MASIMO CORP
Form S-1/A
May 29, 2007
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As filed with the Securities and Exchange Commission on May 25, 2007

Registration No. 333-142171

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

AMENDMENT NO. 1

TO

FORM S-1

REGISTRATION STATEMENT

Under

The Securities Act of 1933

MASIMO CORPORATION

(Exact name of registrant as specified in its charter)

DELAWARE	**3845**	**33-0368882**
(State or other jurisdiction of incorporation or organization)	**(Primary Standard Industrial Classification Code Number)**	**(I.R.S. Employer Identification Number)**

40 Parker

Irvine, California 92618

(949) 297-7000

(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)

Joe E. Kiani

Chief Executive Officer

40 Parker

Irvine, California 92618

(949) 297-7000

(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

John F. Della Grotta	**Patrick T. Seaver**
Michael G. McKinnon	**Charles K. Ruck**
Paul, Hastings, Janofsky & Walker LLP	**Latham & Watkins LLP**
695 Town Center Drive, Suite 1700	**650 Town Centre Drive, 20th Floor**
Costa Mesa, CA 92626	**Costa Mesa, CA 92626**

Approximate date of commencement of proposed sale to the public:

As soon as practicable after the effectiveness of this Registration Statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act, check the following box: ¨

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective Registration Statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment that specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. We and the selling stockholders may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

Subject to completion, dated May 25, 2007

Shares

MASIMO CORPORATION

Common Stock

$ per share

- Masimo Corporation and the selling stockholders are offering shares of common stock, of which the selling stockholders are offering shares.
- The initial public offering price of our common stock is expected to be between $ and $ per share.
- This is our initial public offering and no public market currently exists for our shares.

Proposed trading symbol:
NASDAQ Global Market MASI

This investment involves risks. See Risk Factors beginning on page 10.

	Per Share	Total
Initial public offering price	$	$
Underwriting discount	$	$
Proceeds, before expenses, to Masimo Corporation	$	$
Proceeds, before expenses, to selling stockholders	$	$

We have granted the underwriters a 30-day option to purchase up to additional shares of our common stock at the initial public offering price, less the underwriting discount, to cover over-allotments, if any. We will not receive any proceeds from the sale of common stock by the selling stockholders.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

Piper Jaffray **Deutsche Bank Securities**

Cowen and Company **Thomas Weisel Partners LLC**

The date of this prospectus is , 2007

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Proven Technology, Proven Performance, Proven Leadership.

- **The gold standard in pulse oximetry, demonstrated clinically superior in more than 100 independent and objective studies.** These objective, peer-reviewed studies demonstrate Masimo s revolutionary Signal Extraction Technology (Masimo SET) outperforms any other pulse oximeter in the marketplace.

- **Many of the world s top hospitals have made Masimo SET their primary pulse oximetry platform,** including four out of the top five hospitals in the United States as listed on the US News and World Report Honor Roll.

- **Leading patient monitoring companies around the world have adopted Masimo SET.** In addition to a complete array of Masimo-branded monitors, Masimo is integrated into more than 90 multiparameter monitors and 40 monitoring brands.

- **A continuing commitment to innovation.** From our invention of Signal Extraction Technology and the introduction of Read-Through Motion and Low Perfusion pulse oximetry, to our most recent launch of Masimo Rainbow SET Pulse CO-Oximetry capable of monitoring carboxyhemoglobin and methemoglobin continuously and noninvasively, we are committed to providing clinicians with tools to make precise and timely diagnoses that lead to better treatment decisions.

Masimo provides accurate, reliable pulse oximetry measurements under difficult

clinical conditions of motion and low peripheral perfusion.

- Masimo s Read-Through Motion and Low Perfusion technology works when conventional pulse oximetry technologies do not, virtually eliminating false alarms without missing true events maximizing efficiency by providing clinicians with meaningful alarms and alerts that they can trust to reflect patients true oxygenation status.

Demonstrated Accuracy with Adults[1]

Demonstrated Accuracy with Infants[2]

* The failure of the monitor to detect a physiological change that should trigger the monitor s alarm.

** The erroneous activation of the monitor s alarm without an appropriate triggering physiological event.

1 Shah N, Estanol L. Comparison of three new generation pulse oximeters during motion & low perfusion in volunteers. *Anesthesiology* 2006; 105: A929.

2 Hay WW, Rodden DJ, Collins SM, Melara DL, Hale KA, Fashaw LM. Reliability of conventional and new oximetry in neonatal patients. *Journal of Perinatology*. 2002; 22:360-266.

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Masimo manufactures a complete range of bedside and handheld monitors along with one of the broadest lines of sensors in the industry.

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We have not authorized anyone to provide you with information different from that contained in this prospectus and any free writing prospectus authorized by us. We and the selling stockholders are offering the securities for sale in those jurisdictions in the United States, Europe and elsewhere where it is lawful to make such offers. The distribution or possession of this prospectus or any free writing prospectus in or from certain jurisdictions may be restricted by law. This prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted or where the person making the offer or sale is not qualified to do so or to any person to whom it is not permitted to make such offer or sale. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of our common stock. Our business, financial condition, results of operations and prospects may have changed since that date.

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Market and Industry Data

Information contained in this prospectus concerning the medical device industry and the pulse oximetry market, including our general expectations and market position, market opportunity and market share, is based on information from independent industry analysts and third-party sources, such as Frost & Sullivan, and management estimates. Management estimates are derived from publicly available information released by independent industry analysts and third-party sources, as well as data from our internal research, and are based on assumptions made by us based on such data and our knowledge of such industry and markets, which we believe to be reasonable. Other than Frost & Sullivan, none of the sources cited in this prospectus has consented to the inclusion of any data from its reports, nor have we sought their consent. Our internal research has not been verified by any independent source, and we have not independently verified any third-party information. In addition, while we believe the market position, market opportunity and market share information included in this prospectus is generally reliable, such information is inherently imprecise. Such data involves risks and uncertainties and are subject to change based on various factors, including those discussed under the heading Risk Factors.

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SUMMARY

This summary highlights selected information contained elsewhere in this prospectus. This summary provides an overview of selected information and does not contain all of the information you should consider before investing in our common stock. You should read carefully the entire prospectus, including Risk Factors and the financial statements and related notes, before making an investment decision. Unless the context indicates otherwise, the references in this prospectus to Masimo, we, us and our refer to Masimo Corporation, together with its subsidiaries.

Our Business

We are a global medical technology company that develops, manufactures and markets non-invasive patient monitoring products that improve patient care. We invented Masimo Signal Extraction Technology, or Masimo SET, which provides the capabilities of Read-Through Motion and Low Perfusion pulse oximetry to address the primary limitations of conventional pulse oximetry. Pulse oximetry is the non-invasive measurement of the oxygen saturation level of arterial blood, or the blood that delivers oxygen to the body s tissues, and pulse rate. Our Masimo SET platform has significantly addressed many of the previous technology limitations and has been recognized as the gold standard in pulse oximetry, the benefits of which have been validated in over 100 independent clinical studies. During 2006, we generated product revenue of $155.1 million and we increased our product revenue at a compound annual growth rate, or CAGR, of approximately 41.6% for the four years ended December 31, 2006. We were profitable in 2005 and 2006, but prior to 2005, we had a history of net losses.

We market a family of patient monitoring solutions which incorporate a monitor or circuit board and consumables, including both proprietary single-patient use and reusable sensors and cables. In addition, we offer a remote-alarm/monitoring solution, software and other accessories. We sell our solutions and related products to end-users through our direct sales force and certain distributors, and certain of our products to original equipment manufacturer, or OEM, partners, for incorporation into their products. We estimate that our worldwide installed base of pulse oximeters, OEM monitors that incorporate Masimo SET and adapter cables was approximately 449,000 units as of December 31, 2006. Based on industry reports, we estimate that the worldwide pulse oximetry market is over $900 million, the largest component of which is the sale of consumables.

We believe that the reliability and accuracy of our Masimo SET platform, along with our remote-alarm and monitoring solutions, will facilitate the expansion of our pulse oximetry products into areas beyond critical care settings, including the general care areas of the hospital. Additionally, we have recently developed products that non-invasively monitor parameters beyond arterial blood oxygen saturation level and pulse rate. In 2005, we launched our Masimo Rainbow SET platform utilizing licensed Rainbow technology, which we believe includes the first and only devices cleared by the U.S. Food and Drug Administration, or FDA, to non-invasively measure carboxyhemoglobin, or carbon monoxide levels in the blood, and methemoglobin saturation levels in the blood. We believe that the use of products incorporating Rainbow technology will become widely adopted for the non-invasive monitoring of these parameters. In addition, we believe that we will develop and introduce new products to monitor additional parameters in the future based on our proprietary technology platforms.

The Masimo Solution

Our innovative and proprietary technologies and products are designed to overcome the primary limitations of pulse oximetry, which involve maintaining accuracy in the presence of motion artifact, or patient movement, and low perfusion, or low arterial blood flow. We overcame these limitations through our read-through motion and low perfusion pulse oximetry technology. Our Masimo SET platform,

which became available to hospitals in the United States in 1998, is the basis of our pulse oximetry products, and we believe it represented the first significant technological advancement in pulse oximetry since its introduction in the early 1980s. Our products have been recognized as the gold standard in pulse oximetry due to their ability to provide clinicians with reliable, continuous, real-time information even in the presence of both motion artifact and low perfusion.

To complement our Masimo SET platform, we have developed a wide range of proprietary single-patient use and reusable sensors, cables and other accessories designed specifically to work with Masimo SET software and hardware. Although our technology platforms operate solely with our proprietary sensor lines, our sensors have the capability to work with certain competitive pulse oximetry monitors through the use of our adapter cables. Our proprietary Low Noise Optical Probe, or LNOP, neonatal sensors have been clinically proven to exhibit greater durability compared to competitive products.

In 2005, we introduced our Masimo Rainbow SET platform, leveraging Masimo Signal Extraction Technology and incorporating licensed Rainbow technology to enable reliable, real-time monitoring of additional parameters beyond arterial blood oxygen saturation and pulse rate. The Masimo Rainbow SET platform has the unique ability to distinguish oxygenated hemoglobins, or hemoglobins carrying oxygen, from certain dyshemoglobins, or hemoglobins incapable of transporting oxygen, and allows for the rapid, non-invasive monitoring of carboxyhemoglobin and methemoglobin, which we refer to as Pulse CO-Oximetry. High levels of carboxyhemoglobin are indicative of carbon monoxide poisoning, which requires quick treatment to prevent long-term organ damage or death. Methemoglobin is another form of hemoglobin that is unable to carry oxygen to tissues throughout the body, and elevated levels can cause cyanosis, or bluish discoloration of the skin. This condition can also cause organ damage and, in extreme cases, death. Along with the release of our Masimo Rainbow SET Pulse CO-Oximetry products, we have developed specialized sensors that have the ability to monitor multiple parameters with a single sensor. We believe that the use of Masimo Rainbow SET Pulse CO-Oximetry products will become widely adopted for the non-invasive monitoring of these parameters.

Benefits of Our Products and Technology

We believe that our technology and products offer several key benefits, including:

Accurate, Real-Time Measurement.

Increased Quality of Patient Care.

Reduced Cost of Care.

Masimo SET Platform Allows for Expansion into Non-Critical Care Settings.

Upgradeable Platform for the Monitoring of Additional Parameters.

Our Strategy

Since inception, our mission has been to develop non-invasive patient monitoring solutions that improve patient outcomes and reduce the cost of patient care. We intend to continue to grow our business and to improve our market position by pursuing the following strategies:

Continue to expand our market share in pulse oximetry.

Expand the pulse oximetry market to other patient care settings.

Utilize our customer base and OEM relationships to market our Masimo Rainbow SET Pulse CO-Oximetry products incorporating licensed Rainbow technology.

Continue to innovate and maintain our technology leadership position.

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Nellcor Patent Litigation Settlement

In October 1999, we filed a patent infringement lawsuit in the United States District Court for the Central District of California against Mallinckrodt, Inc., now part of Tyco Healthcare, and one of its subsidiaries, Nellcor Puritan Bennett, Inc., collectively referred to as Nellcor. Nellcor is one of the largest manufacturers and distributors of pulse oximetry products in the world. The lawsuit was filed for infringement of our pulse oximetry signal processing patents. Nellcor denied our claims and made counterclaims alleging infringement of its patents by us. This lawsuit resulted in a jury verdict that Nellcor had infringed several of our patents. In September 2005, the U.S. Federal Court of Appeals ruled that Nellcor infringed several Masimo patents and ordered the lower court to enjoin Nellcor s infringing products. Prior to the issuance of a permanent injunction, Nellcor entered into a settlement agreement with us on January 17, 2006, under which we agreed to settle all pending patent litigation with Nellcor. In return, Nellcor agreed to pay us $263.0 million for damages incurred through January 2006. We granted Nellcor a covenant not to sue on certain new products and Nellcor agreed to pay us royalties on its total U.S. pulse oximetry revenue at least through March 14, 2011. In addition, in January 2006, Nellcor made an advance royalty payment to us of $67.5 million for estimated sales of its products in the United States during the remainder of the calendar year 2006. Through December 31, 2006, we have received $330.5 million in cash from Nellcor pursuant to the settlement agreement.

We believe the result of this judgment was to strengthen the patents on which we prevailed, which included some patents supporting our Masimo SET platform. We intend to continue protecting our rights and pursuing additional infringement claims against other companies whose products we believe infringe our patents.

In March 2006 and February 2007, we declared dividends to holders of our common stock and preferred stock in the aggregate amount of approximately $208.9 million. In addition, in March 2006 and March 2007, we made special bonus payments in the aggregate amount of $11.7 million to our employees and directors who held vested stock options as of March 1, 2006. The funds used to pay these cash dividends and special bonus payments were made from the after-tax proceeds that we received from our patent infringement lawsuit against Nellcor and the interest on those proceeds.

We recorded the $263.0 million lump sum payment as patent lawsuit proceeds in January 2006 and we recognized approximately $68.8 million of royalty revenue in 2006. We recognize royalty revenue based on the estimated average royalty rate per the settlement agreement multiplied by our estimate of Nellcor s sales for each quarter. This estimate is adjusted when we receive the Nellcor royalty report, 60 days after the end of each quarter. Per our settlement agreement, the 2006 royalty rate will decline significantly and, as a result, we expect our future Nellcor royalties to be significantly below the levels recognized in 2006.

We do not intend to distribute any future royalties received from Nellcor under the settlement agreement to our stockholders or our option holders.

Masimo Laboratories, Inc.

Masimo Laboratories, Inc., or Masimo Labs, is an independent entity spun off from us to our stockholders in 1998. Joe E. Kiani and Jack Lasersohn, members of our board of directors, are also members of the board of directors of Masimo Labs. Joe E. Kiani, our Chairman and Chief Executive Officer, is also the Chairman and Chief Executive Officer of Masimo Labs. We are a party to a cross-licensing agreement with Masimo Labs, which was recently amended and restated effective January 1, 2007, or the Cross-Licensing Agreement, that governs each party s rights to certain of the intellectual property held by the two companies.

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Under the Cross-Licensing Agreement, we granted Masimo Labs an exclusive, perpetual and worldwide license, with sublicense rights to use all Masimo SET owned by us, including all improvements on this technology, for the measurement of non-vital signs parameters and to develop and sell devices incorporating Masimo SET for monitoring non-vital signs parameters in any product market in which a product is intended to be used by a patient or pharmacist rather than a professional medical caregiver, which we refer to as the Labs Market. We also granted Masimo Labs a non-exclusive, perpetual and worldwide license, with sublicense rights to use all Masimo SET for the measurement of vital signs in the Labs Market.

Vital signs parameters include peripheral venous oxygen saturation, arterial oxygen saturation, or SpO2, mixed venous oxygen saturation, fetal oximetry, sudden infant death syndrome, electrocardiogram, or ECG, blood pressure (non-invasive blood pressure, invasive blood pressure and continuous non-invasive blood pressure), temperature, respiration rate, carbon dioxide, or CO2, pulse rate, cardiac output, electroenchephalogram, or EEG, perfusion index, depth of anesthesia, cerebral oximetry, tissue oximetry and/or electromyography, or EMG, and associated features derived from these parameters, such as 3-D alarms, Pleth Variability Index and other features. Non-vital signs parameters are body fluid constituents other than vital signs parameters, and include, but are not limited to, carbon monoxide, methemoglobin, blood glucose, total hemoglobin and bilirubin.

We exclusively license from Masimo Labs the right to make and distribute products in the professional medical caregiver markets, or the Masimo Market, that utilize Rainbow technology for the measurement of carbon monoxide, methemoglobin, fractional arterial oxygen saturation, and total hemoglobin, which includes hematocrit. To date, we have developed and commercially released devices that measure carbon monoxide and methemoglobin using licensed Rainbow technology. We also have the option to obtain the exclusive license to make and distribute products that utilize Rainbow technology for the measurement of other non-vital signs parameters, including blood glucose, in product markets where the product is intended to be used by a professional medical caregiver, which we refer to as the Masimo Market.

Risks Associated with Our Business

Our business is subject to numerous risks, as more fully described in the section entitled Risk Factors immediately following this prospectus summary. There are several risks associated with our business, such as:

- We currently derive substantially all of our revenue from our Masimo SET platform and related products.
- If the patents we own or license, or our other intellectual property rights, do not adequately protect our products, we may lose market share to our competitors and be unable to operate our business profitably.
- If third parties claim that we infringe their intellectual property rights, we may incur liabilities and costs and may have to redesign or discontinue selling certain products.
- Some of our products, including those based on licensed Rainbow technology, are in development or have been recently introduced into the market and may not achieve market acceptance, which could adversely affect our potential growth.
- Our operating results are volatile and difficult to predict and, prior to 2005, we had a history of net losses. We may experience significant fluctuations in our quarterly results and we may not maintain our recent profitability in the future.

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Corporate Information

We were incorporated in California in May 1989 and reincorporated in Delaware in May 1996. Our executive offices are located at 40 Parker, Irvine, California 92618. Our telephone number at that address is (949) 297-7000 and our website is www.masimo.com. The information contained on, or that can be accessed through, our website is not incorporated by reference into this prospectus and should not be considered to be part of this prospectus.

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The Offering

Common stock offered by us		shares
Common stock offered by the selling stockholders		shares
Common stock to be outstanding after this offering		shares
Initial public offering price	$	per share
Use of proceeds		We expect to use approximately $15.0 million of the net proceeds from this offering for capital expenditures and the placement of equipment, approximately $10.0 million for sales and marketing activities, approximately $10.0 million for research and development activities and the remaining amount for working capital and general corporate purposes. We will not receive any proceeds from the sale of common stock by the selling stockholders. See Use of Proceeds.
Proposed NASDAQ Global Market symbol		MASI

The number of shares of common stock to be outstanding upon completion of this offering is based on 17,107,346 shares of common stock outstanding as of April 30, 2007 and excludes as of that date:

- 2,539,525 shares of common stock issuable upon exercise of outstanding options with a weighted average exercise price of $16.15 per share, of which 1,121,313 options were vested;
- 560,464 shares of common stock reserved for awards available for future issuance under our current equity incentive plans; and
- 1,500,000 shares of our common stock reserved for future issuance under our 2007 Stock Incentive Plan, which will become effective in connection with this offering. Shares available for future issuance under our 2007 Stock Incentive Plan do not include shares that may become available for issuance pursuant to a provision in this plan that provides for the automatic annual increase in the number of shares reserved thereunder.

Unless otherwise indicated, the information in this prospectus assumes:

- the conversion of all outstanding shares of preferred stock into 11,537,501 shares of common stock immediately prior to the closing of this offering;

no exercise of the underwriters over-allotment option;

a -for- forward split of our common stock to be effected prior to the effectiveness of the registration statement related to this offering; and

the filing of our amended and restated certificate of incorporation, which will occur immediately prior to the closing of this offering.

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Summary Consolidated Financial Data

The following table presents summary consolidated historical and pro forma as adjusted financial data. We derived the summary statement of operations data for the years ended December 31, 2004, 2005 and 2006 and the summary balance sheet data as of December 31, 2006 from our audited consolidated financial statements and notes thereto included in this prospectus. We derived the summary statement of operations data for the three months ended March 31, 2006 and 2007 and the summary balance sheet data as of March 31, 2007 from our unaudited consolidated financial statements and notes thereto included in this prospectus. We have prepared this unaudited information on the same basis as the audited financial statements and have included all adjustments, consisting of normal recurring adjustments, that we consider necessary for a fair statement of our financial position and operating results for such periods. Our historical results are not necessarily indicative of the results that may be expected in the future. You should read this data together with our consolidated financial statements and the notes thereto, Selected Consolidated Financial Data, and Management s Discussion and Analysis of Financial Condition and Results of Operations included in this prospectus.

The pro forma basic and diluted net income per common share data in the statement of operations data for the year ended December 31, 2006 and the three months ended March 31, 2007, reflect the conversion of all of our outstanding shares of convertible preferred stock into 11,537,501 shares of common stock in connection with this offering.

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	Year ended December 31,			Three months ended March 31,	
	2004	2005	2006	2006 (unaudited)	2007 (unaudited)
	(in thousands, except share data)				
Statement of Operations Data[1]:					
Revenue:					
Product	$ 69,069	$ 107,613	$ 155,131	$ 34,679	$ 45,764
Royalty and license fee	288	277	69,207	14,627	13,190
Total revenue	69,357	107,890	224,338	49,306	58,954
Cost of goods sold	29,354	42,717	61,640	16,138	16,901
Gross profit	40,003	65,173	162,698	33,168	42,053
Operating expenses:					
Research and development	6,044	8,548	24,875	11,794	5,454
Selling, general and administrative	30,118	43,085	91,493	36,139	21,412
Patent litigation	6,204	1,736	60		
Purchased in-process research and development		2,800			
Total operating expenses	42,366	56,169	116,428	47,933	26,866
Operating income (loss)	(2,363)	9,004	46,270	(14,765)	15,187
Non-operating income (expense):					
Patent lawsuit proceeds, net			262,665	262,665	
Interest income	107	224	6,741	2,659	355
Interest expense	(1,434)	(1,851)	(1,824)	(505)	(427)
Other	8	(8)	551	99	41
Total non-operating income (expense):	(1,319)	(1,635)	268,133	264,918	(31)
Income (loss) before provision for (benefit from) income taxes	(3,682)	7,369	314,403	250,153	15,156
Provision for (benefit from) income taxes	161	(26,012)	132,577	105,456	6,059
Net income (loss)	(3,843)	33,381	181,826	144,697	9,097
Preferred stock dividend			(77,785)	(58,571)	
Accretion of preferred stock	(8,477)	(8,278)	(7,985)	(2,117)	(1,956)
Undistributed income attributable to preferred stockholders		(19,599)	(34,275)	(34,783)	(4,828)
Net income (loss) attributable to common stockholders	$ (12,320)	$ 5,504	$ 61,781	$ 49,226	$ 2,313
Net income (loss) per common share[2]:					
Basic	$ (3.94)	$ 1.70	$ 11.36	$ 9.54	$ 0.42
Diluted	$ (3.94)	$ 1.26	$ 9.13	$ 7.58	$ 0.34
Weighted-average number of common shares:					
Basic	3,126,247	3,239,294	5,439,966	5,158,407	5,530,721
Diluted	3,126,247	4,367,537	6,767,624	6,490,642	6,887,510
Pro forma net income per common share (unaudited)[2]:					
Basic			$ 10.71		$ 0.53
Diluted			$ 9.93		$ 0.49
Weighted-average number of common shares used in computing pro forma net income per common share (unaudited):					
Basic			16,977,467		17,068,222

Diluted	18,305,125	18,425,011

	As of March 31, 2007	
	Actual	Pro Forma As Adjusted[3]
	(in thousands)	
	(unaudited)	(unaudited)
Balance Sheet Data[1]:		
Cash and cash equivalents	$ 22,907	$
Working capital	44,259	
Total assets	152,137	
Long-term debt, including current portion	31,736	
Stockholders equity	66,143	

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(1) Pursuant to Financial Accounting Standards Board Interpretation No. 46(R), *Consolidation of Variable Interest Entities an Interpretation of ARB No. 51,* or FIN 46(R), Masimo Labs is consolidated within our financial statements. Accordingly, all inter-company royalties, option and licensing fees, and other charges between us and Masimo Labs have been eliminated in the consolidation. Also in accordance with FIN 46(R), all direct engineering expenses that have been incurred by us and charged to Masimo Labs have not been eliminated and are included as research and development expense in our consolidated statements of operations. For additional discussion of accounting for Masimo Labs, see Note 4 to the Notes to Consolidated Financial Statements.

(2) See Note 2 to the Notes to Consolidated Financial Statements for a description of the method used to compute basic and diluted net income (loss) per common share and basic and diluted pro forma net income per common share.

(3) On a pro forma as adjusted basis giving effect to the conversion of all outstanding shares of our convertible preferred stock into common stock and to reflect the sale of shares of our common stock in this offering at an assumed initial public offering price of $ per share, the midpoint of the range on the cover of this prospectus. A $1.00 increase (decrease) in the assumed initial public offering price of $ per share would increase (decrease) cash and cash equivalents, working capital, total assets and stockholders equity by $ million, assuming the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same, and after deducting the underwriting discount and estimated offering expenses payable by us.

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RISK FACTORS

Investing in our common stock involves a high degree of risk. You should consider carefully the risks described below, together with all of the other information contained in this prospectus, before making your decision to invest in shares of our common stock. The occurrence of any of the following risks, and the risks described elsewhere in this prospectus, including the section entitled Management s Discussion and Analysis of Financial Condition and Results of Operations, could materially and adversely affect our financial condition, results of operations, cash flow and per share trading price and could cause you to lose some or all of your investment.

Risks Related to Our Business

We currently derive substantially all of our revenue from our Masimo SET platform and related products. If this technology and the related products do not continue to achieve market acceptance, our business, financial condition and results of operations would be adversely affected.

We are dependent upon the success and market acceptance of our proprietary Masimo Signal Extraction Technology, or Masimo SET. Currently, our primary product offerings are based on the Masimo SET platform. Continued market acceptance of products incorporating Masimo SET will depend upon our ability to continue to provide evidence to the medical community that our products are cost-effective and provide significantly improved performance compared to conventional pulse oximeters. Health care providers that currently have significant investments in competitive pulse oximetry products may be reluctant to purchase our products. If hospitals and other health care providers do not believe our Masimo SET platform to be cost-effective, more accurate or reliable, they may not buy our products in sufficient quantities to enable us to be profitable. If we are unable to achieve additional market acceptance of our core technology or products incorporating Masimo SET, we will not generate significant revenue growth from the sale of our products.

If the patents we own or license, or our other intellectual property rights, do not adequately protect our products, we may lose market share to our competitors and be unable to operate our business profitably.

Our success depends significantly on our ability to protect our rights to the technologies used in our products, including Masimo SET and licensed Rainbow technology. We rely on patent protection, trade secrets, as well as a combination of copyright and trademark laws and nondisclosure, confidentiality and other contractual arrangements to protect our technology. However, these legal means afford only limited protection and may not adequately protect our rights or permit us to gain or keep any competitive advantage. In addition, we cannot be assured that any of our pending patent applications will result in the issuance of a patent to us. The U.S. Patent and Trademark Office, or PTO, may deny or require significant narrowing of claims in our pending patent applications, and patents issued as a result of the pending patent applications, if any, may not provide us with significant commercial protection or be issued in a form that is advantageous to us. We could also incur substantial costs in proceedings before the PTO. These proceedings could result in adverse decisions as to the claims included in our patents.

Our issued and licensed patents and those that may be issued or licensed in the future may be challenged, invalidated or circumvented, which could limit our ability to stop competitors from marketing related products. Additionally, upon expiration of our issued or licensed patents, we may lose some of our rights to exclude others from making, using, selling or importing products using the technology based on the expired patents. We also must rely on contractual rights with the third parties that license technology to us to protect our rights in the technology licensed to us. Although we have taken steps to protect our intellectual property and technology, there is no assurance that competitors will not be able to design around our patents. We also rely on unpatented proprietary technology. We cannot assure you that we

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can meaningfully protect all our rights in our unpatented proprietary technology or that others will not independently develop substantially equivalent proprietary products or processes or otherwise gain access to our unpatented proprietary technology. We seek to protect our know-how and other unpatented proprietary technology with confidentiality agreements and intellectual property assignment agreements with our employees, or OEM partners, independent distributors and consultants. However, such agreements may not be enforceable or may not provide meaningful protection for our proprietary information in the event of unauthorized use or disclosure or other breaches of the agreements or in the event that our competitors discover or independently develop similar or identical designs or other proprietary information. In addition, we rely on the use of registered and common law trademarks with respect to the brand names of some of our products. Our common law trademarks provide less protection than our registered trademarks. Loss of rights in our trademarks could adversely affect our business, financial condition and results of operations.

Furthermore, the laws of foreign countries may not protect our intellectual property rights to the same extent as the laws of the United States. If we fail to apply for intellectual property protection or if we cannot adequately protect our intellectual property rights in these foreign countries, our competitors may be able to compete more effectively against us, which could adversely affect our competitive position, as well as our business, financial condition and results of operations.

If third parties claim that we infringe their intellectual property rights, we may incur liabilities and costs and may have to redesign or discontinue selling certain products.

Companies in the medical device industry have used intellectual property litigation to gain a competitive advantage in the marketplace. Whether a product infringes a patent involves complex legal and factual issues, the determination of which is often uncertain. We face the risk of claims that we have infringed on third parties intellectual property rights. Prior to launching major new products in our key markets, we normally evaluate existing intellectual property rights. However, searching for existing intellectual property rights may not reveal important intellectual property and our competitors may also have filed for patent protection, which is not as yet a matter of public knowledge, or claimed trademark rights that have not been revealed through our availability searches. Our efforts to identify and avoid infringing on third parties intellectual property rights may not always be successful. Any claims of patent or other intellectual property infringement, even those without merit, could:

- increase the cost of our products;
- be expensive and time consuming to defend;
- result in us being required to pay significant damages to third parties;
- force us to cease making or selling products that incorporate the challenged intellectual property;
- require us to redesign, reengineer or rebrand our products;
- require us to enter into royalty or licensing agreements in order to obtain the right to use a third party s intellectual property, the terms of which may not be acceptable to us;
- require us to indemnify third parties pursuant to contracts in which we have agreed to provide indemnification to such parties for intellectual property infringement claims;
- divert the attention of our management; and

result in our customers or potential customers deferring or limiting their purchase or use of the affected products until the litigation is resolved.

In addition, new patents obtained by our competitors could threaten a product s continued life in the market even after it has already been introduced.

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We believe competitors may currently be violating and may in the future violate our proprietary rights, and we may bring additional litigation to enforce our intellectual property rights, which may result in substantial expense and may divert our attention from the implementation of our business strategy.

We believe that the success of our business depends, in significant part, on obtaining patent protection for our products and technology, defending our patents once obtained and preserving our trade secrets. We were previously involved in significant litigation to protect our patent position and may be required to engage in further litigation. In 2006, we settled a costly, six-year lawsuit against Mallinckrodt, Inc., now a part of Tyco Healthcare, and one of its subsidiaries, Nellcor Puritan Bennett, Inc., collectively referred to as Nellcor, in which we claimed that Nellcor was infringing certain of our pulse oximetry signal processing patents. See Business Nellcor Patent Litigation Settlement. We believe that other competitors of ours, including some of our OEM partners, may be infringing at least one of our patents. See Business Competition. Our failure to pursue any potential claim could result in the loss of our proprietary rights and harm our position in the marketplace. Therefore, we may be forced to pursue litigation to enforce our rights. We cannot be certain that we will have the required financial resources to pursue litigation or otherwise to protect these rights in the future. In addition, any future litigation could result in the diversion of management s attention from the implementation of our business strategy and may not be adequate to protect our intellectual property rights.

Some of our products, including those based on licensed Rainbow technology, are in development or have been recently introduced into the market and may not achieve market acceptance, which could limit our growth and adversely affect our business, financial condition and results of operations.

Our products that have been recently introduced, including those based on Rainbow technology, a technology that we license, may not be accepted in the market. Our first product incorporating licensed Rainbow technology was made commercially available in September 2005. Accordingly, we do not know to what degree the market will accept these products, if at all. Even if our customers recognize the benefits of our products, we cannot assure you that our customers will purchase them in quantities sufficient for us to be successful. We will need to invest in significant sales and marketing resources to achieve market acceptance of these products with no assurance of success. The degree of market acceptance of these products will depend on a number of factors, including:

- perceived effectiveness of our products;
- cost of our products;
- perceived advantages over competing products;
- introduction and acceptance of competing products or technologies; and
- obtaining the required domestic and international regulatory approvals for our products under development.

In order for any of these products to be accepted, we must prove that they are effective and commercially beneficial. Even if customers accept these products, this acceptance may not translate into sales if our competitors develop similar products that our customers prefer. If our products do not gain market acceptance or if our customers prefer our competitors products, our potential growth could be limited, which could adversely affect our business, financial condition and results of operations.

Our products are subject to reporting requirements and may be subject to recalls, which could be expensive, damage our reputation and result in a diversion of management resources.

After a device is placed on the market, numerous regulatory requirements apply, including medical device reporting regulations that require us to report to the FDA or similar governmental bodies in other countries if our products cause or contribute to a death or serious injury or malfunction in a way that would be reasonably likely to contribute to death or serious injury if the malfunction were to recur. The

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FDA and similar governmental bodies in other countries have the authority to require the recall of our products in the event of material deficiencies or defects in design or manufacture. A government mandated or voluntary recall by us could occur as a result of manufacturing or labeling errors or design defects. Any voluntary or government mandated recall may divert management attention and financial resources and harm our reputation with customers. Any recall involving one of our products could also harm the reputation of the product and us and would be particularly harmful to our business and financial results.

We may recall our products, either voluntarily or involuntarily, if any prove or are perceived to be defective. Much of our growth may come from the introduction and sale of new products, which may result in a greater frequency of recalls. From our inception through April 30, 2007, we initiated three voluntary recalls of our products, none of which was material. Any future recall could result in a diversion of management resources, substantial cost and negative publicity, all of which could adversely affect our business, financial condition and results of operations.

Our ability to commercialize products that incorporate Masimo SET or Rainbow technology is limited.

In May 1998, we created a newly-formed entity, Masimo Laboratories, Inc., or Masimo Labs, and provided it rights to use Masimo SET to commercialize non-vital signs monitoring applications while we retained the rights to Masimo SET to commercialize vital signs monitoring applications. On May 2, 1998, we entered into a cross-licensing agreement with Masimo Labs, which has been amended several times, most recently in an Amended and Restated Cross-Licensing Agreement, effective January 1, 2007, or the Cross-Licensing Agreement. Under the Cross-Licensing Agreement, we granted Masimo Labs:

- an exclusive, perpetual and worldwide license, with sublicense rights, to use all Masimo SET owned by us, including all improvements on this technology, for the measurement of non-vital signs parameters and to develop and sell devices incorporating Masimo SET for monitoring non-vital signs parameters in any product market in which a product is intended to be used by a patient or pharmacist rather than by a professional medical caregiver, which we refer to as the Labs Market, and

- a non-exclusive, perpetual and worldwide license, with sublicense rights, to use all Masimo SET for measurement of vital signs in the Labs Market.

Non-vital signs parameters consist of body fluid constituents other than vital signs parameters, including but not limited to carbon monoxide, methemoglobin, blood glucose, total hemoglobin, and bilirubin.

Under the Cross-Licensing Agreement, we are only permitted to sell devices utilizing Masimo SET for the measurement of non-vital signs parameters in markets where the product is intended to be used by a professional medical caregiver, including but not limited to hospital caregivers and emergency medical services, or EMS, facility caregivers, rather than by a patient or pharmacist, which we refer to as the Masimo Market. Accordingly, our ability to commercialize new products, new or improved technologies and additional applications for Masimo SET is limited. In particular, our inability to expand beyond the Masimo Market may impair our growth and adversely affect our financial condition and results of operations.

Pursuant to the Cross-Licensing Agreement, we have licensed from Masimo Labs the right to make and distribute products in the Masimo Market that utilize Rainbow technology for the measurement of carbon monoxide, methemoglobin, fractional arterial oxygen saturation, and total hemoglobin, which includes hematocrit. As a result, the opportunity to expand the market for our products incorporating Rainbow technology is limited, which could limit our revenue and impair our growth.

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We will be required to pay Masimo Labs for the right to use certain improvements to Masimo SET that we develop.

Under the Cross-Licensing Agreement, when we develop improvements to Masimo SET for the non-invasive measurement of non-vital signs parameters, we would be required to assign these developments to Masimo Labs and then license the technology back from Masimo Labs in consideration for a license fee and royalty obligations to Masimo Labs. Therefore, any improvement to this technology would be treated as if it had been developed exclusively by Masimo Labs. In addition, we will not be reimbursed by Masimo Labs for our expenses relating to the development of any such technology. As a result of these terms, we may not generate any revenue from the further development of Masimo SET for the measurement of non-vital signs parameters, which could adversely affect our business, financial condition and results of operations.

In the event that the Cross-Licensing Agreement is terminated for any reason, or Masimo Labs grants a license to Rainbow technology to a third party, our business would be materially and adversely affected.

Masimo Labs owns all of the proprietary rights to Rainbow technology developed with our proprietary Masimo SET for products intended to be used in the Labs Market, and all rights for any non-vital signs parameter for which we do not exercise an option pursuant to the Cross-Licensing Agreement. In addition, Masimo Labs has the right to terminate the Cross-Licensing Agreement or grant licenses covering Rainbow technology to third parties if we breach certain terms of the agreement, including failure to meet our minimum royalty payment obligations or failure to use commercially reasonable efforts to develop or market products incorporating licensed Rainbow technology. If we lose our exclusive license to Rainbow technology, we may not be able to develop comparable technology or license similar technology on commercially favorable terms or at all, and we would lose the ability to prevent others from making, using, selling or importing products using Rainbow technology in our market. As a result, we would likely be subject to increased competition within our market, and Masimo Labs or competitors who obtain a license to Rainbow technology from Masimo Labs would be able to offer related products.

We may not be able to commercialize our products incorporating licensed Rainbow technology cost-effectively or successfully.

It costs us more to make products that incorporate Rainbow technology than products without Rainbow technology due to increased production costs in addition to the royalties that we must pay to Masimo Labs. In order to successfully commercialize these products, we must be able to pass these higher costs on to the market. We cannot assure you that we will be able to sell products incorporating Rainbow technology at a price the market is willing to accept. If we cannot commercialize our products incorporating licensed Rainbow technology successfully, we may not be able to generate sufficient product revenue to be profitable, which could adversely affect our business, financial condition and results of operations.

We are required to pay royalties to Masimo Labs for all products sold that contain Rainbow technology, including certain annual minimum royalty payments and this may impact our gross margins.

The Cross-Licensing Agreement requires us to pay Masimo Labs a royalty for all products that we sell which include their proprietary Rainbow technology. This includes hand-held, table-top and multi-parameter products that incorporate licensed Rainbow technology. Beginning in 2009, for hospital contracts where we place equipment and enter into a sensor contract, we will pay a royalty to Masimo Labs on the total sensor contract revenues based on the ratio of Rainbow enabled devices to total devices. The agreement also requires that we provide to Masimo Labs, at its request, up to 10% of our annual board and sensor production volume at our total manufactured cost. In addition to these specific royalty and product obligations, our Cross-Licensing Agreement requires that we pay Masimo Labs specific annual minimum royalty payments.

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While the payment of royalties for enabled Rainbow parameters should not have a negative impact on our overall margins, the minimum annual royalties will have a negative impact to the extent that we do not generate sufficient Rainbow product revenues to offset the minimum royalties owed to Masimo Labs. In addition, the requirement for us to provide Masimo Labs with up to 10% of our board and sensor production at our manufactured cost will, if requested by Masimo Labs, have a negative impact on our gross margins.

Rights provided to Masimo Labs in the Cross-Licensing Agreement may impede a change in control of our company.

In the event we undergo a change in control, which, as defined in the Cross-Licensing Agreement, includes the resignation or termination of Joe E. Kiani from his position of Chief Executive Officer of either Masimo or Masimo Labs, we are required to immediately pay a $2.5 million fee to exercise an option to license technology developed by Masimo Labs for use in blood glucose monitoring. Additionally, our per product royalties payable to Masimo Labs will become subject to specified minimums, and the minimum aggregate annual royalties for all licensed Rainbow parameters payable to Masimo Labs will increase to up to $15.0 million for carbon monoxide, methemoglobin, fractional arterial oxygen saturation, total hemoglobin and blood glucose, plus up to $2.0 million per other Rainbow parameters. Also, if the surviving or acquiring entity ceases to use Masimo as a company name and trademark following a change in control, all rights to the Masimo trademark will automatically be assigned to Masimo Labs. This could delay or discourage transactions involving an actual or potential change in control of us, including transactions in which our stockholders might otherwise receive a premium for their shares over then current prices. In addition, our requirement to assign all future improvements for non-vital signs to Masimo Labs could impede a change in control.

Masimo Labs has conducted most of the research and development of Rainbow technology and we are dependent upon Masimo Labs to develop improvements to Rainbow technology.

Masimo Labs has conducted the research and development of Rainbow technology. Although we expect Masimo Labs to continue its research and development activities related to Rainbow technology and specific non-invasive monitoring parameters, including blood glucose and total hemoglobin, no assurance can be given that it will do so. In the event Masimo Labs does not continue to develop and improve Rainbow technology, our business, financial condition and results of operations could be adversely affected.

We will experience conflicts of interest with Masimo Labs with respect to business opportunities and other matters. Investors in this offering will not receive an equity interest in Masimo Labs.

As of April 30, 2007, our stockholders owned approximately 99.9% of the outstanding shares of capital stock of Masimo Labs. In addition, Joe E. Kiani and Jack Lasersohn, members of our board of directors, are also members of the board of directors of Masimo Labs. Joe E. Kiani, our Chairman and Chief Executive Officer, is also the Chairman and Chief Executive Officer of Masimo Labs. Due to the interrelated nature of Masimo Labs with us, conflicts of interest will arise with respect to transactions involving business dealings between us and Masimo Labs, potential acquisitions of businesses or products, development of products and technology, the sale of products, markets and other matters in which our best interests and the best interests of our stockholders may conflict with the best interests of the stockholders of Masimo Labs. We cannot assure you that any conflict of interest will be resolved in our favor, or that with respect to our transactions with Masimo Labs we will negotiate terms that are as favorable to us as if such transactions were with an unaffiliated third party. Investors in this offering are not receiving an equity interest in Masimo Labs.

Our operating results are volatile and difficult to predict and, prior to 2005, we had a history of net losses. We may experience significant fluctuations in our quarterly results and we may not maintain our recent profitability in the future.

We incurred net losses attributable to common stockholders in each year from our inception through 2004. Our net losses attributable to common stockholders were approximately $8.6 million,

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$15.4 million and $12.3 million in 2002, 2003 and 2004, respectively. We expect our expenses to increase as we expand our research and development and sales and marketing activities. As a result, if we are unable to maintain or increase our revenue, we may incur net losses and negative cash flows in the future.

Our operating results have fluctuated in the past and are likely to fluctuate significantly in the future. We may experience fluctuations in our quarterly results of operations as a result of:

- delays or interruptions in manufacturing and shipping of our products;
- varying demand for and market acceptance of our technology and products;
- the effect of competing technological and market developments resulting in lower selling prices or significant promotional costs;
- changes in the timing of product orders and the volume of sales to our OEM partners;
- actions taken by group purchasing organizations, or GPOs;
- delays in hospital conversions to our products;
- our legal expenses, particularly those related to litigation matters;
- changes in our product or customer mix;
- unanticipated delays or problems in the introduction of new products, including delays in obtaining clearance or approval from the FDA;
- product recalls; and
- high levels of returns and repairs.

These factors, some of which are not within our control, may cause the price of our stock to fluctuate substantially. To respond to these and other factors, we may need to make business decisions that could result in failure to meet financial expectations. If our quarterly operating results fail to meet or exceed the expectations of securities analysts or investors, our stock price could drop suddenly and significantly. Most of our expenses, such as employee compensation, inventory and debt repayment obligations, are relatively fixed in the short term. Moreover, our expense levels are based, in part, on our expectations regarding future revenue levels. As a result, if our revenue for a particular period were below our expectations, we would not be able to proportionately reduce our operating expenses for that period. Any revenue shortfall would have a disproportionately negative effect on our operating results for the period.

Due to these and other factors, we believe that quarter-to-quarter comparisons of our operating results may not be meaningful. You should not rely on our results for any one quarter as an indication of our future performance. In future quarters, our operating results may be below the expectations of securities analysts or investors.

We depend on our OEM partners for a portion of our revenue. If they do not devote sufficient resources to the promotion of products that use Masimo SET and licensed Rainbow technology, our business would be harmed.

We are, and will continue to be, dependent upon our OEM partners for a portion of our revenue through their marketing, selling and distribution of certain of their products that incorporate Masimo SET and licensed Rainbow technology. Although we expect that our OEM partners will accept and actively market, sell and distribute products that incorporate licensed Rainbow technology, they may elect not to do so in the near future or at all. The failure of our OEM partners to successfully market, sell or distribute products incorporating these technologies, the termination of OEM agreements, the loss of OEM partners or the inability to enter into future OEM partnership agreements would have a material

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adverse effect on our business, financial condition and results of operations. Our success will depend in part upon whether our OEM partners devote sufficient resources to the promotion of products that incorporate these technologies. These products may represent a relatively small percentage of business for some of our OEM partners. In addition, some of our OEM partners offer products that compete with ours. Therefore, we cannot guarantee that our OEM partners will vigorously promote products incorporating Masimo SET and licensed Rainbow technology. If any of our OEM partners were to be acquired, we cannot assure you that an acquiring company would devote sufficient resources to promote products that incorporate technology we own or license.

The loss of any large customer or any cancellation or delay of a significant purchase by a large customer could reduce our net sales and harm our operating results.

For the year ended December 31, 2006, we did not have any customers who accounted for over 10.0% of our total revenues. However, we have a concentration of OEM, distribution and direct customers. If, for any reason, we were to lose our ability to sell to a specific group or class of customers, we would experience a significant reduction in revenues. This would, in turn, adversely impact our operating results because we may not be able to react quickly enough to reduce our operating expenses. Also, we cannot assure you that we will retain our current customers or groups of customers or that we will be able to attract and retain additional customers.

Our royalty agreement with Nellcor provides for a declining royalty rate schedule over the term of the settlement agreement which, if not offset by other revenues and sources of income, could significantly harm our total sales and operating results.

In fiscal 2006, our royalties from the Nellcor settlement totaled $68.8 million. Because these royalty payments do not carry any significant cost, they result in significant improvements to our reported gross profit and operating income levels. As a result, any decline in royalties that we earn under this agreement will have a significant impact on our revenues, gross margins and operating income. Under terms of the agreement, we earn royalties on Nellcor s total U.S. based pulse oximetry sales. The royalty rate in 2006 was nearly 20% if averaged over the entire year. The royalty rates in 2007 will decline to a range of 12% to 15% depending on Nellcor s ability to re-design their products in a manner that would avoid some of our patent coverage in the settlement agreement. In 2008 and through the term of the royalty agreement, at least through March 14, 2011, the royalty rates will decline to a range of 10% to 12%, also subject to Nellcor s ability to develop new products that avoid the current patent coverage as negotiated in the settlement agreement. As a result of these declining royalty rates in 2007 and beyond, there is a significant financial risk to our operating income if we are unable to generate sufficient revenues and gross margins to offset the impact of declining royalty rates on sales of Nellcor s U.S. pulse oximetry products.

If we fail to maintain relationships with GPOs, sales of our products would decline.

Our ability to sell our products to U.S. hospitals depends in part on our relationships with GPOs. Many existing and potential customers for our products become members of GPOs. GPOs negotiate pricing arrangements and contracts, sometimes exclusive, with medical supply manufacturers and distributors, and these negotiated prices are made available to a GPO s affiliated hospitals and other members. If we are not one of the providers selected by a GPO, affiliated hospitals and other members may be less likely to purchase our products, and if the GPO has negotiated a strict sole source, market share compliance or bundling contract for another manufacturer s products, we may be precluded from making sales to members of the GPO for the duration of the contractual arrangement. Our failure to renew contracts with GPOs may cause us to lose market share and could have a material adverse effect on our sales, financial condition and results of operations. In 2006, revenue from the sale of our pulse oximetry products related to GPOs amounted to $66.6 million, representing 80.7% of our revenue from sales to U.S. hospitals. We do not have any contracts expiring in 2007. In the future, if we are unable to keep our relationships and develop new relationships with GPOs, our competitive position would likely suffer.

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In addition, some GPOs have tested the use of new internet bidding which has resulted in business shifting from one vendor to another vendor. We cannot assure you that continued movement to these internet bidding procedures will not increase and that this may result in our failure to secure contracts with these organizations.

If we do not successfully develop and commercialize enhanced or new products that remain competitive with new products or alternative techniques developed by others, we could lose revenue opportunities and customers, and our ability to achieve growth would be impaired.

The medical device industry is characterized by rapid product development and technological advances, which places our products at risk of obsolescence. Our long-term success depends upon the development and successful commercialization of new products, new or improved technologies and additional applications for Masimo SET and licensed Rainbow technology. The research and development process is time-consuming and costly and may not result in products or applications that we can successfully commercialize. In particular, we may not be able to successfully commercialize our products for applications other than arterial blood oxygen saturation and pulse rate monitoring, including carboxyhemoglobin and methemoglobin monitoring. If we do not successfully adapt our products and applications both within and outside these parameters, we could lose revenue opportunities and customers. In addition, we may not be able to improve our products or develop new products or technologies quickly enough to maintain a competitive position in our markets and continue to grow our business. Furthermore, one or more of our competitors may develop products that are substantially equivalent to our FDA-cleared products, or those of our OEM partners, whereby they may be able to use our products or those of our OEM partners, as predicate devices to more quickly obtain FDA clearance of their competing products.

We face competition from other companies, many of which have substantially greater resources than we do and may be able to develop products perceived as more effective or easier to use than ours or are more readily accepted, or offer their products at lower prices than we can, which could adversely affect our business, financial condition and results of operations.

We face substantial competition from companies developing products that compete with our Masimo SET platform for use with third-party monitoring systems. We also face competition from companies currently marketing pulse oximetry monitors. One company in particular, Nellcor, a subsidiary of Tyco Healthcare, currently holds a substantial share of the pulse oximetry market. Our revenues and profit are significantly smaller than our primary competitors. A number of the companies in the pulse oximetry market have substantially greater capital resources, larger customer bases, larger sales forces, greater marketing and management resources, larger research and development staffs and larger facilities than ours, and have established reputations with our target customers, as well as worldwide distribution channels that are more effective than ours. Competition could result in price reductions, fewer orders, reduced gross margins and loss of market share.

Our suppliers may not supply us with a sufficient amount of materials and components or materials and components of adequate quality.

We depend on sole or limited source suppliers for key materials and components of our products, and if we are unable to obtain these components on a timely basis, we will not be able to deliver our products to customers. Also, we cannot guarantee that any of the materials or components that we purchase, if available at all, will be of adequate quality or that the prices we pay for these materials or components will not increase. From time to time, there are industry-wide shortages of several electronic components that we use in our products. We may experience delays in production of our products if we fail to identify alternate vendors, or any parts supply is interrupted or reduced or there is a significant increase in production costs, each of which could adversely affect our business, financial condition and results of operations.

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We are dependent upon a third party for our remote-alarm and monitoring solutions and any adverse change in this relationship may have a significant negative impact on our revenue and the growth of our business.

One of our OEM partners, Welch Allyn, supplies us with the RadNet and PPO+ products pursuant to an OEM purchase agreement. We expect to rely in part on RadNet and PPO+ for the expansion of our products beyond critical care settings into the general care areas of the hospital. If our relationship with Welch Allyn is impaired, or if Welch Allyn does not successfully perform its contractual duties or meet expected deadlines, the use of our products in the general care areas of hospitals could be limited, which could result in an adverse effect on our business, financial condition and results of operations.

We may be subject to damages resulting from claims that we or our employees have wrongfully used or disclosed alleged trade secrets of their former employers.

Many of our employees were previously employed at other medical device companies. We may be subject to claims that employees have disclosed, or that we have used, trade secrets or other proprietary information of their former employers. Defending against these claims could result in substantial costs and be a distraction to management. If we fail in defending such claims, in addition to paying monetary damages, we may lose valuable intellectual property rights or personnel. A loss of key research and development or sales personnel could limit our ability to sell our existing products, which could adversely affect our business, financial condition and results of operations.

If product liability claims are brought against us, we could face substantial liability and costs.

The manufacture and sale of products using Masimo SET and licensed Rainbow technology expose us to product liability claims and product recalls, including those that may arise from misuse or malfunction of, or design flaws in, our products or the use of our products with incompatible components or systems. Any losses that we may suffer from future liability claims, and the effect that any product liability litigation may have upon the reputation and marketability of our technology and products, together with the corresponding diversion of the attention of our key employees, could adversely affect our business, financial condition and results of operations. Any product liability claims could require significant cost and management resources and may subject us to significant damages. We currently have product liability insurance that we believe to be adequate, but we cannot be certain that it will be sufficient to cover damages or claims. Furthermore, we may not be able to obtain or maintain insurance in the future at satisfactory rates or in adequate amounts to protect us against any product liability claims.

Our failure to obtain and maintain FDA clearances or approvals on a timely basis, or at all, would prevent us from commercializing our current or upgraded products in the United States, which could severely harm our business.

Each medical device that we wish to market in the United States generally must first receive either 510(k) clearance, by filing a 510(k) pre-market notification, or PMA approval, by filing a PMA application, from the FDA pursuant to the Federal Food, Drug, and Cosmetic Act. Even if regulatory approval of a product is granted, the approval may be subject to limitations on the indicated uses for which the product may be marketed. We cannot assure you that the FDA will grant 510(k) clearance on a timely basis, if at all, for new products or uses that we propose for the Masimo SET or licensed Rainbow technology. The FDA s 510(k) clearance process usually takes from four to twelve months, although it can last longer. The process of obtaining PMA approval is much more costly, lengthy and uncertain and generally takes from one to three years or even longer. See Business Government Regulation for more detailed information about 510(k) clearances and PMA approvals.

To date, the FDA has regulated pulse oximeters incorporating Masimo SET and licensed Rainbow technology, and our sensors, cables and other products incorporating Masimo SET and licensed Rainbow technology for pulse oximetry under the 510(k) process. Although 510(k) clearances have been obtained for all of our current products, these clearances may be revoked by the FDA if safety or effectiveness problems develop with our devices. Any modifications to an FDA-cleared device that could

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significantly affect its safety or effectiveness or that would constitute a major change in its intended use would require a new 510(k) clearance. Furthermore, our new products or significantly modified marketed products could be denied 510(k) clearance and be required to undergo the more burdensome PMA approval process. If so, our ability to upgrade our products in a timely fashion could be limited. The withdrawal of existing 510(k) clearances or the inability to obtain new ones on a timely basis, or at all, could severely harm our business.

The failure of our OEM partners to obtain FDA clearances or approvals could have a negative impact on our revenue.

Our OEM partners will be required to obtain their own FDA clearances for products incorporating Masimo SET and licensed Rainbow technology to market these products in the United States. We cannot assure you that the FDA clearances we have obtained will make it easier for our OEM partners to obtain clearances of products incorporating these technologies, or that the FDA will ever grant clearances on a timely basis, if at all, for any future product incorporating Masimo SET and licensed Rainbow technology that our OEM partners propose to market.

If we or our suppliers fail to comply with ongoing regulatory requirements, or if we experience unanticipated problems with our products, these products could be subject to restrictions or withdrawal from the market.

Our products, along with the manufacturing processes and promotional activities for such products, are subject to continual review and periodic inspections by the FDA and other regulatory bodies. In particular we and our suppliers are required to comply with the quality system regulation, or QSR, which covers the methods and documentation of the design, testing, production, control, quality assurance, labeling, packaging, storage and shipping of our products. The FDA enforces the QSR through unannounced inspections. We are also subject to similar state requirements and licenses. Failure by us or one of our suppliers to comply with statutes and regulations administered by the FDA and other regulatory bodies, discovery of previously unknown problems with our products (including unanticipated adverse events or adverse events of unanticipated severity or frequency), manufacturing problems, or failure to comply with regulatory requirements, or failure to adequately respond to any FDA observations concerning these issues, could result in, among other things, any of the following actions:

- issuance of public warning letters;
- a shut-down or interruption of our manufacturing operations;
- withdrawal or suspension of clearance or approval by the FDA or other regulatory bodies;
- product recall, detention or seizure;
- fines and civil penalties;
- unanticipated expenditures;
- operating restrictions;
- injunctions; and
- criminal prosecution.

If any of these actions were to occur, it would harm our reputation and adversely affect our business, financial condition and results of operations. Furthermore, our key component suppliers may not currently be, or may not continue to be, in compliance with applicable regulatory

requirements.

Failure to obtain regulatory approval in foreign jurisdictions will prevent us from marketing our products abroad.

We currently market, and intend to continue to market, our products internationally. Outside the United States, we can market a product only if we receive a marketing authorization and, in some cases, pricing

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approval, from the appropriate regulatory authorities. The approval procedure varies among countries and can involve additional testing, and the time required to obtain approval may differ from that required to obtain FDA approval. The foreign regulatory approval process may include all of the risks associated with obtaining FDA approval in addition to other risks. We may not obtain foreign regulatory approvals on a timely basis, if at all. Approval by the FDA does not ensure approval by regulatory authorities in other countries, and approval by one foreign regulatory authority does not ensure approval by regulatory authorities in other foreign countries or by the FDA. If we fail to receive necessary approvals to commercialize our products in foreign jurisdictions on a timely basis, or at all, our business, financial condition and results of operations could be adversely affected.

Modifications to our marketed devices may require new regulatory clearances or premarket approvals, or may require us to cease marketing or recall the modified devices until clearances or approval is obtained.

Any modifications to an FDA-cleared device that would significantly affect its safety or effectiveness or that would constitute a major change in its intended use would require a new 510(k) clearance or possibly a PMA approval. We may not be able to obtain such clearances or approvals in a timely fashion, or at all. Delays in obtaining future clearances would adversely affect our ability to introduce new or enhanced products in a timely manner, which in turn would have an adverse effect on our business, financial condition and results of operations. We have made modifications to our devices in the past and we may make additional modifications in the future, some of which we may believe do not or will not require additional clearances or approvals. If the FDA disagrees and requires new clearances or approvals for the modifications, we may be required to recall and to stop marketing the modified devices, which could have an adverse effect on our business, financial conditions and results of operations.

Off-label promotion of our products or promotional claims deemed false or misleading could subject us to substantial penalties.

Obtaining 510(k) clearance only permits us to promote our products for the uses cleared by the FDA. Although we may request additional cleared indications for our current products, the FDA may deny those requests, require additional expensive clinical data to support any additional indications or impose limitations on the intended use of any cleared product as a condition of clearance. We must have adequate substantiation for our product performance claims. If the FDA determines that we or our OEM partners have promoted our products for off-label use, or have made false or misleading or inadequately substantiated promotional claims, we could be subject to fines, injunctions or other significant penalties or restrictions.

If we are unable to increase our sales, marketing and distribution capabilities or maintain or establish arrangements with third parties to sell, market, manufacture and distribute our pulse oximetry and Rainbow technology products, our business, financial condition and results of operations could be adversely affected.

We have limited sales and marketing experience both in the United States and internationally and may not be successful in developing and implementing our business strategy. In addition, we currently have a small sales organization compared to many of our competitors. To increase our commercial success, we need to:

- increase our sales and marketing force;
- continue to maintain domestic and international OEM partners;
- ensure that distributors and OEM partners provide the technical and educational support customers need to use products incorporating Masimo SET and Rainbow technology successfully;
- promote monitoring systems using Masimo SET and Rainbow technology so that sales of those systems and, in turn, sales of our consumable products increase; and
- be prepared to provide services, as necessary, to geographically dispersed users of monitoring systems using Masimo SET and Rainbow technology.

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We currently plan to increase the size of our direct sales force to further market our products in the United States and internationally. Our sales force will be competing with the experienced and well-funded sales and marketing operations of our competitors. Increasing our direct sales capabilities is expensive and time consuming. We may not be able to further develop this capacity on a timely basis or at all. If we are unable to expand our sales and marketing capabilities, we will need to continue to contract with third parties to market and sell our approved products in the United States and internationally. To the extent that we enter into arrangements with third parties to perform sales, marketing and distribution services, our product revenue could be lower than if we directly marketed and sold our products. Furthermore, to the extent that we enter into co-promotion or other sales and marketing arrangements with other companies, any revenue received will depend on the skills and efforts of others, and we do not know whether these efforts will be successful. If we are unable to maintain adequate sales, marketing, manufacturing and distribution capabilities, independently or with others, we may not be able to generate sufficient product revenue to be profitable.

If we are unable to manufacture an adequate supply of our products, we could lose customers and our revenue and growth could be limited.

Our anticipated growth may strain our ability to manufacture an increasingly large supply of our products. Manufacturing facilities often experience difficulties in scaling up production, including problems with production yields and quality control and assurance. If we cannot scale our manufacturing operations appropriately, maintain control over expenses or otherwise adapt to anticipated growth, or if we have underestimated our future growth, we may not have the capability to satisfy market demand, which would have an adverse effect on our business, financial condition and results of operations.

We anticipate and plan for significant growth, which we may not be able to effectively manage.

We expect to rapidly expand our operations and our research and development, product development, sales, marketing and administrative organizations. This growth and activity will likely result in new and increased responsibilities for management personnel and place significant strain upon our operating and financial systems and resources. To accommodate our expected growth and compete effectively, we will be required to improve our information systems, create additional procedures and controls and expand, train, motivate and manage our work force. We also may need to expand our manufacturing resources.

We cannot be certain that our personnel, systems, procedures, facilities and controls will be adequate to support our future operations. Any failure to effectively manage our growth could impede our ability to successfully develop, market and sell our products, our anticipated growth may be impaired and our business, financial condition and results of operations would be adversely affected.

We manufacture our products at two locations. Any disruption in these manufacturing facilities could adversely affect our business, financial condition and results of operations.

We have relied, to date, on our manufacturing facilities in Irvine, California and Mexicali, Mexico. These facilities and the manufacturing equipment we use to produce our products would be difficult to replace and could require substantial lead-time to repair or replace. Our facilities may be affected by natural or man-made disasters. In the event that one of our facilities was affected by a disaster, we would be forced to rely on third-party manufacturers if we could not shift production to another of our manufacturing facilities. Although we believe we possess adequate insurance for damage to our property and the disruption of our business from casualties, such insurance may not be sufficient to cover all of our potential losses and may not continue to be available to us on acceptable terms, or at all. If we are forced to seek alternative facilities, we may incur additional costs and we may experience a disruption in the supply of our products until those facilities are available. Any disruption in our manufacturing capacity could have an adverse impact on our ability to produce sufficient inventory of our products or may require us to incur additional expenses in order to produce sufficient inventory, and, therefore, may

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adversely affect our revenue, gross margins and results of operations. Any disruption or delay at our manufacturing facilities could impair our ability to meet the demand of our customers and our customers may cancel orders or purchase products from our competitors, which could adversely affect our business, financial condition and results of operations.

In the future, we may choose to add new manufacturing capabilities in either our existing facilities or in new facilities throughout the world. If we expand our worldwide manufacturing locations, there can be no assurance that this expansion will occur without implementation difficulties or that such expansion will ultimately lower our overall cost of production.

If we lose the services of our key personnel, or if we are unable to attract and retain other key personnel, we may not be able to manage our operations or meet our growth objectives.

We are highly dependent on our senior management, especially Joe E. Kiani, our Chief Executive Officer, and other key officers. We are also heavily dependent on our engineers and field sales team, including sales representatives and clinical specialists. Our success will depend on our ability to retain our current management, engineers and field sales team, and to attract and retain qualified personnel in the future, including scientists, clinicians, engineers and other highly skilled personnel. Competition for senior management, engineers and field sales personnel is intense and we may not be able to retain our personnel. The loss of the services of members of our key personnel could prevent the implementation and completion of our objectives, including the development and introduction of our products. Each of our officers may terminate their employment at any time without notice and without cause or good reason. We carry key person life insurance on only Mr. Kiani, who is also the Chief Executive Officer of Masimo Labs. Mr. Kiani devotes substantially all of his time to us.

Existing or future acquisitions of businesses could negatively affect our business, financial condition and results of operations if we fail to integrate the acquired businesses successfully into our existing operations or if we discover previously undisclosed liabilities.

In order to expand our products and technology platform, we have acquired four businesses since our inception and we may acquire additional businesses in the future. Successful acquisitions depend upon our ability to identify, negotiate, complete and integrate suitable acquisitions and to obtain any necessary financing. Even if we complete acquisitions, we may experience:

- difficulties in integrating any acquired companies, personnel and products into our existing business;
- delays in realizing the benefits of the acquired company or products;
- diversion of our management s time and attention from other business concerns;
- limited or no direct prior experience in new markets or countries we may enter;
- higher costs of integration than we anticipated; and
- difficulties in retaining key employees of the acquired business who are necessary to manage these acquisitions.

In addition, an acquisition could materially impair our operating results by causing us to incur debt or requiring us to amortize acquisition expenses and acquired assets. We may also discover deficiencies in internal controls, data adequacy and integrity, product quality, regulatory compliance and product liabilities that we did not uncover prior to our acquisition of such businesses, which could result in us becoming subject to penalties or other liabilities. Any difficulties in the integration of acquired businesses or unexpected penalties or liabilities in connection with such businesses could have a material adverse effect on our business, financial condition and results of operations.

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We may be subject to or otherwise affected by federal and state health care laws, including fraud and abuse and health information privacy and security laws, and could face substantial penalties if we are unable to fully comply with such laws.

Although we do not provide health care services, nor receive payments directly from Medicare, Medicaid, or other third-party payers for our products or the procedures in which our products are used, health care regulation by federal and state governments will impact our business. Health care fraud and abuse and health information privacy and security laws potentially applicable to our operations include, but are not limited to:

- the Federal Health Care Programs Anti-Kickback Law, which prohibits, among other things, soliciting, receiving, offering or providing remuneration, intended to induce the purchase or recommendation of an item or service reimbursable under a federal health care program (such as the Medicare or Medicaid programs);
- federal false claims laws which prohibit, among other things, knowingly presenting, or causing to be presented, claims for payment from Medicare, Medicaid, or other third-party payers that are false or fraudulent;
- the federal Health Insurance Portability and Accountability Act of 1996, or HIPAA, and its implementing regulations, which impose regulatory and contractual requirements regarding the privacy and security of certain health information; and
- state laws analogous to each of the above federal laws, such as anti-kickback and false claims laws that may apply to items or services reimbursed by non-governmental third-party payers, including commercial insurers, and state laws governing the privacy of certain health information.

We have certain arrangements with hospitals that may be affected by these laws. For instance, under our standard customer arrangements, we provide hospitals with free pulse oximetry monitoring devices in exchange for their agreement to purchase future pulse oximetry sensor requirements from us. In addition, we occasionally provide our customers with rebates in connection with their annual purchases. While we believe that we are currently in compliance with applicable federal and state health care laws, certain of these arrangements may not meet the Anti-Kickback Law s safe harbor requirements, which may result in increased scrutiny by government authorities having responsibility for enforcing these laws.

There can be no assurance that we will not be found to be in violation of any of such laws or other similar governmental regulations to which we are directly or indirectly subject, and as a result we may be subject to penalties, including civil and criminal penalties, damages, fines, exclusion of our products from reimbursement under Medicare and Medicaid, and the curtailment or restructuring of our operations. Any penalties could adversely affect our ability to operate our business and our financial results. Any action against us for violation of these laws, even if we successfully defend against them, could cause us to incur significant legal expenses and divert our management s attention from the operation of our business.

We face environmental liabilities related to certain hazardous materials used in our operations.

Our manufacturing processes involve the use, generation and disposal of certain hazardous materials and wastes, including silicone adhesives, solder and solder paste, sealants, epoxies and various solvents such as methyl ethyl ketone, acetone and isopropyl alcohol. As such, we are subject to stringent federal, state and local laws relating to the protection of the environment, including those governing the use, handling and disposal of hazardous materials and wastes. We may incur significant costs to comply with environmental regulations. Future environmental laws may significantly affect our operations because, for instance, our manufacturing processes may be required to be altered, thereby increasing our manufacturing costs. In our research and manufacturing activities, we use materials that are hazardous to

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human health, safety or the environment. These materials and various wastes resulting from their use are stored at our facility pending ultimate use and disposal. The risk of accidental injury or contamination from these materials cannot be eliminated. In the event of such an accident, we could be held liable for any resulting damages, and any such liability could exceed our reserves. Although we maintain general liability insurance, we do not specifically insure against environmental liabilities. If an enforcement action were to occur, our reputation and our business and financial condition may be harmed, even if we were to prevail or settle the action. Similarly, if the physicians or other providers or entities with which we do business are found to be non-compliant with applicable laws, they may be subject to sanctions, which could also have a negative impact on our business.

The risks inherent in operating internationally and the risks of selling and shipping our products and of purchasing our components and products internationally may adversely impact our business, financial conditions and results of operations.

We derive a portion of our net sales from operations in international markets. In 2005 and 2006, 19.2% and 22.6%, respectively, of our product revenue was derived from our international operations. In addition, we purchase a portion of our raw materials and components on the international market. The sale and shipping of our products across international borders, as well as the purchase of materials and components from international sources, subject us to extensive U.S. and foreign governmental trade regulations. Compliance with such regulations is costly and we would be exposed to potentially significant penalties for non-compliance. Any failure to comply with applicable legal and regulatory obligations could impact us in a variety of ways that include, but are not limited to, significant criminal, civil and administrative penalties, including imprisonment of individuals, fines and penalties, denial of export privileges, seizure of shipments, restrictions on certain business activities, and exclusion or debarment from government contracting. Also, the failure to comply with applicable legal and regulatory obligations could result in the disruption of our shipping and sales activities.

In addition, our international sales operations expose us and our representatives, agents and distributors to risks inherent in operating in foreign jurisdictions. These risks include:

- the imposition of additional U.S. and foreign governmental controls or regulations;
- the imposition of costly and lengthy new export licensing requirements;
- a shortage of high-quality sales people and distributors;
- loss of any key personnel that possess proprietary knowledge, or who are otherwise important to our success in certain international markets;
- changes in duties and tariffs, license obligations and other non-tariff barriers to trade;
- the imposition of new trade restrictions;
- the imposition of restrictions on the activities of foreign agents, representatives and distributors;
- scrutiny of foreign tax authorities which could result in significant fines, penalties and additional taxes being imposed on us;
- pricing pressure that we may experience internationally;

laws and business practices favoring local companies;

longer payment cycles; and

difficulties in enforcing or defending intellectual property rights.

We cannot assure you that one or more of these factors will not harm our business. Any material decrease in our international sales would adversely affect our business, financial condition and results of operations.

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We are subject to fluctuations in foreign currency exchange rates.

We market our products in certain foreign markets through our subsidiaries and other international distributors. The related distribution agreements may provide for payments in a foreign currency. Accordingly, if the U.S. dollar strengthens against international currencies, our U.S. dollar payments from such distributors, if any, will decrease.

Inadequate levels of coverage or reimbursement from governmental or other third-party payers for our products, or for procedures using our products, may cause our revenues to decline.

Sales of our products depend in part on the reimbursement and coverage policies of governmental and private health care payers. The ability of our health care provider customers, including hospitals, to obtain adequate coverage and reimbursement for our products, or for the procedures in which our products are used, may impact our customers purchasing decisions and, therefore, could have a material adverse effect on our business.

Third-party payers have adopted, and are continuing to adopt, health care policies intended to curb rising health care costs. These policies include:

- controls on government-funded reimbursement for health care services and price controls on medical products and services;
- limitations on coverage and reimbursement for new medical technologies and procedures; and
- the introduction of managed care and prospective payment systems in which health care providers contract to provide comprehensive health care for a fixed reimbursement amount per person or per procedure.

These trends could lead to pressure to reduce prices for our current products and product candidates and could cause a decrease in the size of the market or a potential increase in competition that could adversely affect our business, financial condition and results of operations.

Legislative and regulatory changes in the health care industry could have a negative impact on our financial performance.

Changes in the health care industry in the United States and elsewhere could adversely affect the demand for our products as well as the way in which we conduct business. Additionally, there have been, and we expect there will continue to be, federal, state or local legislative and regulatory changes and proposals to change the health care system, which could affect our business. For instance, in the United States, on December 8, 2003, President George W. Bush signed into law the Medicare Prescription Drug Improvement and Modernization Act of 2003, which, among other things, changed reimbursement methodologies for devices used in the hospital outpatient department and in the home. In addition, certain federal regulatory changes to Medicare coverage and reimbursement policies that potentially affect our business occur at least annually. For instance, the Centers for Medicare and Medicaid Services, or CMS, the federal agency that administers the Medicare and Medicaid programs, has determined that, beginning in 2007, certain uses of pulse oximetry monitoring are eligible for separate payment and are no longer bundled into payments for other services provided in certain settings. The result of this change could be an increase in Medicare payments to hospitals for use of our products. Overall, we are unable to predict when legislation or regulation that affects our business may be proposed or enacted in the future or what effect any such legislation or regulation would have on our business. Any such legislation, regulation or policies that affect the coverage and reimbursement of our current or future products, or the procedures utilizing our current or future products, could cause our sales to decrease and, as a result, our revenues to decline.

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Further, our success in international markets also depends upon the eligibility of reimbursement for our products through government-sponsored health care payment systems and other third-party payers. Outside of the United States, reimbursement systems vary by country. These systems are often subject to the same pressures to curb rising health care costs and control health care expenditures as those in the United States. In addition, as economies of emerging markets develop, these countries may implement changes in their health care delivery and payment systems. If adequate levels of reimbursement from third-party payers outside of the United States are not obtained, sales of our products outside of the United States may be adversely affected.

Our ongoing antitrust litigation against Tyco Healthcare could result in significant additional costs and further divert the attention of our management and key personnel from our business operations.

In May 2002, we filed a lawsuit against Tyco Healthcare, parent company of Nellcor, in the United States District Court for the Central District of California, alleging damage to our business as a result of the anti-competitive business practices of Tyco Healthcare in connection with its Nellcor pulse oximetry brand in violation of federal antitrust laws. Specifically, we alleged that we had incurred damages as a result of a series of illegal exclusionary and anti-competitive acts by Tyco Healthcare that were designed to maintain its monopoly in the pulse oximetry market.

In March 2005, a jury found that Tyco Healthcare s use of sole-source contracts, product bundling, market share-based compliance pricing contracts and co-marketing agreements with OEM patient monitoring companies were unlawful restraints of trade and exclusionary dealing arrangements and, as a result, violated federal antitrust laws. The jury awarded us $140.0 million in damages. Tyco Healthcare filed post-trial motions requesting that the District Court either override the jury decision or grant a new trial. In March 2006, the District Court upheld a portion of the jury verdict and vacated the remaining verdict. In addition, the District Court vacated the jury s damages award and granted Tyco Healthcare a new trial on damages. The District Court held an evidentiary hearing in October 2006 to re-try the damages. On January 25, 2007, the District Court issued a preliminary ruling which did not set damages, but resolved some issues of dispute about damages, and ordered another evidentiary hearing on issues still undecided by the District Court. The District Court held this evidentiary hearing in March 2007. No final ruling from the District Court on the issue of damages has been rendered; however, the effect of the post trial orders from the District Court is to substantially reduce the damages to be awarded, if any damages are ultimately awarded to us by the District Court. Even if we are ultimately awarded damages in this litigation, the amount will be subject to a 50% legal fee contingency agreement, in which case we would receive 50% of the net (of costs) proceeds from the award.

We believe that Nellcor continues to enter into sole-source contracts, product bundling agreements, market share-based agreements, and co-marketing agreements. In bundling agreements, the customer is able to obtain discounts on unrelated products when they purchase Nellcor pulse oximeters for most of their pulse oximetry needs. Co-marketing agreements also provide significant impediments to competition in that Nellcor pays large patient monitoring companies to integrate Nellcor pulse oximetry products into their products.

Continued litigation could result in substantial costs and diversion of resources that would harm our business. In addition, there can be no assurance that we will receive any cash award or any equitable relief from the litigation. See Business Legal Proceedings for more information regarding our antitrust litigation against Tyco Healthcare.

We may issue additional securities in the future, including shares, debt or equity-linked debt, which may depress our stock price.

Our issuance of additional securities could:

cause substantial dilution of the percentage ownership of our stockholders at the time of the issuance;

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cause substantial dilution of our earnings per share;

subject us to the risks associated with increased leverage, including a reduction in our ability to obtain financing or an increase in the cost of any financing we obtain;

subject us to restrictive covenants that could limit our flexibility in conducting future business activities; and

adversely affect the prevailing market price for our outstanding securities.

We do not intend to seek stockholder approval for any such acquisition or security issuance unless required by applicable law or regulation or the terms of existing securities. If these securities are issued, such issuances may cause the trading price of our stock to decline.

We may require additional capital in the future, which may not be available on favorable terms, if at all.

To the extent that our existing capital is insufficient to meet our requirements and cover any losses, we will need to raise additional funds through financings or borrowings or curtail our growth and reduce our assets. Any equity or debt financing, if available at all, may be on terms that are not favorable to us. Equity financings could result in dilution to our stockholders, and the securities issued in future financings may have rights, preferences and privileges that are senior to those of our common stock. If our need for capital arises because of significant losses, the occurrence of these losses may make it more difficult for us to raise the necessary capital. If we cannot raise funds on acceptable terms, if and when needed, we may not be able to develop or enhance our products, take advantage of future opportunities, grow our business or respond to competitive pressures or unanticipated requirements.

If we fail to comply with the reporting obligations of the Securities Exchange Act of 1934 and Section 404 of the Sarbanes-Oxley Act, or if we fail to achieve and maintain adequate internal controls over financial reporting, our business results of operations and financial condition and investors confidence in us could be materially affected.

As a public company, we will be required to comply with the periodic reporting obligations of the Securities Exchange Act of 1934, as amended, or the Exchange Act, including preparing annual reports, quarterly reports and current reports. Our failure to prepare and disclose this information in a timely manner could subject us to penalties under federal securities laws, expose us to lawsuits and restrict our ability to access financing. In addition, we will be required under applicable law and regulations to integrate our systems of internal controls over financial reporting. We plan to evaluate our existing internal controls with respect to the standards adopted by the Public Company Accounting Oversight Board. During the course of our evaluation, we may identify areas requiring improvement and may be required to design enhanced processes and controls to address issues identified through this review. This could result in significant delays and costs to us and require us to divert substantial resources, including management time from other activities.

We expect to dedicate significant management, financial and other resources in connection with our compliance with Section 404 of the Sarbanes-Oxley Act in 2007. We expect these efforts to include a review of our existing internal control structure. As a result of this review, we may either hire or outsource additional personnel to expand and strengthen our finance function. We cannot be certain at this time that we will be able to comply with all of our reporting obligations and successfully complete the certification and attestation requirements of Section 404 of the Sarbanes-Oxley Act by the time that we are required to file our annual report on Form 10-K for the year ending December 31, 2008. If we fail to achieve and maintain the adequacy of our internal control and do not address the deficiencies identified by our auditors, we may not be able to ensure that we can conclude on an ongoing basis that we have effective internal controls over financial reporting in accordance with the Sarbanes-Oxley Act. Moreover, effective internal controls are necessary for us to produce reliable financial reports and are important to help prevent fraud. As a result, our failure to satisfy the requirements of Section 404 of the

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Sarbanes-Oxley Act on a timely basis could result in the loss of investor confidence in the reliability of our financial statements, which in turn could harm our business and negatively impact the trading price of our common stock.

Risks Related to Our Common Stock and this Offering

There is no existing market for our common stock, and we do not know if one will develop to provide you with adequate liquidity.

Prior to this offering, there has not been a public market for our common stock. We cannot predict the extent to which investor interest in our company will lead to the development of an active trading market on the NASDAQ Global Market or otherwise or how liquid that market might become. If an active trading market does not develop, you may have difficulty selling any of our common stock that you buy. The initial public offering price for our common stock will be determined by negotiations between representatives of the underwriters and us and may not be indicative of prices that will prevail in the open market following this offering. Consequently, you may not be able to sell our common stock at prices equal to or greater than the price you paid in this offering.

Our stock price may be volatile, and your investment in our common stock could suffer a decline in value.

There has been significant volatility in the market price and trading volume of equity securities, which is unrelated to the financial performance of the companies issuing the securities. These broad market fluctuations may negatively affect the market price of our common stock. You may not be able to resell your shares at or above the initial public offering price due to fluctuations in the market price of our common stock caused by changes in our operating performance or prospects and other factors.

Some specific factors that may have a significant effect on our common stock market price include:

- actual or anticipated fluctuations in our operating results or future prospects;
- our announcements or our competitors announcements of new products;
- the public s reaction to our press releases, our other public announcements and our filings with the Securities and Exchange Commission, or SEC;
- strategic actions by us or our competitors, such as acquisitions or restructurings;
- new laws or regulations or new interpretations of existing laws or regulations applicable to our business;
- changes in accounting standards, policies, guidance, interpretations or principles;
- changes in our growth rates or our competitors growth rates;
- developments regarding our patents or proprietary rights or those of our competitors;
- our inability to raise additional capital as needed;

concern as to the efficacy of our products;

changes in financial markets or general economic conditions;

sales of common stock by us or members of our management team; and

changes in stock market analyst recommendations or earnings estimates regarding our common stock, other comparable companies or our industry generally.

This offering will cause immediate and substantial dilution in pro forma net tangible book value.

The initial public offering price of our common stock is substantially higher than what the pro forma net tangible book value per share of our outstanding common stock will be after giving effect to the stock

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split and this offering. Pro forma net tangible book value per share represents the amount of total tangible assets less total liabilities after giving effect to the stock split of our common stock, divided by the number of shares outstanding after giving effect to the stock split. If you purchase our common stock in this offering, you will incur an immediate dilution of approximately $ in the pro forma net tangible book value per share of common stock after giving effect to the stock split.

We will also have a significant number of outstanding options to purchase our common stock with exercise prices significantly below the initial public offering price of the common stock. To the extent these options are exercised, you will experience further dilution. Upon consummation of this offering, there will be options to purchase shares of our common stock outstanding, of which would have been immediately exercisable as of , 2007.

We have broad discretion in how we use the net proceeds from this offering and we may not use these proceeds in a manner desired by our public stockholders.

While we expect to use the funds from this offering for those purposes outlined in the Use of Proceeds section of this prospectus, there can be no assurance that we will ultimately deploy the proceeds in the manner we anticipate. Accordingly, our management will have broad discretion with respect to the use of this portion of our net proceeds and investors will be relying on the judgment of our management regarding the application of these proceeds. Our management could spend these proceeds in ways that our public stockholders may not desire or that do not yield a favorable return. You will not have the opportunity, as part of your investment in our common stock, to influence the manner in which the net proceeds of the offering are used. We also may use a portion of these proceeds to acquire complementary businesses, but we currently do not have any specific acquisition plans. Any investment may not yield a favorable return. Our financial performance may differ from our current expectations or our business needs may change as our business evolves. As a result, a substantial portion of the proceeds we receive in the offering may be used in a manner significantly different from our current expectations.

Concentration of ownership among our existing directors, executive officers and principal stockholders may prevent new investors from influencing significant corporate decisions.

Upon closing of this offering, based upon beneficial ownership as of , 2007, our current directors, executive officers, holders of more than five percent of our common stock, and their affiliates will, in the aggregate, beneficially own approximately % of our outstanding common stock. As a result, these stockholders, subject to any fiduciary duties owed to our other stockholders under Delaware law, will be able to exercise a controlling influence over matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions, and will have significant control over our management and policies. Some of these persons or entities may have interests that are different from yours. For example, these stockholders may support proposals and actions with which you may disagree or which are not in your interests. The concentration of ownership could delay or prevent a change in control of us or otherwise discourage a potential acquirer from attempting to obtain control of us, which in turn could reduce the price of our common stock. In addition, these stockholders, some of whom have representatives sitting on our board of directors, could use their voting influence to maintain our existing management and directors in office, delay or prevent changes in control of us, or support or reject other management and board proposals that are subject to stockholder approval, such as amendments to our employee stock plans and approvals of significant financing transactions.

If there are substantial sales of our common stock, our stock price could decline.

If our existing stockholders sell a large number of shares of our common stock or the public market perceives that these sales may occur, the market price of our common stock could decline. Based on shares outstanding on , upon the closing of this offering, assuming no outstanding options are exercised prior to the closing of this offering, we will have approximately shares of common

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stock outstanding. All of the shares offered under this prospectus will be freely tradable without restriction or further registration under the federal securities laws, unless purchased by our affiliates. Taking into consideration the effect of lock-up agreements entered into by our stockholders, the remaining shares outstanding upon the closing of this offering will be available for sale pursuant to Rules 144 and 701, and the volume, manner of sale and other limitations under these rules, as follows:

shares of common stock will be eligible for sale in the public market, beginning 180 days after the effective date of this prospectus, unless the lock-up period is otherwise extended pursuant to its terms; and

the remaining shares of common stock will become eligible for sale in the public market beginning .

Piper Jaffray & Co. may waive the restrictions set forth in the lock-up agreements in their sole discretion at any time.

Existing stockholders holding an aggregate of 10,037,501 shares of common stock, based on shares outstanding as of April 30, 2007, have rights with respect to the registration of these shares of common stock with the SEC. See Description of Capital Stock Registration Rights. If we register their shares of common stock following the expiration of the lock-up agreements, they can immediately sell those shares in the public market.

Promptly following this offering, we intend to register up to approximately shares of common stock that are authorized for issuance under our stock incentive plans, including our 2007 Stock Incentive Plan, which will become effective in connection with this offering. As of April 30, 2007, 2,539,525 shares were subject to outstanding options, of which 1,121,313 options were vested and exercisable as of that date. Once we register these shares, they can be freely sold in the public market upon issuance, subject to the lock-up agreements referred to above and restrictions on our affiliates.

Our corporate documents and Delaware law contain provisions that could discourage, delay or prevent a change in control of our company.

Prior to the consummation of this offering, we will amend and restate our certificate of incorporation and bylaws. Provisions in our amended and restated certificate of incorporation and amended and restated bylaws may discourage, delay or prevent a merger or acquisition involving us that our stockholders may consider favorable. For example, our amended and restated certificate of incorporation authorizes our board of directors to issue up to million shares of blank check preferred stock. As a result, without further stockholder approval, the board of directors has the authority to attach special rights, including voting and dividend rights, to this preferred stock. With these rights, preferred stockholders could make it more difficult for a third party to acquire us. In addition, our amended and restated certificate of incorporation provides for a staggered board of directors, whereby directors serve for three year terms, with approximately one third of the directors coming up for reelection each year. A staggered board will make it more difficult for a third party to obtain control of our board of directors through a proxy contest, which may be a necessary step in an acquisition of us that is not favored by our board of directors.

We are also subject to the anti-takeover provisions of the Delaware General Corporation Law. Under these provisions, if anyone becomes an interested stockholder, we may not enter into a business combination with that person for three years without special approval, which could discourage a third party from making a takeover offer and could delay or prevent a change in control of us. An interested stockholder means, generally, someone owning 15% or more of our outstanding voting stock or an affiliate of ours that owned 15% or more of our outstanding voting stock during the past three years, subject to certain exceptions as described in the Delaware General Corporation Law.

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In addition, prior to the consummation of this offering, we will adopt a stockholder rights plan, which will grant all of our stockholders other than the acquiring person the right to purchase common stock at % of market price if any person becomes the beneficial owner of % or more of the outstanding shares of common stock, subject to a number of exceptions set forth in the plan. Our stockholder rights plan could discourage a takeover attempt and make an unsolicited takeover of our company more difficult. As a result, you may not have the opportunity to sell your shares to a potential acquirer of us at a premium over prevailing market prices. This could reduce the market price of our common stock.

We will incur significant increased costs as a result of operating as a public company, and our management and key employees will be required to devote substantial time to new compliance initiatives.

We have never operated as a public company. As a public company, we will incur significant legal, accounting and other expenses that we did not incur as a private company. In addition, we will be subject to the reporting requirements of the Exchange Act and the Sarbanes-Oxley Act. These requirements may place a strain on our people, systems and resources. The Exchange Act will require that we file annual, quarterly and current reports with respect to our business and financial condition. The Sarbanes-Oxley Act will require that we maintain effective disclosure controls and procedures and internal controls over financial reporting. In order to maintain and improve the effectiveness of our disclosure controls and procedures and internal controls over financial reporting, significant resources and management oversight will be required. In addition, changing laws, regulations and standards relating to corporate governance and public disclosure, including regulations implemented by the SEC and the NASDAQ Global Market, are creating uncertainty for public companies, increasing legal and financial compliance costs and making some activities more time-consuming. This may divert management s attention from other business concerns, which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

We will be exposed to risks relating to evaluations of controls required by Section 404 of the Sarbanes-Oxley Act.

We will be evaluating our internal controls systems to allow management to report on, and our independent registered public accounting firm to attest to, our internal controls over financial reporting. We will be performing the system and process evaluation and testing (and any necessary remediation) required to comply with the management certification and auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act. While we anticipate being able to fully implement the requirements relating to internal controls and all other aspects of Section 404 by our compliance deadlines, we cannot be certain as to the timing of completion of our evaluation, testing and remediation actions or the impact of the same on our operations because there is presently no precedent available by which to measure compliance adequacy. If we are unable to implement the requirements of Section 404 in a timely manner or with adequate compliance, we may be subject to sanctions or investigation by regulatory authorities, including the SEC or the NASDAQ Global Market. This type of action could adversely affect our financial results or investors confidence in our company and our ability to access capital markets, and could cause our stock price to decline. In addition, the controls and procedures that we will implement may not comply with all of the relevant rules and regulations of the SEC and the NASDAQ Global Market. If we fail to develop and maintain effective controls and procedures, we may be unable to provide the required financial information in a timely and reliable manner.

We do not intend to declare cash dividends on our stock after this offering, and any return on investment may be limited to the value of our stock.

We currently intend to retain all future earnings for the operation and expansion of our business and, therefore, do not anticipate declaring or paying cash dividends on our common stock in the foreseeable future. Any payment of cash dividends on our common stock will be at the discretion of our board of directors and will depend upon our results of operations, earnings, capital requirements, financial

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condition, business prospects, contractual restrictions and other factors deemed relevant by our board of directors. Therefore, you should not expect to receive dividend income from shares of our common stock.

Securities analysts may not initiate coverage of our common stock or may issue negative reports, which may have a negative impact on the market price of our common stock.

Securities analysts may elect not to provide research coverage of our common stock after the completion of this offering. If securities analysts do not cover our common stock after the completion of this offering, the lack of research coverage may cause the market price of our common stock to decline. The trading market for our common stock may be affected in part by the research and reports that industry or financial analysts publish about our business or the pulse oximetry market. If one or more of the analysts who elects to cover us downgrades our stock, our stock price could decline rapidly. If one or more of these analysts ceases coverage of us, we could lose visibility in the market, which in turn could cause our stock price to decline. In addition, recently-adopted rules mandated by the Sarbanes-Oxley Act, and a global settlement reached in 2003 between the SEC, other regulatory agencies and a number of investment banks, has led to a number of fundamental changes in how analysts are reviewed and compensated. In particular, many investment banking firms are required to contract with independent financial analysts for their stock research. As long as we have a smaller market capitalization, it may be difficult for us to attract independent financial analysts that will cover our common stock, which could have a negative effect on the market price of our stock.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus includes forward-looking statements. All statements other than statements of historical facts included in this prospectus that address activities, events or developments that we expect, believe or anticipate will or may occur in the future are forward-looking statements including, in particular, the statements about our plans, objectives, strategies and prospects regarding, among other things, the financial condition, results of operations and business of ours and our subsidiaries. We have identified some of these forward-looking statements with words like believe, may, could, might, forecast, possible, potential, project, will, should, expect, intend, plan, predi approximate or continue and other words and terms of similar meaning. These forward-looking statements may be contained under the captions Prospectus Summary, Risk Factors, Selected Combined Consolidated Financial Data, Management s Discussion and Analysis of Financial Condition and Results of Operations and Business or elsewhere in this prospectus. These forward-looking statements are based on current expectations about future events affecting us and are subject to uncertainties and factors relating to our operations and business environment, all of which are difficult to predict and many of which are beyond our control. Many factors mentioned in our discussion in this prospectus, including the risks outlined under Risk Factors, will be important in determining future results. Although we believe that the expectations reflected in our forward-looking statements are reasonable, we do not know whether our expectations will prove correct. They can be affected by inaccurate assumptions we might make or by known or unknown risks and uncertainties, including, with respect to us or Masimo Labs, the following, among others:

- our reliance on Masimo SET and related products for substantially all of our revenue;
- the failure in protecting our intellectual property;
- exposure to competitors assertions of intellectual property claims;
- the highly competitive nature of the markets in which we sell our products;
- the failure to continue developing innovative products;
- introduction of competing products;
- lack of acceptance of new products;
- the loss of our customers;
- increases in prices for raw materials or the loss of key supplier contracts;
- product liability claims exposure;
- risks in connection with our operations outside the United States;

conditions and changes in the medical device industry generally;

the failure to retain senior management or replace lost senior management;

changes in generally accepted accounting principles;

changes in general economic and business conditions;

changes in currency exchange rates and interest rates;

employee slowdowns, strikes or similar actions;

the vertical integration by our customers of the production of our products into their own manufacturing process;

our inability to meet performance enhancement objectives, including efficiency and cost-reduction strategies;

adverse changes in applicable laws or regulations;

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conflicts of interest due to our ownership structure;

the incurrence of additional debt, contingent liabilities and expenses in connection of future acquisitions;

the failure to effectively integrate newly acquired operations;

the absence of expected returns from the amount of intangible assets we have recorded; and

shares of common stock will be eligible for sale in the public market, beginning 180 days after the effective date of this prospectus, unless the lock-up period is otherwise extended pursuant to its terms.

The factors identified above are believed to be important factors, but not necessarily all of the important factors, that could cause our actual results to differ materially from those expressed in any forward-looking statement. Unpredictable or unknown factors could also have material adverse effects on us. Since our actual results, performance or achievements could differ materially from those expressed in, or implied by, these forward-looking statements, we cannot give any assurance that any of the events anticipated by the forward-looking statements will occur or, if any of them do, what impact they will have on our results of operations and financial condition. All forward-looking statements included in this prospectus are expressly qualified in their entirety by the foregoing cautionary statements. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this prospectus. We do not undertake any obligation to update, amend or clarify these forward-looking statements or the risk factors contained in this prospectus, whether as a result of new information, future events or otherwise, except as may be required under the federal securities laws.

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USE OF PROCEEDS

We estimate that the net proceeds from the sale of the shares of common stock that we are offering will be approximately $ million, after deducting the underwriting discount and estimated offering expenses payable by us, and assuming an initial public offering price of $ per share, the midpoint of the range on the cover of this prospectus. We will not receive any proceeds from the sale of common stock by the selling stockholders. If the underwriters exercise their over-allotment option in full, we estimate that our net proceeds from this offering will be approximately $ million, after deducting the underwriting discount and estimated offering expenses payable by us. A $1.00 increase (decrease) in the assumed initial public offering price of $ per share would increase (decrease) the net proceeds to us from this offering by $ million, assuming the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same and after deducting the underwriting discount and estimated offering expenses payable by us.

The principal purposes of this offering are to obtain additional capital and to create a public market for our common stock. Of the net proceeds we will receive from this offering, we expect to use:

- approximately $15.0 million for capital expenditures and the placement of equipment;
- approximately $10.0 million for sales and marketing activities to support the ongoing commercialization of the Masimo SET and Masimo Rainbow SET products, including, but not limited to, expansion of our sales force, additional participation in trade shows and symposia, and expanding our international sales;
- approximately $10.0 million for research and development activities, including support of hardware and software product development and clinical study initiatives; and
- a portion of the remaining amount for increased working capital and general corporate purposes.

We may also use a portion of the net proceeds for the acquisition of, or investment in, companies, technologies, products or assets that complement our business. We have no present understandings, commitments or agreements to enter into any material acquisitions or investments. Pending these uses, we intend to invest the net proceeds of this offering in short-term, investment-grade interest-bearing securities or guaranteed obligations of the U.S. government.

The amounts we actually expend in these areas may vary significantly from our expectations and will depend on a number of factors, including operating costs, capital expenditures and any expenses related to our product development and commercialization efforts, the amount of proceeds actually raised in this offering, competition, manufacturing, any strategic partnerships arrangements we may enter into and enforcing our intellectual property rights. Accordingly, management will retain broad discretion in the allocation of the net proceeds of this offering. We may also use a portion of the proceeds for the potential acquisition of, or investment in, products, technologies or companies that complement our business, although we have no current understandings, commitments or agreements to do so.

We believe that the net proceeds from this offering, together with our cash and cash equivalent balances will be sufficient to meet our anticipated cash requirements for at least the next 12 months.

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DIVIDEND POLICY

In March 2006, we paid a cash dividend of $10.096 per share, in the aggregate amount of approximately $171.8 million, to holders of our common and preferred stock. In February 2007, we paid additional cash dividends of $1.404 per share and $0.77 per share, in the aggregate amount of approximately $37.1 million, to holders of our common and preferred stock. The majority of the funds used to pay these cash dividends were paid to our stockholders from the after-tax proceeds that we received from our patent infringement lawsuit against Nellcor and the interest thereon.

We anticipate that we will retain all of our future earnings, if any, for use in the expansion and operation of our business and do not anticipate paying cash dividends in the foreseeable future. Any future determination relating to our dividend policy will be made at the discretion of our board of directors, based on our financial condition, results of operations, earnings, contractual restrictions, capital requirements, business prospects and other factors our board of directors may deem relevant. We do not intend to distribute any future royalties received from Nellcor under the settlement agreement to our stockholders.

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CAPITALIZATION

The following table sets forth our capitalization as of March 31, 2007:

- on an actual basis; and
- on a pro forma as adjusted basis to give effect to the conversion of our outstanding preferred stock into 11,537,501 shares of our common stock in connection with this offering and the sale of shares of our common stock in this offering at an assumed public offering price of $ per share, the midpoint of the range on the cover of this prospectus, after deducting the underwriting discount and estimated offering expenses payable by us.

The pro forma as adjusted information below is illustrative only, and our capitalization following the completion of this offering will be adjusted based on the actual initial public offering price and other terms of this offering determined at pricing. You should read this table in conjunction with Selected Consolidated Financial Data, Management s Discussion and Analysis of Financial Condition and Results of Operations, and the consolidated financial statements and related notes included in this prospectus.

	As of March 31, 2007	
	Actual	Pro Fo As Adju
	(in thousands, except share data)	
ckholders ity		
nvertible ferred ck, 001 par ue per re; 500,000 res horized, 537,501 res issued l standing, ual; no res horized, ued and standing, o forma as usted	$	90,284 $
ferred ck, par ue $0.001 share; no res horized, ued or standing, ual;		

res horized, shares ued and standing, o forma as usted.	
mmon ck, 001 par ue per re; 500,000 res horized, 52,145 res issued d standing, ual; res horized, res issued d standing, o forma as usted	6
easury ck, 080 res, at r market ue	(786)
ditional d-in ital	52

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.

Digitizing. 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.

Establish 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.

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 and points of interest, 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:

Source Matching. 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 one 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 200 employees, focusing on initiatives to better serve our customers' needs as well as to improve our efficiency internally. We have also recently begun to 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 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.

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 and communications 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 100 field 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.

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 on 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 products and services. We have entered into written agreements of various types, principally license agreements, with each of our customers. These agreements, however, are not requirements contracts.

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	BMW, PSA Peugeot Citroën, Ford, General Motors (Automotive) Harman Becker, AISIN AW, Alpine, Siemens (Navigation systems manufacturers) OnStar, ATX (Telematic)
Mobile Devices	Map display Driving directions Dynamic navigation	Garmin, Hewlett-Packard, 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 analysis 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, 2001, 2002 and 2003, BMW AG (including its affiliates) represented approximately 19%, 15%, and 18% of revenue, respectively, and Harman International Industries, Inc. (including its affiliates) represented approximately 11%, 13% and 12% of our 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. We have entered into a data license agreement with Harman pursuant to which we grant Harman territory-specific, non-exclusive, non-transferable licenses to use our database information in certain of Harman's products. The license agreement does not provide for any minimum license fees.

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.

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;

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 GDT, and numerous European governmental and quasi-governmental mapping agencies (such as, Ordnance Survey in the United Kingdom) that license map data for commercial use. Tele Atlas offers detailed map data for Western Europe. In addition, GDT and Tele Atlas are now offering more detailed map data for the United States than previously had been available from these companies, enabling greater functionality, such as turn-by-turn directions. This enhances their ability to compete with us in the United States market. In April 2004, Tele Atlas and GDT announced that the parties had entered into an agreement whereby Tele Atlas would acquire GDT subject to U.S. anti-trust clearance. If the acquisition is completed, it may be more difficult for us to compete effectively with the combined company. 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 proposed acquisition of GDT by Tele Atlas as well as other competitive pressures, may result in price reductions, reduced profit margins or loss of market share by us, each of which could have a material adverse effect on our business, financial condition and results of operations.

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 130 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.

Employees

As of May 1, 2004, we had a total of 1,439 employees. We believe that relations with our employees are good, and we have not experienced any work stoppages due to labor disputes.

Facilities

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	148,324	September 30, 2007
Fargo, ND	Production Facility	56,500	August 31, 2010
Veldhoven, The Netherlands	Regional Headquarters	41,506	March 14, 2011

In addition to these facilities, we also have approximately 110 field and administrative offices in 19 countries worldwide.

Legal Proceedings

There are no material pending legal proceedings to which we are a party or to which any of our property is subject.

MANAGEMENT

Executive Officers and Directors

Set forth below is information concerning our executive officers and directors as of the date of this prospectus:

Name	Age	Position
Executive officers and directors:		
Judson C. Green	51	President, Chief Executive Officer and Director
Denis M. Cohen	63	Executive Vice President, Sales Europe
John K. MacLeod	46	Executive Vice President, Global Marketing and Strategy
David B. Mullen	53	Executive Vice President and Chief Financial Officer
Lawrence D. Chesler	66	Senior Vice President, Corporate Affairs
Winston Guillory, Jr.	47	Senior Vice President, North America Sales
M. Salahuddin Khan	51	Senior Vice President, Technology & Development and Chief Technology Officer
Mary D. Hardwick	44	Vice President, Quality
Lawrence M. Kaplan	40	Vice President, General Counsel and Corporate Secretary
Christine C. Moore	54	Vice President, Human Resources
Richard E. Shuman	52	Vice President, Asia Pacific Sales
Non-management directors:		
Richard J. A. de Lange[(1)(2)]	58	Director-Chairman
Wilhelmus C. M. Groenhuysen[(1)(2)(3)]	46	Director
Dirk-Jan van Ommeren[(1)(3)]	53	Director
Scott M. Weisenhoff[(2)(3)]	49	Director

(1) Member of the Compensation Committee.

(2) Member of the Audit Committee.

(3) Pursuant to an agreement between Philips B.V. and NavPart I B.V., Philips B.V. has agreed that so long as NavPart I B.V. holds more than 10% of our common stock, Philips B.V. will vote its shares in support of electing two NavPart I B.V. designated directors to our board of directors and NavPart I B.V. has agreed that so long as Philips B.V. holds 25% or more of our common stock, NavPart I B.V. will vote its shares in support of electing three Philips designated directors to our board of directors. Currently, Mr. van Ommeren is the only NavPart I B.V. designated director and Messrs. Weisenhoff and Groenhuysen are the only Philips-designated directors.

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 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, Sales Europe. 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. 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, Global Marketing and Strategy. Mr. MacLeod joined us in September 2000 as Executive Vice President, Marketing and Sales for North America and World Markets. 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.

Lawrence D. Chesler serves as our Senior Vice President, Corporate Affairs. He joined us in November 1998 as Vice President and General Counsel and subsequently also served as Corporate Secretary. Prior to joining us, Mr. Chesler was a senior member of the Andersen Worldwide legal group from October 1995 to November 1998. Earlier he held vice president and general counsel positions with Directory & Operator Services Division of Northern Telecom, Inc., the U.S. subsidiaries of STC (Standard Telephone & Cable), plc, and Computer Consoles, Inc. Mr. Chesler holds a M.B.A. and a B.A. from the University of Rochester and a J.D. from the University of Buffalo School of Law.

Winston Guillory, Jr. serves as our Senior Vice President, North America Sales and joined us in July 2003. 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.

M. Salahuddin Khan serves as our Senior Vice President, Technology & Development and Chief Technology Officer. Mr. Khan joined us in 1998 as Vice President, OEM Marketing. 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.

Mary D. Hardwick serves as our Vice President, Quality. Dr. Hardwick joined us in 1993 and has held positions of increasing responsibility, most recently as Director of Planning, Worldwide Database Operations. Dr. Hardwick holds a Ph.D. in freshwater eco-toxicology and a BSc in biological sciences from the University of Leicester and a M.B.A. from the British Open University.

Lawrence M. Kaplan serves as our 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. 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.

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.

Richard E. Shuman serves as our 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 and Senior Director, Automotive Business Development. 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.

Non-Management Directors

Richard J. A. de Lange has served as a member of our board of directors since June 1996 and is the Chairman of the board of directors. He joined Philips Electronics Nederland B.V. in 1970 and held various positions of increasing responsibility within Philips until June 2002. Currently, Mr. de Lange acts as an advisor to the board of management of Royal Philips Electronics on real estate projects in The Netherlands. Mr. de Lange was Chairman and Chief Executive Officer of the board of management of Philips Electronics Nederland B.V. from October 1998 to June 2002. Beginning September 2003, Mr. de Lange has served as an advisor to the Board of United Pan-Europe Communications Inc. From March 1996 until September 2003, he was a member of the Supervisory Board of United Pan-Europe Communications N.V. Mr. de Lange is also a member of the Supervisory Board of the University of Amsterdam and Chairman of the Dutch Society of Industry and Commerce.

Wilhelmus C.M. Groenhuysen has served as a member of our board of directors since September 2003. Since August 2002, he has been Senior Vice President and Chief Financial Officer of Philips Electronics North America Corporation. From September 1997 until August 2002, Mr. Groenhuysen was Senior Vice President and Chief Financial Officer of Philips Lighting's Lighting Electronics Business Group. From September 1994 until September 1997, he was Chief Financial Officer of Philips Electronics Thailand Ltd. Before that, Mr. Groenhuysen had various responsibilities within the Philips Electronics Group since joining Philips in the Netherlands in 1987.

Dirk-Jan van Ommeren has served as a member of our board of directors since March 1999. Mr. van Ommeren is also the Chairman of the Board of Managing Directors of Oranje- Nassau Groep B.V. Previously, Mr. van Ommeren was the Managing Director of Oranje-Nassau Groep B.V. from 1996 to 1999. Mr. van Ommeren has also held management positions with Amsterdam Investeringsbank, N.V., Westland/Utrecht Hypotheekbank N.V. and Amsterdam-Rotterdam Bank N.V. Mr. van Ommeren also holds positions with VVAA Groep B.V. (member of the Supervisory Board) and Stallergenes S.A. (member of the Supervisory Board).

Scott M. Weisenhoff has served as a member of our board of directors since February 2004. Since February 2003, he has been Executive Vice President and Chief Financial Officer of Philips Medical Systems, a medical diagnostic equipment supplier. From November 2001 until February 2003, Mr. Weisenhoff was Executive Vice President and Chief Financial Officer of Philips Components business. From August 1999 until November 2001, he was Executive Vice President and Chief Financial Officer of Philips' Domestic Appliances and Personal Care business. Before that, Mr. Weisenhoff had various responsibilities within Philips since joining Philips in 1983. Mr. Weisenhoff is also a director of MedQuist Inc.

Board Composition

At the completion of this offering, our board of directors will consist of members, each serving a one year term expiring at the next annual meeting of stockholders. The board will observe all criteria for independence established by the New York Stock Exchange and other governing laws and regulations. We are not relying on the "controlled company" exemption under the New York Stock Exchange rules. No director will be deemed to be independent unless the board affirmatively determines that the director has no material relationship with us directly, or as an officer, stockholder or partner of an organization that has a relationship with us.

Board Committees

Upon the completion of this offering, the standing committees of our board of directors will include the Audit Committee and the Compensation Committee. We also intend to establish a Nominating and Corporate Governance Committee as soon as practicable following completion of this offering. These committees are described below. Our board of directors may also establish various other committees to assist it in its responsibilities.

Audit Committee. The Audit Committee is primarily concerned with the accuracy and effectiveness of the audits of our financial statements by our internal audit staff and by our independent auditors. Its duties include:

selecting independent auditors;

reviewing the scope of the audit to be conducted by them and the results of their audit;

approving non-audit services provided to us by the independent auditor;

reviewing the integrity, adequacy and effectiveness of our financial reporting process and internal controls;

assessing our financial reporting practices, including the disclosures in our annual and quarterly reports and the accounting standards and principles followed; and

conducting other reviews relating to compliance by our employees with our policies and applicable laws.

Currently, the Audit Committee is comprised of Messrs. Groenhuysen, Weisenhoff and de Lange. Upon completion of this offering, the Audit Committee will be comprised of three independent directors as defined under the applicable rules of the New York Stock Exchange.

Compensation Committee. This committee's primary responsibility is to discharge our board's responsibilities relating to compensation of our senior executives. Its duties include:

developing guidelines and reviewing the compensation and performance of our executive officers, setting the compensation of the Chief Executive Officer and evaluating his performance based on corporate goals and objectives;

making recommendations to the board with respect to incentive compensation plans, equity-based plans and deferred compensation plans; and

reviewing director compensation levels and practices, and recommending, from time to time, changes in such compensation levels and practices to the board.

Currently, the Compensation Committee is comprised of Messrs. Groenhuysen, van Ommeren and de Lange. After this offering, we expect the Compensation Committee will be comprised of three independent directors as defined under the applicable rules of the New York Stock

Exchange.

Nominating and Corporate Governance Committee. The Nominating and Corporate Governance Committee's responsibilities will include the selection of potential candidates for our board of directors and the development and annual review of our governance principles. This committee will also oversee the annual self-evaluations of our board and its committees. It will also make recommendations to our board of directors concerning the structure and membership of the other board committees. The Nominating and Corporate Governance Committee will be comprised of three directors, each of whom we expect will be independent as defined under the applicable rules of the New York Stock Exchange.

Compensation Committee Interlocks and Insider Participation

The members of our Compensation Committee are Messrs. Groenhuysen, van Ommeren and de Lange. None of these individuals were at any time during fiscal year 2003 an officer or employee of ours. In addition, none or our executive officers serves as a member of the board of directors or compensation committee of any entity that has one or more executive officers serving as a member of our board of directors or Compensation Committee.

Mr. Groenhuysen is an employee of Philips and Mr. de Lange was employed by Philips until June 2002. See "Certain Relationships and Related Transactions" on page 72 for information regarding transactions between us and Philips.

Compensation of Directors

We pay each member of our board of directors, other than those who are our employees or employees of our affiliates, an annual retainer of $40,000 for service on the board and $1,500 for each board meeting attended by the member in excess of four meetings each year. Each member of our board of directors serving on one of our committees receives an additional annual fee of $6,000 for each committee upon which the member serves. In addition, the Audit Committee chairman receives an additional annual fee of $10,000 and the chairman of any other committee receives an additional annual fee of $5,000. We also annually award stock options valued at an amount of $60,000 and restricted stock units valued at an amount of $30,000 to each member of our board of directors, other than those who are our employees or employees of our affiliates. This year, these stock options and restricted stock units will be granted on the date of this prospectus. The exercise price of the options will be equal to the initial public offering price. We also reimburse members of our board of directors for travel, lodging and other reasonable out-of-pocket expenses incurred in attending board and committee meetings.

Executive Compensation

The following table summarizes the compensation earned in the fiscal years ended December 31, 2001, 2002 and 2003 by our chief executive officer and the other four most highly paid executive officers whose total salary and bonus awards exceeded $100,000 for the fiscal year ended December 31, 2003. In this document, we refer to these individuals as our "named executive officers."

Summary Compensation Table

		Annual Compensation			Long-Term Compensation Awards
Name and Principal Position	**Year**	**Salary**	**Bonus[1]**	**Other Compensation**	**Shares Underlying Options**
Judson C. Green *President and Chief Executive Officer*	2003 2002 2001	$ 600,000 600,000 600,000	$ 720,000 660,000 480,000	$ 36,000[2] 36,000[2] 36,000[2]	35,000,000[3]
John K. MacLeod *Executive Vice President, Global Marketing and Strategy*	2003 2002 2001	$ 342,692 330,000 324,231	$ 200,000 180,000 90,000	$ 102,192[4]	3,000,000[3]
David B. Mullen *Executive Vice President and Chief Financial Officer*	2003 2002[5] 2001	$ 330,000 19,038	$ 200,000 55,000	$	4,000,000
M. Salahuddin Khan *Senior Vice President, Technology & Development and Chief Technology Officer*	2003 2002 2001	$ 320,000 322,868 316,154	$ 200,000 180,000 145,000	$ 101 108	3,500,000[3] 500,000
Denis M. Cohen *Executive Vice President, Sales Europe*	2003 2002 2001	$ 261,084 230,971 204,401	$ 122,450 108,322 115,000	$	3,000,000[6]

(1) Represents amounts earned in the year indicated, but paid in the following year.

(2) Represents an allowance for business expenses.

(3) Represents options to purchase common stock granted in connection with the cancellation of options pursuant to our stock option exchange in 2001.

(4) Represents relocation expenses.

(5) Mr. Mullen's compensation is based on a partial year of employment as he joined us in December 2002.

(6) Includes options to purchase 1,500,000 shares of common stock granted in connection with the cancellation of options pursuant to our stock option exchange in 2001.

The target level of bonuses for each of the named executive officers is initially set forth in each of their respective employment agreements and is based on competitive market data by position and internal comparable position. Our Compensation Committee is responsible for determining and approving the bonus for our President and Chief Executive Officer. Our President and Chief Executive Officer determines and

recommends to the Compensation Committee for approval the actual amounts of the bonuses for each of the other named executive officers each year. The bonus for each of the named executive officers is based primarily on:

Our performance for the applicable year with respect to revenues, operating income and operating expenses, both overall and versus the budgeted amounts for the year, as well as any major accomplishments by us for the year; and

the respective named executive officer's individual performance in terms of achieving designated corporate and divisional initiatives, driving the overall performance of such officer's area of responsibility, satisfying financial goals and demonstrating expected leadership qualities.

The bonuses for each of the named executive officers for each of the last three fiscal years were between 55% and 125% of the targeted amounts, not including bonuses for partial years.

Option Grants

The following table contains information concerning the grant of options to purchase shares of our common stock to each of the named executive officers during the fiscal year ended December 31, 2003. The percentage of total options granted to employees set forth below is based on an aggregate of 11,288,500 shares subject to options granted in 2003.

Option Grants In Last Fiscal Year

	Individual Grants					Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term[1]		
Name	Number of Securities Underlying Options Granted	Percent of Total Options Granted to Employees in 2003	Exercise or Base Price ($/Share)	Fair Market Value on Date of Grant	Expiration Date	0%	5%	10%
David B. Mullen	4,000,000	35.4%	$ 0.41	$ 0.86[2]	12/22/13	$	$	$

(1) Potential realizable values are net of exercise price, but before any taxes associated with exercise. The assumed rates of stock appreciation are provided in accordance with SEC rules based upon an assumed initial public offering price of $ per share, and do not represent our estimate or projection of future stock price.

(2) Represents the fair market value, as determined by our board of directors, of our common stock on the date of grant of the options.

Options Exercised During 2003 and Options Values at December 31, 2003

The following table contains information regarding options exercised during 2003 and unexercised options held at December 31, 2003, by the named executive officers.

			Number of unexercised options at December 31, 2003	Value of unexercised in-the-money options at December 31, 2003 ($)[1]
Name	Shares acquired on exercise	Value realized	Exercisable/ Unexercisable	Exercisable/ Unexercisable
Judson C. Green	None	None	35,000,000/0	$
John K. MacLeod	None	None	2,417,411/582,589	$

			Number of unexercised options at December 31, 2003	Value of unexercised in-the-money options at December 31, 2003 ($)[1]
David B. Mullen	None	None	1,000,000/3,000,000	$
M. Salahuddin Khan	None	None	2,913,560/586,440	$
Denis M. Cohen	None	None	1,958,817/1,041,183	$

(1) There was no public trading market for our common stock as of December 31, 2003. Accordingly, these values have been based upon an assumed initial public offering price of $ per share less the applicable exercise price.

Employment Agreements

We have entered into written employment agreements with our named executive officers, the terms of which are summarized below.

President and Chief Executive Officer

Judson C. Green, our President and Chief Executive Officer, has an employment agreement with us which was amended and restated as of April 30, 2004. The new employment agreement will continue until Mr. Green's death or disability or until otherwise terminated by either party. The new employment agreement provides Mr. Green a base salary of $630,000 per annum with a targeted annual bonus of 100% of his base salary. One-half of his bonus is subject to Mr. Green's achievement of applicable corporate milestones and objectives established by the board of directors and the other half is subject to Mr. Green's achievement of personal objectives established by the board of directors. Mr. Green will also be entitled to reimbursement for his travel expenses and an allowance of $3,000 per month for certain business-related expenses, additional term life insurance protection and retiree medical coverage. Mr. Green will be subject to a non-compete and non-solicitation provision, which will continue for a period of one year beyond the termination of his employment agreement.

Mr. Green's new employment agreement provides that in the event that Mr. Green's employment is terminated at any time prior to the date Mr. Green attains age 65 by us without cause or by Mr. Green as a result of our breach of the employment agreement or by Mr. Green as a result of good cause (defined as a significant diminution of his duties and/or a reduction in his base annual compensation and/or target bonus) or for any reason during the seventh month after a change of control, Mr. Green will be entitled to certain severance benefits equal to two years base salary and bonus and accelerated vesting of his equity and incentive awards. The failure of Mr. Green to be elected and continue as a director on our board of directors, other than as a result of his voluntary resignation, will constitute a breach of the employment agreement by us.

In connection with his employment, Mr. Green was granted an option on May 1, 2000 to acquire 35,000,000 shares of our common stock at an exercise price of $0.85 per share, subject to vesting at a rate of 25% per year, commencing with 25% of the shares subject to the option vesting on the date of grant. Pursuant to our offer to exchange the options granted to Mr. Green and others described in the notes to our financial statements, these options were canceled on October 1, 2001, and new options for the same number of shares were granted on May 15, 2002. The exercise price of the new options granted on May 15, 2002 equaled $0.10 per share, which was determined by our board of directors to be the fair market value of our common stock on the date of the grant. The options Mr. Green received in exchange for his tendered options have the same vesting as his tendered options. Mr. Green's vested options will be exercisable for the full 10-year term, regardless of any termination of his employment, except in the following case: if Mr. Green, prior to a change of control, terminates his employment other than as a result of a breach of his employment agreement by us and/or for good cause, then the vested options will be exercisable for a period of 60 days following the date of employment termination.

On April 30, 2004, Mr. Green was granted 8,670,701 restricted stock units in connection with the execution of his new employment agreement. These restricted stock units are generally subject to vesting at a rate of 25% per year, commencing with 25% of the units vesting on April 30, 2005. Mr. Green will also have the right under his new employment agreement to purchase up to $5 million of our stock pursuant to this offering at the initial public offering price.

Executive Vice President, Global Marketing and Strategy

John K. MacLeod is our Executive Vice President, Global Marketing and Strategy. We have entered into an employment agreement dated as of September 18, 2000 with Mr. MacLeod pursuant to

which he is entitled to an annual base salary of $300,000 and a discretionary bonus of up to 50% of his base salary. Under the terms of the employment agreement, Mr. MacLeod was also entitled to receive reimbursement for a one time relocation expense within the first year of his employment. In the event that Mr. MacLeod is terminated by us without cause or voluntarily terminates his employment for good reason, he is entitled to receive severance in an amount equal to his base salary in either a lump sum or equal monthly installments for 12 months following his termination, and to continue to participate in all of our benefit programs for which all senior executives are eligible (other than bonus and incentive compensation plans) from the date of termination through the first anniversary of the date of termination. Mr. MacLeod's severance will be reduced on a dollar for dollar basis by the amount of any compensation received by Mr. MacLeod upon his obtaining employment with another employer. Mr. MacLeod has agreed to a non-compete and non-solicitation provision which continues for a period of one year beyond the termination of his employment with us.

In connection with his employment, we also entered into a stock option agreement with Mr. MacLeod pursuant to which he was granted options to acquire 3,000,000 shares of our common stock at $1.10 per share. Pursuant to our offer to exchange the options granted to Mr. MacLeod and others described in the notes to our financial statements, all of Mr. MacLeod's options were canceled on October 1, 2001, and new options for the same number of shares were granted on May 15, 2002. The exercise price of the new options equaled $0.10 per share, which was determined by our board of directors to be the fair market value of our common stock on the date of the grant. The new options granted to Mr. MacLeod vest as follows: (1) the number of options equivalent to (i) the portion of his options that was exercisable at the time of cancellation of the options accepted for exchange, plus (ii) the portion of his options that would have become exercisable by the date of the new grant had the cancellation not occurred, were exercisable on the grant date of the new options; and (2) $^1/_{28}$ of the remaining portion of his new options become exercisable on the first day of each month thereafter.

Executive Vice President and Chief Financial Officer

We entered into an employment agreement with David B. Mullen as of December 1, 2002, whereby Mr. Mullen became our Executive Vice President and Chief Financial Officer. The employment agreement terminates on the earlier of Mr. Mullen's resignation, disability, death or termination by the board of directors or our CEO with or without cause. Mr. Mullen is entitled to receive a base salary of $330,000 per annum and is eligible to receive an annual bonus of 50% of his base salary. In the event that Mr. Mullen is terminated by us without cause or voluntarily terminates his employment for good reason, he is entitled to (i) receive severance in an amount equal to his base salary plus Mr. Mullen's target bonus amount pro-rated for the year based on the date of termination in either a lump sum or equal monthly installments for 12 months following his termination at our discretion, provided that in the event we elect to pay a lump sum, such payment shall equal the present value of the payments otherwise payable discounted at a rate of 10% per annum, and (ii) continue to participate in all of our benefit programs for which all senior executives are eligible (other than bonus and incentive compensation plans) from the date of such termination through the first anniversary of the date of termination. Mr. Mullen has agreed to a non-compete and non-solicitation provision, which continues for a period of one year beyond the termination of his employment agreement.

In connection with the employment agreement, we agreed to recommend to the Compensation Committee that Mr. Mullen be granted an option to purchase four million shares of our common stock at a per-share exercise price equal to the fair market value on the date of grant. Mr. Mullen was granted an option to purchase four million shares of our common stock on December 22, 2003 at an exercise price equal to $0.41 per share, which represented a discount to the fair market value of our common stock on the date of grant of $0.86 per share as determined by our board of directors. The options were granted at an exercise price less than the fair market value on the date of grant as a result of the delay in granting Mr. Mullen such options following his initial hire date.

Senior Vice President, Technology & Development and Chief Technology Officer

We entered into a letter agreement dated February 3, 1998 with M. Salahuddin Khan pursuant to which he joined us as Vice President, OEM Marketing. His title has since changed to Senior Vice President, Technology & Development and Chief Technology Officer. Pursuant to the letter agreement, Mr. Khan is entitled to receive a base salary of $225,004 per annum and is eligible to receive annual bonuses of up to 40% of his base salary, subject to his achievement of applicable milestones and objectives. In addition, Mr. Khan received a signing bonus of $25,000. Mr. Khan's current bonus target is 50% of his base salary.

The letter agreement also provided that if we adopt a long-term incentive plan, it was anticipated that Mr. Khan would receive an option to purchase 600,000 shares of our common stock at fair market value on the date of the grant, with vesting to occur over a four year period. Mr. Khan received an option to acquire 675,000 shares of our common stock at $0.85 per share in connection with his letter agreement. Pursuant to our offer to exchange the options granted to Mr. Khan and others described in the notes to our financial statements, all of Mr. Khan's options, including his initial options, were canceled on October 1, 2001, and new options for the same number of shares were granted on May 15, 2002. The exercise price of the new options equaled $0.10 per share, which was determined by our board of directors to be the fair market value of our common stock on the date of the grant. The new options granted to Mr. Khan vest as follows: (1) the number of options equivalent to (i) the portion of his options that was exercisable at the time of cancellation of the options accepted for exchange, plus (ii) the portion of his options that would have become exercisable by the date of the new grant had the cancellation not occurred, were exercisable on the grant date of the new options; and (2) $^{1}/_{28}$ of the remaining portion of his new options become exercisable on the first day of each month thereafter.

Mr. Khan is an at-will employee and his employment is for no specific term. However, in the event that he is terminated without cause, Mr. Khan is entitled to receive severance pay equal to six months of his base salary plus any earned but unpaid bonuses and the continuation of his benefits for a six-month period. In the event that Mr. Khan has not obtained employment elsewhere at the expiration of the six-month period, we will pay him his base salary for an additional three months or until he receives other employment, whichever occurs sooner.

Executive Vice President, Sales Europe

We entered into a letter agreement with Denis M. Cohen dated February 13, 1997 pursuant to which Mr. Cohen became President of our principal European operating subsidiary. His title has since changed to Executive Vice President, Sales Europe.

Pursuant to the letter agreement, Mr. Cohen was entitled to a base annual salary of 1,072,000 French francs (approximately $188,517) plus a signing bonus of 804,000 French francs (approximately $141,387), paid in installments over the term of his employment. In addition, he was eligible to receive an annual performance bonus of up to 50% of his base salary, subject to his achievement of applicable milestones and objectives.

The letter agreement also provided that it would be recommended to the board of directors that Mr. Cohen be granted an option to acquire 200,000 shares of our common stock at the fair market value at the time of grant, these options to vest in equal annual installments over a four year period and subject to Mr. Cohen's continued employment with us. Mr. Cohen received an option to acquire 200,000 shares of our common stock at an exercise price of $0.85 per share in connection with his letter agreement. Pursuant to our offer to exchange the options granted to Mr. Cohen and others described in the notes to our financial statements, all of Mr. Cohen's options, including his initial options, were canceled on October 1, 2001, and new options for the same number of shares were granted on May 15, 2002. The exercise price of the new options equaled $0.10 per share, which was determined by our board of directors to be the fair market value of our common stock on the date of

the grant. The new options granted to Mr. Cohen vest as follows: (1) the number of options equivalent to (i) the portion of his options that was exercisable at the time of cancellation of the options accepted for exchange, plus (ii) the portion of his options that would have become exercisable by the date of the new grant had the cancellation not occurred, were exercisable on the grant date of the new options; and (2) $^{1}/_{28}$ of the remaining portion of his new options become exercisable on the first day of each month thereafter.

In the event that Mr. Cohen's employment is terminated without cause and in connection with either a change of control or a change in the nature of our business, Mr. Cohen has the option to take a similar position in the United States or receive his base salary and benefits for a period of one year. In the event that Mr. Cohen's employment is terminated without cause for any other reason he is entitled to receive his base salary and benefits for the remainder of the term of his agreement, but in no event for less than a year.

2001 Stock Incentive Plan

Our 2001 Stock Incentive Plan was adopted by our board of directors and by our stockholders in August 2001. The 2001 Stock Incentive Plan allows us to grant the following to all eligible plan participants: options (including incentive stock options intended to qualify under Section 422 of the Internal Revenue Code and non-qualified stock options); stock appreciation rights; restricted or unrestricted stock awards; phantom stock; performance awards; stock purchase rights; other stock-based awards; or any combinations of the foregoing.

All of our employees, officers, directors and consultants are eligible to participate in the 2001 Stock Incentive Plan. The maximum aggregate number of shares of common stock we may award under the 2001 Stock Incentive Plan as of May 1, 2004 is 226,213,793 (subject to adjustment under certain circumstances), of which 62,549,078 shares are subject to outstanding options, 8,670,701 shares are issuable pursuant to outstanding restricted stock units and 154,994,014 shares are reserved for issuance of future grants. The shares reserved for future issuances may consist of authorized but unissued shares of our common stock or common stock that we have reacquired.

The 2001 Stock Incentive Plan provides that the plan be administered by our board of directors or by a delegated committee of the board. The board or the committee has the authority to adopt, amend and repeal the administrative rules, guidelines and practices relating to the plan and to interpret its provisions. The board or the committee also may make adjustments in the terms and conditions of the awards in the event of stock dividends, stock splits and reverse stock splits, non-change in control transactions affecting our common stock and unusual or nonrecurring events. Our board of directors may amend, alter, suspend or terminate the 2001 Stock Incentive Plan at any time. However, any action by the board of directors in this regard cannot impair the rights of any grantee without the consent of the grantee, except in the event of a merger or consolidation, certain unusual or nonrecurring circumstances and other limited situations as specified in the plan. Our board of directors has appointed Judson C. Green, our president and chief executive officer, as the administrator under the 2001 Stock Incentive Plan, except for the duties expressly reserved for the Compensation Committee of the board of directors. Our Compensation Committee determines the awards with respect to our president and chief executive officer and our officers who report directly to our president and chief executive officer.

The terms and conditions for each grant made under the 2001 Stock Incentive Plan are memorialized in a grant agreement between us and each grantee. Subject to any applicable limitations contained in the plan, our board of directors or the committee selects the recipients of the awards to be made and determines, among other things: the number of shares of common stock covered by options and the date or dates upon which the options become exercisable; the exercise price of the options; the duration of the options; and the number of shares of common stock subject to any other

stock-based awards (including stock appreciation rights, phantom stock units, shares of restricted or unrestricted stock, and restricted stock units) and other terms and conditions of the awards, including conditions regarding issue price, repurchase price and conditions of repurchase.

We may grant options at an exercise price less than, equal to or greater than the fair market value of our common stock on the date of grant of the option. The terms of the plan also permit the administrator to determine how optionees may pay the exercise price of their options, including by cash, check, promissory note, or in connection with a cashless exercise by surrender of shares of our common stock by the option holder to us, or by any combination of these permitted forms of payment. Incentive stock options may only be granted to our employees (including parent and/or subsidiary employees). Non-qualified stock options may be granted to our employees, consultants or non-employee directors.

Eligible participants in the 2001 Stock Incentive Plan also may receive awards of stock appreciation rights. Stock appreciation rights entitle the grantee to receive a cash payment from us having an aggregate value equal to the product of (i) the excess of (a) the aggregate fair market value on the exercise date of one share of common stock over (b) the exercise price per share specified in the grant agreement, times (ii) the number of shares specified by the stock appreciation rights, or portion thereof of that number of shares, which is exercised by the grantee.

Grants to eligible participants in the 2001 Stock Incentive Plan denominated in stock-equivalent units (commonly referred to as "phantom stock") may be made in the amounts and on the terms and conditions the plan administrator determines. Grantees of phantom stock do not have the rights of a stockholder except as otherwise provided in the grant agreement.

Other stock awards may be denominated in cash, common stock or other securities, in stock-equivalent units, in stock appreciation units, in securities or debentures convertible into common stock or in a combination of the foregoing.

A change in control transaction will result in the termination of outstanding options and stock appreciation rights, unless the continuation or assumption of these outstanding options or stock appreciation rights is provided for as part of the change of control transaction. In the event that the 2001 Stock Incentive Plan is terminated (a) the outstanding options and stock appreciation rights that will terminate upon the effective time of the change of control become fully vested immediately prior to the effective time and (b) the holders of options and stock appreciation rights will be permitted, for a period of at least fifteen days prior to the effective time of the change of control, to exercise their rights with respect to all portions of these options or stock appreciation rights then exercisable. In the event of our dissolution or liquidation, unless exercised or as otherwise specified in the plan, all outstanding options will terminate immediately prior to the liquidation or dissolution.

We have also adopted separate sub-plans for residents of The Netherlands, Belgium, France, United Kingdom and California, each having provisions particular to recipients of awards residing in these locations.

Other Option Plans and Agreements

In addition to the options and restricted stock units granted under the 2001 Stock Incentive Plan, we have options outstanding under our prior employee stock option plans. As of May 1, 2004, we had options to acquire up to 71,170, 12,368,744 and 1,033,677 shares of our common stock outstanding under our 1998 California Stock Option Plan, 1996 Stock Option Plan and 1988 Stock Option Plan, respectively. The terms of the options outstanding under our 1998 California Stock Option Plan, 1996 Stock Option Plan and 1988 Stock Option Plan are substantially similar to the terms of the options to be granted under the 2001 Stock Incentive Plan. As is the case with our 2001 Stock Incentive Plan, we also maintained separate sub-plans under our 1996 Stock Option Plan for our employees who are

residents of certain foreign countries, each having provisions particular to recipients of stock options residing in these locations.

No additional stock options, stock purchase rights or other rights will be granted under any of the prior employee stock option plans, other than the 2001 Stock Incentive Plan.

In addition, we have entered into stock option agreements with Judson C. Green and John K. MacLeod in connection with their employment. Pursuant to the terms of his stock option agreement, Mr. Green has the right to acquire 35,000,000 shares of our common stock at $0.10 per share. Similarly, under the terms of Mr. MacLeod's stock option agreement, he has the right to acquire 3,000,000 shares of our common stock at $0.10 per share.

Equity Incentive Grants in Connection with Initial Public Offering

In April 2004, our Compensation Committee approved grants of stock options and restricted stock units to the executive officers on the date of this prospectus. The aggregate number of restricted stock units that will be granted to these executive officers equals $827,032.25 divided by the initial public offering price. The aggregate number of stock options granted to these executive officers equals $1,654,064.50 divided by the Black-Scholes value per stock option, the latter of which shall be set at 58% of the initial public offering price. The exercise price of the stock options will be the initial public offering price. In addition, our President and Chief Executive Officer, as authorized by our Compensation Committee as administrator of the 2001 Stock Incentive Plan, intends on granting certain employees restricted stock units and stock options on the date of this prospectus. The aggregate number of these restricted stock units will equal $2,234,149 divided by the initial public offering price. The aggregate number of these stock options will equal $4,468,298 divided by the Black-Scholes value per stock option, the latter of which shall be set at 58% of the initial public offering price. The exercise price of these options will be the initial public offering price.

We also intend to grant to our directors, other than those who are our employees or employees of our affiliates, stock options valued at an amount of $60,000 and restricted stock units valued at an amount of $30,000 on the date of this prospectus.

All of the restricted stock units granted on the date of the initial public offering will vest in four equal annual installments beginning on the anniversary of February 2, 2004 and all of the stock options granted on the date of this prospectus will vest 25% on the first anniversary of February 2, 2004 and 1/36 of the remaining shares each month thereafter over a three-year period. We will record compensation expense for the restricted stock units over the vesting period based on the fair market value on the date of grant.

PRINCIPAL AND SELLING STOCKHOLDERS

The following table sets forth information regarding the beneficial ownership of our common stock as of May 1, 2004, by the following individuals, entities or groups:

each person or entity who we know beneficially owns more than five percent of our outstanding common stock;

each of the named executive officers;

the selling stockholders;

each of our directors; and

all directors and executive officers as a group.

Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and includes voting or investment power with respect to the shares. In computing the number of shares beneficially owned by a person and the percentage ownership of that person, shares of common stock subject to options or warrants held by that person that are currently exercisable or will become exercisable within 60 days after May 1, 2004 are deemed outstanding, while the shares are not deemed outstanding for purposes of computing percentage ownership of any other person. Except as otherwise indicated, and subject to applicable community property laws, the persons named in the table have sole voting and investment power with respect to all shares of common stock held by them.

Applicable percentage ownership in the following table is based on 1,226,353,065 shares of common stock outstanding as of May 1, 2004 and immediately following the completion of this offering. Unless otherwise indicated, the address for each stockholder listed in the table is c/o NAVTEQ Corporation, 222 Merchandise Mart Plaza, Suite 900, Chicago, Illinois 60654.

Name	Number of Shares Beneficially Owned Before the Offering	Number of Shares to be Sold in the Offering	Number of Shares Beneficially Owned After the Offering	Percentage of Shares Outstanding	
				Before Offering	After Offering
Five Percent Stockholders:					
Philips B.V.	1,023,851,254(1)			83.5%	%
NavPart I B.V.	120,420,075(2)			9.8%	%
Directors and Named Executive Officers:					
Judson C. Green	36,176,471(3)		36,176,471(3)	2.9%	%
Dirk-Jan van Ommeren	0(4)		0(4)	*	*
Richard J. A. de Lange	0(5)		0	*	*
Wilhelmus C. M. Groenhuysen	0(6)(7)		0(6)(7)	*	*
Scott M. Weisenhoff	0(6)(8)		0(6)(8)	*	*
John K. MacLeod	2,805,804(9)		2,805,804(9)	*	*
David B. Mullen	1,500,000(10)		1,500,000(10)	*	*
M. Salahuddin Khan	3,304,520(11)		3,304,520(11)	*	*
Denis M. Cohen	2,236,272(12)		2,236,272(12)	*	*
All Directors and Executive Officers	51,850,369(13)		51,850,369(13)	4.1%	%

* Less than 1%.

(1) These shares are held of record by Philips B.V., an indirect wholly-owned subsidiary of Royal Philips Electronics. See "Certain Relationships and Related Transactions" for information regarding material relationships between us and Philips.

(2) NavPart I B.V. is the record holder of 84,294,052 shares of our common stock and Maarten Scholtens, as escrow agent on behalf of NavPart II B.V., a wholly-owned subsidiary of NavPart I B.V., is the recordholder of 36,126,023 shares of our common stock. The shares held by NavPart II B.V. are subject to certain put and call rights between NavPart I B.V. and Philips B.V. NavPart I has expressed its intention to require Philips, to the extent Philips does not exercise its right to purchase the shares of NavPart II, to purchase the shares of NavPart II on or about the time of this offering. NavPart I B.V.

is a private limited liability company organized under the laws of The Netherlands. We believe that Stichting Navpart, a foundation organized under the laws of The Netherlands, is the record owner of NavPart I B.V. We believe that the directors of Stichting Navpart are Mr. van Ommeren, Melchert Frans Groot and Willem Jan Baud, and that these directors exercise voting and dispositive power over the shares of our common stock beneficially owned by NavPart I B.V. Each director disclaims beneficial ownership of common stock beneficially owned by NavPart I B.V. or Stichting Navpart. We also believe that economic ownership of the shares held by NavPart I B.V. resides in the following entities, each of which we believe to be an institutional investor: Oranje-Nassau Participaties B.V., ABN AMRO Participaties B.V., NPM Capital N.V., Parnib B.V., Paribas Deeinemingen N.V. and HAL Investments III B.V.

(3)
Includes options to purchase 35,000,000 shares of common stock held by Mr. Green exercisable within 60 days of May 1, 2004. This does not include the 8,670,701 restricted stock units described in "Management Employment Agreements" above.

(4)
Mr. van Ommeren is an officer and director of NavPart I B.V. and a director of Stichting Navpart and disclaims beneficial ownership with respect to the shares of common stock beneficially owned by NavPart I B.V. or Stichting Navpart.

(5)
Mr. de Lange owns 24,000 shares of Royal Philips Electronics common stock and options to purchase 42,250 shares of Royal Philips Electronics common stock exercisable within 60 days of May 1, 2004.

(6)
In each case, the individual is an officer of a subsidiary of Philips and disclaims beneficial ownership with respect to the shares owned by or for the benefit of Philips.

(7)
Mr. Groenhuysen owns 1,751 shares of common stock of Royal Philips Electronics, options to purchase 12,250 shares of Royal Philips Electronics common stock exercisable within 60 days of May 1, 2004 and bonds convertible into 709 shares of common stock of Royal Philips Electronics convertible within 60 days of May 1, 2004.

(8)
Mr. Weisenhoff owns 2,640 shares of common stock of Royal Philips Electronics, options to purchase 74,698 shares of Royal Philips Electronics common stock, exercisable within 60 days of May 1, 2004 and debentures convertible into 1,351 shares of common stock of Royal Philips Electronics convertible within 60 days of May 1, 2004.

(9)
Represents options to purchase 2,805,804 shares of common stock held by Mr. MacLeod exercisable within 60 days of May 1, 2004.

(10)
Represents options to purchase 1,500,000 shares of common stock held by Mr. Mullen exercisable within 60 days of May 1, 2004.

(11)
Represents options to purchase 3,304,520 shares of common stock held by Mr. Khan exercisable within 60 days of May 1, 2004.

(12)
Represents options to purchase 2,236,272 shares of common stock held by Mr. Cohen exercisable within 60 days of May 1, 2004.

(13)
Does not include shares beneficially owned by Philips for which Mr. Groenhuysen and Mr. Weisenhoff disclaim beneficial ownership and shares beneficially owned by NavPart I B.V. for which Mr. van Ommeren disclaims beneficial ownership.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The following descriptions of certain provisions of agreements and other documents discussed below are not necessarily complete. You should refer to the exhibits that are a part of the registration statement for a copy of each agreement and document to which we are a party. See "Where You Can Find More Information."

Relationship with Philips

Principal Stockholder. Philips B.V., a subsidiary of Royal Philips Electronics, is our principal stockholder, owning an aggregate, as of May 1, 2004, of 1,023,851,254 shares of our common stock (approximately 83% of the total issued and outstanding).

Two of our directors, Mr. Weisenhoff and Mr. Groenhuysen, are employed by Royal Philips Electronics or its subsidiaries. Mr. de Lange, the Chairman of our board of directors, was employed by Royal Philips Electronics or its subsidiaries until June 2002 and is currently advising Royal Philips Electronics on real estate projects in The Netherlands.

The shares of Royal Philips Electronics are listed on the stock markets of Euronext Amsterdam, the New York Stock Exchange, the Frankfurt Stock Exchange and Euronext Paris, although it is envisaged that the listings on the Frankfurt Stock Exchange and Euronext Paris will be terminated in the first half of 2004. Philips delivers products, systems and services in the fields of lighting, consumer electronics, domestic appliances and personal care, semiconductors and medical systems. At the end of 2003, Philips had approximately 135 production sites in 35 countries and sales and service outlets in approximately 150 countries, employed approximately 164,000 people and recorded sales of EUR 29 billion for the year 2003.

Background

Philips' Initial Investments. Since 1988, we have had a relationship with Philips. Between 1988 and 1996, several Philips companies, including Philips Venture Capital Fund B.V. and Philips B.V. (formerly Philips Media Services B.V.), provided approximately $148 million in equity financing to us, mostly through the acquisition of shares of our preferred stock, which were subsequently converted into shares of our common stock, and through the capitalization of loans made by these Philips companies to us.

Master Loan Agreement. On October 22, 1996, we entered into a master loan agreement with Philips B.V., which was amended and restated on April 1, 1997. Pursuant to the master loan agreement, we had the right to borrow funds from Philips B.V. on a monthly basis, in amounts not to exceed our expected cash shortfall for the following month. Each monthly loan was evidenced by a promissory note due April 1, 2007 and accrued interest at 14% annually. The master loan agreement was terminated on March 29, 2001, and all of the promissory notes outstanding under the agreement were exchanged for convertible preferred stock in connection with our entering into the stock purchase agreement with Philips B.V., as described below.

Warrant Agreement. Pursuant to the terms of the master loan agreement with Philips B.V., we granted Philips B.V. warrants to purchase shares of our common stock. On April 28, 2004, Philips B.V. exercised its warrants to acquire 47,380,000 shares of our common stock at a purchase price of $0.01 per share. The shares resulting from the exercise of the warrants will not be included in Philips' outstanding common stock for purposes of the special cash dividend to be paid to our common stockholders on June 18, 2004.

Stock Purchase Agreement and Related Litigation. On March 29, 2001, we entered into a stock purchase agreement with Philips B.V. pursuant to which Philips B.V. acquired 2,405,968.805 shares of our Series A preferred stock in exchange for promissory notes payable by us having an aggregate value

of $17.0 million and $7.1 million in cash, and 42,600,003 shares of our Series B preferred stock in exchange for promissory notes payable by us having an aggregate value of $426 million. Philips also agreed to purchase Series A shares in addition to the 2,405,968.805 shares, up to an aggregate of $50 million of Series A preferred shares as requested by us 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 1,600,000 shares of our Series A preferred stock for an aggregate purchase price of $16 million under the stand-by equity line. The terms of the Series A and Series B 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 our 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.

On September 20, 2002, Philips B.V. filed a complaint against us in the Chancery Court of the State of Delaware in and for New Castle County. The complaint alleged that we did not intend to comply with our obligations under the certificates of designations for our Series A and Series B preferred stock to convert this preferred stock into common stock pursuant to the terms of the preferred stock. A special committee of our board of directors was formed to address our defense to the complaint. Following unsuccessful settlement negotiations, in August 2003 Philips B.V. filed an amended and restated complaint against us and additionally named as defendants Mr. van Ommeren, one of our 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 $0.86 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 $0.86 per share as of October 1, 2002 and, in March 2004, the litigation was dismissed.

NavPart Transaction. In March 1999, Philips sold to NavPart I B.V., a Netherlands limited liability company, and NavPart II, a Netherlands limited liability company and a wholly-owned subsidiary of NavPart I, 84,294,052 shares of our common stock and 36,126,023 shares of our common stock, respectively. Other than its ownership of our shares of common stock, NavPart II has no other assets.

Under the stock purchase agreement among Philips, NavPart I and NavPart II, the shares of NavPart II are subject to certain put and call rights between NavPart I and Philips, which are described below. Pursuant to this agreement, Philips provided NavPart I with a credit facility to cover any income taxes which become due by NavPart I solely as a result of the put and call structure. In order to secure the obligations of NavPart I under the credit facility, NavPart II pledged to Philips its shares in us.

In the first two weeks of December 2005, Philips has the right to purchase from NavPart I its shares in NavPart II at a specified price. If Philips does not timely exercise its purchase rights under the agreement, NavPart I has the right to sell these shares to Philips in the second two weeks of December 2005 at the same price.

Prior to December 1, 2005, upon the occurrence of specified acceleration events (including, among others, the execution and delivery of an underwriting agreement for the offering contemplated by this prospectus), Philips has the right to purchase from NavPart I its shares in NavPart II at a specified price. This right of Philips expires on the fourteenth day after the date upon which notice of the acceleration event has been given by Philips or NavPart I. If Philips does not timely exercise its purchase rights under the agreement, NavPart I has fifteen days, beginning on the day after the expiration of Philips' purchase rights, to sell the shares of NavPart II at the same specified price to Philips. At the end of this fifteen day period, the sale right of NavPart I shall expire. NavPart I has expressed its intention to require Philips, to the extent Philips does not exercise its right to purchase shares of NavPart II, to purchase the shares of NavPart II on or about the time of this offering.

In addition, Philips, NavPart I and NavPart II have agreed to use their best efforts to maintain our board of directors at seven members. Philips has agreed that so long as NavPart I and NavPart II collectively hold more than 10% of our common stock, Philips will cause the shares it beneficially owns to be voted in support of electing two directors designated by NavPart I to our board of directors, and NavPart I has agreed that so long as Philips beneficially owns at least 25% of our common stock, NavPart I will vote the shares it owns, and will cause the shares that NavPart II owns, to be voted in support of electing three directors designated by Philips to our board of directors. Currently, Mr. van Ommeren is the only NavPart I-designated director and Messrs. Weisenhoff and Groenhuysen are the only Philips-designated directors. Following this offering, NavPart I will not hold, directly or indirectly, more than 10% of our common stock.

Registration Rights Agreement. On March 29, 2001, concurrently with the execution and delivery of the stock purchase agreement, we entered into a registration rights agreement with Philips B.V. Under the registration rights agreement, we have granted Philips B.V. certain rights to register shares of our common stock owned by Philips for sale under the Securities Act. Philips B.V. may require that we register some or all of its shares at any time, as provided in the agreement. Philips B.V. is entitled to make up to four demands for registration after this offering. We are obligated to pay all expenses in connection with the registration (other than the underwriting commissions or discounts and legal expenses of Philips B.V.). We are not required to effect any requested registration, however, until a period of six months has elapsed from the effective date of the most recent previous registration. In connection with the offering contemplated by this prospectus, on April 16, 2004, Philips exercised its first registration demand right under the registration rights agreement.

In addition to the demand registration rights, if we propose to register any shares of our common stock for public sale under the Securities Act, either for our own account or the account of any other person, Philips B.V. may require that we include some or all of its shares in that registration. We are obligated to pay all of the expenses incurred in connection with the registration (other than the underwriting commissions or discounts and legal expenses of Philips B.V.). The underwriter of an offering of our securities proposed to be made under this provision may limit the number of shares of our stock owned by Philips to be included in the registration under certain circumstances.

Our obligations to register shares of our common stock owned by Philips terminate after the earlier of (i) five years after the offering contemplated by this prospectus or (ii) the date at which Philips B.V. is able to sell all registrable securities held by it within a 180 day period in accordance with Rule 144 under the Securities Act.

Guarantee. We obtained an irrevocable standby letter of credit with LaSalle Bank N.A. in conjunction with one of our facility leases. The original face amount of $2,000,000 declines annually over the next seven years until November 30, 2007, which is the end of one of the facility lease. Philips issued an unconditional and irrevocable guarantee to the bank as the primary obligor, in accordance with our obligations regarding this facility lease. We issued a counter guarantee to Philips in which we agreed to pay a fee of 1.5% per annum of the original $2,000,000 face value amount of the stand-by letter of credit. In 2003, for amounts due during the years 2002 and 2003, we paid $60,000 related to the counter guarantee.

Deposit Agreements. We entered into a deposit agreement dated May 21, 2002 with Philips, which was subsequently assigned to our U.S. operating subsidiary. Pursuant to the terms of the deposit agreement, we rolled over $54,000,000 of previously deposited funds on March 26, 2004 and deposited an additional $9,200,000 on March 26, 2004 with Philips for the purpose of optimizing the returns on temporary excess cash. These deposits with Philips bear interest at a rate of U.S. LIBOR minus 0.25%. Deposits of $9,200,000 matured on March 29, 2004, at which time all amounts were paid to us. Deposits of $54,000,000 had a maturity date of April 2, 2004, at which time all amounts were rolled over at our option.

One of our European subsidiaries entered into a deposit agreement dated September 26, 2003 with Philips. Pursuant to the terms of the deposit agreement, we deposited $1,829,000 on March 25, 2004 with Philips for the purpose of optimizing the returns on temporary excess cash. These deposits with Philips bear interest at a rate of U.S. LIBOR minus 0.25% for a U.S. Dollar deposit and EURIBOR/EONIA minus 0.25% for euro deposits. The deposit had a maturity date of March 29, 2004 and was repaid to us at maturity.

Each of these deposit agreements expires upon completion of this offering and may be earlier terminated by Philips if Philips ceases to own or control directly or indirectly more than 50% of our outstanding common stock. Upon expiration of these deposit agreements, we expect to invest cash balances in excess of our short-term operational needs in short-term investment grade instruments.

During 2002 and 2003, we received $53,000 and $268,000, respectively, in interest income related to the deposit agreements. During the first quarter of 2004, we received $107,000 in interest income related to the deposit agreements.

Swap Agreement. On April 22, 2003, we entered into a U.S. dollar/euro currency swap agreement (the "Swap") with Philips to minimize 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 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, cash flows are anticipated to be sufficient to support repayment over the next several years. Accordingly, effective January 1, 2003, the loan is no longer designated as permanent in nature.

Under the terms of the Swap, one of our European subsidiaries makes payments to Philips in euros in exchange for the U.S. dollar equivalent at a fixed exchange rate of $1.0947 U.S. dollar/euro. The U.S. dollar proceeds obtained under the Swap are utilized to make payments of principal on the intercompany loan. The outstanding principal balance under the intercompany loan was $187,136,000 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 March 28, 2004, the outstanding intercompany obligation (net of payments) was $148,986,000.

The intercompany loan bears interest at one-month U.S. LIBOR. The Swap also provides that one of our European subsidiaries will pay interest due in euros on a monthly basis to Philips in exchange for U.S. dollars at the one-month U.S. dollar LIBOR rate.

Other Transactions. We entered into transactions with affiliates of Philips, under which we received the following:

software;

software related consulting services;

treasury services;

tax consulting services;

insurance services that enable us to be covered by Philips' insurance coverage for General Liability, Worker's Compensation, Employer's Liability, Director and Officer, Property Damage/Business Interruption, Crime and Marine Cargo;

purchasing services program that enables us to buy various goods and services, such as parcel services, fleet services to lease cars, travel arrangements, computer peripherals and software, from third parties at a discount to the standard price as negotiated between Philips and such third parties; and

a license to use and sublicense certain patents related to our business.

Total fees incurred for these services of $1,697,000, $1,791,000, $1,026,000 and $228,000 are included in operating costs and expenses for the years ended December 31, 2001, 2002 and 2003 and the quarter ended March 28, 2004, respectively. To the extent that we obtain these services other than through a Philips program, we expect our costs for these services to increase. We do not believe, however, that the operating cost savings realized by us in connection with participating in Philips' purchasing services program or other services are material to our results of operations.

DESCRIPTION OF CAPITAL STOCK

Upon the closing of this offering, our authorized capital stock, after giving effect to the amendment of our certificate of incorporation and the for reverse stock split to be effected thereby, will consist of shares of our common stock, $0.001 par value, and shares of our preferred stock, $0.001 par value. As of May 1, 2004, there were 1,226,353,065 shares of common stock outstanding, held of record by 560 stockholders, and no preferred shares were outstanding.

The following description summarizes the terms of our capital stock. Because it is only a summary, it does not contain all the information that may be important to you. For a complete description you should refer to our form of amended and restated certificate of incorporation and our form of amended and restated bylaws, as in effect immediately following the closing of this offering, copies of which have been filed as exhibits to the registration statement of which this prospectus is a part.

Common Stock

The holders of our common stock are entitled to one vote for each share held of record on all matters submitted to a vote of the stockholders. Our stockholders do not have cumulative voting rights in the election of directors. Subject to preferences that may be granted to any then-outstanding preferred stock, holders of our common stock are entitled to receive ratably only those dividends as may be declared by our board of directors out of funds legally available therefor, as well as any distributions to the stockholders. See "Dividend Policy." In the event of our liquidation, dissolution or winding up, holders of our common stock are entitled to share ratably in all of our assets remaining after we pay our liabilities and distribute the liquidation preference of any then-outstanding preferred stock. Holders of our common stock have no preemptive or other subscription or conversion rights. There are no redemption or sinking fund provisions applicable to our common stock.

Preferred Stock

Our board of directors has the authority, without further action by the stockholders, to issue our preferred stock in one or more series and to fix the rights, preferences, privileges and restrictions thereof. These rights, preferences and privileges include dividend rights, conversion rights, voting rights, terms of redemption, liquidation preferences, sinking fund terms, and the number of shares constituting any series or the designation of this series, any or all of which may be greater than the rights of our common stock. The issuance of our preferred stock could adversely affect the voting power of our holders of common stock and the likelihood that these holders will receive dividend payments and payments upon liquidation. In addition, the issuance of our preferred stock could have the effect of delaying, deferring or preventing a change in our control. We have no present plan to issue any shares of our preferred stock.

Equity Incentive Awards

As of May 1, 2004, we had outstanding options to purchase 114,022,669 shares of our common stock and 8,670,701 restricted stock units. The weighted average exercise price of the outstanding options is $0.24 per share. In addition, as of May 1, 2004, we had 154,994,014 shares of common stock reserved and available for grant under the 2001 Stock Incentive Plan.

Anti-takeover Effects of Provisions of Our Amended and Restated Certificate of Incorporation and Bylaws

Certain provisions of our certificate of incorporation and bylaws that will be in effect upon completion of this offering, as summarized below, and applicable provisions of the Delaware General Corporation Law (the "DGCL") 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 may have the effect of deterring hostile takeovers or delaying changes in our control or in our management. These provisions are intended to enhance the likelihood of continued stability in the composition of our board of directors and in the policies furnished by them and to discourage certain types of transactions that may involve an actual or threatened change in our control. These provisions are designed to reduce our vulnerability to an unsolicited acquisition proposal. The provisions also are intended to discourage certain tactics that may be used in proxy fights. However, these provisions could have the effect of discouraging others from making tender offers for our shares and, as a consequence, they also may inhibit fluctuations in the market price of our shares that could result from actual or rumored takeover attempts. Such provisions may also have the effect of preventing changes in our management.

Election and Removal of Directors. Directors are elected at the annual meetings of stockholders by a plurality of the votes entitled to vote in the election of directors and hold office until the next annual meeting of stockholders and until their successors are duly elected and qualified, or until their death, resignation or removal. Directors may be removed without cause by the vote of shares representing a $66^{2}/_{3}\%$ of the votes entitled to be cast by the outstanding capital stock in the election of our board of directors. Directors may be removed for cause by the vote a majority of the shares represented, in person or by proxy, at a meeting and entitled to vote.

No Cumulative Voting. Our certificate of incorporation and bylaws do not provide for cumulative voting in the election of directors. The combination of Philips' ownership of a majority of our issued and outstanding common stock and lack of cumulative voting will make it more difficult for our other stockholders to replace our board of directors or for another party to obtain control of us by replacing our board of directors.

Size of Board and Vacancies. Our certificate of incorporation provides that the number of directors on our board of directors will be fixed exclusively by our board of directors. Newly created directorships resulting from any increase in our authorized number of directors will be filled solely by the vote of our remaining directors in office. Any vacancies in our board of directors resulting from death, resignation or removal from office or other cause will be filled solely by the vote of our remaining directors in office. However, for so long as Philips continues to own shares representing at least a majority of our outstanding common stock, any vacancy caused by the removal of a director by the stockholders may only be filled by the vote of shares representing a majority of the affirmative votes entitled to be cast by the outstanding capital stock entitled to vote at that time.

Stockholder Action by Written Consent. Our certificate of incorporation permits our stockholders to act by written consent without a meeting as long as Philips continues to own shares representing at least a majority of the outstanding common stock entitled to vote in the election of our board of directors. Once Philips ceases to own at least a majority of our outstanding common stock, our stockholders will not be permitted to act by written consent.

Stockholder Meetings. Our certificate of incorporation and bylaws provide that a special meeting of our stockholders may be called only by (i) our board of directors, (ii) any stockholder that owns at least 25% of the outstanding shares of common stock, and (iii) any stockholders that own, in the aggregate, at least 50% of the outstanding shares of common stock.

Requirements for Advance Notification of Stockholder Nominations and Proposals. Our bylaws establish advance notice procedures with respect to stockholder proposals and nomination of candidates for election as directors other than nominations made by or at the direction of our board of directors or a committee of our board of directors.

Undesignated Preferred Stock. The authorization of our undesignated preferred stock makes it possible for our board of directors to issue our preferred stock with voting or other rights or preferences that could impede the success of any attempt to change control of us.

Section 203 of the General Corporation Law of the State of Delaware

Our certificate of incorporation provides that we are not governed by Section 203 of the DGCL. This provision would generally prohibit a Delaware corporation from engaging in any business combination with any interested stockholder for a period of three years following the date that such stockholder became an interested stockholder.

Indemnification and Limitation of Director and Officer Liability

Section 145 of the DGCL provides that a corporation may indemnify directors and officers as well as other employees and individuals against expenses, including attorneys' fees, judgments, fines and amounts paid in settlement, that are incurred in connection with various actions, suits or proceedings, whether civil, criminal, administrative or investigative other than an action by or in the right of the corporation, known as a derivative action, if they acted in good faith and in a manner they reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, if they had no reasonable cause to believe their conduct was unlawful. A similar standard is applicable in the case of derivative actions, except that indemnification only extends to expenses, including attorneys' fees, incurred in connection with the defense or settlement of these actions, and the statute requires court approval before there can be any indemnification if the person seeking indemnification has been found liable to the corporation. The statute provides that it is not excluding other indemnification that may be granted by a corporation's bylaws, disinterested director vote, stockholder vote, agreement or otherwise.

Our certificate of incorporation and bylaws provide that each person who was or is made a party or is threatened to be made a party to or is involved in any action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that the person, or a person of whom the person is the legal representative, is or was a director or officer of us or, while a director or officer of us, is or was serving at our request as a director, officer, employee or agent of another corporation or of a partnership, joint venture, trust, enterprise or nonprofit entity, including service with respect to employee benefit plans, whether the basis of the proceeding is the alleged action of the person in an official capacity as a director, officer, employee or agent or in any other capacity while serving as a director, officer, employee or agent, will be indemnified and held harmless by us to the fullest extent authorized by the DGCL against all expense, liability and loss reasonably incurred or suffered by the person in connection therewith. Our certificate of incorporation also provides that we will pay the expenses incurred in defending any proceeding in advance of its final disposition, subject to the provisions of the DGCL. These rights are not exclusive of any other right that any person may have or acquire under any statute, provision of our certificate of incorporation, bylaw, agreement, vote of stockholders or disinterested directors or otherwise. No repeal or modification of these provisions will in any way diminish or adversely affect the rights of any director, officer, employee or agent of us under our certificate of incorporation in respect of any occurrence or matter arising prior to any repeal or modification. Our certificate of incorporation also specifically authorizes us to maintain insurance and to grant similar indemnification rights to our employees or agents.

Our certificate of incorporation provides that none of our directors will be personally liable to us or our stockholders for monetary damages for breach of fiduciary duty as a director, except, to the extent required by the DGCL, for liability:

for any breach of the director's duty of loyalty to us or our stockholders;

for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law;

for payments of unlawful dividends or unlawful stock purchases or redemptions under Section 174 of the DGCL; or

for any transaction from which the director derived an improper personal benefit.

Neither the amendment nor repeal of this provision will eliminate or reduce the effect of the provision in respect of any matter occurring, or any cause of action, suit or claim that, but for the provision, would accrue or arise, prior to the amendment or repeal.

We also plan on obtaining director and officer insurance providing for indemnification for our directors and officers for certain liabilities, including liabilities under the Securities Act of 1933. We have also entered into indemnity agreements with our directors and our officers providing for the indemnification described above.

These provisions may discourage stockholders from bringing a lawsuit against our directors for breach of their fiduciary duty. These provisions may also have the effect of reducing the likelihood of derivative litigation against directors and officers, even though such an action, if successful, might otherwise benefit us and our stockholders. Furthermore, a stockholder's investment may be adversely affected to the extent we pay the costs of settlement and damage awards against directors and officers pursuant to these indemnification provisions. We believe that these provisions, the insurance and the indemnity agreements are necessary to attract and retain talented and experienced directors and officers.

The underwriting agreement also provides for indemnification by the underwriters of our officers and directors for specified liabilities under the Securities Act of 1933.

At present, there is no pending litigation or proceeding involving any of our directors or officers where indemnification will be required or permitted. We are not aware of any threatened litigation or proceeding that might result in a claim for such indemnification.

Listing

We have applied to list our common stock on the New York Stock Exchange under the symbol "NVT."

Transfer Agent and Registrar

The transfer agent and registrar for our common stock is Computershare Investor Services LLC. Their address is 2 North LaSalle Street, Chicago, Illinois 60602 and their telephone number is (312) 588-4993.

SHARES ELIGIBLE FOR FUTURE SALE

Prior to this offering, there has been no public market for our common stock. Although we have applied to list our common stock on the New York Stock Exchange, we cannot assure you that there will be an active public market for our common stock. Future sales of substantial amounts of common stock in the public market, or the perception that these sales may occur, could adversely affect the prevailing market price of the common stock. Upon the completion of this offering, we will have 1,226,353,065 shares of our common stock outstanding not including, as of May 1, 2004:

114,022,669 shares of our common stock issuable upon the exercise of outstanding options under our option plans and individual option agreements with certain of our executive officers;

8,670,701 shares of our common stock issuable pursuant to outstanding restricted stock units under our 2001 Stock Incentive Plan; and

an aggregate of 154,994,014 shares of common stock available for future issuance under our 2001 Stock Incentive Plan, which includes shares of common stock (assuming an initial public offering price of $ per share) issuable upon the exercise of stock options, and shares of common stock (assuming an initial public offering price of $ per share) issuable pursuant to restricted stock units expected to be granted on the date of this prospectus.

All of the shares sold in this offering will be freely tradable without restriction or the requirement of further registration under the Securities Act unless they are acquired by our "affiliates," as that term is defined in Rule 144 of the Securities Act. In addition, all of our other outstanding shares of common stock will be freely tradable without restriction or the requirement of further registration under the Securities Act immediately following the completion of this offering, subject to restrictions applicable to our affiliates and subject, in some cases, to the 180-day "lock-up" restrictions described below.

Rule 144

In general, under Rule 144 as currently in effect, a person (or persons whose shares are aggregated together), including an affiliate, who has beneficially owned restricted shares for at least one year is entitled to sell, within any three-month period, a number of these shares that does not exceed the greater of:

one percent of the then outstanding shares of our common stock (approximately million shares immediately after this offering); or

the average weekly trading volume in our common stock on the New York Stock Exchange during the four calendar weeks preceding the date on which notice of this sale is filed, provided that requirements concerning availability of public information, manner of sale and notice of sale are satisfied.

In addition, affiliates must comply with the restrictions and requirements of Rule 144 other than the one-year holding period requirement in order to sell shares of our common stock which are not restricted securities.

Under Rule 144(k), a person who is not an affiliate of ours and has not been an affiliate of ours for at least three months prior to the sale and who has beneficially owned restricted shares for at least two years may resell these shares without compliance with the foregoing requirements.

We previously filed a registration statement with the SEC in order to register the shares of our common stock reserved for issuance under our option plans and individual option agreements. Shares covered by the registration statement are eligible for sale in the public markets, subject to Rule 144 limitations applicable to affiliates and lock-up agreements, described below.

Lock-up Agreements

For a period of 180 days from the date of this prospectus, we, our executive officers, directors, the selling stockholders, and certain other stockholders have agreed, subject to specific exceptions, not to sell or transfer any shares of common stock without the written consent of Credit Suisse First Boston LLC and Merrill Lynch, Pierce, Fenner & Smith Incorporated. These agreements also apply to any security convertible into or exchangeable or exercisable for common stock. In addition, substantially all of our employees, pursuant to option agreements under our equity incentive plans, are restricted from selling any of our common stock for a period of 180 days after the date on which the registration statement, of which this prospectus forms a part, becomes effective. See "Underwriting."

Registration Rights

On March 29, 2001, concurrently with the execution and delivery of the stock purchase agreement, we entered into a registration rights agreement with Philips. Under the registration rights agreement, we have granted Philips certain rights to register shares of our common stock owned by Philips for sale under the Securities Act. Philips may require that we register some or all of its shares at any time, as provided in the agreement. Philips is entitled to make up to four demands for registration after this offering. We are obligated to pay all expenses in connection with the registration (other than the underwriting commissions or discounts and legal expenses of Philips). We are not required to effect any requested registration, however, until a period of six months has elapsed from the effective date of the most recent previous registration. In connection with the offering contemplated by this prospectus, on April 16, 2004, Philips exercised its first registration demand right under the registration rights agreement.

In addition to the demand registration rights, if we propose to register any shares of our common stock for public sale under the Securities Act, either for our own account or the account of any other person, Philips may require that we include some or all of its shares in that registration. We are obligated to pay all of the expenses incurred in connection with the registration (other than the underwriting commissions or discounts and legal expenses of Philips). The underwriter of an offering of our securities proposed to be made under this provision may limit the number of shares of our stock owned by Philips to be included in the registration under certain circumstances.

Our obligations to register shares of our common stock owned by Philips terminate after the earlier of (i) five years after the offering contemplated by this prospectus or (ii) the date at which Philips is able to sell all registrable securities held by it within a 180-day period in accordance with Rule 144 under the Securities Act.

CERTAIN MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS FOR NON-U.S. HOLDERS

The following is a general discussion of certain material U.S. federal income and estate tax considerations of the ownership and disposition of our common stock by a beneficial owner thereof that is a "Non-U.S. Holder." A "Non-U.S. Holder" is a person or entity that, for U.S. federal income tax purposes, is a non-resident alien individual, a foreign corporation or a foreign estate or trust. The test for whether an individual is a resident of the U.S. for federal estate tax purposes differs from the test used for federal income tax purposes. Some individuals, therefore, may be "Non-U.S. Holders" for purposes of the federal income tax discussion below, but not for purposes of the federal estate tax discussion, and vice versa.

This discussion is based on the U.S. Internal Revenue Code of 1986, as amended, (the "Code"), Treasury Regulations, judicial decisions and administrative regulations and interpretations in effect as of the date of this prospectus, all of which are subject to change, including changes with retroactive effect. This discussion does not address all aspects of U.S. federal income and estate taxation that may be relevant to Non-U.S. Holders in light of their particular circumstances (including, without limitation, Non-U.S. Holders who are pass-through entities or who hold their common stock through pass-through entities) and does not address any tax consequences arising under the laws of any state, local or non-U.S. jurisdiction. Prospective holders should consult their own tax advisors with respect to the federal income and estate tax consequences of holding and disposing of our common stock in light of their particular situations and any consequences to them arising under the laws of any state, local or non-U.S. jurisdiction.

Dividends

Subject to the discussion below, distributions, if any, made to a Non-U.S. Holder of our common stock out of our current or accumulated earnings and profits generally will constitute dividends for U.S. federal income tax purposes and will be subject to withholding tax at a 30% rate or such lower rate as may be specified by an applicable income tax treaty. To the extent distributions exceed our current and accumulated earnings and profits for U.S. federal income tax purposes, they will constitute a tax-free return of capital and will reduce your adjusted tax basis in our common stock, but not below zero, and then will be treated as capital gain from the sale of stock.

To obtain a reduced rate of withholding under a treaty, a Non-U.S. Holder will be required to (a) provide us with an IRS Form W-8BEN certifying the Non-U.S. Holder's entitlement to benefits under that treaty or (b) if common stock is held through foreign intermediaries, satisfy the relevant certification requirements of applicable Treasury Regulations. Special rules determine whether, for purposes of determining the applicability of a tax treaty, dividends paid to a Non-U.S. Holder that is an entity should be treated as paid to the entity or to those holding an interest in that entity and additional certification of benefits may be required.

There will be no withholding tax on dividends paid to a Non-U.S. Holder that are effectively connected with the Non-U.S. Holder's conduct of a trade or business within the United States (and, if an applicable treaty so provides, the dividends are attributable to a permanent establishment that the Non-U.S. Holder maintains in the United States) if an IRS Form W-8ECI, stating that the dividends are so connected, is provided to us. Instead, the effectively connected dividends will be subject to U.S. federal income tax on a net basis, generally in the same manner as if the Non-U.S. Holder were a U.S. citizen or resident alien or a domestic corporation. A corporate Non-U.S. Holder receiving effectively connected dividends may also be subject to an additional "branch profits tax," which is imposed, under certain circumstances, at a rate of 30% (or such lower rate as may be specified by an applicable treaty) of the corporate Non-U.S. Holder's effectively connected earnings and profits, subject to certain adjustments. If the Non-U.S. Holder is eligible for a reduced rate of withholding tax pursuant to a tax

treaty, such Holder may obtain a refund of any excess amounts withheld on the payment of a dividend if such Holder files an appropriate claim for refund with the U.S. Internal Revenue Service.

Gain on Disposition of Common Stock

A Non-U.S. Holder generally will not be subject to U.S. federal income tax with respect to gain realized on a sale or other disposition of our common stock unless: (i) the gain is effectively connected with a trade or business of such holder in the United States and a specific treaty exemption does not apply to eliminate the tax; (ii) if a tax treaty would otherwise apply to eliminate the tax, the gain is attributable to a permanent establishment of the Non-U.S. Holder in the United States.; (iii) in the case of Non-U.S. Holders who are nonresident alien individuals and hold our common stock as a capital asset, such individuals are present in the United States for 183 or more days in the taxable year of the disposition and certain other conditions are met; (iv) the Non-U.S. Holder is subject to tax pursuant to the provisions of the Code regarding the taxation of U.S. expatriates; or (v) we are or have been a "United States real property holding corporation" within the meaning of Code Section 897(c)(2) at any time within the shorter of the five-year period preceding such disposition or such holder's holding period. We believe that we are not, and do not anticipate becoming, a United States real property holding corporation. Even if we are treated as a United States real property holding corporation, gain realized by a Non-U.S. Holder on a disposition of our common stock will not be subject to U.S. federal income tax so long as: (a) the Non-U.S. Holder owned directly or indirectly, no more than 5% of our common stock at all times within the shorter of (x) the five year period preceding the disposition or (y) the holder's holding period; and (b) our common stock is regularly traded on an established securities market.

If you are a Non-U.S. Holder described in (i) or (ii) above, you will be required to pay tax on the net gain derived from the sale at regular graduated U.S. federal income tax rates, and corporate Non-U.S. Holders described in (i) or (ii) above may be subject to the additional branch profits tax at a 30% rate or such lower rate as may be specified by an applicable income tax treaty. If you are an individual Non-U.S. Holder described in (iii) above, you may be required to pay a flat 30% tax on the gain derived from the sale, which tax may be offset by U.S. source capital losses.

Information Reporting Requirements and Backup Withholding

Generally, we must report to the U.S. Internal Revenue Service the amount of distributions paid, the name and address of the recipient, and the amount, if any, of tax withheld. A similar report is sent to the holder. Pursuant to tax treaties or certain other agreements, the U.S. Internal Revenue Service may make its reports available to tax authorities in the recipient's country of residence.

Backup withholding at a rate of 28% will generally not apply to payments of dividends made by us or our paying agents to a Non-U.S. Holder if the holder has provided its federal taxpayer identification number, if any, or the required certification that it is not a U.S. person (which is generally provided by furnishing an IRS Form W-8BEN, or other applicable form), unless the payor otherwise has knowledge or reason to know that the payee is a U.S. person.

U.S. Information reporting and backup withholding will apply to the proceeds of a disposition of our common stock effected by or through a U.S. office of a broker unless the disposing holder certifies as to its non-U.S. status on an IRS Form W-8BEN, or other applicable form, or otherwise establishes an exemption. Generally, U.S. information reporting and backup withholding will not apply to a payment of disposition proceeds where the transaction is effected outside the United States through a non-U.S. office of a non-U.S. broker. However, U.S. information reporting (but not backup withholding) will apply to a payment of disposition proceeds where the transaction is effected outside the United States by or through a non-U.S. office of a broker that is (i) a U.S. person, including a foreign branch of such person, (ii) a foreign person which derived 50% or more of its gross income for

certain periods from the conduct of a trade or business in the United States, (iii) a "controlled foreign corporation" for U.S. federal income tax purposes, or (iv) a foreign partnership (a) at least 50% of the capital or profits interest in which is owned by U.S. persons, or (b) that is engaged in a U.S. trade or business. Backup withholding at a rate of 28% will apply to a payment of disposition proceeds if the broker has actual knowledge that the holder is a U.S. person.

Backup withholding is not an additional tax. Rather, the tax liability of persons subject to backup withholding will be reduced by the amount of tax withheld. If withholding results in an overpayment of taxes, a refund may be obtained, provided that the required information is furnished to the U.S. Internal Revenue Service.

Federal Estate Tax

The estates of nonresident alien individuals are subject to U.S. federal estate tax on property with a U.S. situs. Because we are a U.S. corporation, our common stock will be the U.S. situs property and therefore will be included in the taxable estate of a nonresident alien decedent. This U.S. federal estate tax liability of the estate of a nonresident alien may be affected by a tax treaty between the United States and the decedent's country of residence.

THE PRECEDING DISCUSSION OF U.S. FEDERAL TAX CONSIDERATIONS IS FOR GENERAL INFORMATION ONLY. IT IS NOT TAX ADVICE. EACH PROSPECTIVE HOLDER SHOULD CONSULT ITS OWN TAX ADVISOR REGARDING THE PARTICULAR U.S. FEDERAL, STATE, LOCAL AND NON-U.S. TAX CONSEQUENCES OF PURCHASING, HOLDING AND DISPOSING OF OUR COMMON STOCK.

UNDERWRITING

Credit Suisse First Boston LLC and Merrill Lynch, Pierce, Fenner & Smith Incorporated are acting as representatives of each of the underwriters named below. Subject to the terms and conditions set forth in a purchase agreement among us, the selling stockholders and the underwriters, the selling stockholders have agreed to sell to the underwriters, and each of the underwriters has agreed, severally and not jointly, to purchase from the selling stockholders, the number of shares of common stock set forth opposite its name below.

Underwriter	Number of Shares
Credit Suisse First Boston LLC	
Merrill Lynch, Pierce, Fenner & Smith Incorporated	
Deutsche Bank Securities Inc.	
UBS Securities LLC	
Dresdner Kleinwort Wasserstein Securities LLC	
Piper Jaffray & Co.	
Total	

The underwriters have agreed to purchase all of the shares sold under the purchase agreement if any of these shares are purchased. If an underwriter defaults, the purchase agreement provides that the purchase commitments of the nondefaulting underwriters may be increased or the purchase agreement may be terminated.

We and the selling stockholders have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act of 1933, or to contribute to payments the underwriters may be required to make in respect of those liabilities.

The underwriters are offering the shares, subject to prior sale, when, as and if issued to and accepted by them, subject to approval of legal matters by their counsel, including the validity of the shares, and other conditions contained in the purchase agreement, such as the receipt by the underwriters of officer's certificates and legal opinions. The underwriters reserve the right to withdraw, cancel or modify offers to the public and to reject orders in whole or in part.

Commissions and Discounts

The representatives have advised us that the underwriters initially propose to offer the shares to the public at the offering price on the cover page of this prospectus and to dealers at that price less a concession not in excess of $ per share. The underwriters may allow, and the dealers may reallow, a discount not in excess of $ per share to other dealers. After this offering, the public offering price, concession and discount may be changed.

The following table shows the public offering price, underwriting discount and proceeds before expenses to the selling stockholders. The information assumes either no exercise or full exercise by the underwriters of their overallotment option.

	Per Share	Without Option	With Option
Public offering price	$		
Underwriting discount			
Proceeds, before expenses, to the selling stockholders			

The expenses of this offering to be paid by us are estimated to be approximately $1 million. These expenses do not include underwriting discounts and commissions and legal expenses of the selling stockholders, and certain other expenses for which the underwriters have agreed to reimburse us.

Overallotment Option

The selling stockholders have granted an option to the underwriters to purchase up to additional shares at the public offering price less the underwriting discount. The underwriters may exercise this option for 30 days from the date of this prospectus solely to cover any overallotments.

If the underwriters exercise this option, each will be obligated, subject to conditions contained in the purchase agreement, to purchase a number of additional shares proportionate to that underwriter's initial amount reflected in the above table.

Reserved Shares

At our request, the underwriters have reserved for sale, at the initial public offering price, up to shares offered by this prospectus for sale to some of our directors, officers and employees. If these persons purchase reserved shares, this will reduce the number of shares available for sale to the general public. Any reserved shares that are not orally confirmed for purchase within one day of the pricing of this offering will be offered by the underwriters to the general public on the same terms as the other shares offered by this prospectus.

No Sales of Similar Securities

We and the existing holders of approximately % of the outstanding common stock are subject to restrictions on the sale of our common stock after this offering pursuant to lock-up arrangements with the underwriters and option agreements with us. We, the selling stockholders, our executive officers and directors, and certain other stockholders have agreed, with exceptions, not to sell or transfer any common stock for 180 days after the date of the purchase agreement among us, the selling stockholders and the underwriters without first obtaining the written consent of Credit Suisse First Boston LLC and Merrill Lynch, Pierce, Fenner & Smith Incorporated. Specifically, we and these other individuals and entities have agreed not to directly or indirectly

offer, pledge, sell or contract to sell, any common stock;

sell any option or contract to purchase any common stock;

purchase any option or contract to sell any common stock;

grant any option, right or warrant for the sale of any common stock;

lend or otherwise dispose of or transfer any common stock;

request or demand that we file a registration statement related to the common stock; or

enter into any swap or other agreement that transfers, in whole or in part, the economic consequence of ownership of any common stock whether the swap or transaction described above is to be settled by delivery of common stock or other securities, in cash or otherwise.

This lockup provision applies to common stock and to securities convertible into or exchangeable or exercisable for or repayable with common stock. It also applies to common stock owned now or acquired later by the person executing the agreement or for which the person executing the agreement later acquires the power of disposition.

The representatives may in their sole discretion, at any time, without notice, consent to the release of all or any portion of the shares subject to the lock-up agreements. The representatives do not have any current intention to release shares of common stock subject to these lock-ups. Any determination to release any shares subject to the lock-up agreements would be based on a number of factors at the time of any such determination, possibly including, but not limited to, the market price of the common stock, the liquidity of the trading market for the common stock, general market conditions, the number of shares proposed to be sold, the timing of the proposed sale, and whether the person seeking the release is an officer, director or affiliate.

In addition to the lock-up arrangements with the underwriters described above, substantially all of our employees, pursuant to option agreements under our equity incentive plans, are restricted from selling any of our common stock for a period of 180 days after the date on which the registration statement, of which this prospectus forms a part, becomes effective. In the aggregate, approximately 103.2 million shares of common stock issuable upon exercise of outstanding options and approximately 3.4 million outstanding shares of common stock held by these employees are subject to the restrictions under these option agreements.

New York Stock Exchange Listing

We have applied for listing on the New York Stock Exchange under the symbol "NVT," subject to official notice of issuance. In order to meet the requirements for listing on that exchange, the underwriters have undertaken to sell lots of 100 or more shares to a minimum of 2,000 beneficial owners and to sell these shares in a manner such that we will have more than 1,100,000 publicly held shares outstanding in the United States with an aggregate market value of at least $60 million and a global market capitalization of at least $750 million.

Offering Price

Before this offering, there has been no public market for our common stock. The public offering price has been determined through negotiations between the selling stockholders and the representatives. In addition to prevailing market conditions, the factors considered in determining the public offering price were:

the valuation multiples and dividend yields of publicly traded companies that the representatives believe to be comparable to us;

our historical financial information and prospects for, and timing of, improved financial performance;

the history of, and the prospects for, our company and the industry in which we compete;

an assessment of our management, its past and present operations;

the present state of our development; and

the above factors in relation to market values and various valuation measures of other companies engaged in activities similar to ours.

An active trading market for the shares may not develop or, if one develops, may not be liquid or maintained. It is also possible that after this offering, the shares of our common stock will not trade in the public market at or above the public offering price.

The underwriters do not expect to sell more than 5% of the shares of common stock in the aggregate to accounts over which they exercise discretionary authority.

Price Stabilization, Short Positions and Penalty Bids

Until the distribution of the shares is completed, SEC rules may limit underwriters and selling group members from bidding for and purchasing our common stock. However, the representatives may engage in transactions that stabilize the price of the common stock, such as bids or purchases to peg, fix or maintain that price.

If the underwriters create a short position in the common stock in connection with this offering, i.e., if they sell more shares than are listed on the cover of this prospectus, the representatives may reduce that short position by purchasing shares in the open market. The representatives may also elect to reduce any short position by exercising all or part of the overallotment option described above. Purchases of the common stock to stabilize its price or to reduce a short position may cause the price of the common stock to be higher than it might be in the absence of the purchases.

The representatives may also impose a penalty bid on underwriters and selling group members. This means that if the representatives purchase shares in the open market to reduce the underwriters' short position or to stabilize the price of those shares, they may reclaim the amount of the selling concession from the underwriters and selling group members who sold those shares. The imposition of a penalty bid may also affect the price of the shares in that it discourages resales of those shares.

Neither we nor any of the underwriters makes any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the common stock. In addition, neither we nor any of the underwriters makes any representation that the representatives will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

Other Relationships

Some of the underwriters and their affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with us. They have received customary fees and commissions for these transactions.

Electronic Offer, Sale and Distribution of Shares

Credit Suisse First Boston LLC and Merrill Lynch, Pierce, Fenner & Smith Incorporated will be facilitating Internet distribution for this offering to certain of their respective Internet subscription customers. The representatives intend to allocate a limited number of shares for sale to their respective online brokerage customers. An electronic prospectus is available on the Internet web sites maintained by the representatives and web sites maintained by some of the other underwriters. Other than the prospectus in electronic format, the information contained on, or that may be accessed through, the web sites of Credit Suisse First Boston LLC and Merrill Lynch, Pierce, Fenner & Smith Incorporated is not part of this prospectus.

In connection with this offering, certain of the underwriters or securities dealers may distribute this prospectus electronically.

NOTICE TO CANADIAN RESIDENTS

Resale Restrictions

The distribution of the common stock in Canada is being made only on a private placement basis exempt from the requirements that we and the selling stockholders prepare and file a prospectus with the securities regulatory authorities in each province where trade of common stock are made. Any resale of the common stock in Canada must be made under applicable securities laws which will vary depending on the relevant jurisdiction, and which may require resales to be made under available statutory exemptions or under a discretionary exemption granted by the applicable Canadian securities regulatory authority. Purchasers are advised to seek legal advice prior to any resale of the common stock.

Representations of Purchasers

By purchasing common stock in Canada and accepting a purchase confirmation, a purchaser is representing to us, the selling stockholders and the dealer from whom the purchase confirmation is received that:

the purchaser is entitled under applicable provincial securities laws to purchase the common stock without the benefit of a prospectus qualified under those securities laws,

where required by law, that the purchaser is purchasing as principal and not as agent, and

the purchaser has reviewed the text above under Resale Restrictions.

Rights of Action Ontario Purchasers Only

Under Ontario securities legislation, a purchaser who purchases a security offered by this prospectus during the period of distribution will have a statutory right of action for damages, or while still the owner of the shares, for rescission against us and the selling stockholders in the event that this prospectus contains a misrepresentation. A purchaser will be deemed to have relied on the misrepresentation. The right of action for damages is exercisable not later than the earlier of 180 days from the date the purchaser first had knowledge of the facts giving rise to the cause of action and three years from the date on which payment is made for the shares. The right of action for rescission is exercisable not later than 180 days from the date on which payment is made for the shares. If a purchaser elects to exercise the right of action for rescission, the purchaser will have no right of action for damages against us or the selling stockholders. In no case will the amount recoverable in any action exceed the price at which the shares were offered to the purchaser and if the purchaser is shown to have purchased the securities with knowledge of the misrepresentation, we and the selling stockholders will have no liability. In the case of an action for damages, we and the selling stockholders will not be liable for all or any portion of the damages that are proven to not represent the depreciation in value of the shares as a result of the misrepresentation relied upon. These rights are in addition to, and without derogation from, any other rights or remedies available at law to an Ontario purchaser. The foregoing is a summary of the rights available to an Ontario purchaser. Ontario purchasers should refer to the complete text of the relevant statutory provisions.

Enforcement of Legal Rights

All of our directors and officers as well as the experts named herein and the selling stockholders may be located outside of Canada and, as a result, it may not be possible for Canadian purchasers to effect service or process within Canada upon us or those persons. All or a substantial portion of our assets and the assets of those person may be located outside of Canada and, as a result, it may not be possible to satisfy a judgment against us or those persons in Canada or to enforce a judgment obtained in Canadian courts against us or those persons outside of Canada.

Taxation and Eligibility for Investment

Canadian purchasers of common stock should consult their own legal and tax advisors with respect to the tax consequences of an investment in the common stock in their particular circumstances and about the eligibility of the common stock for investment by the purchaser under relevant Canadian legislation.

LEGAL MATTERS

Pepper Hamilton LLP, Washington, D.C., will pass upon the validity of the shares of common stock offered hereby. Legal matters relating to this offering will be passed upon for the underwriters by Sidley Austin Brown & Wood LLP, Chicago, Illinois.

EXPERTS

Our consolidated financial statements and schedule as of December 31, 2002 and 2003, and for each of the years in the three-year period ended December 31, 2003, have been included herein in reliance upon the report of KPMG LLP, independent auditors, appearing elsewhere herein, and upon the authority of said firm as experts in accounting and auditing. The audit report covering the December 31, 2003 consolidated financial statements refers to the adoption of Statement of Financial Accounting Standards No. 145, "Recission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections," on January 1, 2003.

WHERE YOU CAN FIND MORE INFORMATION

We have filed with the Securities and Exchange Commission a registration statement on Form S-1 under the Securities Act of 1933 with respect to the shares of common stock offered hereby. This prospectus does not contain all of the information set forth in the registration statement, certain portions of which are omitted as permitted by the rules and regulations of the Securities and Exchange Commission. For further information pertaining to us and the common stock to be sold in this offering, reference is made to the registration statement, including the exhibits thereto and the financial statements, notes and schedules filed as a part of that registration statement. Statements contained in this prospectus regarding the contents of any contract or other document referred to in those documents are not necessarily complete, and in each instance reference is made to the copy of the contract or other document filed as an exhibit to the registration statement or other document, each statement being qualified in all respects by that reference.

You may read and copy all or any portion of the registration statement and the exhibits at the Securities and Exchange Commission's public reference room at 450 Fifth Street N.W., Washington, D.C. 20549. You can request copies of these documents, upon payment of a duplication fee, by writing to the Securities and Exchange Commission. You may call the SEC at 1-800-SEC-0330 for further information on the operation of the Securities and Exchange Commission's public reference rooms. In addition, the Securities and Exchange Commission maintains a website on the Internet at http://www.sec.gov that contains reports, proxy and information statements and other information regarding registrants that file electronically with the Securities and Exchange Commission.

We are subject to the information and periodic reporting requirements of the Securities Exchange Act of 1934 and, in accordance with those requirements, file periodic reports, proxy and information statements and other information with the Securities and Exchange Commission. These periodic reports, proxy and information statements and other information are not incorporated herein by reference but are available on our web site, http://www.navteq.com, and are available for inspection and copying at the public reference facilities and Securities and Exchange Commission's website referred to above.

NAVTEQ CORPORATION
AND SUBSIDIARIES

INDEX TO FINANCIAL STATEMENTS

Independent Auditors' Report

The Board of Directors
NAVTEQ Corporation:

We have audited the accompanying consolidated balance sheets of NAVTEQ Corporation and subsidiaries (the Company) as of December 31, 2002 and 2003, and the related consolidated statements of operations, stockholders' equity (deficit) and comprehensive income (loss), and cash flows for each of the years in the three-year period ended December 31, 2003. 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 auditing standards generally accepted in the United States of America. 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, 2002 and 2003, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America. 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.

As discussed in Note 2 to the consolidated financial statements, the Company adopted the provisions of Statement of Financial Accounting Standards No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections," on January 1, 2003.

/s/ KPMG LLP

Chicago, Illinois
March 4, 2004
except as to Note 7, which is as of March 8, 2004

NAVTEQ CORPORATION
AND SUBSIDIARIES

Consolidated Balance Sheets

(In thousands, except per share amounts)

	December 31, 2002	December 31, 2003	March 28, 2004
			(unaudited)
Assets			
Current assets:			
Cash and cash equivalents	$ 9,427	1,982	2,371
Cash on deposit with affiliate	10,000	65,307	65,029
Accounts receivable, net of allowance for doubtful accounts of $2,784, $3,878 and $3,755 at December 31, 2002, December 31, 2003 and March 28, 2004, respectively	30,261	45,032	84,607
Deferred income taxes		36,614	36,639
Prepaid expenses and other current assets	3,342	5,999	5,115
Total current assets	53,030	154,934	193,761
Property and equipment, net	7,848	11,918	12,640
Capitalized software development costs, net	18,951	22,605	23,564
Long-term deferred income taxes		134,328	127,343
Deposits and other assets	498	1,400	1,645
Total assets	$ 80,327	325,185	358,953
Liabilities and Stockholders' Equity			
Current liabilities:			
Accounts payable	$ 5,392	15,539	9,814
Accrued payroll and related liabilities	16,138	20,344	17,101
Other accrued expenses	13,438	16,410	23,743
Deferred revenue	26,695	24,988	36,394
Total current liabilities	61,663	77,281	87,052
Fair value of derivative		23,799	17,001
Long-term deferred revenue	5,213	3,582	21,540
Other long-term liabilities	2,214	2,612	2,741
Total liabilities	69,090	107,274	128,334
Stockholders' equity:			
Common stock, $0.001 par value; 1,800,000 shares authorized; 1,175,587, 1,178,140 and 1,178,841 shares issued and outstanding at December 31, 2002, December 31, 2003 and March 28, 2004, respectively	1,176	1,178	1,179
Additional paid-in capital	764,275	767,709	767,993
Note receivable for common stock	(219)	(219)	(219)

	December 31, 2002	December 31, 2003	March 28, 2004
Deferred compensation expense		(2,332)	(2,131)
Accumulated other comprehensive income (loss)	3,600	(26,645)	(24,142)
Accumulated deficit	(757,595)	(521,780)	(512,061)
Total stockholders' equity	11,237	217,911	230,619
Total liabilities and stockholders' equity	$ 80,327	325,185	358,953

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,			Quarter Ended	
	2001	2002	2003	March 30, 2003	March 28, 2004
				(unaudited)	
Net revenue	$ 110,431	165,849	272,623	52,035	79,465
Operating costs and expenses:					
Database licensing and production costs	82,343	92,499	125,841	23,586	40,435
Selling, general, and administrative expenses	56,979	63,422	83,024	16,821	23,096
Total operating costs and expenses	139,322	155,921	208,865	40,407	63,531
Operating income (loss)	(28,891)	9,928	63,758	11,628	15,934
Other income (expense):					
Interest income	542	172	414	37	143
Interest expense	(17,925)	(840)	(34)	(7)	(1)
Loss on Philips debt extinguishment	(69,568)				
Foreign currency gain (loss)	(130)	134	6,174	4,119	(329)
Other expense	(537)	(134)	(11)		(18)
Income (loss) before income taxes	(116,509)	9,260	70,301	15,777	15,729
Income tax benefit (expense)		(1,105)	165,514	(300)	(6,010)
Net income (loss)	(116,509)	8,155	235,815	15,477	9,719
Cumulative preferred stock dividends	(91,417)	(110,464)			
Net income (loss) applicable to common stockholders	$ (207,926)	(102,309)	235,815	15,477	9,719
Earnings (loss) per share of common stock:					
Basic	$ (0.52)	(0.17)	0.20	0.01	0.01
Diluted	$ (0.52)	(0.17)	0.19	0.01	0.01
Weighted average shares of common stock outstanding:					
Basic	398,178	594,242	1,176,865	1,175,780	1,178,485
Diluted	398,178	594,242	1,226,303	1,218,422	1,275,755

See accompanying notes to consolidated financial statements.

NAVTEQ CORPORATION
AND SUBSIDIARIES
Consolidated Statements of Stockholders' Equity (Deficit) and Comprehensive Income (Loss)
(In thousands)

	Series A cumulative convertible preferred stock		Series B cumulative convertible preferred stock		Common stock		Additional paid-in capital	Note receivable for common stock	Deferred compensation expense	Accumulated other comprehensive income	Accumulated deficit	Total stockholders' equity (deficit)
	Shares	Amount	Shares	Amount	Shares	Amount						
Balances as of December 31, 2000		$		$	398,012	$ 398	299,257	(219)		3,897	(649,241)	(345,908)
Exchange of notes payable for series B convertible preferred stock, net of transaction costs			42,600	425,527								425,527
Exchange of notes payable for series A convertible preferred stock, net of transaction costs	1,696	16,954										16,954
Issuance of convertible preferred stock, net of transaction costs	2,310	23,073										23,073
Exercise of stock options					281		165					165
Comprehensive loss:												
Foreign currency translation adjustment										269		269
Net loss											(116,509)	(116,509)
Total comprehensive loss												(116,240)
Balances as of December 31, 2001	4,006	40,027	42,600	425,527	398,293	398	299,422	(219)		4,166	(765,750)	3,571
Exercise of stock options					619	1	76					77
Conversion of preferred stock	(4,006)	(40,027)	(42,600)	(425,527)	776,675	777	464,777					
Comprehensive income:												
										(566)		(566)

	Series A cumulative convertible preferred stock		Series B cumulative convertible preferred stock							
Foreign currency translation adjustment										
Net income									8,155	8,155
Total comprehensive income										7,589
Balances as of December 31, 2002			1,175,587	1,176	764,275	(219)		3,600	(757,595)	11,237
Exercise of stock options			2,553	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	$	$	1,178,140	$ 1,178	767,709	(219)	(2,332)	(26,645)	(521,780)	217,911

See accompanying notes to consolidated financial statements.

NAVTEQ CORPORATION
AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(In thousands)

	Years Ended December 31,			Quarter Ended	
	2001	2002	2003	March 30, 2003	March 28, 2004
				(unaudited)	
Cash flows from operating activities:					
Net income (loss)	$ (116,509)	8,155	235,815	15,477	9,719
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:					
Deferred income taxes			(170,953)		4,218
Loss on Philips debt extinguishment	69,568				
Depreciation and amortization	5,941	5,972	5,718	1,457	943
Amortization of software development costs	2,600	4,591	6,312	1,373	1,953
Foreign currency (gain) loss	130	(134)	(6,174)	(4,119)	329
Impairment of capitalized software development costs		2,114			
Deferred interest expense on refundable license payments	972	823			
Noncash interest expense on notes payable	17,053				
Provision for bad debts	913	1,795	1,584	366	287
Stock compensation expense			816		187
Noncash other	(11)	33	36	20	50
Changes in operating assets and liabilities:					
Accounts receivable	(1,240)	(9,634)	(12,061)	(8,836)	(11,700)
Prepaid expenses and other current assets	686	(165)	(2,499)	(950)	845
Deposits and other assets	10	(87)	(722)	214	(316)
Accounts payable	(3,182)	136	9,876	1,998	(5,470)
Accrued payroll and related liabilities	1,471	1,813	3,231	(3,147)	(3,056)
Other accrued expenses	686	4,196	873	(652)	5,908
Deferred revenue	9,333	2,212	(6,040)	424	686
Other long-term obligations	78	414	136	(305)	162
Net cash provided by (used in) operating activities	(11,501)	22,234	65,948	3,320	4,745
Cash flows from investing activities:					
Acquisition of property and equipment	(5,119)	(2,156)	(9,269)	(483)	(1,776)
Capitalized software development costs	(10,773)	(10,027)	(9,966)	(2,581)	(2,911)
Change in cash on deposit with affiliate, net	(5,000)	(5,000)	(55,307)	(7,200)	84
Net cash used in investing activities	(20,892)	(17,183)	(74,542)	(10,264)	(4,603)
Cash flows from financing activities:					
Issuance of common stock	165	77	288	37	299
Issuance of Series A cumulative convertible preferred stock, net of issuance costs	23,073				
Series B cumulative convertible preferred stock issuance costs	(473)				
Repayment of refundable licensing advances	(6,770)	(4,000)			

				Quarter Ended	
Loans from affiliate	16,600				
Net cash provided by (used in) financing activities	32,595	(3,923)	288	37	299
Effect of exchange rate changes on cash	(212)	793	861	92	(52)
Net increase (decrease) in cash and cash equivalents	(10)	1,921	(7,445)	(6,815)	389
Cash and cash equivalents at beginning of period	7,516	7,506	9,427	9,427	1,982
Cash and cash equivalents at end of period	$ 7,506	9,427	1,982	2,612	2,371
Supplemental disclosure of cash flow information:					
Cash paid during the period for interest	$ 5,506		18	7	1
Cash paid during the period for income taxes	$ 807	555	3,290	293	784
Supplemental disclosures of noncash financing activities:					
Exchange of notes payable to affiliate, including accrued interest thereon, for Series A cumulative convertible preferred stock	$ 16,954				
Exchange of notes payable to affiliate, including accrued interest thereon, for Series B cumulative convertible preferred stock	$ 426,000				

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"), formerly known as Navigation Technologies Corporation, 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 have developed or are developing applications that incorporate the Company's database.

(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 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) 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.

(f) Fair Value of Financial Instruments

The carrying values of cash equivalents, notes receivable from affiliate, receivables, payables, accrued expenses, and refundable deferred licensing advances approximate their fair values due to the short maturity of these instruments.

(g) 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.

(h) Derivatives

The Company uses a derivative financial instrument to manage foreign currency exchange rate risk. The Company did not designate the derivative as a hedge as defined by Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities." Therefore, the changes in fair market value of the derivative are recognized in the consolidated statement of operations.

(i) 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 our arrangements have multiple elements, the Company applies the guidance prescribed by Emerging Issues Task Force ("EITF") Consensus 00-21, "Revenue Arrangements with Multiple Deliverables."

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. Nonrefundable minimum licensing fees are recognized as revenue ratably over the period of the arrangement. 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. 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. Revenues from licensing arrangements including a second copy of the database are allocated equally to the two shipments of the database to the customer, which is consistent with their relative fair values. Licensing

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

(j) Database Licensing and Production Costs

Database licensing and production costs include the costs of database creation and updating, database licensing and distribution, and database-related software development. Database creation and updating costs of $54,613, $57,206, and $69,609 in 2001, 2002, and 2003, 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 AICPA Statement of Position No. 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" (SOP 98-1), and are then amortized on a straight-line basis over their estimated useful life, generally four to five years.

Database licensing and distribution costs of $15,967, $21,243, and $40,560 in 2001, 2002, and 2003, respectively, include direct costs related to reproduction of the database for licensing, professional services, and per copy sales (including shipping and handling costs of $2,494, $2,881, and $4,772 in 2001, 2002, and 2003, 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 four to five years. The Company capitalized $10,773, $10,027, and $9,966 of internal-use software development costs during 2001, 2002, and 2003, including $118 in capitalized interest during 2001. Included in database creation and updating costs is the amortization of internal-use software costs of $2,600, $4,591, and $6,312 for the years ended December 31, 2001, 2002, and 2003, respectively. Software development and maintenance costs of $11,763, $14,050, and $15,672 in 2001, 2002 and 2003, respectively, did not qualify for capitalization and were expensed as incurred.

The Company performs strategic reviews of its software development initiatives, including a comprehensive assessment of its internal-use software development projects to ensure that projects with capitalized costs are expected to provide substantive future service potential. Based on this review, during the third quarter of 2002, management determined that certain capitalized software development costs were impaired, and it was necessary to write-down the balance by $2,114. This write-down is recorded within database licensing and production costs in the accompanying 2002 consolidated statement of operations. Management believes that the remaining capitalized software development costs after this write-down are recoverable. In reaching this conclusion, management considered the progress of each of the Company's internal-use software development projects to date, expected completion timelines, and budgeted future expenditures for each of the projects.

(k) 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.

(l) 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 (deficit). Foreign currency transaction gains and losses are included in the consolidated statements of operations.

(m) 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", which provides a single accounting model for long-lived assets to be disposed of. The Company adopted SFAS No. 144 on January 1, 2002. The adoption of SFAS No. 144 did not affect the Company's consolidated financial statements.

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.

Prior to the adoption of SFAS No. 144, the Company accounted for long-lived assets in accordance with SFAS No. 121, "Accounting for Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of."

(n) 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 estimated fair value price of the underlying stock exceeds the exercise price. 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 of $816 for the year ended December 31, 2003 and $187 for the quarter ended March 28, 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.

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 of SFAS No. 123, as amended by SFAS No. 148, "Accounting for Stock Based Compensation Transition

and Disclosure". 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.

	Year Ended December 31			Quarter Ended	
	2001	2002	2003	March 30, 2003	March 28, 2004
				(unaudited)	
Net income (loss), as reported	$ (116,509)	8,155	235,815	15,477	9,719
Add: Stock-based employee compensation expense included in reported net income			816		116
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards	(9,329)	(4,268)	(3,149)	(734)	(358)
Pro forma net income (loss)	(125,838)	3,887	233,482	14,743	9,477
Deduct: Cumulative preferred stock dividends	(91,417)	(110,464)			
Pro forma net income (loss) applicable to common stockholders	$ (217,255)	(106,577)	233,482	14,743	9,477
Earnings (loss) per share of common stock:					
Basic as reported	$ (0.52)	(0.17)	0.20	0.01	0.01
Diluted as reported	$ (0.52)	(0.17)	0.19	0.01	0.01
Basic pro forma	$ (0.55)	(0.18)	0.20	0.01	0.01
Diluted pro forma	$ (0.55)	(0.18)	0.19	0.01	0.01

The per share weighted-average fair value of stock options granted during 2001, 2002, and 2003 was $0.61, $0.07 and $0.49, respectively, for options granted with an exercise price that equals its fair value 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 its fair value on the date of grant was $0.58. 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: 2001 no dividends, 75% volatility, risk-free interest rate of 4.86%, and expected life of 5.5 years; 2002 no dividends, 75% volatility, risk-free interest rate of 2.94%, and expected life of 5.6 years; 2003 no dividends, 67% volatility, risk-free interest rate of 3.19%, and expected life of 4.9 years.

(o) Comprehensive Income (Loss)

Accumulated other comprehensive income is related to the Company's foreign currency translation adjustments. No income taxes have been allocated to accumulated other comprehensive income (loss) due to the fact that the Company's investments in its foreign subsidiaries have been deemed to be essentially permanent in duration.

Comprehensive income for the quarters ended March 30, 2003 and March 28, 2004 was as follows:

	Quarter Ended	
	March 30, 2003	**March 28, 2004**
	(unaudited)	
Net income	$ 15,477	9,719
Foreign currency translation adjustment	(4,362)	2,503
Comprehensive income	$ 11,115	12,222

(p) Income (Loss) Per Share

Basic and diluted earnings (loss) per share is computed based on the net income (loss) after deducting cumulative preferred stock dividends, 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."

The following table sets forth the computation of earnings (loss) per share for the period ended:

	Year Ended December 31,			Quarter Ended	
	2001	2002	2003	March 30, 2003	March 28, 2004
				(unaudited)	
Numerator:					
Net income (loss)	$ (116,509)	8,155	235,815	15,477	9,719
Less: cumulative preferred stock dividends	(91,417)	(110,464)			
Net income (loss) applicable to common stockholders	$ (207,926)	(102,309)	235,815	15,477	9,719
Denominator:					
Denominator for basic earnings (loss) per share weighted-average shares outstanding	398,178	594,242	1,176,865	1,175,780	1,178,485
Effect of dilutive securities:					
Employee stock options			6,685		50,441
Warrants			42,753	42,642	46,829
Denominator for diluted earnings per share weighted-average shares outstanding and assumed conversions	398,178	594,242	1,226,303	1,218,422	1,275,755
Earnings (loss) per share:					
Basic	$ (0.52)	(0.17)	0.20	0.01	0.01
Diluted	$ (0.52)	(0.17)	0.19	0.01	0.01

Options to purchase 16,469, 108,957, and 15,025 shares of common stock were outstanding at December 31, 2001, 2002, and 2003, respectively, and options to purchase 107,492 and 1,047 shares of common stock were outstanding at March 30, 2003 and March 28, 2004, respectively, but were not included in the computation of diluted earnings per share because the effect would be antidilutive. Warrants to purchase 47,380 shares of common stock were outstanding at December 31, 2001 and 2002, but were not included in the computation of diluted earnings per share because the effect would be antidilutive. There were 4,006 shares of Series A cumulative convertible preferred stock and 42,600 shares of Series B cumulative convertible preferred stock outstanding as of December 31, 2001. These shares of Series A and Series B cumulative convertible preferred stock were converted into common stock as of October 1, 2002. The shares of preferred stock were not included in the computation of diluted earnings per share during 2001 and 2002 because the effect would be antidilutive (See Note 7).

(q) Reclassifications

Certain 2001 and 2002 amounts in the consolidated financial statements have been reclassified to conform to the 2003 presentation.

(r) Interim Financial Statements

The consolidated financial statements as of March 28, 2004 and for the quarters ended March 30, 2003 and March 28, 2004 together with the financial data and other information for those periods disclosed in these notes to the consolidated financial statements are unaudited. The unaudited financial statements include all adjustments, consisting of normal recurring adjustments, which are, in the opinion of management, necessary for a fair presentation of the financial position, results of operations and cash flows as of and for such periods. Results of operations for interim periods are not necessarily indicative of results to be expected for the entire year.

The Company's fiscal quarterly periods end on the Sunday nearest the calendar quarter end. The 2003 first quarter had 89 days and the 2004 quarter had 88 days. The Company's fiscal year end is December 31.

(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 has been reclassified as a component of other income (expense) in the Company's consolidated statements of operations.

In November 2002, the FASB issued Interpretation ("FIN") 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 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 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. The required disclosures are included in the notes to these consolidated financial statements.

In December 2003, the FASB issued FASB Interpretation No. 46 (revised December 2003), Consolidation of Variable Interest Entities, which addresses how a business enterprise should evaluate whether it has a controlling financial interest in an entity through means other than voting rights and

accordingly should consolidate the entity. FIN 46R replaces FASB Interpretation No. 46, Consolidation of Variable Interest Entities, which was issued in January 2003. The Company will be required to apply FIN 46R to variable interests in VIEs created after December 31, 2003. For variable interests in VIEs created before January 1, 2004, the Interpretation will be applied beginning on January 1, 2005. For any VIEs that must be consolidated under FIN 46R that were created before January 1, 2004, the assets, liabilities and noncontrolling interests of the VIE initially would be measured at their carrying amounts with any difference between the net amount added to the balance sheet and any previously recognized interest being recognized as the cumulative effect of an accounting change. If determining the carrying amounts is not practicable, fair value at the date FIN 46R first applies may be used to measure the assets, liabilities and noncontrolling interest of the VIE. The Company does not believe that adoption will have a material effect on the consolidated financial statements.

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.

FASB Statement No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity, was issued in May 2003. This Statement establishes standards for the classification and measurement of certain financial instruments with characteristics of both liabilities and equity. The Statement also includes required disclosures for financial instruments within its scope. For the Company, the Statement was effective for instruments entered into or modified after May 31, 2003 and otherwise will be effective as of January 1, 2004, except for mandatorily redeemable financial instruments. For certain mandatorily redeemable financial instruments, the Statement will be effective for the Company on January 1, 2005. The effective date has been deferred indefinitely for certain other types of mandatorily redeemable financial instruments. The Company currently does not have any financial instruments that are within the scope of this Statement.

In May 2003, the FASB's 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. The Company has adopted Issue 01-08. The adoption did not have a material effect on the Company's consolidated financial position and results of operations.

In May 2003, the EITF reached a consensus on Issue 00-21, "Revenue Arrangements with Multiple Deliverables." Issue 00-21 provides guidance on how to recognize revenue for arrangements that have multiple deliverables. The guidance in 00-21 was effective for arrangements entered into in fiscal periods beginning after June 15, 2003. The Company has adopted the consensus reached in Issue 00-21. Adoption did not affect the Company's financial condition or results of operations.

In November 2003, the EITF reached a consensus on Issue 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments." Issue 03-1 requires certain disclosures related to debt and marketable equity securities that are impaired at the balance sheet date but for which an other-than-temporary impairment has not been recognized. The Company has adopted the consensus reached in Issue 03-1. Adoption did not affect the Company's financial condition, results of operations or related disclosures.

In December 2003, the SEC issued SAB No. 104, "Revenue Recognition in Financial Statements." SAB 104 updates the guidance in SAB 101, "Revenue Recognition", integrates the related set of Frequently Asked Questions, and recognizes the role of EITF Issue 00-21 in revenue recognition. The Company has adopted the guidance in SAB 104. Adoption did not affect the Company's financial condition or results of operations.

In December 2003, the FASB re-issued SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits." The revised SFAS No. 132 requires additional disclosures to those required in the original SFAS No. 132 related to defined benefit plans. The Company has adopted the guidance in SFAS No. 132. Adoption did not affect the Company's financial condition, results of operations or related disclosures.

(3) Property and Equipment

The components of the Company's property and equipment as of December 31, 2002 and 2003 are as follows:

	2002	2003
Computers and equipment	$ 26,805	17,990
Furniture and fixtures	2,642	1,680
Purchased software	9,177	8,764
Leasehold improvements	2,243	3,756
	40,867	32,190
Less accumulated depreciation and amortization	(33,019)	(20,272)
	$ 7,848	11,918

During 2003, the Company reviewed the fixed asset ledgers and removed assets that were no longer in use.

(4) Long-term Deferred Revenue

Refundable Deferred Licensing Advances

In 1991, the Company entered into a database license agreement with an unaffiliated company (the "1991 Agreement") that required fixed prepaid license fees for use of the Company's database in route guidance products and other applications. Under the 1991 Agreement, the Company received $3,000 in cash through 1994, in exchange for aggregate future credits of $6,500, which could be utilized by such company as credits against 50% of future license obligations subject to a maximum of $2,000 in any one year. Any portion of this $6,500 in credits that was unused as of December 31, 2000 was refundable in cash by the Company. Due to the repayment contingencies discussed above, the amounts received were initially recorded as refundable deferred licensing advances. The total amount initially recorded of $3,000 was accreted to the maximum amount repayable as of December 31, 2000, at rates ranging from 9% to 14% using the effective interest rate method. The interest rate on remaining unpaid balances under the 1991 Agreement increased to 15% after December 31, 2000.

On September 27, 2002, the Company amended the 1991 Agreement (the "2002 Amendment"). Immediately prior to the 2002 Amendment, approximately $7,800 was owed by the Company under the

1991 Agreement. Pursuant to the provisions of the 2002 Amendment, the Company was required to (i) repay $4,000 of the outstanding balance in cash, and (ii) provide aggregate future credits of $6,000, which must be used by the unaffiliated company by December 31, 2007. The Company made cash payments of $4,000 in 2002. The $6,000 of license fee credits can be applied toward payment of up to 75% of license fees owed to the Company, including minimum annual license fees. Any portion of the unused license fee credits as of December 31, 2007 will be forfeited by the unaffiliated company. Upon execution of the 2002 Amendment, the Company re-classified the remaining $3,800 balance of refundable deferred licensing advances to long-term deferred revenue. The $3,800 of long-term deferred revenue recorded upon execution of the 2002 Amendment will be recognized as revenue in future periods in proportion to the unaffiliated company's usage of the $6,000 of license fee credits. Non-cash revenue of $48 and $158 was recognized during the years ended December 31, 2002 and 2003, respectively, and the unused license fee credits available are $5,674 as of December 31, 2003.

Other Long-term Deferred Revenue

In 2001, the Company entered into a four-year license agreement to provide map database information to an unaffiliated customer for use in that customer's products. Under the license agreement, the customer is required to purchase a minimum dollar value of licenses during each twelve-month period from July 1, 2001 through June 30, 2005. The Company recognizes the minimum licensing fees ratably over the related period. In the event that actual license fees for a given period exceed the minimum license fees applicable to that period, additional license fees are recognized when the customer reports that the Company has earned such additional fees. Pursuant to the terms of the license agreement, the Company received an $8,000 up-front payment from the customer in July 2001, which is being applied against the minimum licensing fees as they become due. As of December 31, 2002, $2,500 was classified as current deferred revenue and $1,500 was classified as long-term deferred revenue in the consolidated balance sheets under this arrangement. During 2003, the remaining balance of $4,000 was recognized in income.

During the first half 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 agreed to pay $30,000 within ninety days of the date of the agreement related to license fees for the first three years of the agreement, of which $996 was paid during the first quarter of 2004. The customer can use up to $10,000 of the credits in each of 2004, 2005 and 2006. In the event that 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 Company has no obligation to refund any unused amounts nor are there any restrictions on the nature or timing of the use of the cash received. During the first quarter of 2004, the Company recognized revenue of approximately $1,984 related to this agreement. As of March 28, 2004, pursuant to the agreement, the Company recorded a receivable of $29,004, short-term deferred revenue of $10,000 and long-term deferred revenue of $18,016. 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.

(5) Line of Credit

On November 10, 2003, the Company obtained, through its North American operating subsidiary, a bank revolving line of credit that is scheduled to mature on November 8, 2004. Pursuant to the terms of the line of credit, the Company may borrow up to $15,000 at an interest rate of either U.S. LIBOR

plus 1% or the greater of the prime rate or the Federal funds rate plus 1/2 of 1%. The Company is required to pay to the bank a quarterly facility fee of 37.5 basis points per annum on the average daily unused commitment. As of December 31, 2003 and March 28, 2004, there were no borrowings on the line of credit.

(6) Income Taxes

The domestic and foreign components of pre-tax income (loss) for the years ended December 31, 2001, 2002, and 2003 are as follows:

	2001	2002	2003
Domestic	$ (104,274)	(14,055)	9,915
Foreign	(12,235)	23,315	60,386
Income (loss) before income taxes	$ (116,509)	9,260	70,301

Total income tax expense (benefit) differed from the amount computed by applying the Federal statutory tax rate of 34% to the income (loss) before income taxes for the years ended December 31, 2001, 2002, and 2003 due to the following:

	2001	2002	2003
Tax expense (benefit) at Federal statutory rate	$ (39,613)	3,148	23,903
State tax expense (benefit), net of Federal tax effect	(4,614)	(527)	331
Foreign withholding tax, net of Federal tax effect			1,288
Impact of foreign rates and other permanent items	2,667	1,220	(7,573)
Increase (decrease) in valuation allowance	41,560	(2,736)	(183,463)
Income tax expense (benefit)	$	1,105	(165,514)

The current and deferred components of income tax expense (benefit) for the years ended December 31, 2001, 2002, and 2003 are as follows:

	2001	2002	2003
Current:			
Federal	$		
State			15
Foreign		1,105	3,223
Total current		1,105	3,238
Deferred:			
Federal			(73,089)
State			(8,513)
Foreign			(87,150)
Total deferred			(168,752)
Income tax expense (benefit)	$	1,105	(165,514)

Deferred tax assets and liabilities as of December 31, 2002 and 2003 are summarized as follows:

	2002	2003
Deferred tax assets:		
Current:		
Net operating loss carryforwards	$	34,966
Other deductible temporary differences		1,648
Total current deferred tax assets		36,614
Non-current:		
Research and development credit carryforwards	5,968	6,716
Interest not currently deductible	83,389	81,980
Net operating loss carryforwards	179,133	127,466
Other deductible temporary differences	7,606	7,662
Total non-current deferred tax assets	276,096	223,824
Gross deferred tax assets	276,096	260,438
Less valuation allowance	(268,902)	(85,439)
Net deferred tax assets	7,194	174,999
Non-current deferred tax liabilities:		
Capitalized software development costs, net	(7,194)	(3,902)
Other deductible temporary differences		(155)
Gross deferred tax liabilities	(7,194)	(4,057)
Deferred income taxes	$	170,942

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, expectation 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 is 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.

As of December 31, 2003, the Company has net operating loss carryforwards for Federal and state income tax purposes of approximately $201,737 and $78,144, respectively. The difference between the Federal loss carryforward and the state loss carryforward 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. The Company has foreign operating loss carryforwards in Europe of approximately $258,956 with no expiration date and in Canada of approximately $1,407 with generally a seven-year carryforward period.

The Company has interest expense carryforwards for both Federal and state income tax purposes of approximately $215,963. The Company also has available tax credit carryforwards of approximately $4,616 and $2,100 for Federal and state tax purposes, respectively. There is no expiration date for state tax credit carryforwards and interest expense carryforwards.

If not utilized, Federal and state net operating loss carryforwards expire through 2022 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 carryforward
2004	$	1,472	89
2005		2,907	83
2006		601	75
2007		713	152
2008	15,492	346	114
Thereafter	186,245	72,105	4,103
	$ 201,737	78,144	4,616

(7) Stockholders' Equity (Deficit)

In November 2001, the Company amended its articles of incorporation to increase the number of authorized shares of common stock to 1,800,000 and to increase the number of authorized shares of preferred stock to 70,000.

Preferred Stock Conversion and Related Litigation with Philips

In March 2001, the Company entered into a stock purchase agreement pursuant to which the Company's outstanding debt to Philips B.V. was converted to Series B cumulative convertible preferred stock and shares of Series A cumulative convertible preferred stock were sold by the Company to Philips B.V. for cash (see Note 9). The stock purchase agreement stated that holders of the Series A and Series B cumulative convertible preferred stock were entitled to receive, when, as and if declared by the Board of Directors, monthly dividends payable in-kind through the issuance of additional Series A and Series B shares at a rate of 2.21045% and 2.01178%, respectively, per month of the liquidation preference of such shares. Shares issued as Series A and Series B dividends were valued at the liquidation preference per share on the respective dividend payment dates. Dividends on Series A

and Series B cumulative convertible preferred stock were cumulative. No interest was payable on dividends in arrears. No dividends could be declared and/or paid to the holders of common stock unless all cumulative dividends had been paid in full to the holders of the Series A and Series B cumulative convertible preferred stock.

The respective Certificates of Designation governing the Series A and Series B cumulative preferred stock provided that each share of Series A and Series B preferred stock would convert automatically at the earlier of (i) the closing of an initial public offering, (ii) the closing of a change in control, or (iii) October 1, 2002, into the number of shares of common stock determined by dividing the liquidation preference, including accrued dividends, by the conversion price. The conversion price set forth in the respective Certificates of Designation was the initial public offering price in the event of an initial public offering, the change in control price in the event of a change in control, or the current market price (as defined in the respective Certificates of Designation) on October 1, 2002. As of October 1, 2002, the Company had not completed an initial public offering nor had a change in control taken place.

On September 20, 2002, Philips Consumer Electronics Services B.V. ("Philips B.V.") filed a complaint (the "Initial Complaint") against the Company in the Court of Chancery of the State of Delaware (the "Litigation"), which was subsequently dismissed on March 8, 2004, as described below. The Initial Complaint alleged that the Company did not intend to comply with its obligations under the Certificates of Designation for the Company's Series A and Series B cumulative convertible preferred stock ("Certificates of Designation") to convert such preferred stock into the Company's common stock pursuant to the terms of such Certificates of Designation. The Initial Complaint sought declaratory relief, injunctive relief and specific performance to require the Company to determine the applicable conversion price in accordance with the terms of the respective Certificates of Designation. On September 27, 2002, a Special Committee of the Board of Directors was formed to manage the Company's defense to the Litigation. On December 15, 2002, Messrs. van Ommeren and Shields, as directors of the Company and as members of the Special Committee, determined that Messrs. van Ommeren and Shields were the disinterested members of the Board of Directors for purposes of determining the conversion price (i.e., the Current Market Price of the Company's common stock, as defined in the respective Certificates of Designation) for the Series A and Series B cumulative convertible preferred stock pursuant to the respective Certificates of Designation. On December 19, 2002, Messrs. van Ommeren and Shields then determined that the Current Market Price of the Company's common stock as of October 1, 2002 was $0.86 per share. On December 30, 2002, the Special Committee issued a report to the Board of Directors reporting, among other things, the above determinations. These determinations were made by Messrs. van Ommeren and Shields and did not reflect the views of the full Board of Directors of the Current Market Price.

All of the Series A and Series B cumulative convertible preferred stock automatically converted pursuant to their terms as of October 1, 2002 into 776,675 shares of common stock based on the determination by Messrs. Shields and van Ommeren that the Current Market Price of the Company's common stock was $0.86 per share as of such date. 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).

On August 1, 2003, Philips B.V. filed a First Amended and Supplemental Complaint (the "Amended Complaint") in the Litigation against the Company and additionally named Messrs. Shields

and van Ommeren as defendants. The Amended Complaint alleged breach of contract and breach of covenant of good faith and fair dealing against the Company and breach of fiduciary duty against Messrs. Shields and van Ommeren. More specifically, the Amended Complaint stated that the Company breached its obligations under the Certificates of Designation to make a good faith determination of the Current Market Price of the Company's common stock as of October 1, 2002, including by failing to (1) properly determine the composition of the disinterested directors for purposes of determining the Current Market Price of the Company's common stock as of October 1, 2002, (2) base the determination of Current Market Price upon a timely valuation, and (3) base the determination on a valuation performed by an internationally recognized investment bank. The Amended Complaint further stated that (i) the Company breached an implied covenant of good faith and fair dealing under the Certificates of Designation, (ii) the Company breached its obligations under its March 29, 2001 Stock Purchase Agreement with Philips B.V. by failing to ensure that its certification of incorporation permits issuance of a sufficient number of shares of common stock to satisfy the number of shares to which Philips B.V. is entitled upon the conversion of the Series A and Series B shares, and (iii) Messrs. Shields and van Ommeren willfully breached their fiduciary duties to Philips B.V. The Amended Complaint sought an order appointing an independent appraiser to determine the Current Market Price as of October 1, 2002, specific performance to require the Company to convert the Series A and Series B shares on the terms set forth in the Certificates of Designation, a declaration that Messrs. Shields and van Ommeren breached their fiduciary duties to Philips B.V., injunctive relief to prevent the defendants from continuing to interfere with Philips B.V.'s rights under the Certificates of Designation, and unspecified monetary and exemplary damages and costs of suit.

On December 22, 2003, the Company received a letter from Philips B.V. acknowledging the Special Committee's determination of the Current Market Price of the Common Stock as of October 1, 2002 of $0.86 per share and requesting the shares of preferred stock representing the accrued dividends. The letter further stated that Philips B.V. would, after receipt of such shares, tender all of its shares of preferred stock to the Company for the common stock issuable upon conversion of the preferred stock. Accordingly, the Company delivered certificates evidencing the shares of preferred stock representing the accrued dividends to Philips B.V. Philips B.V. then tendered the certificates of all of its preferred stock to the Company, and the Company issued the common stock resulting from the conversion and delivered certificates evidencing the same to Philips B.V. Thereafter, the parties filed a Stipulation and Order of Dismissal, and on March 8, 2004, the Court of Chancery granted a dismissal of the Litigation. The Stipulation and Order of Dismissal was with prejudice only with respect to the specific claims actually asserted in the action and only with respect to the specifically named parties.

Deferred Compensation Expense

During 2003, the Company granted stock options to its employees where the exercise price was less than the fair market value 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 of the total measured compensation cost during 2003. The remaining $2,332 was recorded as deferred compensation expense in stockholders' equity and will be charged to income in future periods based on vesting of the granted options.

Other

During 2000, the Company loaned a former employee $219 to enable the individual to exercise options for the purchase of 257 shares of newly issued common stock. The loan is represented by a limited recourse promissory note with a November 20, 2004 maturity date. Interest accrues at 6.2% per annum and is payable at maturity. The note is secured by the underlying shares of common stock and the Company's recourse against the individual is limited to the excess of 60% of the aggregate principal due over the amount received by the Company. Upon execution of the limited recourse note, the fair value of the underlying common stock did not exceed the option exercise price.

(8) Stock Option Plans

In 1988, the Company adopted a stock option plan (1988 Plan). The total authorized shares under the 1988 Plan are 35,700. 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.

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 20,000 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 35,000 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 10,500 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, 7,500 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 pursuant to the Company's exchange offer described below, 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 153,039 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, 2003, there were 86,499 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 1,234, 103,039 and 50,000 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.

Exchange Offer

On October 1, 2001, the Company completed an offer to substantially all employees, other than employees resident in Canada, holding stock options having an exercise price of $0.85 or $1.10, that enabled such holders to cancel their options in return for a promise to grant new options to purchase an equal number of shares of common stock no sooner than six months and one day after such cancellation at an exercise price equal to the fair market value of the Company's common stock on the date of grant. No options were granted to the Company's employees within six months prior to the cancellation. Pursuant to the exchange offer, options to purchase 61,210 shares of common stock with an exercise price of $0.85 and options to purchase 23,199 shares of common stock with an exercise price of $1.10 were canceled. The Company granted replacement options to purchase 83,927 shares of common stock to employees on May 15, 2002, with an exercise price equal to $0.10 per share, which was determined to be the fair market value of the Company's common stock on that date. In connection with the determination of fair market value, the Board had the assistance of an independent valuation firm, considered information provided by the Company's principal stockholders, and reviewed such other information as deemed relevant. The Company did not enter into any agreements, formal or otherwise, to compensate its employees for increases in the fair market value of the Company's common stock during the period between cancellation and the grant of the replacement awards.

Stock Option Activity

Stock option activity during the periods indicated is as follows:

	Number of options	Weighted-average exercise price	Options Exercisable	Weighted-average exercise price
Balance as of December 31, 2000	110,773	$ 0.92		
Granted	1,448	1.10		
Exercised	(281)	0.59		
Forfeited	(11,062)	0.93		
Cancelled pursuant to exchange offer	(84,409)	0.92	43,233	0.84
Balance as of December 31, 2001	16,469	0.85		
Granted	96,315	0.10		
Exercised	(618)	0.12		
Forfeited	(3,209)	0.36		
Balance as of December 31, 2002	108,957	0.21	79,862	0.24
Granted (with exercise price equal to fair market value on the date of grant)	1,308	0.86		
Granted (with exercise price less than fair market value on the date of grant)	9,990	0.54		
Exercised	(2,553)	0.11		
Forfeited	(2,502)	0.50		
Balance as of December 31, 2003	115,200	0.24	95,915	0.21

The following table summarizes information about stock options outstanding as of December 31, 2003:

	Options outstanding			Options exercisable	
Exercise prices	Number of shares outstanding	Weighted-average remaining contractual life (years)	Weighted-average exercise price	Number of shares exercisable	Weighted-average exercise price
$0.10	90,149	8.37	$ 0.10	80,974	$ 0.10
0.30 - 0.41	5,260	9.93	0.39	1,437	0.38
0.52 - 0.64	1,385	7.78	0.60	320	0.60
0.75	3,688	9.98	0.75		
0.85 - 0.86	13,652	3.73	0.85	12,373	0.85
1.10	1,066	6.90	1.10	811	1.10
	115,200	7.93	$ 0.24	95,915	$ 0.21

(9) Related Party Transactions

(a) Philips And Affiliates

As of December 31, 2003, Philips B.V. owned 976,471 shares of the Company's common stock, representing approximately 82.9% of the Company's outstanding common stock.

As of December 31, 2002 and 2003, Philips B.V. held warrants to purchase 47,380 shares of the Company's common stock. The per share exercise price of the warrants is $0.01. The warrants are exercisable and expire on April 1, 2007, and are subject to adjustment for stock splits or dividends and have certain antidilution provisions for below market issuances.

Loan Agreement

On May 28, 1997, the Company entered into an amended and restated master loan agreement with Philips effective April 1, 1997. The Company's secured demand notes payable to Philips from April 1, 1997 through December 31, 2000, including accrued but unpaid interest, were converted to secured term loans, bearing interest at 14%. Warrants to purchase shares of common stock were issued to Philips in connection with the Company's secured demand notes. Interest on the secured term loans accrued monthly and was capitalized into principal. Philips' commitment to provide the Company with funding under this agreement terminated on January 1, 2001.

Debt Extinguishment and Issuance of Preferred Stock

Between January 19, 2001 and March 22, 2001, the Company issued demand promissory notes to Philips B.V. for cash proceeds of $16,600. On March 29, 2001, the Company entered into a stock purchase agreement with Philips B.V. pursuant to which: (i) the $16,954 balance of these promissory notes, including accrued and capitalized interest thereon, was settled in exchange for the issuance of 1,696 shares of Series A cumulative convertible preferred stock and (ii) all $426,000 of outstanding borrowings under the amended and restated master loan agreement dated April 1, 1997, including accrued and capitalized interest thereon, were settled in exchange for the issuance of 42,600 shares of Series B cumulative convertible preferred stock. In conjunction with the closing of the stock purchase agreement, Philips B.V. purchased 710 additional shares of Series A cumulative convertible preferred stock for cash proceeds of $7,100. As a result of this transaction, the master loan agreement and the security interest in the Company's assets thereunder were terminated. The Company incurred a $69,568 loss upon extinguishment of the secured notes payable to Philips B.V., resulting from the unamortized debt discount on the notes as of March 29, 2001. Upon consummation of the stock purchase agreement, Philips B.V. owned approximately 79% of the combined voting power of the outstanding common and preferred stock of the Company, without giving effect to non-voting warrants that entitle Philips B.V. to purchase 47,380 additional shares of common stock. Philips B.V. is entitled to certain registration rights with respect to its shares of stock in the Company.

The stock purchase agreement stipulated that Philips B.V. would provide up to $50,000 of financing to the Company in exchange for the issuance of Series A cumulative convertible preferred stock up to the earliest date on which a conversion event under the terms of the agreement occurred. The aggregate proceeds of $24,054 received from the sale of Series A shares and conversion of demand promissory notes upon consummation of the stock purchase agreement were applied against the $50,000 financing commitment. Between May 3, 2001 and December 31, 2001, the Company issued 1,600 shares of Series A cumulative convertible preferred stock for $16,000 of cash proceeds. The Company did not issue any shares of Series A cumulative convertible preferred stock during 2002 or

2003. As described in note 7, the Series A and Series B cumulative convertible preferred stock converted to common stock as of October 1, 2002.

The Company also entered into a Registration Rights Agreement with Philips B.V. dated as of March 29, 2001. Under this agreement, the Company granted Philips B.V. certain rights with respect to the registration, under the Securities Act of 1933, of shares of the Company's common stock owned by Philips B.V. The Company may be required to register, at the Company's expense, some or all of Philips B.V.'s shares at any time. Philips B.V. is entitled to make up to five demands for registration. However, the Company is not required to effect any requested registration until a period of six months has elapsed from the effective date of the most recent previous registration. In addition to these demand registration rights, if the Company proposes to register any shares of its common stock for public sale under the Securities Act of 1933, either for its own account or the account of any other person, Philips B.V. may require that the Company include some or all of its shares in that registration. The Company is obligated to pay all of the expenses incurred in connection with the registration (other than certain selling expenses of Philips B.V.). The underwriter of an offering of the Company's securities proposed to be made under this provision may limit the number of shares of the Company's stock owned by Philips B.V. to be included in the registration under certain circumstances. The Company's obligations terminate with respect to the registration rights after the earlier of: (i) five years after an initial public offering or (ii) the date at which Philips B.V. is able to sell its registrable securities within a 180-day period in accordance with Rule 144 under the Securities Act of 1933.

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 declines annually over the next seven years 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 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.

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, which was subsequently assigned to the Company's U.S. operating subsidiary. Pursuant to the terms of the deposit agreement, the Company rolled over $42,000 of previously deposited funds on December 26, 2003 and deposited an additional $16,990 on December 31, 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 $^{1}/_{4}$%. Deposits of $6,990 matured on January 2, 2004, at which time all amounts were paid to the Company. Deposits of $42,000 and $10,000 had maturity dates of January 2, 2004, and January 9, 2004, respectively, at which time all amounts were rolled over at the Company's option. During the first quarter of 2004, the Company rolled over $54,000 of previously deposited funds on March 26, 2004, and deposited an additional $9,200 on March 26, 2004 with Philips N.V. Deposits of $9,200 matured on March 29, 2004, at which time all amounts were paid to the Company. Deposits of

$54,000 had a maturity date of April 2, 2004 at which time all amounts were rolled over at the Company's option pursuant to the terms of the deposit agreement.

The Company's European operating subsidiary 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 $6,435 on December 31, 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 1/4% for a U.S. Dollar deposit and EURIBOR/EONIA minus 1/4% for Euro deposits. Deposits of $4,042 and $2,275 had maturity dates of January 5, 2004, and January 12, 2004, respectively and were repaid to the Company at maturity. During the first quarter of 2004, the Company deposited $1,829 on March 25, 2004 with Philips N.V. The deposit had a maturity date of March 29, 2004 and was repaid to the Company at maturity.

During 2002 and 2003, the Company received $53 and $268, respectively, in interest income related to the deposit agreements. During the first quarter of 2004, the Company received $107 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. to minimize the exchange rate exposure between the U.S. dollar and the euro on the expected repayment of an intercompany obligation. The intercompany balance is payable by one of the Company's European subsidiaries to the Company and one of its U.S. subsidiaries, and is due in U.S. dollars. Through December 31, 2002, this intercompany balance was considered permanent in nature, as repayment was not expected to occur in the foreseeable future. However, primarily as a result of improved operating performance in the Company's European business, management concluded that cash flows would be sufficient to support repayment over the next several years. Accordingly, effective January 1, 2003, the Company adopted a plan for repayment and the loan is no longer designated as permanent in nature.

Under the terms of the Swap, the Company's European subsidiary will make payments to Philips N.V. 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 intercompany loan, which becomes due on March 28, 2007, had an outstanding principal balance of $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, 2003, and March 28, 2004, the outstanding intercompany obligation (net of payments) was $159,199 and $148,986, respectively and the fair value of the Swap was a liability of $23,799 and $17,001, respectively.

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 Philips N.V. in exchange for U.S. dollars at the one-month U.S. dollar LIBOR rate.

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 $1,697, $1,791, $1,026, and $228 are included in operating costs and expenses for the years ended December 31, 2001, 2002, and 2003, and the quarter ended March 28, 2004, respectively.

(b) Other Related Party Transactions

The Company has a consulting agreement with T. Russell Shields, a member of the Company's Board of Directors. In addition, Shields Enterprises, Inc. ("SEI Information Technology"), which is owned by Mr. Shields, has provided technical support to the Company on a contractual basis for development of proprietary software and systems for database creation and updating.

On October 15, 1999, the Company entered into a one-year consulting agreement with Mr. Shields, which was subsequently amended and extended through April 15, 2004. Mr. Shields remains a member of the Board of Directors. Pursuant to the consulting agreement, the Company agreed to pay Mr. Shields $0.3 per hour for consulting services as requested by the Company and accepted by Mr. Shields. Mr. Shields also agreed to provide general advice and support to the Company for 5 to 10 hours per month for a fee of $3 per month.

Fulfillment services and consulting services and support were purchased from SEI Information Technology and from Mr. Shields. Total fees incurred for services from SEI Information Technology were $287, $0 and $40 for the years ended December 31, 2001, 2002, and 2003, respectively. Total fees incurred for services from Mr. Shields were $0, $25 and $32 for the years ended December 31, 2001, 2002, and 2003, respectively.

(10) 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 terms of the Swap are described in Note 9 under the caption "Swap Agreement."

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 loss on the fair value of the Swap of $21,997 was recorded for the year ended December 31, 2003. This loss was offset by a foreign currency transaction gain of $22,915 recognized as a result of the remeasurement of the outstanding intercompany obligation at December 31, 2003. A foreign currency transaction loss of $963 was recognized in earnings during the year ended December 31, 2003 resulting from foreign currency exchange differences arising on the repayments of the intercompany obligation subsequent to entering into the Swap. From January 1, 2003 until the Swap was entered into on April 22, 2003, the Company recognized an unrealized gain on the remeasurement of the intercompany obligation of $7,760.

A gain on the fair value of the Swap of $6,194 was recorded for the quarter ended March 28, 2004. This gain was offset by a foreign currency transaction loss of $4,790 recognized as a result of the remeasurement of the outstanding intercompany obligation at March 28, 2004. A foreign currency transaction loss of $1,369 was recognized in earnings during the quarter ended March 28, 2004 resulting from foreign currency exchange differences arising on the repayments of the intercompany obligation.

(11) 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 $1,527, $580, and $1,602 to these defined contribution employee benefit plans for the years ended December 31, 2001, 2002, and 2003, respectively.

(12) Enterprise-wide Disclosures

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

The following summarizes net revenue on a geographic basis:

	Years ended December 31,			Quarter Ended	
	2001	2002	2003	March 30, 2003	March 28, 2004
				(unaudited)	
Net revenue:					
North America	$ 39,796	52,807	91,664	16,588	24,898
Europe	70,635	113,042	180,959	35,447	54,567
Total net revenue	$ 110,431	165,849	272,623	52,035	79,465

The following summarizes long-lived assets on a geographic basis as of :

	December 31, 2002	December 31, 2003	March 28, 2004 (unaudited)
Property and equipment, net:			
North America	$ 5,762	8,331	8,560
Europe	2,086	3,587	4,080
Total property and equipment, net	$ 7,848	11,918	12,640
Capitalized software development costs, net:			
North America	$ 18,951	22,605	23,564
Europe			
Total capitalized software development costs, net	$ 18,951	22,605	23,564

(13) Concentrations of Risk

Approximately 29% of the Company's revenue for the year ended December 31, 2003 was from two customers, accounting for 18% and 12%, respectively, of total revenue. Approximately 28% of the Company's revenue for the year ended December 31, 2002 was from two customers, accounting for 15% and 13%, respectively, of total revenue. Approximately 30% of the Company's revenue for the year ended December 31, 2001 was from two customers, accounting for 19% and 11%, respectively, of total revenue.

(14) 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, 2003 are as follows:

Year ending December 31:	
2004	$ 11,976
2005	8,722
2006	7,100
2007	4,923
2008	1,420
Thereafter	3,616
	$ 37,757

Total rent expense under operating leases for facilities and equipment was $7,271, $8,301, and $8,850 for the years ended December 31, 2001, 2002, and 2003, respectively.

(15) 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, 2002				
Net revenue	$ 30,785	38,593	44,822	51,649
Operating income (loss)	(2,193)	2,439	6,088	3,594
Net income (loss)	(2,585)	1,990	5,434	3,316
Net income (loss) applicable to common stockholders	(37,209)	(34,787)	(33,629)	3,316
Basic and diluted earnings (loss) per share of common stock *	(0.09)	(0.09)	(0.08)	0.00
For the year ended December 31, 2003				
Net revenue	$ 52,035	67,534	71,320	81,734
Operating income	11,628	20,703	19,483	11,944
Net income	15,477	22,773	18,693	178,872
Net income applicable to common stockholders	15,477	22,773	18,693	178,872
Basic earnings per share of common stock	0.01	0.02	0.02	0.15
Diluted earnings per share of common stock	0.01	0.02	0.02	0.14

* The earnings (loss) 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.

(16) Subsequent Events (unaudited)

Philips Consumer Electronic Services B.V. ("Philips B.V.") owns 1,023,851 shares of common stock, or approximately 83%, of the Company. These shares include the 47,380 shares of common stock issued to Philips B.V. on April 28, 2004 pursuant to the exercise by Philips B.V. of all of its outstanding warrants to purchase shares of the Company's common stock. Pursuant to a registration rights agreement the Company entered into with Philips B.V., the Company has granted Philips B.V. certain rights to register shares of the Company's common stock owned by Philips for sale under the Securities Act of 1933, as amended. Philips B.V. may require that the Company register some or all of its shares at any time, as provided in the agreement. The Company is obligated to pay all expenses in connection with the registration (other than the underwriting commissions or discounts and legal expenses of Philips B.V.). The Company is not required to effect any requested registration, however, until a period of six months has elapsed from the effective date of the most recent previous registration. On April 16, 2004, Philips exercised its first registration demand right under the registration rights agreement. 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. The Company's selling stockholders, Philips B.V., and NavPart I B.V., will receive all of the proceeds from the sale of shares in the offering.

On April 27, 2004, the Company's board of directors and stockholders approved a reverse split of the Company's common stock, which the Company expects to effect by amending its amended and restated certificate of incorporation prior to the completion of the Company's initial public offering. The ratio for the reverse split will be 1-for-14, 1-for-15, 1-for-16 or 1-for-17, as determined by the Company's board of directors. The board of directors also may choose to abandon the reverse split at

any time prior to filing of the reverse split amendment. Once the reverse split is effected, all previously reported share amounts will be retroactively adjusted to give effect to the reverse split.

In April 2004, the Company declared a special cash dividend to common stockholders of record as of April 19, 2004 in the amount of approximately $47,159, payable June 18, 2004.

On April 28, 2004, Philips B.V. exercised its warrants to acquire 47,380 shares of the Company's common stock at a purchase price of $0.01 per share. The shares resulting from the exercise of warrants will not be included in Philips' outstanding common stock for purposes of the special cash dividend to be paid to our common stockholders on June 18, 2004.

The pro forma balance at March 28, 2004 set forth below gives effect to the aforementioned special dividend and warrant exercise as if they had occurred on March 28, 2004:

	Pro forma Balance at March 28, 2004
Cash on deposit with affiliate	$ 18,344
Common stock	1,226
Additional paid-in capital	721,261

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
2001	$ 1,090	913	(337)	1,666
2002	1,666	1,795	(677)	2,784
2003	2,784	1,584	(490)	3,878

(1) Provision for bad debts.

(2) Accounts receivable written off against the allowance.

See accompanying independent auditors' report.

PART II

INFORMATION NOT REQUIRED IN THE PROSPECTUS

Item 13. Other Expenses of Issuance and Distribution

Other expenses in connection with the issuance and distribution of the securities to be registered hereunder will be substantially as follows (all amounts are estimated except the Securities and Exchange Commission registration fee, the National Association of Securities Dealers filing fee and the New York Stock Exchange listing fee):

Item	Amount
Securities and Exchange Commission registration fee	$ 63,350
NASD filing fee	30,500
New York Stock Exchange listing fee	*
Blue Sky filing fees and expenses	*
Accounting fees and expenses	*
Legal fees and expenses	*
Transfer agent fees and expenses	*
Printing and engraving expenses	*
Miscellaneous expenses	*
Total[(1)]	$ *

(*) To be provided in an amendment to this registration statement.

(1) The expenses of this offering to be paid by us are estimated to be approximately $1,000,000. These expenses do not include underwriting discounts and commissions and legal expenses of the selling stockholders and certain other expenses for which the underwriters have agreed to reimburse us.

Item 14. Indemnification of Directors and Officers

Section 145 of the DGCL provides that a corporation may indemnify directors and officers as well as other employees and individuals against expenses, including attorneys' fees, judgments, fines and amounts paid in settlement, that are incurred in connection with various actions, suits or proceedings, whether civil, criminal, administrative or investigative other than an action by or in the right of the corporation, known as a derivative action, if they acted in good faith and in a manner they reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, if they had no reasonable cause to believe their conduct was unlawful. A similar standard is applicable in the case of derivative actions, except that indemnification only extends to expenses, including attorneys' fees, incurred in connection with the defense or settlement of these actions, and the statute requires court approval before there can be any indemnification if the person seeking indemnification has been found liable to the corporation. The statute provides that it is not excluding other indemnification that may be granted by a corporation's bylaws, disinterested director vote, stockholder vote, agreement or otherwise.

Section 102(b)(7) of the DGCL permits a corporation to provide in its certificate of incorporation that a director of the corporation shall not be personally liable to the corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability (i) for any breach of the director's duty of loyalty to the corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) for payments of unlawful dividends or unlawful stock repurchases or redemptions, or (iv) for any transaction from which the director derived an improper personal benefit.

The registrant's certificate of incorporation and bylaws provide for indemnification of directors and officers to the fullest extent permitted by law. Any repeal or modification of these provisions shall not

adversely affect any right or protection of a director of the registrant for or with respect to any acts or omissions of that director occurring prior to the amendment or repeal.

The registrant expects to obtain insurance policies under which its directors and officers are insured, within the limits and subject to the limitations of those policies, against certain expenses in connection with the defense of, and certain liabilities which might be imposed as a result of, actions, suits or proceedings to which they are parties by reason of being or having been directors or officers.

The registrant has entered into indemnity agreements with its directors and officers providing the indemnification described above.

Reference is also made to the Underwriting Agreement filed as Exhibit 1.1 to the Registration Statement for information concerning the underwriters' obligation to indemnify the registrant and its officers and directors in certain circumstances.

Item 15. Recent Sales of Unregistered Securities

During the three year period preceding the date of filing of this registration statement, we have issued securities in the transactions described below without registration under the Securities Act. These securities were offered and sold by us in reliance upon exemptions from the registration requirements provided by Section 4(2) of the Securities Act and Regulation D under the Securities Act relating to sales not involving any public offering, Regulation S relating to sales made outside of the United States, and/or Rule 701 under the Securities Act relating to transactions occurring under compensatory benefit plans.

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.

In June 2001, we sold 800,000 shares of our Series A preferred stock to Philips at a purchase price of $10 per share pursuant to the terms of the stock purchase agreement with Philips.

In July 2001, we sold 600,000 shares of our Series A preferred stock to Philips at a purchase price of $10 per share pursuant to the terms of the stock purchase agreement with Philips.

From June 1, 2001 to January 15, 2002, we issued 107,107 shares of our common stock in connection with the exercise of stock options granted under our employee stock option plans and agreements.

Item 16. Exhibits and Financial Statement Schedules

Exhibit Number	Description of Exhibit
1.1+	Form of Underwriting Agreement.
3.1	Amended and Restated Certificate of Incorporation.(1)
3.2	Certificate of Amendment to Certificate of Incorporation.(11)
3.3	Certificate of Designation of Series A Cumulative Preferred Stock.(1)
3.4	Certificate of Designation of Series B Cumulative Preferred Stock.(1)
3.5++	Amended and Restated Certificate of Incorporation (to be effective upon completion of the offering).
3.6	Restated Bylaws.(2)

3.7++	Amended and Restated Bylaws (to be effective upon completion of the offering).
4.1	Specimen Common Stock Certificate.
4.2	Stock Option Agreement dated as of May 15, 2002 between Navigation Technologies and Judson C. Green.(7)
4.3(a)	Stock Option Agreement dated as of May 15, 2002 between Navigation Technologies and John K. MacLeod.(7)
4.3(b)	Stock Option Agreement dated as of May 15, 2002 between Navigation Technologies and John K. MacLeod.(7)
4.4	Registration Rights Agreement dated as of March 29, 2001 between Navigation Technologies and Philips Consumer Electronic Services B.V.(1)
4.5	Warrant Agreement dated as of April 1, 1997 between Navigation Technologies and Philips Media Services B.V.(1)
4.6	Agreement Regarding Registration of Shares dated as of May 17, 2004 between NAVTEQ and NavPart I B.V.
5.1+	Opinion of Pepper Hamilton LLP.
10.1	Stock Purchase Agreement dated as of March 29, 2001 between Navigation Technologies and Philips Consumer Electronic Services B.V.(1)
10.2(i)	Employment Agreement dated as of April 17, 2000 between Navigation Technologies and Judson C. Green.(1)
10.2(ii)	First Amendment to Employment Agreement dated as of August 15, 2001 between Navigation Technologies and Judson C. Green.(1)
10.2(iii)	Letter Agreement between Navigation Technologies and Judson C. Green dated June 16, 2000.(7)
10.2(iv)++	Amendment to Employment Agreement dated as of March 19, 2004 between Navigation Technologies and Judson C. Green.
10.2(v)++	Amended and Restated Employment Agreement dated as of April 30, 2004 between NAVTEQ Corporation and Judson C. Green.
10.3	Employment Agreement dated as of September 18, 2000 between Navigation Technologies and John K. MacLeod.(1)
10.4	Letter Agreement dated February 3, 1998 from Navigation Technologies agreed to and accepted by M. Salahuddin Khan.(1)
10.5	Letter Agreement dated February 13, 1997 from Navigation Technologies agreed to and accepted by Denis M. Cohen.(1)
10.6++	Form of Indemnification Agreement.
10.7(i)	BMW Group International Terms and Conditions for the Purchase of Production Materials and Automotive Components dated September 24, 2001.(4)
10.7(ii)	Purchasing Terms and Conditions between BMW North America, Inc. and Navigation Technologies.(c)(5)

10.7(iii)	Agreement between BMW (South Africa) (Proprietary) Limited and Navigation Technologies B.V. commencing June 1, 1999 (the "South Africa Agreement").[(c)(5)]
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10.8(i)	Data License Agreement dated December 1, 1999 between Harman International Industries, Incorporated ("Harman") and Navigation Technologies.[(c)(5)]
10.8(ii)	Territory License No. 6 dated September 28, 2001 between Harman and Navigation Technologies ("License No. 6").[(c)(4)]
10.8(iii)	Distribution Services Addendum to License No. 6 dated January 1, 2002 between Harman and Navigation Technologies.[(c)(4)]
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10.8(vi)	Territory License No. 8 dated August 1, 2002 between Harman and Navigation Technologies.[(c)(11)]
10.9	Second Amended and Restated Promissory Note dated June 27, 2003, by Navigation Technologies Corporation in favor of ABN AMRO Bank N.V.[(10)]
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10.16	$15,000,000 364 Day Revolving Credit Agreement dated as of November 10, 2003, by and between Navigation Technologies North America, LLC and JPMorgan Chase Bank.[(11)]
10.17	Guaranty made by Navigation Technologies Corporation dated as of November 10, 2003 in favor of JPMorgan Chase Bank.[(11)]
10.18	Assignment and Amendment to Deposit Agreement by and among Navigation Technologies Corporation, Navigation Technologies North America, LLC and Koninklijke Philips Electronics N.V.[(9)]
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10.21	Deposit Agreement by and among Navigation Technologies B.V., and Koninklijke Philips Electronics N.V.[(10)]

10.22	Amendment to Deposit Agreements dated as of May 18, 2004 by and among NAVTEQ B.V., NAVTEQ North America LLC, and Koninklijke Philips Electronics N.V.
21.1	Subsidiaries of NAVTEQ.(11)
23.1	Consent of KPMG LLP.
23.2+	Consent of Pepper Hamilton LLP (included in Exhibit 5.1).
24.1++	Power of Attorney (set forth on the signature page to this registration statement).

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To be filed by amendment.

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Previously filed as an exhibit to this registration statement.

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

(1)
Filed with NAVTEQ's Registration Statement on Form 10, Registration No. 000-21323.

(2)
Filed with NAVTEQ's Quarterly Report on Form 10-Q for the quarter ended March 31, 2002.

(3)
Filed with NAVTEQ's Registration Statement on Form S-8, Registration No. 333-767000.

(4)
Filed with NAVTEQ's Amendment No. 2 to Annual Report on Form 10-K/A for the fiscal year ended December 31, 2001.

(5)
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(10)
Filed with NAVTEQ's Quarterly Report on Form 10-Q for the quarter ended September 28, 2003.

(11)
Filed with NAVTEQ's Annual Report on Form 10-K for the year ended December 31, 2003.

Financial Statements and Schedule:

Financial Statements:

Financial Statements filed as a part of this registration statement are listed in the Index to Financial Statements of page F-1.

Financial Statement Schedules:

Schedule II Valuation and Qualifying Accounts.

Item 17. Undertakings

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act of 1933 and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public

policy as expressed in the Securities Act of 1933 and will be governed by the final adjudication of such issue.

The undersigned registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act of 1933 shall be deemed to be part of this registration statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Chicago, State of Illinois, on June 1, 2004.

NAVTEQ Corporation

By: /s/ JUDSON C. GREEN

Judson C. Green
President and Chief Executive Officer

Pursuant to the requirements of the Securities Act of 1933, this registration statement has been signed on June 1, 2004, by the following persons in the capacities indicated.

Name and Signatures	Title
/s/ JUDSON C. GREEN Judson C. Green	Director, President and Chief Executive Officer (Principal Executive Officer)
/s/ DAVID B. MULLEN David B. Mullen	Executive Vice President and Chief Financial Officer (Principal Financial Officer)
/s/ NEIL T. SMITH Neil T. Smith	Vice President and Corporate Controller (Principal Accounting Officer)
* Richard J.A. de Lange	Director
* Scott M. Weisenhoff	Director
* Wilhelmus C. M. Groenhuysen	Director
* Dirk-Jan van Ommeren	Director
*By: /s/ JUDSON C. GREEN *Attorney-in-fact*	

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QuickLinks