

HUGHES Telematics, Inc.
Form 10-Q
November 09, 2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

x Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended September 30, 2011, or

o Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
Commission file number 001-33860
HUGHES Telematics, Inc.
(Exact name of registrant as specified in its charter)

Delaware 26-0443717
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification Number)

2002 Summit Boulevard, Suite 1800 30319
Atlanta, Georgia
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (404) 573-5800

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 periods that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

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). Yes o No o

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 definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

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

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

As of November 8, 2011, 105,570,928 shares of the registrant's common stock were outstanding.

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

HUGHES TELEMATICS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands, except share data)

	September 30, 2011	December 31, 2010
Assets		
Current assets:		
Cash and cash equivalents	\$9,630	\$14,596
Short-term investments	179	2,263
Accounts receivable, net	6,036	10,661
Prepaid expenses	2,000	933
Other current assets	3,435	3,078
Total current assets	21,280	31,531
Restricted cash	1,291	1,333
Property and equipment, net	21,845	24,516
Capitalized software, net	20,721	18,476
Intangible assets, net	10,473	12,591
Goodwill	5,169	5,169
Debt issuance costs	2,774	3,958
Other assets	10,488	11,243
Total assets	\$94,041	\$108,817
Liabilities and Stockholders' Deficit		
Current liabilities:		
Accounts payable	\$7,743	\$6,688
Accrued liabilities	25,724	18,868
Deferred revenue	21,519	12,972
Current portion of capital lease obligations	564	1,772
Current portion of long-term debt	4,277	5,632
Other current liabilities	434	1,585
Total current liabilities	60,261	47,517
Long-term debt, net of current portion	114,399	102,669
Capital lease obligations	104	152
Long-term deferred revenue	29,952	19,337
Other liabilities	1,121	1,504
Total liabilities	205,837	171,179
Commitments and contingencies (Note 11)		
Stockholders' deficit:		
Preferred stock, \$0.0001 par value. Authorized 10,000,000 shares, no shares issued and outstanding at September 30, 2011 and December 31, 2010	—	—
Common stock, \$0.0001 par value. Authorized 155,000,000 shares; issued and outstanding 94,140,770 shares at September 30, 2011 and 92,675,404 shares at December 31, 2010	9	9
Additional paid-in capital	378,860	370,229
Accumulated deficit	(503,997)	(445,450)
Total HUGHES Telematics, Inc. stockholders' deficit	(125,128)	(75,212)

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Non-controlling interests in consolidated subsidiary	13,332	12,850
Total stockholders' deficit	(111,796)	(62,362)
Total liabilities and stockholders' deficit	\$94,041	\$108,817

The accompanying notes are an integral part of these condensed consolidated financial statements.

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HUGHES TELEMATICS, INC.
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
 (Unaudited)
 (In thousands, except share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Revenues:				
Services	\$16,118	\$8,215	\$44,218	\$20,739
Hardware	2,479	2,559	7,417	7,629
Total revenues	18,597	10,774	51,635	28,368
Operating costs and expenses (exclusive of depreciation and amortization shown separately):				
Cost of services	5,085	5,763	16,602	16,240
Cost of hardware sold	1,713	1,872	5,085	5,612
Research and development	4,217	2,788	12,873	6,754
Sales and marketing	5,327	5,459	18,135	15,617
General and administrative	11,560	8,314	32,600	24,900
Depreciation and amortization	3,104	3,369	10,200	10,274
Total operating costs and expenses	31,006	27,565	95,495	79,397
Loss from operations	(12,409)	(16,791)	(43,860)	(51,029)
Interest income	3	32	19	119
Interest expense	(6,005)	(5,573)	(17,693)	(16,380)
Other expense, net	(1)	(16)	(5)	(23)
Loss before income taxes	(18,412)	(22,348)	(61,539)	(67,313)
Income tax expense	(11)	(8)	(21)	(20)
Net loss	(18,423)	(22,356)	(61,560)	(67,333)
Net loss attributable to non-controlling interests	1,044	497	3,013	632
Net loss attributable to HUGHES Telematics, Inc.	\$(17,379)	\$(21,859)	\$(58,547)	\$(66,701)
Basic and diluted loss per common share	\$(0.50)	\$(0.66)	\$(1.68)	\$(2.23)
Basic and diluted weighted average common shares outstanding	35,057,827	33,191,993	34,749,131	29,949,581

The accompanying notes are an integral part of these condensed consolidated financial statements.

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HUGHES TELEMATICS, INC.
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (Unaudited)
 (In thousands)

	Nine Months Ended September	
	30,	2010
	2011	2010
Cash flows from operating activities:		
Net loss	\$(61,560	) \$(67,333
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	10,200	10,274
Interest expense on long-term debt and capital leases	4,058	5,954
Amortization of debt issuance costs and discounts on long-term debt	5,461	4,608
Share-based compensation expense	2,528	2,126
Non-cash services contributed to consolidated subsidiary by non-controlling interests	1,397	448
Loss on disposal of assets	8	72
Changes in assets and liabilities:		
Accounts receivable, net	4,625	(5,694
Prepaid expenses and other assets	(752	) 2,133
Accounts payable and accrued and other liabilities	6,354	6,004
Deferred revenue	19,162	19,219
Net cash used in operating activities	(8,519	) (22,189
Cash flows from investing activities:		
Purchases of short-term investments	(2,211	) (7,273
Maturities of short-term investments	4,295	1,845
Purchases of property and equipment	(2,430	) (983
Increase in capitalized software	(3,093	) (2,679
Proceeds from disposal of assets	105	495
Decrease (Increase) in restricted cash	42	(206
Net cash used in investing activities	(3,292	) (8,801
Cash flows from financing activities:		
Proceeds from the issuance of common stock, net of costs	4,669	14,884
Proceeds from the sale of non-controlling interests in consolidated subsidiary	—	10,000
Proceeds from the issuance of long-term debt	5,000	—
Repayment of long-term debt	(1,355	) (1,684
Repayment of capital lease obligations	(1,345	) (3,231
Payment of debt issuance costs	(147) —
Proceeds from the exercise of stock options	23	—
Net cash provided by financing activities	6,845	19,969
Net decrease in cash and cash equivalents	(4,966	) (11,021
Cash and cash equivalents, beginning of period	14,596	28,368
Cash and cash equivalents, end of period	\$9,630	\$17,347
Supplemental non-cash disclosure:		
Intangible assets and capitalized software costs contributed to consolidated subsidiary by non-controlling interests	\$2,097	\$3,000
Property and equipment acquired by capital lease obligations	\$—	\$277

The accompanying notes are an integral part of these condensed consolidated financial statements.

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HUGHES TELEMATICS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(1) Description of Business

HUGHES Telematics, Inc. (together with our consolidated subsidiaries, “we,” “us” and “our”) is a telematics services company that provides a suite of real-time voice and data communications services and applications for use in vehicles and is developing additional applications for use within and outside of the automotive industry. These services and applications are enabled through a state-of-the-art communications center designed with flexibility to connect various mobile devices with content, services and call centers. Within the automotive industry, our communications center allows for two way voice and data communications to vehicles and supports, among other things, critical safety and security services as well as location-based services and remote diagnostics. Since November 16, 2009, we have been the exclusive telematics service provider in the United States for all new vehicles sold by Mercedes-Benz USA, LLC (“Mercedes-Benz”), and we are now the preferred provider of telematics services for all Mercedes-Benz vehicles purchased prior to November 16, 2009. These services are marketed under the mbrace® brand. In addition, our In-Drive® solution offers services to consumers or other third parties through an aftermarket hardware device that we have developed and which we intend to distribute through relationships with companies and organizations with large customer or membership bases for installation in existing vehicles. On November 1, 2011, we executed a telematics services agreement with Volkswagen Group of America, Inc. (“VWGoA”) pursuant to which we will provide telematics services on an exclusive basis to specified Volkswagen brand vehicles sold or leased in the United States market commencing in 2013.

During the three months ended September 30, 2011, we launched our In-Drive solution through an agreement with State Farm Mutual Automobile Insurance Company (“State Farm”). We also executed a distribution agreement with AAA Club Partners, Inc. (“ACP”) pursuant to which we partnered with ACP to develop, test, market and launch a telematics solution utilizing our In-Drive products and service offerings and expect to launch services to members of ACP during the second quarter of 2012. Additionally, through Networkfleet, Inc. (“Networkfleet”), our wholly-owned subsidiary, we currently offer remote vehicle monitoring and other data services through aftermarket hardware that is purchased separately and installed in fleets of vehicles.

In May 2010, we broadened our connected services beyond the automotive market to include the mobile health and wellness industry with the formation of Lifecomm, LLC (“Lifecomm”), a majority owned subsidiary founded with QUALCOMM Incorporated (“Qualcomm”), a leader in developing and delivering innovative digital wireless communications products and services, and American Medical Alert Corp. (“AMAC”), a healthcare communications company dedicated to the provision of support services to the healthcare community. Lifecomm is developing a mobile personal emergency response service which will permit subscribers to initiate requests for emergency assistance services through a wearable device that is able to communicate information to and support voice interactions between the subscriber and an emergency assistance call center. Lifecomm expects to launch its service offerings late in the first quarter of 2012.

(2) Basis of Presentation

We have prepared the accompanying condensed consolidated financial statements in accordance with United States generally accepted accounting principles (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X and include our accounts and the accounts of our wholly-owned subsidiary, Networkfleet, and our majority-owned subsidiary, Lifecomm, for periods following the formation of Lifecomm. The accompanying condensed consolidated financial statements do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, the accompanying condensed consolidated financial statements contain all adjustments, consisting only of those of a normal recurring nature, necessary for a fair presentation of our financial position, results of operations and cash flows at the dates and for the periods indicated. While we believe that the disclosures presented are adequate to make the information not misleading, these condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2010 and the related notes thereto which have been included in our annual report on Form 10-K filed with the Securities and Exchange Commission (the “SEC”) on

March 16, 2011. The results of the three and nine months ended September 30, 2011 are not necessarily indicative of the results to be expected for the full year. All intercompany balances and transactions have been eliminated. Certain prior period amounts have been reclassified to conform to current presentation.

During the nine months ended September 30, 2011 and the years ended December 31, 2010, 2009 and 2008, we incurred a net loss of approximately \$61.6 million, \$89.6 million, \$163.7 million and \$57.5 million, respectively, and we used cash in operations of approximately \$8.5 million, \$25.1 million, \$47.2 million and \$39.1 million, respectively. As of September 30, 2011, we had unrestricted cash, cash equivalents and short-term investments of approximately \$9.8 million and an accumulated deficit of approximately \$504.0 million. On October 7, 2011, we completed a series of transactions pursuant to which we raised

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aggregate gross cash proceeds of approximately \$41.0 million and reduced our total indebtedness by approximately \$7.9 million through the sale of common stock in a private placement, the issuance of additional senior term indebtedness and the exchange of outstanding indebtedness for shares of common stock (see Note 13). Of the cash, cash equivalents and short-term investments, approximately \$4.6 million is held by our Lifecomm subsidiary for use in that business. We believe that the cash and cash equivalents on hand as of September 30, 2011, the approximately \$41.0 million of cash raised on October 7, 2011 and the projected cash flows to be generated by our service offerings to Mercedes-Benz vehicles and sales of our In-Drive and Lifecomm products and services will allow us to continue operations beyond the next twelve months. We launched our service offerings to Mercedes-Benz vehicles just under two years ago, recently launched our In-Drive product and service offerings and expect to launch our Lifecomm product and service offerings late in the first quarter of 2012. Some or all of the assumptions underlying our projections related to these product and service offerings may prove to be materially inaccurate, and if so, we cannot assure you that our net losses and negative cash flow will not surpass our expectations. Accordingly, we may be required to raise additional capital or to reduce our operating expenditures. This additional financing may take the form of loans under a new credit facility, the issuance of bonds or other types of debt securities, the issuance of equity securities or a combination of the foregoing. Any such financing must either comply with the covenants of our existing credit facilities, or we will need to obtain waivers from our lenders. Our credit facilities contain covenants that restrict our ability to incur debt and will require mandatory prepayments from the proceeds of an equity financing. Any debt financing obtained may impose various restrictions and additional covenants on us which could limit our ability to respond to market conditions, provide for unanticipated capital investments or take advantage of business opportunities and may subject us to significant interest expense. Additional equity financing may be obtained on terms that are dilutive to the interests of existing stockholders. We have been successful in the past raising capital to address our liquidity needs; however, debt or additional equity financing may not be available when needed in the future on terms favorable to us or at all, and the failure to attract a sufficient amount of additional debt or equity capital may impair our ability to execute on our business plan. Such additional capital may be provided by, among other things, the cash proceeds from the exercise of the outstanding warrants to purchase shares of our common stock. There is no assurance that we will be successful in obtaining additional financing, if needed, or that we will be able to reduce our operating expenditures. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

(3) Lifecomm, LLC

In accordance with the applicable accounting guidance governing consolidation, we have determined that Lifecomm is a variable interest entity (“VIE”) for which we are the primary beneficiary. Accordingly, we have included Lifecomm’s financial position, results of operations and cash flows in the accompanying condensed consolidated financial statements for periods following the formation of Lifecomm. As of September 30, 2011, Lifecomm’s assets consisted of approximately \$4.4 million of cash and cash equivalents, approximately \$0.2 million of short-term investments that are classified as held-to-maturity, \$3.0 million of intangible assets and approximately \$4.9 million of capitalized software costs, and its liabilities consisted of approximately \$2.3 million of accounts payable and accrued liabilities. As of December 31, 2010, Lifecomm’s assets consisted of approximately \$7.8 million of cash and cash equivalents, approximately \$1.5 million of short-term investments that are classified as held-to-maturity, \$3.0 million of intangible assets and approximately \$0.5 million of capitalized software costs, and its liabilities consisted of approximately \$1.2 million of accounts payable and accrued liabilities.

Each of the initial members of Lifecomm has agreed to fund its pro rata share of a \$2.0 million stand-by equity commitment for Lifecomm’s benefit. Assuming Lifecomm draws the entire commitment, we will be required to provide approximately \$1.1 million of cash. In addition, each of the initial members have preemptive rights with respect to future issuances of securities by Lifecomm, as well as rights of first offer, drag-along and tag-along rights on transfers of securities by the other members. In addition, for a two year period beginning on May 12, 2014, any member (or group of members) holding at least 25% of the membership interests in Lifecomm will have the right to demand either an auction for the sale of Lifecomm or an initial public offering of Lifecomm. Should Lifecomm fail to achieve either of these liquidity events within 180 days of the demand, then to the extent at such time we hold at least 50% of the outstanding membership interests of Lifecomm and our common stock is publicly traded, each other

member will be entitled on a one-time basis to exchange all of its membership interests in Lifecomm for shares of our common stock with equivalent fair market value. While we determined that such right to exchange is a freestanding derivative instrument, as the fair market value of our common stock to be issued in the exchange will be equal to the fair market value of the membership interests of Lifecomm received, the value of the derivative instrument is not material as of September 30, 2011.

(4) Recently Adopted Accounting Pronouncements

In September 2009, the Emerging Issues Task Force ("EITF") issued revised guidance governing certain revenue arrangements that include software elements, which amends the scope of existing guidance to exclude tangible products that include software and non-software components that function together to deliver the product's essential functionality. Additionally, the EITF issued revised guidance governing revenue arrangements with multiple deliverables, which provides a

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greater ability to separate and allocate the arrangement consideration in a multiple element revenue arrangement. The revised guidance requires the use of an estimated selling price to allocate arrangement consideration if vendor-specific objective evidence of selling price ("VSOE") is not available, and eliminates the residual method of allocation. This guidance was effective for us on January 1, 2011. We price and sell hardware and services separately based on VSOE, and account for hardware and services as separate units of accounting. The new accounting guidance did not have a material effect on our results of operations as it did not change our units of accounting or general timing of delivery or performance.

In May 2011, the Financial Accounting Standards Board ("FASB") issued updated guidance related to fair value measurements and disclosures, including (i) the application of the highest and best use valuation premise concepts, (ii) measuring the fair value of an instrument classified in a reporting entity's stockholders' equity and (iii) quantitative information required for fair value measurements categorized within level 3. Additionally, disclosure requirements have been expanded to include additional disclosure for level 3 measurements regarding the sensitivity of fair value to changes in unobservable inputs and any interrelationships between those inputs. The guidance applies prospectively and is effective for us beginning January 1, 2012. We are in the process of evaluating the effects, if any, the adoption of this guidance will have on our consolidated financial statements.

In June 2011, the FASB issued new guidance on the presentation of comprehensive income in financial statements. Entities are required to present total comprehensive income either in a single, continuous statement of comprehensive income or in two separate, but consecutive, statements. In either case, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. The new guidance eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity, but does not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. The guidance is effective for annual and interim periods beginning on or after December 15, 2011 and is to be applied retrospectively. The adoption of this guidance is a financial presentation change and is not expected to have an impact on our consolidated results of operations.

In September 2011, the FASB issued guidance which allows entities to first assess qualitatively whether it is necessary to perform the two-step goodwill impairment test. If an entity believes, as a result of its qualitative assessment, that it is more likely than not that the fair value of a reporting period is less than its carrying amount, the quantitative two-step goodwill impairment test is required. An entity has the unconditional option to bypass the qualitative assessment and proceed directly to performing the first step of the goodwill impairment test. This guidance is effective in the first quarter of 2012. We are in the process of evaluating the effects, if any, the adoption of this guidance will have on our consolidated financial statements.

(5) Long-Term Debt

The components of long-term debt were as follows:

	September 30, 2011	December 31, 2010
	(in thousands)	
Senior secured term indebtedness	\$72,370	\$70,254
Second lien secured term indebtedness	18,621	12,250
Senior unsecured promissory note	4,277	5,632
Senior subordinated unsecured promissory notes	23,408	20,165
Total indebtedness	118,676	108,301
Less current portion	(4,277)	(5,632)
Total long-term debt, net of current portion	\$114,399	\$102,669
Senior Secured Term Indebtedness		

On March 31, 2008, we entered into a credit agreement (as amended and restated, the “First Lien Credit Agreement”) pursuant to which we issued in multiple tranches during the year ended December 31, 2008 for aggregate consideration of \$60.0 million, senior secured term indebtedness due March 31, 2013 with an original principal amount of \$60.0 million and warrants to purchase the equivalent of 4,801,112 shares of our common stock, comprised of 1,103,922 initial shares and 3,697,190 earn-out shares, at an equivalent exercise price of less than \$0.01 per share. On October 7, 2011, we issued additional senior secured term indebtedness with a principal amount of \$21.0 million and exchanged outstanding senior secured term indebtedness with a principal amount of approximately \$5.9 million for 1,448,350 shares of common stock, reflecting an exchange price of \$4.10 per share (see Note 13). The senior secured term indebtedness is guaranteed by all of our existing and future domestic subsidiaries and is secured by all of our tangible and intangible assets. At our election, the term indebtedness bears interest at (i) the Prime Lending Rate

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plus 10.00% or (ii) for Eurocurrency borrowings, 11.00% plus the greater of London Interbank Offered Rate (“LIBOR”) or 3.00%. In accordance with an agreement between us and one of the senior secured note holders, the interest rate on senior secured term indebtedness with an initial principal amount of \$5.0 million will have an interest rate of no higher than 14.00% for the term of the debt. With respect to Eurocurrency borrowings, we may elect interest periods of one, two, three, or six months (or nine or twelve months if approved by each senior secured note holder), and interest is payable in arrears at the end of each interest period but, in any event, at least every three months. With respect to all interest periods ending on or prior to March 31, 2010, the interest accrued on the senior secured term indebtedness was paid in kind in arrears with such accrued interest being added to the outstanding principal balance of the term indebtedness. With respect to all interest periods ending after March 31, 2010, the accrued interest has been and will continue to be paid in cash in arrears. As of each of September 30, 2011 and December 31, 2010, senior secured term indebtedness with an aggregate principal amount, including the accrued interest which had been paid in kind, of approximately \$76.9 million was outstanding. As of September 30, 2011, we had elected that all outstanding amounts consist of Prime Lending borrowings which resulted in the senior secured term indebtedness bearing an interest rate of 13.25%.

The First Lien Credit Agreement requires us to comply with negative covenants which include, among others, limitations on our ability to incur additional debt; create liens; pay dividends or make other distributions; make loans and investments; sell assets; redeem or repurchase capital stock or subordinated debt; engage in specified transactions with affiliates; consolidate or merge with or into, or sell substantially all of our assets to, another person; and enter into new lines of business. We may incur indebtedness beyond the specific limits allowed under the First Lien Credit Agreement, provided we maintain a leverage ratio of 5.0 to 1.0. In addition, we may incur limited indebtedness secured by junior and subordinated liens to the liens created under the First Lien Credit Agreement. Noncompliance with any of the covenants without cure or waiver would constitute an event of default. An event of default resulting from a breach of a covenant may result, at the option of the note holders, in an acceleration of the principal and interest outstanding. The First Lien Credit Agreement also contains other events of default (subject to specified grace periods), including defaults based on the termination of the Mercedes-Benz contract, events of bankruptcy or insolvency and nonpayment of principal, interest or fees when due. The First Lien Credit Agreement also requires us to use 25% of the net cash proceeds from certain equity issuances for the repayment of senior secured term indebtedness.

As of each issuance date, we ascribed value to the senior secured term indebtedness and the related warrants based on their relative fair values. As such, an aggregate of \$46.9 million was allocated to the senior secured term indebtedness and an aggregate of \$12.1 million was allocated to the warrants. The resulting discount from the face value of the senior secured term indebtedness resulting from the ascribed value to the warrants is being amortized as additional interest expense over the term of the senior secured term indebtedness using the effective interest rate method. As of September 30, 2011, the fair value of the senior secured indebtedness approximated carrying value.

Second Lien Term Indebtedness

On December 17, 2009, we entered into a credit agreement (the “Second Lien Credit Agreement”) with PLASE HT, LLC (“PLASE HT”), as administrative agent, collateral agent and original lender, pursuant to which we issued indebtedness due October 1, 2013 with an original principal amount of \$15.0 million and warrants to purchase 3,000,000 shares of common stock at an exercise price of \$6.00 per share (such exercise price was subsequently adjusted to \$5.99 per share as a result of the private placement of our common stock completed in May 2010). PLASE HT is an affiliate of Apollo Global Management LLC (“Apollo”) and of our controlling stockholder, Communications Investors, LLC (“Communications LLC”). On February 7, 2011, we entered into an incremental loan commitment agreement with certain unaffiliated investors, pursuant to which we issued additional indebtedness under the Second Lien Credit Agreement with an original principal amount of \$5.0 million and warrants to purchase 1,000,000 shares of common stock at an exercise price of \$5.99 per share. The loans under the Second Lien Credit Agreement had an interest rate of 9.00% per annum, payable-in-kind, and was guaranteed by all of our existing and future domestic subsidiaries. The loans were secured by a second priority lien on substantially all of our tangible and intangible assets, including the equity interests of our subsidiaries. The liens granted in connection with the Second Lien Credit Agreement were expressly subject and subordinated to the liens securing our obligations under the First Lien Credit

Agreement. On October 7, 2011, we exchanged all of the approximately \$23.0 million outstanding second lien term indebtedness for 4,784,019 shares of common stock, reflecting an exchange price of \$4.80 per share (see Note 13). We ascribed value to the indebtedness issued in connection with the Second Lien Credit Agreement and the related warrants based on their relative fair values. As such, for the loans issued on February 7, 2011 and December 17, 2009, we allocated approximately \$3.6 million and \$9.5 million, respectively, of the proceeds to the indebtedness and the remaining approximately \$1.4 million and \$5.5 million, respectively, to the warrants. The resulting discount from the face value of the indebtedness resulting from the ascribed value to the warrants will be amortized as additional interest expense over the term of the indebtedness using the effective interest rate method. As of September 30, 2011, the fair value of the second lien term indebtedness approximated carrying value.

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Senior Unsecured Promissory Note

On December 18, 2009, we issued to Hughes Network Systems, LLC (“HNS”), an affiliate of Apollo until June 8, 2011 when Apollo sold its ownership interest in HNS' parent company, a senior unsecured promissory note with a principal amount of approximately \$8.3 million through the conversion of a trade accounts payable balance of approximately \$6.0 million and the approximately \$2.3 million outstanding balance on an equipment financing arrangement owed to HNS. The promissory note accrues interest at a rate of 12.00% per annum, compounded annually, and was to become due and payable on December 31, 2010. Pursuant to the terms of the promissory note, we were required to make scheduled principal payments of approximately \$0.8 million on April 15, 2010 and \$1.5 million on each of July 15, 2010 and October 15, 2010. In addition, subject to all restrictions in the First Lien Credit Agreement and the Second Lien Credit Agreement and certain other limitations, to the extent we sell any capital equipment purchased by us (or purchased by HNS on our behalf) for use in connection with the Telematics Agreement between the parties, but no longer needed by us, we are required to make payments on the promissory note equal to the proceeds from the sale of such capital equipment (net of any selling costs).

On November 5, 2010, we and HNS agreed to amend the promissory note to (i) extend the maturity date to December 31, 2011, (ii) revise the schedule of principal payments and (iii) provide that the approximately \$1.0 million of accrued and unpaid interest shall be paid on December 31, 2010 with all future accrued interest on the promissory note paid quarterly in arrears. Pursuant to the terms of the amended promissory note, we made scheduled principal payments of \$0.5 million on each of October 15, 2010, December 31, 2010 and April 15, 2011, approximately \$0.8 million on July 15, 2011 and \$1.5 million on October 17, 2011 and are required to repay the remaining balance on December 31, 2011. In connection with the amendment to the promissory note, we issued 50,000 shares of common stock to HNS as an amendment fee.

Senior Subordinated Unsecured Promissory Notes

On March 31, 2008, we issued to Communications LLC a senior subordinated unsecured promissory note with a principal amount of \$12.5 million and a maturity date of October 1, 2013. The note bears interest at a rate of 15.00% per annum which is compounded and added to the principal amount annually and is payable at maturity. In connection with the issuance of the note, we recorded a deemed capital contribution of approximately \$2.4 million related to the difference between (i) the fair value of the note using an estimated interest rate we would have paid an unrelated third party on a similar note and (ii) the fair value of the note using the 15.00% stated interest rate. The discount from the face value of the note resulting from the deemed capital contribution will be amortized as additional interest expense over the term of the note using the effective interest rate method.

On December 12, 2008, we issued to Apollo Investment Fund V (PLASE) LP (“AIF V PLASE”) an additional senior subordinated unsecured promissory note with a principal amount of \$3.5 million and a maturity date of October 1, 2013. The note bears interest at 15.00% per annum which is compounded and added to the principal amount annually and is payable at maturity. In connection with the issuance of the note, we recorded an additional deemed capital contribution of approximately \$2.4 million related to the difference between (i) the fair value of the note using an estimated interest rate we would have paid an unrelated third party on a similar note and (ii) the fair value of the note using the 15.00% stated interest rate. The discount from the face value of the note resulting from the deemed capital contribution will be amortized as additional interest expense over the term of the note using the effective interest rate method.

At the time of issuance of each senior subordinated unsecured promissory note, we determined the estimated fair value amount by using available market information and commonly accepted valuation methodologies. However, considerable judgment is required in interpreting market data to develop estimates of fair value. Accordingly, the fair value estimates presented herein are not necessarily indicative of the amounts that we or holders of the instruments could realize in a current market exchange. The use of different assumptions and/or estimation methodologies may have a material effect on the estimated fair value. As of September 30, 2011, the fair value of the senior subordinated unsecured promissory notes approximated carrying value.

(6) Stockholders' Equity

On February 7, 2011, we completed a private placement of 1,428,572 shares of common stock at a purchase price of \$3.50 per share. The aggregate purchase price for the common stock sold in the private placement was approximately

\$5.0 million. In connection with the private placement, we entered into an amendment to the First Lien Credit Agreement providing for the waiver of the requirement to use 25% of the net cash proceeds from the private placement for the repayment of senior secured term indebtedness.

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On October 7, 2011, we completed a series of financing transactions which included a private placement of 11,108,224 shares of common stock issued for aggregate consideration including approximately \$20.0 million in cash, the exchange of approximately \$5.9 million of indebtedness issued pursuant to the First Lien Credit Agreement and the exchange of approximately \$23.0 million of indebtedness issued pursuant to the Second Lien Credit Agreement (see Note 13). In connection with the transactions, we issued an aggregate of 321,934 shares of common stock to certain lenders under the First Lien Credit Agreement who consented to an amendment to the First Lien Credit Agreement (see Note 13).

(7) Share-Based Compensation

In accordance with the applicable accounting guidance governing share-based payments, we record compensation expense for all share-based awards issued. For each of the three months ended September 30, 2011 and 2010, we recorded approximately \$0.8 million of compensation expense related to share-based grants. For the nine months ended September 30, 2011 and 2010, we recorded approximately \$2.5 million and \$2.1 million of compensation expense, respectively, related to share-based grants. Such compensation expense is included in research and development, sales and marketing and general and administrative expense in the accompanying condensed consolidated statements of operations.

Stock Options

The following table reflects stock option activity for the nine months ended September 30, 2011:

	Number of Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value (in thousands)
Outstanding at December 31, 2010	3,800,957	\$3.33	
Granted	543,500	\$3.91	
Forfeited	(279,757)	\$2.22	
Exercised	(14,085)	\$1.65	
Outstanding at September 30, 2011	4,050,615	\$3.49	\$3,595
Exercisable at September 30, 2011	855,103	\$3.93	\$625

The following table provides information about stock options that are outstanding and exercisable as of September 30, 2011:

Exercise Price	Stock Options Outstanding			Stock Options Exercisable		
	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Life (Yrs)	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Life (Yrs)
\$1.65 - \$2.05	480,399	\$1.71	6.2	90,377	\$1.69	6.0
\$2.47	1,453,230	\$2.47	6.2	250,145	\$2.47	6.2
\$3.15 - \$4.10	844,500	\$3.68	9.2	42,500	\$3.21	8.2
\$5.19	1,272,486	\$5.19	7.7	472,081	\$5.19	7.7

For stock option awards outstanding as of September 30, 2011, we expect to recognize approximately \$3.7 million of additional compensation expense over the remaining average service period of approximately 1.0 year.

Restricted Stock

The following table reflects restricted stock activity:

Number of Shares	Weighted Average Grant Date
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		Fair Value
Outstanding at December 31, 2010	839,280	\$4.05
Granted	30,000	\$3.30
Vested	(285,317)	\$3.61
Forfeited	(7,291)	\$3.40
Outstanding at September 30, 2011	576,672	\$4.24

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For restricted stock awards outstanding as of September 30, 2011, we expect to record approximately \$0.9 million of additional compensation expense over the remaining average service period of approximately 0.6 years.

(8) Loss Per Common Share

Basic loss per common share is computed by dividing net loss attributable to common stockholders by the weighted average number of common shares outstanding for the period. Diluted loss per common share reflects the potential dilution from the exercise or conversion of securities into common stock. The potential dilutive effect of outstanding stock options and warrants is calculated using the "treasury stock" method.

During all periods presented, we had potential common shares that could dilute basic loss per common share in the future but have been excluded from the computation of diluted loss per common share as the effect would have been anti-dilutive. For each of the three and nine months ended September 30, 2011 and each of the three and nine months ended September 30, 2010, there were 83,868,598 and 82,887,381 potential common shares, respectively, excluded from the computation of diluted loss per share, consisting primarily of shares of common stock issuable upon the exercise of outstanding stock options and warrants and shares of common stock held in escrow to be released to certain stockholders upon achievement of specified price targets.

(9) Comprehensive Loss

Comprehensive loss is defined as the change in equity during a period from transactions and other events and circumstances from nonowner sources. Our comprehensive loss for each of the three and nine months ended September 30, 2011 and 2010 equaled our net loss.

(10) Related Party Transactions

Apollo Global Management, LLC

Communications LLC, AIF V PLASE and PLASE HT are each affiliated with Apollo. As of September 30, 2011, Apollo, through these entities, owned approximately 61% of our outstanding common stock. In December 2009, AIF V PLASE transferred its ownership in all of its equity and debt interests of us, including its holding of senior secured term indebtedness, the senior subordinated unsecured promissory note and common stock, to PLASE HT.

As of September 30, 2011, the affiliates of Apollo collectively held an aggregate face value and accrued interest of approximately \$5.9 million of senior secured term indebtedness, approximately \$17.7 million of second lien secured term indebtedness and approximately \$23.9 million of senior subordinated unsecured promissory notes.

On October 7, 2011, in connection with a series of financing transactions, PLASE HT exchanged its approximately \$5.9 million of senior secured term indebtedness for 1,448,350 shares of common stock and exchanged its approximately \$17.7 million of second lien term indebtedness for 3,678,063 shares of common stock (see Note 13).

Hughes Network Systems, LLC

In July 2006, HNS, an affiliate of Apollo until June 8, 2011 when Apollo sold its ownership interest in HNS' parent company, granted us a limited license allowing us to use the HUGHES trademark. The license is limited in that we may use the HUGHES trademark only in connection with our business of automotive telematics and only in combination with the Telematics name. As partial consideration for the license, the agreement provided that HNS was our preferred engineering services provider. The license is royalty-free, except that we have agreed to commence paying a royalty to HNS in the event we no longer have a commercial or affiliated relationship with HNS. On May 25, 2011, we and HNS amended the license agreement to (i) delete the provision which stipulated that HNS was our preferred engineering services provider and (ii) terminate the agreement on May 25, 2013 unless otherwise extended by the parties.

On December 18, 2009, we issued to HNS a senior unsecured promissory note with a principal amount of approximately \$8.3 million through the conversion of a trade accounts payable balance of approximately \$6.0 million and the approximately \$2.3 million outstanding balance on an equipment financing arrangement owed to HNS. The promissory note accrues interest at a rate of 12.00% per annum, compounded annually, and was to become due and payable on December 31, 2010. Pursuant to the terms of the promissory note, we were required to make scheduled principal payments of approximately \$0.8 million on April 15, 2010 and \$1.5 million on each of July 15, 2010 and October 15, 2010. In addition, subject to all restrictions in the First Lien Credit Agreement and the Second Lien Credit Agreement and certain other limitations, to the extent we sell any capital equipment purchased by us (or purchased by HNS on our behalf) for use in connection with the Telematics Agreement between the parties, but no longer needed

by us, we are required to make payments on the promissory note equal to the proceeds from the sale of such capital equipment (net of any selling costs).

On November 5, 2010, we and HNS agreed to amend the promissory note to (i) extend the maturity date to December 31, 2011, (ii) revise the schedule of principal payments and (iii) provide that the approximately \$1.0 million of accrued and unpaid

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interest shall be paid on December 31, 2010 with all future accrued interest on the promissory note paid quarterly in arrears. Pursuant to the terms of the amended promissory note, we made scheduled principal payments of \$0.5 million on each of October 15, 2010, December 31, 2010 and April 15, 2011, approximately \$0.8 million on July 15, 2011 and \$1.5 million on October 17, 2011 and are required to repay the remaining balance on December 31, 2011. In connection with the amendment to the promissory note, we issued 50,000 shares of common stock to HNS as an amendment fee.

During the nine months ended September 30, 2010, HNS provided approximately \$0.5 million of engineering development services to us. During the three and nine months ended September 30, 2011, HNS did not provide any services to us. As of September 30, 2011 and December 31, 2010, we had no outstanding balance payable to HNS other than pursuant to the senior unsecured promissory note.

Trivergance Business Resources, LLC

For the three months ended September 30, 2011 and 2010, Trivergance Business Resources, LLC ("TBR"), an affiliate of a member of our board of directors, provided approximately \$0.5 million and \$0.4 million, respectively, of marketing services to us. For each of the nine months ended September 30, 2011 and 2010, TBR provided approximately \$1.3 million and \$1.1 million, respectively, of marketing services to us.

(11) Commitments and Contingencies

Contractual Payment Obligations

We have a long-term contract with an automaker pursuant to which the automaker agreed to install telematics devices in its vehicles and permit us to exclusively provide telematics services to its new customers. This contract requires us to pay the automaker for certain non-recurring costs associated with the initiation of telematics services. The contract also requires us to pay certain recurring amounts to the automaker in connection with the provision of services to the automaker's vehicles. Amounts related to each of these payment obligations are included in accrued liabilities on the accompanying condensed consolidated balance sheets as of September 30, 2011 and December 31, 2010.

Litigation and Claims

From time to time, we are subject to litigation in the normal course of business. We are of the opinion that, based on information presently available, the resolution of any such legal matters will not have a material adverse effect on our financial position, results of operations or our cash flows.

(12) Segment Information

We present our segment information along the same lines that our chief executive officer reviews our operating results in assessing performance and allocating resources. Accordingly, our operations have been classified into three business segments: (i) the HUGHES Telematics segment, which provides the telematics solution which is being marketed to automakers and other parties and includes the operations relating to the contract with Mercedes-Benz and our In-Drive product offering; (ii) the Networkfleet segment, which provides an aftermarket wireless fleet management solution targeted to the local fleet market, and (iii) the Lifecomm segment, which is developing and will operate a mobile personal emergency response service which will permit subscribers to initiate requests for emergency assistance services through a wearable device.

The following table presents certain financial information on our reportable segments:

	Three Months Ended September 30, 2011		Nine Months Ended September 30, 2010	
	2011	2010	2011	2010
	(in thousands)			
Revenues:				
HUGHES Telematics	\$8,466	\$1,616	\$22,212	\$1,847
Networkfleet	10,131	9,158	29,423	26,521
Lifecomm	—	—	—	—
Total	\$18,597	\$10,774	\$51,635	\$28,368
(Loss) Income from operations:				
HUGHES Telematics	\$(12,422)	\$(16,600)	\$(39,973)	\$(51,771)

Networkfleet