrument to manage foreign currency exchange rate risk. Derivative instruments are stated at fair value in the consolidated balance sheet. The Company did not designate the derivative as a hedge as defined by SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. Therefore, the changes in fair value of the derivative are recognized in the consolidated statements of operations.

(j) Revenue Recognition

Revenue is recognized when evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable and collection is probable, following the guidance in Securities and Exchange Commission (SEC) Staff Accounting Bulletin (SAB) 104, Revenue Recognition. Where arrangements have multiple elements, the Company applies the guidance prescribed by Emerging Issues Task Force (EITF) Issue No. 00-21, Revenue Arrangements with Multiple Deliverables.

Edgar Filing: NAVTEQ CORP - Form 10-K

The Company derives a substantial majority of its revenue from licensing its database. Revenue is recognized net of provisions for estimated uncollectible amounts and anticipated returns. Database licensing revenue includes revenue associated with nonrefundable minimum licensing fees, license fees from usage (including license fees in excess of nonrefundable minimum fees), prepaid licensing fees from distributors and customers and direct sales to end users. License fees from usage (including license fees in excess of nonrefundable minimum fees) are recognized in the period in which the customer reports them to the Company. Nonrefundable minimum licensing fees are recognized as revenue ratably over the period of the arrangement, until such time that cumulative license fees from usage exceeds the nonrefundable minimum licensing fee. At that time, the Company recognizes the additional licensing revenue. Prepaid licensing fees are recognized in the period in which the distributor or customer reports that they have shipped the database to the end user. Revenue for direct sales of licenses is recognized when the database is shipped to the end user. 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.

F-8

(k) Database Creation and Distribution Costs

Database creation and distribution costs include the costs of database creation and updating, database licensing and distribution, and database-related software development. Database creation and updating costs of \$69,609, \$89,854 and \$112,836 in 2003, 2004, and 2005, respectively, 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 creation and updating costs are expensed as incurred, except costs of internal-use software, which are capitalized in accordance with American Institute of Certified Public Accountants (AICPA) Statement of Position No. 98-1 (SOP 98-1), Accounting for the Costs of Computer Software Developed or Obtained for Internal Use, and are then amortized on a straight-line basis over their estimated useful life, generally three to four years.

Database licensing and distribution costs of \$40,560, \$72,073 and \$89,666 in 2003, 2004, and 2005, respectively, include direct costs related to reproduction of the database for licensing, professional services, and per copy sales (including shipping and handling costs of \$4,772, \$5,351 and \$5,932 in 2003, 2004, and 2005, respectively). Database licensing and distribution costs are expensed as incurred.

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 the Company's core database to operate with emerging technologies, and (iii) applications to facilitate usage of the Company's map database by customers. Costs of internal-use software are accounted for in accordance with SOP 98-1. 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, generally three to four years. The Company capitalized \$9,966, \$12,792 and \$12,369 of internal-use software development costs during 2003, 2004, and 2005, respectively. Included in database creation and updating costs is the amortization of internal-use software costs of \$6,312, \$9,154 and \$12,851 for the years ended December 31, 2003, 2004, and 2005, respectively. Software development and maintenance costs of \$15,672, \$24,672 and \$20,431 in 2003, 2004, and 2005, respectively, did not qualify for capitalization and were expensed as incurred.

(l) Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in operations in the period that includes the enactment date. A valuation allowance is recorded for deferred tax assets if it is more likely than not that some portion or all of the deferred tax assets will not be realized.

(m) Foreign Currency Translation

The financial statements of the Company's foreign subsidiaries are measured using the local currency as the functional currency. Foreign assets and liabilities in the accompanying consolidated balance sheets have been translated at the rate of exchange as of the balance sheet date. Revenue and expenses are translated at the average exchange rate for the year. Translation adjustments are reported as a component of accumulated other comprehensive income (loss) in stockholders' equity. Foreign currency transaction gains and losses are included in the consolidated statements of operations.

(n) Impairment of Long-lived Assets

The Company accounts for long-lived assets in accordance with the provisions of SFAS No. 144, Accounting for Impairment or Disposal of Long-lived Assets. In accordance with SFAS No. 144, long-lived assets, such as property, plant, and equipment, capitalized software development costs and intangibles subject to amortization, are reviewed 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 a 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 equal to the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the consolidated balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated.

(o) 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 options. Under this method, compensation expense is recorded on the date of grant only if the fair value of the underlying common 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 expense 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 \$816, \$792 and \$764 for the years ended December 31, 2003, 2004 and 2005, respectively. 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 769 and 143 restricted stock units, respectively, to certain directors and employees under the Company's 2001 Stock Incentive Plan. The restricted stock units 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 restricted stock units using a fair value equal to the fair market value of the Company's common stock on the date of grant. The weighted-average grant-date fair value of the restricted stock units was \$22.19 and \$42.77. The Company recognized \$6,224 and \$8,353 of compensation expense related to these restricted stock units during the years ended December 31, 2004 and 2005, respectively. The expense is reported in both Database Creation and Distribution Costs and Selling, General and Administrative Expenses in the consolidated statements of operations. There were 711 restricted stock units outstanding as of December 31, 2005.

Edgar Filing: NAVTEQ CORP - Form 10-K

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 notably the fair value based method had been applied in each period.

	Year Ended December 31		
	2003	2004	2005
Net income, as reported	\$ 235,815	54,066	170,830
Add: Stock-based employee compensation expense included in reported net income, net of tax	506	4,329	5,911
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of tax	(2,341)	(7,331)	(11,468)
Pro forma net income	\$ 233,980	51,064	165,273
Earnings per share of common stock:			
Basic as reported	\$ 2.81	0.62	1.90
Diluted as reported	\$ 2.69	0.59	1.81
Basic pro forma	\$ 2.78	0.59	1.83
Diluted pro forma	\$ 2.67	0.55	1.75

The per share weighted-average fair value of stock options granted during 2003, 2004, and 2005 was \$6.92, \$13.38, and \$23.15, respectively, for options granted with an exercise price that equals the fair value of the underlying common stock on the date of grant. The per share weighted-average fair value of stock options granted in 2003 for options granted with an exercise price less than the fair value of the underlying common stock on the date of grant was \$8.19. The fair value of all options was computed as of the date of grant using the Black-Scholes method with the following weighted-average assumptions: 2003 no dividends, 67% volatility, risk-free interest rate of 3.19%, and expected life of 4.9 years; 2004 no dividends, 67% volatility, risk-free interest rate of 3.41%, and expected life of 4.9 years; 2005 no dividends, 60% volatility, risk-free interest rate of 3.89%, and expected life of 4.9 years.

(p) Comprehensive Income (Loss)

Accumulated other comprehensive loss is related to the Company's foreign currency translation adjustments and unrealized holding losses on available-for-sale marketable securities.

(q) 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*.

Edgar Filing: NAVTEQ CORP - Form 10-K

The following table sets forth the computation of earnings per share for the years ended December 31,:

	2003	2004	2005
Numerator:			
Net income	\$ 235,815	54,066	170,830
Denominator:			
Denominator for basic earnings per share weighted-average shares outstanding	84,062	86,509	90,115
Effect of dilutive securities:			
Employee stock options	478	4,238	3,722
Restricted stock units		131	361
Warrants	3,053	1,123	
Denominator for diluted earnings per share weighted-average shares outstanding and assumed conversions	87,593	92,001	94,198
Earnings per share:			
Basic	\$ 2.81	0.62	1.90
Diluted	\$ 2.69	0.59	1.81

Options to purchase 1,073, 4 and 36 shares of common stock were outstanding at December 31, 2003, 2004, and 2005, respectively, but were not included in the computation of diluted earnings per share because the effect would be antidilutive.

(r) Reclassifications

Certain 2003 and 2004 amounts in the consolidated financial statements have been reclassified to conform to the 2005 presentation.

(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.

(3) Marketable Securities

At December 31, 2004 and 2005, available-for-sale marketable securities consisted of the following:

	Amortized Cost	Unrealized Loss	Market Value
2005			
Short-term marketable securities:			
Preferred stock	\$ 2,150		2,150
U.S. Government and agency securities	13,500	(170)	13,330
Municipal bonds	49,150		49,150
Corporate bonds and notes	19,862	(193)	19,669
Total short-term marketable securities	84,662	(363)	84,299
Long-term marketable securities:			
Corporate bonds and notes	20,433	(227)	20,206
U.S. Government and agency securities	29,465	(242)	29,223
Total long-term marketable securities	49,898	(469)	49,429
	\$ 134,560	(832)	133,728
	Amortized Cost	Unrealized Loss	Market Value
2004			
Short-term marketable securities:			
Commercial paper	\$ 2,000		2,000
Preferred stock	4,000		4,000
Municipal bonds	39,650		39,650
Total short-term marketable securities	45,650		45,650
Long-term marketable securities:			
Corporate bonds and notes	13,939	(101)	13,838
U.S. Government and agency securities	13,500	(58)	13,442
Total long-term marketable securities	27,439	(159)	27,280
	\$ 73,089	(159)	72,930

The Company's marketable securities consist of marketable securities of high credit quality and have contractual maturities of up to 39 years.

Other-than-temporary impairments are recognized if the market value of the investment is below its cost basis for an extended period of time or the issuer has experienced significant financial declines or difficulties in raising capital to continue operations. There were no other-than-temporary impairments for the years ended December 31, 2004 and 2005. As of December 31, 2004, all of the marketable securities that had an unrealized loss had a loss for less than twelve months. As of December 31, 2005, \$515 of the unrealized loss was related to marketable securities that had a loss for less than twelve months. The remaining \$317 of the unrealized loss was related to marketable securities that had a loss for greater than twelve months.

(4) Property and Equipment

The components of the Company's property and equipment as of December 31, 2004 and 2005 are as follows:

	2004	2005
Computers and equipment	\$ 25,798	31,057
Furniture and fixtures	3,273	3,775
Purchased software	9,661	12,397
Leasehold improvements	5,003	5,461
	43,735	52,690
Less accumulated depreciation and amortization	(25,515)	(31,862)
	\$ 18,220	20,828

(5) 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 December 31, 2004, \$10,000 remained in the balance of short-term deferred revenue and \$10,000 remained in the balance of long-term deferred revenue related to this agreement. As of December 31, 2005, \$10,000 remained in the balance of short-term deferred revenue related to this agreement. In addition, the customer has an obligation to the Company of \$20,000 payable on January 15, 2007 related to license fees in 2007 and 2008, which has not been reflected in the accompanying consolidated balance sheets.

(6) Line of Credit

On November 30, 2005, the Company extended and increased, through its operating subsidiary for North America, its revolving line of credit that is now scheduled to mature on December 1, 2006. Pursuant to the terms of the line of credit, the Company may borrow up to \$50,000 at an interest rate of either U.S. LIBOR plus 0.5% or the greater of the prime rate or the Federal funds rate plus 0.5%. The Company is required to pay to the bank a quarterly facility fee of 7.5 basis points per annum on the average daily unused commitment. The Company has guaranteed its operating subsidiary's obligations under this facility. As of December 31, 2005, there were no outstanding borrowings against this line of credit.

(7) Income Taxes

The domestic and foreign components of pre-tax income for the years ended December 31, 2003, 2004, and 2005 are as follows:

	2003	2004	2005
Domestic	\$ 9,915	2,716	32,939
Foreign	60,386	91,112	106,052

Edgar Filing: NAVTEQ CORP - Form 10-K

Income before income taxes	\$	70,301	93,828	138,991
----------------------------	----	--------	--------	---------

F-14

Edgar Filing: NAVTEQ CORP - Form 10-K

The current and deferred components of income tax expense (benefit) for the years ended December 31, 2003, 2004, and 2005 are as follows:

	2003	2004	2005
Current:			
Federal	\$	123	
State		89	21
Foreign	3,223	1,877	1,871
Total current	3,238	2,089	1,892
Deferred:			
Federal	(73,089)	(692)	(63,699)
State	(8,513)	(147)	(6,455)
Foreign	(87,150)	38,512	36,423
Total deferred	(168,752)	37,673	(33,731)
Income tax expense (benefit)	\$ (165,514)	39,762	(31,839)

Total income tax expense (benefit) differed from the amount computed by applying the U.S. Federal statutory tax rates of 34%, 35%, and 35% to the income before income taxes for the years ended December 31, 2003, 2004, and 2005, respectively, due to the following:

	2003	2004	2005
Tax expense at U.S. Federal statutory rate	\$ 23,903	32,839	48,647
State tax expense, net of Federal tax effect	331	78	1,053
Foreign withholding tax, net of Federal tax effect	1,288	444	
Deferred compensation			3,347
Impact of foreign rates and other permanent items	(7,573)	2,148	(2,971)
Impact of adjustments to deferred taxes due to changes in statutory tax rates		3,824	720
Decrease in valuation allowance	(183,463)	(24)	(83,290)
Other		453	655
Income tax expense (benefit)	\$ (165,514)	39,762	(31,839)

F-15

Edgar Filing: NAVTEQ CORP - Form 10-K

Deferred tax assets and liabilities as of December 31, 2004 and 2005 are summarized as follows:

	2004	2005
Deferred tax assets:		
Current:		
Net operating loss carryforwards	\$ 42,304	22,381
Deferred revenue	6,755	9,266
Interest not currently deductible		5,991
Other deductible temporary differences	1,773	5,357
Total current deferred tax assets	50,832	42,995
Non-current:		
Research and development credit carryforwards	6,456	6,373
Interest not currently deductible	78,784	72,311
Net operating loss carryforwards	83,562	91,093
Deferred revenue	5,147	1,141
Other deductible temporary differences	8,501	9,904
Total non-current deferred tax assets	182,450	180,822
Gross deferred tax assets	233,282	223,817
Less valuation allowance	(86,478)	(2,728)
Net deferred tax assets	146,804	221,089
Deferred tax liabilities:		
Current:		
Other deductible temporary differences	(136)	(182)
Total current deferred tax liabilities	(136)	(182)
Non-current:		
Acquired intangible assets		(5,194)
Capitalized software development costs, net	(3,903)	(3,865)
Total non-current deferred tax liabilities	(3,903)	(9,059)
Gross deferred tax liabilities	(4,039)	(9,241)
Deferred income taxes	\$ 142,765	211,848

During 2005, the deferred tax asset valuation allowance decreased \$83,750. During 2004 and 2005, the Company recorded \$1,547 and \$40,936, respectively, of deferred tax assets related to the tax benefit on non-qualified stock options, resulting in a corresponding increase in additional paid-in capital. The Company's foreign operations currently have no undistributed earnings for which a tax liability would be provided in accordance with APB Opinion No. 23, Accounting for Income Taxes Special Areas.

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 2003, the Company had provided a valuation allowance for the entire balance of deferred tax assets due to the uncertainty of generating future taxable income that would allow for the realization of such deferred tax assets. During 2003, 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 other temporary items in Europe and North America. 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

Edgar Filing: NAVTEQ CORP - Form 10-K

significant customer. From that analysis, the Company determined that sufficient evidence existed to conclude that it was more likely than not that the benefits of certain of the deferred tax assets will be realized. Accordingly, the Company reversed the related valuation allowance resulting in the recognition of a deferred income tax benefit of \$168,752.

F-16

Edgar Filing: NAVTEQ CORP - Form 10-K

As of December 31, 2005, the Company had U.S. interest expense carryforwards for both Federal and state income tax purposes of approximately \$205,328. As of December 31, 2003, the Company had fully reserved for the tax benefits related to the interest expense carryforwards as management believed it was more likely than not that the benefits would not be realized. At such time, the Company believed it was more likely than not that the Company 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 the Company and (2) uncertainty about the Company's 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 the Company following the initial public offering. As a result, the Company is now allowed to deduct the deferred interest expense in tandem with the net operating loss carryforwards. Following the initial public offering, the Company reevaluated whether it is more likely than not that the tax benefits associated with the U.S. net operating loss carryforwards together with the interest expense carryforwards will be realized. Based on that evaluation, the Company concluded that the recorded valuation allowance for deferred tax assets reflected the amount that management believes is more likely than not to expire before realization and, accordingly, that no adjustment to the balance of the related valuation allowance was required.

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 the aforementioned 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 Company determined that sufficient evidence existed to conclude that it was more likely than not that the benefits of certain of the deferred tax assets will be realized. Accordingly, the Company reversed the related valuation allowance and recorded an income tax benefit of \$83,270. As of December 31, 2005, the Company had a valuation allowance for deferred tax assets of \$2,728 related to Canadian net operating loss carryforwards and research and experimental tax credits.

As of December 31, 2005, the Company had net operating loss carryforwards for U.S. Federal and state income tax purposes of approximately \$259,923 and \$104,222, respectively. The difference between the U.S. Federal loss carryforwards and the state loss carryforwards results primarily from a 50% limitation on California loss carryforwards, capitalized research and development costs for California tax purposes, and a five-year limit on California net operating loss carryforwards. As of December 31, 2005, the Company also had net operating loss carryforwards in Europe of approximately \$55,372 with no expiration date and in Canada of approximately \$1,911 with generally a seven-year carryforward period.

The Company also has available tax credit carryforwards of approximately \$4,444 and \$1,929 for U.S. Federal and state tax purposes, respectively.

If not utilized, Federal and state net operating loss carryforwards expire through 2025 and Federal tax credit carryforwards expire through 2022, as follows:

Year of expiration	Federal net operating loss carryforwards	State net operating loss carryforwards	Federal tax credit carryforwards
2006	\$	1,916	75
2007		817	152
2008	4,039	490	114
2009	5,715	421	28
2010	25,772	5,069	102
Thereafter through 2025	224,397	95,509	3,973
	\$	259,923	4,444

There is no expiration date for state tax credit carryforwards and U.S. Federal interest expense carryforwards.

F-17

(8) Stockholders Equity

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 first demand registration right on April 16, 2004. Pursuant to this request, the Company filed a Registration Statement on Form S-1 (Reg. No. 333-114637) on April 20, 2004 with the Securities and Exchange Commission to register the Company's common stock in an initial public offering, which became effective on August 5, 2004. The Company's initial public offering was completed on August 11, 2004. At closing, the Company's selling stockholders, Philips B.V. and NavPart I B.V., received all of the proceeds from the sale of shares in the offering. As of December 31, 2004, Philips B.V. owned 30,521 shares of common stock, or approximately 34.8%, of the Company. Philips B.V. had certain call rights with respect to 2,580 shares owned by NavPart II B.V. (NavPart II), a wholly-owned subsidiary of NavPart I B.V. (NavPart I). Philips B.V. delivered an exercise notice to NavPart I in August 2004 with respect to the aforementioned shares owned by NavPart II. The transfer of these shares was completed in March 2005. Philips B.V.'s ownership, after the transfer of these shares, was 33,101 shares of the Company's common stock, or approximately 37.7% of the shares outstanding. 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 was consummated on May 10, 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.

In April 2004, the Company declared a special cash dividend to common stockholders of record as of April 19, 2004 in the amount of \$47,159, which was paid on June 18, 2004.

On April 27, 2004, the Company's board of directors and stockholders approved a reverse split of the Company's common stock. The ratio for the reverse split was 1-for-14, as determined by the Company's board of directors. The Company amended its amended and restated certificate of incorporation on August 5, 2004 to effect this 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.

On April 28, 2004, Philips B.V. exercised its warrants to acquire 3,384 shares of the Company's common stock at a purchase price of \$0.14 per share. The Company received \$474 in proceeds related to the exercise of the warrants. The shares issued upon exercise of the warrants were not included in Philips' outstanding common stock for purposes of the special cash dividend paid to the Company's stockholders on June 18, 2004.

Preferred Stock Conversion and Related Litigation with Philips

In March 2001, the Company entered into a stock purchase agreement with Philips B.V. pursuant to which Philips B.V. acquired 172 shares of the Company's Series A cumulative convertible preferred stock in exchange for promissory notes payable by the Company having an aggregate value of \$17,000 and \$7,100 in cash, and 3,043 shares of the Company's Series B cumulative convertible preferred stock in exchange for promissory notes payable by the Company having an aggregate value of \$426,000. Philips also agreed to purchase Series A shares in addition to the 172 shares, up to an aggregate of \$50,000 of Series A preferred shares as requested by the Company in accordance with the procedures set forth in the stock purchase agreement. After entering into the stock purchase agreement, Philips B.V. acquired an additional 114 shares of the Company's Series A cumulative convertible preferred stock for an aggregate purchase price of \$16,000 under the stand-by equity line. The terms of the Series A and Series B cumulative convertible preferred stock provided that these shares were to automatically convert into shares of common stock upon the earliest to occur of (i) the closing of a qualifying initial public offering of the Company's securities, (ii) the closing of a qualifying change of control transaction, or (iii) October 1, 2002. The conversion was to be made into the number of shares of common stock determined by dividing the liquidation preference, plus all cumulative but unpaid dividends per share, by the applicable per share conversion price. The terms of the stock purchase agreement were negotiated by a special committee of the Company's board of directors, which consisted

of board members who were not employees of

F-18

Philips. The Company believes that the terms were comparable to those that could have been obtained from an unaffiliated third party.

On September 20, 2002, Philips B.V. filed a complaint against the Company in the Chancery Court of the State of Delaware in and for New Castle County. The complaint alleged that the Company did not intend to comply with the Company's obligations under the certificates of designations for the Series A and Series B cumulative convertible preferred stock to convert this preferred stock into common stock pursuant to the terms of the preferred stock. A special committee of the Company's board of directors was formed to address the Company's defense to the complaint. On December 19, 2002, the special committee determined that the applicable per share conversion price of the Company's common stock as of October 1, 2002 was \$12.04 per share. Based on this determination, all of the Series A and Series B cumulative convertible preferred stock automatically converted pursuant to their terms as of October 1, 2002 into 55,477 shares of the Company's common stock. Upon conversion, the aggregate liquidation preferences of Series A and Series B cumulative convertible preferred stock were \$58,242 (including \$18,182 of dividends in arrears) and \$609,699 (including \$183,699 of dividends in arrears), respectively.

Following unsuccessful settlement negotiations, in August 2003 Philips B.V. filed an amended and restated complaint against the Company and additionally named as defendants Mr. van Ommeren, one of the Company's directors, and T. Russell Shields, a former director, each of whom was a member of the special committee. Among other claims, the amended and restated complaint disputed the \$12.04 per share conversion price of the preferred stock as of October 1, 2002, as determined by Mr. Shields and van Ommeren as the disinterested members of the board. Following further settlement negotiations, in December 2003, Philips B.V. accepted the per share conversion price of \$12.04 per share as of October 1, 2002 and, in March 2004, the litigation was dismissed.

Deferred Compensation Expense

During 2003, the Company granted stock options to its employees where the exercise price was less than the fair value of the Company's common stock on the date of grant. The grant resulted in an aggregate measurement of compensation cost of \$3,148, which will be recognized over the vesting period of the awards. The Company expensed \$816, \$792 and \$764 of the total measured compensation cost during 2003, 2004 and 2005, respectively. During 2004 and 2005, the Company granted restricted stock units to certain directors and employees. The Company recorded \$17,061 and \$5,810 in net deferred compensation and amortized to expense \$6,224 and \$8,353 in compensation cost related to the grants in 2004 and 2005, respectively. As of December 31, 2005, deferred compensation totaling \$9,096 remained and will be recognized over the vesting periods of the corresponding grants.

Other

During 2000, the Company loaned a former employee \$219 to enable the individual to exercise options for the purchase of 18 shares of newly issued common stock. The loan was represented by a limited recourse promissory note with a November 20, 2004 maturity date. Interest accrued at 6.2% per annum and was payable at maturity. During 2004, the former employee tendered shares of the Company's common stock to satisfy the obligation.

(9) Stock Option Plans

Edgar Filing: NAVTEQ CORP - Form 10-K

In 1988, the Company adopted a stock option plan (1988 Plan). The total authorized shares under the 1988 Plan are 2,550. Options granted under the 1988 Plan are for periods not to exceed 10 years and may be either incentive stock options as that term is used in Section 422 of the Internal Revenue Code (Incentive Stock Options) or options which do not qualify as Incentive Stock Options (Supplemental Stock Options). All grants under the 1988 Plan must be at prices of not less than 100% of the fair value of the common stock as determined by the Company's Board of Directors at the date of grant in the case of Incentive Stock Options, and 85% of fair value in the case of Supplemental Stock Options. Options granted after July 1995 generally vest monthly over 48 months from the employee's date of hire, and options granted prior to July 1995 generally vest at 25% per year beginning with the anniversary of the employee's date of hire. All stock options granted under the 1988 Plan have a 10-year term.

F-19

Edgar Filing: NAVTEQ CORP - Form 10-K

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

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

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

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

As of December 31, 2005, there were 9,707 shares available for grant under the 2001 Plan, and there were no shares available for grant under the 1988, 1996 or 1998 Plans. The Company has reserved 88, 7,360 and 3,571 shares of common stock for issuance under the 1988, 1996 and 1998 Plans, respectively. All options issued under the 1988, 1996, and 1998 Plans are adjusted pro rata for any stock dividends, stock splits and reverse stock splits.

Stock Option Activity

Stock option activity during 2003, 2004 and 2005 is as follows:

Edgar Filing: NAVTEQ CORP - Form 10-K

	Number of options		Weighted-average exercise price	Options exercisable		Weighted-average exercise price
Balance as of December 31, 2002	7,783	\$	2.88	5,704	\$	3.36
Granted (with exercise price equal to fair value on the date of grant)	93		12.04			
Granted (with exercise price less than fair value on the date of grant)	714		7.63			
Exercised	(182)		1.58			
Forfeited	(179)		7.00			
Balance as of December 31, 2003	8,229		3.34	6,851		2.94
Granted	508		23.12			
Exercised	(215)		4.59			
Forfeited	(46)		7.68			
Balance as of December 31, 2004	8,476		4.46	7,379		3.00
Granted	627		42.84			
Exercised	(3,677)		4.56			
Forfeited	(48)		23.16			
Balance as of December 31, 2005	5,378		8.70	4,226		2.87

The following table summarizes information about stock options outstanding as of December 31, 2005:

Exercise prices	Options outstanding			Options exercisable		
	Number of options outstanding	Weighted-average remaining contractual life (years)	Weighted-average exercise price	Number of options exercisable	Weighted-average exercise price	
\$ 1.40	3,726	6.38	\$ 1.40	3,691	\$	1.40
4.20 10.50	450	7.98	7.52	249		6.90
11.90 15.40	164	5.22	12.70	131		12.87
22.00	402	8.60	22.00	148		22.00
37.59 42.70	534	9.18	42.37	1		38.06
43.70 52.50	102	9.31	45.71	6		45.04
	5,378	6.97	\$ 8.70	4,226	\$	2.87

(10) Related Party Transactions

Philips and Affiliates

Immediately prior to the secondary public offering described in Note 8, Philips B.V.'s ownership was 33,101 shares of the Company's common stock, or approximately 37.7% of the total outstanding.

As of December 31, 2003, Philips B.V. held warrants to purchase 3,384 shares of the Company's common stock. The per share exercise price of the warrants was \$0.14. The warrants were granted on various dates between 1997 and 2000 pursuant to the loan agreement described below. The warrants were exercisable through and would have expired on April 1, 2007, were subject to adjustment for stock splits or dividends and had certain antidilution provisions for below market issuances. The warrants were exercised on April 28, 2004 as described in Note 8.

Letter of Credit Guarantee

The Company obtained an irrevocable standby letter of credit with LaSalle Bank N.A. in conjunction with one of its facility leases. The original face amount of \$2,000 declined annually until November 30, 2007, which is the end of the facility lease. Philips N.V. issued an unconditional and irrevocable guarantee to the bank as the primary obligor, in accordance with the Company's obligations regarding this facility lease. The Company issued a counter guarantee to Philips N.V. in which it agreed to pay a fee of 1.5% per annum of the original \$2,000 face value amount of the stand-by letter of credit as reduced from time to time in accordance with its terms. In 2003, the Company paid \$60 related to the counter guarantee. The letter of credit, the Philips guarantee and the counter guarantee were cancelled in 2004.

Cash on Deposit with Affiliate

The Company entered into a deposit agreement dated as of May 21, 2002 with Koninklijke Philips Electronics N.V. (Philips N.V.), the parent company of the Company's majority stockholder prior to the Company's initial public offering, which was subsequently assigned to the Company's U.S. operating subsidiary. The Company's European operating subsidiary also entered into a deposit agreement with Philips N.V. dated as of September 26, 2003. These deposit agreements were for the purpose of optimizing the returns on temporary excess cash and earned interest at a rate of U.S. LIBOR minus ¼% for a U.S. dollar deposit and EURIBOR/EONIA minus ¼% for euro deposits.

The deposit agreements with Philips N.V. expired on August 11, 2004 upon completion of the Company's initial public offering, at which time the Company invested cash balances in excess of short-term operational needs in cash equivalents and marketable securities.

During 2003 and 2004, the Company received \$268 and \$256, respectively, in interest income related to the deposit agreements.

Swap Agreement

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. The terms of the Swap are described in Note 11.

Software License

In October 2004, the Company licensed certain software to Philips for development purposes and provided consulting services related to this software. The Company did not receive any license fees or consulting fees in 2004 or from January 1, 2005 through May 10, 2005.

Other

The Company entered into transactions with affiliates of Philips N.V., under which the Company received software, software-related consulting services, tax consulting services, fleet services, insurance services, and purchasing services. Total fees incurred for these services of \$1,026, \$1,336, and \$137 are included in operating costs and expenses for the years ended December 31, 2003 and 2004, and from January 1, 2005 through May 10, 2005, respectively.

(11) Foreign Currency Derivatives

On April 22, 2003, the Company entered into a U.S. dollar/euro currency swap agreement (the Swap) with Philips N.V. to minimize the exchange rate exposure between the U.S. dollar and the euro on the expected repayment of an intercompany obligation. The Swap was subsequently assigned to an unaffiliated third party in the third quarter of 2004. Under the terms of the Swap, the Company's European subsidiary 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 will be 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 December 31, 2005, the outstanding intercompany obligation was \$40,280 and the fair value of the Swap was a liability of \$3,265.

The intercompany loan bears interest at one-month U.S. LIBOR. The Swap also provides that the 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. 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 \$3,662 and \$16,155 were recorded for the years ended December 31, 2004 and 2005, respectively. The Company recorded a gain of \$6,194 and a loss of \$11,676 as a result of the remeasurement of the outstanding intercompany obligation for the years ended December 31, 2004 and 2005, respectively. The Company recorded foreign currency transaction losses of \$9,812 and \$4,451 during the years ended December 31, 2004 and 2005, respectively, resulting from foreign currency exchange differences arising on the repayments of the intercompany obligation.

(12) Employee Benefit Plans

The Company sponsors a Savings and Investment Plan (the Plan) that qualifies as a thrift plan under Section 401(k) of the Internal Revenue Code. All of the Company's employees who have completed three months of service are eligible to participate in the Plan. The Plan allows participants to contribute up to 20% of eligible compensation, subject to the maximum amount allowable under Internal Revenue Service regulations. The Plan permits, but does not require, additional matching contributions by the Company. In addition, the Company has sponsored savings and investment plans in its European subsidiaries. The Company contributed \$1,602, \$2,347 and \$2,688 to these defined contribution employee benefit plans for the years ended December 31, 2003, 2004, and 2005, respectively.

(13) 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. 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 years ended December 31, 2003, 2004 and 2005 (in thousands):

Edgar Filing: NAVTEQ CORP - Form 10-K

		Years ended December 31,		
		2003	2004	2005
Net revenue:				
Europe	\$	180,959	267,541	316,208
North America		91,664	125,317	172,789
Asia Pacific				7,515
Total net revenue	\$	272,623	392,858	496,512

F-23

Edgar Filing: NAVTEQ CORP - Form 10-K

The following summarizes long-lived assets on a geographic basis as of December 31, 2004 and 2005 (in thousands):

	December 31,	
	2004	2005
Property and equipment, net:		
Europe	\$ 5,801	5,731
North America	12,367	14,396
Asia Pacific	52	701
Total property and equipment, net	\$ 18,220	20,828
Capitalized software development costs, net:		
Europe	\$	
North America	26,243	25,761
Asia Pacific		
Total capitalized software development costs, net	\$ 26,243	25,761

(14) Concentrations of Risk

For the year ended December 31, 2005, one customer accounted for 13% of total revenue. No other customer accounted for 10% or more of total revenue. For the year ended December 31, 2004, two customers accounted for 16% and 10%, respectively, of total revenue. For the year ended December 31, 2003, two customers accounted for 18% and 12%, respectively, of total revenue.

(15) Lease Obligations

The Company leases its facilities, automobiles, and certain equipment under operating leases expiring through 2013. Monthly payments under certain facility leases are subject to fixed increases. For accounting purposes, rent expense is based on a straight-line amortization of the total payments required over the lease term. The leases require the Company to pay property taxes, insurance, maintenance, and repair costs.

The Company's aggregate future minimum lease obligations as of December 31, 2005 are as follows:

Year ending December 31:		
2006	\$	13,327
2007		9,918
2008		4,785
2009		3,578
2010		2,799
Thereafter		1,492
	\$	35,899

Total rent expense under operating leases for facilities and equipment was \$8,850, \$10,795 and \$11,449 for the years ended December 31, 2003, 2004, and 2005, respectively.

(16) Business Combination

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 contained customary representations, warranties and related indemnification provisions. In addition, to secure the indemnification obligations of the PMI Shareholders, fifteen percent of the Purchase Price was deposited in escrow and \$500 of the Purchase Price was deferred for payment until the second anniversary of the Closing Date. On August 18, 2005, the Company filed a registration statement on Form S-3 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. The registration statement was declared effective on September 7, 2005.

In addition to the aforementioned consideration, the Company paid \$598 in direct costs to acquire the shares of PMI to bring the total purchase price to \$29,125. As part of the purchase price allocation, the Company recorded \$35,129 in assets and \$6,004 in liabilities. Included in the total assets were the following intangible assets:

Intangible Asset	Value	Estimated Useful Life
Database	\$ 8,000	10 years
Customer relationships	5,600	7 years
Software	4,000	3 years

The acquired intangible assets will be amortized on a straight-line basis over their estimated useful lives. In addition, the Company recorded \$12,156 in goodwill as of the acquisition date. The goodwill is not tax-deductible. During the fourth quarter of 2005, the Company decreased goodwill by \$872 due to the reallocation of the purchase price. The remainder of the change in the goodwill from the acquisition date to the balance at December 31, 2005 was related to changes in the exchange rate between the U.S. dollar and Korean won. Pro forma results of the Company, assuming the acquisition occurred at the beginning of each period presented, would not be materially different from the results presented.

(17) Intangible Assets

The gross carrying amount and accumulated amortization of intangible assets subject to amortization as of December 31, 2005 are:

Net Assets

Edgar Filing: NAVTEQ CORP - Form 10-K

		Gross Assets	Accumulated Amortization	
Database	\$	8,338	(417)	7,921
Customer relationships		5,837	(417)	5,420
Software		4,169	(695)	3,474
Total	\$	18,344	(1,529)	16,815

F-25

The estimated amortization expense for each of the next five years is as follows:

2006	\$	3,057
2007		3,057
2008		2,363
2009		1,668
2010		1,668

(18) Litigation

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

(19) Guarantees

In November 2002, the FASB issued Interpretation (FIN) 45, Guarantor' s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others. FIN 45 requires that the Company recognize the fair value for guarantee and indemnification arrangements issue or modified by the Company after December 22, 2002, if these arrangements are within the scope of the Interpretation. In addition, the Company must continue to monitor the conditions that are subject to the guarantees and indemnifications, as required under previously existing GAAP, in order to identify if a loss has occurred. If the Company determines it is probable that a loss has occurred then any such estimable loss would be recognized under those guarantees and indemnifications. Under its standard database and software licensing agreements, the Company agrees to indemnify, defend and hold harmless its licensees from and against certain losses, damages and costs arising from claims alleging the licensees' use of Company data and software infringes the intellectual property rights of a third party. Historically, the Company has not been required to pay any amounts in connection with claims asserted under these provisions, and, accordingly, the Company has not recorded a liability relating to such provisions.

(20) Quarterly Results (unaudited)

The following table presents the Company's selected unaudited quarterly results:

		First Quarter	Second Quarter	Third Quarter	Fourth Quarter
For the year ended December 31, 2004					
Net revenue	\$	79,465	96,600	97,793	119,000
Operating income		15,934	24,845	22,099	31,708
Net income		9,719	15,323	13,596	15,428
Basic earnings per share of common stock *		0.12	0.18	0.16	0.18
Diluted earnings per share of common stock*		0.11	0.17	0.15	0.17
For the year ended December 31, 2005					
Net revenue	\$	104,697	122,832	123,005	145,978
Operating income		24,831	37,442	30,423	41,560
Net income		16,785	25,264	101,115	27,666
Basic earnings per share of common stock*		0.19	0.28	1.11	0.30
Diluted earnings per share of common stock		0.18	0.27	1.07	0.29

* The earnings per share computation for the year is a separate, annual calculation. Accordingly, the sum of the quarterly earnings per share amounts does not necessarily equal the earnings per share for the year.

NAVTEQ CORPORATION

AND SUBSIDIARIES

FINANCIAL STATEMENT SCHEDULE

SCHEDULE II

Valuation and Qualifying Accounts

Allowance for Doubtful Accounts (In thousands):

Year	Balance at Beginning of Year	(1) Additions	(2) Deductions	Balance at End of Year
2003	\$ 2,784	2,071	(490)	4,365
2004	4,365	(461)	(333)	3,571
2005	3,571	2,303	(1,022)	4,852

(1) Provision for (recovery of) bad debts.

(2) Accounts receivable written off against the allowance.