TeleNav, Inc.
Form 10-Q
May 10, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the three months ended March 31, 2011

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	**77-0521800**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**

1130 Kifer Road

Sunnyvale, California 94086

(Address of principal executive offices) (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 x 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 x (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

As of March 31, 2011, there were approximately 41,591,954 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)

	March 31, 2011 (unaudited)	June 30, 2010 (audited)
Assets		
Current assets:		
Cash and cash equivalents	$ 40,118	$ 112,862
Short-term investments	171,161	
Accounts receivable, net of allowances of $396 and $246 at March 31, 2011 and June 30, 2010, respectively	27,734	37,322
Deferred income taxes	2,501	3,247
Prepaid expenses and other current assets	7,144	3,020
Total current assets	248,658	156,451
Property and equipment, net	9,253	9,637
Deferred income taxes, non-current	2,372	1,874
Deposits and other assets	3,566	5,758
Total assets	$ 263,849	$ 173,720
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	$ 2,216	$ 2,507
Accrued compensation	5,368	5,583
Accrued royalties	3,423	2,988
Other accrued expenses	3,682	2,721
Deferred revenue	67,101	6,746
Income taxes payable	24	1,028
Total current liabilities	81,814	21,573
Deferred revenue, non-current	551	172
Other liabilities	3,974	2,938
Commitments and contingencies		
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; 42,594 shares issued and 41,592 shares outstanding at March 31, 2011; 42,140 shares issued and outstanding at June 30, 2010	42	42
Additional paid-in capital	111,428	109,687
Accumulated other comprehensive income	397	399
Retained earnings	65,643	38,909
Total stockholders equity	177,510	149,037
Total liabilities and stockholders equity	$ 263,849	$ 173,720

See accompanying Notes to Condensed Consolidated Financial Statements.

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TELENAV, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share amounts)

(unaudited)

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010	Nine Months Ended March 31, 2011	Nine Months Ended March 31, 2010
Revenue	$ 57,110	$ 45,101	$ 156,232	$ 121,652
Cost of revenue	12,739	7,173	30,419	21,130
Gross profit	44,371	37,928	125,813	100,522
Operating expenses:				
Research and development	14,239	10,782	40,739	28,083
Sales and marketing	6,699	4,511	17,229	12,523
General and administrative	5,701	3,612	14,170	9,275
Total operating expenses	26,639	18,905	72,138	49,881
Income from operations	17,732	19,023	53,675	50,641
Other income (expense), net	305	(20)	750	(330)
Income before provision for income taxes	18,037	19,003	54,425	50,311
Provision for income taxes	6,872	6,462	20,862	19,513
Net income	$ 11,165	$ 12,541	$ 33,563	$ 30,798
Net income applicable to common stockholders	$ 11,165	$ 6,764	$ 33,563	$ 16,624
Net income per share applicable to common stockholders:				
Basic	$ 0.27	$ 0.58	$ 0.80	$ 1.44
Diluted	$ 0.25	$ 0.23	$ 0.75	$ 0.58
Weighted average shares used in computing net income applicable to common stockholders:				
Basic	41,919	11,567	42,063	11,550
Diluted	45,181	29,191	44,936	28,787

See accompanying Notes to Condensed Consolidated Financial Statements.

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TELENAV, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Nine Months Ended March 31, 2011	Nine Months Ended March 31, 2010
Operating activities		
Net income	$ 33,563	$ 30,798
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	7,449	3,505
Accretion of premium on short-term investments	1,500	
Stock-based compensation expense	2,895	1,447
Write-off of capitalized software	691	
Revaluation of preferred stock warrants		346
Excess tax benefit from employee stock option plan	(513)	(213)
Changes in operating assets and liabilities:		
Accounts receivable	9,569	(14,632)
Deferred income taxes	248	1,172
Prepaid expenses and other current assets	(5,885)	(2,915)
Other assets	919	(3,536)
Accounts payable	(35)	(34)
Accrued compensation	(215)	162
Accrued royalties	435	(986)
Accrued expenses and other liabilities	1,997	2,448
Income taxes payable	(361)	370
Deferred revenue	60,734	1,956
Net cash provided by operating activities	112,991	19,888
Investing activities		
Capital expenditures	(4,074)	(4,988)
Additions to capitalized software	(884)	(2,154)
Purchases of short-term investments	(207,044)	
Proceeds from sales and maturities of short-term investments	34,454	
Net cash used in investing activities	(177,548)	(7,142)
Financing activities		
Proceeds from exercise of stock options	1,107	438
Proceeds from exercise of Series E preferred stock warrants		862
Repurchase of common stock	(9,734)	(1,228)
Excess tax benefit from employee stock option plans	513	213
Net cash provided by (used in) financing activities	(8,114)	285
Effect of exchange rate changes on cash and cash equivalents	(73)	(50)
Net increase (decrease) in cash and cash equivalents	(72,744)	12,981
Cash and cash equivalents, at beginning of period	112,862	33,128

Cash and cash equivalents, at end of period	$ 40,118	$ 46,109
Supplemental disclosure of cash flow information		
Income taxes paid	$ 20,636	$ 18,431

See accompanying Notes to Condensed Consolidated Financial Statements.

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TELENAV, INC.

Notes to Condensed Consolidated Financial Statements

1. Summary of business and significant accounting policies

Description of business

TeleNav, Inc., also referred to in this report as we, our or us, and our predecessor company were incorporated in October 2009 and September 1999, respectively, in the State of Delaware. We are a leading provider of location based services (LBS), including voice guided navigation on mobile phones, automotive LBS and enterprise LBS. Our LBS solutions provide consumers and enterprises with convenient and easy to use location specific, real time and personalized features and functions. By using their mobile phones or vehicles, our end users can access our LBS to efficiently navigate to their destinations and easily obtain relevant local information. We operate in a single segment. Our fiscal year ends June 30 and in this report we refer to the fiscal year ended June 30, 2010 as fiscal 2010 and the fiscal year ending June 30, 2011 as fiscal 2011. We completed our initial public offering in May 2010.

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 (GAAP). The condensed consolidated financial statements include the accounts of TeleNav, Inc., our wholly owned subsidiaries in China, the United Kingdom and Brazil. 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.

Our consolidated financial statements also include the financial results of Shanghai Jitu Software Development Ltd. (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 (ASC) subtopic 810-10 (ASC 810-10), *Consolidation: Overall*. Despite our lack of technical ownership, there exists a parent-subsidiary relationship between TeleNav, Inc. and Jitu, whereby through contractual arrangement, the equity holders of Jitu have effectively assigned all of their voting rights underlying their equity interest in Jitu to us. In addition, through the aforementioned agreements, we demonstrate our ability and intention to continue to exercise the ability to absorb all of the expected losses and profits of Jitu.

The results of Jitu did not have a material impact on the Company s overall operating results for the three and nine months ended March 31, 2011.

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 2010, included in our Annual Report on Form 10-K for the fiscal year ended June 30, 2010 (Form 10-K), filed on September 24, 2010 with U.S. Securities and Exchange Commission (the SEC).

With the exception of revenue recognition discussed below, 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 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, and the fair value of stock awards issued. Actual results could differ from those estimates.

Revenue recognition

In October 2009, the FASB issued its revised standard which supersedes certain guidance with respect to accounting for revenue arrangements with multiple deliverables. The revised standard changes the determination of when individual deliverables in a multiple element arrangement may be treated as separate units of accounting and modifies the manner in which the transaction consideration is allocated across separately identifiable deliveries. We adopted the revised standard prospectively for fiscal 2011 as of July 1, 2010. Adoption of this standard did not have a material impact on our financial position, cash flows or results of operations.

TELENAV, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

We recognize revenue when persuasive evidence of an arrangement exists, delivery of those services has occurred, the fee is fixed or determinable, and collectability is reasonably assured. We derive our revenue primarily from subscriptions to access our LBS, which are generally provided through wireless carrier partners that offer our services to their subscribers. Revenue is primarily comprised of subscription fees for the use of our LBS, as well as activation fees related to certain services. Our wireless carrier partners pay us based on several different revenue models, including (1) a monthly subscription fee per end user, (2) commencing in September 2010, a fixed annual fee for any number of subscribers (up to specified thresholds) receiving our services as part of bundles with other voice and data services, or (3) a revenue sharing arrangement that may include a minimum fee per end user.

We recognize monthly fees related to our services in the month we provide the services. We defer amounts received in advance of the service being provided and recognize the deferred amounts when the monthly service has been provided. We recognize revenue for fixed annual fees for any number of subscribers receiving our services as part of bundles monthly on a straight-line basis over the term of the agreement. Our agreements do not contain general rights of refund once the service has been provided. We also establish allowances for estimated credits subsequently issued to end users by our wireless carrier partners. We defer activation fees received upon the initiation of certain services and recognize the deferred amounts over the estimated average length of subscription to the service, historically 16 months.

We recognize as revenue the amount our wireless carrier partners report to us as we provide our services, which are net of any revenue sharing or other fees earned and deducted by our wireless carrier partners. We are not the principal provider when selling access to our LBS through our wireless carrier partners as the subscribers directly contract with our wireless carrier partners. In addition, we may earn a fixed fee or fixed percentage of fees charged by our wireless carrier partners and our wireless carrier partners have the sole ability to set the price charged to their subscribers for our service. Our wireless carrier partners have direct responsibility for billing and collecting those fees from their subscribers and we and our wireless carrier partners may offer subscribers a 30-day free trial for our service. We provide tiered pricing to certain of our wireless carrier partners based on the number of paying end users in a given month, which may result in a discounted fee per end user depending on the number of end users. Revenue recognized is based on the discounted fees earned for a given period.

We also derive revenue from the delivery of customized software and royalties earned from the distribution of this customized software in certain automotive navigation applications. We generally recognize software customization revenue using the completed contract method of contract accounting under which revenue is recognized upon delivery to, and acceptance by, the automobile manufacturer of our in-dash navigation solutions. We generally recognize royalty revenue as the vehicles are produced, assuming all other conditions for revenue recognition have been met.

In certain instances, due to the nature and timing of monthly revenue and subscriber reporting from our wireless carrier partners, we may be required to make estimates of the amount of LBS revenue to recognize from a wireless carrier partner for the current period. Estimates for revenue include our consideration of certain factors and information including subscriber data, historical subscription and revenue reporting trends, end user subscription data from our internal systems, and data from comparable distribution channels of our other wireless carrier partners.

We may be required to make estimates of revenue for a given month if wireless carrier partners do not provide us with an LBS revenue report in a timely manner. We record any differences between estimated revenue and actual revenue in the reporting period when we determine the actual amounts. To date, actual amounts have not differed materially from our estimates.

Concentrations of credit risk and significant customers

Financial instruments that subject us to significant concentrations of credit risk primarily consist of cash and cash equivalents, short-term investments and accounts receivable. We maintain our cash and cash equivalents and short-term investments with well-capitalized financial institutions. The primary objective of our investment policy is the preservation of the value of our high quality fixed-income investment portfolio while maintaining adequate financial liquidity.

Our primary customers are wireless carriers and we do not require collateral for accounts receivable. To manage the credit risk associated with accounts receivable, we evaluate the creditworthiness of our wireless carrier partners. We evaluate our accounts receivable on an ongoing basis to determine those amounts not collectible. To date, we are not aware of circumstances that may impair a specific wireless carrier partner s ability to meet its financial obligations to us.

Revenue related to services provided through Sprint Nextel Corporation (Sprint), comprised 36% and 55% of revenue for the three months ended March 31, 2011 and 2010, respectively, and 43% and 55% of revenue for the nine months ended March 31, 2011 and 2010, respectively. Receivables due from Sprint were 7% and 49% of total accounts receivable at March 31, 2011 and June 30, 2010, respectively. Revenue related to services provided through AT&T Mobility LLC (AT&T), comprised 34% of revenue for each of the three months ended March 31, 2011 and 2010, respectively, and 37% and 34% of revenue for the nine months ended March 31, 2011 and 2010, respectively. Receivables due from AT&T were 56% and 38% of total accounts receivable at March 31, 2011 and June 30, 2010, respectively. Revenue from Ford Motor Company (Ford) comprised 13% of our revenue for the three months ended March 31, 2011. Receivables due from Ford were 12% of total accounts receivable at March 31, 2011.

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TELENAV, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

Our map and points of interest data have been provided principally through Tele Atlas North America, Inc., now known as TomTom Maps, and Navigation Technologies Corporation (NAVTEQ) in the three and nine months ended March 31, 2011 and 2010. To date, we are not aware of circumstances that may impair either party s intent or ability to continue providing such services to us.

Comprehensive income

Comprehensive income consists of net income and other comprehensive income (loss), which includes cumulative foreign currency translation gains or losses and unrealized gains or losses on marketable securities, net of tax. Comprehensive income totaled $11.3 million and $12.5 million for the three months ended March 31, 2011 and 2010, respectively. Comprehensive income totaled $33.6 million and $30.7 million for the nine months ended March 31, 2011 and 2010, respectively.

Recent accounting pronouncements

In fiscal 2010, we adopted the revised guidance issued by the FASB intended to improve disclosures related to fair value measurements. This guidance requires new disclosures as well as clarifies certain existing disclosure requirements. New disclosures under this guidance require separate information about significant transfers in and out of Level 1 and Level 2 of the fair value hierarchy and the reason for such transfers, and also require purchases, sales, issuances, and settlements information for Level 3 measurement to be included in the rollforward of activity on a gross basis. The guidance also clarifies the requirement to determine the level of disaggregation for fair value measurement disclosures and the requirement to disclose valuation techniques and inputs used for both recurring and nonrecurring fair value measurements in either Level 2 or Level 3. The revised accounting guidance for the rollforward of activity on a gross basis for Level 3 fair value measurement will be effective for us in the first quarter of our fiscal 2012, which commences on July 1, 2011. We do not expect the revised guidance to have a material impact on our condensed consolidated financial statements.

2. Net income per share

In connection with our initial public offering in May 2010, we sold 6,550,000 shares of common stock, converted all of our outstanding convertible preferred stock into 23,345,247 shares of common stock, and issued a stock dividend of 636,139 shares of common stock to holders of our Series E convertible preferred stock upon the conversion of those preferred shares into common stock.

Prior to our initial public offering, basic and diluted net income per share applicable to common stockholders were presented in conformity with the two-class method required for participating securities. Our Series E convertible preferred stock was a participating security. Holders of Series E convertible preferred stock were each entitled to receive cumulative dividends, payable prior and in preference to any dividends on any other shares of our capital stock. In the event a dividend was paid on any share of common stock, Series E convertible preferred stockholders were entitled to a proportionate share of any such dividend as if they were holders of common stock (on an as if converted basis).

Under the two-class method, basic net income per share applicable to common stockholders is computed by dividing the net income attributable to common stockholders by the weighted average number of common shares outstanding during the period. Net income applicable to common stockholders is determined by allocating undistributed earnings, calculated as net income less current period Series E convertible preferred stock cumulative dividends, between common and Series E convertible preferred stockholders. Diluted net income per share applicable to common stockholders is computed by using the weighted average number of shares of common stock outstanding, including potential dilutive common shares assuming (i) the dilutive effect of outstanding stock options and warrants using the treasury stock method and (ii) the issuance of shares upon the conversion of outstanding Series A, Series B, Series B Prime, Series C, Series C Prime and Series D convertible preferred stock.

Subsequent to our initial public offering, basic net income per share is calculated by dividing the net income attributable to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted net income per share is computed by dividing the net income attributable to common stockholders 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 and warrants using the treasury-stock method.

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TELENAV, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

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

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2011	2010	2011	2010
Net income applicable to common stockholders:				
Net income	$ 11,165	$ 12,541	$ 33,563	$ 30,798
Series E preferred cumulative dividends		(304)		(920)
Undistributed earnings allocated to Series E preferred stockholders		(5,473)		(13,254)
Net income applicable to common stockholders	$ 11,165	$ 6,764	$ 33,563	$ 16,624
Shares used in computing net income per share applicable to common stockholders:				
Basic:				
Weighted average common shares used in computing basic net income per share	41,919	11,567	42,063	11,550
Diluted:				
Weighted average common shares used in computing basic net income per share	41,919	11,567	42,063	11,550
Add weighted average effect of dilutive securities:				
Stock options	3,262	3,626	2,873	3,242
Common stock warrants		15		12
Conversion of convertible preferred stock		13,983		13,983
Weighted average common shares used in computing diluted net income per share	45,181	29,191	44,936	28,787
Net income per share applicable to common stockholders:				
Basic	$ 0.27	$ 0.58	$ 0.80	$ 1.44
Diluted	$ 0.25	$ 0.23	$ 0.75	$ 0.58

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

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2011	2010	2011	2010
Options to purchase common stock	1,159	234	1,236	398

3. Cash, cash equivalents and short-term investments

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 time 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 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 realized gains or losses in the three and nine months ended March 31, 2011 and 2010.

Cash and cash equivalents and short-term investments consisted of the following as of March 31, 2011 (in thousands):

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TELENAV, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Cash	$ 11,822	$	$	$ 11,822
Cash equivalents:				
Money market mutual funds	21,896			21,896
Municipal securities	4,000			4,000
Commercial paper	2,400			2,400
Total cash equivalents	28,296			28,296
Total cash and cash equivalents	40,118			40,118

	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Short-term investments:				
Certificate of deposit	2,000		(1)	1,999
Municipal securities	136,687	49		136,736
Commercial paper	8,340	3		8,343
Corporate bonds	24,063	33	(13)	24,083
Total short-term investments	171,090	85	(14)	171,161
Cash and cash equivalents and short-term investments	$ 211,208	$ 85	$ (14)	$ 211,279

Cash and cash equivalents consisted of the following as of June 30, 2010 (in thousands):

	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Cash	$ 17,858	$	$	$ 17,858
Cash equivalents:				
Money market mutual funds	95,004			95,004
Total cash equivalents	95,004			95,004
Cash and cash equivalents	$ 112,862	$	$	$ 112,862

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 March 31, 2011:

	Amortized Cost	Estimated Fair Value
Due within one year	$ 75,766	$ 75,777
Due within two years	95,324	95,384
Total	$ 171,090	$ 171,161

As of March 31, 2011, 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.

Level 3 valuations are based on information that is unobservable and significant to the overall fair value measurement.

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TELENAV, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

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 March 31, 2011 (in thousands):

	Fair Value Measurements at March 31, 2011 Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Description				
Cash equivalents:				
Money market mutual funds	$ 21,896	$ 21,896	$	$
Municipal securities	4,000		4,000	
Commercial paper	2,400		2,400	
Total cash equivalents	28,296	21,896	6,400	
Short-term investments:				
Certificate of deposit	1,999		1,999	
Municipal securities	136,736		136,736	
Commercial paper	8,343		8,343	
Corporate bonds	24,083		24,083	
Total short-term investments	171,161		171,161	
Cash equivalents and short-term investments	$ 199,457	$ 21,896	$ 177,561	$

The fair values of our financial instruments were determined using the following inputs at June 30, 2010 (in thousands):

	Fair Value Measurements at June 30, 2010 Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Description				
Cash equivalents:				
Money market mutual funds	$ 95,004	$ 95,004	$	$
Total cash equivalents	$ 95,004	$ 95,004	$	$

We did not have any financial liabilities to value as of March 31, 2011 or June 30, 2010.

5. Commitments and contingencies

Purchase obligations

As of March 31, 2011, we had an aggregate of $25.5 million of future minimum noncancelable financial commitments primarily related to license fees due to certain of our third party content providers over the next five fiscal years. The aggregate of $25.5 million of future minimum commitments were comprised of $4.9 million due in fiscal 2011; $13.4 million due in fiscal 2012; $5.3 million due in fiscal 2013; $1.6 million due in fiscal 2014; and $0.3 million due in fiscal 2015. The above commitment amounts exclude amounts already recorded on the Condensed Consolidated Balance Sheet.

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.

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TELENAV, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

On November 17, 2009, WRE-Hol, LLC (WRE-Hol) filed a complaint against us in the U.S. District Court for the Western District of Washington (Case No. 2:09-cv-01642-MJP). The lawsuit alleges that certain of our products and/or services infringe U.S. Patent No. 7,149,625, and that we induce infringement and contribute to the infringement of U.S. Patent No. 7,149,625 by others. According to the patent, the invention generally relates to a system and method for providing navigation and automated guidance to a mobile user. The complaint seeks unspecified monetary damages, fees and expenses and injunctive relief against us. On November 27, 2009, WRE-Hol served the complaint on us. On January 25, 2010, we answered the WRE-Hol complaint asserting that the patent-in-suit is not infringed and is invalid and unenforceable. On March 11, 2010, WRE-Hol amended its complaint to add a new defendant, and we subsequently answered, repeating our assertions that the patent-in-suit is not infringed and is invalid and unenforceable. On April 27, 2010, we filed a reexamination request for all of the claims of the asserted patent before the U.S. Patent and Trademark Office. On April 29, 2010, we filed a motion to stay the litigation pending the reexamination. On May 3, 2010, WRE-Hol filed a motion for leave to amend the complaint against us, seeking to add claims for misappropriation of trade secrets against us and our founders, Y.C. Chao, H.P. Jin and Robert Rennard. WRE-Hol s motion for leave to amend also seeks to add a breach of contract claim against us and a claim for wrongful inventorship involving two of our patents, requesting a declaratory judgment that a WRE-Hol inventor be named as an inventor on these patents. On July 19, 2010, the U.S. Patent and Trademark Office issued an order granting inter partes reexamination of all 51 claims of the WRE-Hol 625 patent. On July 23, 2010, the district court issued an order granting WRE-Hol s motion for leave to amend its complaint, but at the same time stayed the entire litigation pending completion of the reexamination. The stay of the litigation extends to the new claims the court allowed. On September 13, 2010, the U.S. Patent and Trademark Office rejected 44 of the 51 WRE-Hol patent claims in a non-final first office action and confirmed seven of the 51 claims. On November 15, 2010, WRE-Hol responded to the office action, canceling some claims and adding others. On December 15, 2010, TeleNav responded to the office action and WRE-Hol s response. On April 4, 2011, the U.S. Patent and Trademark Office rejected WRE-Hol s November 15, 2010 office action response, and gave WRE-Hol 30 days to file a corrected response, after which we can submit our own modified response to both the office action and WRE-Hol s corrected response. The next step will be a second office action from the Patent Office, which is expected within the next six months. 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 lawsuit on our financial condition, results of operations, or cash flows.

On December 31, 2009, Vehicle IP, LLC (Vehicle IP) filed a complaint against us in the U.S. District Court for the District of Delaware (Case No. 1:09-cv-01007-JJF). The lawsuit alleges that certain of our navigation services, including our GPS Navigator, infringe U.S. Patent No. 5,987,377, and that we induce infringement and contribute to the infringement of U.S. Patent No. 5,987,377 by others. According to the patent, the invention generally relates to a navigation system that determines an expected time of arrival. The complaint seeks unspecified monetary damages, fees and expenses and injunctive relief against us. On March 11, 2010, we answered the complaint, asserting that the patent-in-suit is not infringed and is invalid. Vehicle IP denied these counterclaims and requested that they be dismissed. Verizon Wireless 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&T was also named as a co-defendant in the Vehicle IP litigation based on the AT&T Navigator product. AT&T has tendered the defense of the litigation to us and we are defending the case on behalf of AT&T. The court conducted a scheduling conference for the litigation on February 7, 2011 and set a jury trial date for November 5, 2012. The parties are engaged in fact discovery, which has a cutoff date of April 5, 2012. The court will hold a claim construction hearing on October 24, 2011. The parties are to submit case dispositive motions by May 18, 2012. 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 lawsuit on our financial condition, results of operations, or cash flows.

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TELENAV, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

On April 30, 2010, Traffic Information, LLC filed a complaint against us in the U.S. District Court for the Eastern District of Texas (Case No. 2:10-cv-00145-TJW). The lawsuit alleges that certain of our products and/or services infringe U.S. Patent No. 6,785,606, and that we induce infringement and contribute to the infringement of U.S. Patent No. 6,785,606 by others. According to the patent, the invention generally relates to a system for providing traffic information to a plurality of mobile users connected to a network. The complaint seeks unspecified monetary damages, fees and expenses and injunctive relief against us. On May 28, 2010, Traffic Information, LLC filed an amended complaint, adding a new claim that certain of our products and/or services infringe U.S. Patent No. 6,466,862, and that we induce infringement and contribute to the infringement of U.S. Patent No. 6,466,862 by others. According to the patent, the invention generally relates to a system for providing traffic information to a plurality of mobile users connected to a network. The amended complaint seeks unspecified monetary damages, fees and expenses and injunctive relief against us. On March 14, 2011, we answered the Traffic Information complaint asserting that the patent-in-suit is not infringed and is invalid and unenforceable. 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 lawsuit on our financial condition, results of operations or cash flows.

On April 11, 2011, Walker Digital, LLC (Walker Digital), filed a complaint against us and eleven other defendants in the United States District Court for the District of Delaware, Case No. 1:11-CV-00309-SLR, alleging infringement of U.S. Patent No. 6,199,014, and seeking a permanent injunction, damages and attorneys fees should judgment be found in favor of Walker Digital. On April 19, 2011, Walker Digital served its complaint on us. Our answer is due on May 10, 2011. The case is in its early stages, and we intend to vigorously defend against the complaint.

On September 2, 2010, a purported stockholder class action was filed by David Smith in the United States District Court for the Northern District of California (Case No. 3:10-CV-03942-SC) against us, certain of our officers and directors, and certain of our underwriters for our May 13, 2010 initial public offering, alleging violations of Sections 11 and 15 of the Securities Act. On November 1, 2010, David Smith and his attorneys filed a motion for appointment as lead plaintiff and lead counsel, which we did not oppose. On February 3, 2011, the Court granted plaintiff s motion for appointment as lead plaintiff and selection of Robbins Geller Rudman & Dowd as lead counsel. On March 21, 2011, plaintiff filed an amended complaint. The amended complaint purports to be brought on behalf of all persons who acquired shares of our common stock pursuant to our May 13, 2010 initial public offering. The amended complaint alleges that we, certain of our officers and directors, and certain of our underwriters for the initial public offering violated the Securities Act by issuing the Registration Statement and Prospectus, which the plaintiff alleges contained material misstatements and omissions in violation of Sections 11, 12(a)(2) and 15 of the Securities Act. Specifically, the amended complaint alleges that we failed to disclose in our May 13, 2010 Registration Statement and Prospectus that we would soon be renegotiating our current contract with Sprint, our largest customer, which would result in our revenue being reduced. The amended complaint seeks class certification, compensatory damages, attorneys fees and costs, rescission or a rescissory measure of damages, equitable and/or injunctive relief, and such other relief as the court may deem proper. We deny the plaintiff s allegations and believe that our defenses to this action have merit. We intend to vigorously defend against this action and filed a motion to dismiss plaintiff s amended complaint on May 4, 2011, which will be heard by the Court on August 12, 2011. 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 amended 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 wireless carrier partners, 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 wireless carrier partners in compliance with our contractual commitments. We are not a party to the following cases; however our wireless carrier partners have requested that we indemnify them in connection with such cases.

TELENAV, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

In 2008, Alltel, AT&T, Sprint and T-Mobile, each demanded that we indemnify and defend them against a lawsuit brought by Emsat Advanced Geo-Location Technology LLC and Location Based Services LLC, or collectively, Emsat, in the Northern District of Ohio (Case Nos. 4:08-cv-822, 4:08-cv-821, 4:08-cv- 817, 4:08-cv-818) alleging that the wireless carriers infringe U.S. Patent Nos. 5,946,611, 6,324,404, 6,847,822 and 7,289,763 in connection with the delivery of wireless telephone services and seeking unspecified damages. The Emsat entities are patent holding companies. In May 2009, several of the cases were stayed pending proceedings relating to a request for reexamination of all the patents at issue in the litigation. In June 2009, the U.S. Patent and Trademark Office denied the requests for reexamination as it relates to all of the patent claims asserted in the lawsuits. Subsequently, the defendants in certain of the cases filed requests for reexamination of U.S. Patent No. 6,847,822 and indicated that they would do the same with respect to U.S. Patent No. 7,289,763. On December 22, 2009, the U.S. Patent and Trademark Office granted the request for reexamination of 17 claims of U.S. Patent No. 6,847,822. On March 16, 2010, the U.S. Patent and Trademark Office confirmed two of the 17 claims and rejected the other 15 claims. On August 18, 2010, a third-party requestor filed an ex parte request for reexamination of U.S. Patent No. 6,324,404. That request is pending before the U.S. Patent and Trademark Office. In the Sprint and Alltel cases, the court has not yet lifted the stay, and denied the plaintiff s motion to vacate the stay on August 20, 2010. The defendants filed a request for reexamination of U.S. Patent No. 7,289,763 on December 14, 2010. In the T-Mobile and AT&T cases, the parties voluntarily vacated the stay and a trial status conference with the court was held on September 24, 2009. A claim construction hearing was held on May 10, 2010 and the court issued its claim construction ruling on August 23, 2010. T-Mobile and AT&T also filed a motion for partial summary judgment on the invalidity of some asserted claims of the patents-in-suit. On August 23, 2010, the court denied the partial summary judgment motion. Google joined as an intervenor in the T-Mobile case because T-Mobile also sought indemnification from Google. In the T-Mobile case, T-Mobile filed a motion for reconsideration of the Court s denial of the partial summary judgment motion on September 20, 2010, and Google filed a motion for partial reconsideration of claim construction on the same day. The Court denied both motions on November 18, 2010. Emsat filed an amended complaint on December 17, 2010, dropping its infringement claims as to U.S. Patent Nos. 5,946,611 and 6,324,404, and adding a claim for willful infringement. T-Mobile denied the allegations in its answer and filed counterclaims for declaratory judgment of non-infringement, invalidity and unenforceability of the patents-in-suit on January 3, 2011. Plaintiffs denied the allegations in its answer to T-Mobile s counterclaims on January 4, 2011. On January 3, 2011, the parties stipulated to dismissal of all claims against Google and Google s counterclaims against Emsat. On January 13, 2011, Emsat filed an unopposed motion to file its third amended complaint. On January 18, 2011, T-Mobile filed a motion to stay proceedings pending inter partes reexamination of U.S. Patent Nos. 6,847,822 and 7,289,763. On March 8, 2011, the Emsat case against T-Mobile was stayed and closed pending re-examination. In the AT&T case, Emsat amended the complaint to allege a breach of contract claim and AT&T denied the allegation in its answer and filed counterclaims for declaratory judgment of non-infringement, invalidity and unenforceability. Emsat denied the allegations in its answer to AT&T s counterclaims on January 4, 2011. The AT&T case was consolidated with EMSAT Advanced Geo-Location Technology, LLC et al v. Tracfone Wireless, Inc. (Case No. 5:10-CV-00245). On January 13, 2011, Emsat filed a motion to file its third amended complaint, which is still pending. On January 19, 2011, AT&T filed a notice of joinder in T-Mobile s motion to stay proceedings pending inter partes reexamination of the patents-in-suit filed in the related T-Mobile case. On March 9, 2011, Emsat dismissed its lawsuit against AT&T based on a settlement agreement. As of the date of this Form 10-Q, we and one wireless carrier have determined that we will provide some financial support relating to our indemnification obligations relating to this litigation, but as to that wireless carrier and the other wireless carriers, we have not determined the full extent. 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 reasonably 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.

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TELENAV, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

In March and May 2009, AT&T and Sprint demanded that we indemnify and defend them against a lawsuit brought by Tendler Cellular of Texas LLC in the Eastern District of Texas (Case No. 6:09-cv-0115) alleging that the wireless carriers infringe U.S. Patent No. 7,447,508 in connection with the delivery of certain LBS as part of their wireless telephone services and seeking unspecified damages. Tendler Cellular of Texas is a patent holding company. In May 2009, AT&T responded to the allegations, filing an answer that the patent-in-suit is not infringed, is invalid and unenforceable. In June 2009, Sprint did the same. 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. In July 2010, Sprint settled its claims with Tendler, and we resolved all indemnity claims to Sprint related to this matter and all such amounts have been reflected in our financial statements as of March 31, 2011.

In February 2010, Sprint demanded that we indemnify and defend it against a lawsuit brought by Alfred P. Levine, an individual, in the Eastern District of Texas (Case No. 2:09-cv-00372) alleging that Sprint and Samsung infringe U.S. Patent Nos. 6,243,030 and 6,140,943 in connection with providing wireless navigation systems, products and services. In March 2010, Sprint responded to the allegations, filing an answer that the patents-in-suit are not infringed, are invalid and unenforceable. Alfred Levine subsequently denied these counterclaims and requested that they be dismissed. At an initial scheduling conference held on August 30, 2010, the court set a claim construction hearing date of December 21, 2011 and a trial date of May 7, 2012. We agreed to indemnify and defend Sprint against the lawsuit, and we are presently defending Sprint as a result. We cannot reasonably estimate to what extent we will indemnify Sprint or the potential losses it and we may experience in connection with such litigation. On October 28, 2010, Levine filed an amended complaint, adding groups of defendants from AT&T, T-Mobile, Verizon, HTC, Intermec, Kyocera, LG Electronics, Motorola, Palm, Research In Motion, and Sanyo. In January 2011, AT&T demanded that we indemnify and defend it in the lawsuit. We offered to indemnify and defend AT&T against the lawsuit, with certain limitations, and are presently negotiating the scope of our indemnification obligations with AT&T. In February 2011, T-Mobile demanded that we indemnify and defend it in the lawsuit. We have agreed to indemnify and defend T-Mobile against the lawsuit, with certain limitations, and are presently defending T-Mobile as a result. We cannot reasonably estimate to what extent we will indemnify Sprint or T-Mobile or AT&T or the potential losses they and we may experience in connection with such litigation. On January 10, 2011, the Court held a status conference. On January 14, 2011, the defendants filed a motion to modify the schedule to move the claim construction hearing and trial date to June 2012 and November 2012, respectively. On April 11, 2011, the Court granted-in-part the defendants motion, keeping the claim construction hearing in December 2011 but moving the trial date to August 6, 2012. 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 lawsuit 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. 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.

6. Guarantees and indemnifications

Our agreements with our wireless carrier partners and automotive suppliers and manufacturers that offer our LBS and navigation products generally include certain provisions for indemnifying them against liabilities if our LBS or navigation products 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 wireless carrier partners with respect to specific litigation claims in which our wireless carrier partners have been named as defendants. To date, we have not incurred material costs and do not have material liabilities related to such obligations recorded in our consolidated financial statements.

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 indemnification is unlimited. We have a directors and officers insurance policy that limits our potential exposure. We believe the fair value of these indemnification agreements is minimal. We had not recorded any liabilities for these agreements as of March 31, 2011 and June 30, 2010.

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TELENAV, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

7. Stock-based compensation

Under our 1999 Stock Option Plan, 2002 Executive Stock Option Plan and 2009 Equity Incentive 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. Incentive stock options may be granted only to employees to purchase our common stock at prices equal to or greater than the fair market value on the date of grant. Nonqualified stock options to purchase our common stock may be granted at prices not less than 100% of the fair market value on the date of grant. Options generally vest 25% one year from the date of grant or date of hire for new employees and the remainder vest monthly thereafter for three years and generally expire 10 years from the date of grant. Prior to our initial public offering, we granted options outside of our stock option plans with terms substantially similar to the terms of options granted under our plans.

Stock option activity for the nine months ended March 31, 2011 was as follows (in thousands):

	Number of Shares
Options outstanding as of June 30, 2010	5,863
Granted	2,533
Exercised	(454)
Cancelled	(409)
Options outstanding as of March 31, 2011	7,533

Information regarding stock options outstanding at March 31, 2011 is summarized below:

	Number of Shares (thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)	Aggregate Intrinsic Value (thousands)
Options outstanding	7,533	$ 4.64	7.27	$ 54,536
Options vested and expected to vest	7,277	$ 4.53	7.19	$ 53,480
Options exercisable	3,797	$ 2.08	5.49	$ 37,183

During the nine months ended March 31, 2011, we granted restricted stock units totaling 57,000 shares, which vest over 3 years. As of March 31, 2011, restricted stock units outstanding totaled 57,000 shares with a weighted average remaining contractual life of 1.54 years and an aggregate intrinsic value of $677,000. Restricted stock units vested and expected to vest totaled 52,383 shares with a weighted average remaining contractual life of 1.53 years and an aggregate intrinsic value of $622,000.

As of March 31, 2011, there were a total of approximately 445,000 shares available for grant under our stock option and equity incentive plans.

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

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2011	2010	2011	2010
Cost of revenue	$ 23	$ 7	$ 70	$ 14
Research and development	502	320	1,420	741
Selling and marketing	291	139	671	346
General and administrative	320	144	734	346
Total stock-based compensation expense	$ 1,136	$ 610	$ 2,895	$ 1,447

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TELENAV, INC.

Notes to Condensed Consolidated Financial Statements (Continued)

From December 2006 until our initial public offering, we generally obtained contemporaneous valuation analyses prepared by an unrelated third party valuation firm in order to assist us in determining the fair market value of our common stock. Prior to the completion of our initial public offering, our board of directors has considered these reports when determining the fair market value of our common stock and related exercise prices of option awards on the date such awards were granted. We have also used these contemporaneous third party valuations for purposes of determining the Black-Scholes fair value of our stock option awards and related stock-based compensation expense.

We use the Black-Scholes pricing model to determine the fair value of stock options. 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. Because we were a private entity with no historical data regarding the volatility of our common stock until our initial public offering and we do not yet have sufficient historical public market trading data, the expected volatility used is based on the historical volatility of various comparable companies. In evaluating similarity, we considered factors such as industry, stage of life cycle, revenue and size. The weighted average assumptions used to value option grants during the three and nine months ended March 31, 2011 and 2010 were as follows:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2011	2010	2011	2010
Expected volatility	56%	77%	55%	75%
Expected term (in years)	4.50	4.98	4.50	4.90
Risk-free interest rate	2.13%	2.45%	1.60%	2.38%
Dividend yield				

8. Stock repurchase program

On November 15, 2010, we announced that our Board of Directors authorized a program for the repurchase of up to $20 million of our shares of common stock through open market purchases pursuant to Rule 10b-18 of the Exchange Act. The timing and amount of repurchase transactions under this program will depend on market conditions and other considerations. Under this program, we utilized $7.4 million of cash to repurchase 674,242 shares of our common stock at an average purchase price of $11.01 per share during the three months ended March 31, 2011. We utilized $9.7 million of cash to repurchase 1,002,500 shares of our common stock at an average purchase price of $9.71 per share during the nine months ended March 31, 2011.The repurchased shares are being held as treasury shares. As of March 31, 2011, the remaining authorized amount of stock repurchases that may be made under this repurchase program was $10.3 million.

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. As a result of our stock repurchases during the nine months ended March 31, 2011, we reduced common stock and APIC by an aggregate of $2.9 million and charged $6.8 million to retained earnings.

9. Income taxes

The effective tax rate for the periods presented is the result of the mix of income earned in various tax jurisdictions that apply a broad range of income tax rates. Our provision for income taxes is higher than the tax computed at the U.S. federal statutory income tax rate due primarily to state taxes and stock-based compensation, partially offset by the deduction for Domestic Production Activities and the research and development credit. Our effective tax rate was 38% and 34% for the three months ended March 31, 2011 and 2010, respectively. The increase in our effective tax rate is due to the difference in the tax benefit recognized for a tax deduction related to Qualified Domestic Production Activities under Section 199 of the Internal Revenue Code. Our effective tax rate was 38% and 39% for the nine months ended March 31, 2011 and 2010, respectively. The decrease in our effective tax rate is primarily due to the extension of the federal research and development credit.

We record liabilities related to uncertain tax positions in accordance with authoritative guidance on accounting for uncertainty in income taxes. As of March 31, 2011 and June 30, 2010, our cumulative unrecognized tax benefits were $4.2 million and $2.9 million, respectively. Included in the balance of unrecognized tax benefits at March 31, 2011 is $3.4 million that, if recognized, would affect the effective tax rate. We do not believe that the unrecognized tax benefits will materially change in the next 12 months.

We file income tax returns with the U.S. Internal Revenue Service (the IRS), California and various state and foreign tax jurisdictions in which we have subsidiaries. Fiscal 2000 through 2010 remain open to examination by U.S. and state tax authorities, and fiscal 2005 through 2010 remain open to examination by the foreign tax authorities. The IRS commenced an examination of our U.S. federal income tax returns for fiscal 2008 and 2009 during fiscal 2010. We do not expect that the results of this examination will have a material effect on our financial condition or results of operations.

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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, 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 Part II, Item 1A, 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.

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, 2010 as fiscal 2010 and the fiscal year ending June 30, 2011 as fiscal 2011.

Overview

We are a leading provider of location based services(LBS), including voice guided navigation on mobile phones, automotive LBS and enterprise LBS. Our LBS solutions provide consumers and enterprises with convenient and easy to use location specific, real time and personalized features and functions. By using an integral tool of their daily lives, their mobile phones, our end users can access our LBS almost anytime and anywhere to efficiently navigate to their destinations and easily obtain relevant local information. Through our hosted service delivery model, we provide our solutions through the networks of leading wireless carriers in the United States, including Sprint Nextel Corporation, or Sprint, and AT&T Mobility LLC, or AT&T, as well as through certain carriers in other countries. Our flexible and proprietary LBS platform enables us to efficiently provide our LBS to millions of end users, across more than 600 types of mobile phones, all major mobile phone operating systems and a broad range of wireless network protocols. In the three months ended March 31, 2011, we had a monthly average of 22.5 million paying end users.

We primarily derive our revenue from our partnerships with wireless carriers who sell our LBS to their subscribers either as a stand alone service or in a bundle with other applications. End users are generally billed for our services through their wireless carrier. Our wireless carrier partners pay us based on several different revenue models, including (1) a monthly subscription fee per end user, (2) commencing in September 2010, a fixed annual fee for any number of subscribers (up to specified thresholds) receiving our services as part of bundles with other voice and data services or (3) a revenue sharing arrangement that may include a minimum fee per end user. Our wireless carrier partners may offer our services on a stand alone basis or bundled with other voice and data services. We also offer our applications directly to end users through application stores such as Apple s iTunes or Google s Android Market. In addition, we derive revenue from the delivery of customized software and royalties earned from the distribution of this customized software in certain automotive navigation applications. In the future, our revenue models are likely to vary as we expand our product offerings, including fee arrangements for mobile advertising and commerce supported programs, or basic versions of our services that may be offered for free and allow for upgrades to more premium versions for a charge. We and our wireless carrier partners may offer subscribers a 30-day free trial for our service. We believe that the wireless carrier billing makes our services more appealing to consumers and enterprises as they are not required to pay a separate monthly charge to a different vendor.

In September 2010, we and our largest customer, Sprint, entered into an amendment to our agreement that results in us receiving a fixed annual fee from Sprint for their bundled service subscribers use of our navigation services which is not dependent upon the number of subscribers participating in those bundles until such time as a specified threshold is reached. This amendment affected our results of operations when it became effective in September 2010; however, the full effect of this amendment is evident in the three months ended December 31, 2010 and March 31, 2011 as the amendment was in effect for the entire quarter. Over time, we anticipate that our amended agreement with Sprint will result in further declines in average revenue per user, or ARPU, due to anticipated increases in the number of Sprint bundle subscribers with access to our services and the significant reduction in revenue from Sprint for bundled basic navigation services compared to the quarters prior to implementation of the amendment. Although we are entitled to receive a greater share of revenue from enterprise LBS, mobile commerce and premium navigation services than we were previously, we may not be able to realize these benefits in the short term or at all. We cannot predict the ultimate financial impact of our amended agreement with Sprint. As a result of this amendment to our agreement with Sprint providing for a fixed annual fee, we believe that future ARPU and average monthly paying end users may not be comparable to earlier periods or be a meaningful indicator of our financial performance.

In September 2010, we also amended our agreement with Tele Atlas North America, Inc., now known as TomTom Maps, to change the fee structure for map and points of interest (POI), data we provide as part of our navigation services in Sprint s bundled offerings. The material impact of the amendment is to align the manner in which we pay fees to TomTom Maps with the manner in which we receive revenue from Sprint. Pursuant to the amended agreement, we will pay TomTom Maps a percentage of fees we collect from Sprint for basic navigation services and our gross advertising and mobile commerce revenue, as well as a flat monthly fee per subscriber for premium navigation services. We also agreed to certain guaranteed minimum payments to TomTom Maps for such services. These amendments affected our results of operations during the three and nine months ended March 31, 2011. Although we have taken action to increase the predictability of certain of our third party map and POI data costs for services that we provide on an annual fixed fee basis that are not dependent on the number of subscribers, we may not have adequately aligned our fee structure for map and POI data with revenue from Sprint s bundled offerings, and may not be successful in reducing the impact of the recent Sprint amendment on our gross margin.

In January 2011, we entered into an amendment to our agreement with AT&T, one of our wireless carrier partners whose payments to us represent a substantial portion of our revenue. This amendment extended our existing agreement with AT&T through March 2013 and provided that we will continue to be the exclusive provider of white label GPS navigation services to AT&T. There were no impacts of this amendment reflected in our revenue for the three and nine months ended March 31, 2011 and our amended agreement with AT&T retained the prior terms, including the fee per subscriber per month model. For the nine months ended March 31, 2011 and 2010, AT&T represented 37% and 34% of our total revenue, respectively. AT&T is not required to offer our LBS. We anticipate that we will continue to depend on AT&T for a material portion of our revenue for the foreseeable future.

In March 2011, we entered into amendments to our agreement with Ford, to which we provide an in-dash navigation solution. The amendments modified the nature of certain of our obligations under our original agreement, and provided for additional payments to us. As a result of these modifications, we now recognize revenue from customized software upon delivery to, and acceptance by, Ford of our in-dash navigation solutions, and we recognize royalty revenue earned from the distribution of our customized software in vehicles as the vehicles are produced. In addition, we recognize third party content and related costs of revenue when revenue is recognized. These amendments resulted in the recognition of an additional $6.6 million in revenue from Ford in the three months ended March 31, 2011, including revenues previously deferred in periods prior to January 1, 2011.

Key components of our results of operations

Sources of revenue

We primarily derive our revenue from our wireless carrier partners for their customers subscriptions to our LBS, as well as from activation fees for certain of our services. Our wireless carrier partners pay us based on several different revenue models, including (1) a monthly subscription fee per end user, (2) commencing in September 2010, a fixed annual fee for any number of subscribers (up to specified thresholds) receiving our services as part of bundles with other voice and data services or (3) a revenue sharing arrangement that may include a minimum fee per end user. Certain of our contracts provide our wireless carrier partners with discounts based on the number of end users paying for our services in a given month. In general, our wireless carrier partners pay us a lower monthly fee per end user if an end user subscribes to our LBS as part of a bundle of mobile data or voice services than if an end user subscribes to our LBS on a stand alone basis. We also offer our applications directly to end users through application stores such as Apple s or Google s Android. In addition, we derive revenue from the delivery of customized software and royalties from the distribution of this customized software in certain automotive navigation applications. In the future, we may have other revenue models. For example, we recently implemented revenue models, including fees for advertising supported arrangements, and basic versions of our services that allow for upgrades to more premium versions for a fee.

Our wireless carrier partners are responsible for billing and collecting the fees they charge their subscribers for the right to use our LBS. When we are paid on a revenue sharing basis with our wireless carrier partners, the amount we receive varies depending on several factors including the revenue share rate negotiated with the wireless carrier partner, the price charged to the subscriber by the wireless carrier partner, the specific sales channel of the wireless carrier partner 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 any subscriber may vary considerably, and is subject to change over time.

In addition, the amount we are paid per end user 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 partners generally have sole discretion about how to price our LBS 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 our website and through application stores.

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Subscription fees from our wireless carrier partners represented substantially all of our revenue in the nine months ended March 31, 2011 and 2010. Sprint and AT&T represented 43% and 37% of our revenue in the nine months ended March 31, 2011, respectively, and 55% and 34% of our revenue in the nine months ended March 31, 2010, respectively. Subscription fees from our GPS Navigator service represented 89% and 94% of our revenue in the nine months ended March 31, 2011 and 2010, respectively. Revenue from our automotive navigation solutions, enterprise LBS (sometimes referred to as mobile resource management, or MRM), mobile advertising and commerce and premium LBS represented 11% and 6% of our revenue in the nine months ended March 31, 2011 and 2010, respectively. In absolute dollars, revenue from our non-GPS Navigator services, which include enterprise LBS, increased in the nine months ended March 31, 2011 compared to the nine months ended March 31, 2010. GPS Navigator is our flagship voice guided real time, turn by turn, mobile navigation service. Our enterprise LBS solutions allow enterprises to monitor and manage mobile workforces and assets by using our LBS platform to track job status and the location of workers, field assets and equipment. We are developing other LBS solutions with new business models and distribution channels in our current LBS market and adjacent markets. These solutions include in-dash navigation services, location based mobile advertising and commerce services and premium LBS. While we have already introduced certain components or initial versions of several of these LBS solutions, the scope and timing of broader and more commercially viable offerings is uncertain. The ultimate scope and timing of any future releases are dependent on many factors including adoption by wireless carrier partners and automotive suppliers and manufacturers of the LBS solutions; end user adoption and preferences; the quality, features and timing of our product offerings; the impact of competition; and market acceptance of mobile advertising and social networking. We believe our cash and cash equivalents and anticipated cash flows from operations will be sufficient to cover the costs of these development efforts.

In the nine months ended March 31, 2011, we generated 96% of our revenue in the United States. In absolute dollars, revenue from our international operations increased in the nine months ended March 31, 2010 compared to the nine months ended March 31, 2010. We are pursuing expansion opportunities with our wireless carriers in other countries and therefore expect international revenue to increase in absolute dollars over the longer term.

Cost of revenue

Our cost of revenue consists primarily of the cost of the third party content, such as map, POI, traffic, gas price and weather data and voice recognition technology that we use in providing our LBS. Our cost of revenue also includes expenses associated with data center operations, customer support, the amortization of capitalized software and stock-based compensation. The largest component of our cost of revenue is the fees we pay to providers of map and POI data, TomTom Maps and Navigation Technologies Corporation, or NAVTEQ. We have long term agreements with TomTom Maps and NAVTEQ 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 commencing in fiscal 2011, on a fixed fee basis for certain navigation offerings.

We primarily provide customer support through a third party provider to whom we provide training and assistance with problem resolution. We use three outsourced, hosted data centers to provide our services and industry standard hardware to provide our LBS. We generally offer to our wireless carrier partners 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 partner agreement. We expect that our cost of revenue will increase in both absolute dollars and as a percentage of revenue as the number of our end users increases, including those through bundled or free offerings, average use of our services by end users increases and additional operating costs and depreciation associated with our planned data center capacity increases, as well as increased amortization of capitalized software development costs. In addition, we anticipate that cost of revenue will increase over time as we continue to enhance the richness of the content offered by our products and if we increase the level of our revenue from automotive navigation solutions.

Operating expenses

We classify our operating expenses into three categories: research and development, sales and marketing and general and administrative. Our operating expenses consist primarily of personnel costs, which include salaries, bonuses, payroll taxes, employee benefit costs and stock-based compensation expense. Other expenses include marketing program costs, facilities, 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 options granted, based on the department in which the option holder works. We allocate overhead, such as rent and depreciation, to each expense category based on headcount. Our operating expenses increased in absolute dollars in fiscal 2010 and the first nine months of fiscal 2011 as we became a public company and built our infrastructure and added employees across all categories to support our growth, develop new services and products, and expand into international markets. We expect our operating expenses to continue to increase in the remainder of fiscal 2011 as we continue in these endeavors.

Research and development. Research and development expenses consist primarily of personnel costs for our development employees and use of outside consultants. 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. The majority of our research and development employees are located in our development centers in China and, as a result, a substantial portion of our research and development expense is subject to changes in foreign exchange rates, notably the Chinese renminbi (RMB).

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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 and advertising. As we primarily rely on our wireless carrier partners to market and promote our services to their subscribers, our sales and marketing expenses consist primarily of the cost of supporting our wireless carrier partners and attracting new wireless carrier partners to offer our LBS. We cooperate with our wireless carrier partners in marketing our LBS solutions to their subscribers by preparing marketing materials and working with them on promotional campaigns. We also promote our service offerings through a variety of other programs and online advertisements.

General and administrative. General and administrative expenses consist primarily of personnel costs for our executive, finance, legal, human resources and administrative personnel, consultants, legal, audit and tax consulting and other professional fees 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. During the nine months ended March 31, 2010, other income (expense), net also included the expense resulting from the change in fair value of our outstanding Series E preferred stock warrants. We classified these warrants as liabilities on our balance sheets and recorded changes in their fair value from period to period in other income (expense), net on our consolidated statements of income. As of December 31, 2009, all remaining outstanding Series E preferred stock warrants had been exercised and the warrant liability was reclassified to preferred stock. The preferred shares converted to common stock upon the closing of our initial public offering and were reclassified as common stock and additional paid in capital.

Provision for income taxes. Our provision for income taxes primarily consists of corporate income taxes related to profits earned from our LBS in the United States. We expect our income tax expense for fiscal 2011 to be approximately 39% of pretax income because of the concentration of earnings in the United States. Our effective tax rate could be reduced if our international revenue substantially increases as a percentage of revenue, due to the lower corporate tax rates available in certain countries outside the United States and the availability of net operating loss carryforwards in those countries.

Critical accounting policies and estimates

We prepare our 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 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 statement presentation, financial condition, results of operations and cash flows will be affected.

With the exception of revenue recognition discussed below, there have been no material changes in our critical accounting policies and estimates during the three and nine months ended March 31, 2011 as compared to the critical accounting policies and estimates disclosed in Part II, Item 7 of our Annual Report on Form 10-K for the year ended June 30, 2010.

Revenue recognition. We recognize revenue when persuasive evidence of an arrangement exists, delivery of those services has occurred, the fee is fixed or determinable and collectability is reasonably assured. We primarily derive our revenue from subscriptions to access our LBS, which are generally provided through our wireless carrier partners that offer our services to their subscribers. Our wireless carrier partners pay us based on several different revenue models, including (1) a monthly subscription fee per end user, (2) commencing during the three months ended September 30, 2010, a fixed annual fee for any number of subscribers (up to specified thresholds) receiving our services as part of bundles with other voice and data services or (3) a revenue sharing arrangement that may include a minimum fee per end user.

We recognize monthly fees related to our services in the month we provide the services. We defer amounts received in advance of the service being provided and recognize the deferred amounts when the monthly service has been provided. We recognize revenue for fixed annual fees for any number of subscribers receiving our services as part of bundles monthly on a straight-line basis over the term of the agreement. Our agreements do not contain general rights of refund once the service has been provided. We also establish allowances for estimated credits subsequently issued to end users by our wireless carrier partners. We defer activation fees received upon the initiation of certain services and recognize the deferred amounts over the estimated average length of subscription to the service, historically 16 months.

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We recognize as revenue the amount our wireless carrier partners report to us as we provide our services, which are net of any revenue sharing or other fees earned and deducted by our wireless carrier partners. We are not the principal provider when selling access to our LBS through our wireless carrier partners as the subscribers directly contract with our wireless carrier partners. In addition, we earn a fixed fee or fixed percentage of fees charged by our wireless carrier partners and our wireless carrier partners have the sole ability to set the price charged to their subscribers for our service. Our wireless carrier partners have direct responsibility for billing and collecting those fees from their subscribers and we and our wireless carrier partners may offer subscribers a 30-day free trial for our service.

We also derive revenue from the delivery of customized software and royalties earned from the distribution of this customized software in certain automotive navigation applications. We generally recognize software customization revenue using the completed contract method of contract accounting under which revenue is recognized upon delivery to, and acceptance by, the automobile manufacturer of our in-dash navigation solutions. We generally recognize royalty revenue as the vehicles are produced, assuming all other conditions for revenue recognition have been met.

In certain instances, due to the nature and timing of monthly revenue and subscriber reporting from our wireless carrier partners, we may be required to make estimates of the amount of LBS revenue to recognize from a wireless carrier partner for the current period. For example, several of our wireless carrier partners do not provide us with sufficient monthly individual subscriber billing period details to allow us to compute the allocation of monthly service fees to the individual end user s service period, and in such cases we make estimates of any required service period revenue cutoff. In addition, if we fail to receive an accurate revenue report from a wireless carrier partner for the month, we will need to estimate the amount of revenue that should be recorded for that month. These estimates may require judgment, and we consider certain factors and information in making these estimates such as:

- subscriber data supplied by our wireless carrier partners;
- wireless carrier partner specific historical subscription and revenue reporting trends;
- end user subscription data from our internal systems; and
- data from comparable distribution channels of our other wireless carrier partners.

If we are unable to reasonably estimate recognizable revenue from a wireless carrier partner for a given period, we defer recognition of revenue to the period in which we receive and validate the wireless carrier partner s revenue report and all of our revenue recognition criteria have been met. If we have recorded an estimated revenue amount, we record any difference between the estimated revenue and actual revenue in the period when we receive the final revenue reports from our wireless carrier partner, which typically occurs within the following month.

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Results of operations

The following tables set forth our results of operations for the three and nine months ended March 31, 2011 and 2010, as well as a percentage that each line item represents of our revenue for those periods. The additional key metrics presented are used in addition to the financial measures reflected in the consolidated statements of income 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.

	Three Months Ended March 31,		Nine Months Ended March 31,	
Consolidated Statements of Income Data	**2011**	**2010**	**2011**	**2010**
(Unaudited)	**(in thousands)**			
Revenue	$ 57,110	$ 45,101	$ 156,232	$ 121,652
Cost of revenue	12,739	7,173	30,419	21,130
Gross profit	44,371	37,928	125,813	100,522
Operating expenses:				
Research and development	14,239	10,782	40,739	28,083
Sales and marketing	6,699	4,511	17,229	12,523
General and administrative	5,701	3,612	14,170	9,275
Total operating expenses	26,639	18,905	72,138	49,881
Income from operations	17,732	19,023	53,675	50,641
Other income (expense), net	305	(20)	750	(330)
Income before provision for income taxes	18,037	19,003	54,425	50,311
Provision for income taxes	6,872	6,462	20,862	19,513
Net income	$ 11,165	$ 12,541	$ 33,563	$ 30,798

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2011	**2010**	**2011**	**2010**
	(as a percentage of revenue)			
Revenue	100%	100%	100%	100%
Cost of revenue	22	16	19	17
Gross profit	78	84	81	83
Operating expenses:				
Research and development	25	24	26	23
Sales and marketing	12	10	11	10
General and administrative	10	8	9	8
Total operating expenses	47	42	46	41
Income from operations	31	42	35	42
Other income (expense), net	1			(1)
Income before provision for income taxes	32	42	35	41
Provision for income taxes	12	14	14	16

Net income	20%	28%	21%	25%
Additional Key Metrics				
Average monthly revenue per user (ARPU)	$ 0.71	$ 1.02	$ 0.81	$ 1.05
Average monthly paying end users (in millions)	22.5	14.5	19.9	12.7

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Comparison of the three and nine months ended March 31, 2011 and 2010

Revenue. Revenue increased 27% to $57.1 million in the three months ended March 31, 2011 from $45.1 million in the three months ended March 31, 2010. Revenue increased 28% to $156.2 million in the nine months ended March 31, 2011 from $121.7 million in the nine months ended March 31, 2010. These increases were due to growth in the number of average monthly paying end users to 22.5 million in the three months ended March 31, 2011 from 14.5 million in the three months ended March 31, 2010 and to 19.9 million in the nine months ended March 31, 2011 from 12.7 million in the nine months ended March 31, 2010, primarily resulting from the continued adoption of Sprint s Simply Everything and Any Mobile, Anytime plans which include our LBS, as well as an increase in end users of AT&T Navigator and TeleNav GPS Navigator with T-Mobile. In addition, revenue in the three months ended March 31, 2011 included $7.5 million from the in-dash navigation solutions we provided for Ford vehicles, which included $6.6 million recognized as a result of the amendments to our agreement with Ford in March 2011. We calculate average monthly paying end users for a period by averaging the number of paying end users for each month in the period, and exclude any users that subscribe under daily or annual plans. Generally, we consider a paying end user to be a wireless carrier subscriber for whom we are paid and for which such subscriber s mobile device has the capability to access our LBS. Average monthly revenue is calculated by dividing revenue for the period associated with paying end users by the number of months in the period. ARPU is calculated by dividing average monthly revenue by average monthly paying end users. We exclude from our ARPU calculation users and revenue associated with our automotive navigation solutions. Although our end users increased substantially, our ARPU declined 30% to $0.71 in the three months ended March 31, 2011 from $1.02 in the three months ended March 31, 2010 and declined 23% to $0.81 in the nine months ended March 31, 2011 from $1.05 in the nine months ended March 31, 2010. These declines in ARPU were due in large part to the September 2010 amendment to our agreement with Sprint as discussed below, whereby we now receive a fixed fee from Sprint to provide our services to subscribers to Sprint s service bundles (up to certain thresholds) and we no longer receive additional revenue for additional Sprint bundle subscribers using our services. We anticipate that as a result of the changes to our agreement with Sprint, ARPU will become a less meaningful indicator of the health of our business.

In September 2010, we amended our agreement with Sprint, which changed the way in which we receive revenue from the majority of the services we provide to Sprint s subscribers. Rather than receiving a fee per subscriber per month, we agreed to receive a guaranteed annual fixed fee from Sprint for navigation applications provided to subscribers in bundles with other Sprint services. The annual fee will change from year to year over the contract period and limits the maximum number of subscribers covered under such fee in a given year. Sprint will generally pay us these annual fees in advance. In return, Sprint agreed that our right to be Sprint s preferred supplier of navigation applications would be broadened and our preferred supplier rights are extended from December 31, 2010 to December 31, 2012. Sprint may terminate our agreement for any reason, beginning June 30, 2012, by providing notice at least 30 business days prior to termination. We and Sprint also agreed that Sprint branded navigation services offered as part of a bundled offering will transition to TeleNav branded navigation services over time. In addition, bundle opportunities are expanded and may include Sprint s prepaid subscriber base in the future. We recognize revenue for the aggregate annual fees monthly on a straight-line basis over the term of the agreement. Our portion of the revenue sharing arrangements for monthly recurring charge navigation subscribers, enterprise LBS subscribers and revenue generated from mobile commerce services was increased under the amendment and will also apply to revenue generated from other premium services we may provide to bundled and other subscribers during the term of the agreement.

Growth in the number of end users for the periods presented primarily reflects Sprint s decision to continue to offer and promote certain bundles in which all end users under those plans receive the right to use our LBS without additional charge. Because a substantial majority of our end users are able to access our LBS through bundled offerings, our ARPU has declined; however, the substantial increase in number of end users has resulted in an increase in revenue.

As a result of these pricing strategies and the September 2010 amendment to the Sprint agreement, ARPU declined by $0.31 from $1.02 in the three months ended March 31, 2010 to $0.71 in the three months ended March 31, 2011 and declined $0.24 from $1.05 in the nine months ended March 31, 2010 to $0.81 in the nine months ended March 31, 2011; however, the average monthly paying end users of our LBS increased by 54% and 57% and our revenue increased 27% and 28% during the same periods, respectively. The impact of the $0.31 decline in ARPU for our 14.5 million average monthly paying end users during the three months ended March 31, 2010 was a reduction in revenue based on these end users of $13.5 million for the three months ended March 31, 2011. The impact of the lower ARPU was more than offset by the 8.0 million increase in average monthly paying end users, from 14.5 million for the three months ended March 31, 2010 to 22.5 million for the three months ended March 31, 2011, resulting in a net revenue increase of $4.5 million for the three months ended March 31, 2011. The impact of the $0.24 decline in ARPU for our 12.7 million average monthly paying end users during the nine months ended March 31, 2010 was a reduction in revenue based on these end users of $27.4 million for the nine months ended March 31, 2011. The impact of this lower ARPU was more than offset by the 7.2 million increase in average monthly paying end users, from 12.7 million for the nine months ended March 31, 2010 to 19.9 million for the nine months ended March 31, 2011, resulting in a net revenue increase of $26.6 million for the nine months ended March 31, 2011. We believe we would not have achieved these increases in revenue had we not adopted these pricing strategies. Based on the terms of our current contracts, we anticipate that ARPU from our LBS will decline if bundled subscriptions continue to increase. Additionally, in general, ARPU may also decrease if the proportion of end users of white label offerings increases or if competition intensifies, or if prices to end users decline.

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In the three months ended March 31, 2011 and 2010, revenue from Sprint represented 36% and 55% of our revenue, respectively, and revenue from AT&T represented 34% and 34% of our revenue, respectively. In the three months ended March 31, 2011, revenue from Ford represented 13% of our revenue. In the nine months ended March 31, 2011 and 2010, revenue from Sprint represented 43% and 55% of our revenue, respectively, and revenue from AT&T represented 37% and 34% of our revenue, respectively. No other wireless carrier or other customer represented more than 10% of our revenue in either period.

Subscription fees from our GPS Navigator service represented 81% and 94% of our revenue in the three months ended March 31, 2011 and 2010, respectively, and represented 89% and 94% of our revenue in the nine months ended March 31, 2011 and 2010, respectively. Revenue from our automotive navigation solutions, enterprise LBS (sometimes referred to as mobile resource management, or MRM), mobile advertising and commerce and premium LBS represented 19% and 6% of our revenue in the three months ended March 31, 2011 and 2010, respectively, and represented 11% and 6% of our revenue in the nine months ended March 31, 2011 and 2010, respectively. .

We primarily sell our services in the United States. In the three months ended March 31, 2011 and 2010, revenue derived from U.S. sources represented 94% and 97% of our revenue, respectively, and in the nine months ended March 31, 2011 and 2010, revenue derived from U.S. sources represented 96% and 97% of our revenue.

Cost of revenue. Our cost of revenue increased 78% to $12.7 million in the three months ended March 31, 2011 from $7.2 million in the three months ended March 31, 2010. As a percentage of revenue, cost of revenue in the three months ended March 31, 2011 increased to 22% from 16% in the three months ended March 31, 2010. Our cost of revenue increased 44% to $30.4 million in the nine months ended March 31, 2011 from $21.1 million in the nine months ended March 31, 2010. As a percentage of revenue, cost of revenue in the nine months ended March 31, 2011 increased to 19% from 17% in the nine months ended March 31, 2010. The substantial majority of our cost of revenue related to costs of third party content and technology that we use in providing our LBS such as map, POI, traffic, gas price and weather data and voice recognition technology. The remaining portion of our cost of revenue included expenses associated with data center operations, customer support, the amortization of capitalized software and stock-based compensation. In addition, we expensed certain capitalized software development costs associated with revenue recognized from Ford during the three months ended March 31, 2011. Cost of revenue increased at a significantly higher rate than the 27% increase in revenue for the comparable three month period ended March 31, 2011 primarily as a result of the third party content and related costs associated with the in-dash navigation revenue from Ford and, to a lesser extent, the effect of the fixed fee amendment with Sprint signed in September 2010. This amendment resulted in a lower rate of revenue per end user in the three months ended March 31, 2011 without an equivalent decrease in the respective costs related to such end users. Cost of revenue increased at a higher rate than the 28% increase in revenue for the comparable nine month period ended March 31, 2011, primarily as a result of the third party content and related costs of the in-dash navigation revenue from Ford. The increases in cost of revenue in absolute dollars were primarily driven by the increase in our number of end users. The majority of the increases in cost of revenue in absolute dollars in the three months ended March 31, 2011 and in the nine months ended March 31, 2011 were due to 61% and 28% increases in third party content costs, respectively, as well as increased software amortization costs, including capitalized development costs expensed in connection with revenue from Ford, and increased customer support costs.

On September 17, 2010, we entered into an amendment to the TomTom Maps agreement, or the TomTom Maps Amendment. The terms of the TomTom Maps Amendment were retroactively effective as of August 1, 2010 and changes the fee structure for map and POI data we use to provide its services for Sprint s bundled offerings. The material impact of the TomTom Maps Amendment is to better align the manner in which we pay fees to TomTom Maps with the manner in which we receive revenue from Sprint. Pursuant to the TomTom Maps Amendment, we will pay TomTom Maps a percentage of the fees earned from Sprint for basic navigation services and gross advertising and mobile commerce revenue and a flat monthly fee per subscriber for premium navigation services. We also will pay TomTom Maps certain guaranteed minimum payments for such services. Previously, we paid TomTom Maps a specific fee per subscriber or a per transaction fee for our Sprint bundled offerings. The expiration of the license period for navigation services provided by TomTom Maps for Sprint s bundled offerings has been changed from July 1, 2014 to the earlier of December 31, 2012 or the date of termination of our agreement with Sprint with respect to those bundled services.

We anticipate these changes to our TomTom Maps agreement will reduce in part the impact on our cost of revenue of the anticipated increase in the number of Sprint bundle subscribers without offsetting increases in revenue. However, we expect that our cost of revenue will increase in both absolute dollars and as a percentage of revenue as the number of our end users increases, average usage of our services by end users increases and from amortization and depreciation expense associated with planned data center capacity increases, as well as increased amortization of capitalized software development costs. In addition, we anticipate that cost of revenue will increase over time as we continue to enhance the richness of the content offered by our products and if we increase the level of our revenue from automotive navigation solutions. We also anticipate that ARPU from our LBS will continue to decline, which will further increase cost of revenue as a percentage of revenue.

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Gross profit. Our gross profit increased 17% to $44.4 million in the three months ended March 31, 2011 from $37.9 million in the three months ended March 31, 2010, and increased 25% to $125.8 million in the nine months ended March 31, 2011 from $100.5 million in the nine months ended March 31, 2010, primarily due to an increase in the number of our end users. Our gross margin decreased to 78% in the three months ended March 31, 2011 from 84% in the three months ended March 31, 2010. Our gross margin decreased to 81% in the nine months ended March 31, 2011 from 83% in the nine months ended March 31, 2011. The decreases in gross margin were due to the increased proportion of revenue contributed from our in-dash navigation solutions, which generally have higher associated content costs and resulting lower gross margins than our LBS services provided to our wireless carrier partners. We expect our gross margin to decline due to slowing revenue growth as a result of the new fixed fee arrangement with Sprint, lower anticipated ARPU from our LBS, and higher anticipated usage of third party content by our end users. We also anticipate we will earn lower gross margins on certain other product offerings, such as in-dash navigation products. Changes in product mix may also cause gross margins to decline over time.

Research and development. Our research and development expenses increased 32% to $14.2 million in the three months ended March 31, 2011 from $10.8 million in the three months ended March 31, 2010. Our research and development expenses increased 45% to $40.7 million in the nine months ended March 31, 2011 from $28.1 million in the nine months ended March 31, 2010.The increases were primarily due to the costs associated with increased headcount to enhance the functionality of our services and develop new offerings and increased compensation and benefits for our existing employees. As a percentage of revenue, research and development expenses increased to 25% in the three months ended March 31, 2011 from 24% in the three months ended March 31, 2010. As a percentage of revenue, research and development expenses increased to 26% in the nine months ended March 31, 2011 from 23% in the nine months ended March 31, 2010. The total number of research and development personnel increased 12% to 751 at March 31, 2011 from 670 at March 31, 2010. We believe that as we continue to invest in expanding the LBS products we offer, establish relationships with new wireless carrier partners and develop new services and products, revenue from those investments and development efforts will lag the incurrence of related research and development expenses. We expect that research and development expenses will increase in absolute dollars as we continue to enhance and expand the services and products we offer.

Sales and marketing. Our sales and marketing expenses increased 49% to $6.7 million in the three months ended March 31, 2011 from $4.5 million in the three months ended March 31, 2010. Our sales and marketing expenses increased 38% to $17.2 million in the nine months ended March 31, 2011 from $12.5 million in the nine months ended March 31, 2010. As a percentage of revenue, sales and marketing expenses increased to 12% in the three months ended March 31, 2011 from 10% in the three months ended March 31, 2010. As a percentage of revenue, sales and marketing expenses increased to 11% in the nine months ended March 31, 2011 from 10% in the nine months ended March 31, 2010. The increase in sales and marketing expenses as a percentage of revenue in the three and nine months ended March 31, 2011 was the result of increased investment in our marketing and business development organizations, including the hiring of additional and more experienced personnel, including two vice presidents. We expect that our sales and marketing expenses will continue to increase in absolute dollars as we expand our relationships with wireless carrier partners and engage in programs to market our services to their subscribers. We may incur additional costs transitioning our Sprint Navigation branded services to TeleNav branded navigation services, which would lead to an increase in our sales and marketing expenses as a percentage of revenue and in absolute dollars.

General and administrative. Our general and administrative expenses increased 58% to $5.7 million in the three months ended March 31, 2011 from $3.6 million in the three months ended March 31, 2010. Our general and administrative expenses increased 53% to $14.2 million in the nine months ended March 31, 2011 from $9.3 million in the nine months ended March 31, 2010. The increases were primarily due to added personnel, consultants utilized for our preparations for compliance with the Sarbanes-Oxley Act of 2002, audit and tax professional fees and legal costs. Legal costs included settlement of certain intellectual property litigation and increased legal fees for litigation, intellectual property protection and immigration. The total number of general and administrative personnel increased 28%, to 73 at March 31, 2011 from 57 at March 31, 2010. As a percentage of revenue, general and administrative expenses increased to 10% in the three months ended March 31, 2011 from 8% in the three months ended March 31, 2010, and increased to 9% in the nine months ended March 31, 2011 from 8% in the nine months ended March 31, 2010. We expect our general and administrative expenses to increase in absolute dollars in the remainder of fiscal 2011 as we incur legal fees and potentially other costs in connection with litigation in which we are named defendants or our wireless carrier partners are named defendants and for which they have notified us that they are seeking or may seek indemnification from us. We also expect to incur additional general and administration expenses in the remainder of fiscal 2011 and beyond associated with being a public company, including higher legal, corporate insurance, audit and tax and financial reporting expenses as well as the costs of achieving and maintaining compliance with Section 404 of the Sarbanes-Oxley Act.

Other income (expense), net. Our other income (expense), net was $305,000 in the three months ended March 31, 2011 compared to $(20,000) in the three months ended March 31, 2010. The change was primarily due to increased interest income due to higher cash and cash equivalents and short-term investments balances. Our other income (expense), net was $750,000 in the nine months ended March 31, 2011 compared to $(330,000) in the nine months ended March 31, 2010. The change was primarily due to elimination of the expense related to the increase in fair value of our Series E preferred stock warrants and, to a lesser extent, increased interest income due to higher cash and cash equivalents and short-term investments balances.

Provision for income taxes. Our provision for income taxes increased to $6.9 million in the three months ended March 31, 2011 from $6.5 million in the three months ended March 31, 2010. Our effective tax rate was 38% and 34% for the three months ended March 31, 2011 and 2010, respectively. The increase in our effective tax rate is due to the difference in the tax benefit recognized for a tax deduction related to Qualified Domestic Production Activities under Section 199 of the Internal Revenue Code. Our provision for income taxes increased to $20.9 million in the nine months ended March 31, 2011 from $19.5 million in the nine months ended March 31, 2010. Our effective tax rate was 38% in the nine months ended March 31, 2011 compared to 39% in the nine months ended March 31, 2010. The decrease in our effective tax rate is primarily due to the extension of the federal research and development credit.

We record liabilities related to uncertain tax positions in accordance with authoritative guidance on accounting for uncertainty in income taxes. As of March 31, 2011 and June 30, 2010, our cumulative unrecognized tax benefits were $4.2 million and $2.9 million, respectively. Included in the balance of unrecognized tax benefits at March 31, 2011 is $3.4 million that, if recognized, would affect the effective tax rate. We do not believe that the unrecognized tax benefits will materially change in the next 12 months.

Liquidity and capital resources

The following table sets forth the major sources and uses of cash for each of the periods set forth below:

	Nine Months Ended March 31,	
	2011	**2010**
	(in thousands)	
Net cash provided by operating activities	$ 112,991	$ 19,888
Net cash used in investing activities	(177,548)	(7,142)
Net cash provided by (used in) financing activities	(8,114)	285
Effect of exchange rate changes on cash and cash equivalents	(73)	(50)
Net increase (decrease) in cash and cash equivalents	$ (72,744)	$ 12,981

At March 31, 2011, we had cash and cash equivalents and short-term investments of $211.3 million, which primarily consisted of money market mutual funds, municipal securities, corporate bonds, and commercial paper held by well-capitalized financial institutions.

Our accounts receivable are heavily concentrated in two wireless carrier partners. As of March 31, 2011, our accounts receivable balance was $27.7 million, of which Sprint and AT&T represented 7% and 56%, respectively. Our accounts receivable balance due from Sprint will fluctuate based upon the timing of invoicing and payment under Sprint s fixed annual fee arrangement. In addition, Ford represented 12% of our accounts receivable balance as of March 31, 2011.

Our future capital requirements will depend on many factors including our growth rate, 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 and cash equivalents, short-term investments and anticipated cash flows from operations will be sufficient to satisfy our financial obligations through at least the next 12 months. Our cash flow from operations will include payments to be received under the September 2010 amendment to our agreement with Sprint. Such payments will generally be made by Sprint prior to our providing all services, and Sprint has no refund right to these payments. However, we may experience lower than expected cash generated from operating activities, revenue that is lower than we anticipate, or 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 wireless carrier partners, 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 wireless carrier partners were to elect not to market and distribute our LBS to end users; our wireless carrier partners were to elect to lower the prices charged to their subscribers for our service; or if we were to experience a decline in our ARPU without a proportionate decrease in the average cost per end user. In the future, we may acquire complementary 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 affect on our business, operating results, financial condition and liquidity and cash position.

Net cash provided by operating activities. Net cash provided by operating activities was $113.0 million and $19.9 million in the nine months ended March 31, 2011 and 2010, respectively. The improvement in cash provided by operating activities was primarily due to the increased number of end users of our services and related revenue generated from those end users, offset to a lesser extent by increases in our operating costs. Cash provided by or used in operating activities has historically been affected by growth in our end user base and increases in our operating costs, which are primarily due to increased headcount and royalty payments for portions of the content provided in our services. In the nine months ended March 31, 2011, cash provided by operating activities was provided principally by net income of $33.6 million, non-cash charges for depreciation and amortization of $7.4 million and stock-based compensation of $2.9 million, and $67.4 million from changes in our operating assets and liabilities which resulted primarily from an increase in deferred revenue of $60.7 million as a result of Sprint s prepayment under its fixed annual fee arrangement, and a decrease in accounts receivable of $9.6 million.

Net cash used in investing activities. We used net cash in investing activities of $177.5 million and $7.1 million during the nine months ended March 31, 2011 and 2010, respectively. The cash was used primarily for purchases of short-term investments and property and equipment and internal software development costs. We expect to increase our capital expenditures in future periods as we continue to invest in the infrastructure needed to operate our services for an increasing end user base, as well as in equipment and facilities for our growing worldwide employee base as we expand our business. In the nine months ended March 31, 2011, cash used in investing activities was used principally for purchases of short-term investments of $172.6 million, net of proceeds from sales and maturities of short-term investments, and capital expenditures of $4.1 million.

Net cash provided by (used in) financing activities. We generated (used) cash in our financing activities of $(8.1) million and $285,000 during the nine months ended March 31, 2011 and 2010, respectively, due to proceeds from the exercise of options for our common stock, net of any repurchases of our outstanding stock.

In November 2010, we announced that our Board of Directors authorized a program for the repurchase of up to $20 million of our shares of common stock through open market purchases pursuant to Rule 10b-18 of the Exchange Act. The timing and amount of repurchase transactions under this program will depend on market conditions and other considerations. Under our stock repurchase program, we used $9.7 million of cash to repurchase 1,002,500 shares of our common stock at an average purchase price of $9.71 per share during the nine months ended March 31, 2011. As of March 31, 2011, the remaining authorized amount of stock repurchases that may be made under this repurchase program was $10.3 million.

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 March 31, 2011, we had an aggregate of $25.5 million of future minimum noncancelable financial commitments primarily related to license fees due to certain of our third party content providers over the next five fiscal years. The aggregate of $25.5 million of future minimum commitments were comprised of $4.9 million due in fiscal 2011; $13.4 million due in fiscal 2012; $5.3 million due in fiscal 2013; $1.6 million due in fiscal 2014; and $0.3 million due in fiscal 2015. The above commitment amounts exclude amounts already recorded on the Condensed Consolidated Balance Sheet.

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 March 31, 2011, 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. Substantially all of our revenue has been generated to date from our end users in the United States and, as such, our revenue has not been substantially exposed to fluctuations in currency exchange rates. However, most of our contracts with our wireless carrier partners 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 Chinese RMB. Additionally, changes in foreign currency exchange rates may cause us to recognize transaction gains and losses in our statement of operations. As of March 31, 2011, 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 March 31, 2011. 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 March 31, 2011, 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 March 31, 2011 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 wireless carrier partners by determining the scope, enforceability and validity of third party proprietary rights or to establish our proprietary rights. 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 November 17, 2009, WRE-Hol, LLC (WRE-Hol) filed a complaint against us in the U.S. District Court for the Western District of Washington (Case No. 2:09-cv-01642-MJP). The lawsuit alleges that certain of our products and/or services infringe U.S. Patent No. 7,149,625, and that we induce infringement and contribute to the infringement of U.S. Patent No. 7,149,625 by others. According to the patent, the invention generally relates to a system and method for providing navigation and automated guidance to a mobile user. The complaint seeks unspecified monetary damages, fees and expenses and injunctive relief against us. On November 27, 2009, WRE-Hol served the complaint on us. On January 25, 2010, we answered the WRE-Hol complaint asserting that the patent-in-suit is not infringed and is invalid and unenforceable. On March 11, 2010, WRE-Hol amended its complaint to add a new defendant, and we subsequently answered, repeating our assertions that the patent-in-suit is not infringed and is invalid and unenforceable. On April 27, 2010, we filed a reexamination request for all of the claims of the asserted patent before the U.S. Patent and Trademark Office. On April 29, 2010, we filed a motion to stay the litigation pending the reexamination. On May 3, 2010, WRE-Hol filed a motion for leave to amend the complaint against us, seeking to add claims for misappropriation of trade secrets against us and our founders, Y.C. Chao, H.P. Jin and Robert Rennard. WRE-Hol s motion for leave to amend also seeks to add a breach of contract claim against us and a claim for wrongful inventorship involving two of our patents, requesting a declaratory judgment that a WRE-Hol inventor be named as an inventor on these patents. On July 19, 2010, the U.S. Patent and Trademark Office issued an order granting inter partes reexamination of all 51 claims of the WRE-Hol 625 patent. On July 23, 2010, the district court issued an order granting WRE-Hol s motion for leave to amend its complaint, but at the same time stayed the entire litigation pending completion of the reexamination. The stay of the litigation extends to the new claims the court allowed. On September 13, 2010, the U.S. Patent and Trademark Office rejected 44 of the 51 WRE-Hol patent claims in a non-final first office action and confirmed seven of the 51 claims. On November 15, 2010, WRE-Hol responded to the office action, canceling some claims and adding others. On December 15, 2010, TeleNav responded to the office action and WRE-Hol s response. On April 4, 2011, the U.S. Patent and Trademark Office rejected WRE-Hol s November 15, 2010 office action response, and gave WRE-Hol 30 days to file a corrected response, after which we can submit our own modified response to both the office action and WRE-Hol s corrected response. The next step will be a second office action from the Patent Office, which is expected within the next six months. 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 lawsuit on our financial condition, results of operations, or cash flows.

On December 31, 2009, Vehicle IP, LLC (Vehicle IP) filed a complaint against us in the U.S. District Court for the District of Delaware (Case No. 1:09-cv-01007-JJF). The lawsuit alleges that certain of our navigation services, including our GPS Navigator, infringe U.S. Patent No. 5,987,377, and that we induce infringement and contribute to the infringement of U.S. Patent No. 5,987,377 by others. According to the patent, the invention generally relates to a navigation system that determines an expected time of arrival. The complaint seeks unspecified monetary damages, fees and expenses and injunctive relief against us. On March 11, 2010, we answered the complaint, asserting that the patent-in-suit is not infringed and is invalid. Vehicle IP denied these counterclaims and requested that they be dismissed. Verizon Wireless 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&T was also named as a co-defendant in the Vehicle IP litigation based on the AT&T Navigator product. AT&T has tendered the defense of the litigation to us and we are defending the case on behalf of AT&T. The court conducted a scheduling conference for the litigation on February 7, 2011 and set a jury trial date for November 5, 2012. The parties are engaged in fact discovery, which has a cutoff date of April 5, 2012. The court will hold a claim construction hearing on October 24, 2011. The parties are to submit case dispositive motions by May 18, 2012. 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 lawsuit on our financial condition, results of operations, or cash flows.

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On April 30, 2010, Traffic Information, LLC filed a complaint against us in the U.S. District Court for the Eastern District of Texas (Case No. 2:10-cv-00145-TJW). The lawsuit alleges that certain of our products and/or services infringe U.S. Patent No. 6,785,606, and that we induce infringement and contribute to the infringement of U.S. Patent No. 6,785,606 by others. According to the patent, the invention generally relates to a system for providing traffic information to a plurality of mobile users connected to a network. The complaint seeks unspecified monetary damages, fees and expenses and injunctive relief against us. On May 28, 2010, Traffic Information, LLC filed an amended complaint, adding a new claim that certain of our products and/or services infringe U.S. Patent No. 6,466,862, and that we induce infringement and contribute to the infringement of U.S. Patent No. 6,466,862 by others. According to the patent, the invention generally relates to a system for providing traffic information to a plurality of mobile users connected to a network. The amended complaint seeks unspecified monetary damages, fees and expenses and injunctive relief against us. On March 14, 2011, we answered the Traffic Information complaint asserting that the patent-in-suit is not infringed and is invalid and unenforceable. 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.

On April 11, 2011, Walker Digital, LLC (Walker Digital), filed a complaint against us and eleven other defendants in the United States District Court for the District of Delaware, Case No. 1:11-CV-00309-SLR, alleging infringement of U.S. Patent No. 6,199,014, and seeking a permanent injunction, damages and attorneys fees should judgment be found in favor of Walker Digital. On April 19, 2011, Walker Digital served its complaint on us. Our answer is due on May 10, 2011. The case is in its early stages, and we intend to vigorously defend against the complaint.

On September 2, 2010, a purported stockholder class action was filed by David Smith in the United States District Court for the Northern District of California (Case No. 3:10-CV-03942-SC) against us, certain of our officers and directors, and certain of our underwriters for our May 13, 2010 initial public offering, alleging violations of Sections 11 and 15 of the Securities Act. On November 1, 2010, David Smith and his attorneys filed a motion for appointment as lead plaintiff and lead counsel, which we did not oppose. On February 3, 2011, the Court granted plaintiff s motion for appointment as lead plaintiff and selection of Robbins Geller Rudman & Dowd as lead counsel. On March 21, 2011, plaintiff filed an amended complaint. The amended complaint purports to be brought on behalf of all persons who acquired shares of our common stock pursuant to our May 13, 2010 initial public offering. The amended complaint alleges that we, certain of our officers and directors, and certain of our underwriters for the initial public offering violated the Securities Act by issuing the Registration Statement and Prospectus, which the plaintiff alleges contained material misstatements and omissions in violation of Sections 11, 12(a)(2) and 15 of the Securities Act. Specifically, the amended complaint alleges that we failed to disclose in our May 13, 2010 Registration Statement and Prospectus that we would soon be renegotiating our current contract with Sprint, our largest customer, which would result in our revenue being reduced. The amended complaint seeks class certification, compensatory damages, attorneys fees and costs, rescission or a rescissory measure of damages, equitable and/or injunctive relief, and such other relief as the court may deem proper. We deny the plaintiff s allegations and believe that our defenses to this action have merit. We intend to vigorously defend against this action and filed a motion to dismiss plaintiff s amended complaint on May 4, 2011, which will be heard by the Court on August 12, 2011. 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 amended 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 wireless carrier partners, 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 wireless carrier partners in compliance with our contractual commitments. We are not a party to the following cases; however our wireless carrier partners have requested that we indemnify them in connection with such cases:

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In 2008, Alltel, AT&T, Sprint and T-Mobile, each demanded that we indemnify and defend them against a lawsuit brought by Emsat Advanced Geo-Location Technology LLC and Location Based Services LLC, or collectively, Emsat, in the Northern District of Ohio (Case Nos. 4:08-cv-822, 4:08-cv-821, 4:08-cv- 817, 4:08-cv-818) alleging that the wireless carriers infringe U.S. Patent Nos. 5,946,611, 6,324,404, 6,847,822 and 7,289,763 in connection with the delivery of wireless telephone services and seeking unspecified damages. The Emsat entities are patent holding companies. In May 2009, several of the cases were stayed pending proceedings relating to a request for reexamination of all the patents at issue in the litigation. In June 2009, the U.S. Patent and Trademark Office denied the requests for reexamination as it relates to all of the patent claims asserted in the lawsuits. Subsequently, the defendants in certain of the cases filed requests for reexamination of U.S. Patent No. 6,847,822 and indicated that they would do the same with respect to U.S. Patent No. 7,289,763. On December 22, 2009, the U.S. Patent and Trademark Office granted the request for reexamination of 17 claims of U.S. Patent No. 6,847,822. On March 16, 2010, the U.S. Patent and Trademark Office confirmed two of the 17 claims and rejected the other 15 claims. On August 18, 2010, a third-party requestor filed an ex parte request for reexamination of U.S. Patent No. 6,324,404. That request is pending before the U.S. Patent and Trademark Office. In the Sprint and Alltel cases, the court has not yet lifted the stay, and denied the plaintiff s motion to vacate the stay on August 20, 2010. The defendants filed a request for reexamination of U.S. Patent No. 7,289,763 on December 14, 2010. In the T-Mobile and AT&T cases, the parties voluntarily vacated the stay and a trial status conference with the court was held on September 24, 2009. A claim construction hearing was held on May 10, 2010 and the court issued its claim construction ruling on August 23, 2010. T-Mobile and AT&T also filed a motion for partial summary judgment on the invalidity of some asserted claims of the patents-in-suit. On August 23, 2010, the court denied the partial summary judgment motion. Google joined as an intervenor in the T-Mobile case because T-Mobile also sought indemnification from Google. In the T-Mobile case, T-Mobile filed a motion for reconsideration of the Court s denial of the partial summary judgment motion on September 20, 2010, and Google filed a motion for partial reconsideration of claim construction on the same day. The Court denied both motions on November 18, 2010. Emsat filed an amended complaint on December 17, 2010, dropping its infringement claims as to U.S. Patent Nos. 5,946,611 and 6,324,404, and adding a claim for willful infringement. T-Mobile denied the allegations in its answer and filed counterclaims for declaratory judgment of non-infringement, invalidity and unenforceability of the patents-in-suit on January 3, 2011. Plaintiffs denied the allegations in its answer to T-Mobile s counterclaims on January 4, 2011. On January 3, 2011, the parties stipulated to dismissal of all claims against Google and Google s counterclaims against Emsat. On January 13, 2011, Emsat filed an unopposed motion to file its third amended complaint. On January 18, 2011, T-Mobile filed a motion to stay proceedings pending inter partes reexamination of U.S. Patent Nos. 6,847,822 and 7,289,763. On March 8, 2011, the Emstat case against T-Mobile was stayed and closed pending re-examination. In the AT&T case, Emsat amended the complaint to allege a breach of contract claim and AT&T denied the allegation in its answer and filed counterclaims for declaratory judgment of non-infringement, invalidity and unenforceability. Emsat denied the allegations in its answer to AT&T s counterclaims on January 4, 2011. The AT&T case was consolidated with EMSAT Advanced Geo-Location Technology, LLC et al v. Tracfone Wireless, Inc. (Case No. 5:10-CV-00245). On January 13, 2011, Emsat filed a motion to file its third amended complaint, which is still pending. On January 19, 2011, AT&T filed a notice of joinder in T-Mobile s motion to stay proceedings pending inter partes reexamination of the patents-in-suit filed in the related T-Mobile case. On March 9, 2011, Emsat dismissed its lawsuit against AT&T based on a settlement agreement. As of the date of this Form 10-Q, we and one wireless carrier have determined that we will provide some financial support relating to our indemnification obligations relating to this litigation, but as to that wireless carrier and the other wireless carriers, we have not determined the full extent. 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 March and May 2009, AT&T and Sprint demanded that we indemnify and defend them against a lawsuit brought by Tendler Cellular of Texas LLC in the Eastern District of Texas (Case No. 6:09-cv-0115) alleging that the wireless carriers infringe U.S. Patent No. 7,447,508 in connection with the delivery of certain LBS as part of their wireless telephone services and seeking unspecified damages. Tendler Cellular of Texas is a patent holding company. In May 2009, AT&T responded to the allegations, filing an answer that the patent-in-suit is not infringed, is invalid and unenforceable. In June 2009, Sprint did the same. 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. In July 2010, Sprint settled its claims with Tendler, and we resolved all indemnity claims to Sprint related to this matter and all such amounts have been reflected in our financial statements as of December 31, 2010.

In February 2010, Sprint demanded that we indemnify and defend it against a lawsuit brought by Alfred P. Levine, an individual, in the Eastern District of Texas (Case No. 2:09-cv-00372) alleging that Sprint and Samsung infringe U.S. Patent Nos. 6,243,030 and 6,140,943 in connection with providing wireless navigation systems, products and services. In March 2010, Sprint responded to the allegations, filing an answer that the patents-in-suit are not infringed, are invalid and unenforceable. Alfred Levine subsequently denied these counterclaims and requested that they be dismissed. At an initial scheduling conference held on August 30, 2010, the court set a claim construction hearing date of December 21, 2011 and a trial date of May 7, 2012. We agreed to indemnify and defend Sprint against the lawsuit, and we are presently defending Sprint as a result. We cannot reasonably estimate to what extent we will indemnify Sprint or the potential losses it and we may experience in connection with such litigation. On October 28, 2010, Levine filed an amended complaint, adding groups of defendants from AT&T, T-Mobile, Verizon, HTC, Intermec, Kyocera, LG Electronics, Motorola, Palm, and Research In Motion, and Sanyo. In January 2011, AT&T demanded that we indemnify and defend it in the lawsuit. We offered to indemnify and defend AT&T against the lawsuit, with certain limitations, and are presently negotiating the scope of our indemnification obligations with AT&T. In February 2011, T-Mobile demanded that we indemnify and defend it in the lawsuit. We have agreed to indemnify and defend T-Mobile against the lawsuit, with certain limitations, and are presently defending T-Mobile as a result. We cannot reasonably estimate to what extent we will indemnify Sprint or T-Mobile or AT&T or the potential losses they and we may experience in connection with such litigation. On January 10, 2011, the Court held a status conference. On January 14, 2011, the defendants filed a motion to modify the schedule to move the claim construction hearing and trial date to June 2012 and November 2012, respectively. On April 11, 2011, the Court granted-in-part the defendants motion, keeping the claim construction hearing in December 2011 but moving the trial date to August 6, 2012. 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.

Large future indemnity payments and associated legal fees and expenses, including potential indemnity payments and legal fees and expenses relating to wireless carriers 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 we have not agreed to defend or indemnify our wireless carrier partners for the outstanding and unresolved indemnity demands, we may in the future agree to defend and indemnify our wireless carrier or other partners 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 wireless carriers or other partners indemnity demands, including the outstanding demands, which may lead to disputes with our wireless carrier or other partners, negatively impact our relationships with them or result in litigation against us. Our wireless carrier or other partners 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 wireless carrier or other partners are negatively impacted, or any of our wireless carrier or partner 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 are substantially dependent on two wireless carrier partners for a large portion of our revenue and if these wireless carrier partners were to limit or terminate our relationships with them or to offer LBS directly or from other vendors, our revenue and net income would be adversely affected.

We are substantially dependent on two wireless carrier partners for a large portion of our revenue. For the nine months ended March 31, 2011 and 2010, Sprint represented 43% and 55% of our revenue, respectively. Effective September 1, 2010, we amended our agreement with Sprint to, among other things, extend the term of our agreement from December 31, 2011 to December 31, 2012. Pursuant to the terms of our agreement with Sprint, we are Sprint s preferred supplier of navigation applications until December 31, 2012 and Sprint is required to use commercially reasonable efforts to feature our navigation services more prominently than other navigation applications on handsets and to preload certain of our products on handsets. Sprint is entitled to expand the number of bundles in which our navigation services are offered. For bundled navigation services, Sprint will pay us a fixed annual fee regardless of the number of subscribers (up to specified thresholds). Sprint may terminate our agreement for any reason, beginning June 30, 2012, by providing notice at least 30 business days prior to termination. Our amended agreement with Sprint will result in declines in ARPU compared to the most recent quarter due to increasing numbers of Sprint bundle subscribers with access to our services and significant reductions in revenue from Sprint for bundled basic navigation services. Although we are entitled to receive more revenue from enterprise LBS, mobile commerce and premium navigation services than we were previously, we may not be able to realize these benefits in the short term or at all. We cannot predict the ultimate financial impact of our amended agreement with Sprint. Our failure to renew or renegotiate this agreement on or after June 30, 2012 on favorable terms or at all, a termination of our agreement by Sprint or our failure to otherwise maintain our relationship with Sprint would substantially reduce our revenue and significantly harm our business, operating results and financial condition.

In connection with our amended agreement with Sprint, we and Sprint have agreed to transition Sprint Navigation branded services to TeleNav branded navigation services. The branding transition may not increase end user recognition of our brand and may result in confusion that results in reduced or more limited adoption of our services by Sprint s subscribers.

In March 2008, Sprint began offering the Simply Everything plans which currently include our LBS. As a result, we have experienced a significant increase in end users and benefitted from increased marketing exposure since the Simply Everything plans introduction. If Sprint reduces its expenditures for marketing our LBS, changes its Simply Everything plans to eliminate our services, prices our LBS at a level that makes them less attractive or offers and promotes competing LBS, in lieu of, or to a greater degree than, our LBS, our revenue would be materially reduced and our business, operating results and financial condition would be materially and adversely affected.

For the nine months ended March 31, 2011 and 2010, AT&T represented 37% and 34% of our total revenue, respectively. AT&T is not required to offer our LBS. As amended in January 2011, our agreement with AT&T expires in March 2013 and during the term of our agreement, we are the exclusive provider of white label GPS navigation services to AT&T. If AT&T were to terminate its agreement with us or fail to renew or renegotiate the agreement on favorable terms when it expires, we would lose a substantial portion of our revenue and our business operating results and financial condition could be harmed. Furthermore, our failure to otherwise maintain our relationship with AT&T would substantially harm our business.

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 partners and end users.

The market for development, distribution and sale of LBS 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 could begin offering LBS that have at least equivalent functionality to ours for free. For example, Google, Inc., or Google, offers free voice guided, turn by turn navigation as part of its Google Maps product for mobile devices based on the Android 1.6 and higher operating system platform and Nokia Corporation, or Nokia, provides a download for its latest version of Ovi Maps on its smartphones which also provides turn by turn navigation functions. Microsoft Corporation, or Microsoft, also provides a free turn by turn navigation solution with its current Windows Mobile 6.5 operating system via their Bing for Mobile application. Competition from these free offerings may reduce our revenue and harm our business. If our wireless carrier partners can offer these LBS to their subscribers for free, they may elect to cease their relationships with us, alter or reduce the manner or extent to which they market or offer our services or require us to substantially reduce our subscription fees or pursue other business strategies that may not prove successful.

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Our primary competitors include providers of LBS such as Google, Microsoft, Navigon AG, or Navigon, Nokia, TeleCommunication Systems, Inc., or TCS, through its acquisition of Network In Motion, or NIM, Telmap Ltd., or Telmap, and TomTom; PND providers such as Garmin and TomTom; integrated navigation mobile phone providers such as Garmin Ltd., or Garmin, and Nokia; providers of Internet and mobile based maps and directions such as AOL Corporation, or AOL, Mapquest, Inc., or Mapquest, Google, Microsoft and Yahoo!, Inc., or Yahoo!; and wireless carriers and communication solutions providers developing their own LBS. 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 and handset manufacturer relationships;
- 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 LBS, 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.

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

Several of our wireless carrier partners sell unlimited data service plans, which include our LBS. As a result, end users do not have to pay a separate monthly fee to use our services. If our wireless carrier partners were to eliminate our services from their unlimited data service plans, such as the Sprint Simply Everything plans, we could lose end users as they would be required to pay a separate monthly fee to continue to use our services. In addition, we could be required to change our fee structure to retain end users, which could negatively affect our gross margins. For example, effective September 1, 2010, we amended our agreement with Sprint to, among other things, provide bundled navigation services for a fixed annual fee from Sprint regardless of the number of subscribers (up to specified thresholds), rather than the per subscriber per month fee structure we and Sprint had previously employed. We anticipate that our future revenue from Sprint and our ARPU and gross margins will be negatively affected as a result of the shift to a fixed fee model for services we provide to bundled subscribers. Our wireless carrier partners may also seek to 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 partners 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 LBS less attractive and could result in current end users abandoning our LBS. 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 are substantially dependent on our wireless carrier partners to market and distribute our LBS to end users and our business may be harmed if our wireless carrier partners elect not to broadly offer our services.

We rely on our wireless carrier partners to introduce, market and promote our LBS to end users. None of our wireless carrier partners are contractually obligated to continue to do so. If wireless carrier partners do not introduce, market and promote mobile phones that are GPS enabled and on which our client software is preloaded and do not actively market our LBS, our LBS will not achieve broader acceptance and our revenue may not grow as fast as anticipated, or may decline.

Wireless carriers, including those with which we have existing relationships, may decide not to offer our services and may enter into exclusive relationships with one or more of our competitors. While our LBS may still be available to customers of those wireless carriers as downloads from application stores or our website, sales of our LBS would likely be much more limited than if our LBS were preloaded as a white label service actively marketed by the carrier or were included as part of a bundle of services. Our inability to offer our LBS through a white label offering or as part of a bundle on popular mobile phones would harm our operating results and financial condition.

If we are unable to manage our costs in light of the anticipated reduction in ARPU or a potential increase in end user activity, our gross margin would decline and our operating results would be adversely affected.

Our ARPU has declined over time due to a number of factors, including the bundling of our LBS with voice and other data services, the introduction of white label services and the amendment of our agreement with Sprint. We expect the current trend of declining ARPU to continue. Our wireless carrier partners have the ability to lower end user pricing on our LBS which would have an immediate adverse effect on our ARPU. As a result of the recent Sprint amendment that provides us with a fixed annual fee for bundled navigation services, we believe that future ARPU and average monthly paying end users may not be comparable to earlier periods or be a meaningful indicator of our financial performance. Our gross margin may decrease if the average cost per end user to provide our services does not decline proportionately. These costs include third party map and other data costs and internal costs to provide our services. Many of these costs increase as the number of end users increases, and also increase based on incremental usage by end users, both of which could have a negative effect on our gross margins. Although we have taken action to increase the predictability of certain of our third party map and other data costs for Sprint bundles, we may not have adequately aligned our cost of providing our LBS and may not be successful in maintaining or reducing the decline in our gross margin.

Our success depends on significantly increasing the number of end users that purchase our LBS from our wireless carrier partners.

Our revenue is derived almost exclusively from subscription fees that we receive from our wireless carrier partners for end users who subscribe to our service on a stand alone basis or in a bundle with other services. Depending on the wireless carrier contracts, we receive revenue per end user as a fixed fee or a revenue sharing arrangement. To date, a relatively small number of end users have subscribed for our services in connection with their wireless plans compared to the total number of mobile phone users. Our near term success depends heavily on achieving significantly increased subscriber adoption of our LBS either through stand alone subscriptions to our services or as part of bundles from our existing wireless carrier partners. Our success also depends on achieving widespread deployment of our LBS by attracting and retaining additional wireless carrier partners. The use of our LBS will depend on the pricing and quality of those services, subscriber demand for those services, which may vary by market, as well as the level of subscriber turnover experienced by our wireless carrier partners. If subscriber turnover increases more than we anticipate, our financial results could be adversely affected.

If our current and future wireless carrier partners do not successfully market our LBS, particularly GPS Navigator, to their customers or if we are not successful in maintaining and expanding our relationships with our wireless carrier partners, we will not be able to maintain or increase the number of end users that use our LBS and our business, operating results and financial condition will be materially adversely affected.

If our wireless carrier partners lose net subscribers, such as the losses Sprint previously experienced, or if their subscribers do not continue to purchase service plans that include our LBS and we are unable to develop relationships with other significant wireless carriers, we may lose end users and our revenue and operating results may be adversely affected.

Wireless carriers relationships with subscribers have been threatened by several factors, including strong competition, lack of subscriber loyalty and the development of direct relationships between mobile phone manufacturers and mobile phone operating system providers and consumers. A loss of net subscribers by one or more of our wireless carrier partners could harm our business as we rely on our wireless carrier partners to market our products. For example, one of our key wireless carrier partners, Sprint, has experienced losses in net subscribers in the past. Although Sprint has recently experienced gains in net subscribers, if these gains in subscribers are not sustained and Sprint were to once again lose net subscribers or if Sprint subscribers do not continue to purchase service plans that include our LBS, we may also lose end users and experience a decline in revenue to the extent we are unable to develop similar relationships with other significant wireless carriers which include our services in attractive bundled or other LBS offerings that generate comparable revenue. A significant decrease in the number of our end users will adversely affect our revenue and operating results.

Our ability to increase or maintain our end user base and revenue will be impaired if mobile phone manufacturers do not allow us to customize our services for their new devices.

We typically deliver our services through client software that has been customized to work with a given mobile phone s operating system, features and form factors. Wireless carrier partners often insist that mobile phone manufacturers permit us to customize our client software for their devices in order to provide the end user with a positive experience. Wireless carriers or mobile phone manufacturers may enter into agreements with other providers of LBS for new or popular mobile phones. For this reason or others, some mobile phone manufacturers may refuse to permit us to access preproduction models of their mobile phones or the mobile phone manufacturers may offer a competing service. If mobile phone manufacturers do not permit us to customize our client software and preload it on their devices, we may have difficulty attracting end users because of poor user experiences or an inconvenient provisioning process. If we are unable to provide seamless provisioning or end users cancel their subscriptions to our services because they have poor experiences, our revenue may be harmed.

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New entrants and the introduction of other distribution models in the LBS market may harm our competitive position.

The markets for development, distribution and sale of LBS are rapidly evolving. New entrants seeking to gain market share by introducing new technology and new products may make it more difficult for us to sell our LBS, and could create increased pricing pressure, reduced profit margins, increased sales and marketing expenses or the loss of market share or expected market share, any of which may significantly harm our business, operating results and financial condition.

Although historically wireless carriers controlled provisioning and access to the applications that could be used on mobile phones connected to their networks, in recent years consumers have been able to download and provision applications from individual provider websites and to select from a menu of applications through the Apple iTunes App Store, Android Marketplace, the Blackberry App World and other application aggregators. In addition, applications from other LBS providers may be preloaded on mobile devices by OEMs or offered by OEMs directly. Increased competition from providers of LBS which do not rely on a wireless carrier may result in fewer wireless carrier subscribers electing to purchase their wireless carrier s branded LBS, which could harm our business and revenue. In addition, these LBS may be offered for free or on a one time fee basis, which could force us to reduce monthly subscription fees, migrate to a one time fee model or offer basic versions of our products that allow for upgrades to more premium versions for a fee to remain competitive. We may also lose end users or face erosion in ARPU if these competitors deliver their products without charge to the consumer by generating revenue from advertising or as part of other applications or services. Finally, we may not be successful at generating revenue from premium navigation services if end users believe that free services are comparable or adequate.

Our operating income and net income could decline as a percentage of revenue as we make further expenditures to enhance and expand our operations in order to support additional growth in our business.

As a percentage of revenue, our operating income was 35% and 42% and our net income was 21% and 25% in the nine months ended March 31, 2011 and 2010, respectively. Since June 30, 2008, we have made significant investments in new operating and information systems and additional data centers, hired substantial numbers of new research and development, sales and marketing and general and administrative personnel and expanded our operations outside the United States. Efforts to develop new services and products and attract new wireless carrier partners require investments in anticipation of longer term revenue. We intend to make additional investments in systems and personnel and continue to expand our operations to support anticipated growth in our business. We also expect to incur additional operating costs as a public reporting company as a result of our initial public offering in May 2010. As a result of these factors, we believe our operating income and net income may decline as a percentage of revenue at least through fiscal 2011. Furthermore, our investments and expenditures may not result in the growth that we anticipate. We also will not be able to reduce our expenditures on a timely basis, if at all, if we do not generate anticipated revenue.

We are substantially dependent on revenue from our GPS Navigator service, our flagship LBS, and, if we fail to generate significant revenue from other services, our operating results may be harmed if revenue from GPS Navigator declines.

Although revenue in absolute dollars from sources other than GPS Navigator rose in all periods presented, revenue from our GPS Navigator service represented 89% and 94% of our revenue in the nine months ended March 31, 2011 and 2010, respectively. If we were unable to be the exclusive provider of white label navigation services to our major wireless carrier partners or the number of end users for GPS Navigator were to decline, our revenue would be substantially harmed. We have experienced a reduction of ARPU from GPS Navigator over time as our wireless carrier partners implement white label and more bundled offerings, for which we typically receive a lower monthly subscription fee or a fixed annual fee regardless of the number of end users (subject to specified thresholds) to which we provide our services. We may be unable to increase our revenue from our enterprise LBS, and we may not be successful in our efforts to diversify into areas such as in-dash navigation, mobile advertising and commerce and premium LBS. If we were unable to offset declining ARPU from GPS Navigator by increasing the amount of revenue that our other services and products represent, our business, operating results and financial condition would be harmed.

We rely on our wireless carrier partners for timely and accurate subscriber 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 partners to bill subscribers and collect monthly fees for our LBS, either directly or through third party service providers. If our wireless carrier partners 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 wireless carrier. 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.

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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 wireless carrier partners 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 the wireless carriers systems, or if our systems fail or we are unable to report timely and accurate information to our third party data and content 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.

Our profitability may decline as we expand into other service and product areas and we may be unable to recoup our investments.

We receive a substantial majority of our revenue from monthly subscription fees paid by wireless carrier partners who bill their subscribers for our services on a stand alone or bundled basis. As we expand our LBS offerings to enable end users to purchase our services from application stores outside of wireless carriers sales platforms, we may have to adapt our revenue model to a one time fee for services. In addition, as we enter the in-dash navigation market, mobile advertising and commerce and premium LBS or other markets for LBS, we may be required to adopt pricing models other than monthly subscription fees and may incur cost of revenue substantially different than that which we have experienced historically due in part to third party content costs. These different pricing models and increased costs of revenue may result in declines in our gross margins.

We have limited experience in selling our services and products outside of the wireless carrier application platform. As we expand into new service and product areas, such as in-dash navigation systems, we may not be able to compete effectively with existing market participants and may not be able to realize a positive return on the investment we have made in these products or services. If our introduction of a new product or service is not successful or we are not able to achieve the revenue or margins we expect, our operating results may be harmed and we may not recover our product development and marketing expenditures.

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

We began to offer our first automotive off-board navigation service as an option to certain 2010 model year Ford vehicles and in-dash navigation systems providing visual and audio guidance, which utilizes vehicle telematic services to provide up to date information in certain 2011 model year Ford vehicles. These navigation solutions represent our first significant activities in the automotive market and we may not be successful at achieving manufacturer and end customer acceptance of these navigation solutions. Although we have established a relationship with Ford, Ford may not select to include our solutions in future vehicles and we may not be successful in attracting and retaining other automotive suppliers and manufacturers. As we expand into the automotive navigation market, we will be competing with established automotive OEMs and providers of in-dash navigation services such as Garmin, TomTom, and NNG (Nav N Go). Certain of the in-dash solutions that we offer may not satisfy automotive manufacturers or end customers expectations for those solutions. 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 fees outside of the traditional in-dash navigation service model. As we do not have experience in the in-dash navigation market, we may not price our in-dash solutions in such a way that is profitable for us and enables us to recoup the development expenses we incurred to provide in-dash solutions in the time we expect or at all. If we fail to achieve profitability in our in-dash services market, we may be unable to achieve the benefits of revenue diversification. We will also be dependent on our automotive manufacturer or OEM partner to report on vehicles sold and to remit fees due at the time of sale. If our automotive manufacturer or OEM partners do not report promptly or correctly, our revenue, cost of revenue and net income may be negatively affected.

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

The market for LBS is emerging and 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 LBS platform and to continue to develop and introduce new LBS 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 LBS 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 LBS 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 LBS platform with evolving industry standards and protocols and competitive network operating environments.

Development and delivery schedules for LBS are difficult to predict. We have in the past and may in the future fail to deliver new versions of our services in a timely fashion. If new releases of our LBS are delayed or our services are not preloaded on mobile phones upon their initial commercial release, our wireless carrier partners may curtail their efforts to market and promote our LBS and end users may switch to competing services, any of which would result in a delay or loss of revenue and could harm our business. In addition, we cannot assure you that the technologies and related LBS that we develop will be brought to market by our wireless carrier partners as quickly as anticipated or that they will achieve broad acceptance among wireless carriers or consumers.

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 of LBS 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.

We obtain map data from TomTom Maps and NAVTEQ, 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 data to us.

We may not be able to upgrade our LBS 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 LBS platform, may adversely affect consumer demand for our LBS and, consequently, harm our business.

We have experienced rapid growth in recent periods. If we fail to manage our growth effectively, our financial performance may suffer.

We have substantially expanded our overall business, end user base, headcount and operations in recent periods. We increased our total number of full time employees from 332 at June 30, 2007 to 997 at March 31, 2011. During this same period, we made substantial investments in our information systems and significantly expanded our operations outside the United States, including an expansion of our research and development activities in China. For example, we added 146 new employees in China during fiscal 2010. Our expansion has placed, and our expected future growth will continue to place, a significant strain on our managerial, administrative, operational, financial and other resources. If we are unable to manage our growth successfully, our operating results will suffer. In addition, due to the large number of employees located outside of the United States, we have exposure to changes in foreign currency rates which could result in higher labor and related operating costs.

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

Our LBS are provided through a combination of our servers, which we house at third party data centers, and the networks of our wireless carrier partners. 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. We have recently added third party data center facilities in the Sacramento, California area to provide for disaster recovery and, which we expect, in the long term, to accommodate the anticipated growth of our LBS. 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 partners, 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, or were unable to commence recovery operations in our new data center in Sacramento, California, our ability to provide efficient and uninterrupted operation of our services would be significantly impaired.

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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.

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 LBS, could have a material adverse effect on our operating results and financial condition.

If our LBS platform does not scale as anticipated, or we are unable to grow data center capacity as needed, our business will be harmed.

Despite frequent testing of the scalability of our LBS platform in a test environment, the ability of our LBS platform to scale to support a substantial increase in the use of our services or number of users in an actual commercial environment is unproven. If our LBS platform does not efficiently and effectively scale to support and manage a substantial increase in the use of our services or number of users while maintaining a high level of performance, our business will be seriously harmed.

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:

- changes in the pricing of our services or products or those of our competitors and changes in the pricing and content of bundled LBS offerings of our wireless carrier partners, such as the revenue model changes resulting from our recent contract amendment with Sprint;
- impact of results of the offering of a premium upgrade on a basic version of our service that is offered for free included in a wireless carrier partner s bundled offerings;

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

loss of subscribers by our wireless carrier partners or a reduction in the number of subscribers to plans that include our services;

the timing and quality of information we receive from our wireless carrier partners and automotive suppliers and manufacturers;

our inability to attract new end users;

the timing and success of new service introductions by us or our competitors;

the timing and success of new mobile phone introductions by our wireless carrier partners;

the loss of our relationship with any particular wireless carrier partner;

the timing and success of wireless carrier partners   marketing expenditures;

the seasonality of new vehicle model introductions and consumer buying patterns;

the extent of any interruption in our services;

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the amount and timing of operating costs and capital expenditures related to the expansion of our operations and infrastructure;

the timing of expenses related to the development or acquisition of technologies, products or businesses;

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 smartphones and LBS 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 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.

If a substantial number of end users change mobile phones or if our wireless carrier partners switch to subscription plans that require active monthly renewal by end users, our revenue could suffer.

Subscription fees represent the vast majority of our revenue. As mobile phone development continues and new mobile phones are offered at subsidized rates to subscribers in connection with plan renewals, an increasing percentage of end users who already subscribe to our services will likely upgrade from their existing mobile phones. With some wireless carriers, subscribers are unable to automatically transfer their existing subscriptions from one mobile phone to another.

In addition, wireless carriers may switch to subscription billing systems that require subscribers to actively renew, or opt-in, each month from current systems that passively renew unless subscribers take some action to opt-out of their subscriptions. In either case, unless we or our wireless carrier partners are able to resell subscriptions to these subscribers or replace these subscribers with other subscribers, our revenue would suffer and this could harm our business, operating results and financial condition.

If we are unable to attract new wireless carrier partners, our revenue growth may be adversely affected and our net income could decline.

If we do not add new wireless carrier partners and increase the number of end users who receive our services through those new wireless carrier partners, we may not be able to increase our revenue in the longer term. Our sales and marketing efforts may not be successful in establishing relationships with new wireless carrier partners. We will not be successful in expanding into new geographic markets without developing relationships with successful wireless carriers in those markets. We expect to incur significant additional expenses in hiring additional personnel and expanding our international operations in order to attract new wireless carrier partners in different geographic markets to achieve revenue growth. If we fail to attract new successful wireless carrier partners and their subscribers or our new service introductions are not successful, we may be unable to increase our revenue and our operating results may be adversely affected.

Our lengthy sales cycle makes it difficult for us to predict when we will generate revenue from new partners.

We have a lengthy and complex sales process. The integration and testing of our LBS platform with a prospective wireless carrier requires substantial time and expense before launching our LBS with that wireless carrier. In new geographic markets, our sales cycles are typically longer and may involve more challenges such as language or government regulation/compliance requirements. Even after a wireless carrier decides to launch our LBS, the integration of our LBS platform with a wireless carrier s network and billing systems generally requires several months to complete. Moreover, launch of our LBS by a wireless carrier typically will be timed to coincide with a new mobile phone launch, over which we have no control. In addition, being selected to participate and designed in to new vehicle models is a lengthy and time consuming process and we may not be included for factors beyond our control if we are participating in the vehicle 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 LBS platform until the time we generate revenue from such wireless carrier, OEM or automotive suppliers and manufacturers. These delays may make it difficult to predict when we will generate revenue from new partners.

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The failure of mobile phone providers selected by our wireless carrier partners to keep pace with technological and market developments in mobile phone design may negatively affect the demand for our LBS.

Wireless carriers select various mobile phones to run on their wireless networks. Our future success will depend on these mobile phone providers ability to design and manufacture mobile phones that meet the demands of wireless carriers and their subscribers. In order to continue their relationships with the wireless carriers, these mobile phone providers will have to continue to invest in developing mobile phones that are compatible with the advanced network technology that wireless carriers are deploying to increase network capacity and speed. If our wireless carrier partners fail to select mobile phone providers whose products have superior GPS capabilities or fail to adopt other advanced technologies, our ability to sell our LBS may suffer. If we do not extend our client software to these devices in a timely and efficient manner before the initial commercial launch of the mobile phone, our adoption rates will suffer. In addition, if our wireless carrier partners select mobile phones that are incompatible with our LBS client software, we will incur additional time and expenses to extend our services to those devices, which may cause us to incur unanticipated operating expenses and miss product launch windows. Because of short product life cycles in the wireless communications industry, if we fail to integrate our software on a mobile phone prior to its commercial launch or if it is preloaded with another provider s LBS, we may lose a substantial opportunity to gain end users who purchase that device and our revenue may suffer.

Successful sales of our LBS depend on our wireless carrier partners keeping pace with changing consumer preferences for mobile phones. If our wireless carrier partners do not select mobile phones with the design attributes attractive to consumers, such as thin form factors, high resolution screens and desired functionality, customers may select wireless carriers with whom we do not have a relationship and subscriptions for our LBS may decline and, consequently, our business may be harmed.

A large percentage of our research and development operations are conducted in China 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. We opened two research and development centers in China, in addition to our existing facility, for the purpose of conducting more fundamental product development in those locations. We currently have a majority of our research and development personnel in China. As we do not have substantial experience managing core product development operations that are remote from our U.S. headquarters, we may not be able to manage these remote centers successfully. We could incur 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 March 31, 2011, we had international operations in China, the United Kingdom and Brazil. Our experience with wireless carriers outside the United States is limited. Although we have entered into agreements with 14 wireless carriers to provide our LBS in 29 countries and in absolute dollars our revenue from international operations increased in each of the periods presented, our revenue from the United States constituted 96% and 97% of our total revenue for the nine months ended March 31, 2011 and 2010. 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;
- potentially adverse tax consequences, including the complexities of foreign value added tax systems, restrictions on the repatriation of earnings and changes in tax rates;

- dependence on foreign wireless carriers with different pricing models;
- availability of reliable 2G, 3G and 4G mobile networks in those countries;
- requirements that we comply with local telecommunication regulations 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.

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We rely on our management team and need additional 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 and in particular, our founders, Y.C. Chao, H.P. Jin and Robert Rennard. Our future performance will depend on our ability to continue to retain our senior management. We do not maintain key person insurance for any of our personnel.

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 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 LBS. 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.

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

We have not made any acquisitions to date. In the future, we may make acquisitions to improve our LBS offerings or expand to 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. Any 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;
- 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;
- 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 partners 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.

If our end users increase their usage of our services, our net operating income may decline because the fees we receive from our wireless carrier partners generally do not depend on usage.

With limited exceptions, our wireless carrier partners pay us fees that do not vary depending on whether or how often an end user uses our services. 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. Over time, usage by subscribers who have access to our services under bundled plans has increased. If our end users were to further increase their usage of our services substantially or were to be permitted to use basic versions of our service for a fee, we would incur additional expenses to expand our server capacity, operate additional data centers and pay additional third party content fees. These additional costs would harm our operating results and financial condition.

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 LBS.

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

We generally provide our 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 partners networks in the United States and abroad to run our LBS. This includes deployment and maintenance of reliable 2G, 3G and 4G 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 partners 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 LBS will depend in part on the quality of these wireless networks and the ability of our wireless carrier partners 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 our LBS successfully. In addition, changes by a wireless carrier to network infrastructure may interfere with the integration of our servers with their network and delivery of our LBS 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 partners, their mobile phone providers and other technology partners. 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 partners, 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 wireless carrier partners and adversely affect our business.

The wireless communications industry continues to experience consolidation and an increased formation of alliances among wireless carriers and between wireless carriers and other entities. Should one of our wireless carrier partners consolidate or enter into an alliance with another carrier, this could have a material adverse impact on our business. For example, our wireless carrier partner Alltel was acquired by Verizon in early 2009. Although we had an agreement with Alltel to be the exclusive white label provider of navigation services, Verizon elected to discontinue selling mobile phones preloaded with our LBS. We have experienced a decline in our revenue from the combined entity as a result of this decision, and expect this decline to continue. Such a consolidation or alliance may cause us to lose a wireless carrier partner or require us to reduce prices as a result of enhanced customer leverage, which would have a negative effect on our business. We may not be able to expand our base of wireless carrier partners to offset revenue declines if we lose a wireless carrier partner or if the number of end users for our services declines.

In addition, if two or more of our competitors or wireless carrier partners were to merge or partner, the change in the competitive landscape could adversely affect our ability to compete effectively. We have agreements with both AT&T and T-Mobile, and if the proposed acquisition by AT&T of T-Mobile is completed, our arrangements with AT&T and/or T-Mobile may be adversely affected. Our competitors may also establish or strengthen cooperative relationships with their wireless carrier partners, sales channel partners or other parties with whom we have strategic relationships, thereby limiting our ability to promote our LBS. These events could reduce our revenue and adversely affect our operating results.

Reduced expenditures for mobile phones or wireless services due to adverse or uncertain economic conditions may negatively affect our business and results of operations.

Recent adverse economic conditions and future uncertainties may directly affect the marketing and distribution of mobile phones and our LBS by our wireless carrier partners. As current and future conditions in the domestic and global economies remain uncertain, it is difficult to estimate the level of economic growth, which may cause some wireless carriers to emphasize marketing basic voice services rather than data services, such as LBS. In addition, subscribers may try to reduce their monthly expenses by reducing spending on discretionary wireless services, such as ours. Accordingly, the future direction of the overall domestic and global economies will have an impact on our overall performance. Economic conditions are beyond our control. If these economic conditions worsen or fail to improve, we may experience reduced demand for and pricing pressure on our LBS, which could harm our operating results.

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Risks related to our intellectual property and regulation

We operate in an industry with extensive intellectual property litigation. Claims of infringement against us or our wireless carrier partners may cause our business, operating results and financial condition to suffer.

Our commercial success depends in part upon us 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. We operate in an industry with extensive intellectual property litigation and it is not uncommon for our wireless carrier partners 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 wireless carrier partners, which 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 asserting infringement and other related claims. As of the date of this Quarterly Report on Form 10-Q, we were named as a defendant in four 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 wireless carrier 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 or our wireless carrier 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:

- adversely affect our relationships with our current or future wireless carrier partners;
- cause delays or stoppages in the shipment of TeleNav enabled mobile phones, or cause us to modify or suspend the provision of our LBS;
- cause us to incur significant expenses in defending claims brought against our wireless carrier 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 to cease certain activities.

In addition to liability for monetary damages against us or, in certain circumstances, our wireless carrier partners, we may be prohibited from developing, commercializing or continuing to provide certain of our LBS 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 LBS or be required to materially alter our LBS, 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 wireless carrier partners and automotive suppliers and manufacturers include indemnification provisions. We agree to indemnify them for losses suffered or incurred in connection with our LBS or navigation 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 LBS or navigation products infringes third party intellectual property.

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 in connection with certain of these indemnity demands. For example, we have been notified by several wireless carriers that they have been named as defendants in three patent infringement cases for which they may seek indemnification from us. See the section entitled Legal Proceedings. These indemnity demands relate to pending litigation and 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.

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We may in the future agree to defend and indemnify our wireless carrier partners or automotive suppliers and manufacturers 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 wireless carrier partners or automotive suppliers and manufacturers indemnity demands, which may lead to disputes with our wireless carrier partners or automotive suppliers and manufacturers and may negatively impact our relationships with them or result in litigation against us. Our wireless carrier partners or automotive suppliers and manufacturers 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 Sprint and AT&T 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 wireless carrier partners are negatively impacted or if any of our wireless carrier agreements is terminated, our business, operating results and financial condition could be materially adversely affected. See the section entitled Legal Proceedings.

The occurrence or perception of a security breach or disclosure of confidential information could harm our business.

Our LBS include the transmission and storage of 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 LBS. In addition, we may be required to invest additional resources to protect against damages caused by any actual or perceived disruptions of our LBS or security breaches. We may also be required to provide information about the location of an end user s mobile phone (or vehicle, with respect to certain of our enterprise LBS) 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 industry 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, including laws and regulations regarding lawful interception of personal data, use of mobile phones while driving, 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 our industry 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 industries may lessen the growth of wireless communications services and may materially reduce our ability to increase or maintain sales of our LBS.

We may become subject to significant product liability costs.

If our LBS 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 wireless carrier partners or automotive supplier and manufacturer partners. If we are unable to obtain indemnification from our partner for any damages or legal fees we may incur in connection with such complaints, our financial position may be 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 LBS. 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.

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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 revenues to date are not significant, we anticipate we will continue to grow advertising revenue in the future to improve ARPU in certain markets.

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 LBS. 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 LBS 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.

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We use open source software in our LBS platform and client applications that may subject our LBS platform and client applications to general release or require us to re-engineer our LBS platform and client applications, which may cause harm to our business. We use open source software in our LBS platform and client applications and may use more open source software in the future. 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 LBS platform and client applications, 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 controls over financial reporting. We may not complete our analysis of our internal controls over financial reporting in a timely manner, or these internal controls 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.

We will be required, pursuant to Section 404 of the Sarbanes-Oxley Act, to furnish a report by management on, among other things, the effectiveness of our internal control over financial reporting for fiscal 2011. This assessment will need to include disclosure of any material weaknesses identified by our management in our internal control over financial reporting. Our auditors will also have to issue an opinion on the effectiveness of our internal control over financial reporting.

We are engaged in the costly and challenging process of compiling the system and processing documentation necessary to perform the evaluation needed to comply with Section 404. We may not be able to complete our evaluation, testing and any required remediation in a timely fashion. During the evaluation and testing process, if we identify one or more material weaknesses in our internal control over financial reporting, we will be unable to assert that our internal controls are effective until such time that appropriate remediation has taken place. If we are unable to conclude that our internal control over financial reporting is effective, or if our auditors were to express an adverse opinion on the effectiveness of our internal controls because we had one or more material weaknesses, we could lose investor confidence in the accuracy and completeness of our financial reports, which could cause the price of our common stock to decline.

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We are currently subject to securities class action litigation and may be subject to similar litigation in the future. If the outcome of this litigation is unfavorable, it could have a material adverse effect on our financial condition, results of operations and cash flows.

On September 2, 2010, a purported stockholder class action was filed by David Smith in the United States District Court for the Northern District of California (Case No. 3:10-CV-03942-SC) against us, certain of our officers and directors, and certain of our underwriters for our May 13, 2010 initial public offering, alleging violations of Sections 11 and 15 of the Securities Act. On November 1, 2010, David Smith and his attorneys filed a motion for appointment as lead plaintiff and lead counsel, which we did not oppose. On February 3, 2011, the Court granted plaintiff s motion for appointment as lead plaintiff and selection of Robbins Geller Rudman & Dowd as lead counsel. On March 21, 2011, plaintiff filed an amended complaint. The amended complaint purports to be brought on behalf of all persons who acquired shares of our common stock pursuant to our May 13, 2010 initial public offering. The amended complaint alleges that we, certain of our officers and directors, and certain of our underwriters for the initial public offering violated the Securities Act by issuing the Registration Statement and Prospectus, which the plaintiff alleges contained material misstatements and omissions in violation of Sections 11, 12(a)(2) and 15 of the Securities Act. Specifically, the amended complaint alleges that we failed to disclose in our May 13, 2010 Registration Statement and Prospectus that we would soon be renegotiating our current contract with Sprint, our largest customer, which would result in our revenue being reduced. The amended complaint seeks class certification, compensatory damages, attorneys fees and costs, rescission or a rescissory measure of damages, equitable and/or injunctive relief, and such other relief as the court may deem proper. We deny the plaintiff s allegations and believe that our defenses to this action have merit. We intend to vigorously defend against this action and filed a motion to dismiss plaintiff s amended complaint on May 4, 2011, which will be heard by the Court on August 12, 2011. 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 amended complaint on our financial condition, results of operations or cash flows.

In the future, especially following periods of volatility in the market price of our shares, other purported class action or derivative complaints may be filed against us. The outcome of the pending and potential future litigation is difficult to predict and quantify and the defense of such claims or actions can be costly. In addition to diverting financial and management resources and general business disruption, we may suffer from adverse publicity that could harm our brand or reputation, regardless of whether the allegations are valid or whether we are ultimately held liable. A judgment or settlement that is not covered by or is significantly in excess of our insurance coverage for any claims, or our obligations to indemnify the underwriters and the individual defendants, could materially and adversely affect our financial condition, results of operations and cash flows.

In the past, we identified a material weakness in our internal control over financial reporting, and if in the future we identify material weaknesses our ability to operate our business may be adversely affected.

In the past, we identified a material weakness in our internal control over financial reporting which we have remediated. We may in the future identify additional material weaknesses. Implementing any appropriate changes to our internal controls to address such a material weakness may distract our officers and employees, entail substantial costs to modify our existing processes and add necessary personnel as well as take significant time to complete. These changes may not, however, be effective in achieving or maintaining the adequacy of our internal controls, and any failure to maintain that adequacy, or consequent inability to produce accurate financial statements on a timely basis, could increase our operating costs and harm our business. We cannot assure you that there will not be material weaknesses in our internal controls in the future. If we fail to address material weaknesses in our internal control over financial reporting, our ability to operate our business may be adversely affected.

We will incur increased 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 will incur significant legal, accounting, investor relations and other expenses that we did not incur as a private company, 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. 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 increase 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, as a public company, it will 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.

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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.

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 2010, we announced that we were in discussions with Sprint to renegotiate our agreement and several financial analysts published research reports downgrading our stock. After our announcement and the publication of these reports, our stock price fell almost 40% in a single day. 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. If our stock were to trade at prices below $5.00 per share in the future as a result of an announcement, 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 since our initial public offering in May 2010, and may continue to fluctuate or decline in the future.

Our common stock was sold in our initial public offering at $8.00 per share. Although our common stock traded at prices as high as $15.14 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 relative 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, 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; and

lawsuits threatened or filed against us.

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 initial public offering price, or, depending on market conditions, at all.

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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 63.0% of our common stock outstanding as of March 31, 2011. 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.

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

Issuer Purchases of Equity Securities

	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet be Purchased Under the Plans or Programs (1)
January 1 January 31, 2011		$		$ 17,689,612
February 1 February 28, 2011	351,742	$ 10.93	351,742	$ 13,846,175
March 1 March 31, 2011	322,500	$ 11.10	322,500	$ 10,265,741
Total	674,242	$ 11.01	674,242	$ 10,265,741

(1) The purchases of our shares of common stock by us are made pursuant to a stock repurchase plan announced by us on November 15, 2010. Our board of directors authorized us to purchase shares of our common stock up to an aggregate of $20.0 million. This stock repurchase plan will expire on November 15, 2011.

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Item 6. Exhibits.

Exhibit Number	Description	Incorporated by Reference From Form	Incorporated by Reference From Exhibit Number	Date Filed
10.14.8	Tenth Amendment effective as of January 18, 2011 to the License and Service Agreement, dated as of March 19, 2008, by and between TeleNav, Inc. and AT&T Mobility LLC	Filed herewith		
31.1	Certification Pursuant to 18 U.S.C. Section 1350, 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 18 U.S.C. Section 1350, 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		

~ 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.

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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: May 10, 2011	By:	/s/ H.P. Jin **H.P. Jin** **President and Chief Executive Officer** **(Principal Executive Officer)**
Dated: May 10, 2011	By:	/s/ Douglas Miller **Douglas Miller** **Chief Financial Officer and Treasurer** **(Principal Financial and Accounting Officer)**

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EXHIBIT LIST

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