

Telenav, Inc.  
Form 10-Q  
November 06, 2014  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the three months ended September 30, 2014

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 001-34720

TELENAV, INC.

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

77-0521800  
(I.R.S. Employer  
Identification Number)

950 De Guigne Drive  
Sunnyvale, California 94085  
(Address of principal executive offices, including zip code)  
(408) 245-3800  
(Registrant's telephone number, including area code)

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

Non-accelerated filer ☐ (Do not check if a smaller reporting company) Smaller reporting company ☐

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

As of September 30, 2014, there were approximately 39,921,250 shares of the Registrant's Common Stock outstanding.

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements.

## TELENAV, INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except per share amounts)

	September 30, 2014 (unaudited)	June 30, 2014*
Assets		
Current assets:		
Cash and cash equivalents	\$ 20,023	\$ 14,534
Short-term investments	111,562	122,315
Accounts receivable, net of allowances of \$225 and \$206 at September 30, 2014 and June 30, 2014, respectively	26,940	25,762
Deferred income taxes	116	784
Restricted cash	5,923	5,995
Income taxes receivable	8,558	6,932
Prepaid expenses and other current assets	8,311	9,491
Total current assets	181,433	185,813
Property and equipment, net	8,172	8,814
Deferred income taxes, non-current	640	550
Goodwill and intangible assets, net	39,868	40,733
Other assets	4,041	3,931
Total assets	\$ 234,154	\$ 239,841
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 798	\$ 502
Accrued compensation	7,140	12,874
Accrued royalties	8,681	3,671
Other accrued expenses	12,793	12,343
Deferred revenue	2,320	2,381
Income taxes payable	830	804
Total current liabilities	32,562	32,575
Deferred rent, non-current	6,396	7,129
Other long-term liabilities	7,744	7,732
Commitments and contingencies (Note 5)		
Stockholders' equity:		
Preferred stock, \$0.001 par value: 50,000 shares authorized; no shares issued or outstanding	—	—
Common stock, \$0.001 par value: 600,000 shares authorized; 39,921 shares and 39,462 shares issued and outstanding at September 30, 2014 and June 30, 2014, respectively	40	40
Additional paid-in capital	133,341	129,278
Accumulated other comprehensive income (loss)	(503)	) 576
Retained earnings	54,574	62,511
Total stockholders' equity	187,452	192,405
Total liabilities and stockholders' equity	\$ 234,154	\$ 239,841

\* Derived from audited consolidated financial statements as of and for the year ended June 30, 2014

See accompanying Notes to Condensed Consolidated Financial Statements.

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TELENAV, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)

(unaudited)

	Three Months Ended September 30,	
	2014	2013
Revenue:		
Product	\$18,916	\$19,291
Services	16,071	25,005
Total revenue	34,987	44,296
Cost of revenue:		
Product	10,178	9,309
Services	5,782	6,740
Total cost of revenue	15,960	16,049
Gross profit	19,027	28,247
Operating expenses:		
Research and development	16,998	14,543
Sales and marketing	6,196	7,618
General and administrative	6,213	5,871
Restructuring costs	—	548
Total operating expenses	29,407	28,580
Loss from operations	(10,380)	(333)
Other income, net	1,303	282
Loss before benefit for income taxes	(9,077)	(51)
Benefit for income taxes	(1,140)	(60)
Net income (loss)	\$(7,937)	\$9
Net income (loss) per share:		
Basic	\$(0.20)	\$—
Diluted	\$(0.20)	\$—
Weighted average shares used in computing net income (loss) per share:		
Basic	39,538	38,811
Diluted	39,538	40,215
Stock compensation expense included above:		
Cost of revenue	\$24	\$36
Research and development	1,500	1,009
Sales and marketing	764	697
General and administrative	1,100	741
Total stock compensation expense	\$3,388	\$2,483
See accompanying Notes to Condensed Consolidated Financial Statements.		

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TELENAV, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(in thousands)

(unaudited)

	Three Months Ended September 30,	
	2014	2013
Net income (loss)	\$(7,937	) \$9
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustment, net of tax	(645	) 51
Available-for-sale securities:		
Unrealized gain (loss) on available-for-sale securities, net of tax	(189	) 139
Reclassification adjustments for gain on available-for-sale securities recognized, net of tax	(245	) (19 )
Net increase (decrease) from available-for-sale securities, net of tax	(434	) 120
Other comprehensive income (loss), net of tax:	(1,079	) 171
Comprehensive income (loss)	\$(9,016	) \$180

See accompanying Notes to Condensed Consolidated Financial Statements.

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TELENAV, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Three Months Ended September 30,	
	2014	2013
Operating activities		
Net income (loss)	\$(7,937)	) \$9
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	1,477	1,794
Amortization of net premium on short-term investments	543	946
Stock-based compensation expense	3,388	2,483
Gain (loss) on disposal of property and equipment	(12)	) 66
Excess tax benefits from employee stock option plans	—	79
Changes in operating assets and liabilities:		
Accounts receivable	(1,178)	) 1,505
Deferred income taxes	578	(782)
Restricted cash	72	(5,889)
Income taxes receivable	(1,626)	) —
Prepaid expenses and other current assets	1,179	407
Other assets	53	108
Accounts payable	325	(867)
Accrued compensation	(5,734)	) (2,692)
Accrued royalties	5,010	(3,094)
Accrued expenses and other liabilities	(3,349)	) 4,646
Income taxes payable	26	16
Deferred rent	1,403	(685)
Deferred revenue	1,829	(3,959)
Net cash used in operating activities	(3,953)	) (5,909)
Investing activities		
Purchases of property and equipment	(163)	) (335)
Purchases of short-term investments	(69,300)	) (24,596)
Purchase of long-term investments	(200)	) (100)
Proceeds from sales and maturities of short-term investments	79,075	24,015
Net cash provided by (used in) investing activities	9,412	(1,016)
Financing activities		
Proceeds from exercise of stock options	1,353	364
Repurchase of common stock	—	(3,132)
Tax withholdings related to net share settlements of restricted stock units	(678)	) (192)
Excess tax benefits from employee stock option plans	—	(79)
Net cash provided by (used in) financing activities	675	(3,039)
Effect of exchange rate changes on cash and cash equivalents	(645)	) 51
Net increase (decrease) in cash and cash equivalents	5,489	(9,913)
Cash and cash equivalents, at beginning of period	14,534	25,787
Cash and cash equivalents, at end of period	\$20,023	\$15,874
Supplemental disclosure of cash flow information		
Income taxes paid, net	\$47	\$224
See accompanying Notes to Condensed Consolidated Financial Statements.		





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### TELENAV, INC.

#### Notes to Condensed Consolidated Financial Statements (unaudited)

##### 1. Summary of business and significant accounting policies

###### Description of business

Telenav, Inc., also referred to in this report as “we,” “our” or “us,” was incorporated in September 1999 in the State of Delaware. We are a leader in personalized mobile navigation. We help on the go people by creating products that (1) provide easily-accessed, relevant, and personalized information for discovery, traffic, local search, and navigation and (2) are available across multiple platforms and devices, including mobile phones, tablets, computers and cars. We operate in three segments - automotive, advertising and mobile navigation. Our fiscal year ends on June 30 and in this report we refer to the fiscal year ended June 30, 2014 as “fiscal 2014” and the fiscal year ending June 30, 2015 as “fiscal 2015.”

###### Basis of presentation

The unaudited condensed consolidated financial statements and accompanying notes have been prepared in accordance with accounting principles generally accepted in the United States of America, or GAAP. The condensed consolidated financial statements include the accounts of Telenav, Inc. and our wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. The financial statements include all adjustments (consisting only of normal recurring adjustments) that our management believes are necessary for a fair presentation of the periods presented. These interim financial results are not necessarily indicative of results expected for the full fiscal year or for any subsequent interim period. Certain prior period amounts in the consolidated financial statements have been reclassified to conform to current period presentation for comparative purposes.

Our condensed consolidated financial statements also include the financial results of Shanghai Jitu Software Development Ltd., or Jitu, located in China. Based on our contractual arrangements with the shareholders of Jitu, we have determined that Jitu is a variable interest entity, or VIE, for which we are the primary beneficiary and are required to consolidate in accordance with Accounting Standards Codification, or ASC, subtopic 810-10, or ASC 810-10, Consolidation: Overall. The results of Jitu did not have a material impact on our overall operating results for the three months ended September 30, 2014 and 2013.

The condensed consolidated financial statements and related financial information should be read in conjunction with the audited consolidated financial statements and the related notes thereto for fiscal 2014, included in our Annual Report on Form 10-K for fiscal 2014 filed with the U.S. Securities and Exchange Commission (the “SEC”).

There have been no material changes to our significant accounting policies as compared to the significant accounting policies described in our Form 10-K.

###### Use of estimates

The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and accompanying notes. Significant estimates and assumptions made by us include the determination of revenue recognition and deferred revenue, the recoverability of accounts receivable, the determination of acquired intangibles and goodwill, the fair value of stock awards issued, the determination of income taxes and the recoverability of deferred tax assets. Actual results could differ from those estimates.

###### Concentrations of risk and significant customers

Revenue related to services provided through Ford Motor Company, or Ford, comprised 53% and 40% of revenue for the three months ended September 30, 2014 and 2013, respectively. As of September 30, 2014 and June 30, 2014, receivables due from Ford were 51% and 47% of total accounts receivable, respectively. Revenue related to services provided through AT&T Mobility LLC, or AT&T, comprised 20% and 23% of revenue for the three months ended September 30, 2014 and 2013, respectively. Receivables due from AT&T were 17% and 19% of total accounts receivable at September 30, 2014 and June 30, 2014, respectively. Revenue related to services provided through Sprint Nextel Corporation, or Sprint, comprised less than 10% and 15% of revenue for the three months ended September 30, 2014 and 2013, respectively. No other customer represented 10% of our revenue or 10% of our accounts receivable for any period presented.

Certain of our licensed map, points of interest, or POI, and traffic data have been provided principally by TomTom North America, Inc., or TomTom, and HERE North America, LLC, or HERE, a Nokia Corporation, or Nokia, company, in the three

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TELENAV, INC.

Notes to Condensed Consolidated Financial Statements—(Continued)

(unaudited)

months ended September 30, 2014 and 2013. To date, we are not aware of circumstances that may impair either party's intent or ability to continue providing such services to us.

**Restricted cash**

As of September 30, 2014 and June 30, 2014, we had restricted cash of \$5.9 million and \$6.0 million, respectively, on our consolidated balance sheets, comprised primarily of an overpayment from a customer that will be refunded.

**Accumulated other comprehensive income (loss), net of tax**

The components of accumulated other comprehensive income (loss), net of related taxes, during the three months ended September 30, 2014, were as follows (in thousands):

	Foreign Currency Translation Adjustments	Unrealized Gains (Losses) on Available-for-Sale Securities	Total
Balance, net of tax as of June 30, 2014	\$321	\$255	\$576
Other comprehensive income (loss) before reclassifications, net of tax	(645	) (189	) (834
Amount reclassified from accumulated other comprehensive income (loss), net of tax	—	(245	) (245
Other comprehensive income (loss), net of tax	(645	) (434	) (1,079
Balance, net of tax as of September 30, 2014	\$(324	) \$(179	) \$(503

The amount reclassified from accumulated other comprehensive income (loss), net of tax, was determined using the specific identification method and the amount was included in other income, net, for the three months ended September 30, 2014, and 2013, respectively.

The amount of income tax benefit allocated to each component of accumulated other comprehensive income (loss) was not material for the three months ended September 30, 2014.

**Long-term investments**

As of September 30, 2014, our investments in privately-held companies were \$2 million. These investments are accounted for as cost-basis investments, as we own less than 20% of the voting securities and do not have the ability to exercise significant influence over operating and financial policies of the entities. Our investments are in entities that are not publicly traded and, therefore, no established market for the securities exists. Our cost-method investments are carried at historical cost in our condensed consolidated balance sheets and measured at fair value on a nonrecurring basis when indicators of impairment exist. If we believe that the carrying value of the cost basis investments is in excess of estimated fair value, our policy is to record an impairment charge to adjust the carrying value to estimated fair value, when the impairment is deemed other-than-temporary. We regularly evaluate the carrying value of these cost-method investments for impairment. We did not record any impairment charges for the three months ended September 30, 2014, and 2013, respectively.

**Recent accounting pronouncements**

In May 2014, the Financial Accounting Standards Board, or FASB, issued guidance related to revenue from contracts with customers, which supersedes the revenue recognition requirements in ASC 605, Revenue Recognition. Under this guidance, revenue is recognized when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. The new guidance also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The updated standard will replace most existing revenue recognition guidance

under GAAP when it becomes effective and permits the use of either the full retrospective or cumulative effect transition method. Early adoption is not permitted. The updated standard will be effective for us in the first quarter of fiscal 2018. We have not yet selected a transition method and we are

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TELENAV, INC.

Notes to Condensed Consolidated Financial Statements—(Continued)

(unaudited)

currently evaluating the effect that the updated standard will have on our consolidated financial statements and related disclosures.

In June 2013, the FASB, ratified Emerging Issues Task Force (EITF) Issue 13-C, “Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists” which concludes an unrecognized tax benefit should be presented as a reduction of a deferred tax asset when settlement in this manner is available under the tax law. We adopted this amendment beginning in the first quarter of fiscal 2015, and the adoption did not have a material effect on our consolidated financial statements.

## 2. Net income (loss) per share

Basic net income (loss) per share is calculated by dividing net income (loss) by the weighted-average number of common shares outstanding for the period. Diluted net income (loss) per share is computed by dividing net income (loss) by the weighted-average number of common shares outstanding for the period, including potential dilutive common shares assuming the dilutive effect of outstanding stock options, restricted stock units and restricted common stock using the treasury-stock method.

The following table presents the calculation of basic and diluted net income (loss) per share (in thousands, except per share amounts):

	Three Months Ended September 30,	
	2014	2013
Net income (loss)	\$(7,937	) \$9
Shares used in computing net income (loss) per share:		
Basic:		
Weighted average common shares used in computing basic net income (loss) per share	39,538	38,811
Diluted:		
Weighted average common shares used in computing basic net income (loss) per share	39,538	38,811
Add weighted average effect of dilutive securities:		
Stock options	—	1,205
Restricted common stock and restricted stock units	—	199
Weighted average common shares used in computing diluted net income (loss) per share	39,538	40,215
Net income (loss) per share:		
Basic	\$(0.20	) \$—
Diluted	\$(0.20	) \$—

The following outstanding shares were excluded from the computation of diluted net income (loss) per share for the periods presented because including them would have had an antidilutive effect (in thousands):

	Three Months Ended September 30,	
	2014	2013
Stock options	5,676	4,587
Restricted common stock and restricted stock units	4,537	735
Total	10,213	5,322



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TELENAV, INC.

Notes to Condensed Consolidated Financial Statements—(Continued)

(unaudited)

## 3. Cash, cash equivalents and short-term investments

Cash and cash equivalents consist of highly liquid fixed-income investments with original maturities of three months or less at the time of purchase, including money market funds. Short-term investments consist of readily marketable securities with a remaining maturity of more than three months from the date of purchase. We classify all of our cash equivalents and short-term investments as “available for sale,” as these investments are free of trading restrictions. These marketable securities are carried at fair value, with the unrealized gains and losses, net of tax, reported as accumulated other comprehensive income (loss) and included as a separate component of stockholders’ equity. Gains and losses are recognized when realized. When we have determined that an other-than-temporary decline in fair value has occurred, the amount of the decline that is related to a credit loss is recognized in earnings. Gains and losses are determined using the specific identification method. We had no material realized gains or losses in the three months ended September 30, 2014 and 2013.

Cash, cash equivalents and short-term investments consisted of the following as of September 30, 2014 (in thousands):

	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Cash	\$18,211	\$—	\$—	\$18,211
Cash equivalents:				
Money market mutual funds	812	—	—	812
Commercial paper	1,000	—	—	1,000
Total cash equivalents	1,812	—	—	1,812
Total cash and cash equivalents	20,023	—	—	20,023
Short-term securities:				
Asset-backed securities	11,678	1	(12	) 11,667
Municipal securities	22,765	44	(8	) 22,801
Commercial paper	2,995	2	—	2,997
Agency bonds	12,893	2	(1	) 12,894
Corporate bonds	61,279	39	(115	) 61,203
Total short-term investments	111,610	88	(136	) 111,562
Cash, cash equivalents and short-term investments	\$131,633	\$88	\$(136	) \$131,585

Cash, cash equivalents and short-term investments consisted of the following as of June 30, 2014 (in thousands):

	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Cash	\$12,912	\$—	\$—	\$12,912
Cash equivalents:				
Money market mutual funds	622	—	—	622
Commercial paper	1,000	—	—	1,000
Total cash equivalents	1,622	—	—	1,622
Total cash and cash equivalents	14,534	—	—	14,534
Short-term investments:				
Municipal securities	96,522	330	(4	) 96,848
Commercial paper	997	2	—	999
Corporate bonds	24,402	68	(2	) 24,468
Total short-term investments	121,921	400	(6	) 122,315



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Cash, cash equivalents and short-term investments	\$136,455	\$400	\$(6	) \$136,849
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TELENAV, INC.

Notes to Condensed Consolidated Financial Statements—(Continued)

(unaudited)

The following table summarizes the cost and estimated fair value of short-term fixed income securities classified as short-term investments based on stated maturities as of September 30, 2014 (in thousands):

	Amortized Cost	Estimated Fair Value
Due within one year	\$46,434	\$46,467
Due within two years	44,571	44,547
Due after two years	20,605	20,548
Total	\$111,610	\$111,562

Declines in fair value judged to be other-than-temporary on securities available for sale are included as a component of other income, net. In order to determine whether a decline in value is other-than-temporary, we evaluate, among other factors: the duration and extent to which the fair value has been less than the carrying value and our intent and ability to retain the investment for a period of time sufficient to allow for any anticipated recovery in fair market value. As of September 30, 2014, we did not consider any of our investments to be other-than-temporarily impaired.

#### 4. Fair value of financial instruments

We measure certain financial instruments at fair value on a recurring basis. We have established a hierarchy, which consists of three levels, for disclosure of the inputs used to determine the fair value of our financial instruments.

Level 1 valuations are based on quoted prices in active markets for identical assets or liabilities.

Level 2 valuations are based on inputs that are observable, either directly or indirectly, other than quoted prices included within Level 1. Such inputs used in determining fair value for Level 2 valuations include quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Where applicable, we use quoted prices in active markets for similar assets to determine fair value of Level 2 short-term investments. If quoted prices in active markets for identical assets are not available to determine fair value, we use quoted prices for similar assets and liabilities or inputs that are observable either directly or indirectly. If quoted prices for identical or similar assets are not available, we use third party valuations utilizing underlying assets assumptions.

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TELENAV, INC.

Notes to Condensed Consolidated Financial Statements—(Continued)

(unaudited)

Level 3 valuations are based on information that is unobservable and significant to the overall fair value measurement. All of our cash equivalents and short-term investments are classified within Level 1 or Level 2. The fair values of these financial instruments were determined using the following inputs at September 30, 2014 (in thousands):

Description	Fair Value Measurements at September 30, 2014 Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash equivalents:				
Money market mutual funds	\$812	\$ 812	\$—	\$—
Commercial paper	1,000	—	1,000	—
Total cash equivalents	1,812	812	1,000	—
Short-term investments:				
Asset-backed securities	11,667	—	11,667	—
Municipal securities	22,801	—	22,801	—
Commercial paper	2,997	—	2,997	—
Agency bonds	12,894	—	12,894	—
Corporate bonds	61,203	—	61,203	—
Total short-term investments	111,562	—	111,562	—
Cash equivalents and short-term investments	\$113,374	\$ 812	\$112,562	\$—

The fair values of our financial instruments were determined using the following inputs at June 30, 2014 (in thousands):

Description	Fair Value Measurements at June 30, 2014 Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash equivalents:				
Money market mutual funds	\$622	\$ 622	\$—	\$—
Commercial paper	1,000	—	1,000	—
Total cash equivalents	1,622	622	1,000	—
Short-term investments:				
Municipal securities	96,848	—	96,848	—
Commercial paper	999	—	999	—
Corporate bonds	24,468	—	24,468	—
Total short-term investments	122,315	—	122,315	—
Cash equivalents and short-term investments	\$123,937	\$ 622	\$123,315	\$—

Amortization of net premium on short-term investments totaled \$0.5 million and \$0.9 million in the three months ended September 30, 2014 and 2013, respectively.

There were no transfers between Level 1 and Level 2 financial instruments in the three months ended September 30, 2014 and 2013, respectively.

We did not have any financial liabilities measured at fair value on a recurring basis as of September 30, 2014 or June 30, 2014.

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TELENAV, INC.

Notes to Condensed Consolidated Financial Statements—(Continued)

(unaudited)

## 5. Commitments and contingencies

## Operating lease and purchase obligations

As of September 30, 2014, we had future minimum non-cancelable financial commitments primarily related to office space under non-cancelable operating leases and license fees due to certain of our third party content providers, regardless of usage level. The aggregate future minimum commitments, net of sublease income, were comprised of the following (in thousands):

	Payments Due by Period						
	Total	Fiscal 2015	Fiscal 2016	Fiscal 2017	Fiscal 2018	Fiscal 2019	Thereafter
Operating lease obligations, net of sublease income	\$26,665	\$3,670	\$5,748	\$5,255	\$4,977	\$4,952	\$2,063
Purchase obligations	5,725	3,742	1,706	277	—	—	—
Total contractual obligations	\$32,390	\$7,412	\$7,454	\$5,532	\$4,977	\$4,952	\$2,063

## Contingencies

From time to time, we may become involved in legal proceedings, claims and litigation arising in the ordinary course of business. When we believe a loss or a cost of indemnification is probable and can be reasonably estimated, we accrue the estimated loss or cost of indemnification in our consolidated financial statements. Where the outcome of these matters is not determinable, we do not make a provision in our financial statements until the loss or cost of indemnification, if any, is probable and can be reasonably estimated or the outcome becomes known. We expense legal fees related to these matters as they are incurred.

On December 31, 2009, Vehicle IP, LLC, or Vehicle IP, filed a patent infringement lawsuit against us in the U.S. District Court for the District of Delaware, seeking monetary damages, fees and expenses and other relief. Verizon Wireless, or Verizon, was named as a co-defendant in the Vehicle IP litigation based on the VZ Navigator product and has demanded that we indemnify and defend Verizon against Vehicle IP. At this time, we have not agreed to defend or indemnify Verizon. AT&T was also named as a co-defendant in the Vehicle IP litigation based on the AT&T Navigator and Telenav Track products. AT&T has tendered the defense of the litigation to us and we are defending the case on behalf of AT&T. After the Court issued its claim construction ruling the parties agreed to focus on early summary judgment motions, and asked the Court to postpone the rest of the case schedule pending the resolution of these potentially case-dispositive motions. The defendants filed motions for summary judgment of noninfringement. On April 10, 2013 the Court granted AT&T and our motion for summary judgment of noninfringement. While the Court's ruling appears to be dispositive of plaintiff's claims, plaintiff is appealing the district court's claim construction and summary judgment ruling. The appeal is currently ongoing in the U.S. Court of Appeals for the Federal Circuit; the oral argument was held on April 10, 2014. Due to the uncertainties related to litigation, we are unable to evaluate the likelihood of either a favorable or unfavorable outcome. We believe that it is reasonably possible that we will incur a loss; however, we cannot currently estimate a range of any possible losses we may experience in connection with this case. Accordingly, we are unable at this time to estimate the effects of this lawsuit on our financial condition, results of operations, or cash flows.

On April 30, 2010, Traffic Information, LLC, or Traffic Information, filed a patent infringement lawsuit against us in the U.S. District Court for the Eastern District of Texas, seeking monetary damages, fees and expenses, and other relief. The patent at issue was subject to reexamination by the U.S. Patent and Trademark Office, or PTO, and the reexamined claims were found invalid. Plaintiff appealed this finding and on May 30, 2013, the Patent Trial and Appeal Board, or PTAB, confirmed the invalidity of these claims. Plaintiff filed a request for reconsideration of this decision with the PTAB, which was denied on January 13, 2014. In light of the reexamination and plaintiff's appeal of the reexamination findings, the Court stayed the case and the case will remain stayed and administratively closed.

unless the plaintiff obtains a favorable decision on appeal before the PTAB or Federal Circuit Court of Appeals. On March 12, 2014, Traffic Information filed an appeal with the U.S. Appeals Court for the Federal Circuit. Due to the preliminary status of the lawsuit and uncertainties related to litigation, we are unable to evaluate the likelihood of either a favorable or unfavorable outcome. We believe that it is reasonably possible that we will incur a loss; however, we cannot currently estimate a range of any possible losses we may experience in connection with this case.

Accordingly, we are unable at this time to estimate the effects of this complaint on our financial condition, results of operations or cash flows.

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TELENAV, INC.

Notes to Condensed Consolidated Financial Statements—(Continued)

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On October 10, 2014, PanTaurus LLC filed a patent infringement lawsuit against us in the U.S. District Court for the Eastern District of Texas, alleging that we infringe the patent in suit by operating a Hadoop distributed file system. The complaint seeks unspecified monetary damages, fees and expenses and injunctive relief against us. Due to the preliminary status of the lawsuit and uncertainties related to litigation, we are unable to evaluate the likelihood of either a favorable or unfavorable outcome. We cannot currently estimate a range of any possible losses we may experience in connection with this case. Accordingly, we are unable at this time to estimate the effects of this complaint on our financial condition, results of operations or cash flows.

In addition, we have received, and expect to continue to receive, demands for indemnification from our customers, which demands can be very expensive to settle or defend, and we have in the past offered to contribute to settlement amounts and incurred legal fees in connection with certain of these indemnity demands. A number of these indemnity demands, including demands relating to pending litigation, remain outstanding and unresolved as of the date of this Form 10-Q. Furthermore, in response to these demands we may be required to assume control of and bear all costs associated with the defense of our customers in compliance with our contractual commitments. At this time, we are not a party to the following cases; however our customers have requested that we indemnify them in connection with such cases:

In 2008, Alltel, AT&T, Sprint and T-Mobile USA, or T-Mobile, each demanded that we indemnify and defend them against patent infringement lawsuits brought by patent holding companies EMSAT Advanced Geo-Location Technology LLC and Location Based Services LLC (collectively, “EMSAT”) in the U.S. District Court for the Northern District of Ohio. After T-Mobile also sought indemnification and defense from Google, Inc., or Google, Google intervened in the T-Mobile litigation. After claim construction and related motion practice, EMSAT agreed to dismiss all claims against Google in at least the T-Mobile suit, and in March 2011, EMSAT and AT&T settled their claims. By March 2011, all the EMSAT cases were either dismissed or stayed while the PTO completed its reexamination of the validity of the patents at issue. The PTO has concluded its reexamination of two of the patents in suit, confirming the validity of only two of the asserted claims from those patents. At this time, all patent claims that EMSAT alleged to be infringed by the Telenav GPS Navigator product have been cancelled during reexamination. In the suits against T-Mobile, Alltel and Sprint, EMSAT has amended its allegations to remove allegations of infringement of the patent claims that were cancelled during reexamination. Accordingly, the Court has lifted the stays in those suits and the matters are ongoing. However, in the T-Mobile suit, EMSAT and T-Mobile have stipulated to a dismissal of the case. Due to uncertainties related to litigation, we are unable to evaluate the likelihood of either a favorable or unfavorable outcome. We have arbitrated with and compensated one carrier for our defense obligations, without a negative effect on our financial condition, results of operations, or cash flows. We have not yet determined the extent of our indemnification and defense obligations to the other wireless carriers. We believe that it is reasonably possible that we will incur additional loss; however, we cannot currently estimate a range of other possible losses we may experience in connection with this case. Accordingly, we are unable at this time to estimate the overall effects of these cases on our financial condition, results of operations, or cash flows.

In March 2009, AT&T demanded that we indemnify and defend them against a patent infringement lawsuit brought by Tendler Cellular of Texas LLC, or Tendler, in the U.S. District Court for the Eastern District of Texas. In June 2010, AT&T settled its claims with Tendler and we came to an agreement with AT&T as to the extent of our contribution towards AT&T's settlement and the amount of our contribution was not material; however, there continues to be a disagreement as to whether any additional amounts are owed to AT&T for legal fees and expenses related to the defense of the matter. We believe that it is reasonably possible that we will incur additional loss; however, we cannot currently estimate a range of other possible losses we may experience in connection with this case. Accordingly, we are unable at this time to estimate the overall effects on our financial condition, results of operations, or cash flows.

#### 6. Guarantees and indemnifications

Our agreements with our customers generally include certain provisions for indemnifying them against liabilities if our products and services infringe a third party's intellectual property rights or for other specified matters. We have in the past received indemnification requests or notices of their intent to seek indemnification in the future from our customers with respect to specific litigation claims in which our customers have been named as defendants. The maximum amount of potential future indemnification is unlimited.

We have agreed to indemnify our directors, officers and certain other employees for certain events or occurrences, subject to certain limits, while such persons are or were serving at our request in such capacity. We may terminate the indemnification agreements with these persons upon the termination of their services with us, but termination will not affect claims for indemnification related to events occurring prior to the effective date of termination. The maximum amount of potential future



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TELENAV, INC.

Notes to Condensed Consolidated Financial Statements—(Continued)

(unaudited)

indemnification is unlimited. We have a directors and officers insurance policy that limits our potential exposure. We believe that any financial exposure related to these indemnification agreements is not material.

## 7. Stock-based compensation

Under our 2002 Executive Stock Option Plan, 2009 Equity Incentive Plan and 2011 Stock Option and Grant Plan, eligible employees, directors and consultants are able to participate in our future performance through awards of nonqualified stock options, incentive stock options and restricted stock units through the receipt of such awards as authorized by our board of directors. In addition, we have granted restricted common stock in connection with certain acquisitions.

A summary of our stock option activity is as follows (in thousands except per share and contractual life amounts):

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)	Aggregate Intrinsic Value
Options outstanding as of June 30, 2014	5,697	\$5.59		
Granted	454			
Exercised	(290)	)		
Canceled	(185)	)		
Options outstanding as of September 30, 2014	5,676	\$5.48	5.10	\$10,136
As of September 30, 2014:				
Options vested and expected to vest	5,541	\$5.47	5.02	\$9,986
Options exercisable	4,448	\$5.29	4.33	\$9,045

A summary of our restricted stock unit, or RSU, activity is as follows (in thousands except contractual life amounts):

	Number of Shares	Weighted Average Remaining Contractual Life (years)	Aggregate Intrinsic Value
RSUs outstanding as of June 30, 2014	4,710		
Granted	307		
Vested	(263)	)	
Canceled	(225)	)	
RSUs outstanding as of September 30, 2014	4,529	1.76	\$30,343
As of September 30, 2014:			
RSUs vested and expected to vest	3,838	1.66	\$25,715

During the three months ended September 30, 2014, pursuant to the annual increase provisions of our 2009 Equity Incentive Plan, we increased the number of shares available for grant under our stock option and equity incentive plans by approximately 1,578,000 shares. A summary of our shares available for grant activity is as follows (in thousands):

Number of  
Shares

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Shares available for grant as of June 30, 2014	605	
Additional shares authorized	1,578	
Granted	(761	)
Canceled	503	
Shares available for grant as of September 30, 2014	1,925	

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Notes to Condensed Consolidated Financial Statements—(Continued)

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The following table summarizes the stock-based compensation expense recorded for stock options, RSUs and restricted common stock issued to employees and nonemployees (in thousands):

	Three Months Ended September 30,	
	2014	2013
Stock option awards	\$689	\$1,259
RSU awards	2,242	768
Restricted common stock	457	456
Total stock-based compensation expense	\$3,388	\$2,483

We use valuation pricing models to determine the fair value of stock-based awards. The determination of the fair value of stock-based payment awards on the date of grant is affected by the stock price as well as assumptions regarding a number of complex and subjective variables. These variables include expected stock price volatility over the term of the awards, actual and projected employee stock option exercise behaviors, risk-free interest rates and expected dividends. The weighted average assumptions used to value stock option awards granted were as follows:

	Three Months Ended September 30,			
	2014		2013	
Expected volatility	53	%	62	%
Expected term (in years)	4.38		4.45	
Risk-free interest rate	1.63	%	1.44	%
Dividend yield	—		—	

## 8. Stock repurchase program

In September 2014, we announced that our Board of Directors authorized a program for the repurchase of up to \$10.0 million of our shares of common stock through open market purchases. The timing and amount of repurchase transactions under this program depends on market conditions and other considerations. No repurchases were made under this program during the three months ended September 30, 2014.

Repurchased shares are retired and designated as authorized but unissued shares. We use the par value method of accounting for our stock repurchases. Under the par value method, common stock is first charged with the par value of the shares involved. The excess of the cost of shares acquired over the par value is allocated to additional paid-in capital ("APIC"), based on an estimated average sales price per issued share with the excess amounts charged to retained earnings.

## 9. Income taxes

The effective tax rate for the periods presented is the result of the mix of forecasted fiscal year income earned or loss incurred in various tax jurisdictions that apply a broad range of income tax rates. Our effective tax rate was 13% in the three months ended September 30, 2014 compared to 118% in the three months ended September 30, 2013. Our effective tax rate of 13%, which resulted in the recognition of a tax benefit for the three months ended September 30, 2014, was less than the tax benefit computed at the U.S. federal statutory income tax rate due primarily to the increase in the valuation allowance as a result of the limitations of benefit from the tax carryback. Our effective tax rate of 118% for the three months ended September 30, 2013 was higher than the tax computed at the U.S. federal statutory income tax rate due primarily to the exclusion of certain foreign income which was offset by loss carryforwards in a foreign jurisdiction.

We record liabilities related to unrecognized tax benefits in accordance with authoritative guidance on accounting for uncertain tax positions. As of September 30, 2014 and June 30, 2014, our cumulative unrecognized tax benefits were

\$6.6 million and \$6.9 million, respectively. Included in the balance of unrecognized tax benefits at September 30, 2014 and June 30, 2014 was \$5.1 million and \$5.5 million, respectively, that, if recognized, would affect the effective tax rate.

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TELENAV, INC.

Notes to Condensed Consolidated Financial Statements—(Continued)

(unaudited)

We recognize interest and penalties related to unrecognized tax benefits as part of our provision for federal, state and foreign income taxes. We had accrued \$678,000 and \$603,000 for the payment of interest and penalties at September 30, 2014 and June 30, 2014, respectively.

We file income tax returns with the Internal Revenue Service, or IRS, California and various states and foreign tax jurisdictions in which we have subsidiaries. The statute of limitations remains open for fiscal 2011 through fiscal 2014 in the U.S., for fiscal 2010 through fiscal 2014 in state jurisdictions, and for fiscal 2009 through fiscal 2014 in foreign jurisdictions. Fiscal years outside the normal statute of limitation remain open to audit by tax authorities due to tax attributes generated in those early years which have been carried forward and may be audited in subsequent years when utilized.

In fiscal 2014, we recorded a valuation allowance on the majority of our deferred tax assets, net of liabilities, since the assets were not more likely than not to be realized based upon our assessment of all positive and negative evidence. Realization of deferred tax assets is dependent upon future taxable earnings and losses, the timing of which is uncertain. Due to losses in fiscal 2014 and expected losses in fiscal 2015 and potentially future years in the U.S., we established in fiscal 2014 a valuation allowance on deferred tax assets in the U.S. that we believe will not be realized by the carryback provisions of U.S. tax law. U.S. tax law allows for the two-year carryback of losses and one-year carryback of credits to previous tax years which can generate a tax refund to the extent taxes were paid. Due to foreign operating losses in previous years and continued foreign earnings volatility, we continued to maintain a full valuation allowance for our foreign deferred tax assets. Our valuation allowance at June 30, 2014 was \$13.0 million. In evaluating our ability to recover our deferred tax assets each quarter, we consider all available positive and negative evidence, including current and previous operating results, ability to carryback losses for a tax refund, and forecasts of future operating results.

On December 31, 2013, the research and development credit expired for federal tax purposes. The 2012 Taxpayer Relief Act extended the research and development credit for two years until December 31, 2013. Although the research and development credit has been extended every year since enactment, a tax benefit cannot be recorded for the expired period until the tax extenders bill, or the bill, has been enacted. If and when the bill is enacted, a retroactive tax benefit will be recorded in the period of enactment. We have recorded a tax benefit for the federal research and development credit for the six months ended December 31, 2013.

On September 13, 2013, the U.S. Treasury issued final tangible property regulations which broadly apply to amounts paid to acquire, produce or improve tangible property, as well as dispositions of such property. On August 18, 2014, the U.S. Treasury issued final tangible property regulations for dispositions of property subject to depreciation under Section 168 and general asset accounts and finalizes the asset disposition rules. The new tangible property regulations are effective for years beginning after January 1, 2014, or our fiscal 2015. Since we expect to elect the de minimus safe harbor election which provides symmetry between book and tax for the capitalization of tangible assets, these new regulations will not have a material impact on our financial statements.

#### 10. Acquisitions

##### skobbler GmbH

On January 29, 2014, we completed our acquisition of all of the shares of privately held skobbler GmbH, or skobbler, a navigation company based in Germany. We acquired skobbler for consideration of approximately \$23.8 million, consisting of approximately \$19.2 million in cash and \$4.6 million in shares of our restricted common stock. We believe the acquisition of skobbler will enable us to combine its OpenStreetMap (OSM)-based GPS navigation technology with our existing mobile navigation solutions. The transaction has been accounted for under the acquisition method of accounting. We recorded the assets acquired and liabilities assumed at their estimated fair value, with the difference between the fair value of the net assets acquired and the purchase consideration reflected as goodwill.

The total purchase consideration of \$23.8 million was comprised of \$19.2 million in cash and 731,623 shares of our common stock valued at \$4.6 million. The 731,623 shares of our common stock are held in escrow and will be

released at the rate of 50% per year on each anniversary date of closing. These shares are released from escrow solely with the passage of time and do not contain a service or performance requirement. In addition to the total purchase consideration, we issued 634,920 inducement RSUs to the founders of skobbler. The fair value of the 634,920 RSUs issued in connection with the acquisition was \$4.0 million, which has been accounted for as post-combination stock-based compensation and is being amortized over a weighted average period of 2.0 years.

The fair value of our common stock issued in connection with the acquisition was determined to be \$6.32 per share, the closing price of our common stock on the acquisition measurement date, which is the date the acquisition closed.

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TELENAV, INC.

Notes to Condensed Consolidated Financial Statements—(Continued)

(unaudited)

The following table reflects the preliminary values of the assets acquired and liabilities assumed as of the acquisition date (in thousands):

Cash	\$ 100	
Accounts receivable	177	
Other assets	209	
Customer relationships	400	
Developed technology	7,100	
Goodwill	16,907	
Liabilities assumed	(1,135	)
Total value of assets acquired and liabilities assumed	\$ 23,758	

We determined the fair value of developed technology and customer relationships to be \$7.1 million and \$0.4 million, respectively. The fair value of the developed technology and customer relationships is being amortized using the straight-line method over the estimated life of 7.0 years and 18 months, respectively. Developed technology and customer relationships are included in goodwill and intangible assets, net of amortization on the consolidated balance sheets.

Goodwill of \$16.9 million was recorded as the excess of the fair value of the purchase consideration over the fair value of the net assets acquired. This asset is attributed to buyer-specific value resulting from synergies that are not included in the fair value of assets. No goodwill was deemed to be deductible for income tax purposes.

Included in the purchase consideration is \$3.7 million in cash that was paid by us and deposited in escrow to satisfy potential indemnification claims.

## 11. Restructuring costs

During fiscal 2014, in order to further align our resources and consolidate facilities, we initiated a restructuring plan consisting of the elimination of 108 full-time positions in the U.S. and China and we recorded restructuring charges of \$2.4 million related to severance and benefits for the positions eliminated. Earlier in fiscal 2014, we commenced our consolidation of our Sunnyvale, California headquarters facilities from two buildings into one, and during the fourth quarter we closed our Boston, Massachusetts office. As a result, we recorded restructuring charges of \$2.0 million related to the impairment of the facility leases. Of this amount, \$548,000 related to facility lease impairment was charged to restructuring expenses in the three months ended September 30, 2013.

In the fourth quarter of fiscal 2013, in order to better align and focus our resources around our strategic growth areas, we initiated a restructuring plan consisting of the elimination of 83 full-time positions in the U.S. and China and we recorded restructuring charges of \$1.5 million related to severance and benefits for the positions eliminated. In addition, we consolidated our Shanghai office facilities and recorded restructuring charges of \$124,000 related to the forfeiture of our lease deposit. We also recorded restructuring charges of \$99,000 related to the write-off of certain assets that were no longer useful to us based upon the changes in our business. Total restructuring charges related to this plan were \$1.7 million.

The activity related to the restructuring liabilities established is presented in the following table (in thousands):

	Severance and Benefits	Facility Exit Costs and Asset Impairment	Total
Balance at June 30, 2014	\$2,126	\$2,743	\$4,869
Restructuring expenses	—	—	—
Cash payments	(2,030	) (382	) (2,412
Other	(5	) 61	56
Balance at September 30, 2014	\$91	\$2,422	\$2,513





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12. Segments

We report segment information based on the “management” approach. The management approach designates the internal reporting used by management for making decisions and assessing performance as the source of our reportable segments.

Our CEO, the chief operating decision maker, reviews revenue and gross margin information for each of our reportable segments. In addition, with the exception of goodwill and intangible assets, we do not identify or allocate our assets by the reportable segments.

Commencing July 1, 2014, we began to report results in three business segments:

Automotive - Our Automotive segment provides our map and navigation platform to auto manufacturers and original equipment manufacturers, or OEMs, for distribution with their vehicles. Our automotive solutions are typically a self-contained solution including software and related services and content within the car, or on-board, and are often enhanced through connection to data services for additional real time capabilities such as traffic.

Advertising - Our Advertising segment provides interactive mobile advertisements on behalf of our advertising clients to consumers based specifically on the location of the user and other sophisticated targeting capabilities. Our customers include advertising agencies, direct advertisers and channel partners.

Mobile Navigation - Our Mobile Navigation segment provides our map and navigation platform to end users through mobile devices. We distribute our services through our wireless carrier partners, and directly to consumers through mobile application stores and marketplaces.

Prior to July 1, 2014, we operated in a single segment: location-based platform services. We have conformed our single segment results for the three months ended September 30, 2013 to the current period presentation for comparative purposes.

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TELENAV, INC.

Notes to Condensed Consolidated Financial Statements—(Continued)

(unaudited)

Our segment results for the three months ended September 30, 2014 and 2013 were as follows (dollars in thousands):

	Three Months Ended September 30,		
	2014	2013	
Revenue			
Automotive	\$19,502	\$19,890	
Advertising	3,975	2,080	
Mobile Navigation	11,510	22,326	
Total revenue	34,987	44,296	
Cost of revenue			
Automotive	10,396	9,309	
Advertising	2,540	1,253	
Mobile Navigation	3,024	5,487	
Total cost of revenue	15,960	16,049	
Gross profit			
Automotive	9,106	10,581	
Advertising	1,435	827	
Mobile Navigation	8,486	16,839	
Total gross profit	\$19,027	\$28,247	
Gross margin			
Automotive	47	% 53	%
Advertising	36	% 40	%
Mobile Navigation	74	% 75	%
Total gross margin	54	% 64	%

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

The following discussion and analysis should be read together with our condensed consolidated financial statements and the notes to those statements included elsewhere in this Form 10-Q. This Form 10-Q contains forward-looking statements that are based on our management's beliefs and assumptions and on information currently available to our management. The forward-looking statements are contained principally in the sections entitled "Risk Factors" and this Management's Discussion and Analysis of Financial Condition and Results of Operations. Forward-looking statements include information concerning our possible or assumed future results of operations, future sources of revenue, expectations of expenses, business strategies, financing plans, competitive position, industry environment, potential growth opportunities and the effects of competition. Forward-looking statements include statements that are not historical facts and can be identified by terms such as "anticipates," "believes," "could," "seeks," "estimates," "expects," "intends," "may," "plans," "potential," "predicts," "projects," "should," "will," "would" or similar expressions and the negatives of those terms. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. We discuss these risks in greater detail in "Risk factors" and elsewhere in this Form 10-Q. Given these uncertainties, you should not place undue reliance on these forward-looking statements. Also, forward-looking statements represent our management's beliefs and assumptions only as of the date of this Form 10-Q.

Except as required by law, we assume no obligation to update these forward-looking statements, or to update the reasons actual results could differ materially from those anticipated in these forward-looking statements, even if new

information becomes available in the future. You should read this Form 10-Q completely and with the understanding that our actual future results may be materially different from what we expect.

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In this Form 10-Q, “we,” “us” and “our” refer to Telenav, Inc. and its subsidiaries. We operate on a fiscal year ending June 30 and refer to the fiscal year ended June 30, 2014 as “fiscal 2014” and the fiscal year ending June 30, 2015 as “fiscal 2015.”

### Overview

Telenav is a leading provider of location-based platform services. These services consist of our map and navigation platform and our advertising delivery platform. Our map and navigation platform allows Telenav to deliver enhanced location based services to developers, auto manufacturers and end users. We use our map and navigation platform as the basis for delivering enhanced mobile applications such as our industry leading mobile navigation. Our advertising delivery platform delivers highly targeted advertising services leveraging our location expertise. Recently, we have focused on enhancing our map and navigation platform by closely aligning our technology to the OpenStreetMap, or OSM, community. In January 2014, we completed our acquisition of all of the shares of privately held skobbler GmbH, or skobbler, a location-based services company based in Germany. We believe the acquisition of skobbler will enable us to combine its OSM-based GPS navigation technology with our existing mobile navigation solutions. We offer our map and navigation platform to customers in a number of ways. We distribute our services through our wireless carrier partners, including AT&T Mobility LLC, or AT&T, and directly to consumers through mobile application stores and marketplaces. Generally, we provide our basic services to consumers for free and provide consumers the opportunity to purchase premium versions of the product. We refer to the free to premium distribution as the “freemium” model of distribution. Our free products are designed to be monetized through delivery of advertising to consumers. Our success with the freemium model depends upon our ability to generate a substantial active user base as well as the ability to generate revenue from advertising and conversion of users from free to premium services. We offer our map and navigation platform services to auto manufacturers and original equipment manufacturers, or OEMs, for distribution with their vehicles. Our primary customer to date, Ford Motor Company, or Ford, currently distributes our product as an optional feature with the majority of its models in the U.S. Our product is now included in models manufactured in the U.S., Canada, Mexico, Europe and China, as well as offered in models in South America, Australia and New Zealand. We also have a relationship with an automotive OEM, Delphi Automotive Systems LLC, or Delphi, that distributes our products with another major global auto manufacturer and a major China auto manufacturer. In January 2014 we announced an agreement with a top five global auto manufacturer for integration of our embedded and connected solutions in its vehicles, which we expect to commence in model year 2017. More recently, we have expanded our relationship with this manufacturer to include off-board and cloud based services for vehicles, commencing in model year 2016. Under the terms of the agreement, we expect our connected services to support navigation in more than 100 countries. There are no volume or revenue guarantees provided by this auto manufacturer. Our automotive solutions are typically a self-contained solution including software and related services and content within the car, or embedded, and are often enhanced through connection to data services for additional real time capabilities such as maps, points of interest, or POI, and traffic. Our history as a cloud based supplier of navigation services provides a unique advantage in the marketplace over our competitors.

Our advertising delivery platform offers advertisers significant audience reach, sophisticated targeting capabilities and the ability to deliver interactive and engaging ad experiences to consumers on their mobile devices. We are experts in location-based advertising and offer unique value to brick-and-mortar and brand advertisers through our location targeting capabilities. Our technology focuses on managing the complexity and scale associated with mobile location data to deliver better mobile campaigns for our advertising partners. We deliver mobile advertisements by leveraging our proprietary in-house ad serving technology. Our inventory, or accessible market, is comprised of thousands of mobile applications and mobile websites that are accessed through programmatic real-time bidding, or RTB, tools. In September 2014, our platform had access to over 151 billion potential ad impressions.

We derive revenue primarily from wireless carriers, automobile manufacturers and OEMs, and advertisers and advertising agencies. We primarily derive our revenue from automobile manufacturers whose vehicles contain our proprietary software and are able to access our personalized navigation services. We also derive revenue from our partnerships with wireless carriers who sell our mobile navigation services to their subscribers. In addition, we have a

growing business in mobile advertising where our customers are primarily advertising agencies that represent national and regional brands and channel partners that work closely with local and small business advertisers.

We generate revenue from the delivery of customized software and royalties from the distribution of this customized software in automotive navigation applications. For example, Ford utilizes our on-board automotive navigation product in its Ford SYNC platform, which includes MyFord Touch and MyLincoln Touch. Our navigation solution is currently deployed in

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20 different Ford and Lincoln models in North America. Ford and Lincoln models with our on-board automotive navigation product began shipping to South America with the 2012 model year, China with the 2013 model year and Australia and New Zealand with the 2014 model year. We began shipments to Ford for the launch of our solution in Europe in September 2014, for the 2015 model year. Our automobile manufacturer and OEM customers pay us a royalty fee as the software is reproduced for installation in vehicles with our automotive navigation solutions. We generate revenue from mobile navigation services, based upon our map and navigation platform, through service subscriptions. End users with subscriptions for our services are generally billed for our services through their wireless carrier or through mobile application stores and marketplaces. Our wireless carrier customers pay us based on several different revenue models, including (1) a revenue sharing arrangement that may include a minimum fee per end user, (2) a monthly or annual subscription fee per end user, or (3) based on usage. We generate revenue from advertising network services through the delivery of search and display advertising impressions based on the specific terms of the advertising contract, which can include arrangements based on cost per impression, cost per click, or cost per drive.

### Recent Developments

Commencing on July 1, 2014, we began to report results in three business segments:

**Automotive** - Our Automotive segment provides our map and navigation platform to auto manufacturers and OEMs, for distribution with their vehicles. Our automotive solutions are typically a self-contained solution including software and related services and content within the car, or on-board, and are often enhanced through connection to data services for additional real time capabilities such as traffic.

**Advertising** - Our Advertising segment provides interactive mobile advertisements on behalf of our advertising clients to consumers based specifically on the location of the user and other sophisticated targeting capabilities. Our customers include advertising agencies, direct advertisers and channel partners.

**Mobile Navigation** - Our Mobile Navigation segment provides our map and navigation platform to end users. We distribute our services through our wireless carrier partners, and directly to consumers through mobile application stores and marketplaces.

Our CEO, the chief operating decision maker, reviews revenue and gross margin information for each of our reportable segments.

### Key operating and financial performance metrics

We monitor the key operating and financial performance metrics set forth in the tables below to help us evaluate growth trends, establish budgets, measure the effectiveness of our sales and marketing efforts and assess our operational efficiencies. Certain of these measures, non-GAAP net income (loss), adjusted earnings before interest, taxes, depreciation and amortization, or adjusted EBITDA, and diluted non-GAAP net income (loss), per share are not measures calculated in accordance with U.S. generally accepted accounting principles, or GAAP, and should not be considered as an alternative to any measure of financial performance calculated and presented in accordance with GAAP. In addition, these non-GAAP measures may not be comparable to similarly titled measures of other companies because other companies may not calculate them in the same manner that we do (in thousands, except percentages and per share amounts):

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	Three Months Ended September 30,			
	2014	2013		
Revenue	\$34,987	\$44,296		
Gross margin	54	% 64		%
Non-GAAP gross margin	57	% 66		%
Automotive gross margin	47	% 53		%
Automotive non-GAAP gross margin	48	% 53		%
Advertising gross margin	36	% 40		%
Advertising non-GAAP gross margin	47	% 60		%
Mobile navigation gross margin	74	% 75		%
Mobile navigation non-GAAP gross margin	76	% 78		%
Net income (loss)	\$(7,937)	) \$9		
Non-GAAP net income (loss)	\$(3,872)	) \$3,183		
Adjusted EBITDA	\$(5,515)	) \$4,492		
Diluted net income (loss), per share	\$(0.20)	) \$—		
Diluted non-GAAP net income (loss), per share	\$(0.10)	) \$0.08		

Gross margin is our gross profit, or total revenue less cost of revenue, expressed as a percentage of our total revenue. Our gross margin has been and will continue to be impacted by the increasing percentage of our revenue base derived from automotive navigation solutions and advertising network services, which generally have higher associated third party content costs and third party display ad inventory costs, respectively, than our mobile navigation offerings provided through wireless carriers.

Non-GAAP gross margin measures our GAAP gross margin, excluding the impact of stock-based compensation expense and capitalized software and developed technology amortization expenses. Non-GAAP net income (loss) measures GAAP net income (loss), excluding the impact of stock-based compensation expense, capitalized software and developed technology amortization expenses, and other items such as legal settlements and restructuring costs, net of taxes. Stock-based compensation expense relates to equity incentive awards granted to our employees, directors, and consultants. Stock-based compensation expense has been and will continue to be a significant recurring non-cash expense for us. While we include the dilutive impact of such equity awards in weighted average shares outstanding, the expense associated with stock-based awards reflects a non-cash charge that we exclude from non-GAAP net income (loss), non-GAAP net income (loss) per share, and adjusted EBITDA. Capitalized software amortization expense represents internal software costs that are previously capitalized and charged to expense as the software is used in our operations. Developed technology amortization expense relates to the amortization of acquired intangible assets. Legal settlements represent settlements from patent litigation cases in which we are defendants and royalty disputes. Restructuring costs represent recognition of the estimated amount of costs associated with restructuring activities. Our non-GAAP tax rate differs from the GAAP tax rate due to the elimination of any tax effect of the GAAP stock-based compensation expenses, capitalized software and developed technology amortization expenses, legal settlements, restructuring costs, and other items that are being eliminated to arrive at the non-GAAP net income (loss).

Adjusted EBITDA measures our GAAP income (loss) excluding the impact of stock-based compensation expense, depreciation, amortization, interest income, other income (expense), provision (benefit) for income taxes, and other items such as legal settlements and restructuring costs, net of tax. Adjusted EBITDA, while generally a measure of profitability, can also represent a loss and this metric excludes certain non-cash expenses, interest and other income (expense), income taxes, and certain other items that management believes affect the comparability of operating results.

Non-GAAP gross margin, non-GAAP net income (loss) and adjusted EBITDA are key measures used by our management and board of directors to understand and evaluate our core operating performance and trends, to prepare and approve our annual budget and to develop short- and long-term operational plans. In particular, we believe that

the exclusion of the expenses eliminated in calculating non-GAAP gross margin, non-GAAP net income (loss) and adjusted EBITDA can provide a useful measure for period-to-period comparisons of our core business. In addition, non-GAAP net income (loss) and adjusted EBITDA are key financial measures used by the compensation committee of our board of directors in connection with the development of incentive-based compensation for our executive officers. Accordingly, we believe that non-GAAP gross margin, non-GAAP income (loss) from continuing operations, net of tax, and adjusted EBITDA provide useful information to investors and others in understanding and evaluating our operating results in the same manner as our management and board of directors.



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Diluted non-GAAP net income (loss) per share is calculated as non-GAAP net income (loss) divided by the diluted weighted average number of shares outstanding during the period.

These non-GAAP measures have limitations as analytical tools, and you should not consider them in isolation or as substitutes for analysis of our financial results as reported under GAAP. Some of these limitations are:

although depreciation and amortization are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future, and adjusted EBITDA does not reflect cash capital expenditure requirements for such replacements or for new capital expenditures;

non-GAAP gross margin, non-GAAP net income (loss) and adjusted EBITDA do not reflect the potentially dilutive impact of equity-based compensation;

adjusted EBITDA does not reflect tax payments that historically have represented a reduction in cash available to us or tax benefits that may arise as a result of generating net losses; and

other companies, including companies in our industry, may calculate adjusted EBITDA or similarly titled measures differently, which reduces its usefulness as a comparative measure.

Because of these and other limitations, you should consider non-GAAP gross margin, non-GAAP net income (loss), adjusted EBITDA and diluted non-GAAP net income (loss) per share alongside other GAAP-based financial performance measures, including various cash flow metrics, net income (loss) and our other GAAP financial results. The following tables present reconciliations of gross margin to non-GAAP gross margin, net income (loss) to non-GAAP net income (loss) and net income (loss) to adjusted EBITDA for each of the periods indicated (dollars in thousands):

	Automotive Three Months Ended September 30,			Advertising Three Months Ended September 30,			Mobile Navigation Three Months Ended September 30,			Total Three Months Ended September 30,		
	2014	2013		2014	2013		2014	2013		2014	2013	
Gross margin	47	% 53	%	36	% 40	%	74	% 75	%	54	% 64	%
Adjustments:												
Capitalized software and developed technology amortization	1	% —	%	11	% 20	%	2	% 3	%	3	% 2	%
Stock-based compensation expense	—	% —	%	—	% —	%	—	% —	%	—	% —	%
Non-GAAP gross margin	48	% 53	%	47	% 60	%	76	% 78	%	57	% 66	%

	Three Months Ended September 30,	
	2014	2013
Net income (loss)	\$(7,937)	\$9
Adjustments:		
Restructuring costs	—	548
Capitalized software and developed technology amortization	903	900
Stock-based compensation expense:		
Cost of revenue	\$24	\$36
Research and development	1,500	1,009
Sales and marketing	764	697
General and administrative	1,100	741
Total stock-based compensation	3,388	2,483
Tax effect of adding back adjustments	(226)	(757)

Non-GAAP net income (loss)

\$(3,872 ) \$3,183

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	Three Months Ended September 30,	
	2014	2013
Net income (loss)	\$(7,937	) \$9
Adjustments:		
Restructuring costs	—	548
Stock-based compensation expense	3,388	2,483
Depreciation and amortization	1,477	1,794
Interest and other income, net	(1,303	) (282
Benefit for income taxes	(1,140	) (60
Adjusted EBITDA	\$(5,515	) \$4,492

## Key components of our results of operations

## Sources of revenue

We classify our revenue as either product or services revenue. Services revenue consists primarily of revenue we derive from our mobile navigation services, off-board automotive navigation services and mobile advertising services. Product revenue consists primarily of revenue we receive from the delivery of customized software and royalties from the distribution of this customized software in certain automotive navigation applications.

We offer voice-guided, real-time, turn by turn, mobile navigation service under several brand names including Scout by Telenav and Telenav GPS as well as under wireless carrier brands (or “white label” brands). We derive services revenue primarily from our wireless carrier customers for their end users' subscriptions to our mobile navigation services. Our wireless carrier customers pay us based on several different revenue models, including (1) a revenue sharing arrangement that may include a minimum fee per end user, (2) a monthly or annual subscription fee per end user, or (3) based on usage. Certain of our contracts provide our wireless carrier customers with discounts based on the number of end users paying for our services in a given month. In general, our wireless carrier customers pay us a lower monthly fee per end user if an end user subscribes to our mobile navigation services as part of a bundle of mobile data or voice services than if an end user subscribes to our mobile navigation services on a standalone basis. We also offer our applications directly to end users through application stores such as the Apple App Store and the Google Play marketplace. Finally, we provide free versions of our services which can generate revenue through advertising supported arrangements, and subscriber upgrades to premium versions for a fee. We also derive services revenue from advertising network services through the delivery of search and display advertising impressions based on the specific terms of the advertising contract. In the future, we may have other revenue models.

For services that our subscribers purchase through our wireless carriers, our wireless carrier customers are responsible for billing and collecting the fees they charge their subscribers for the right to use our navigation services. With respect to Sprint Nextel Corporation, or Sprint, through September 30, 2013, we received a guaranteed fixed fee from Sprint for navigation applications provided to subscribers in bundles with other Sprint services. We recognized revenue for the aggregate fees monthly on a straight-line basis over the term of the agreement. When we are paid on a revenue sharing basis with our wireless carrier customers, the amount we receive varies depending on several factors, including the revenue share rate negotiated with the wireless carrier customer, the price charged to the subscriber by the wireless carrier customer, the specific sales channel of the wireless carrier customer in which the service is offered and the features and capability of the service. As a result of these factors, the amount we receive for a subscriber may vary considerably and is subject to change over time.

In addition, the amount we are paid per end user in our revenue sharing arrangements may also vary depending upon the metric used to determine the amount of the payment, including the number of end users at any time during a month, the average monthly paying end users, the number and timing of end user billing cycles and end user activity. Although our wireless carrier customers generally have sole discretion about how to price our mobile navigation services to their subscribers, our revenue sharing arrangements generally include monthly minimum fees per end user.

To a much lesser extent, we also sell our services directly to consumers through application stores.

We report operating results in three business segments: Automotive, Advertising and Mobile Navigation. Our CEO, the chief operating decision maker, reviews revenue and gross margin information for each of our reportable segments. See " - Results of Operations" and Note 12 to the financial statements in this Form 10-Q for more information about our business segments.

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Revenue from our Automotive segment represented 56% and 45% of our revenue in the three months ended September 30, 2014 and 2013, respectively. Ford represented 53% and 40% of our revenue in the three months ended September 30, 2014 and 2013, respectively. In April 2014, our contract with Ford was extended through December 2017. The agreement may be renewed for successive 12-month periods if either party provides notice of renewal at least 45 days prior to the expiration of the applicable term and the other party agrees to such renewal.

We provide both on-board and off-board connected navigation solutions to Ford. Our on-board solution consists of software, map and points of interest, or POI, data loaded in the vehicle that provides voice-guided turn by turn navigation displayed on the vehicle screen. Our off-board connected solution enables a mobile device that is paired with the vehicle to activate in-vehicle text-based and voice-guided turn by turn navigation. We recognize revenue from our off-board connected solutions monthly based on annual subscriptions, which are subject to a maximum annual fee with Ford. This revenue is classified as services revenue and represented less than 5% of overall automotive navigation solutions revenue.

Our product revenue is primarily derived from our automotive on-board solutions as the related customized software is delivered to, and accepted by our customers. In addition, we recognize royalties earned from our on-board solutions as the software is reproduced for installation in vehicles. We anticipate that we will continue to depend on Ford for a material portion of our revenue for the foreseeable future.

Revenue from our Advertising segment, which includes the delivery of search and display, location-based ads, represented 11% and 5% of our revenue in the three months ended September 30, 2014 and 2013, respectively. Our advertising revenue is derived from ad insertion orders contracted with advertising agencies, direct customers, and channel partners. Our ad search revenue is earned from the delivery of location-based ad impressions targeted to end users engaged in a specific search task utilizing our mobile navigation solutions. Such ad search revenue represented less than 10% of our overall advertising revenue. Our display revenue relates to the advertising business developed via the Thinknear acquisition that delivers targeted location-based impressions to end users of third party developer applications.

Revenue from our Mobile Navigation segment represented 33% and 50% of our revenue in the three months ended September 30, 2014 and 2013, respectively. Subscription fee revenue from our mobile navigation service declined from the three months ended September 30, 2013 to 2014, primarily due to the transition to an extension of the fixed fee with Sprint at a lower rate that eventually ceased in September 2013 and a substantial decrease in the number of paying subscribers for navigation services provided through AT&T and others, including T-Mobile USA, or T-Mobile, U.S. Cellular Corporation, or USCC, and Comunicaciones Nextel de Mexico, S.A. de C.V., a subsidiary of NII Holdings, Inc., or NII Mexico.

AT&T represented 20% and 23% of our revenue in the three months ended September 30, 2014 and 2013, respectively. In March 2014, our agreement with AT&T was automatically renewed, under its existing terms through March 2015, and provides that we will continue to be the exclusive provider of white label GPS navigation services to AT&T. AT&T is not required to offer our navigation services. During fiscal 2015, we anticipate that we will continue to depend on AT&T for a material portion of our revenue; however, we have seen substantial declines in the number of paying subscribers for our services through AT&T over the past few years and we expect them to continue to decline substantially.

Sprint represented less than 10% and 15% of our revenue in the three months ended September 30, 2014 and 2013, respectively. We operate under an agreement with Sprint, which we most recently amended in April 2013. Under this amended agreement, Sprint continued the fixed fee arrangement related to the Sprint bundle through September 30, 2013, and agreed to partner to generate revenue from mobile navigation and mobile advertising programs through December 31, 2015. Commencing on October 1, 2013, Sprint ceased to bundle our navigation services, which caused our revenue to decrease substantially. A majority of the Sprint subscribers who were receiving our services through bundles as of September 30, 2013 did not convert to our paid navigation services and we have not recouped the lost revenue through freemium or monthly recurring charges paid by those Sprint subscribers.

We expect that the percentage of our revenue represented by wireless carrier customers will continue to decline in fiscal 2015 due to the absence of any revenue from Sprint bundles and the anticipated decline of the number of

subscribers paying monthly recurring charges with other wireless carrier customers.

For fiscal 2015, we expect automotive and advertising revenue to represent the growing components of our revenue but our expectations may not be realized. However, while we anticipate growing our overall revenue in fiscal 2015, the lower gross margins generally experienced with automotive and advertising revenue are expected to result in an overall lower gross profit in fiscal 2015.

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In each of the three months ended September 30, 2014 and 2013, we generated 94% of our revenue, in the United States. With respect to revenue we receive from automobile manufacturers and OEMs for sales of vehicles in other countries, we classify that revenue as being generated in the United States, because we provide deliverables to and receive compensation from the manufacturer's or OEM's United States' entity.

### Cost of revenue

Our cost of revenue consists primarily of the cost of third party content, such as map, geocodes, POI, traffic, gas price and weather data and voice recognition technology that we use in providing our navigation solutions. Our cost of revenue also includes the cost of third party exchange ad inventory as well as expenses associated with data center operations, customer support, the amortization of capitalized software, recognition of deferred development costs on specific projects, stock-based compensation and amortization of developed technology. The largest components of our cost of revenue are the fees we pay to providers of map, POI and traffic data, including TomTom North America, Inc., or TomTom, and HERE North America, LLC, or HERE. We have agreements with TomTom and HERE pursuant to which we pay royalties according to a variety of different fee schedules, including on a per use basis, on a per end user per month basis, and on a per installed vehicle basis. With respect to TomTom, we are required to pay certain minimum fees for access to its content by our mobile navigation customers, as well as a usage fee. Although we recently began using OSM for certain of our freemium navigation products, we do not anticipate that we will cease to use TomTom and HERE in the near-term on our paid navigation solutions.

For our on-board automotive navigation solutions provided to Ford, we pay royalties on a per installed unit produced basis to HERE as well as other content providers, depending on the geographic distribution of our solution with Ford. We classify our cost of revenue as either cost of product revenue or cost of services revenue. Cost of product revenue consists primarily of the cost of third party content we incur in providing our on-board automotive navigation solutions and recognition of deferred development costs. Cost of services revenue consists primarily of the costs associated with third party content, third party exchange ad inventory, data center operations, customer support, amortization of capitalized software, stock-based compensation and amortization of developed technology that we incur in providing our navigation and advertising network services.

We primarily provide mobile navigation service customer support through a third party provider to whom we provide training and assistance with problem resolution. We use two outsourced, hosted data centers and industry standard hardware to provide our navigation services. We generally offer to our wireless carrier customers and generally maintain at least 99.9% uptime every month, excluding designated periods of maintenance. Our internal targets for service uptime are even higher. We have in the past, and may in the future, not achieve our targets for service availability and may incur penalties for failure to meet contractual service availability requirements, including loss of a portion of subscriber fees for the month or termination of our wireless carrier customer agreement.

The largest component of cost of revenue as it relates to our advertising business is the cost of location-based, third-party advertising inventory which we acquire from advertising exchanges. Our search ad inventory is generated from our user base of paid and freemium users of our Scout and Telenav branded and carrier branded mobile navigation solutions. Other notable costs of our advertising business are the cost of ad delivery via contracted hosted relationships and the cost of our ad trafficking operations.

While we expect that services revenue from wireless carrier customers will continue to decline substantially in fiscal 2015, we do not expect to be able to reduce our cost of services revenue at the same rate of decline as services revenue. Although we successfully transitioned to utilizing OSM content on our freemium navigation applications resulting in notable cost savings, we will continue to incur significant costs, especially related to third party content as well as for data center operations. Cost of services revenue related to our advertising business will be impacted by our ability to grow advertising revenue, as well as the cost and availability of display ad inventory sourced from third party exchanges. While our product revenue is expected to increase in fiscal 2015 due to continued growth in automotive, much of this growth will be generated from distribution of our automotive solution with Ford in China and Europe where the underlying content costs are significantly higher on a per unit basis. Consequently, we expect that our overall total cost of revenue will increase as a percentage of revenue as we increase the percentage of our revenue from automotive navigation solutions and advertising network services, which generally have higher

associated third party content costs and third party display ad costs, respectively, than our navigation offerings provided through wireless carriers.



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### Operating expenses

We classify our operating expenses into three categories: research and development, sales and marketing and general and administrative. In addition, in fiscal 2014 we incurred restructuring costs primarily related to severance and benefits expense associated with reductions in workforce and facility exit costs associated with consolidation of facilities. Our operating expenses consist primarily of personnel costs, which include salaries, bonuses, advertising sales commissions, payroll taxes, employee benefit costs and stock-based compensation expense. Other expenses include marketing program costs, third party contractor and temporary staffing services, facilities-related costs including rent expense, legal, audit and tax consulting and other professional service fees. We allocate stock-based compensation expense resulting from the amortization of the fair value of stock-based awards granted, based on the department in which the award holder works. We allocate overhead, such as rent and depreciation, to each expense category based on headcount. Effective in the first quarter of fiscal 2015, we are classifying product management costs as a component of research and development expenses due to the change made effective July 1, 2014 whereby this function no longer reports into the sales and marketing organization. Previously such costs had been included within sales and marketing expenses.

Our operating expenses have declined in the first quarter of fiscal 2015, as we have reduced certain headcount and achieved greater operational effectiveness in supporting our traditional mobile navigation services. Despite our recent restructuring efforts, we expect that certain costs will continue to increase over time, including compensation and related costs; however, we are continuing to evaluate spending in certain areas and to take actions to create greater efficiencies. We anticipate continued investment of resources, including the hiring of additional headcount in, or reallocation of employee personnel into, our growth areas, which include automotive and mobile advertising, with a recent emphasis on hiring advertising sales personnel and related support functions. Effective in the first quarter of fiscal 2015, we are classifying product management costs as a component of research and development expenses.

Research and development. Research and development expenses consist primarily of personnel costs for our development and product management employees and costs of outside consultants and temporary staffing. We have focused our research and development efforts on improving the ease of use and functionality of our existing services, as well as developing new service and product offerings in our existing markets and in new markets. In addition to our U.S. employee base, a significant number of our research and development employees are located in our development centers in China and, as a result, a portion of our research and development expense is subject to changes in foreign exchange rates, notably the Chinese Renminbi, or RMB. In addition, with our January 2014 acquisition of skobbler, we have a significant number of employees in Romania and incur research and development expenses in the Romanian Leu.

Sales and marketing. Sales and marketing expenses consist primarily of personnel costs for our sales and marketing staff, commissions earned by our sales personnel and the cost of marketing programs, advertising and promotional activities. Through June 30, 2014, sales and marketing expenses also included product management costs, which are classified as research and development expenses commencing July 1, 2014. Historically, a majority of our revenue has been derived from wireless carriers, which bore much of the expense of marketing and promoting our services to their subscribers, as well as consumers acquired through open market application stores. More recently, our automotive and advertising revenue have represented the most rapidly growing components of our revenue, and we have recently invested significantly in building out our advertising sales team. Our sales and marketing activities supporting our automotive navigation services include the costs of our business development efforts. Our automotive manufacturer partners and OEMs also provide primary marketing for our on-board and off-board navigation services at the time a vehicle is sold to their end customer.

General and administrative. General and administrative expenses consist primarily of personnel costs for our executive, finance, legal, human resources and administrative personnel, legal, audit and tax consulting and other professional services and corporate expenses.

Other income (expense), net. Other income (expense), net consists primarily of interest we earn on our cash and cash equivalents and short-term investments, gain or loss on investments and foreign currency transaction gain or loss.

Provision (benefit) for income taxes. Our provision (benefit) for income taxes primarily consists of corporate income taxes related to profits or losses earned in the United States or corporate income tax refunds expected to be derived

from losses incurred in the United States that may be carried back. Our effective tax rate could fluctuate significantly from year to year, particularly in those years in which we incur losses, due to our ability to benefit from the carryback of net operating losses within the carryback period and the available amount therein, if any. Furthermore, on a quarterly basis our tax rates can fluctuate and could be adversely affected by increases in nondeductible stock compensation or other nondeductible expenses. Our effective tax rate could also fluctuate due to a change in our earnings or loss projections, changes in the valuation of our deferred tax assets or liabilities, or changes in tax laws, regulations, or accounting principles, as well as certain discrete items.

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### Critical accounting policies and estimates

We prepare our condensed consolidated financial statements in accordance with GAAP. In many cases, the accounting treatment of a particular transaction is specifically dictated by GAAP and does not require our judgment in its application. In other cases, our judgment is required in selecting among available alternative accounting policies that allow different accounting treatment for similar transactions. The preparation of condensed consolidated financial statements also requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, costs and expenses and related disclosures. We base our estimates on historical experience and various other assumptions that we believe are reasonable under the circumstances. In many instances, we could reasonably use different accounting estimates, and in some instances changes in the accounting estimates are reasonably likely to occur from period to period. Accordingly, actual results could differ significantly from the estimates made by our management. To the extent that there are differences between our estimates and actual results, our future financial condition, results of operations and cash flows will be affected.

There have been no material changes in our critical accounting policies and estimates during the three months ended September 30, 2014 as compared to the critical accounting policies and estimates disclosed in Part II, Item 7 of our Annual Report on Form 10-K for fiscal 2014.

### Recent Accounting Pronouncements

For information with respect to recent accounting pronouncements and the impact of these pronouncements on our consolidated financial statements, see Note 1 of Notes to Condensed Consolidated Financial Statements included elsewhere in this Form 10-Q.

### Results of operations

The following tables set forth our results of operations for the three months ended September 30, 2014 and 2013, as well as a percentage that each line item represents of our total revenue for those periods. The additional key metrics presented are used in addition to the financial measures reflected in the condensed consolidated statements of operations data to help us evaluate growth trends, establish budgets and measure the effectiveness of our sales and marketing efforts. The period to period comparison of financial results is not necessarily indicative of financial results to be achieved in future periods.

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Consolidated Statements of Operations Data	Three Months Ended September 30,			
	2014		2013	
	(in thousands)			
Revenue:				
Product	\$ 18,916		\$ 19,291	
Services	16,071		25,005	
Total revenue	34,987		44,296	
Cost of revenue:				
Product	10,178		9,309	
Services	5,782		6,740	
Total cost of revenue	15,960		16,049	
Gross profit	19,027		28,247	
Operating expenses:				
Research and development	16,998		14,543	
Sales and marketing	6,196		7,618	
General and administrative	6,213		5,871	
Restructuring costs	—		548	
Total operating expenses	29,407		28,580	
Loss from operations	(10,380	)	(333	)
Other income, net	1,303		282	
Loss before benefit for income taxes	(9,077	)	(51	)
Benefit for income taxes	(1,140	)	(60	)
Net income (loss)	\$(7,937	)	\$9	

	Three Months Ended September 30,			
	2014		2013	
	(as a percentage of revenue)			
Revenue:				
Product	54	%	44	%
Services	46	%	56	%
Total revenue	100	%	100	%
Cost of revenue:				
Product	29	%	21	%
Services	17	%	15	%
Total cost of revenue	46	%	36	%
Gross profit	54	%	64	%
Operating expenses:				
Research and development	49	%	33	%
Sales and marketing	18	%	17	%
General and administrative	18	%	13	%
Restructuring costs	—	%	1	%
Total operating expenses	85	%	64	%
Loss from operations	(30	)%	(1	)%
Other income, net	4	%	1	%
Loss before benefit for income taxes	(26	)%	—	%
Benefit for income taxes	(3	)%	—	%
Net income (loss)	(23	)%	—	%



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Comparison of the three months ended September 30, 2014 and 2013

Revenue, cost of revenue and gross profit.

Consolidated overview. Product revenue decreased 2% to \$18.9 million in the three months ended September 30, 2014 from \$19.3 million in the three months ended September 30, 2013. The decrease in product revenue for the comparable three month period was due primarily to decreases in customized software revenue and map content update revenue, partially offset by an increase in royalty revenue from automotive navigation solutions we provide for our automotive customers. Services revenue decreased 36% to \$16.1 million in the three months ended September 30, 2014 from \$25.0 million in the three months ended September 30, 2013. The decrease in services revenue for the comparable three month period was due primarily to lower subscription fees resulting from decreases in the number of paying subscribers for mobile navigation services.

Our cost of product revenue increased 9% to \$10.2 million in the three months ended September 30, 2014 from \$9.3 million in the three months ended September 30, 2013, due primarily to an increase in third party content costs associated with the increased royalty revenue from automotive navigation solutions. Our cost of service revenue decreased 14% to \$5.8 million in the three months ended September 30, 2014 from \$6.7 million in the three months ended September 30, 2013, due primarily to a decrease in third party content costs resulting from lower usage and, to a lesser extent, the adoption of OSM content, as well as decreased customer support and data center costs, partially offset by increased amortization expense primarily related to developed technology acquired.

Our gross profit decreased to \$19.0 million in the three months ended September 30, 2014 from \$28.2 million in the three months ended September 30, 2013. Our gross margin decreased to 54% in the three months ended September 30, 2014 from 64% in the three months ended September 30, 2013. The decreases in gross profit and gross margin for the comparable three month period were primarily due to lower services revenue and the increased proportion of product revenue contributed from our on-board automotive navigation solutions provided to our automotive customers, which generally has higher associated content costs and resulting lower gross margins than our mobile navigation services provided through our wireless carrier customers. We expect our overall gross margin to continue to decline as the percentage of our revenue from automotive offerings increases, and as a result of increased competition on our offering of mobile navigation services, especially from other freemium offerings. In addition, our gross margin will continue to be negatively impacted in the future by the amortization of developed technology acquired as part of our January 2014 acquisition of skobbler.

Revenue concentrations. In the three months ended September 30, 2014 and 2013, revenue from Ford represented 53% and 40% of our total revenue, respectively; revenue from AT&T represented 20% and 23% of our total revenue, respectively, and revenue from Sprint represented less than 10% and 15% of our total revenue, respectively. No other customer represented more than 10% of our total revenue in such periods.

We primarily sell our services in the United States. In each of the three months ended September 30, 2014 and 2013, revenue derived from U.S. sources represented 94% of our total revenue.

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Segments information. The information below is organized in accordance with our three reportable business segments (dollars in thousands):

	Three Months Ended September 30,		
	2014	2013	
Revenue			
Automotive	\$19,502	\$19,890	
Advertising	3,975	2,080	
Mobile Navigation	11,510	22,326	
Total revenue	34,987	44,296	
Cost of revenue			
Automotive	10,396	9,309	
Advertising	2,540	1,253	
Mobile Navigation	3,024	5,487	
Total cost of revenue	15,960	16,049	
Gross profit			
Automotive	9,106	10,581	
Advertising	1,435	827	
Mobile Navigation	8,486	16,839	
Total gross profit	\$19,027	\$28,247	
Gross margin			
Automotive	47	% 53	%
Advertising	36	% 40	%
Mobile Navigation	74	% 75	%
Total gross margin	54	% 64	%

Automotive. Automotive revenue decreased 2% to \$19.5 million in the three months ended September 30, 2014 from \$19.9 million in the three months ended September 30, 2013. The decrease in the comparable three month period was due primarily to a decrease in customized software revenue and map content update revenue of \$2.1 million, partially offset by an increase in production royalty revenue of \$1.7 million. Automotive revenue in the three months ended September 30, 2014 and 2013 included zero and \$2.1 million, respectively, of customized software revenue.

Automotive revenue represented 56% and 45% of total revenue in the three months ended September 30, 2014 and 2013, respectively.

Cost of automotive revenue increased 12% to \$10.4 million in the three months ended September 30, 2014 from \$9.3 million in the three months ended September 30, 2013. The increase in the comparable three month period was due primarily to an increase in third party content costs of \$1.1 million associated with the increased royalty revenue and mix of revenue in Europe and China, which generally has higher associated content costs, and increased amortization expense of \$0.2 million related to developed technology acquired. These increases were partially offset by a decrease due to the costs associated with the fiscal 2014 customized software revenue and map content update revenue that did not recur in fiscal 2015.

Automotive gross profit decreased to \$9.1 million in the three months ended September 30, 2014 from \$10.6 million in the three months ended September 30, 2013. Automotive gross margin decreased to 47% in the three months ended September 30, 2014 from 53% in the three months ended September 30, 2013. The decrease in gross margin in the comparable three month period was due primarily to the higher margin customized software revenue and map content update revenue included in fiscal 2014 that did not recur in fiscal 2015, as well as the higher proportion of revenue in Europe and China, which generally has higher associated content costs.

Advertising. Advertising revenue increased 91% to \$4.0 million in the three months ended September 30, 2014 from \$2.1 million in the three months ended September 30, 2013, due primarily to an increase in the value of contracted insertion orders along with the number of impressions delivered. Advertising revenue represented 11% and 5% of

total revenue in the three months ended September 30, 2014 and 2013, respectively.

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Cost of advertising revenue increased 103% to \$2.5 million in the three months ended September 30, 2014 from \$1.3 million in the three months ended September 30, 2013. The increase in the comparable three month period was due primarily to increased third party ad exchange inventory costs of \$0.9 million and increased platform hosting fees of \$0.2 million associated with the increased impressions delivered. Cost of advertising revenue increased at a greater rate than advertising revenue due to increased effective cost per thousand impressions, or eCPM, for display ad inventory sourced from third party exchanges, as well as enhanced content costs.

Advertising gross profit increased 74% to \$1.4 million in the three months ended September 30, 2014 from \$0.8 million in the three months ended September 30, 2013. Advertising gross margin decreased to 36% in the three months ended September 30, 2014 from 40% in the three months ended September 30, 2013. The decrease in gross margin in the comparable three month period was due primarily to increased eCPM for display ad inventory sourced from third party exchanges, as well as enhanced content costs.

Mobile Navigation. Mobile navigation revenue decreased 48% to \$11.5 million in the three months ended September 30, 2014 from \$22.3 million in the three months ended September 30, 2013. The decrease in the comparable three month period was primarily due to lower subscription fees resulting from decreases in the number of paying subscribers for mobile navigation services provided through AT&T, T-Mobile and USCC, the termination of our fixed fee revenue from Sprint for bundled users, and a decrease in mobile navigation revenue internationally. Accordingly, in the three months ended September 30, 2014, services revenue from AT&T, Sprint, T-Mobile, USCC and international customers decreased by \$10.5 million. Mobile navigation revenue represented 33% and 50% of total revenue in the three months ended September 30, 2014 and 2013, respectively.

Cost of mobile navigation revenue decreased 45% to \$3.0 million in the three months ended September 30, 2014 from \$5.5 million in the three months ended September 30, 2013. The decrease in the comparable three month period was due primarily to a decrease in third party content costs of \$1.4 million, as well as a decrease in amortization of capitalized software and recognition of deferred costs and data center costs of \$0.4 million.

Mobile navigation gross profit decreased 50% to \$8.5 million in the three months ended September 30, 2014 from \$16.8 million in the three months ended September 30, 2013. Mobile navigation gross margin was comparable at 74% in the three months ended September 30, 2014 and 75% in the three months ended September 30, 2013.

### Operating expenses

Research and development. Our research and development expenses increased 17% to \$17.0 million in the three months ended September 30, 2014 from \$14.5 million in the three months ended September 30, 2013. The increase in the comparable three month period was due primarily to the inclusion of \$2.4 million of product management department costs that are classified in research and development expense beginning in fiscal 2015. Previously, product management departments reported into our sales and marketing organization and were included in sales and marketing expense for fiscal 2014. As a percentage of revenue, research and development expenses increased to 49% in the three months ended September 30, 2014 from 33% in the three months ended September 30, 2013. The total number of research and development personnel increased 3% to 461 at September 30, 2014 from 446 at September 30, 2013. A total of 40 product management personnel were included in research and development expense at September 30, 2014. The increase in headcount is due primarily to increased headcount with our acquisition of skobbler in January 2014 and the inclusion of product management personnel in fiscal 2015, partially offset by a decrease due to our ongoing cost optimization efforts, including our restructuring efforts in the second half of fiscal 2014. We believe that as we deliver our contracted customer requirements for our automotive customers, establish relationships with new automotive manufacturers and OEMs, enhance our service offerings around our OSM capabilities, and develop new services and products for advertisers, revenue from those investments and development efforts will lag the related research and development expenses.

Sales and marketing. Our sales and marketing expenses decreased 19% to \$6.2 million in the three months ended September 30, 2014 from \$7.6 million in the three months ended September 30, 2013. The decrease in the comparable three month period was primarily due to a decrease of \$2.6 million related to product management costs that were classified in sales and marketing expense in fiscal 2014. Beginning in fiscal 2015, these costs are now included in research and development expense. This \$2.6 million decrease was partially offset by increases in compensation and benefits costs of \$1.1 million primarily associated with the ongoing expansion of our mobile advertising sales team.

As a percentage of revenue, sales and marketing expenses increased to 18% in the three months ended September 30, 2014 from 17% in the three months ended September 30, 2013. The total number of sales and marketing personnel decreased 22% to 69 at September 30, 2014 from 89 at September 30, 2013. A total of 39 product management personnel were included in sales and marketing expense at September 30, 2013. We expect that our sales and marketing expenses will continue to increase over time in absolute dollars as we add sales personnel to support our advertising business.

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General and administrative. Our general and administrative expenses increased 6% to \$6.2 million in the three months ended September 30, 2014 from \$5.9 million in the three months ended September 30, 2013. The increase in the comparable three month period was primarily due to increased stock-based compensation expense of \$0.4 million. The total number of general and administrative personnel decreased 11% to 65 at September 30, 2014 from 73 at September 30, 2013. As a percentage of revenue, general and administrative expenses increased to 18% in the three months ended September 30, 2014 from 13% in the three months ended September 30, 2013. We anticipate that our general and administrative expenses may vary substantially from period to period as our legal expenses associated with ongoing intellectual property litigation and requests for indemnification related to intellectual property litigation proceed.

Restructuring costs. In the three months ended September 30, 2013, we incurred restructuring costs of \$0.5 million associated with facility lease impairment in connection with the consolidation of our Sunnyvale headquarters facilities.

Other income, net. Our other income, net was \$1.3 million in the three months ended September 30, 2014 and \$0.3 million in the three months ended September 30, 2013. Other income, net for the three months ended September 30, 2014 included a \$0.5 million foreign exchange gain and \$0.4 million other income from our transaction services agreement with Fleetcor Technologies Operating Company, LLC.

Benefit for income taxes. Our benefit for income taxes was \$1.1 million in the three months ended September 30, 2014 compared to \$60,000 in the three months ended September 30, 2013. Our effective tax rate was 13% in the three months ended September 30, 2014 compared to 118% in the three months ended September 30, 2013. Our effective tax rate of 13%, which resulted in the recognition of a tax benefit for the three months ended September 30, 2014, was less than the tax benefit computed at the U.S. federal statutory income tax rate due primarily to the increase in the valuation allowance as a result of the limitations of benefit from the tax carryback. Our effective tax rate of 118% for the three months ended September 30, 2013 was higher than the tax computed at the U.S. federal statutory income tax rate due primarily to the exclusion of certain foreign income which was offset by loss carryforwards in a foreign jurisdiction.

We record liabilities related to uncertain tax positions in accordance with authoritative guidance on accounting for uncertainty in income taxes. As of September 30, 2014 and June 30, 2014, our cumulative unrecognized tax benefits were \$6.6 million and \$6.9 million, respectively. Included in the balance of unrecognized tax benefits at September 30, 2014 and June 30, 2014 was \$5.1 million and \$5.5 million, respectively, that, if recognized, would affect the effective tax rate.

We recognize interest and penalties related to unrecognized tax benefits as part of our provision for income taxes. We had \$0.7 million and \$0.6 million accrued for the payment of interest and penalties at September 30, 2014 and June 30, 2014, respectively.

We file income tax returns with the Internal Revenue Service, or IRS, California, various states and foreign tax jurisdictions in which we have subsidiaries. The statute of limitations remains open for fiscal 2011 through fiscal 2014 in the U.S., for fiscal 2010 through fiscal 2014 in state jurisdictions, and for fiscal 2009 through fiscal 2014 in foreign jurisdictions. Fiscal years outside the normal statute of limitations remain open to audit by tax authorities due to tax attributes generated in those early years which have been carried forward and may be audited in subsequent years when utilized.

In fiscal 2014, we recorded a valuation allowance on the majority of our deferred tax assets, net of liabilities, since the assets were not more likely than not to be realized based upon our assessment of all positive and negative evidence. Realization of deferred tax assets is dependent upon future taxable earnings and losses, the timing of which is uncertain. Due to losses in fiscal 2014 and expected losses in fiscal 2015 and potentially future years in the U.S., we established in fiscal 2014 a valuation allowance on deferred tax assets in the U.S. that we believe will not be realized by the carryback provisions of U.S. tax law. U.S. tax law allows for the two-year carryback of losses and one-year carryback of credits to previous tax years which can generate a tax refund to the extent taxes were paid. Due to foreign operating losses in previous years and continued foreign earnings volatility, we continued to maintain a full valuation allowance for our foreign deferred tax assets. Our valuation allowance at June 30, 2014 was \$13.0 million. In

evaluating our ability to recover our deferred tax assets each quarter, we consider all available positive and negative evidence, including current and previous operating results, ability to carryback losses for a tax refund, and forecasts of future operating results.

On December 31, 2013, the research and development credit expired for federal tax purposes. The 2012 Taxpayer Relief Act extended the research and development credit for two years until December 31, 2013. Although the research and development credit has been extended every year since enactment, a tax benefit cannot be recorded for the expired period until the tax extenders bill, or the bill, has been enacted. If and when the bill is enacted, a retroactive tax benefit will be recorded in the period of enactment. We have recorded a tax benefit for the federal research and development credit for the six months ended December 31, 2013.

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On September 13, 2013, the U.S. Treasury issued final tangible property regulations which broadly apply to amounts paid to acquire, produce or improve tangible property, as well as dispositions of such property. On August 18, 2014, the U.S. Treasury issued final tangible property regulations for dispositions of property subject to depreciation under Section 168 and general asset accounts and finalizes the asset disposition rules. The new tangible property regulations are effective for years beginning after January 1, 2014, or our fiscal 2015. Since we expect to elect the de minimus safe harbor election which provides symmetry between book and tax for the capitalization of tangible assets, these new regulations will not have a material impact on our financial statements.

## Liquidity and capital resources

The following table sets forth the major sources and uses of cash and cash equivalents for each of the periods set forth below (in thousands):

	Three Months Ended September 30,	
	2014	2013
Net cash used in operating activities	\$(3,953 )	\$(5,909 )
Net cash provided by (used in) investing activities	9,412	(1,016 )
Net cash provided by (used in) financing activities	675	(3,039 )
Effect of exchange rate changes on cash and cash equivalents	(645 )	51
Net increase (decrease) in cash and cash equivalents	\$5,489	\$(9,913 )

At September 30, 2014, we had cash, cash equivalents and short-term investments of \$131.6 million, which primarily consisted of money market mutual funds, asset-backed securities, municipal securities and agency and corporate bonds held. Our cash, cash equivalents and short-term investments are held and managed by financial institutions that are required to adhere to our investment policy.

Our accounts receivable are heavily concentrated in a small number of customers. As of September 30, 2014, our accounts receivable balance was \$26.9 million, of which Ford and AT&T represented 51% and 17%, respectively.

Our future capital requirements will depend on many factors, including our ability to grow our revenue and control expenses in fiscal 2015 and beyond, whether we return to profitability, the timing and extent of expenditures to support development efforts, the expansion of research and development and sales and marketing activities and headcount, the introduction of our new and enhanced service and product offerings and the growth in our end user base. We believe our cash, cash equivalents and short-term investments will be sufficient to satisfy our financial obligations through at least the next 12 months. However, we expect to use cash in operating activities in fiscal 2015 and we may experience greater than expected cash usage in operating activities if revenue is lower than we anticipate or we incur greater than expected cost of revenue or operating expenses. Our revenue and operating results could be lower than we anticipate if, among other reasons, our customers, two of which we are substantially dependent upon for a large portion of our revenue, were to limit or terminate our relationships with them; we were to fail to successfully compete in our highly competitive market, including against competitors who offer their services for free; our revenue did not grow as expected or we were unable to reduce our costs by using OSM. In the future, we may acquire businesses or technologies or license technologies from third parties, and we may decide to raise additional capital through debt or equity financing to the extent we believe this is necessary to successfully complete these acquisitions or license these technologies. However, additional financing may not be available to us on favorable terms, if at all, at the time we make such determinations, which could have a material adverse effect on our business, operating results, financial condition and liquidity and cash position.

Net cash used in operating activities. Net cash used in operating activities was \$4.0 million and \$5.9 million in the three months ended September 30, 2014 and 2013, respectively. Cash provided by or used in operating activities is affected by changes in our declining mobile navigation end user base, anticipated growth in our auto and advertising businesses, and increases in our operating costs, which are primarily driven by headcount related costs and royalty payments for portions of the content provided in our products. In the three months ended September 30, 2014, cash

used in operating activities was the result of a net loss of \$7.9 million and \$1.4 million from changes in our operating assets and liabilities, partially offset by non-cash charges for depreciation and amortization of \$1.5 million, stock-based compensation of \$3.4 million and accretion of net premium on short-term investments of \$0.5 million. In the three months ended September 30, 2013, cash provided by operating activities was provided principally by net income of \$9,000, adjusted for non-cash charges for depreciation and amortization of \$1.8 million, stock-based compensation of \$2.5 million, and accretion of net premium on short-term investments of \$0.9 million, partially offset by \$11.3 million from changes in our operating assets and liabilities.

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Net cash provided by (used in) investing activities. Our investing activities provided (used) \$9.4 million and \$(1.0) million during the three months ended September 30, 2014 and 2013, respectively. Cash flows from investing activities have historically been affected by purchases, sales and maturities of short-term investments, purchases of property and equipment, internal software development costs, and acquisitions. We expect to make additional purchases of property and equipment in future periods as we continue to invest in infrastructure, as well as replace equipment nearing the end of its service life. However, we will balance such purchases with our increasing use of hosted data services in an effort to more efficiently scale operations, particularly with respect to our growing advertising business. In the three months ended September 30, 2014, cash provided by investing activities was principally the result of proceeds from sales and maturities of short-term investments, net of purchases, of \$9.8 million. In the three months ended September 30, 2013, cash used in investing activities was principally the result of purchases of short-term investments, net of proceeds from sales and maturities, of \$0.6 million, and purchases of property and equipment of \$0.3 million.

Net cash provided by (used in) financing activities. During the three months ended September 30, 2014 and 2013, our financing activities provided (used) cash of \$0.7 million and \$(3.0) million, respectively. In the three months ended September 30, 2014, proceeds of \$1.4 million were provided from the exercise of stock options, partially offset by \$0.7 million of tax withholdings related to net share settlements of RSUs. In the three months ended September 30, 2013, we utilized \$3.1 million of cash to repurchase shares of our common stock, partially offset by proceeds of \$0.4 million from the exercise of stock options.

### Off-balance sheet arrangements

We do not have any relationships with unconsolidated organizations or financial partnerships, such as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

### Contractual obligations, commitments and contingencies

As of September 30, 2014, we had an aggregate of \$32.4 million of future minimum noncancelable financial commitments primarily related to office space under noncancelable operating leases and license fees due to certain of our third party content providers, regardless of usage level. The aggregate of \$32.4 million of future minimum commitments were comprised of \$7.4 million due in fiscal 2015; \$7.5 million due in fiscal 2016; \$5.5 million due in fiscal 2017; \$5.0 million due in fiscal 2018; \$4.9 million due in fiscal 2019; and \$2.1 million due thereafter.

## Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Interest rate sensitivity. The primary objectives of our investment activities are to preserve principal, provide liquidity and maximize income without significantly increasing risk. By policy, we do not enter into investments for trading or speculative purposes. Some of the securities we invest in are subject to market risk. This means that a change in prevailing interest rates may cause the fair value of the investment to fluctuate. To minimize this risk, we invest in a variety of securities, which primarily consist of money market funds, commercial paper, municipal securities and other debt securities of domestic corporations. Due to the nature of these investments and relatively short duration of the underlying securities, we believe that we do not have any material exposure to changes in the fair value of our investment portfolio as a result of changes in interest rates. Declines in interest rates, however, will reduce future interest income. During the three months ended September 30, 2014, a 10% appreciation or depreciation in overall interest rates would not have had a material impact on our interest income or the fair value of our marketable securities.

Foreign currency risk. A substantial majority of our revenue has been generated to date from our end users and customers in the United States and, as such, our revenue has not been substantially exposed to fluctuations in currency exchange rates. However, some of our contracts with our wireless carrier customers outside of the United States are denominated in currencies other than the U.S. dollar and therefore expose us to foreign currency risk. Should the revenue generated outside of the United States grow in absolute amounts and as a percentage of our revenue, we will increasingly be exposed to foreign currency exchange risks. In addition, a substantial portion of our operating expenses are incurred outside the United States, are denominated in foreign currencies and are subject to changes in foreign currency exchange rates, particularly the RMB, and commencing in January 2014, the Romanian Leu.

Additionally, changes in foreign currency exchange rates may cause us to recognize transaction gains and losses in our statement of operations. As of September 30, 2014, an immediate 10% adverse change in exchange rates on foreign currency denominated receivables and payables would not result in a material loss.

To date, we have not used any foreign currency forward contracts or similar instruments to attempt to mitigate our exposure to changes in foreign currency rates.



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Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2014. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a 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. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of September 30, 2014, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the three months ended September 30, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Limitations on the Effectiveness of Controls

Control systems, no matter how well conceived and operated, are designed to provide a reasonable, but not an absolute, level of assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. Because of the inherent limitations in any control system, misstatements due to error or fraud may occur and not be detected.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

From time to time, we may be subject to legal proceedings and claims in the ordinary course of business. We have received, and may in the future continue to receive, claims from third parties asserting infringement of their intellectual property rights. Future litigation may be necessary to defend ourselves and our customers by determining the scope, enforceability and validity of third party proprietary rights or to establish our proprietary rights. From time to time we also may be subject to claims from our third party content providers that we owe them additional royalties and interest, which claims may result in litigation if we and the third party content provider are unable to resolve the matter. There can be no assurance with respect to the outcome of any current or future litigation brought against us or pursuant to which we have indemnification obligations and the outcome could have a material adverse impact on our business, operating results and financial condition.

On December 31, 2009, Vehicle IP, LLC, or Vehicle IP, filed a patent infringement lawsuit against us in the U.S. District Court for the District of Delaware, seeking monetary damages, fees and expenses and other relief. Verizon Wireless, or Verizon, was named as a co-defendant in the Vehicle IP litigation based on the VZ Navigator product and has demanded that we indemnify and defend Verizon against Vehicle IP. At this time, we have not agreed to defend or indemnify Verizon. AT&T was also named as a co-defendant in the Vehicle IP litigation based on the AT&T Navigator and Telenav Track products. AT&T has tendered the defense of the litigation to us and we are defending the case on behalf of AT&T. After the Court issued its claim construction ruling the parties agreed to focus on early summary judgment motions, and asked the Court to postpone the rest of the case schedule pending the resolution of these potentially case-dispositive motions. The defendants filed motions for summary judgment of noninfringement. On April 10, 2013 the Court granted AT&T and our motion for summary judgment of noninfringement. While the Court's ruling appears to be dispositive of plaintiff's claims, plaintiff is appealing the district court's claim construction and summary judgment ruling. The appeal is currently ongoing in the U.S. Court of Appeals for the Federal Circuit; the oral argument was held on April 10, 2014. Due to the uncertainties related to litigation, we are unable to evaluate the likelihood of either a favorable or unfavorable outcome. We believe that it is reasonably possible that we will incur a loss; however, we cannot currently estimate a range of any possible losses we may experience in connection with this case. Accordingly, we are unable at this time to estimate the effects of this lawsuit on our financial condition, results of operations, or cash flows.

On April 30, 2010, Traffic Information, LLC, or Traffic Information, filed a patent infringement lawsuit against us in the U.S. District Court for the Eastern District of Texas, seeking monetary damages, fees and expenses, and other relief. The patent at issue was subject to reexamination by the PTO and the reexamined claims were found invalid. Plaintiff appealed this finding and on May 30, 2013, the Patent Trial and Appeal Board, or PTAB, confirmed the invalidity of these claims. Plaintiff filed a request for reconsideration of this decision with the PTAB, which was denied on January 13, 2014. In light of the reexamination and plaintiff's appeal of the reexamination findings, the Court stayed the case and the case will remain stayed and administratively closed unless the plaintiff obtains a favorable decision on appeal before the PTAB or Federal Circuit Court of Appeals. On March 12, 2014, Traffic Information filed an appeal with the U.S. Appeals Court for the Federal Circuit. Due to the preliminary status of the lawsuit and uncertainties related to litigation, we are unable to evaluate the likelihood of either a favorable or unfavorable outcome. We believe that it is reasonably possible that we will incur a loss; however, we cannot currently estimate a range of any possible losses we may experience in connection with this case. Accordingly, we are unable at this time to estimate the effects of this complaint on our financial condition, results of operations or cash flows.

On October 10, 2014, PanTaurus LLC filed a patent infringement lawsuit against us in the U.S. District Court for the Eastern District of Texas, alleging that we infringe the patent in suit by operating a Hadoop distributed file system. The complaint seeks unspecified monetary damages, fees and expenses and injunctive relief against us. Due to the preliminary status of the lawsuit and uncertainties related to litigation, we are unable to evaluate the likelihood of either a favorable or unfavorable outcome. We cannot currently estimate a range of any possible losses we may experience in connection with this case. Accordingly, we are unable at this time to estimate the effects of this complaint on our financial condition, results of operations or cash flows.

In addition, we have received, and expect to continue to receive, demands for indemnification from our customers, which demands can be very expensive to settle or defend, and we have in the past offered to contribute to settlement amounts and incurred legal fees in connection with certain of these indemnity demands. A number of these indemnity demands, including demands relating to pending litigation, remain outstanding and unresolved as of the date of this Form 10-Q. Furthermore, in response to these demands we may be required to assume control of and bear all costs associated with the defense of our customers in compliance with our contractual commitments. At this time, we are not a party to the following cases; however our customers have requested that we indemnify them in connection with such cases:

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In 2008, Alltel, AT&T, Sprint and T-Mobile USA, or T-Mobile, each demanded that we indemnify and defend them against patent infringement lawsuits brought by patent holding companies EMSAT Advanced Geo-Location Technology LLC and Location Based Services LLC (collectively, “EMSAT”) in the U.S. District Court for the Northern District of Ohio. After T-Mobile also sought indemnification and defense from Google, Inc., Google intervened in the T-Mobile litigation. After claim construction and related motion practice, EMSAT agreed to dismiss all claims against Google in at least the T-Mobile suit, and in March 2011, EMSAT and AT&T settled their claims. By March 2011, all the EMSAT cases were either dismissed or stayed while the PTO completed its reexamination of the validity of the patents at issue. The PTO has concluded its reexamination of two of the patents in suit, confirming the validity of only two of the asserted claims from those patents. At this time, all patent claims that EMSAT alleged to be infringed by the Telenav GPS Navigator product have been cancelled during reexamination. In the suits against T-Mobile, Alltel and Sprint, EMSAT has amended its allegations to remove allegations of infringement of the patent claims that were cancelled during reexamination. Accordingly, the Court has lifted the stays in those suits and the matters are ongoing. However, in the T-Mobile suit, EMSAT and T-Mobile have stipulated to a dismissal of the case. Due to uncertainties related to litigation, we are unable to evaluate the likelihood of either a favorable or unfavorable outcome. We have arbitrated with and compensated one carrier for our defense obligations, without a negative effect on our financial condition, results of operations, or cash flows. We have not yet determined the extent of our indemnification and defense obligations to the other wireless carriers. We believe that it is reasonably possible that we will incur additional loss; however, we cannot currently estimate a range of other possible losses we may experience in connection with this case. Accordingly, we are unable at this time to estimate the overall effects of these cases on our financial condition, results of operations, or cash flows.

In March 2009, AT&T demanded that we indemnify and defend them against a patent infringement lawsuit brought by Tendler Cellular of Texas LLC, or Tendler, in the U.S. District Court for the Eastern District of Texas. In June 2010, AT&T settled its claims with Tendler and we came to an agreement with AT&T as to the extent of our contribution towards AT&T's settlement and the amount of our contribution was not material; however, there continues to be a disagreement as to whether any additional amounts are owed to AT&T for legal fees and expenses related to the defense of the matter. We believe that it is reasonably possible that we will incur additional loss; however, we cannot currently estimate a range of other possible losses we may experience in connection with this case. Accordingly, we are unable at this time to estimate the overall effects on our financial condition, results of operations, or cash flows.

While we presently believe that the ultimate outcome of these proceedings, individually and in the aggregate, will not materially harm our financial position, cash flows or overall trends in results of operations, legal proceedings are subject to inherent uncertainties and unfavorable rulings could occur. Nevertheless, were unfavorable final outcomes to occur, there exists the possibility of a material adverse impact on our business, financial position, cash flows or overall trends in results of operations.

Large future indemnity payments and associated legal fees and expenses, including potential indemnity payments and legal fees and expenses relating to our wireless carrier and other customers' indemnity demands with respect to pending litigation, could materially harm our business, operating results and financial condition. When we believe a loss or a cost of indemnification is probable and can be reasonably estimated, we accrue the estimated loss or cost of indemnification in our consolidated financial statements. Where the outcome of these matters is not determinable, we do not make a provision in our financial statements until the loss or cost of indemnification, if any, is probable and can be reasonably estimated or the outcome becomes known. Although to date we have not agreed to defend or indemnify our customers for outstanding and unresolved indemnity demands where we do not believe we have an obligation to do so or that our solution infringes on asserted intellectual property rights, we may in the future agree to defend and indemnify our customers in connection with demands for indemnification, irrespective of whether we believe that we have an obligation to indemnify them or whether we believe our solution infringes the asserted intellectual property rights. Alternatively, we may reject certain of our customers' indemnity demands, including the outstanding demands, which may lead to disputes with our customers, negatively impact our relationships with them or result in litigation

against us. Our wireless carrier or other customers may also claim that any rejection of their indemnity demands constitutes a material breach of our agreements with them, allowing them to terminate such agreements. If we make substantial payments as a result of indemnity demands, our relationships with our customers are negatively impacted, or any of our customer agreements is terminated, our business, operating results and financial condition could be materially harmed.

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### Item 1A. Risk Factors.

We operate in a rapidly changing environment that involves numerous uncertainties and risks. The following risks and uncertainties may have a material and adverse effect on our business, financial condition or results of operations. You should consider these risks and uncertainties carefully, together with all of the other information included or incorporated by reference in this Form 10-Q. If any of the risks or uncertainties we face were to occur, the trading price of our securities could decline, and you may lose all or part of your investment.

#### Risk related to our business

We have incurred losses in fiscal 2014 and the first quarter of fiscal 2015, and expect that we will continue to incur losses at least through fiscal 2015. We do not know when, or if, we will return to profitability, as we make further expenditures to enhance and expand our operations in order to support growth and diversification of our business. As a percentage of revenue, our net income (loss) was (23)% and 0% in the three months ended September 30, 2014 and 2013, respectively. Our revenue from paid wireless carrier mobile navigation has substantially declined and we expect it to continue to do so. Our gross margin has declined to 54% in the three months ended September 30, 2014 from 64% in the three months ended September 30, 2013 due primarily to the increased proportion of product revenue contributed from our on-board automotive navigation solutions, which generally have higher associated content costs and resulting lower gross margins than our mobile navigation services provided through our wireless carrier customers.

We anticipate that we will continue to incur net operating losses in fiscal 2015, as we anticipate increased expenditures and our gross profit is expected to decline despite slightly higher expected revenue. These expected losses are due in large part to an expected continued decline in our higher margin mobile navigation revenue. Furthermore, there is a lengthy delay between securing the award of a new customer contract with a top five global auto manufacturer and the timing of revenue thereto, as well as a substantial required upfront investment in research and development resources for such a new customer contract, and continued investments necessary due to the early nature of our advertising business. We also recently acquired skobbler, which will increase our operating expenses without an offsetting increase in revenue in the near term.

Although we are working to replace rapidly declining wireless carrier revenue, our efforts to develop new services and products and attract new customers require investments in anticipation of longer term revenue. For example, the design cycle for automotive navigation products and services is 18 to 24 months and in order to win designs and achieve revenue from this growth area, we typically have to make investments two to four years before we anticipate receiving revenue, if any. This will be the case for our recently announced top five global automaker customer. We intend to make additional investments in systems and continue to expand our operations to support diversification of our business, but it is likely that these efforts at diversification will not replace our declining wireless carrier revenue in the short-term, if at all. We also anticipate that as we replace some of our personnel, we will do so with employees in higher cost geographic areas who have different skills. As a result of these factors, we believe we will incur a net operating loss and that we will incur net losses at least through fiscal 2015 and we cannot predict when, or if, we will return to profitability. Our investments and expenditures may not result in the growth that we anticipate. Although we acquired skobbler and have expended additional internal resources to develop our own OSM-based maps to reduce our mapping costs in the long-term, in the short-term, those development efforts will have a negative effect on our ability to become profitable.

Our quarterly revenue and operating results have fluctuated in the past and may fluctuate in the future due to a number of factors. As a result, we may fail to meet or exceed the expectations of securities analysts or investors, which could cause our stock price to decline.

Our quarterly revenue and operating results may vary significantly in the future. Therefore, you should not rely on the results achieved in any one quarter as an indication of future performance. Period to period comparisons of our revenue and operating results may not be meaningful. Our quarterly results of operations may fluctuate as a result of a variety of factors, including, but not limited to, those listed below, many of which are outside of our control:

- the transition away from paid carrier navigation to freemium offerings for mobile phone based navigation services;
- impact of results of the offering of a premium upgrade on a basic version of our service that is offered for free;
- the ability of automobile manufacturer customers to sell automobiles equipped with our products;

- the introduction of competitive in-car platforms and products, such as Apple's CarPlay and Google's auto initiatives, including Open Automotive Alliance;
- the seasonality of new vehicle model introductions and consumer buying patterns, as well as the effects of economic uncertainty on vehicle purchases, particularly outside of the U.S.;
- the effectiveness of our entry into new business areas, such as advertising;

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changes made to existing contractual obligations with a customer that may affect the nature and timing of revenue recognition;

- the loss of our relationship or a change in our revenue model with any particular wireless carrier customer;
- poor reviews of automotive service offerings into which our navigation solutions are integrated resulting in limited uptake of navigation options by car buyers;
- loss of subscribers by our wireless carrier customers or a continued reduction in the number of subscribers to plans that include our services;
- the timing and quality of information we receive from our customers;
- our inability to attract new end users;
- the amount and timing of operating costs and capital expenditures related to the expansion of our operations and infrastructure through acquisitions or organic growth;
- the timing of expenses related to the development or acquisition of technologies, products or businesses;
- the timing and success of new service introductions by us or our competitors;
- the timing and success of marketing expenditures for our products;
- the extent of any interruption in our services;
- potential foreign currency exchange gains and losses associated with expenses and sales denominated in currencies other than the U.S. dollar;
- general economic, industry and market conditions that impact expenditures for new vehicles, smartphones and mobile location services in the United States and other countries where we sell our services and products;
- changes in interest rates and our mix of investments, which would impact our return on our investments in cash and marketable securities;
- changes in our effective tax rates; and
- the impact of new accounting pronouncements.

Fluctuations in our quarterly operating results might lead analysts and investors to change their models for valuing our common stock. As a result, our stock price could decline rapidly and we could face costly securities class action lawsuits or other unanticipated issues.

We are dependent on Ford for a substantial and increasing portion of our revenue and our business, financial condition and results of operations will be harmed if our revenue from Ford does not continue to grow or declines.

Our first automobile navigation products were introduced in fiscal 2009, and a second generation of products was introduced in fiscal 2010 in a limited number of vehicles and has now reached a broader model portfolio at a single automobile manufacturer, Ford. Ford represented approximately 53% and 40% of our revenue in the three months ended September 30, 2014 and 2013, respectively. We expect that Ford and other OEMs will account for an increasing portion of our revenue, as our revenue from paid wireless carrier provided navigation declines. However, our revenue could potentially decline if Ford increases the cost to consumers of our navigation product or reduces the number of vehicles or the geographies in which vehicles with our product as an option are sold, or its sales of vehicles fall below forecast due to competition or global macro-economic conditions. In April 2014, our contract with Ford was extended through December 2017. The agreement may be renewed for successive 12-month periods if either party provides notice of renewal at least 45 days prior to the expiration of the applicable term and the other party agrees to such renewal. Our agreement with Ford also allows either party to terminate the agreement if the other party is insolvent or materially breaches its obligations and fails to cure such breach. In the event that Ford does not elect to renew our contract after December 2017, or chooses to renegotiate our contract on less favorable terms, our revenue may decline and our business operating results and financial condition could be harmed. After December 2017, Ford may elect not to renew our agreement. We may not successfully increase our revenue from Ford if our products are replaced within vehicles by Ford with our competitors' products or from price competition from third parties.

For on-board automotive navigation, we recognize revenue as the related customized software is delivered to and accepted by our customers. In addition we recognize royalties earned from our on-board solutions generally as the software is reproduced for installation in vehicles. We have limited experience managing, supporting and retaining automobile manufacturers and OEMs as customers and if we are not able to maintain Ford as a customer our revenue



will decline.

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We may not be successful in generating material revenue from automotive manufacturers and OEMs other than Ford and our business, financial condition and results of operations will be harmed if we are unable to diversify our automotive navigation revenue.

Although we have attempted to mitigate our dependence on Ford by establishing relationships with other automobile manufacturers and OEMs, these relationships may not produce significant revenue if the products are launched in limited models or due to competition from third parties. In addition, we may incur significant expense to develop products for automobile manufacturers, such as under the worldwide connected navigation services agreement we announced in January 2014, without ever receiving any revenue related to the sale of vehicles with our navigation services. Our ability to attract automobile manufacturers may also be limited if the OEMs chosen to provide navigation services have existing relationships with other navigation vendors or provide their own solutions.

Delphi's, new, connected infotainment system, which integrates white label versions of our Scout for Cars on-board automotive platform, was introduced in model year 2013 vehicles for North America by General Motors. During fiscal 2014, Scout for Cars was launched with maps in South America. Delphi also plans to distribute our product in China with a major Chinese auto manufacturer in fiscal 2015. Even if we retain Delphi as a customer, automobile manufacturers may not elect to purchase Delphi's navigation offerings that include our software and/or services for reasons unrelated to performance of our software or services. If so, we may be unable to build a direct relationship with a given automobile manufacturer or with a different OEM.

Our automotive navigation products are an important part of our effort to expand outside of mobile device navigation to other platforms and we may not be successful in our efforts to attract and retain automobile manufacturers and OEMs, implement profitable and high quality products or achieve end customer acceptance of our services and fee model.

In fiscal 2009, we began offering our first off-board connected automotive navigation products and prior to that time, we had limited experience in the automotive navigation market. In fiscal 2010, we began offering our first on-board automotive navigation products. Our on-board solutions may not satisfy automotive manufacturers' or end customers' expectations for those solutions. If automobile manufacturers and OEMs do not believe that our services meet their customers' needs, our products and services may not be designed in to future model year vehicles.

The design and sales cycle for on-board or off-board automotive navigation services and products is substantially longer than those associated with our mobile navigation services to customers of wireless carriers or our advertising platform services. As a result, we may not be able to achieve significant revenue growth with new customers from the automotive navigation business in a short period of time, or at all. For example, design wins for vehicles may be awarded 12 to 36 months prior to the anticipated commercial launch of the vehicle. In January 2014, we announced that we entered into a contract with one of the top five largest global auto manufacturers to provide its worldwide connected navigation services beginning with select model year 2017 vehicles. In the event that our product reaches production vehicles, we would not expect to receive any revenue from the launch of those vehicles until fiscal 2017 at the earliest, and in the course of the development of those vehicles we may be designed out altogether. More recently, we have expanded our relationship with this manufacturer to include off-board and cloud based services for vehicles, commencing in model year 2016. There are no volume or revenue guarantees provided by this auto manufacturer.

As we have limited experience in the automotive navigation market, we also may not price our solutions in such a way that is profitable for us and enables us to recoup the development expenses we incurred to provide such solutions in the time we expect or at all. Development schedules for automotive navigation products are difficult to predict, and there can be no assurance that we will achieve timely delivery of these products to our customers. To the extent that we charge service fees beyond an initial fee at the time the vehicle is purchased, we may not be successful in gaining traction with customers to provide services and charge ongoing monthly or annual fees outside of the traditional on-board navigation service model. Our map, POI and other content costs for our automobile navigation solutions are higher than those we have historically paid for our mobile phone-based navigation services and to date we have not been able to use OSM offerings for automotive navigation. If we are unable to improve our margins, we may not be able to operate our automobile navigation business profitably. If we fail to achieve revenue growth in any of our automotive navigation solutions (whether on-board, off-board or other), we may be unable to achieve the benefits of revenue diversification. In addition, our third party content suppliers, HERE and TomTom, are also becoming

competitors with their own navigation services offerings.

As our offerings in automobile navigation expand to brought-in, as well as built-in, we may not correctly anticipate the financial accounting treatment for the various products. We could be required to amortize revenue from products over time although we previously recognized revenue for similar products when the applicable vehicle was sold.

We introduced Scout, a service that end users can access for navigation and planning with their mobile phones, computers, and cars. We have not previously offered a planning service or a service that spans different platforms. We cannot assure you that automobile manufacturers and end users will accept our Scout service or, even if they do, that end users will adopt and use this service, which encompasses services different than our historical strength in navigation, or that we will be

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able to generate sufficient revenue from Scout to offset its costs. If we fail to develop innovative products that automobile manufacturers and end users adopt, our operating results and financial condition could be harmed. Further, Google Inc., or Google, and Apple Inc., or Apple, have each developed technology platforms that they are marketing to auto manufacturers. If auto manufacturers adopt these platforms, they may also adopt Google and Apple's navigation services that run on these platforms and if so, consumers may elect to use these free service offerings rather than pay for our products which are currently sold by Ford as new car features with substantial cost to the consumer. We may be unable to enter into agreements to provide automobile navigation products if we do not offer navigation products that serve geographies throughout the world or automobile manufacturers and OEMs are uncomfortable with our ability to support markets outside of the United States. Our automobile manufacturer and OEM customers may choose to partner with providers of location services with extensive international operations. We may be at a disadvantage to attracting such customers due to our business being concentrated in the United States. Ford only recently began offering vehicles with our solutions outside of the United States and we may not be successful in those geographies if customers are uncomfortable with the look and feel of our solutions. If we are unable to attract or retain such automobile manufacturer and OEM customers, our revenue and operating results will be negatively affected. Our ability to build demand for our automobile navigation products is also dependent upon our ability to provide the products in a cost effective manner, which may require us to renegotiate map and POI content relationships to address the specific demands of on-board navigation applications.

The success of our automotive navigation products may be affected by the number of vehicle models offered with our navigation solutions, as well as overall demand for new vehicles.

Our ability to succeed long term in the automotive industry depends on our ability to expand the number of models offered with our navigation solution by our current automobile manufacturers. We are also dependent upon our ability to attract new automobile manufacturers and OEMs. For automobile manufacturers with whom we have established relationships, such as Ford, our success depends on continued production and sale of new vehicles with, and adoption by, end users of our products offered by such automobile manufacturers, when our product are not standard features. As we move forward, our existing automobile manufacturers and OEMs may not include our solutions in future year vehicles or territories, which would negatively affect our revenue from these products. Production and sale of new vehicles are subject to delay from forces outside of our control, such as natural disasters, parts shortages and work stoppages, as well as general economic conditions.

We may not successfully generate advertising revenue as a result of our acquisition of Thinknear or from our navigation services if we are unable to attract and retain advertisers.

Although we began providing advertising to some of our end users in 2010 and the percent of our revenue represented by advertising has grown rapidly, advertising was 8% of our total revenue during fiscal 2014 and is not expected to grow significantly over the first two quarters of fiscal 2015. In October 2012, we acquired Thinknear, a privately held California-based hyper-local mobile advertising company. In order to grow our advertising business, we need to identify and attract a significant number of advertisers through our Thinknear platform. The mobile advertising market is highly competitive, and advertisers have many options through which to purchase mobile advertising. Our business will require us to attract and retain a large number of advertisers and will also require us to maintain the ability to purchase a large volume of inventory at competitively attractive rates. Increased competition from other mobile advertising companies and technology developers could impair our ability to secure advertiser revenue. Increased competition could also limit our ability to purchase inventory for advertising placements at an economically attractive rate. We do not have substantial experience in selling advertising and supporting advertisers and may not be able to develop these capabilities successfully. We may not be successful recruiting the number of experienced and productive sales personnel we need to scale or effectively train them to sell mobile advertising. Sales personnel may also be slow to ramp up their sales pipelines, negatively impacting our ability to grow. We may not succeed in attracting and retaining a critical mass of advertisers and ad placements and may not be successful in demonstrating the value of mobile advertising. If we fail to do so, we may be unable to generate a material level of revenue from advertising to offset the costs of providing free navigation.

Our legacy wireless carrier mobile navigation business has continued to deteriorate and we have been unable to generate sufficient revenues from other navigation and advertising activities. If our legacy wireless carrier mobile

navigation business continues to decline, our revenue and net income or loss will continue to be adversely affected. We have historically been substantially dependent on two wireless carrier customers for a large portion of our revenue. Sprint, which was our largest source of revenue until fiscal 2012, ceased paying us for mobile navigation provided to its subscribers in bundles on September 30, 2013. Our other large wireless carrier customers have also experienced declines in monthly recurring revenue from subscriptions for mobile navigation. In the three months ended September 30, 2014 and 2013, AT&T represented 20% and 23% of our total revenue, respectively. In fiscal 2013, fiscal 2014 and the first quarter of fiscal 2015, AT&T subscribers have materially decreased their subscriptions for, and usage of, our paid navigation services and our revenue from our relationship with AT&T has declined accordingly. We anticipate that AT&T subscribers, and subscribers of

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other carriers who pay monthly recurring charges for our services, will continue to decrease their subscriptions for paid navigation services in favor of free or freemium offerings and that our revenue from our relationship with AT&T will continue to decline. AT&T may determine that the cost of offering our service to its subscribers outweighs the benefits if the drop off of subscribers continues. Our failure to maintain our relationship with AT&T would substantially harm our business and we cannot assure you that we and AT&T will be able to reduce subscriber erosion. We anticipate that even if AT&T remains a wireless carrier customer, our revenue from AT&T will continue to decline substantially during fiscal 2015 and possibly beyond.

Our experience with Sprint and other mobile wireless carriers has been that subscribers do not opt to pay monthly recurring charges for mobile navigation products that were formerly bundled with other services and instead use free or freemium offerings. We have sought to develop other sources of revenue from our location-based platforms, including automotive navigation and location-based advertising, but we have not been able to fully replace the legacy mobile wireless carrier revenue. Our other sources of revenue have not achieved the critical mass to provide revenue as fast as the declines in mobile wireless carrier revenue and we believe we may be unable to replace the mobile wireless carrier revenue with stable, recurring revenue in the near term. As a result, we anticipate that we will continue to incur net losses in fiscal 2015 and possible future periods. If we are unable to demonstrate to investors that we have developed stable, long-term revenue streams, the trading prices of our common stock may decline further and investors may be unable to achieve liquidity through the sale of our common stock.

Our success depends on significantly increasing the number of end users for our services and products through distribution with our wireless carrier customers, automotive manufacturer and OEM customers and through application stores.

Our future success depends on achieving widespread deployment of our navigation services and products through wireless carrier customers, automotive manufacturers and OEMs and through application stores. We have seen declines in the number of paid monthly recurring fee end users we acquire through our wireless carrier customers. Furthermore, we expect that our revenue from wireless carrier customers will continue to decline and that the composition of the remaining wireless carrier revenue will change over the near term. In light of this trend away from paid navigation and toward freemium offerings, we will be required to increase the number of vehicles in which our automotive navigation solutions are offered and the number of car buyers that purchase those solutions, as well as successfully convert an increasing number of our subscribers who are not paying for our services to our premium paid offerings and generate revenue by selling advertising that those subscribers see in our free and paid products. We do not have significant experience in sourcing and selling mobile advertising and may not be successful in doing so. However, we believe that to achieve higher returns on mobile advertising, we need to be able to offer advertisers a larger pool of mobile users. Our ability to generate revenue from our navigation services will depend on the broad distribution and quality of those services and subscriber demand for those services, which may vary by market. Attempts to generate revenue from paid premium services or advertising may not be successful and our business, operating results and financial condition could be adversely affected.

We provide freemium navigation to compete with free offerings and we may not be successful with these new products or convert “free” users to paid users.

We provide freemium personalized navigation applications on the Apple App Store, the Google Play marketplace, Microsoft Windows Marketplace and through other marketplaces and our wireless carrier partners. Freemium offerings are free basic navigation services that are monetized through paid upgrades to premium products, as well as through advertising. We may not achieve substantial end user acceptance of these products, and even if end users download and use the freemium products, we may not be successful in converting those “free” users into paid users, particularly since we have begun to offer voice-guided navigation in our freemium offerings. Our freemium offerings provide planning features and other features unrelated to pure navigation that we do not have substantial experience in designing or marketing. These features may deter users who are looking for a pure navigation offering. We have limited experience in marketing our products and services directly to end users or generating advertising revenue through our mobile navigation users. To the extent that our number of active subscribers is low, we may not be able to fulfill sufficient advertising orders to generate meaningful advertising revenue from a freemium model. Bad reviews from end users who dislike our freemium offerings may dissuade other end users from downloading our freemium

offerings or converting to paid users. We may not be successful in gaining visibility among end users without incurring significant expenses to market our products and services to those users. In addition, we do not have experience in converting users of free applications to paid users or in generating revenue from full featured products solely through advertising revenue. If we are unable to achieve high visibility among end users on a cost effective basis or fail to convince those end users to convert to paid products and revenue producing services, we may be unable to sustain our revenue and we may incur losses in the future.

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Mobile connected device users may choose not to allow location information and therefore local advertising on their devices.

The growth of our advertising revenue will depend on our ability to deliver location targeted, highly relevant ads to consumers on their mobile connected devices. Our targeted advertising is highly dependent on the consumers allowing applications to have access to their location data. Users may elect not to allow location data sharing for a number of reasons, including personal privacy concerns. Mobile operating systems vendors and application developers are also promoting features that allow device users to disable device functionality that consumers may elect to invoke. In addition, companies may develop products that enable users to prevent ads from appearing on their mobile device screens. If any of these developments were to become widely used by consumers, our ability to deliver effective advertising campaigns on behalf of our advertiser clients would suffer, which could hurt our ability to generate advertising revenue.

Our business practices with respect to data could give rise to liabilities or reputational harm as a result of governmental regulation, legal requirements or industry standards relating to consumer privacy and data protection. Our advertising services depend on our ability to collect, store and use information related to mobile devices and the ads we place, including a device's geographic location for the purpose of targeting ads to the user of the device. Federal, state and international laws and regulations govern the collection, use, retention, sharing and security of data that we collect across our mobile advertising platform. We strive to comply with all applicable laws, regulations, policies and legal obligations relating to privacy and data protection. However, it is possible that these requirements may be interpreted and applied in a manner that is inconsistent with our practices. Any failure, or perceived failure, by us to comply with such laws could result in proceedings or actions against us by governmental entities, consumers or others. Such proceedings or actions could hurt our reputation, force us to spend significant amounts to defend ourselves, distract our management, increase our costs of doing business, require us to change our advertising services or disclosures, adversely affect the demand for our services and ultimately result in the imposition of monetary liability. We may also be contractually liable to indemnify and hold harmless our clients from the costs or consequences of inadvertent or unauthorized disclosure of data that we store or handle as part of providing our services.

The regulatory framework for privacy issues worldwide is evolving, and various government and consumer agencies and public advocacy groups have called for new regulation and changes in industry practices, including some directed at the mobile and advertising industries in particular. It is possible that new laws, regulations, standards, recommendations, best practices or requirements will be adopted that would affect our business, particularly with regard to location-based services, collection or use of data to target ads and communication with consumers via mobile devices. To the extent that we or our clients are subject to new law or recommendations or choose to adopt new standards, recommendations, or other requirements, we may have greater compliance burdens. If we are perceived as not operating in accordance with industry best practices or any such guidelines or codes with regard to privacy, our reputation may suffer and we could lose relationships with advertiser or developer partners.

We operate in a highly competitive market, including competitors that offer their services for free, which could make it difficult for us to acquire and retain wireless carrier customers and end users.

The market for development, distribution and sale of location services is highly competitive. Many of our competitors have greater name recognition, larger customer bases and significantly greater financial, technical, marketing, public relations, sales, distribution and other resources than we do. Competitors may offer mobile location services that have at least equivalent functionality to ours for free. For example, Google offers free voice-guided turn by turn navigation as part of its Google Maps product for mobile devices, including those based on the Android and iOS operating system platforms, and Apple offers proprietary maps and voice-guided turn by turn directions. Microsoft also provides a free voice-guided turn by turn navigation solution on its Windows Mobile and Windows Phone operating systems. Competition from these free offerings may reduce our revenue, result in our incurring additional costs to compete and harm our business. We also do not know what the effect of the acquisition of Nokia's mobile phone business by Microsoft will have on competition in the mobile navigation market. If our wireless carrier customers can offer these mobile location services to their subscribers for free, they may elect to cease their relationships with us, like Sprint did, or alter or reduce the manner or extent to which they market or offer our services or require us to substantially



reduce our fees or pursue other business strategies that may not prove successful. In addition, new car buyers may not value navigation solutions built in to their vehicles if they feel that free (brought-in) offerings, for example Apple CarPlay or Google's auto initiatives, including Open Automotive Alliance, are adequate and may not purchase our solutions with their new cars.

Our primary competitors include location service providers such as Apple, Google (including Waze), Microsoft, Nokia, TeleCommunication Systems, or TCS, and TomTom; PND providers such as Garmin Ltd., or Garmin, and TomTom; providers of Internet and mobile based maps and directions such as AOL Inc., Apple, MapQuest, Inc., Google, Microsoft, Yahoo Inc., Yelp Inc., Foursquare Labs, Inc. and Fullpower Technologies, Inc.; and wireless carriers and communication solutions providers developing their own location services. In the automotive navigation market, we compete with established automotive OEMs and providers of on-board navigation services such as AISIN AW CO., Ltd, Robert Bosch GmbH, Elektrobit Corporation, Garmin, TomTom and NNG LLC, as well as other competitors such as Apple, Google, Microsoft and TCS. In our

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advertising business, we compete against Google, Apple, Millennial Media, Inc., xAD, Inc. and PlaceIQ, Inc., among others. Some of our competitors' and our potential competitors' advantages over us, either globally or in particular geographic markets, include the following:

- the provision of their services at no or low cost to consumers;
- significantly greater revenue and financial resources;
- stronger brand and consumer recognition regionally or worldwide;
- the capacity to leverage their marketing expenditures across a broader portfolio of mobile and nonmobile products;
- access to core technology and intellectual property, including more extensive patent portfolios;
- access to custom or proprietary content;
- quicker pace of innovation;
- stronger wireless carrier, automotive, handset manufacturer and advertising agency relationships;
- stronger international presence may make our larger competitors more attractive partners to automotive manufacturers and OEMs;
- greater resources to make and integrate acquisitions;
- lower labor and development costs; and
- broader global distribution and presence.

Our competitors' and potential competitors' advantages over us could make it more difficult for us to sell our navigation services, and could result in increased pricing pressures, reduced profit margins, increased sales and marketing expenses and failure to increase, or the loss of, market share or expected market share, any of which would likely cause harm to our business, operating results and financial condition.

If we are unable to integrate skobbler or future acquisitions successfully, our operating results and prospects could be harmed.

We acquired skobbler, which has operations in Germany and Romania, in January 2014. In the future, we may make acquisitions to improve our navigation services offerings or expand into new markets. Our future acquisition strategy will depend on our ability to identify, negotiate, complete and integrate acquisitions and, if necessary, to obtain satisfactory debt or equity financing to fund those acquisitions. Mergers and acquisitions are inherently risky, and any mergers and acquisitions we complete may not be successful. Future mergers and acquisitions we may pursue would involve, numerous risks, including the following:

- difficulties in integrating and managing the operations, technologies and products of the companies we acquire including skobbler, which is geographically remote from our existing operations;
- diversion of our management's attention from normal daily operation of our business;
- our inability to maintain the key business relationships and the reputations of the businesses we acquire, such as the European automobile manufacturer and OEM relationships of skobbler;
- our inability to retain key personnel of the acquired company;
- uncertainty of entry into markets in which we have limited or no prior experience and in which competitors have stronger market positions;
- our dependence on unfamiliar affiliates and customers of the companies we acquire;
- insufficient revenue to offset our increased expenses associated with acquisitions;
- our responsibility for the liabilities of the businesses we acquire, including those which we may not anticipate; and
- our inability to maintain internal standards, controls, procedures and policies.

We may be unable to secure the equity or debt funding necessary to finance future acquisitions on terms that are acceptable to us. If we finance acquisitions by issuing equity or convertible debt securities, our existing stockholders will likely experience dilution, and if we finance future acquisitions with debt funding, we will incur interest expense and may have to comply with financial covenants and secure that debt obligation with our assets.

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We may be required to recognize a significant charge to earnings if our goodwill or other intangible assets become impaired.

We have recorded goodwill related to our prior acquisitions, and may do so in connection with any potential future acquisitions. Goodwill and other intangible assets with indefinite lives are not amortized, but are reviewed for impairment annually or on an interim basis whenever events or changes in circumstances indicate that the carrying value of these assets may not be recoverable. Factors that may indicate that the carrying value of our goodwill or other intangible assets may not be recoverable include a persistent decline in our stock price and market capitalization, reduced future cash flow estimates and slower growth rates in our industry. We may be required to record a significant charge in our financial statements during the period in which any impairment of our goodwill or other intangible assets is determined, which would adversely impact our results of operations. Furthermore, in fiscal 2015 we adopted segment reporting which requires the allocation of goodwill and intangibles to each of our three business segments. As a result, our impairment review each year or on an interim basis shall be conducted by segment, which can result in a different outcome than if assessed on an overall consolidated basis.

We may be required to recognize a significant charge to earnings if our strategic private equity investments become impaired.

We have in the past and may in the future enter into investments in businesses in order to complement or expand our current business or enter into new markets. Private equity investments are inherently risky and subject to factors outside of our control and no assurance can be given that our previous or future investments will be successful, will deliver the intended benefits, and will not materially harm our business, operating results or financial condition. We may be required to record a significant charge in our financial statements during the period in which any impairment of our private equity investments is determined, which could adversely impact our results of operations. We recorded a \$0.3 million impairment charge for one cost-method investment during fiscal 2014.

Our effective tax rate may fluctuate, which could reduce our anticipated income tax benefit in fiscal 2015.

Our effective tax rate could be adversely affected by several factors, many of which are outside of our control. Our effective tax rate may be affected by the proportion of our revenues and income (loss) before taxes in the various domestic and international jurisdictions in which we operate. Our revenue and operating results are difficult to predict and may fluctuate substantially from quarter to quarter. We are also subject to changing tax laws, regulations and interpretations in multiple jurisdictions in which we operate, as well as the requirements of certain tax and other accounting body rulings. Since we must estimate our annual effective tax rate each quarter based on a combination of actual results and forecasted results of subsequent quarters, any significant change in our actual quarterly or forecasted annual results may adversely impact the effective tax rate for the period. Our estimated annual effective tax rate may fluctuate for a variety of reasons, including:

- changes in forecasted annual operating income or loss by jurisdiction;
- changes in relative proportions of revenue and income or loss before taxes in the various jurisdictions in which we operate;
- changes to the valuation allowance on net deferred tax assets;
- changes to actual or forecasted permanent differences between book and tax reporting, including the tax effects of purchase accounting for acquisitions and non-recurring charges which may cause fluctuations between reporting periods;
- impacts from any future tax settlements with state, federal or foreign tax authorities;
- impacts from changes in tax laws, regulations and interpretations in the jurisdictions in which we operate, as well as the requirements of certain tax rulings;
- impacts from withholding requirements in various non-U.S. jurisdictions and our ability to recoup those withholdings, which may depend on how much revenue we have in a particular jurisdiction to offset the related expenses;
- impacts from acquisitions and related integration activities; or
- impacts from new FASB requirements.

Although we believe our estimates are reasonable, the ultimate tax outcome may differ from the amounts recorded in our financial statements and may materially affect our financial results in the period. In fiscal 2014, we recorded a valuation allowance on the majority of our deferred tax assets, net of liabilities since the assets are not more likely

than not to be realized based upon our assessment of all positive and negative evidence. Realization of deferred tax assets is dependent upon future taxable earnings, the timing of which is uncertain. Due to losses in fiscal 2014 and expected losses in fiscal 2015 and potentially future years in the U.S., we established in fiscal 2014 a valuation allowance on deferred tax assets in the U.S. that we believe will not be realized by the carryback provisions of U.S. tax law. U.S. tax law allows for the two-year carryback of losses and one-year carryback of credits to previous tax years which can generate a tax refund to the extent taxes were paid.

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Due to foreign operating losses in previous years and continued foreign earnings volatility, we continued to maintain a full valuation allowance for our foreign deferred tax assets. In fiscal 2015, we expect to realize approximately \$1.3 million of U.S. deferred tax assets on the balance sheet as of June 30, 2014 based upon our ability to carryback losses and credits within the carryback period. In the event deferred tax assets cannot be realized based upon the ability to carryback losses and credits within the carryback period, our effective tax rate would be negatively impacted.

Our wireless carrier customers may change the pricing and other terms by which they offer our mobile navigation services, which could result in increased end user turnover, lower revenue and adverse effects on our business.

Our wireless carrier customers have significant flexibility as to the manner by which our mobile navigation services are distributed by them. They may bundle the product with other applications or services such as unlimited data plans. Given their flexibility in the future they may reduce the monthly fees per subscriber that they pay us if their subscribers do not use our services as often as the wireless carriers expect or for any other reason in order to reduce their costs. Our wireless carrier customers may also decide to raise prices, impose usage caps or discontinue unlimited data service plans, which could cause our end users who receive our services through those plans to move to a less expensive plan that does not include our services or terminate their relationship with the wireless carrier. If imposed, these pricing changes or usage restrictions could make our mobile navigation services less attractive and could result in current end users abandoning our mobile navigation services. If end user turnover increased, the number of our end users and our revenue would decrease and our business would be harmed. We are also required to give AT&T certain most favored customer pricing on specified products and in certain markets. In certain circumstances this may require us to reduce the price per end user under the AT&T contract, which may adversely impact our revenue.

We rely on our customers for timely and accurate subscriber and vehicle sales information. A failure or disruption in the provisioning of this data to us would materially and adversely affect our ability to manage our business effectively.

We rely on our wireless carrier customers to bill subscribers and collect monthly fees for our mobile navigation services, either directly or through third party service providers. In addition, we rely on our automotive and OEM customers to provide us with reports on the number of vehicles they sell with our on-board navigation services included and to remit royalties for those sales to us. If our customers or their third party service providers provide us with inaccurate data or experience errors or outages in their own billing and provisioning systems when performing these services, our revenue may be less than anticipated or may be subject to adjustment with the customer. In the past, we have experienced errors in wireless carrier reporting. If we are unable to identify and resolve discrepancies in a timely manner, our revenue may vary more than anticipated from period to period and this could harm our business, operating results and financial condition.

We rely on a proprietary provisioning and reporting system to track end user activation, deactivation and usage data and any material failures in this system could harm our revenue, affect our costs and impair our ability to manage our business effectively.

Our provisioning and reporting system that authenticates end users and tracks the number of end users and their use of our services is a proprietary and customized system that we developed internally. Although we believe that the flexibility of this service to integrate tightly with wireless carriers' reporting and provisioning systems gives us a competitive advantage, we might lose revenue and the ability to manage our business effectively if the system were to experience material failures or be unable to scale as our business grows. In addition, we may not be able to report our financial results on a timely basis if our customers question the accuracy of our records or we experience significant discrepancies between the data generated by our provisioning and reporting systems and data generated by their systems, or if our systems fail or we are unable to report timely and accurate information to our third party data providers. The inability to timely report our financial results would impair the quality of our financial reporting and could result in the delisting of our common stock.

If our end users increase their usage of our services, our operating loss may increase, or we may incur larger losses because we offer the service as a free offering or usage for paid offerings outpaces our expectations.

With limited exceptions, fees for the use of our services do not vary depending on whether or how often an end user uses our services, and we offer certain of our mobile phone based navigation services for free. Historically, end users using certain mobile phones or under certain service plans tended to use our services more than other end users. We budget and operate our services by making certain assumptions about usage patterns. If our end users were to further

increase their usage of our services substantially or more end users access our services for free through a freemium model, we would incur additional expenses to expand our server capacity and pay additional third party content fees. These additional costs would harm our operating results and financial condition.

We rely on third party data and content to provide our services and if we were unable to obtain content at reasonable prices, or at all, our gross margins and our ability to provide our services would be harmed.

We rely on third party data and content to provide our services, including map data, POI, traffic information, gas prices and weather information. If our suppliers of this data or content were to enter into exclusive relationships with other providers

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of location services or were to discontinue providing such information and we were unable to replace them cost effectively, or at all, our ability to provide our services would be harmed. Our gross margins may also be affected if the cost of third party data and content increases substantially. Although we have recently announced efforts to use OSM data to reduce the expenses we incur for third party map data, we may not be successful at integrating OSM data into our products and may experience difficulty with customer acceptance if the quality of the consumer generated data within OSM is lower than that of paid maps.

We obtain map data from TomTom and HERE, which are companies owned by our current and potential competitors TomTom and Nokia, respectively. Accordingly, these third party data and content providers may act in a manner that is not in our best interest. For example, they may cease to offer their map and POI data to us.

Furthermore, we may identify other requisite content and content-related technologies, including certain geocoding data necessary for our OSM products, that we may be unable to license or develop internally. If we are unsuccessful in these endeavors, we may not be able to successfully launch OSM-based products globally and across all desired product offerings.

We may not be able to upgrade our navigation services platform to support certain advanced features and functionality without obtaining technology licenses from third parties. Obtaining these licenses may be costly and may delay the introduction of such features and functionality, and these licenses may not be available on commercially favorable terms, or at all. The inability to offer advanced features or functionality, or a delay in our ability to upgrade our navigation services platform, may adversely affect consumer demand for our navigation services and, consequently, harm our business.

We also use our proprietary provisioning and reporting system to record and report royalties we owe to third party providers of content used by end users in connection with our services. Certain of the third party content providers have the right to audit our use of their services and, if we were found to have under or incorrectly reported usage, we may be required to pay the third party content providers for the actual usage, as well as interest and the cost of the audit. Any significant error in our recording and payment of royalties to our third party content providers could have a material and adverse effect on our financial results. We may also incur losses as a result of any significant error.

Network failures, disruptions or capacity constraints in our third party data center facilities or in our servers or other cloud servers could affect the performance of our navigation services and harm our reputation and our revenue.

Our navigation services are provided through a combination of our servers, which we house at third party data centers, the public Internet and the private and wireless networks of our wireless carrier customers. Our operations rely to a significant degree on the efficient and uninterrupted operation of the third party data centers we use. Our hosted data centers are currently located in third party facilities located in the San Francisco Bay Area, and we use a cloud provider with locations in Oregon and Virginia for certain navigation and advertising network services. Depending on the growth rate in the number of our end users and their usage of our services, if we do not timely complete and open additional data centers, we may experience capacity issues, which could lead to service failures and disruptions. In addition, if we are unable to secure data center space with appropriate power, cooling and bandwidth capacity, we may be unable to efficiently and effectively scale our business to manage the addition of new wireless carrier customers, increases in the number of our end users or increases in data traffic.

Our data centers are potentially vulnerable to damage or interruption from a variety of sources, including fire, flood, earthquake, power loss, telecommunications or computer systems failure, human error, terrorist acts or other events.

We have not yet completed a comprehensive business continuity plan and there can be no assurance that the measures implemented by us to date, or measures implemented by us in the future, to manage risks related to network failures or disruptions in our data centers will be adequate, or that the redundancies built into our servers will work as planned in the event of network failures or other disruptions. In particular, if we experienced damage or interruptions to our data centers in the San Francisco Bay Area our ability to provide efficient and uninterrupted operation of our services would be significantly impaired.

We could also experience failures of our data centers or interruptions of our services, or other problems in connection with our operations, as a result of:

- damage to or failure of our computer software or hardware or our connections and outsourced service arrangements with third parties;

- errors in the processing of data by our servers;
- computer viruses or software defects;
- physical or electronic break-ins, sabotage, intentional acts of vandalism and similar events; or
- errors by our employees or third party service providers.

Poor performance in or disruptions of our services could harm our reputation, delay market acceptance of our services and subject us to liabilities. Our wireless carrier agreements require us to meet at least 99.9% operational uptime requirements, excluding scheduled maintenance periods, or be subjected to penalties.



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In addition, if our end user base continues to grow, additional strain will be placed on our technology systems and networks, which may increase the risk of a network disruption. Any outage in a network or system, or other unanticipated problem that leads to an interruption or disruption of our navigation services, could have a material adverse effect on our operating results and financial condition.

We may not be able to enhance our location services to keep pace with technological and market developments, or develop new location services in a timely manner or at competitive prices.

The market for location services is characterized by rapid technological change, evolving industry standards, frequent new product introductions and short product life cycles. To keep pace with technological developments, satisfy increasing customer requirements and achieve product acceptance, our future success depends upon our ability to enhance our current navigation services platform and advertising services platforms and to continue to develop and introduce new navigation services, advertising services and other location-based product offerings and enhanced performance features and functionality on a timely basis at competitive prices. Our inability, for technological or other reasons, to enhance, develop, introduce or deliver compelling services and products in a timely manner, or at all, in response to changing market conditions, technologies or consumer expectations could have a material adverse effect on our operating results or could result in our services becoming obsolete. Our ability to compete successfully will depend in large measure on our ability to maintain a technically skilled development and engineering team and to adapt to technological changes and advances in the industry, including providing for the continued compatibility of our services platform with evolving industry standards and protocols and competitive network operating environments.

Our lengthy sales cycle makes it difficult for us to predict when we will generate revenue from automobile manufacturer and OEM customers.

Being selected to participate and being designed into new vehicle models is a lengthy and time consuming process and our navigation services platform may not be included for factors beyond our control if we are participating in the vehicle design with an OEM. Because of these lengthy cycles, we may experience delays from the time we begin the sales process and incur increased costs and expenses to obtain a partner as a customer and integrate our navigation services platform until the time we generate revenue from such wireless carrier, OEM or automobile manufacturer. These delays may make it difficult to predict when we will generate revenue from new customers. For example, we announced in January 2014 that we entered into an agreement with a top five global automobile manufacturer but we do not anticipate generating revenue related to the sale of vehicles under this agreement until certain model year 2016 vehicles come to market.

A large percentage of our research and development operations are conducted in China and Romania, and our ability to introduce new services and support our existing services cost effectively depends on our ability to manage those remote development sites successfully.

Our success depends on our ability to enhance our current services and develop new services and products rapidly and cost effectively. A majority of our research and development personnel are in China and Romania. Although we have sought to retain certain key personnel, we may be unable to retain them over the long-term. In addition, we have been experiencing significant increases in compensation costs in China due to competitive market conditions for qualified staff, as well as higher risk of employee turnover in certain China markets.

We also expect that we may continue to consolidate certain of our operations or reduce our workforce if we are unable to sustain our current revenue due to the decline in wireless carrier revenue. These reorganizations or reductions in force could result in unexpected costs or delays in product development that could impair our ability to meet market windows or cause us to forego certain new product opportunities.

Because our long term success depends on our ability to increase the number of end users located outside of the United States, our business will be susceptible to risks associated with international operations.

As of September 30, 2014, we had international operations in China, Mexico, Brazil, Germany and Romania. Our experience with wireless carriers, automobile manufacturers and OEMs and advertisers outside the United States is limited. Our revenue from customers in the United States comprised 94% of our total revenue in each of the three months ended September 30, 2014 and 2013. However, our product is distributed globally in many different regions outside the United States, including South America, Europe, Asia, Australia, and New Zealand. Our limited

experience in operating our business outside the United States increases the risk that our current and future international expansion efforts may not be successful. In particular, our business model may not be successful in particular countries or regions outside the United States for reasons that we currently do not anticipate. In addition, conducting international operations subjects us to risks that we have not generally faced in the United States. These include:

- fluctuations in currency exchange rates;
- unexpected changes in foreign regulatory requirements;
- difficulties in managing the staffing of remote operations;

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- potentially adverse tax consequences, including the complexities of foreign value added tax systems, foreign tax withholding, restrictions on the repatriation of earnings and changes in tax rates;
- dependence on foreign wireless carriers with different pricing models;
- roaming charges to end users;
- availability of reliable mobile networks in those countries;
- requirements that we comply with local telecommunication regulations and automobile hands free laws in those countries;
- the burdens of complying with a wide variety of foreign laws and different legal standards;
- increased financial accounting and reporting burdens and complexities;
- political, social and economic instability in some jurisdictions;
- terrorist attacks and security concerns in general; and
- reduced or varied protection for intellectual property rights in some countries.

The occurrence of any one of these risks could negatively affect our international business and, consequently, our operating results. Additionally, operating in international markets requires significant management attention and financial resources. We cannot be certain that the investment and additional resources required to establish, acquire or integrate operations in other countries will produce desired levels of revenue or profitability and we may incur larger losses as a result.

We rely on our management team and need specialized personnel to grow our business, and the loss of one or more key employees or our inability to attract and retain qualified personnel could harm our business.

Our success and future growth depend on the skills, working relationships and continued services of our management team. Our future performance will depend on our ability to continue to retain our senior management, particularly in the growth areas of our business, such as automotive and advertising.

Our future success also will depend on our ability to attract, retain and motivate highly skilled personnel in the United States and internationally. All of our U.S. employees work for us on an at will basis. Competition for highly skilled personnel is intense, particularly in the software industry and for persons with experience with GPS and location services. The high degree of competition for personnel we experience has resulted in and may also continue to result in the incurrence of significantly higher compensation costs to attract, hire and retain employees. We have from time to time experienced, and we expect to continue to experience, difficulty in attracting, hiring and retaining highly skilled employees with appropriate qualifications. In addition, existing employees often consider the value of the stock awards they receive in connection with their employment. If our stock price performs poorly, it may adversely affect our ability to retain highly skilled employees. Our inability to attract and retain the necessary personnel could adversely affect our business and future growth prospects.

We may be required to incur unanticipated capital expenditures.

Circumstances may arise that require us to make unanticipated capital expenditures, including:

- the implementation of our equipment at new data centers and expansion of our operations at data centers;
- the replacement of outdated or failing equipment; and
- the acquisition of key technologies to support or expand our products and services.

We rely on network infrastructures provided by our wireless carrier customers and mobile phones for the delivery of our mobile navigation services to end users.

We generally provide our navigation services from our own servers, which require close integration with the wireless carriers' networks. We may be unable to provide high quality services if the wireless carriers' networks perform poorly or experience delayed response times. Our future success will depend on the availability and quality of our wireless carrier customers' networks in the United States and abroad to run our mobile navigation services. This includes deployment and maintenance of reliable networks with the speed, data capacity and security necessary to provide reliable wireless communications services. We do not establish or maintain these wireless networks and have no control over interruptions or failures in the deployment and maintenance by wireless carrier customers of their network infrastructure. In addition, these wireless network infrastructures may be unable to support the demands placed on them if the number of subscribers increases, or if existing or future subscribers increase their use of limited bandwidth. Market acceptance of our mobile navigation services will depend in part on the quality of these wireless

networks and the ability of our wireless carrier customers to effectively manage their subscribers' expectations. Wireless communications have experienced a variety of outages and other delays as a result of infrastructure and equipment failures and could face outages and delays in the future. These outages and delays could affect our ability to provide

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our navigation services successfully. In addition, changes by a wireless carrier to its network infrastructure may interfere with the integration of our servers with their network and delivery of our navigation services and may cause end users to lose functionality for services they have already purchased. Any of the foregoing could harm our business, operating results and financial condition.

We cannot control the quality standards of our wireless carrier customers, their mobile phone providers and other technology customers. We cannot guarantee that the mobile phones are free from errors or defects. If errors or defects occur in mobile phones or services offered by our wireless carrier customers, it could result in consumers terminating our services, damage to our reputation, increased customer service and support costs, warranty claims, lost revenue and diverted development resources, any of which could adversely affect our business, results of operations and financial condition.

Mergers, consolidations or other strategic transactions in the wireless communications industry could weaken our competitive position, reduce the number of our map providers and adversely affect our business.

The mapping data industry continues to experience consolidation. Should one of our map providers consolidate or enter into an alliance with another navigation provider, this could have a material adverse impact on our business. Currently, two of our map suppliers are owned by competitors in the navigation space and recently the mobile phone business of Nokia, which had its own navigation service and owns HERE, was acquired by Microsoft. Such a consolidation may cause us to lose a map supplier or require us to increase the royalties we pay to map vendors as a result of enhanced supplier leverage, which would have a negative effect on our business. We may be unable to replace our map suppliers, were we to lose a map supplier, and the remaining map supplier may increase license fees. In addition, as we continue to use more OSM-based maps and no longer purchase maps from those suppliers, we may be unable to purchase other data that is integral to our navigation products from our existing map suppliers.

Changes in business direction and market conditions could lead to charges related to structural reorganization and discontinuation of certain products or services, which may adversely affect our financial results.

In response to changing market conditions and the desire to focus on new and more potentially attractive opportunities, we may be required to strategically realign our resources and consider restructuring, eliminating, or otherwise exiting certain business activities. For example, in April 2013, we sold our enterprise business to a third party, which resulted in a net gain to us but also required us to provide transition services to the buyer in the fourth quarter of fiscal 2013. In the fourth quarters of fiscal 2013 and 2014, in order to better align and focus our resources we initiated restructuring plans resulting in reductions of approximately 83 and 108 full-time positions, respectively, and restructuring charges of \$1.5 million and \$2.4 million, respectively, related to severance and benefits for the positions eliminated. Any decision to reduce investment in, dispose of, or otherwise exit business activities may result in the recording of special charges, such as workforce reduction and excessive facility space costs.

### Risks related to our intellectual property and regulation

We operate in an industry with extensive intellectual property litigation. Claims of infringement against us, our customers, or other business partners may cause our business, operating results and financial condition to suffer. Our commercial success depends in part upon us, our partners and our customers not infringing intellectual property rights owned by others and being able to resolve claims of intellectual property infringement without major financial expenditures and/or need to alter our technologies or cease certain activities. We operate in an industry with extensive intellectual property litigation and it is not uncommon for our wireless carrier customers, handset manufacturing partners, automobile manufacturers and OEMs and competitors to be involved in infringement lawsuits by or against third parties. Many industry participants that own, or claim to own, intellectual property aggressively assert their rights, and our customers and other business partners, who we agree in certain circumstances to indemnify for intellectual property infringement claims related to our services, are often targets of such assertions. We cannot determine with certainty whether any existing or future third party intellectual property rights would require us to alter our technologies, obtain licenses or cease certain activities.

We have received, and may in the future receive, claims from third parties alleging infringement and other related claims. As of the date of this Quarterly Report on Form 10-Q, we were named as a defendant in several cases alleging that our services infringe other parties' patents, as well as other matters. See Part II, Item 1, "Legal Proceedings," for a description of these matters. These cases and future litigation may make it necessary to defend ourselves and our

customers and other business partners by determining the scope, enforceability and validity of third party proprietary rights or to establish our proprietary rights. Some of our competitors may have substantially greater resources than we do and may be able to sustain the costs of complex intellectual property litigation to a greater degree and for longer periods of time than we could. In addition, patent holding companies that focus solely on extracting royalties and settlements by enforcing patent rights may target us, our wireless carrier customers or our other business partners. These companies typically have little or no product revenue and therefore our patents may provide little or no deterrence against such companies filing patent infringement lawsuits against us. Regardless of whether claims that we are infringing patents or other intellectual property rights have any merit, these claims are time consuming and costly to evaluate and defend and could:

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- adversely affect our relationships with our current or future customers and other business partners;
- cause delays or stoppages in the shipment of Telenav enabled or preloaded mobile phones or vehicles, or cause us to modify or suspend the provision of our navigation services;
- cause us to incur significant expenses in defending claims brought against our customers, other business partners or us;
- divert management's attention and resources;
- subject us to significant damages or settlements;
- require us to enter into settlements, royalty or licensing agreements on unfavorable terms; or
- require us or our business partners to cease certain activities and/or modify our products or services.

In addition to liability for monetary damages against us or, in certain circumstances, our customers, we may be prohibited from developing, commercializing or continuing to provide certain of our navigation services unless we obtain licenses from the holders of the patents or other intellectual property rights. We cannot assure you that we will be able to obtain any such licenses on commercially reasonable terms, or at all. If we do not obtain such licenses, our business, operating results and financial condition could be materially adversely affected and we could, for example, be required to cease offering our navigation services or be required to materially alter our navigation services, which could involve substantial costs and time to develop.

Indemnity provisions in various agreements potentially expose us to substantial liability for intellectual property infringement, damages caused by defective software and other losses.

Our agreements with our customers include indemnification provisions. We agree to indemnify them for losses suffered or incurred in connection with our navigation services or products, including as a result of intellectual property infringement, damages caused by defects and damages caused by viruses, worms and other malicious software. The term of these indemnity provisions is generally perpetual after execution of the corresponding agreement, and the maximum potential amount of future payments we could be required to make under these indemnification provisions is generally substantial and may be unlimited. In addition, some of these agreements permit our indemnitees to terminate their agreements with us if they determine that the use of our navigation services or products infringes third party intellectual property rights.

We have received, and expect to receive in the future, demands for indemnification under these agreements. These demands can be very expensive to settle or defend, and we have in the past incurred substantial legal fees and settlement costs in connection with certain of these indemnity demands. Furthermore, we have been notified by several customers that they have been named as defendants in certain patent infringement cases for which they may seek indemnification from us. See the section entitled "Legal Proceedings." These indemnity demands remain outstanding and unresolved as of the date of this Form 10-Q. Large future indemnity payments and associated legal fees and expenses, including potential indemnity payments and legal fees and expenses relating to the current or future notifications, could materially harm our business, operating results and financial condition.

We may in the future agree to defend and indemnify our customers in connection with the pending notifications or future demands, irrespective of whether we believe that we have an obligation to indemnify them or whether we believe that our services and products infringe the asserted intellectual property rights. Alternatively, we may reject certain of our customers' indemnity demands, which may lead to disputes with our customers and may negatively impact our relationships with them or result in litigation against us. Our customers may also claim that any rejection of their indemnity demands constitutes a material breach of our agreements with them, allowing them to terminate such agreements. Our agreements with certain customers may be terminated in the event an infringement claim is made against us and it is reasonably determined that there is a possibility our technology or services infringed upon a third party's rights. If, as a result of indemnity demands, we make substantial payments, our relationships with our customers are negatively impacted or if any of our customer agreements is terminated, our business, operating results and financial condition could be materially adversely affected. See Part II, Item 1, "Legal Proceedings."

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The occurrence or perception of a security breach or disclosure of confidential information could harm our business. Our products and services include the transmission and storage of certain personal, private and confidential information primarily related to the location of our end users. If there is a security breach or if there is an inappropriate disclosure of any of these types of information, we could be exposed to investigations, litigation, fines and penalties. Remediation of and liability for loss or misappropriation of end user or employee personal information could have a material adverse effect on our business and financial results. Even if we were not held liable for such event, a security breach or inappropriate disclosure of personal, private or confidential information could harm our reputation and our relationships with current and potential end users. Even the perception of a security risk could inhibit market acceptance of our navigation services. In addition, we may be required to invest additional resources to protect against damages caused by any actual or perceived disruptions of our navigation services or security breaches.

Recent United States Supreme Court cases and other litigation have addressed issues relating to providing information regarding the location of a vehicle or mobile device to law enforcement agencies without a warrant. The law related to mobile phones and integrated GPS tracking in a vehicle remains unsettled and we may be subjected to different standards in different jurisdictions. We may incur substantial costs if we are required to litigate whether an individual's location can be disclosed without a warrant, which could harm our operating results. We may also be required to provide information about the location of an end user's mobile phone to government authorities, which could result in public perception that we are providing the government with intelligence information and deter some end users from using our services. Any of these developments could harm our business.

Changes in government regulation of the wireless communications, the automobile and mobile advertising industries may adversely affect our business.

It is possible that a number of laws and regulations may be adopted in the United States and elsewhere that could restrict the wireless communications industry, further regulate the automobile industry or impair the mobile advertising industry, including laws and regulations regarding lawful interception of personal data, hands free use of mobile phones or navigation services within autos or the control of such use, privacy, taxation, content suitability, copyright and antitrust. Furthermore, the growth and development of electronic storage of personal information may prompt calls for more stringent consumer protection laws that may impose additional burdens on companies such as ours that store personal information. We anticipate that regulation of the industries in which our products and services are used will increase and that we will be required to devote legal and other resources to address this regulation.

Changes in current laws or regulations or the imposition of new laws and regulations in the United States or elsewhere regarding the wireless communications or automobile industries may make operation more costly, and may materially reduce our ability to increase or maintain sales of our products and services.

We may become subject to significant product liability costs.

If our navigation services or products contain defects, there are errors in the maps supplied by third party map providers or if our end users do not heed our warnings about the proper use of these products, collisions or accidents could occur resulting in property damage, personal injury or death. If any of these events occurs, we could be subject to significant liability for personal injury and property damage and under certain circumstances could be subject to a judgment for punitive damages. We maintain limited insurance against accident related risks involving our products. However, we cannot assure you that this insurance would be sufficient to cover the cost of damages to others or will continue to be available at commercially reasonable rates. In addition, we may be named as a defendant in litigation by consumers individually or on behalf of a class if their handsets or automobiles suffer problems from software downloads from our customers. If we are unable to obtain indemnification from our customer for any damages or legal fees we may incur in connection with such complaints, our financial position may be adversely impacted. In addition, insurance coverage generally will not cover awards of punitive damages and may not cover the cost of associated legal fees and defense costs. If we are unable to maintain sufficient insurance to cover product liability costs or if our insurance coverage does not cover an award, our business, financial condition and results of operations could be adversely affected.

Government regulation designed to protect end user privacy may make it difficult for us to provide our services or adopt advertising based revenue models.



We transmit and store a large volume of personal information in the course of providing our products and services. This information is increasingly subject to legislation and regulations in numerous jurisdictions around the world. This government action is typically intended to protect the privacy and security of personal information that is collected, stored and transmitted in or from the governing jurisdiction.

Legislation may also be adopted in various jurisdictions that prohibits use of personal information and search histories to target end users with tailored advertising, or provide advertising at all. Although our advertising revenue to date is not significant, we anticipate we will continue to grow advertising revenue in the future to improve average revenue per user in certain markets.

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We could be adversely affected if domestic or international legislation or regulations are expanded to require changes in our business practices or if governing jurisdictions interpret or implement their legislation or regulations in ways that negatively affect our business. For example, the USA PATRIOT Act provides certain rights to U.S. law enforcement authorities to obtain personal information in the control of U.S. persons and entities without notifying the affected individuals. If we are required to allocate significant resources to modify the delivery of our services to enable enhanced legal interception of the personal information that we transmit and store, our results of operations and financial condition may be adversely affected.

In addition, because various foreign jurisdictions have different laws and regulations concerning the storage and transmission of personal information, we may face unknown requirements that pose compliance challenges in new international markets that we seek to enter. Such variation could subject us to costs, delayed service launches, liabilities or negative publicity that could impair our ability to expand our operations into some countries and therefore limit our future growth.

As privacy and data protection have become more sensitive issues, we may also become exposed to potential liabilities as a result of differing views on the privacy of personal information. These and other privacy concerns could adversely impact our business, results of operations and financial condition.

If we are unable to protect our intellectual property and proprietary rights, our competitive position and our business could be harmed.

We rely primarily on a combination of patent laws, trademark laws, copyright laws, trade secrets, confidentiality procedures and contractual provisions to protect our proprietary technology. However, our issued patents and any future patents that may issue may not survive a legal challenge to their scope, validity or enforceability, or provide significant protection for us. The failure of our patents to adequately protect our technology might make it easier for our competitors to offer similar products or technologies. In addition, patents may not issue from any of our current or any future applications.

Monitoring unauthorized use of our intellectual property is difficult and costly. The steps we have taken to protect our proprietary rights may not be adequate to prevent misappropriation of our intellectual property. We may not be able to detect unauthorized use of, or take appropriate steps to enforce, our intellectual property rights. Our competitors may also independently develop similar technology. In addition, the laws of many countries do not protect our proprietary rights to as great an extent as do the laws of the United States. Any failure by us to meaningfully protect our intellectual property could result in competitors offering products that incorporate our most technologically advanced features, which could seriously reduce demand for our navigation services. In addition, we may in the future need to initiate infringement claims or litigation. Litigation, whether we are a plaintiff or a defendant, can be expensive, time consuming and may divert the efforts of our technical staff and managerial personnel, which could harm our business, whether or not such litigation results in a determination favorable to us.

Confidentiality agreements with employees and others may not adequately prevent disclosure of our trade secrets and other proprietary information.

We have devoted substantial resources to the development of our proprietary technology, including the proprietary software components of our navigation services and related processes. In order to protect our proprietary technology and processes, we rely in part on confidentiality agreements with our employees, licensees, independent contractors and other advisors. These agreements may not effectively prevent disclosure of our confidential information and may not provide an adequate remedy in the event of unauthorized disclosure of our confidential information. In addition, others may independently discover trade secrets and proprietary information, and in such cases we could not assert any trade secret rights against such parties. Costly and time consuming litigation could be necessary to enforce and determine the scope of our proprietary rights, and failure to obtain or maintain trade secret protection could adversely affect our competitive business position.

We use open source software in our navigation services platform and client applications and may use more open source software in the future. Use of open source software may subject our navigation services platform and client applications to general release or require us to re-engineer our navigation services platform and client applications, which may cause harm to our business. From time to time, there have been claims challenging the ownership of open source software against companies that incorporate open source software into their products. As a result, we could be

subject to suits by parties claiming ownership of what we believe to be open source software. Some open source licenses contain requirements that we make available source code for modifications or derivative works we create based upon the open source software and that we license such modifications or derivative works under the terms of a particular open source license or other license granting third parties certain rights of further use. If we combine our proprietary software products with open source software in a certain manner, we could, under certain of the open source licenses, be required to release our proprietary source code. In addition to risks related to license requirements, usage of open source software can lead to greater risks than use of third party commercial software, as open source licensors generally do not provide warranties or controls on origin of the software. Open source license terms may be ambiguous and many of the risks associated with usage of open source cannot be eliminated, and could, if not properly addressed, negatively affect our business. If we were found to have inappropriately used open source software, we may be required to release our proprietary source code, re-engineer our navigation services platform and client applications,

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discontinue the sale of our service in the event re-engineering cannot be accomplished on a timely basis or take other remedial action that may divert resources away from our development efforts, any of which could adversely affect our business, operating results and financial condition.

Risks related to being a publicly traded company and holding our common stock

As a public company, we are obligated to develop and maintain effective internal control over financial reporting. We may not always complete our assessment of the effectiveness of our internal control over financial reporting in a timely manner, or such internal control may not be determined to be effective, which may adversely affect investor confidence in our company and, as a result, the value of our common stock.

The Sarbanes-Oxley Act requires that we test our internal control over financial reporting and disclosure controls and procedures annually. For example, as of June 30, 2014, we performed system and process evaluation and testing of our internal control over financial reporting to allow management and our independent registered public accounting firm to report on the effectiveness of our internal control over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act. Our compliance with Section 404 requires that we incur substantial expense and expend significant management time on compliance-related issues. Moreover, if we are not able to comply with the requirements of Section 404 in the future, or if we or our independent registered public accounting firm identify deficiencies in our internal control over financial reporting that are deemed to be material weaknesses, the market price of our stock may decline and we could be subject to sanctions or investigations by the NASDAQ Global Market, the SEC or other regulatory authorities, which would require significant additional financial and management resources.

We will incur continued high costs and demands upon management as a result of complying with the laws and regulations affecting public companies, which could harm our operating results.

As a public company, we incur significant legal, accounting, investor relations and other expenses, including costs associated with public company reporting requirements. We also have incurred and will incur costs associated with current corporate governance requirements, including requirements under Section 404 and other provisions of the Sarbanes-Oxley Act, as well as rules implemented by the SEC and the stock exchange on which our common stock is traded. We are generally not eligible to report under reduced disclosure requirements or benefit from longer phase in periods for “emerging growth companies” as such term is defined in the Jumpstart Our Business Act of 2012. The expenses incurred by public companies for reporting and corporate governance purposes have increased dramatically over the past several years. We expect these rules and regulations to continue to impact our legal and financial compliance costs substantially and to make some activities more time consuming and costly. We are unable currently to estimate these costs with any degree of certainty. We also expect that, over time, it may be more expensive for us to obtain director and officer liability insurance. As a result, it may be more difficult for us to attract and retain qualified individuals to serve on our board of directors or as our executive officers if we cannot provide a level of insurance coverage that they believe is adequate.

Regulations relating to offshore investment activities by residents of China may limit our ability to acquire Chinese companies and could adversely affect our business.

In October 2005, SAFE, a Chinese government agency, promulgated “Relevant Issues Concerning Foreign Exchange Control on Domestic Residents’ Corporate Financing and Roundtrip Investment Through Offshore Special Purpose Vehicles,” or Circular 75, that states that if Chinese residents use assets or equity interests in their Chinese entities as capital contributions to establish offshore companies or inject assets or equity interests of their Chinese entities into offshore companies to raise capital overseas, they must register with local SAFE branches with respect to their overseas investments in offshore companies. They must also file amendments to their registrations if their offshore companies experience material events involving capital variation, such as changes in share capital, share transfers, mergers and acquisitions, spinoff transactions, long term equity or debt investments or uses of assets in China to guarantee offshore obligations. Under this regulation, their failure to comply with the registration procedures set forth in such regulation may result in restrictions being imposed on the foreign exchange activities of the relevant Chinese entity, including restrictions on the payment of dividends and other distributions to its offshore parent, as well as restrictions on the capital inflow from the offshore entity to the Chinese entity.

We attempt to comply, and attempt to ensure that our stockholders who are subject to Circular 75 and other related rules comply, with the relevant requirements. However, we cannot provide any assurances that all of our stockholders who are Chinese residents have complied or will comply with our request to make or obtain any applicable registrations or comply with other requirements required by Circular 75 or other related rules. Any future failure by any of our stockholders who is a Chinese resident, or controlled by a Chinese resident, to comply with relevant requirements under this regulation could subject us to fines or sanctions imposed by the Chinese government, including restrictions on our Chinese subsidiary's ability to pay dividends or make distributions to us.

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If securities analysts do not publish research or reports about our business or if they publish negative evaluations of our stock, the price of our stock could decline.

We expect that the trading price for our common stock will be affected by any research or reports that industry or financial analysts publish about us or our business. If one or more of the analysts who may elect to cover us downgrade their evaluations of our stock, the price of our stock could decline. For example, in late July 2011, following our earnings release for the three months and fiscal year ended June 30, 2011, several financial analysts published research reports lowering their price targets of our stock. After our announcement and the publication of these reports, our stock price fell more than 40%. If one or more of these analysts cease coverage of our company, our stock may lose visibility in the market, which in turn could cause its price to decline. As of September 30, 2014, only two research analyst published reports regarding our company. In addition, if our stock were to trade at prices below \$5.00 per share in the future, financial analysts may terminate coverage of our company due to internal policies within their investment banks, which could result in further stock price declines.

Our stock price has fluctuated significantly and may continue to fluctuate in the future.

Our common stock was sold in our IPO at \$8.00 per share. Although our common stock has traded at prices as high as \$22.07 per share, it has also traded at prices as low as \$4.65 and has tended to have significant downward and upward price movements in a relatively short time period. Future fluctuations or declines in the trading price of our common stock may result from a number of events or factors, including those discussed in the preceding risk factors relating to our operations, as well as:

- actual or anticipated fluctuations in our operating results;
- changes in the financial projections we may provide to the public or our failure to meet these projections;
- announcements by us or our competitors of significant technical innovations, relationship changes with key customers, acquisitions, strategic partnerships, joint ventures, capital raising activities or capital commitments;
- the public's response to our press releases or other public announcements, including our filings with the SEC;
- lawsuits threatened or filed against us; and
- large distributions of our common stock by significant stockholders to limited partners or others who immediately resell the shares.

General market conditions and domestic or international macroeconomic factors unrelated to our performance, such as the continuing unprecedented volatility in the financial markets, may also affect our stock price. For these reasons, investors should not rely on recent trends to predict future stock prices or financial results. Investors in our common stock may not be able to dispose of the shares they purchased at prices above the IPO price, or, depending on market conditions, at all.

In addition, if the market price of our common stock falls below \$5.00 per share for an extended period of time, under stock exchange rules, our stockholders will not be able to use such shares as collateral for borrowing in margin accounts. Further, certain institutional investors are restricted from investing in shares priced below \$5.00 per share. This inability to use shares of our common stock as collateral and the inability of certain institutional investors to invest in our shares may depress demand and lead to sales of such shares creating downward pressure on and increased volatility in the market price of our common stock.

Recently, the market price for our common stock has traded only slightly above the cash value of our common stock. If investors do not value our company as an ongoing business and only value it for the cash on our balance sheet, our stock price may decline if we continue to incur net losses and use our cash to fund operations. We may also attract investors who are looking for short-term gains in our shares rather than being interested in our long-term outlook. As a result, the price of our common stock may be volatile.

The concentration of ownership of our capital stock limits your ability to influence corporate matters.

Our executive officers, directors, current 5% or greater stockholders and entities affiliated with them beneficially owned (as determined in accordance with the rules of the SEC) approximately 44.8% of our common stock outstanding as of September 30, 2014. This significant concentration of share ownership may adversely affect the trading price for our common stock because investors often perceive disadvantages in owning stock in companies with controlling stockholders. Also, these stockholders, acting together, will be able to control our management and affairs and matters requiring stockholder approval, including the election of directors and the approval of significant

corporate transactions, such as mergers, consolidations or the sale of substantially all of our assets. Consequently, this concentration of ownership may have the effect of delaying or preventing a change of control, including a merger, consolidation or other business combination involving us, or discouraging a potential acquirer from making a tender offer or otherwise attempting to obtain control, even if that change of control would benefit our other stockholders.

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Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Unregistered Sales of Equity Securities

None.

Issuer Purchases of Equity Securities

None.

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## Item 6. Exhibits.

Exhibit Number	Description	Incorporated by Reference From Form	Incorporated by Reference From Exhibit Number	Date Filed
10.16.29+	Amended and Restated Territory License No. 8, dated August 18, 2014, by and between Telenav, Inc., HERE North America, LLC (f/k/a NAVTEQ North America, LLC), and Here Europe B.V. (f/k/a NAVTEQ Europe B.V.)	Filed herewith		
31.1	Certification Pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 of President and Chief Executive Officer	Filed herewith		
31.2	Certification Pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 of Chief Financial Officer	Filed herewith		
32.1~	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 of President and Chief Executive Officer	Furnished herewith		
32.2~	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 of Chief Financial Officer	Furnished herewith		
101.INS*	XBRL Instance Document	Furnished herewith		
101.SCH*	XBRL Taxonomy Extension Schema Document	Furnished herewith		
101.CAL*	XBRL Taxonomy Calculation Linkbase Document	Furnished herewith		
101.DEF*	XBRL Taxonomy Definition Linkbase Document	Furnished herewith		
101.LAB*	XBRL Taxonomy Label Linkbase Document	Furnished herewith		
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document	Furnished herewith		

+ Portions of the exhibit have been omitted pursuant to a request for confidential treatment filed with the Securities and Exchange Commission.

In accordance with Item 601(b)(32)(ii) of Regulation S-K and SEC Release No. 33-8238 and 34-47986, Final Rule: Management's Reports on Internal Control Over Financial Reporting and Certification of Disclosure in Exchange Act Periodic Reports, the certifications furnished in Exhibits 32.1 and 32.2 hereto are deemed to accompany this Form 10-Q and will not be deemed "filed" for purposes of Section 18 of the Exchange Act. Such certifications will not be deemed to be incorporated by reference into any filings under the Securities Act or the Exchange Act, except to the extent that the registrant specifically incorporates it by reference.

XBRL (Extensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act, is deemed not filed for purposes of section 18 of the Exchange Act, and otherwise is not subject to liability under these sections.

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SIGNATURES

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.

TELENAV, INC.

Dated: November 6, 2014

By: /s/ Dr. HP JIN  
Dr. HP Jin  
President and Chief Executive Officer

Dated: November 6, 2014

By: /s/ MICHAEL STRAMBI  
Michael Strambi  
Chief Financial Officer and Treasurer  
(Principal Financial and Accounting Officer)

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## EXHIBIT LIST

Exhibit Number	Description	Incorporated by Reference From Form	Incorporated by Reference From Exhibit Number	Date Filed
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