MONSTER WORLDWIDE INC
Form 10-Q
April 29, 2011

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE QUARTERLY PERIOD ENDED March 31, 2011
OR

o **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 001-34209

MONSTER WORLDWIDE, INC.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE	**13-3906555**
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(I.R.S. EMPLOYER IDENTIFICATION NO.)

622 Third Avenue, New York, New York	**10017**
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)	(ZIP CODE)

(212) 351-7000
(REGISTRANT S TELEPHONE NUMBER, INCLUDING AREA CODE)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). þ Yes o No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). o Yes þ No

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Class	Outstanding as of April 20, 2011
Common Stock	129,318,647

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

MONSTER WORLDWIDE, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share amounts)
(unaudited)

	Three Months Ended March 31,	
	2011	2010
Revenue	**$ 261,382**	**$ 215,305**
Salaries and related	135,661	128,450
Office and general	66,570	62,148
Marketing and promotion	57,698	59,581
Total operating expenses	**259,929**	**250,179**
Operating income (loss)	**1,453**	**(34,874)**
Interest and other, net	(441)	(653)
Income (loss) before income taxes and loss in equity interests	1,012	(35,527)
Provision for (benefit from) income taxes	356	(12,179)
Loss in equity interests, net	(578)	(831)
Net income (loss)	**$ 78**	**$ (24,179)**
Basic income (loss) per share	**$**	**$ (0.20)**
Diluted income (loss) per share	**$**	**$ (0.20)**
Weighted average shares outstanding:		
Basic	121,425	120,032
Diluted	124,636	120,032

See accompanying notes.

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MONSTER WORLDWIDE, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands)

	March 31, 2011 (unaudited)	December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 191,002	$ 163,169
Accounts receivable, net of allowance for doubtful accounts of $5,118 and $5,420	340,307	346,751
Prepaid and other	84,600	75,451
Total current assets	**615,909**	**585,371**
Goodwill	1,151,182	1,122,951
Property and equipment, net	154,900	150,147
Intangibles, net	62,474	66,184
Investment in unconsolidated affiliates	919	1,359
Other assets	51,061	51,990
Total assets	**$ 2,036,445**	**$ 1,978,002**
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 36,092	$ 36,569
Accrued expenses and other current liabilities	184,547	176,400
Deferred revenue	399,105	376,448
Current portion of long-term debt and borrowings on credit facility	80,000	84,500
Income taxes payable	12,062	12,907
Total current liabilities	**711,806**	**686,824**
Long-term income taxes payable	96,922	95,390
Deferred income taxes	12,670	17,186
Long-term debt, less current portion	40,000	40,000
Other long-term liabilities	7,933	9,952
Total liabilities	**869,331**	**849,352**
Commitments and contingencies		
Stockholders equity:		
Preferred stock, $.001 par value, authorized 800 shares; issued and outstanding: none		
Common stock, $.001 par value, authorized 1,500,000 shares; issued: 136,767 and 135,834 shares, respectively; outstanding: 122,046 and 121,113 shares, respectively	137	136
Class B common stock, $.001 par value, authorized 39,000 shares; issued and outstanding: none		

Additional paid-in capital	1,427,804	1,424,815
Accumulated deficit	(359,388)	(359,466)
Accumulated other comprehensive income	98,561	63,165
Total stockholders equity	**1,167,114**	**1,128,650**
Total liabilities and stockholders equity	**$ 2,036,445**	**$ 1,978,002**

See accompanying notes.

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MONSTER WORLDWIDE, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Three Months Ended March 31, 2011	2010
Cash flows provided by operating activities:		
Net income (loss)	**$ 78**	**$ (24,179)**
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	18,401	16,604
Provision for doubtful accounts	370	1,149
Non-cash compensation	13,180	10,267
Deferred income taxes	(3,984)	(14,713)
Loss in equity interests, net	578	831
Gains on auction rate securities	(1,120)	(200)
Changes in assets and liabilities, net of purchase transactions:		
Accounts receivable	12,416	17,631
Prepaid and other	(6,718)	1,589
Deferred revenue	14,926	4,668
Accounts payable, accrued liabilities and other	1,293	22,569
Total adjustments	49,342	60,395
Net cash provided by operating activities	**49,420**	**36,216**
Cash flows used for investing activities:		
Capital expenditures	(16,457)	(8,536)
Cash funded to equity investee	(1,007)	(1,345)
Sales and maturities of marketable securities	1,120	3,414
Dividends received from unconsolidated investee	443	220
Net cash used for investing activities	**(15,901)**	**(6,247)**
Cash flows used for financing activities:		
Payments on borrowings on credit facility	(4,500)	
Tax withholdings related to net share settlements of restricted stock awards and units	(7,096)	(6,359)
Proceeds from exercise of employee stock options	23	27
Net cash used for financing activities	**(11,573)**	**(6,332)**
Effects of exchange rates on cash	5,887	(7,932)
Net increase in cash and cash equivalents	27,833	15,705
Cash and cash equivalents, beginning of period	163,169	275,447

Cash and cash equivalents, end of period	**$ 191,002**	**$ 291,152**
Supplemental disclosures of cash flow information:		
Cash paid for income taxes	$ 4,780	$ 1,952
Cash paid for interest	$ 2,089	$ 1,284

See accompanying notes.

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MONSTER WORLDWIDE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except per share amounts)
(unaudited)

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

Description of Business

Monster Worldwide, Inc. (together with its consolidated subsidiaries, the Company or Monster) has operations that consist of three reportable segments: Careers North America, Careers International and Internet Advertising & Fees. Revenue in the Company s Careers segments are primarily earned from the placement of job postings on the websites within the Monster network, access to the Company s resume databases, recruitment media services and other career-related services. Revenue in the Company s Internet Advertising & Fees segment is primarily earned from the display of advertisements on the Monster network of websites, click-throughs on text based links and leads provided to advertisers. The Company s Careers segments provide online services to customers in a variety of industries throughout North America, Europe and the Asia-Pacific region, while Internet Advertising & Fees delivers online services primarily in North America.

Basis of Presentation

The consolidated interim financial statements included herein are unaudited and have been prepared by the Company pursuant to the rules and regulations of the United States Securities and Exchange Commission (the SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been omitted pursuant to such rules and regulations; however, the Company believes that the disclosures are adequate to make the information presented not misleading. The consolidated interim financial statements include the accounts of the Company and all of its wholly-owned and majority-owned subsidiaries. All significant inter-company accounts and transactions have been eliminated in consolidation.

These statements reflect all normal recurring adjustments that, in the opinion of management, are necessary for fair presentation of the information contained herein. These consolidated interim financial statements should be read in conjunction with the financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2010. The Company adheres to the same accounting policies in preparing interim financial statements. As permitted under generally accepted accounting principles in the United States, interim accounting for certain expenses, including income taxes, are based on full year assumptions. Such amounts are expensed in full in the year incurred. For interim financial reporting purposes, income taxes are recorded based upon estimated annual income tax rates.

Certain reclassifications of prior year amounts have been made for consistent presentation.

2. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In October 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2009-13, *Multiple-Deliverable Revenue Arrangements*. The new standard changes the requirements for establishing separate units of accounting in a multiple element arrangement and requires the allocation of arrangement consideration to each deliverable based on the relative selling price. The selling price for each deliverable is based on vendor-specific objective evidence (VSOE) if available, third-party evidence (TPE) if VSOE is not available, or estimated selling price if neither VSOE or TPE is available. ASU 2009-13 is effective for revenue arrangements entered into in fiscal years beginning on or after June 15, 2010. The Company adopted ASU 2009-13 effective January 1, 2011 and it did not have a material impact on its consolidated statements of operations and financial condition.

In December 2010, the FASB issued ASU No. 2010-28, *Intangibles Goodwill and Other Topics*. This update modifies Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that an impairment may exist. The qualitative factors are consistent with the existing guidance, which requires that goodwill of a reporting unit be tested

for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. This accounting guidance is effective for financial statements issued for fiscal years beginning after December 15, 2010, and interim periods within those fiscal years. The Company adopted this new guidance effective January 1, 2011 and it did not have a material impact on the Company s consolidated statements of operations and financial condition.

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3. EARNINGS PER SHARE

Basic earnings per share is calculated using the Company s weighted-average outstanding common shares. When the effects are dilutive, diluted earnings per share is calculated using the weighted-average outstanding common shares, participating securities and the dilutive effect of all other stock-based compensation awards as determined under the treasury stock method. Certain stock options and stock issuable under employee compensation plans were excluded from the computation of earnings per share due to their anti-dilutive effect. A reconciliation of shares used in calculating basic and diluted earnings per share follows:

	Three Months Ended March 31,	
(thousands of shares)	**2011**	**2010**
Basic weighted average shares outstanding	121,425	120,032
Effect of common stock equivalents stock options and non-vested stock under employee compensation plans (1)	3,211	
Diluted weighted average shares outstanding (1)	124,636	120,032
Weighted average anti-dilutive common stock equivalents (1)	3,327	7,433

(1) For periods in which losses are presented, dilutive earnings per share calculations do not differ from basic earnings per share because the effects of any potential common stock equivalents are anti-dilutive and therefore not included in the calculation of dilutive earnings per share. For the three months ended March 31, 2010, those potential shares totaled 2,192, which are included in the weighted average anti-dilutive common stock equivalents above, in addition to 5,241 of out of the money anti-dilutive common stock equivalents for the three months ended March 31, 2010.

4. STOCK-BASED COMPENSATION

Stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense ratably over the requisite service period, which is generally the vesting period, net of estimated forfeitures.

The Company awards non-vested stock to employees, directors and executive officers in the form of Restricted Stock Awards (RSAs) and Restricted Stock Units (RSUs), market-based RSAs and RSUs, stock options and performance-based RSAs and RSUs. The Compensation Committee of the Company s Board of Directors approves stock-based compensation awards for all employees and executive officers of the Company. The Corporate Governance and Nominating Committee of the Company s Board of Directors approves stock-based compensation awards for all non-employee directors of the Company. The Company uses the fair-market value of the Company s common stock on the date the award is approved to measure fair value for service-based awards, a Monte Carlo simulation model to determine both the fair value and requisite service period of market-based awards and the Black-Scholes option-pricing model to determine the fair value of stock option awards. The Company does not capitalize stock-based compensation costs. The Company presents as a financing activity in the consolidated statement of cash flows the benefits of tax deductions in excess of the tax-effected compensation of the related stock-based awards for the options exercised and RSAs and RSUs vested.

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The Company recognized pre-tax compensation expense in the consolidated statement of operations related to stock-based compensation as follows:

	Three Months Ended March 31,	
	2011	2010
Non-vested stock, included in salaries and related	$ 13,028	$ 10,124
Stock options, included in salaries and related	152	143
Total	$ 13,180	$ 10,267

During the first three months of 2011, the Company granted an aggregate of 299,000 RSAs and 69,000 RSUs to approximately 30 employees, executive officers and directors of the Company. The RSAs and RSUs vest in various increments on the anniversaries of the individual grant dates, through March 18, 2015, subject to the recipient s continued employment or service through each applicable vesting date. The fair-market value of RSAs and RSUs vested during the three months ended March 31, 2011 is $24,935.

The Company s non-vested stock activity for the three months ended March 31, 2011 is as follows:

(thousands of shares)	Shares	Weighted Average Fair Value at Grant Date
Non-vested at January 1, 2011	11,299	$ 14.65
Granted	368	17.97
Forfeited	(390)	14.31
Vested	(1,448)	17.22
Non-vested at March 31, 2011	9,829	$ 14.75

As of March 31, 2011, the unrecognized compensation expense related to non-vested stock was $107,266, which is being amortized over the requisite service periods on a straight-line basis.

The Company s stock option activity for the three months ended March 31, 2011 is as follows:

(thousands of shares)	Shares	Weighted Average Exercise Price	Weighted Average Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding at January 1, 2011	2,135	$ 27.31		
Exercised	(1)	25.25		
Forfeited/expired/cancelled	(35)	35.92		
Outstanding at March 31, 2011	2,099	$ 27.17	2.49	$ 3,543
Options exercisable at March 31, 2011	2,077	$ 27.17	2.45	$ 3,543

Aggregate intrinsic value is calculated as the difference between the closing market price of the Company s common stock as of March 31, 2011 and the exercise price of the underlying options. During the three months ended March 31,

2011 and 2010, the aggregate intrinsic value of options exercised was $4 and $32, respectively. As of March 31, 2011, the unrecognized compensation expense for stock options was $198, which is being amortized over the requisite service periods on a straight-line basis.

5. BUSINESS COMBINATIONS

On August 24, 2010, pursuant to an Asset Purchase Agreement dated as of February 3, 2010 between Monster and Yahoo! Inc., Monster completed the acquisition of substantially all of the assets exclusive to Yahoo! HotJobs (the HotJobs Assets) from Yahoo! The purchase price for the HotJobs Assets was $225,000. We acquired the HotJobs Assets, among other objectives, to expand our business in the North America online recruitment market. Accordingly, the business attributable to the HotJobs Assets has been included in the Careers North America segment and reporting unit. The results of operations attributable to the HotJobs Assets have been included in our consolidated financial statements since August 24, 2010. Concurrent with the closing of the acquisition, Monster and Yahoo! entered into a three year commercial traffic agreement whereby Monster became Yahoo! s exclusive provider of career and job content on the Yahoo! homepage in the United States and Canada.

The Company funded the acquisition of the HotJobs Assets with available cash and proceeds from the Company s revolving credit facility (see Note 11). The Company used the acquisition method to account for the acquisition in accordance with ASC 805, *Business Combinations*. Under the acquisition method, the purchase price was allocated to, and we have recognized the fair value of, the tangible and intangible assets acquired and liabilities assumed. The excess of the purchase price over the fair value of the net tangible and identifiable intangible assets acquired have been recorded as goodwill. In the three months ended March 31, 2011, the Company incurred $4.6 million of acquisition and integration-related costs associated with the acquisition of the HotJobs Assets, which were expensed as incurred and are included in office and general and salary and related expenses in the consolidated statement of operations. These costs primarily relate to professional fees and other integration costs associated with the acquisition. We do not expect to continue to incur significant integration-related costs associated with the acquisition of the HotJobs Assets.

The following table summarizes our preliminary allocation of the purchase consideration of the HotJobs Assets:

	Amount	Estimated Useful Lives
Unbilled accounts receivable	$ 12,228	
Identifiable intangible assets:		
Customer relationships	11,900	3 years
Trade name	10,600	9 years
Resume database	10,000	3 years
Non-competition agreement	500	3 years
Total identifiable intangible assets	33,000	
Deferred revenue	(12,315)	
All other net tangible assets (liabilities)	(52)	
Goodwill	192,139	
Total purchase price	$ 225,000	

Among the factors that contributed to the recognition of goodwill in this transaction was the expansion of our market share in the North America online recruitment market, increased reach to both active and passive job seekers, the addition of an assembled workforce and opportunities for future synergies. This goodwill is deductible for tax purposes. The pro forma impact of the acquisition of the HotJobs Assets is not material to the Company s historical consolidated operating results and therefore is not presented.

6. FAIR VALUE MEASUREMENT

The Company values its assets and liabilities using the methods of fair value as described in ASC 820, *Fair Value Measurements and Disclosures*. ASC 820 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. The three levels of fair value hierarchy are described below:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Inputs that are generally unobservable and typically reflect management s estimates of assumptions that market participants would use in pricing the asset or liability.

In determining fair value, the Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible, and considers counter-party credit risk in its assessment of fair value. Observable or market inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company s assumptions based on the best information available. There have been no transfers of assets or liabilities between the fair value measurement classifications for the three months ended March 31, 2011.

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The Company has certain assets and liabilities that are required to be recorded at fair value on a recurring basis in accordance with accounting principles generally accepted in the United States. The following table summarizes those assets and liabilities measured at fair value on a recurring basis as of March 31, 2011:

	Level 1	Level 2	Level 3	Total
Assets:				
Bank time deposits	$	$ 59,878	$	$ 59,878
Commercial paper		79,136		79,136
Banker s acceptances		8,492		8,492
Government bond foreign		8,420		8,420
Foreign exchange contracts		304		304
Total Assets	$	$ 156,230	$	$ 156,230
Liabilities:				
Lease exit liabilities	$	$	$ 15,971	$ 15,971
Total Liabilities	$	$	$ 15,971	$ 15,971

The following table summarizes those assets and liabilities measured at fair value on a recurring basis as of December 31, 2010:

	Level 1	Level 2	Level 3	Total
Assets:				
Bank time deposits	$	$ 55,954	$	$ 55,954
Commercial paper		47,675		47,675
Government bond foreign		4,385		4,385
Foreign exchange contracts		666		666
Total Assets	$	$ 108,680	$	$ 108,680
Liabilities:				
Lease exit liabilities	$	$	$ 13,913	$ 13,913
Total Liabilities	$	$	$ 13,913	$ 13,913

The lease exit liabilities relate to vacated facilities associated with previously discontinued operations and realignment activities of the Company and are recorded in accrued expenses and other current liabilities in the consolidated balance sheet as of March 31, 2011. The fair value of the Company s lease exit liabilities within the Level 3 classification is based on a discounted cash flow model applied over the remaining term of the leased property, inclusive of certain sublet assumptions.

The changes in the fair value of the Level 3 assets and liabilities are as follows:

Three months ended June 30,

Nine months ended June 30,

	2003	2002	2003	2002
(In thousands, expect per share data)				
Net income (loss), as reported	$ 480	$ (506)	$ (2,151)	$ (2,441)
Stock-based employee compensation expense, net of related tax effects, determined under fair value based method for all awards	(736)	(497)	(2,243)	(2,388)
Pro forma net loss	$ (256)	$ (1,003)		

	$ (4,394)
	$ (4,829)
Earnings (loss) per share:	
Basic and diluted, as reported	
	$ 0.03
	$ (0.03)
	$ (0.14)
	$ (0.16)
Basic and diluted, pro forma	
	(0.02)
	(0.07)
	(0.29)
	(0.32)

9. Recent Accounting Pronouncements

In May 2003, the FASB issued Statement of Financial Accounting Standards No. 150 ("SFAS No. 150"), "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. SFAS No. 150 requires that an issuer classify a financial instrument that is within the scope of SFAS No. 150 as a liability. SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective for the Company beginning October 1, 2003. The Company is currently assessing the financial impact of SFAS No. 150 on its financial statements.

MapInfo Corporation and Subsidiaries
Notes to Financial Statements - Continued

(unaudited)

9. Recent Accounting Pronouncements (continued)

In April 2003, the FASB issued Statement of Financial Accounting Standards No. 149 ("SFAS No. 149"), Amendment of Statement 133 on Derivative Instruments and Hedging Activities." SFAS No. 149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under SFAS No. 133. SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003, and hedging relationships designated after June 30, 2003, except for those provisions of SFAS No. 149 that relate to SFAS No. 133 Implementation issues already effective for fiscal quarters that began prior to June 15, 2003. For these latter issues, the provisions that are currently in effect should continue to be applied in accordance with their respective effective dates. Certain provisions of SFAS No. 149, that relate to forward purchases or sales of when-issued securities or other securities that do not yet exist should be applied to both existing contracts and new contracts entered into after June 30, 2003. The Company is currently assessing the financial impact of SFAS No. 149 on its financial statements.

In January 2003, the FASB issued FASB Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46"). This interpretation explains how to identify variable interest entities and how an enterprise assesses its interest in a variable interest entity to decide whether to consolidate that entity. This interpretation requires existing unconsolidated variable interest entities to be consolidated by their primary beneficiaries if the entities do not effectively disperse risks among parties involved. Variable interest entities that effectively disperse risks will not be consolidated unless a single party holds an interest or combination of interest that effectively recombines risks that were previously dispersed. This interpretation applies immediately to variable interest entities created after January 31, 2003, and to variable interest entities in which an enterprise obtains an interest after that date. It applies in the first fiscal year or interim period beginning after June 15, 2003, to variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2003. The adoption of FIN 46 is not expected to have a material effect on the Company's financial position or results of operations.

In December 2002, the FASB issued FAS No. 148 "Accounting for Stock Based Compensation-Transition and Disclosure - an amendment of FAS 123". This Statement amends FAS 123, "Accounting for Stock-Based Compensation" to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of Statement 123 to require prominent disclosures in both annual and interim financial statements about the method used on reported results. The Statement has varying effective dates commencing with interim periods beginning after December 15, 2002. The adoption of SFAS No. 148 did not have a material impact on the Company's financial position or results of operations.

MapInfo Corporation and Subsidiaries
Notes to Financial Statements - Continued

(unaudited)

9. Recent Accounting Pronouncements (continued)

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN 45"). FIN 45 elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. FIN 45 does not prescribe a specific approach for subsequently measuring the guarantor's recognized liability over the term of the related guarantee. FIN 45 incorporates without change, the guidance in FASB Interpretation No. 34, "Disclosure of Indirect Guarantees of Indebtedness of Others", which is being superseded. The initial recognition and initial measurement provisions of FIN 45 are applicable on a prospective basis to guarantees issued or modified after December 31, 2002, irrespective of the

guarantor's fiscal year-end. The disclosure requirements in FIN 45 are effective for financial statements of interim or annual periods ending after December 15, 2002. The adoption of this statement does not have a material impact on the Company's financial statements. Subject to certain limitations, the Company agrees to indemnify its customers against any damages, liabilities, costs and expenses arising out of any claim that a MapInfo product infringes the intellectual property right of a third party. The Company has never incurred costs to defend lawsuits or settle claims related to these indemnification agreements. Accordingly, the Company believes the liability for these agreements as of June 30, 2003 is not material.

In June 2002, the Financial Accounting Standards Board (the "FASB") issued Statement No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" ("SFAS No. 146"), which replaces Emerging Issues Task Force ("EITF") Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." Under SFAS No. 146, liabilities for costs associated with an exit or disposal activity are to be recognized when the liability is incurred, while under EITF Issue No. 94-3, liabilities related to exit or disposal activities were recognized when an entity committed to an exit plan. SFAS No. 146 establishes that the objective for the initial measurement of the liability is fair value. SFAS No. 146 is effective for exit or disposal activities initiated after December 31, 2002. The Company does not expect this statement to have a material impact on its financial statements.

MapInfo Corporation and Subsidiaries
Notes to Financial Statements - Continued

(unaudited)

10. Acquisition

On January 6, 2003 the Company acquired substantially all of the assets and assumed certain liabilities of Thompson Site Selection Research, Inc. ("Thompson"), a privately held company headquartered in Ann Arbor, Michigan. Thompson is a provider of location-based analytical services and business intelligence software for the retail, restaurant and real estate verticals. The Company expects the acquisition to strengthen its presence in these verticals. The purchase price was $13.5 million, including acquisition-related costs. In addition, the Company may pay up to $6.0 million in contingent consideration to Thompson based on Thompson's profitability over the two years following the acquisition. The purchase was financed with $9.9 million in cash on hand, $3.0 million in borrowings under the Company's bank credit facility, and $556 thousand in cash on hand, paid in April 2003 as a result of the closing balance sheet working capital adjustment. The total of Thompson's net assets acquired by the Company was $2.6 million. Goodwill recorded as a result of the acquisition totaled $7.9 million. Intangibles assets acquired, other than goodwill, totaled $3.0 million. Of the $3.0 million of acquired intangible assets, $555 thousand was assigned to registered trademarks that are not subject to amortization. The remaining $2.4 million of acquired intangible assets have a weighted-average useful life of approximately 6 years. The intangible assets that make up the $2.4 million include: technology intangibles of $1.2 million (6-year weighted average useful life), customer intangibles of $1.1 million (7-year weighted average useful life), and other assets of $185 thousand (3-year weighted average useful life). The acquisition is being accounted for as a purchase, and, accordingly, the Company has included the results of operations in the financial statements effective January 6, 2003. Ninety-three employees of Thompson became employees of MapInfo upon the acquisition.

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

Results of Operations

Overview

MapInfo Corporation ("MapInfo" or the "Company") designs, develops, licenses, markets and supports location-based software and data products, application development tools and industry-focused solutions. The Company also provides related consulting, training and technical support services. Products and services are sold through multiple distribution channels, including a corporate account sales force, a telemarketing sales group, and an indirect channel of value-added resellers and distributors. The Company's products are translated into 20 languages and sold in 60 countries throughout the world. MapInfo markets its products worldwide through sales offices in North America, the United Kingdom, Germany, and Australia, and in the rest of Europe and the Asia-Pacific region through exclusive and non-exclusive distribution relationships.

In support of its profitability objectives, the Company reduced operating costs during the second quarter of fiscal year 2003. A total of $4.8 million in annualized operating cost savings were realized during the quarter on the Company's base business, excluding Thompson. As a result of these reductions, actual total company headcount, excluding 93 employees that were added as a result of the Thompson acquisition (discussed above) was 631 at June 30, 2003 compared to 681 at September 30, 2002.

Forward-Looking Statements

This Form 10-Q, including this Management's Discussion and Analysis of Financial Condition and Results of Operations, contains forward-looking statements regarding future events and the Company's future results that are based on current expectations, estimates, forecasts, and projections about the industries in which MapInfo operates and the beliefs and assumptions of the Company's management. In this Form 10-Q, any statements that are not statements of historical fact may be deemed to be forward-looking statements, including but not limited to statements: as to the sufficiency of funds to meet operating requirements for the next 12 months; as to the Company's expansion of facilities in Troy, New York and the projected vacancy rate of those facilities; as to the impact of the Company's operating-cost reduction measures; as to the intended use of the common stock repurchased under the common stock repurchase program; as to the potential impact of certain accounting pronouncements on the Company's future financial reports and results; and as to the impact of the Thompson acquisition. Without limiting the foregoing, the words "believes," "anticipates," "plans," "expects," and similar expressions are intended to identify forward-looking statements. Readers are cautioned that these forward-looking statements are only predictions and are subject to risks, uncertainties and assumptions that are difficult to predict. Therefore, actual results may differ materially and adversely from those expressed in any forward-looking statements. Readers should review carefully the risks and uncertainties identified below under the caption "Outlook: Issues and Risks". We undertake no obligation to revise or update publicly any forward-looking statements for any reason.

Critical Accounting Policies and Estimates

The Company's discussion and analysis of its financial condition and results of operation are based on its consolidated financial statements, 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. The Company's actual results may differ from these estimates under different conditions or assumptions.

The Company believes the following critical accounting policies affect its more significant judgments and estimates used in the preparation of its consolidated financial statements:

- The Company records reductions to revenue for estimated product returns. The Company maintains an allowance for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. If the financial condition of MapInfo's customers were to deteriorate, resulting in their inability to make payments, an additional allowance might be recognized.

- The Company recognizes 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". In accordance with SOP 97-2, the Company recognizes 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 software arrangements involving multiple elements is allocated to each element based on the relative fair value of each element. In general, revenue related to postcontract customer support, including maintenance and technical support, is deferred and recognized ratably over the term of the agreement. Revenue from customer training, consulting and other services is recognized upon completion of the service performed.

- MapInfo writes down its inventory for estimated obsolescence or unmarketable inventory equal to the difference between the cost of inventory and the estimated market value. Estimated market value is based upon management's assumptions about future demand and market conditions. If actual market conditions are less favorable than those projected by management, additional inventory write-downs may be necessary.

- Other intangible assets are amortized on a straight-line basis over the 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. The Company reviews its 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 its 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.

- Effective October 1, 2001, the Company adopted Statement of Financial Accounting Standard No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). In accordance with SFAS 142, the Company does not amortize goodwill. The Company tests goodwill for impairment on an annual basis or when a triggering event occurs and writes down goodwill if it is determined that the asset has been impaired.

- MapInfo holds minority interests in companies having operations or technology in areas within its strategic focus. The Company records an investment impairment charge when an investment has experienced a decline in value that the Company believes is not temporary. Future adverse changes in market conditions or poor operating results of underlying investments could result in losses or an inability to recover the carrying value of the investments that may not be reflected in an investment's current carrying value. This may require an impairment charge in the future.

- The Company has established a valuation allowance to reserve a portion of the net deferred tax assets representing foreign tax credit carryforwards. There is no valuation allowance recorded against the Company's

remaining net deferred tax assets as the Company believes it is more likely than not that all remaining future tax benefits will be realized against future taxable income. However, the amount of deferred tax assets considered realizable could be reduced in the future if estimates of future taxable income are reduced.

Net Revenues

For the third quarter of fiscal 2003, revenues increased 24%, or $5.5 million, to $28.3 million from $22.7 million in the same period a year ago. The January 6, 2003 acquisition of Thompson accounted for $4.7 million of the revenue increase during the third quarter. Approximately $4.1 million of the $5.5 million increase was attributable to increased revenues from services, primarily due to Thompson, which added $3.9 million in services revenue in the third quarter. Data revenues increased by $2.0 million, or 23%, while software revenues decreased $534 thousand, or 5%, compared to the third quarter of the prior year. On a geographic basis, revenues in the Americas increased $4.6 million, or 39%, compared to the same period a year ago, inclusive of Thompson revenue of $4.7 million. Europe revenues increased $456 thousand, or 6%, and revenues in Asia-Pacific increased $470 thousand, or 13%, when compared to the same period a year ago. The strengthening of foreign currencies against the U.S. dollar added $1.2 million to third quarter 2003 revenue compared to the prevailing exchange rates in the comparable period from the prior year. On a strategic business unit ("SBU") basis, third quarter revenue attributed to the Location Based Intelligence ("LBI") business unit was $20.4 million compared to $19.8 million one year ago, revenue attributed to the Predictive Analytics business unit, inclusive of Thompson, was $7.3 million, an increase of $4.7 million versus a year ago, and revenue attributed to the Location Based Services ("LBS") business unit was $582 thousand compared to $291 thousand in the third quarter of the prior year. Approximately $4.7 million of the revenues attributed to the Predictive Analytics segment were due to the acquisition of Thompson.

For the first nine months of fiscal 2003, revenues increased 11%, or $7.2 million, to $76.2 million compared to $69.0 million in the prior year. The acquisition of Thompson in January 2003 resulted in revenue of $8.0 million through June 30, 2003. In the Americas, revenue for the first nine months of fiscal 2003 increased $4.3 million or 12% compared to the prior year. The increase was mainly attributable to Thompson, which was offset by a revenue decrease due to reduced spending from telecommunication companies in the Americas. Revenues in Europe and Asia Pacific increased 9% and 10%, respectively. The strengthening of foreign currencies against the U.S. dollar added $3.1 million to revenue for the first nine months of fiscal 2003 compared to the prevailing exchange rates in the prior year comparable period. On a SBU basis, revenue attributed to the LBI SBU was $59.1 million, revenue attributed to the Predictive Analytics SBU, inclusive of Thompson, was $16.1 million and revenue attributed to the LBS SBU was $1.0 million for the first nine months of fiscal year 2003. The Company has experienced a slower rate of adoption of its LBS technology than previously anticipated due to delays in customer implementations.

Cost of Revenues, Operating Expenses and Income Taxes

Cost of revenues as a percentage of revenues increased to 30.9% in the third quarter of 2003 from 26.7% in the same period a year ago. As a result, the gross profit margin decreased to 69.1% from 73.3%. For the first nine months of fiscal 2003, cost of revenues increased to 29.8% of revenues from 26.9% in the prior year. As a result, the gross profit margin decreased to 70.2% from 73.1% a year ago. The lower margins are primarily attributable to increased services revenue, due to the Thompson acquisition. In general, services generate a lower gross profit margin than do products.

Research and development (R&D) expenses increased 6% to $5.2 million in the third quarter of fiscal 2003 from $4.9 million in the prior year period. For the first nine months of fiscal 2003, R&D expenses increased 1% to $15.3 million from $15.2 million in fiscal year 2002. Thompson's R&D expenses were $266 thousand in the quarter and $516 thousand year-to-date. The increase in the third quarter R&D expenses was due to Thompson. For the first nine

months of 2003, offsetting the increase due to Thompson, the decrease in R&D expenses was primarily the result of headcount reductions beginning in the third quarter of the prior fiscal year. At June 30, 2003, R&D headcount was 195, inclusive of nine Thompson employees, compared to 191 at the end of the third quarter in the prior year. As a percentage of revenues, R&D expenses decreased to 18.6% in the third quarter of fiscal 2003 compared to 21.7% in the prior year comparable period. R&D expenses were 20.1% of revenues in the first nine months of fiscal 2003 compared to 22.0% in 2002.

Selling and marketing expenses increased 4% in the third quarter of fiscal year 2003 to $10.1 million from $9.7 million in the third quarter of fiscal 2002. For the first nine months of fiscal 2003, selling and marketing expenses increased 3% to $30.4 million from $29.5 million in fiscal year 2002. Thompson's selling and marketing expenses were $840 thousand for the third quarter and $1.7 million year-to-date. For the third quarter of fiscal year 2003, the increase in selling and marketing expenses was due primarily to the acquisition of Thompson, offset by headcount reductions and reduced spending. For the first nine months of fiscal year 2003, the increase in selling and marketing expenses was due primarily to the acquisition of Thompson, offset by headcount reductions, and to cost savings in Japan where the Company closed its sales office during the second quarter of the prior fiscal year. At June 30, 2003, selling and marketing headcount was 252, inclusive of 18 Thompson employees, compared to 249 at the end of the third quarter in the prior year. As a percentage of revenues, selling and marketing expenses in the third quarter decreased to 35.7% from 42.8% a year ago. Selling and marketing expenses were 39.9% of revenues in the first nine months of fiscal 2003 compared to 42.8% in 2002.

General and administrative (G&A) expenses increased by 12% to $3.5 million in the third quarter of fiscal 2003 from $3.1 million in 2002. For the first nine months of fiscal 2003 G&A expenses increased 18% to $11.8 million from $10.0 million in fiscal year 2002. Thompson's G&A expenses were $181 thousand for the third quarter and $444 thousand in the first nine months of fiscal year 2003. The increase in G&A costs in the third quarter of fiscal year 2003 was due to Thompson and increased professional fees. For the first nine months of fiscal year 2003, the increase in G&A expenses was mainly attributable to severance and restructuring costs of $991 thousand and Thompson. At June 30, 2003, G&A headcount was 110, inclusive of four Thompson employees, compared to 120 at the end of the third quarter in the prior year. As a percentage of revenues, G&A expenses in the third quarter decreased to 12.4% from 13.8% in the prior year comparable period. G&A expenses were 15.5% of revenues in the first nine months of fiscal 2003 compared to 14.5% in 2002.

During the first nine months of fiscal year 2003, the Company reduced operating costs on its base business, excluding Thompson. The Company recorded severance and restructuring costs of approximately $2.1 million during this period. Of the $2.1 million in severance and restructuring costs, $264 thousand related to R&D, $700 thousand related to sales and marketing, $991 thousand related to G&A and $120 thousand related to services. This resulted in the reduction of forty-eight regular employees, primarily in North America. As a result of these reductions and attrition, actual total company headcount, excluding Thompson headcount of 93, was 631 at June 30, 2003 compared to 681 at September 30, 2002.

Other income in the third quarter of fiscal 2003 of $78 thousand was $154 thousand higher than the third quarter of the prior year. Other income for the first nine months of fiscal year 2003 of $505 thousand was $403 thousand higher than the prior year. The prior year included an increase to the investment reserves of $125 thousand and $460 thousand for the third quarter and year-to-date, respectively, versus zero in the third quarter and year-to-date for the current year.

The effective income tax rate for the quarter ended June 30, 2003 was 38% compared to 59% in the quarter ended

June 30, 2002. The prior year's third quarter tax rate reflects an adjustment to achieve an overall year-to-date rate of 42%. The effective income tax rate for the first nine months of fiscal 2003 was 38% versus 42% in the prior year comparable period.

Financial Condition

The Company's cash and short-term investments totaled $32.2 million at June 30, 2003 compared to $36.1 million at September 30, 2002. The Company's investment portfolio consisted primarily of short-term, investment grade marketable securities.

MapInfo's long-term debt at June 30, 2003 totaled $18.6 million, which consisted of $14.9 million in mortgage payable, $2.9 million in term loan payable, and $786 thousand in capital lease financing. Additionally, the Company has a $6.0 million credit facility with a bank that expires on March 31, 2004. As of June 30, 2003, there were no outstanding borrowings under this credit facility.

Net cash from operating activities was $3.3 million for the first nine months of fiscal 2003 compared to $4.8 million for the same period in fiscal 2002. Cash from operating activities in the first nine months of fiscal 2003 resulted primarily from, among other things, depreciation and amortization and increases in deferred revenue, offset by the net loss and the provision for deferred income taxes. Net cash used for investing activities was $15.0 million due primarily to the Thompson acquisition of $12.2 million and fixed asset additions of $2.7 million (including $914 thousand related to the Company's new facility in Troy, New York). Net cash from financing activities was $8.1 million primarily due to mortgage proceeds of $4.6 million, term loan proceeds of $3.0 million and proceeds from the exercise of stock options of $1.0 million, offset by repayments of debt obligations of $249 thousand and treasury stock purchases of $268 thousand.

In July 2002, the Board of Directors authorized the Company to repurchase from time to time up to $10.0 million of the Company's Common Stock on the open market or in negotiated transactions. The repurchase program will remain in effect until September 30, 2004, unless discontinued earlier by the Board of Directors. The Company intends to use the repurchased shares for issuance upon exercise of employee stock options, purchases under the Company's stock purchase plan, or other corporate purposes. The repurchase program will be funded using the Company's working capital. The Company purchased 47,055 shares under this program during the first nine months of fiscal year 2003. Under this repurchase program, the Company has purchased a total of 297,057 shares totaling approximately $1.8 million to date.

The balance of accounts receivable at June 30, 2003 was $22.5 million compared to $18.9 million at September 30, 2002. The increase is primarily due to the acquisition of Thompson. The allowance for doubtful accounts decreased from $2.5 million at September 30, 2002 to $2.3 million as of June 30, 2003. The decrease is due to the actual write-off of accounts receivable that had been previously included as part of the allowance provision.

Management believes existing cash and short-term investments together with funds generated from operations and available financing will be sufficient to meet the Company's operating and capital requirements, including any remaining purchase price payments for the acquisition of Thompson, for the next twelve months. Factors that could adversely affect the Company's financial condition include a decrease in revenues, higher than anticipated costs associated with the new facility in Troy, New York, the stock repurchase program, and failure to achieve anticipated cost savings.

New Accounting Standards

In May 2003, the FASB issued Statement of Financial Accounting Standards No. 150 ("SFAS No. 150"), "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. SFAS No. 150 requires that an issuer classify a financial instrument that is within the scope of SFAS No. 150 as a liability. SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective for the Company beginning October 1, 2003. The Company is currently assessing the financial impact of SFAS No. 150 on its financial statements.

In April 2003, the FASB issued Statement of Financial Accounting Standards No. 149 ("SFAS No. 149"), Amendment of Statement 133 on Derivative Instruments and Hedging Activities." SFAS No. 149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under SFAS No. 133. SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003, and hedging relationships designated after June 30, 2003, except for those provisions of SFAS No. 149 that relate to SFAS No. 133 Implementation issues already effective for fiscal quarters that began prior to June 15, 2003. For these latter issues, the provisions that are currently in effect should continue to be applied in accordance with their respective effective dates. Certain provisions of SFAS No. 149, that relate to forward purchases or sales of when-issued securities or other securities that do not yet exist should be applied to both existing contracts and new contracts entered into after June 30, 2003. The Company is currently assessing the financial impact of SFAS No. 149 on its financial statements.

In January 2003, the FASB issued FASB Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46"). This interpretation explains how to identify variable interest entities and how an enterprise assesses its interest in a variable interest entity to decide whether to consolidate that entity. This interpretation requires existing unconsolidated variable interest entities to be consolidated by their primary beneficiaries if the entities do not effectively disperse risks among parties involved. Variable interest entities that effectively disperse risks will not be consolidated unless a single party holds an interest or combination of interest that effectively recombines risks that were previously dispersed. This interpretation applies immediately to variable interest entities created after January 31, 2003, and to variable interest entities in which an enterprise obtains an interest after that date. It applies in the first fiscal year or interim period beginning after June 15, 2003, to variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2003. The adoption of FIN 46 is not expected to have a material effect on the Company's financial position or results of operations.

In December 2002, the FASB issued FAS No. 148 "Accounting for Stock Based Compensation-Transition and Disclosure - an amendment of FAS 123". This Statement amends FAS 123, "Accounting for Stock-Based Compensation" to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of Statement 123 to require prominent disclosures in both annual and interim financial statements about the method used on reported results. The Statement has varying effective dates commencing with interim periods beginning after December 15, 2002. The adoption of SFAS No. 148 did not have a material impact on the Company's financial position or results of operations.

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN 45"). FIN 45 elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. FIN 45 does not prescribe a specific approach for subsequently measuring the guarantor's recognized liability over the term of the related guarantee. FIN

45 incorporates without change, the guidance in FASB Interpretation No. 34, "Disclosure of Indirect Guarantees of Indebtedness of Others", which is being superseded. The initial recognition and initial measurement provisions of FIN 45 are applicable on a prospective basis to guarantees issued or modified after December 31, 2002, irrespective of the guarantor's fiscal year-end. The disclosure requirements in FIN 45 are effective for financial statements of interim or annual periods ending after December 15, 2002. The adoption of this statement does not have a material impact on the Company's financial statements. Subject to certain limitations, the Company agrees to indemnify its customers against any damages, liabilities, costs and expenses arising out of any claim that a MapInfo product infringes the intellectual property right of a third party. The Company has never incurred costs to defend lawsuits or settle claims related to these indemnification agreements. Accordingly, the Company believes the liability for these agreements as of June 30, 2003 is not material.

In June 2002, the Financial Accounting Standards Board (the "FASB") issued Statement No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" ("SFAS No. 146"), which replaces Emerging Issues Task Force ("EITF") Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." Under SFAS No. 146, liabilities for costs associated with an exit or disposal activity are to be recognized when the liability is incurred, while under EITF Issue No. 94-3, liabilities related to exit or disposal activities were recognized when an entity committed to an exit plan. SFAS No. 146 establishes that the objective for the initial measurement of the liability is fair value. SFAS No. 146 is effective for exit or disposal activities initiated after December 31, 2002. The Company does not expect this statement to have a material impact on its financial statements.

Outlook: Issues and Risks

In addition to the other information in this Quarterly Report on Form 10-Q, the following issues and risks, among others, should be considered in evaluating MapInfo's outlook and future.

Effect of reduced demand and uncertainties in the telecommunications industry. The telecommunications industry is experiencing consolidation of industry participants. As a result, the Company's operating results could become increasingly dependent on a smaller number of telecommunication customers. Also, recent declines in capital spending by telecommunications companies may result in a lengthening of customers' decision cycles and a reduction in orders. Revenues from telecommunication customers accounted for approximately 21% of the Company's net revenues in the third quarter and 20% during the first nine months of fiscal year 2003. Significant further reductions in orders from the telecommunication industry could have a material adverse effect on MapInfo's operating results and financial condition.

Effects of economic slowdown. The stock market decline and broad economic slowdown have affected the demand for software products and related services, lengthened sales cycles and decreased technology spending for many of the Company's customers and potential customers. These events have adversely impacted the Company's revenues since 2001, particularly in the United States, and could have a material effect on the Company in the future, including without limitation, on the Company's future revenues and earnings.

Risks associated with cost reduction measures.

During the nine months ended June 30, 2003, the Company restructured its operations, including decreasing headcount on its base business, excluding Thompson, by approximately forty-eight employees. During restructuring operations in fiscal year 2002, the Company had decreased headcount by approximately ninety employees. The restructuring and reductions in force could have an adverse impact on the Company's business, including its ability to

attract and retain customers or employees, and the timing of release of new products and services. The Company cannot provide any assurance that restructuring will achieve the desired financial benefits, nor can the Company provide any assurance that the reduction in headcount will not have an adverse impact on its business or future operating results.

Risks associated with the reorganization of sales, marketing and engineering activities.

During fiscal year 2002, the Company reorganized its sales, marketing, and certain engineering functions into business units and reorganized its remaining engineering activities for the purpose of increased operational efficiency. Such reorganization and restructuring could have an adverse impact on the Company's business and its ability to retain its employees. The Company cannot provide any assurance that reorganizing will achieve the desired financial benefits, nor can the Company provide any assurance that the changes will not have an adverse impact on its business or future operating results.

New products and technological change

. The mapping software and information business is characterized by extremely rapid technological change, evolving industry standards, and frequent new product introductions. These conditions require continuous expenditures on product research and development to enhance existing products and to create new products. The Company believes that the timely development of new products and continuing enhancements to existing products is essential to maintain its competitive position in the marketplace. During recent years, the Company began to increasingly focus on its Predictive Analytics and LBS businesses and introduced a number of new or substantially updated releases of products, including Routing J Server, *TargetPro*® , *miAware*™ , *MapInfo Professional*® for Microsoft® SQL Server™ and MapInfo Discovery™ . The Company's future success depends, in part, upon customer and market acceptance of these new products and initiatives. Any failure to achieve acceptance of these and other new product offerings could have a material adverse effect on the Company's business and results of operations. There can be no assurance that the Company will successfully complete the development of new or enhanced products or successfully manage transitions from one product release to the next.

Competition.

The Company encounters significant competition in the market for business mapping systems worldwide. Some of the Company's competition may have significant name recognition, as well as substantially greater capital resources, marketing experience, research and development staffs and production facilities than the Company. Increased competition may lead to pricing pressures that could adversely affect the Company's gross margins. Prices of software in Europe and Asia are generally higher than in the Americas to cover localization costs and higher costs of distribution. Such price uplifts could erode in the future.

Reliance on third parties.

The Company relies in part on resellers and independent developers for the development of specialized data products that use MapInfo software. Failure by such resellers or independent developers to continue to develop such data products, or changes in the contractual arrangements with such resellers or independent developers, could have a material adverse effect on the Company's business and results of operations.

Risks associated with international operations. Revenues outside the United States represented approximately 50%

of total Company revenues in the third quarter of fiscal 2003 and approximately 55% of total Company revenues in the first nine months of fiscal 2003. The international portion of the Company's business is subject to a number of inherent risks, including the 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, and regulatory, economic, or political changes in international markets. The Company's operating results are also affected by exchange rates. Approximately 36% of the Company's revenues in the third quarter of fiscal 2003, and approximately 39% of the Company's revenues in the first nine months of fiscal 2003, were denominated in foreign currencies. Changes in international business conditions could have a material adverse effect on the Company's business and results of operations.

Prices. Future prices the Company is able to obtain for its 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 the Company's business and results of operations.

Intellectual property rights.

The Company regards its software as proprietary and attempts to protect it with a combination of copyright, trademark and trade secret protections, employee and third-party non-disclosure agreements, patents and other methods of protection. Despite these precautions, it may be possible for unauthorized third parties to copy certain portions of the Company's products, reverse engineer or obtain and use information the Company regards as proprietary. In addition, the Company's shrink-wrap licenses, under which the Company licenses its products, may be unenforceable under the laws of certain jurisdictions. Also, the laws of some foreign countries do not protect the Company's proprietary rights to the same extent as the laws of the United States. Any misappropriation of the Company's intellectual property could have a material adverse effect on the Company's business and results of operations. Furthermore, there can be no assurance that third parties will not assert infringement claims against the Company in the future with respect to current or future products. Any such assertion could require the Company to enter into royalty arrangements or result in costly litigation.

Cost of revenues. Cost of revenues varies with the mix of technology development and licensing fees, product revenues, services revenues and services utilization rates, as well as with the distribution channel mix. Changes in the revenue mix, as well as the distribution model, may affect cost of revenues as a percentage of net revenues in the future.

Risks associated with distribution channels. The Company primarily markets and distributes its products in North America, Europe and Australia through the Company's telesales, outside sales force and through third-party resellers. In the rest of the Asia-Pacific region, the Company's products are marketed and distributed through exclusive and non-exclusive distribution relationships. While the Company has contractual agreements with such resellers and distributors, these entities are not employees of the Company and the Company, accordingly, cannot control their continued performance. There can be no assurance that the Company will be able to retain its current resellers and distributors, that the resellers and distributors will perform to the Company's expectations, or that the Company will be able to expand its distribution channels by entering into arrangements with new resellers and distributors in the Company's current markets or in new markets.

Variability of quarterly operating results.

The Company's quarterly operating results may 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 competitors. Because a high percentage of the Company's 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. The Company operates with little or no backlog and has no long-term contracts; substantially all of its product revenues in each quarter result from software and data licenses issued in that quarter. Accordingly, the Company's ability to accurately forecast future revenues and income for any period is necessarily limited. Also, the Company could experience reduced revenues from telecommunications and Internet companies as a result of decreased spending in those industries.

Potential volatility of stock price. There has been, and will likely continue to be, significant volatility in the market price of securities of technology companies, including the Company. Factors such as announcements of new products by the Company or its competitors, litigation involving the Company, quarterly fluctuations in the Company's financial results or other software companies' financial results, shortfalls in the Company's actual financial results compared to results previously forecasted by stock market analysts, the Company's stock repurchase program, and general conditions in the software industry and conditions in the financial markets could cause the market price of the Company's Common Stock to fluctuate substantially. These market fluctuations may adversely affect the price of the Company's Common Stock. Such a decline could adversely impact the ability of the Company to attract and retain employees, acquire other companies or businesses and raise capital.

Risks associated with acquisitions and investments. The Company has made a number of acquisitions and investments, including its acquisition of Thompson in January 2003, and will continue to review future acquisition opportunities. No assurances can be given that acquisition candidates will continue to be available on terms and conditions acceptable to the Company. Acquisitions, including the Thompson acquisition, involve numerous risks, including, among other things, possible decreases in capital resources or dilution to existing shareholders, difficulties and expenses incurred in connection with the acquisitions and the subsequent assimilation of the operations and services or products of the acquired companies, the difficulty of operating new businesses, 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 the acquired company. In the event that the operations of an acquired business do not meet expectations, the Company may be required to restructure the acquired business or write-off the value of some or all of the assets of the acquired business. There can be no assurance that Thompson or any other acquisition will be successfully integrated into the Company's operations or will have the intended financial or strategic results.

Risks associated with expansion of facilities.

In October 2002, the Company completed the construction of a 150,000 square foot facility in Troy, New York. The Company also occupies a 60,000 square foot facility, adjacent to the newly constructed facility, which is currently leased through 2006. The 60,000 square foot facility principally houses the Company's U.S.-based research and development organization. The 150,000 square foot facility was occupied in October 2002 and houses the Company's corporate offices and the U.S. sales, marketing and administrative organizations. Approximately 30-35% of the newly constructed office space is vacant, and the Company is seeking to sublease this vacant space. The Company is also examining its options concerning the consolidation of office space in Troy, New York. There can be no assurance the Company will grow at a rate sufficient to fully utilize the Troy office space or will be able to sublease excess office space.

Reliance on attracting and retaining key employees. The Company's continued success will depend in large part on its ability to attract and retain highly qualified technical, managerial, sales and marketing, executive, and other personnel. Competition for such personnel is intense. There can be no assurance that the Company 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 the Company.

Risks associated with litigation. See Part II, Item I of this Quarterly Report on Form 10-Q. There can be no assurance the Company will not be adversely affected by this proceeding or other proceedings to which the Company might be a party in the future.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Foreign Currency

. The Company exports products to diverse geographic locations. Most of the Company's international revenues through subsidiaries are denominated in foreign currencies. In total, the strengthening of certain foreign currencies against the U.S. dollar improved third quarter and the first nine months of fiscal 2003 revenue growth by approximately $1.2 million or 5 percentage points and $3.1 million or 4 percentage points, respectively. To date, foreign currency fluctuations have not had a material effect on the Company's operating results or financial condition. The Company's exposure is mitigated, in part, by the fact that it incurs certain operating costs in the same foreign currencies in which revenues are denominated.

Interest Rates. The Company is exposed to fluctuations in interest rates. A significant portion of the Company's cash is invested in short-term interest-bearing securities. Assuming an average investment level in short-term interest-bearing securities of $22.0 million (which approximates the average amount invested in these securities during the first nine months of fiscal year 2003), each 1-percentage point decrease in the applicable interest rate would result in a $220 thousand decrease in annual investment income. To date, interest rate fluctuations have not had a material impact on the Company's 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 10-year life of the loan. The variable interest rate on the mortgage loan is the 30-day LIBOR rate plus 2.25%. The interest rate swap has fixed the effective interest rate that the Company will pay at 6.82%. 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.

For the quarter ended June 30, 2003, the fair value of the swap agreement, which represents the cash the Company would pay to settle the agreement, was $1.1 million. The current portion of $118 thousand is recorded on the balance sheet in the caption Accrued liabilities and the long-term portion of $999 thousand is in the caption Other long-term liabilities. The Company records the payments or receipts on the agreement as adjustments to interest expense. The Company recognized $123 thousand and $200 thousand in interest expense related to the swap for the three and nine months ended June 30, 2003, respectively.

Item 4. Controls and Procedures

The Company's management, with the participation of the Company's chief executive officer and chief financial officer, evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of June 30, 2003. Based on this evaluation, the Company's chief executive officer and chief financial officer concluded that, as of June 30, 2003, the Company's disclosure controls and procedures were (1) designed to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to the Company's 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 the Company in the reports that it files or submits 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 the Company's 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 June 30, 2003 that has materially affected, or is reasonably likely to materially affect, the Company's 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, seeking a total of $11.0 million dollars in damages. The counterclaims include allegations of breach of contract and copyright infringement. The District Court dismissed one counterclaim upon the Company's motion and SRC voluntarily withdrew a second counterclaim; thirteen counterclaims remain. In its pleadings on the remaining counterclaims SRC seeks a total of $9.0 million. However, in its computation of damages made pursuant to court rules, SRC has alleged general damages of $5.1 million, plus an unspecified amount of special damages. The Company is vigorously defending against all remaining counterclaims.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

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

(b) Reports on Form 8-K

On April 24, 2003, MapInfo furnished a current report on Form 8-K under Item 9, containing a copy of its earnings release for the period ended March 31, 2003 (including financial statements) pursuant to Item 12 (Results of Operations and Financial Condition).

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: August 14, 2003

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 May 30, 2003 by and between the Registrant and K. Wayne McDougall.
10.2	Amendment to Employment Agreement dated of May 1, 2003 by and between the Registrant and Gavin Lennox.
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).