NUMEREX CORP /PA/

FORM 10-Q
(Quarterly Report)

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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, 2017

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 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 ☐	Accelerated filer ☑
Non-accelerated filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☐
Emerging growth company ☐	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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 November 7, 2017, 19,679,345 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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PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

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

	September 30, 2017	December 31, 2016
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 6,575	$ 9,285
Restricted cash	221	221
Accounts receivable, less allowance for doubtful accounts of $583 and $767	8,961	9,436
Financing receivables, current	1,521	1,778
Inventory, net of reserves	5,909	9,011
Prepaid expenses and other current assets	1,461	1,421
TOTAL CURRENT ASSETS	24,648	31,152
Financing receivables, less current portion	1,580	2,227
Property and equipment, net of accumulated depreciation and amortization	5,608	6,022
Software, net of accumulated amortization	5,654	6,530
Other intangible assets, net of accumulated amortization	10,773	11,519
Goodwill	33,554	33,554
Other assets	269	474
TOTAL ASSETS	$ 82,086	$ 91,478
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 15,007	$ 15,894
Accrued expenses and other current liabilities	2,127	3,209
Deferred revenues	1,491	1,882
Current maturities of long-term debt, net of debt issuance costs	5,702	1,275
Current obligations under capital lease	312	291
TOTAL CURRENT LIABILITIES	24,639	22,551
Long-term debt, net of debt issuance costs, less current maturities	10,043	14,885
Obligations under capital lease, noncurrent	608	797
Deferred tax liabilities, noncurrent	705	468
Other liabilities	1,435	1,512
TOTAL LIABILITIES	37,430	40,213
SHAREHOLDERS' EQUITY		
Preferred stock, no par value; 3,000 authorized; none issued	-	-
Class A common stock, no par value; 30,000 authorized; 21,138 and 20,935 issued; 19,675 and 19,608 outstanding	-	-
Class B common stock, no par value; 5,000 authorized; none issued	-	-
Additional paid-in capital	109,333	105,112
Treasury stock, at cost, 1,463 and 1,327 shares	(5,773)	(5,466)
Accumulated other comprehensive loss	(104)	(110)
Accumulated deficit	(58,800)	(48,271)
TOTAL SHAREHOLDERS' EQUITY	44,656	51,265
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 82,086	$ 91,478

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, 2017	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
Net revenues:				
Subscription and support revenues	$ 11,983	$ 14,388	$ 38,133	$ 44,183
Embedded devices and hardware	3,320	3,024	7,535	8,886
Total net revenues	15,303	17,412	45,668	53,069
Cost of sales				
Subscription and support revenues	5,087	5,828	15,915	17,242
Embedded devices and hardware	3,458	3,082	7,748	9,027
Inventory reserves	1,301	27	1,355	514
Gross profit	5,457	8,475	20,650	26,286
Operating expenses:				
Sales and marketing	2,183	3,229	8,019	9,444
General and administrative	2,314	3,280	7,691	11,269
Engineering and development	1,341	2,229	5,260	6,920
Depreciation and amortization	1,426	1,658	4,392	4,992
Impairment of goodwill and other intangible assets	-	-	-	4,172
Restructuring charges	655	276	1,435	1,520
Operating loss	(2,462)	(2,197)	(6,147)	(12,031)
Interest expense	919	469	2,282	1,196
Loss on extinguishment of debt	-	-	1,089	290
Other (income) expense, net	(34)	(33)	767	(99)
Loss before income taxes	(3,347)	(2,633)	(10,285)	(13,418)
Income tax expense (benefit)	79	(87)	244	(257)
Net loss	(3,426)	(2,546)	(10,529)	(13,161)
Other items of comprehensive (loss) income, net of income taxes:				
Foreign currency translation adjustment	-	1	(6)	12
Comprehensive loss	$ (3,426)	$ (2,545)	$ (10,535)	$ (13,149)
Loss per share:				
Basic	$ (0.17)	$ (0.13)	$ (0.54)	$ (0.68)
Diluted	$ (0.17)	$ (0.13)	$ (0.54)	$ (0.68)
Weighted average shares outstanding used in per share calculation				
Basic	19,646	19,542	19,575	19,456
Diluted	19,646	19,542	19,575	19,456

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

NUMEREX CORP. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED
STATEMENT 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, 2017	20,935	$ 105,112	$ (5,466)	$ (110)	$ (48,271)	$ 51,265
Equity-based compensation expense	-	1,400	-	-	-	1,400
Exercises, vesting and other equity-based compensation plan activity, net	203		(289)	-	-	(289)
Value of shares retained to pay employee taxes		(202)	(18)			(220)
Warrants issued		3,023	-	-	-	3,023
Translation adjustment	-	-	-	6	-	6
Net loss	-	-	-	-	(10,529)	(10,529)
Balance at September 30, 2017	21,138	$ 109,333	$ (5,773)	$ (104)	$ (58,800)	$ 44,656

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,	
	2017	**2016**
Cash flows from operating activities:		
Net loss	$ (10,529)	$ (13,161)
Adjustments to reconcile net loss to net cash (used in) operating activities:		
Depreciation and amortization	5,757	5,997
Impairment of goodwill and other intangible assets	-	4,172
Non-cash restructuring charges	-	345
Equity-based compensation expense	1,111	2,202
Loss on extinguishment of debt	1,089	290
Deferred income taxes	237	(268)
Bad debt expense	235	327
Provision for inventory reserves	1,355	514
Non-cash interest	975	138
Changes in assets and liabilities:		
Accounts and financing receivables	1,143	(303)
Inventory, net	110	(1,323)
Accounts payable	(887)	427
Deferred revenue	(345)	(554)
Other	(1,036)	394
Net cash used in operating activities	(785)	(803)
Cash flows from investing activities:		
Purchases of property and equipment	(315)	(789)
Capitalized software development and purchases of software	(1,767)	(1,662)
Net cash used in investing activities	(2,082)	(2,451)
Cash flows from financing activities:		
Proceeds from long-term debt	18,591	17,000
Principal payments on debt	(17,000)	(19,349)
Principal payments on capital lease obligations	(168)	-
Exercises, vesting and other equity-based compensation plan activity	-	486
Payment of taxes on equity-based awards	(220)	(258)
Deferred financing costs paid	(1,046)	(1,038)
Net cash provided by (used in) financing activities	157	(3,159)
Net decrease in cash and cash equivalents	(2,710)	(6,413)
Cash and cash equivalents at beginning of period	9,285	9,285
Cash and cash equivalents at end of period	$ 6,575	$ 2,872
Supplemental disclosures of cash flow information:		
Cash paid for interest	$ 1,307	$ 1,047
Net cash paid for income taxes	9	6
Disclosure of non-cash investing and financing activities:		
Capital expenditures in accounts payable	222	196
Fixed assets acquired under a capital lease	-	1,237
Warrants issued to Kenneth Rainin Foundation	595	-
Warrants issued to Hale Capital	2,428	-
Transfer of inventory to monitoring equipment	1,636	2,087

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

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

Numerex Corp. (NASDAQ: NMRX) is a holding company incorporated in Pennsylvania, and through its subsidiaries, is a single source, leading provider of managed enterprise solutions enabling the Internet of Things (IoT). An IoT solution is generally viewed as a combination of devices, software and services that operate with little or no human interaction. Our managed IoT solutions are simple, innovative, scalable and secure. Our solutions incorporate each of the four key IoT building blocks – Device, Network, Application and Platform. We provide our technology and service solutions through our integrated IoT horizontal platforms, which are generally sold on a subscription basis. Foreign operations were not significant to us for the three and nine months ended September 30, 2017 or 2016.

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 prior period amounts in the condensed consolidated financial statements and notes thereto have been reclassified to conform to the current period's presentation.

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, 2017 and our operating results and cash flows for the interim periods presented. The accompanying condensed consolidated balance sheet as of December 31, 2016 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, 2016 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 or nine months ended September 30, 2017 may not be indicative of the results that may be expected for the year ending December 31, 2017 or any future periods.

Liquidity

The Company incurred an operating loss totaling $6.1 million and cash used in operations was $0.8 million for the nine months ended September 30, 2017. The Company also incurred an operating loss totaling $22.8 million and cash used in operations totaled $0.5 million for the year ended December 31, 2016. As of September 30, 2017, the Company has an accumulated deficit of $58.8 million, and cash and cash equivalents of $6.6 million. The Company's cash flow requirements during the fiscal year 2016 and to date in 2017 were financed by cash on hand, cash generated by operations, and proceeds from the recent financing with Hale. The Company had total term debt (net of deferred financing costs), including current portion, of $15.7 million as of September 30, 2017. The Company's ability to continue in business is dependent on its ability to continue to generate operating cash flows, to maintain sufficient cash on hand, to raise additional capital, and to control expenditures. Management believes that the Company will maintain sufficient liquidity through at least September 2018. The consolidated financial statements do not include any adjustments that might result from this uncertainty.

Restricted Cash

As of September 30, 2017, and 2016, cash of $0.2 million was held in escrow related to certain vendor obligations.

NOTE B - INVENTORY

Inventory consisted of the following (in thousands):

	September 30, 2017	December 31, 2016
Raw materials	$ 1,843	$ 2,953
Finished goods	5,747	$ 8,504
Inventory reserves	(1,681)	$ (2,446)
	$ 5,909	$ 9,011

During the three and nine months ended September 30, 2017, we transferred $0.5 million and $1.6 million of inventory to monitoring equipment within property and equipment, respectively, and disposed of $0.0 million and $0.3 million of fully reserved inventory, respectively.

NOTE C – PROPERTY AND EQUIPMENT

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

	September 30, 2017	December 31, 2016
Computer, network and other equipment	$ 8,924	$ 8,805
Monitoring equipment	7,328	5,692
Furniture and fixtures	486	486
Leasehold improvements	255	264
Total property and equipment	16,993	15,247
Accumulated depreciation and amortization	(11,385)	(9,225)
	$ 5,608	$ 6,022

During the three and nine months ended September 30, 2017, we transferred $0.5 million and $1.6 million of inventory to monitoring equipment as part of our managed services business. Depreciation and amortization related to property and equipment was $0.3 million and $0.9 million for the three and nine months ended September 30, 2017, respectively. Depreciation and amortization related to property and equipment was $0.4 million and $1.1 million for the three and nine months ended September 30, 2016, respectively.

NOTE D – INTANGIBLE ASSETS

Impairment Charges

We recorded $4.2 million in impairment charges for trade names, technology and goodwill as of June 30, 2016. The Omnilink and Do-It-Yourself (DIY) product lines and reporting units had not generated results of operations consistent with our expectations and forecasts for the three months ended June 30, 2016. The lower operating results and future expectations for Omnilink were principally related to strategic changes and delays associated with the launch of a new personal tracking product line. We also continue to evaluate different strategic options for the DIY reporting unit. These factors were triggering events that indicated that it was more likely than not that the fair value of the Omnilink and DIY reporting units were less than their carrying amounts. As a result, we performed initial assessments of goodwill for impairment, along with other intangible assets of the reporting units, as of June 30, 2016.

We estimated the fair value of the reporting units using a combination of market and income approaches and concluded that the estimated fair value of the Omnilink and DIY reporting units were less than their carrying values. We assessed the implied fair value of goodwill in the same manner as if we were acquiring the reporting units in a business combination. Specifically, we allocated the estimated fair value of the reporting units to all of the assets and liabilities of those units, including any unrecognized intangible assets, in a hypothetical calculation, referred to as Step Two. We assessed the amortizing long-lived assets for impairment based on undiscounted cash flows and concluded that, with the exception of DIY technology, the carrying values of other amortizing long-lived assets and intangible assets were recoverable.

Based on Step Two calculations, we recorded non-cash impairment charges as of June 30, 2016 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.

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

Intangible Assets Other Than Goodwill

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

	As of September 30, 2017				As of December 31, 2016		
	Remaining Useful Lives	Gross Carrying Amount	Accumulated Amortization	Net Book Value	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Purchased and developed software	1.5	$ 19,060	$ (15,176)	$ 3,884	$ 18,205	$ (12,806)	$ 5,399
Software in development	n/a	1,770	-	1,770	1,131	-	1,131
Total software		20,830	(15,176)	5,654	19,336	(12,806)	6,530
Licenses	2.6	13,215	(12,864)	351	13,215	(12,534)	681
Customer relationships	6.8	8,167	(3,604)	4,563	8,167	(3,039)	5,128
Technologies	10.2	4,235	(984)	3,251	4,235	(822)	3,413
Patents and trademarks	1.4	4,313	(2,623)	1,690	3,747	(2,368)	1,379
Trade names	Indefinite	918	-	918	918	-	918
Total other intangible assets		30,848	(20,075)	10,773	30,282	(18,763)	11,519
		$ 51,678	$ (35,251)	$ 16,427	$ 49,618	$ (31,569)	$ 18,049

Remaining useful lives in the preceding table were calculated on a weighted average basis as of September 30, 2017. 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, 2017.

Amortization expense related to intangible assets was $1.2 million and $3.5 million for the three and nine months ended September 30, 2017, respectively. Amortization expense related to intangible assets was $1.3 million and $2.6 million for the three and nine months ended September 30, 2016, respectively. Amortization expense recorded in cost of subscription revenues was $0.5 million and $1.3 million, respectively, for the three and nine months ended September 30, 2017, compared to $0.4 million and $1.0 million, respectively, for the three and nine months ended September 30, 2016. Additionally, we have capitalized approximately $0.6 million and $1.8 million of internally generated software development costs for the three and nine months ended September 30, 2017, respectively, and $0.5 million and $1.1 million for the three and nine months ended September 30, 2016, respectively.

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 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 our federal and state net operating losses and certain other deferred tax assets would be recoverable. This determination was based on our assessment of both positive and negative evidence regarding realization of our deferred tax assets, in particular, the strong negative evidence associated with 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 2017 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. Income tax expense recorded in the future will be reduced or increased to the extent of offsetting decreases or increases to the valuation allowance.

As a result of recording a valuation allowance, we recognized deferred tax expense of less than $0.1 million and $0.2 million, representing an effective tax rate of (2.4%), for the three months and nine months ended September 30, 2017. The deferred tax expense recognized on a net loss before income taxes, and the difference in the effective tax rate from 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 have 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 file U.S., state and foreign income tax returns in jurisdictions with varying statutes of limitation. The 2012 through 2016 tax years generally remain subject to examination by federal and most state tax authorities. However, certain returns from earlier years in which net operating losses have arisen are still open for examination by the tax authorities.

NOTE F – DEBT

Debt consisted of the following (dollars in thousands):

	September 30, 2017	December 31, 2016
Notes payable to Hale Capital	$ 13,981	$ -
Note payable to Kenneth Rainin Foundation (a related party)	5,000	-
Note payable to Crystal Financial LLC, with interest at LIBOR plus margin	-	17,000
Less deferred financing costs	(3,236)	(840)
	15,745	16,160
Less current portion of long-term debt (net of deferred financing costs)	(5,702)	(1,275)
Noncurrent portion of long-term debt	$ 10,043	$ 14,885

Hale Notes

On June 7, 2017 (the "Closing Date"), the Company entered into a Note Purchase Agreement (the “Note Purchase Agreement”) by and among the Company, as borrower, certain subsidiaries of the Company, as guarantors, the purchasers from time to time party thereto, and HCP-FVF, LLC, an affiliate of Hale Capital Partners LP, as collateral agent and as purchaser ("Hale Capital"). Pursuant to the Note Purchase Agreement, the Company issued and sold to Hale Capital senior secured promissory notes in an aggregate original principal amount of $13.5 million (the "Notes"), the proceeds of which were used to repay the outstanding term loans and other obligations under the Term Loan Agreement, dated as of March 9, 2016, by and among the Company, certain subsidiaries of the Company, the lenders party thereto and Crystal Financial LLC (the “Crystal Loan Agreement”). We recorded a charge of $1.1 million to loss on extinguishment of debt, of which $0.5 million related to unamortized deferred financing costs related to the Crystal Loan Agreement, and $0.6 million related to prepayment penalties and other extinguishment related costs, which is recorded as a separate line item on the consolidated statement of operations and comprehensive loss for the nine month period ended September 30, 2017.

The Notes are secured by a first priority security interest in substantially all assets of the Company and its subsidiaries. The Notes bear interest at a rate equal to the prime rate plus 700 (currently 11% per year), payable monthly in arrears. From June 7, 2017 until June 29, 2018, the monthly interest payment will be in the form of additional Notes. Thereafter, the interest will be payable monthly in cash in arrears. Interest on the Notes will be computed on the basis of a 360-day year comprising twelve 30-day months. The Notes will bear interest at a rate five percent (5%) above the otherwise applicable interest rate during the continuance of a default or event of default.

The maturity date of the Notes is March 31, 2021. Beginning June 30, 2018, the Company is required to prepay the Notes in principal installments of $250,000 per month. In addition, the Company will be required to redeem all of the Notes upon a change of control and will be required to make mandatory prepayments on the Notes with the net proceeds of (i) any voluntary or involuntary sale or disposition of assets (including casualty losses and condemnation awards, subject to certain exceptions) and (ii) the issuance or sale of any equity, except for a portion of which may be used to pay down the Company's existing subordinated note. The Company may also prepay to Notes in whole or in part at any time.

All prepayments of the Notes (whether mandatory, optional or as result of the acceleration of the Notes) are subject to a prepayment penalty as follows: (A) if prepayment is on or before the second anniversary of the Closing Date, 5% of the principal prepaid; (B) if prepayment is after the second anniversary but on or before the third anniversary of the Closing Date, 3% of the principal prepaid; and (C) if prepayment is after the third year anniversary but before the maturity date, 1% of the principal prepaid.

Pursuant to the terms of the Notes, the Company is required to meet certain financial and other restrictive covenants customary with this type of facility, including maintaining a minimum EBITDA, Minimum Total Liquidity, Minimum Liquidity and minimum Monthly Recurring Revenue, as defined in the Note Purchase Agreement. The Company was in compliance with these covenants as of September 30, 2017. Additionally, the Company is also prohibited from taking certain actions during the term of the Notes without consent of the purchasers, including, without limitation, incurring additional indebtedness, entering into certain mergers or other business combination transactions, disposing of or permitting liens or other encumbrances on the Company's assets and making restricted payments, including cash dividends on shares of the Company's common stock, except as expressly permitted under the Note Purchase Agreement.

The Note Purchase 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 Note Purchase Agreement may be accelerated. The Note Purchase Agreement and related Note documents also contain additional representations and warranties, covenants, indemnities and conditions, in each case customary for transactions of this type.

In connection with the execution of the Note Purchase Agreement, the Company issued to Hale Capital detachable warrants to purchase up to 895,944 shares of common stock (subject to adjustment) at an exercise price equal to $4.14 per share. The exercise price of the warrants is subject to adjustment upon certain events, including a down round provision, and the term of the warrants is ten years from the Closing Date. The warrants were valued using a Monte Carlo valuation model and had a fair value at grant date of $2.4 million. The warrants have been recorded as deferred financing costs, and are being amortized over the term of the Notes.

Senior Subordinated Promissory Note

On March 31, 2017, the Kenneth Rainin Foundation, a California corporation, and the Company entered into a Senior Subordinated Promissory Note (“KRF Note”) in the amount of $5 million, with a maturity date of April 1, 2018, and an annual interest rate of 12%, which was used to pay down a portion of the outstanding term loans under the Crystal Loan Agreement.

In connection with the KRF Note, the Company issued to Kenneth Rainin Foundation a warrant to purchase 125,000 shares of our common stock at a warrant price of $0.01 per share. The warrants had a fair value of $0.6 million at the grant date, have been recorded as deferred financing costs, and are being amortized over the term of the KRF Note. Brian Igoe, a director of the Company, is the Chief Investment Officer of the Kenneth Rainin Foundation.

Crystal Term Loan Agreement - Amendment, Waiver and Repayment

On March 31, 2017, we entered into an amendment to the Crystal Loan Agreement which, among other things, (i) required a $5.0 million prepayment of the term loans with the proceeds of the KRF Note, (ii) required the payment of an amendment fee in the amount of $2.0 million, half of which was paid upon execution of the amendment, with the remainder due only if certain events did not occur by June 1, 2017 (which date was subsequently extended to June 7, 2017), (iii) modified the covenants related to minimum adjusted EBITDA, minimum fixed charge coverage ratio, maximum net leverage, and maximum subscriber churn, (iv) waived certain specified events of default, including financial covenant defaults, (v) increased the interest rate payable on the term loans from 8.5% to 10.5%, and (vi) required a prepayment in the amount of $2.0 million if certain events did not occur by June 1, 2017 (which date was subsequently extended to June 7, 2017).

As a result of the $5.0 million prepayment of the term loans with the proceeds of the KRF Note, we recorded a $0.2 million loss on partial extinguishment of the Crystal Loan Agreement, which is recorded as a separate line item on the consolidated statement of operations for the three month period ending March 31, 2017.

On June 7, 2017, all outstanding term loans and other obligations under the Crystal Loan Agreement were repaid in full with the proceeds of the Notes issued pursuant to the Note Purchase Agreement.

NOTE G – NET LOSS 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 (loss) 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) earnings 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 (loss) earnings per share and anti-dilutive equity based compensation awards (in thousands):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2017	2016	2017	2016
Weighted average common shares outstanding				
Basic	19,646	19,542	19,575	19,456
Dilutive effect of commons stock equivalents	-	-	-	-
Total	19,646	19,542	19,575	19,456
Anti-dilutive equity-based compensation awards	1,091	1,571	1,035	1,576

NOTE H – RESTRUCTURING

We recorded restructuring charges of $1.4 million and $1.5 million, for the nine months ended September 30, 2017 and 2016 respectively. The restructuring charges for the nine months ended September 30, 2017 include $0.6 million of severance costs, $0.7 million of legal costs, and $0.1 million for the loss on sublease of our Dallas office. The restructuring charges for the nine months ended September 30, 2016 include $0.8 million related to the relocation of our corporate headquarters and $0.7 million in severance costs.

NOTE I – 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.

We have no assets measured at fair value on a recurring basis. 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
April 1, 2016			
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	$ 18,263	$ 18,263	$ 4,172

NOTE J – MERGER AGREEMENT

On August 2, 2017, the Company entered into an Agreement and Plan of Merger (the "Merger Agreement") with Sierra Wireless, Inc., a Canadian corporation ("Sierra"), and Wireless Acquisition Sub, Inc., a Delaware corporation and a direct, wholly-owned subsidiary of Sierra ("Merger Sub"). The Merger Agreement provides that, subject to the terms and conditions set forth therein, Merger Sub will merge with and into the Company, with the Company surviving as a wholly-owned subsidiary of Sierra (the "Merger"). The Merger Agreement was unanimously approved and adopted by the board of directors of each of the Company and Sierra.

Subject to the terms and conditions of the Merger Agreement, at the effective time of the Merger (the "Effective Time"), the Company's shareholders will have the right to receive 0.1800 common shares, no par value, of Sierra ("Sierra Common Stock") for each share of Class A common stock, no par value, of the Company ("Company Common Stock") (such consideration, the "Merger Consideration"). Additionally, each outstanding restricted stock unit, in-the-money option and in-the-money stock appreciation right will be cancelled in exchange for the right to receive the Merger Consideration in accordance with the terms of the Merger Agreement. Except as described below and specified in the Merger Agreement, if exercised following notice of the Merger, each outstanding warrant issued by the Company will be cancelled in exchange for the right to receive the Merger Consideration or, if not exercised, will be cancelled at the Effective Time.

The Merger Agreement contains customary representations and warranties from each of the Company and Sierra, and each party to the Merger Agreement has agreed to customary covenants, including, among others, covenants relating to (1) the conduct of the Company's and Sierra's businesses during the interim period between the execution of the Merger Agreement and the Effective Time, (2) the obligation of the Company to call a meeting of its shareholders to adopt the Merger Agreement, and, subject to certain exceptions, to recommend that its shareholders adopt the Merger Agreement and (3) the Company's non-solicitation obligations relating to alternative acquisition proposals. Each of the Company and Sierra has also agreed to apply for, or otherwise seek, and use its respective commercially reasonable efforts to obtain, all consents and approvals of governmental entities required to be obtained by it for the consummation of the transactions contemplated by the Merger Agreement.

The completion of the Merger is subject to customary conditions, including (1) the adoption of the Merger Agreement by the Company's shareholders, (2) the receipt of conditional approval of the shares of Sierra Common Stock to be issued in the Merger for listing on the Toronto Stock Exchange, subject only to customary post-closing deliverables, and on The NASDAQ Global Market, subject only to official notice of issuance, (3) the expiration or early termination of all applicable waiting periods applicable to the consummation of the Merger under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, (4) the effectiveness of the registration statement on Form F-4 by the Securities and Exchange Commission for the Sierra Common Stock to be issued in the Merger, (5) the absence of any order, injunction or other legal restraint preventing the completion of the Merger or making the completion of the Merger illegal and (6) the absence of any pending legal proceeding instituted by any governmental entity seeking to restrain, enjoin or otherwise prohibit the consummation of the transactions contemplated by the Merger Agreement. Each party's obligation to complete the Merger is also subject to certain additional customary conditions, including (1) subject to certain exceptions, the accuracy of the representations and warranties of the other party, (2) performance in all material respects by the other party of its obligations under the Merger Agreement, (3) the absence of a material adverse effect with respect to the other party and (4) receipt by such party of a tax opinion to the effect that the Merger will qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986.

The Merger Agreement also provides certain termination rights for each of the Company and Sierra and further provides that a termination fee equal to 3.75% of the aggregate equity value of the Merger as of the date of the Merger Agreement will be payable by the Company upon termination of the Merger Agreement under certain circumstances specified in the Merger Agreement. In addition, upon termination of the Merger Agreement by Sierra as a result of either Numerex's shareholders not approving the transaction or Numerex's fraud or willful and material breach of a representation, warranty or covenant, Numerex may be required to reimburse Sierra for its out-of-pocket costs and expenses incurred in connection with the Merger in an amount not to exceed $850,000 in the event of a no vote and $2 million in the event of fraud or a willful and material breach.

In connection with entering into the Merger Agreement, the Company agreed to repurchase the Hale Capital warrants for a purchase price of $4.0 million, immediately prior to, and contingent upon, the consummation of the Merger. In addition, Hale Capital has agreed to waive any event of default under the Note Purchase Agreement that may be caused by the execution of the Merger Agreement or the consummation of the Merger; provided that (i) the repurchase price for the warrant and all principal, interest and other amounts owed under the Notes are paid in full substantially concurrently with the Effective Time of the Merger and (ii) the Effective Time of the Merger occurs on or before August 1, 2018.

NOTE K – RECENT ACCOUNTING PRONOUNCEMENTS

In January 2017, the Financial Accounting Standards Board (FASB) issued guidance simplifying the test for goodwill impairment. The guidance eliminates step two from the goodwill impairment test and instead requires an entity to perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. The entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value, not to exceed the total amount of goodwill allocated to the reporting unit. The updated guidance requires a prospective adoption, with early adoption permitted. The guidance is effective for the Company beginning in 2020. The Company is in the process of evaluating the effects of the provisions of this guidance on our financial statements.

In January 2017, the FASB issued guidance to assist entities in evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The updated guidance requires a prospective adoption. Early adoption is permitted. This update will be effective for the Company beginning in 2018. The Company does not expect the provisions of this guidance to have a material impact on our financial statements.

In November 2016, the FASB issued guidance impacting restricted cash presentation on the statement of cash flows. The guidance requires that a statement of cash flows explain the change during the period of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. This standard becomes effective for the Company during the first quarter of 2018 and will be applied using a retrospective approach for each period presented. The Company does not expect the provisions of this guidance to have a material impact on our financial statements.

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 15, 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 May 2014, the FASB issued guidance which amends the existing accounting standards for revenue recognition. In August 2015, the FASB issued additional guidance which delays the effective date by one year. The FASB also agreed to allow entities to choose to adopt the standard as of the original effective date. In March 2016, the FASB issued guidance which clarifies the implementation guidance on principal versus agent considerations. The guidance includes indicators to assist an entity in determining whether it controls a specified good or service before it is transferred to the customers. We currently anticipate adopting the new standard effective January 1, 2018. The new standard also permits two methods of adoption: retrospectively to each prior reporting period presented (full retrospective method), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (the modified retrospective method). We currently anticipate adopting the standard using the modified retrospective method. We are continuing to work towards establishing policies, updating our processes and implementing necessary changes to data and processes to be able to comply with the new requirements. Based on the results of our assessment to date, we do not expect that the new standard will result in significant changes in our units of accounting or the amounts of revenue allocated between units of accounting. Further, our initial evaluation is that monthly recurring service revenue for security, network, and asset identification and optimization, which is the majority of our revenue, would not be materially impacted by the adoption of this standard. Our initial conclusion may change when we complete our evaluation which is proceeding as planned. While we are continuing to assess all potential impacts of the standard, we currently believe the most significant impact relates to additional disclosures related to qualitative and quantitative information concerning the nature, amount, timing, and any uncertainty of revenue and cash flows from contracts with customers.

Effective January 1, 2017, the Company adopted guidance which simplifies the measurement of inventory. The guidance changed the measurement principle for inventory from the lower of cost or market to lower of cost and net realizable value and eliminates the requirement to consider replacement cost or net realizable value less an approximately normal profit margin when measuring inventory. The provisions of this standard were adopted on a prospective basis and adoption of this standard did not have an impact on the Company's financial position, results of operations or cash flows.

In July 2017, the Company adopted guidance which changes the classification analysis of certain equity-linked instruments with down round features. The guidance changed the requirement that a down round feature precluded equity classification when assessing whether the instrument is indexed to an entity's own stock. The provisions of this standard were early adopted as of June 30, 2017. As of September 30, 2017, the only equity linked instruments with down-round features for the Company were the warrants issued in connection with the Hale Financing (see Note F- Debt).

NOTE L – SUBSEQUENT EVENTS

On October 4, 2017, a putative class action was filed against the Company and certain of its directors and officers in the United States District Court for the Northern District of Georgia. This suit is captioned *Litwin v. Numerex Corp. et al* . This lawsuit alleges on behalf of a putative class of investors that the Company and other defendants violated various provisions of the securities laws in conjunction with the public disclosures concerning the Company's merger with Sierra Wireless, Inc. On October 9, 2017, a second suit was filed in the same court raising substantially similar allegations under the captions *Franchi v. Numerex Corp. et al* . Neither Complaint seeks a specified amount of damages. The Company believes it has meritorious defenses to the allegations in the complaints and intends to defend the litigation vigorously. The Company presently intends to file a motion to dismiss. The Company has certain insurance with respect to these claims, and it has notified its carriers regarding these matters.

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 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 revenue 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," 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, 2017.

Numerex Corp. ("Numerex," the "Company" or "we") is headquartered in Atlanta, Georgia, and is a corporation organized under the laws of the Commonwealth of Pennsylvania. We are a single source, leading provider of managed enterprise solutions enabling the Internet of Things (IoT). We empower enterprise operations with world-class, managed IoT solutions that are simple, innovative, scalable and secure.

During the quarter ended September 30, 2017, we had revenues of $15.3 million, and a net loss of $3.4 million; compared with revenues and a net loss of $17.4 million and $2.5 million, respectively for the quarter ended September 30, 2016.

Our core strategy is to generate long term and sustainable recurring revenue 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 and support revenue is recognized monthly as services are provided and sales of embedded devices and hardware are recognized when title passes. Other upfront payment revenue is 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.

Historically, our revenues and expenses in the first quarter have been modestly affected by slowing of customer purchase activities during the holidays. As a result, historical quarterly fluctuations may not be indicative of future operating results.

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, 2017 and 2016

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

	Three Months Ended September 30,				Change from	
	2017		2016		2016 to 2017	
Net revenues:						
Subscription and support revenues	$ 11,983	78.3%	$ 14,388	82.6%	$ (2,405)	-16.7%
Embedded devices and hardware	3,320	21.7%	3,024	17.4%	296	9.8%
Total net revenues	15,303	100.0%	17,412	100.0%	(2,109)	-12.1%
Cost of sales						
Subscription and support revenues	5,087	33.2%	5,828	33.5%	(741)	-12.7%
Embedded devices and hardware	3,458	22.6%	3,082	17.7%	376	12.2%
Inventory reserves	1,301	8.5%	27	0.2%	1,274	4718.5%
Gross profit	5,457	35.7%	8,475	48.7%	(3,018)	-35.6%
Operating expenses:						
Sales and marketing	2,183	14.3%	3,229	18.5%	(1,046)	-32.4%
General and administrative	2,314	15.1%	3,280	18.8%	(966)	-29.5%
Engineering and development	1,341	8.8%	2,229	12.8%	(888)	-39.8%
Depreciation and amortization	1,426	9.3%	1,658	9.5%	(232)	-14.0%
Restructuring charges	655	4.3%	276	1.6%	379	137.3%
Operating loss	(2,462)	-16.1%	(2,197)	-12.6%	(265)	12.1%
Interest expense	919	6.0%	469	2.7%	450	95.9%
Other income, net	(34)	-0.2%	(33)	-0.2%	(1)	3.0%
Loss before income taxes	(3,347)	-21.9%	(2,633)	-15.1%	(714)	27.1%
Income tax expense (benefit)	79	0.5%	(87)	-0.5%	166	-190.8%
Net loss	$ (3,426)	-22.4%	$ (2,546)	-14.6%	$ (880)	34.6%
Adjusted EBITDA (1)	$ 1,716	11.2%	$ 859	4.9%	$ 857	99.7%

(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 revenue decreased $2.1 million, or 12.1%, for the three months ended September 30, 2017 to $15.3 million from $17.4 million for the same period in 2016. The decrease in total revenue is related to the decrease in subscription and support revenue as well as embedded devices and hardware revenue, which is discussed below.

Subscription and support revenues decreased $2.4 million, or 16.7%, to $12.0 million from $14.4 million in 2016. The decrease is driven by 2G disconnects associated with the AT&T 2G network sunset that occurred on December 31, 2016. Embedded devices and hardware revenue increased $0.3 million, or 9.8%, to $3.3 million from $3.0 million in 2016. The increase in embedded devices and hardware revenue is due to an increase in sales volume and product mix.

Total cost of sales for the three months ended September 30, 2017 increased $0.9 million, or 10.2%, to $9.8 million compared to $8.9 million for the same period in 2016. Comprising that increase, the cost of revenue for subscription and support services decreased $0.7 million, or 12.7%, to $5.1 million for the three months ended September 30, 2017 compared to $5.8 million for the same period in 2016. Cost of revenue for embedded devices and hardware increased $0.4 million, or 12.2% to $3.5 million for the three months ended September 30, 2017 compared to $3.1 million for the same period in 2016.

Inventory reserve expense for the three months ended September 30, 2017 increased to $1.3 million compared to $0.0 million for the same period in 2016. The increase in the reserve is related to current inventory which will be impacted by the introduction of our LTE products.

Total gross profit for the period ended September 30, 2017 decreased $3.0 million, or 35.6% to $5.5 million compared to $8.5 million for the same period in 2016 for the reasons stated above. Gross profit margin percentage decreased to 35.7% for the three months ended September 30, 2017 from 48.7% for the same period in 2016. The decrease in gross margin was driven primarily by an increase in the inventory reserve of $1.3 million for the three months ended September 30, 2017.

Sales and marketing expense decreased $1.0 million, or 32.4%, for the three months ended September 30, 2017 to $2.2 million compared to $3.2 million for the same period in 2016. The decrease is primarily attributable to a decline in promotional activities during the quarter and reduced travel costs.

General and administrative expense decreased $1.0 million, or 29.5%, to $2.3 million for the three months ended September 30, 2017, compared to $3.3 million for the same period in 2016. The decrease is driven primarily by reduced general and administrative salary cost resulting from a reduction in headcount and lower travel costs.

Engineering and development expenses decreased $0.9 million, or 39.8% to $1.3 million for the three months ended September 30, 2017, compared to $2.2 million for the same period in 2016. The decrease is primarily related to reduced headcount in engineering and development, and lower travel costs.

Depreciation and amortization expense decreased $0.2 million, or 14.0% to $1.4 million for the three months ended September 30, 2017, compared to $1.7 million for the same period in 2016.

Restructuring charges were $0.7 million for the three months ended September 30, 2017, compared to $0.3 million for the same period in 2016. The increase is due primarily to legal costs incurred related to merger activity.

Interest expense was $0.9 million in expense for the three months ended September 30, 2017 compared to $0.5 million in interest expense for the same period in 2016. The increase is due to interest expense on our subordinated debt, as well as interest incurred on our senior debt.

We recorded tax expense of $0.1 million and a tax benefit of $0.1 million for the three months ended September 30, 2017, and 2016 respectively. The effective tax rates were (2.4%) and 3.3% for the three months ended September 30, 2017 and 2016, respectively. For both periods, the difference in the effective tax rate compared to the federal statutory rate, and the reason we recorded deferred income tax expense while generating a net loss before income taxes, are due primarily to the book and tax basis and accounting difference for certain long and indefinite lived assets. We have also recognized a provision for income tax expense for certain state income taxes that cannot utilize offsetting net operating losses.

Nine Months Ended September 30, 2017 and 2016

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	
	2017		2016		2016 to 2017	
Net revenues:						
Subscription and support revenues	$ 38,133	83.5%	$ 44,183	83.3%	$ (6,050)	-13.7%
Embedded devices and hardware	7,535	16.5%	8,886	16.7%	(1,351)	-15.2%
Total net revenues	45,668	100.0%	53,069	100.0%	(7,401)	-13.9%
Cost of sales						
Subscription and support revenues	15,915	34.8%	17,242	32.5%	(1,327)	-7.7%
Embedded devices and hardware	7,748	17.0%	9,027	17.0%	(1,279)	-14.2%
Inventory reserves	1,355	3.0%	514	1.0%	841	163.6%
Gross profit	20,650	45.2%	26,286	49.5%	(5,636)	-21.4%
Operating expenses:						
Sales and marketing	8,019	17.6%	9,444	17.8%	(1,425)	-15.1%
General and administrative	7,691	16.8%	11,269	21.2%	(3,578)	-31.8%
Engineering and development	5,260	11.5%	6,920	13.0%	(1,660)	-24.0%
Depreciation and amortization	4,392	9.6%	4,992	9.4%	(600)	-12.0%
Impairment of goodwill and other other intangible assets	-	0.0%	4,172	7.9%	(4,172)	-100.0%
Restructuring charges	1,435	3.1%	1,520	2.9%	(85)	-5.6%
Operating loss	(6,147)	-13.5%	(12,031)	-22.7%	5,884	-48.9%
Interest expense	2,282	5.0%	1,196	2.3%	1,086	90.8%
Loss on extinguishment of debt	1,089	2.4%	290	0.5%	799	275.5%
Other expense (income), net	767	1.7%	(99)	-0.2%	866	-874.7%
Loss before income taxes	(10,285)	-22.5%	(13,418)	-25.3%	3,133	-23.3%
Income tax expense (benefit)	244	0.5%	(257)	-0.5%	501	-194.9%
Net loss	$ (10,529)	-23.1%	$ (13,161)	-24.8%	$ 2,632	-20.0%
Adjusted EBITDA (1)	$ 3,652	8.0%	$ 2,343	4.4%	$ 1,309	55.8%

(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 revenue decreased $7.4 million, or 13.9%, for the nine months ended September 30, 2017 to $45.7 million from $53.1 million for the same period in 2016. The decrease in total revenue is primarily related to the decreases in subscription and support revenue and embedded devices and hardware revenue, which is discussed below.

Subscription and support revenues decreased $6.1 million, or 13.7%, to $38.1 million from $44.2 million in 2016. The decrease is driven by 2G disconnects associated with the AT&T 2G network sunset that occurred on December 31, 2016. Embedded devices and hardware revenue decreased $1.4 million, or 15.2%, to $7.5 million from $8.9 million in 2016. The decrease is driven by customer's replacement of their 2G products in 2016 in anticipation of the AT&T 2G network sunset that occurred on December 31, 2016.

Total cost of revenue for the nine months ended September 30, 2017 decreased $1.8 million, or 6.6%, to $25.0 million compared to $26.8 million for the same period in 2016. Comprising that decrease, the cost of revenue for subscription and support services decreased $1.3 million, or 7.7%, to $15.9 million for the nine months ended September 30, 2017 compared to $17.2 million for the same period in 2016. Cost of revenue for embedded devices and hardware decreased $1.3 million, or 14.2% to $7.7 million for the nine months ended September 30, 2017 compared to $9.0 million for the same period in 2016. The total decrease in costs of sales is primarily related to a reduction of embedded devices and hardware sales in 2017 versus the comparable period in 2016.

Inventory reserve expense for the nine months ended September 30, 2017 increased $0.8 million, or 163.6%, to $1.4 million compared to $0.5 million for the same period in 2016. The increase in the reserve is related to current inventory which will be impacted by the introduction of our LTE products.

Total gross profit for the period ended September 30, 2017 decreased $5.6 million, or 21.4% to $20.7 million compared to $26.3 million for the same period in 2016 for the reasons stated above. Excluding the inventory reserve, gross profit margin percentage decreased to 48.2% for the nine months ended September 30, 2017 from 50.5% for the same period in 2016.

Sales and marketing expense decreased $1.4 million, or 15.1%, for the nine months ended September 30, 2017 to $8.0 million compared to $9.4 million for the same period in 2016. The decrease is primarily attributable to a decline in promotional activities during the quarter, as well as reduced headcount and lower travel costs.

General and administrative expense decreased $3.6 million, or 31.8%, to $7.7 million for the nine months ended September 30, 2017, compared to $11.3 million for the same period in 2016. The decrease is driven primarily by reduced general and administrative salary cost resulting from a reduction in headcount and lower travel costs.

Engineering and development expenses decreased $1.7 million, or 24.0% to $5.3 million for the nine months ended September 30, 2017, compared to $6.9 million for the same period in 2016. The decrease is driven primarily by reduced engineering and development salary costs resulting from a reduction in headcount, and lower travel costs.

Depreciation and amortization expense decreased $0.6 million, or 12.0% to $4.4 million for the nine months ended September 30, 2017, compared to $5.0 million for the same period in 2016.

Restructuring charges were $1.4 million for the nine months ended September 30, 2017, compared to $1.5 million for the same period in 2016. The decrease is primarily related to severance and the sublease loss recorded in June 2016 for the relocation of our corporate headquarters offset by legal costs associated with merger and debt activity.

Loss on the extinguishment of debt of $1.1 million for the nine months ended September 30, 2017 was related to the refinancing of our debt with Crystal which took place on June 7, 2017. Loss on the extinguishment of debt of $0.3 million for the nine months ended September 30, 2016 was related to the refinancing of our debt with Silicon Valley Bank which took place in March 2016.

Interest expense was $2.3 million in expense for the nine months ended September 30, 2017 compared to $1.2 million in interest expense for the same period in 2016. The increase is due to interest expense on our subordinated debt, as well higher interest rates on our debt, as well as higher amortization of deferred financing costs in 2017.

Other expense (income), net was $0.8 million in expense for the nine months ended September 30, 2017, and was primarily due to non-capitalizable finance and legal charges related to our debt.

We recorded tax expense of $0.2 million and a tax benefit of $0.3 million for the nine months ended September 30, 2017, and 2016 respectively. The effective tax rates were (2.4%) and 1.9% for the nine months ended September 30, 2017 and 2016, respectively. For both periods, the difference in the effective tax rate compared to the federal statutory rate, and the reason we recorded deferred income tax expense while generating a net loss before income taxes, are due primarily to the book and tax basis and accounting difference for certain long and indefinite lived assets. We have also recognized a provision for income tax expense for certain state income taxes that cannot utilize offsetting net operating losses.

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 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; and

- in communications with the board of directors, analysts and investors concerning our financial performance.

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.

We believe 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.

Equity-based compensation is an important part of total compensation, especially from the perspective of employees. We believe, however, that supplementing GAAP income from continuing operations by providing income from continuing operations, excluding the effect of equity-based compensation in all periods, is useful to investors because it enables additional and more meaningful period-to-period comparisons.

Restructuring, non-cash and other charges, includes severance, one-time facility costs, inventory reserves, one-time legal costs for transaction related work, and other one-time items. We believe these costs are unusual 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 Ended September 30,		**Nine Months Ended September 30,**	
	2017	**2016**	**2017**	**2016**
Net loss	$ (3,426)	$ (2,546)	$ (10,529)	$ (13,161)
Depreciation and amortization expense	1,883	2,029	5,691	5,997
Impairment of goodwill and other intangible assets	-	-	-	4,172
Interest expense and other non-operating expense, net	885	436	4,138	1,387
Income tax (benefit) expense	79	(87)	244	(257)
EBITDA (non-GAAP)	(579)	(168)	(456)	(1,862)
Equity-based compensation expense	366	751	1,111	2,202
Restructuring, non-cash and other items	1,929	276	2,997	2,003
Adjusted EBITDA (non-GAAP)	$ 1,716	$ 859	$ 3,652	$ 2,343

Restructuring, non-cash and other charges, includes severance, one-time facility costs, inventory reserves, one-time legal costs for transaction related work, and other one-time items. We believe these costs are unusual 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

Liquidity and Capital Resources

We use the net cash generated from our operations to fund new product development, upgrades to our technology and to invest in new businesses. Our sources of funds, principally from operations and, to the extent necessary, from external financing arrangements, are sufficient to meet ongoing operations and investing requirements through at least September 2018.

We had working capital of $0.0 million as of September 30, 2017, compared to $8.6 million as of December 31, 2016. We had cash balances of $6.8 million as of September 30, 2017 compared to $9.5 million at December 31, 2016. The Company does not have any additional borrowing capacity under its loan agreement with Hale Capital.

Net cash used in operating activities for the nine month period ended September 30, 2017 was $0.8 million and net cash used in operations was $0.8 million for the nine month period ended September 30, 2016.

Net cash used in investing activities for the nine month period ended September 30, 2017 was $2.1 million, representing expenditures of $0.3 million for tangible assets and $1.8 million for software and capitalization of internally developed software, compared to $2.5 million for the nine month period ended September 30, 2016.

Net cash provided by financing activities for the nine month period ended September 30, 2017 was $0.2 million, primarily due to the refinancing of our term debt with Hale. Net cash used in financing activities was $3.2 million for the nine month period ended September 30, 2016.

Off-Balance Sheet Arrangements

As of September 30, 2017, 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, 2017, compared to the disclosures in Part II, Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2016.

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 and are minor. We held $0.7 million and $0.3 million in foreign bank accounts as of September 30, 2017 and December 31, 2016, 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) income 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 quarter or year to date ended September 30, 2017.

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.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as such term is defined in the Securities Exchange Act Rules 13a – 15(f). Our internal control system is designed to provide reasonable assurance to our management and the Board of Directors regarding the preparation and fair presentation of published financial statements. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance as to the reliability of financial statement preparation and presentation. Our management assessed the effectiveness of our internal control over financial reporting as of September 30, 2017. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in *Internal Control – Integrated Framework* , issued in 2013. Based on this assessment, management concludes that, as of September 30, 2017, our internal control over financial reporting is effective based on those criteria.

Changes in Internal Control Over Financial Reporting

During the quarter ended September 30, 2017, 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.

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, 2016 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.

None - not applicable.

Item 6. Exhibits.

Exhibit Number	Description
2.1 [1]	Agreement and Plan of Merger by and among Numerex Corp., Sierra Wireless, Inc. and Wireless Acquisition Sub, Inc., dated August 2, 2017
31.1	Certification of 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, 2017, formatted in eXtensible Business Reporting Language (XBRL): (i) the Unaudited Condensed Consolidated Balance Sheets, (ii) Unaudited Condensed Consolidated Statement of Operations and Comprehensive (Loss) Income, (iii) Unaudited Consolidated Statements of Cash Flows, (iv) Unaudited Condensed Consolidated Statement of Shareholders Equity and (v) Unaudited Condensed Notes to Consolidated Financial Statement*

* 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.

1 Incorporated by reference to Exhibit 2.1 filed with the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on August 7, 2017 (File No. 000-22920)

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, 2017

/s/ Kenneth L. Gayron
Kenneth L. Gayron
Interim Chief Executive Officer, Chief Financial Officer and Principal Financial and Accounting Officer

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE 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, 2017

/s/ Kenneth L. Gayron
Kenneth L. Gayron
Interim Chief Executive Officer

Exhibit 31.2

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, 2017

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

Exhibit 32.1

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, 2017, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Kenneth L. Gayron, as Interim 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 Interim 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, 2017

/s/ Kenneth L. Gayron
Kenneth L. Gayron
Interim Chief Executive Officer

Exhibit 32.2

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, 2017, 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, 2017

/s/ *Kenneth L. Gayron*
Kenneth L. Gayron
Chief Financial Officer and
Principal Financial and Accounting Officer