

# TELENAV, INC.

## FORM 10-Q (Quarterly Report)

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Symbol TNAV  
SIC Code 3812 - Search, Detection, Navigation, Guidance, Aeronautical, and Nautical Systems and Instruments  
Industry Software  
Sector Technology  
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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

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**FORM 10-Q**

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(Mark One)

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

For the three months ended December 31, 2016

or

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

For the transition period from            to

Commission file number: 001-34720

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**TELENAV, INC.**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

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

**4655 Great America Parkway, Suite 300**  
**Santa Clara, California 95054**  
(Address of principal executive offices, including zip code)

**(408) 245-3800**  
(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>

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

As of December 31, 2016, there were approximately 43,304,108 shares of the Registrant's Common Stock outstanding.

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements.

**TELENAV, INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(in thousands, except par value)

	December 31, 2016	June 30, 2016*
	(unaudited)	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 17,694	\$ 21,349
Short-term investments	85,988	88,277
Accounts receivable, net of allowances of \$42 and \$111 at December 31, 2016 and June 30, 2016, respectively	47,815	42,216
Restricted cash	4,094	5,109
Income taxes receivable	648	687
Deferred costs	3,919	1,784
Prepaid expenses and other current assets	3,868	4,448
Total current assets	164,026	163,870
Property and equipment, net	4,795	5,247
Deferred income taxes, non-current	435	661
Goodwill and intangible assets, net	35,475	35,993
Deferred costs, non-current	14,861	10,292
Other assets	1,840	2,184
Total assets	\$ 221,432	\$ 218,247
<b>Liabilities and stockholders' equity</b>		
Current liabilities:		
Trade accounts payable	\$ 10,255	\$ 4,992
Accrued expenses	41,374	36,274
Deferred revenue	8,035	4,334
Income taxes payable	242	88
Total current liabilities	59,906	45,688
Deferred rent, non-current	1,207	1,124
Deferred revenue, non-current	28,062	19,035
Other long-term liabilities	1,323	2,715
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.001 par value: 50,000 shares authorized; no shares issued or outstanding	—	—
Common stock, \$0.001 par value: 600,000 shares authorized; 43,304 and 42,708 shares issued and outstanding at December 31, 2016 and June 30, 2016, respectively	43	43
Additional paid-in capital	152,824	149,775
Accumulated other comprehensive loss	(2,809)	(1,767)
Retained earnings (accumulated deficit)	(19,124)	1,634
Total stockholders' equity	130,934	149,685
Total liabilities and stockholders' equity	\$ 221,432	\$ 218,247

\* Derived from audited consolidated financial statements as of and for the year ended June 30, 2016 .

See accompanying Notes to Condensed Consolidated Financial Statements.

**TELENAV, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(in thousands, except per share amounts)  
(unaudited)

	Three Months Ended		Six Months Ended	
	December 31,		December 31,	
	2016	2015	2016	2015
Revenue:				
Product	\$ 37,804	\$ 31,160	\$ 67,227	\$ 62,269
Services	14,197	14,093	27,001	27,045
Total revenue	<u>52,001</u>	<u>45,253</u>	<u>94,228</u>	<u>89,314</u>
Cost of revenue:				
Product	22,598	18,364	40,359	36,447
Services	6,129	6,168	11,844	11,472
Total cost of revenue	<u>28,727</u>	<u>24,532</u>	<u>52,203</u>	<u>47,919</u>
Gross profit	23,274	20,721	42,025	41,395
Operating expenses:				
Research and development	16,301	16,653	34,319	34,640
Sales and marketing	5,277	6,524	10,545	13,522
General and administrative	6,872	5,094	12,363	11,329
Legal settlement and contingencies	6,424	750	6,424	750
Restructuring	—	(1,468)	—	(1,468)
Total operating expenses	<u>34,874</u>	<u>27,553</u>	<u>63,651</u>	<u>58,773</u>
Loss from operations	(11,600)	(6,832)	(21,626)	(17,378)
Other income (expense), net	714	520	1,010	333
Loss before provision for income taxes	(10,886)	(6,312)	(20,616)	(17,045)
Provision for income taxes	537	327	142	440
Net loss	<u>\$ (11,423)</u>	<u>\$ (6,639)</u>	<u>\$ (20,758)</u>	<u>\$ (17,485)</u>
Net loss per share:				
Basic and diluted	<u>\$ (0.26)</u>	<u>\$ (0.16)</u>	<u>\$ (0.48)</u>	<u>\$ (0.43)</u>
Weighted average shares used in computing net loss per share:				
Basic and diluted	<u>43,208</u>	<u>41,038</u>	<u>42,932</u>	<u>40,820</u>
Stock-based compensation expense included above:				
Cost of revenue	\$ 35	\$ 39	\$ 64	\$ 71
Research and development	897	1,771	2,387	3,229
Sales and marketing	536	835	1,030	1,675
General and administrative	520	535	1,048	1,292
Total stock-based compensation expense	<u>\$ 1,988</u>	<u>\$ 3,180</u>	<u>\$ 4,529</u>	<u>\$ 6,267</u>

See accompanying Notes to Condensed Consolidated Financial Statements.

**TELENAV, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**  
**(in thousands)**  
**(unaudited)**

	Three Months Ended		Six Months Ended	
	December 31,		December 31,	
	2016	2015	2016	2015
Net loss	\$ (11,423)	\$ (6,639)	\$ (20,758)	\$ (17,485)
Other comprehensive income (loss):				
Foreign currency translation adjustment, net of tax	(661)	(392)	(595)	(577)
Available-for-sale securities:				
Unrealized gain (loss) on available-for-sale securities, net of tax	(298)	(239)	(437)	(233)
Reclassification adjustments for gain (loss) on available-for-sale securities recognized, net of tax	(5)	4	(10)	6
Net decrease from available-for-sale securities, net of tax	(303)	(235)	(447)	(227)
Other comprehensive loss, net of tax	(964)	(627)	(1,042)	(804)
Comprehensive loss	<u>\$ (12,387)</u>	<u>\$ (7,266)</u>	<u>\$ (21,800)</u>	<u>\$ (18,289)</u>

See accompanying Notes to Condensed Consolidated Financial Statements.

**TELENAV, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(in thousands)  
(unaudited)

	Six Months Ended	
	December 31,	
	2016	2015
<b>Operating activities</b>		
Net loss	\$ (20,758)	\$ (17,485)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,260	1,916
Accretion of net premium on short-term investments	237	381
Stock-based compensation expense	4,529	6,267
Write-off of long-term investments	—	477
Gain on disposal of property and equipment	(2)	(4)
Bad debt expense	125	51
Changes in operating assets and liabilities:		
Accounts receivable	(5,724)	(1,007)
Deferred income taxes	226	121
Restricted cash	1,015	199
Income taxes receivable	39	614
Deferred costs	(6,704)	(4,302)
Prepaid expenses and other current assets	580	(239)
Other assets	98	908
Trade accounts payable	5,309	80
Accrued expenses and other liabilities	3,945	(1,010)
Income taxes payable	154	162
Deferred rent	44	(814)
Deferred revenue	12,728	7,023
Net cash used in operating activities	(2,899)	(6,662)
<b>Investing activities</b>		
Purchases of property and equipment	(531)	(332)
Purchases of short-term investments	(37,788)	(20,622)
Proceeds from sales and maturities of short-term investments	39,392	23,009
Proceeds from sales of long-term investments	246	—
Net cash provided by investing activities	1,319	2,055
<b>Financing activities</b>		
Proceeds from exercise of stock options	159	921
Repurchase of common stock	—	(570)
Tax withholdings related to net share settlements of restricted stock units	(1,638)	(1,796)
Net cash used in financing activities	(1,479)	(1,445)
Effect of exchange rate changes on cash and cash equivalents	(596)	(576)
Net decrease in cash and cash equivalents	(3,655)	(6,628)
Cash and cash equivalents, at beginning of period	21,349	18,721
Cash and cash equivalents, at end of period	\$ 17,694	\$ 12,093
<b>Supplemental disclosure of cash flow information</b>		
Income taxes paid (received), net	\$ 1,410	\$ (528)

See accompanying Notes to Condensed Consolidated Financial Statements.

**TELENAV, INC.**  
**Notes to Condensed Consolidated Financial Statements**  
**(unaudited)**

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

***Description of business***

Telenav, Inc., also referred to in this report as “we,” “our” or “us,” was incorporated in September 1999 in the State of Delaware. We are a leading provider of connected car and location-based platform products and services. Our automotive and mobile navigation platform allows us to deliver enhanced location-based services to auto manufacturers, developers, and end users through various distribution channels. Our advertising delivery platform delivers highly targeted advertising services leveraging our location expertise. We operate in three segments - automotive, advertising and mobile navigation. Our fiscal year ends on June 30 and in this report we refer to the fiscal year ended June 30, 2016 as “fiscal 2016 ” and the fiscal year ending June 30, 2017 as “fiscal 2017 .”

***Basis of presentation***

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

Our condensed consolidated financial statements also include the financial results of Shanghai Jitu Software Development Ltd., or Jitu, located in China. Based on our contractual arrangements with the shareholders of Jitu, we have determined that Jitu is a variable interest entity, or VIE, for which we are the primary beneficiary and are required to consolidate in accordance with Accounting Standards Codification, or ASC, subtopic 810-10, or ASC 810-10, *Consolidation: Overall* . The results of Jitu did not have a material impact on our financial statements for the three and six months ended December 31, 2016 and 2015 .

The condensed consolidated financial statements and related financial information should be read in conjunction with the audited consolidated financial statements and the related notes thereto for fiscal 2016 , included in our Annual Report on Form 10-K for fiscal 2016 filed with the U.S. Securities and Exchange Commission, or SEC, on August 22, 2016.

There have been no material changes to our significant accounting policies as compared to the significant accounting policies described in our Form 10-K for fiscal 2016.

***Use of estimates***

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

***Concentrations of risk and significant customers***

Revenue related to services provided through Ford Motor Company and affiliated entities, or Ford, comprised 70% and 66% of revenue for the three months ended December 31, 2016 and 2015 , respectively, and 69% and 68% of revenue for the six months ended December 31, 2016 and 2015, respectively. As of December 31, 2016 and June 30, 2016 , receivables due from Ford were 61% and 64% of total accounts receivable, respectively. Revenue related to services provided through AT&T Mobility LLC, or AT&T, comprised 10% of revenue for the three and six months ended December 31, 2015 . Revenue from AT&T was less than 10% of revenue in the three and six months ended December 31, 2016 .



## TELENAV, INC.

**Notes to Condensed Consolidated Financial Statements—(Continued)**  
(unaudited)

**Restricted cash**

As of December 31, 2016 and June 30, 2016, we had restricted cash of \$4.1 million and \$5.1 million, respectively, on our consolidated balance sheets, comprised primarily of overpayments from a customer that are expected to be refunded.

**Accumulated other comprehensive loss, net of tax**

The components of accumulated other comprehensive loss, net of related taxes, and activity as of December 31, 2016, were as follows (in thousands):

	Foreign Currency Translation Adjustments	Unrealized Gains (Losses) on Available-for-Sale Securities	Total
Balance, net of tax as of June 30, 2016	\$ (1,889)	\$ 122	\$ (1,767)
Other comprehensive income (loss) before reclassifications, net of tax	(595)	(437)	(1,032)
Amount reclassified from accumulated other comprehensive loss, net of tax	—	(10)	(10)
Other comprehensive loss, net of tax	(595)	(447)	(1,042)
Balance, net of tax as of December 31, 2016	\$ (2,484)	\$ (325)	\$ (2,809)

The amounts reclassified from accumulated other comprehensive loss, net of tax, were determined using the specific identification method and the amounts were included in other income (expense), net, for the three and six months ended December 31, 2016.

The amount of income tax benefit allocated to each component of accumulated other comprehensive loss was not material for the three and six months ended December 31, 2016.

**Long-term investments**

As of December 31, 2016, the carrying value of our investments in privately held companies totaled \$708,000. These investments are accounted for as cost method investments, as we own less than 20% of the voting securities and do not have the ability to exercise significant influence over operating and financial policies of the entities. We regularly evaluate the carrying value of these cost method investments for impairment. We recorded impairment charges of zero and \$250,000 for cost method investments during the six months ended December 31, 2016 and 2015, respectively.

In addition, during the three and six months ended December 31, 2015, we recorded an impairment charge of \$227,000 to write down to zero the carrying value of a convertible note issued in connection with the spin off a product line developed by our Xi'an, China team.

**Recent accounting pronouncements**

In November 2016, the Financial Accounting Standards Board, or FASB, issued new guidance to clarify how entities should present restricted cash and restricted cash equivalents in the statement of cash flows. The new guidance requires that restricted cash and restricted cash equivalents be included with cash and cash equivalents when reconciling the beginning and ending total amounts shown in the statement of cash flows. The new standard is effective for us in our first quarter of fiscal 2019 and requires a retrospective method of adoption. Early adoption is permitted. We are evaluating the effect that this new standard will have on our consolidated financial statements.

In October 2016, the FASB issued new guidance which is intended to eliminate diversity in practice and provide a more accurate depiction of the tax consequences on intercompany asset transfers (excluding inventory). The new guidance removes the current prohibition against immediate recognition of the current and deferred income tax effects of intra-entity transfers of assets other than inventory. The new standard is effective for us in our first quarter of fiscal 2019 and requires a modified retrospective method of adoption. Early adoption is permitted, but only in the first quarter of an entity's annual fiscal year. We are evaluating the effect that this new standard will have on our consolidated financial statements.

In August 2016, the FASB issued new guidance which clarifies how companies present and classify certain cash receipts and cash payments in the statement of cash flows. The new standard is effective for us in our first quarter of fiscal 2019 and

## TELENAV, INC.

**Notes to Condensed Consolidated Financial Statements—(Continued)**  
**(unaudited)**

early adoption is permitted. We are evaluating the effect that this new standard will have on our consolidated financial statements.

With the exception of the new standards discussed above, there have been no other recent accounting pronouncements or changes in accounting pronouncements during the six months ended December 31, 2016, as compared to the recent accounting pronouncements described in our Annual Report on Form 10-K for fiscal 2016, that are of significance or potential significance to us, other than the following update:

In May 2014, the FASB issued guidance related to revenue from contracts with customers, which supersedes the revenue recognition requirements in ASC 605, Revenue Recognition. Under this new guidance, ASC 606, Revenue from Contracts with Customers, or ASC 606, revenue is recognized when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. The new guidance also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The updated standard will replace most existing revenue recognition guidance under GAAP when it becomes effective and permits the use of either the full retrospective or cumulative effect transition method. In August 2015, the FASB deferred the effective date of this guidance by one year; however, early adoption is permitted. The updated standard will be effective for us in the first quarter of our fiscal year ending June 30, 2019. We are in the process of selecting a transition method and determining the effect that this new standard will have on our consolidated financial statements and related disclosures.

We currently anticipate early adoption of ASC 606 effective July 1, 2017. Our ability to early adopt is dependent on the completion of our analysis of information necessary to restate prior period financial statements or adjust retained earnings, depending on the transition method we select. While we are in the process of selecting a transition method, we anticipate this standard will have a material impact on our consolidated financial statements. Even though our assessment of the impact of this standard is not complete, we currently believe the most significant impact will be to the recognition of revenue for certain of our automotive value-added and combined offerings, such as on-board navigation with Ford MapCare. We anticipate our revenue recognition for certain value-added offerings will change and we will no longer recognize revenue associated with certain software-related elements over the life of our contractual obligations.

## 2. Net income (loss) per share

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

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

	Three Months Ended		Six Months Ended	
	December 31,		December 31,	
	2016	2015	2016	2015
Net loss	\$ (11,423)	\$ (6,639)	\$ (20,758)	\$ (17,485)
Weighted average common shares used in computing net loss per share, basic and diluted	43,208	41,038	42,932	40,820
Net loss per share, basic and diluted	\$ (0.26)	\$ (0.16)	\$ (0.48)	\$ (0.43)

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

	Three Months Ended		Six Months Ended	
	December 31,		December 31,	
	2016	2015	2016	2015
Stock options	6,410	5,111	6,410	5,111
Restricted stock units	3,062	4,393	3,062	4,393
Total	9,472	9,504	9,472	9,504

**TELENAV, INC.**
**Notes to Condensed Consolidated Financial Statements—(Continued)**
**(unaudited)**
**3. Cash, cash equivalents and short-term investments**

Cash and cash equivalents consist of highly liquid fixed-income investments with original maturities of three months or less at the time of purchase, including money market funds. Short-term investments consist of readily marketable securities with a remaining maturity of more than three months from the date of purchase. Short-term investments are classified as current assets, even though maturities may extend beyond one year, because they represent investments of cash available for operations. We classify all of our cash equivalents and short-term investments as “available for sale,” as these investments are free of trading restrictions. These marketable securities are carried at fair value, with the unrealized gains and losses, net of tax, reported as accumulated other comprehensive income (loss) and included as a separate component of stockholders’ equity. Gains and losses are recognized when realized. When we have determined that an other-than-temporary decline in fair value has occurred, the amount of the decline that is related to a credit loss is recognized in earnings. Gains and losses are determined using the specific identification method. We had no material realized gains or losses in the three or six months ended December 31, 2016 and 2015.

Cash, cash equivalents and short-term investments consisted of the following as of December 31, 2016 (in thousands):

<b>Description</b>	<b>Amortized Cost</b>	<b>Unrealized Gains</b>	<b>Unrealized Losses</b>	<b>Estimated Fair Value</b>
Cash	\$ 13,298	\$ —	\$ —	\$ 13,298
Cash equivalents:				
Money market mutual funds	4,396	—	—	4,396
Total cash equivalents	4,396	—	—	4,396
Total cash and cash equivalents	17,694	—	—	17,694
Short-term investments:				
U.S. treasury securities	1,265	—	(2)	1,263
U.S. agency securities	3,184	—	(16)	3,168
Asset-backed securities	8,231	5	(9)	8,227
Municipal securities	9,017	2	(4)	9,015
Commercial paper	3,243	—	—	3,243
Foreign government securities	751	—	(2)	749
Corporate bonds	60,486	25	(188)	60,323
Total short-term investments	86,177	32	(221)	85,988
Cash, cash equivalents and short-term investments	\$ 103,871	\$ 32	\$ (221)	\$ 103,682

Cash, cash equivalents and short-term investments consisted of the following as of June 30, 2016 (in thousands):

<b>Description</b>	<b>Amortized Cost</b>	<b>Unrealized Gains</b>	<b>Unrealized Losses</b>	<b>Estimated Fair Value</b>
Cash	\$ 14,308	\$ —	\$ —	\$ 14,308
Cash equivalents:				
Money market mutual funds	5,641	—	—	5,641
U.S. agency securities	1,400	—	—	1,400
Total cash equivalents	7,041	—	—	7,041
Total cash and cash equivalents	21,349	—	—	21,349
Short-term investments:				
U.S. treasury securities	1,699	3	—	1,702
U.S. agency securities	5,907	22	—	5,929
Asset-backed securities	10,160	17	(2)	10,175
Municipal securities	6,004	14	—	6,018
Commercial paper	3,494	1	—	3,495
Corporate bonds	60,754	217	(13)	60,958
Total short-term investments	88,018	274	(15)	88,277
Cash, cash equivalents and short-term investments	\$ 109,367	\$ 274	\$ (15)	\$ 109,626

## TELENAV, INC.

**Notes to Condensed Consolidated Financial Statements—(Continued)**  
**(unaudited)**

The following table summarizes the cost and estimated fair value of short-term fixed income securities classified as short-term investments based on stated maturities as of December 31, 2016 (in thousands):

	Amortized Cost	Estimated Fair Value
Due within one year	\$ 38,058	\$ 38,052
Due between one and two years	29,036	28,995
Due between two and three years	19,083	18,941
Total	<u>\$ 86,177</u>	<u>\$ 85,988</u>

Declines in fair value judged to be other-than-temporary on securities available for sale are included as a component of other income (expense), net. In order to determine whether a decline in value is other-than-temporary, we evaluate, among other factors: the duration and extent to which the fair value has been less than the carrying value and our intent and ability to retain the investment for a period of time sufficient to allow for any anticipated recovery in fair market value. As of December 31, 2016, we did not consider any of our investments to be other-than-temporarily impaired.

**4. Fair value of financial instruments**

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

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

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

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

All of our cash equivalents and short-term investments are classified within Level 1 or Level 2. As of December 31, 2016 and June 30, 2016, we did not have any investments that require Level 3 valuations. The fair values of these financial instruments were determined using the following inputs at December 31, 2016 (in thousands):

## TELENAV, INC.

 Notes to Condensed Consolidated Financial Statements—(Continued)  
 (unaudited)

Description	Fair Value Measurements at December 31, 2016 Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash equivalents:				
Money market mutual funds	\$ 4,396	\$ 4,396	\$ —	\$ —
Total cash equivalents	4,396	4,396	—	—
Short-term investments:				
U.S. treasury securities	1,263	1,263	—	—
U.S. agency securities	3,168	—	3,168	—
Asset-backed securities	8,227	—	8,227	—
Municipal securities	9,015	—	9,015	—
Commercial paper	3,243	—	3,243	—
Foreign government securities	749	—	749	—
Corporate bonds	60,323	—	60,323	—
Total short-term investments	85,988	1,263	84,725	—
Cash equivalents and short-term investments	\$ 90,384	\$ 5,659	\$ 84,725	\$ —

The fair values of our financial instruments were determined using the following inputs at June 30, 2016 (in thousands):

Description	Fair Value Measurements at June 30, 2016 Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash equivalents:				
Money market mutual funds	\$ 5,641	\$ 5,641	\$ —	\$ —
U.S. agency securities	1,400	—	1,400	—
Total cash equivalents	7,041	5,641	1,400	—
Short-term investments:				
U.S. treasury securities	1,702	1,702	—	—
U.S. agency securities	5,929	—	5,929	—
Asset-backed securities	10,175	—	10,175	—
Municipal securities	6,018	—	6,018	—
Commercial paper	3,495	—	3,495	—
Corporate bonds	60,958	—	60,958	—
Total short-term investments	88,277	1,702	86,575	—
Cash equivalents and short-term investments	\$ 95,318	\$ 7,343	\$ 87,975	\$ —

Amortization of net premium on short-term investments totaled \$237,000 and \$381,000 in the six months ended December 31, 2016 and 2015, respectively.

There were no transfers between Level 1 and Level 2 financial instruments in the six months ended December 31, 2016 and 2015, respectively.

We did not have any financial liabilities measured at fair value on a recurring basis as of December 31, 2016 or June 30, 2016.

## TELENAV, INC.

Notes to Condensed Consolidated Financial Statements—(Continued)  
(unaudited)**5. Balance sheet information***Goodwill and intangible assets, net*

Goodwill as of December 31, 2016 and June 30, 2016 was \$31.3 million .

Intangible assets consisted of the following (in thousands):

	December 31, 2016	June 30, 2016
Acquired developed technology	\$ 13,875	\$ 13,875
Less accumulated amortization	(9,728)	(9,210)
Intangible assets, net	<u>\$ 4,147</u>	<u>\$ 4,665</u>

Acquired developed technology is amortized on a straight-line basis over the expected useful life. Amortization expense related to intangibles was \$258,000 and \$307,000 for the three months ended December 31, 2016 and 2015 , respectively, and \$518,000 and \$1.0 million for the six months ended December 31, 2016 and 2015 , respectively.

As of December 31, 2016 , remaining amortization expense for intangible assets by fiscal year is as follows: \$513,000 in fiscal 2017, \$1.0 million in fiscal 2018, \$1.0 million in fiscal 2019, \$1.0 million in fiscal 2020 and \$592,000 in fiscal 2021.

*Accrued expenses*

Accrued expenses consisted of the following (in thousands):

	December 31, 2016	June 30, 2016
Accrued compensation and benefits	\$ 9,431	\$ 9,308
Accrued royalties	14,408	15,331
Accrued legal settlement and contingencies	7,274	1,576
Other accrued expenses	10,261	10,059
	<u>\$ 41,374</u>	<u>\$ 36,274</u>

**6. Commitments and contingencies***Operating lease and purchase obligations*

As of December 31, 2016 , we had future minimum non-cancelable financial commitments primarily related to office space under non-cancelable operating leases and license fees due to certain of our third party content providers, regardless of usage level. The aggregate future minimum commitments, net of sublease income, were comprised of the following (in thousands):

	Payments Due by Period						
	Total	Fiscal 2017	Fiscal 2018	Fiscal 2019	Fiscal 2020	Fiscal 2021	Thereafter
Operating lease obligations	\$ 13,455	\$ 2,033	\$ 3,971	\$ 3,536	\$ 2,123	\$ 1,792	\$ —
Purchase obligations	5,081	1,901	1,846	382	217	217	518
Total contractual obligations	<u>\$ 18,536</u>	<u>\$ 3,934</u>	<u>\$ 5,817</u>	<u>\$ 3,918</u>	<u>\$ 2,340</u>	<u>\$ 2,009</u>	<u>\$ 518</u>

*Joint venture investment commitment*

In September 2015, we entered into an agreement with Ningbo Huazhong Holdings Company Limited, or Huazhong, a subsidiary of a publicly traded automotive original equipment manufacturer, or OEM, supplier in China, whereby we and Huazhong agreed to form a joint venture limited liability company in China for the development, manufacture and sale of connected navigation systems for the China automotive aftermarket and local OEMs. We did not make any capital contributions to the joint venture, and the joint venture was not formed. On January 31, 2017, we and Huazhong agreed not to form or fund the joint venture and the agreement with Huazhong was terminated.

## TELENAV, INC.

## Notes to Condensed Consolidated Financial Statements—(Continued)

(unaudited)

**Contingencies**

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

On December 31, 2009, Vehicle IP, LLC, or Vehicle IP, filed a patent infringement lawsuit against us in the U.S. District Court for the District of Delaware, seeking monetary damages, fees and expenses and other relief. Verizon Wireless, or Verizon, was named as a co-defendant in the Vehicle IP litigation based on the VZ Navigator product and has demanded that we indemnify and defend Verizon against Vehicle IP. At this time, we have not agreed to defend or indemnify Verizon. AT&T was also named as a co-defendant in the Vehicle IP litigation based on the AT&T Navigator and Telenav Track products. AT&T has tendered the defense of the litigation to us and we defended the case on behalf of AT&T. During fiscal 2016, we accrued \$850,000 related to this litigation. On January 12, 2017, we entered into a settlement and license agreement with Vehicle IP. In connection with the agreement, we made a one-time payment of \$8.0 million and recorded \$7.2 million of this amount as legal settlement and contingencies expense in our consolidated statement of operations in the three and six months ended December 31, 2016. On January 31, 2017, Vehicle IP's claims against Telenav and AT&T were dismissed. We are not obligated to make any future payments with respect to the settlement or license. We also will have no further obligation to indemnify AT&T with respect to the case.

On July 28, 2016, Nathan Gergetz filed a putative class action complaint in the U.S. District Court for the Northern District of California, alleging that Telenav violated the Telephone Consumer Protection Act, or TCPA. The complaint purports to be filed on behalf of a class, and it alleges that Telenav caused unsolicited text messages to be sent to the plaintiff from July 6, 2016 to July 26, 2016. Plaintiffs seek statutory and actual damages under the TCPA law, attorneys' fees and costs of the action, and an injunction to prevent any future violations. Telenav moved to dismiss the complaint on November 21, 2016, and that motion is scheduled for a hearing date of March 2, 2017. Due to the preliminary nature of this matter and uncertainties relating to litigation, we are unable at this time to estimate the effects of this lawsuit on our financial condition, results of operations, or cash flows.

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

In 2008, Alltel Communications LLC, or Alltel, AT&T, Sprint Corporation, or Sprint, and T-Mobile USA, or T-Mobile, each demanded that we indemnify and defend them against patent infringement lawsuits brought by patent holding companies EMSAT Advanced Geo-Location Technology LLC and Location Based Services LLC (collectively, EMSAT) in the U.S. District Court for the Northern District of Ohio. In March 2011, EMSAT and AT&T settled their claims. The U.S. Patent and Trademark Office, or PTO, reexamined two of the patents in suit, confirming the validity of only two of the asserted claims from those patents. All patent claims that EMSAT alleged to be infringed by the Telenav GPS Navigator product were cancelled during reexamination. In the suits against T-Mobile, Alltel and Sprint, EMSAT amended its allegations to remove allegations of infringement of the patent claims that were cancelled during reexamination. EMSAT and T-Mobile stipulated to a dismissal and their case was dismissed on January 28, 2015. On March 20, 2015, the Court dismissed and closed the Alltel case and on April 10, 2015 the Court dismissed and closed the Sprint case. In January 2017 we resolved this indemnification dispute with AT&T. We do not anticipate any additional liability from this matter.

In March 2009, AT&T demanded that we indemnify and defend them against a patent infringement lawsuit brought by Tendler Cellular of Texas LLC, or Tendler, in the U.S. District Court for the Eastern District of Texas. In June 2010, AT&T settled its claims with Tendler and we came to an agreement with AT&T as to the extent of our contribution towards AT&T's settlement; however, Telenav and AT&T disagreed as to whether any additional amounts were owed to AT&T for legal fees and expenses related to the defense of the matter. In January 2017 we resolved this indemnification dispute with AT&T. We do not anticipate any additional liability from this matter.

## TELENAV, INC.

## Notes to Condensed Consolidated Financial Statements—(Continued)

(unaudited)

In connection with our resolution of certain indemnification disputes with AT&T in January 2017, we reversed a total accrued liability of \$726,000 previously expensed for these and other contingencies.

**7. Guarantees and indemnifications**

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

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

**8. Stock-based compensation**

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

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

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)	Aggregate Intrinsic Value
Options outstanding as of June 30, 2016	5,370	\$ 6.80		
Granted	1,277	\$ 5.12		
Exercised	(36)	\$ 4.40		
Canceled	(201)	\$ 7.21		
Options outstanding as of December 31, 2016	6,410	\$ 6.46	6.76	\$ 5,706
As of December 31, 2016:				
Options vested and expected to vest	5,886	\$ 6.51	6.56	\$ 5,075
Options exercisable	3,182	\$ 6.82	5.12	\$ 2,239

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

	Number of Shares	Weighted Average Remaining Contractual Life (years)	Aggregate Intrinsic Value
RSUs outstanding as of June 30, 2016	3,302		
Granted	951		
Vested	(853)		
Canceled	(338)		
RSUs outstanding as of December 31, 2016	3,062	1.53	\$ 21,589
As of December 31, 2016:			
RSUs expected to vest	2,549	1.42	\$ 17,970



## TELENAV, INC.

Notes to Condensed Consolidated Financial Statements—(Continued)  
(unaudited)

During the six months ended December 31, 2016, pursuant to the annual increase provisions of our 2009 Equity Incentive Plan, the number of shares available for grant under this plan increased by 1,666,666 shares. A summary of our shares available for grant activity is as follows (in thousands):

	Number of Shares
Shares available for grant as of June 30, 2016	1,719
Additional shares authorized	1,667
Granted	(2,228)
RSUs withheld for taxes in net share settlements	291
Canceled	539
Shares available for grant as of December 31, 2016	1,988

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

	Three Months Ended		Six Months Ended	
	December 31,		December 31,	
	2016	2015	2016	2015
Stock option awards	\$ 553	\$ 441	\$ 1,027	\$ 851
RSU awards	1,435	2,739	3,502	5,416
Total stock-based compensation expense	\$ 1,988	\$ 3,180	\$ 4,529	\$ 6,267

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

	Three Months Ended		Six Months Ended	
	December 31,		December 31,	
	2016	2015	2016	2015
Expected volatility	39%	52%	39%	52%
Expected term (in years)	4.45	4.48	4.19	4.46
Risk-free interest rate	1.82%	1.52%	1.24%	1.54%
Dividend yield	—%	—%	—%	—%

**Performance-based RSUs**

We established a 2015 Performance Share Program under our 2009 Equity Incentive Plan, under which RSUs and/or cash bonuses may be earned based on the achievement of specified performance conditions measured over periods ranging from approximately 15 to 21 months. Holders of performance-based awards generally have the ability to receive 0% to 100% of the target number of RSUs or cash bonus originally granted. The expense associated with performance-based RSU grants is recorded when the performance condition is determined to be probable. Fully vested restricted stock units and/or cash bonuses will be awarded upon management's certification of the level of achievement.

We previously granted 106,000 performance-based RSUs under the 2015 Program, of which no RSUs had been earned and 36,000 RSUs had been canceled. As of December 31, 2016, the remaining 70,000 RSUs were canceled as the performance conditions were not met. The cancellation of these RSUs resulted in a credit to stock-compensation expense of \$546,000 during the three months ended December 31, 2016.

## TELENAV, INC.

## Notes to Condensed Consolidated Financial Statements—(Continued)

(unaudited)

**9. Income taxes**

The effective tax rate for the periods presented is the result of the mix of forecasted fiscal year income earned or loss incurred in various tax jurisdictions that apply a broad range of income tax rates. Our provision (benefit) for income taxes was \$142,000 in the six months ended December 31, 2016 compared to \$440,000 in the six months ended December 31, 2015. In July 2016, the state of New York completed its audit of our income tax returns for fiscal 2010 through fiscal 2012. We paid \$442,000 to settle the audit and recorded a tax benefit of \$1.0 million in July 2016 to reverse the remaining related tax reserves. Our provision from income taxes of \$142,000 for the six months ended December 31, 2016 was comprised primarily of foreign withholding taxes on revenue generated in China and foreign taxes, partially offset by the aforementioned \$1.0 million reversal of tax reserves. Our effective tax rate was 1% in the six months ended December 31, 2016 compared to an effective tax rate of 1% in the six months ended December 31, 2015. Our effective tax rate of 1% and 1% for the six months ended December 31, 2016 and 2015, respectively, was less than the tax amount computed at the U.S. federal statutory income tax rate due primarily to losses for which no benefit will be recognized since they are not more likely than not to be realized due to the lack of current and future income and the inability to carryback losses within the two year carryback period.

We record liabilities related to unrecognized tax benefits in accordance with authoritative guidance on accounting for uncertain tax positions. As of December 31, 2016 and June 30, 2016, our cumulative unrecognized tax benefits were \$5.5 million and \$6.7 million, respectively. Included in the balance of unrecognized tax benefits at December 31, 2016 and June 30, 2016 was \$468,000 and \$1.6 million, respectively, that if recognized, would affect the effective tax rate.

We recognize interest and penalties related to unrecognized tax benefits as part of our provision for federal, state and foreign income taxes. We accrued \$304,000 and \$570,000 for the payment of interest and penalties at December 31, 2016 and June 30, 2016, respectively.

We file income tax returns with the Internal Revenue Service, or IRS, California and various states and foreign tax jurisdictions in which we have subsidiaries. The statute of limitations remains open for fiscal 2012 through fiscal 2016 in the U.S., for fiscal 2012 through fiscal 2016 in state jurisdictions, and for fiscal 2011 through fiscal 2016 in foreign jurisdictions. Fiscal years outside the normal statute of limitation remain open to audit by tax authorities due to tax attributes generated in those early years which have been carried forward and may be audited in subsequent years when utilized.

Due to operating losses in previous years and continued earnings volatility, we maintain a valuation allowance on the majority of our deferred tax assets. Our valuation allowance at June 30, 2016 was \$29.8 million. In evaluating our ability to recover our deferred tax assets each quarter, we consider all available positive and negative evidence, including current and previous operating results, ability to carryback losses for a tax refund, and forecasts of future operating results.

**10. Segments**

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

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

We report results in three business segments:

*Automotive* - Our automotive segment provides our automotive and mobile navigation platform to vehicle manufacturers and original equipment manufacturers, or OEMs, for distribution with their vehicles. We provide both embedded, or on-board, and mobile phone-based wireless connectivity, or brought-in, navigation solutions, as well as integrated on-board and connected navigation solutions. Our on-board solutions consist of software, map and point of interest, or POI, data loaded in the vehicle that provides voice-guided turn by turn navigation displayed on the vehicle screen. Our brought-in connected solutions enable a mobile device that is paired with the vehicle to activate in-vehicle and voice-guided turn by turn navigation.

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

## TELENAV, INC.

## Notes to Condensed Consolidated Financial Statements—(Continued)

(unaudited)

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

Our segment results for the three and six months ended December 31, 2016 and 2015 were as follows (dollars in thousands):

	Three Months Ended December 31,		Six Months Ended December 31,	
	2016	2015	2016	2015
<b>Revenue</b>				
Automotive	\$ 38,744	\$ 31,846	\$ 69,011	\$ 63,589
Advertising	8,208	6,688	14,753	11,539
Mobile Navigation	5,049	6,719	10,464	14,186
Total revenue	52,001	45,253	94,228	89,314
<b>Cost of revenue</b>				
Automotive	23,438	18,931	41,983	37,452
Advertising	3,919	3,755	7,445	6,750
Mobile Navigation	1,370	1,846	2,775	3,717
Total cost of revenue	28,727	24,532	52,203	47,919
<b>Gross profit</b>				
Automotive	15,306	12,915	27,028	26,137
Advertising	4,289	2,933	7,308	4,789
Mobile Navigation	3,679	4,873	7,689	10,469
Total gross profit	\$ 23,274	\$ 20,721	\$ 42,025	\$ 41,395
<b>Gross margin</b>				
Automotive	40%	41%	39%	41%
Advertising	52%	44%	50%	42%
Mobile Navigation	73%	73%	73%	74%
Total gross margin	45%	46%	45%	46%

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

*The following discussion and analysis should be read together with our condensed consolidated financial statements and the notes to those statements included elsewhere in this Form 10-Q. This Form 10-Q contains forward-looking statements that are based on our management’s beliefs and assumptions and on information currently available to our management. The forward-looking statements are contained principally in the sections entitled “Risk Factors” and this Management’s Discussion and Analysis of Financial Condition and Results of Operations. Forward-looking statements include information concerning our possible or assumed future results of operations, future sources of revenue, expectations regarding expenses, business strategies, financing plans, competitive position, industry environment, potential growth opportunities and the effects of competition. Forward-looking statements include statements that are not historical facts and can be identified by terms such as “anticipates,” “believes,” “could,” “seeks,” “estimates,” “expects,” “intends,” “may,” “plans,” “potential,” “predicts,” “projects,” “should,” “will,” “would” or similar expressions and the negatives of those terms.*

*Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. We discuss these risks in greater detail in “Risk factors” and elsewhere in this Form 10-Q. Given these uncertainties, you should not place undue reliance on these forward-looking statements. Also, forward-looking statements represent our management’s beliefs and assumptions only as of the date of this Form 10-Q.*

*Except as required by law, we assume no obligation to update these forward-looking statements, or to update the reasons actual results could differ materially from those anticipated in these forward-looking statements, even if new information becomes available in the future. You should read this Form 10-Q completely and with the understanding that our actual future results may be materially different from what we expect.*

*In this Form 10-Q, “we,” “us,” “our” and “Telenav” refer to Telenav, Inc. and its subsidiaries. We operate on a fiscal year ending June 30 and refer to the fiscal year ended June 30, 2016 as “fiscal 2016” and the fiscal year ending June 30, 2017 as “fiscal 2017.”*

### **Overview**

Telenav is a leading provider of connected car and location-based platform products and services using our automotive and mobile navigation platform and our advertising delivery platform. Our automotive and mobile navigation platform allows us to deliver enhanced location-based services to auto manufacturers, developers and end users through various distribution channels. Our advertising delivery platform delivers highly targeted advertising services leveraging our location expertise. We operate in three segments: automotive, advertising and mobile navigation.

For our automotive segment customers, we offer our automotive and mobile navigation platform products and services to vehicle manufacturers and original equipment manufacturers, or OEMs, for distribution with their vehicles. We believe our history as a supplier of cloud-based navigation services provides a unique advantage in the automotive navigation marketplace over our competitors.

Our primary automotive customer to date, Ford Motor Company and affiliated entities, or Ford, currently distributes our embedded, or on-board, product as a standard or optional feature with its models. Our automotive products are now included on models manufactured and sold in North America, Europe and China, as well as distributed in models sold in South America, Australia and New Zealand. Ford Australia and New Zealand also offers a map update program under which Ford owners with SYNC® 2 or SYNC® 3 in Australia and New Zealand are eligible to receive annual map updates at no additional cost through the contractual period.

We have a global agreement with General Motors Corporation and affiliates, or GM, which includes our mobile phone-based wireless connectivity, or brought-in, services for GM's vehicles as well as integration of our on-board and connected navigation solutions in its vehicles. Our brought-in services for GM vehicles include GM's OnStar RemoteLink® and associated branded mobile applications powered by our location-based services platform, which includes mapping and one-box search. In November 2015, the localized version of GM's OnStar RemoteLink was launched in Europe for GM's Opel and Vauxhall brands. GM recently added new branding to the provisioning of this service which included MyBuick, MyCadillac, MyChevrolet and MyGMC, or the MyBrand applications. We expect that vehicles featuring integration of our on-board and connected navigation solutions will be launched by GM in the next couple of months. In addition, in November 2016, we were selected to provide entry level on-board navigation for GM's select line of vehicles for the European market launching in second half of fiscal 2017.

We have a partnership with Toyota Motor Corporation, or Toyota, for brought-in navigation services where our Scout® GPS Link is available in Entune™ Audio Plus equipped model year 2016 and later Toyota vehicles in the United States. In August 2016, we and the Lexus division of Toyota announced that Lexus will begin offering Scout GPS Link in certain of its Lexus models equipped with Lexus Display Audio multimedia, and in September 2016, Lexus began shipping vehicles enabled to connect with our Scout GPS Link.

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

We derive revenue primarily from automobile manufacturers and OEMs and advertisers and advertising agencies. We receive revenue from automobile manufacturers whose vehicles contain our proprietary software and are able to access our personalized navigation services. These manufacturers have typically not provided us with any volume or revenue guarantees. In addition, we have a growing business in mobile advertising where our customers are primarily advertising agencies, which represent national and regional brands, and channel partners, which work closely with local and small business advertisers. We also derive a declining portion of revenue from our partnerships with wireless carriers, who pay us to enable their subscribers to use our mobile navigation services.

We generate revenue from the delivery of customized software and royalties from the distribution of this customized software in automotive navigation applications. For example, Ford utilizes our on-board automotive navigation product in its Ford SYNC platform. Ford pays us a royalty fee on SYNC 2 on-board solutions as the software is reproduced for installation in vehicles with our automotive navigation solutions and pays us a royalty fee on SYNC 3 on-board solutions as our software is installed in the vehicle. In addition, we earn a one-time royalty for each new vehicle owner who downloads the GM OnStar RemoteLink or associated application, whereby we provide enhanced search capabilities for contracted service periods. We also earn a one-time royalty for each new Toyota and Lexus vehicle sold and enabled to connect with our Scout GPS Link mobile application.

We generate revenue from advertising network services through the delivery of display advertising impressions based on the specific terms of the advertising contract.

We also generate a declining portion of our revenue from subscriptions to our mobile navigation services. End users with subscriptions for our services are generally billed for our services through their wireless carrier or through mobile application stores and marketplaces. Our wireless carrier customers pay us based on several different revenue models, including (1) a revenue sharing arrangement that may include a minimum fee per end user, (2) a monthly or annual subscription fee per end user, or (3) based on usage.

### ***Recent Developments***

On December 31, 2009, Vehicle IP, LLC, or Vehicle IP, filed a patent infringement lawsuit against us in the U.S. District Court for the District of Delaware, seeking monetary damages, fees and expenses and other relief. Verizon Wireless, or Verizon, was named as a co-defendant in the Vehicle IP litigation based on the VZ Navigator product and has demanded that we indemnify and defend Verizon against Vehicle IP. At this time, we have not agreed to defend or indemnify Verizon. AT&T was also named as a co-defendant in the Vehicle IP litigation based on the AT&T Navigator and Telenav Track products. AT&T tendered the defense of the litigation to us and we defended the case on behalf of AT&T. During fiscal 2016, we accrued \$850,000 related to this litigation. On January 12, 2017, we entered into a settlement and license agreement with Vehicle IP. In connection with the agreement, Telenav made a one-time payment of \$8.0 million and we recorded \$7.2 million of this amount as legal settlement and contingencies expense in our consolidated statement of operations in the three and six months ended December 31, 2016. On January 31, 2017, Vehicle IP's claims against Telenav and AT&T were dismissed. We are not obligated to make any future payments with respect to the settlement or license. We also will have no further obligation to indemnify AT&T with respect to the case.

Our legal settlement and contingencies expense for the three and six months ended December 31, 2016 also reflects the reversal of an accrued liability of \$0.7 million previously expensed related to other ongoing indemnification matters, which were also resolved in January 2017.

*Ford MapCare*

We and Ford intend to enter into an agreement to provide our MapCare solution in conjunction with our on-board navigation product for the Europe region, similar to Ford's offering in Australia and New Zealand, commencing in the three months ending March 31, 2017. Under this agreement, we will provide map updates to Ford for distribution to its SYNC 3 navigation customers in Europe, which will increase our royalty amount per unit going forward. However, because MapCare is provided over a contractual period, certain revenue related to the on-board navigation product, which we have been recognizing upon delivery, will now be recognized over time along with the new MapCare product.

Offering MapCare in Europe will result in a substantial decline in our revenue under current U.S. generally accepted accounting principles, or GAAP, and a substantial increase in our deferred revenue and deferred cost balances. However, we anticipate early adoption of the Financial Accounting Standard Board's, or FASB's, new accounting standard, ASC 606, Revenue from Contracts with Customers, effective July 1, 2017. With the adoption of ASC 606, we believe that our revenue recognition for certain value-added and combined offerings, such as on-board navigation with MapCare, will change and we will no longer recognize revenue associated with certain software-related elements over the life of our contractual obligations. Our ability to early adopt is dependent on the completion of our analysis of information necessary to restate prior period financial statements or adjust retained earnings, depending on the transition method we select. While we are in the process of selecting a transition method, we anticipate this standard will have a material impact on our consolidated financial statements.

As a result of offering MapCare in Europe, during the three months ending March 31, and June 30, 2017 we anticipate the following effects as compared to the three months ended December 31, 2016:

- Revenue is expected to decline substantially as certain revenue that we have been recognizing upon product delivery will now be recognized over the contractual period during which we provide MapCare;
- Gross profit is also expected to decline in conjunction with the decline in revenue;
- Gross margin is expected to increase, as the royalties earned on on-board navigation solutions for the Europe region that were recognized upon delivery in previous periods and carry a higher relative map cost and lower gross margin will now be deferred and recognized over the contractual period. This increase in gross margin will be partially offset by declining mobile navigation revenue that carries a higher relative gross margin;
- Net loss is expected to increase due to the decrease in revenue recognized;
- Deferred revenue and deferred costs are expected to increase as we invoice and defer revenue related to the MapCare offering in Europe; and
- Adjusted EBITDA, a non-GAAP metric, is expected to decrease as our loss increases.

In addition, we have introduced three new metrics, non-GAAP gross profit on billings, non-GAAP gross margin on billings, and adjusted EBITDA on billings, that management is utilizing in conjunction with GAAP financial measures to assist in evaluating the financial performance of our business during the second half of fiscal 2017. See “ - *Key operating and financial performance metrics* ” for further discussion of non-GAAP metrics.

In January 2017, Telenav and Xevo, Inc. announced that Scout GPS Link and Xevo™ Engine Link were chosen to provide brought-in navigation services for select model year 2018 Toyota vehicles equipped with Entune 3.0, as well as certain Lexus vehicles. The next generation of Scout GPS Link provides a fully interactive brought-in navigation experience. The connectivity between mobile device and vehicle will be provided by Xevo Engine Link, which allows drivers to securely use real-time data and in-vehicle services including maps, navigation and traffic data provided by Scout GPS Link. We do not expect to receive any royalty revenue related to the agreement until fiscal 2018 and any revenue will depend on the geographic and model scope of the rollout of Scout GPS Link, as well as customer purchases of the vehicles and acceptance of the new generation product.

### Key operating and financial performance metrics

We monitor the key operating and financial performance metrics set forth in the tables below to help us evaluate growth trends, establish budgets, measure the effectiveness of our sales and marketing efforts and assess our operational efficiencies. Certain of these measures such as billings, non-GAAP gross profit on billings, non-GAAP gross margin on billings, changes in deferred revenue and deferred costs, adjusted earnings before interest, taxes, depreciation and amortization, or adjusted EBITDA, adjusted EBITDA on billings and free cash flow are not measures calculated in accordance with GAAP, and should not be considered as an alternative to any measure of financial performance calculated and presented in accordance with GAAP. In addition, these non-GAAP measures may not be comparable to similarly titled measures of other companies because other companies may not calculate them in the same manner that we do.

We have previously provided billings metrics, and beginning with the three months ended December 31, 2016 we are providing three new metrics, non-GAAP gross profit on billings, non-GAAP gross margin on billings and adjusted EBITDA on billings. We anticipate providing non-GAAP gross profit on billings, non-GAAP gross margin on billings and adjusted EBITDA on billings over the next two quarters to assist the investor in evaluating the financial performance of our business. Once we adopt ASC 606, we do not expect that we will continue to provide the metrics non-GAAP gross profit on billings, non-GAAP gross margin on billings and adjusted EBITDA on billings. See "Recent Developments - Ford MapCare."

Our key operating and financial performance metrics are as follows (in thousands, except percentages and per share amounts):

	Three Months Ended		Six Months Ended	
	December 31,		December 31,	
	2016	2015	2016	2015
Revenue	\$ 52,001	\$ 45,253	\$ 94,228	\$ 89,314
Billings (Non-GAAP)	\$ 59,687	\$ 48,435	\$ 106,956	\$ 96,337
Increase in deferred revenue	\$ 7,686	\$ 3,182	\$ 12,728	\$ 7,023
Increase in deferred costs	\$ 3,847	\$ 1,629	\$ 6,704	\$ 4,302
Gross profit	\$ 23,274	\$ 20,721	\$ 42,025	\$ 41,395
Non-GAAP gross profit on billings	\$ 27,113	\$ 22,274	\$ 48,049	\$ 44,116
Gross margin	45%	46%	45%	46%
Non-GAAP gross margin on billings	45%	46%	45%	46%
Net loss	\$ (11,423)	\$ (6,639)	\$ (20,758)	\$ (17,485)
Diluted net loss per share	\$ (0.26)	\$ (0.16)	\$ (0.48)	\$ (0.43)
Adjusted EBITDA (Non-GAAP)	\$ (2,565)	\$ (4,144)	\$ (9,413)	\$ (10,534)
Adjusted EBITDA on billings (Non-GAAP)	\$ 1,274	\$ (2,591)	\$ (3,389)	\$ (7,813)
Free cash flow (Non-GAAP)	\$ 2,653	\$ (883)	\$ (3,430)	\$ (6,994)

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

Billings measure revenue recognized plus the change in deferred revenue from the beginning to the end of the period. Non-GAAP gross profit on billings reflects GAAP gross profit plus change in deferred revenue less change in deferred costs. Non-GAAP gross margin on billings reflects non-GAAP gross profit on billings divided by billings. We have also provided a breakdown of the calculation of the change in deferred revenue by segment, which is added to revenue in calculating our non-GAAP metric of billings. In connection with our presentation of the change in deferred revenue, we have provided a similar presentation of the change in the related deferred costs. Such deferred costs primarily include costs associated with third party content and in connection with certain customized software solutions, the costs incurred to develop those solutions. As deferred revenue and deferred costs become larger components of our operating results, we believe these metrics are useful in evaluating cash flow.

We consider billings, non-GAAP gross profit on billings and non-GAAP gross margin on billings to be useful metrics for management and investors because billings drive deferred revenue, which is an important indicator of the viability of our business. We believe non-GAAP gross profit on billings and non-GAAP gross margin on billings are useful metrics because they reflect the impact of the gross profit to be earned over time for such billings, exclusive of the incremental costs incurred to deliver any related service obligations. There are a number of limitations related to the use of billings and non-GAAP gross profit on billings versus revenue and gross profit calculated in accordance with GAAP. First, billings and non-GAAP gross profit on billings include amounts that have not yet been recognized as revenue or cost and may require additional services to be provided over contracted service periods. For example, billings related to certain connected solutions cannot be fully recognized as revenue in a given period due to requirements for ongoing provisioning of services such as hosting, monitoring and customer support. Accordingly, non-GAAP gross profit on billings does not include all costs associated with billings. Second, we may calculate billings, non-GAAP gross profit on billings and non-GAAP gross margin on billings in a manner that is different from peer companies that report similar financial measures, making comparisons between companies more difficult. When we use these measures, we attempt to compensate for these limitations by providing specific information regarding billings, non-GAAP gross profit on billings and non-GAAP gross margin on billings and how they relate to revenue and gross profit calculated in accordance with GAAP.

Adjusted EBITDA measures our GAAP net loss excluding the impact of stock-based compensation expense, depreciation and amortization, other income (expense), provision (benefit) for income taxes, and other applicable items such as legal settlements and contingencies, restructuring accruals and reversals, and deferred rent reversals due to lease termination, net of tax. Stock-based compensation expense relates to equity incentive awards granted to our employees, directors, and consultants. Legal settlements and contingencies represent settlements and offers made to settle patent litigation cases in which we are defendants and royalty disputes. Deferred rent reversals represent the reversal of our deferred rent liability that is no longer required due to our Sunnyvale facility lease termination in fiscal 2016. Adjusted EBITDA, while generally a measure of profitability, can also represent a loss.

Adjusted EBITDA is a key measure used by our management and board of directors to understand and evaluate our core operating performance and trends, to prepare and approve our annual budget and to develop short- and long-term operational plans. In particular, we believe that the exclusion of the expenses eliminated in calculating adjusted EBITDA can provide a useful measure for period-to-period comparisons of our core business. In addition, adjusted EBITDA is a key financial measure used by the compensation committee of our board of directors in connection with the development of incentive-based compensation for our executive officers. Accordingly, we believe that adjusted EBITDA generally provides useful information to investors and others in understanding and evaluating our operating results in the same manner as our management and board of directors. However, during the next two quarters we do not believe Adjusted EBITDA will be a meaningful metric due to the significant revenue recognition impact of the Ford MapCare offering in Europe. See "*Recent Developments - Ford MapCare*" for further discussion.

Adjusted EBITDA on billings measures adjusted EBITDA plus the effect of changes in deferred revenue and deferred costs. We believe adjusted EBITDA on billings is a useful measure, especially in light of the significant impact we expect on reported GAAP revenue for certain value-added offerings we provide our customers, including Ford MapCare. Adjusted EBITDA and adjusted EBITDA on billings, while generally measures of profitability, can also represent losses.

Free cash flow is a non-GAAP financial measure we define as net cash provided by (used in) operating activities less purchases of property and equipment. We consider free cash flow to be a liquidity measure that provides useful information to management and investors about the amount of cash (used) generated by our business after the purchases of property and equipment.

We determined that it would be meaningful to investors to develop a breakout of the operating results of our advertising business beyond the current GAAP segment reporting of revenue, cost of revenue and gross margin, and we are including such presentation in our non-GAAP reporting results. This presentation reflects operating expenses that are directly attributable to the advertising business. We are unable to provide a similar breakout of operating results for the automotive and mobile navigation businesses beyond the current GAAP segment reporting of revenue, cost of revenue and gross margin because these segments share many of the same technologies and resources and as such, comprise operating expenses which are not fully attributable to one segment versus the other. In addition, the reported non-GAAP operating results for the advertising business only include an allocation of certain shared corporate general and administrative costs that directly benefit the business, such as accounting and human resource services.

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



- We expect to incur additional costs in the future due to requirements to provide ongoing provisioning of services such as hosting, monitoring and customer support; accordingly, non-GAAP gross profit on billings, non-GAAP gross margin on billings and adjusted EBITDA on billings do not reflect all costs associated with billings;
- assets being depreciated and amortized may have to be replaced in the future, and adjusted EBITDA does not reflect cash capital expenditure requirements for such replacements or for new capital expenditures;
- adjusted EBITDA does not reflect the potentially dilutive impact of equity-based compensation;
- adjusted EBITDA does not reflect the use of cash for net share settlements of RSUs;
- adjusted EBITDA does not reflect tax payments that historically have represented a reduction in cash available to us or tax benefits that may arise as a result of generating net losses; and
- adjusted EBITDA, free cash flow or similarly titled measures may be calculated by other companies differently, which reduces their usefulness as comparative measures.

Because of these and other limitations, you should consider billings, gross profit on billings, gross margin on billings, adjusted EBITDA and free cash flow alongside other GAAP-based financial performance measures.

We reconcile the most directly comparable GAAP financial measure to each non-GAAP financial metric used. The following tables present reconciliations of revenue to billings, gross profit to non-GAAP gross profit on billings, non-GAAP gross margin on billings, deferred revenue to the change in deferred revenue, deferred costs to the change in deferred costs, net loss to adjusted EBITDA and net loss to free cash flow for each of the periods indicated (dollars in thousands):

**Reconciliation of Revenue to Billings**

	<b>Automotive</b>		<b>Advertising</b>		<b>Mobile Navigation</b>		<b>Total</b>	
	<b>Three Months Ended December 31,</b>		<b>Three Months Ended December 31,</b>		<b>Three Months Ended December 31,</b>		<b>Three Months Ended December 31,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Revenue	\$ 38,744	\$ 31,846	\$ 8,208	\$ 6,688	\$ 5,049	\$ 6,719	\$ 52,001	\$ 45,253
Adjustments:								
Change in deferred revenue	7,694	3,434	—	—	(8)	(252)	7,686	3,182
Billings	\$ 46,438	\$ 35,280	\$ 8,208	\$ 6,688	\$ 5,041	\$ 6,467	\$ 59,687	\$ 48,435

	<b>Automotive</b>		<b>Advertising</b>		<b>Mobile Navigation</b>		<b>Total</b>	
	<b>Six Months Ended December 31,</b>		<b>Six Months Ended December 31,</b>		<b>Six Months Ended December 31,</b>		<b>Six Months Ended December 31,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Revenue	\$ 69,011	\$ 63,589	\$ 14,753	\$ 11,539	\$ 10,464	\$ 14,186	\$ 94,228	\$ 89,314
Adjustments:								
Change in deferred revenue	12,807	7,251	—	—	(79)	(228)	12,728	7,023
Billings	\$ 81,818	\$ 70,840	\$ 14,753	\$ 11,539	\$ 10,385	\$ 13,958	\$ 106,956	\$ 96,337

**Reconciliation of Gross Profit to Gross Profit on Billings**

	Three Months Ended December 31,		Six Months Ended December 31,	
	2016	2015	2016	2015
Gross profit	\$ 23,274	\$ 20,721	\$ 42,025	\$ 41,395
Gross margin	45%	46%	45%	46%
Adjustments to gross profit:				
Change in deferred revenue	7,686	3,182	12,728	7,023
Change in deferred costs <sup>(1)</sup>	(3,847)	(1,629)	(6,704)	(4,302)
Net change	3,839	1,553	6,024	2,721
Gross profit on billings <sup>(1)</sup>	\$ 27,113	\$ 22,274	\$ 48,049	\$ 44,116
Gross margin on billings	45%	46%	45%	46%

<sup>(1)</sup> Deferred costs primarily include costs associated with third party content and in connection with certain customized software solutions, the costs incurred to develop those solutions. We expect to incur additional costs in the future due to requirements to provide ongoing provisioning of services such as hosting, monitoring and customer support. Accordingly, gross profit on billings does not include all costs associated with billings.

**Reconciliation of Deferred Revenue to Increase (Decrease) in Deferred Revenue**
**Reconciliation of Deferred Costs to Increase (Decrease) in Deferred Costs**

	Three Months Ended December 31, 2016			
	Automotive	Advertising	Mobile Navigation	Total
Deferred revenue, December 31	\$ 34,960	\$ —	\$ 1,137	\$ 36,097
Deferred revenue, September 30	27,266	—	1,145	28,411
Increase (decrease) in deferred revenue	\$ 7,694	\$ —	\$ (8)	\$ 7,686
Deferred costs, December 31	\$ 18,780	\$ —	\$ —	\$ 18,780
Deferred costs, September 30	14,933	—	—	14,933
Increase in deferred costs	\$ 3,847	\$ —	\$ —	\$ 3,847
	Three Months Ended December 31, 2015			
	Automotive	Advertising	Mobile Navigation	Total
Deferred revenue, December 31	\$ 12,443	\$ —	\$ 1,408	\$ 13,851
Deferred revenue, September 30	9,009	—	1,660	10,669
Increase (decrease) in deferred revenue	\$ 3,434	\$ —	\$ (252)	\$ 3,182
Deferred costs, December 31	\$ 7,443	\$ —	\$ —	\$ 7,443
Deferred costs, September 30	5,814	—	—	5,814
Increase (decrease) in deferred costs	\$ 1,629	\$ —	\$ —	\$ 1,629

	Six Months Ended December 31, 2016			
	Automotive	Advertising	Mobile Navigation	Total
Deferred revenue, December 31	\$ 34,960	\$ —	\$ 1,137	\$ 36,097
Deferred revenue, June 30	22,153	—	1,216	23,369
Increase (decrease) in deferred revenue	<u>\$ 12,807</u>	<u>\$ —</u>	<u>\$ (79)</u>	<u>\$ 12,728</u>
Deferred costs, December 31	\$ 18,780	\$ —	\$ —	\$ 18,780
Deferred costs, June 30	12,076	—	—	12,076
Increase in deferred costs	<u>\$ 6,704</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 6,704</u>
	Six Months Ended December 31, 2015			
	Automotive	Advertising	Mobile Navigation	Total
Deferred revenue, December 31	\$ 12,443	\$ —	\$ 1,408	\$ 13,851
Deferred revenue, June 30	5,192	—	1,636	6,828
Increase (decrease) in deferred revenue	<u>\$ 7,251</u>	<u>\$ —</u>	<u>\$ (228)</u>	<u>\$ 7,023</u>
Deferred costs, December 31	\$ 7,443	\$ —	\$ —	\$ 7,443
Deferred costs, June 30	3,141	—	—	3,141
Increase in deferred costs	<u>\$ 4,302</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 4,302</u>

### Reconciliation of Net Loss to Adjusted EBITDA

	Three Months Ended December 31,		Six Months Ended December 31,	
	2016	2015	2016	2015
Net loss	\$ (11,423)	\$ (6,639)	\$ (20,758)	\$ (17,485)
Adjustments:				
Legal settlement and contingencies	6,424	750	6,424	750
Restructuring accrual (reversal)	—	(1,468)	—	(1,468)
Deferred rent reversal due to lease termination	—	(621)	—	(621)
Stock-based compensation expense	1,988	3,180	4,529	6,267
Depreciation and amortization	623	847	1,260	1,916
Other income (expense), net	(714)	(520)	(1,010)	(333)
Provision for income taxes	537	327	142	440
Adjusted EBITDA	<u>\$ (2,565)</u>	<u>\$ (4,144)</u>	<u>\$ (9,413)</u>	<u>\$ (10,534)</u>
Change in deferred revenue	7,686	3,182	12,728	7,023
Change in deferred costs <sup>(1)</sup>	<u>(3,847)</u>	<u>(1,629)</u>	<u>(6,704)</u>	<u>(4,302)</u>
Adjusted EBITDA on billings <sup>(1)</sup>	<u>\$ 1,274</u>	<u>\$ (2,591)</u>	<u>\$ (3,389)</u>	<u>\$ (7,813)</u>

<sup>(1)</sup> We expect to incur additional costs in the future due to requirements to provide ongoing provisioning of services such as hosting, monitoring and customer support. Accordingly, adjusted EBITDA on billings does not reflect all costs associated with billings.

**Reconciliation of Net Loss to Free Cash Flow**

	<b>Three Months Ended December 31,</b>		<b>Six Months Ended December 31,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Net loss	\$ (11,423)	\$ (6,639)	\$ (20,758)	\$ (17,485)
Adjustments to reconcile net loss to net cash used in operating activities:				
Increase in deferred revenue <sup>(1)</sup>	7,686	3,182	12,728	7,023
Increase in deferred costs <sup>(2)</sup>	(3,847)	(1,629)	(6,704)	(4,302)
Changes in other operating assets and liabilities	7,595	81	5,686	(986)
Other adjustments <sup>(3)</sup>	2,779	4,212	6,149	9,088
Net cash used in operating activities	2,790	(793)	(2,899)	(6,662)
Less: Purchases of property and equipment	(137)	(90)	(531)	(332)
Free cash flow	\$ 2,653	\$ (883)	\$ (3,430)	\$ (6,994)

<sup>(1)</sup> Consists of royalties, customized software development fees and subscription fees.

<sup>(2)</sup> Consists primarily of third party content costs and customized software development expenses.

<sup>(3)</sup> Consist primarily of depreciation and amortization, stock-based compensation expense and other non-cash items.

**Non-GAAP metrics for the Advertising segment and the combined Automotive and Mobile Navigation segments**

	<b>Three Months Ended December 31, 2016</b>					
	<b>GAAP Consolidated</b>	<b>Non-GAAP Consolidated</b>	<b>Non-GAAP Advertising</b>	<b>Automotive <sup>(1)</sup></b>	<b>Mobile Navigation <sup>(1)</sup></b>	<b>Total Non-GAAP Automotive and Mobile Navigation <sup>(1)</sup></b>
Revenue	\$ 52,001		\$ 8,208	\$ 38,744	\$ 5,049	\$ 43,793
Cost of revenue	28,727		3,919	23,438	1,370	24,808
Gross profit	23,274		4,289	<u>\$ 15,306</u>	<u>\$ 3,679</u>	18,985
Operating expenses:						
Research and development	16,301		1,235 <sup>(2)</sup>			15,066
Sales and marketing	5,277		2,568 <sup>(2)</sup>			2,709
General and administrative	6,872		410 <sup>(3)</sup>			6,462
Legal settlement and contingencies	6,424		— <sup>(4)</sup>			6,424
Total operating expenses	<u>34,874</u>		<u>4,213</u>			<u>30,661</u>
Income (loss) from operations	(11,600)		76			(11,676)
Other income (expense), net	714		— <sup>(5)</sup>			714
Income (loss) before provision for income taxes	(10,886)		76			(10,962)
Provision for income taxes	537		— <sup>(6)</sup>			537
Net income (loss)	<u>\$ (11,423)</u>	<u>\$ (11,423)</u>	<u>\$ 76</u>			<u>\$ (11,499)</u>
Adjustments:						
Legal settlement and contingencies		6,424	— <sup>(4)</sup>			6,424
Stock-based compensation expense		1,988	286 <sup>(2)</sup>			1,702
Depreciation and amortization expense		623	51 <sup>(2)</sup>			572
Other income (expense), net		(714)	— <sup>(5)</sup>			(714)
Provision for income taxes		537	— <sup>(6)</sup>			537
Adjusted EBITDA		<u>\$ (2,565)</u>	<u>\$ 413</u>			<u>\$ (2,978)</u>
Change in deferred revenue		7,686	—			7,686
Change in deferred costs <sup>(7)</sup>		(3,847)	—			(3,847)
Adjusted EBITDA on billings <sup>(7)</sup>		<u>\$ 1,274</u>	<u>\$ 413</u>			<u>\$ 861</u>

<sup>(1)</sup> Automotive and mobile navigation segments share many of the same technologies and resources. Accordingly, we are unable to allocate the operating expenses, other income (expense), net and provision (benefit) for income taxes to one segment versus the other.

For purposes of calculating the Non-GAAP net loss attributable to the advertising segment:

<sup>(2)</sup> These expenses represent costs directly attributable to the advertising segment.

<sup>(3)</sup> These expenses represent actual general and administrative costs directly attributable to the advertising segment as well as an allocation of certain shared corporate costs that directly benefit the advertising segment such as accounting and human resource services.

<sup>(4)</sup> Legal settlement and contingencies are not related to the advertising segment.

<sup>(5)</sup> Expenses or income cannot be directly allocated to the advertising segment.

<sup>(6)</sup> Income taxes are primarily from foreign operations which support the automotive and mobile navigation segments.

<sup>(7)</sup> We expect to incur additional costs in the future due to requirements to provide ongoing provisioning of services such as hosting, monitoring and customer support. Accordingly, adjusted EBITDA on billings does not reflect all costs associated with billings.

**Non-GAAP metrics for the Advertising segment and the combined Automotive and Mobile Navigation segments**

	Three Months Ended December 31, 2015					
	GAAP Consolidated	Non-GAAP Consolidated	Non-GAAP Advertising	Automotive <sup>(1)</sup>	Mobile Navigation <sup>(1)</sup>	Total Non-GAAP Automotive and Mobile Navigation <sup>(1)</sup>
Revenue	\$ 45,253		\$ 6,688	\$ 31,846	\$ 6,719	\$ 38,565
Cost of revenue	24,532		3,755	18,931	1,846	20,777
Gross profit	20,721		2,933	<u>\$ 12,915</u>	<u>\$ 4,873</u>	17,788
Operating expenses:						
Research and development	16,653		1,051 <sup>(2)</sup>			15,602
Sales and marketing	6,524		3,661 <sup>(2)</sup>			2,863
General and administrative	5,094		503 <sup>(3)</sup>			4,591
Legal settlement and contingencies	750		— <sup>(4)</sup>			750
Restructuring	(1,468)		(375) <sup>(2)</sup>			(1,093)
Total operating expenses	<u>27,553</u>		<u>4,840</u>			<u>22,713</u>
Loss from operations	(6,832)		(1,907)			(4,925)
Other income (expense), net	520		— <sup>(5)</sup>			520
Loss before provision for income taxes	(6,312)		(1,907)			(4,405)
Provision for income taxes	327		— <sup>(6)</sup>			327
Net loss	<u>\$ (6,639)</u>	<u>\$ (6,639)</u>	<u>\$ (1,907)</u>			<u>\$ (4,732)</u>
Adjustments:						
Legal settlement and contingencies		750	— <sup>(4)</sup>			750
Stock-based compensation expense		3,180	337 <sup>(2)</sup>			2,843
Restructuring		(1,468)	(375) <sup>(2)</sup>			(1,093)
Deferred rent reversal due to lease termination		(621)	(159) <sup>(2)</sup>			(462)
Depreciation and amortization expense		847	203 <sup>(2)</sup>			644
Other income (expense), net		(520)	— <sup>(5)</sup>			(520)
Provision for income taxes		327	— <sup>(6)</sup>			327
Adjusted EBITDA		<u>\$ (4,144)</u>	<u>\$ (1,901)</u>			<u>\$ (2,243)</u>
Change in deferred revenue		3,182	—			3,182
Change in deferred costs <sup>(7)</sup>		(1,629)	—			(1,629)
Adjusted EBITDA on billings <sup>(7)</sup>		<u>\$ (2,591)</u>	<u>\$ (1,901)</u>			<u>\$ (690)</u>

<sup>(1)</sup> Automotive and mobile navigation segments share many of the same technologies and resources. Accordingly, we are unable to allocate the operating expenses, other income (expense), net and provision (benefit) for income taxes to one segment versus the other.

For purposes of calculating the Non-GAAP net loss attributable to the advertising segment :

<sup>(2)</sup> These expenses represent costs directly attributable to the advertising segment.

<sup>(3)</sup> These expenses represent actual general and administrative costs directly attributable to the advertising segment as well as an allocation of certain shared corporate costs that directly benefit the advertising segment such as accounting and human resource services.

<sup>(4)</sup> Legal settlement and contingencies are not related to the advertising segment.

<sup>(5)</sup> Expenses or income cannot be directly allocated to the advertising segment.

<sup>(6)</sup> Income taxes are primarily from foreign operations which support the automotive and mobile navigation segments.

<sup>(7)</sup> We expect to incur additional costs in the future due to requirements to provide ongoing provisioning of services such as hosting, monitoring and customer support. Accordingly, adjusted EBITDA on billings does not reflect all costs associated with billings.

**Non-GAAP metrics for the Advertising segment and the combined Automotive and Mobile Navigation segments**

	Six Months Ended December 31, 2016					Total Non-GAAP Automotive and Mobile Navigation (1)
	GAAP Consolidated	Non-GAAP Consolidated	Non-GAAP Advertising	Automotive (1)	Mobile Navigation (1)	
Revenue	\$ 94,228		\$ 14,753	\$ 69,011	\$ 10,464	\$ 79,475
Cost of revenue	52,203		7,445	41,983	2,775	44,758
Gross profit	42,025		7,308	27,028	7,689	34,717
Operating expenses:						
Research and development	34,319		2,408 (2)			31,911
Sales and marketing	10,545		5,038 (2)			5,507
General and administrative	12,363		873 (3)			11,490
Legal settlement and contingencies	6,424		— (4)			6,424
Total operating expenses	63,651		8,319			55,332
Loss from operations	(21,626)		(1,011)			(20,615)
Other income (expense), net	1,010		— (5)			1,010
Loss before provision for income taxes	(20,616)		(1,011)			(19,605)
Provision for income taxes	142		— (6)			142
Net loss	\$ (20,758)	\$ (20,758)	\$ (1,011)			\$ (19,747)
Adjustments:						
Legal settlement and contingencies		6,424	— (4)			6,424
Stock-based compensation expense		4,529	485 (2)			4,044
Depreciation and amortization expense		1,260	103 (2)			1,157
Other income (expense), net		(1,010)	— (5)			(1,010)
Provision for income taxes		142	— (6)			142
Adjusted EBITDA		\$ (9,413)	\$ (423)			\$ (8,990)
Change in deferred revenue		12,728	—			12,728
Change in deferred costs (7)		(6,704)	—			(6,704)
Adjusted EBITDA on billings (7)		\$ (3,389)	\$ (423)			\$ (2,966)

(1) Automotive and mobile navigation segments share many of the same technologies and resources. Accordingly, we are unable to allocate the operating expenses, other income (expense), net and provision (benefit) for income taxes to one segment versus the other.

For purposes of calculating the Non-GAAP net loss attributable to the advertising segment:

(2) These expenses represent costs directly attributable to the advertising segment.

(3) These expenses represent actual general and administrative costs directly attributable to the advertising segment as well as an allocation of certain shared corporate costs that directly benefit the advertising segment such as accounting and human resource services.

(4) Legal settlement and contingencies are not related to the advertising segment.

(5) Expenses or income cannot be directly allocated to the advertising segment.

(6) Income taxes are primarily from foreign operations which support the automotive and mobile navigation segments.

(7) We expect to incur additional costs in the future due to requirements to provide ongoing provisioning of services such as hosting, monitoring and customer support. Accordingly, adjusted EBITDA on billings does not reflect all costs associated with billings.

**Non-GAAP metrics for the Advertising segment and the combined Automotive and Mobile Navigation segments**

	Six Months Ended December 31, 2015					Total Non-GAAP Automotive and Mobile Navigation (1)
	GAAP Consolidated	Non-GAAP Consolidated	Non-GAAP Advertising	Automotive (1)	Mobile Navigation (1)	
Revenue	\$ 89,314		\$ 11,539	\$ 63,589	\$ 14,186	\$ 77,775
Cost of revenue	47,919		6,750	37,452	3,717	41,169
Gross profit	41,395		4,789	26,137	10,469	36,606
Operating expenses:						
Research and development	34,640		2,530 (2)			32,110
Sales and marketing	13,522		7,491 (2)			6,031
General and administrative	11,329		1,044 (3)			10,285
Legal settlement and contingencies	750		— (4)			750
Restructuring	(1,468)		(375) (2)			(1,093)
Total operating expenses	58,773		10,690			48,083
Loss from operations	(17,378)		(5,901)			(11,477)
Other income (expense), net	333		— (5)			333
Loss before provision for income taxes	(17,045)		(5,901)			(11,144)
Provision for income taxes	440		— (6)			440
Net loss	\$ (17,485)	\$ (17,485)	\$ (5,901)			\$ (11,584)
Adjustments:						
Legal settlement and contingencies		750	— (4)			750
Stock-based compensation expense		6,267	659 (2)			5,608
Restructuring		(1,468)	(375) (2)			(1,093)
Deferred rent reversal due to lease termination		(621)	(159) (2)			(462)
Depreciation and amortization expense		1,916	656 (2)			1,260
Other income (expense), net		(333)	— (5)			(333)
Provision for income taxes		440	— (6)			440
Adjusted EBITDA		\$ (10,534)	\$ (5,120)			\$ (5,414)
Change in deferred revenue		7,023	—			7,023
Change in deferred costs (7)		(4,302)	—			(4,302)
Adjusted EBITDA on billings (7)		\$ (7,813)	\$ (5,120)			\$ (2,693)

(1) Automotive and mobile navigation segments share many of the same technologies and resources. Accordingly, we are unable to allocate the operating expenses, other income (expense), net and provision (benefit) for income taxes to one segment versus the other.

For purposes of calculating the Non-GAAP net loss attributable to the advertising segment :

(2) These expenses represent costs directly attributable to the advertising segment.

(3) These expenses represent actual general and administrative costs directly attributable to the advertising segment as well as an allocation of certain shared corporate costs that directly benefit the advertising segment such as accounting and human resource services.

(4) Legal settlement and contingencies are not related to the advertising segment.

(5) Expenses or income cannot be directly allocated to the advertising segment.

(6) Income taxes are primarily from foreign operations which support the automotive and mobile navigation segments.

(7) We expect to incur additional costs in the future due to requirements to provide ongoing provisioning of services such as hosting, monitoring and customer support. Accordingly, adjusted EBITDA on billings does not reflect all costs associated with billings.



## **Key components of our results of operations**

### *Sources of revenue*

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

We report revenue, cost of revenue and gross profit results in three business segments: automotive, advertising and mobile navigation. Our chief executive officer, or CEO, the chief operating decision maker, reviews revenue and gross margin information for each of our reportable segments. See "*Results of operations*" and Note 10 to the condensed consolidated financial statements in this Form 10-Q for more information about our business segments.

Revenue from our automotive segment represented 73% and 71% of our revenue in the six months ended December 31, 2016 and 2015, respectively. Ford represented 69% and 68% of our revenue in the six months ended December 31, 2016 and 2015, respectively. Our contract with Ford expires in December 2017. The agreement may be renewed for successive 12-month periods if either party provides notice of renewal at least 45 days prior to the expiration of the applicable term, and the other party agrees to such renewal.

We provide primarily on-board automotive navigation solutions to Ford. Our on-board solutions consist of software, map and point of interest, or POI, data loaded in the vehicle that provides voice-guided turn by turn navigation displayed on the vehicle screen. We expect that vehicles featuring integration of our on-board and connected navigation solutions will be launched by GM in the next couple of months.

Our product revenue is primarily derived from Ford's SYNC 2 and SYNC 3 on-board solutions. We recognize as revenue royalties earned from our Ford SYNC 2 on-board solutions as the software is reproduced for installation in vehicles; however, we recognize revenue from Ford SYNC 3 primarily as our software is installed in the vehicle by Ford. Accordingly, the timing of our revenue recognition has changed during Ford's global transition from SYNC 2 to SYNC 3. We experienced a lower level of orders and revenue in the three months ended September 30, 2016 as Ford used its existing inventory of SYNC 2 product in conjunction with its transition to SYNC 3. We believe Ford fully transitioned to SYNC 3 in all regions as of December 31, 2016.

Ford Australia and New Zealand also offers a map update program, MapCare, as part of its SYNC 2 and SYNC 3 product distribution. Under this program, Ford owners in Australia and New Zealand with SYNC 2 or SYNC 3 are eligible to receive annual map updates at no additional cost during the contractual period. We earn an annual fee and a per unit fee for these updates. As our solutions encompass greater value-added services, such as Ford's MapCare program, there is potential for changes in the timing of revenue recognition. We anticipate that we will continue to depend on Ford for a material portion of our revenue for the foreseeable future. See "*Recent Developments - Ford MapCare*" for discussion about anticipated trends in automotive revenue.

We derive services revenue from our brought-in automotive navigation solutions. Billings for these services are recorded as deferred revenue and amortized to revenue over the estimated service periods. In January 2015, GM launched the new version of its OnStar RemoteLink mobile application powered by our location-based services platform. We earn a one-time royalty for each new vehicle owner who downloads the OnStar RemoteLink or associated branded application. In August 2015, Toyota began shipping vehicles enabled to connect with our Scout GPS Link mobile applications. In August 2016, we and the Lexus division of Toyota announced that Lexus will begin offering Scout GPS Link in certain of its Lexus models, and in September 2016, Lexus began shipping vehicles enabled to connect with our Scout GPS Link. We earn a one-time royalty for each new Toyota or Lexus sold and enabled with our Scout GPS Link. In January 2017, Telenav and Xevo, Inc. announced that Scout GPS Link and Xevo™ Engine Link were chosen to provide brought-in navigation services for select model year 2018 Toyota vehicles equipped with Entune 3.0, as well as certain Lexus vehicles. We do not expect to receive any revenue related to the agreement until fiscal 2018.

Revenue from our advertising segment, which includes the delivery of display, location-based ads, represented 16% and 13% of our revenue in the six months ended December 31, 2016 and 2015, respectively. Our advertising revenue is derived primarily from ad insertion orders contracted with advertising agencies, direct customers, and channel partners.

We also offer voice-guided, real-time, turn by turn, mobile navigation service under several brand names including Scout by Telenav and Telenav GPS as well as under wireless carrier brands (or "white label" brands). Revenue from our Mobile Navigation segment represented 11% and 16% of our revenue in the six months ended December 31, 2016 and 2015, respectively. Subscription fee revenue from our mobile navigation service has declined steadily from fiscal 2013 through the six

months ended December 31, 2016, primarily due to a substantial decrease in the number of paying subscribers for navigation services provided through AT&T and others, including Sprint Corporation, or Sprint, and T-Mobile USA, or T-Mobile. We anticipate that mobile navigation revenue will continue to decline.

AT&T represented less than 10% of our revenue in the six months ended December 31, 2016, and represented 10% of our revenue in the six months ended December 31, 2015. In March 2017, our agreement with AT&T will automatically renew through March 2018, pursuant to its existing terms, and that we will continue to be the exclusive provider of white label GPS navigation services to AT&T. AT&T is not required to offer our navigation services. We have seen substantial declines in the number of paying subscribers for our services through AT&T over the past few years and we expect the number of subscribers and related revenue to continue to decline substantially. In addition, as AT&T shifts the manner in which our applications are preloaded on AT&T devices to one where users are directed to an application store to load our applications on their own, the rate of decline in our revenue from AT&T may increase as those subscribers may then search for other alternatives.

We derive services revenue from our wireless carrier customers for their end users' subscriptions to our mobile navigation services. Our wireless carrier customers pay us based on several different revenue models, including (1) a revenue sharing arrangement that may include a minimum fee per end user, (2) a monthly or annual subscription fee per end user, or (3) based on usage. In general, our wireless carrier customers pay us a lower monthly fee per end user if an end user subscribes to our mobile navigation services as part of a bundle of mobile data or voice services than if an end user subscribes to our mobile navigation services on a standalone basis. We also offer our applications directly to end users through application stores such as the Apple Inc., or Apple, App Store and the Google Inc., or Google, Play marketplace.

For services that our subscribers purchase through our wireless carriers, our wireless carrier customers are responsible for billing and collecting the fees they charge their subscribers for the right to use our navigation services. When we are paid on a revenue sharing basis with our wireless carrier customers, the amount we receive varies depending on several factors, including the revenue share rate negotiated with the wireless carrier customer, the price charged to the subscriber by the wireless carrier customer, the specific sales channel of the wireless carrier customer in which the service is offered and the features and capability of the service. As a result of these factors, the amount we receive for a subscriber may vary considerably and is subject to change over time.

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

In fiscal 2017, we expect automotive and advertising revenue to represent the growing components of our revenue, but our expectations may not be realized. We expect that services revenue from wireless carrier customers, which has a higher gross margin than automotive and advertising revenue, will continue to decline substantially in fiscal 2017 due to the continued decline in the number of monthly recurring subscribers. See *"Recent Developments - Ford MapCare"* for discussion about anticipated trends in automotive revenue, gross profit and gross margin.

In the six months ended December 31, 2016 and 2015, we generated 88% and 97%, respectively, of our revenue in the United States. With respect to revenue we receive from automobile manufacturers and OEMs for sales of vehicles in other countries, we classify the majority of that revenue as being generated in the United States, because we provide deliverables to and receive compensation from the manufacturer's or OEM's United States' entity. It is possible that this classification may change in the future, as existing and new customers may elect to contract through subsidiaries. For example, in the three months ended September 30, 2016, Ford assigned certain contract rights for its production of vehicles with our SYNC 3 products to its joint venture in China.

As we continue to increase our offering of various on-board and brought-in solutions for automotive customers, it is likely that the complexity of various accounting rules and required criteria may make revenue recognition more challenging in the years to come. Consequently, we believe that billings, non-GAAP gross profit on billings, non-GAAP gross margin on billings, adjusted EBITDA and adjusted EBITDA on billings, in conjunction with revenue and deferred revenue will be important metrics to measure in assessing the growth and health of the business. See *"Key operating and financial performance metrics"* for further discussion about these non-GAAP metrics.

### *Cost of revenue*

We classify our cost of revenue as either cost of product revenue or cost of services revenue. Cost of product revenue consists primarily of the cost of third party content we incur in providing our on-board automotive navigation solutions and recognition of deferred development costs. Cost of services revenue consists primarily of the costs associated with third party content, third party exchange ad inventory, data center operations and outsourced hosting services, customer support, stock-based compensation and amortization of developed technology that we incur in providing our navigation and advertising network services.

We also capitalize and defer recognition of certain licensed map and POI content costs from third parties in a manner similar to deferred revenue for our on-board and brought-in automotive solutions, and we recognize these deferred costs over the requisite service period. As the deferred revenue and related deferred costs are recognized as the underlying services are provided, we will also incur ongoing costs of revenue for network operations, hosting and data center, and customer service support over time.

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

The largest component of cost of revenue as it relates to our advertising business is the cost of location-based, third party advertising inventory which we acquire from advertising exchanges. Other notable costs of our advertising business are the cost of technologies that we license to deliver customized solutions, costs of ad delivery via contracted hosted relationships and the cost of our advertising operations.

While we expect that our services revenue from wireless carrier customers will continue to decline substantially in fiscal 2017 and beyond, we do not expect to be able to reduce our cost of services revenue at the same rate, if at all, as the decline in services revenue. Although we successfully transitioned to utilizing Open Street Map, or OSM, content for the majority of our mobile user base resulting in notable cost savings, we expect to continue to incur significant costs, especially related to third party content as well as for outsourced hosting services. Cost of services revenue related to our advertising business will be impacted by our ability to grow advertising revenue, as well as the cost and availability of display ad inventory sourced from third party exchanges. See "*Recent Developments - Ford MapCare*" for discussion about anticipated trends in automotive revenue, gross profit and gross margin.

### *Operating expenses*

We classify our operating expenses into three categories: research and development, sales and marketing and general and administrative. Our operating expenses consist primarily of personnel costs, which include salaries, bonuses, advertising sales commissions, payroll taxes, employee benefit costs and stock-based compensation expense. Other expenses include marketing program costs, third party contractor and temporary staffing services, facilities-related costs including rent expense, legal, audit and tax consulting and other professional service fees. We allocate stock-based compensation expense resulting from the amortization of the fair value of stock-based awards granted, based on the department in which the award holder works. We allocate overhead, such as rent and depreciation, to each expense category based on headcount. We anticipate continued investment of resources, including the hiring of additional headcount in, or reallocation of employee personnel to automotive and advertising.

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

*Sales and marketing* . Sales and marketing expenses consist primarily of personnel costs for our sales and marketing staff, commissions earned by our sales personnel and the cost of marketing programs, advertising and promotional activities. Historically, a majority of our revenue has been derived from wireless carriers, which bore much of the expense of marketing and promoting our services to their subscribers, as well as consumers acquired through open market application stores. More recently, automotive revenue has comprised the largest portion of our revenue and automotive and advertising revenue have

represented the growing components of our revenue. Our sales and marketing activities supporting our automotive navigation solutions include the costs of our business development efforts. Our automotive manufacturer partners and OEMs also provide primary marketing for our on-board and brought-in navigation services.

*General and administrative* . General and administrative expenses consist primarily of personnel costs for our executive, finance, legal, human resources and administrative personnel, legal, audit and tax consulting and other professional services and corporate expenses. With our recent settlement of the Vehicle IP case, we anticipate that reduced legal expenses will drive decreased general and administrative expenses during the second half of fiscal 2017. We may also be required to pay judgments, indemnification claims or other amounts, which we are unable to predict or estimate at this time.

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

*Provision (benefit) for income taxes* . Our provision (benefit) for income taxes primarily consists of corporate income taxes related to profits earned in foreign jurisdictions, foreign withholding taxes, and changes to our tax reserves. Our effective tax rate could fluctuate significantly from period to period, particularly in those periods in which we incur losses, due to our ability to benefit from the carryback of net operating losses within the carryback period and the available amount therein, if any. Furthermore, on a quarterly basis our tax rates can fluctuate and could be adversely affected by increases in nondeductible stock-based compensation or other nondeductible expenses, as well as changes in our tax reserves. Our effective tax rate could also fluctuate due to a change in our earnings or loss projections, changes in the valuation of our deferred tax assets or liabilities, or changes in tax laws, regulations, or accounting principles, as well as certain discrete items.

#### ***Critical accounting policies and estimates***

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

There have been no material changes in our critical accounting policies and estimates during the six months ended December 31, 2016 as compared to the critical accounting policies and estimates disclosed in Part II, Item 7 of our Annual Report on Form 10-K for fiscal 2016.

#### ***Recent Accounting Pronouncements***

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

### Results of operations

The following tables set forth our results of operations for the three and six months ended December 31, 2016 and 2015, as well as a percentage that each line item represents of our total revenue for those periods. The additional key metrics presented are used in addition to the financial measures reflected in the condensed consolidated statements of operations data to help us evaluate growth trends, establish budgets and measure the effectiveness of our sales and marketing efforts. The period to period comparison of financial results is not necessarily indicative of financial results to be achieved in future periods.

Consolidated Statements of Operations Data	Three Months Ended		Six Months Ended	
	December 31,		December 31,	
	2016	2015	2016	2015
	(in thousands)			
Revenue:				
Product	\$ 37,804	\$ 31,160	\$ 67,227	\$ 62,269
Services	14,197	14,093	27,001	27,045
Total revenue	52,001	45,253	94,228	89,314
Cost of revenue:				
Product	22,598	18,364	40,359	36,447
Services	6,129	6,168	11,844	11,472
Total cost of revenue	28,727	24,532	52,203	47,919
Gross profit	23,274	20,721	42,025	41,395
Operating expenses:				
Research and development	16,301	16,653	34,319	34,640
Sales and marketing	5,277	6,524	10,545	13,522
General and administrative	6,872	5,094	12,363	11,329
Legal settlement and contingencies	6,424	750	6,424	750
Restructuring	—	(1,468)	—	(1,468)
Total operating expenses	34,874	27,553	63,651	58,773
Loss from operations	(11,600)	(6,832)	(21,626)	(17,378)
Other income (expense), net	714	520	1,010	333
Loss before provision for income taxes	(10,886)	(6,312)	(20,616)	(17,045)
Provision for income taxes	537	327	142	440
Net loss	\$ (11,423)	\$ (6,639)	\$ (20,758)	\$ (17,485)

(as a percentage of revenue)

Revenue:				
Product	73 %	69 %	71 %	70 %
Services	27 %	31 %	29 %	30 %
Total revenue	100 %	100 %	100 %	100 %
Cost of revenue:				
Product	43 %	40 %	43 %	41 %
Services	12 %	14 %	13 %	13 %
Total cost of revenue	55 %	54 %	55 %	54 %
Gross profit	45 %	46 %	45 %	46 %
Operating expenses:				
Research and development	31 %	37 %	37 %	39 %
Sales and marketing	10 %	14 %	11 %	15 %
General and administrative	13 %	11 %	13 %	13 %
Legal settlement and contingencies	13 %	2 %	7 %	1 %
Restructuring	— %	(3)%	— %	(2)%
Total operating expenses	67 %	61 %	68 %	66 %
Loss from operations	(22)%	(15)%	(23)%	(20)%
Other income (expense), net	1 %	1 %	1 %	— %
Loss before provision for income taxes	(21)%	(14)%	(22)%	(20)%
Provision for income taxes	1 %	1 %	— %	— %
Net loss	(22)%	(15)%	(22)%	(20)%



*Comparison of the three and six months ended December 31, 2016 and 2015*

*Revenue, cost of revenue and gross profit .*

*Consolidated overview.* Product revenue increased 21% to \$37.8 million in the three months ended December 31, 2016 from \$31.2 million in the three months ended December 31, 2015 . Product revenue increased 8% to \$67.2 million in the six months ended December 31, 2016 from \$62.3 million in the six months ended December 31, 2015 . The increase in product revenue for the comparable three month period was due primarily to an increase in royalty revenue from automotive navigation solutions we provide for our automotive customers. The increase in product revenue for the comparable six month period was due primarily to an increase in royalty revenue from automotive navigation solutions we provide for our automotive customers, despite a decrease in royalty revenue during the three months ended September 30, 2016 resulting primarily from our Ford SYNC 2 on-board automotive solutions, as Ford used its existing inventory of SYNC 2 product in conjunction with its transition to SYNC 3. Services revenue was comparable at \$14.2 million in the three months ended December 31, 2016 and \$14.1 million in the three months ended December 31, 2015 . Services revenue was comparable at \$27.0 million in the six months ended December 31, 2016 and 2015 . Services revenue for the comparable three and six month periods reflects an increase in advertising revenue, partially offset by lower subscription fees resulting from decreases in the number of paying subscribers for mobile navigation services.

Our cost of product revenue increased 23% to \$22.6 million in the three months ended December 31, 2016 from \$18.4 million in the three months ended December 31, 2015 . Our cost of product revenue increased 11% to \$40.4 million in the six months ended December 31, 2016 from \$36.4 million in the six months ended December 31, 2015 . The increase in the comparable three and six month periods was due primarily to an increase in third party content costs associated with automotive navigation solutions, as our business continued to shift from deriving a majority of revenue from mobile navigation services to deriving a majority of revenue from automobile navigation products and services. Furthermore, cost of product revenue increased at a higher rate than product revenue due primarily to an increase in third party content costs associated with increased royalty revenue and a higher percentage of revenue from Ford on vehicles sold in Europe and China, which regions generally have higher associated content costs. Our cost of services revenue was comparable at \$6.1 million and \$6.2 million in the three months ended December 31, 2016 and 2015 , respectively. Our cost of services revenue increased 3% to \$11.8 million in the six months ended December 31, 2016 from \$11.5 million in the six months ended December 31, 2015 . The increase in the comparable three and six month periods was due primarily to an increase in cost of advertising revenue resulting from increases in third party ad exchange inventory costs and hosting services associated with the increased impressions delivered, partially offset by a decrease in cost of mobile navigation revenue associated with the decline in such revenue.

Our gross profit increased to \$23.3 million in the three months ended December 31, 2016 from \$20.7 million in the three months ended December 31, 2015 . Our gross profit increased to \$42.0 million in the six months ended December 31, 2016 from \$41.4 million in the six months ended December 31, 2015 . Our gross margin decreased to 45% in the three and six months ended December 31, 2016 from 46% in the three and six months ended December 31, 2015 . The decrease in gross margin for the comparable three and six month periods was due primarily to the increased proportion of revenue contributed from our on-board automotive navigation solutions provided to our automotive customers, which generally has higher associated costs and resulting lower gross margins than our mobile navigation services provided through our wireless carrier customers, partially offset by an increase in gross margin from our advertising services revenue. In addition, lower gross margin automotive revenue resulting from the absence of customized software development and map compilation revenue and a higher volume of low margin royalty revenue from SYNC 2 cards used for map updates during the three months ended September 30, 2016 contributed to the decrease in gross margin during the six months ended December 31, 2016 . See "*Recent Developments - Ford MapCare*" for discussion about anticipated trends in revenue, gross profit and gross margin.

*Revenue concentrations .* In the three months ended December 31, 2016 and 2015 , revenue from Ford represented 70% and 66% of our total revenue, respectively. In the six months ended December 31, 2016 and 2015 , revenue from Ford represented 69% and 68% of our total revenue, respectively. In addition, revenue from AT&T represented 10% of our total revenue for the three and six months ended December 31, 2015. Revenue from AT&T was less than 10% of revenue in the three and six months ended December 31, 2016 .

We primarily sell our services in the United States. In the three months ended December 31, 2016 and 2015 , revenue derived from U.S. sources represented 87% and 97% of our total revenue, respectively. In the six months ended December 31, 2016 and 2015 , revenue derived from U.S. sources represented 88% and 97% of our total revenue, respectively.

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2016	2015	2016	2015
<b>Revenue</b>				
Automotive	\$ 38,744	\$ 31,846	\$ 69,011	\$ 63,589
Advertising	8,208	6,688	14,753	11,539
Mobile Navigation	5,049	6,719	10,464	14,186
Total revenue	52,001	45,253	94,228	89,314
<b>Cost of revenue</b>				
Automotive	23,438	18,931	41,983	37,452
Advertising	3,919	3,755	7,445	6,750
Mobile Navigation	1,370	1,846	2,775	3,717
Total cost of revenue	28,727	24,532	52,203	47,919
<b>Gross profit</b>				
Automotive	15,306	12,915	27,028	26,137
Advertising	4,289	2,933	7,308	4,789
Mobile Navigation	3,679	4,873	7,689	10,469
Total gross profit	\$ 23,274	\$ 20,721	\$ 42,025	\$ 41,395
<b>Gross margin</b>				
Automotive	40%	41%	39%	41%
Advertising	52%	44%	50%	42%
Mobile Navigation	73%	73%	73%	74%
Total gross margin	45%	46%	45%	46%

*Automotive.* Automotive revenue increased 22% to \$38.7 million in the three months ended December 31, 2016 from \$31.8 million in the three months ended December 31, 2015. Automotive revenue increased 9% to \$69.0 million in the six months ended December 31, 2016 from \$63.6 million in the six months ended December 31, 2015. The increase in the comparable three month period was due primarily to an increase in production royalty revenue of \$7.1 million. The increase in the comparable six month period was due primarily to an increase in production royalty revenue of \$5.9 million, which was net of a decrease in royalty revenue in the three months ended September 30, 2016 resulting primarily from Ford's use of its existing inventory of SYNC 2 product in conjunction with its transition to SYNC 3. Automotive revenue included customized software development and map compilation revenue of \$0.6 million and \$0.7 million in the three months ended December 31, 2016 and 2015, respectively, and \$0.6 million and \$1.0 million in the six months ended December 31, 2016 and 2015, respectively. In addition, during the six months ended December 31, 2016, our automotive deferred revenue increased \$7.7 million primarily related to royalties from GM's OnStar RemoteLink and associated MyBrand applications, the Ford Australia and New Zealand SYNC 2 map update program and Toyota's Entune Audio Plus product. We experienced a lag in revenue as Ford utilized its SYNC 2 inventory and transitioned to SYNC 3 in various geographies during the three months ended September 30, 2016. For SYNC 3, we recognize revenue primarily when our software is installed in the vehicle, as compared to SYNC 2 for which we recognize revenue as the software is reproduced for installation in vehicles. We believe Ford fully transitioned to SYNC 3 in all regions as of December 31, 2016. Automotive revenue represented 74% and 70% of total revenue in the three months ended December 31, 2016 and 2015, respectively, and 73% and 71% of total revenue in the six months ended December 31, 2016 and 2015, respectively.

Cost of automotive revenue increased 24% to \$23.4 million in the three months ended December 31, 2016 from \$18.9 million in the three months ended December 31, 2015. Cost of automotive revenue increased 12% to \$42.0 million in the six months ended December 31, 2016 from \$37.5 million in the six months ended December 31, 2015. The increase in the comparable three and six month periods was due primarily to an increase in third party content costs of \$4.5 million and \$4.5 million, respectively, associated with the increased royalty revenue and mix of revenue from Ford on vehicles sold in Europe and China, which regions generally have higher associated content costs.



Automotive gross profit increased 19% to \$15.3 million in the three months ended December 31, 2016 from \$12.9 million in the three months ended December 31, 2015. Automotive gross profit increased 3% to \$27.0 million in the six months ended December 31, 2016 from \$26.1 million in the six months ended December 31, 2015. Automotive gross margin decreased to 40% in the three months ended December 31, 2016 from 41% in the three months ended December 31, 2015, and decreased to 39% in the six months ended December 31, 2016 from 41% in the six months ended December 31, 2015. The decrease in gross margin for the comparable periods was due primarily to the higher proportion of revenue from vehicles sold in Europe and China, which generally has higher associated content costs. The decrease in the comparable six month period was further impacted by an increase in royalty revenue during the three months ended September 30, 2016 from SYNC 2 replacement SD cards for updating maps, which has a lower gross margin than our on-board and brought-in automotive solutions. See "*Recent Developments - Ford MapCare*" for discussion about anticipated trends in revenue, gross profit and gross margin.

*Advertising*. Advertising revenue increased 23% to \$8.2 million in the three months ended December 31, 2016 from \$6.7 million in the three months ended December 31, 2015. Advertising revenue increased 28% to \$14.8 million in the six months ended December 31, 2016 from \$11.5 million in the six months ended December 31, 2015. The increase in the comparable three and six month periods was due primarily to an increase in the value of contracted insertion orders along with the number of impressions delivered. Advertising revenue represented 16% and 15% of total revenue in the three months ended December 31, 2016 and 2015, respectively, and represented 16% and 13% of total revenue in the six months ended December 31, 2016 and 2015, respectively.

Cost of advertising revenue increased 4% to \$3.9 million in the three months ended December 31, 2016 from \$3.8 million in the three months ended December 31, 2015. Cost of advertising revenue increased 10% to \$7.4 million in the six months ended December 31, 2016 from \$6.8 million in the six months ended December 31, 2015. The increase in the comparable three and six month periods was due primarily to increased third party ad exchange inventory costs of \$0.4 million and \$1.5 million, respectively. In addition, the increase in the comparable six month period was partially offset by a decrease in amortization of intangible assets of \$0.5 million as our acquired intangibles became fully amortized during the three months ended December 31, 2015. Our costs of advertising revenue increased at a lower rate than our advertising revenue due primarily to our improved ability to acquire high performing inventory that meets our customers' requirements at a lower effective cost per thousand impressions, or eCPM.

Advertising gross profit increased 46% to \$4.3 million in the three months ended December 31, 2016 from \$2.9 million in the three months ended December 31, 2015. Advertising gross profit increased 53% to \$7.3 million in the six months ended December 31, 2016 from \$4.8 million in the six months ended December 31, 2015. Advertising gross margin increased to 52% in the three months ended December 31, 2016 from 44% in the three months ended December 31, 2015, and increased to 50% in the six months ended December 31, 2016 from 42% in the six months ended December 31, 2015. The increase in gross margin in the comparable three and six month periods was due primarily to the increased value of contracted insertion orders, combined with a lower inventory eCPM.

*Mobile Navigation*. Mobile navigation revenue decreased 25% to \$5.0 million in the three months ended December 31, 2016 from \$6.7 million in the three months ended December 31, 2015. Mobile navigation revenue decreased 26% to \$10.5 million in the six months ended December 31, 2016 from \$14.2 million in the six months ended December 31, 2015. The decrease in the comparable three and six month periods was due primarily to lower subscription revenue resulting from decreases in the number of paying subscribers for mobile navigation services provided through AT&T, Sprint and T-Mobile and a decrease in mobile navigation revenue internationally. Mobile navigation revenue represented 10% and 15% of total revenue in the three months ended December 31, 2016 and 2015, respectively, and represented 11% and 16% of total revenue in the six months ended December 31, 2016 and 2015, respectively.

Cost of mobile navigation revenue decreased 26% to \$1.4 million in the three months ended December 31, 2016 from \$1.8 million in the three months ended December 31, 2015. Cost of mobile navigation revenue decreased 25% to \$2.8 million in the six months ended December 31, 2016 from \$3.7 million in the six months ended December 31, 2015. The decrease in the comparable three month period was due primarily to decreases in data center and hosted services costs of \$0.2 million, third party content costs of \$0.1 million and payroll and related compensation and benefits of \$0.1 million. The decrease in the comparable six month period was due primarily to decreases in data center and hosted services costs of \$0.4 million, third party content costs of \$0.2 million and payroll and related compensation and benefits of \$0.2 million.

Mobile navigation gross profit decreased 25% to \$3.7 million in the three months ended December 31, 2016 from \$4.9 million in the three months ended December 31, 2015. Mobile navigation gross profit decreased 27% to \$7.7 million in the six months ended December 31, 2016 from \$10.5 million in the six months ended December 31, 2015. Mobile navigation gross margin was comparable at 73% in each of the three months ended December 31, 2016 and 2015, respectively, and

73% and 74% in the six months ended December 31, 2016 and 2015, respectively. The relatively consistent margins reflect the net impact of lower revenue levels, offset by the lower cost from our successful transition to utilizing OSM maps for the majority of our mobile user base.

*Operating expenses*

*Research and development.* Our research and development expenses decreased 2% to \$16.3 million in the three months ended December 31, 2016 from \$16.7 million in the three months ended December 31, 2015. Our research and development expenses decreased 1% to \$34.3 million in the six months ended December 31, 2016 from \$34.6 million in the six months ended December 31, 2015. The decrease in the comparable three month period was due primarily to an increase in deferred customized software development costs of \$1.0 million and a decrease in stock-based compensation of \$0.9 million due primarily to the cancellation of performance-based stock awards for which the performance condition was not met, partially offset by increases of \$1.3 million in payroll and related compensation and benefits expense and \$0.2 million in recruiting and training expense. Research and development expenses in the comparable six month period decreased due primarily to an increase in deferred customized software development costs of \$1.1 million and a decrease in stock-based compensation of \$0.8 million due primarily to the cancellation of performance-based stock awards for which the performance conditions were not met, partially offset by increases of \$1.1 million in payroll and related compensation and benefits expense, \$0.2 million in recruiting and training expense and \$0.2 million in outside services. As a percentage of revenue, research and development expenses decreased to 31% in the three months ended December 31, 2016 from 37% in the three months ended December 31, 2015, and decreased to 37% in the six months ended December 31, 2016 from 39% in the six months ended December 31, 2015. The total number of research and development personnel increased 20% to 512 at December 31, 2016 from 428 at December 31, 2015, as headcount increased in our lower cost locations. We believe that as we deliver our contracted customer requirements for our automotive customers, establish relationships with new automotive manufacturers and OEMs, enhance our service offerings around our OSM capabilities, and develop new products and services for advertisers, revenue from those research and development efforts will lag the related expenses.

*Sales and marketing.* Our sales and marketing expenses decreased 19% to \$5.3 million in the three months ended December 31, 2016 from \$6.5 million in the three months ended December 31, 2015. Our sales and marketing expenses decreased 22% to \$10.5 million in the six months ended December 31, 2016 from \$13.5 million in the six months ended December 31, 2015. The decrease in the comparable three month period was due primarily to decreases in payroll and related compensation and benefits expense of \$0.4 million, stock-based compensation expense of \$0.3 million and commission expense of \$0.2 million resulting from lower headcount in our advertising business unit. The decrease in the comparable six month period was due primarily to decreases in payroll and related compensation and benefits expense of \$1.2 million, stock-based compensation expense of \$0.6 million, advertising and promotion of \$0.3 million, commission expense of \$0.3 million and travel and entertainment of \$0.3 million resulting from lower headcount in our advertising business unit. As a percentage of revenue, sales and marketing expenses decreased to 10% in the three months ended December 31, 2016 from 14% in the three months ended December 31, 2015, and decreased to 11% in the six months ended December 31, 2016 from 15% in the six months ended December 31, 2015. The total number of sales and marketing personnel decreased 20% to 57 at December 31, 2016 from 71 at December 31, 2015.

*General and administrative.* Our general and administrative expenses increased 35% to \$6.9 million in the three months ended December 31, 2016 from \$5.1 million in the three months ended December 31, 2015. Our general and administrative expenses increased 9% to \$12.4 million in the six months ended December 31, 2016 from \$11.3 million in the six months ended December 31, 2015. The increase in the comparable three month period was due primarily to increases in legal expense of \$1.1 million, payroll and related compensation and benefits expense of \$0.3 million and rent expense of \$0.2 million due to the reversal of deferred rent associated with our facility lease termination in the prior year period. The increase in the comparable six month period was due primarily to increases in legal expense of \$0.9 million and rent expense of \$0.2 million due to the reversal of deferred rent associated with our facility lease termination in the prior year period, partially offset by decreases in stock-based compensation expense of \$0.2 million and payroll and related compensation and benefits expense of \$0.1 million. As a percentage of revenue, general and administrative expenses increased to 13% in the three months ended December 31, 2016 from 11% in the three months ended December 31, 2015, and were comparable at 13% in the six months ended December 31, 2016 and 2015. The total number of general and administrative personnel was 58 at December 31, 2016 and 2015.

*Legal settlement and contingencies.* Legal settlement and contingencies expense increased to \$6.4 million in the three and six months ended December 31, 2016 from \$0.8 million in the three and six months ended December 31, 2015. Legal settlement and contingencies expense includes the portion of our \$8.0 million settlement with Vehicle IP in January 2017 that was not previously accrued. Of the \$8.0 million total settlement expense, \$0.9 million was previously accrued in fiscal 2016. Legal settlement and contingencies expense in the three and six months ended December 31, 2016 also reflects the reversal of

an accrued liability of \$0.7 million previously expensed related to other ongoing indemnification matters, which were also resolved in January 2017.

*Restructuring* . The three and six months ended December 31, 2015 reflect the reversal of a \$1.5 million restructuring accrual related to our former Sunnyvale, California facility, as this amount represented the fair value of our lease obligation from April 2016 through November 2019 that is no longer payable in connection with our office lease termination agreement.

*Other income (expense), net* . Our other income (expense), net increased to \$0.7 million in the three months ended December 31, 2016 compared to \$0.5 million in the three months ended December 31, 2015 . Our other income (expense), net increased to \$1.0 million in the six months ended December 31, 2016 compared to \$0.3 million in the six months ended December 31, 2015 . The increase in the comparable three and six month periods was due primarily to foreign exchange gains.

*Provision (benefit) for income taxes* . Our provision (benefit) for income taxes was \$0.5 million in the three months ended December 31, 2016 compared to \$0.3 million in the three months ended December 31, 2015 . Our provision for income taxes was \$0.1 million in the six months ended December 31, 2016 compared to \$0.4 million in the six months ended December 31, 2015 . In July 2016, the state of New York completed its audit of our income tax returns for fiscal 2010 through fiscal 2012. We paid \$0.4 million to settle the audit and recorded a tax benefit of \$1.0 million in July 2016 to reverse the remaining related tax reserves. Our provision for income taxes of \$0.1 million for the six months ended December 31, 2016 was comprised primarily of foreign withholding taxes on revenue generated in China and foreign taxes, partially offset by the aforementioned \$1.0 million reversal of tax reserves. Our effective tax rate was 1% in the six months ended December 31, 2016 compared to an effective tax rate of 1% in the six months ended December 31, 2015 . Our effective tax rate of 1% and 1% for the six months ended December 31, 2016 and 2015 , respectively, was less than the tax amount computed at the U.S. federal statutory income tax rate due primarily to losses for which no benefit will be recognized since they are not more likely than not to be realized due to the lack of current and future income and the inability to carry back losses within the two year carryback period.

We anticipate that our foreign tax withholding obligation will continue into the future and that we will not be able to benefit from an offsetting deduction in the United States for an extended period of time given our existing NOL carryforwards and, accordingly, we have negotiated a price adjustment with a major customer.

We record liabilities related to uncertain tax positions in accordance with authoritative guidance on accounting for uncertainty in income taxes. As of December 31, 2016 and June 30, 2016, our cumulative unrecognized tax benefits were \$5.5 million and \$6.7 million , respectively. Included in the balance of unrecognized tax benefits at December 31, 2016 and June 30, 2016 was \$0.5 million and \$1.6 million , respectively, that if recognized, would affect the effective tax rate.

We recognize interest and penalties related to unrecognized tax benefits as part of our provision for income taxes. We accrued \$0.3 million and \$0.6 million for the payment of interest and penalties at December 31, 2016 and June 30, 2016, respectively.

We file income tax returns with the Internal Revenue Service, or IRS, California, various states and foreign tax jurisdictions in which we have subsidiaries. The statute of limitations remains open for fiscal 2012 through fiscal 2016 in the United States, for fiscal 2012 through fiscal 2016 in state jurisdictions, and for fiscal 2011 through fiscal 2016 in foreign jurisdictions. Fiscal years outside the normal statute of limitations remain open to audit by tax authorities due to tax attributes generated in those early years which have been carried forward and may be audited in subsequent years when utilized.

Due to operating losses in previous years and continued earnings volatility, we maintain a valuation allowance on the majority of our foreign deferred tax assets. Our valuation allowance at June 30, 2016 was \$29.8 million . In evaluating our ability to recover our deferred tax assets each quarter, we consider all available positive and negative evidence, including current and previous operating results, ability to carryback losses for a tax refund, and forecasts of future operating results.

**Liquidity and capital resources**

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

	Six Months Ended	
	December 31,	
	2016	2015
Net cash used in operating activities	\$ (2,899)	\$ (6,662)
Net cash provided by investing activities	1,319	2,055
Net cash used in financing activities	(1,479)	(1,445)
Effect of exchange rate changes on cash and cash equivalents	(596)	(576)
Net decrease in cash and cash equivalents	\$ (3,655)	\$ (6,628)

At December 31, 2016, we had cash, cash equivalents and short-term investments of \$103.7 million, which primarily consisted of corporate bonds, asset-backed securities, municipal securities, U.S. agency securities, commercial paper and money market mutual funds held. Our cash, cash equivalents and short-term investments are held and managed by financial institutions that are required to adhere to our investment policy.

Our accounts receivable are heavily concentrated in a small number of customers. As of December 31, 2016, our accounts receivable balance was \$47.8 million, of which Ford represented 61%.

Our future capital requirements will depend on many factors, including our ability to continue to increase our revenue and control expenses in fiscal 2017 and beyond, whether we return to profitability, the timing and extent of expenditures to support development efforts, the expansion of research and development and sales and marketing activities and headcount, the introduction of our new and enhanced service and product offerings and the timing and scale of the introduction of vehicles including our navigation products relative to when we are required to develop the product. We believe our cash, cash equivalents and short-term investments will be sufficient to satisfy our financial obligations through at least the next 12 months. However, we expect to use cash in operating activities in fiscal 2017 and possibly beyond, and we may experience greater than expected cash usage in operating activities if revenue is lower than we anticipate or we incur greater than expected cost of revenue or operating expenses. Our revenue and operating results could be lower than we anticipate if, among other reasons, our customers, one of which we are substantially dependent upon for a large portion of our revenue, were to limit or terminate our relationships with them; we were to fail to successfully compete in our highly competitive market, including against competitors who offer their services for free; our revenue did not grow as expected or we were unable to reduce our costs by using OSM. In the future, we may acquire businesses or technologies or license technologies from third parties, and we may decide to raise additional capital through debt or equity financing to the extent we believe this is necessary to successfully complete these acquisitions or license these technologies. However, additional financing may not be available to us on favorable terms, if at all, at the time we make such determinations, which could have a material adverse effect on our business, operating results, financial condition and liquidity and cash position.

*Net cash used in operating activities.* Net cash used in operating activities was \$ 2.9 million and \$6.7 million in the six months ended December 31, 2016 and 2015, respectively. Cash provided by or used in operating activities is affected by changes in our declining mobile navigation end user base, anticipated growth in our auto and advertising businesses, and increases in our operating costs, which are primarily driven by headcount related costs and royalty payments for portions of the content provided in our products. In the six months ended December 31, 2016, cash used in operating activities was primarily the result of a net loss of \$20.8 million which was offset by non-cash charges for stock-based compensation of \$ 4.5 million, depreciation and amortization of \$ 1.3 million and \$ 11.7 million from changes in our operating assets and liabilities. In the six months ended December 31, 2015, cash used in operating activities was primarily the result of a net loss of \$17.5 million which was offset by non-cash charges for depreciation and amortization of \$1.9 million, stock-based compensation of \$6.3 million, accretion of net premium on short-term investments of \$0.4 million and \$1.7 million from changes in our operating assets and liabilities.

*Net cash provided by investing activities.* Our investing activities provided \$ 1.3 million and \$ 2.1 million during the six months ended December 31, 2016 and 2015, respectively. Cash flows from investing activities have historically been affected by purchases, sales and maturities of short-term investments, purchases of property and equipment, internal software development costs, and acquisitions. In the six months ended December 31, 2016, cash provided by investing activities was principally the result of proceeds from sales and maturities of short-term investments, net of purchases, of \$1.6 million. In the six months ended December 31, 2015, cash provided by investing activities was principally the result of proceeds from sales and maturities of short-term investments, net of purchases, of \$2.4 million.

*Net cash used in financing activities* . During the six months ended December 31, 2016 and 2015 , our financing activities used cash of \$ 1.5 million and \$ 1.4 million , respectively. In the six months ended December 31, 2016 , we utilized \$1.6 million for payment of tax withholdings related to net share settlements of RSUs. In the six months ended December 31, 2015, we utilized \$0.6 million of cash to repurchase our common stock and \$1.8 million for payment of tax withholdings related to net share settlements of RSUs, partially offset by proceeds of \$0.9 million provided from the exercise of stock options.

#### ***Off-balance sheet arrangements***

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

#### ***Contractual obligations, commitments and contingencies***

As of December 31, 2016 , we had an aggregate of \$18.5 million of future minimum noncancelable financial commitments primarily related to office space under noncancelable operating leases and license fees due to certain of our third party content providers, regardless of usage level. The aggregate of \$18.5 million of future minimum commitments were comprised of \$3.9 million due in fiscal 2017; \$5.8 million due in fiscal 2018; \$3.9 million due in fiscal 2019; \$2.4 million due in fiscal 2020; \$2.0 million due in fiscal 2021; and \$0.5 million due thereafter.

In September 2015, we entered into an agreement with Ningbo Huazhong Holdings Company Limited, or Huazhong, a subsidiary of a publicly traded automotive OEM supplier in China, whereby we and Huazhong agreed to form a joint venture limited liability company in China for the development, manufacture and sale of auto entertainment systems. We did not make any capital contributions to the joint venture, and the joint venture was not formed. On January 31, 2017, we and Huazhong agreed not to form or fund the joint venture and the agreement was terminated.

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

*Interest rate sensitivity* . The primary objectives of our investment activities are to preserve principal, provide liquidity and maximize income without significantly increasing risk. By policy, we do not enter into investments for trading or speculative purposes. Some of the securities we invest in are subject to market risk. This means that a change in prevailing interest rates may cause the fair value of the investment to fluctuate. To minimize this risk, we invest in a variety of securities, which primarily consist of money market funds, commercial paper, municipal securities and other debt securities of domestic corporations. Due to the nature of these investments and relatively short duration of the underlying securities, we believe that we do not have any material exposure to changes in the fair value of our investment portfolio as a result of changes in interest rates. Declines in interest rates, however, will reduce future interest income. During the three months ended December 31, 2016 , a 10% appreciation or depreciation in overall interest rates would not have had a material impact on our interest income or the fair value of our marketable securities.

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

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

### **Item 4. Controls and Procedures.**

#### ***Evaluation of Disclosure Controls and Procedures***

Our management, with the participation of our CEO and our Chief Financial Officer, or CFO, evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2016 . The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods

specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of December 31, 2016, our CEO and CFO concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

***Changes in Internal Control Over Financial Reporting***

There were no changes in our internal control over financial reporting that occurred during the three months ended December 31, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

***Limitations on the Effectiveness of Controls***

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

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings.

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

On December 31, 2009, Vehicle IP filed a patent infringement lawsuit against us in the U.S. District Court for the District of Delaware, seeking monetary damages, fees and expenses and other relief. Verizon Wireless, or Verizon, was named as a co-defendant in the Vehicle IP litigation based on the VZ Navigator product and has demanded that we indemnify and defend Verizon against Vehicle IP. At this time, we have not agreed to defend or indemnify Verizon. AT&T was also named as a co-defendant in the Vehicle IP litigation based on the AT&T Navigator and Telenav Track products. AT&T tendered the defense of the litigation to us and we defended the case on behalf of AT&T. During fiscal 2016, we accrued \$850,000 related to this litigation. On January 12, 2017, we entered into a settlement and license agreement with Vehicle IP. In connection with the agreement, Telenav made a one-time payment of \$8.0 million and we recorded \$7.2 million of this amount as legal settlement and contingencies expense in our consolidated statement of operations in the three and six months ended December 31, 2016. On January 31, 2017, Vehicle IP's claims against Telenav and AT&T were dismissed. We are not obligated to make any future payments with respect to the settlement or license. We also will have no further obligation to indemnify AT&T with respect to the case.

On July 28, 2016, Nathan Gergetz filed a putative class action complaint in the U.S. District Court for the Northern District of California, alleging that Telenav violated the Telephone Consumer Protection Act, or TCPA. The complaint purports to be filed on behalf of a class, and it alleges that Telenav caused unsolicited text messages to be sent to the plaintiff from July 6, 2016 to July 26, 2016. Plaintiffs seek statutory and actual damages under the TCPA law, attorneys' fees and costs of the action, and an injunction to prevent any future violations. Telenav moved to dismiss the complaint on November 21, 2016, and that motion is scheduled for a hearing date of March 2, 2017. Due to the preliminary nature of this matter and uncertainties relating to litigation, we are unable at this time to estimate the effects of this lawsuit on our financial condition, results of operations, or cash flows.

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

In 2008, Alltel, AT&T, Sprint and T-Mobile each demanded that we indemnify and defend them against patent infringement lawsuits brought by patent holding companies EMSAT Advanced Geo-Location Technology LLC and Location Based Services LLC (collectively, EMSAT) in the U.S. District Court for the Northern District of Ohio. In March 2011, EMSAT and AT&T settled their claims. The U.S. Patent and Trademark Office, or PTO reexamined two of the patents in suit, confirming the validity of only two of the asserted claims from those patents. All patent claims that EMSAT alleged to be infringed by the Telenav GPS Navigator product were cancelled during reexamination. In the suits against T-Mobile, Alltel and Sprint, EMSAT amended its allegations to remove allegations of infringement of the patent claims that were cancelled during reexamination. EMSAT and T-Mobile stipulated to a dismissal and their case was dismissed on January 28, 2015. On March 20, 2015, the Court dismissed and closed the Alltel case and on April 10, 2015 the Court dismissed and closed the Sprint case. In January 2017, we resolved this indemnification dispute with AT&T. We do not anticipate any additional liability from this matter.

In March 2009, AT&T demanded that we indemnify and defend them against a patent infringement lawsuit brought by Tendler Cellular of Texas LLC, or Tendler, in the U.S. District Court for the Eastern District of Texas. In June 2010, AT&T settled its claims with Tendler and we came to an agreement with AT&T as to the extent of our contribution towards AT&T's settlement and the amount of our contribution was not material; however, Telenav and AT&T disagreed as to whether any

additional amounts were owed to AT&T for legal fees and expenses related to the defense of the matter. In January 2017, we resolved this indemnification dispute with AT&T. We do not anticipate any additional liability from this matter.

In connection with our resolution of certain indemnification disputes with AT&T in January 2017, we reversed a total accrued liability of \$726,000 previously expensed for these and other contingencies.

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

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



**Item 1A. Risk Factors.**

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

***Risk related to our business***

***We incurred losses in fiscal 2014, 2015 and 2016, and in the first six months of fiscal 2017. We expect that we will continue to incur losses in the remainder of fiscal 2017 and we do not know when, or if, we will return to profitability, as we make further expenditures to enhance and expand our operations in order to support growth and diversification of our business.***

As a percentage of revenue, our net loss was 22% and 20% in the six months ended December 31, 2016 and 2015, respectively. Our revenue from paid wireless carrier mobile navigation has substantially declined and we expect it to continue to do so. Our gross margin declined to 45% in the six months ended December 31, 2016 from 46% in the six months ended December 31, 2015 due primarily to the continuing increased proportion of product revenue contributed from our on-board automotive navigation solutions provided to our automotive customers and advertising services revenue, which generally have higher associated costs and resulting lower gross margins than our mobile navigation services provided through our wireless carrier customers. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Recent Developments - Ford MapCare" for discussion about anticipated trends in automotive revenue, gross profit and gross margin.

We anticipate that we will continue to incur net operating losses in fiscal 2017, as we anticipate increased expenditures to operate our business. These expected losses are also due to the expected continued decline in our higher margin mobile navigation revenue. Furthermore, the time required to develop, test and deploy products between the time we secured the award of a new contract with GM, and the timing of revenue thereunder, as well as a substantial required upfront investment in research and development resources for this new contract and contracts with other auto manufacturers and OEMs contribute to these expected losses. We also believe continued investments are necessary due to the early nature of our advertising business.

Although we are working to replace the continued decline in wireless carrier revenue, our efforts to develop new services and products and attract new customers require investments in anticipation of longer term revenue. For example, the design cycle for automotive navigation products and services is 18 to 24 months and in order to win designs and achieve revenue from this growth area, we typically have to make investments two to four years before we anticipate receiving revenue, if any. This is the case for our relationship with GM. In addition, the revenue commencement at initial launch may not be significant depending on the auto manufacturer's or OEM's launch timing schedule across vehicle models and regions. Once we are able to recognize revenue from new automotive products, we may be required to recognize that revenue over time if there are contractual service periods or other obligations to fulfill. Certain contractual service periods or other obligations currently extend up to ten years. We intend to make additional investments in systems and continue to expand our operations to support diversification of our business, but it is likely that these efforts at diversification will not replace our declining wireless carrier revenue in the short-term, if at all. As a result of these factors, we believe we will incur a net operating loss and that we will incur net losses at least through fiscal 2017 and we cannot predict when, or if, we will return to profitability. Our investments and expenditures may not result in the growth that we anticipate.

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

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

- the ability of automobile manufacturers to sell automobiles equipped with our products;
- the introduction of competitive in-car platforms and products, such as Apple's CarPlay and Google's auto initiatives;
- the recent demonstration by Google of in-car integration of Android Auto with Google Maps which did not require a mobile handset;
- investments made by HERE and TomTom in high definition maps that may be leveraged to displace Telenav at our current customers;
- changes made to existing contractual obligations with a customer that may affect the nature and timing of revenue recognition, such as the transition by Ford to its SYNC 3 platform, for which we have different revenue recognition

- criteria, or the adoption of MapCare services for Ford's Europe customers and its impact on the timing of our revenue recognition;
- the seasonality of new vehicle model introductions and consumer buying patterns, as well as the effects of economic uncertainty on vehicle purchases , particularly outside of the United States;
  - the effectiveness of our entry into new business areas, such as advertising;
  - the loss of our relationship, a change in our revenue model, or a change in pricing with any particular customer;
  - poor reviews of automotive service offerings into which our navigation solutions are integrated resulting in limited uptake of navigation options by car buyers;
  - warranty claims based on the performance of our products and the potential impact on our reputation with navigation users and automotive OEMs;
  - the timing and quality of information we receive from our customers;
  - the inability of our auto manufacturer customers to attract new end users;
  - the amount and timing of operating costs and capital expenditures related to the expansion of our operations and infrastructure through acquisitions or organic growth;
  - the timing of expenses related to the development or acquisition of technologies, products or businesses;
  - the cost and potential outcomes of existing and future litigation;
  - the timing and success of new product or service introductions by us or our competitors;
  - the timing and success of marketing expenditures for our products and services;
  - the extent of any interruption in our services;
  - potential foreign currency exchange gains and losses associated with expenses and sales denominated in currencies other than the U.S. dollar;
  - general economic, industry and market conditions that impact expenditures for new vehicles, smartphones and mobile location services in the United States and other countries where we sell our services and products;
  - changes in interest rates and our mix of investments, which would impact our return on our investments in cash and marketable securities;
  - changes in our effective tax rates; and
  - the impact of new accounting pronouncements such as ASC 606, Revenue Recognition.

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

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

Ford represented approximately 69% and 68% of our revenue in the six months ended December 31, 2016 and 2015 , respectively. We expect that Ford, other automobile manufacturers and OEMs will account for an increasing portion of our revenue, as our revenue from paid wireless carrier provided navigation continues to decline. However, our revenue could potentially decline if Ford increases the cost to consumers of our navigation product, reduces the number of vehicles or the geographies in which vehicles with our product as an option are sold, or its sales of vehicles fall below forecast due to competition or global macro-economic conditions. Ford recently announced that it would open its SYNC 3 product to Apple's CarPlay and Google's Android Auto, which may reduce the number of vehicle purchasers who purchase built-in navigation services. We may not successfully increase our revenue from Ford if our products are replaced within vehicles by Ford with our competitors' products or from price competition from third parties.

Our agreement with Ford expires in December 2017 and also allows either party to terminate the agreement if the other party is insolvent or materially breaches its obligations and fails to cure such breach. In the event that Ford does not elect to renew our contract after December 2017, or chooses to renegotiate our contract on less favorable terms, our revenue may decline and our business operating results and financial condition could be harmed. The agreement may be renewed for successive 12-month periods if either party provides notice of renewal at least 45 days prior to the expiration of the applicable term, and the other party agrees to such renewal.

We have limited experience managing, supporting and retaining automobile manufacturers and OEMs as customers and if we are not able to maintain Ford as a customer our revenue will decline.

***Our automotive revenue could fluctuate due to the complexities of revenue recognition.***

Due to the complexities of revenue recognition in accordance with GAAP, when and if we generate revenue we may be required to recognize certain revenue over extended periods. For example, our contractual arrangements with GM for its OnStar RemoteLink and associated MyBrand applications, Ford Australia and New Zealand for its map update program, and Toyota for its Entune Audio Plus and Lexus Display Audio multimedia equipped vehicles require that we defer revenue and recognize revenue over the term of the connected services or contractual obligation. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations - Recent Developments - Ford MapCare*" for discussion about anticipated trends in automotive revenue, gross profit and gross margin.

Revenue recognition could also be impacted by changes in procurement patterns, shipping terms and title transfer. For on-board automotive navigation, we recognize revenue as the related customized software is delivered to and accepted by our customers. In addition we recognize royalties earned from our on-board solutions. As our solutions encompass greater value-added services, there is potential for changes in the timing of revenue recognition.

In addition, given the length of our contractual obligations, which often extend beyond the manufacture and sale of the vehicle when the royalty is determined and paid, we may have significant post-production obligations to provide on-board services or other services such as map compilation over an extended period of time. Such extended obligations can result in a delay in recognition of revenue, or the need to defer and recognize revenue over an extended period of time.

We may also incur significant expense to develop products for automobile manufacturers, such as under our worldwide connected navigation services agreement with GM, without ever receiving any revenue related to the sale of vehicles with our navigation services. Our ability to attract automobile manufacturers may also be limited if the OEMs chosen to provide navigation services have existing relationships with other navigation vendors or provide their own solutions. As our offerings in automobile navigation expand to brought-in, as well as built-in, we may not correctly anticipate the financial accounting treatment for the various products. We could be required to amortize revenue from products over time although we previously recognized revenue for similar products when the applicable vehicle was sold.

***The China automotive market is subject to aggressive competition, which may reduce our revenue per vehicle as competitors reduce software license fees.***

Expanding our initial automotive entry in the Chinese market is a key component of our global growth strategy. The automotive software market in China is highly competitive. This competition comes from large international automotive software providers as well as domestic providers. The China navigation software market is seeing transition towards new business models by third party navigation product vendors, including substantially lower per unit license fees that are intended to be offset by opportunities to monetize navigation usage in additional ways that may include, but not be limited to, advertising, usage based insurance and utilizing data to create high definition maps. We may need to change or modify our license fee model in China in order to further compete effectively. Our inability to do so may have a material impact on our ability to expand into the China market. Even if we adopt new business models for licensing our software products to automobile manufacturers in China, we may not be able to recognize revenue from those new models sufficient to compensate us for the costs of supporting those automobile manufacturers in the short-term, if at all.

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

Although we have attempted to mitigate our dependence on Ford by establishing relationships with other automobile manufacturers and OEMs, these relationships may not produce significant revenue if the products are launched in limited models or due to competition from third parties. Even if we are able to diversify our automotive navigation business through new arrangements, such as our more recently established relationships with GM and Toyota, customers may not elect to purchase automobile manufacturer and OEM navigation offerings that include our software and/or services for reasons unrelated to performance of our software or services. If customer purchase rates are less than anticipated, we may be unable to effectively diversify our automotive navigation revenue and our business, financial condition and results of operations may be harmed.

We may be unable to enter into agreements to provide automobile navigation products if we do not offer navigation products that serve geographies throughout the world or automobile manufacturers and OEMs are uncomfortable with our ability to support markets outside of the United States. Our automobile manufacturer and OEM customers may choose to partner with providers of location services with extensive international operations. We may be at a disadvantage in attracting such customers due to our business being concentrated in the United States, and we may not be successful in other geographies if customers are uncomfortable with the look and feel of our solutions. If we are unable to attract or retain such automobile manufacturer and OEM customers, our revenue and operating results will be negatively affected.

***We may incur substantial costs when engaging with a new automotive navigation customer and may not realize substantial revenue from that new customer in the short-term, if at all.***

The design and sales cycle for on-board or brought-in automotive navigation services and products is substantially longer than those associated with our mobile navigation services to customers of wireless carriers or our advertising platform services. As a result, we may not be able to achieve significant revenue growth with new customers from the automotive navigation business in a short period of time, or at all. In addition, these lengthy cycles make it difficult to predict when we will generate revenue from new customers, if at all. For example, design wins for vehicles may be awarded 12 to 36 months prior to the anticipated commercial launch of the vehicle. Our relationship with GM includes brought-in services for vehicles and in January 2015 GM launched the new version of its OnStar RemoteLink mobile application, but we cannot assure you that the OnStar RemoteLink project will lead to us receiving significant revenue in the short-term, if at all. We also entered into a contract with GM to provide its worldwide connected navigation services beginning with select model year 2017 vehicles. We do not expect to receive any revenue from the launch of those vehicles until the second half of fiscal 2017, and in the course of the development of those vehicles we may be designed out altogether. We cannot assure you that when and if our products go into production and launch in GM vehicles and become available for sale, they will be in a wide variety of geographic markets in which GM sells vehicles in or across a variety of models and brands. GM has not provided us with any volume or revenue guarantees.

In July 2015, we and Toyota announced a partnership for brought-in navigation services where our Scout GPS Link is available in Entune Audio Plus equipped model year 2016 and later Toyota vehicles in the United States; and in August 2015, Toyota began shipping vehicles enabled to connect with our Scout GPS Link mobile application. On August 24, 2016, we and the Lexus division of Toyota announced that Lexus will begin offering Scout GPS Link in certain of its Lexus models, and in September 2016, Lexus began shipping vehicles enabled to connect with our Scout GPS Link. We cannot assure you that we will receive significant revenue from the Scout GPS Link project for Toyota in the long-term, if at all.

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

Our ability to build demand for our automobile navigation products is also dependent upon our ability to provide the products in a cost effective manner, which may require us to renegotiate map and POI content relationships to address the specific demands of on-board navigation applications.

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

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

***The advertising business is subject to seasonality, and we may not successfully grow our advertising revenue if we are unable to attract and retain advertisers.***

We believe the advertising business is subject to varying buying patterns and seasonality which can impact our ability to grow our revenue. For example, in the three months ended December 31, 2015, we experienced higher advertising revenue as the second quarter is traditionally stronger due to seasonality; however, advertising revenue subsequently declined sequentially in both the three months ended March 31, 2016 and June 30, 2016. Similarly, we experienced higher advertising revenue in our second quarter ended December 31, 2016.

In order to grow our advertising business, we need to identify and attract a significant number of advertisers through our Thinknear platform. The mobile advertising market is highly competitive, and advertisers have many options through which to purchase mobile advertising. Our business will require us to attract and retain a large number of advertisers and will also require us to maintain the ability to purchase a large volume of inventory at competitively attractive rates. Increased competition from other mobile advertising companies and technology developers could impair our ability to secure advertiser revenue. Increased competition could also limit our ability to purchase inventory for advertising placements at an economically attractive rate. We do not have substantial experience in selling advertising and supporting advertisers and may not be able to develop these capabilities successfully. We may not be successful recruiting the number of sales personnel we need to scale or effectively train them to sell mobile advertising. Sales personnel may also be slow to ramp up their sales pipelines, negatively impacting our ability to grow. We may not succeed in attracting and retaining a critical mass of advertisers and ad placements and may not be successful in demonstrating the value of mobile advertising. If we are unable to improve the margins of our advertising business, it may not become profitable and may impair our ability to become profitable as a whole and invest in new opportunities.

***Mobile connected device users may choose not to allow tracking of their location information and therefore local advertising may not be feasible on their devices.***

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

***Our legacy wireless carrier mobile navigation business is declining and may be eliminated altogether in the future. As it continues to decline, our revenue and net income or loss will continue to be adversely affected.***

We have historically been substantially dependent on two wireless carrier customers for a large portion of our revenue. Sprint ceased paying us for mobile navigation provided to its subscribers in bundles on September 30, 2013. Our other large wireless carrier customers have also experienced declines in monthly recurring revenue from subscriptions for mobile navigation. In the six months ended December 31, 2016 and 2015, AT&T represented 6% and 10% of our total revenue, respectively. In the last three fiscal years, AT&T subscribers have materially decreased their subscriptions for, and usage of, our paid navigation services and our revenue from our relationship with AT&T has declined accordingly. We anticipate that AT&T subscribers, and subscribers of other carriers who pay monthly recurring charges for our services, will continue to decrease their subscriptions for paid navigation services in favor of free or freemium offerings and that revenue from our relationship with AT&T and other carriers will continue to decline and may be eliminated altogether in the future. AT&T may determine that the cost of offering our service to its subscribers outweighs the benefits if the drop off of subscribers continues, and AT&T may decide to terminate our business relationship. Our failure to maintain our relationship with AT&T would substantially harm our business. In addition, our other sources of revenue from our location-based platforms, including automotive navigation and location-based advertising, have substantially lower margins than wireless carrier mobile navigation revenue and, as a result, we would have to generate substantially more revenue from those services to replace the declining wireless carrier revenue. As a result of the lower margins on automobile navigation and advertising revenue, we anticipate that we will continue to incur net losses in fiscal 2017 and possibly future periods.

***Our customer requirements and content management are complex. If we inadvertently include content for which we have liability to the vendor but may not be entitled to payment from our customer, our financial condition and results of operation could be harmed.***

The nature and extent of content that is delivered as part of our navigation solutions is complex to manage. Matching the requirements of our customers with the content offered by our vendors may result in our inclusion of content which we believe is necessary to meet our customers' requirements for which the customer may not have agreed to make payment to us. In addition, our customers speak directly to our vendors and often those conversations influence the expected content for our end

products; however, customers may not be fully informed as to the license costs associated with the various components. Therefore, there is some risk that we may include content for which we have liability to the vendor but may not be entitled to payment from our customer. If these situations were to occur, our business, financial condition and results of operations could be adversely affected.

***Our business practices with respect to data could give rise to liabilities or reputational harm as a result of governmental regulation, legal requirements or industry standards relating to consumer privacy and data protection.***

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

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

***We face intense competition in our market, especially from competitors that offer their mobile location services for free, which could make it difficult for us to acquire and retain customers and end users.***

The market for development, distribution and sale of location services is highly competitive. Many of our competitors have greater name recognition, larger customer bases and significantly greater financial, technical, marketing, public relations, sales, distribution and other resources than we do. Competitors may offer mobile location services that have at least equivalent functionality to ours for free. For example, Google offers free voice-guided turn by turn navigation as part of its Google Maps and Waze products for mobile devices, including those based on the Android and iOS operating system platforms, and Apple offers proprietary maps and voice-guided turn by turn directions. Microsoft also provides a free voice-guided turn by turn navigation solution on its Windows Mobile and Windows Phone operating systems. Competition from these free offerings may reduce our revenue, result in our incurring additional costs to compete and harm our business. If our wireless carrier customers can offer these mobile location services to their subscribers for free, they may elect to cease their relationships with us, similar to Sprint, or alter or reduce the manner or extent to which they market or offer our services or require us to substantially reduce our fees or pursue other business strategies that may not prove successful. In addition, new car buyers may not value navigation solutions built in to their vehicles if they believe that free (brought-in) offerings, such as Apple CarPlay or Google's auto initiatives, are adequate and may not purchase our solutions with their new cars.

We compete in the automotive navigation market with established automobile manufacturers and OEMs and providers of on-board navigation services such as AISIN AW CO., Ltd, Robert Bosch GmbH, Elektrobit Corporation, Garmin, Ltd., HERE, TomTom and NNG LLC, as well as other competitors such as Apple and Google. We compete in the advertising network services business with mobile platform providers, including Google, Apple, Facebook, Inc., AOL Inc., xAD, Inc., Verve Wireless, Inc., PlacelQ, Inc. and NinthDecimal, Inc., among others. Some of our competitors' and our potential competitors' advantages over us, either globally or in particular geographic markets, include the following:

- the provision of their services at no or low cost to consumers;
- significantly greater revenue and financial resources;
- stronger brand and consumer recognition regionally or worldwide;
- the capacity to leverage their marketing expenditures across a broader portfolio of mobile and non-mobile products;
- access to core technology and intellectual property, including more extensive patent portfolios;
- access to custom or proprietary content;

- quicker pace of innovation;
- stronger wireless carrier, automotive, handset manufacturer and advertising agency relationships;
- stronger international presence, which could make our larger competitors more attractive partners to automotive manufacturers and OEMs;
- greater resources to make and integrate acquisitions;
- lower labor and development costs; and
- broader global distribution and presence.

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

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

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

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

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

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

We have recorded goodwill related to our prior acquisitions, and may do so in connection with any potential future acquisitions. Goodwill and other intangible assets with indefinite lives are not amortized, but are reviewed for impairment annually or on an interim basis whenever events or changes in circumstances indicate that the carrying value of these assets may not be recoverable. Factors that may indicate that the carrying value of our goodwill or other intangible assets may not be recoverable include a persistent decline in our stock price and market capitalization, reduced future cash flow estimates and slower growth rates in our industry. We may be required to record a significant charge in our financial statements during the period in which any impairment of our goodwill or other intangible assets is determined, which would adversely impact our results of operations. We report results in three business segments, which requires the allocation of goodwill and intangibles to each of these segments. As a result, our impairment review each year or on an interim basis shall be conducted by segment, which can result in a different outcome than if assessed on an overall consolidated basis. Revenue from our mobile navigation business has been declining substantially over the last few years and continued deterioration of this revenue base can result in an impairment of the goodwill and intangibles assigned to this reporting unit. In addition, in January 2016 we decided to shift our focus in our advertising business from growth to profitability. In the near-term, we are taking actions to reduce our operating costs. We have not recognized any impairment of goodwill in the three year period ended June 30, 2016 or in fiscal 2017 to date. However, our mobile navigation revenue continues to decline, our efforts to focus on profitability for our advertising business may not be effective, and losses may continue beyond our expectations. As such, we may experience future write-downs of goodwill or other intangible assets.

***Warranty claims, product liability claims and product recalls could subject us to significant costs and adversely affect our financial results.***

We warrant our automotive navigation products to be free from defects in materials, workmanship and design for periods ranging from three months to seven years. If our navigation services or products contain defects, there are errors in the maps supplied by third party map providers or if our end users do not heed our warnings about the proper use of these products, collisions or accidents could occur resulting in property damage, personal injury or death. If any of these events occurs, we could be subject to significant liability for personal injury and property damage and under certain circumstances could be subject to a judgment for punitive damages. In addition, if any of our designed products are defective or are alleged to be defective, we may be required to participate in a recall campaign. These recall and warranty costs could be exacerbated to the extent they relate to global platforms. Furthermore, recall actions could adversely affect our reputation or market acceptance of our products, particularly if those recall actions cause consumers to question the safety or reliability of our products. Warranty claims, a successful product liability claim or a requirement that we participate in a product recall campaign may adversely affect our results of operations and financial condition.

We accrue costs related to warranty claims when they are probable of being incurred and reasonably estimable. Our warranty costs have historically not been material. From time to time, we experience incidents where it may be necessary for us to expend resources to investigate and remedy a potential warranty claim.

We maintain limited insurance against accident related risks involving our products. However, we cannot assure you that this insurance would be sufficient to cover the cost of damages to others or will continue to be available at commercially reasonable rates. In addition, we may be named as a defendant in litigation by consumers individually or on behalf of a class if their handsets or automobiles suffer problems from software downloads from our customers. If we are unable to obtain indemnification from our customer for any damages or legal fees we may incur in connection with such complaints, our financial position may be adversely impacted. In addition, insurance coverage generally will not cover awards of punitive damages and may not cover the cost of associated legal fees and defense costs. If we are unable to maintain sufficient insurance to cover product liability costs or if our insurance coverage does not cover an award, our business, financial condition and results of operations could be adversely affected.

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

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

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

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



***We lease our headquarters facility under a sublease from Avaya Inc., or Avaya, which is involved in bankruptcy proceedings and if Avaya rejects the sublease during its bankruptcy proceedings, termination of our sublease could have a material and adverse effect on our results of operations and financial condition.***

We lease our headquarters facility under a sublease from Avaya, which filed voluntary petitions under chapter 11 of the U.S. Bankruptcy Code in the United States Bankruptcy Court for the Southern District of New York on January 19, 2017. In connection with the resolution of the Avaya bankruptcy estate, Avaya may assume or reject our sublease for our facility or the master lease within 120 days after it filed the bankruptcy petition. If Avaya rejects the master lease, our sublease would also be rejected. If Avaya rejects the sublease or the master lease, our sublease would be terminated and we would have to either renegotiate a lease for our current facility directly with the building's owner or seek and lease a new headquarters' facility. In the event we have to seek a new facility, we may not be able to secure similar space on terms as favorable as our sublease. In addition, we may incur expenses related to relocating our offices and staff, as well as incur a substantial loss on improvements we have made to the facility. We may be able to renegotiate a new lease for our current space, but we cannot provide any assurance that we will be able to reach agreement on such a lease or that it will be on terms as favorable to us as our existing sublease. If Avaya rejects our sublease or the master lease, we could experience a material and adverse effect on our financial condition and results of operations.

***Our investment portfolio may become impaired by deterioration of the financial markets.***

Our cash equivalent and short-term investment portfolio as of December 31, 2016 consisted of corporate bonds, asset-backed securities, municipal securities, U.S. agency securities, commercial paper and money market mutual funds. We follow an established investment policy and set of guidelines to monitor and help mitigate our exposure to interest rate and credit risk. The policy sets forth credit quality standards and limits our exposure to any one issuer, as well as our maximum exposure to various asset classes.

Should financial market conditions worsen in the future, investments in some financial instruments may pose risks arising from market liquidity and credit concerns. In addition, any deterioration of the capital markets could cause our other income and expense to vary from expectations. As of December 31, 2016, we had no material impairment charges associated with our short-term investment portfolio. Although we believe our current investment portfolio has little risk of material impairment, we cannot predict future market conditions or market liquidity, or credit availability, and can provide no assurance that our investment portfolio will remain materially unimpaired.

***Our effective tax rate may fluctuate, which could reduce our anticipated income tax benefit in the future.***

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

- impact from our inability to benefit from the carryback of net losses expected in the current fiscal year and thereafter due to the limitations of the two year loss carryback for federal tax purposes.
- changes in forecasted annual operating income or loss by jurisdiction and forecasted withholding taxes;
- changes in relative proportions of revenue and income or loss before taxes in the various jurisdictions in which we operate;
- changes to the valuation allowance on net deferred tax assets;
- changes to actual or forecasted permanent differences between book and tax reporting, including the tax effects of purchase accounting for acquisitions and non-recurring charges which may cause fluctuations between reporting periods;
- impact from any future tax settlements with state, federal or foreign tax authorities;
- impact from increases or decreases in tax reserves due to new assessments of risk, the expiration of the statute of limitations or the completion of government audits;
- impact from changes in tax laws, regulations and interpretations in the jurisdictions in which we operate, as well as the requirements of certain tax rulings;

- impact from withholding tax requirements in various non-U.S. jurisdictions and our ability to recoup those withholdings, which may depend on how much revenue we have in a particular jurisdiction to offset the related expenses;
- impact from acquisitions and related integration activities; or
- impact from new FASB requirements.

Although we believe our estimates are reasonable, the ultimate tax outcome may differ from the amounts recorded in our financial statements and may materially affect our financial results in future periods. In fiscal 2014, we recorded a valuation allowance on the majority of our deferred tax assets, net of liabilities since the assets are not more likely than not to be realized based upon our assessment of all positive and negative evidence. Realization of deferred tax assets is dependent upon future taxable earnings, the timing of which is uncertain. Due to losses in fiscal 2014, 2015 and 2016 and potentially future years in the United States, we maintained a full valuation allowance on deferred tax assets in the United States. Due to foreign operating losses in previous years and continued foreign earnings volatility, we continued to maintain a full valuation allowance for our foreign deferred tax assets in Brazil and the United Kingdom. In the event deferred tax assets in Germany cannot be realized based upon the ability to generate future income in Germany, our effective tax rate would be negatively impacted.

***Changes in accounting principles, or interpretations thereof, could have a significant impact on our financial position and results of operations.***

We prepare our consolidated financial statements in accordance with GAAP. These principles are subject to interpretation by the SEC and various bodies formed to interpret and create appropriate accounting principles. A change in these principles can have a significant effect on our reported results and may even retroactively affect previously reported transactions. Additionally, the adoption of new or revised accounting principles may require that we make significant changes to our systems, processes and controls.

For example, the Financial Accounting Standards Board, or FASB, is currently working together with the International Accounting Standards Board, or IASB, on several projects to further align accounting principles and facilitate more comparable financial reporting between companies who are required to follow GAAP under SEC regulations and those who are required to follow International Financial Reporting Standards outside of the United States. These efforts by the FASB and IASB may result in different accounting principles under GAAP that may result in materially different financial results for us in areas including, but not limited to, principles for recognizing revenue and lease accounting. Additionally, significant changes to GAAP resulting from the FASB's and IASB's efforts may require that we change how we process, analyze and report financial information and that we change financial reporting controls.

It is not clear if or when these potential changes in accounting principles may become effective, whether we have the proper systems and controls in place to accommodate such changes and the impact that any such changes may have on our financial position and results of operations.

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

We rely on our automotive and OEM customers to provide us with reports on the number of vehicles they sell with our on-board and brought-in navigation services included and to remit royalties for those sales to us. We also rely on our wireless carrier customers to bill subscribers and collect monthly fees for our mobile navigation services, either directly or through third party service providers. The risk of inaccurate reports may increase as our customers expand internationally and increase the number of manufacturing locations. For example, in the three months ended September 30, 2016, Ford assigned certain contract rights for its production of vehicles with our SYNC 3 products to its joint venture in the People's Republic of China. If our customers or their third party service providers provide us with inaccurate data or experience errors or outages in their own billing and provisioning systems when performing these services, our revenue may be less than anticipated or may be subject to adjustment with the customer. In the past, we have experienced errors in reporting from auto manufacturers and wireless carriers. If we are unable to identify and resolve discrepancies in a timely manner, our revenue may vary more than anticipated from period to period, which could harm our business, operating results and financial condition.

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

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

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

We rely on third party data and content to provide our services, including map data, POI, traffic information, gas prices and weather information. If our suppliers of this data or content were to enter into exclusive relationships with other providers of location services or were to discontinue providing such information and we were unable to replace them cost effectively, or at all, our ability to provide our services would be harmed. Our gross margins may also be affected if the cost of third party data and content increases substantially. Although we have recently announced efforts to use OSM data to reduce the expenses we incur for third party map data, we may not be successful at integrating OSM data into our products and may experience difficulty with customer acceptance if the quality of the consumer generated data within OSM is lower than that of paid maps. We introduced mobile phone-based navigation with OSM and launched our first brought-in automotive navigation service with OSM in 2015. As a result, we may not have sufficient data for automotive manufacturers and OEMs to feel comfortable electing to use OSM in the products and services we provide them.

We obtain map data from TomTom and HERE, which are companies owned by our current and potential competitors. Accordingly, these third party data and content providers may act in a manner that is not in our best interest. For example, they may cease to offer their map and POI data to us. Our agreement with TomTom to license TomTom map data for voice-guided turn by turn GPS navigation service for our existing mobile navigation products was automatically renewed under its existing terms through December 31, 2017. The term of our TomTom agreement will automatically renew for one additional one-year period until December 31, 2018, by which time the term of our TomTom agreement shall not be further renewed. Our agreement with HERE was automatically renewed under its existing terms through January 31, 2018, and automatically renews for successive one year periods unless either party provides notice of non-renewal at least 180 days prior to the expiration of the applicable term.

We may identify other requisite content and content-related technologies, including certain geocoding data necessary for our OSM products, that we may be unable to license or develop internally. If we are unsuccessful in these endeavors, we may be unable to successfully launch our OSM-based products globally and across all desired product offerings.

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

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

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

We use hosted services provided by Amazon Web Services, or AWS, and wireless carrier networks to deliver our navigation and advertising platform services. Our operations rely to a significant degree on the efficient and uninterrupted operation of the third party data centers we use. In the event that AWS experiences a disruption in services or a natural disaster, our ability to continue providing our services would be compromised. Depending on the growth rate in the number of our end users and their usage of our services, if we do not timely complete the negotiation for and scale of additional hosting services, we may experience capacity issues, which could lead to service failures and disruptions. In addition, if we are unable to secure third party hosting services with appropriate power, cooling and bandwidth capacity, we may be unable to efficiently and effectively scale our business to manage the addition of new wireless carrier customers, increases in the number of our end users or increases in data traffic.

AWS hosting services are potentially vulnerable to damage or interruption from a variety of sources, including fire, flood, earthquake, power loss, telecommunications or computer systems failure, human error, terrorist acts or other events. We have not yet completed a comprehensive business continuity plan and there can be no assurance that the measures implemented by us to date, or measures implemented by us in the future, to manage risks related to network failures or disruptions in our data centers will be adequate, or that the redundancies built into our servers will work as planned in the event of network failures or other disruptions. In particular, if we were to experience damage or interruptions to AWS hosting services our ability to provide efficient and uninterrupted operation of our services would be significantly impaired.

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

- damage to or failure of our computer software or hardware or our connections and outsourced service arrangements with third parties;
- errors in the processing of data;
- computer viruses or software defects;
- physical or electronic break-ins, sabotage, intentional acts of vandalism and similar events; or
- errors by our employees or third party service providers.

Poor performance in or disruptions of our services could harm our reputation, delay market acceptance of our services and subject us to liabilities. Our wireless carrier agreements and automotive manufacturer and OEM agreements for brought-in and connected navigation solutions require us to meet at least 99.9% operational uptime requirements, excluding scheduled maintenance periods, or be subjected to penalties. Any outage in a network or system, or other unanticipated problem that leads to an interruption or disruption of our navigation services, could have a material adverse effect on our operating results and financial condition.

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

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

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

Our success depends on our ability to enhance our current services and develop new services and products rapidly and cost effectively. A majority of our research and development personnel are in China and Romania. Although we have sought to retain certain key personnel, we may be unable to retain them over the long-term. In addition, we have been experiencing

significant increases in compensation costs in China due to competitive market conditions for qualified staff, as well as higher risk of employee turnover in certain China markets.

We also expect that we may continue to consolidate certain of our operations or reduce our workforce if we are unable to continue to replace wireless carrier revenue with other sources of high gross margin revenue. These reorganizations or reductions in force could result in unexpected costs or delays in product development that could impair our ability to meet market windows or cause us to forego certain new product opportunities.

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

As of December 31, 2016, we had international operations in China, Romania, Germany, Japan and South Korea. Our experience with wireless carriers, automobile manufacturers and OEMs, and advertisers outside the United States is limited. Our revenue from customers in the United States comprised 88% and 97% of our total revenue in the six months ended December 31, 2016 and 2015, respectively. However, our product is distributed globally in many different regions outside the United States, including South America, Europe, Asia, Australia, China and New Zealand. Our limited experience in operating our business outside the United States increases the risk that our current and future international expansion efforts may not be successful. In particular, our business model may not be successful in particular countries or regions outside the United States for reasons that we currently do not anticipate. In addition, conducting international operations subjects us to risks that we have not generally faced in the United States. These include:

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

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

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

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

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

our stock price performs poorly, it may adversely affect our ability to retain highly skilled employees. Our inability to attract and retain the necessary personnel could adversely affect our business and future growth prospects.

***We rely on network infrastructures provided by our wireless carriers, mobile phones and in-car wireless connections for the delivery of our mobile navigation services to end users.***

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

In addition, certain automobile navigation applications rely on wireless connections between the vehicle and our network. We have no influence or control over the vehicle's wireless equipment and if it does not operate in a satisfactory manner, our ability to provide those services would be impaired and our reputation would be harmed.

Wireless communications have experienced a variety of outages and other delays as a result of infrastructure and equipment failures and could face outages and delays in the future. These outages and delays could affect our ability to provide our navigation services successfully. In addition, changes by a wireless carrier to its network infrastructure may interfere with the integration of our servers with their network and delivery of our navigation services and may cause end users to lose functionality for services they have already purchased. Any of the foregoing could harm our business, operating results and financial condition.

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

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

The mapping data industry continues to experience consolidation. Should one of our map providers consolidate or enter into an alliance with another navigation provider, this could have a material adverse impact on our business. Currently, two of our map suppliers are owned by competitors in the navigation space. In fiscal 2016, Nokia sold its mobile phone business to Microsoft and sold HERE, its mapping business, to a consortium of German automobile manufacturers. Such a consolidation may cause us to lose a map supplier or require us to increase the royalties we pay to map vendors as a result of enhanced supplier leverage, which would have a negative effect on our business. In the event that we lost a map supplier, we may be unable to replace our map suppliers and the remaining map suppliers may increase license fees. In addition, as we continue to use more OSM-based maps and no longer purchase maps from those suppliers, we may be unable to purchase other data that is integral to our navigation products from our existing map suppliers.

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

In response to changing market conditions and the desire to focus on new and more potentially attractive opportunities, we may be required to strategically realign our resources and consider restructuring, eliminating, or otherwise exiting certain business activities. Any decision to reduce investment in, dispose of, or otherwise exit business activities may result in the recording of special charges, such as workforce reduction and excessive facility space costs.

#### ***Risks related to our intellectual property and regulation***

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

Our commercial success depends in part upon us, our partners and our customers not infringing intellectual property rights owned by others and being able to resolve claims of intellectual property infringement without major financial expenditures and/or need to alter our technologies or cease certain activities. We operate in an industry with extensive intellectual property litigation and it is not uncommon for our wireless carrier customers, handset manufacturing partners,

automobile manufacturers and OEMs and competitors to be involved in infringement lawsuits by or against third parties. Many industry participants that own, or claim to own, intellectual property aggressively assert their rights, and our customers and other business partners, who we agree in certain circumstances to indemnify for intellectual property infringement claims related to our services, are often targets of such assertions. We cannot determine with certainty whether any existing or future third party intellectual property rights would require us to alter our technologies, obtain licenses or cease certain activities.

We have received, and may in the future receive, claims from third parties alleging infringement and other related claims. As of the date of this Quarterly Report on Form 10-Q, we were named as a defendant in several cases alleging that our services infringe other parties' patents, as well as other matters. See Part II, Item 1, "Legal Proceedings," for a description of these matters. These cases and future litigation may make it necessary to defend ourselves and our customers and other business partners by determining the scope, enforceability and validity of third party proprietary rights or to establish our proprietary rights. Some of our competitors may have substantially greater resources than we do and may be able to sustain the costs of complex intellectual property litigation to a greater degree and for longer periods of time than we could. In addition, patent holding companies that focus solely on extracting royalties and settlements by enforcing patent rights may target us, our wireless carrier customers or our other business partners. These companies typically have little or no product revenue and therefore our patents may provide little or no deterrence against such companies filing patent infringement lawsuits against us. Regardless of whether claims that we are infringing patents or other intellectual property rights have any merit, these claims are time consuming and costly to evaluate and defend and could:

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

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

***Unauthorized control or manipulation of our systems in vehicles may cause them to operate improperly or not at all, or compromise their safety and data security, which could result in loss of confidence in us and our products, cancellation of contracts with certain of our auto OEM customers and harm our business.***

There have been reports of vehicles of certain automobile manufacturers being "hacked" to grant access and operation of the vehicles to unauthorized persons and would-be thieves. Modern vehicles are technologically advanced machines requiring the interoperation of numerous complex and evolving hardware and software systems, including the navigation system, and with respect to vehicles with autonomous driving features, control of the vehicle. We have agreed with some of our auto OEM customers to adopt certain security procedures and we may be subject to claims or our contracts with those OEMs may be terminated if we do not comply with our covenants or if our products are the source of access to the systems in their vehicles by intruders.

Although we have designed, implemented and tested security measures to prevent unauthorized access to our products when installed in vehicles, our information technology networks and communications with vehicles in which our products are installed may be vulnerable to interception, manipulation, damage, disruptions or shutdowns due to attacks by hackers or breaches due to errors by personnel who have access to our networks and systems. Any such attacks or breaches could result in unexpected control of or changes to the vehicles' functionality and our products' user interface and performance characteristics. Hackers may also use similar means to gain access to data stored in or generated by the vehicle, such as its current geographical position, previous and stored destination address history and web browser "favorites." Any such unauthorized control of vehicles or access to or loss of information could result in legal claims or proceedings and negative publicity, which would negatively affect our brand and harm our business, prospects, financial condition and operating results.

***Our business is subject to online security risks, including security and privacy breaches.***

Our business involves the collection, storage, processing and transmission of users' personal data including information about routes mapped and taken. An increasing number of organizations, including large online and offline merchants and businesses, other large Internet companies, financial institutions, and government institutions, have disclosed breaches of their security, some of which have involved sophisticated and highly targeted attacks, including on portions of their websites or infrastructure. While we work to evaluate and improve our security, we have been subject to such attacks in the past, although they have not, to our knowledge, resulted in the disclosure of user information. A breach of security or privacy could have negative consequences to our reputation, which could result in users discontinuing or reducing their use of our products and our automotive OEM and advertising customers terminating their agreements with us, and could have significant out-of-pocket financial impact, which could harm our business. Similarly, a breach of security or privacy in vehicles in which our navigation products are installed could result in a reduction in adoption of our navigation products.

The techniques used to obtain unauthorized, improper or illegal access, disable or degrade service, or sabotage systems change frequently, may be difficult to detect quickly, and often are not recognized until launched against a target. Certain efforts may be state-sponsored and supported by significant financial and technological resources and may therefore be even more difficult to detect. As a result, we may be unable to anticipate these techniques or to implement adequate preventative measures. Unauthorized parties also may attempt to gain access to our systems or facilities through various means, including hacking into our systems or facilities, fraud, trickery or other means of deceiving our employees, contractors and temporary staff. A party that is able to circumvent our security measures could misappropriate our, our customers' or our employees' personal or proprietary information, cause interruption in our operations and damage our computers and systems or those of our customers. In addition, our customers have been and likely will continue to be targeted by parties using fraudulent "spoof" and "phishing" emails to misappropriate user names, passwords, payment card numbers, GPS data or other personal information or to introduce viruses or other malware, including through "trojan horse" programs, to our users' phones and vehicles. Also, our information technology and infrastructure may be vulnerable to cyberattacks or security incidents, and third parties may be able to access our customers' personal or proprietary information and payment card data that are stored on or accessible through our systems. Any security or privacy breach at a company providing services to us or our OEM customers, or integrated with our products and services, could have similar effects. We may also need to expend significant additional resources to protect against security or privacy breaches or to redress problems caused by breaches. These issues are likely to become more difficult and costly as we expand the number of markets where we operate. Additionally, our insurance policies carry low coverage limits, which may not be adequate to reimburse us for losses caused by security breaches, and we may not be able to collect fully, if at all, under these insurance policies.

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

It is possible that a number of laws and regulations may be adopted in the United States and elsewhere that could restrict the wireless communications industry, further regulate the automobile industry or impair the mobile advertising industry, including laws and regulations regarding lawful interception of personal data, hands free use of mobile phones or navigation services within autos, autonomous driving or the control of such use, privacy, taxation, content suitability, copyright and antitrust. Furthermore, the growth and development of electronic storage of personal information may prompt calls for more stringent consumer protection laws that may impose additional burdens on companies such as ours that store personal information. We anticipate that regulation of the industries in which our products and services are used will increase and that we will be required to devote legal and other resources to address this regulation. In addition, governments have recently begun to consider and adopt laws regarding vehicles using advanced driver assistance systems, or ADAS, and semi-autonomous driving capabilities and those laws may curtail or preclude using the services our products provide. Changes in current laws or regulations or the imposition of new laws and regulations in the United States or elsewhere regarding the wireless communications or automobile industries may make operation more costly, and may materially reduce our ability to increase or maintain sales of our products and services.

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

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

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



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

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

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

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

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

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

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

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

***Our use of open source software could negatively affect our ability to sell our service and subject us to possible litigation.***

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

required to release our proprietary source code, re-engineer our navigation services platform and client applications, discontinue the sale of our service in the event re-engineering cannot be accomplished on a timely basis or take other remedial action that may divert resources away from our development efforts, any of which could adversely affect our business, operating results and financial condition.

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

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

The Sarbanes-Oxley Act requires that we test our internal control over financial reporting and disclosure controls and procedures annually. For example, as of June 30, 2016, we performed system and process evaluation and testing of our internal control over financial reporting to allow management and our independent registered public accounting firm to report on the effectiveness of our internal control over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act. Our compliance with Section 404 requires that we incur substantial expense and expend significant management time on compliance-related issues. Moreover, if we are not able to comply with the requirements of Section 404 in the future, or if we or our independent registered public accounting firm identify deficiencies in our internal control over financial reporting that are deemed to be material weaknesses, the market price of our stock may decline and we could be subject to sanctions or investigations by the NASDAQ Global Market, the SEC or other regulatory authorities, which would require significant additional financial and management resources.

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

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

***Regulations relating to investments in offshore companies by Chinese residents may subject our Chinese-resident beneficial owners or our Chinese subsidiaries to liability or penalties, limit our ability to inject capital into our Chinese subsidiaries, limit our Chinese subsidiaries' ability to increase their registered capital or limit their ability to distribute profits to us.***

On July 4, 2014, SAFE promulgated the *Circular on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents' Offshore Investment and Financing and Roundtrip Investment through Special Purpose Vehicles*, or Circular 37, which replaced the former *Circular on Issues Relating to the Administration of Foreign Exchange in Fund-Raising and Round Trip Investment Activities of Domestic Residents Conducted via Offshore Special Purpose Vehicles* (commonly known as "SAFE Circular 75") promulgated by SAFE on October 21, 2005. Circular 37 requires Chinese residents to register with local branches of SAFE in connection with their direct establishment or indirect control of an offshore entity, for the purpose of overseas investment and financing, with such Chinese residents' legally owned assets or equity interests in domestic enterprises or offshore assets or interests, referred to in Circular 37 as a "special purpose vehicle." Circular 37 further requires amendment to the registration in the event of any significant changes with respect to the special purpose vehicle, such as increase or decrease of capital contributed by Chinese individuals, share transfer or exchange, merger, division or other material event. In the event that a Chinese shareholder holding interests in a special purpose vehicle fails to fulfill the required SAFE registration, the Chinese subsidiaries of that special purpose vehicle may be prohibited from making profit distributions to the offshore parent and from carrying out all subsequent cross-border foreign exchange activities in worst scenario, and the special purpose vehicle may be restricted in its ability to contribute additional capital into its Chinese subsidiary. Furthermore, failure to comply with the various SAFE registration requirements described above could result in liability under Chinese law for evasion of foreign exchange controls. On February 13, 2015, SAFE promulgated a *Notice on Further Simplifying and Improving Foreign Exchange Administration Policy on Direct Investment*, or Circular 13, which became effective on June 1, 2015. Pursuant to Circular 13, entities and individuals are required to apply for foreign exchange registration of overseas direct investment, including those required under Circular 37, with qualified banks, instead of SAFE. The qualified banks, under the supervision of SAFE, will directly review the applications and conduct the registration.

We attempt to comply, and attempt to ensure that our stockholders who are subject to Circular 37 and other related rules, comply with the relevant requirements under Circular 37. However, we cannot provide any assurances that all of our stockholders who are Chinese residents have complied or will comply with our request to make or obtain any applicable registrations or comply with other requirements required by Circular 37 or other related rules. Any failure or inability of any of our stockholders who is a Chinese resident to comply with relevant requirements under Circular 7 could subject such stockholders or our Chinese subsidiaries to fines and legal sanctions imposed by the Chinese government and may also limit our ability to contribute additional capital into our Chinese subsidiaries or receive dividends or other distributions from our Chinese subsidiaries. As a result, these risks may have a material adverse effect on our business, financial condition and results of operations.

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

We expect that the trading price for our common stock will be affected by any research or reports that industry or financial analysts publish about us or our business. If one or more of the analysts who may elect to cover us downgrade their evaluations of our stock, the price of our stock could decline. For example, in late July 2011, following our earnings release for the three months and fiscal year ended June 30, 2011, several financial analysts published research reports lowering their price targets of our stock. After our announcement and the publication of these reports, our stock price fell more than 40%. If one or more of these analysts cease coverage of our company, our stock may lose visibility in the market, which in turn could cause its price to decline. As of December 31, 2016, only four research analysts published reports regarding our company. In addition, if our stock was to trade at prices below \$5.00 per share in the future for an extended period of time, financial analysts may terminate coverage of our company due to internal policies within their investment banks, which could result in further stock price declines.

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

Our common stock was sold in our IPO at \$8.00 per share. Although our common stock has traded at prices as high as \$22.07 per share, it has also traded at prices as low as \$4.47 and has tended to have significant downward and upward price movements in a relatively short time period. Future fluctuations or declines in the trading price of our common stock may result from a number of events or factors, including those discussed in the preceding risk factors relating to our operations, as well as:

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

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

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

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

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

Our executive officers, directors, current 5% or greater stockholders and affiliates beneficially owned (as determined in accordance with the rules of the SEC) approximately 34.1% of our common stock outstanding as of December 31, 2016 . This significant concentration of share ownership may adversely affect the trading price for our common stock because investors often perceive disadvantages in owning stock in companies with controlling stockholders. Also, these stockholders, acting together, may be able to control our management and affairs and matters requiring stockholder approval, including the election of directors and the approval of significant corporate transactions, such as mergers, consolidations or the sale of substantially all of our assets. Consequently, this concentration of ownership may have the effect of delaying or preventing a change of control, including a merger, consolidation or other business combination involving us, or discouraging a potential acquirer from making a tender offer or otherwise attempting to obtain control, even if that change of control would benefit our other stockholders.

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

***Unregistered Sales of Equity Securities***

None.

**Item 6. Exhibits.**

<b>Exhibit Number</b>	<b>Description</b>	<b>Incorporated by Reference From Form</b>	<b>Incorporated by Reference From Exhibit Number</b>	<b>Date Filed</b>
10.16.36+	Second Amendment, effective December 5, 2016, to Amended and Restated Territory License No. 8, dated April 1, 2014, by and between HERE North America, LLC and Telenav, Inc.	Filed herewith		
10.16.37+	Third Amendment, effective December 6, 2016, to Territory License No. 9, dated February 1, 2014, by and between HERE North America, LLC and Telenav, Inc.	Filed herewith		
10.16.38+	Second Amendment, effective December 6, 2016, to Territory License No. 11, dated April 3, 2015, by and between HERE North America, LLC and Telenav, Inc.	Filed herewith		
10.26.20+	Amendment No. 20, effective January 1, 2016, to the SYNC Generation 2 On-Board Navigation Agreement dated October 12, 2009, by and between Telenav, Inc. and Ford Motor Company	Filed herewith		
31.1	Certification Pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 of President and Chief Executive Officer	Filed herewith		
31.2	Certification Pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 of Chief Financial Officer	Filed herewith		
32.1~	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 of President and Chief Executive Officer	Furnished herewith		
32.2~	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 of Chief Financial Officer	Furnished herewith		
101.INS	XBRL Instance Document	Filed herewith		
101.SCH	XBRL Taxonomy Extension Schema Document	Filed herewith		
101.CAL	XBRL Taxonomy Calculation Linkbase Document	Filed herewith		
101.DEF	XBRL Taxonomy Definition Linkbase Document	Filed herewith		
101.LAB	XBRL Taxonomy Label Linkbase Document	Filed herewith		
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	Filed herewith		

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

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



**EXHIBIT LIST**

<b>Exhibit Number</b>	<b>Description</b>	<b>Incorporated by Reference From Form</b>	<b>Incorporated by Reference From Exhibit Number</b>	<b>Date Filed</b>
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**SECOND AMENDMENT TO AMENDED AND RESTATED TERRITORY LICENSE NO. 8**

This Second Amendment (“ **Second Amendment** ”) to the Amended and Restated Territory License No. 8, effective April 1, 2014 (“ **TL 8** ”), to the Data License Agreement (“ **Agreement** ”), dated December 1, 2002, by and between Telenav, Inc. (“ **Client** ”) and Navigation Technologies Corporation, which was subsequently assigned to HERE North America, LLC (f/k/a NAVTEQ North America, LLC) (collectively, “ **HERE** ”), as amended by the First Amendment to TL 8, by and between the parties, dated November 4, 2015 (“ **First Amendment** ”) is made and entered into as of the date of latest signature below (“ **Amendment Effective Date** ”). The Agreement, TL 8 and amendments thereto are hereby referred to herein as the “Agreement.” Capitalized terms not otherwise defined in the body of this Second Amendment shall have the meanings set forth in the Agreement.

WHEREAS, the Parties desire to amend certain terms of the Agreement;

NOW THEREFORE, the Parties agree to amend certain provisions of the Agreement with this Second Amendment as follows:

1. Exhibit A.
  - A. Additional Content. The following Additional Content is hereby added to Section I(6) (License Fee for [\*\*\*\*]) of Exhibit A of TL 8:
    - [\*\*\*\*] Content
  - B. Pricing. Section 2 (Pricing) of the First Amendment is hereby deleted in its entirety and replaced with the following:
 

Pricing. The following new Section IV shall be added to Exhibit A (Pricing) of TL 8:

The following new Section IV shall be added to Exhibit A (Pricing) of TL 8:

“IV. [\*\*\*\*] for [\*\*\*\*] Territory. During the TL Term, for each [\*\*\*\*] for the [\*\*\*\*] Territory for each Initial Copy shipped to [\*\*\*\*] ([\*\*\*\*])(“ [\*\*\*\*] ”) as of July 13, 2015, the total [\*\*\*\*], including the [\*\*\*\*] for the [\*\*\*\*] and for [\*\*\*\*], is calculated by adding (i) [\*\*\*\*] and (ii) [\*\*\*\*]. The [\*\*\*\*] shall be reported and paid together with the [\*\*\*\*] for the [\*\*\*\*], pursuant to Section V.B of this TL 8.”

Table 1 - [****] for [****]	
[****]	Per [****]
Through the end of calendar year [****]	\$ [****]

Notwithstanding the foregoing, both the [\*\*\*\*] for the [\*\*\*\*] and the [\*\*\*\*] specified above shall be [\*\*\*\*] solely for [\*\*\*\*] distributed by Client to [\*\*\*\*] solely in connection with the [\*\*\*\*] in the [\*\*\*\*] Territory (“ [\*\*\*\*] ”). Client shall report (i) all [\*\*\*\*] as a separate line item on its [\*\*\*\*] report as a [\*\*\*\*] (i.e., \$ [\*\*\*\*] per unit for [\*\*\*\*] units); and (ii) a credit amount as a separate line item on its [\*\*\*\*] report of “\$ [\*\*\*\*]” (calculated as [\*\*\*\*] units \* “\$ [\*\*\*\*]” per unit equals \$ [\*\*\*\*]) which shall be applied to applicable [\*\*\*\*] due to HERE under such [\*\*\*\*] report. For purposes of clarity, the aforementioned [\*\*\*\*] for [\*\*\*\*] shall include [\*\*\*\*] solely for the Data for [\*\*\*\*] Territory that are distributed to End-Users solely to [\*\*\*\*] (each, a “ [\*\*\*\*] ”) to enable such End-Users to receive [\*\*\*\*] during a [\*\*\*\*] (i.e., all [\*\*\*\*] for [\*\*\*\*] shall be applied toward the total of [\*\*\*\*] specified above and [\*\*\*\*] shall apply to such [\*\*\*\*]). Additionally, the [\*\*\*\*] for [\*\*\*\*] shall be subject to payment by Client to HERE for the [\*\*\*\*] for [\*\*\*\*] per the foregoing sentence.

2. [\*\*\*\*] for [\*\*\*\*]. Section 4 of the First Amendment ( [\*\*\*\*] for [\*\*\*\*] ) is hereby deleted in its entirety.



3. Except as modified hereunder, all other terms and conditions of the Agreement shall stay in full force and effect.

IN WITNESS WHEREOF, the parties have caused this Second Amendment to be executed by their authorized representatives as of the Amendment Effective Date.

HERE NORTH AMERICA, LLC

By: /s/ Lori Bellows  
Name: Lori Bellows  
Title: HERE Legal  
Date: 12/5/2016

TELENAV, INC.

By: /s/Michael Strambi  
Name: Michael Strambi  
Title: Chief Financial Officer  
Date: 11/17/2016

HERE NORTH AMERICA, LLC

By: /s/ Jeannie Lee Newman  
Name: Jeannie Lee Newman  
Title: Senior Legal Counsel  
Date: 12/5/2016

[\*\*\*\*] Certain portions denoted with an asterisk have been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

**THIRD AMENDMENT TO TERRITORY LICENSE NO. 9**

This Third Amendment (“Third Amendment”) to the Territory License No. 9, effective February 1, 2014 (“TL 9”), as amended, to the Data License Agreement (“Agreement”), dated December 1, 2002, by and between Telenav, Inc. (“Client”) and Navigation Technologies Corporation, which was subsequently assigned to HERE North America, LLC (f/k/a NAVTEQ North America, LLC) (collectively, “HERE”), is made and entered into as of the date of latest signature below (“Third Amendment Effective Date”). The Agreement and TL 9 is hereby referred to herein as the “Agreement.” Capitalized terms not otherwise defined in the body of this Third Amendment shall have the meanings set forth in the Agreement.

WHEREAS, the Parties desire to amend certain terms of the Agreement;

NOW THEREFORE, the Parties agree to amend certain provisions of the Agreement with this Third Amendment as follows:

1. Exhibit D (Pricing). The first paragraph under Exhibit D to TL 9 is hereby deleted in its entirety and replaced with the following:

Client shall pay HERE the License Fee per Subscription as set forth in the applicable tables below for each Application distributed hereunder containing all or any portion of the Data identified in the tables below. The applicable License Fees for each Application shall be determined based on use of the Data. For sake of clarity, the License Fees shall include the applicable fees for the [\*\*\*\*\*] and [\*\*\*\*\*][\*\*\*\*\*] licensed to Client for use in the Applications under a separate agreement (i.e., through the [\*\*\*\*\*] and the [\*\*\*\*\*], as described in such separate agreement). For the sake of clarity, with respect to the prices set forth in the tables below which are based on the understanding that the parties will execute [\*\*\*\*\*] before [\*\*\*\*\*], the parties agree that such [\*\*\*\*\*] shall apply from [\*\*\*\*\*] until [\*\*\*\*\*] of the TL Term.

All references of [\*\*\*\*\*] under this Exhibit D with respect to pricing conditioned on [\*\*\*\*\*] to the Agreement are hereby amended to [\*\*\*\*\*].

2. Except as modified hereunder, all other terms and conditions of the Agreement shall stay in full force and effect.

IN WITNESS WHEREOF, the parties have caused this Third Amendment to be executed by their authorized representatives as of the Third Amendment Effective Date.

HERE NORTH AMERICA, LLC                      TELENAV, INC.

By: /s/Lori Bellows    By: /s/Michael Strambi

Name: Lori Bellows    Name: Michael Strambi

Title: HERE Legal    Title: Chief Financial Officer

Date: 12/06/2016    Date: 11/23/2016

HERE NORTH AMERICA, LLC

By: /s/Jeannie Lee Newman

Name: Jeannie Lee Newman

Title: Senior Legal Counsel

Date: 12/06/16

**SECOND AMENDMENT TO TERRITORY LICENSE NO. 11**

This Second Amendment (“Second Amendment”) to the Territory License No. 11, effective April 3, 2015 (“TL 11”), as amended, to the Data License Agreement (“Agreement”), dated December 1, 2002, by and between Telenav, Inc. (“Client”) and Navigation Technologies Corporation, which was subsequently assigned to HERE North America, LLC (f/k/a NAVTEQ North America, LLC) (collectively, “HERE”), is made and entered into as of the date of latest signature below (“Amendment Effective Date”). The Agreement and TL 11, and amendments thereto, are hereby referred to herein as the “Agreement.” Capitalized terms not otherwise defined in the body of this Second Amendment shall have the meanings set forth in the Agreement.

WHEREAS, the Parties desire to amend certain terms of the Agreement;

NOW THEREFORE, the Parties agree to amend certain provisions of the Agreement with this First Amendment as follows:

- 1. [\*\*\*\*\*]Territory Definition. The following country is hereby added to the definition of **Territory** under **Section I** of **TL 11** (Terms and Conditions):

[\*\*\*\*\*]

- 2. Exhibit A.

A. The following Additional Content is hereby added to **Content Bundle A, Content Bundle B and Content Bundle C** tables in **Section I (4) License Fees for [\*\*\*\*\*] Territory of Exhibit A to TL 11** :

[\*\*\*\*\*]

Client agrees that its use of the [\*\*\*\*\*] shall comply with the terms and conditions set forth in Appendix A to this Amendment.

- B. The following table is hereby added to the [\*\*\*\*\*] **Territory Additional Content Fee** table in **Section I (4) License Fees for [\*\*\*\*\*] Territory of Exhibit A to TL 11** :

[*****] Territory Additional Content Fee	Additional LICENSE FEE PER COPY
[*****]	\$[*****]*

\*For sake of clarity, the Additional License Fee Per Copy will be applied to the per Copy License Fees set forth above for use of [\*\*\*\*\*] in a [\*\*\*\*\*] Application.

C. The following new **Section I (7)** is hereby added to **Section I** of **Exhibit A** to **TL 11** :

“7. License Fees for [\*\*\*\*\*].

[*****] TERRITORY CONTENT BUNDLE A	LICENSE FEE PER COPY IN US DOLLARS
[*****]	\$ [*****]

<b>[*****] TERRITORY CONTENT BUNDLE B</b>	<b>LICENSE FEE PER COPY</b>
[*****]	\$ [*****]

[*****] TERRITORY CONTENT BUNDLE C	LICENSE FEE PER COPY
[*****]	§ [*****]

D. The following Additional Content is hereby added to **Content Bundle A, Content Bundle B and Content Bundle C** tables in **Section I (5) License Fees for [\*\*\*\*\*]** of **Exhibit A to TL 11** :

[\*\*\*\*\*]

E. The following Additional Content is hereby added to **Content Bundle A, Content Bundle B and Content Bundle C** tables in **Section I (2) License Fees for [\*\*\*\*\*] Territory of Exhibit A to TL 11** :

[\*\*\*\*\*]

F. Multi-Year Annual Copy Subscriptions for [\*\*\*\*\*] Applications. Section IV of Exhibit A to TL 11 is hereby deleted in its entirety and replaced with the following:

IV. Multi-Year Annual Copy Subscriptions for [\*\*\*\*\*] Applications. During the TL Term, for each [\*\*\*\*\*] Subscription for [\*\*\*\*\*] Applications, the License Fee per Copy for the applicable Territory specified herein is calculated by multiplying (i) the Per Copy License Fees for the applicable [\*\*\*\*\*] by (ii) [\*\*\*\*\*] provided in Table 1 below based upon the [\*\*\*\*\*] as provided in Table 1.

Table 1 – License Fees - Multi-Year Annual Copy Subscriptions				
Program	[*****]	[*****]	[*****]	[*****]
[*****]	[*****]	[*****]	[*****]	[*****]

Upon written notice to HERE prior to expiration of the applicable Multi-Year Annual Copy Subscription period and applicable only to [\*\*\*\*\*] Territory, such [\*\*\*\*\*] Subscription period may be extended for [\*\*\*\*\*] additional [\*\*\*\*\*] period for all [\*\*\*\*\*], subject to payment to HERE by Client of [\*\*\*\*\*] License Fee of \$[\*\*\*\*\*] (“[\*\*\*\*\*]”). For sake of clarity, such extension is not applicable to [\*\*\*\*\*]. Client shall report the number of [\*\*\*\*\*] for which the [\*\*\*\*\*] applies as a separate line item in its License Fee Reports.

3. Except as modified hereunder, all other terms and conditions of the Agreement shall stay in full force and effect.



IN WITNESS WHEREOF, the parties have caused this Second Amendment to be executed by their authorized representatives as of the Amendment Effective Date.

HERE NORTH AMERICA, LLC

By: /s/ Lori Bellows

Name: Lori Bellows

Title: HERE Legal

Date: 12/06/2016

Telenav, Inc.

By: /s/ Michael Strambi

Name: Michael Strambi

Title: Chief Financial Officer

Date: 11/23/2016

HERE NORTH AMERICA, LLC

By: /s/ Jeannie Lee Newman

Name: Jeannie Lee Newman

Title: Senior Legal Counsel

Date: 12/06/16

**AMENDMENT NO. 20  
TO THE  
SYNC GENERATION 2 ON-BOARD NAVIGATION AGREEMENT  
BETWEEN  
FORD MOTOR COMPANY AND TELENNAV, INC.**

THIS AMENDMENT NO. 20 (“Amendment”), effective as of January 1, 2016 (“Amendment Effective Date”) supplements and amends the terms of the SYNC Generation 2 On-Board Navigation Agreement, dated October 12, 2009 (“Agreement”), by and between **Ford Motor Company** (“Buyer” or “Ford”), a Delaware corporation with its principal office at One American Road, Dearborn, Michigan 48126, on behalf of itself and the Ford Related Companies, and **Telenav, Inc.** (“Supplier” or “Telenav”), a Delaware corporation with its principal office at 4655 Great America Parkway, Suite 300, Santa Clara, CA 95054, on behalf of itself and the Telenav Related Companies. Capitalized terms not otherwise defined shall have the meanings ascribed to them in the Agreement.

WHEREAS, the parties wish to amend the Agreement.

NOW, THEREFORE, in consideration of the mutual promises and covenants contained in this Amendment, the parties agree as follows:

1. In Attachment V, Section 3, under the heading “For Gen 2”, delete the pricing matrix for [\*\*\*\*\*] and replace it with the following:

“[\*\*\*\*\*]

	[*****]	[*****]	[*****]	[*****]
[*****]	\$[*****]	\$[*****]	\$[*****]	\$[*****]
[*****]	\$[*****]	\$[*****]	\$[*****]	\$[*****]
[*****]	\$[*****]	\$[*****]	\$[*****]	\$[*****]
Subtotal	\$[*****]*	\$[*****]*	\$[*****]*	\$[*****]*
[*****]	\$[*****] ([*****])	\$[*****] ([*****])	\$[*****] ([*****])	\$[*****] ([*****])
<b>Total</b>	<b>\$ [*****]</b>	<b>\$ [*****]</b>	<b>\$ [*****]</b>	<b>\$ [*****]</b>

\*does not include [\*\*\*\*\*]

[\*\*\*\*\*] with [\*\*\*\*\*]

	[*****]	[*****]	[*****]	[*****]
[*****]	\$[*****]	\$[*****]	\$[*****]	\$[*****]
[*****]	\$[*****]	\$[*****]	\$[*****]	\$[*****]
[*****]	\$[*****]	\$[*****]	\$[*****]	\$[*****]
[*****]	\$[*****]	\$[*****]	\$[*****]	\$[*****]
Subtotal	\$[*****]	\$[*****]	\$[*****]	\$[*****]
[*****]	\$[*****]	\$[*****]	\$[*****]	\$[*****]
<b>Total</b>	<b>\$ [*****]</b>	<b>\$ [*****]</b>	<b>\$ [*****]</b>	<b>\$ [*****]</b>

[\*\*\*\*\*] Certain portions denoted with an asterisk have been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

2. In Attachment V, Section 3, under the heading “For Gen 2”, delete the pricing matrix for [\*\*\*\*\*] and replace it with the following:

“[\*\*\*\*\*]

	[*****]	[*****]	[*****]	[*****]
[*****]	\$[*****]	\$[*****]	\$[*****]	\$[*****]
[*****]	\$[*****]	\$[*****]	\$[*****]	\$[*****]
Subtotal	\$[*****]	\$[*****]	\$[*****]	\$[*****]
[*****]	\$[*****]	\$[*****]	\$[*****]	\$[*****]
<b>Total</b>	<b>\$ [*****]</b>	<b>\$ [*****]</b>	<b>\$ [*****]</b>	<b>\$ [*****]</b>

“

3. In Attachment V, Section 3, under the heading “Gen 3 Content Fees:”, after the pricing matrix for [\*\*\*\*\*], add the following:

“[\*\*\*\*\*] with [\*\*\*\*\*]

	[*****]	[*****]	[*****]
[*****]	\$[*****]	\$[*****]	\$[*****]
[*****]	\$[*****]	\$[*****]	\$[*****]
[*****]	\$[*****]	\$[*****]	\$[*****]
[*****]	\$[*****]	\$[*****]	\$[*****]
Subtotal	\$[*****]	\$[*****]	\$[*****]
[*****]	\$[*****]	\$[*****]	\$[*****]
<b>Total</b>	<b>\$ [*****]</b>	<b>\$ [*****]</b>	<b>\$ [*****]</b>

“

4. In Attachment V, Section 3, under the heading “Gen 3 Content Fees:”, delete the pricing matrix for [\*\*\*\*\*] and replace it with the following:

“[\*\*\*\*\*]

	[*****]	[*****]	[*****]
[*****]	\$[*****]	\$[*****]	\$[*****]
[*****]	\$[*****]	\$[*****]	\$[*****]
Subtotal	\$[*****]	\$[*****]	\$[*****]
[*****]	\$[*****]	\$[*****]	\$[*****]
<b>Total</b>	<b>\$ [*****]</b>	<b>\$ [*****]</b>	<b>\$ [*****]</b>

“

5. In Attachment V, Section 3, under the heading “Gen 3 Content Fees:”, after the pricing matrix for [\*\*\*\*\*], add the following:

“[\*\*\*\*\*]

	[*****]	[*****]	[*****]
[*****]	[*****]	\$[*****]	\$[*****]
[*****]		\$[*****]	\$[*****]
	Subtotal	\$[*****]	\$[*****]
[*****]		\$[*****]	\$[*****]
	<b>Total</b>	<b>\$ [*****]</b>	<b>\$ [*****]</b>

\* Does not include [\*\*\*\*\*]

6. In Attachment V, after Section 14, add the following new section:

“15. For purposes of this Amendment No. 20, the parties approve and agree to implement the requirements of the Design Change Request(s) (“DCR”) listed below and the fees associated with these DCRs shall be \$[\*\*\*\*\*].

MY	DCR	Description	Quote	DCR comments
2018	13918964	[*****]	\$ [*****]	[*****]
	13909568	[*****]	\$ [*****]	Postal code search for the [*****] Updates to handle when a user doesn't give SYNC access to their phonebook and messages [*****] grammar and prompt updates Guidance Prompt updates for [*****] (2 prompts)
	13918958	[*****]	\$ [*****]	[*****]
	13918955	[*****]	\$ [*****]	
	10183000	[*****]	\$ [*****]	[*****]
	13910105	[*****]	\$ [*****]	Payment terms are [*****] equal payments after [*****]. Telenav will invoice once for the total amount at [*****] and then payments including interest will be made [*****] for [*****]. Total NRE, including interest for [*****] = \$ [*****] (value without interest = \$ [*****] )
		<b>2018 MY subtotal</b>	<b>\$ [*****]</b>	

Except as modified and amended by this Amendment, the terms of the Agreement are ratified and confirmed by the parties hereto. This Amendment is incorporated into and made a part of the Agreement by the parties.

**IN WITNESS WHEREOF** , the parties have executed this Amendment by their authorized representatives as of the Amendment Effective Date.

**FORD MOTOR COMPANY**

By: /s/ Melissa Sheahan  
(Signature)

Name: Melissa Sheahan  
(Printed Name)

Title: Software Buyer

Date: 10-12-2016

**TELENAV, INC.**

By: /s/ Michael Strambi  
(Signature)

Name: Michael Strambi  
(Printed Name)

Title: CFO

Date: 10-18-2016

**CERTIFICATION OF THE PRESIDENT AND CHIEF EXECUTIVE OFFICER  
PURSUANT TO SECURITIES EXCHANGE ACT RULES 13a-14(a) AND 15d-14(a),  
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Dr. HP Jin, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Telenav, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 3, 2017

By: /s/ Dr. HP JIN

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DR. HP Jin

President and Chief Executive Officer

**CERTIFICATION OF THE CHIEF FINANCIAL OFFICER  
PURSUANT TO SECURITIES EXCHANGE ACT RULES 13a-14(a) AND 15d-14(a),  
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Michael Strambi, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Telenav, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 3, 2017

By: /s/ MICHAEL STRAMBI

Michael Strambi  
Chief Financial Officer

**CERTIFICATION OF PRESIDENT AND CHIEF EXECUTIVE OFFICER  
PURSUANT TO 18 U.S.C. § 1350, AS ADOPTED PURSUANT TO SECTION 906  
OF THE SARBANES-OXLEY ACT OF 2002**

I, Dr. HP Jin, the president and chief executive officer of Telenav, Inc. (the "Company"), certify for the purposes of 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge,

(i) the Quarterly Report of the Company on Form 10-Q for the three months ended December 31, 2016 (the "Report"), fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 3, 2017

By: /s/ Dr. HP JIN

Dr. HP Jin

President and Chief Executive Officer



**CERTIFICATION OF CHIEF FINANCIAL OFFICER  
PURSUANT TO 18 U.S.C. § 1350, AS ADOPTED PURSUANT TO SECTION 906  
OF THE SARBANES-OXLEY ACT OF 2002**

I, Michael Strambi, the chief financial officer of Telenav, Inc. (the "Company"), certify for the purposes of 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge,

(i) the Quarterly Report of the Company on Form 10-Q for the three months ended December 31, 2016 (the "Report"), fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 3, 2017

By: /s/ MICHAEL STRAMBI

Michael Strambi

Chief Financial Officer