

ORBCOMM Inc.  
Form 10-Q  
May 10, 2013  
[Table of Contents](#)

**United States**  
**Securities and Exchange Commission**  
Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended March 31, 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)

Edgar Filing: ORBCOMM Inc. - Form 10-Q

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

**41-2118289**  
(I.R.S. Employer  
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 ☒ 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 ☒  
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 ☒

The number of shares outstanding of the registrant's common stock as of May 1, 2013 is 47,283,930

**Table of Contents**

**TABLE OF CONTENTS**

<u>Condensed Consolidated Balance Sheets</u>	3
<u>Condensed Consolidated Statements of Operations</u>	4
<u>Condensed Consolidated Statements of Comprehensive Income</u>	5
<u>Condensed Consolidated Statements of Cash Flows</u>	6
<u>Condensed Consolidated Statements of Changes in Equity</u>	7
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	19
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risks</u>	23
<u>Item 4. Disclosure Controls and Procedures</u>	24
<u>PART II - OTHER INFORMATION</u>	24
<u>Item 1. Legal Proceedings</u>	24
<u>Item 1A. Risk Factors</u>	24
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	24
<u>Item 3. Defaults Upon Senior Securities</u>	24
<u>Item 4. Mine Safety Disclosures</u>	24
<u>Item 5. Other Information</u>	24
<u>Item 6. Exhibits</u>	25
<u>SIGNATURES</u>	25
<u>EXHIBIT INDEX</u>	26
Exhibit 10.2	
Exhibit 31.1	
Exhibit 31.2	
Exhibit 32.1	
Exhibit 32.2	
EX-101 INSTANCE DOCUMENT	
EX-101 SCHEMA DOCUMENT	
EX-101 CALCULATION LINKBASE DOCUMENT	
EX-101 LABELS LINKBASE DOCUMENT	
EX-101 PRESENTATION LINKBASE DOCUMENT	
EX-101 DEFINITION LINKBASE DOCUMENT	

**Table of Contents****ORBCOMM Inc.****Condensed Consolidated Balance Sheets**

(in thousands, except share data)

(Unaudited)

	<b>March 31, 2013</b>	<b>December 31, 2012</b>
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 33,948	\$ 34,783
Marketable securities	56,696	27,969
Accounts receivable, net of allowances for doubtful accounts of \$337 and \$300	12,903	10,703
Inventories	3,134	3,748
Prepaid expenses and other current assets	1,684	1,484
Deferred income taxes	164	164
<b>Total current assets</b>	<b>108,529</b>	<b>78,851</b>
Satellite network and other equipment, net	111,352	101,208
Goodwill	14,740	14,740
Intangible assets, net	7,535	7,791
Restricted cash	2,195	2,195
Deferred income taxes	400	398
Other assets	3,111	1,583
<b>Total assets</b>	<b>\$ 247,862</b>	<b>\$ 206,766</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 3,407	\$ 2,899
Accrued liabilities	8,232	11,271
Current portion of deferred revenue	2,456	2,394
<b>Total current liabilities</b>	<b>14,095</b>	<b>16,564</b>
Note payable related party	1,457	1,503
Notes payable	45,000	3,398
Deferred revenue, net of current portion	2,060	1,959
Deferred tax liabilities	462	397
Other liabilities	623	557
<b>Total liabilities</b>	<b>63,697</b>	<b>24,378</b>
<b>Commitments and contingencies</b>		
<b>Equity:</b>		
<b>ORBCOMM Inc. stockholders' equity</b>		
Preferred Stock Series A, par value \$0.001; 1,000,000 shares authorized; 151,954 and 161,359 shares issued and outstanding	1,518	1,612
Common stock, par value \$0.001; 250,000,000 shares authorized; 46,983,562 and 46,783,568 shares issued	47	47
Additional paid-in capital	249,340	248,469
Accumulated other comprehensive income	450	633
Accumulated deficit	(66,864)	(67,956)
Less treasury stock, at cost, 29,990 shares at March 31, 2013 and December 31, 2012	(96)	(96)

# Edgar Filing: ORBCOMM Inc. - Form 10-Q

Total ORBCOMM Inc. stockholders' equity	184,395	182,709
Noncontrolling interests	(230)	(321)
Total equity	184,165	182,388
<b>Total liabilities and equity</b>	<b>\$ 247,862</b>	<b>\$ 206,766</b>

*See notes to condensed consolidated financial statements.*

**Table of Contents****ORBCOMM Inc.****Condensed Consolidated Statements of Operations****(in thousands, except per share data)****(Unaudited)**

	<b>Three months ended March 31,</b>	
	<b>2013</b>	<b>2012</b>
<b>Revenues:</b>		
Service revenues	\$ 13,890	\$ 11,531
Product sales	2,830	4,348
Total revenues	16,720	15,879
<b>Costs and expenses <sup>(1)</sup>:</b>		
Costs of services	5,633	4,706
Costs of product sales	2,174	3,103
Selling, general and administrative	6,361	5,341
Product development	793	559
Acquisition-related costs	404	423
Total costs and expenses	15,365	14,132
<b>Income from operations</b>	<b>1,355</b>	<b>1,747</b>
<b>Other income (expense):</b>		
Interest income	17	27
Other income (expense)	(11)	47
Gain on extinguishment of debt, net of expenses		1,062
Interest expense	(46)	(24)
Total other income (expense)	(40)	1,112
<b>Income before income taxes</b>	<b>1,315</b>	<b>2,859</b>
<b>Income taxes</b>	<b>145</b>	<b>394</b>
<b>Net income</b>	<b>1,170</b>	<b>2,465</b>
Less: Net income attributable to the noncontrolling interests	62	56
<b>Net income attributable to ORBCOMM Inc.</b>	<b>1,108</b>	<b>\$ 2,409</b>
<b>Net income attributable to ORBCOMM Inc. common stockholders</b>	<b>1,092</b>	<b>\$ 2,390</b>
<b>Per share information-basic:</b>		
Net income attributable to ORBCOMM Inc.	\$ 0.02	\$ 0.05
<b>Per share information-diluted:</b>		
Net income attributable to ORBCOMM Inc.	\$ 0.02	\$ 0.05
<b>Weighted average common shares outstanding:</b>		
Basic	46,837	46,351

# Edgar Filing: ORBCOMM Inc. - Form 10-Q

Diluted	48,143	46,898
<b>(1) Stock-based compensation included in costs and expenses:</b>		
Costs of services	\$ 67	\$ 44
Costs of product sales	23	8
Selling, general and administrative	496	271
Product development	40	21
	\$ 626	\$ 344

*See notes to condensed consolidated financial statements.*

**Table of Contents**

**ORBCOMM Inc.**

**Condensed Consolidated Statements of Comprehensive Income**

**(in thousands)**

**(Unaudited)**

	<b>Three months ended March 31,</b>	
	<b>2013</b>	<b>2012</b>
<b>Net income</b>	<b>\$ 1,170</b>	<b>\$ 2,465</b>
Other comprehensive income loss, net of tax-		
Foreign currency translation adjustments	(154)	(455)
<b>Other comprehensive loss</b>	<b>(154)</b>	<b>(455)</b>
<b>Comprehensive income</b>	<b>1,016</b>	<b>2,010</b>
Less comprehensive income (loss) attributable to noncontrolling interests	(91)	23
<b>Comprehensive income attributable to ORBCOMM Inc.</b>	<b>\$ 925</b>	<b>\$ 2,033</b>

*See notes to condensed consolidated financial statements.*



**Table of Contents****ORBCOMM Inc.****Condensed Consolidated Statements of Cash Flows****(in thousands)****(Unaudited)**

	<b>Three months ended March 31,</b>	
	<b>2013</b>	<b>2012</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 1,170	\$ 2,465
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Change in allowance for doubtful accounts	37	(14)
Change in the fair value of acquisition-related contingent consideration		30
Amortization of the fair value adjustment related to warranty liabilities acquired through acquisitions	(9)	
Depreciation and amortization	1,258	1,009
Stock-based compensation	626	344
Foreign exchange (gains) losses	11	(47)
Amortization of premium on marketable securities	125	176
Increase in fair value of indemnification assets	(135)	(112)
Deferred income taxes	63	85
Gain on extinguishment of debt and accounts payable		(1,214)
Amortization of transition shared services		49
Changes in operating assets and liabilities, net of acquisition:		
Accounts receivable	(2,267)	(288)
Inventories	599	455
Prepaid expenses and other assets	(175)	107
Accounts payable and accrued liabilities	(1,892)	(1,511)
Deferred revenue	171	181
Other liabilities	66	(20)
Net cash (used in) provided by operating activities	(352)	1,695
<b>Cash flows from investing activities:</b>		
Capital expenditures	(11,940)	(7,113)
Purchases of marketable securities	(48,762)	(14,511)
Proceeds from maturities of marketable securities	19,910	13,420
Change in restricted cash		1,025
Acquisition of net assets of LMS		(4,000)
Net cash used in investing activities	(40,792)	(11,179)
<b>Cash flows from financing activities</b>		
Proceeds received from issuance of \$45,000 Senior Notes	45,000	
Cash paid for debt issuance costs	(1,059)	
Proceeds received from exercise of stock options	161	
Purchase of noncontrolling ownership interests in Satcom International Group plc		(192)
Repayment of Satcom notes payable		(253)
Principal payments of note payable	(3,450)	(63)
Principal payments of capital leases	(75)	
Net cash provided by (used in) financing activities	40,577	(508)

<b>Effect of exchange rate changes on cash and cash equivalents</b>	(268)	(334)
<b>Net decrease in cash and cash equivalents</b>	(835)	(10,326)
<b>Cash and cash equivalents:</b>		
Beginning of period	34,783	35,061
End of period	\$ 33,948	\$ 24,735
<b>Supplemental disclosures of cash flow information:</b>		
<b>Cash paid for</b>		
Interest	\$ 1,033	\$ 56
Income taxes	\$ 787	\$ 753
<b>Supplemental schedule of noncash investing and financing activities</b>		
<b>Noncash investing and financing activities:</b>		
Capital expenditures incurred not yet paid	\$ 952	\$ 581
Stock-based compensation included in capital expenditures	\$ 25	\$ 18
Series A convertible preferred stock dividend paid in-kind	\$ 16	\$ 19
Unpaid debt issuance costs included in accrued liabilities	\$ 450	\$
Issuance of common stock in connection with the acquisition of LMS	\$	\$ 2,123
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	\$	\$ 740

*See notes to condensed consolidated financial statements.*

**Table of Contents****ORBCOMM Inc.****Condensed Consolidated Statements of Changes in Equity****Three months ended March 31, 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	
<b>Balances, January 1, 2013</b>	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					600					600
Conversion of Series A convertible preferred stock to common stock	(11,011)	(110)	18,345		110					
Series A convertible preferred stock dividend	1,606	16					(16)			
Exercise of stock options			66,668		161					161
Exercise of SARs			31,160							
Net income							1,108		62	1,170
Foreign currency translation adjustments						(183)			29	(154)
<b>Balances, March 31, 2013</b>	151,954	\$ 1,518	46,983,562	\$ 47	\$ 249,340	\$ 450	\$ (66,864)	29,990	\$ (96)	\$ (230) \$ 184,165
<b>Balances, January 1, 2012</b>	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					362					362
Conversion of Series A convertible preferred stock to common stock	(11,361)	(114)	19,039		114					
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		(388)	16			180	(192)
Series A convertible preferred stock	1,852	19					(19)			

## Edgar Filing: ORBCOMM Inc. - Form 10-Q

dividend			
Net income	2,409	56	2,465
Foreign currency translation adjustments	(376)	(79)	(455)

[illegible]

*See notes to condensed consolidated financial statements.*

## **Table of Contents**

### **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 26 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 March 31, 2013 and for the three month periods ended March 31, 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 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 March 31, 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 months ended March 31, 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 March 31, 2013 and 2012 acquisition-related costs were \$404 and \$423, respectively.

#### **Fair Value of Financial instruments**

## Edgar Filing: ORBCOMM Inc. - Form 10-Q

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.

**Table of Contents**

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

	Three Months ended March 31,	
	2013	2012
Caterpillar Inc.	25.4%	18.5%
Komatsu Ltd.	13.2%	11.5%
Hitachi Construction Machinery Co., Ltd.	*	11.0%

\* 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:

	March 31, 2013	December 31, 2012
Caterpillar Inc.	33.6%	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****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

## Edgar Filing: ORBCOMM Inc. - Form 10-Q

acquisition was effective on April 1, 2013, the results of operations of MobileNet will be included in the consolidated financial statements beginning April 2, 2013.

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.

The acquisition of MobileNet will enable the Company to offer MobileNet's complete fleet management solution directly to original equipment manufacturers, dealers and fleet owners.

The allocation of the purchase price to the net assets acquired of MobileNet is currently in process. At this time, it is not practicable to disclose financial information regarding MobileNet.

### ***GlobalTrak***

Effective on the close of business on April 3, 2013, the Company completed the acquisition of substantially all of the assets of GlobalTrak, a division of System Planning Corporation ( SPC ), pursuant to an Asset Purchase Agreement dated as of March 13, 2013. The consideration paid to acquire GlobalTrak was \$2,990 in cash, subject to a final 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.

At this time, it is not practicable to disclose financial information regarding GlobalTrak.



---

## **Table of Contents**

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.

### ***LMS***

Effective on the close of business on January 12, 2012, the Company completed the acquisition of the assets of PAR Logistics Management Systems Corporation ( *LMS* ), a wholly-owned subsidiary of PAR Technology Corporation ( *PAR* ), pursuant to an Asset Purchase Agreement dated as of December 23, 2011. As this acquisition was effective on January 12, 2012, the results of operations of LMS are included in the condensed consolidated financial statements beginning January 13, 2012.

The consideration paid by the Company to PAR on closing to acquire LMS totaled \$6,123 which consisted of \$4,000 in cash, subject to a final working capital adjustment specified in the Asset Purchase Agreement, which has not yet been finalized and the issuance of 645,162 shares of the Company's common stock (valued at \$3.29 per share), of which 387,097 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, including for breaches of representations and warranties made by PAR.

In addition to the consideration paid at closing, the Asset Purchase Agreement provides for contingent payments of up to \$3,950 payable post-closing by the Company to PAR. Up to \$3,000 of the contingent payments was payable based on achieving subscriber targets for calendar year 2012. For the year ended December 31, 2012, LMS did not achieve the subscriber targets. Up to \$950 of the contingent payments will be payable based on achieving sales targets through 2014. Any potential earn-out amount can be paid in common stock, cash or a combination at the Company's option. Any shares of common stock to be issued will be based on the 20-day average closing price ending on the third trading day preceding the date of payment. The potential earn-out amount for achieving the sales targets for any calendar year if earned, will be paid within 30 days after the Company files its Form 10-K for years 2013 and 2014.

The estimated fair value of the contingent earn-out amount was determined based on the Company's estimates using weighted probabilities to achieve the sales targets for calendar years 2013 through 2014. The Company estimated the fair value of the sales targets contingent earn-out amounts using a probability-weighted discounted cash flow models. 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 sales target lower than the target will result in less than the \$950 being paid out. Achievement below certain thresholds will reduce the liability to zero. As of March 31, 2013, \$320 is included in accrued liabilities and \$270 is included in other liabilities in the condensed consolidated balance sheet.

### **Indemnification Asset**

In connection with the asset purchase agreement, the Company entered into an escrow agreement with PAR and an escrow agent. Under the terms of this escrow agreement, 387,097 shares of common stock were issued to PAR and placed in an escrow account for up to fifteen months to fund any indemnification obligations to the Company, including for breaches of representations and warranties made by PAR. Under the terms of the escrow agreement, PAR retains all rights and privileges of ownership of the common stock placed in the escrow account. Further subject to certain resale restrictions, PAR sold the common stock that was placed in escrow and all proceeds of such sale were deposited directly with the escrow agent. In the event that the Company believes that an indemnity obligation of PAR has arisen under the asset purchase agreement, the Company shall have the right to provide written notice to the escrow agent and PAR setting forth a description of the distribution event and the number of shares of the Company's common stock and or amount of cash to be distributed to the Company from the escrow account.

PAR and the Company have agreed to release \$843 from escrow to PAR and the Company has a pending claim of \$285. The Company and PAR are in negotiations to settle the pending claim through the working capital adjustment. The Company has not recorded an indemnification asset for any indemnity obligations of PAR arising under the asset purchase agreement through the measurement period.

### **Warranty Liabilities and Escrow Agreement**

As a result of the acquisition of StarTrak on May 16, 2011, the Company recorded warranty obligations on StarTrak's product sales, which provide for costs to replace or fix the product. One-year warranty coverage is accrued on product sales which provide for costs to replace or fix the product.

## Edgar Filing: ORBCOMM Inc. - Form 10-Q

In connection with the acquisition, the Company entered into an escrow agreement with Alanco Technologies, Inc., ( Alanco ). Under the terms of the escrow agreement, 166,611 shares of common stock were issued to Alanco and placed in an escrow account to cover 50% of certain costs relating to fuel sensor warranty obligations incurred by the Company. In the event that the sum of (i) aggregate warranty expenses (other than for fuel sensors) and (ii) any fuel sensor damages directly expended or accrued on the StarTrak balance sheet from March 1, 2011 through March 1, 2012 exceeds \$600, the Company shall have the right to provide written notice to the escrow agent and Alanco setting forth a description of the fuel sensor distribution event and the number of shares of the Company's common stock to be distributed to the Company from the escrow account. The number of shares of common stock that the Company will direct the escrow agent to release to the Company from the escrow account will equal 50% of the fuel sensor damages (excluding the amount of damages that when added to the non-fuel sensor damages equals \$600) incurred or suffered from June 1, 2011 through March 1, 2012, valued at \$3.001 per share. The Company is in the process of finalizing the arrangement. As a result, the Company recorded \$544 relating to the escrow agreement as an indemnification asset, which is included in other assets. For the three months ended March 31, 2013 and March 31, 2012, the Company recorded a gain of \$135 and \$90, respectively, on the fair value of the common stock held in escrow, which is recorded in selling, general and administrative expenses in the condensed consolidated statements of operations.

### **Pro Forma Results for the Acquisition of LMS**

The following table presents the unaudited pro forma results of LMS for the three months ended March 31, 2012 as though the companies had been combined as of the beginning of January 1, 2012. The pro forma information is presented for informational purposes only and is not indicative of the results of operations that would have been achieved if the acquisition had taken place at the beginning of January 1, 2012.

The supplemental pro forma revenues, net income (loss) attributable to ORBCOMM Inc. and the net income (loss) attributable to common stockholders for the period presented in the table below were adjusted to include the amortization of the intangible assets and income tax expense calculated from January 1, 2012 to the acquisition date. Also the supplemental pro forma information was adjusted to exclude acquisition costs and elimination of intercompany transactions.

**Table of Contents**

The amount of LMS revenues and net loss included in the Company's condensed consolidated statements of operations from the acquisition date to March 31, 2012 and the net income (loss) attributable to ORBCOMM Inc. and the net income (loss) attributable to common stockholders of the combined entity had the acquisition date been January 1, 2012, are as follows:

	Revenues	Net Income (loss) Attributable ORBCOMM Inc.	Net Income (loss) Attributable to Common Stockholders
Actual from January 13, 2012 to March 31, 2012	\$ 1,712	\$ (285)	\$ (285)
Supplemental pro forma for the three months ended March 31, 2012	\$ 16,015	\$ 2,762	\$ 2,743

**4. Satcom International Group plc ( Satcom )**

On March 28, 2012, the Company purchased the remaining 48% noncontrolling ownership interests in its majority owned subsidiary, Satcom for \$1,119. The consideration consisted of: (i) \$119 in cash and (ii) the issuance of 263,133 shares of the Company's common stock (valued at \$3.80 per share, which reflects the Company's common stock opening stock price on March 28, 2012). The Company incurred transaction fees of \$73 which was recorded as a reduction to additional paid-in capital. As a result, the noncontrolling interests and accumulated other comprehensive income increased by \$180 and \$16, respectively, and additional paid-in capital decreased by \$388.

Concurrently, Satcom paid \$253 to its note holders, which included \$43 to a creditor of Satcom who is a related-party serving as the Company's Chairman of the Board of Directors, in exchange for a waiver and release of all outstanding principal and accrued interest previously recorded in accrued liabilities totaling \$1,340, which included \$290 owed to the related-party. As a result, the Company recognized a gain on extinguishment of debt of \$1,062, net of expenses of \$24 in other income (expense) in its condensed consolidated statements of operations, for the difference between the payments made and the net carrying amounts of the outstanding principal and accrued interest for the three months ended March 31, 2012. Further, Satcom also paid \$128 to a trade creditor in exchange for a waiver and release of the outstanding trade payables totaling \$256. As a result, the Company reduced selling, general and administrative expenses by \$128 in its condensed consolidated statements of operations for three months ended March 31, 2012.

**5. Stock-based Compensation**

The Company's stock-based compensation plans consist of its 2006 Long-Term Incentives Plan (the 2006 LTIP) and its 2004 Stock Option Plan. As of March 31, 2013, there were 3,769,301 shares available for grant under the 2006 LTIP and no shares available for grant under the 2004 Stock Option Plan.

For the three months ended March 31, 2013 and 2012 the Company recorded stock-based compensation expense of \$626 and \$344, respectively. For the three months ended March 31, 2013 and 2012, the Company capitalized stock-based compensation of \$25 and \$18, respectively. The components of the Company's stock-based compensation expense are presented below:

	Three months ended March 31,	
	2013	2012
Stock appreciation rights	\$ 416	\$ 293
Restricted stock units	159	51
Market performance units	51	
Total	\$ 626	\$ 344

As of March 31, 2013, the Company had unrecognized compensation costs for stock appreciation rights and restricted stock units arrangements totaling \$1,957.

### Time-Based Stock Appreciation Rights

A summary of the Company's time-based SARs for the three months ended March 31, 2013 is as follows:

	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (In thousands)
Outstanding at January 1, 2013	3,422,967	\$ 3.72		
Granted				
Exercised	(43,000)	2.46		
Forfeited or expired				
Outstanding at March 31, 2013	3,379,967	\$ 3.74	7.13	\$ 5,333
Exercisable at March 31, 2013	2,467,968	\$ 3.88	6.36	\$ 3,680
Vested and expected to vest at March 31, 2013	3,379,967	\$ 3.74	7.13	\$ 5,333

For the three months ended March 31, 2013 and 2012, the Company recorded stock-based compensation expense of \$317 and \$177 relating to these SARs, respectively. As of March 31, 2013, \$1,338 of total unrecognized compensation cost related to these SARs is expected to be recognized through December 2015.

The intrinsic value of the SARs exercised was \$92 for the three months ended March 31, 2013.

**Table of Contents****Performance-Based Stock Appreciation Rights**

A summary of the Company's performance-based SARs for the three months ended March 31, 2013 is as follows:

	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (In thousands)
Outstanding at January 1, 2013	1,034,025	\$ 4.88		
Granted				
Exercised	(36,875)	3.02		
Forfeited or expired	(123,437)	3.30		
Outstanding at March 31, 2013	873,713	\$ 5.18	6.94	\$ 1,370
Exercisable at March 31, 2013	873,713	\$ 5.18	6.94	\$ 1,370
Vested and expected to vest at March 31, 2013	873,313	\$ 5.18	6.94	\$ 1,370

For the three months ended March 31, 2013 and 2012, the Company recorded stock-based compensation of \$99 and \$116 relating to these SARs, respectively. As of March 31, 2013, the Company had unrecognized compensation cost of nil related to these SARs.

The intrinsic value of the SARs exercised was \$49 for the three months ended March 31, 2013.

The fair value of each time and performance-based SAR award is estimated on the date of grant using the Black-Scholes option pricing model with the assumptions described below for the periods indicated. For the three months ended March 31, 2012, the expected volatility was based on an average of the Company's historical volatility over the expected terms of the SAR awards and the comparable publicly traded companies historical volatility. The Company uses the simplified method to determine the expected terms of SARs due to an insufficient history of exercises. Estimated forfeitures were based on voluntary and involuntary termination behavior as well as analysis of actual forfeitures. The risk-free interest rate was based on the U.S. Treasury yield curve at the time of the grant over the expected term of the SAR grants.

Risk-free interest rate	1.00% to 1.41%
Expected life (years)	5.50 and 6.0
Estimated volatility factor	73.74% to 74.67%
Expected dividends	None

**Time-based Restricted Stock Units**

During the three months ended March 31, 2013, the Company granted 65,270 time-based RSUs, which vest on January 1, 2014.

A summary of the Company's time-based RSUs for the three months ended March 31, 2013 is as follows:

	Shares	Weighted-Average Grant Date Fair Value
Balance at January 1, 2013	88,821	\$ 3.12
Granted	65,270	3.83
Vested	(58,821)	3.57
Forfeited or expired		

## Edgar Filing: ORBCOMM Inc. - Form 10-Q

Balance at March 31, 2013	95,270	\$	3.33
---------------------------	--------	----	------

For the three months ended March 31, 2013 and 2012, the Company recorded stock-based compensation expense of \$69 and \$51 related to these RSUs, respectively. As of March 31, 2013, \$279 of total unrecognized compensation cost related to these RSUs is expected to be recognized through December 2015.

### ***Performance-based Restricted Stock Units***

For the three months ended March 31, 2013, the Company granted 121,000 performance-based RSUs for 2013 financial and operational targets, which are expected to vest in the first quarter of 2014. As of March 31, 2013, the Company estimates that 100% of the performance targets will be achieved.

**Table of Contents**

A summary of the Company's performance-based RSUs for the three months ended March 31, 2013 is as follows:

	Shares	Weighted-Average Grant Date Fair Value
Balance at January 1, 2013		\$
Granted	121,000	3.55
Vested		
Forfeited or expired		
Balance at March 31, 2013	121,000	\$ 3.55

For the three months ended March 31, 2013, the Company recorded stock-based compensation expense of \$90 related to these RSUs. As of March 31, 2013, \$340 of total unrecognized compensation cost related to these RSUs is expected to be recognized through the first quarter of 2014.

The fair value of the time-based and performance-based RSU awards are based upon the closing stock price of the Company's common stock on the date of grant.

**Performance Units**

In December 2012, the Company granted Market Performance Units (MPUs) to its senior executives based on its stock price performance over a three-year period. The MPUs will vest at the end of each performance period only if the Company satisfies the stock price performance targets and continued employment by the senior executives through the dates the Compensation Committee has determined that the targets have been achieved. The value of the MPUs that will be earned each year ranges up to 15% of each of the senior executives 2013 base salary depending on the Company's stock price performance target for that year. The value of the MPUs can be paid in either cash or common stock or a combination at the Company's option. The MPUs are classified as a liability and are revalued at the end of each reporting period based on the awards fair value over a three-year period.

As the MPUs contain both a performance and service condition, the MPUs have been treated as a series of three separate awards or tranches for purposes of recognizing stock-based compensation expense. The Company recognizes stock-based compensation expense on a tranche-by-tranche basis over the requisite service period for that specific tranche. The Company estimated the fair value of the MPUs granted using a Monte Carlo Simulation Model that used the following assumptions: risk-free interest rates of .13%, .24% and .35%, estimated volatility factor of 40% and no expected dividends. For the three months ended March 31, 2013, the Company recorded stock-based compensation of \$51 relating to these MPUs.

**2004 Stock Option Plan**

A summary of the status of the Company's stock options as of March 31, 2013 is as follows:

	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (In thousands)
Outstanding at January 1, 2013	737,291	\$ 2.96		
Granted				
Exercised	(66,668)	2.41		
Forfeited or expired				
Outstanding at March 31, 2013	670,623	\$ 3.02	1.02	\$ 1,471

## Edgar Filing: ORBCOMM Inc. - Form 10-Q

Exercisable at March 31, 2013	670,623	\$	3.02	1.02	\$	1,471
Vested and expected to vest at March 31, 2013	670,623	\$	3.02	1.02	\$	1,471

The intrinsic value of the stock options exercised was \$173 for the three months ended March 31, 2013.

### 6. Net Income Attributable to ORBCOMM Inc. Common Stockholders

Basic net income per common share is calculated by dividing net income attributable to ORBCOMM Inc. by the weighted-average number of common shares outstanding for the period. Diluted net income per common share is computed by giving effect to all potentially dilutive securities. For the three months ended March 31, 2013 and 2012, the Company included the effect of 1,039,825 and 546,819 SARs, RSUs and stock options in its diluted weighted average common shares outstanding, respectively. For the three months ended March 31, 2013, the Company included 266,519 shares of Series A convertible preferred in its diluted weighted average common shares outstanding.



**Table of Contents**

The potentially dilutive securities excluded from the determination of diluted income per share, as their effect is antidilutive, are as follows:

	<b>Three months ended March 31,</b>	
	<b>2013</b>	<b>2012</b>
Series A convertible preferred stock		294,493
SARs	3,513,241	3,401,731
RSUs	42,391	74,773
Stock options	424,116	583,215
	<b>3,979,748</b>	<b>4,354,212</b>

The computation of net income attributable to ORBCOMM Inc. common stockholders is as follows for the three months March 31, 2013 and 2012.

	<b>Three months ended March 31,</b>	
	<b>2013</b>	<b>2012</b>
Net income attributable to ORBCOMM Inc.	\$ 1,108	\$ 2,409
Preferred stock dividends on Series A convertible preferred stock	(16)	(19)
Net income available for ORBCOMM Inc. common stockholders	<b>\$ 1,092</b>	<b>\$ 2,390</b>

**7. Marketable Securities**

As of March 31, 2013 and December 31, 2012, the marketable securities are recorded at amortized cost which approximates fair market value which was based on Level 1 inputs. All investments mature in one year or less.

	<b>March 31, 2013</b>			<b>December 31, 2012</b>		
	Fair Value	Gross Unrealized Losses	Gross Unrealized Gains	Fair Value	Gross Unrealized Losses	Gross Unrealized Gains
U.S. government and agency obligations	\$ 41,023	\$ 2	\$	\$ 13,557	\$	\$
Corporate obligations	13,043	6	18	8,925	7	
FDIC-insured certificates of deposit	2,640			5,479	1	
	<b>\$ 56,706</b>	<b>\$ 8</b>	<b>\$ 18</b>	<b>\$ 27,961</b>	<b>\$ 8</b>	<b>\$</b>

The Company would recognize an impairment loss when the decline in the estimated fair value of a marketable security below the amortized cost is determined to be other-than-temporary. The Company considers various factors in determining whether to recognize an impairment charge, including the duration of time and the severity to which the fair value has been less than the amortized cost, any adverse changes in the issuer's financial conditions and the Company's intent to sell or whether it is more likely than not that it would be required to sell the marketable security before its anticipated recovery. Investments with unrealized losses have been in an unrealized loss position for less than a year.

As of March 31, 2013 and December 31, 2012, the gross unrealized losses of \$8 were primarily due to changes in interest rates and not credit quality of the issuer. Accordingly, the Company has determined that the gross unrealized losses are not other-than-temporary at March 31, 2013 and there has been no recognition of impairment losses in its condensed consolidated statements of operations for the three months ended March 31, 2013.

**8. Satellite Network and Other Equipment**

## Edgar Filing: ORBCOMM Inc. - Form 10-Q

Satellite network and other equipment consisted of the following:

	Useful life (years)	March 31, 2013	December 31, 2012
Land		\$ 381	\$ 381
Satellite network	1-10	39,905	39,526
Capitalized software	3-7	3,143	3,009
Computer hardware	3	1,971	1,852
Other	2-7	2,141	1,703
Assets under construction		99,641	89,658
		147,182	136,129
Less: accumulated depreciation and amortization		(35,830)	(34,921)
		\$ 111,352	\$ 101,208

During the three months ended March 31, 2013 and 2012, the Company capitalized costs attributable to the design and development of internal-use software in the amount of \$337 and \$143, respectively.

Depreciation and amortization expense for the three months ended March 31, 2013 and 2012 was \$1,002 and \$753, respectively. This includes amortization of internal-use software of \$109 and \$80 for the three months ended March 31, 2013 and 2012, respectively.

**Table of Contents**

Assets under construction primarily consist of milestone payments pursuant to procurement agreements which includes, the design, development, launch and other direct costs relating to the construction of the next-generation satellites (See Note 18) and upgrades to its infrastructure and ground segment.

**9. Restricted Cash**

Restricted cash consists of the remaining cash collateral of \$2,000 for a performance bond required by the FCC in connection with the construction, launch and operation of the 18 next-generation satellites that was authorized in the March 21, 2008 FCC Space Segment License modification. Under the terms of the performance bond, the cash collateral will be reduced in increments of \$1,000 upon completion of specified milestones. The Company has classified the remaining \$2,000 as a non-current asset at March 31, 2013 and December 31, 2012.

**10. Goodwill and Intangible Assets**

Goodwill represents the excess of the purchase price of an acquired business over the estimated fair values of the underlying net tangible and intangible assets.

Goodwill is allocated to the Company's one reportable segment.

The Company's intangible assets consisted of the following:

	Useful life (years)	Cost	March 31, 2013 Accumulated amortization	Net	Cost	December 31, 2012 Accumulated amortization	Net
Customer lists	10	\$ 3,820	\$ (909)	\$ 2,911	\$ 3,820	\$ (776)	\$ 3,044
Patents and technology	5 and 10	4,610	(659)	3,951	4,610	(563)	4,047
Trademarks	2 and 10	860	(187)	673	860	(160)	700
		\$ 9,290	\$ (1,755)	\$ 7,535	\$ 9,290	\$ (1,499)	\$ 7,791

The weighted-average amortization period for the intangible assets is 9.6 years. The weighted-average amortization period for patents and technology and trademarks is 9.3 and 9.7 years, respectively.

Amortization expense was \$256 for the three months ended March 31, 2013 and 2012.

Estimated amortization expense for intangible assets subsequent to March 31, 2013 is as follows:

Years ending December 31,	
Remainder of 2013	\$ 768
2014	994
2015	994
2016	994
2017	852
Thereafter	2,933
	\$ 7,535

**11. Accrued Liabilities**

The Company's accrued liabilities consisted of the following:

Edgar Filing: ORBCOMM Inc. - Form 10-Q

	<b>March 31, 2013</b>	<b>December 31, 2012</b>
Accrued compensation and benefits	\$ 1,792	\$ 3,092
Warranty	2,527	2,762
Corporate income tax payable	82	843
Contingent earn-out amount	320	320
AIS deployment and license agreement	186	216
Accrued satellite network and other equipment	180	1,559
Other accrued expenses	3,145	2,479
	\$ 8,232	\$ 11,271

**Table of Contents**

For the three months ended March 31, 2013 and 2012, changes in accrued warranty obligations consisted of the following:

	<b>March 31,</b>	
	<b>2013</b>	<b>2012</b>
Balance at January 1,	\$ 2,762	\$ 2,631
Warranty liabilities assumed from acquisitions		283
Amortization of fair value adjustment of warranty liabilities acquired through acquisitions	(9)	
Warranty expense	65	109
Warranty charges	(291)	(169)
Balance at March 31,	\$ 2,527	\$ 2,854

**12. Deferred Revenues**

Deferred revenues consisted of the following:

	<b>March 31, 2013</b>	<b>December 31, 2012</b>
Service activation fees	\$ 2,791	\$ 2,690
Prepaid services	1,420	1,331
Warranty revenues	305	332
	4,516	4,353
Less current portion	(2,456)	(2,394)
Long-term portion	\$ 2,060	\$ 1,959

**13. Note Payable-Related Party**

In connection with the acquisition of a majority interest in Satcom in 2005, the Company recorded an indebtedness to OHB Technology A.G. (formerly known as OHB Teledata A.G.), a stockholder of the Company. At March 31, 2013, the principal balance of the note payable was 1,138 and it had a carrying value of \$1,457. At December 31, 2012, the principal balance of the note payable was 1,138 and it had a carrying value of \$1,503. The carrying value was based on the note's estimated fair value at the time of acquisition. The difference between the carrying value and principal balance was being amortized to interest expense over the estimated life of the note of six years which ended in September 30, 2011. This note does not bear interest and has no fixed repayment term. Repayment will be made from the distribution profits (as defined in the note agreement) of ORBCOMM Europe LLC. The note has been classified as long-term and the Company does not expect any repayments to be required prior to March 30, 2014.

**14. Notes Payable*****\$45,000 9.5% Senior Notes***

On January 4, 2013, the Company issued \$45,000 aggregate principal amount of Senior Notes (Senior Notes) due January 4, 2018. Interest is payable quarterly at a rate of 9.5% per annum. The Senior Notes are secured by a first priority security interest in substantially all of the Company's and its subsidiaries' assets. The covenants in the Senior Notes limits the Company's ability to among other things to, incur additional indebtedness and liens, to sell, transfer, lease or otherwise dispose of the Company's or subsidiaries' assets, merge or consolidate with other companies. The Company is also required to obtain launch and one year in-orbit insurance for the next-generation satellites under the terms of the Senior Notes. The Company must also comply with a maintenance covenant of either having available liquidity of \$10,000 (the sum of (a) cash and cash equivalents plus (b) the total amount available to be borrowed under a working capital facility) or a leverage ratio (consolidated total debt to consolidated adjusted EBITDA, adjusted for stock-based compensation, certain other non-cash items and other agreed

## Edgar Filing: ORBCOMM Inc. - Form 10-Q

upon other charges) of not more than 4.5 to 1.0. In connection with the issuance of the Senior Notes, the Company incurred approximately \$1,500 of debt issuance costs, which will be amortized through January 4, 2018. For the three months ended March 31, 2013, the amortization of the debt issuance costs was \$75. For the three months ended March 31, 2013, the Company capitalized all of the interest expense and amortization of the debt issuance costs to construction of the next-generation satellites.

As of March 31, 2013, the Company was in compliance with the financial covenants.

### ***\$3,900 6% Notes***

On May 16, 2011, the Company issued a \$3,900 secured promissory note to an existing lender and stockholder of Alanco. The note bore interest at 6.00% per annum. On January 4, 2013, the remaining unpaid principal amount of \$3,450 and unpaid interest was repaid as a condition of the Company issuing the Senior Notes discussed above.

**Table of Contents****15. Stockholders' Equity*****Series A convertible preferred stock***

During the three months ended March 31, 2013, holders of the Series A convertible preferred stock converted 11,011 shares into 18,354 shares of the Company's common stock. During the three months ended March 31, 2013, the Company issued dividends in the amount of 1,606 shares to the holders of the Series A convertible preferred stock. As of March 31, 2013, dividends in arrears were \$15.

***Common Stock***

As of March 31, 2013, the Company has reserved 8,909,874 shares of common stock for future issuances related to employee stock compensation plans.

**16. Segment Information**

The Company operates in one reportable segment, M2M data communications. Other than satellites in orbit, long-lived assets outside of the United States are not significant. The following table summarizes revenues on a percentage basis by geographic regions, based on the country in which the customer is located.

	<b>Three months ended March 31,</b>	
	<b>2013</b>	<b>2012</b>
United States	87%	81%
Japan	9%	17%
Other	4%	2%
	100%	100%

**17. Income taxes**

For the three months ended March 31, 2013, the Company's income tax provision was \$145, resulting from foreign income tax expense of \$82 from income generated by ORBCOMM Japan and \$63 of amortization of tax goodwill generated from the acquisitions of StarTrak and LMS.

For the three months ended March 31, 2012, the Company's income tax provision was \$394, resulting from foreign income tax expense of \$328 from income generated by ORBCOMM Japan and \$66 of amortization of tax goodwill generated from the acquisitions of StarTrak and LMS.

As of March 31, 2013 and 2012, the Company maintained a valuation allowance against all of its net deferred tax assets, excluding goodwill, attributable to operations in the United States and all foreign jurisdictions, except for Japan, as the realization of such assets was not considered more likely than not.

As of March 31, 2013, the Company had unrecognized tax benefits of \$775. There were no changes to the Company's unrecognized tax benefits during the three months ended March 31, 2013. The Company is subject to U.S. federal and state examinations by tax authorities from 2008. The Company does not expect any significant changes to its unrecognized tax positions during the next twelve months.

The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. No interest and penalties related to uncertain tax positions were recognized during the three months ended March 31, 2013.

**18. Commitments and Contingencies*****Procurement agreements in connection with next-generation satellites***

## Edgar Filing: ORBCOMM Inc. - Form 10-Q

On May 5, 2008, the Company entered into a procurement agreement with Sierra Nevada Corporation ( SNC ) pursuant to which SNC is constructing eighteen low-earth-orbit satellites in three sets of satellites ( shipsets ) for the Company s next-generation satellites (the Initial Satellites ). Under the agreement, SNC is also providing launch support services, a test satellite (excluding the mechanical structure), a satellite software simulator and the associated ground support equipment.

The total contract price for the Initial Satellites under the procurement agreement is \$117,000, subject to reduction upon failure to achieve certain in-orbit operational milestones with respect to the Initial Satellites or if the pre-ship reviews of each shipset are delayed more than 60-120 days after the specified time periods described below. The Company has agreed to pay SNC up to \$1,500 in incentive payments for the successful operation of the Initial Satellites five years following the successful completion of in-orbit testing for the third shipset of eight satellites.

On August 31, 2010, the Company entered into two additional task order agreements with SNC in connection with the procurement agreement discussed above. Under the terms of the launch vehicle changes task order agreement, SNC will perform the activities to launch eighteen of the Company s next-generation satellites on a SpaceX Falcon 1e or Falcon 9 launch vehicle. The total price for the launch activities is cost reimbursable up to \$4,110 that is cancelable by the Company, less a credit of \$1,528. Any unused credit can be applied to other activities under the task order agreement, or the original procurement agreement if application to the task order agreement becomes impossible or impracticable. Under the terms of the engineering change requests and enhancements task order agreement, SNC will design and make changes to each of the next-generation satellites in order to accommodate an additional payload-to-bus interface. The total price for the engineering changes requests is cost reimbursable up to \$317. Both task order agreements are payable monthly as the services are performed, provided that with respect to the launch vehicle changes task order agreement, the credit in the amount of \$1,528 will first be deducted against amounts accrued thereunder until the entire balance is expended.

On August 23, 2011, the Company and SNC entered into a definitive First Amendment to the procurement agreement (the Amendment ). The Amendment amends certain terms of the procurement agreement dated May 5, 2008 and supplements or amends five separate task order agreements. On July 3, 2012, the Company and SNC entered into an additional task order agreement ( Task Order #06 ) for SNC to perform final design work to enable additional payload components in satellites 3-18 to be re-programmable while in-orbit. The total price for the work under Task Order #6 is cost plus fixed fee of up to \$521.

The Amendment modifies the milestone payment schedule under the procurement agreement dated May 5, 2008 but does not change the total contract price (excluding optional satellites and costs under the Task Orders) of \$117,000. Payments under the Amendment extend into 2014, subject to SNC s successful completion of each payment milestone.



## **Table of Contents**

The Amendment also settles the liquidated delay damages triggered under the procurement agreement dated May 5, 2008 and provides an ongoing mechanism for the Company to obtain pricing proposals to order up to thirty optional satellites substantially identical to the Initial Satellites for which firm fixed pricing previously had expired under the procurement agreement dated May 5, 2008.

As of March 31, 2013, the Company has made milestone payments of \$58,500 under the agreement. The Company anticipates making payments under the agreement of approximately \$22,230 during the remainder of 2013.

On December 21, 2012, the Company and Space Exploration Technologies Corp. ( "SpaceX" ) entered into a Launch Services Agreement (the "Falcon 9 Agreement" ) pursuant to which SpaceX will provide launch services (the "Launch Services" ) for the carriage into low-Earth-orbit of up to 17 ORBCOMM next-generation satellites currently being constructed by Sierra Nevada Corporation. Under the Falcon 9 Agreement, SpaceX will also provide to the Company satellite-to-launch vehicle integration and launch support services, as well as certain related optional services. The total price under the Falcon 9 Agreement (excluding any optional services) is \$42,600 which reflects pricing agreed under the August 28, 2009 agreement for Launch Services of \$46,600 less the \$4,000 allocated to the next-generation prototype launch in the September 21, 2012 agreement. The amounts due under the Falcon 9 Agreement are payable by the Company in installments from the date of execution of the Falcon 9 Agreement through the performance of each Launch Service.

The Falcon 9 Agreement anticipates that the Launch Services for 17 Satellites will be performed between the second quarter of 2013 and the second quarter of 2014, subject to certain rights of ORBCOMM and SpaceX to reschedule the Launch Services as needed. Either the Company or SpaceX may postpone and reschedule either Launch Service based on satellite and launch vehicle readiness, among other factors, subject to the payment of certain fees by the party requesting or causing the delay following 6 months of delay with respect to either of the two Launch Services.

Both the Company and SpaceX have customary termination rights under the Falcon 9 Agreement, including for material breaches and aggregate delays beyond 365 days by the other party. The Company has the right to terminate either of the Launch Services subject to the payment of a termination fee in an amount that would be based on the date ORBCOMM exercises its termination right.

As of March 31, 2013, the Company has made milestone payments of \$27,885 under the Falcon 9 Agreement. The Company anticipates making payments of approximately \$12,365 during 2013.

On September 21, 2012, SpaceX and the Company entered into a Secondary Payload Launch Services Agreement totaling \$4,000 of the original \$46,600 to launch the next-generation prototype which occurred on October 7, 2012.

### ***Airtime credits***

In 2001, in connection with the organization of ORBCOMM Europe LLC and the reorganization of the ORBCOMM business in Europe, the Company agreed to grant certain country representatives in Europe approximately \$3,736 in airtime credits. The Company has not recorded the airtime credits as a liability for the following reasons: (i) the Company has no obligation to pay the unused airtime credits if they are not utilized; and (ii) the airtime credits are earned by the country representatives only when the Company generates revenue from the country representatives. The airtime credits have no expiration date. Accordingly, the Company is recording airtime credits as services are rendered and these airtime credits are recorded net of revenues from the country representatives. For the three months ended March 31, 2013 and 2012, airtime credits used totaled approximately \$8. As of March 31, 2013 and December 31, 2012, unused credits granted by the Company were approximately \$2,120 and \$2,128, respectively.

### ***Litigation***

From time to time, the Company is involved in various claims or litigation matters involving ordinary and routine claims incidental to its business. Management currently believes that the outcome of these proceedings, either individually or in the aggregate, will not have a material adverse effect on the Company's business, results of operations or financial condition.

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations****Safe Harbor Statement Under the Private Securities Litigation Reform of Act 1995.**

Certain statements discussed in Part I, Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations and elsewhere in this Quarterly Report on Form 10-Q constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements generally relate to our plans, objectives and expectations for future events and include statements about our expectations, beliefs, plans, objectives, intentions, assumptions and other statements that are not historical facts. Such forward-looking statements, including those concerning the Company's expectations, are subject to known and unknown risks and uncertainties, which could cause actual results to differ materially from the results, projected, expected or implied by the forward-looking statements, some of which are beyond the Company's control, that may cause the Company's actual results, performance or achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. These risks and uncertainties include but are not limited to: ongoing global economic instability and uncertainty; substantial losses we have incurred and may continue to incur; demand for and market acceptance of our products and services and the applications developed by our resellers; we may need additional capital to pursue our growth strategy; loss or decline or slowdown in the growth in business from our key customers, such as Caterpillar Inc., (Caterpillar), Komatsu Ltd., (Komatsu), Hitachi Construction Machinery Co., Ltd., (Hitachi), and Asset Intelligence, a subsidiary of I.D. Systems, Inc., other value-added resellers or VARs and international value-added resellers or IVARs; loss or decline or slowdown in growth in business of any of the specific industry sectors the Company serves, such as transportation, heavy equipment, fixed assets and maritime; dependence on a few significant customers; our acquisitions may expose us to additional risks; litigation proceedings; technological changes, pricing pressures and other competitive factors; the inability of our international resellers and licensees to develop markets outside the United States; the inability to obtain or maintain the necessary regulatory approvals or licenses for particular countries or to operate our satellites; market acceptance and success of our Automatic Identification System (AIS) business; satellite launch and construction delays and cost overruns of our next-generation satellites and launch vehicles; in-orbit satellite failures or reduced performance of our existing satellites; significant liabilities created by products we sell; the \$45 million 9.5% Senior Notes that we issued on January 4, 2013 could restrict our business activities or our ability to execute our strategic objectives or adversely affect our financial performance; the failure of our system or reductions in levels of service due to technological malfunctions or deficiencies or other events; our inability to renew or expand our satellite constellation; inability to operate due to changes or restrictions in the political, legal regulatory, government administrative and economic conditions and developments in the United States and other countries and territories in which we operate; and changes in our business strategy. In addition, specific consideration should be given to various factors described in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2012. The Company undertakes no obligation to publicly revise any forward-looking statements or cautionary factors, except as required by law.

**Overview**

We operate a global commercial wireless messaging system optimized for narrowband communications. Our system consists of a global network of 26 low-Earth orbit, or LEO, satellites, 2 microsatellites and accompanying ground infrastructure. Our 26 first-generation satellites are the core of a two-way communications system that enables our customers and end-users, to track, monitor, control and communicate cost-effectively with fixed and mobile assets located anywhere in the world, and 2 microsatellites that only provide worldwide ship tracking capability using the Automatic Identification System (AIS) technology already installed on large ocean-going vessels. We have agreements with another satellite provider to resell their satellite services as well. We also provide terrestrial-based cellular communication services through reseller agreements with major cellular wireless providers. Currently, our agreements with major cellular providers include GSM and CDMA offerings in the United States and GSM services with significant coverage worldwide. These terrestrial-based communication services enable our customers who have higher bandwidth requirements to receive and send messages from communication devices based on terrestrial-based technologies using the cellular providers' wireless networks as well as from dual-mode devices combining the technologies from our satellite subscriber communicators and terrestrial-based technologies. As a result, our customers are now able to integrate into their applications communication technologies that will allow them to send and receive messages, including data intensive messaging using the cellular providers' wireless networks and our satellite network.

Our products and services enable our customers and end-users to enhance productivity, reduce costs and improve security through a variety of commercial, government, and emerging homeland security applications. We enable our customers and end-users to achieve these benefits on a world-wide basis by using a single global satellite technology standard for machine-to-machine and telematic, or M2M, data communications, as well providing the benefits of using terrestrial based cellular systems. Our customers have made significant investments in developing ORBCOMM-based applications. Examples of assets that are connected through our M2M data communications system include trucks, trailers, railcars, containers, heavy equipment, fluid tanks, utility meters, pipeline monitoring equipment, marine vessels, oil and gas wells and irrigation control systems. Customers benefiting from our network include original equipment manufacturers, or OEMs, such as Caterpillar, Komatsu, Doosan Infracore America, Hitachi, Hyundai Heavy Industries, The Manitowoc Company and Volvo Construction Equipment. In addition, we market our services through a distribution network of vertical market technology integrators known as VARs and IVARs, such as I.D. Systems,

## Edgar Filing: ORBCOMM Inc. - Form 10-Q

Inc., inthinc Technology Solutions Inc., and American Innovations, Ltd.

As a result of our acquisitions in 2012 and 2011, we provide products and services in the cold chain telematics solutions business that enable customers to proactively monitor, manage and remotely control their refrigerated and other transport assets using complete end-to-end solutions. These solutions enable optimal business efficiencies, increased asset utilization, and substantially reduce asset write-offs and manual yard counts of chassis, refrigeration units, containers and generators ( gensets ). The information provided from these solutions also help industry leaders realize better fleet efficiency and utilization while reducing risk by adding safety monitoring of perishable cargo, including refrigerated and frozen food. In addition to relationships with leading refrigeration unit manufacturers such as Carrier and Thermo King, the customer base includes well-known brands such as Tropicana, Maersk Line, Prime Inc., C.R. England, FFE Transport, Inc., Target, Chiquita, Ryder, J.B. Hunt, Hapag-Lloyd, Golden State Foods, Martin-Brower and Canadian National Railways. These acquisitions enable us to create a global technology platform to transfer capabilities across new and existing vertical markets and deliver complementary products to our channel partners and resellers worldwide.

The 2 AIS microsatellites we operate provide what we believe is the most comprehensive global AIS data service to government and commercial customers to track over 60,000 ocean-going vessels worldwide. AIS is a shipboard broadcast system that transmits a vessel's identification and position to aid navigation and improve maritime safety. Terrestrial-based AIS receivers provide only limited visibility of ships close to shore and are not able to provide global visibility of ship traffic with open ocean coverage. Using our satellite communications system, customers have access to AIS data well beyond coastal regions in a cost effective and timely fashion. Further, we intend to continue working with system integrators and maritime information service providers providing value-added services to facilitate the sales and distribution of AIS data. We will continue to work to address and expand the various market sectors that could benefit from access to AIS data, such as suppliers to the shipping sector, like traders, brokers, insurance companies and support services. An additional potential benefit of AIS is the ability to combine AIS data with asset tracking and monitoring solutions. We believe this creates the potential to provide complete end-to-end visibility of the shipment of goods throughout the global supply chain from an integrated information solution. This solution, once fully integrated into transportation management systems, has the potential to track and monitor individual shipping containers through the intermodal transportation system from origination to destination as it is transported on truck, rail and ship.

Through our M2M data satellite communications system, our customers and end-users can send and receive information to and from any place in the world using low-cost subscriber communicators and paying airtime costs that we believe are the lowest in the industry for global connectivity. Our customers can also use cellular terrestrial units, or wireless subscriber identity modules ( SIMS ), for use with devices or equipment that enable the use of a cellular provider's wireless network, singularly or in conjunction with satellite services, to send and receive information from these devices. We believe that there is no other satellite or terrestrial network currently in operation that can offer global two-way wireless narrowband data service including coverage at comparable cost using a single technology standard worldwide, that also provides a parallel terrestrial network for data intensive applications. We are currently authorized, either directly or indirectly, to provide our satellite communications services in over 100 countries and territories in North America, Europe, South America, Asia, Africa and Australia.

## **Table of Contents**

### **Acquisitions**

#### ***PAR Logistics Management Systems Corporation***

Effective on the close of business on January 12, 2012, we completed the acquisition of the assets of PAR Logistics Management Systems Corporation ( LMS ), a wholly-owned subsidiary of PAR Technology Corporation, ( PAR ) including but not limited to, accounts receivable, inventory, equipment, intellectual property, all of LMS 's rights to customer contracts, supplier lists and certain liabilities pursuant to an Asset Purchase Agreement dated as of December 23, 2011. The consideration paid to PAR on closing to acquire LMS totaled \$6.1 million consisting of: (i) \$4.0 million in cash, subject to a final working capital adjustment specified in the Asset Purchase Agreement, which has not yet been finalized and (ii) the issuance of 645,162 shares of our common stock, of which 387,097 shares of common stock were placed into an escrow account for up to fifteen months from closing to fund any indemnification obligations to us including for breaches of representations and warranties made by PAR.

In addition to the consideration paid at closing, the Asset Purchase Agreement provides for contingent payments of up to \$3.9 million payable post-closing by us to PAR. Up to \$3,000 of the contingent payments was payable based on achieving subscriber targets for calendar year 2012. We recorded at the acquisition date a liability of \$0.7 million for the estimated fair value of the earn-out amounts. For the year ended December 31, 2012, LMS did not achieve the subscriber targets. Up to \$0.9 million of the contingent payments will be payable based on achieving sales targets through 2014. Any potential earn-out amount can be paid in common stock, cash or a combination at our option. Any shares of common stock to be issued will be based on the 20-day average closing price ending on the third trading day preceding the date of payment. The potential earn-out amount for achieving the sales targets for any calendar year if earned, will be paid within 30 days after we file our Form 10-K for years 2013 and 2014.

The results of operations of LMS are included in our condensed consolidated results for the period subsequent to the acquisition date of January 12, 2012. See Note 3 to the condensed consolidated financial statements for further discussion.

#### ***StarTrak Systems, LLC***

Effective on the close of business on May 16, 2011, we completed the acquisition of substantially all of the assets of StarTrak Systems, LLC ( StarTrak ) a wholly-owned subsidiary of Alanco Technologies, Inc., including but not limited to cash, accounts receivable, inventory, equipment, intellectual property, all of StarTrak 's rights to customer contracts, supplier lists and assumed certain liabilities pursuant to an Asset Purchase Agreement dated as of February 23, 2011. See Note 3 to the condensed consolidated financial statements for further discussion.

### **Critical Accounting Policies and Estimates**

Our discussion and analysis of our results of operations, liquidity and capital resources are based on our consolidated financial statements which have been prepared in conformity with accounting principles generally accepted in the United States of America. The preparation of these consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates and judgments, including those related to revenue recognition, accounts receivable, accounting for business combinations, goodwill, satellite network and other equipment, long-lived assets, capitalized development costs, income taxes, warranty costs, loss contingencies and the value of securities underlying stock-based compensation. We base our estimates on historical and anticipated results and trends and on various other assumptions that we believe are reasonable under the circumstances, including assumptions as to future events. These estimates form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. By their nature, estimates are subject to an inherent degree of uncertainty. Actual results may differ from our estimates and could have a significant adverse effect on our results of operations and financial position. For a discussion of our critical accounting policies and estimates see Part II, Item 7. Management 's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2012. There have been no material changes to our critical accounting policies during 2013.

### **EBITDA**

EBITDA is defined as earnings attributable to ORBCOMM Inc., before interest income (expense), provision for income taxes and depreciation and amortization. We believe EBITDA is useful to our management and investors in evaluating our operating performance because it is one of the primary measures we use to evaluate the economic productivity of our operations, including our ability to obtain and maintain our customers, our ability to operate our business effectively, the efficiency of our employees and the profitability associated with their performance. It also helps our management and investors to meaningfully evaluate and compare the results of our operations from period to period on a consistent basis by removing the impact of our financing transactions and the depreciation and amortization impact of capital investments from our

## Edgar Filing: ORBCOMM Inc. - Form 10-Q

operating results. In addition, our management uses EBITDA in presentations to our board of directors to enable it to have the same measurement of operating performance used by management and for planning purposes, including the preparation of our annual operating budget.

EBITDA is not a performance measure calculated in accordance with accounting principles generally accepted in the United States, or GAAP. While we consider EBITDA to be an important measure of operating performance, it should be considered in addition to, and not as a substitute for, or superior to, net income (loss) or other measures of financial performance prepared in accordance with GAAP and may be different than EBITDA measures presented by other companies.

*The following table reconciles our net income to EBITDA for the periods shown:*

	<b>Three months ended</b>	
	<b>March 31,</b>	
	<b>2013</b>	<b>2012</b>
Net income attributable to ORBCOMM Inc.	\$ 1,108	\$ 2,409
Income tax expense	145	394
Interest income	(17)	(27)
Interest expense	46	24
Depreciation and amortization	1,258	1,009
 EBITDA	 \$ 2,540	 \$ 3,809

**Table of Contents**

EBITDA during the three months ended March 31, 2013 decreased by \$1.3 million over 2012. The decrease was due to an increase in expenses of \$1.0 million excluding depreciation and amortization, a decrease in product revenues of \$1.5 million and a \$1.2 million gain on extinguishment of debt and accounts payable in 2012, offset by an increase in service revenues of \$2.4 million. Expenses increased primarily due to an increase in stock-based compensation of \$0.3 million primarily due to timing of grants, an increase in facility costs of \$0.2 million that include \$0.1 million in lease termination costs related to consolidation of locations into our new facility in 2013 and an increase in professional service fees of \$0.4 million primarily due to our acquisitions. The increase in expenses were offset by an increase in service revenues for core satellite and terrestrial revenues of \$1.9 million that includes a backbilling adjustment with a customer, and an increase in AIS revenues of \$0.4 million.

**Revenues**

We derive service revenues from our resellers and direct customers from utilization of satellite subscriber communicators and the reselling of airtime from a third party satellite system and the utilization of terrestrial-based subscriber communicators using SIMS on cellular providers wireless networks. These service revenues generally consist of a one-time activation fee for each subscriber communicator and SIMS activated for use and monthly usage fees. Usage fees that we charge our customers are based upon the number, size and frequency of data transmitted by the customer and the overall number of subscriber communicators and SIMS activated by each customer. Revenues for usage fees from currently billing subscriber communicators and SIMS are recognized on an accrual basis, as services are rendered, or on a cash basis, if collection from the customer is not reasonably assured at the time the service is provided. Usage fees charged to our resellers and direct customers are charged primarily at wholesale rates based on the overall number of subscriber communicators activated by them and the total amount of data transmitted. We also earn service revenues from extended warranty service agreements extending beyond the initial warranty period of one year, royalty fees from third parties for the use of our proprietary communications protocol charged on a one-time basis for each satellite subscriber communicator connected to our M2M data communications system and fees from providing engineering, technical and management support services to customers. Service revenues include AIS revenues.

We derive product revenues primarily from sales of subscriber communicators to our resellers (i.e., our VARs, IVARs, international licensees and country representatives) and direct customers. We also sell cellular wireless subscriber identity modules, or SIMS, (for our terrestrial-communication services) to our resellers and direct customers.

The table below presents our revenues for the three months ended March 31, 2013 and 2012, together with the percentage of total revenue represented by each revenue category in (in thousands):

	Three months ended March 31, 2013		2012	
		% of Total		% of Total
Service revenues	\$ 13,890	83.1%	\$ 11,531	72.6%
Product sales	2,830	16.9%	4,348	27.4%
	\$ 16,720	100.0%	\$ 15,879	100.0%

Total revenues for the three months ended March 31, 2013 and 2012 were \$16.7 million and \$15.9 million, respectively.

**Service revenues**

Service revenues increased \$2.4 million for the three months ended March 31, 2013, or 20.5%, to \$13.9 million from \$11.5 million for the three months ended March 31, 2012. The increase in service revenues in 2013 over 2012 was primarily due to an increase in satellite and terrestrial revenues of \$1.9 million that includes a backbilling adjustment with a customer, and an increase in AIS revenues of \$0.4 million. The increase in service revenues are due to increases in billable subscriber communicators and usage by some customers. Service revenues for the three months ended March 31, 2013 were negatively impacted by \$0.1 million due to a weaker Japanese yen relative to the U.S. dollar. We expect service revenues next quarter to benefit from the GlobalTrak and MobileNet acquisitions but be burdened by the weaker yen. As of March 31, 2013, we had approximately 777,000 billable subscriber communicators compared to approximately 689,000 billable subscriber communicators as of March 31, 2012, an increase of 12.8%.

## Edgar Filing: ORBCOMM Inc. - Form 10-Q

Service revenue growth can be impacted by the customary lag between subscriber communicator activations and recognition of service revenue from these units.

### ***Product sales***

Revenues from product sales decreased \$1.5 million for the three months ended March 31, 2013, or 34.9%, to \$2.8 million from \$4.3 million for the three months ended March 31, 2012. The decrease was primarily due to \$1.1 million in lower product sales in the heavy equipment sector by our Japanese subsidiary reflecting a significant hardware sale in the first quarter of 2012 and the effect of a less favorable exchange rate due to the decrease of the yen against the U.S. dollar of \$0.1 million.

### ***Costs of services***

Costs of services is comprised of expenses to provide services, such as payroll and related costs, including stock-based compensation, materials and supplies, depreciation and amortization of assets and usage fees to cellular wireless providers for the data transmitted by the resellers on our network and other third-party networks.

Costs of services increased by \$0.9 million, or 19.7%, to \$5.6 million for the three months ended March 31, 2013 from \$4.7 million for the three months ended March 31, 2012. The increase was primarily due to a \$0.4 million increase in costs to provide for the increase in service revenues, a \$0.2 million increase in depreciation expense primarily related to a full quarter of depreciation expense in 2013 for the second AIS satellite which was placed in service in February 2012 and a \$0.2 million increase in labor and consultant costs primarily related to an increase in service revenues.

### ***Costs of product sales***

Costs of products includes the purchase price of subscriber communicators and SIMS sold, costs of warranty obligations, shipping charges, depreciation and amortization as well as operational costs to fulfill customer orders, including costs for employees.

Costs of product sales decreased by \$0.9 million, or 29.9% to \$2.2 million for the three months ended March 31, 2013 from \$3.1 million for the three months ended March 31, 2012. We had a gross profit from product sales (revenues from product sales minus costs of product sales) of \$0.7 million for the three months ended March 31, 2013 compared to a gross profit from product sales of \$1.2 million for the three months ended March 31, 2012. The decrease in product sales and gross profit from product sales were primarily due to lower product sales in the heavy equipment sector by our Japanese subsidiary reflecting a significant hardware sale in the first quarter of 2012 and the effect of the decrease of the yen against the U.S. dollar.

## **Table of Contents**

### ***Selling, general and administrative expenses***

Selling, general and administrative expenses relate primarily to expenses for general management, sales and marketing, and finance, professional fees and general operating expenses.

Selling, general and administrative expenses increased by \$1.0 million, or 19.1%, to \$6.4 million for the three months ended March 31, 2013 from \$5.3 million for the three months ended March 31, 2012. The increase was primarily due to a \$0.2 million increase in stock-based compensation primarily due to timing of grants, a \$0.2 million increase in facility costs that include \$0.1 million in lease termination costs related to consolidation of locations into our new facility in 2013, a \$0.4 million increase in professional service fees for audit, legal and public company expenses due to our acquisitions last year and a \$0.2 million increase in advertising and marketing and travel expenses.

### ***Product development expenses***

Product development expenses consist primarily of the expenses associated with our engineering team, along with the cost of third parties that are contracted to support our current applications.

Product development expenses for the three months ended March 31, 2013 and March 31, 2012 were \$0.8 million and \$0.6 million, respectively. The increase was primarily due to costs associated with new product development related to our acquisitions of StarTrak and LMS and in anticipation of our next-generation satellites capabilities.

### ***Acquisition costs***

Acquisition-related costs directly related to our acquisitions which include professional services expenses.

### ***Other income (expense)***

Other income (expense) is comprised primarily of interest income from our cash and cash equivalents, which consists of U.S. Treasuries, interest bearing instruments, and our investments in marketable securities consisting of U.S. government and agency obligations, corporate obligations and FDIC-insured certificates of deposit classified as held to maturity, foreign exchange gains and losses, gain on extinguishment of debt and interest expense.

For the three months ended March 31, 2013 other expenses was less than \$0.1 million compared to other income of \$1.1 million for the three months ended March 31, 2012. The increase in expense, net is primarily due to a \$1.1 million gain on extinguishment of debt in connection with Satcom's note holders.

### ***Income before income taxes***

We have income before income taxes of \$1.3 million for the three months ended March 31, 2013, compared to income before income taxes of \$2.9 million for the three months ended March 31, 2012.

### ***Provision for income taxes***

For the three months ended March 31, 2013, we recorded income taxes of \$0.1 million, which included foreign income tax of less than \$0.1 million from income generated by our subsidiary ORBCOMM Japan and \$0.1 million from the amortization of tax goodwill generated from our acquisitions.

For the three months ended March 31, 2012, we recorded income taxes of \$0.4 million, which was primarily due to foreign income tax of \$0.3 million from income generated by our subsidiary ORBCOMM Japan and \$0.1 million from the amortization of tax goodwill generated from our acquisitions.

As of March 31, 2013 and March 31, 2012, we maintained a valuation allowance against all of its net deferred tax assets, excluding goodwill, attributable to operations in the United States and all foreign jurisdictions, except for Japan, as the realization of such assets was not considered more likely than not.

### ***Net income***



## Edgar Filing: ORBCOMM Inc. - Form 10-Q

We have net income of \$1.2 million for the three months ended March 31, 2013 compared to a net income of \$2.5 million for the three months ended March 31, 2012.

### ***Noncontrolling interests***

Noncontrolling interests relate to earnings and losses attributable to noncontrolling shareholders.

### ***Net income attributable to ORBCOMM Inc.***

We have net income attributable to our company of \$1.1 million for the three months ended March 31, 2013 compared to a net income \$2.4 million for the three months ended March 31, 2012.

### ***Net income attributable to ORBCOMM Inc. common stockholders***

For the three months ended March 31, 2013 and 2012, the net income attributable to our common stockholders includes dividends of less than \$0.1 million paid in shares of the Series A convertible preferred stock issued in connection with the acquisition of StarTrak.

### ***Liquidity and Capital Resources***

#### ***Overview***

Our liquidity requirements arise from our working capital needs and to fund capital expenditures to support our current operations, and facilitate growth and expansion. We have financed our operations and expansion mostly from sales of our common stock through public offerings and private placements of debt, convertible preferred stock, common stock and most recently net income. At March 31, 2013, we have an accumulated deficit of \$66.9 million. Our primary source of liquidity consisted of cash, cash equivalents, restricted cash and marketable securities totaling \$92.8 million, which we believe will be sufficient to provide working capital and capital expenditures for the next twelve months.

## **Table of Contents**

### ***Operating activities***

Cash used in our operating activities for the three months ended March 31, 2013 was \$0.4 million resulting from net uses of cash of \$2.3 million for an increase in accounts receivable primarily due to the increase in revenues and \$1.9 million from a decrease in accounts payable and accrued expenses primarily related to timing of payments, offset by net income of \$1.2 million and non-cash items including \$1.3 million for depreciation and amortization and \$0.6 million for stock-based compensation.

Cash provided by our operating activities for the three months ended March 31, 2012 was \$1.7 million resulting from net income of \$2.5 million, supplemented by non-cash items including \$1.0 million for depreciation and amortization and \$0.3 million for stock-based compensation, offset by a \$1.2 million gain on extinguishment of debt and accounts payable. Working capital activities primarily consisted of a net use of cash of \$1.5 million from a decrease in accounts payable and accrued expenses primarily related to timing of payments.

### ***Investing activities***

Cash used in our investing activities for the three months ended March 31, 2013 was \$40.8 million, resulting primarily from capital expenditures of \$11.9 million and purchases of marketable securities of \$48.8 million, offset by proceeds received from the maturities of marketable securities totaling \$19.9 million.

Cash used in our investing activities for the three months ended March 31, 2012 was \$11.2 million, resulting primarily from \$4.0 million in consideration paid to acquire LMS, capital expenditures of \$7.1 million and purchases of marketable securities of \$14.5 million, offset by proceeds received from the maturities of marketable securities totaling \$13.4 million and a refund of \$1.0 million in restricted cash.

### ***Financing activities***

Cash provided by our financing activities for the three months ended March 31, 2013 was \$40.6 million, resulting primarily from proceeds received from the issuance of \$45 million Senior Notes, offset by payments for debt issuance costs of \$1.1 million in connection with the Senior Notes and a \$3.4 million principal repayment of the 6% secured promissory note issued in connection with the acquisition of StarTrak.

Cash used in our financing activities for the three months ended March 31, 2012 was \$0.5 million, resulting primarily from ORBCOMM's purchase of noncontrolling ownership interests in Satcom of \$0.2 million and Satcom's repayment of \$0.3 million in notes payable.

### **Future Liquidity and Capital Resource Requirements**

We expect cash flows from operating activities, along with our existing cash, cash equivalents, restricted cash and marketable securities will be sufficient to provide working capital and to fund our interest payments on the \$45 million Senior Notes and capital expenditures, which primarily includes milestone payments under the procurement agreements for the next-generation satellites for the next twelve months. For the remainder of 2013, we expect to incur approximately \$35 million of capital expenditures primarily for our next-generation satellites.

On January 4, 2013, we issued \$45 million aggregate principal amount of Senior Notes due on January 4, 2018. Interest is payable quarterly at a rate of 9.5% per annum. The Senior Notes are secured by a first priority security interest in substantially all of our and subsidiaries' assets. The covenants in the Senior Notes limits our ability among other things to, incur additional indebtedness and liens, to sell, transfer, lease or otherwise dispose of our subsidiaries assets, merge or consolidate with other companies. We are also required to obtain launch and one year in-orbit insurance for our next-generation satellites under the terms of the Senior Notes. We must also comply with a maintenance covenant of either having available liquidity of \$10 million (the sum of (a) cash and cash equivalents plus (b) the total amount available to be borrowed under a working capital facility) or a maximum leverage ratio (consolidated total debt to consolidated adjusted EBITDA, adjusted for stock-based compensation and certain other non-cash items and other agreed upon other charges) of not more than 4.5 to 1.0.

### **Debt Covenants**

As of March 31, 2013, we were in compliance with our covenants of the \$45 million Senior Notes.

### **Contractual Obligations**

There have been no material changes in our contractual obligations as of March 31, 2013, as previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2012, except for the annual interest payments of \$4.2 million and the principal balance due in January

2018 of the Senior Notes discussed above.

***Off-Balance Sheet Arrangements***

We have no material off-balance sheet arrangements as defined in Item 303(a)(4)(ii) of Regulation S-K.

**Item 3. Quantitative and Qualitative Disclosures about Market Risks**

There has been no material changes in our assessment of our sensitivity to market risk as of March 31, 2013, as previously disclosed in Part II, Item 7A Quantitative and Qualitative Disclosures about Market Risks in our Annual Report on Form 10-K for the year ended December 31, 2012.

**Table of Contents****Concentration of credit risk**

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

	Three months ended March 31,	
	2013	2012
Caterpillar Inc.	25.4%	18.5%
Komatsu Ltd.	13.2%	11.5%
Hitachi Construction Machinery Co., Ltd.	*	11.0%

\* Balance is less than 10% of consolidated total revenues.

**Item 4. Disclosure Controls and Procedures**

*Evaluation of the Company's disclosure controls and procedures.*

The Company's management evaluated, with the participation of the Company's President and Chief Executive Officer and Executive Vice President and Chief Financial Officer the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), as of March 31, 2013. Based on their evaluation, the Company's President and Chief Executive Officer and Executive Vice President and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of March 31, 2013.

*Changes in Internal Control over Financial Reporting.*

We reviewed our internal control over financial reporting at March 31, 2013. As a result of the acquisition of LMS, we have begun to integrate certain business processes and systems of LMS. Accordingly, certain changes have been made and will continue to be made to our internal controls over financial reporting until such time as this integration is complete.

There have been no other changes in our internal control over financial reporting identified in an evaluation thereof that occurred during the first quarter of 2013 that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**PART II OTHER INFORMATION****Item 1. Legal Proceedings**

From time to time, we are involved in various litigation claims or matters involving ordinary and routine claims incidental to our business. Management currently believes that the outcome of these proceedings, either individually or in the aggregate, will not have a material adverse effect on our business, results of operations or financial condition.

**Item 1A. Risk Factors**

Except as discussed under "Overview" in Part 1, Item 2 "Management's Discussion and Analysis of Financial Condition and Results of Operations," there have been no material changes in the risk factors as of March 31, 2013, as previously disclosed in Part I, Item 1A "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2012.

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

During the three months ended March 31, 2013, holders of Series A convertible preferred stock converted 11,011 shares into 18,345 shares of our common stock.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

None.

**Item 5. Other Information**

None.

## **Table of Contents**

### **Item 6. Exhibits**

10.2	\$45,000,000 9.5% Senior Secured Note Agreement dated January 4, 2013.
31.1	Certification of President and Chief Executive Officer required by Rule 13a-14(a).
31.2	Certification of Executive Vice President and Chief Financial Officer required by Rule 13a-14(a).
32.1	Certification of President and Chief Executive Officer required by Rule 13a-14(b) and 18 U.S.C. Section 1350.
32.2	Certification of Executive Vice President and Chief Financial Officer required by Rule 13a-14(b) and 18 U.S.C. Section 1350.
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

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

\* This exhibit with this Quarterly Report on Form 10-Q, is deemed filed with the Securities and Exchange Commission, and is not incorporated by reference into any filing of ORBCOMM Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date hereof and irrespective of any general incorporation language contained in such filing.

### **SIGNATURES**

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

ORBCOMM Inc.

(Registrant)

Date: May 10, 2013

/s/ Marc J. Eisenberg

Marc J. Eisenberg,  
President and Chief Executive Officer  
(Principal Executive Officer)

Date: May 10, 2013

/s/ Robert G. Costantini

Robert G. Costantini,  
Executive Vice President and Chief Financial Officer  
(Principal Financial Officer)

Date: May 10, 2013

/s/ David A. Dziemian

David A. Dziemian

Senior Vice President, Controller and Principal Accounting Officer  
(Principal Accounting Officer)

**Table of Contents****EXHIBIT INDEX****Exhibit**

<b>No.</b>	<b>Description</b>
10.2	\$45,000,000 9.5% Senior Secured Note Agreement dated January 4, 2013.
31.1	Certification of Chief Executive Officer and President required by Rule 13a-14(a).
31.2	Certification of Executive Vice President and Chief Financial Officer required by Rule 13a-14(a).
32.1	Certification of Chief Executive Officer and President required by Rule 13a-14(b) and 18 U.S.C. Section 1350.
32.2	Certification of Executive Vice President and Chief Financial Officer required by Rule 13a-14(b) and 18 U.S.C. Section 1350.
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

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

- \* This exhibit with this Quarterly Report on Form 10-Q, is deemed filed with the Securities and Exchange Commission, and is not incorporated by reference into any filing of ORBCOMM Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date hereof and irrespective of any general incorporation language contained in such filing.