NAVIGATION TECHNOLOGIES CORP
Form 10-Q
November 10, 2003

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

ý	**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
	For the quarterly period ended September 28, 2003
	OR
o	**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission File Number 0-21323

NAVIGATION TECHNOLOGIES CORPORATION

(Exact name of registrant as specified in its charter)

Delaware (State or Other Jurisdiction of Incorporation or Organization)	**77-0170321** (I.R.S. Employer Identification No.)
222 Merchandise Mart, Suite 900 **Chicago, Illinois 60654** (Address of Principal Executive Offices, including Zip Code)	**(312) 894-7000** (Registrant's Telephone Number, Including Area Code)

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

Yes ý No o

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

Yes o No ý

The number of shares of the Registrant's Common Stock, $0.001 par value, outstanding as of November 2, 2003 was 1,178,098,603.

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, believ 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 the section of Navigation Technologies' Registration Statement on Form 10, File No. 0-21323, as amended, captioned Risk Factors under Item 1 thereof. Readers should carefully review this document in its entirety, including, but not limited to, the condensed consolidated financial statements and notes thereto. Navigation Technologies 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.

NAVTECH is a trademark of Navigation Technologies Corporation.

PART I

FINANCIAL INFORMATION

Item 1. **Financial Statements**

NAVIGATION TECHNOLOGIES CORPORATION AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

(In thousands, except per share amounts)

		December 31, 2002	September 28, 2003 (Unaudited)
Assets			
Current assets:			
Cash and cash equivalents	$	9,427	2,102
Notes receivable from affiliate		10,000	50,341
Accounts receivable, net of allowance for doubtful accounts of $2,784 and $3,814 in 2002 and 2003, respectively		30,261	41,585
Prepaid expenses and other current assets		3,342	5,006
Total current assets		53,030	99,034
Property and equipment, net		7,848	7,822
Capitalized software development costs, net		18,951	21,858
Deposits and other assets		498	931
Total assets	$	80,327	129,645
Liabilities and Stockholders' Equity			
Current liabilities:			
Accounts payable	$	5,392	6,893
Accrued payroll and related liabilities		16,138	16,328
Other accrued expenses		13,438	15,773
Deferred revenue		26,695	23,656

Total current liabilities		61,663	62,650
Fair value of derivative			7,961
Long-term deferred revenue		5,213	4,796
Long-term source material obligations		1,324	1,004
Other long-term liabilities		890	1,521
Total liabilities		69,090	77,932
Stockholders' equity:			
Common stock, $0.001 par value; 1,800,000 shares authorized; 1,175,587 and 1,178,053 shares issued and outstanding in 2002 and 2003, respectively		1,176	1,178
Additional paid-in capital		764,275	764,527
Note receivable for common stock		(219)	(219)
Accumulated other comprehensive income (loss)		3,600	(13,121)
Accumulated deficit		(757,595)	(700,652)
Total stockholders' equity		11,237	51,713
Total liabilities and stockholders' equity	$	80,327	129,645

See accompanying notes to condensed consolidated financial statements.

NAVIGATION TECHNOLOGIES CORPORATION
AND SUBSIDIARIES

Condensed Consolidated Statements of Operations

(In thousands, except per share amounts)

	Quarter Ended		Nine Months Ended	
	September 29, 2002	September 28, 2003	September 29, 2002	September 28, 2003
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Net revenue	$ 44,822	71,320	$ 114,200	190,889
Operating costs and expenses:				
Database licensing and production costs	23,585	31,260	64,578	83,671
Selling, general, and administrative expenses	15,149	20,577	43,288	55,404
Total operating costs and expenses	38,734	51,837	107,866	139,075
Operating income	6,088	19,483	6,334	51,814
Other income (expense):				
Interest income	38	107	124	225
Interest expense	(286)	(8)	(832)	(18)
Foreign currency gain (loss)	(228)	204	(146)	6,587
Income before income taxes	5,612	19,786	5,480	58,608
Income tax expense	(178)	(1,093)	(641)	(1,665)
Net income	5,434	18,693	4,839	56,943
Cumulative preferred stock dividends	(39,063)		(110,464)	
Net income (loss) applicable to common stockholders	$ (33,629)	18,693	$ (105,625)	56,943
Net earnings (loss) per share of common stock basic and diluted	$ (0.08)	0.02	$ (0.27)	0.05

Weighted average shares of common stock outstanding:				
Basic	398,441	1,177,152	398,347	1,176,446
Diluted	398,441	1,219,794	398,347	1,219,088

See accompanying notes to condensed consolidated financial statements.

NAVIGATION TECHNOLOGIES CORPORATION
AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

(In thousands)

		Nine Months Ended	
		September 29, 2002	**September 28, 2003**
		(Unaudited)	**(Unaudited)**
Cash flows from operating activities:			
Net income	$	4,839	56,943
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization		4,484	4,303
Amortization of software development costs		3,255	4,524
Foreign currency (gain) loss		146	(6,587)
Impairment of capitalized software development costs		2,114	
Deferred interest expense on refundable license payments		823	
Provision for bad debts		1,513	1,177
Noncash other		(11)	34
Changes in operating assets and liabilities:			
Accounts receivable		(7,780)	(10,479)
Prepaid expenses and other current assets		(364)	(1,632)
Deposits and other assets		(126)	(345)
Accounts payable		256	1,412
Accrued expenses		1,143	(924)
Deferred revenue		2,770	(4,697)
Other long-term obligations		347	137
Net cash provided by operating activities		13,409	43,866
Cash flows from investing activities:			
Acquisition of property and equipment		(1,495)	(4,084)
Capitalized software development costs		(7,602)	(7,431)
Notes receivable from affiliate		(17,500)	(80,041)
Cash received from repayment of notes receivable from affiliate		12,000	39,700
Net cash used in investing activities		(14,597)	(51,856)
Cash flows from financing activities:			
Issuance of common stock		44	254

Net cash provided by financing activities		44	254
Effect of exchange rate changes on cash		457	411
Net decrease in cash and cash equivalents		(687)	(7,325)
Cash and cash equivalents at beginning of period		7,506	9,427
Cash and cash equivalents at end of period	$	6,819	2,102
Supplemental disclosure of cash flow information:			
Cash paid during the period for interest	$		18
Cash paid during the period for taxes	$	399	1,905

See accompanying notes to condensed consolidated financial statements.

NAVIGATION TECHNOLOGIES CORPORATION
AND SUBSIDIARIES

Notes to Condensed Conslidated Financial Statements

(Unaudited)

(1) Unaudited Financial Statements

The accompanying condensed consolidated financial statements of Navigation Technologies Corporation (the Company) have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information, the instructions to United States Securities and Exchange Commission Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. It is presumed that the reader has already read the Company's Annual Report on Form 10-K for the year ended December 31, 2002.

In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. The results of operations for the interim periods are not necessarily indicative of the results that may be expected for the fiscal year. For further information, refer to the consolidated financial statements and accompanying notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2002.

Principles of Presentation

The Company's fiscal quarterly periods end on the Sunday nearest the calendar quarter end. The 2002 and 2003 third quarters each had 91 days. The 2002 year to date period had 272 days and the 2003 year to date period had 271 days. The Company's fiscal year end is December 31.

Certain 2002 amounts in the condensed consolidated financial statements have been reclassified to conform to the 2003 presentation.

Stock-Based Compensation

The Company applies the intrinsic value-based method of accounting prescribed by Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations, including Financial Accounting Standards Board (FASB) Interpretation No. 44, Accounting for Certain Transactions involving Stock Compensation, an interpretation of APB Opinion No. 25, to account for its fixed plan stock options. Under this method, compensation expense is recorded on the date of grant only if the fair value of the underlying stock exceeds the exercise price. Under the Company's stock option plan, options are granted at exercise prices that equal the fair value of the underlying common stock on the date of grant. Therefore, no stock-based compensation expense is recorded in the condensed consolidated statements of operations.

Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-Based Compensation, established accounting and disclosure requirements using a fair value based method of accounting for stock-based employee compensation plans. The following table illustrates the effect on net income (loss) if the fair value based method had been applied to all outstanding unvested awards in each period.

	Quarter Ended		Nine Months Ended	
	September 29, 2002	September 28, 2003	September 29, 2002	September 28, 2003
Net income, as reported	$ 5,434	18,693	$ 4,839	56,943
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards	(763)	(205)	(3,497)	(1,606)
Pro forma net income	4,671	18,488	1,342	55,337
Deduct: Cumulative preferred stock dividends	(39,063)		(110,464)	
Pro forma net income (loss) applicable to common stockholders	$ (34,392)	18,488	$ (109,122)	55,337
Income (loss) per share of common stock:				
Basic and diluted as reported	$ (0.08)	0.02	$ (0.27)	0.05
Basic and diluted pro forma	$ (0.09)	0.02	$ (0.27)	0.05

The per share weighted-average fair value of stock options granted during 2002 was $0.07 on the date of grant using the fair value method with the following weighted-average assumptions: 2002 no dividends, 75% volatility, risk-free interest rate of 2.94%, and expected life of 5.6 years. There have been no stock options granted in 2003 as of September 28, 2003.

(2) Recent Accounting Pronouncements

On April 30, 2002, the FASB issued SFAS No. 145, Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections. SFAS No. 145 rescinds SFAS No. 4, which required all gains and losses from the extinguishment of debt to be aggregated and, if material, classified as an extraordinary item, net of the related income tax effect. SFAS No. 145 is effective for fiscal years beginning after May 15, 2002. The Company adopted SFAS No. 145 on January 1, 2003 and, as a result, the extraordinary loss on early extinguishment of debt that was incurred during 2001 will be reclassified as a component of other income (expense) in the Company's consolidated statements of operations (which will be presented in the Company's annual report on Form 10-K for the year ending December 31, 2003).

In November 2002, the FASB issued Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others, an interpretation of FASB Statements No. 5, 57 and 107 and a rescission of FASB Interpretation No. 34. This Interpretation elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under guarantees issued. The Interpretation also clarifies that a guarantor is required to recognize, at inception of a guarantee, a liability for the fair value of the obligation undertaken. The initial recognition and measurement provisions of the Interpretation are applicable to guarantees issued or modified after December 31, 2002 and did not have a material effect on the condensed consolidated financial statements. The disclosure requirements are effective for financial statements of interim and annual periods ended after December 15, 2002, and did not affect the disclosures in these condensed consolidated financial statements.

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure, an amendment of FASB Statement No. 123. This Statement amends FASB Statement No. 123, Accounting for Stock-Based Compensation, to provide alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements. Certain of the disclosure modifications are required for interim periods beginning after December 15, 2002, and are included in the notes to these condensed consolidated financial statements.

In January 2003, the FASB issued Interpretation No. 46, Consolidation of Variable Interest Entities, an interpretation of ARB No. 51. This Interpretation requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity risk for the entity to finance its activities without additional subordinated financial support from other parties. In October 2003, the FASB issued a Staff Position deferring the effective date of this Interpretation for all public entities until the first interim or annual period ending after December 15, 2003. The Company is currently evaluating this Interpretation, but anticipates that its adoption will not have a material impact on its financial condition or results of operations.

In April 2003, the FASB issued SFAS No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities. This statement amends SFAS No. 133 to provide clarification on the financial accounting and reporting of derivative instruments and hedging activities. Adoption did not affect the financial condition or results of operations of the Company.

On May 15, 2003, the FASB issued SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity. SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. SFAS No. 150 was effective for all financial instruments entered into or modified after May 31, 2003 and did not have an impact on the Company's condensed consolidated financial statements. SFAS No. 150 is effective for unmodified financial instruments existing at May 31, 2003 at the beginning of the first interim period beginning after June 15, 2003. Adoption did not affect the financial condition or results of operations of the Company.

In May 2003, the FASB's Emerging Issues Task Force (EITF) reached a consensus on Issue 01-08, Determining Whether an Arrangement Contains a Lease. Issue 01-08 provides guidance on how to determine whether an arrangement contains a lease that is within the scope of FASB Statement No. 13, Accounting for Leases. The guidance in Issue 01-08 is based on whether the arrangement conveys to the purchaser (lessee) the right to use a specific asset. Issue 01-08 will be effective for arrangements entered into or modified beginning in the fourth quarter of fiscal 2003. The Company is currently evaluating Issue 01-08 and do not expect the adoption to have a material impact on the Company's consolidated financial position and results of operations.

(3) Notes Receivable from Affiliate

The Company entered into a deposit agreement dated as of May 21, 2002 with Koninklijke Philips Electronics N.V. (Philips N.V.), which was subsequently assigned to our domestic operating subsidiary. Pursuant to the terms of the deposit agreement, the Company rolled over $40,000,000 of previously deposited funds on September 19, 2003 and deposited an additional $9,193,000 on September 26, 2003 with Philips N.V. for the purpose of optimizing the returns on temporary excess

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cash. These deposits with Philips N.V. bear interest at a rate of United States (U.S.) LIBOR minus ¼%. Deposits of $6,193,000 matured on September 29, 2003, at which time all amounts were paid to the Company. Deposits of $43,000,000 had a maturity date of October 5, 2003, at which time all amounts were rolled over at the Company's option.

Navigation Technologies B.V. entered into a deposit agreement dated as of September 26, 2003, with Philips N.V. Pursuant to the terms of the deposit agreement, the Company deposited $1,148,000 on September 26, 2003 with Philips N.V. for the purpose of optimizing the returns on temporary excess cash. These deposits with Philips N.V. bear interest at a rate of U.S. LIBOR minus ¼% for a U.S. Dollar deposit and EURIBOR/EONIA minus ¼% for Euro deposits. Deposits of $1,148,000 had a maturity date of September 29, 2003 and were repaid to the Company at maturity.

(4) Comprehensive Income

Comprehensive income for the quarters and the nine months ended September 29, 2002 and September 28, 2003 was as follows (in thousands):

	Quarter Ended		Nine Months Ended	
	September 29, 2002	**September 28, 2003**	**September 29, 2002**	**September 28, 2003**
Net income	$ 5,434	18,693	$ 4,839	56,943
Foreign currency translation adjustment	100	(942)	(83)	(16,721)
Comprehensive income	$ 5,534	17,751	$ 4,756	40,222

(5) Earnings (Loss) Per Share

Basic and diluted earnings (loss) per share is computed based on net income (loss) after deducting cumulative preferred stock dividends, divided by the weighted average number of shares of common stock outstanding for the period, in accordance with SFAS No. 128, Earnings Per Share. Options to purchase 110,758,000 and 104,456,000 shares of common stock were outstanding at September 29, 2002 and September 28, 2003, respectively. The Company granted replacement options to purchase 83,927,226 shares of common stock in connection with its stock option exchange offer on May 15, 2002. Warrants to purchase 47,380,000 shares of common stock were outstanding at September 29, 2002 and September 28, 2003. There were 4,005,968.805 shares of Series A cumulative convertible preferred stock and 42,600,002.533 shares of Series B cumulative preferred stock outstanding at September 29, 2002. These options, warrants and shares of convertible preferred stock were not included in the computation of diluted loss per share for the quarter and the nine months ended September 29, 2002, because the effect of their inclusion would be antidilutive. Shares issuable from securities that could potentially dilute basic earnings per share in the future, that were not included in the computation of earnings per share for the quarter and the nine months ended September 29, 2002 because their effect was antidilutive, consisted of 819,317,000 shares. In the computation of diluted earnings per share for the quarter and nine months ended September 28, 2003, options to purchase 13,905,000 shares of common stock were excluded, because their inclusion would have been antidilutive.

Basic and diluted earnings (loss) per share for the quarters and the nine months ended September 29, 2002 and September 28, 2003 was as follows (in thousands, except per share amounts):

Quarter Ended

September 29, 2002	September 28, 2003

Basic	Diluted	Basic	Diluted

Net income (loss) available for common stockholders	$	(33,629)	(33,629)	$	18,693	18,693
Basic weighted average shares of common stock		398,441	398,441		1,177,152	1,177,152
Shares issuable upon exercise of warrants						42,642
Weighted average shares of common stock		398,441	398,441		1,177,152	1,219,794
Basic and diluted earnings (loss) per share	$	(0.08)	(0.08)	$	0.02	0.02

		Nine Months Ended				
		September 29, 2002			September 28, 2003	
		Basic	Diluted		Basic	Diluted
Net income (loss) available for common stockholders	$	(105,625)	(105,625)	$	56,943	56,943
Basic weighted average shares of common stock		398,347	398,347		1,176,446	1,176,446
Shares issuable upon exercise of warrants						42,642
Weighted average shares of common stock		398,347	398,347		1,176,446	1,219,088
Basic and diluted earnings (loss) per share	$	(0.27)	(0.27)	$	0.05	0.05

(6) Enterprise-wide Disclosures

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

The following summarizes net revenue on a geographic basis for the quarters and the nine months ended September 29, 2002 and September 28, 2003 (in thousands):

		Quarter Ended			Nine Months Ended	
		September 29, 2002	September 28, 2003		September 29, 2002	September 28, 2003
Net revenue:						
North America						
Database licensing	$	14,534	24,366	$	34,656	61,725
Professional services		150	442		591	551
Total North America		14,684	24,808		35,247	62,276
Europe						
Database licensing		29,494	46,132		76,981	127,259
Professional services		644	380		1,972	1,354

Total Europe		30,138	46,512		78,953	128,613
Total net revenue	$	44,822	71,320	$	114,200	190,889

The following summarizes long-lived assets on a geographic basis as of December 31, 2002 and September 28, 2003 (in thousands):

		December 31, 2002	September 28, 2003
Property and equipment, net:			
North America	$	5,762	5,400
Europe			