UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

x **Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2009, or**

¨ **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

Commission file number 001-33860

HUGHES Telematics, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**26-0443717**

(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**
2002 Summit Boulevard, Suite 1800	
Atlanta, Georgia	**30319**
(Address of principal executive offices)	**(Zip Code)**

Registrant s telephone number, including area code: (770) 391-6400

Securities registered pursuant to Section 12(b) of the Act: none

Securities registered pursuant to Section 12(g) of the Act: none

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer ¨	Accelerated filer x
Non-accelerated filer ¨ (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

The aggregate market value of the common stock held by non-affiliates of the registrant, as of June 30, 2009, was $111,209,357. As of March 12, 2010, there were 87,087,624 shares of the registrant s common stock outstanding.

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PART I

Forward-Looking Statements

We believe that some of the information in this annual report on Form 10-K constitutes forward-looking statements within the definition of the Private Securities Litigation Reform Act of 1995. You can identify these statements by forward-looking words such as may, expect, anticipate, contemplate, believe, estimate, intends and continue or similar words. You should read statements that contain these words carefully because they discuss future expectations, contain projections of future results of operations or financial condition or state other forward-looking information.

We believe it is important to communicate our expectations to our stockholders. However, there may be events in the future that we are not able to predict accurately or over which we have no control. The risk factors and cautionary language contained in Item 1A. Risk Factors herein provide examples of risks, uncertainties and events that may cause actual results to differ materially from the expectations described by us in such forward-looking statements, including among other things:

- expectations regarding our growth potential;
- our financial performance;
- slower than expected development of the telematics industry or any event that causes telematics to be less attractive to consumers;
- the loss of our strategic relationship with Mercedes-Benz;
- the uncertainties regarding the financial stability U.S. automakers and the effects of government intervention in the automotive industry;
- an inability to enter into a strategic relationship with additional automakers, thereby limiting our growth potential;
- the introduction and proliferation of competitive products;
- changes in technology;
- an inability to achieve or sustain profitability;
- difficulties with delays or quality control with our primary vendors;
- failure to implement our short- or long-term growth strategies;
- the cost of retaining and recruiting our key personnel or the loss of such key personnel;

- risks associated with the expansion of our business in size and geography;
- operational risk;
- geopolitical events and regulatory changes;
- changing interpretations of generally accepted accounting principles (GAAP);
- general economic conditions;
- a continued downturn in the automotive industry; and
- litigation and regulatory enforcement risks, including the diversion of management time and attention and the additional costs and demands on our resources.

You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this annual report on Form 10-K.

All forward-looking statements included herein are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. Except to the extent required by applicable laws and

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regulations, we undertake no obligations to update these forward-looking statements to reflect events or circumstances after the date of this annual report on Form 10-K or to reflect the occurrence of unanticipated events.

You should be aware that the occurrence of the events described in Item 1A. Risk Factors herein could have a material adverse effect on us.

Item 1. Business.

Overview

We are a telematics services company that provides a suite of real-time voice and data communications services and applications for use in vehicles and are developing additional applications for use within and outside of the automotive industry. These services are enabled through a state-of-the-art communications center designed and built to connect various mobile devices with content, services and call centers. Our system architecture enables us to manage the integration of these components and the associated service delivery in an efficient manner, allowing us to quickly adopt and implement new technologies and services.

Within the automotive industry, our communications center allows for two way voice and data communications to the vehicle and supports, among other things, critical safety and security services as well as location-based services and remote diagnostics. Since November 16, 2009, we have been the exclusive telematics service provider in the United States for all new vehicles sold by Mercedes-Benz USA, LLC (Mercedes-Benz) as well as the preferred provider of telematics services for all Mercedes-Benz vehicles purchased prior to November 16, 2008. These services are marketed under the mbrace brand and are enabled through a factory-installed hardware device on Mercedes-Benz vehicles. In addition, our in-Drive product offers services to consumers and other third parties through an aftermarket hardware device that we have developed and which we intend to distribute through relationships with companies and organizations with large customer bases for installation in existing vehicles. Through Networkfleet, Inc., our wholly-owned subsidiary, we currently offer remote vehicle monitoring and other data services to support owners and operators of fleets of vehicles.

From our inception through the year ended December 31, 2009, substantially all of our revenues were earned through the sale of Networkfleet s products and services. Although Networkfleet has been our primary source of revenue to date, we expect to derive our revenue increasingly from the telematics services provided to Mercedes-Benz vehicles, vehicles manufactured by automakers to whom we are currently marketing our services and vehicles which will have our in-Drive aftermarket hardware device installed. We expect a significant portion of our future revenues to be generated from subscriptions for consumer service offerings, as well as from transaction or pre-paid package fees, automaker and dealer service offerings and from strategic relationships with third parties, who are expected to develop applications for our services and product offerings.

On March 31, 2009, pursuant to the terms of the Agreement and Plan of Merger dated June 13, 2008 (as amended and restated on November 10, 2008 and March 12, 2009, the Merger Agreement), Hughes Telematics, Inc. (Old HTI), a privately held company, and Polaris Acquisition Corp. (Polaris), a publicly held blank check company, consummated the merger (the Merger) whereby Old HTI merged with and into a wholly owned direct subsidiary of Polaris with Old HTI as the surviving corporation, and immediately thereafter, Old HTI merged with and into Polaris, with Polaris as the surviving corporation. In connection with the Merger, Polaris changed its name from Polaris Acquisition Corp. to HUGHES Telematics, Inc.

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Automotive Service Offerings

We offer a comprehensive set of services that can be tailored to meet the needs of our customers and partners. Many of these services are being offered today through our relationship with Mercedes-Benz, while others are under development.

Safety and Security The safety and security services utilize certified emergency response specialists and the most accurate and up-to-date public safety answering point location data to provide peace of mind to a driver and other family members.	*Services Offered or Under Development Include:* Automatic crash notification SOS/Emergency calling Roadside assistance Stolen vehicle location assistance Automatic alarm notification Emergency/Crisis management
Navigation The navigation services leverage vehicle connectivity to offer unique combinations of off-board and on-board services to more effectively route a driver to a destination.	*Services Offered or Under Development Include:* Voice-delivered turn-by-turn directions Destination downloads Location-based traffic Preferred daily route

- Traffic camera monitoring

Convenience The convenience services are designed to provide customers with an enhanced ownership experience and assistance with vehicle interaction.

Services Offered or Under Development Include:

- Remote door lock or remote door unlock
- Vehicle/Family locate
- Geo-fencing (proximity alert)
- Usage-based insurance
- Concierge
- Voice to email and voice to text messaging
- Flash lights or sound horn
- Location-based weather reports
- Dealer connect
- Internet connectivity

Diagnostics The diagnostics services allow customers to proactively manage the maintenance of their vehicles, saving time and money.

Services Offered or Under Development Include:

- Automatic maintenance reminder

Recall notifications

Remote emissions monitoring

Interactive user manual

Diagnostic emails

Diagnostic code monitoring

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Infotainment Infotainment (information and entertainment) services provide access to music and personalized information on demand.

Services Offered or Under Development Include:

- Local information
- Buy and download music
- Song tagging and purchase
- Internet radio
- Stock prices
- Sports scores
- RSS feed
- News
- Fuel prices
- Movie listings
- Social networking

System Architecture

Our system architecture provides the ability to connect multiple devices, content and services from different providers and seamlessly manage the integration and service delivery. Our state-of-the-art communications center consists of a redundant pair of network operation centers, containing the hardware and associated applications, telephony and data network connections necessary to interface with mobile devices via the wireless carrier networks. An integrated suite of enterprise class applications and proprietary solutions have been configured to provide a robust, customizable platform to allow automakers and other future partners the ability to create customized service offerings that enhance and extend their brands. Our systems have been built and configured for rapid scalability using open standards to offer flexibility while providing for the capability to support millions of subscribers across multiple industries using multiple languages and currencies. This architecture allows us to adapt to new technologies quickly within the automotive industry, as well as allow us to expand our service offerings to other industries. Due to the public safety nature of many of our offerings, high availability of our systems is a primary requirement. Redundancy, fail-over and disaster recovery have been considered as each element (hardware, software and telecommunication) was designed and built.

Mercedes-Benz mbrace

On November 16, 2009, we launched our first automotive manufacturer service offering with Mercedes-Benz. This service offering is marketed by Mercedes-Benz under the mbrace brand. Mercedes-Benz mbrace services bring connectivity to Mercedes-Benz drivers and begin the process of allowing them to customize their in-vehicle experiences to fit their daily needs. Through the mbrace solution, we offer eighteen features aggregated in the categories of safety and security, navigation and convenience. The services can be accessed quickly and easily from within the vehicle or from any computer through a personalized web portal. Additionally, with the launch of mbrace, we introduced the automotive industry s first connected mobile application allowing consumers to use several convenience features such as vehicle locate and door lock/unlock from certain smartphones. We continue to work with Mercedes-Benz to expand the mbrace service offering and expect to launch additional features during 2010 and beyond.

in-Drive

We have leveraged our patent portfolio and technology infrastructure to create an aftermarket solution for consumers that we are marketing under the in-Drive brand. The in-Drive solution includes self-installed and dealer-installed hardware options, each designed to operate with our core system architecture. The features of the hardware device are fully programmable, and the software can be updated over-the-air to add incremental functionality. In the second quarter of 2009, we launched a pilot program with a leading automotive insurance company and expect to launch pilot programs with additional organizations in the second quarter of 2010. Through in-Drive, we intend to offer a broad range of service offerings including:

- Usage-based insurance
- Vehicle diagnostics
- Family locate
- Emergency calling
- Two-way voice communications
- Driving behavior analysis
- Stolen vehicle location assistance

Networkfleet

Through Networkfleet, we provide fleet operators with a vehicle management solution that includes remote vehicle monitoring and other data services through an aftermarket hardware device installed on existing vehicles. We acquired Networkfleet in August 2006 for approximately $24.7 million in cash and an earn-out potential of an additional $1.6 million if certain sales targets are met in 2010. Networkfleet provides a fleet management solution which includes an easy-to-use automatic vehicle location and remote vehicle diagnostics system and is targeted to the approximately 20 million local market commercial fleet customers operating throughout North America. Networkfleet allows fleet managers to monitor driver performance for unauthorized/unsafe usage, as well as data such as current location, fuel consumption, mileage, emission compliance status and actual driving speed through custom mapping and reporting. For the years ended December 31, 2009 and 2008, Networkfleet generated revenues of approximately $33.0 million and $30.3 million, respectively.

Industry

Introduction

Since the mid-1990 s in the United States, consumer awareness and demand have grown dramatically for in-car safety and security applications, navigation systems, diagnostics capabilities and various forms of infotainment integration. The demand for telematics has risen steadily over the past few years as a result of several factors in addition to growing consumer demand. Vehicle manufacturers are looking for solutions that provide connectivity to the car for diagnostics, inventory tracking and the eventual need to update the on-board computers. Regulatory agencies are placing more emphasis on diagnostics, emissions and traffic-based navigation solutions, each of which are significantly enhanced with telematics services. And finally, manufacturers see telematics as an opportunity to innovate by offering new services within the vehicle on a frequent basis without having to deploy new hardware or physically touch the car.

With domestic automakers increasingly seeking value-added services to attract car buyers, in-vehicle telematics solutions have been moving from a premium service in limited luxury models to a standard feature found in many vehicles. Industry analyst iSuppli Corporation (iSuppli) estimates that, in 2009, 30% of vehicles sold in the United States and 20% of vehicles sold globally had an embedded telematics device installed. iSuppli expects the United States market, with an estimated 60% of the world s telematics users, to grow at a compound annual growth rate of 17% as demand for telematics technology and services increases. ABI Research predicts that telematics capabilities will be standard in every vehicle sold in the United States by 2015.

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Competitive Landscape

Telematics services providers compete directly for long-term telematics services relationships with automakers. Some of these solutions interface with embedded, or factory-installed, devices in the vehicle while others involve aftermarket products, such as personal navigation devices (PNDs) or tethered connectivity through a smartphone. As a general rule, factory-installed solutions offer a wider range of services given the integration within the vehicle but either solution can be engineered to leverage our architecture, content and services. Other parties, such as wireless phone and other handheld device providers, offer limited services and products that partially overlap with the services provided by telematics companies.

Telematics Services Providers

Telematics services providers in the United States include OnStar, Wireless Car and ATX Group, Inc. (ATX Group). Of these telematics service providers, OnStar, a wholly-owned subsidiary of General Motors, is the most well-known, surpassing 5.5 million subscribers in 2008. OnStar focuses its service offerings around safety and security applications, including roadside assistance, emergency help following an airbag deployment and stolen vehicle tracking. OnStar has also introduced additional services, such as stolen vehicle slow-down and remote vehicle diagnostics. We view OnStar s success as supportive of the broader telematics market as it has increased consumer awareness and appreciation of telematics services and illustrates the consumer s willingness to pay monthly subscription fees for the services provided. Additionally, General Motors has been vocal about the internal benefits OnStar provides the General Motors engineering teams, resulting in significant annual savings, and thereby encouraging other automakers to consider adding telematics capabilities to their vehicles. OnStar s advertising support for its solutions has produced almost 100% recognition of the OnStar brand among new car buyers in the United States. Although OnStar offers similar services to ours, it largely offers its services only to owners and lessors of vehicles sold by General Motors and therefore has not historically competed directly with us for telematics services contracts from other automakers. In press reports, OnStar executives have indicated that OnStar is exploring offering its services to other vehicle manufacturers.

ATX Group, which was acquired by Cross County in 2008, currently provides services to Toyota, BMW, Mercedes-Benz (vehicles sold in the United States prior to November 16, 2009 or in Canada), PSA Peugeot Citroen and Rolls-Royce Motor Cars. Mercedes-Benz terminated its contract with ATX Group, effective on November 15, 2009. Starting on November 16, 2009, we became the provider to all new Mercedes-Benz vehicles manufactured for the United States market and Mercedes-Benz s provider of choice for all Mercedes-Benz customers who purchased their vehicle prior to November 16, 2008.

Aftermarket Fleet Telematics Services Providers

There are over 75 aftermarket telematics suppliers that provide GPS tracking capabilities for fleets of vehicles. The market is segmented based on the type of fleet and the type of functionality required. These segments include, among others, long-haul trucking, service vehicles, municipalities, construction, school bus and emergency service vehicles. The suppliers range from Qualcomm, which is a major supplier to long haul truck fleets, to numerous small suppliers with simple web applications and no intellectual property. Networkfleet is one of the largest suppliers that serve the local fleet market, which includes cars, light-duty trucks and heavy-duty trucks. Our major competitors for aftermarket fleet telematics services are Trimble Mobile Resource Management, Fleetmatics, Discrete Wireless and Teletrac.

Overlapping Services and/or Products

Various services and/or products overlap and consequently indirectly compete with telematics services. Such services and/or products include connected navigation systems, mobile communications, such as cellular telephones and PDAs, and providers of factory-installed, in-vehicle communications and entertainment systems.

Services

We plan to offer a comprehensive suite of service applications that will allow us and third parties with which we have strategic relationships to achieve market differentiations. We offer or plan to offer consumer services directly to end-user consumers and to fleet operators, automakers, dealers, the insurance industry, location-based advertisers and users of traffic probe data through our enterprise service offerings.

Consumer Service Offerings

We intend to offer five categories of consumer service offerings: safety and security, navigation, convenience, diagnostics and infotainment. We launched our initial consumer service offering on November 16, 2009 with safety and security applications, including automatic crash notification, emergency calling, stolen vehicle location assistance and remote door unlock/lock as the core service set. Our current consumer service offering also includes both premium services such as voice delivered traffic information, point of interest and destination downloads into on-board navigation systems, concierge services, as well as a mobile application for iPhones and certain other smartphones that enable subscribers, through their smartphones to, among other things, lock/unlock their vehicle doors, locate their vehicle, manage their mbrace account, contact Mercedes-Benz roadside assistance and view the contact information for their preferred dealers. Additional consumer services are being actively developed by us or our partners and are expected to launch within the next 12 to 24 months.

Safety and Security. Our products are anchored by traditional safety and security features, including automatic crash notification, emergency calling, stolen vehicle location assistance, roadside assistance, tripped alarm notification, emergency messaging and emergency management. Through an emergency call relay center operated by our partner, Intrado Inc., we utilize trained emergency response specialists that are certified by the Association of Public-Safety Communications Officials and National Emergency Number Association and have direct public safety experience as firefighters, emergency medical technicians or police officers.

Navigation. We utilize our connectivity to the vehicle to offer unique combinations of off-board server-based and vehicle-based navigation services, including the ability for the vehicle owner to download destinations and other points of interest into the vehicle s navigation system from third party websites and operator provided route assistance. To complement traditional navigation features such as turn-by-turn directions, we expect to create several personalized navigation features to enhance the customer navigation experience such as the integration of real-time traffic data, a comprehensive list of up-to-date points of interest, dynamic maps, scenic descriptions, geo-tagging and preferred daily routes.

Convenience. Our convenience services provide the vehicle owner an enhanced ownership experience and assistance in interacting with his or her vehicle. These services currently include access to 24-hour concierge services. Future offerings are expected to include conversational voice recognition, personal calling using the embedded cellular phone, Bluetooth enabled hands-free calling, hands-free audible e-mail, family locate/geo-fencing.

Diagnostics. Our diagnostics services are planned to allow the vehicle owner to manage the maintenance and care of the vehicle proactively, saving time and money in the future. These services include systematic communications regarding status of vehicle systems, maintenance reminders, recall notifications, interactive user manuals, online diagnostic analysis, engine check emails and the ability for the vehicle owner to contact his or her preferred service location to schedule maintenance. In addition, we are working with regulators to develop a remote emissions program that would continuously check emissions metrics and notify the vehicle owner if the vehicle is not compliant, improving not only the health of the vehicle but also the environment. The United States Environmental Protection Agency and Department of Energy figures indicate that as many as 10% of vehicles in the United States are out of compliance with emissions standards, suggesting that the potential benefits of achieving 100% compliance could result in annual savings of as much as 6 billion gallons of gasoline, or 300 million barrels of oil equivalent to reducing consumption in the United States by as much as 4%. At today s prices, the cost savings exceed $20 billion per year as well as eliminate over 10 million tons of greenhouse gasses and pollutants, up to 10% of today s North American pollution emissions. This service is offered on a limited basis today to Networkfleet s fleet customers in California.

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Infotainment. We plan to combine information and entertainment into a suite of services which provide access to customized and location-specific information, such as sports, weather, news, gas price, traffic information, media commerce and social networking. Via Bluetooth, a USB port or our web portal, we intend to allow a vehicle owner to synchronize data from an MP3 player, a PDA, cell phone or other similar device with the vehicle which allows for access to stored music, address books, calendars and email.

Enterprise Service Offerings

We currently expect to support enterprise offerings to six key categories of users: fleet operators, automakers, automotive dealerships, the insurance industry, location-based advertising and users of traffic probe data.

Fleet Operators. Through Networkfleet, we provide an aftermarket wireless fleet management solution, including an easy-to-use automatic vehicle location and remote vehicle diagnostics system. Networkfleet targets the North American local fleet market, a market of approximately 20 million commercial vehicles that is largely composed of small fleets. Networkfleet s main product allows fleet managers to cost effectively monitor driver performance for unauthorized/unsafe usage, as well as data such as current location, fuel consumption, mileage, emission status, and actual driving speed through custom mapping and reporting. Through our relationships with automakers to factory-install hardware devices in their vehicles, we expect to increase our penetration of the local fleet market by leveraging Networkfleet s brand and expertise to sell similar services which can be activated over the air without the need for installation of aftermarket hardware.

Automakers. We believe that the value proposition to the automaker comes in many forms: product differentiation through innovative technology, connectivity to vehicles, remote quality and diagnostic capabilities and improved tools for better customer and vehicle management. We intend to work with our automaker partners to identify cost savings opportunities using real-time data collected from vehicles and by taking advantage of engineering synergies of integrating multiple components and functions into the telematics control unit. The collection of real-time diagnostic information from vehicles is considered by automakers to provide valuable insight on the performance of numerous vehicle systems and parts allowing the automaker to improve the quality of its vehicles more efficiently than is possible today. Furthermore, as we provide connectivity with the vehicle s local area network that supports communication among other vehicle control units (i.e., CAN bus systems), we expect to be able to support an automaker s upgrade of vehicle software, avoiding costly recalls and without the consumer having to bring the vehicle into a dealership. We intend to also offer tools to maintain contact with the vehicle owner through our service offerings, web portal and smartphone application, which will help the automaker sustain its relationship with the customer following the lease or purchase of a vehicle.

Dealers. We intend to provide dealers with numerous revenue and cost savings opportunities. Using our location tracking assistance, dealers will be able to track their vehicle inventory and guard against theft, thus reducing insurance costs. Real-time diagnostic information is expected to enable dealers to be proactive in contacting vehicle owners, subject to a vehicle owner s prior consent, regarding preventative maintenance before a more costly problem arises. Furthermore, dealers are expected to be able to manage the schedule of their service bays more efficiently as issues can be diagnosed prior to the arrival of the vehicle. Early diagnosis of problems also allows for more efficient parts inventory management as items necessary for upcoming maintenance requests can be ordered in advance. Also, similar to the automaker, dealers are expected to be able to leverage our access to the customer and communicate with the vehicle owner via our web portal and smartphone application.

Insurance Industry. The insurance industry has long considered usage-based or pay as you drive insurance as an area of promise. Today, several leading automotive insurance providers are developing products that offer dynamic rating as a function of the vehicle owner s driving behavior incorporating characteristics such as miles driven, speed, sudden starts and stops, time of day and location. To this end, we have contracted with a leading automotive insurance company to assess, develop and test a usage-based insurance program. In the second quarter of 2009, we launched a pilot program with this insurance company using our in-Drive aftermarket hardware device. Since the launch, the pilot program has expanded to include more than 1,000 vehicles owned and operated by employees of the insurance company. We expect to launch pilot programs with additional organizations in the second quarter of 2010.

Location-Based Advertising. Through the vehicle s navigation system, the driver can search for businesses, products or services in close proximity to the vehicle s current location. We intend to form strategic relationships with an existing search engine provider to develop a paid advertising search model whereby businesses can target an already mobile consumer. We believe that point of interest searches from the vehicle should have a higher conversion rate than ordinary Internet searches. Point of interest searches should therefore command a premium over paid Internet search rates as a search from within a vehicle en route to a destination is more likely to result in an imminent purchase, as compared to mere browsing or research-focused activity from home. Other opportunities may be available for businesses to push advertisements or coupons to the vehicle based on vehicle owner preferences set on our web portal.

Traffic Probe Data Users. We believe that, through Networkfleet, we are currently one of the largest providers of real-time traffic probe data on the market today. Two of the leading traffic data aggregators currently purchase our probe data as an input for their real-time and predictive traffic information products offered nationwide. As our installed vehicle base grows, we expect to have the most accurate source and network of real-time GPS probe data on the market, greatly enhancing data collected via helicopters, government sensors or other secondary tools. We expect this data to be sold to third parties for their traffic products as well as be incorporated into our own navigation product.

Automaker Relationships

At present, nearly all automobile manufacturers selling vehicles in the United States are considering implementing, or have plans to implement, a telematics solution. The underlying factors driving this interest by automakers are emerging customer demand, the potential for product differentiation and the awareness of numerous benefits to the automaker and its dealers in the form of cost savings and customer relationship tools. We currently have a long-term contract with Mercedes-Benz to be its exclusive telematics service provider for all new vehicles leased or sold in the Unites States beginning on November 16, 2009 and its preferred provider of telematics services for all Mercedes-Benz vehicles leased or sold prior to November 16, 2008. We are pursuing opportunities with many of the other automakers serving the United States market, other than General Motors (the parent corporation of OnStar).

Until the second quarter of 2009, we also had a contract to be the telematics service provider in the United States for Chrysler LLC, now known as Old Carco LLC (Old Chrysler). On April 30, 2009, Old Chrysler filed for bankruptcy protection under Chapter 11 of the United States bankruptcy code. On June 10, 2009, substantially all of Old Chrysler s assets were sold to Chrysler Group LLC (New Chrysler), a group whose members include Italian automaker Fiat SpA, the United Auto Workers union and the United States government. At a hearing held on July 16, 2009, Old Chrysler rejected certain contracts, including our telematics services contract with Old Chrysler, and therefore, our contract was terminated. We had been in negotiations with New Chrysler concerning a new telematics services agreement. However, the parties reached an impasse in the negotiations, and as a result, we discontinued working with New Chrysler to deploy our hardware and launch our services as previously planned.

Mercedes-Benz Agreement

Telematics Services

Under our agreement with Mercedes-Benz, we provide telematics services under the mbrace brand to all new Mercedes-Benz vehicles sold or leased in the United States market. In addition, as Mercedes-Benz s preferred provider of telematics services, we are working with Mercedes-Benz to provide the opportunity for paying subscribers to the Mercedes-Benz service formerly marketed as TeleAid who purchased or leased their vehicle prior to November 16, 2008 to transition to our service platform, although such decision is at the subscriber s option. We also have the ability to sell services to owners of Mercedes-Benz vehicles purchased or leased prior to November 16, 2008 which are capable of receiving telematics services but who do not presently subscribe for any service. Beginning on November 16, 2010, we are able to market our services to all owners of Mercedes-Benz vehicles purchased in the United States.

Under the mbrace brand, we provide safety and security services, remote door lock and unlock, electronic operator manuals, automatic alarm notification, direct voice connection to a preferred dealer, direct voice connection to Mercedes-Benz, automatic maintenance calls and premium services such as voice delivered traffic information, point of interest and destination downloads into on-board navigation systems and concierge services. In addition, we launched a mobile application for iPhones and certain other smartphones that enables purchasers of most new Mercedes-Benz vehicles as well as many legacy customers who subscribe to our mbrace service, through their smartphones, to lock and unlock their vehicle doors; locate their vehicle; view their mbrace account information; contact Mercedes-Benz roadside assistance, the mbrace response center and Mercedes-Benz Financial s client care center; search for local Mercedes-Benz dealers; and view the contact information for their preferred Mercedes-Benz dealer. Subject to the consent of Mercedes-Benz, we will also be able to provide additional approved services. We will be required to provide our services to end-use consumers in accordance with specified standards and service levels. The agreement also allocates between us and Mercedes-Benz certain costs and expenses related to the provision of telematics services to end-use consumers.

Termination

Our agreement with Mercedes-Benz is scheduled to expire on June 16, 2016. Under the agreement, Mercedes-Benz may terminate its agreement with us upon the substantial breach of any of our material obligations, including the failure to satisfy certain customary automotive developmental milestones, to the extent we are providing hardware to Mercedes-Benz, and to maintain certain minimum service level standards. The service level standards under the agreement relate primarily to limitations on how timely our call center agents answer calls from vehicles. As these service level standards are in line with service levels currently maintained by our call center partners, management believes that we will be able to meet or exceed such requirements. Upon the expiration or termination of the agreement, we will retain the ability to continue to provide telematics services to certain then current subscribers and may renew and enter into new subscription agreements with certain other end-use consumers.

Subscriptions

Under our agreement with Mercedes-Benz, we are responsible for entering into subscription agreements with, and the billing of, vehicle owners. We are required to institute reasonable or specified protocols with regard to the telematics services we provide end-use consumers. Our agreement with Mercedes-Benz additionally allocates the responsibilities for setting, and the distribution of proceeds from, end-use consumer subscriptions fees between the parties.

Vehicle and Subscriber Data

Under our agreement with Mercedes-Benz, the obligation to provide, and the rights to receive and use, vehicle and subscriber data are allocated between the parties. The agreement also provides for end-use consumer consent for the transmission of vehicle and subscriber data between the parties and from the parties to third parties.

Intellectual Property, Trademarks, Indemnification Rights, Required Insurance and Audit Rights

Under our agreement with Mercedes-Benz, the ownership of intellectual property developed during the term of the agreement is allocated between the respective parties and each party agrees to respect the trademarks of the other party. The agreement also imposes specific indemnification obligations between the parties, requires us to maintain certain insurance policies and provides certain audit rights.

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Research and Development

For the years ended December 31, 2009, 2008 and 2007, we incurred research and development expenses of approximately $30.5 million, $33.6 million and $23.5 million, respectively. Additionally, for the years ended December 31, 2009, 2008 and 2007, we capitalized approximately $14.3 million, $13.3 million and $3.4 million of software development costs which, as the software is ready for its intended use, is amortized as a cost of service over the expected useful life of the software. These research and development expenditures relate primarily to the development of our factory-installed, end-to-end telematics solution, including the development of the network operation center, our factory-installed hardware devices and other back office systems. In light of the termination of our contract with Old Chrysler and the discontinuation of work towards launch of service with New Chrysler, we evaluated for impairment certain equipment, capitalized software costs and other assets related to the deployment of hardware and launch of services to New Chrysler vehicles. Accordingly, we recorded impairment charges in the year ended December 31, 2009 totaling approximately $20.8 million, including $11.8 million of capitalized software, to write down these assets to their net realizable values.

Intellectual Property

We have established a strong intellectual property portfolio of patents and pending patents addressing a broad range of services. Key patents in the portfolio cover both the methods and processes of wireless communications from the vehicle for diagnostics, emissions performance and fuel economy (for factory installations), as well as technology that connects to the vehicle s on-board diagnostic connector (for aftermarket installations) to accomplish the same. We believe that portions of the portfolio in both the vehicle diagnostics and emissions areas are particularly strong and that those patents may be a meaningful source of revenue, a barrier to entry for other service providers in these areas, or provide cross-licensing opportunities with competitors. We have 22 issued patents and 41 pending patent applications. Of the pending applications, the patent office has allowed one of them. We may be required to protect our intellectual property rights from the unauthorized use by others or may have these rights challenged, invalidated or circumvented.

Approach to Privacy

Our approach to privacy is critical to our ability to gain customer acceptance of our services, while also enabling us to monetize certain of the data that is collected. Our customers, and in particular the consumers and automakers, are sensitive to certain types of information that the system will be able to access. We have retained outside privacy experts to ensure that privacy policies provide our consumers and strategic relationships with the highest level of confidence that customer privacy is maintained, while also permitting the customer, we and our strategic partners to monetize the value of such a data stream. As part of the subscription process, we require consumers to provide us and our automakers with broad rights to data, other than customer personally identifiable information (CPII), in order to subscribe. The processes are designed to ensure that sensitive information such as any CPII is highly secure, separate and cannot be associated with the vehicle data that is collected, unless a specific and separate authorization has been given by the consumer. Similarly, many types of quality and safety information relating to vehicles, to which automakers are acutely sensitive, is similarly accorded the highest level of security, and we expect to be a conduit for providing such data to automakers, rather than collecting it directly, unless otherwise requested specifically by the automaker.

Relationship with Hughes Network Systems

In July 2006, Hughes Network Systems, LLC (HNS), a wholly-owned subsidiary of Hughes Communications, Inc. (HCI), which is controlled by investment funds that are affiliates of Apollo Global Management, LLC (Apollo), granted us a limited license allowing us to use the HUGHES trademark. The license is limited in that we may use the HUGHES trademark only in connection with our business of automotive telematics and only in combination with the Telematics name. As partial consideration for the license, the agreement provides that HNS will be our preferred engineering services provider. The license is royalty-free, except that we have agreed to commence paying a royalty to HNS in the event we no longer have a commercial

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or affiliated relationship with HNS. As contemplated by the license terms and while the definitive agreement governing the relationship was being negotiated, HNS provided engineering development services to us pursuant to an Authorization to Proceed. In January 2008, we executed a definitive agreement with HNS pursuant to which HNS is continuing to provide us with engineering development and manufacturing services. For the years ended December 31, 2009, 2008 and 2007, HNS provided approximately $23.4 million, $30.9 million and $21.6 million of services, respectively, to us. As of December 31, 2009 and 2008, we had an outstanding balance, not including the equipment financing and note payable discussed below, of approximately $0.2 million and $8.9 million, respectively, payable to HNS.

In June 2008, we entered into an arrangement with HNS pursuant to which HNS purchased, on our behalf, certain production equipment for an aggregate amount of approximately $2.0 million. Under this arrangement, we agreed to pay HNS at a rate of $4.94 per telematics hardware device manufactured using the equipment, provided that (i) we were to pay HNS a minimum of $0.2 million under this arrangement by December 31, 2009 and (ii) we were to pay HNS the balance of the amount owed under this arrangement plus all accrued interest by December 31, 2010. Interest accrued on the outstanding balance at a rate of 11.00% per annum. In December 2009, the approximately $2.3 million balance related to this equipment financing was converted to a note payable, discussed below. As of December 31, 2008, the balance related to this equipment financing was approximately $2.1 million.

In December 2009, we issued to HNS a senior unsecured promissory note with a principal amount of approximately $8.3 million through the conversion of a trade accounts payable balance of approximately $6.0 million and the approximately $2.3 million outstanding balance on the equipment financing arrangement owed to HNS. The promissory note will accrue interest at a rate of 12.00% per annum, compounded annually, and becomes due and payable on December 31, 2010. We are required to make scheduled principal payments of approximately $0.8 million on April 15, 2010 and $1.5 million on each of July 15, 2010 and October 15, 2010. In addition, subject to all restrictions in the First Lien Credit Agreement and Second Lien Credit Agreement and certain other limitations, to the extent we sell any capital equipment purchased by us (or purchased by HNS on our behalf) for use in connection with the Telematics Agreement between the parties, but no longer needed by us, we shall make unscheduled prepayments of principal on the promissory note equal to the proceeds from the sale of such capital equipment (net of any selling costs). Through March 10, 2010, we have made principal payments on the promissory note of less than $0.1 million resulting from the sale of capital equipment.

Three members of our board of directors, Jeffrey A. Leddy, Andrew D. Africk and Aaron J. Stone, are members of the board of managers of HNS and the board of directors of HCI.

Employees

As of December 31, 2009, we had a total of 276 employees. We believe relations with employees are good, and no employees are represented by a union. Generally, our employees are retained on an at-will basis; however, we have entered into employment agreements with certain key employees.

Item 1A. Risk Factors.
Risks Relating to Our Business

To date, we have generated only losses.

From January 9, 2006 (inception) to December 31, 2009 and for the year ended December 31, 2009, we incurred a net loss of approximately $257.3 million and $163.7 million, respectively, and used cash in operations of approximately $112.7 million and $47.2 million, respectively, in connection with the development of our telematics system and the operations of our Networkfleet subsidiary. As a result of our historical net losses and our limited capital resources, our independent registered public accounting firm s report on our financial statements as of and for the year ended December 31, 2009 includes an explanatory paragraph expressing substantial doubt about our ability to continue as a going concern. As of December 31, 2009, we had unrestricted cash and cash equivalents of approximately $28.4 million and an accumulated deficit of approximately $357.5 million. We believe that the cash and cash equivalents on hand, along with projected cash flows to be generated by our service offerings to Mercedes-Benz vehicles and sales of our in-Drive products and services, will allow us to continue operations beyond the next twelve months. Since we have recently launched our service offerings to Mercedes-Benz vehicles and expect to launch our in-Drive products and services later this year, some or all of the assumptions underlying our projections may prove to be materially inaccurate. If so, we cannot assure you that our net losses and negative cash flow will not surpass our expectations, and thus, we may be required to raise additional capital in the future or to reduce our operating expenditures. We have been successful in the past raising capital to address our liquidity needs; however, there is no assurance that we will be successful in the future in obtaining additional financing, if needed, or that we will be able to reduce our operating expenditures. If such additional capital is required and if we are unsuccessful in obtaining additional financing, the value of your investment in our common stock will be adversely affected.

We have not yet generated substantial revenue from our service offerings for vehicles with factory-installed hardware or from our in-Drive product offering.

To date, substantially all of our revenues have been earned through the sale of Networkfleet s products and services, and only nominal revenues have been generated from services enabled by factory-installed telematics devices. We need to continue building the number of vehicles on our telematics system from our service offerings for Mercedes-Benz vehicles with factory-installed hardware or commence commercial sale of our in-Drive aftermarket product offering before we can generate substantial revenues. Unless we do so, we will not become profitable. We cannot assure you that we will build our subscriber base in a cost effective or timely manner or enter into any distribution agreements which will generate material sales of our in-Drive aftermarket product offering to allow us to successfully generate sufficient revenues to operate profitably. If we fail to do so, our business will be materially and negatively impacted.

Our success depends on the success of Mercedes-Benz with which we have a strategic relationship.

Our service offerings for vehicles with factory-installed hardware are necessarily tied to having relationships with automakers and the success of those automakers. To the extent Mercedes-Benz decreases the volume of vehicles they manufacture for the domestic market, we will have a smaller addressable customer base. We cannot control the decisions of Mercedes-Benz or any other automaker with which we develop a strategic relationship regarding how many vehicles they manufacture or what lines, if any, they cease manufacturing in the face of general economic conditions, market pressures or internal financial demands. A significant decrease in actual production in the future by Mercedes-Benz may have a material and negative impact on our business.

Our key service agreement is with Mercedes-Benz and is subject to numerous risks, including early termination and prolonged reduction in production volume. There can be no assurances we will execute a telematics services contract with an additional automaker which could adversely affect our growth prospects.

We currently have a service agreement to provide our telematics solution to Mercedes-Benz vehicles leased or sold in the United States and expect to generate significant future revenues from this agreement. We have a long-term contract with Mercedes-Benz pursuant to which it has agreed to support the installation of telematics devices in its vehicles and permit us to exclusively provide telematics services to its new customers. If we are unable to meet the performance requirements of the contract and subsequently lose the Mercedes-Benz relationship, it would have a material adverse impact on our business and prospects. If Mercedes-Benz materially lowers its production volume for a prolonged period of time and we did not obtain additional customers or offsetting sources of revenue, our growth prospects would be materially harmed. Our prospects and future revenues may be negatively impacted by a prolonged contraction of demand for the vehicles produced by Mercedes-Benz. If we do not sign an additional agreement with another automaker or do not establish additional lines of business or otherwise expand our existing business, our growth prospects could be materially adversely affected.

Our business and growth may be significantly impacted by events in the overall global economy. Automakers, particularly United States automakers, are facing significant financial and structural challenges, and the automotive industry in general is undergoing a period of reorganization, the effects of which are difficult to predict.

A significant portion of our business depends on the willingness of automakers to install our products in their vehicles. The business and the results of the automotive industry are tied to industry and general economic conditions. The global economic recession and related turmoil in the global financial system has had and will continue to have an impact on the business and financial condition of automakers. Global economic events and conditions could have a material adverse impact on our customers, causing them to fail to meet their obligations to us. Also, we are subject to the risks arising from changes in legislation and government regulation associated with any such recession or economic slowdown. Any of these events could negatively impact our business, results of operations and financial condition.

Old Chrysler and General Motors each filed for bankruptcy protection in mid-2009 and emerged later in the year with support from the U.S. government. At the same time, the number of vehicles sold industry-wide declined dramatically in 2009 compared to 2008, despite the infusion of more than $3 billion as part of the cash for clunkers federal stimulus program. The U.S. domestic automobile industry may be further negatively impacted by conditions such as increases in costs, government regulations, disruptions of supply, shortages of raw materials, labor disputes or by global and local economic conditions, including increases in the rate of unemployment, changes in consumer confidence levels, the availability of credit and the availability and cost of fuel. To the extent an automaker with which we have a contract faces adverse conditions resulting in a decrease in production volume, our business may be negatively affected. To the extent the automotive industry in general faces adverse conditions, automakers may be less willing to enter into contracts with us, which would have a negative impact on the growth of our business. Furthermore, economic conditions may cause subscribers to services offered by us to reduce or stop their use of such services, resulting in decreased revenues for us. We also may experience delays or losses with respect to the collection of payments due from customers in the automotive industry experiencing financial difficulties. Adverse business or financial conditions affecting individual automotive manufacturers or their suppliers or the automotive industry generally, including potential additional bankruptcies of automotive companies and their suppliers, as well as market disruption that could result from future consolidation in the automotive industry, could have a material adverse effect on our business prospects.

We must meet certain developmental milestones and provide certain minimum levels of service.

Our agreement with Mercedes-Benz requires us to meet certain developmental milestones and to maintain certain minimum service level standards. The agreement may be terminated by Mercedes-Benz upon a material breach by us, including upon our failure to meet certain of the developmental milestones or to satisfy the required service levels. As our operating systems have recently been launched, we may not be able to maintain our obligations under the agreement. To the extent we fail to meet our material obligations under the contract and it is terminated, our business and prospects would be severely impaired.

Competition for telematics services contracts with automakers is significant.

While we have an exclusive relationship with Mercedes-Benz to provide specified telematics services to new vehicles manufactured by Mercedes-Benz for the United States market, competition for new contracts to provide services similar to our services is significant. Certain of our current and potential competitors, including OnStar, could also have significantly greater name recognition and financial, marketing, management and other resources than we do. They may be able to respond more quickly to changes in customer preferences or devote greater resources to developing and promoting their service offerings. We cannot guarantee that we can maintain our competitive position relative to our current and potential competitors, especially those with greater financial, marketing, management and other resources than we will have.

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Competition for subscribers could negatively affect our business.

Indirectly, certain of our services compete with services provided by wireless devices such as cellular telephones and carriers of mobile communications, as well as aftermarket telematics providers. As wireless providers in the U.S. market complete their service build-out for location-based services, this competition may increase significantly or could jeopardize the commercial viability of certain of our services. Consumers may opt for certain services offered by wireless carriers, such as navigation, rather than those offered by us. In addition, while we are the exclusive telematics services provider to Mercedes-Benz for all new Mercedes-Benz vehicles sold in the United States, we currently compete with the incumbent service provider, ATX Group, for certain Mercedes-Benz customers who purchased vehicles prior to the start of our contract. Although Mercedes-Benz supports us as the provider of choice for such customers, there can be no assurance that we will be successful in converting such customers to our service offering at the rates we expect or without incurring material additional costs.

We cannot assure you that automakers will expand service offerings beyond traditional telematics services or do so at the rates we expect.

The continued rate of integration of telematics into vehicles, including both traditional safety and security features, such as those we currently offer, and future service offerings, such as diagnostics, navigation with integrated traffic, convenience services and infotainment, is subject to uncertainty. The uncertainty concerning the rate of integration of both traditional and future telematics services stems from a number of issues including:

- the relative early stage of the industry itself;
- uncertainties regarding the longer-term appeal of telematics services; and
- competitive uncertainties, including whether current or future consumer products will materially alter the industry. Consumer products that are or could become direct competition for certain services include location-enabled cellular telephones; PDAs; navigation systems; factory-installed, in-vehicle communications and entertainment systems; and aftermarket telematics equipment.

As a result of these and other issues, automakers may limit the use of telematics services utilizing factory-installed devices to traditional safety and security services, or limit deployment of future services to select brands, models or pricing categories. If automakers do not integrate telematics programs into future automobiles, our business and growth prospects will suffer.

Not all automakers should be regarded as prospects for strategic relationships, since some may resist outsourcing their telematics programs and others may not embrace our approach to telematics services.

Not all automakers will solicit the assistance of an outside service provider to perform the services component of their telematics programs and may decide instead to develop in-house telematics capabilities. If automakers in general, or potential automakers with which we are pursuing strategic relationships, in particular, conclude that the disadvantages of engaging a third-party service provider for assistance outweigh the advantages, our growth prospects will suffer. These automakers may resist using an outside telematics service provider such as us for a number of reasons, including:

- the risks or perceived risks of providing third-party service providers with access to their proprietary technology or information;
- a desire to retain control over all consumer-related functions;
- concerns over the level of service to be expected from a third-party service provider and the ability to properly measure acceptable levels of service; and

a belief that the automaker maintains all of the infrastructure, personnel, systems and other resources necessary to manage the program internally.

For those automakers that do outsource telematics, not all will ultimately embrace our approach to telematics services. As a result, not all automakers should be regarded as prospects for strategic relationships.

Our business may be impaired if a third party infringes on our intellectual property rights.

Certain aspects of our service depend, in part, upon intellectual property that we have developed or will develop in the future. Monitoring infringement of intellectual property rights is difficult, and we cannot be certain that the steps we have taken will prevent unauthorized use of our intellectual property and technical know-how. If the intellectual property that we use is not adequately protected, others will be permitted to and may duplicate our service without liability. Others may also challenge, invalidate or circumvent our intellectual property rights, patents or existing sublicenses. In addition, some of the know-how and technology we have developed and plan to develop will not be covered by United States patents. Trade secret protection and contractual agreements may not provide adequate protection if there is any unauthorized use or disclosure. Other parties may have patents or pending patent applications which will later mature into patents or inventions which may block our ability to provide some of our services. We may have to resort to litigation to enforce our rights under license agreements or to determine the scope and validity of other parties proprietary rights in the subject matter of those licenses. This activity may be expensive. Also, we may not succeed in any such litigation.

We may become involved in intellectual property or other disputes that could harm our business.

Third parties, including competitors, may already have patents on inventions, or may obtain patents on new inventions in the future, that could limit our ability to provide services in the future. Such third parties may claim that our products or services infringe their patent rights and assert claims against us. In addition, we have agreed in some of our contracts, and may in the future agree in other contracts, to indemnify third parties for any expenses or liabilities resulting from claimed infringements of the proprietary rights of third parties as it relates to the services we provide. We, or third parties that we are obligated to indemnify, may receive notifications alleging infringements of intellectual property rights relating to our business, the provision of our services or the products previously sold by us. If any infringement claim is successful against us, we may be required to pay substantial damages or we may need to seek and obtain a license of the other party s intellectual property rights. We may be required to redesign those services that use the infringed technology. Moreover, we may be prohibited from selling, using or providing our services that use the challenged intellectual property.

Rapid technological changes could make our services less attractive.

The wireless industry is characterized by rapid technological change, frequent new product innovations, changes in customer requirements and expectations, and evolving industry standards. If we are unable to keep pace with these changes, our business may be harmed. Products using new technologies, or emerging industry standards, could make our technologies less attractive. In addition, we may face unforeseen problems when developing our services which could harm our business. Because we will depend on third parties to develop technologies used in key elements of our products, more advanced technologies which we may wish to use may not be available to us on reasonable terms or in a timely manner. Furthermore, our competitors may have access to technologies not available to us, which may enable them to produce products of greater interest to consumers or automakers, or at a more competitive cost.

Systems failures or interruptions to our service may have a negative impact on our revenues, damage our reputation and decrease our ability to attract new customers to our service offerings.

Our ability to provide uninterrupted service and high quality customer support will depend on the efficient and uninterrupted operation of our computer and communications systems. The systems that we used to integrate the various elements of a telematics program and deliver our services are complex and may contain undetected errors. These errors may not be discovered until after a vehicle model has been launched with our service offering or after consumers begin using the service. Any disruption of our services, computer systems or communications networks, or those of third parties we rely on, could result in the inability of consumers to receive our services for an indeterminate period of time, which could cause us to lose automakers confidence or revenue or to face litigation. If we experience frequent or persistent systems failures, our business and prospects may be irreparably harmed.

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We may be exposed to potential liability for actual or perceived failure to provide required services.

Because consumers subscribing to our safety and security services rely on us in emergency situations, we may be exposed to potential claims for damages, including special or consequential damages, as a result of an actual or perceived failure of our safety and security services. Our failure or inability to meet a driver s expectations in the performance of our services, or to do so in the time frame required by the driver, regardless of responsibility for such failure, could result in liability against us, harm to our business or reputation and/or discourage other automakers from integrating telematics into future vehicles or from engaging us to provide telematics services.

We have significant indebtedness, the terms of which limit the operation of our business, and a failure to generate significant cash flow could render us unable to service such obligations.

As of December 31, 2009, we had outstanding indebtedness with an aggregate principal balance of approximately $118.0 million, consisting of approximately $74.5 million of senior secured term indebtedness, approximately $15.1 million of second lien term indebtedness, an approximately $8.3 million senior unsecured promissory note and approximately $20.1 million of senior subordinated unsecured promissory notes. The senior unsecured promissory note becomes due and payable on December 31, 2010, and we are required to make scheduled principal payments of approximately $0.8 million on April 15, 2010 and $1.5 million on each of July 15, 2010 and October 15, 2010. While we may elect to pay in kind the interest accrued on the senior secured term indebtedness until March 31, 2010, on the senior unsecured promissory note until the December 31, 2010 maturity date and on the second lien term indebtedness and the senior subordinated unsecured promissory notes until the October 1, 2013 maturity date (i.e., with such accrued interest being added to the outstanding principal balance of the term indebtedness), after March 31, 2010 and until the March 31, 2013 maturity date of the senior secured term indebtedness, the accrued interest must be paid in cash. Our ability to service this indebtedness will be dependent on our ability to generate cash from internal operations or raise equity sufficient to make required payments on such indebtedness. Our business may not generate sufficient cash flow from operations, and future borrowings may not be available to us under credit facilities in an amount sufficient to enable us to pay this indebtedness and fund operating and liquidity requirements. We may need to refinance all or a portion of this indebtedness on or before maturity; however, we may not be able to refinance any of this indebtedness on commercially reasonable terms, or at all.

In addition, the senior secured term indebtedness bears variable interest at a rate equal to, at our option, (i) 11.00% plus the greater of the London Interbank Rate (LIBOR) or 3.00% (pursuant to an agreement with one of the senior secured note holders, the interest rate on senior secured term indebtedness with an original principal amount of $5.0 million cannot exceed 14.00%) or (ii) 10.00% plus the prime lending rate. In the event interest rates rise, the result would be higher interest costs for us.

Furthermore, the senior secured and second lien credit facilities contain restrictive covenants that will limit our ability to engage in activities that may be in our long-term best interests. An event of default, including from the failure to comply with the covenants or from the termination of the Mercedes-Benz contract, could, if not cured or waived, result in the acceleration of all of our outstanding indebtedness.

We may require additional financing to fund our operations and execute our business plan.

We cannot assure you that our net losses and negative cash flow will not accelerate and surpass our expectations, potentially significantly, nor can we assure you that we will ever generate any net income or positive cash flow. In light of these net losses and our negative cash flow, we may be required to raise additional capital in the future. This additional financing may take the form of loans under a new credit facility, the issuance of bonds or other types of debt securities, the issuance of equity securities or a combination of the foregoing. Any such financing must either comply with the covenants of our credit facilities, or we will need to obtain waivers from our lenders. Our credit facilities contain covenants that restrict our ability to incur debt and will require mandatory prepayments from the proceeds of an equity financing. Any debt financing we obtain may impose

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various restrictions and additional covenants on us, which could limit our ability to respond to market conditions, provide for unanticipated capital investments or take advantage of business opportunities, and may subject us to significant interest expense. Additional equity financing may be obtained on terms that are dilutive to the interests of our existing and future stockholders. Debt or additional equity financing may not be available when needed on terms favorable to us or at all, and our failure to attract a sufficient amount of additional debt or equity capital may impair our ability to fund our operations and execute on our business plan.

Substantially all of our assets are used to collateralize our senior secured and second lien credit facilities.

Our senior secured and second lien credit facilities are secured by substantially all of our assets, including cash, inventory and accounts receivable. The credit agreements governing these credit facilities contain various covenants that restrict our business. Noncompliance with any of the covenants without cure or waiver would constitute an event of default under the credit facilities. Upon the occurrence of an event of the default under either credit facility, substantially all of our assets would be subject to liquidation by the creditors, which could result in no assets being left available to the stockholders.

Our expected future growth will place a significant strain on our management, systems and resources.

Our business was formed in January 2006 and has grown quickly. In order to execute our business strategy, we will continue to experience significant growth, which will place a significant strain on our systems, processes, resources, management and other infrastructure and support mechanisms. To manage the anticipated growth of our operations, we will be required to:

- improve existing and implement new operational, financial and management information controls, reporting systems and procedures;
- establish relationships with additional vendors, suppliers and strategic partners and maintain existing relationships; and
- hire, train, manage and retain additional personnel.

To the extent we are unable to assemble the personnel, controls, systems, procedures and relationships necessary to manage our future growth, if any, management resources may be diverted, and our opportunity for success may be limited.

Our inability to identify, hire and retain qualified personnel would adversely affect our business.

Our continued success will depend, to a significant extent, upon the performance and contributions of our senior management and upon our ability to attract, motivate and retain highly qualified management personnel and employees. We depend upon our key senior management to effectively manage our business in a highly competitive environment. If one or more of our key officers joins a competitor or forms a competing company, we may experience material interruptions in product development, delays in bringing products to market, difficulties in our relationships with automakers, suppliers and customers, and loss of additional personnel, which could significantly harm our business, financial condition, operating results and projected growth.

Additionally, failure to continue to attract and retain qualified management personnel could adversely affect our business and growth prospects. We compete to hire new employees, and we then must train them and develop their skills and competencies. Our operating results could be adversely affected by increased costs due to increased competition for employees, higher employee turnover or increased employee benefit costs. Any unplanned turnover could deplete our institutional knowledge base and erode our competitive position.

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Regulations concerning consumer privacy may adversely affect our business.

Certain technologies that we currently support, or may in the future support, are capable of collecting personally-identifiable information and vehicle-specific information such as performance data and error codes. Vehicle-specific information may also reveal personally-identifiable information. We anticipate that as telematics programs continue to develop, in the future it will be possible to collect or monitor substantially more of this kind of information. A growing body of laws designed to protect the privacy of personally-identifiable information, as well as to protect against its misuse, and the judicial interpretations of such laws, may adversely affect the growth of our business. In the United States, these laws could include the Federal Trade Commission Act, the Electronic Communications Privacy Act, the Fair Credit Reporting Act and the Gramm-Leach Bliley Act, as well as various state laws and related regulations. In addition, certain governmental agencies, like the Federal Trade Commission, have the authority to protect against the misuse of consumer information by targeting companies that collect, disseminate or maintain personal information in an unfair or deceptive manner. In particular, such laws could limit our ability to collect information related to users of our services, to store or process that information in what would otherwise be the most efficient manner, or to commercialize new services based on new technologies. The evolving nature of all of these laws and regulations, as well as the evolving nature of various governmental bodies enforcement efforts, and the possibility of new laws in this area, may adversely affect our ability to collect and disseminate or share certain information about consumers and may negatively affect the ability of automakers or dealers to make use of that information. If we fail to successfully comply with applicable regulations in this area, our business and prospects could be harmed.

Consumer avoidance of services which collect, store or use personally-identifiable data could adversely affect our business.

Consumer sentiment regarding privacy issues is constantly evolving. Such consumer sentiment may affect the buying public s interest in our current or future service offerings. In some cases, consumer groups and individual consumers have already begun to vigorously lobby against, or otherwise express significant concern over, the collection, storage and/or use of personally-identifiable information. Accordingly, privacy concerns of consumers may influence automakers to refrain from adopting telematics programs, especially those which involve more advanced programs, which could in turn harm the overall telematics industry or, depending on our programs, our prospects. Moreover, strong consumer attitudes often precipitate new regulations like the ones described above. If we fail to successfully monitor and consider the privacy concerns of consumers, our business and prospects would be harmed.

Risks Related to Our Organization

An affiliate of Apollo beneficially owns a majority of our voting stock.

Affiliates of Apollo, including our controlling stockholder, Communications Investors, LLC (Communications LLC), PLASE HT, LLC (PLASE HT) and HCI, may be deemed to beneficially own 63,467,284 shares of our common stock (including 45,501,064 earn-out shares and 3,000,000 shares issuable upon the exercise of an outstanding warrant), which represents approximately 71% of our voting power. Our board of directors includes four directors who are affiliated with Apollo. Because of their board representation and Communications LLC s control of our voting power, Apollo is able to indirectly exert considerable influence and control over us, including the appointment of management and the outcome of all matters requiring stockholder approval. Apollo s affiliates may be able to cause, prevent or delay a change of control of us or a change in the composition of our board of directors and could preclude any unsolicited acquisition of us. In addition, because affiliates of Apollo may substantially determine the outcome of a stockholder vote, Apollo s affiliates could deprive stockholders of an opportunity to receive a premium for their shares as part of a sale of us, and that voting control could ultimately affect the market price of our common stock. Affiliates of Apollo also hold a significant amount of our outstanding indebtedness. As of December 31, 2009, affiliates of Apollo held approximately $5.7 million (including principal and accrued interest which has been paid in kind) of our outstanding senior secured term indebtedness, approximately $15.1 million (including principal and accrued interest which has been paid in kind) of our outstanding second lien term indebtedness and approximately $20.1 million (including principal and accrued interest which has been paid in kind) of our senior subordinated unsecured promissory notes. Further, HNS, also an affiliate of Apollo, held a senior unsecured promissory note with an outstanding principal balance of approximately $8.3 million.

We are a public company and, as such, are subject to the reporting requirements of federal securities laws, which are expensive and may divert resources from other projects, thus impairing our ability to grow.

We are a public reporting company and, accordingly, are subject to the information and reporting requirements of the Securities Exchange Act of 1934, as amended (the Exchange Act), and other U.S. federal securities laws, including compliance with the Sarbanes-Oxley Act of 2002 (the Sarbanes-Oxley Act). Compliance with these obligations requires significant time and resources from our management and our finance and accounting staff and increases our legal, insurance and financial compliance costs. It is time consuming and costly for us to develop and implement the internal controls and reporting procedures required by the Sarbanes-Oxley Act. Occasionally, we may need to hire additional financial reporting, internal controls and other finance and accounting personnel in order to develop and implement appropriate internal controls and reporting procedures. If we are unable to comply with the requirements of the Sarbanes-Oxley Act, then we may not be able to obtain the reports from our independent registered public accountant required by the Sarbanes-Oxley Act, which may preclude us from keeping our filings with the SEC current. Non-current reporting companies are subject to various restrictions and penalties.

We must comply with Section 404 of the Sarbanes-Oxley Act which requires us to document and test our internal controls over financial reporting for fiscal 2009 and beyond. Any delays or difficulty in satisfying these requirements could adversely affect our future results of operations and stock price.

Section 404 of the Sarbanes-Oxley Act requires us to document and test the effectiveness of our internal controls over financial reporting in accordance with an established control framework and to report on our management s conclusion as to the effectiveness of these internal controls over financial reporting beginning with the fiscal year ending December 31, 2009. We are also required to have an independent registered public accounting firm test the internal controls over financial reporting and report on the effectiveness of such controls for the fiscal year ending December 31, 2009 and subsequent years. Any delays or difficulty in satisfying these requirements could adversely affect future results of operations and our stock price. We may also incur significant costs to comply with these requirements.

We may in the future discover areas of internal controls over financial reporting that need improvement. There can be no assurance that remedial measures will result in adequate internal controls over financial processes and reporting in the future. Any failure to implement the required new or improved controls, or difficulties encountered in their implementation, could materially adversely affect our results of operations or could cause us to fail to meet our reporting obligations. If we are unable to conclude that we have effective internal controls over financial reporting, or if our independent registered public accounting firm is unable to provide an unqualified report regarding the effectiveness of internal controls over financial reporting as required by Section 404 of the Sarbanes-Oxley Act, investors may lose confidence in the reliability of our financial statements, which could result in a decrease in the value of our securities. In addition, failure to comply with Section 404 of the Sarbanes-Oxley Act could potentially subject us to sanctions or investigation by the SEC or other regulatory authorities.

Public company compliance makes it more difficult for us to attract and retain officers and directors.

The Sarbanes-Oxley Act and new rules subsequently implemented by the SEC have required changes in corporate governance practices of public companies. As we are a public company, these new rules and regulations have increased and may continue to increase our compliance costs in the future and make certain activities more time consuming and costly. As a public company, these new rules and regulations may make it

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more difficult and expensive for us to obtain director and officer liability insurance in the future, or we may be required to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. As a result, it may be more difficult for us to attract and retain qualified persons to serve on our board of directors or as executive officers.

Risks Related to Our Common Stock

Our common stock is currently traded on the over-the-counter (OTC) Bulletin Board market, which may generally involve certain risks not present in all securities.

Our securities were delisted from the NYSE Amex (formerly the American Stock Exchange) and are currently traded on the OTC Bulletin Board, an electronic bulletin board established for unlisted securities, which could limit investors ability to make transactions in our securities. Although the Financial Industry Regulatory Authority, Inc. oversees the OTC Bulletin Board, market makers of bulletin board securities are unable to use electronic means to interact with other dealers to execute trades, which can cause delays in the time it takes to interact with the market place. Risks associated with trading bulletin board securities may include, among others, limited availability of order information and market data, liquidity risks, and communications risks. Furthermore, for companies whose securities are quoted on the OTC Bulletin Board, it is more difficult (1) to obtain accurate quotations, (2) to obtain coverage for significant news events because major wire services generally do not publish press releases about such companies, and (3) to obtain needed capital.

Our stock price may continue to be volatile and may decrease in response to various factors, which could adversely affect our business and cause our stockholders to suffer significant losses.

Our common stock is illiquid, and its price has been and may continue to be volatile in the indefinite future. The price of our stock could fluctuate widely in response to various factors, many of which are beyond our control, including the following:

- changes in our industry or the auto industry;
- competitive pricing pressures;
- our ability to obtain working capital or project financing;
- additions or departures of key personnel;
- limited public float in the hands of a small number of persons, whose sales or lack of sales could result in positive or negative pricing pressure on the market price for our common stock;
- sales of our common stock;
- our ability to execute our business plan;
- operating results that fall below expectations;
- loss of any strategic relationship;

- economic and other external factors; and

- period-to-period fluctuations in our financial results.

In addition, the securities markets have from time to time experienced significant price and volume fluctuations that are unrelated to the operating performance of particular companies. These market fluctuations may also materially and adversely affect the market price of our common stock.

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We have not paid dividends in the past and do not expect to pay dividends in the foreseeable future. Any return on investment may be limited to the value of our common stock.

We have never paid cash dividends on our common stock and do not anticipate doing so in the foreseeable future. The payment of dividends on our common stock will depend on earnings, financial condition and other business and economic factors affecting us that our board of directors may consider relevant. Further, we are significantly limited in the amount of dividends we can pay by the terms of our senior secured and second lien term indebtedness. If we do not pay dividends, our common stock may be less valuable because a return on your investment will only occur if our stock price appreciates.

There is currently a limited trading market for our common stock, and we cannot ensure that a liquid market will be established or maintained.

Trading in our common stock on the OTC Bulletin Board began on June 8, 2009, and only a limited market has developed for the purchase and sale of our common stock. We cannot predict how liquid the market for our common stock might become. Therefore, the purchase of our shares must be considered a long-term investment acceptable only for prospective investors who are willing and can afford to accept and bear the substantial risk of the investment for an indefinite period of time. Because there is a limited public market for the resale of our shares, an investor in our common stock may not be able to liquidate his investment, and our shares may not be acceptable as collateral for a loan.

If we fail to remain current in our reporting requirements, we could be removed from the OTC Bulletin Board, which would limit the ability of broker-dealers to sell our securities and the ability of our shareholders to sell their securities in the secondary market.

Companies such as us trading on the OTC Bulletin Board must be reporting issuers under Section 12 of the Exchange Act and must be current in their reports under Section 13 of the Exchange Act in order to maintain price quotation privileges on the OTC Bulletin Board. If we fail to remain current in our reporting requirements, we could be removed from the OTC Bulletin Board. As a result, the market liquidity for our securities could be adversely affected by limiting the ability of broker-dealers to sell our securities and the ability of our shareholders to sell their securities in the secondary market.

Offers or availability for sale of a substantial number of shares of our common stock may cause the price of our common stock to decline.

The ability of our stockholders to sell substantial amounts of our common stock in the public market creates a circumstance commonly referred to as an overhang and in anticipation of significant sales the market price of our common stock could fall. The existence of an overhang, whether or not sales have occurred or are occurring, also could make it more difficult for us to raise additional financing through the sale of equity or equity-related securities in the future at a time and price that we deem reasonable or appropriate. Certain of the shares of our common stock issued upon consummation of the Merger were placed into escrow, to be released only if the trading price of our common stock equals or exceeds various prices between $20.00 and $30.50, at various times between March 31, 2010 and March 31, 2014. If any such shares are released from escrow, they will become freely tradable, subject to securities laws.

Item 1B. Unresolved Staff Comments.

None.

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Item 2. Properties.

The following sets forth each of our principal properties, all of which are leased:

Location	Use	Square Feet	Lease Expiration
2002 Summit Boulevard, Atlanta, Georgia 30319	Headquarters	51,854	January 31, 2016
6363 Greenwich Drive, San Diego, California 92122	Offices	19,484	March 31, 2015

Item 3. Legal Proceedings.

On May 7, 2009, Networkfleet was served with a complaint in a patent infringement case titled Innovative Global Systems LLC vs. Turnpike Global Technologies L.L.C. et al. that was filed in the Eastern District of Texas. The case seeks damages from Networkfleet and five other defendants for allegedly infringing on five patents held by the plaintiffs. The parties have reached a tentative agreement to settle the matter which is subject to final negotiation and execution of definitive documentation. If such agreement is not ultimately executed, Networkfleet will vigorously defend itself in this action.

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

Item 4. Reserved.

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PART II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market Information

From January 14, 2008 to April 1, 2009, our common stock was quoted on the NYSE Amex (formerly the NYSE Alternext US) under the trading symbol TKP and then under the symbol HTC from April 2, 2009 until June 5, 2009. Since June 8, 2009, our common stock has been quoted on the OTC Bulletin Board under the trading symbol HUTC. The quotations reflect inter-dealer prices, without retail mark-ups, mark-downs, or commissions and may not necessarily represent actual transactions.

The following table sets forth the range of high and low sales prices as reported on the OTC Bulletin Board for the period indicated:

	Sales Price	
	High	Low
Year Ended December 31, 2009		
Quarter ended June 30, 2009 (June 8, 2009 through June 30, 2009)	$ 7.50	$ 4.00
Quarter ended September 30, 2009	5.50	2.75
Quarter ended December 31, 2009	6.15	2.76

The following table sets forth the range of high and low sales prices as reported on the NYSE Amex for the periods indicated:

	Sales Price	
	High	Low
Year Ended December 31, 2009		
Quarter ended March 31, 2009	$ 9.59	$ 8.78
Quarter ended June 30, 2009 (through June 5, 2009)	8.04	3.44

	Sales Price	
	High	Low
Year Ended December 31, 2008		
Quarter ended March 31, 2008 (from January 14, 2008)	$ 9.15	$ 9.02
Quarter ended June 30, 2008	9.64	9.04
Quarter ended September 30, 2008	9.60	9.10
Quarter ended December 31, 2008	9.15	8.15

Holders of Common Equity

As of March 12, 2010, an aggregate of 87,087,624 shares of our common stock were issued and outstanding and were owned by approximately 235 stockholders of record.

Dividends

We have never declared cash dividends on our common stock, nor do we anticipate paying any dividends on our common stock in the foreseeable future. Further, we are significantly limited in the amount of dividends we can pay by the terms of our senior secured and second lien term indebtedness.

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Performance

The graph below compares the cumulative total return of our common stock from January 28, 2008, the date that our common stock first became tradable, through December 31, 2009 with the cumulative return of companies comprising the Nasdaq Composite Index and the SIC Code Communications Services index. The graph plots the change in value of an initial investment of $100 in each of our common stock, the S&P 500 Index and a peer group selected by us over the indicated time periods and assumes reinvestment of all dividends, if any, paid on the securities. We have not paid any cash dividends, and therefore, the cumulative total return calculation for us is based solely upon stock price appreciation and not upon reinvestment of cash dividends. The stock price performance shown on the graph is not necessarily indicative of future price performance.

The SIC Code Communications Services was chosen because the index contains companies which are in a business similar to ours.

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Item 6. Selected Financial Data.

The selected financial data set forth below has been derived from our consolidated financial statements contained in Item 8. Financial Statements and Supplementary Data of this Annual Report on Form 10-K, and previously published historical financial statements not included in this Annual Report on Form 10-K. The selected financial data set forth below should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements, including the footnotes, contained in this report.

	Year Ended December 31,			January 9, 2006 (inception) to December 31,
	2009(1)	2008	2007	2006(2)
	(in thousands, except per share data)			
Consolidated Statements of Operations Data:				
Revenues	$ 33,043	$ 30,260	$ 20,352	$ 6,913
Loss from operations	(87,590)	(47,658)	(33,577)	(6,136)
Loss before income taxes	(163,652)	(57,467)	(34,535)	(6,104)
Net loss	(163,661)	(57,467)	(32,333)	(3,836)
Net loss available to common shareholders	(220,280)	(57,467)	(32,333)	(3,836)
Basic and diluted loss per share	(11.40)	(12.19)	(6.88)	(0.92)

	December 31,			
	2009	2008	2007	2006
	(in thousands)			
Consolidated Balance Sheet Data:				
Cash, cash equivalents and short-term investments	$ 28,368	$ 17,837	$ 22,017	$ 17,388
Restricted cash, current and non-current	650	9,083	997	997
Total assets	118,081	108,982	62,932	54,648
Series A Redeemable Preferred Stock		62,092	57,017	35,273
Current portion of long-term debt	8,316			
Long-term debt, excluding current portion	91,140	66,596		
Capital lease obligations, current and non-current	4,724	7,331		
Total liabilities	123,457	159,652	75,795	50,398
Stockholders (deficit) equity	(5,376)	(50,670)	(12,863)	4,250

(1) For the year ended December 31, 2009, loss from operations, net loss and net loss available to common stockholders include an approximately $62.3 million charge related to the change in fair value of derivative instruments. Net loss available to common stockholders also includes an approximately $56.6 million deemed dividend.

(2) On August 1, 2006, we purchased all of the outstanding common stock of Networkfleet, Inc. The results of Networkfleet s operations are included in the Company s results for the period beginning August 1, 2006.

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Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion should be read in conjunction with our combined historical financial statements and the related notes included elsewhere in this annual report on Form 10-K. This discussion contains forward-looking statements that are subject to known and unknown risks and uncertainties. Actual results and the timing of events may differ significantly from those expressed or implied in such forward-looking statements due to a number of factors, including those included in the section entitled Risk Factors and elsewhere in this annual report on Form 10-K. Unless the context indicates otherwise, in this section the terms we, us and our refer to HUGHES Telematics, Inc. See the section entitled Forward-Looking Statements.

Overview

We are a telematics services company that provides a suite of real-time voice and data communications services and applications. These services and applications are enabled through a state-of-the-art communications center designed with flexibility to connect various mobile devices with content, services and call centers. Within the automotive industry, our communications center allows for two way voice and data communications to vehicles and supports, among other things, critical safety and security services as well as location-based services and remote diagnostics. Since November 16, 2009, we have been the exclusive telematics services provider in the United States for all new vehicles sold by Mercedes-Benz, as well as the preferred provider of telematics services for all Mercedes-Benz vehicles purchased prior to November 16, 2008. These services are marketed under the mbrace brand. In addition, our in-Drive product offers services to consumers or other third parties through a hardware component that we have developed and which we intend to distribute through relationships with companies and organizations with large customer or membership bases for installation in existing vehicles.

Through our wholly-owned subsidiary, Networkfleet, we currently offer remote vehicle monitoring and other data services with sales generated through a combination of distribution arrangements with large fleet management service providers, a network of resellers and direct sales. Unlike our service offerings enabled through factory-installed hardware, Networkfleet s service offerings are enabled by an aftermarket hardware device that is sold by Networkfleet for installation in vehicles. Owners and operators of a fleet of vehicles use these services to monitor driver performance for unauthorized or unsafe vehicle usage, as well as analyze data such as the current location of a vehicle, fuel consumption, mileage, emissions status and diagnostic trouble codes. From our inception through the year ended December 31, 2009, substantially all of our consolidated revenues were earned through the sale of Networkfleet s products and services.

Although Networkfleet has been our primary source of revenue to date, we expect to derive our revenue increasingly from the telematics services provided to Mercedes-Benz vehicles, vehicles manufactured by automakers to which we are currently marketing our services and vehicles which have our in-Drive aftermarket hardware device installed. We expect a significant portion of our future revenues to be generated from subscriptions for consumer service offerings, as well as from transaction or pre-paid package fees, automaker and dealer service offerings and from strategic relationships with third parties who are expected to develop applications for our services and product offerings. Customer churn will be an important metric that we will monitor and seek to minimize as we begin delivering our consumer service offerings. We anticipate periodically reporting customer churn as our operations mature.

While recent negative trends in automobile sales in the United States market are negatively impacting the financial results of automotive manufacturers, management does not believe that the current trends will have a significant long-term negative impact on our business. Under our agreement with Mercedes-Benz, the automaker has agreed to equip virtually all of its vehicles produced for sale in the United States market with a device that enables our service offerings. Accordingly, while the recent declines in production are significant and will impact the size of the potential customer base for services to factory-installed devices, we believe that if such current trends are consistent with the cyclical historical nature of the automotive industry, then the trends may be expected to abate and reverse over the next several years. In any case, the contracting demand for new vehicles in the United States market creates increased competition among automakers and provides additional incentive for

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them to offer products and services that help differentiate their vehicles. We believe that in trying to differentiate their vehicles, automakers will expedite the adoption rates for telematics services like those that we offer. While such adoption rates are currently subject to uncertainty, we are working with Mercedes-Benz and other third parties to enable a community of compelling content offerings and applications that will enhance the vehicle ownership experience. We are in discussions with numerous leading companies in the financial services, insurance, vehicle safety and recovery, real estate, Internet search, wireless communications, satellite broadcasting and vehicle navigation sectors to promote the availability of such content. Management believes that an increase in the range of third-party in-vehicle content offerings will have a positive impact on the adoption rate of telematics in the automobile industry, generally, and on our results of operations and financial condition, specifically.

Until the second quarter of 2009, we had a contract to be the telematics service provider in the United States for Old Chrysler. On April 30, 2009, Old Chrysler filed for bankruptcy protection under Chapter 11 of the United States bankruptcy code. On June 10, 2009, substantially all of Old Chrysler s assets were sold to New Chrysler, a group whose members include Italian automaker Fiat SpA, the United Auto Workers union and the United States government. At a hearing held on July 16, 2009, Old Chrysler rejected certain contracts, including our telematics services contract with Old Chrysler, and therefore, our contract was terminated. We had been in negotiations with New Chrysler concerning a new telematics services agreement. However, the parties reached an impasse in the negotiations, and as a result, we discontinued working with New Chrysler to deploy our hardware and launch our services as previously planned. In light of the termination of our contract with Old Chrysler and the discontinuation of work towards launch with New Chrysler, we evaluated for impairment certain equipment, capitalized software costs and other assets related to the deployment of hardware and launch of services to New Chrysler vehicles. Accordingly, we recorded an impairment charge during the year ended December 31, 2009 totaling approximately $20.8 million to write down these assets to their net realizable values. The impairment consisted of approximately $11.8 million of capitalized software, approximately $3.6 million of equipment and approximately $5.4 million of other assets. Notwithstanding the foregoing, we continue to market the underlying technology that was developed in the effort for Old Chrysler to other interested parties.

Merger with Polaris Acquisition Corp.

On March 31, 2009, Old HTI and Polaris consummated the Merger. Upon closing of the Merger, the outstanding equity securities of Old HTI were exchanged for an aggregate of 77,102,149 shares of our common stock, comprised of 19,854,018 initial shares and 57,248,131 earn-out shares. In addition, all options exercisable for Old HTI common stock issued and outstanding immediately prior to the Merger were exchanged for options exercisable for an aggregate of 2,274,935 shares of our common stock, which includes 1,751,859 earn-out options. The earn-out shares, which were issued into escrow, will be released to the Old HTI stockholders and the earn-out options will be eligible to be exercised, according to their terms, by the optionholders, each in three tranches, upon the trading share price of our common stock reaching at least $20.00, $24.50 and $30.50 (as may be adjusted or amended in accordance with the escrow agreement) within certain measurement periods over the five-year period following the closing of the Merger. The Old HTI stockholders placed 5,782,661 shares of common stock, comprised of 1,489,053 initial shares and 4,293,608 earn-out shares, in escrow until June 30, 2010 to indemnify us for the payment of indemnification claims that may be made as a result of breaches of Old HTI s covenants, representations and warranties in the Merger Agreement. Pursuant to the Merger Agreement, the Polaris founders agreed to deposit an aggregate of 1,250,000 shares of their common stock into escrow at closing with such shares being released upon the achievement of the first share price target between the first and fifth anniversary of closing. Upon consummation of the Merger, the Polaris founders also transferred an aggregate of 168,000 shares of common stock to us with such shares cancelled upon receipt.

Immediately prior to the consummation of the Merger, Old HTI extinguished its outstanding shares of Series A Preferred Stock through (i) the exercise by Communications LLC of outstanding warrants to purchase Old HTI common stock using shares of Series A Preferred Stock with an aggregate face value of $55.0 million and (ii) the exchange of shares of Series A Preferred Stock with an aggregate face value of $20.0 million for shares of Old HTI common stock. In connection with the Merger, all outstanding shares of Series B Preferred Stock were exchanged for an aggregate of 12,500,000 shares of our common stock, comprised of 5,000,000 initial shares and 7,500,000 earn-out shares.

In order to consummate the Merger, we agreed to purchase an aggregate of 7,439,978 shares of our common stock from a limited number of institutional shareholders in separate and privately negotiated transactions which were executed prior to the conclusion of the special meeting in which our shareholders voted on the Merger. In order to consummate these private purchases following the Merger, we used funds released from the trust account and funds received from the sale of Series B Preferred Stock. In addition, stockholders holding an aggregate of 4,499,337 shares of common stock exercised their right to convert their stock into a pro rata share of the funds held in the Polaris trust account.

In addition, in connection with the Merger, pursuant to certain letter agreements dated March 12, 2009, we were obligated to issue, and certain of Polaris financial advisors agreed to accept, an aggregate of 226,592 shares of our common stock in lieu of cash compensation to such advisors for services rendered to us. The obligation to issue such shares in lieu of cash payments was conditioned upon consummation of the Merger and other factors that were not determinable until the conclusion of the special meeting. On May 6, 2009, we issued such shares to the advisors.

Notwithstanding the legal form of the transaction, the Merger has been accounted for under the purchase method of accounting as a reverse acquisition, equivalent to a recapitalization, through the issuance of stock by Old HTI for the net monetary assets of Polaris. The determination of Old HTI as the accounting acquirer was made based on consideration of all quantitative and qualitative factors of the Merger, including significant consideration given to the fact that following consummation of the Merger (i) the stockholders of Old HTI control a majority of our voting power, (ii) the controlling stockholder of Old HTI prior to the Merger, together with its affiliates, controls approximately 72% of our voting power and has the right to select a majority of the members of our board of directors and (iii) the management of Old HTI continued in all executive officer and other senior management positions and, accordingly, has day-to-day authority to carry out the business plan after the Merger. Accordingly, our historical financial statements prior to March 31, 2009 are the historical financial statements of Old HTI. The consolidated financial statements of Old HTI have been retroactively restated to reflect the recapitalization of Old HTI with the 77,102,149 shares of common stock issued to Old HTI equity holders in connection with the Merger.

Critical Accounting Policies

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States. These accounting principles require management to make certain estimates and assumptions that affect the reported assets, liabilities, revenues, expenses and related disclosures of contingent liabilities in the consolidated financial statements and accompanying notes. Although these estimates are based on management s knowledge of current events and actions we may undertake in the future, actual results may differ from estimates. The following discussion addresses the most critical accounting policies, which are those that are most important to the portrayal of our financial condition and results from operations, and that require judgment. The notes accompanying the consolidated financial statements contain additional information regarding our accounting policies.

Revenue Recognition

We recognize revenues from hardware sales and services rendered provided that there is an enforceable contract, we have delivered services to the customer, the fee for the services is fixed or determinable and collection is reasonably assured. Hardware sales consist principally of revenues from the sale of telematics devices, primarily to resellers. Shipping and handling costs for hardware shipped are classified as cost of hardware sold. We have determined that the sale of hardware and its accompanying services constitute a revenue

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arrangement with multiple deliverables and account for the sale of hardware and the accompanying services as separate units of accounting. Prepaid service fees are recorded as deferred revenue and are recognized as revenue when earned.

Capitalized Software

Software development costs are capitalized in accordance with the accounting guidance governing the costs of computer software developed or obtained for internal use. The guidance requires companies to capitalize qualifying costs that are incurred during the application development stage and amortize them over the software s estimated useful life. Costs capitalized include direct labor, outside services, materials, software licenses and interest incurred on certain of our outstanding indebtedness. For the years ended December 31, 2009, 2008 and 2007, we capitalized approximately $14.3 million, $13.3 million and $3.4 million, respectively, of software development costs. Amortization begins when the software is ready for its intended use and will be recognized over the expected useful life of the software, but not to exceed five years. For the years ended December 31, 2009, 2008 and 2007, we recorded amortization expense related to capitalized software costs of approximately $0.9 million, $0 and $0, respectively.

Impairment of Long-Lived Assets

Long-lived assets and identifiable intangibles with finite useful lives are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable in accordance with the accounting guidance governing the impairment or disposal of long-lived assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the future net undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying value of the assets exceeds the fair value of the assets. In light of the termination of our contract with Old Chrysler and the discontinuation of work towards launch of service with New Chrysler, we evaluated for impairment certain equipment, capitalized software costs and other assets related to the deployment of hardware and launch of services to New Chrysler vehicles. Accordingly, we recorded an impairment charge during the year ended December 31, 2009 totaling approximately $20.8 million to write down these assets to their net realizable values. The impairment consisted of approximately $11.8 million of capitalized software, approximately $3.6 million of equipment and approximately $5.4 million of other assets.

Fair Value of Financial Instruments

Our financial instruments include cash, cash equivalents, accounts receivable, accounts payable, letters of credit, long-term debt and certain warrants to purchase common stock. The fair value of cash, cash equivalents, accounts receivable, accounts payable and the letters of credit approximates book value due to their short-term duration. We determined the estimated fair value of the long-term debt and the warrants by using available market information and commonly accepted valuation methodologies. However, considerable judgment is required in interpreting market data to develop estimates of fair value. Accordingly, the fair value estimates are not necessarily indicative of the amount that we or holders of the instruments could realize in a current market exchange. The use of different assumptions and/or estimation methodologies may have a material effect on the estimated fair value.

Share-Based Compensation

We record expense for share-based compensation awards based on the fair value recognition provisions contained in accounting guidance governing share-based payments. The fair value of stock option awards is determined using an option pricing model that is based on established principles of financial economic theory. Assumptions regarding volatility, expected term, dividend yield and risk-free rate are required for valuation of stock option awards.

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Selected Segment Data

We classify our operations into two principal business segments: (i) the HUGHES Telematics segment, which provides and is further developing our telematics service offering for automotive manufacturers, including Mercedes-Benz, and our in-Drive product offering; and (ii) the Networkfleet segment, which provides an aftermarket fleet management solution targeted to the local fleet market. The following tables set forth revenues and operating loss by operating segments:

	Year Ended December 31,		
	2009	2008 (in thousands)	2007
Revenues:			
HUGHES Telematics	$ 1	$	$
Networkfleet	33,042	30,260	20,352
Total	$ 33,043	$ 30,260	$ 20,352
(Loss) Income from operations:			
HUGHES Telematics	$ (88,074)	$ (47,556)	$ (29,431)
Networkfleet	484	(102)	(4,146)
Total	$ (87,590)	$ (47,658)	$ (33,577)

Results of Operations for the Year Ended December 31, 2009 Compared to the Year Ended December 31, 2008

Revenues

For the years ended December 31, 2009 and 2008, we earned substantially all of our revenues from the sale of Networkfleet s products and services. Hardware revenues consist principally of the sale of Networkfleet s telematics device. Service revenues relate to the consideration received from monitoring, tracking and safety and security services, which are recognized as revenue when earned. The following table sets forth information related to revenue for the years ended December 31, 2009 and 2008.

	Year Ended December 31,	
	2009	2008
	(in thousands)	
Service revenues	$ 22,627	$ 16,618
Hardware revenues	10,416	13,642
Total revenues	$ 33,043	$ 30,260

Total revenues for the year ended December 31, 2009 increased to approximately $33.0 million, a 9% increase from the approximately $30.3 million of total revenue for the year ended December 31, 2008. This increase was primarily due to the increase in Networkfleet s service revenues, which increased by 36% in the year ended December 31, 2009 from the year ended December 31, 2008. Units active on Networkfleet s network increased to approximately 102,000 as of December 31, 2009, a 17% increase from the approximately 87,000 units as of December 31, 2008. As Networkfleet continues to sell additional hardware devices, service revenues are expected to continue to increase in future periods. In addition, service revenues generated by the HUGHES Telematics segment are expected to significantly increase in future periods as (i) we continue to transition paying subscribers to the Mercedes-Benz service formerly marketed as Tele Aid to our service platform and (ii) we convert subscribers to the mbrace service from a trial to a paying subscription.

Networkfleet s hardware sales decreased to approximately 30,000 units in the year ended December 31, 2009, a 25% decrease from the approximately 40,000 units sold in the year ended December 31, 2008 due to weak general economic conditions which are causing our customer base to postpone previously planned purchases. As the domestic economy recovers, we expect unit sales to return to historical levels.

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Cost of Revenues

Cost of hardware sold consists primarily of the cost of direct materials required to produce Networkfleet s telematics device, the cost of shipping and installing devices and the amortization of certain intangibles acquired in connection with the acquisition of Networkfleet. Cost of services includes per unit monthly charges from various wireless, mapping and roadside assistance providers, the cost associated with operating our call centers and data centers, as well as the salaries and related benefits for employees who support the call centers and manage the data centers. The following table sets forth information related to cost of revenues for the years ended December 31, 2009 and 2008.

	Year Ended December 31, 2009	Year Ended December 31, 2008
	(in thousands)	
Cost of services	$ 8,163	$ 6,009
Cost of hardware sold	8,214	9,585
Total cost of revenues	$ 16,377	$ 15,594

Cost of revenues increased to approximately $16.4 million for the year ended December 31, 2009, a 5% increase over from the approximately $15.6 million for the year ended December 31, 2008. This increase is primarily due to approximately $1.3 million of costs related to the provision of the mbrace service to owners and lessees of Mercedes-Benz vehicles following the launch of the service in November 2009, as well as the cost associated with an increased number of active units on Networkfleet s network in the year ended December 31, 2009 compared to the year ended December 31, 2008. Cost of revenues as a percentage of total revenues decreased to 50% in the year ended December 31, 2009 compared to 52% in the year ended December 31, 2008. This decrease is due to the increase in service revenues as a percentage of total revenue partially offset by the additional $1.3 million of cost related to the mbrace service. Service revenues yield a higher gross margin than hardware revenues and represented 68% of total revenues in the year ended December 31, 2009 compared to the 55% of total revenues in the year ended December 31, 2008.

Research and Development Expense

Research and development expense consists primarily of salaries and related benefits for employees associated with engineering and product development activities, fees and expenses paid to HNS and other contracted labor who provided services to us in connection with the development of our factory-installed hardware device and other infrastructure related to the provision of services to vehicles, depreciation of property and equipment used in the development effort and amortization of certain intangible assets acquired in connection with the acquisition of Networkfleet. Research and development expense for the year ended December 31, 2009 decreased to $30.5 million from $33.6 million for the year ended December 31, 2008, a decrease of $3.1 million, or 9%. In the year ended December 31, 2009, we discontinued development efforts towards launch of service with Old Chrysler. Research and development expense related primarily to the Old Chrysler effort, including work performed by HNS on our behalf, decreased by $6.8 million. This decrease was partially offset by a $2.5 million increase in labor costs as we dedicated additional resources to the further development and testing of our telematics system, including the development of our in-Drive products and services, and a $1.0 million increase in depreciation expense related to the depreciation of assets used in development activities.

Sales and Marketing Expense

Sales and marketing expense consists primarily of (i) salaries, commissions and related benefits for employees engaged in maintaining and augmenting our automaker relationships, Networkfleet s sales initiatives, and other marketing activities, (ii) certain amounts paid to Mercedes-Benz and its dealers, (iii) the costs associated with direct marketing campaigns, (iv) trade shows and other forms of advertising and (v) the

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amortization of certain intangible assets acquired in connection with the acquisition of Networkfleet. Sales and marketing expense for the year ended December 31, 2009 increased to $11.4 million from $7.6 million, an increase of $3.8 million, or 50%. This increase relates primarily to a $1.3 million increase in direct marketing costs incurred relating to our launch of the mbrace service offering in November 2009, including certain amounts paid to Mercedes-Benz and its dealers; an increase of $1.3 million in professional fees due to approximately $1.4 million in services performed by Trivergance Business Resources, LLC (TBR) related to the development and execution of our marketing and customer retention platform, and an increase of approximately $1.0 million in salaries and related benefits as the number of employees dedicated to sales and marketing activities grew in the year ended December 31, 2009 as we continued to develop our relationship with Mercedes-Benz, pursued relationships with other automakers and further developed our consumer marketing strategy leading up to and following the launch of our service to Mercedes-Benz vehicles in November 2009. We expect sales and marketing expense to continue increasing as we expand sales and marketing activities and further develop our consumer strategy for Mercedes-Benz and other potential future opportunities.

General and Administrative Expense

General and administrative expense consists primarily of facilities costs, finance, accounting, legal, information technology, human resources and other corporate costs, as well as the salaries and related employee benefits for those employees that support such functions. General and administrative expenses for the year ended December 31, 2009 increased to $41.6 million from $21.1 million, an increase of $20.5 million, or 97%. This increase is due primarily to an increase of approximately $7.7 million in professional fees relating to the Merger, our compliance with Section 404 of the Sarbanes-Oxley Act of 2002, certain litigation matters and other corporate activities; an approximately $5.5 million increase in compensation and benefits related to the additional personnel necessary to support our operations; an approximately $3.8 million increase in depreciation and amortization due to the deployment of the necessary systems and software for operations as these systems became ready for their intended use during the year ended December 31, 2009; approximately $1.7 million related to patent licenses for approximately 40 domestic and 40 foreign patents obtained while concurrently resolving filed and unfiled disputes relating to multiple parties; and an approximately $1.7 million increase in software maintenance costs. With the launch of our service with Mercedes-Benz in November 2009, certain costs related to the provision of service, including costs associated with our data centers and information technology and customer care groups, which were previously recorded as a general and administrative expense before the launch, are now recorded as cost of services.

Interest Expense, Net

Interest expense, net for the year ended December 31, 2009 increased to $13.7 million from $10.0 million in the year ended December 31, 2008, an increase of $3.7 million, or 38%. Interest expense, net for the year ended December 31, 2009 consisted primarily of $12.9 million of accrued interest and amortization of discount and debt issuance costs related to the senior secured term indebtedness, $3.3 million of accrued interest and discount amortization related to the senior subordinated unsecured indebtedness, $0.8 million of interest on capital lease obligations and vendor financing arrangements, $0.6 million of accretion on the Series A Preferred Stock, $0.3 million of interest on our second lien indebtedness and note payable, partially offset by $0.2 million of interest earned on cash and cash equivalents and $4.0 million of interest which was capitalized. Interest expense, net for the year ended December 31, 2008 consisted primarily of $7.5 million of accrued interest and discount and debt issuance costs amortization related to the senior secured term indebtedness, $2.8 million of accretion on the Series A Preferred Stock, $1.8 million of accrued interest and discount amortization related to the senior subordinated unsecured promissory notes and $0.4 million of accrued interest on capital lease obligations, partially offset by $0.9 million of interest earned on cash and cash equivalents and $1.6 million of interest which was capitalized.

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Change in Fair Value of Derivative Instruments

Based on an evaluation of guidance provided by the Emerging Issues Task Force (EITF) governing whether an instrument, including embedded features, is indexed to a company s own stock, we determined that the warrants issued in connection with the issuance of the Series A Preferred Stock and the warrants issued in connection with the issuance of the senior secured term indebtedness contained provisions which, in accordance with the accounting guidance, indicated that the warrants were not indexed to HUGHES Telematics stock. Accordingly, upon the adoption of the accounting guidance, we reclassified the $133.9 million fair value of the warrants from equity to a liability and recorded such amount as a cumulative effect of a change in accounting principle as of January 1, 2009. We also determined that the automatic exchange feature of the Series B Preferred Stock pursuant to which the Series B Preferred Stock would be directly exchanged for shares of Polaris common stock in connection with the Merger should be considered a separate derivative instrument as, pursuant to the accounting guidance, the exchange provision was not considered indexed to HUGHES Telematics stock but rather indexed to Polaris stock. We recognized a charge of approximately $62.3 million in the year ended December 31, 2009 related to the increase in fair market value of these instruments during such period. As the warrants were exercised and the Series B Preferred Stock was extinguished in connection with the Merger, we will not record additional charges in future periods related to these instruments.

Deemed Dividend on and Accretion of Convertible Preferred Stock

At the time of issuance of the Series B Preferred Stock, we allocated approximately $42.9 million of the proceeds to a beneficial conversion feature resulting from the ability of the holders of the Series B Preferred Stock to convert their shares of Series B Preferred Stock into shares of HUGHES Telematics common stock at a conversion price lower than the fair value of the HUGHES Telematics common stock at such time. As this conversion feature was immediately available to the holders of the Series B Preferred Stock, this discount on the Series B Preferred Stock was immediately accreted and a deemed dividend of approximately $42.9 million was recorded on the date of issuance. We recorded an additional deemed dividend of approximately $0.1 million in the year ended December 31, 2009 representing the accretion of the discount on the Series B Preferred Stock related to the embedded derivative and issue costs over the 4.5 year period through October 1, 2013 when the Series B Preferred Stock first became redeemable at the option of the holder. Upon consummation of the Merger and the exchange of the Series B Preferred Stock for our common stock, we recorded an additional deemed dividend of approximately $13.6 million related to the difference between (i) the fair value of our common stock received by the holders of the Series B Preferred Stock and (ii) the carrying value of the Series B Preferred Stock, the amount allocated to the beneficial conversion feature and the embedded derivative for the automatic exchange provision. Each of these deemed dividends have been reflected in the consolidated statements of operations in determining the net loss attributable to common stockholders.

Results of Operations for the Year Ended December 31, 2008 Compared to the Year Ended December 31, 2007

Revenues

The following table sets forth information related to consolidated revenues for the year ended December 31, 2008 and 2007:

	Year Ended December 31,	
	2008	2007
	(in thousands)	
Service revenues	$ 16,618	$ 9,343
Hardware revenues	13,642	11,009
Total revenues	$ 30,260	$ 20,352

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Total revenues for the year ended December 31, 2008 increased to approximately $30.3 million, a 49% increase from the approximately $20.4 million of total revenue for the year ended December 31, 2007. The primary driver of the increase was service revenues, which increased 78% in the year ended December 31, 2008 from the year ended December 31, 2007. Units active on the network increased to approximately 87,000 as of December 31, 2008, a 47% increase from the approximately 59,000 units active as of December 31, 2007. Hardware unit sales increased to approximately 40,000 units in the year ended December 31, 2008, a 29% increase from the approximately 31,000 units sold in the year ended December 31, 2007.

Cost of Revenues

The following table sets forth information related to costs of revenue for the years ended December 31, 2008 and 2007:

	Year Ended December 31, 2008	Year Ended December 31, 2007
	(in thousands)	
Cost of services	$ 6,009	$ 4,102
Cost of hardware sold	9,585	7,767
Total cost of revenues	$ 15,594	$ 11,869

Cost of revenues increased to approximately $15.6 million for the year ended December 31, 2008, a 31% increase from the approximately $11.9 million for the year ended December 31, 2007. This increase resulted primarily from the increased number of active units on the network in the year ended December 31, 2008 relative to the year ended December 31, 2007. Cost of revenues as a percentage of total revenues decreased to 52% in the year ended December 31, 2008, a 10% decrease from 58% in the year ended December 31, 2007. This decrease resulted primarily from the increase in service revenues as a percentage of total revenues. Service revenues yield a higher gross margin than hardware revenues and represented 55% of total revenue in the year ended December 31, 2008 relative to 46% of total revenues in the year ended December 31, 2007.

Research and Development Expense

Research and development expense for the year ended December 31, 2008 increased to $33.6 million from $23.5 million for the year ended December 31, 2007, an increase of $10.1 million or 43%. In the year ended December 31, 2008, we dedicated additional resources to the development and testing of our telematics system, including the initiation of development of the second generation hardware device. Specifically, the increase in research and development expense relates primarily to a $7.3 million increase in amounts expensed for work performed by HNS and other contracted labor, a $1.5 million increase in compensation and benefits as the number of employees focused on the development of the telematics system and on the development of our applications and services increased in the year ended December 31, 2008 and a $0.9 million increase in depreciation expense resulting from equipment purchased during 2008. During the years ended December 31, 2008 and 2007, we capitalized $12.2 million and $3.4 million of software development costs which, once the software is ready for its intended use, will be amortized as a cost of service over the expected useful life of the software.

Sales and Marketing Expense

Sales and marketing expense for the year ended December 31, 2008 increased to $7.6 million from $5.7 million for the year ended December 31, 2007, an increase of $1.9 million, or 33%. This increase relates primarily to a $1.1 million increase in compensation and benefits as the number of employees dedicated to sales and marketing activities increased in the year ended December 31, 2008 as we continued developing our relationship with Chrysler and Mercedes-Benz, pursued relationships with additional automakers and developed our consumer marketing and branding strategy in anticipation of the launch of services enabled by factory-installed hardware in the second half of 2009.

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General and Administrative Expense

General and administrative expense for the year ended December 31, 2008 increased to $21.1 million from $12.8 million for the year ended December 31, 2007, an increase of $8.3 million or 65%. This increase relates primarily to approximately $3.9 million of incremental costs incurred in the year ended December 31, 2008 related to the design and implementation of our back office systems, a $2.8 million increase in compensation and benefits as total headcount involved in general and administrative activities increased, a $0.5 million increase in depreciation expense resulting from equipment purchased during 2008 and a $0.3 million increase in facilities expenses due to the expansion of our operations.

Interest Expense, Net

Interest expense, net for the year ended December 31, 2008 increased to $10.0 million from $1.0 million for the year ended December 31, 2007, an increase of $9.0 million. Interest expense, net for the year ended December 31, 2008 consisted primarily of the $7.5 million of accrued interest and discount and amortization of debt issuance costs amortization related to the senior secured term indebtedness, the $2.8 million of accretion on the Series A Preferred Stock, the $1.8 million of accrued interest and discount amortization related to the senior subordinated unsecured promissory notes and $0.4 million of accrued interest on capital lease obligations, partially offset by $0.9 million of interest earned on cash and cash equivalents and $1.6 million of interest which was capitalized. Interest expense, net for the year ended December 31, 2007 consisted of the $1.8 million of accretion on the Series A Preferred Stock, partially offset by $0.8 million of interest earned on cash and cash equivalents.

Income Tax Benefit

As a result of our historical losses and the expectation that such historical losses will continue for the foreseeable future, we have recorded a full valuation allowance against our net deferred tax asset. Accordingly, we did not recognize a tax benefit for the year ended December 31, 2008. For the year ended December 31, 2007, we recognized an income tax benefit of approximately $2.2 million relating to the partial reversal of our net deferred tax liability.

Liquidity and Capital Resources

As of December 31, 2009, we had unrestricted cash and cash equivalents of approximately $28.4 million. As a result of our historical net losses and our limited capital resources, our independent registered public accounting firm s report on our financial statements as of and for the year ended December 31, 2009 includes an explanatory paragraph expressing substantial doubt about our ability to continue as a going concern. We believe that the cash and cash equivalents on hand, along with projected cash flows to be generated by our service offerings to Mercedes-Benz vehicles and sales of our in-Drive products and services, will allow us to continue operations beyond the next twelve months. Since we have recently launched our service offerings to Mercedes-Benz vehicles and expect to launch our in-Drive products and services later this year, some or all of the assumptions underlying our projections may prove to be materially inaccurate. If so, we cannot assure you that our net losses and negative cash flow will not surpass our expectations, and thus, we may be required to raise additional capital in the future or to reduce our operating expenditures. This additional financing may take the form of loans under a new credit facility, the issuance of bonds or other types of debt securities, the issuance of equity securities or a combination of the foregoing. Any such financing must either comply with the covenants of our existing credit facilities, or we will need to obtain waivers from the lenders. Our credit facilities contain covenants that restrict our ability to incur debt and will require mandatory prepayments from the proceeds of an equity financing. Any debt financing obtained may impose various restrictions and additional covenants on us which could limit our ability to respond to market conditions, provide for unanticipated capital investments or take advantage of business opportunities and may subject us to significant interest expense. Additional equity financing may be obtained on terms that are dilutive to the interests of existing stockholders. We have been successful in the past raising capital to address our liquidity needs; however, debt or additional equity financing may not be available when needed in the future on terms favorable to us or at all, and the failure to attract a sufficient amount of additional debt or equity capital may impair our ability to execute on our business plan. Such additional capital may be provided by, among other things, the cash proceeds from the exercise of the outstanding warrants to purchase shares of our common stock. There is no assurance that we will be successful in obtaining additional financing, if needed, or that we will be able to reduce our operating expenditures.

Operating Activities

For the year ended December 31, 2009, cash used in operating activities was approximately $47.2 million, consisting primarily of a net loss of $163.7 million, partially offset by a $62.3 million non-cash change in the market value of derivative instruments, the $19.1 million non-cash portion of the impairment charges, $10.9 million of depreciation and amortization, $8.8 million of interest accrued on long-term debt which was paid in kind with such accrued interest being added to the outstanding principal balance of the long-term debt, $8.7 million of changes in operating assets and liabilities, $4.6 million of amortization of debt issuance costs and other discounts on the long-term debt, $1.6 million of share-based compensation expense and $0.5 million of non-cash interest expense related to the Series A Preferred Stock.

For the year ended December 31, 2008, cash used in operating activities was approximately $39.1 million, consisting primarily of a net loss of $57.5 million, partially offset by $5.9 million of depreciation and amortization, $5.9 million of interest accrued on long-term debt which will be paid in kind with such accrued interest being added to the outstanding principal balance of the long-term debt, $2.6 million of non-cash interest expense related to the Series A Preferred Stock, $2.4 million of amortization of debt issuance costs and other discounts on the long-term debt, $1.2 million of net changes in operating assets and liabilities and $0.4 million of share-based compensation expense.

For the year ended December 31, 2007, cash used in operating activities was approximately $23.6 million and was principally comprised of a net loss of $32.3 million, increased by a $2.2 million tax benefit related to the reversal of deferred tax liabilities, partially offset by $4.5 million of depreciation and amortization, $1.8 million of non-cash interest expense related to the Series A Preferred Stock and an increase in cash flows from operating assets and liabilities of $4.7 million.

Investing Activities

For the year ended December 31, 2009, cash used in investing activities was approximately $14.5 million, consisting primarily of $11.4 million of capitalized software costs, $11.0 million of capital expenditures related primarily to the factory-installed telematics initiative, $0.6 million of capital expenditures related to Networkfleet s operations, $0.4 million deposited into a restricted cash account to collateralize letters of credit, partially offset by the release of $5.3 million of restricted cash that was previously held for the benefit of the lenders of the senior secured indebtedness and the release of $3.5 million deposited into a restricted cash account held to collateralize a letter of credit that secured certain lease obligations.

For the year ended December 31, 2008, cash used in investing activities was approximately $31.7 million, consisting primarily of $12.2 million of capitalized software costs, $10.6 million of capital expenditures related to the factory-installed telematics initiative, $5.3 million deposited into a restricted cash account for the benefit of the lenders of the senior secured term indebtedness, $2.8 million deposited into a restricted cash account to collateralize letters of credit that secure certain lease obligations, and $0.8 million of capital expenditures related to Networkfleet s operations.

For the year ended December 31, 2007, cash used in investing activities was approximately $5.1 million and resulted primarily from $3.4 million of capitalized software costs, $2.9 million of capital expenditures related to the factory-installed telematics initiative and $0.6 million of capital expenditures related to Networkfleet s operations, partially offset by the maturity of $1.8 million of short-term investments.

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Financing Activities

For the year ended December 31, 2009, cash provided by financing activities was approximately $72.3 million, consisting of $97.2 million of net cash provided by the Merger, $37.0 million of cash proceeds from the issuance and sale of Series B Preferred Stock, $15.0 million from the issuance of second lien term indebtedness, $7.4 million of cash proceeds from the issuance of common stock in connection with a private placement, partially offset by $74.4 million paid to repurchase common shares in connection with the closing of the Merger, $7.4 million of payments on capital lease obligations and $2.6 million in fees and expenses paid in connection with the above financing transactions.

For the year ended December 31, 2008, cash provided by financing activities was approximately $66.7 million, consisting of $60.0 million from the issuance of the senior secured term indebtedness with detachable warrants and $16.0 million from the issuance of senior subordinated unsecured notes, partially offset by $5.0 million used to redeem the outstanding shares of the Retired Series B Preferred Stock, $3.3 million of debt issuance costs related to the senior secured term indebtedness and $1.0 million of payments on capital lease obligations.

For the year ended December 31, 2007, cash provided by financing activities was approximately $35.1 million and consisted of $35.0 million from the sale of the Series A Preferred Stock and warrants and $0.1 million from the exercise of stock options.

Senior Secured Term Indebtedness

On March 31, 2008, we entered into the First Lien Credit Agreement pursuant to which we issued in multiple tranches during the year ended December 31, 2008, for aggregate consideration of $60.0 million, senior secured term indebtedness due March 31, 2013 with an original principal amount of $60.0 million and warrants to purchase the equivalent of 4,801,112 shares of common stock, comprised of 1,103,922 initial shares and 3,697,190 earn-out shares, at an equivalent exercise price of less than $0.01 per share. As additional consideration for services provided by the lead arranger in connection with the issuance and syndication of the term indebtedness, we issued warrants to an affiliate of the lead arranger to purchase the equivalent of an aggregate of 1,181,244 shares of common stock, comprised of 271,604 initial shares and 909,640 earn-out shares, at an equivalent exercise price of less than $0.01 per share.

The senior secured term indebtedness is guaranteed by all of our existing and future domestic subsidiaries and is secured by all of its tangible and intangible assets. At our election, the term indebtedness bears interest at (i) the Prime Lending Rate plus 10.00% or (ii) for Eurocurrency borrowings, 11.00% plus the greater of LIBOR or 3.00%. In accordance with an agreement between us and one of the senior secured note holders, the interest rate on term indebtedness with a principal amount of $5.0 million will have an interest rate of no higher than 14.00% for the term of the debt. With respect to Eurocurrency borrowings, we may elect interest periods of one, two, three, or six months (or nine or twelve months if approved by each senior secured note holder), and interest is payable in arrears at the end of each interest period but, in any event, at least every three months. With respect to any interest period ending on or prior to March 31, 2010 and unless we elect at least three days prior to the beginning of any such interest period, the interest accrued on the term indebtedness will be paid in kind in arrears with such accrued interest being added to the outstanding principal balance of the term indebtedness. With respect to all interest periods ending after March 31, 2010, the accrued interest will be paid in cash in arrears. As of December 31, 2009, senior secured term indebtedness with an aggregate principal amount, including the accrued interest which had been paid in kind, of approximately $74.5 million was outstanding, and we had elected to convert all outstanding amounts to Prime Lending borrowings which resulted in the term indebtedness bearing an interest rate of 13.25%.

The First Lien Credit Agreement requires us to comply with negative covenants which include, among others, limitations on our ability to incur additional debt; create liens; pay dividends or make other distributions; make loans and investments; sell assets; redeem or repurchase capital stock or subordinated debt; engage in specified transactions with affiliates; consolidate or merge with or into, or sell substantially all of its assets to, another person; and enter into new lines of business. We may incur indebtedness beyond the specific limits allowed under the First Lien Credit Agreement, provided we maintain a leverage ratio of 5.0 to 1.0. In addition, we may incur limited indebtedness secured by junior and subordinated liens to the liens created under the First Lien Credit Agreement. Noncompliance with any of the covenants without cure or waiver would constitute an event of default. An event of default resulting from a breach of a covenant may result, at the option of the note holders, in an acceleration of the principal and interest outstanding. The First Lien Credit Agreement also contains other events of default (subject to specified grace periods), including defaults based on the termination of the Old Chrysler or Mercedes-Benz contracts, events of bankruptcy or insolvency with respect to us and nonpayment of principal, interest or fees when due. On June 26, 2009, we obtained a waiver from our senior secured lenders under the Credit Agreement providing that the rejection of the Old Chrysler contract would not impact our existing obligations under the First Lien Credit Agreement. The First Lien Credit Agreement also requires us to use 25% of the net cash proceeds from certain equity issuances for the repayment of senior secured term indebtedness.

The warrants issued in connection with the issuance of the senior secured term indebtedness were automatically exercised in accordance with their terms upon consummation of the Merger.

In accordance with the accounting guidance governing convertible debt and debt issued with stock purchase warrants, as of each issuance date, we ascribed value to the senior secured term indebtedness and the related warrants based on their relative fair values. As a result, an aggregate of $46.9 million was allocated to the senior secured term indebtedness and an aggregate of $12.1 million was allocated to the warrants. In connection with the issuance of the senior secured term indebtedness to AIF V PLASE on December 12, 2008, approximately $1.0 million of the purchase price was recorded as a deemed capital contribution from Apollo related to the difference between (i) the fair value of the note using an estimated interest rate we would have paid an unrelated third party on a similar note and (ii) the fair value of the note using the stated interest rate. The resulting discount from the face value of the senior secured term indebtedness resulting from the ascribed value to the warrants and the deemed capital contribution will be amortized as additional interest expense over the term of the senior secured term indebtedness using the effective interest rate method.

Second Lien Term Indebtedness

On December 17, 2009, we entered into the Second Lien Credit Agreement with PLASE HT as administrative agent, collateral agent and original lender, pursuant to which we issued, for aggregate consideration of $15.0 million, second lien term indebtedness due October 1, 2013 with an original principal amount of $15.0 million and a warrant to purchase 3,000,000 shares of common stock at an exercise price of $6.00 per share. PLASE HT is an affiliate of Apollo and of our controlling stockholder, Communications LLC. The loans under the Second Lien Credit Agreement bear interest at 9.00% per annum, payable-in-kind, and are guaranteed by all of our existing and future domestic subsidiaries. The loans are secured by a second priority lien on substantially all of our tangible and intangible assets, including the equity interests of our subsidiaries. The liens granted in connection with the Second Lien Credit Agreement are expressly subject and subordinated to the liens securing our obligations under the First Lien Credit Agreement.

The covenants contained in the Second Lien Credit Agreement are substantially the same as those in the First Lien Credit Agreement. The Second Lien Credit Agreement requires us to comply with negative covenants which include, among others, limitations on our ability to incur additional debt; create liens; pay dividends or make other distributions; make loans and investments; sell assets; redeem or repurchase capital stock or subordinated debt; engage in specified transactions with affiliates; consolidate or merge with or into, or sell substantially all of our assets to, another person; and enter into new lines of business. We may incur indebtedness beyond the specific limits allowed under the Second Lien Credit Agreement, provided we maintain a leverage ratio of less than 5.0 to 1.0. The events of default under the Second Lien Credit Agreement include, among others, payment defaults; defaults under, or acceleration of, certain indebtedness; termination of our contract with

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Mercedes-Benz; breaches of covenants or representations and warranties; certain ERISA events; certain judgments; and bankruptcy and insolvency events. The occurrence of an event of default could result in the acceleration of the obligations under the Second Lien Credit Agreement.

We ascribed value to the indebtedness issued in connection with the Second Lien Credit Agreement and the related warrants based on their relative fair values. As such, approximately $9.6 million of the proceeds was allocated to the indebtedness and the remaining approximately $5.4 million was allocated to the warrants. The resulting discount from the face value of the indebtedness resulting from the ascribed value to the warrants will be amortized as additional interest expense over the term of the indebtedness using the effective interest rate method.

Senior Unsecured Promissory Note

On December 18, 2009, we issued to HNS a senior unsecured promissory note with a principal amount of approximately $8.3 million through the conversion of a trade accounts payable balance of approximately $6.0 million and the approximately $2.3 million outstanding balance on the equipment financing arrangement owed to HNS. The promissory note accrues interest at a rate of 12.00% per annum, compounded annually, and becomes due and payable on December 31, 2010. We are required to make scheduled principal payments of approximately $0.8 million on April 15, 2010 and $1.5 million on each of July 15, 2010 and October 15, 2010. In addition, subject to all restrictions in the First Lien Credit Agreement and Second Lien Credit Agreement and certain other limitations, to the extent we sell any capital equipment purchased by us (or purchased by HNS on our behalf) for use in connection with the Telematics Agreement between the parties, but no longer needed by us, we shall make unscheduled prepayments of principal on the promissory note equal to the proceeds from the sale of such capital equipment (net of any selling costs). Through March 10, 2010, we have made principal payments on the promissory note of less than $0.1 million resulting from the sale of capital equipment.

Senior Subordinated Unsecured Promissory Notes

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

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

Series A Redeemable Preferred Stock

In July 2006, we issued and sold to Communications LLC for an aggregate purchase price of $40.0 million, 4,000 shares of Series A Preferred Stock and a warrant to purchase the equivalent of 12,191,598 shares of our common stock, comprised of 2,803,223 initial shares and 9,388,375 earn-out shares, at an equivalent exercise price of $0.82 per share. In June 2007, we issued and sold to Communications LLC, for an aggregate purchase price of $15.0 million, an additional 1,500 shares of Series A Preferred Stock and a warrant to purchase the equivalent of 9,143,698 shares of our common stock, comprised of 2,102,417 initial shares and 7,041,281 earn-out shares, at an equivalent exercise price of $1.64 per share. In November 2007, we issued and sold to Communications LLC, for an aggregate purchase price of $20.0 million, an additional 2,000 shares of Series A Preferred Stock and a warrant to purchase the equivalent of 12,191,598 shares of our common stock, comprised of 2,803,223 initial shares and 9,388,375 earn-out shares, at an equivalent exercise price of $2.46 per share. Immediately prior to the consummation of the Merger, the outstanding shares of Series A Preferred Stock were extinguished through (i) the exercise by Communications LLC of the outstanding warrants to purchase Old HTI common stock using shares of Series A Preferred Stock with an aggregate face value of $55.0 million and (ii) the exchange of shares of Series A Preferred Stock with an aggregate face value of $20.0 million for shares of Old HTI common stock which were subsequently exchanged in connection with the Merger for 2,000,000 shares of our common stock, comprised of 459,861 initial shares and 1,540,139 earn-out shares.

Series B Convertible Preferred Stock

On March 12, 2009, we issued and sold 5,000,000 shares of Series B Preferred Stock for an aggregate purchase price of $50.0 million. AIF V PLASE purchased 1,200,000 shares of Series B Preferred Stock for $12.0 million of cash, and HCI, parent of HNS, purchased 1,300,000 shares of Series B Preferred Stock through the conversion of $13.0 million of trade accounts payable transferred from HNS. The remaining 2,500,000 shares of Series B Preferred Stock were purchased by unrelated institutional investors for $25.0 million of cash. As a result of the sale of Series B Preferred Stock, approximately $5.3 million was released to us from an escrow account held for the benefit of its senior secured note holders. This amount constituted all funds remaining in the escrow account. In connection with the Merger, all outstanding shares of Series B Preferred Stock were exchanged for an aggregate of 12,500,000 shares of our common stock, comprised of 5,000,000 initial shares and 7,500,000 earn-out shares.

Private Placement of Common Stock

On December 28, 2009, we completed a private placement of 2,516,667 shares of common stock, par value $0.0001 per share, to a group of institutional investors at a per-share price of $3.00, pursuant to the terms of a Stock Purchase Agreement, dated December 24, 2009, by and among us and each of the purchasers. The aggregate purchase price for the common stock sold in the private placement was approximately $7.4 million in cash and the exchange of 1,662,200 of our publicly-traded warrants which were cancelled upon the closing of the private placement.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements. All subsidiaries in which we have a controlling financial interest are included in the consolidated financial statements, and we do not have any relationships with any special purpose entities.

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Contractual Obligations

The following table sets forth our contractual payment obligations as of December 31, 2009:

	Payments Due By Period				
	Total	Less than 1 Year	1 to 3 Years (in thousands)	3 to 5 Years	More Than 5 Years
Senior secured term indebtedness[1]	$ 112,652	$ 7,680	$ 20,387	$ 84,585	$
Second lien indebtedness	21,125			21,125	
Senior unsecured promissory note	9,164	9,164			
Senior subordinated unsecured promissory notes	33,907			33,907	
Vendor financing arrangements	3,038	1,121	1,469	448	
Capital lease obligations	5,091	3,288	1,803		
Operating lease obligations	8,816	1,239	3,272	4,126	179
Purchase and other obligations	32,740	13,390	19,350		
Total	$ 226,533	$ 35,882	$ 46,281	$ 144,191	$ 179

(1) As the senior secured term indebtedness bears interest at a variable rate, the estimated interest payments were calculated based on the 13.25% interest rate in effect as of December 31, 2009.

Recently Issued Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board issued new accounting guidance which amends the evaluation criteria to identify the primary beneficiary of a variable interest entity (VIE) and requires ongoing reassessment of whether an enterprise is the primary beneficiary of the VIE. The new guidance significantly changes the consolidation rules for VIEs including the consolidation of common structures, such as joint ventures, equity method investments and collaboration arrangements. The guidance is applicable to all new and existing VIEs and became effective for us on January 1, 2010. The adoption will not have a material effect on our financial position, results of operations or cash flows.

In September 2009, the EITF issued revised guidance governing revenue arrangements with multiple deliverables, which provides a greater ability to separate and allocate arrangement consideration in a multiple element revenue arrangement. The revised guidance requires the use of an estimated selling price to allocate arrangement consideration, and eliminates the residual method of allocation. The revised guidance will become effective for us on January 1, 2011; however, earlier adoption is permitted. The adoption is not expected to have a material effect on our financial position, results of operations or cash flows.

In September 2009, the EITF issued a revised guidance governing certain revenue arrangements that include software elements, which amends the scope of existing guidance to exclude tangible products that include software and non-software components that function together to deliver the products essential functionality. The revised guidance will become effective for us on January 1, 2011; however, earlier adoption is permitted. The adoption is not expected to have a material effect on our financial position, results of operations or cash flows.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Interest Rate Risk

As of December 31, 2009, we had approximately $29.0 million of cash, cash equivalents, and restricted cash that is subject to market risk due to changes in interest rates. In accordance with our investment policy, we diversify our investments among United States Treasury securities and other high credit quality debt instruments that we believe to be low risk. We are averse to principal loss and seek to preserve our invested funds by limiting default risk and market risk.

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We may suffer from fluctuating interest rates, which may adversely impact our consolidated results of operations and cash flows. As of December 31, 2009, we had outstanding variable rate borrowings of approximately $74.5 million. As of December 31, 2009, the hypothetical impact of a one percentage point increase in interest rates related to our outstanding variable rate debt would be to increase annual interest expense by approximately $0.7 million.

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Item 8. Financial Statements and Supplementary Data

HUGHES TELEMATICS, INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of

HUGHES Telematics, Inc.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, stockholders equity (deficit) and cash flows present fairly, in all material respects, the financial position of HUGHES Telematics and its subsidiaries at December 31, 2009 and December 31, 2008, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2009 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management s Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements and on the Company s internal control over financial reporting based on our audits (which was an integrated audit in 2009). We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 3 to the consolidated financial statements, in 2009, the Company changed the manner in which it accounts for financial instruments that are indexed to the Company s own stock.

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company has incurred recurring losses from operations and has a net capital deficiency that raises substantial doubt about is ability to continue as a going concern. Management s plans in regards to these matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

Atlanta, Georgia

March 16, 2010

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HUGHES TELEMATICS, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

	December 31, 2009	December 31, 2008
Assets		
Current assets:		
Cash and cash equivalents	$ 28,368	$ 17,837
Restricted cash		5,333
Accounts receivable, net of allowance of $375 and $689, respectively	4,118	5,697
Inventories	1,390	2,014
Prepaid expenses	1,556	967
Deferred income taxes	31	116
Other current assets	2,088	974
Total current assets	37,551	32,938
Restricted cash	650	3,750
Property and equipment, net	30,128	21,341
Capitalized software, net	18,355	16,749
Intangible assets, net	13,005	16,419
Goodwill	5,169	5,169
Debt issuance costs	5,254	6,086
Other assets	7,969	6,530
Total assets	$ 118,081	$ 108,982
Liabilities and Stockholders Deficit		
Current liabilities:		
Accounts payable	$ 7,521	$ 16,158
Accrued liabilities	7,943	6,237
Deferred revenue	98	480
Current portion of capital lease obligations	3,125	1,738
Current portion of long-term debt	8,316	
Other current liabilities	568	361
Total current liabilities	27,571	24,974
Series A Redeemable Preferred Stock		62,092
Long-term debt, net of current portion	91,140	66,596
Capital lease obligations	1,599	5,593
Deferred income taxes	31	116
Long-term deferred revenue	47	
Other liabilities	3,069	281
Total liabilities	123,457	159,652
Commitments and contingencies (Note 13)		
Stockholders Deficit		
Preferred Stock, $0.0001 par value, authorized 10,000,000 shares; no shares issued and outstanding at December 31, 2009		
Common stock, $0.0001 par value, authorized 155,000,000 shares; issued and outstanding 87,087,624 and 22,778,782 shares at December 31, 2009 and 2008, respectively	9	2

Additional paid-in capital	352,159	42,964
Accumulated deficit	(357,544)	(93,636)
Total stockholders deficit	(5,376)	(50,670)
Total liabilities and stockholders deficit	$ 118,081	$ 108,982

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

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HUGHES TELEMATICS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

	Year Ended December 31, 2009	2008	2007
Revenues:			
Services	$ 22,627	$ 16,618	$ 9,343
Hardware	10,416	13,642	11,009
Total revenues	33,043	30,260	20,352
Operating costs and expenses:			
Cost of services	8,163	6,009	4,102
Cost of hardware	8,214	9,585	7,767
Research and development	30,501	33,626	23,540
Sales and marketing	11,424	7,622	5,712
General and administrative	41,569	21,076	12,808
Impairment charges	20,762		
Total operating costs and expenses	120,633	77,918	53,929
Loss from operations	(87,590)	(47,658)	(33,577)
Interest income	162	868	853
Interest expense	(13,899)	(10,820)	(1,811)
Change in fair value of derivative instruments	(62,316)		
Other (expense) income	(9)	143	
Loss before income taxes	(163,652)	(57,467)	(34,535)
Income tax (expense) benefit	(9)		2,202
Net loss	(163,661)	(57,467)	(32,333)
Deemed dividend on and accretion of convertible preferred stock	(56,619)		
Net loss attributable to common stockholders	$ (220,280)	$ (57,467)	$ (32,333)
Basic and diluted loss per common share	$ (11.40)	$ (12.19)	$ (6.88)
Basic and diluted weighted average shares outstanding	19,324,144	4,712,501	4,700,993

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

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HUGHES TELEMATICS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Year Ended December 31, 2009	2008	2007
Cash flows from operating activities:			
Net loss	$ (163,661)	$ (57,467)	$ (32,333)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	10,890	5,911	4,454
Change in fair value of derivative instruments	62,316		
Non-cash impairment charges	19,097		
Gain on disposal of assets	(11)		
Interest expense on Series A Redeemable Preferred Stock	496	2,561	1,811
Interest expense on long-term debt and capital leases	8,828	5,863	
Amortization of debt issuance costs and discounts on long-term debt	4,569	2,396	
Share-based compensation expense	1,552	448	53
Deferred income taxes			(2,202)
Changes in assets and liabilities:			
Accounts receivable, net	1,579	(1,785)	(153)
Inventories	624	744	(1,981)
Prepaid expenses and other assets	(6,797)	(6,705)	65
Accounts payable and accrued and other liabilities	13,655	8,886	6,787
Deferred revenue	(334)	31	(63)
Net cash used in operating activities	(47,197)	(39,117)	(23,562)
Cash flows from investing activities:			
Maturities of short-term investments			1,800
Purchases of property and equipment	(11,609)	(11,410)	(3,497)
Increase in capitalized software	(11,398)	(12,237)	(3,412)
Proceeds from disposal of assets	34		
Decrease (increase) in restricted cash	8,433	(8,086)	
Net cash used in investing activities	(14,540)	(31,733)	(5,109)
Cash flows from financing activities:			
Proceeds from merger with Polaris Acquisition Corp.	97,242		
Proceeds from the issuance of Series B Convertible Preferred Stock	37,000		
Proceeds from the issuance of long-term debt	15,000	76,000	
Proceeds from the issuance of common stock	7,384		
Repurchase of common stock	(74,356)		

Payment of fees related to the issuance of Series B Convertible Preferred Stock	(1,780)		
Payment of debt issuance costs	(545)	(3,285)	
Payment of fees related to warrant exchange	(200)		
Payment of fees related to the issuance of common stock	(154)		
Repayment of capital lease obligations	(7,376)	(1,045)	
Proceeds from the exercise of warrants	53		
Redemption of Series B Redeemable Preferred Stock		(5,000)	
Proceeds from the issuance of Series A Redeemable Preferred Stock and warrants			35,000
Proceeds from the exercise of stock options			100
Net cash provided by financing activities	72,268	66,670	35,100
Net increase (decrease) in cash and cash equivalents	10,531	(4,180)	6,429
Cash and cash equivalents, beginning of period	17,837	22,017	15,588

				66,913	0.61		0.05		
	2,640,000		1,871,684	1,605,912		1.27		269,219	110,000
Independent Network Television Holding Ltd, Series II	1,000,000	07/06/98	1,000,000	1,000,000	1.00	0.79			
J.P. Morgan Latin America Capital Partners (Cayman), L.P.	835,097	04/10/00 - 08/02/05	492,859	370,624	0.44	0.29			
	27,410	06/27/06	27,410	12,165	0.44	0.01			
	862,507		520,269	382,789		0.30		708,606	
J.P. Morgan Latin America Capital Partners (Delaware), L.P.	1,339,000	04/10/00 - 08/02/05	433,355	621,243	0.46	0.49			
	3,998	12/27/05	0	1,855	0.46				
	12,209	03/09/06	10,731	5,664	0.46	0.01			
	1,355,207		444,086	628,762		0.50		1,191,615	640,026
K.T. Concord Venture Fund L.P.	2,000,000	12/08/97 - 09/29/00	1,623,366	713,744	0.36	0.57		1,089,099	

Neurone Ventures II, L.P.	536,184	11/24/00 - 08/15/05	291,621	222,116	0.41	0.18		
	37,500	04/17/06	37,500	15,535	0.41	0.01		
	573,684		329,121	237,651		0.19	39,421	187,500
SVE Star Ventures Enterprises GmbH & Co. No. IX KG	1,500,000	12/21/00 - 03/30/05	1,215,247	979,875	0.65	0.78		
	250,000	05/04/06	250,000	163,312	0.65	0.13		
	1,750,000		1,465,247	1,143,187		0.91		250,000
Technology Crossover Ventures IV, L.P.	1,708,800	03/08/00 - 10/24/05	810,452	958,680	0.56	0.76		
	58,800	05/05/06	58,422	32,988	0.56	0.02		
	40,000	07/24/06	40,000	22,441	0.56	0.02		
	1,807,600		908,874	1,014,109		0.80	902,150	192,400
Telesoft Partners L.P.	1,250,000	07/22/97 - 06/07/01	503,902	43,700	0.03	0.03	7,203,101	
Telesoft Partners II QP, L.P.	1,740,000	07/14/00 - 12/09/04	971,503	1,068,152	0.61	0.85		
	180,000	6/6/2006	180,000	110,498	0.61	0.09		
	1,920,000		1,151,503	1,178,650		0.94	467,815	480,000
The Renaissance Fund LDC	160	03/30/94 - 03/21/97	483,692	80,708	504.43	0.06	1,497,612	
TVG Asian Communications Fund II, L.P.	3,622,118	06/07/00 - 10/27/05	2,691,985	2,304,569	0.64	1.83		
	39,293	01/25/06	0	25,000	0.64	0.02		
	3,661,411		2,691,985	2,329,569		1.85	837,379	338,589
Walden Israel Ventures III, L.P.	774,813	02/23/01 - 06/09/05	521,147	488,698	0.63	0.38		
	89,375	11/22/05	77,976	56,371	0.63	0.05		
	89,375	03/29/06	79,691	56,371	0.63	0.05		
	953,563		678,814	601,440		0.48	728,770	421,438
Total			$ 22,626,507	$ 17,088,056		13.56	$ 18,834,455	$ 4,256,538

The Fund may incur certain costs in connection with the disposition of the above securities.

Federal Income Tax Cost - At July 31, 2006, the identified cost for federal income tax purposes, as well as the gross unrealized appreciation from investments for those securities having an excess of value over cost, gross unrealized depreciation from investments for those securities having an excess of cost over value and the net unrealized appreciation from investments were $117,688,967, $29,853,520, $(8,400,871) and $21,452,649, respectively.

Other information regarding the Fund is available in the Fund s most recent Report to Shareholders. This information is also available on the Fund s website at http://www.credit-suisse.com/us as well as on the website of the Securities and Exchange Commission - http://www.sec.gov.

Item 2: Controls and Procedures

(a) As of a date within 90 days from the filing date of this report, the principal executive officer and principal financial officer concluded that the registrant s disclosure controls and procedures (as defined in Rule 30a-3(c) under the Investment Company Act of 1940 (the Act)), were effective based on their evaluation of the disclosure controls and procedures required by Rule 30a-3(b) under the Act and Rules 13a-15(b) or 15d-15(b) under the Securities and Exchange Act of 1934.

(b) There were no changes in the registrant s internal control over financial reporting (as defined in Rule 30a-3(d) under the Act) that occurred during the registrant s last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the registrant s internal control over financial reporting.

Item 3: Exhibits

1. The certifications of the registrant as required by Rule 30a-2(a) under the Act are exhibits to this report.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

THE EMERGING MARKETS TELECOMMUNICATIONS FUND, INC.

/s/ Steven Plump

Name:	Steven Plump
Title:	Chief Executive Officer
Date:	September 28, 2006

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ Steven Plump

Name:	Steven Plump
Title:	Chief Executive Officer
Date:	September 28, 2006

/s/ Michael A. Pignataro

Name:	Michael A. Pignataro
Title:	Chief Financial Officer
Date:	September 28, 2006