

MAPINFO CORP  
Form 10-Q  
February 04, 2005

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

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## FORM 10-Q

(Mark One)

[ X ]

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

**For the quarterly period ended December 31, 2004**

**OR**

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

**For the Transition period from \_\_\_\_\_ to \_\_\_\_\_**

Commission File Number 0-23078

## MAPINFO CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

06-1166630

(State or other jurisdiction of  
Incorporation or organization)

(I.R.S. Employer  
Identification No.)

One Global View  
Troy, New York 12180

(Address of principal executive offices and zip code)

**(518-285-6000)**

(Registrant's Telephone Number, Including Area Code)

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Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes  No

-

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).  
Yes  No

The number of shares outstanding of the registrant's common stock, \$.002 par value per share, as of February 1, 2005 was 20,398,238.

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MAPINFO CORPORATION

FORM 10-Q

For the Quarter Ended December 31, 2004

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## Part I. Financial Information

## Item 1. Financial Statements

MapInfo Corporation and Subsidiaries  
Income Statements(in thousands, except per share data)  
(unaudited)

	Three Months Ended December 31	
	2004	2003
Net revenues:		
Products	\$ 27,276	\$ 22,415
Services	7,423	6,172
Total net revenues	<u>34,699</u>	<u>28,587</u>
Cost of revenues:		
Products	5,740	4,444
Services	4,643	3,917
Total cost of revenues	<u>10,383</u>	<u>8,361</u>
Gross profit	<u>24,316</u>	<u>20,226</u>
Operating expenses:		
Research and development	5,730	5,077
Selling and marketing	11,547	10,221
General and administrative	3,906	3,818
Total operating expenses	<u>21,183</u>	<u>19,116</u>
Operating income	3,133	1,110
Interest income	338	85

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Interest expense	(305)	(303)
Other income (expense) - net	(1,247)	169
Interest and other income (expense), net	(1,214)	(49)
Income before provision for income taxes	1,919	1,061
Provision for income taxes	760	424
Net income	\$ 1,159	\$ 637

Earnings per share:

Basic	\$ 0.06	\$ 0.04
Diluted	\$ 0.06	\$ 0.04

Weighted average shares outstanding:

Basic	20,370	15,651
Diluted	20,931	16,120

See accompanying notes.

MapInfo Corporation and Subsidiaries  
Balance Sheets

(in thousands)

	December 31, 2004 (unaudited)	September 30, 2004
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 35,003	\$ 34,286
Short-term investments, at amortized cost	32,271	38,547
Total cash and short-term investments	67,274	72,833
Accounts receivable, less allowance of \$1,847 and \$1,824 at December 31, 2004 and September 30, 2004, respectively	26,489	27,792
Inventories	494	494
Deferred income taxes	1,045	1,013
Other current assets	3,114	3,263
Total current assets	98,416	105,395
Property and equipment - net	25,793	25,906
Product development costs - net	449	374
Deferred income taxes	14,407	14,160

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Goodwill - net	45,033	44,592
Other intangible assets - net	10,872	10,891
Investments and other assets	1,144	1,527
	<b>_____</b>	<b>_____</b>
Total assets	<b>\$ 196,114</b>	<b>\$ 202,845</b>
	<b>_____</b>	<b>_____</b>

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities:

Current maturities of long-term debt	\$ 1,301	\$ 1,301
Accounts payable	2,642	3,512
Accrued liabilities	18,212	26,413
Deferred revenue	17,148	17,436
Income taxes payable	1,475	1,995
	<b>_____</b>	<b>_____</b>

Total current liabilities	40,778	50,657
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Long-term debt	15,262	15,590
Deferred income taxes, long-term	2,639	2,417
Deferred revenue, long-term	166	340
Other long-term liabilities	257	348
	<b>_____</b>	<b>_____</b>

Total liabilities	<b>59,102</b>	<b>69,352</b>
	<b>_____</b>	<b>_____</b>

Commitments and Contingencies

Stockholders' Equity:

Common stock, \$0.002 par value	41	41
Preferred stock, \$0.01 par value	-	-
Additional paid-in capital	101,128	100,838
Retained earnings	32,007	30,848
Accumulated other comprehensive income	3,836	1,766
	<b>_____</b>	<b>_____</b>

Total stockholders' equity	<b>137,012</b>	<b>133,493</b>
	<b>_____</b>	<b>_____</b>

Total liabilities and stockholders' equity	<b>\$ 196,114</b>	<b>\$ 202,845</b>
	<b>_____</b>	<b>_____</b>

See accompanying notes.

MapInfo Corporation and Subsidiaries  
Cash Flows Statements

(in thousands)  
(unaudited)

Three months

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	Ended December 31,	
	2004	2003
Cash flows from (used for) operating activities		
Net income	\$ 1,159	\$ 637
Depreciation and amortization	1,846	1,633
Allowance for accounts receivable	(24)	3
Tax benefit from option exercises	57	62
Loss on minority investments	1,126	-
Provision for deferred income taxes	(193)	-
Changes in operating assets and liabilities:		
Accounts receivable	2,363	674
Inventories	(8)	(58)
Other current assets	875	(7)
Accounts payable and accrued liabilities	(3,339)	(1,003)
Deferred revenue	(1,349)	(872)
Income taxes	(654)	150
Net cash from operating activities	<u>1,859</u>	<u>1,219</u>
Cash flows from (used for) investing activities		
Additions to property and equipment	(618)	(351)
Capitalized translation costs	(230)	(545)
Acquisition of business and technology	(6,750)	(158)
Short-term investments, net	6,276	529
Net cash used for investing activities	<u>(1,322)</u>	<u>(525)</u>
Cash flows from (used for) financing activities		
Principal payments on notes payable, long term debt and capital leases	(327)	(389)
Proceeds from exercise of stock options and ESPP purchases	233	251
Net cash used for financing activities	<u>(94)</u>	<u>(138)</u>
Effect of exchange rates on cash and cash equivalents	274	536
Net change in cash and equivalents	717	1,092
Cash and equivalents, beginning of period	34,286	20,153
Cash and equivalents, end of period	<u>\$ 35,003</u>	<u>\$ 21,245</u>

See accompanying notes.

MapInfo Corporation and Subsidiaries  
Notes to Financial Statements

(unaudited)

**1. Basis of Presentation**

In the opinion of management, the accompanying balance sheets and related income statements and statements of cash flows include the accounts of MapInfo Corporation and its subsidiaries ("MapInfo", "the Company", "we", "our", or "us") and include all adjustments (consisting only of normal recurring items) necessary for their fair presentation. 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 amount of revenues and expenses during the reporting period. Actual results could differ from those estimates. The results of operations for the interim period are not necessarily indicative of the results of operations for the full year.

The September 30, 2004 balance sheet data was derived from audited financial statements, but does not include all disclosures required by generally accepted accounting principles.

**2. Stock Based Compensation**

The Company has various stock-based employee compensation plans, which are described more fully in Note 12 of the Notes to Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2004. SFAS No. 123, "Accounting for Stock-Based Compensation", requires the measurement of the fair value of stock options or warrants granted to employees to be included in the statement of income or, alternatively, disclosed in the notes to consolidated financial statements. The Company accounts for stock-based compensation of employees under the intrinsic value method of accounting included in Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees", and related interpretations and has elected the disclosure-only alternative under SFAS No. 123. The Company has adopted the disclosure requirements of SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure", in its discussion of stock-based employee compensation.

MapInfo Corporation and Subsidiaries  
Notes to Financial Statements

(unaudited)

**2. Stock Based Compensation (continued)**

The following table summarizes the proforma operating results of the Company had compensation cost been determined in accordance with the fair value-based method prescribed by SFAS No. 123.

Three months ended December 31,

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	2004	2003
	<u>                    </u>	<u>                    </u>
	(In thousands, except per share data)	
Net income, as reported	\$ 1,159	\$ 637
Stock-based employee compensation expense, net of related tax effects, determined under fair value based method for all awards	<u>(713)</u>	<u>(736)</u>
Proforma net income (loss)	<u>\$ 446</u>	<u>\$ (99)</u>
Earnings (loss) per share:		
Basic, as reported	\$ 0.06	\$ 0.04
Diluted, as reported	\$ 0.06	\$ 0.04
Basic, proforma	\$ 0.02	\$ (0.01)
Diluted, proforma	\$ 0.02	\$ (0.01)

3. Earnings Per Share (EPS)

The following table represents the reconciliation of the basic and diluted earnings per share amounts for the three months ended December 31, 2004 and 2003.

	Three months Ended December 31,	
	<u>2004</u>	<u>2003</u>
	(In thousands, except per share data)	
Net income	<u>\$ 1,159</u>	<u>\$ 637</u>
Weighted average shares for basic EPS	20,370	15,651
Effect of dilutive stock options	<u>561</u>	<u>469</u>
Weighted average shares and assumed exercise of stock options for diluted EPS	<u>20,931</u>	<u>16,120</u>
Basic EPS	\$ 0.06	\$ 0.04
Diluted EPS	\$ 0.06	\$ 0.04



**MapInfo Corporation and Subsidiaries**  
**Notes to Financial Statements**  
(unaudited)

**3. Earnings Per Share (EPS) (continued)**

The impact of outstanding stock options with an exercise price equal to or greater than the average market price of the Company's common stock was anti-dilutive and therefore excluded from the calculation. Outstanding stock options, with an exercise price equal to or greater than the average market price of the Company's common stock for the three months ended December 31, 2004 and 2003, were 902 thousand shares and 963 thousand shares, respectively.

**4. Comprehensive Income**

Comprehensive income was as follows:

	Three months Ended, December 31,	
	2004	2003
	(In thousands)	
Net income	\$ 1,159	\$ 637
Derivative valuation adjustment	104	289
Change in accumulated translation adjustments	1,966	1,152
Total comprehensive income	<u>\$ 3,229</u>	<u>\$ 2,078</u>

**5. Derivative Instruments and Hedging Activities**

In order to reduce exposure to movements in interest rates, in January 2003 the Company entered into an interest rate swap agreement to convert its variable rate mortgage loan to a fixed rate. The agreement involves the exchange of fixed and floating interest rate payments over the ten-year life of the loan. The variable interest rate on the mortgage loan is the greater of 3.5% or the sum of the 30-day LIBOR rate plus 2.25%. The interest rate swap has fixed the effective interest rate that we will pay at 6.82%. The 6.82% interest rate is based on the assumption that the 30-day LIBOR rate plus 2.25% is 3.5% or higher, due to the interest rate minimum which applies to the mortgage. The impact of the fluctuations in interest rates on the interest rate swap agreement will be naturally offset by the opposite impact on the related mortgage debt. The Company accounts for this interest rate swap in accordance with SFAS No. 133

"Accounting for Derivative Instruments and Hedging Activities".

MapInfo Corporation and Subsidiaries  
Notes to Financial Statements

(unaudited)

## **5. Derivative Instruments and Hedging Activities (continued)**

At December 31, 2004 and September 30, 2004, the fair value of the swap agreement, which represents the cash the Company would pay to settle the agreement, was \$294 thousand and \$397 thousand, respectively. The current portion of \$37 thousand and \$48 thousand is included on the balance sheet under the caption Accrued Liabilities and the long-term portion of \$257 thousand and \$349 thousand is included under the caption Other long-term liabilities for December 31, 2004 and September 30, 2004, respectively. The Company records the payments or receipts on the agreement as adjustments to interest expense. The Company recognized interest expense related to the swap of \$97 thousand and \$131 thousand for the three months ended December 31, 2004 and December 31, 2003, respectively.

## **6. Segment Information**

The Company's operations involve the design, development, marketing, licensing and support of software and data products, application development tools, and industry-specific solutions, together with a range of consulting, analytical, training and technical support services.

The Company conducts business globally and is managed geographically. The Company's management relies on an internal management accounting system. This system includes revenue and cost information by geographic location. Revenues are attributed to a geographic location based on the origination of the order from the customer. The Company's management makes financial decisions and allocates resources based on the information it receives from this internal system. Based on the criteria set forth in SFAS No. 131, the Company has reportable segments by geography: the Americas, EMEA (Europe, the Middle East, and Africa) and Asia-Pacific.

The Company's geographic segments are discussed below.

MapInfo Corporation and Subsidiaries  
Notes to Financial Statements - Continued

(unaudited)

## **6. Segment Information (continued)**

### **Geographic Segments**

Summarized financial information by geographic segment for the three months ended December 31, 2004 and 2003, as taken from the internal management accounting system discussed above, is as follows:

	Three Months Ended	
	December 31,	
	2004	2003
Net revenues:	(in thousands)	
Americas	\$ 16,902	\$ 16,523
EMEA	13,559	8,731
Asia-Pacific	4,238	3,333
Total net revenues	\$ 34,699	\$ 28,587
Operating income		
Americas	\$ 3,654	\$ 3,949
EMEA	4,101	2,711
Asia-Pacific	1,353	1,032
Corporate adjustments:		
R&D	(3,615)	(3,411)
Marketing	(1,349)	(1,898)
G&A	(1,011)	(1,273)
Total operating income	\$ 3,133	\$ 1,110

The operating income by segment above differs from the amounts presented under accounting principles generally accepted in the United States of America because the Company does not allocate certain costs for research and development, marketing, and general and administrative activities to the geographic locations. The table above reconciles the operating income by geographic segment to operating income as reported on the Income Statements by including adjustments for certain unallocated costs.

MapInfo Corporation and Subsidiaries  
Notes to Financial Statements - Continued

(unaudited)

## 7. Commitments and Contingencies

*Mortgage Payable.* On December 21, 2001, the Company entered into a mortgage loan and other related agreements with a commercial bank to finance construction of a 150,000 square foot office building in Troy, New York and the related land lease. The total construction financing borrowed under this financing arrangement was \$15.1 million. In

December 2002, the Company converted the entire construction loan to a ten-year mortgage loan. Principal together with interest, at a rate of LIBOR plus 2.25%, with a 3.50% minimum, is payable monthly. As described in Note 5 above, the Company has entered into an interest rate swap agreement to convert this variable rate mortgage loan to a fixed rate. As of December 31, 2004, the outstanding balance due on this mortgage loan was \$14.5 million.

**Credit Facility.** In January 2003, the Company borrowed \$3.0 million under a one-year revolving credit facility with a commercial bank. In March 2003, the Company converted this obligation into a forty-two month term loan. Principal outstanding under this term loan is payable monthly in forty-one equal installments of \$72 thousand and a final payment of \$69 thousand, along with interest at a rate of LIBOR plus 1.75%. The balance outstanding under this term loan agreement as of December 31, 2004 was \$1.9 million.

In addition, the Company has a \$10.0 million credit facility with a commercial bank that expires on March 31, 2005. As of December 31, 2004 and September 30, 2004, there were no outstanding borrowings under this credit facility. During fiscal year 2004, the Company entered into an agreement with a bank to provide a credit facility for up to \$15.0 million that expires on September 28, 2005. On December 31, 2004, there were no outstanding borrowings under this credit facility.

**Legal Proceedings.** On August 5, 2002, the Company filed an action against Spatial Re-Engineering Consultants ("SRC"), a former MapInfo reseller, in the United States District Court for the Northern District of New York to collect approximately \$100 thousand in receivables owed by SRC to the Company under contractual obligations. SRC answered and asserted fifteen counterclaims against the Company. The counterclaims include allegations of breach of contract and copyright infringement. The District Court dismissed one counterclaim and SRC voluntarily withdrew a second counterclaim; thirteen counterclaims remain. In its computation of damages made pursuant to court rules, SRC has alleged general damages of \$5.1 million. SRC has also claimed special damages of \$14.8 million. The Company is vigorously defending against all remaining counterclaims. In addition, the Company has amended its complaint against SRC to add five claims relating to unauthorized distribution of the Company's products and copyright infringement.

The Company is also party to other legal proceedings, none of which it believes is material to its balance sheet, income statement, or cash flow.

MapInfo Corporation and Subsidiaries  
Notes to Financial Statements - Continued

(unaudited)

## **8. Goodwill and Purchased Intangible Assets**

In applying SFAS No. 142 during the second quarter of fiscal year 2004, the Company performed the annual reassessment and impairment of goodwill tests required as of December 31, 2003. As a result of these annual tests, there was no indication of impairment.

The balance of goodwill as of September 30, 2004 was \$44.6 million. During the three months ended December 31, 2004, goodwill increased by \$441 thousand. The strengthening in foreign currencies versus the U.S. dollar increased goodwill by \$1.7 million, which was primarily offset by a write-off of the remaining value of the Company's forty-nine percent equity investment in Alps Mapping Co. Ltd. ("Alps") of \$1.3 million. As a result, the goodwill balance as of December 31, 2004 was \$45.0 million.

The components of purchased intangible assets are as follows (in thousands):

December 31, 2004	Gross	Accumulated Amortization	Effect of Foreign Exchange	Net	Amortization Period
Technology intangibles	\$ 6,130	\$ 2,084	\$ 248	\$ 4,294	4-8 years
Customer intangibles	7,731	3,711	246	4,267	5-10 years
Trademarks	2,135	-	112	2,246	Indefinite
Other	346	281	-	65	3 years
<b>Total</b>	<b>\$ 16,342</b>	<b>\$ 6,076</b>	<b>\$ 606</b>	<b>\$ 10,872</b>	

  

September 30, 2004	Gross	Accumulated Amortization	Effect of Foreign Exchange	Net	Amortization Period
Technology intangibles	\$ 6,130	\$ 1,896	\$ -	\$ 4,234	4-8 years
Customer intangibles	7,731	3,289	-	4,442	5-10 years
Trademarks	2,135	-	-	2,135	Indefinite
Other	346	266	-	80	3 years
<b>Total</b>	<b>\$ 16,342</b>	<b>\$ 5,451</b>	<b>\$ -</b>	<b>\$ 10,891</b>	

Amortization of purchased intangible assets for the three months ended December 31, 2004 and December 31, 2003 was \$625 thousand and \$325 thousand, respectively. The Company has reassessed the useful lives of the purchased intangible assets and concluded that no changes were required to the lives.

MapInfo Corporation and Subsidiaries  
Notes to Financial Statements - Continued

(unaudited)

## 8. Goodwill and Purchased Intangible Assets (continued)

The estimated annual amortization expense of purchased intangible assets for fiscal year 2005 and beyond is as follows (in thousands):

Fiscal year	Amount
2005	\$ 1,915
2006	1,711
2007	1,711
2008	1,406
2009	1,231
Thereafter	782

### 9. Investment in Alps Mapping Co. Ltd

In March 2000, the Company acquired 16.7% of the outstanding common stock of Alps Mapping Co., Ltd. ("Alps"), a leading Japanese data provider headquartered in Nagoya, Japan. The Company invested 100 million Yen (approximately \$750 thousand) to acquire the 16.7% equity position and 400 million Yen (approximately \$3.7 million) in three debt instruments with warrants that could be converted over time into as much as a 51% common stock ownership position. In February 2002, the Company redeemed, at face value, one debt instrument of 100 million Yen (approximately \$750 thousand). In addition, the remaining two debt instruments with warrants were converted into equity, which increased the Company's ownership in Alps to 49%. This investment is accounted for under the equity method of accounting. As of September 30, 2004, \$300 thousand and \$1.3 million pertaining to this investment was included on the Company's balance sheet under the captions "Investment and other assets" and "Goodwill", respectively.

During the quarter ended December 31, 2004, the Company wrote-off the remaining balance of its equity investment in Alps based primarily on the Company's proportionate share of Alps' quarterly operating loss. The impact, net of effect of foreign currency and other adjustments, was approximately \$1.4 million and has been included in the Company's Consolidated Income Statement under the caption "Other income (expense) - net." As a result of the write-down of the investment, the Company also recorded an impairment of the deferred tax asset related to this investment of approximately \$600 thousand, which has been included in the Company's Consolidated Income Statement under the caption "Provision for income taxes."

### 10. Recent Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard ("SFAS") No. 123 (Revised 2004) ("SFAS No. 123R"), "Share-

MapInfo Corporation and Subsidiaries  
Notes to Financial Statements - Continued

(unaudited)

### 10. Recent Accounting Pronouncements (continued)

Based Payment," which is a revision of FASB SFAS No. 123, "Accounting for Stock-Based Compensation". SFAS

No. 123R supersedes Accounting Principal Board Opinion (APB) No. 25, "Accounting for Stock Issued to Employees." Generally, SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized as a charge to earnings in the financial statements based on the grant-date fair value of the award. Currently the Company accounts for these payments under the intrinsic value provisions of APB No. 25 with no expense recognized in the financial statements. SFAS 123R is effective as of the beginning of the first interim or annual reporting period that begins after June 15, 2005 and the Company will adopt the standard in the fourth quarter of fiscal 2005. The Company is currently assessing the impact that this statement will have on its consolidated financial position and results of operations.

## **11. Issuance of Additional Common Stock**

On April 2, 2004 the Company completed a follow-on public offering of its common stock. The Company sold 4,312,500 shares of common stock at an offering price of \$11.00. Net proceeds, after the underwriters' discount and offering expenses, were approximately \$44.2 million.

In connection with this offering, on February 24, 2004, the Company filed a registration statement on Form S-3 (Commission No. 333-113029) with the Securities and Exchange Commission relating to the public offering of 3,750,000 shares of the Company's common stock. On February 23, 2004, an employee of Adams, Harkness & Hill, Inc., one of the underwriters in the Company's offering, made an unauthorized disclosure to one prospective institutional investor, and on February 24, 2004 and February 25, 2004, employees of First Albany Capital Inc., the lead underwriter in the Company's offering, sent unauthorized emails to approximately 223 addressees. The unauthorized pre-filing disclosure by the Adams Harkness employee may have constituted an impermissible pre-filing offer under the Securities Act of 1933, and the unauthorized emails by the employees of First Albany may have constituted a prospectus that does not meet the requirements of the Securities Act of 1933, each of which may entitle the recipients of the unauthorized disclosure and emails to rescission rights if they purchased shares of the Company's common stock in the offering. The rescission rights would allow any recipient, for a period of one year from the date of such recipient's purchase of shares of the Company's common stock in the offering, to seek recovery of the consideration paid in connection with the purchase. Adams Harkness & Hill, Inc. and First Albany Capital Inc. have agreed to indemnify the Company for losses, costs, and expenses that the Company may incur as a result of the unauthorized disclosure and the emails. As such, the Company does not expect the effect of the unauthorized disclosure and emails to have a material impact on the Company's results of operations, financial position, or cash flows.

### **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

The following Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with our consolidated financial statements and related notes. This discussion contains forward-looking statements based on current expectations that involve risks and uncertainties, such as our plans, objectives, expectations, and intentions. Our actual results and the timing of events could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth in the following discussion and under "Factors Affecting Future Performance".

#### **Overview**

We are a leading provider of location-based business intelligence solutions that help organizations make more

insightful decisions. Our integrated offering of software, data sets and services helps organizations in vertical markets, including telecommunications, the public sector, retail and financial services, which includes insurance, solve complex business problems in which location is a critical consideration. In the private sector, businesses use our products and services for marketing, customer service, risk analysis, network optimization and planning, asset management, and site selection. In the public sector, government agencies use our products and services to improve public safety and for crime analysis, homeland security-related applications, asset management and network optimization and planning, and emergency preparedness and response. By using our products and services, organizations can uncover valuable location-based business intelligence that is not typically recognized in traditional analytical methods, which can provide them with a competitive advantage in today's challenging business environment.

Our standards-based *Envinsa*<sup>™</sup> enterprise location platform allows organizations to rapidly build location-based applications, which they can provide to their customers as well as use internally in their own organizations. *Envinsa* was designed to be a single platform combining different components of location-based business intelligence functionality. *Envinsa* is modular in nature, meaning that enterprises and organizations can deploy and use pieces of the platform, depending on their needs. *Envinsa* scales to support large enterprises with thousands of users and is designed to integrate with existing IT systems. In addition to this platform, our set of core capabilities consisting of mapping tools, geocoding tools and routing tools can be licensed in the form of discrete products. We also offer data sets to our customers. Some data that is used in our solutions, such as addresses, area codes or postal codes, already exists in corporate databases. However, in many cases customers choose to use our data sets, which are more granular and sophisticated. We also offer consulting and analytical services to customers in order to help them build predictive models for, and generate answers to, location-oriented problems.

We develop solutions directly for our customers and also work with technology vendors, including Agilent Technologies, Business Objects, Cognos, IBM, MicroStrategy, Oracle, Siebel Systems and Siemens. We market our solutions through a worldwide network comprised of a direct sales organization, value-added resellers ("VARs"), systems integrators, distributors and original equipment manufacturers ("OEMs"). More than 7,000 organizations in numerous industry sectors around the world utilize our products and services, including AT&T, Brinker International, The Gap, The Home Depot, MasterCard International, The State of New York, TD Canada Trust and Vodafone.

Our focus is on targeted vertical markets, where we believe we can build on our domain expertise and location is critical to helping customers achieve their strategic objectives. These vertical markets include telecommunications, retail, the public sector and financial services, which includes insurance. For the first quarter of fiscal year 2005, the public sector represented approximately 33 percent, retail approximately 21 percent, telecommunications approximately 17 percent, and financial services, which includes insurance, approximately 5 percent of total revenues.

We have established teams that bring together sales, marketing, services, and product management by vertical market. With this structure, we believe we will deepen long-standing customer relationships, create new customer relationships, and enhance our expertise in target markets and focused solutions.

### **Southbank Acquisition**

On September 7, 2004, through our wholly owned subsidiary, MapInfo UK Limited, we completed the acquisition of the outstanding shares of Southbank Systems Limited ("Southbank"), a privately held company headquartered in Chatham, England. Southbank is a provider of infrastructure management software and services solutions for the public sector in the United Kingdom and the Asia-Pacific region. Southbank also has operations in Scotland, Australia



and New Zealand. The purchase price was 11.7 million, or approximately \$21.1 million, in cash, subject to a net asset adjustment. In October 2004, we paid an additional 3.2 million, or approximately \$5.7 million, in cash, and a preliminary net asset adjustment, which is subject to a final net asset adjustment. The acquisition is intended to strengthen our offering to the public sector, one of our targeted vertical markets. As a result of this transaction, Southbank became a wholly owned subsidiary of MapInfo UK Limited. Southbank's results of operations have been included in our consolidated financial statements since the date of acquisition. Seventy-one employees of Southbank became employees of ours upon the acquisition.

Goodwill recorded as a result of the acquisition totaled \$16.7 million. Intangible assets acquired, other than goodwill, totaled \$8.6 million. Of the \$8.6 million of acquired intangible assets, \$1.6 million was assigned to trademarks that are not subject to amortization. The remaining \$7.0 million of acquired intangible assets have a weighted-average useful life of approximately 6 years. The intangible assets that make up the \$7.0 million include: technology intangibles of \$3.5 million (8-year weighted average useful life), and customer intangibles of \$3.5 million (5-year weighted average useful life). The allocation of the purchase price is based on preliminary data and could change when final valuation of net assets is obtained.

#### Sources of Revenue

We derive our revenue from product licenses (software and data) and services fees. We also derive revenue from annual maintenance fees on both our software and data products. We market our solutions through a worldwide network comprised of a direct sales organization, VARs, systems integrators, distributors and OEMs.

Revenues generated in the United States represented approximately 42% of our total revenues for the first quarter of fiscal year 2005. As of December 31, 2004, we had sales offices located internationally in Canada, the United Kingdom, Germany, Australia, Spain, Italy, Sweden and The Netherlands.

#### *Product Revenue*

We earn product revenues from licensing our software and data products. We license our software and data products primarily under perpetual licenses, and we offer maintenance on our software and data products under agreements that typically cover one year. We recognize revenue from licensing of products to an end-user when persuasive evidence of an arrangement exists and the product has been delivered to the customer, provided there are no uncertainties surrounding product acceptance, the fees are fixed or determinable and collectibility is probable. The revenue related to maintenance for software and data products is deferred and recognized ratably over the term of the agreement, which, in both cases, is typically one year. We consider all arrangements with payment terms that extend beyond twelve months not to be fixed or determinable, and revenue is recognized for these arrangements when the fee becomes due. If collectibility is not considered probable for reasons other than extended payment terms, revenue is recognized when the fee is collected.

#### Services Revenue

We derive services revenue primarily from systems integration and custom application development, technical support

arrangements, analytical services, business consulting services and training. Revenue from business consulting services, analytical services, and systems integration and custom application development is recognized as the services are performed and upon customer acceptance when required. We recognize technical support revenue using the straight-line method over the period that the support is provided, which is typically one year. Revenue from training arrangements is recognized as the services are performed.

#### Deferred Revenue

At December 31, 2004, we had deferred revenues of approximately \$17.3 million, primarily consisting of revenues related to post-contract customer support, including maintenance for software and data products and technical support, which is deferred and recognized ratably over the term of the agreement.

#### Critical Accounting Policies and Estimates

Our management's discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make estimates and judgments that affect the amounts reported for assets, liabilities, revenues and expenses, and the disclosure of contingent liabilities. Management evaluates these estimates, including those related to product returns, bad debts, inventories, investments, intangible assets, goodwill, income taxes, restructuring, contingencies and litigation, on an on-going basis. The estimates are based on historical experience and on various assumptions that management believes are reasonable. When the basis for carrying values of assets and liabilities are not apparent from other sources, they are determined from these estimates. Our actual results may differ from these estimates under different conditions or assumptions.

We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements:

- ***Allowance for Doubtful Accounts and Sales Returns.***

We record reductions to revenue for estimated product returns. We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. If the financial condition of our customers were to deteriorate, resulting in their inability to make payments, an additional allowance may be recognized. Our estimate for the allowance for doubtful accounts and sales returns is based on historical collections and sales returns experience. In addition, we review the status of the current trade receivables, reserving amounts deemed to pose a collection or sales return risk.

- ***Revenue Recognition.***

We recognize revenue in accordance with Statement of Position ("SOP") 97-2, "Software Revenue Recognition," and SOP 98-9, "Software Revenue Recognition with Respect to Certain Transactions". We recognize revenue when persuasive evidence of an arrangement exists, delivery of the product has occurred, no significant obligations remain, the fee is fixed or determinable and collectibility is probable. Revenue earned on product and services arrangements involving multiple elements is allocated to each element based on the relative fair value of each element. Multiple-element arrangements consist primarily of perpetual product licenses sold with 1-year maintenance arrangements. The maintenance arrangements are primarily sold separately from or as a premium to the product license fee and accordingly, vendor specific objective

evidence ("VSOE") is determinable. The fair value used to allocate revenue to the elements is based on VSOE of fair values of the elements. In general, revenue related to post contract customer support, including maintenance and technical support, is deferred and recognized ratably over the term of the agreement. Revenue from customer training, business consulting services, analytical services and systems integration and custom application development is generally recognized when the service is performed.

- ***Impairment of Intangible Assets.***

Intangible assets other than goodwill are amortized on a straight-line basis over their estimated useful lives of three to ten years, with the exception of certain trademarks, which have been determined to have an indefinite useful life and therefore are not subject to amortization. We review our intangible assets for impairment whenever events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. Management's determination of impairment is based on estimates of future cash flows. If an intangible asset is considered to be impaired, the amount of the impairment will equal the excess of the carrying value over the fair value of the asset.

- ***Goodwill Impairment.***

Effective October 1, 2001, we adopted Statement of Financial Accounting Standard No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). In accordance with SFAS 142, we do not amortize goodwill. We test goodwill for impairment on an annual basis or when a triggering event occurs and write down goodwill if it is determined that the asset has been impaired. Management's determination of impairment is based on estimates of future cash flows.

- ***Investments Impairment.***

We have held minority interests in companies having operations or technology in areas within our strategic focus. The most recent of these is Alps, in which we have a 49% equity ownership, which as of December 31, 2004, has a carrying value of zero. We record an investment impairment charge when an investment has experienced a decline in value that we believe is not temporary.

- ***Deferred Tax Assets.***

At December 31, 2004, we had net deferred tax assets of \$12.8 million, reflecting tax credit carryforwards, net operating losses and other deductible temporary differences, which reduce taxable income in future years. We are required to assess the realization of our deferred tax assets. Significant changes in circumstances may require adjustments in future periods. A portion of our future tax benefits related to foreign tax credits has been reserved as it is more likely than not that they will not be realized. Although realization is not assured, we have concluded that it is more likely than not that the remaining net deferred tax assets will be realized principally based upon forecasted taxable income generally within the foreign tax credit, research and development credit and net operating loss carryforward periods, giving consideration to the substantial benefits realized to date through our restructuring program and successful growth. The amount of the net deferred tax assets actually realized could vary if there are differences in the timing or amount of future reversals of existing deferred tax liabilities or changes in the actual amounts of future taxable income. If our forecast is determined to no longer be reliable due to uncertain market conditions or improvement in our results of operations does not continue, our long-term forecast will require reassessment. As a result, we may need to establish additional valuation allowances for all or a portion of the net deferred tax assets

## Results of Operations

### Net Revenues, Cost of Revenues and Gross Profit

(Dollars in thousands)

Three months ended

	December 31,		%
	2004	2003	
<b>Net Revenues</b>			
Products	\$ 27,276	\$ 22,415	22%
Services	7,423	6,172	20%
<b>Total net revenues</b>	<b>34,699</b>	<b>28,587</b>	<b>21%</b>
<b>Cost of revenues:</b>			
Products	5,740	4,444	29%
Services	4,643	3,917	19%
<b>Total cost of revenues</b>	<b>10,383</b>	<b>8,361</b>	<b>24%</b>
Gross profit	\$ 24,316	\$ 20,226	20%
Gross profit %	70.1%	70.8%	

#### *Net Revenue*

Revenues for the first quarter of fiscal year 2005 increased 21%, or \$6.1 million, to \$34.7 million from \$28.6 million in the prior year first quarter. The September 2004 acquisition of Southbank accounted for \$3.9 million of the revenue increase. Product revenues, which include software, data and solutions, increased by \$4.9 million, or 22%, and services revenue increased \$1.2 million or 20%, compared to the first quarter of the prior year. The increase in product and services revenues was mainly due to the acquisition of Southbank and increased sales in our targeted vertical markets, including the public sector, retail, and telecommunications. On a geographic basis, first quarter revenues in the Americas increased \$379 thousand, or 2%, compared to the same period a year ago. Europe, the Middle East, and Africa, or EMEA, revenues increased \$4.8 million, or 55%, primarily due to Southbank, and revenues in the Asia-Pacific region increased \$905 thousand, or 27%, when compared to the same period a year ago, primarily due to strong revenues in Australia. The strengthening of foreign currencies against the U.S. dollar added \$785 thousand to the first quarter 2005 revenue compared to the prevailing exchange rates in the comparable period from the prior year.

#### *Cost of Revenues and Gross Profit*

Cost of revenues consists primarily of salaries and related costs for engineers associated with consulting and analytical services, technical support and training personnel, and product royalties. Cost of revenues as a percentage of revenues increased to 29.9% in the first quarter of fiscal year 2005 from 29.2% in the first quarter of fiscal year 2004. As a result, the gross margin in the first quarter of fiscal year 2005 decreased to 70.1% from 70.8% in the prior year's first quarter. The decrease in gross margin for the first quarter of fiscal year 2005 is attributable to costs related to the amortization of intangibles resulting from the Southbank acquisition.

Gross profit margin as a percentage of revenue that related to product revenue was 79.0% and 80.2%, in the first quarter of fiscal years 2005 and 2004, respectively. Gross profit margin as a percentage of revenue that related to services revenue was 37.5% and 36.5%, in the first quarter of fiscal years 2005 and 2004, respectively.

**Operating Expenses**  
(Dollars in thousands)

	Three months ended		%
	December 31,		
	2004	2003	Change
Research and development	\$ 5,730	\$ 5,077	13%
Percentage of net revenues	16.5%	17.8%	
Selling and marketing	\$ 11,547	\$ 10,221	13%
Percentage of net revenues	33.3%	35.8%	
General and administrative	\$ 3,906	\$ 3,818	2%
Percentage of net revenues	11.3%	13.4%	

*Research and development*

Research and development (R&D) expenses increased 13% to \$5.7 million in the first quarter of fiscal year 2005 from \$5.1 million in fiscal year 2004's first quarter. R&D expenses attributable to the September 2004 Southbank acquisition were \$413 thousand to the fiscal year 2005 first quarter and the impact of the strengthening of foreign currencies versus the U.S. dollar added approximately \$165 thousand. R&D headcount was 208 (inclusive of sixteen Southbank employees) compared to 187 at the end of prior year's first quarter. As a percentage of net revenues, R&D expenses were 16.5% in the first quarter of fiscal year 2005 as compared with 17.8% last year's comparable period.

*Selling and marketing*

Selling and marketing expenses increased \$1.3 million or 13% in the first quarter of fiscal year 2005 to \$11.5 million from \$10.2 million in the prior year first quarter. Selling and marketing expenses attributable to the September 2004 Southbank acquisition were \$849 thousand. The effect of foreign currencies increased selling and marketing expense by approximately \$300 thousand in the first quarter of fiscal year 2005. Selling and marketing headcount was 261 (inclusive of twenty Southbank employees) compared to 233 at the end of the prior year's first quarter. As a percentage of net revenues, selling and marketing expenses were 33.3% in the first quarter of fiscal year 2005 compared to 35.8% in the first quarter of fiscal year 2004.

*General and administrative*

General and administrative (G&A) expense increased \$88 thousand or 2% in the first quarter of fiscal year 2005 to \$3.9 million from \$3.8 million in prior year's first quarter. G&A expense attributable to the September 2004 acquisition of Southbank was \$233 thousand and the strengthening of foreign currencies increased fiscal year 2005's first quarter G&A expense by approximately \$100 thousand. These increases were offset by a decrease of approximately \$210 thousand of legal and professional fees in the first quarter of fiscal year 2005 compared to prior year's first quarter. G&A headcount was 133 (inclusive of nine Southbank employees) compared to 121 at the end of the fiscal year 2004's first quarter. As a percentage of net revenues, G&A expenses were 11.3% in the first quarter of

fiscal year 2005 compared to 13.4% in the first quarter of fiscal year 2004.

### Interest and Other Income (Expense), Net

(Dollars in thousands)

	Three months ended		
	December 31,		%
	2004	2003	Change
Interest and other income (expense), net	\$ (1,214)	\$ (49)	2378%

Interest and other income (expense), net in the first quarter of fiscal 2005 of negative \$1.2 million was \$1.2 million lower than the first quarter of the prior year. The expense in the first quarter of fiscal 2005 is primarily attributable to the \$1.4 million write-off of the remaining value of our investment in Alps Mapping Co. Ltd., the Japanese company in which we have a 49% equity ownership, offset primarily by a gain of \$70 thousand related to foreign currency translation.

### Provision for Income Taxes

(Dollars in thousands)

	Three months ended		
	December 31,		%
	2004	2003	Change
Pre-tax income	\$ 1,919	\$ 1,061	
Tax on Pre-tax income at 34% (2004) and 40% (2003)	652	424	
Tax on Alps loss (\$1,125 at 34%)	383	-	
Alps deferred tax asset impairment	607	-	
Foreign tax credit benefit due to Americans for Jobs Creation Act of 2004	(882)	-	
Provision for income taxes	\$ 760	\$ 424	79%

The income tax expense of \$760 thousand in the first quarter of fiscal year 2005 is the tax effect of pretax income at approximately 34% (\$652), adjusted for the tax effect on the Alps Mapping loss which is not deductible (\$383), the impairment of the deferred tax asset related to the Company's investment in Alps Mapping (\$607) and an increase in the deferred tax asset from recognition of foreign tax credits as a result of the tax law changes made under the American Jobs Creation Act of 2004 (\$882). During the first quarter of fiscal year 2004 the tax expense of \$424 was 40% of pretax income.

### Liquidity and Capital Resources

Our cash and short-term investments totaled \$67.3 million at December 31, 2004 compared to \$72.8 million at September 30, 2004. Our investment portfolio consisted primarily of short-term, investment grade marketable securities.

### *Operating Activities*

Net cash from operating activities was \$1.9 million for the first quarter of fiscal year 2005 compared to net cash from operating activities of \$1.2 million for the same period in fiscal year 2004. Cash generated from operating activities in the first quarter of fiscal year 2005 resulted primarily from net income, and the collection of accounts receivable, offset by cash used to reduce accounts payable and accrued expenses.

### *Investing Activities*

Net cash used for investing activities was \$1.3 million during the first quarter of fiscal year 2005, which consisted of an additional payment related to the September 2004 Southbank acquisition of \$5.7 million, a contingent payment related to the Thompson acquisition of \$1.0 million, fixed asset additions of \$618 thousand, and capitalized translation costs of \$230 thousand, offset by a reduction of short-term investments of \$6.3 million.

### *Financing Activities*

Net cash used for financing activities for the first quarter of fiscal year 2005 was \$94 thousand, which consisted of repayments of debt obligations of \$327 thousand, offset by proceeds from the exercise of stock options of \$233 thousand.

### *Contractual Obligations*

The following table summarized our contractual obligations as of December 31, 2004 (in thousands):

	Payment due by Period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Contractual Obligations:					
Capital lease obligations	\$ 487	\$ 145	\$ 342	\$ -	\$ -
Other long-term debt	16,087	1,173	1,413	630	12,871
Scheduled interest expense	7,394	1,048	1,929	1,804	2,613
Operating leases	30,426	5,383	9,251	8,428	7,364
	<u>\$ 54,394</u>	<u>\$ 7,749</u>	<u>\$ 12,935</u>	<u>\$ 10,862</u>	<u>\$ 22,848</u>

Total Contractual  
Obligations



We have a \$10.0 million credit facility with a bank that expires on March 31, 2005. As of December 31, 2004 and September 30, 2004, there were no outstanding borrowings under this credit facility. During fiscal 2004, we entered into an agreement with a bank for a \$15.0 million credit facility that expires on September 28, 2005. As of December 31, 2004, there were no outstanding borrowings under this credit facility. Both credit facilities contain certain financial covenants with which we are in compliance.

For information regarding legal proceedings, see Part II Item 1 of this Quarterly Report on Form 10-Q, which is incorporated herein by reference.

Management believes existing cash and short-term investments together with funds generated from operations and available financing will be sufficient to meet our operating and capital requirements for the next twelve months. Factors that could adversely affect our financial condition include a decrease in revenues, and increased costs associated with acquisitions.

#### Off Balance Sheet Arrangements

During the first quarter of fiscal year 2005, we did not engage in:

- material off-balance sheet activities, including the use of structured finance or special purpose entities,
- material trading activities in non-exchange traded commodity contracts, or
- material transactions with person or entities that benefit from their non-independent relationship with us.

#### New Accounting Standards

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard ("SFAS") No. 123 (Revised 2004) ("SFAS No. 123R"), "Share-Based Payment," which is a revision of FASB SFAS No. 123, "Accounting for Stock-Based Compensation". SFAS No. 123R supersedes Accounting Principal Board Opinion (APB) No. 25, "Accounting for Stock Issued to Employees." Generally, SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized as a charge to earnings in the financial statements based on the grant-date fair value of the award. Currently the Company accounts for these payments under the intrinsic value provisions of APB No. 25 with no expense recognized in the financial statements. SFAS 123R is effective as of the beginning of the first interim or annual reporting period that begins after June 15, 2005 and the Company will adopt the standard in the fourth quarter of fiscal 2005. The Company is currently accessing the impact that this statement will have on its consolidated financial position and results of operations.

#### *Factors Affecting Future Performance*

In addition to the other information in this Quarterly Report on Form 10-Q, the following factors and risks, among others, could affect our future performance and should be considered in evaluating our outlook.



**We have incurred losses in past fiscal years, and we may incur losses in the future.** We reported losses for fiscal years 2002 and 2003. Although we reported positive net income for the last two quarters of fiscal year 2003, all four quarters of fiscal year 2004, and the first quarter of our current fiscal year, we may not be able to sustain profitability. To maintain profitability, we will have to generate significant revenues to offset our cost of revenues and our research and development, selling, marketing, and general and administrative expenses. If we are unable to maintain and expand our current customer base, increase our revenues and decrease our costs, we may not be able to maintain profitability.

**Our quarterly results have fluctuated significantly in the past and may continue to fluctuate significantly in the future.** Our quarterly operating results can vary significantly from quarter to quarter, depending upon factors such as the introduction and market acceptance of new products and new versions of existing products, the ability to reduce expenses or increase revenues at a level sufficient to offset increases in expenses, the level of technology spending and the activities of our competitors. Because a high percentage of our expenses are relatively fixed in the near term, minor variations in the timing of orders and shipments can cause significant variations in quarterly operating results. A significant portion of our revenues in each quarter results from software and data licenses issued in that quarter. Accordingly, our ability to accurately forecast future revenues and income for any period is necessarily limited. Also, we could experience reduced revenues in the telecommunications, retail and public sector vertical markets as a result of decreased spending in those industries. In addition, we typically derive a significant portion of our revenue each quarter from the orders we receive in the last month of the quarter.

**We may be unable to keep pace with the rapid technological changes in our industry or to timely introduce new or enhanced products that achieve market acceptance.** Our industry is characterized by extremely rapid technological change, evolving industry standards, changing customer demands and frequent new product introductions. These conditions require continuous expenditures on product research and development to enhance existing products, create new products and avoid product obsolescence. We believe that the timely development of new products and continuing enhancements to existing products is essential to maintain our competitive position in the marketplace. During recent years, we introduced a number of new or substantially updated releases of products, including *Routing J Server*<sup>®</sup>, *TargetPro*<sup>®</sup>, *Envinsa*<sup>™</sup>, *Exponare*<sup>™</sup>, *MapMarker*<sup>®</sup> and *MapInfo*<sup>®</sup> *Discovery*<sup>™</sup>. Our future success depends in part upon customer and market acceptance of these new products and initiatives, which is uncertain. Any failure to achieve increased acceptance of these and other new product offerings could have a material adverse effect on our business and results of operations. We cannot assure you that we will successfully complete the development of new or enhanced products in a timely manner or successfully manage transitions from one product release to the next.

**Our business is exposed to the risks inherent in our international operations.** Revenues outside the United States represented approximately 58% of our revenues in the first quarter of fiscal year 2005. The international portion of our business is subject to a number of inherent risks, including:

- difficulties in building and managing international operations;
- reliance on financial commitments from certain international distributors;
- difficulties in localizing products and translating documentation into foreign languages;
- fluctuations in import/export duties and quotas;

- potentially adverse tax consequences; and
- regulatory, economic or political changes in international markets.

In addition, we have historically experienced increased credit risk in some of our international markets. Our operating results are also affected by changes in exchange rates and limitations on the repatriation of funds. Approximately 42% of our revenues in the first quarter of fiscal year 2005 were denominated in foreign currencies. Changes in international business conditions could have a material adverse effect on our business and results of operations.

**We may be unable to successfully execute on our strategic plan to increasingly focus on vertical markets.** Our increasing focus on vertical markets such as telecommunications, retail, the public sector, and financial services, which includes insurance, is an integral part of our overall strategic plan. Opportunities in these markets are hard to predict. For example, our ability to earn revenues from sales to the U.S. government is affected by factors outside of our control, including the government's ability to terminate its contracts with us, the complex and time-consuming process for procuring government contracts as well as the requirement that we comply with various government regulations and policies. In addition, our success and strategy depend on our ability to continue to develop domain expertise in our targeted vertical markets. If customer demand does not grow as anticipated or our products and services are not accepted in these markets, our business and results of operations could be materially adversely affected.

**We may never realize the anticipated benefits of our acquisitions and investments.** We have made a number of acquisitions and investments, including our September 2004 acquisition of Southbank Systems Limited and our January 2003 acquisition of Thompson Site Selection Research, Inc. A key part of our growth strategy is to engage in acquisitions; therefore, we continue to review future acquisition and investment opportunities. We cannot assure you that acquisition candidates will continue to be available on terms and conditions acceptable to us. Acquisitions involve numerous risks, including, but not limited to:

- possible decreases in capital resources or dilution to existing stockholders;
- difficulties and expenses incurred in connection with an acquisition and the subsequent assimilation of the operations and the services or products of an acquired company;
- the difficulties of operating a new business;
- potential inherited liability for the past actions of an acquired company;
- the diversion of management's attention from other business concerns;
- a limited ability to predict future operating results of an acquired business; and
- the potential loss of key employees and customers of an acquired company.

In the event that the operations of an acquired business do not meet expectations, we may be required to restructure the acquired business or write-off the value of some or all of the assets of the acquired business. We cannot assure you that any acquisition will be successfully integrated into our operations or will have the intended financial or strategic results.

**We may be unable to adequately secure and protect our patent, trademark and other proprietary rights.** Our success depends in part on our ability to protect our proprietary rights and the technologies we use to implement and operate our business in the United States and foreign countries. We regard our software as proprietary and attempt to protect it with a combination of copyright, trademark and trade secret protections, employee and third-party

non-disclosure agreements, patent rights and other methods of protection. Despite these precautions, it may be possible for unauthorized third parties to copy certain portions of our products, reverse engineer or obtain and use information we regard as proprietary, and the scope or enforceability of our patent rights may be successfully challenged by third parties. In addition, our shrink-wrap licenses, under which we license our products, may be unenforceable under the laws of certain jurisdictions. Also, the laws of some foreign countries do not protect our proprietary rights to the same extent as the laws of the United States. Any misappropriation of our intellectual property could have a material adverse effect on our business and results of operations, and we cannot assure you that the measures we take to protect our proprietary rights are adequate.

Claims that we infringe the proprietary rights of third parties could result in significant expenses or restrictions on our ability to sell our products and services. Third parties may claim that our current or future products or services infringe their proprietary rights. Any infringement or other claim, whether with or without merit, would be time-consuming and expensive to litigate or settle and could divert our management's attention from our core business. As a result of an infringement claim, we may have to pay significant damages, incur substantial legal fees, develop costly technology that does not infringe the rights of others, if possible, or enter into license agreements, which may require us to pay substantial royalties and may not be available on terms acceptable to us, if at all. For example, one of our former resellers has made copyright infringement and other claims against us. See Part II, Item I "Legal Proceedings" for a description of this proceeding.

In addition, we have agreed in some of our agreements, including our shrink-wrap end-user licenses, to indemnify other parties for any expenses or liabilities resulting from claimed infringements of the proprietary rights of others. We may incur substantial indemnification obligations under these agreements if third parties make an infringement claim against the other parties to these agreements.

**The market for our products and services is highly competitive. We may be unable to successfully compete, which may decrease our market share and harm our operating results.** We encounter significant competition in the market for business mapping systems worldwide. Our competitors include Environmental System Research Institute, the GIS division of Autodesk, Claritas, Buxton, Spatial Re-Engineering Consultants, and Microsoft. As we continue to expand into new vertical or geographical markets, we may encounter additional competitors. Many of our competitors have significant name recognition, as well as substantially greater capital resources, marketing experience, research and development staffs and production facilities, than we do. Future consolidation within this market may adversely impact our ability to compete. Increased competition may lead to pricing pressures that could reduce our gross margins. Prices of software in EMEA and Asia are generally higher than in the Americas to cover localization costs and higher costs of distribution. These higher prices could decrease in the future. We cannot assure you that we will be able to maintain or increase our market share or compete effectively in our industry.

**Our recently introduced enterprise location platform, *Envinsa*<sup>™</sup>, may experience difficulty in gaining commercial acceptance.** We have recently introduced *Envinsa*, our enterprise location platform. Our sales efforts for *Envinsa* may not be successful, and we cannot assure you that *Envinsa* will achieve market acceptance or generate sufficient revenues to recoup the significant development and marketing expenses we have incurred to bring *Envinsa* to market. In addition, if we experience significant product returns related to *Envinsa*, our financial performance could be harmed.

**We may be unable to attract and retain key employees.** Our continued success will depend in large part on our ability to attract and retain highly qualified technical, managerial, sales and marketing, executive and other personnel. Competition for such personnel is intense. We cannot assure you that we will be able to continue to attract or retain such personnel. Loss of key personnel or changes in management could have an adverse impact on our financial condition and results of operations.

**We depend on third parties for a portion of our data. The loss of access to this data would harm our business, and we could become subject to liability for the use or distribution of the data we receive from third parties.**

We rely in part on independent developers for the development of specialized data products that use our software. In some cases we rely on sole source suppliers for data. Failure by these independent developers to continue to develop such data products, or changes in the contractual arrangements with these independent developers, could have a material adverse effect on our business and results of operations. We may experience delays in finding and securing alternative suppliers in the event of the loss of any of these independent developers, especially sole source suppliers. In addition, when we integrate and distribute information we obtain from third parties, we could become liable for such things as defamation, invasion of privacy, fraud, negligence, intellectual property infringement and product or service liability.

**Market, competitive and other factors could prevent us from selling our products or services at prices that yield an economic return to our stockholders.** Future prices we are able to obtain for our products may decrease from previous levels depending upon market or competitive pressures or distribution channel factors. Any decrease could have a material adverse effect on our business and results of operations.

**Our financial performance will suffer if we are unable to contain our cost of revenues.** The cost of our revenues varies with the mix of technology development and licensing fees, product revenues, services revenue and services utilization rates, as well as with the distribution channel mix and the success of our cost reduction measures. Changes in our revenue mix, including an increasing percentage of sales attributable to services (which have lower margins associated with them), as well as changes in our distribution model, may increase the cost of revenues as a percentage of net revenues in the future.

**If we are unable to maintain and expand our distribution channels, our sales and profitability could be adversely affected.** We primarily market and distribute our products in North America, Europe and Australia through a worldwide network comprised of a direct sales organization, VARs, system integrators, distributors and OEMs. In the rest of the Asia-Pacific region, our products are marketed and distributed through exclusive and non-exclusive distribution relationships. While we have contractual agreements with such resellers and distributors, we cannot control their continued performance. In addition, some of our reseller and distributorship agreements permit the reseller or distributor to terminate its agreement with us at its election by giving us advance written notice. We cannot assure you that we will be able to retain our current resellers and distributors, that the resellers and distributors will perform to our expectations or that we will be able to expand our distribution channels by entering into arrangements with new resellers and distributors in our current markets or in new markets.

**Our recent growth in our services revenue may not prove to be sustainable or profitable.** We have increased our services business with the acquisition of Thompson during fiscal year 2003. As a result, services revenue now comprises over 20% of total revenue. We cannot assure you that we will be able to increase or to maintain this level of services revenue. Loss of any large customer in the services business could have an adverse impact on our financial

condition or results of operations. In addition, our gross margins on services revenues have historically been lower than our gross margins on product sales. Furthermore, in those cases where we enter into service agreements with our customers, some of these service agreements are short-term contracts and permit our customers to terminate their agreements with us at their election.

**Unfavorable economic conditions may affect the level of technology spending by our customers and the demand for our products and services.** The revenue growth and profitability of our business depends on the overall demand for software products and related services, particularly within our target vertical markets. Because we sell our products and services primarily to customers in the public sector, retail, telecommunications, and financial services (including insurance) markets, our business depends on the overall economy and the economic and business conditions within these vertical markets. For example in 2001, 2002, and part of 2003, the stock market decline and the broad economic slowdown affected the demand for software products and related services, lengthened sales cycles and decreased technology spending of many of our customers and potential customers, particularly in the United States. These events could have a material effect on us in the future, including, without limitation, on our future revenue and earnings. In addition, in cases where we enter into product licensing agreements with our customers, since some of those agreements permit the customer to terminate its agreement with us at its election, any decrease in technology spending by these customers may result in termination of our agreements with them.

**Our earnings may be impacted by the new accounting pronouncement requiring expensing of stock issued to employees.** We use stock options and other long-term equity incentives as a fundamental component of our employee compensation. We currently account for the issuance of stock options under APB Opinion No. 25, "Accounting for Stock Issued to Employees". The FASB has issued SFAS No. 123(R), "Share-Based Payment" that changes the accounting treatment for grants of options, sale of shares under equity instruments issued to employees and liability-classified awards at grant date fair value or based upon certain calculation methods that approximate fair value on the grant date, and to record those values as compensation expense in our income statement. We will be required to expense all outstanding non-vested stock options as of July 1, 2005 and stock options and other applicable equity instruments issued to employees on or after July 1, 2005. Due to the significant number of outstanding unvested stock options as of July 1, 2005, we expect to incur material compensation expense after July 1, 2005 as those options vest. We may decide to change our stock based compensation play strategy for future grants. This could affect our ability to retain existing employees and to attract qualified candidates.

From time to time, we are or may be subject to litigation that could result in significant costs to us.

From time to time, we have been, and may continue to be, subject to litigation in the ordinary course of our business. Litigation against us may include claims of infringement of intellectual property rights by us, claims for damages related to errors and defects in our products and services and other claims. As a result, we could incur significant expenses to defend against these claims or we could have to pay substantial amounts of damages, which could materially harm our business and divert our management's attention from our core business.

We are currently involved in litigation with one of our former resellers. That reseller has alleged claims based on, among other things, breach of contract and copyright infringement. Although we are vigorously defending against the claims of this reseller, we cannot assure you that we will prevail. See Part II, Item I "Legal Proceedings" for a further description of this proceeding.

**Our software products may contain defects or errors, which could decrease sales, injure our reputation or delay shipments of our products.** The software products that we develop are complex and must meet the stringent

technical requirements of our customers. In addition, to keep pace with the rapid technological change in our industry and to avoid the obsolescence of our software products, we must quickly develop new products and enhancements to existing products. Because of this complexity and rapid development cycle, we cannot assure you that our software products are free of undetected errors, especially in newly released software products and new versions of existing software products. If our software is not free of errors, this could result in litigation, fewer sales, increased product returns, damage to our reputation and an increase in service and warranty costs, which would adversely affect our business.

**An impairment of the value of our investments or acquired intangible assets could significantly reduce our earnings.** We periodically review several items on our balance sheet for impairment and record an impairment charge if we determine that the value of our assets has been impaired. During the quarter ended December 31, 2004, we wrote-off the remaining value of our 49% equity investment in Alps. (See Note 9 to the Notes to Financial Statements above). As of December 31, 2004, we had approximately \$45.0 million in net goodwill, \$10.9 million in other intangible assets and \$1.1 million in investments. We recognized approximately \$16.7 million in goodwill in connection with our acquisition of Southbank in 2004 and \$14.1 million in goodwill in connection with our acquisition of Thompson in 2003. We periodically review these assets for impairment. If we determine that the carrying value of these assets is not recoverable, we would record an impairment charge against our results of operations. Such an impairment charge may be significant, and we are unable to predict the amount, if any, of potential future impairments. In addition, if we engage in additional acquisitions, we may incur additional goodwill and intangible assets.

**We may not be able to fully use our net operating loss carryforwards to reduce our future taxable income, if any.** As of December 31, 2004, we had approximately \$26.9 million in net operating loss carryforwards. These net operating loss carryforwards could reduce our taxable income in future years. However, they are scheduled to expire at various dates beginning in 2021, and we may not be able to fully use these net operating carryforwards to offset any future taxable income we may earn.

**Unauthorized access to our systems, an interruption of our services or a system failure would harm our business.** Our operations depend in part on our ability to maintain our computer equipment and systems in effective working order. Unauthorized access or damage or interruption from fire, natural disaster, power loss, sabotage, network failure or similar events could halt or interrupt our operations. Although we have established procedures designed to prevent or address these events, we cannot assure you that our computer equipment and systems are not vulnerable to such an interruption.

**We may require additional financing, and our future access to capital is uncertain.** Developing new products and enhancements to existing products and providing technical, training and analytics services is very expensive. In the course of our business, we incur significant costs of revenues and operating costs, such as research and development, general and administrative and selling and marketing expenses. Our current operations may not generate sufficient cash flow to fund our future operations and our growth strategy or service our outstanding or future debt. We believe that our existing cash, cash equivalents and short-term investments, together with funds generated from operations and available financing, will be sufficient to meet our operating and capital requirements for the next twelve months.

Any financing activities we undertake, whether to fund acquisitions, operations, growth or otherwise, could adversely affect our financial condition or results of operations. Additional debt financing could require us to pay a greater

amount of interest and impose covenants that could impede our ability to manage our operations, raise additional capital, undertake acquisitions or other strategic transactions or pay dividends. For example, our current credit facilities contains covenants that require us, among other things, to maintain certain debt ratios and restrict how we invest our cash and liquid assets. Any financing through the sale of stock would result in dilution to existing stockholders.

Market volatility may affect our stock price, and the value of your investment in our common stock may experience sudden decreases.

There has been, and will likely continue to be, significant volatility in the market price of securities of technology companies, including ours. These fluctuations can be unrelated to the operating performance of these companies. During the period from January 1, 2003 to December 31, 2004, the lowest and highest reported trading prices of our common stock on the NASDAQ National Market were \$3.11 and \$15.70, respectively. Factors such as the following could cause the market price of our common stock to fluctuate substantially:

- announcements of new products by us or our competitors;
- litigation involving us;
- quarterly fluctuations in our financial results or other software companies' financial results;
- shortfalls in our actual financial results compared to our guidance or results previously forecasted by stock market analysts;
- acquisitions or strategic alliances by us or our competitors;
- our stock repurchase program;
- the gain or loss of a significant customer; and
- general conditions in the software industry and conditions in the financial markets.

A decline in the market price of our common stock may adversely impact our ability to attract and retain employees, acquire other companies or businesses and raise capital. In addition, stockholders may initiate securities class action lawsuits if the market price of our stock drops significantly, which may cause us to incur substantial costs and could divert the time and attention of our management.

**Provisions of our charter documents and Delaware General Corporation Law may deter a change of our control, which may be favorable to our stockholders.** Certain provisions of our charter documents could make it more difficult for a third party to acquire us, even if doing so would be beneficial to our stockholders. These provisions include:

- granting our board of directors the authority to issue "blank check" preferred stock without stockholder approval;
- limitations on our stockholders' ability to call special meetings; and
- advance notice requirements for nominations for election to our board of directors and for proposing matters to be acted on by stockholders at stockholder meetings.

In addition, Section 203 of the Delaware General Corporation Law generally prohibits us from engaging in any business combination with certain persons who own 15% or more of our outstanding voting stock or any of our associates or affiliates who at any time in the past three years have owned 15% or more of our outstanding voting stock. These provisions could adversely affect the price that investors are willing to pay for shares of our common stock and prevent stockholders from realizing a premium that they may receive in connection with a corporate takeover.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Foreign Currency

. We export products to diverse geographic locations. Most of our international revenues through subsidiaries are denominated in foreign currencies. In total, the strengthening of certain foreign currencies against the U.S. dollar improved first quarter revenue growth by approximately \$785 thousand, or 2 percentage points, compared to the prior year comparable period. To date, foreign currency fluctuations have not had a material effect on our operating results or financial condition. Our exposure is mitigated, in part, by the fact that we incur certain operating costs in the same foreign currencies in which revenues are denominated.

**Interest Rates.** We are exposed to fluctuations in interest rates. A significant portion of our cash is invested in short-term interest-bearing securities. Assuming an average investment level in short-term interest-bearing securities of \$44.8 million (which approximates the average amount invested in these securities during the first quarter of fiscal year 2005), each 1-percentage point decrease in the applicable interest rate would result in a \$448 thousand decrease in annual investment income. To date, interest rate fluctuations have not had a material impact on our operating results or financial condition. In addition, we have an outstanding term loan under which we make principal payment of approximately \$72 thousand per month, plus monthly interest payments of LIBOR plus 1.75%. The outstanding balance on this term loan as of December 31, 2004 was \$1.6 million. To date, interest rate fluctuations have not had a material impact on our operating results or financial condition.

In order to reduce exposure to movements in interest rates, in January 2003 the Company entered into an interest rate swap agreement to convert its variable rate mortgage loan to a fixed rate. The agreement involves the exchange of fixed and floating interest rate payments over the ten-year life of the loan. The variable interest rate on the mortgage loan is the greater of 3.5% or the sum of the 30-day LIBOR rate plus 2.25%. The interest rate swap has fixed the effective interest rate that we will pay at 6.82%. The 6.82% interest rate is based on the assumption that the 30-day LIBOR rate plus 2.25% is 3.5% or higher, due to the interest rate minimum which applies to the mortgage. The impact of the fluctuations in interest rates on the interest rate swap agreement will be naturally offset by the opposite impact on the related mortgage debt. The Company accounts for this interest rate swap in accordance with SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities".

At December 31, 2004 and September 30, 2004, the fair value of the swap agreement, which represents the cash the Company would pay to settle the agreement, was \$294 thousand and \$397 thousand, respectively. The current portion of \$37 thousand and \$48 thousand is included on the balance sheet under the caption Accrued Liabilities and the long-term portion of \$257 thousand and \$349 thousand is included under the caption Other long-term liabilities for December 31, 2004 and September 30, 2004, respectively. The Company records the payments or receipts on the agreement as adjustments to interest expense. The Company recognized interest expense related to the swap of \$97 thousand and \$131 thousand for the three months ended December 31, 2004 and December 31, 2003, respectively.

Item 4. Controls and Procedures

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of December 31, 2004. Based on this evaluation, our chief executive officer and chief financial officer concluded that, as of December 31, 2004, our disclosure controls and procedures were (1) designed to ensure that material information relating to us, including our consolidated subsidiaries, is made known to our chief executive



officer and chief financial officer by others within those entities, particularly during the period in which this report was being prepared and (2) effective, in that they provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the fiscal quarter ended December 31, 2004 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

MapInfo Corporation

## Part II. Other Information

### Item 1. Legal Proceedings

On August 5, 2002, the Company filed an action against Spatial Re-Engineering Consultants ("SRC"), a former MapInfo reseller, in the United States District Court for the Northern District of New York to collect approximately \$100 thousand in receivables owed by SRC to the Company under contractual obligations. SRC answered and asserted fifteen counterclaims against the Company. The counterclaims include allegations of breach of contract and copyright infringement. The District Court dismissed one counterclaim and SRC voluntarily withdrew a second counterclaim; thirteen counterclaims remain. In its computation of damages made pursuant to court rules, SRC has alleged general damages of \$5.1 million. SRC has also claimed special damages of \$14.8 million. The Company is vigorously defending against all remaining counterclaims. In addition, the Company has amended its complaint against SRC to add five claims relating to unauthorized distribution of the Company's products and copyright infringement.

The Company is also party to other legal proceedings, none of which it believes is material.

MapInfo Corporation

## Part II. Other Information (continued)

### Item 6. Exhibits

See Exhibit Index attached hereto, which Exhibit Index is incorporated herein by reference.

Signature

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MAPINFO CORPORATION

Date: February 4, 2005

By: /s/ K. Wayne McDougall  
K. Wayne McDougall  
Vice President and  
Chief Financial Officer  
(principal financial and  
accounting officer)

Exhibit Index

Exhibit

Number

Description of Exhibit

- |      |   |
|------|---|
| 10.1 | Employment Agreement dated October 1, 2004 by and between the Registrant and Daniel T. Gerron.  |
| 10.2 | Employment Agreement dated October 1, 2004 by and between the Registrant and James D. Scott.  |
| 10.3 | Employee Intellectual Property, Confidential Information and Non-Competition Agreement dated as of December 8, 2004 by and between the Registrant and Daniel T. Gerron. |

- 10.4 Employee Intellectual Property, Confidential Information and Non-Competition Agreement dated as of January 31, 2005 by and between the Registrant and James D. Scott.
  
- 31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a).
  
- 31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a).
  
- 32.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(b).
  
- 32.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(b).