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HUGHES Telematics, Inc.
Form 424B3
May 10, 2011
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File No. 333-160787

SUPPLEMENT NO. 14 TO PROSPECTUS DATED AUGUST 19, 2009

THE DATE OF THIS SUPPLEMENT IS May 10, 2011

On May 10, 2011, HUGHES Telematics, Inc. filed the attached Quarterly Report on Form 10-Q with the Securities and Exchange Commission.

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

x Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended March 31, 2011, or

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

Commission file number 001-33860

HUGHES Telematics, Inc.

(Exact name of registrant as specified in its charter)

Delaware

26-0443717

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification Number)

2002 Summit Boulevard, Suite 1800

30319

Atlanta, Georgia

(Address of principal executive offices)

(Zip Code)

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

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

As of May 9, 2011, 94,103,976 shares of the registrant's common stock were outstanding.

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

HUGHES TELEMATICS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands, except share data)

	March 31, 2011	December 31, 2010
Assets		
Current assets:		
Cash and cash equivalents	\$25,003	\$14,596
Short-term investments	1,111	2,263
Accounts receivable, net	5,042	10,661
Prepaid expenses	808	933
Other current assets	2,868	3,078
Total current assets	34,832	31,531
Restricted cash	1,291	1,333
Property and equipment, net	23,276	24,516
Capitalized software, net	19,141	18,476
Intangible assets, net	11,738	12,591
Goodwill	5,169	5,169
Debt issuance costs	3,669	3,958
Other assets	11,002	11,243
Total assets	\$110,118	\$108,817
Liabilities and Stockholders' Deficit		
Current liabilities:		
Accounts payable	\$6,187	\$6,688
Accrued liabilities	21,888	18,868
Deferred revenue	16,282	12,972
Current portion of capital lease obligations	1,717	1,772
Current portion of long-term debt	5,527	5,632
Other current liabilities	1,108	1,585
Total current liabilities	52,709	47,517
Long-term debt, net of current portion	108,792	102,669
Capital lease obligations	136	152
Long-term deferred revenue	23,770	19,337
Other liabilities	1,557	1,504
Total liabilities	186,964	171,179
Commitments and contingencies (Note 11)		
Stockholders' deficit:		
Preferred stock, \$0.0001 par value. Authorized 10,000,000 shares, no shares issued and outstanding at March 31, 2011 and December 31, 2010	—	—
Common stock, \$0.0001 par value. Authorized 155,000,000 shares; issued and outstanding 94,103,976 shares at March 31, 2011 and 92,675,404 shares at December 31, 2010	9	9
Additional paid-in capital	377,149	370,229
Accumulated deficit	(467,276)	(445,450)
Total HUGHES Telematics, Inc. stockholders' deficit	(90,118)	(75,212)
Non-controlling interests in consolidated subsidiary	13,272	12,850
Total stockholders' deficit	(76,846)	(62,362)

Total liabilities and stockholders' deficit	\$110,118	\$108,817
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The accompanying notes are an integral part of these condensed consolidated financial statements.

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

	Three Months Ended March	
	31,	
	2011	2010
Revenues:		
Services	\$13,601	\$6,056
Hardware	2,362	2,111
Total revenues	15,963	8,167
Operating costs and expenses (exclusive of depreciation and amortization shown separately):		
Cost of services	5,867	5,228
Cost of hardware sold	1,567	1,587
Research and development	4,278	2,020
Sales and marketing	6,904	5,132
General and administrative	10,834	8,185
Depreciation and amortization	3,528	3,481
Total operating costs and expenses	32,978	25,633
Loss from operations	(17,015)	(17,466)
Interest income	12	48
Interest expense	(5,716)	(5,296)
Loss before income taxes	(22,719)	(22,714)
Income tax expense	—	—
Net loss	(22,719)	(22,714)
Net loss attributable to non-controlling interests	893	—
Net loss attributable to HUGHES Telematics, Inc.	\$(21,826)	\$(22,714)
Basic and diluted loss per common share	\$(0.64)	\$(0.85)
Basic and diluted weighted average common shares outstanding	34,178,501	26,572,440
The accompanying notes are an integral part of these condensed consolidated financial statements.		

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

	Three Months Ended March	
	31,	
	2011	2010
Cash flows from operating activities:		
Net loss	\$(22,719)	\$(22,714)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	3,528	3,481
Interest expense on long-term debt and capital leases	1,246	3,794
Amortization of debt issuance costs and discounts on long-term debt	1,750	1,502
Share-based compensation expense	840	587
Non-cash services contributed to consolidated subsidiary by non-controlling interests	544	—
Loss (Gain) on disposal of assets	8	(7)
Changes in assets and liabilities:		
Accounts receivable, net	5,619	1,370
Prepaid expenses and other assets	467	1,482
Accounts payable and accrued and other liabilities	2,098	(84)
Deferred revenue	7,742	582
Net cash provided by (used in) operating activities	1,123	(10,007)
Cash flows from investing activities:		
Purchases of short-term investments	(1,111)	(3,357)
Maturities of short-term investments	2,263	—
Purchases of property and equipment	(434)	(209)
Increase in capitalized software	(876)	(974)
Proceeds from disposal of assets	105	464
Decrease (Increase) in restricted cash	42	(206)
Net cash used in investing activities	(11)	(4,282)
Cash flows from financing activities:		
Proceeds from the issuance of common stock, net of costs	4,669	—
Proceeds from the issuance of long-term debt	5,000	—
Payment of debt issuance costs	(147)	—
Repayment of capital lease obligations	(122)	(1,416)
Repayment of long-term debt	(105)	(34)
Net cash provided by (used in) financing activities	9,295	(1,450)
Net increase (decrease) in cash and cash equivalents	10,407	(15,739)
Cash and cash equivalents, beginning of period	14,596	28,368
Cash and cash equivalents, end of period	\$25,003	\$12,629
Supplemental non-cash disclosure:		
Intangible assets and capitalized software costs contributed to consolidated subsidiary by non-controlling interests	\$739	\$—
Property and equipment acquired by capital lease obligations	\$—	\$277

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

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HUGHES TELEMATICS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(1) Description of Business

HUGHES Telematics, Inc. (together with our consolidated subsidiaries, “we,” “us” and “our”) is a telematics services company that provides a suite of real-time voice and data communications services and applications for use in vehicles and is developing additional applications for use within and outside of the automotive industry. These services and applications are enabled through a state-of-the-art communications center designed with flexibility to connect various mobile devices with content, services and call centers. Within the automotive industry, our communications center allows for two way voice and data communications to vehicles and supports, among other things, critical safety and security services as well as location-based services and remote diagnostics. Since November 16, 2009, we have been the exclusive telematics service provider in the United States for all new vehicles sold by Mercedes-Benz USA, LLC (“Mercedes-Benz”), and we are now the preferred provider of telematics services for all Mercedes-Benz vehicles purchased prior to November 16, 2009. These services are marketed under the mbrace® brand. In addition, our In-Drive® solution offers services to consumers or other third parties through an aftermarket hardware device that we have developed and which we intend to distribute through relationships with companies and organizations with large customer or membership bases for installation in existing vehicles. We expect to launch our In-Drive solution in the third quarter of 2011 through an agreement with a large insurance company. Additionally, through Networkfleet, Inc. (“Networkfleet”), our wholly-owned subsidiary, we currently offer remote vehicle monitoring and other data services through after-market hardware that is purchased separately and installed in fleets of vehicles.

In May 2010, we broadened our connected services beyond the automotive market to include the mobile health and wellness industry with the formation of Lifecomm, LLC (“Lifecomm”), a majority owned subsidiary founded with QUALCOMM Incorporated (“Qualcomm”), a leader in developing and delivering innovative digital wireless communications products and services, and American Medical Alert Corp. (“AMAC”), a healthcare communications company dedicated to the provision of support services to the healthcare community. Lifecomm intends to design, develop, finance and operate a mobile personal emergency response service which will permit subscribers to initiate requests for emergency assistance services through a wearable device that is able to communicate information to and support voice interactions between the subscriber and an emergency assistance call center. Lifecomm expects to launch its service offerings in the fourth quarter of 2011.

(2) Basis of Presentation

We have prepared the accompanying condensed consolidated financial statements in accordance with United States generally accepted accounting principles (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X and include our accounts and the accounts of our wholly-owned subsidiary, Networkfleet, and our majority-owned subsidiary, Lifecomm, for periods following the formation of Lifecomm. The accompanying condensed consolidated financial statements do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, the accompanying condensed consolidated financial statements contain all adjustments, consisting only of those of a normal recurring nature, necessary for a fair presentation of our financial position, results of operations and cash flows at the dates and for the periods indicated. While we believe that the disclosures presented are adequate to make the information not misleading, these condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2010 and the related notes thereto which have been included in our annual report on Form 10-K filed with the Securities and Exchange Commission (the “SEC”) on March 16, 2011. The results of the three months ended March 31, 2011 are not necessarily indicative of the results to be expected for the full year. All intercompany balances and transactions have been eliminated. Certain prior period amounts have been reclassified to conform to current presentation.

During the three months ended March 31, 2011 and the years ended December 31, 2010, 2009 and 2008, we incurred a net loss of approximately \$22.7 million, \$89.6 million, \$163.7 million and \$57.5 million, respectively. Cash flow provided by operations was approximately \$1.1 million in the three months ended March 31, 2011, but we used cash

in operations of approximately \$25.1 million, \$47.2 million and \$39.1 million in the years ended December 31, 2010, 2009 and 2008, respectively. As of March 31, 2011, we had unrestricted cash, cash equivalents and short-term investments of approximately \$26.1 million and an accumulated deficit of approximately \$467.3 million. Of the cash, cash equivalents and short-term investments, approximately \$7.8 million is held by our Lifecomm subsidiary for use in that business. We believe that the cash and cash equivalents on hand and the projected cash flows to be generated by our service offerings to Mercedes-Benz vehicles and sales of our In-Drive and Lifecomm products and services will allow us to continue operations beyond the next twelve months. Since we launched our service offerings to Mercedes-Benz vehicles about a year and a half ago and expect to launch our In-Drive and Lifecomm products and services during the year ending December 31, 2011, some or all of the assumptions underlying our projections may prove to be materially inaccurate. If so, we cannot assure you that our net losses and negative cash flow will not surpass our expectations, and thus, we may be required to raise additional capital in the future or to reduce

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our operating expenditures. This additional financing may take the form of loans under a new credit facility, the issuance of bonds or other types of debt securities, the issuance of equity securities or a combination of the foregoing. Any such financing must either comply with the covenants of our existing credit facilities, or we will need to obtain waivers from the lenders. Our credit facilities contain covenants that restrict our ability to incur debt and will require mandatory prepayments from the proceeds of an equity financing. Any debt financing obtained may impose various restrictions and additional covenants on us which could limit our ability to respond to market conditions, provide for unanticipated capital investments or take advantage of business opportunities and may subject us to significant interest expense. Additional equity financing may be obtained on terms that are dilutive to the interests of existing stockholders. We have been successful in the past raising capital to address our liquidity needs; however, debt or additional equity financing may not be available when needed in the future on terms favorable to us or at all, and the failure to attract a sufficient amount of additional debt or equity capital may impair our ability to execute on our business plan. Such additional capital may be provided by, among other things, the cash proceeds from the exercise of the outstanding warrants to purchase shares of our common stock. There is no assurance that we will be successful in obtaining additional financing, if needed, or that we will be able to reduce our operating expenditures. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

(3)Lifecomm, LLC

In accordance with the applicable accounting guidance governing consolidation, we have determined that Lifecomm is a variable interest entity ("VIE") for which we are the primary beneficiary. Accordingly, we have included Lifecomm's financial position, results of operations and cash flows in our consolidated financial statements as of and for the three months ended March 31, 2011. As of March 31, 2011, Lifecomm's assets consisted of approximately \$6.7 million of cash and cash equivalents, approximately \$1.1 million of short-term investments that are held-to-maturity, \$3.0 million of intangible assets and approximately \$2.0 million of capitalized software costs, and its liabilities consisted of approximately \$1.5 million of accounts payable and accrued liabilities. As of December 31, 2010, Lifecomm's assets consisted of approximately \$7.8 million of cash and cash equivalents, approximately \$1.5 million of short-term investments that are held-to-maturity, \$3.0 million of intangible assets and approximately \$0.5 million of capitalized software costs, and its liabilities consisted of approximately \$1.2 million of accounts payable and accrued liabilities. Each of the initial members of Lifecomm have preemptive rights with respect to future issuances of securities by Lifecomm, as well as rights of first offer, drag-along and tag-along rights on transfers of securities by the other members. In addition, for a two year period beginning on May 12, 2014, any member (or group of members) holding at least 25% of the membership interests in Lifecomm will have the right to demand either an auction for the sale of Lifecomm or an initial public offering of Lifecomm. Should Lifecomm fail to achieve either of these liquidity events within 180 days of the demand, then to the extent at such time we hold at least 50% of the outstanding membership interests of Lifecomm and our common stock is publicly traded, each other member will be entitled on a one-time basis to exchange all of its membership interests in Lifecomm for shares of our common stock with equivalent fair market value. While we determined that such right to exchange is a freestanding derivative instrument, as the fair market value of our common stock to be issued in the exchange will be equal to the fair market value of the membership interests of Lifecomm received, the value of the derivative instrument is not material as of March 31, 2011.

(4)Recently Adopted Accounting Pronouncements

In September 2009, the EITF issued revised guidance governing certain revenue arrangements that include software elements, which amends the scope of existing guidance to exclude tangible products that include software and non-software components that function together to deliver the product's essential functionality. Additionally, the EITF issued revised guidance governing revenue arrangements with multiple deliverables, which provides a greater ability to separate and allocate the arrangement consideration in a multiple element revenue arrangement. The revised guidance requires the use of an estimated selling price to allocate arrangement consideration if vendor-specific objective evidence of selling price ("VSOE") is not available, and eliminates the residual method of allocation. This guidance was effective for us on January 1, 2011. We price and sell hardware and services separately based on VSOE, and account for hardware and services as separate units of accounting. The new accounting guidance did not have a material effect on our results of operations as it did not change our units of accounting or general timing of delivery or

performance.

(5) Long-Term Debt

The components of long-term debt were as follows:

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	March 31, 2011	December 31, 2010
	(in thousands)	
Senior secured term indebtedness	\$70,948	\$ 70,254
Second lien secured term indebtedness	16,674	12,250
Senior unsecured promissory note	5,527	5,632
Senior subordinated unsecured promissory notes	21,170	20,165
Total indebtedness	114,319	108,301
Less current portion	(5,527)	(5,632)
Total long-term debt, net of current portion	\$108,792	\$ 102,669
Senior Secured Term Indebtedness		

On March 31, 2008, we entered into a credit agreement (as amended and restated, the “First Lien Credit Agreement”) pursuant to which we issued in multiple tranches during the year ended December 31, 2008 for aggregate consideration of \$60.0 million, senior secured term indebtedness due March 31, 2013 with an original principal amount of \$60.0 million and warrants to purchase the equivalent of 4,801,112 shares of our common stock, comprised of 1,103,922 initial shares and 3,697,190 earn-out shares, at an equivalent exercise price of less than \$0.01 per share. The senior secured term indebtedness is guaranteed by all of our existing and future domestic subsidiaries and is secured by all of our tangible and intangible assets. At our election, the term indebtedness bears interest at (i) the Prime Lending Rate plus 10.00% or (ii) for Eurocurrency borrowings, 11.00% plus the greater of London Interbank Offered Rate (“LIBOR”) or 3.00%. In accordance with an agreement between us and one of the senior secured note holders, the interest rate on term indebtedness with an initial principal amount of \$5.0 million will have an interest rate of no higher than 14.00% for the term of the debt. With respect to Eurocurrency borrowings, we may elect interest periods of one, two, three, or six months (or nine or twelve months if approved by each senior secured note holder), and interest is payable in arrears at the end of each interest period but, in any event, at least every three months. With respect to all interest periods ending on or prior to March 31, 2010, the interest accrued on the senior secured term indebtedness was paid in kind in arrears with such accrued interest being added to the outstanding principal balance of the term indebtedness. With respect to all interest periods ending after March 31, 2010, the accrued interest will be paid in cash in arrears. As of each of March 31, 2011 and December 31, 2010, senior secured term indebtedness with an aggregate principal amount, including the accrued interest which had been paid in kind, of approximately \$76.9 million was outstanding. As of March 31, 2011, we had elected that all outstanding amounts consist of Prime Lending borrowings which resulted in the term indebtedness bearing an interest rate of 13.25%.

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

As of each issuance date, we ascribed value to the senior secured term indebtedness and the related warrants based on their relative fair values. As such, an aggregate of \$46.9 million was allocated to the senior secured term indebtedness and an aggregate of \$12.1 million was allocated to the warrants. The resulting discount from the face value of the senior secured term indebtedness resulting from the ascribed value to the warrants is being amortized as additional

interest expense over the term of the senior secured term indebtedness using the effective interest rate method. As of March 31, 2011, the fair value of the senior secured indebtedness approximated carrying value.

Second Lien Term Indebtedness

On December 17, 2009, we entered into a credit agreement (the "Second Lien Credit Agreement") with PLASE HT, LLC ("PLASE HT"), as administrative agent, collateral agent and original lender, pursuant to which we issued indebtedness due October 1, 2013 with an original principal amount of \$15.0 million and warrants to purchase 3,000,000 shares of common stock at an exercise price of \$6.00 per share. PLASE HT is an affiliate of Apollo Global Management LLC ("Apollo") and of

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our controlling stockholder, Communications Investors, LLC (“Communications LLC”). On February 7, 2011, we entered into an incremental loan commitment agreement with certain unaffiliated investors, pursuant to which we issued additional indebtedness under the Second Lien Credit Agreement with an original principal amount of \$5.0 million and warrants to purchase 1,000,000 shares of common stock at an exercise price of \$5.99 per share. The loans under the Second Lien Credit Agreement bear interest at 9.00% per annum, payable-in-kind, and are guaranteed by all of our existing and future domestic subsidiaries. The loans are secured by a second priority lien on substantially all of our tangible and intangible assets, including the equity interests of our subsidiaries. The liens granted in connection with the Second Lien Credit Agreement are expressly subject and subordinated to the liens securing our obligations under the First Lien Credit Agreement.

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

We ascribed value to the indebtedness issued in connection with the Second Lien Credit Agreement and the related warrants based on their relative fair values. As such, for the loans issued on February 7, 2011 and December 17, 2009, we allocated approximately \$3.6 million and \$9.5 million, respectively, of the proceeds to the indebtedness and the remaining approximately \$1.4 million and \$5.5 million, respectively, to the warrants. The resulting discount from the face value of the indebtedness resulting from the ascribed value to the warrants will be amortized as additional interest expense over the term of the indebtedness using the effective interest rate method. As of March 31, 2011, the fair value of the indebtedness approximated carrying value.

Senior Unsecured Promissory Note

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

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

Senior Subordinated Unsecured Promissory Notes

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

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

At the time of issuance of each promissory note, we determined the estimated fair value amount by using available market information and commonly accepted valuation methodologies. However, considerable judgment is required in interpreting market data to develop estimates of fair value. Accordingly, the fair value estimates presented herein are not necessarily indicative of the amounts that we or holders of the instruments could realize in a current market exchange. The use of different assumptions and/or estimation methodologies may have a material effect on the estimated fair value. As of March 31, 2011, the fair value of the senior subordinated unsecured promissory notes approximated carrying value.

(6) Stockholders’ Equity

On February 7, 2011, we completed a private placement of 1,428,572 shares of common stock to a group of accredited investors at a purchase price of \$3.50 per share. The aggregate purchase price for the common stock sold in the private placement was approximately \$5.0 million. In connection with the private placement, we entered into an amendment to the First Lien Credit Agreement providing for the waiver of the requirement to use 25% of the net cash proceeds from the private placement for the repayment of senior secured term indebtedness.

(7) Share-Based Compensation

In accordance with the applicable accounting guidance governing share-based payments, we record compensation expense for all share-based awards issued. For the three months ended March 31, 2011 and 2010, we recorded approximately \$0.8 million and \$0.6 million of compensation expense, respectively, related to share-based grants. Such compensation expense is included in research and development, sales and marketing and general and administrative expense in the accompanying consolidated statements of operations.

Stock Options

The following table reflects stock option activity for the three months ended March 31, 2011:

	Number of Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value (in thousands)
Outstanding at December 31, 2010	3,800,957	\$3.33	
Granted	—	\$—	
Forfeited	—	\$—	
Outstanding at March 31, 2011	3,800,957	\$3.33	\$4,074
Exercisable at March 31, 2011	427,230	\$2.75	\$609

The following table provides information about stock options that are outstanding and exercisable as of March 31, 2011:

Exercise Price	Stock Options Outstanding			Stock Options Exercisable		
	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Life (Yrs)	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Life (Yrs)

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\$1.65 - \$2.05	719,241	\$1.76	7.0	88,996	\$1.65	6.1
\$2.47	1,453,230	\$2.47	6.7	246,361	\$2.47	6.7
\$3.15 - \$3.40	356,000	\$3.33	8.9	30,000	\$3.23	8.7
\$5.19	1,272,486	\$5.19	8.2	61,873	\$5.19	8.2

For stock option awards outstanding as of March 31, 2011, we expect to recognize approximately \$3.4 million of additional compensation expense over the remaining average service period of approximately 1.2 years.

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Restricted Stock

The following table reflects restricted stock activity:

	Number of Shares	Weighted Average Grant Date Fair Value
Outstanding at December 31, 2010	839,280	\$4.05
Vested	(96,000)	\$4.01
Outstanding at March 31, 2011	743,280	\$4.06

For restricted stock awards outstanding as of March 31, 2011, we expect to record approximately \$1.6 million of additional compensation expense over the remaining average service period of approximately 0.7 years.

(8) Loss Per Common Share

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

During all periods presented, we had potential common shares that could dilute basic loss per common share in the future but have been excluded from the computation of diluted loss per common share as the effect would have been anti-dilutive. For the three months ended March 31, 2011 and 2010, there were 82,785,548 and 83,623,560 potential common shares, respectively, excluded from the computation of diluted loss per share, consisting primarily of shares of common stock issuable upon the exercise of outstanding stock options and warrants and shares of common stock held in escrow to be released to certain stockholders upon achievement of the specified price targets.

(9) Comprehensive Loss

Comprehensive loss is defined as the change in equity during a period from transactions and other events and circumstances from nonowner sources. Our comprehensive loss for each of the three months ended March 31, 2011 and 2010 equaled our net loss.

(10) Related Party Transactions

Apollo Global Management, LLC

Communications LLC, AIF V PLASE and PLASE HT are each affiliated with Apollo. As of March 31, 2011, Apollo, through these entities, owned approximately 61% of our outstanding common stock. HCI, also an affiliate of Apollo, owned an additional approximately 4% of our outstanding common stock. In December 2009, AIF V PLASE transferred its ownership in all of its equity and debt interests of us, including its holding of senior secured term indebtedness, the senior subordinated unsecured promissory note and common stock, to PLASE HT.

As of March 31, 2011, the affiliates of Apollo, not including HNS which is discussed below, collectively held an aggregate face value and accrued interest of \$5.9 million of senior secured term indebtedness, \$16.8 million of second lien secured term indebtedness and \$23.6 million of senior subordinated unsecured promissory notes.

Hughes Network Systems, LLC

For the three months ended March 31, 2011 and 2010, HNS, a wholly-owned subsidiary of HCI and an affiliate of Apollo, provided no and approximately \$0.3 million of services, respectively, to us. As of March 31, 2011 and December 31, 2010, we had no outstanding balance, not including the promissory note discussed below, payable to HNS.

On December 18, 2009, we issued to HNS a senior unsecured promissory note with a principal amount of approximately \$8.3 million through the conversion of a trade accounts payable balance of approximately \$6.0 million and the approximately \$2.3 million outstanding balance on an equipment financing arrangement owed to HNS. The promissory note accrues interest at a rate of 12.00% per annum, compounded annually, and was to become due and payable on December 31, 2010. Pursuant to the terms of the promissory note, we were required to make scheduled principal payments of approximately \$0.8 million on April 15, 2010 and \$1.5 million on each of July 15, 2010 and October 15, 2010. In addition, subject to all restrictions in the First Lien Credit Agreement and the Second Lien Credit

Agreement and certain other limitations, to the extent we sell any capital equipment purchased by us (or purchased by HNS on our behalf) for use in connection with the Telematics Agreement

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between the parties, but no longer needed by us, we are required to make payments on the promissory note equal to the proceeds from the sale of such capital equipment (net of any selling costs).

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

Trivergance Business Resources, LLC

For each of the three months ended March 31, 2011 and 2010, Trivergance Business Resources, LLC, an affiliate of a member of our board of directors, provided approximately \$0.4 million of services to us.

(11) Commitments and Contingencies

Contractual Payment Obligations

We have a long-term contract with an automaker pursuant to which the automaker agreed to install telematics devices in its vehicles and permit us to exclusively provide telematics services to its new customers. This contract also required us to pay the automaker for certain non-recurring costs associated with the initiation of telematics services. Pursuant to the contract, we are currently committed to pay the automaker \$4.0 million during the year ending December 31, 2011.

Litigation and Claims

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

(12) Segment Information

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

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

	Three Months Ended March 31,	
	2011	2010
	(in thousands)	
Revenues:		
HUGHES Telematics	\$ 6,541	\$ 21
Networkfleet	9,422	8,146
Lifecomm	—	—
Total	\$ 15,963	\$ 8,167
(Loss) Income from operations:		
HUGHES Telematics	\$ (14,518)	\$ (17,777)
Networkfleet	(446)	311
Lifecomm	(2,051)	—
Total	\$ (17,015)	\$ (17,466)

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	March 31, 2011	December 31, 2010
	(in thousands)	
Total assets:		
HUGHES Telematics	\$80,107	\$ 77,711
Networkfleet	17,143	18,235
Lifecomm	12,871	12,871
Total	\$110,121	\$ 108,817

Substantially all of our assets are located within the United States. As of March 31, 2011 and December 31, 2010, we included the approximately \$5.2 million of goodwill in the total assets of the Networkfleet segment.

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

The following discussion and analysis of our financial condition and results of operations are based upon financial statements which have been prepared in accordance with GAAP and should each be read together with our consolidated financial statements and the notes to those consolidated financial statements included elsewhere in this report. This report contains forward-looking statements that involve risks and uncertainties, including statements regarding our capital needs, business strategy, expectations and intentions within the meaning of Private Securities Litigation Reform Act of 1995 which represent our expectations or beliefs concerning future events. We urge you to consider statements that use the terms “believe,” “do not believe,” “anticipate,” “expect,” “plan,” “may,” “estimate,” “strive,” “will,” “should,” and variations of these words or similar expressions are intended to identify forward-looking statements. These statements reflect our current views with respect to future events and because our business is subject to numerous risks, and uncertainties, our actual results could differ materially from those anticipated in the forward-looking statements, including those set forth below under this “Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations” and elsewhere in this report. All forward-looking statements speak only as of the date of this report. Actual results will most likely differ from those reflected in these forward-looking statements and the differences could be substantial. We disclaim any obligation to update these forward-looking statements or disclose any difference, except as may be required by securities laws, between our actual results and those reflected in these statements. Although we believe that our plans, intentions and expectations reflected in or suggested by the forward-looking statements in this report are reasonable, we can give no assurance that such plans, intentions or expectations will be achieved. The terms “HUGHES Telematics,” “we,” “us” and “our” refer to the business, operations and financial results of HUGHES Telematics, Inc.

Overview

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

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

On May 12, 2010, we entered into the LLC Agreement with Qualcomm, a leader in developing and delivering innovative digital wireless communications products and services, and AMAC, a healthcare communications company dedicated to the provision of support services to the healthcare community, forming Lifecomm. Lifecomm intends to design, develop, finance and operate a mobile personal emergency response service which will permit subscribers to initiate requests for emergency assistance services through a wearable device that is able to communicate information to and support voice interactions between the subscriber and an emergency assistance call center. Lifecomm expects to launch its service offerings in the fourth

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quarter of 2011.

On August 30, 2010, we entered into an agreement with a large insurance company to provide our In-Drive telematics services to certain customers of the insurance company. Pursuant to the agreement, we will configure our telematics platform to support the program and provide our aftermarket hardware device to the insurance company's customers to enable the delivery of telematics services to the insurance company and the insurance company's customers. In addition, we will be responsible for, among other things, certain website development to allow the insurance company's customers to access program information and maintenance and support of the hardware devices, including warranty. Pursuant to the agreement and subject to fulfillment of our obligations thereunder, we will receive minimum aggregate payments from the insurance company of approximately \$24.1 million in the first two years of the contract for the configuration of our telematics platform to support the program, development of the program website, the final testing and deployment of the hardware device, other program launch activities and the procurement by us of an agreed upon minimum number of hardware devices which we will provide to the insurance company's customers. During the year ended December 31, 2010 and the three months ended March 31, 2011, we received approximately \$5.5 million and \$2.9 million, respectively, of such amounts, and we expect to receive an additional \$12.1 million during the remainder of the year ending December 31, 2011 and the remaining balance in the year ending December 31, 2012. In addition, we expect to receive recurring payments from the insurance company's customers subject to and in connection with their subscription to the offered telematics services. We expect to launch our service to the insurance company's customers and begin revenue generating activities in the third quarter of 2011.

Selected Segment Data

We classify our operations into three principal business segments: (i) the HUGHES Telematics segment, which provides the telematics solution which is being marketed to automakers and other parties and includes the operations relating to our contract with Mercedes-Benz and our In-Drive product offering; (ii) the Networkfleet segment, which provides an aftermarket wireless fleet management solution targeted to the local fleet market; and (iii) the Lifecomm segment, which is developing and will operate a mobile personal emergency response service which will permit subscribers to initiate requests for emergency assistance services through a wearable device. The following tables set forth revenues and (loss) income from operations by operating segment:

	Three Months Ended March 31,	
	2011	2010
	(in thousands)	
Revenues:		
HUGHES Telematics	\$ 6,541	\$ 21
Networkfleet	9,422	8,146
Lifecomm	—	—
Total	\$ 15,963	\$ 8,167
(Loss) Income from operations:		
HUGHES Telematics	\$ (14,518)	\$ (17,777)
Networkfleet	293	311
Lifecomm	(2,051)	—
Total	\$ (16,276)	\$ (17,466)

Results of Operations for the Three Months Ended March 31, 2011 Compared to the Three Months Ended March 31, 2010

Revenues

Service revenues relate to the consideration received from the provision of Networkfleet's monitoring and tracking services and of the mbrace services to owners and lessees of Mercedes-Benz vehicles and are recognized as revenue when earned over the applicable subscription term. Hardware revenues consist principally of the sale of Networkfleet's telematics device. The following table sets forth information related to revenue for the three months ended March 31, 2011 and 2010:

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	Three Months Ended March 31,	
	2011	2010
	(in thousands)	
Services	\$13,601	\$6,056
Hardware	2,362	2,111
Total revenues	\$15,963	\$8,167

Total revenues for the three months ended March 31, 2011 increased to approximately \$16.0 million, a 95% increase from the approximately \$8.2 million of total revenues for the three months ended March 31, 2010. This increase was primarily due to an approximately \$6.5 million of service revenues recognized related to the mbrace service offering in the three months ended March 31, 2011 compared to less than \$0.1 million of revenues recognized in the three months ended March 31, 2010 and an approximately \$1.0 million, or 17% , increase in Networkfleet's service revenues in the three months ended March 31, 2011 compared to the three months ended March 31, 2010. Units active on Networkfleet's network increased to approximately 119,000 as of March 31, 2011, a 13% increase from the approximately 105,000 units active as of March 31, 2010. Service revenues are expected to continue to increase in future periods as (i) we continue to earn the deferred revenue related to the provision of services to paying subscribers of the mbrace service, (ii) we convert additional mbrace subscribers from a trial to a paid subscription, (iii) we transition paying subscribers from the Mercedes-Benz service formerly marketed as Tele Aid to our service platform and (iv) Networkfleet continues to sell additional hardware devices thereby growing the number of active units on its network. Further, we expect to begin generating revenue from our In-Drive service offering beginning in the third quarter of 2011 and from our Lifecomm service offering in the fourth quarter of 2011.

Hardware revenues for the three months ended March 31, 2011 increased by approximately \$0.3 million as compared to the three months ended March 31, 2010 due primarily to an increase in the number of units sold from approximately 6,500 units in the three months ended March 31, 2010 to approximately 7,600 units in the three months ended March 31, 2011, an increase of 17%.

Cost of Revenues

Cost of services includes per-unit monthly charges from various wireless, mapping and roadside assistance providers and the salaries and related benefits for employees who support the call centers and manage the data centers. Cost of hardware sold consists primarily of the cost of direct materials required to produce Networkfleet's telematics device and the cost of shipping and installing devices. The following table sets forth information related to costs of revenue for the three months ended March 31, 2011 and 2010:

	Three Months Ended March 31,	
	2011	2010
	(in thousands)	
Cost of services	\$	