ORBCOMM Inc.
Form 10-Q
August 09, 2013
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United States

Securities and Exchange Commission

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2013

OR

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

For the transition period from _________ to _________

Commission File Number 001-33118

ORBCOMM INC.

(Exact name of registrant as specified in its charter)

Delaware	**41-2118289**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**Identification No.)**

395 W. Passaic Street, Rochelle Park, New Jersey 07662

(Address of principal executive offices)

703-433-6300

(Registrant s telephone number)

N/A

(Former name, former address and formal fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) 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 x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T 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	x
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨

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

The number of shares outstanding of the registrant s common stock as of August 1, 2013 is 47,424,383.

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ORBCOMM Inc.

Condensed Consolidated Balance Sheets

(in thousands, except share data)

(Unaudited)

	June 30, 2013	December 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$ 46,094	$ 34,783
Marketable securities	31,917	27,969
Accounts receivable, net of allowances for doubtful accounts of $321 and $300	13,520	10,703
Inventories	4,272	3,748
Prepaid expenses and other current assets	2,408	1,484
Deferred tax assets	136	164
Total current assets	98,347	78,851
Satellite network and other equipment, net	119,865	101,208
Goodwill	19,900	14,740
Intangible assets, net	11,134	7,791
Restricted cash	2,195	2,195
Deferred tax assets	395	398
Other assets	2,721	1,583
Total assets	$ 254,557	$ 206,766
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$ 2,765	$ 2,899
Accrued liabilities	9,097	11,271
Current portion of deferred revenue	3,787	2,394
Total current liabilities	15,649	16,564
Note payable related party	1,480	1,503
Note payable, net of current portion	45,000	3,398
Deferred revenue, net of current portion	2,160	1,959
Deferred tax liabilities	550	397
Other liabilities	1,627	557
Total liabilities	66,466	24,378
Commitments and contingencies		
Equity:		
ORBCOMM Inc. stockholders equity		
Preferred Stock Series A, par value $0.001; 1,000,000 shares authorized; 153,466 and 161,359 shares issued and outstanding	1,533	1,612
Common stock, par value $0.001; 250,000,000 shares authorized; 47,371,047 and 46,783,568 shares issued	47	47
Additional paid-in capital	251,555	248,469
Accumulated other comprehensive income	417	633
Accumulated deficit	(65,193)	(67,956)
Less treasury stock, at cost, 29,990 shares at June 30, 2013 and December 31, 2012	(96)	(96)

Total ORBCOMM Inc. stockholders equity	188,263	182,709
Noncontrolling interests	(172)	(321)
Total equity	188,091	182,388
Total liabilities and equity	$ 254,557	$ 206,766

See notes to condensed consolidated financial statements.

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ORBCOMM Inc.

Condensed Consolidated Statements of Operations

(in thousands, except per share data)

(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Revenues:				
Service revenues	$ 13,517	$ 12,418	$ 27,407	$ 23,949
Product sales	5,042	3,901	7,872	8,249
Total revenues	18,559	16,319	35,279	32,198
Costs and expenses [(1)]:				
Costs of services	5,349	4,950	10,982	9,656
Costs of product sales	4,200	2,568	6,374	5,671
Selling, general and administrative	6,697	5,599	13,058	10,940
Product development	494	622	1,287	1,181
Acquisition-related costs	216	210	620	633
Total costs and expenses	16,956	13,949	32,321	28,081
Income from operations	1,603	2,370	2,958	4,117
Other income (expense):				
Interest income	12	23	29	50
Other income (expense)	352	5	341	52
Gain on extinguishment of debt, net of expenses				1,062
Interest expense	(5)	(8)	(51)	(32)
Total other income (expense)	359	20	319	1,132
Income before income taxes	1,962	2,390	3,277	5,249
Income taxes	204	402	349	796
Net income	1,758	1,988	2,928	4,453
Less: Net income attributable to the noncontrolling interests	72	106	134	162
Net income attributable to ORBCOMM Inc.	$ 1,686	$ 1,882	$ 2,794	$ 4,291
Net income attributable to ORBCOMM Inc. common stockholders	$ 1,671	$ 1,865	$ 2,763	$ 4,255
Per share information-basic:				
Net income attributable to ORBCOMM Inc.	$ 0.04	$ 0.04	$ 0.06	$ 0.09
Per share information-diluted:				
Net income attributable to ORBCOMM Inc.	$ 0.03	$ 0.04	$ 0.06	$ 0.09
Weighted average common shares outstanding:				
Basic	47,296	46,706	47,068	46,529

Diluted	48,430	47,146	48,309	47,049
(1) Stock-based compensation included in costs and expenses:				
Costs of services	$ 54	$ 70	$ 121	$ 114
Costs of product sales	24	1	47	9
Selling, general and administrative	496	352	992	623
Product development	20	43	60	64
	$ 594	$ 466	$ 1,220	$ 810

See notes to condensed consolidated financial statements.

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ORBCOMM Inc.

Condensed Consolidated Statements of Comprehensive Income (Loss)

(in thousands)

(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2013	**2012**	**2013**	**2012**
Net income	$ 1,758	$ 1,988	$ 2,928	$ 4,453
Other comprehensive income (loss), net of tax-				
Foreign currency translation adjustments	(47)	265	(201)	(190)
Other comprehensive income (loss)	(47)	265	(201)	(190)
Comprehensive income	1,711	2,253	2,727	4,263
Less comprehensive income (loss) attributable to noncontrolling interests	(58)	(240)	(149)	(217)
Comprehensive income attributable to ORBCOMM Inc.	$ 1,653	$ 2,013	$ 2,578	$ 4,046

See notes to condensed consolidated financial statements.

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ORBCOMM Inc.

Condensed Consolidated Statements of Cash Flows

(in thousands)

(Unaudited)

	Six months ended June 30, 2013	Six months ended June 30, 2012
Cash flows from operating activities:		
Net income	$ 2,928	$ 4,453
Adjustments to reconcile net income to net cash provided by operating activities:		
Change in allowance for doubtful accounts	21	31
Change in the fair value of acquisition-related contingent consideration		30
Amortization of the fair value adjustment related to StarTrak warranty liabilities	(13)	(148)
Depreciation and amortization	2,628	2,190
Stock-based compensation	1,220	810
Foreign exchange (gains) losses	57	(49)
Amortization of premium on marketable securities	170	382
Increase in fair value of indemnification assets	(60)	(34)
Deferred income taxes	170	150
Gain on extinguishment of debt and accounts payable		(1,214)
Amortization of transition shared services		106
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	(2,802)	(1,994)
Inventories	877	833
Prepaid expenses and other assets	(609)	454
Accounts payable and accrued liabilities	(1,996)	(1,344)
Deferred revenue	(447)	556
Other liabilities	11	(91)
Net cash provided by operating activities	2,155	5,121
Cash flows from investing activities:		
Capital expenditures	(21,623)	(8,595)
Purchases of marketable securities	(51,448)	(34,599)
Proceeds from maturities of marketable securities	47,330	36,808
Acquisition of net assets of GlobalTrak, net of cash acquired of $1,037	(1,953)	
Acquisition of net assets of MobileNet	(3,203)	
Change in restricted cash		1,025
Acquisition of net assets of LMS		(4,000)
Net cash used in investing activities	(30,897)	(9,361)
Cash flows from financing activities		
Proceeds received from issuance of $45,000 Senior Notes	45,000	
Cash paid for debt issuance costs	(1,267)	
Proceeds received from exercise of stock options	161	
Purchase of noncontrolling ownership interests in Satcom International Group plc		(199)
Repayment of Satcom notes payable		(253)
Principal payments of note payable	(3,450)	(125)
Principal payments of capital leases	(117)	(228)

Net cash provided by (used in) financing activities	40,327	(805)
Effect of exchange rate changes on cash and cash equivalents	(274)	(197)
Net increase (decrease) in cash and cash equivalents	11,311	(5,242)
Cash and cash equivalents:		
Beginning of period	34,783	35,061
End of period	$ 46,094	$ 29,819
Supplemental disclosures of cash flow information:		
Cash paid for		
Interest	$ 2,119	$ 110
Income taxes	$ 887	$ 753
Supplemental schedule of noncash investing and financing activities		
Noncash investing and financing activities:		
Capital expenditures incurred not yet paid	$ 664	$ 487
Stock-based compensation included in capital expenditures	$ 51	$ 36
Series A convertible preferred stock dividend paid in-kind	$ 31	$ 36
Issuance of common stock in connection with the acquisition of LMS	$	$ 2,123
Issuance of common stock in connection with the acquisition of Mobilenet	$ 1,633	$
Unpaid debt issuance costs included in accrued liabilities	$ 46	$
Issuance of common stock in connection with the purchase of Satcom s shares from noncontrolling ownership interests	$	$ 1,000
AIS satellites accounted for as a capital lease	$	$ 903
Acquisition-related contingent consideration	$ 1,539	$ 740
Common stock redeemed in treasury stock from closing of escrow agreement	$	$ 96
Fair value adjustment relating to the StarTrak warranty liabilities from finalizing the purchase price allocation	$	$ 523
Gateway and components recorded in inventory in prior years which were used for construction under satellite network and other equipment	$ 31	$ 31

See notes to condensed consolidated financial statements.

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ORBCOMM Inc.

Condensed Consolidated Statements of Changes in Equity

Six months ended June 30, 2013 and 2012

(in thousands, except share data)

(Unaudited)

	Series A convertible Preferred stock		Common stock		Additional paid-in capital	Accumulated other comprehensive income	Accumulated deficit	Treasury stock		Noncontrolling interests	Total equity
	Shares	Amount	Shares	Amount				Shares	Amount		
Balances, January 1, 2013	161,359	$ 1,612	46,783,568	$ 47	$ 248,469	$ 633	$ (67,956)	(29,990)	(96)	$ (321)	$ 182,388
Vesting of restricted stock units			83,821								
Stock-based compensation					1,182						1,182
Conversion of Series A convertible preferred stock to common stock	(11,011)	(110)	18,345		110						
Issuance of common stock in connection with the acquisition of MobileNet			329,344		1,633						1,633
Exercise of stock options			69,535		161						161
Exercise of SARs			86,434								
Series A convertible preferred stock dividend	3,118	31					(31)				
Net income							2,794			134	2,928
Foreign currency translation adjustments						(216)				15	(201)
Balances, June 30, 2013	153,466	$ 1,533	47,371,047	$ 47	$ 251,555	$ 417	$ (65,193)	(29,990)	$ (96)	$ (172)	$ 188,091
Balances, January 1, 2012	186,265	$ 1,861	45,668,527	$ 46	$ 244,543	$ 1,352	$ (76,629)			$ (596)	$ 170,577
Vesting of restricted stock units			120,000								
Stock-based compensation					846						846
Conversion of Series A	(15,861)	(159)	26,536		159						

convertible preferred stock to common stock											
Issuance of common stock in connection with the acquisition of LMS			645,162	1	2,122						2,123
Issuance of common stock in connection with the purchase of noncontrolling ownership interests in Satcom			263,133		(395)	16				180	(199)
Common stock redeemed through treasury from closing of escrow agreement								(29,990)	(96)		(96)
Exercise of SARs			9,200								
Series A convertible preferred stock dividend	3,608	36					(36)				
Net income							4,291			162	4,453
Foreign currency translation adjustments						(245)				55	(190)
Balances, June 30, 2012	174,012	$ 1,738	46,732,558	$ 47	$ 247,275	$ 1,123	$ (72,374)	(29,990)	$ (96)	$ (199)	$ 177,514

See notes to condensed consolidated financial statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Overview

ORBCOMM Inc. (ORBCOMM or the Company), a Delaware corporation, is a global wireless data communications company focused on machine-to-machine (M2M) communications. The Company s services are designed to enable businesses and government agencies to track, monitor, and control and communicate with fixed and mobile assets. The Company operates a two-way global wireless data messaging system optimized for narrowband data communication. The Company also provides customers with technology to proactively monitor, manage and remotely control refrigerated transportation assets. This technology enables the Company to expand its global technology platform by transferring capabilities across new and existing vertical markets and deliver complementary products to our channel partners and resellers worldwide. The Company provides these services through a constellation of 25 owned low-Earth orbit, or LEO satellites, 2 AIS microsatellites and accompanying ground infrastructure, and also provides terrestrial-based cellular communication services through reseller agreements with major cellular wireless providers. The Company s satellite-based system uses small, low power, fixed or mobile satellite subscriber communicators (Communicators) for connectivity, and cellular wireless subscriber identity modules, or SIMS that are connected to the cellular wireless providers networks, with these systems capable of being connected to other public or private networks, including the Internet (collectively, the ORBCOMM System).

2. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared pursuant to the rules of the Securities and Exchange Commission (the SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) have been condensed or omitted pursuant to SEC rules. These financial statements should be read in conjunction with the Company s Annual Report on Form 10-K for the year ended December 31, 2012.

In the opinion of management, the financial statements as of June 30, 2013 and for the three and six month periods ended June 30, 2013 and 2012 include all adjustments (including normal recurring accruals) necessary for a fair presentation of the consolidated financial position, results of operations and cash flows for the periods presented. The results of operations for the interim periods are not necessarily indicative of the results to be expected for the full year.

The financial statements include the accounts of the Company, its wholly-owned and majority-owned subsidiaries, and investments in variable interest entities in which the Company is determined to be the primary beneficiary. All significant intercompany accounts and transactions have been eliminated in consolidation. The portions of majority-owned subsidiaries that the Company does not own are reflected as noncontrolling interests in the condensed consolidated balance sheets.

Investments in entities over which the Company has the ability to exercise significant influence but does not have a controlling interest are accounted for under the equity method of accounting. The Company considers several factors in determining whether it has the ability to exercise significant influence with respect to investments, including, but not limited to, direct and indirect ownership level in the voting securities, active participation on the board of directors, approval of operating and budgeting decisions and other participatory and protective rights. Under the equity method, the Company s proportionate share of the net income or loss of such investee is reflected in the Company s condensed consolidated results of operations.

Although the Company owns interests in companies that it accounts for pursuant to the equity method, the investments in those entities had no carrying value as of June 30, 2013 and December 31, 2012. The Company has no guarantees or other funding obligations to those entities. The Company had no equity or losses of those investees for the three and six months ended June 30, 2013 and 2012.

When the Company does not exercise significant influence over the investee the investment is accounted under the cost method.

Acquisition costs

Acquisition-related costs directly relate to acquisitions. These costs include professional services expenses. For the three months ended June 30, 2013 and 2012, acquisition-related costs were $216 and $210, respectively. For the six months ended June 30, 2013 and 2012, acquisition-related costs were $620 and $633, respectively.

Fair Value of Financial instruments

The Company has no financial assets or liabilities that are measured at fair value on a recurring basis. However, if certain triggering events occur the Company is required to evaluate the non-financial assets for impairment and any resulting asset impairment would require that a non-financial asset be recorded at the fair value. FASB Topic ASC 820 *Fair Value Measurement Disclosure* , prioritizes inputs used in measuring fair value into a hierarchy of three levels: Level 1- unadjusted quoted prices for identical assets or liabilities traded in active markets, Level 2- inputs other than quoted prices included within Level 1 that are either directly or indirectly observable; and Level 3- unobservable inputs in which little or no market activity exists, therefore requiring an entity to develop its own assumptions that market participants would use in pricing.

The carrying value of the Company s financial instruments, including cash, accounts receivable, note receivable and accounts payable approximated their fair value due to the short-term nature of these items. The carrying value of the Senior Notes approximated its fair value due to the recent issuance (See Note 14). The fair value of the Note payable-related party is de minimis.

Marketable securities

Marketable securities consist of debt securities including U.S. government and agency obligations, corporate obligations and FDIC-insured certificates of deposit, which have stated maturities ranging from three months to less than one year. The Company classifies these securities as held-to-maturity since it has the positive intent and ability to hold until maturity. These securities are carried at amortized cost. The changes in the fair value of these marketable securities, other than impairment charges, are not reported in the consolidated financial statements. The fair value of the Company s marketable securities approximates their carrying value (See Note 7).

Concentration of credit risk

The Company s customers are primarily commercial organizations. Accounts receivable are generally unsecured.

Accounts receivable are due in accordance with payment terms included in contracts negotiated with customers. Amounts due from customers are stated net of an allowance for doubtful accounts. The Company determines its allowance for doubtful accounts by considering a number of factors, including the length of time accounts are past due, the customer s current ability to pay its obligations to the Company, and the condition of the general economy and the industry as a whole. The Company writes-off accounts receivable when they are deemed uncollectible.

The following table presents customers with revenues greater than 10% of the Company s consolidated total revenues for the periods shown:

	Three Months ended June 30,		Six Months ended June 30,	
	2013	2012	2013	2012
Caterpillar Inc.	15.7%	19.0%	20.0%	18.8%
Komatsu Ltd.	11.5%	12.1%	12.1%	11.8%
Hitachi Construction Machinery Co., Ltd.	*	10.3%	*	10.6%

* Balance is less than 10% of consolidated revenues.

The following table presents customers with accounts receivable greater than 10% of the Company s consolidated accounts receivable for the periods shown:

	June 30, 2013	December 31, 2012
Caterpillar Inc.	35.2%	24.2%

The Company does not currently maintain in-orbit insurance coverage for its satellites to address the risk of potential systemic anomalies, failures or catastrophic events affecting its satellite constellation. If the Company experiences significant uninsured losses, such events could have a material adverse impact on the Company s business.

Inventories

Inventories are stated at the lower of cost or market, determined on a first-in, first-out basis. Inventory consists primarily of raw materials and purchased parts to be utilized by its contract manufacturer. The Company reviews inventory quantities on hand and evaluates the realizability of inventories and adjusts the carrying value as necessary based on forecasted product demand. A provision is made for potential losses on slow moving and obsolete inventories when identified.

Warranty costs

The Company accrues for one-year warranty coverage on product sales estimated at the time of sale based on historical costs to repair or replace products for customers compared to historical product revenues. The warranty accrual is included in accrued liabilities.

Accounting Pronouncements

In February 2013, FASB issued ASU 2013-02, *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income.* Under ASU 2013-02, an entity is required to provide information about the amounts reclassified out of Accumulated Other Comprehensive Income (AOCI) by component. In addition, an entity is required to present, either on the face of the financial statements or in the notes, significant amounts reclassified out of AOCI by the respective line items of net income, but only if the amount reclassified is required to be reclassified in its entirety in the same reporting period. For amounts that are not required to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures that provide additional details about those amounts. ASU 2013-02 is effective for interim and annual periods beginning after December 15, 2012 and is to be applied on prospective basis. ASU 2013-02 does not change the current requirements for reporting net income or other comprehensive income in the financial statements. On January 1, 2013, the Company adopted ASU 2013-02 and will disclose significant amounts reclassified out of AOCI as such transactions arise.

3. Acquisitions

GlobalTrak

Effective on the close of business on April 3, 2013, the Company completed the acquisition of certain assets and liabilities of GlobalTrak, a division of System Planning Corporation (SPC), pursuant to an Asset Purchase Agreement (GlobalTrak Asset Purchase Agreement) dated as of

March 13, 2013. The consideration paid to acquire GlobalTrak was $2,990 in cash, including a preliminary working capital adjustment, of which $500 was deposited in escrow with a third party escrow agent. The $500 is available to pay indemnification obligations of SPC to the Company primarily relating for breaches of representations and warranties made by SPC. As this acquisition was effective on April 3, 2013, the results of operations of GlobalTrak are included in the condensed consolidated financial statements beginning April 4, 2013.

Preliminary Estimated Purchase Price Allocation

The total preliminary estimated purchase price was allocated to the net assets acquired based upon their preliminary estimated fair values as of the close of business on April 3, 2013 as set forth below. The excess of the preliminary purchase price over the preliminary net assets was recorded as goodwill. The preliminary allocation of the purchase price was based upon a preliminary valuation and the estimates and assumptions are subject to change. The areas of the preliminary purchase price allocation that are not yet finalized relate to the fair values of certain assets and liabilities, including intangible assets, goodwill and the final working capital adjustment. The Company anticipates finalizing the purchase price allocation by the end of the first quarter of 2014. The preliminary estimated purchase price allocation for the acquisition is as follows:

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Cash and cash equivalents	$ 1,037
Accounts receivable	343
Inventory	1,023
Other current assets	405
Equipment	13
Intangible assets	500
Total identifiable assets acquired	3,321
Accounts payable and accrued expenses	(912)
Deferred revenues	(1,707)
Total liabilities assumed	(2,619)
Net identifiable assets acquired	702
Goodwill	2,288
Total preliminary purchase price	$ 2,990

Intangible Assets

The fair values of the technology and trade names and trademarks were estimated using a relief from royalty method under the income approach based on discounted cash flows. A discount rate of 37% was selected to reflect risk characteristics of these intangible assets. The discount rate was applied to the projected cash flows associated with the assets in order to value the intangible assets. The remaining useful lives of the technology and trade names and trademarks were based on historical product development cycles, the projected rate of technology migration and a market participant s use of these intangible assets and the pattern of projected economic benefit of these intangible assets.

	Estimated useful life (in years)	Amount
Technology	10	$ 380
Trade names and trademarks	5	70
Customer lists	5	50
		$ 500

Goodwill

The acquisition of GlobalTrak gives the Company access to a customer base that includes military, international, government and commercial customers as well as expanded reach in growing regions, such as the Middle East, Asia and South America. These factors contributed to a preliminary estimated purchase price resulting in the recognition of goodwill. The acquired goodwill is deductible for income tax purposes.

Indemnification Asset

In connection with the GlobalTrak Asset Purchase Agreement, the Company entered into an escrow agreement with SPC and an escrow agent. Under the terms of this escrow agreement, $500 was placed in an escrow account for up to fifteen months to fund any indemnification obligations to the Company primarily relating for breaches of representations and warranties made by SPC. Under the terms of the escrow agreement, SPC will be entitled to receive one-half of the $500, less the aggregate amount of claims made by the Company against SPC six months from April 3, 2013. In the event that the Company believes that an indemnity obligation of SPC has arisen under the GlobalTrak Asset Purchase Agreement, the Company shall have the right to provide written notice to the escrow agent and SPC setting forth a description of the claim and the amount of cash to be distributed to the Company from the escrow account. As of June 30, 2013, the Company has not recorded an indemnification asset for any indemnity obligations of SPC arising under the GlobalTrak Asset Purchase Agreement. The Company will continue to evaluate if there are any indemnity obligations of SPC arising under the GlobalTrak Asset Purchase Agreement during the remainder of the measurement period.

Pre-Acquisition Contingencies

The Company has evaluated and continues to evaluate pre-acquisition contingencies related to GlobalTrak that existed as of the acquisition date. If any pre-acquisition contingencies that were acquired as part of the acquisition become probable and estimable, the Company will record such amounts in the measurement period or the Company s results of operations, as applicable.

MobileNet, Inc.

Effective on the close of business on April 1, 2013, the Company completed the acquisition of substantially all of the assets of MobileNet, Inc. (MobileNet), pursuant to an Asset Purchase Agreement (the MobileNet Asset Purchase Agreement) dated as of March 13, 2013. As this acquisition was effective on April 1, 2013, the results of operations of MobileNet are included in the condensed consolidated financial statements beginning April 2, 2013, however the impact of this acquisition was not material to the Company s condensed consolidated results of operations.

The consideration paid by the Company on closing consisted of $3,203 in cash, subject to a final working capital adjustment specified in the MobileNet Asset Purchase Agreement and the issuance of 329,344 shares of the Company s common stock (valued at $4.96 per share, which reflects the Company s common stock closing price on April 1, 2013), of which 164,672 shares of common stock were placed into an escrow account for up to fifteen months from closing to fund any indemnification obligations to the Company primarily relating for breaches of representations and warranties made by MobileNet.

In addition to the consideration paid at closing, the MobileNet Asset Purchase Agreement provides for contingent consideration payable by the Company to MobileNet if service revenues attributable to the MobileNet business for either of the two one year earn-out periods May 1, 2013 through April 30, 2014 and May 1, 2014 through April 30, 2015 are in excess of the specified baseline amount. In that event, the Company has agreed to pay to MobileNet an amount equal to (i) 50% of the first $2,000 of such excess amount for the applicable earn-out period and (ii) 35% of any amount of such excess amount for the applicable earn-out period which is greater than $2,000. Up to 50% of any potential earn-out amounts can be paid in common stock at the Company s option. Any shares of common stock to be issued will be based on the 20-day average closing price of the common stock prior to the last trading day of the earn-out period. At the acquisition date, the Company recorded a liability of $1,539 for the estimated value of the earn-out amounts.

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The following table summarizes the preliminary fair values of the purchase price:

Cash	$ 3,203
Issuance of 329,344 shares of common stock (valued at $4.96 per share, which reflects the Company s common stock closing price on April 1, 2013)	1,634
Fair value of contingent earn-out amounts	1,539
Total	$ 6,376

Contingent earn-out consideration

The estimated fair value of the contingent earn-out amounts was determined based on the Company s preliminary estimates using weighted probabilities to achieve the service revenues attributable to the MobileNet business for either of the two one year earn-out periods May 1, 2013 through April 30, 2014 and May 1, 2014 through April 30, 2015. The Company estimated the fair value of the contingent earn-out amounts using a probability-weighted discounted cash flow models discounted at 19%. The Company has recorded a liability for the estimated fair value of the contingent earn-out consideration. The fair value measurements are based on significant inputs not observed in the market and thus represents a Level 3 measurement. Any change in the fair value of the contingent earn-out amounts subsequent to the acquisition date, including changes from events after the acquisition date, will be recognized in earnings in the period the estimated fair value changes. Achievement of the service revenues lower than the targets will result in less being paid out. Achievement below certain thresholds will reduce the liability to zero. As of June 30, 2013 $481 is included in accrued liabilities and $1,058 is included in other liabilities in the condensed consolidated balance sheet.

Preliminary Estimated Purchase Price Allocation

The total preliminary estimated purchase price was allocated to the net assets acquired based upon their preliminary estimated fair values as of the close of business on April 1, 2013 as set forth below. The excess of the preliminary purchase price over the preliminary net assets was recorded as goodwill. The preliminary allocation of the purchase price was based upon a preliminary valuation and the estimates and assumptions are subject to change. The areas of the preliminary purchase price allocation that are not yet finalized relate to the fair values of certain assets and liabilities, including contingent consideration, deferred revenues, intangible assets, goodwill and the final working capital adjustment. The Company anticipates finalizing the purchase price allocation by the end of the first quarter of 2014. The preliminary estimated purchase price allocation for the acquisition is as follows:

Accounts receivable	$ 363
Inventory	255
Other current assets	10
Intangible assets	3,460
Total identifiable assets acquired	4,088
Accrued expenses	(238)
Deferred revenues	(346)
Total liabilities assumed	(584)