

NUMEREX CORP /PA/

FORM 10-Q (Quarterly Report)

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Address	3330 CUMBERLAND BLVD SUITE 700 ATLANTA, GA 30339
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 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: 000-22920

NUMEREX CORP.

(Exact name of registrant as specified in its charter)

Pennsylvania
(State or other jurisdiction
of incorporation or organization)

11-2948749
(I.R.S. Employer
Identification No.)

400 Interstate North Parkway, Suite 1350
Atlanta, GA 30339-2119

(Address of principal executive offices) (Zip Code)

(770) 693-5950

(Registrant's telephone number, including area code)

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

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

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

Accelerated filer

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

As of October 28, 2016, 19,583,392 shares of the registrant's Class A common stock, no par value (being the registrant's only class of common stock outstanding) were outstanding.

NUMEREX CORP. AND SUBSIDIARIES
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NUMEREX CORP. AND SUBSIDIARIES
PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

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NUMEREX CORP. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)

	<u>September 30,</u> <u>2016</u>	<u>December 31,</u> <u>2015</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 9,824	\$ 16,237
Restricted cash	221	-
Accounts receivable, less allowance for doubtful accounts of \$743 and \$618	9,353	9,237
Financing receivables, current	1,877	1,780
Inventory, net of reserves	6,339	7,617
Prepaid expenses and other current assets	1,838	1,887
Deferred tax assets, current	603	603
TOTAL CURRENT ASSETS	<u>30,055</u>	<u>37,361</u>
Financing receivables, less current portion	2,090	2,330
Property and equipment, net of accumulated depreciation and amortization	6,136	4,795
Software, net of accumulated amortization	6,118	7,146
Other intangible assets, net of accumulated amortization	12,879	15,722
Goodwill	40,945	43,424
Other assets	849	409
TOTAL ASSETS	<u>\$ 99,072</u>	<u>\$ 111,187</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 11,572	\$ 11,390
Accrued expenses and other current liabilities	3,777	2,864
Deferred revenues	1,563	1,942
Current maturities of long-term debt, net of debt issuance costs	638	3,600
Current obligations under capital lease	257	-
TOTAL CURRENT LIABILITIES	<u>17,807</u>	<u>19,796</u>
Long-term debt, net of debt issuance costs, less current maturities	15,456	15,309
Obligations under capital lease, noncurrent	980	-
Deferred tax liabilities, noncurrent	1,416	1,595
Other liabilities	1,528	1,891
TOTAL LIABILITIES	<u>37,187</u>	<u>38,591</u>
COMMITMENTS AND CONTINGENCIES (NOTE H)		
SHAREHOLDERS' EQUITY		
Preferred stock, no par value; 3,000 authorized; none issued	-	-
Class A common stock, no par value; 30,000 authorized; 20,910 and 20,652 issued; 19,583 and 19,177 outstanding	-	-
Class B common stock, no par value; 5,000 authorized; none issued	-	-
Additional paid-in capital	104,568	102,108
Treasury stock, at cost, 1,326 and 1,316 shares	(5,466)	(5,444)
Accumulated other comprehensive loss	(105)	(117)
Accumulated deficit	(37,112)	(23,951)
TOTAL SHAREHOLDERS' EQUITY	<u>61,885</u>	<u>72,596</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 99,072</u>	<u>\$ 111,187</u>

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

NUMEREX CORP. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
AND COMPREHENSIVE LOSS
(In thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net revenues:				
Subscription and support revenues	\$ 14,388	\$ 15,624	\$ 44,183	\$ 48,874
Embedded devices and hardware	3,024	7,710	8,886	21,791
Total net revenues	<u>17,412</u>	<u>23,334</u>	<u>53,069</u>	<u>70,665</u>
Cost of sales, exclusive of a portion of depreciation and amortization shown below:				
Subscription and support revenues	5,828	6,538	17,242	19,728
Embedded devices and hardware	3,082	6,958	9,027	19,582
Inventory reserves	27	1,277	514	1,547
Impairment of other asset	-	1,275	-	1,275
Gross profit	<u>8,475</u>	<u>7,286</u>	<u>26,286</u>	<u>28,533</u>
Operating expenses:				
Sales and marketing	3,229	3,047	9,444	9,136
General and administrative	3,280	4,507	11,269	12,108
Engineering and development	2,229	2,201	6,920	6,695
Depreciation and amortization	1,658	2,100	4,992	5,411
Impairment of goodwill and other intangible assets	-	1,250	4,172	1,250
Restructuring charges	276	-	1,520	-
Operating loss	<u>(2,197)</u>	<u>(5,819)</u>	<u>(12,031)</u>	<u>(6,067)</u>
Interest expense	469	188	1,196	604
Loss on extinguishment of debt	-	-	290	-
Other income, net	<u>(33)</u>	<u>(31)</u>	<u>(99)</u>	<u>(100)</u>
Loss before income taxes	<u>(2,633)</u>	<u>(5,976)</u>	<u>(13,418)</u>	<u>(6,571)</u>
Income tax (benefit) expense	<u>(87)</u>	<u>10,404</u>	<u>(257)</u>	<u>10,159</u>
Net loss	<u>(2,546)</u>	<u>(16,380)</u>	<u>(13,161)</u>	<u>(16,730)</u>
Other items of comprehensive income (loss), net of income taxes:				
Foreign currency translation adjustment	1	30	12	47
Comprehensive loss	<u>\$ (2,545)</u>	<u>\$ (16,350)</u>	<u>\$ (13,149)</u>	<u>\$ (16,683)</u>
Loss per share:				
Basic	\$ (0.13)	\$ (0.86)	\$ (0.68)	\$ (0.88)
Diluted	\$ (0.13)	\$ (0.86)	\$ (0.68)	\$ (0.88)
Weighted average shares outstanding used in per share calculation				
Basic	19,542	19,137	19,456	19,053
Diluted	19,542	19,137	19,456	19,053

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

NUMEREX CORP. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(In thousands)

	Common Shares	Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Shareholders' Equity
Balance at January 1, 2016	20,652	\$ 102,108	\$ (5,444)	\$ (117)	\$ (23,951)	\$ 72,596
Equity-based compensation expense	-	2,202	-	-	-	2,202
Exercises, vesting and other equity-based compensation plan activity, net	257	250	(22)	-	-	228
Issuance of common shares for services	1	8	-	-	-	8
Translation adjustment	-	-	-	12	-	12
Net loss	-	-	-	-	(13,161)	(13,161)
Balance at September 30, 2016	<u>20,910</u>	<u>\$ 104,568</u>	<u>\$ (5,466)</u>	<u>\$ (105)</u>	<u>\$ (37,112)</u>	<u>\$ 61,885</u>

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

NUMEREX CORP. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Nine Months Ended	
	September 30,	
	2016	2015
Cash flows from operating activities:		
Net loss	\$ (13,161)	\$ (16,730)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation and amortization	5,997	6,163
Impairment of goodwill and other assets	4,172	2,525
Non-cash restructuring charges	345	-
Equity-based compensation expense	2,202	2,319
Loss on extinguishment of debt	290	-
Deferred income taxes	(268)	10,147
Bad debt expense	327	400
Inventory reserves	514	1,547
Other non-cash expense	138	63
Changes in assets and liabilities:		
Accounts and financing receivables	(303)	(1,898)
Inventory, net	(1,323)	(861)
Accounts payable	427	(31)
Deferred revenue	(554)	231
Other	394	249
Net cash (used in) provided by operating activities	<u>(803)</u>	<u>4,124</u>
Cash flows from investing activities:		
Purchases of property and equipment	(789)	(1,984)
Capitalized software development and purchases of software	(1,662)	(3,314)
Net cash used in investing activities	<u>(2,451)</u>	<u>(5,298)</u>
Cash flows from financing activities:		
Proceeds from long-term debt	17,000	-
Principal payments on debt	(19,349)	(3,313)
Principal payments on capital lease obligations	-	(148)
Exercises, vesting and other equity-based compensation plan activity, net	486	138
Payment of taxes on equity-based awards	(258)	(291)
Deferred financing costs paid	(1,038)	-
Net cash used in financing activities	<u>(3,159)</u>	<u>(3,614)</u>
Net decrease in cash and cash equivalents	(6,413)	(4,788)
Cash and cash equivalents at beginning of period	16,237	17,270
Cash and cash equivalents at end of period	<u>\$ 9,824</u>	<u>\$ 12,482</u>
<u>Supplemental disclosures of cash flow information:</u>		
Cash paid for interest	\$ 1,047	\$ 513
Net cash paid for income taxes	6	70
<u>Disclosure of non-cash operating, investing and financing activities:</u>		
Capital expenditures in accounts payable	196	203
Fixed assets acquired under a capital lease	1,237	-
Transfers of inventory to equipment for managed services	2,087	1,064

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

NUMEREX CORP. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

Numerex Corp. (NASDAQ:NMRX) is a leading provider of managed enterprise solutions enabling the Internet of Things (IoT). The Company's solutions produce new revenue streams or create operating efficiencies for its customers. Numerex provides its technology and services through its integrated platforms, which are generally sold on a subscription basis. The Company offers a portfolio of managed end-to-end IoT solutions including smart devices, network connectivity and service applications capable of addressing the needs of a wide spectrum of vertical markets and industrial customers. The Company's mission is to empower enterprise operations with world-class, managed IoT solutions that are simple, innovative, scalable, and secure. Numerex is ISO 27001 information security-certified, highlighting the Company's focus on data security, service reliability and around-the-clock support of its customers. Foreign operations were not significant to us for the three and nine months ended September 30, 2016 or 2015.

Basis of Presentation

We prepared the accompanying unaudited condensed consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, referred to as GAAP, for interim financial information and the Rules and Regulations issued by the Securities Exchange Commission, or SEC, as applicable. These financial statements include all of our accounts and those of our wholly-owned subsidiaries. We have eliminated intercompany transactions and balances in consolidation.

Certain information and note disclosures normally included in annual financial statements prepared in accordance with GAAP have been condensed or omitted, although we believe that the disclosures made are adequate to make the information not misleading. In the opinion of management, the accompanying financial statements reflect all adjustments, which consist of normal recurring adjustments unless otherwise disclosed, considered necessary for a fair presentation of our financial position as of September 30, 2016 and our operating results and cash flows for the interim periods presented. The accompanying condensed consolidated balance sheet as of December 31, 2015 was derived from our audited financial statements, but does not include all disclosures required by GAAP. The financial information presented herein should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2015 which includes information and disclosures not included in this quarterly report.

Estimates and Assumptions

The preparation of financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. Actual results may differ materially from these estimates. Operating results for the three and nine months ended September 30, 2016 may not be indicative of the results that may be expected for the year ending December 31, 2016 or any future periods.

Restricted Cash

As of September 30, 2016, cash of \$0.2 million was held in escrow related to certain vendor obligations as a result of entering into our new loan agreement. See Note G – Debt. There was no restricted cash at December 31, 2015.

NUMEREX CORP. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

Reclassifications

As a result of the adoption of a recent accounting pronouncement, see Note K – Recent Accounting Pronouncements, the balance sheet as of December 31, 2015 reflects the following reclassifications (dollars in thousands):

	Historical Presentation	Reclassi- fication	As Adjusted
Prepaid expenses and other current assets	\$ 2,037	\$ (150)	\$ 1,887
Other assets	699	(290)	409
Current portion of long-term debt	3,750	(150)	3,600
Long-term debt, less current portion	15,599	(290)	15,309

NOTE B – INVENTORY

Inventory consisted of the following as of the dates below (in thousands):

	September 30, 2016	December 31, 2015
Raw materials	\$ 1,553	\$ 1,903
Finished goods	7,206	8,420
Inventory reserves	(2,420)	(2,706)
	<u>\$ 6,339</u>	<u>\$ 7,617</u>

During the nine months ended September 30, 2016, we transferred \$2.1 million of inventory to monitoring equipment within property and equipment and disposed of \$0.8 million of fully reserved inventory.

NOTE C – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following (in thousands):

	September 30, 2016	December 31, 2015
Computer, network and other equipment	\$ 8,759	\$ 7,150
Monitoring equipment	5,102	3,015
Furniture and fixtures	486	888
Leasehold improvements	265	374
Total property and equipment	14,612	11,427
Accumulated depreciation and amortization	(8,476)	(6,632)
	<u>\$ 6,136</u>	<u>\$ 4,795</u>

We entered into an agreement effective August 1, 2016 to sublease the office space formerly occupied by our corporate headquarters that included all furniture and fixtures. We recorded a \$0.4 million non-cash charge for the estimated net book value of the furniture and fixtures as of August 1, 2016, the cease-use date. See Note F – Restructuring.

During the nine months ended September 30, 2016, we transferred \$2.1 million of inventory to monitoring equipment as part of our managed services business.

NUMEREX CORP. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE D – GOODWILL AND OTHER INTANGIBLE ASSETS

Impairment Charges

During the second quarter of 2016, management evaluated and determined that the Omnilink and Do-It-Yourself (DIY) product lines and reporting units should be tested for impairment as a result of lower operating results, which are related to strategic changes and delays associated with the launch of a new personal tracking product line. Management initiated a quantitative two-step goodwill impairment test by comparing the carrying value of the net assets of the respective units to its fair value based on a discounted cash flow analysis. Based on our assessment, we determined that the fair value of these reporting units were less than the respective carrying value and goodwill was impaired, and we recorded \$4.2 million in impairment charges. Such charges related to trade names, technology and goodwill as of September 30, 2016, and are summarized as follows:

Changes in the effected carrying values are summarized as follows (in thousands):

	Omnilink		DIY		Total Impairment
	Trade Names	Goodwill	Technology	Goodwill	
January 1, 2016	\$ 2,972	\$ 17,580	\$ 245	\$ 1,656	
Amortization	-	-	(27)	-	
Impairment	(1,612)	(2,264)	(81)	(215)	\$ (4,172)
September 30, 2016	<u>\$ 1,360</u>	<u>\$ 15,316</u>	<u>\$ 137</u>	<u>\$ 1,441</u>	

There were no impairment charges recorded during the quarter ended September 30, 2016.

Intangible Assets Other Than Goodwill

Intangible assets other than goodwill are summarized as follows (dollars in thousands):

	As of September 30, 2016				As of December 31, 2015			
	Remaining Useful Lives	Gross Carrying Amount	Accumulated Amortization	Net Book Value	Gross Carrying Amount	Accumulated Amortization	Net Book Value	
Purchased and developed software	1.8	\$ 16,736	\$ (12,051)	\$ 4,685	\$ 15,399	\$ (9,503)	\$ 5,896	
Software in development	n/a	1,433	-	1,433	1,250	-	1,250	
Total software		<u>18,169</u>	<u>(12,051)</u>	<u>6,118</u>	<u>16,649</u>	<u>(9,503)</u>	<u>7,146</u>	
Licenses	2.9	13,215	(12,442)	773	13,215	(12,167)	1,048	
Customer relationships	7.7	8,167	(2,852)	5,315	8,167	(2,285)	5,882	
Technologies	11.2	4,316	(829)	3,487	4,316	(595)	3,721	
Patents and trademarks	1.9	4,296	(2,352)	1,944	4,236	(2,137)	2,099	
Trade names	Indefinite	1,360	-	1,360	2,972	-	2,972	
Total other intangible assets		<u>31,354</u>	<u>(18,475)</u>	<u>12,879</u>	<u>32,906</u>	<u>(17,184)</u>	<u>15,722</u>	
		<u>\$ 49,523</u>	<u>\$ (30,526)</u>	<u>\$ 18,997</u>	<u>\$ 49,555</u>	<u>\$ (26,687)</u>	<u>\$ 22,868</u>	

Remaining useful lives in the preceding table were calculated on a weighted average basis as of September 30, 2016. We did not incur significant costs to renew or extend the term of acquired intangible assets during the three or nine months ending September 30, 2016.

Intangible asset amortization expense recorded in operations was \$1.3 million and \$3.8 million, respectively, for the three month and nine months ended September 30, 2016 compared to \$1.3 million and \$3.8 million for the respective periods in 2015. Amortization and depreciation expense recorded in cost of subscription revenues was \$0.4 million and \$1.0 million, respectively, for the three and nine months ended September 30, 2016, compared to \$0.3 million and \$0.8 million, respectively, for the three and nine months ended September 30, 2015. Additionally, we have capitalized approximately \$0.5 million and \$1.1 million of internally generated software development costs for the three and nine months ended September 30, 2016, respectively, and \$0.6 million and \$1.8 million for the three and nine months ended September 30, 2015, respectively.

NUMEREX CORP. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE E – INCOME TAXES

We calculate our interim income tax provision in accordance with the accounting guidance for income taxes in interim periods. At the end of each interim period, we make our best estimate of the annual expected effective tax rate and apply that rate to our ordinary year-to-date income or loss. In addition, we calculate a year-to-date adjustment to increase or decrease our income tax provision to take into account our current expected effective tax rate. The tax or benefit related to significant, unusual, or extraordinary items that will be separately reported or reported net of their related tax effect are individually computed and recognized in the interim period in which those items occur.

In assessing the realizability of deferred tax assets, we consider whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. We consider projections of future taxable income, tax planning strategies and the reversal of temporary differences in making this assessment.

During 2015, we determined that we would not meet the criteria of “more likely than not” that the cumulative federal net operating losses and certain other deferred tax assets would be recoverable. This determination was based on our cumulative loss over the past three years. Accordingly, we recorded a valuation allowance against these items. The deferred tax assets consist of federal net operating losses, state net operating losses, tax credits, and other deferred tax assets, most of which expire between 2016 and 2036. We will maintain the valuation allowance against the net deferred tax assets until sufficient positive evidence outweighs any negative evidence to support reversal.

We recorded an income tax benefit of \$0.1 million and \$0.3 million for the three and nine months ending September 30, 2016, respectively, representing effective tax rates of 3.3% and 1.9%, respectively. The difference in the effective tax rates compared to the federal statutory rate are due primarily to differences between the book and tax bases and accounting differences for certain long and indefinite lived intangible assets. We also recognized a provision for income tax expense for certain state income taxes that cannot utilize offsetting net operating losses. Income tax expense recorded in the future will be reduced or increased to the extent of offsetting decreases or increases to the valuation allowance.

We recorded a provision for income tax expense of \$10.4 million for the three months ended September 30, 2015 and income tax expense of \$10.2 million for the nine months ended September 30, 2015. The effective tax rates were 174.1% and 154.6% for the three and nine months ended September 30, 2015, respectively. The effective tax rates for the three months and nine months ended September 30, 2015 differed from the federal statutory rate applied to income and losses before income taxes primarily as a result of the effect of expenses that are not deductible for income tax purposes and state income taxes, including the tax effect of changes in effective state income tax rates, partially offset by an income tax benefit on disqualifying dispositions of incentive stock options.

We file U.S., state and foreign income tax returns in jurisdictions with varying statutes of limitation. The 2013 through 2015 tax years generally remain subject to examination by federal and most state tax authorities. However, certain returns from years in which net operating losses have arisen are still open for examination by the tax authorities.

NUMEREX CORP. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2016

NOTE F – RESTRUCTURING

In 2016, we entered into agreements to relocate our corporate headquarters. One agreement is a sublease of the office space formerly occupied by our corporate headquarters and includes all furniture and fixtures. The sublease agreement is effective August 1, 2016 and is coterminous with the prime lease agreement expiring on September 29, 2022. We recorded a restructuring charge of \$1.5 million, which includes \$0.8 million related to facilities and \$0.7 million in severance costs for the nine months ended September 30, 2016. Of this \$1.5 million charge, \$1.2 million was recorded during the three months ended June 30, 2016, related to severance and facility charges, and \$0.3 million was recorded for the three months ended September 30, 2016, related to severance. The restructuring charge for facilities of \$0.8 million is comprised of \$0.4 million for broker and other related fees and \$0.4 million non-cash charge for the estimated August 1, 2016 net book value of furniture, fixtures and leasehold improvements, as well as moving costs. Our temporary new corporate headquarters office space, effective July 15, 2016, is under a one-year lease agreement. We anticipate cash savings of \$0.8 million under the new agreement over the next 12 months and are reviewing alternatives for longer-term office space.

NOTE G – DEBT

Debt consisted of the following as of the dates below (dollars in thousands):

	<u>September 30, 2016</u>	<u>December 31, 2015</u>
Note payable to Crystal Financial LLC, with interest at LIBOR plus margin	\$ 17,000	\$ -
Note payable to Silicon Valley Bank, repaid in 2016	-	19,349
Less long-term deferred financing costs	(906)	(440)
	<u>16,094</u>	<u>18,909</u>
Less current portion of long-term debt	(638)	(3,600)
Noncurrent portion of long-term debt	<u>\$ 15,456</u>	<u>\$ 15,309</u>

On March 9, 2016, we and certain of our wholly-owned, consolidated subsidiaries entered into a new term loan agreement with Crystal Financial LLC as Term Agent, and the term lenders party thereto (the “Crystal Loan Agreement”) pursuant to which the term lenders made a term loan to us in the amount of \$17.0 million. The net proceeds from the term loan (after payment of the fees and expenses of the Term Agent), along with \$2.9 million of cash on hand, were used to repay the \$19.4 million outstanding debt under the Silicon Valley Bank (SVB) Loan Agreement and pay related transaction fees. We recorded a charge of \$0.3 million to loss on extinguishment of debt for unamortized deferred financing costs related to the SVB Loan Agreement during the nine months ended September 30, 2016.

The maturity date of the term loan is March 9, 2020. We are required to make regular quarterly principal payments of \$0.6 million beginning September 1, 2017 with the balance due on the maturity date, if not otherwise repaid earlier by way of voluntary prepayments, or upon the occurrence of certain Prepayment Events or Excess Cash Flow (as defined in the Crystal Loan Agreement), or as a result of acceleration of the loan as a result of an event of default. Prepayments of the loan are subject to a prepayment penalty of 3% of the amount prepaid if prepayment occurs prior to the first anniversary of the closing date and 2% of the amount prepaid if the prepayment occurs on or after the first anniversary of the closing date but prior to the second anniversary date of the closing date. There is no prepayment penalty for prepayments that occur on or after the second anniversary of the closing date. The interest rate payable on the outstanding loan amount is determined by reference to LIBOR plus a margin established in the agreement. At September 30, 2016, the applicable interest rate was 9.35%.

Our obligations under the Crystal Loan Agreement are secured by a first priority security interest in substantially all of our assets and the assets of our subsidiaries. In addition, we are required to meet certain financial and other restrictive covenants customary with this type of facility, including maintaining a minimum Adjusted EBITDA, minimum Consolidated Fixed Charge Coverage Ratio, maximum Consolidated Total Net Leverage, maximum Subscriber Churn, and minimum Liquidity, all of which are defined in the Crystal Loan Agreement. We are also prohibited from incurring indebtedness, disposing of or permitting liens on our assets and making restricted payments, including cash dividends on shares of our common stock, except as expressly permitted under the Crystal Loan Agreement. The agreement contains customary events of default. If a default occurs and is not cured within the applicable cure period or is not waived, any outstanding obligations under the agreement may be accelerated.

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On July 29, 2016 and November 3, 2016, we entered into an amendment to the Crystal Loan Agreement to modify the covenant relating to the maximum subscriber Churn and update the definition of Adjusted EBITDA. As a result of the amendments, we were in compliance with all covenants as of September 30, 2016.

NOTE H – (LOSS) EARNINGS PER SHARE

Basic (loss) earnings per share attributable to common shareholders is based on the weighted-average number of common shares outstanding excluding the dilutive impact of common stock equivalents. Diluted earnings per share include the effect of all potentially dilutive securities on earnings per share. The dilutive effect of outstanding equity-based compensation awards is computed using the treasury stock method. The computation of diluted earnings per shares does not assume exercise of securities that would have an anti-dilutive effect on earnings. Diluted (loss) per share is not presented separately because there are no adjustments to the numerator in calculating dilutive net loss per share and all potentially dilutive common stock equivalents would be antidilutive. The following table presents a reconciliation of the shares used in the calculation of basic and dilutive earnings per share and anti-dilutive equity based compensation awards (in thousands).

	For the Three Months Ended		For the Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Weighted average common shares outstanding				
Basic	19,542	19,137	19,456	19,053
Dilutive effect of common stock equivalents	-	-	-	-
Total	<u>19,542</u>	<u>19,137</u>	<u>19,456</u>	<u>19,053</u>
Anti-dilutive equity-based compensation awards	<u>1,571</u>	<u>2,294</u>	<u>1,576</u>	<u>2,294</u>

NOTE I – LEASES, COMMITMENTS AND CONTINGENCIES

Capital Lease

We record leases in which we have substantially all the benefits and risks of ownership as capital leases and all other leases as operating leases. For leases determined to be capital leases, we record the assets held under capital lease and related obligations at lesser of the present value of aggregate future minimum lease payments or the fair value of the assets held under capital lease. We amortize the underlying assets over the expected life of the assets if we will retain title to the assets at the end of the lease term; otherwise we amortize the asset over the term of the lease.

In March 2016, we entered into a 60-month lease arrangement for computer and network equipment, software and related costs having a value of \$1.2 million. The lease commenced in April 2016 and is accounted for as a capital lease. Future minimum capital lease payments and the present value of the net minimum lease payments for the capital leases as of September 30, 2016 are as follows (in thousands):

Total minimum lease payments	\$ 1,384
Less amounts representing interest	(147)
Present value of future minimum lease payments	<u>1,237</u>
Less current portion	(257)
Amounts due after one year	<u>\$ 980</u>

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Operating Leases

As disclosed in Note F – Restructuring, in June 2016, we entered into agreements to relocate our corporate headquarters. One agreement is a sublease of the office space formerly occupied by our corporate headquarters and includes all furniture and fixtures. The sublease agreement is effective August 1, 2016 and is coterminous with the prime lease agreement expiring on September 29, 2022. Rental income from the sublease will be \$0.9 million annually plus 2.5% annual escalation, recorded as a reduction to rental expense in general and administrative expense. We also executed a one-year lease agreement for temporary new corporate headquarters office space effective July 15, 2016. Annual rent expense will be \$0.1 million through July 2017, also recorded in general and administrative expense. We anticipate cash savings of \$0.8 million under the new agreement over the next 12 months and are reviewing alternatives for longer-term and lower cost office space.

NOTE J - FAIR VALUE MEASUREMENTS

We account for certain assets at fair value. The hierarchy below lists three levels of fair value based on the extent to which inputs used in measuring fair value are observable in the market. We categorize each of our fair value measurements in one of these three levels based on the lowest level input that is significant to the fair value measurement in its entirety. These levels are:

Level 1 – Valuations based on quoted prices for identical assets and liabilities in active markets.

Level 2 – Valuations based on observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.

Level 3 – Valuations based on unobservable inputs reflecting our own assumptions, consistent with reasonably available assumptions made by other market participants. These valuations require significant judgment.

Assets measured at fair value on a recurring basis comprise only investments in short-term US Treasury Funds of \$15.5 million as of December 31, 2015. The investments are classified as available for sale debt securities included in cash and cash equivalents in the consolidated balance sheets and are categorized as Level 1 measurements in the fair value hierarchy. We do not have any liabilities measured at fair value on a recurring basis.

The following table summarizes assets measured at fair value on a nonrecurring basis during the nine months ended September 30, 2016 (in thousands):

	Fair Value	Level 3	Total Losses
Omnilink Reporting Unit			
Indefinite lived trade names	\$ 1,360	\$ 1,360	\$ 1,612
Goodwill	15,316	15,316	2,264
DIY Reporting Unit			
Technology	146	146	81
Goodwill	1,441	1,441	215
Total nonrecurring fair value measurements	<u>\$ 18,263</u>	<u>\$ 18,263</u>	<u>\$ 4,172</u>

See Note D – Goodwill and Intangible Assets for additional information.

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NOTE K – RECENT ACCOUNTING PRONOUNCEMENTS

Recently Adopted Accounting Guidance

In March 2015, the Financial Accounting Standards Board (FASB) issued guidance about simplifying the presentation of deferred financing costs. The guidance was intended to help clarify deferred financing costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for deferred financing costs were not affected. The guidance was effective January 1, 2016 and, in accordance with the guidance, \$0.9 million of deferred financing costs is included in long-term debt as of September 30, 2016 and \$0.4 million of deferred financing costs was reclassified from current and noncurrent other assets to the current and noncurrent portions of long-term debt as of December 31, 2015. See Note A – Summary of Significant Account Policies.

In September 2015, the FASB issued guidance to simplify the accounting for measurement-period adjustments for an acquirer in a business combination. The update requires an acquirer to recognize any adjustments to provisional amounts of the initial accounting for a business combination with a corresponding adjustment to goodwill in the reporting period in which the adjustments are determined in the measurement period, as opposed to revising prior periods presented in financial statements. Thus, an acquirer shall adjust its financial statements as needed, including recognizing in its current-period earnings the full effect of changes in depreciation, amortization, or other income effects, by line item, if any, as a result of the change to the provisional amounts calculated as if the accounting had been completed at the acquisition date. This update was effective January 1, 2016 and the adoption of this guidance did not have a material impact on our financial statements.

Recently Issued Accounting Guidance

In August 2016, the FASB issued guidance to reduce diversity in practice related to eight specific cash flow issues. This standard will be effective for annual periods beginning after December 15, 2017, including interim periods within that reporting period. Early adoption of this standard is permitted. The Company is currently evaluating the impact this guidance may have on its statement of cash flows.

In March 2016, the FASB issued guidance to simplify several aspects of the accounting for share-based payments transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The guidance is effective for annual and interim periods beginning after December 31, 2016. Early adoption is permitted for any entity in any interim or annual period. We are currently evaluating the effect that the updated standard will have on our financial statements, but expect the guidance will add modest volatility in our equity-based compensation expense, provision for income taxes, and net income (loss) due to recording award forfeitures as they occur instead of on the basis of assumed averages.

In February 2016, the FASB issued guidance that requires lessees to recognize most leases as assets and liabilities on the balance sheet. Qualitative and quantitative disclosures will be enhanced to better understand the amount, timing and uncertainty of cash flows arising from leases. The guidance is effective for annual and interim periods beginning after December 31, 2018. The updated standard mandates a modified retrospective transition method with early adoption permitted. We are currently evaluating the effect that the updated standard will have on our financial statements.

In November 2015, the FASB issued guidance requiring all deferred tax assets and liabilities to be classified as non-current on the balance sheet instead of separating deferred taxes into current and non-current amounts. In addition, valuation allowance allocations between current and non-current deferred tax assets are no longer required because those allowances also will be classified as non-current. This standard is effective for public companies for annual periods beginning after December 15, 2016. We do not expect the adoption of this guidance to have a material impact on our financial statements.

In July 2015, the FASB issued guidance intended to simplify the presentation of applicable inventory at the lower of cost or net realizable value. The new guidance clarifies that net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. Subsequent measurement is unchanged for inventory measured using LIFO or the retail inventory method. The new guidance will be effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. We do not expect the adoption of this guidance to have a material impact on our financial position or results of operations.

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In May 2014, the FASB issued new accounting guidance for revenue recognized from contracts with customers. The core principle of the guidance is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In doing so, companies will need to use more judgment and make more estimates than under current guidance. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. The guidance will become effective for us for fiscal years, and interim reporting periods within those years, beginning January 1, 2018 and will require retrospective application. We are evaluating the effect that this amendment will have on our consolidated financial statements and related disclosures. We have not yet selected a transition method nor have we determined the effect of the standard on our ongoing financial reporting.

NOTE L – SUBSEQUENT EVENTS

Amended Debt Agreement

On November 3, 2016, we entered into an amendment to the Crystal Loan Agreement to modify the covenant related to the maximum subscriber Churn defined in the agreement, and update the definition of Adjusted EBITDA. See Note G – Debt.

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

Forward Looking Statements

This document contains, and other statements may contain, forward-looking statements with respect to Numerex future financial or business performance, conditions or strategies and other financial and business matters, including expectations regarding growth trends and activities. Forward-looking statements are typically identified by words or phrases such as "believe," "expect," "anticipate," "intend," "estimate," "assume," "strategy," "plan," "outlook," "outcome," "continue," "remain," "trend," and variations of such words and similar expressions, or future or conditional verbs such as "will," "would," "should," "could," "may," or similar expressions. Numerex cautions that these forward-looking statements are subject to numerous assumptions, risks and uncertainties, which change over time. These forward-looking statements speak only as of the date of this filing, and Numerex assumes no duty to update forward-looking statements. Actual results could differ materially from those anticipated in these forward-looking statements and future results could differ materially from historical performance.

The following factors, among others, could cause actual results to differ materially from forward-looking statements or historical performance: our inability to reposition our platform to capture greater recurring subscription revenues; the risk that we may not be able to remain in compliance with certain of our debt covenants; the risks that a substantial portion of revenues derived from contracts may be terminated at any time; the risks that our strategic suppliers materially change or disrupt the flow of products or services; variations in quarterly operating results; delays in the development, introduction, integration and marketing of new products and services; customer acceptance of services; economic conditions resulting in decreased demand for our products and services; the risk that our strategic alliances, partnerships and/or wireless network operators will not yield substantial revenues; changes in financial and capital markets, and the inability to raise growth capital; the inability to attain revenues and earnings growth; changes in interest rates; inflation; the introduction, withdrawal, success and timing of business initiatives and strategies; competitive conditions; the inability to realize revenue enhancements; disruption in key supplier relationships and/or related services; and extent and timing of technological changes.

Overview

As used herein, except as otherwise indicated by context, references to “we,” “us,” “our,” the “Company” or “Numerex” refers to Numerex Corp. and subsidiaries.

The following Management’s Discussion and Analysis is intended to help the reader understand our results of operations and financial condition. This discussion and analysis is provided as a supplement to, and should be read in conjunction with, our unaudited condensed consolidated financial statements and the accompanying notes included in this Quarterly Report on Form 10-Q for the period ended September 30, 2016.

The Company is a leading provider of managed enterprise solutions enabling the Internet of Things (IoT). The Company's solutions produce new revenue streams or create operating efficiencies for its customers. Numerex provides its technology and services through its integrated platforms, which are generally sold on a subscription basis. The Company offers a portfolio of managed end-to-end IoT solutions including smart devices, network connectivity and service applications capable of addressing the needs of a wide spectrum of vertical markets and industrial customers. The Company's mission is to empower enterprise operations with world-class, managed IoT solutions that are simple, innovative, scalable, and secure. Numerex is ISO 27001 information security-certified, highlighting the Company's focus on data security, service reliability and around-the-clock support of its customers.

Our network services are provided through cellular, satellite, broadband and wireline networks. Cellular networks include national and regional carriers and consist of second (2G), third (3G) and fourth generation (4G and LTE) technology. Several wireless carriers have announced their intention to discontinue their 2G networks and fully deploy 3G and 4G networks between 2016 and 2020 while other carriers have announced their intention to discontinue 2G networks as early as 2020. We intend to continue support existing 2G customers through the transition to subsequent technology. Additionally, we have introduced 3G/4G and LTE products offering advanced services across our product lines.

Beginning in the third quarter of 2015, we began to concentrate on selling higher margin, integrated managed service subscriptions that include the full suite of our devices, networks, applications and platform while moving away from the sale of individual components – especially hardware only. We expect this strategic change to help us grow sustainable service revenues along with corresponding higher gross margins. However, we also anticipate hardware revenues will decline significantly in 2016 and remain relatively modest as compared to historical levels thereafter.

During the quarter ended September 30, 2016, we had revenues of \$17.4 million, and a net loss of \$2.5 million, compared with revenues and net loss of \$23.3 million and \$16.4 million, respectively, for the quarter ended September 30, 2015.

For the nine months ended September 30, 2016, we had revenues of \$53.1 million, and a net loss of \$13.2 million; compared with revenues and a net loss of \$70.7 million and \$16.7 million, respectively, for the nine months ended September 30, 2015.

Our core strategy is to generate long term and sustainable recurring revenues through a portfolio of managed, end-to-end IoT solutions which are generally sold on a subscription basis and built on our horizontal, integrated platform. Our solutions incorporate the key IoT building blocks – Device, Network, Application and Platform. Our solutions also simplify the implementation and improve the speed to market for enterprise users in select, targeted verticals in the asset monitoring and optimization, asset tracking, and safety and security markets.

Our strategy requires significant capital investment to develop and enhance our use of technology and to maintain our leadership position and competitive advantage in the markets we serve.

Subscription revenues are recognized monthly as services are provided and sales of embedded devices and hardware are recognized when title passes. Other upfront payment revenues are deferred and amortized on a straight-line basis.

Due to fluctuations of the commencement of new contracts and renewal of existing contracts, we expect variability of sequential quarterly trends in revenues, margins and cash flows. Other factors contributing to sequential quarterly trends include usage, rate changes, and re-pricing of contract renewals and technology changes.

During the second quarter of 2016, management evaluated and determined that the Omnilink and Do-It-Yourself (DIY) product lines and reporting units should be tested for impairment as a result of lower operating results, which are related to strategic changes and delays associated with the launch of a new personal tracking product line. Management initiated a quantitative two-step goodwill impairment test by comparing the carrying value of the net assets of the respective units to its fair value based on a discounted cash flow analysis. Based on our assessment, we have determined that the fair value of these reporting units were less than the respective carrying value and goodwill was impaired, and have recorded \$4.2 million in impairment charges for trade names, technology and goodwill as of September 30, 2016, comprised of impairments of \$1.6 million for indefinite-lived trade names and \$2.3 million for goodwill of the Omnilink reporting unit and \$0.1 million for technology and \$0.2 million for goodwill of the DIY reporting unit. We will continue to assess the fair value of the reporting units if results of operations continue to not meet forecasts and additional impairment charges may be necessary in the future.

As part of our effort to build and enhance our core business, we conduct ongoing business strategy reviews. During our reviews, we consider opportunities for growth in existing and new markets that may involve growth derived from both existing operations as well as from future acquisitions, if any. To the extent existing business lines and service offerings are not considered to be compatible with delivery of our core business services or with meeting our financial objectives, we may exit non-core lines of business or stop offering these services in part or in whole.

Results of Operations

Three Months Ended September 30, 2016 and 2015

The following table sets forth selected financial data from our unaudited condensed consolidated statements of operations and comprehensive loss for the periods indicated along with the percentage change between periods (dollars in thousands):

	Three Months Ended September 30,				Change from	
	2016		2015		2015 to 2016	
Net revenues:						
Subscription and support revenues	\$ 14,388	82.6%	\$ 15,624	67.0%	\$ (1,236)	-7.9%
Embedded devices and hardware	3,024	17.4%	7,710	33.0%	(4,686)	-60.8%
Total net revenues	17,412	100.0%	23,334	100.0%	(5,922)	-25.4%
Cost of sales, exclusive of a portion of depreciation and amortization shown below:						
Subscription and support revenues	5,828	33.5%	6,538	28.0%	(710)	-10.9%
Embedded devices and hardware	3,082	17.7%	6,958	29.8%	(3,876)	-55.7%
Inventory reserves	27	0.2%	1,277	5.5%	(1,250)	-97.9%
Impairment of other asset	-	0.0%	1,275	5.5%	(1,275)	-100.0%
Gross profit	8,475	48.7%	7,286	31.2%	1,189	16.3%
Operating expenses:						
Sales and marketing	3,229	18.5%	3,047	13.1%	182	6.0%
General and administrative	3,280	18.8%	4,507	19.3%	(1,227)	-27.2%
Engineering and development	2,229	12.8%	2,201	9.4%	28	1.3%
Depreciation and amortization	1,658	9.5%	2,100	9.0%	(442)	-21.0%
Impairment of goodwill and other intangible assets	-	0.0%	1,250	5.4%	(1,250)	n/a
Restructuring charges	276	1.6%	-	0.0%	276	n/a
Operating loss	(2,197)	-12.6%	(5,819)	-24.9%	3,622	-62.2%
Interest expense	469	2.7%	188	0.8%	281	149.5%
Other income, net	(33)	-0.2%	(31)	-0.1%	(2)	6.5%
Loss before income taxes	(2,633)	-15.1%	(5,976)	-25.6%	3,343	-55.9%
Income tax expense (benefit)	(87)	-0.5%	10,404	44.6%	(10,491)	-100.8%
Net loss	\$ (2,546)	-14.6%	\$ (16,380)	-70.2%	\$ 13,834	-84.5%
Adjusted EBITDA ⁽¹⁾	\$ 859	4.9%	\$ 1,660	7.1%	\$ (801)	-48.3%

(1) – Adjusted EBITDA is not a financial measure prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). See further discussion, including reconciliation to the most comparable GAAP measure, under the caption Non-GAAP Financial Measures below.

Total revenues decreased \$5.9 million, or 25.4%, for the three months ended September 30, 2016 to \$17.4 million from \$23.3 million for the same period in 2015. The decrease is primarily attributable to a strategic shift in how we sell our products and services. During the third quarter of 2015, we began to concentrate on selling higher margin, integrated managed service subscriptions that include the full suite, or subsets, of our devices, networks, applications, and platform while moving away from the sale of individual components – especially hardware only.

Subscription and support revenues decreased \$1.2 million, or 7.9%, to \$14.4 million from \$15.6 million in 2015. The decrease reflects losses associated with network customers' 2G conversions stemming from a period of time in which we did not have a competitive offering. Pricing has remained consistent year over year for similar services, although current period revenues also include higher value services. The decrease in embedded devices and hardware revenues is attributed to the shift to the integrated managed service subscription offerings. In addition, sales to our historically largest hardware only customer decreased to \$0.1 million for the three months ended September 30, 2016 compared to record sales of \$5.2 million for the same period in 2015.

Direct cost of sales for the three months ended September 30, 2016 decreased \$7.1 million, or 44.3%, to \$8.9 million compared to \$16.0 million for the same period in 2015. Direct cost of subscription and support revenues decreased \$0.7 million, or 10.9%, to \$5.8 million for the three months ended September 30, 2016 compared to \$6.5 million for the same period in 2015. Subscription and support revenues less direct costs were \$8.6 million, or 59.5% of corresponding revenues for the three months ended September 30, 2016 compared to \$9.1 million, or 58.2% for the three months ended September 30, 2015. In addition to lower direct costs associated with lost 2G conversions, we also had a larger proportional decrease in direct cost of subscription and support due in part to lower negotiated network and carrier costs and our strategic efforts to sell higher margin integrated managed services. Direct cost of subscription and support revenues include \$0.4 million and \$0.3 million of depreciation and amortization for the three months ended September 30, 2016 and 2015, respectively.

Direct cost of sales for embedded devices and hardware, excluding provision for inventory reserves, decreased \$3.9 million, or 55.7%, to \$3.1 million for the three months ended September 30, 2016 compared to \$7.0 million for the three months ended September 30, 2015. Embedded devices and hardware revenue less direct costs was (\$0.1) million, or (1.9)% of embedded devices and hardware revenue for the three months ended September 30, 2016, compared to \$0.8 million, or 9.8% of embedded devices and hardware revenue for the three months ended September 30, 2015, resulting from the decrease in hardware only sales to our historically largest hardware only customer. The overall decrease in direct costs is due to lower corresponding revenues related to our strategic move away from hardware only sales.

The decrease in cost of sales in the comparable periods occurred because we entered into new and amended agreements with wireless carriers in September 2015. As a result of these agreements, we performed a lower of cost or market analysis leading to a significant increase in the inventory reserve of \$1.3 million during the three months ended September 30, 2015 related to older, 2G cellular telecommunication devices and older satellite devices as well as an accrual for a purchase commitment related to raw materials for the older satellite devices that we will not fulfill. In addition, one of the amended carrier agreements led to settlement of a pre-existing relationship and a \$1.3 million impairment of a prepaid expense during the three months ended September 30, 2015.

Total gross profit for the three months ended September 30, 2016 increased \$1.2 million, or 16.3% to \$8.5 million compared to \$7.3 million for the same period in 2015, as a result of the changes discussed above.

Sales and marketing expense increased \$0.2 million, or 6.0%, for the three months ended September 30, 2016 to \$3.2 million compared to \$3.0 million for the same period in 2015. The increase is primarily attributable to higher sales commissions due to more sales personnel with guaranteed commissions during the three months ended September 30, 2016.

General and administrative expense decreased \$1.2 million, or 27.2%, to \$3.3 million for the three months ended September 30, 2016, compared to \$4.5 million for the same period in 2015. The decrease is driven primarily by lower recruiting costs and equity-based compensation expense.

Engineering and development expenses remained consistent at \$2.2 million for the three months ended September 30, 2016 and 2015. In the previous quarter, we increased the use of more agile, off-shore resources and incurred some overlapping costs during the three months ended June 30, 2016 compared to the same period in the prior year. As these overlapping costs subside, we expect costs savings in this area. We may experience additional volatility in contract labor and overall engineering and development costs in the future as our business and operating needs evolve.

Depreciation and amortization expense, not otherwise included in cost of sales, decreased \$0.4 million, or 21.0%, to \$1.7 million for the three months ended September 30, 2016, compared to \$2.1 million for the same period in 2015.

During the second quarter of 2016, management evaluated and determined that the Omnilink and Do-It-Yourself (DIY) product lines and reporting units should be tested for impairment as a result of lower operating results, which are related to strategic changes and delays associated with the launch of a new personal tracking product line. Management initiated a quantitative two-step goodwill impairment test by comparing the carrying value of the net assets of the respective units to its fair value based on a discounted cash flow analysis. Based on our assessment, we have determined that the fair value of these reporting units were less than the respective carrying value and goodwill was impaired, and have recorded \$4.2 million in impairment charges for trade names, technology and goodwill as of June 30, 2016, comprised of impairments of \$1.6 million for indefinite-lived trade names and \$2.3 million for goodwill of the Omnilink reporting unit, and \$0.1 million for technology and \$0.2 million for goodwill of the DIY reporting unit.

We recorded a restructuring charge of \$0.3 million during the quarter ended September 30, 2016, for severance costs incurred during the period.

Interest expense increased \$0.3 million, or 149.5%, to \$0.5 million for the three months ended September 30, 2016, compared to \$0.2 million for the same period in 2015 due to a higher interest rate on our loan agreement having deferred principal payments and imputed interest expense on a new \$1.2 million capital lease for computer equipment, software and other related assets.

We recorded an income tax benefit of \$0.1 million for the three months ended September 30, 2016, compared to a provision for income tax expense of \$10.4 million for the same period in 2015. The effective tax rates were (3.3)% and 174.1% for the three months ended September 30, 2016 and 2015, respectively. For the three months ended September 30, 2016, the difference in the effective tax rate compared to the federal statutory rate is due primarily to the book and tax basis and accounting differences for certain long and indefinite lived intangible assets. We also recognized a provision for income tax expense for certain state income taxes that cannot utilize offsetting net operating losses. The effective tax rate for the three months ended September 30, 2015 differed from the federal statutory rate as a result of the effect of expenses that are not deductible for income tax purposes and state income taxes, including the tax effect of changes in effective state income tax rates, partially offset by an income tax benefit on disqualifying dispositions of incentive stock options. Income tax expense recorded in the future will be reduced or increased to the extent of offsetting decreases or increases to the valuation allowance.

Nine Months Ended September 30, 2016 and 2015

The following table sets forth selected consolidated results of operations for the periods indicated, including comparative information between the periods (dollars in thousands):

	Nine Months Ended September 30,				Change from	
	2016		2015		2015 to 2016	
Net revenues:						
Subscription and support revenues	\$ 44,183	83.3%	\$ 48,874	69.2%	\$ (4,691)	-9.6%
Embedded devices and hardware	8,886	16.7%	21,791	30.8%	(12,905)	-59.2%
Total net revenues	53,069	100.0%	70,665	100.0%	(17,596)	-24.9%
Cost of sales, exclusive of a portion of depreciation and amortization shown below:						
Subscription and support revenues	17,242	32.5%	19,728	27.9%	(2,486)	-12.6%
Embedded devices and hardware	9,027	17.0%	19,582	27.7%	(10,555)	-53.9%
Inventory reserves	514	1.0%	1,547	2.2%	(1,033)	-66.8%
Impairment of other asset	-	0.0%	1,275	5.5%	(1,275)	-100.0%
Gross profit	26,286	49.5%	28,533	40.4%	(2,247)	-7.9%
Operating expenses:						
Sales and marketing	9,444	17.8%	9,136	12.9%	308	3.4%
General and administrative	11,269	21.2%	12,108	17.1%	(839)	-6.9%
Engineering and development	6,920	13.0%	6,695	9.5%	225	3.4%
Depreciation and amortization	4,992	9.4%	5,411	7.7%	(419)	-7.7%
Impairment of goodwill and other intangible assets	4,172	7.9%	1,250	1.8%	2,922	n/a
Restructuring charges	1,520	2.9%	-	0.0%	1,520	n/a
Operating loss	(12,031)	-22.7%	(6,067)	-8.6%	(5,964)	98.3%
Interest expense	1,196	2.3%	604	0.9%	592	98.0%
Loss on extinguishment of debt	290	0.5%	-	0.0%	-	n/a
Other income, net	(99)	-0.2%	(100)	-0.1%	1	-1.0%
Loss before income taxes	(13,418)	-25.3%	(6,571)	-9.3%	(6,847)	104.2%
Income tax expense (benefit)	(257)	-0.5%	10,159	14.4%	(10,416)	-102.5%
Net loss	\$ (13,161)	-24.8%	\$ (16,730)	-23.7%	\$ 3,569	-21.3%
Adjusted EBITDA ⁽¹⁾	\$ 2,343	4.4%	\$ 7,358	10.4%	\$ (5,015)	-68.2%

(1) – Adjusted EBITDA is not a financial measure prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). See further discussion, including reconciliation to the most comparable GAAP measure, under the caption Non-GAAP Financial Measures below.

Total revenues decreased \$17.6 million, or 24.9%, for the nine months ended September 30, 2016 to \$53.1 million from \$70.7 million for the same period in 2015. The decrease is primarily attributable to a strategic shift in how we sell our products and services. During the third quarter of 2015, we began to concentrate on selling higher margin, integrated managed service subscriptions that include the full suite, or subsets, of our devices, networks, applications, and platform while moving away from the sale of individual components – especially hardware only.

Subscription and support revenues decreased \$4.7 million, or 9.6%, to \$44.2 million from \$48.9 million in 2015. The decrease reflects losses associated with network customers' 2G conversions stemming from a period of time in which we did not have a competitive offering. Pricing has remained consistent year over year for similar services, although current period revenues also include higher value services. The decrease in embedded devices and hardware revenues is attributed to the shift to the integrated managed service subscription offerings. In addition, sales to our historically largest hardware only customer decreased to \$0.4 million for the nine months ended September 30, 2016 compared to \$12.5 million for the same period in 2015.

Direct cost of sales for the nine months ended September 30, 2016 decreased \$15.3 million, or 36.3%, to \$26.8 million compared to \$42.1 million for the same period in 2015. Direct cost of subscription and support revenues decreased \$2.5 million, or 12.6%, to \$17.2 million for the nine months ended September 30, 2016, compared to \$19.7 million for the same period in 2015. Subscription and support revenues less direct costs were \$26.9 million, or 60.9% of corresponding revenues for the nine months ended September 30, 2016 compared to \$29.1 million, or 59.6% for the nine months ended September 30, 2015. In addition to lower direct costs associated with lost 2G conversions, we also had a larger proportional decrease in direct cost of subscription and support due in part to lower negotiated network and carrier costs and our strategic efforts to sell higher margin integrated managed services. Direct cost of subscription and support revenues include \$1.0 million and \$0.7 million of depreciation and amortization for the nine months ended September 30, 2016 and 2015, respectively.

Direct cost of sales for embedded devices and hardware, excluding provision for inventory reserves, decreased \$10.6 million, or 53.9%, to \$9.0 million for the nine months ended September 30, 2016 compared to \$19.6 million for the nine months ended September 30, 2015. Embedded devices and hardware revenue less direct costs was \$(0.1) million, or (1.6)% of embedded devices and hardware revenue for the nine months ended September 30, 2016, compared to \$2.2 million, or 10.1% of embedded devices and hardware revenue for the nine months ended September 30, 2015, resulting from the decrease in hardware only sales to our historically largest hardware only customer. The overall decrease in direct costs is due to lower corresponding revenues related to our strategic move away from hardware only sales. Embedded devices and hardware revenue also declined as we focus on integrated managed services solutions.

Cost of sales for the nine months ended September 30, 2016 include a significant increase in the provision for inventory reserves of \$0.5 million. As described above, we entered into new and amended agreements with wireless carriers in September 2015 that made adding 2G devices to wireless networks financially unfavorable under most circumstances. As a result of these agreements, we performed a lower of cost or market analysis leading to the increased reserve related to older 2G cellular telecommunication devices during the quarter ended September 30, 2015, net of what we believed was saleable in limited markets. At the time of filing our quarterly report for the quarter ended March 31, 2016, we anticipated subsequently completing a large sale of older 2G and other devices. The anticipated sale was not and is no longer expected to be completed, leading us to record the significant increase in the provision for inventory reserves.

Total gross profit for the nine months ended September 30, 2016 decreased \$2.2 million, or 7.9% to \$26.3 million compared to \$28.5 million for the same period in 2015 as a result of the changes discussed above.

Sales and marketing expense of \$9.4 million for the nine months ended September 30, 2016 increased by \$0.3 million compared with \$9.1 million in the same period in 2015. The year over year increase as a percentage of total net revenue is primarily attributable to higher sales commissions due to more sales personnel with guaranteed commissions during the nine months ended September 30, 2016.

General and administrative expense decreased \$0.8 million, or 6.9%, to \$11.3 million for the nine months ended September 30, 2016, compared to \$12.1 million for the same period in 2015. The decrease is driven primarily by lower recruiting costs and equity-based compensation expense.

Engineering and development expenses increased \$0.2 million, or 3.4%, to \$6.9 million for the nine months ended September 30, 2016, compared to \$6.7 million for the nine months ended September 30, 2015. The increase is primarily attributable to an increase in contract labor. We are increasing our use of more agile, off-shore resources and incurred some overlapping costs during the nine months ended September 30, 2016 compared to the same period in the prior year. We may experience additional volatility in contract labor and overall engineering and development costs in the future as our business and operating needs evolve.

Depreciation and amortization expense, not otherwise included in cost of sales, decreased to \$5.0 million from \$5.4 million for the nine months ended September 30, 2016 and 2015.

During the second quarter of 2016, management evaluated and determined that the Omnilink and Do-It-Yourself (DIY) product lines and reporting units should be tested for impairment as a result of lower operating results, which are related to strategic changes and delays associated with the launch of a new personal tracking product line. Management initiated a quantitative two-step goodwill impairment test by comparing the carrying value of the net assets of the respective units to its fair value based on a discounted cash flow analysis. Based on our assessment, we determined that the fair value of these reporting units were less than the respective carrying value and goodwill was impaired, and recorded \$4.2 million in impairment charges for trade names, technology and goodwill as of September 30, 2016, comprised of impairments of \$1.6 million for indefinite-lived trade names and \$2.3 million for goodwill of the Omnilink reporting unit, and \$0.1 million for technology and \$0.2 million for goodwill of the DIY reporting unit.

Also as described above, during the quarter ended September 30, 2016, we recorded a restructuring charge of \$1.5 million, which includes \$0.8 million related to facilities and \$0.7 million in severance costs. The restructuring charge for facilities is comprised of \$0.4 million for broker and other related fees and \$0.4 million non-cash charge for the estimated August 1, 2016 net book value of furniture, fixtures and leasehold improvements as well as moving expenses. Our temporary new corporate headquarters office space, effective July 15, 2016, is under a one-year lease agreement. We anticipate cash savings of \$0.8 million under the new agreement over the next 12 months and are reviewing alternatives for longer-term office space. Severance costs of \$0.7 million were incurred during the period.

Interest expense increased \$0.6 million, or 98.0%, to \$1.2 million for the nine months ended September 30, 2016, compared to \$0.6 million for the same period in 2015 due to a higher interest rate on our loan agreement having deferred principal payments and imputed interest expense on a new \$1.2 million capital lease for computer equipment, software and other related assets.

We recorded an income tax benefit of \$0.3 million and \$10.1 million in income tax expense for the nine month periods ended September 30, 2016 and 2015, respectively. The effective tax rates were (1.9)% and 154.6% for the nine months ended September 30, 2016 and 2015, respectively. For the nine months ended September 30, 2016, the difference in the effective tax rate compared to the federal statutory rate is due primarily to the book and tax basis and accounting differences for certain long and indefinite lived intangible assets. We also recognized a provision for income tax expense for certain state income taxes that cannot utilize offsetting net operating losses. The effective tax rate for the nine months ended September 30, 2015 differed from the federal statutory rate primarily as a result of the effect of expenses that are not deductible for income tax purposes and state income taxes, including the tax effect of changes in effective state income tax rates, partially offset by an income tax benefit on disqualifying dispositions of incentive stock options. Income tax expense recorded in the future will be reduced or increased to the extent of offsetting decreases or increases to the valuation allowance.

Segment Information

We have one reportable segment, providing interactive and on-demand Machine to Machine (M2M) enterprise solutions enabling the Internet of Things (IoT).

Non-GAAP Financial Measures

Earnings before interest, taxes, depreciation and amortization expenses (EBITDA) and Adjusted EBITDA, which are presented below, are non-GAAP measures and do not purport to be alternatives to operating income as a measure of operating performance. We believe EBITDA and Adjusted EBITDA are useful to and used by our lender, investors, and other users of the financial statements in evaluating our operating performance because it provides them with an additional tool to compare business performance across periods.

We believe that:

- EBITDA is widely used by investors to measure a company's operating performance without regard to items such as interest, income tax, and depreciation and amortization expenses, which can vary substantially from company-to-company depending upon accounting methods and book value of assets, capital structure and the method by which assets were acquired; and
- Investors commonly adjust EBITDA information to eliminate the effect of equity-based compensation and other unusual or infrequently occurring items which vary widely from company-to-company and impair comparability.

We use EBITDA and Adjusted EBITDA:

- as a measure of operating performance to assist in comparing performance from period-to-period on a consistent basis
- as a measure for planning and forecasting overall expectations and for evaluating actual results against such expectations;
- in communications with the board of directors, analysts and investors concerning our financial performance; and
- in communications with our lender, as the financial covenants in our debt agreement require minimum adjusted EBITDA for the trailing 12 months ranging between \$3.7 million and \$14.0 million per quarter.

Although we believe, for the foregoing reasons, that the presentation of non-GAAP financial measures provides useful supplemental information to investors regarding our results of operations, the non-GAAP financial measures should only be considered in addition to, and not as a substitute for, or superior to, any measure of financial performance prepared in accordance with GAAP.

Use of non-GAAP financial measures is subject to inherent limitations because they do not include all the expenses that must be included under GAAP and because they involve the exercise of judgment of which charges should properly be excluded from the non-GAAP financial measure. Management accounts for these limitations by not relying exclusively on non-GAAP financial measures, but only using such information to supplement GAAP financial measures. The non-GAAP financial measures may not be the same non-GAAP measures, and may not be calculated in the same manner, as those used by other companies.

EBITDA is calculated by adding depreciation and amortization expense, impairment of non-current assets, interest expense, other net non-operating expense and income tax expense and subtracting other net non-operating income and income tax benefit to net (loss) income. Adjusted EBITDA is calculated by excluding the effect of equity-based compensation and additional non-cash and other charges from the calculation of EBITDA. Management believes that this measure provides additional relevant and useful information to investors and other users of our financial data, including our lender, in evaluating the effectiveness of our operations and underlying business trends in a manner that is consistent with management's evaluation of business performance.

We believe that excluding depreciation and amortization expenses of property, equipment and intangible assets to calculate EBITDA and Adjusted EBITDA provides supplemental information and an alternative presentation that is useful to our lender and investors' understanding of our core operating results and trends. Not only are depreciation and amortization expenses based on historical costs of assets that may have little bearing on present or future replacement costs, but also they are based on our estimates of remaining useful lives.

Equity-based compensation is an important part of total compensation, especially from the perspective of employees. We believe, however, that excluding the effects of equity-based compensation from non-GAAP financial measures provides supplemental information and an alternative presentation useful to investors' understanding of our core operating results and trends. Investors have indicated that they consider financial measures of our results of operations excluding equity-based compensation as important supplemental information useful to their understanding of our historical results and estimating our future results.

We also believe that, in excluding the effects of equity-based compensation, our non-GAAP financial measures provide investors with transparency into what management uses to measure and forecast our results of operations, to compare on a consistent basis our results of operations for the current period to that of prior periods and to compare our results of operations on a more consistent basis against that of other companies, in making financial and operating decisions and to establish certain management compensation.

Adjusted EBITDA excludes restructuring, non-cash, impairment and other charges including a provision for inventory reserves, executive severance and recruiting fees, costs and fees related to an internal ERP systems integration upgrade, a network systems evaluation and acquisition related costs. We believe that these costs are infrequent costs that we do not expect to recur on a regular basis, and consequently, we do not consider these charges as a component of ongoing operations.

EBITDA and Adjusted EBITDA are not measures of liquidity calculated in accordance with GAAP, and should be viewed as a supplement to – not a substitute for – results of operations presented on the basis of GAAP. EBITDA and Adjusted EBITDA do not purport to represent cash flow provided by operating activities as defined by GAAP. Furthermore, EBITDA and Adjusted EBITDA are not necessarily comparable to similarly-titled measures reported by other companies.

The following table reconciles the specific items excluded from GAAP in the calculation of EBITDA and Adjusted EBITDA for the periods indicated below (in thousands, except per share amounts):

	Three Months		Nine Months	
	Ended September 30,		Ended September 30,	
	2016	2015	2016	2015
Net loss	\$ (2,546)	\$ (16,380)	\$ (13,161)	\$ (16,730)
Depreciation and amortization expense	2,029	2,381	5,997	6,163
Impairment of goodwill and other intangible assets	-	-	4,172	-
Interest expense and other non-operating expense, net	436	157	1,387	504
Income tax (benefit) expense	(87)	10,404	(257)	10,159
EBITDA (non-GAAP)	<u>(168)</u>	<u>(3,438)</u>	<u>(1,862)</u>	<u>96</u>
Equity-based compensation expense	751	738	2,202	2,319
Non-cash and other items	276	4,360	2,003	4,943
Adjusted EBITDA (non-GAAP)	<u>\$ 859</u>	<u>\$ 1,660</u>	<u>\$ 2,343</u>	<u>\$ 7,358</u>

Depreciation and amortization expense in the table above includes \$0.4 million and \$0.3 million for the three months ended September 30, 2016 and 2015, respectively, and \$1.0 million and \$0.7 million, for the nine months ended September 30, 2015, respectively, recorded in cost of revenue. As noted above, non-cash and other charges include \$0.3 million in restructuring charges for the three months ended September 30, 2016 and \$2.0 million associated with the charges for a provision for inventory reserves, executive severance and recruiting fees, costs and fees related to an internal ERP systems integration upgrade, a network systems evaluation and acquisition related costs for the nine months ended September 30, 2016.

Liquidity and Capital Resources

We use cash to support our operations and to fund new product development, upgrades to our technology and to invest in new businesses. During the nine months ended September 30, 2016, unrestricted cash balances decreased \$6.4 million, with cash on hand used to pay \$3.4 million of principal on outstanding long-term debt and associated deferred financing costs for the new debt agreement. We believe that our sources of funds, principally from operations and cash on hand, are sufficient to meet ongoing operations and investing requirements. If we fail to meet the amended financial covenants contained in our loan agreement, any outstanding obligations under the loan agreement may be accelerated and we may not have sufficient funds available for mandatory repayment or we may not have the ability to borrow or obtain sufficient funds to repay the accelerated indebtedness on terms acceptable to us, or at all.

We had working capital of \$12.2 million as of September 30, 2016, compared to \$17.6 million as of December 31, 2015. We had unrestricted cash balances of \$9.8 million and \$16.2 million as of September 30, 2016 and December 31, 2015, respectively. Days sales outstanding increased from 44 to 51 days from December 31, 2015 to September 30, 2016 and inventory days on hand increased from 120 to 170 days for the same period. We are making efforts to reduce both of these metrics to increase cash on hand and cash from operating activities. Days payable outstanding also increased from 84 to 103 days from December 31, 2015 to September 30, 2016. We expect days payable outstanding to decrease along with improvements to days' sales outstanding and inventory days on hand.

Net cash used in operating activities for the nine months ended September 30, 2016 was \$0.8 million compared with net cash provided by operating activities of \$4.1 million for the nine months ended September 30, 2015. The decrease in cash provided by operations is primarily a result of our reduced net loss for the period, net of adjustments to reconcile net loss to net cash (used in) provided by operating activities. The use of cash during the nine months ended September 30, 2016 for the increase in accounts receivable is due to timing of sales during the period. Inventory, net of reserves decreased \$1.3 million to \$6.3 million as of September 30, 2016. The net decrease during the nine months ended September 30, 2016 includes transfers of \$2.1 million of inventory to monitoring equipment as part of our managed services business and offset by build up for a recent new product launch. We also disposed of \$0.8 million of fully reserved inventory during the nine months ended September 30, 2016.

Net cash used in investing activities for the nine months ended September 30, 2016 was \$2.5 million, representing cash expenditures of \$0.8 million for tangible assets and \$1.7 million for purchased software and capitalization of internally developed software.

Net cash used in financing activities for the three-month period ended September 30, 2016 was \$3.2 million, primarily for net cash on hand used to repay the Silicon Valley Bank (SVB) debt and payment of deferred financing costs for the new debt agreement.

On March 9, 2016, we and certain of our wholly-owned, consolidated subsidiaries entered into a new term loan agreement with Crystal Financial LLC as Term Agent, and the term lenders party thereto (the "Crystal Loan Agreement") pursuant to which the term lenders made a term loan to us in the amount of \$17.0 million. The net proceeds from the term loan (after payment of the fees and expenses of the Term Agent), along with \$2.9 million of cash on hand, were used to repay the \$19.4 million outstanding debt under the SVB Loan Agreement and pay related transaction fees. We recorded a charge of \$0.3 million to loss on extinguishment of debt for unamortized deferred financing costs related to the SVB Loan Agreement during the nine months ended September 30, 2016.

The maturity date of the term loan is March 9, 2020. We are required to make regular quarterly principal payments of \$0.6 million beginning September 1, 2017 with the balance due on the maturity date, if not otherwise repaid earlier by way of voluntary prepayments, or upon the occurrence of certain Prepayment Events or Excess Cash Flow (as defined in the Crystal Loan Agreement), or as a result of acceleration of the loan as a result of an event of default. Prepayments of the loan are subject to a prepayment penalty of 3% of the amount prepaid if prepayment occurs prior to the first anniversary of the closing date and 2% of the amount prepaid if the prepayment occurs on or after the first anniversary of the closing date but prior to the second anniversary date of the closing date. There is no prepayment penalty for prepayments that occur on or after the second anniversary of the closing date. The interest rate payable on the outstanding loan amount is determined by reference to LIBOR plus a margin established in the agreement. At September 30, 2016, the applicable interest rate was 9.35%.

Our obligations under the Crystal Loan Agreement are secured by a first priority security interest in substantially all of our assets and the assets of our subsidiaries. In addition, we are required to meet certain financial and other restrictive covenants customary with this type of facility, including maintaining a minimum Adjusted EBITDA, minimum Consolidated Fixed Charge Coverage Ratio, maximum Consolidated Total Net Leverage, maximum subscriber Churn, and minimum Liquidity, all of which are defined in the Crystal Loan Agreement. We are also prohibited from incurring indebtedness, disposing of or permitting liens on our assets and making restricted payments, including cash dividends on shares of our common stock, except as expressly permitted under the Crystal Loan Agreement. The agreement contains customary events of default. If a default occurs and is not cured within the applicable cure period or is not waived, any outstanding obligations under the agreement may be accelerated.

On July 29, 2016 and November 3, 2016, we entered into an amendment to the Crystal Loan Agreement to modify the covenant related to the maximum subscriber Churn and update the definition of Adjusted EBITDA. As a result of the amendments, we were in compliance with all covenants as of September 30, 2016.

In March 2016, we entered into a 60-month lease arrangement for computer and network equipment, software and related costs having a value of \$1.2 million. The lease commenced in April 2016 and is accounted for as a capital lease, reflecting the corresponding assets and related obligations in our consolidated balance sheet.

In June 2016, we entered into agreements to relocate our corporate headquarters. One agreement is a sublease of the office space formerly occupied by our corporate headquarters and includes all furniture and fixtures. The sublease agreement is effective August 1, 2016 and coterminous with the prime lease agreement expiring on September 29, 2022. Rental income from the sublease will be \$0.9 million annually plus 2.5% annual escalation, recorded as a reduction to rental expense in general and administrative expense. We also executed a one-year lease agreement for temporary new corporate headquarters office space effective July 15, 2016. Annual rent expense will be \$0.1 million through July 2017, also recorded in general and administrative expense. We anticipate cash savings of \$0.8 million under the new agreement over the next 12 months and are reviewing alternatives for longer-term and lower cost office space.

Off-Balance Sheet Arrangements

As of September 30, 2016, we did not have any off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of SEC Regulation S-K.

Critical Accounting Policies

There have been no material changes in our critical accounting policies, estimates and judgments during the three months ended September 30, 2016 compared to the disclosures in Part II, Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2015.

As a result of the adoption of a recent accounting pronouncement, certain balance sheet amounts as of December 31, 2015 have been reclassified to conform to the current period presentation. See Note A – Summary of Significant Accounting Policies.

Item 3. Quantitative and Qualitative Disclosures about Market Risks.

The market risk in our financial instruments represents the potential loss arising from adverse changes in financial rates. We are exposed to market risk in the area of interest rates. These exposures are directly related to our normal funding and investing activities.

We also hold cash balances in accounts with commercial banks in the United States and foreign countries. These cash balances represent operating balances only and are invested in short-term time deposits of the local bank. Such operating cash balances held at banks outside the United States are denominated in the local currency. We held \$0.1 million and \$0.5 million in foreign bank accounts at September 30, 2016 and December 31, 2015, respectively.

Foreign Currency

The assets and liabilities of our foreign operations are translated into U.S. dollars at current exchange rates, and revenues and expenses are translated at the ending exchange rate from the prior period which materially approximates the average exchange rates for each period. Resulting translation adjustments are reflected as other comprehensive loss in the consolidated statements of operations and comprehensive loss and within shareholders' equity. Transaction gains and losses that arise from exchange rate fluctuations on transactions denominated in a currency other than the functional currency are included in the results of operations as incurred. Except for transactions with customers and vendors in Canada, substantially all other transactions are denominated in U.S. dollars. Foreign operations were not significant to us for the three months ended September 30, 2016 or fiscal year ended December 31, 2015.

Interest Rate Risk

We are exposed to changes in interest rates on our long-term debt that carries variable rate interest. The impact of a 100-basis point change in interest rates would result in a change in annual interest expense of \$0.2 million.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

As of September 30, 2016, under the supervision and with the participation of the Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), management has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on management's identification of the previously reported deficiencies in internal control over financial reporting that it considers to be material weaknesses, management has concluded that disclosure controls and procedures were not effective at September 30, 2016. Steps being undertaken to remediate these weaknesses are discussed below.

The Company is continuing to reinforce its processes to address the previously reported material weaknesses. Management of the Company believes the steps being taken to remediate these weaknesses are appropriate and expects them to be fully remediated before the end of its fiscal year. Remediation efforts include:

- Evaluation Process for Impairment of Goodwill and Other Intangible Assets Material Weakness:
 - Enhance the formality of rigor of review as it relates to assumptions that are utilized pertaining to the goodwill impairment evaluation process, and
 - Perform more rigorous sensitivity analyses on financial projections and other inputs.
- Capitalized Internally Developed Software Material Weakness:
 - Implement additional monitoring controls as it relates to internal costs that are incurred and capitalized, and
 - Implement additional monitoring controls verifying the hours and rates that are incorporated into the capitalized internally developed software calculation.

The Company is committed to maintaining a strong internal control environment and believes that these remediation efforts will represent significant improvements in our controls. The Company has started to implement these steps; however, some of these steps will take time to be fully integrated and confirmed to be effective and sustainable. Additional controls may also be required over time. Until the remediation steps set forth above are fully implemented and tested, the material weaknesses described above will continue to exist.

Notwithstanding the material weaknesses described above, management has concluded that the Company's unaudited condensed consolidated financial statements included in this report present fairly, in all material respects, the Company's financial position, results of operations and cash flows for the periods presented in conformity with accounting principles generally accepted in the United States.

Changes in Internal Control Over Financial Reporting

During the quarter ended September 30, 2016, there were no significant changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting, except as discussed above with regards to remediation of material weaknesses.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

We currently are not involved in any pending material litigation.

Item 1A. Risk Factors.

For information regarding factors that could affect our results of operations, financial condition and liquidity, see the risk factors discussion set forth in Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2015 as previously filed with the SEC, and the information under “Forward-Looking Statements” included in this Quarterly Report on Form 10-Q.

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

None - not applicable.

Item 3. Defaults Upon Senior Securities.

None - not applicable.

Item 4. Mine Safety Disclosures.

None - not applicable.

Item 5. Other Information.

On November 3, 2016, we entered into an amendment to the Crystal Loan Agreement to modify the covenant related to the maximum subscriber Churn as defined in the Crystal Loan Agreement and update the definition of Adjusted EBITDA. See Note G – Debt.

The foregoing description of the Crystal Loan Agreement does not purport to be complete and is qualified in its entirety by reference to such agreement, a copy of which is included as an exhibit to this Quarterly Report on Form 10-Q.

Item 6. Exhibits.

Exhibit Number	Description
10.1	Second Amendment to Term Loan Agreement dated November 3, 2016 by and among Numerex Corp. and Crystal Finance LLC, as Term Agent
31.1	Certification of Chairman and Chief Executive Officer Pursuant to Exchange Act Rule 13a-14(a)
31.2	Certification of Chief Financial Officer, Executive Vice President, and Principal Financial and Accounting Officer Pursuant to Exchange Act Rule 13a-14(a)
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	The following financial information from the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2016, formatted in eXtensible Business Reporting Language (XBRL): (i) Unaudited Condensed Consolidated Balance Sheets at September 30, 2016 and December 31, 2015, (ii) Unaudited Condensed Consolidated Statement of Operations and Comprehensive Loss for the three months ended September 30, 2016 and 2015, (iii) Unaudited Condensed Consolidated Statements of Cash Flows for the three months ended September 30, 2016 and 2015, (iv) Unaudited Condensed Consolidated Statement of Shareholders Equity for the three months ended September 30, 2016 and (v) Unaudited Condensed Notes to Consolidated Financial Statements*

* This exhibit is furnished and will not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934 (15 U.S.C. 78r), or otherwise subject to the liability of that section. Such exhibit will not be deemed to be incorporated by reference into any filing under the Securities Act or Securities Exchange Act, except to the extent that the Registrant specifically incorporates it by reference.

SIGNATURES

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

NUMEREX CORP.

(Registrant)

November 7, 2016

/s/ Marc Zions

Marc Zions

Chief Executive Officer

November 7, 2016

/s/ Kenneth L. Gayron

Kenneth L. Gayron

Chief Financial Officer and

Principal Financial and Accounting Officer

EXECUTION VERSION

SECOND AMENDMENT TO TERM LOAN AGREEMENT

This SECOND AMENDMENT TO TERM LOAN AGREEMENT, dated as of November 3, 2016 (this “**Second Amendment**”), by and among Numerex Corp., a Pennsylvania corporation (the “**Lead Borrower**”), the other Persons party hereto as that are designated as “Borrowers” (each a “**Borrower**” and, together with the Lead Borrower, the “**Borrowers**”), the other Persons party hereto designated as “Guarantors” (the “**Guarantors**”, and, together with the Borrowers, the “**Credit Parties**”), Crystal Financial LLC, a Delaware limited liability company, as administrative agent and collateral agent (in such capacities, the “**Term Agent**”) for the financial institutions from time to time party to the Term Loan Agreement (collectively, the “**Term Lenders**” and individually each a “**Term Lender**”) and for itself, the Term Lenders and the other Secured Parties.

W I T N E S S E T H:

WHEREAS, the Borrowers, the Guarantors, the Term Agent and the Term Lenders are party to that certain Term Loan Agreement dated as of March 9, 2016, as amended by the First Amendment to Term Loan Agreement dated as of July 29, 2016 (as amended, restated, supplemented or otherwise modified from time to time in accordance with the terms thereof, the “**Term Loan Agreement**”), pursuant to which the Term Lenders agreed, subject to the terms and conditions contained therein, to extend credit to the Borrowers; and

WHEREAS, the Credit Parties have requested that the Term Agent and the Term Lenders effect certain amendments to the Term Loan Agreement as more specifically set forth herein, and the Term Agent and the Term Lenders are willing to effect such amendments to the Term Loan Agreement on the terms and conditions hereinafter set forth.

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants herein contained, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties signatory hereto agree as follows:

1. Defined Terms. Except as otherwise defined in this Second Amendment, terms defined in the Term Loan Agreement are used herein as defined therein.
2. Amendment to Term Loan Agreement. Subject to the satisfaction of the conditions precedent specified in Section 5 below, the following amendments shall be incorporated into the Term Loan Agreement:
 - (a) Section 5.23(d) of the Term Loan Agreement is hereby amended by deleting the grid contained therein in its entirety and substituting the following in its stead:

<u>Quarter</u>	<u>Churn</u>
March 31, 2016	-7.50%
June 30, 2016	-9.50%
September 30, 2016	-3.10%
December 31, 2016 and the last day of each fiscal quarter thereafter	-2.50%

- (b) Section 10.1 of the Term Loan Agreement is hereby amended by deleting the definition of “Adjusted EBITDA” in its entirety and substituting the following in its stead:

““ Adjusted EBITDA ” means, for any period, for the Lead Borrower and its Subsidiaries on a Consolidated basis, an amount equal to Consolidated Net Income for such period plus (a) without duplication, the following to the extent deducted in calculating such Consolidated Net Income: (i) Consolidated Interest Expense for such period, (ii) the provision for federal, state, local and foreign income taxes payable by the Lead Borrower and its Subsidiaries for such period, (iii) depreciation and amortization expense for such period, (iv) non-cash equity-based compensation, (v) non-recurring, non-cash expenses which are deemed acceptable to the Term Agent, (vi) the fees, costs, and expenses payable by the Borrowers in connection with the closing of the transactions contemplated by the Loan Documents, (vii) fees and expenses paid in connection with field examinations and wind-down analyses in accordance with Section 4.9(c), (viii) the non-cash write-off of fixed assets during the second Fiscal Quarter of 2016 relating to the Atlanta Sublease in an amount not to exceed \$377,000, (ix) the impairment charge taken during the second Fiscal Quarter of 2016 relating to the Atlanta Sublease in an amount not to exceed \$889,000, (x) third party broker fees incurred during the second Fiscal Quarter of 2016 relating to the Atlanta Sublease not to exceed \$460,000, (xi) severance paid during the second Fiscal Quarter of 2016 in an amount not to exceed \$415,000, (xii) inventory reserves taken during second Fiscal Quarter of 2016 in an amount not to exceed \$435,000, (xiii) goodwill impairment charges taken during the second Fiscal Quarter of 2016 in an amount not to exceed \$7,000,000, (xiv) cash severance paid during July and August of 2016 in an amount not to exceed \$253,000, and (xv) cash costs and expenses paid in connection with relocating to a temporary headquarters at 400 Interstate North Parkway SE, Atlanta, Georgia in July of 2016 in an amount not to exceed \$25,000; and minus (b) the following to the extent included in calculating such Consolidated Net Income: (i) federal, state, local and foreign income tax credits of the Lead Borrower and its Subsidiaries for such period, (ii) extraordinary gains for such period and (iii) all non-cash, non-recurring items increasing Consolidated Net Income for such period. For quarterly periods prior to the closing date, “Adjusted EBITDA” shall be as follows: quarter ended December 31, 2015 - \$1,963,000, quarter ended September 30, 2015 - \$1,664,000 and quarter ended June 30, 2015 - \$3,410,000.”

3. Amendment to Exhibits. Exhibit 4.2(b) to the Term Loan Agreement, the Form of Compliance Certificate, is hereby amended by deleting said exhibit in its entirety and replacing it with the corresponding exhibit set forth in Annex I attached hereto.
4. Representations and Warranties. Each Credit Party hereby represents and warrants that:
- (a) After giving effect to this Second Amendment, no Default or Event of Default has occurred and is continuing;
- (b) the execution, delivery and performance of this Second Amendment by each Credit Party are all within such Credit Party’s corporate powers, will not contravene any Requirement of Law or the terms of such Credit Party’s Organization Documents, or any Material Contract to which such Credit Party is a party or by which such Credit Party or its property is bound, and shall not result in the creation or imposition of any lien, claim, charge or encumbrance upon any of the Collateral, except in favor of Term Agent and Term Lenders pursuant to the Term Loan Agreement and the other Loan Documents as amended hereby;

- (c) this Second Amendment and each other agreement or instrument to be executed and delivered by the Credit Parties in connection herewith have been duly authorized, executed and delivered by all necessary action on the part of such Credit Party and, if necessary, its stockholders, as the case may be, and the agreements and obligations of each Credit Party contained herein and therein constitute the legal, valid and binding obligations of such Credit Party, enforceable against it in accordance with their terms, except as enforceability is limited by bankruptcy, insolvency, reorganization, receivership, moratorium or other laws affecting creditor's rights generally and by general principles of equity; and
 - (d) after giving effect to this Second Amendment, all representations and warranties contained in the Term Loan Agreement and each other Loan Document are true and correct in all material respects on and as of the date hereof, except (i) to the extent that such representations and warranties refer to an earlier date, in which case they shall be true and correct as of such earlier date, and (ii) in the case of any representation and warranty qualified by materiality, in which case they shall be true and correct in all respects.
5. Conditions to Effectiveness. This Second Amendment shall not be effective until each of the following conditions precedent have been fulfilled to the satisfaction of the Term Agent (such date referred to herein as, the "Effective Date"):
- (a) the Term Agent shall have received this Second Amendment, duly executed by each of the parties hereto;
 - (b) after giving effect to this Second Amendment, no Default or Event of Default shall have occurred and be continuing;
 - (c) all orders, permissions, consents, approvals, licenses, authorizations and validations of, and filings, recordings and registrations with, and exemptions by, any Governmental Authority, or any other Person required to authorize or otherwise required in connection with the execution, delivery and performance by each Credit Party of this Second Amendment and the transactions contemplated, shall have been obtained and shall be in full force and effect; and
 - (d) the Credit Parties shall have paid in full all invoiced Credit Party expenses in connection with the preparation, execution, delivery and administration of this Second Amendment and the other instruments and documents to be delivered hereunder (with such fees and expenses described in this paragraph being fully earned as of the date hereof, and no portion thereof shall be refunded or returned to the Credit Parties under any circumstances).
6. Effect on Loan Documents. The Term Loan Agreement and the other Loan Documents, after giving effect to the Second Amendment, shall be and remain in full force and effect in accordance with their terms and hereby are ratified and confirmed in all respects. Except as expressly set forth herein, the execution, delivery, and performance of this Second Amendment shall not operate as a waiver of any right, power, or remedy of the Term Agent or any other Secured Party under the Term Loan Agreement or any other Loan Document, as in effect prior to the date hereof. Each Credit Party hereby ratifies and confirms in all respects all of its obligations under the Loan Documents to which it is a party and each Credit Party hereby ratifies and confirms in all respects any prior grant of a security interest under the Loan Documents to which it is party.

7. Further Assurances. Each Credit Party shall execute and deliver all agreements, documents and instruments, each in form and substance satisfactory to the Term Agent, and take all actions as the Term Agent may reasonably request from time to time, to perfect and maintain the perfection and priority of the security interest in the Collateral held by the Term Agent and to fully consummate the transactions contemplated under this Second Amendment and the Term Loan Agreement, as modified hereby.
8. Release. Each Credit Party hereby remises, releases, acquits, satisfies and forever discharges Term Agent and the Term Lenders, their agents, employees, officers, directors, predecessors, attorneys and all others acting on behalf of or at the direction of Term Agent or the Term Lenders, of and from any and all manner of actions, causes of action, suit, debts, accounts, covenants, contracts, controversies, agreements, variances, damages, judgments, claims and demands whatsoever, in law or in equity, which any of such parties ever had, or now has, to the extent arising from or in connection with any act, omission or state of facts taken or existing on or prior to the Effective Date, against Term Agent and the Term Lenders, their agents, employees, officers, directors, attorneys and all persons acting on behalf of or at the direction of Term Agent or the Term Lenders (“Releasees”), for, upon or by reason of any matter, cause or thing whatsoever arising under, or in connection with, or otherwise related to, the Loan Documents through the Effective Date. Without limiting the generality of the foregoing, each Credit Party waives and affirmatively agrees not to allege or otherwise pursue any defenses, affirmative defenses, counterclaims, claims, causes of action, setoffs or other rights they have or may have under, or in connection with, or otherwise related to, the Loan Documents as of the Effective Date, including, but not limited to, the rights to contest any conduct of Term Agent, the Term Lenders or other Releasees on or prior to the Effective Date.
9. No Novation; Entire Agreement. This Second Amendment evidences solely the amendment of certain specified terms and obligations of the Credit Parties under the Term Loan Agreement and is not a novation or discharge of any of the other obligations of the Credit Parties under the Term Loan Agreement. There are no other understandings, express or implied, among the Credit Parties, the Term Agent and the Term Lenders regarding the subject matter hereof or thereof.
10. Choice of Law. THIS SECOND AMENDMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK, WITHOUT GIVING EFFECT TO THE CONFLICTS OF LAWS PRINCIPLES THEREOF, BUT INCLUDING SECTION 5-1401 OF THE NEW YORK GENERAL OBLIGATIONS LAW.
11. Counterparts; Facsimile Execution. This Second Amendment may be executed in any number of counterparts and by different parties and separate counterparts, each of which when so executed and delivered shall be deemed an original, and all of which, when taken together, shall constitute one and the same instrument. Delivery of an executed counterpart of a signature page to this Second Amendment by facsimile (or other electronic transmission) shall be as effective as delivery of a manually executed counterpart of this Second Amendment. Any party delivering an executed counterpart of this Second Amendment by facsimile (or other electronic transmission) also shall deliver a manually executed counterpart of this Second Amendment but the failure to deliver a manually executed counterpart shall not affect the validity, enforceability, and binding effect of this Second Amendment.

12. Construction. This Second Amendment is a Loan Document. This Second Amendment and the Term Loan Agreement shall be construed collectively and in the event that any term, provision or condition of any of such documents is inconsistent with or contradictory to any term, provision or condition of any other such document, the terms, provisions and conditions of this Second Amendment shall supersede and control the terms, provisions and conditions of the Term Loan Agreement.
13. Miscellaneous. The terms and provisions hereof shall be binding upon and inure to the benefit of the parties hereto and their successors and assigns.

[Signature Pages Follow]

IN WITNESS WHEREOF, the parties hereto have caused this Second Amendment to be duly executed and delivered by their duly authorized officers of the date first above written.

NUMEREX CORP , as the Lead Borrower and a Borrower

By: /s/ Kenneth L. Gayron

Name: Kenneth L. Gayron

Title:

CELLEMETRY LLC , as a Borrower

By: /s/ Kenneth L. Gayron

Name: Kenneth L. Gayron

Title: Treasurer

CELLEMETRY SERVICES, LLC , as a Borrower

By: /s/ Kenneth L. Gayron

Name: Kenneth L. Gayron

Title: Treasurer

NEXTALARM, LLC , as a Borrower

By: /s/ Kenneth L. Gayron

Name: Kenneth L. Gayron

Title: Treasurer

NUMEREX GOVERNMENT SERVICES LLC , as a Borrower

By: /s/ Kenneth L. Gayron

Name: Kenneth L. Gayron

Title: Treasurer

[Signature Page to Second Amendment to Term Loan Agreement]

NUMEREX SOLUTIONS, LLC , as a Borrower

By: /s/ Kenneth L. Gayron
Name: Kenneth L. Gayron
Title: Treasurer

OMNILINK SYSTEMS INC ., as a Borrower

By: /s/ Kenneth L. Gayron
Name: Kenneth L. Gayron
Title: Chief Financial Officer

ORBIT ONE COMMUNICATIONS, LLC , as a Borrower

By: /s/ Kenneth L. Gayron
Name: Kenneth L. Gayron
Title: Treasurer

TELEMETRY SERVICES CORPORATION , as a Borrower

By: /s/ Kenneth L. Gayron
Name: Kenneth L. Gayron
Title: Chief Financial Officer

UBLIP, INC ., as a Borrower

By: /s/ Kenneth L. Gayron
Name: Kenneth L. Gayron
Title: Chief Financial Officer

UPLINK SECURITY, LLC , as a Borrower

By : /s/ Kenneth L. Gayron
Name: Kenneth L. Gayron
Title: Treasurer

[Signature Page to Second Amendment to Term Loan Agreement]

CRYSTAL FINANCIAL LLC , as Term Agent

By: /s/ Christopher A. Arnold

Name: Christopher A. Arnold

Title: Senior Managing Director

CRYSTAL FINANCIAL SPV LLC , as Term Lender

By: /s/ Christopher A. Arnold

Name: Christopher A. Arnold

Title: Senior Managing Director

[Signature Page to Second Amendment to Term Loan Agreement]

Annex I

Updated Exhibit 4.2(b)

Form of Compliance Certificate (see attached)

EXHIBIT 4.2(b)

FORM OF COMPLIANCE CERTIFICATE

To: Crystal Financial LLC
Two International Place, 17th Floor
Boston, MA 02110

Date: _____

Re: Term Loan Agreement dated as of March 9, 2016 (as amended, modified, supplemented or restated hereafter, the “**Term Loan Agreement**”) by and among (i) Numerex Corp., a Pennsylvania corporation (the “**Lead Borrower**”), (ii) the other Borrowers party thereto from time to time (together with the Lead Borrower, the “**Borrowers**”), (iii) the Guarantors party thereto from time to time, (iv) the Term Lenders party thereto from time to time party, and (v) Crystal Financial LLC, as term agent (the “**Term Agent**”). All capitalized terms used herein and not otherwise defined shall have the same meaning herein as in the Term Loan Agreement.

The undersigned, a duly authorized and acting Responsible Officer of the Lead Borrower, hereby certifies to you as follows:

1. No Default; Representations and Warranties.
 - a. To the knowledge of the undersigned Responsible Officer, except as set forth in Appendix I, no Default or Event of Default has occurred and is continuing.
 - b. If a Default or Event of Default has occurred and is continuing, the Lead Borrower and its Subsidiaries propose to take action as set forth in Appendix I with respect to such Default or Event of Default.
 - c. Each of the representations and warranties set forth in the Term Loan Agreement is true and correct in all material respects as of the date hereof (without duplication of any materiality qualifier contained therein).
2. Financial Calculations. Attached hereto as Appendix II are reasonably detailed calculations of the following, each as of the Fiscal [Month/Year] ending []¹:
 - a. Adjusted EBITDA;
 - b. Consolidated Fixed Charge Coverage Ratio;
 - c. Consolidated Total Net Leverage;
 - d. Churn; and
 - e. Liquidity.

¹ Note: All calculations to be included regardless of whether compliance with any particular covenant is required for a given reporting period under the Term Loan Agreement.

3. No Material Accounting Changes, Etc. The financial statements furnished to the Term Agent for the Fiscal [Month/Year] ending [_____] are complete, correct, and fairly present, in all material respects, in accordance with GAAP, the consolidated financial position and the results of operations of the Lead Borrower and its Subsidiaries on a consolidated basis at the close of, and the results of the Lead Borrower and its Subsidiaries' operations and cash flows for, the period(s) covered, subject to, with respect to the monthly financial statements, normal year-end adjustments and the absence of footnotes. There has been no change in GAAP or the application thereof since the date of the audited financial statements furnished to the Term Agent for the year ending [_____], other than the material accounting changes as disclosed on Appendix III hereto.
4. Intellectual Property. Except as set forth on Appendix IV hereto, there has been no change to the information provided in Schedule 3.16 to the Term Loan Agreement since the date of the most recently delivered compliance certificate.
5. Commercial Tort Claims. Except as set forth on Appendix V hereto, there has been no change to the information provided in Schedule 1 to the Guaranty and Security Agreement since the date of the most recently delivered compliance certificate.

[Signature Page Follows]

IN WITNESS WHEREOF, I have executed this certificate as of the date first written above.

By: _____
Responsible Officer of Lead Borrower

Name: _____

Title: _____

APPENDIX I

Except as set forth below, no Default or Event of Default presently exists. [If a Default or Event of Default exists, the following describes the nature of the Default or Event of Default in reasonable detail and the steps being taken or contemplated by the Lead Borrower and its Subsidiaries to be taken on account thereof.]

APPENDIX II

A. Calculation of Adjusted EBITDA²

1.	Consolidated Net Income: <i>plus, without duplication, the following to the extent deducted in calculating such Consolidated Net Income:</i>	\$ _____
2.	Consolidated Interest Expense:	\$ _____
3.	the provision for federal, state, local and foreign income taxes payable by the Lead Borrower and its Subsidiaries:	\$ _____
4.	depreciation and amortization expense:	\$ _____
5.	non-cash equity-based compensation:	\$ _____
6.	non-recurring, non-cash expenses which are deemed acceptable to the Term Agent:	\$ _____
7.	the fees, costs and expenses payable by the Borrowers in connection with the closing of the transactions contemplated by the Loan Documents:	\$ _____
8.	fees and expenses paid in connection with field examinations and wind-down analyses in accordance with Section 4.9(c) of the Term Loan Agreement:	\$ _____
9.	the non-cash write-off of fixed assets during the second Fiscal Quarter of 2016 relating to the Atlanta Sublease in an amount not to exceed \$377,000:	\$ _____
10.	the impairment charge taken during the second Fiscal Quarter of 2016 relating to the Atlanta Sublease in an amount not to exceed \$889,000:	\$ _____
11.	third party broker fees incurred during the second Fiscal Quarter of 2016 relating to the Atlanta Sublease not to exceed \$460,000:	\$ _____
12.	severance paid during the second Fiscal Quarter of 2016 in an amount not to exceed \$415,000:	\$ _____
13.	inventory reserves taken during second Fiscal Quarter of 2016 in an amount not to exceed \$435,000:	\$ _____
14.	goodwill impairment charges taken during the second Fiscal Quarter of 2016 in an amount not to exceed \$7,000,000:	\$ _____

² For quarterly periods prior to the Closing Date, "Adjusted EBITDA" shall be as follows: quarter ended December 31, 2015 - \$1,963,000, quarter ended September 30, 2015 - \$1,664,000 and quarter ended June 30, 2015 - \$3,410,000.

15. cash severance paid during July and August of 2016 in an amount not to exceed \$253,000: \$ _____
16. cash costs and expenses paid in connection with relocating to a temporary headquarters at 400 Interstate North Parkway SE, Atlanta, Georgia in July of 2016 in an amount not to exceed \$25,000: \$ _____
- minus the following to the extent included in calculating such Consolidated Net Income:*
17. federal, state, local and foreign income tax credits of the Lead Borrower and its Subsidiaries: \$ _____
18. extraordinary gains for such period: \$ _____
19. all non-cash, non-recurring items increasing Consolidated Net Income: \$ _____
20. the sum of lines A-2 through A-16: \$ _____
21. the sum of lines A-17 through A-19: \$ _____
22. Adjusted EBITDA (line A-1 plus line A-20 minus line A-21): \$ _____

In compliance with minimum Adjusted EBITDA covenant, pursuant to Section 5.23 of the Term Loan Agreement (applicable only for calculations as of the end of a Fiscal Quarter): [Yes/No/NA]

B. Calculation of Consolidated Fixed Charge Coverage Ratio

1.	Adjusted EBITDA (line A-22):	\$ _____
2.	Capital Expenditures paid in cash: <i>plus:</i>	\$ _____
3.	the aggregate amount (but not less than \$0) of federal, state, local and foreign income taxes paid in cash:	\$ _____
4.	Debt Service Charges paid in cash:	
	a. Consolidated Interest Expense ³ :	\$ _____
	b. All scheduled principal payments made or required to be made on account of Indebtedness for borrowed money (including, without limitation, principal payments in accordance with Section 1.6(a)(i) of the Term Loan Agreement and obligations with respect to Capital Leases for such period (excluding, for the avoidance of doubt, all voluntary and mandatory prepayments):	\$ _____
	c. the <u>sum</u> of lines B-4-a and B-4-b:	\$ _____
5.	Restricted Payments paid in cash:	\$ _____
6.	the <u>sum</u> of lines B-2, B-3, B-4-c and B-5:	\$ _____
7.	Consolidated Fixed Charge Coverage Ratio (the ratio of line B-1 <u>to</u> line B-6):	[] : []

In compliance with minimum Consolidated Fixed Charge Coverage Ratio covenant, pursuant to Section 5.23 of the Term Loan Agreement (applicable only for calculations as of the end of a Fiscal Quarter):

[Yes/No/NA]

³ With respect to the calculation of the amounts set forth in line B-4-a above, for each of the quarters ending on March 31, 2016, June 30, 2016, September 30, 2016 and December 30, 2016, such amounts shall be calculated by: (i) determining the actual amount thereof from the Closing Date through such date of determination, (ii) dividing such amount by the number of days that have elapsed from the Closing Date through such date of determination, and (iii) multiplying the result by 365.

C. Calculation of Consolidated Total Net Leverage

1. Net Debt: \$ _____
2. Consolidated Total Net Leverage (the ratio of line C-1 to Adjusted EBITDA (line A-22)): [] : []

In compliance with maximum Consolidated Total Net Leverage covenant, pursuant to Section 5.23 of the Term Loan Agreement (applicable only for Calculations as of the end of a Fiscal Quarter): [Yes/No/NA]

D. Calculation of Churn

1. Aggregate number of subscribers at the end of the period:
minus []
2. Aggregate number of subscribers at the end of the prior period: []
3. Subscriber disconnect (line D-1 minus line D-2): []
4. Churn (line D-3 divided by line D-2): []

In compliance with subscriber Churn covenant, pursuant to Section 5.23 of the Term Loan Agreement (applicable only for calculations as of the end of a Fiscal Quarter): [Yes/No/NA]

E. Minimum Liquidity

Liquidity: \$

Minimum Liquidity: \$5,000,000

In compliance with minimum Liquidity covenant, pursuant to Section 5.23 of the Term Loan Agreement:

[Yes/No]

APPENDIX III

Except as set forth below, no material changes in GAAP or the application thereof have occurred since [the date of the most recently delivered financial statements to the Term Agent prior to the date of this certificate]. [If material changes in GAAP or in application thereof have occurred, the following describes the nature of the changes in reasonable detail and the effect, if any, of each such material change in GAAP or in application thereof in the calculation of the financial covenants described in the Term Loan Agreement].

APPENDIX IV

Except as set forth below, there has been no change to the information provided in Schedule 3.16 (Intellectual Property) to the Term Loan Agreement since the date of the most recently delivered compliance certificate.

APPENDIX V

Except as set forth below, there has been no change to the information provided in Schedule 1 (Commercial Tort Claims) to the Guaranty and Security Agreement since the date of the most recently delivered compliance certificate.

CERTIFICATION OF CHAIRMAN AND CHIEF EXECUTIVE OFFICER

I, Marc Zionts, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Numerex Corp.;
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 we 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: November 7, 2016

/s/ Marc Zionts

Marc Zionts
Chief Executive Officer

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Kenneth L. Gayron, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Numerex Corp.;
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 we 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: November 7, 2016

/s/ Kenneth L. Gayron

Kenneth L. Gayron
Chief Financial Officer and
Principal Financial and Accounting Officer

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

In connection with the Quarterly Report of Numerex Corp. (the "Company") on Form 10-Q for the period ended September 30, 2016, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Marc Zionts, as Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge, that:

- (1) The Report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company for the dates and periods covered by the Report.

This certificate is being made for the exclusive purpose of compliance by the Chief Executive Officer of the Company with the requirements of Section 906 of the Sarbanes-Oxley Act of 2002, and may not be disclosed, distributed or used by any person or for any reason other than as specifically required by law.

November 7, 2016

/s/ Marc Zionts

Marc Zionts
Chief Executive Officer

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

In connection with the Quarterly Report of Numerex Corp (the "Company") on Form 10-Q for the period ended September 30, 2016, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Kenneth L. Gayron, as Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge, that:

- (1) The Report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company for the dates and periods covered by the Report.

This certificate is being made for the exclusive purpose of compliance by the Chief Financial Officer of the Company with the requirements of Section 906 of the Sarbanes-Oxley Act of 2002, and may not be disclosed, distributed or used by any person or for any reason other than as specifically required by law.

November 7, 2016

/s/ Kenneth L. Gayron

Kenneth L. Gayron
Chief Financial Officer and
Principal Financial and Accounting Officer