

Edgar Filing: CalAmp Corp. - Form 10-Q

CalAmp Corp.  
Form 10-Q  
October 07, 2008

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: August 30, 2008

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: 0-12182

Exact Name of Registrant as Specified in Its Charter: CalAmp Corp.

DELAWARE 95-3647070  
State or Other Jurisdiction of Incorporation or Organization I.R.S. Employer Identification No.

Address of Principal Executive Offices: 1401 N. Rice Avenue  
Oxnard, CA 93030

Registrant's Telephone Number: (805) 987-9000

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

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

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in Rule 12b-2 of the Exchange Act).

Yes [ ] No [X]

The registrant had 25,192,267 shares of Common Stock outstanding as of September 30, 2008.

### PART I. FINANCIAL INFORMATION

#### ITEM 1. FINANCIAL STATEMENTS

CALAMP CORP. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS (Unaudited)  
(In thousands except par value amounts)

	August 31, 2008	February 28, 2008
Assets		
Current assets:		
Cash and cash equivalents	\$ 4,697	\$ 6,588
Accounts receivable, less allowance for doubtful accounts of \$285 and \$1,271 at August 31, 2008 and February 28, 2008, respectively	16,612	20,043
Inventories	23,977	25,097
Deferred income tax assets	4,698	5,306
Prepaid expenses and other current assets	10,213	9,733
Total current assets	60,197	66,767
Property, equipment and improvements, net of accumulated depreciation and amortization	4,398	5,070
Deferred income tax assets, less current portion	16,289	14,802
Goodwill	28,224	28,520
Other intangible assets, net	21,852	24,424
Other assets	3,491	3,458
	\$134,451	\$143,041
Liabilities and Stockholders' Equity		
Current liabilities:		
Current portion of long-term debt	\$ 31,030	\$ 5,343
Accounts payable	9,708	10,875
Accrued payroll and employee benefits	3,535	4,218
Accrued warranty costs	4,867	3,818
Other current liabilities	10,198	11,800
Deferred revenue	3,085	4,005
Total current liabilities	62,423	40,059
Long-term debt, less current portion	-	27,187
Other non-current liabilities	1,090	2,375
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$.01 par value; 3,000 shares authorized; no shares issued or outstanding	-	-
Common stock, \$.01 par value; 40,000 shares authorized; 25,192 and 25,041 shares issued and outstanding at August 31, 2008 and February 28, 2008, respectively	252	250

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Additional paid-in capital	144,252	144,318
Accumulated deficit	(73,144)	(71,149)
Accumulated other comprehensive income (loss)	(422)	1
	-----	-----
Total stockholders' equity	70,938	73,420
	-----	-----
	\$134,451	\$143,041
	=====	=====

See notes to unaudited consolidated financial statements.

CALAMP CORP. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(Unaudited)  
(In thousands except per share amounts)

	Three Months Ended August 31,		Six Months Ended August 31,	
	2008	2007	2008	2007
	-----	-----	-----	-----
Revenues	\$ 23,308	\$ 32,668	\$ 51,209	\$ 79,061
Cost of revenues	15,840	26,353	34,312	78,132
Gross profit	7,468	6,315	16,897	929
Operating expenses:				
Research and development	3,131	3,795	6,331	8,114
Selling	1,647	2,373	3,919	4,642
General and administrative	3,266	3,457	6,362	6,659
Intangible asset amortization	1,240	1,558	2,572	3,302
Acquired in-process research and development	-	-	-	310
Total operating expenses	9,284	11,183	19,184	23,027
Operating loss	(1,816)	(4,868)	(2,287)	(22,098)
Non-operating income (expense):				
Interest expense, net	(361)	(457)	(885)	(901)
Other income (expense), net	27	(50)	135	(189)
Total non-operating expense	(334)	(507)	(750)	(1,090)
Loss from continuing operations before income taxes	(2,150)	(5,375)	(3,037)	(23,188)
Income tax benefit	652	2,117	1,042	8,985
Loss from continuing operations	(1,498)	(3,258)	(1,995)	(14,203)
Loss from discontinued operations, net of tax	-	(180)	-	(597)
Loss on sale of discontinued operations, net of tax	-	(935)	-	(935)
Net loss	\$ (1,498)	\$ (4,373)	\$ (1,995)	\$ (15,735)
	=====	=====	=====	=====
Basic and diluted loss per share from:				
Continuing operations	\$ (0.06)	\$ (0.14)	\$ (0.08)	\$ (0.60)

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Discontinued operations	-	(0.05)		(0.07)
	-----	-----	-----	-----
Total basic and diluted loss per share	\$ (0.06)	\$ (0.19)	\$ (0.08)	\$ (0.67)
	=====	=====	=====	=====

Shares used in computing basic and diluted loss per share:

Basic	24,737	23,623	24,720	23,612
Diluted	24,737	23,623	24,720	23,612

See notes to unaudited consolidated financial statements.

CALAMP CORP. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)  
(In thousands)

	Six Months Ended August 31,	
	2008	2007
	-----	-----
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$ (1,995)	\$ (15,735)
Adjustments to reconcile net loss to net cash provided (used) by operating activities:		
Depreciation and amortization	3,770	5,201
Stock-based compensation expense	361	1,027
Write-off of in-process research and development	-	310
Excess tax benefit from stock-based compensation	-	(55)
Deferred tax assets, net	(1,046)	(14,388)
Loss on sale of discontinued operations, net of tax	-	935
Gain on sale of investment	-	(331)
Changes in operating assets and liabilities:		
Accounts receivable	3,431	14,732
Inventories	1,120	(774)
Prepaid expenses and other assets	(933)	1,364
Accounts payable	(1,167)	(12,934)
Other accrued liabilities	(1,907)	17,238
Deferred revenue	(920)	1,308
Other	-	(2)
	-----	-----
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>714</b>	<b>(2,104)</b>
	-----	-----
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Capital expenditures	(561)	(920)
Proceeds from sale of discontinued operations	420	4,000
Earn-out payments on Technocom acquisition	(872)	-
Proceeds from sale of property and equipment	-	4
Proceeds from sale of investment	-	1,045
Acquisition of Aercept	-	(19,315)
Acquisition of SmartLink, net of refunds from escrow fund	296	(7,944)
Cash restricted for repayment of debt	-	(3,309)
	-----	-----
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(717)</b>	<b>(26,439)</b>
	-----	-----

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CASH FLOWS FROM FINANCING ACTIVITIES:		
Debt repayments	(1,500)	(1,476)
Proceeds from exercise of stock options	-	157
Excess tax benefit from stock-based compensation expense	-	55
	-----	-----
NET CASH USED IN FINANCING ACTIVITIES	(1,500)	(1,264)
	-----	-----
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(388)	640
	-----	-----
Net change in cash and cash equivalents	(1,891)	(29,167)
Cash and cash equivalents at beginning of period	6,588	37,537
	-----	-----
Cash and cash equivalents at end of period	\$ 4,697	\$ 8,370
	=====	=====

See notes to unaudited consolidated financial statements.

CALAMP CORP. AND SUBSIDIARIES  
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
SIX MONTHS ENDED AUGUST 31, 2008 and 2007

Note 1 - DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

Description of Business

CalAmp Corp. ("CalAmp" or the "Company") is a provider of wireless communications solutions that enable anytime/anywhere access to critical data and content. CalAmp's Wireless DataCom group services the public safety, industrial monitoring and controls, and mobile resource management ("MRM") markets. CalAmp's Satellite business unit supplies outdoor customer premise equipment to the U.S. Direct Broadcast Satellite (DBS) market.

The remaining operations of the Solutions Division were sold in August 2007. The accompanying consolidated statements of operations for the quarter and six months ended August 31, 2007 have been reclassified to present the Solutions Division as a discontinued operation.

The Company uses a 52-53 week fiscal year ending on the Saturday closest to February 28, which for fiscal 2008 fell on March 1, 2008. The actual interim periods ended on August 30, 2008 and September 1, 2007. In the accompanying consolidated financial statements, the 2008 fiscal year end is shown as February 28 and the interim period end for both years is shown as August 31 for clarity of presentation.

Certain notes and other information are condensed or omitted from the interim financial statements presented in this Quarterly Report on Form 10-Q. Therefore, these financial statements should be read in conjunction with the Company's 2008 Annual Report on Form 10-K as filed with the Securities and Exchange Commission on May 15, 2008.

In the opinion of the Company's management, the accompanying consolidated financial statements reflect all adjustments (consisting of normal recurring adjustments) considered necessary to present fairly the Company's financial position at August 31, 2008 and its results of operations for the six months ended August 31, 2008 and 2007. The results of operations for such periods are not necessarily indicative of results to be expected for the full fiscal year.

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All significant intercompany transactions and accounts have been eliminated in consolidation.

### Note 2 - INVENTORIES

Inventories include costs of materials, labor and manufacturing overhead. Inventories are stated at the lower of cost (determined on the first-in, first-out method) or net realizable value, and consist of the following (in thousands):

	August 31, 2008	February 28, 2008
	-----	-----
Raw materials	\$20,023	\$21,908
Work in process	372	325
Finished goods	3,582	2,864
	-----	-----
	\$23,977	\$25,097
	=====	=====

### Note 3 - GOODWILL AND OTHER INTANGIBLE ASSETS

Changes in goodwill of each reporting unit during the six months ended August 31, 2008 are as follows (in thousands):

	Wireless Satellite	DataCom	Total
	-----	-----	-----
Balance as of February 28, 2008	\$ 2,255	\$ 26,265	\$ 28,520
Proceeds from Smartlink escrow fund distribution, net of expenses	-	(296)	(296)
	-----	-----	-----
Balance as of August 31, 2008	\$ 2,255	\$ 25,969	\$ 28,224
	=====	=====	=====

Other intangible assets are comprised as follows (in thousands):

	August 31, 2008				February 28, 2008		
	Amorti- zation Period	Gross Carrying Amount	Accum. Amorti- zation	Net	Gross Carrying Amount	Accum. Amorti- zation	Net
	-----	-----	-----	-----	-----	-----	-----
Developed/core technology	5-7 yrs.	\$18,583	\$ 6,424	\$12,159	\$18,583	\$ 4,767	\$13,816
Customer lists	5-7 yrs.	8,313	3,057	5,256	8,313	2,334	5,979
Contracts backlog	1 yr.	3,060	3,060	-	3,060	2,968	92
Covenants not to compete	4-5 yrs.	1,001	444	557	1,001	344	657
Tradename	N/A	3,880	-	3,880	3,880	-	3,880
		-----	-----	-----	-----	-----	-----
		\$34,837	\$12,985	\$21,852	\$34,837	\$10,413	\$24,424
		=====	=====	=====	=====	=====	=====

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Amortization expense of intangible assets was \$1,240,000 and \$1,558,000 for the three months ended August 31, 2008 and 2007, respectively, and was \$2,572,000 and \$3,302,000 for the six month periods then ended. All intangible asset amortization expense was attributable to the Wireless DataCom group.

Estimated amortization expense for the fiscal years ending February 28 is as follows:

2009 (remainder)	\$2,481,000
2010	\$4,961,000
2011	\$4,438,000
2012	\$4,091,000
2013	\$1,677,000
Thereafter	\$ 324,000

### Note 4 - FINANCING ARRANGEMENTS

#### Long-term Debt

Long-term debt consists of the following (in thousands):

	August 31, 2008	February 28, 2008
	-----	-----
Bank term loan	\$26,030	\$27,530
Subordinated note payable to DBS customer	5,000	5,000
	-----	-----
Total debt	31,030	32,530
Less portion due within one year	(31,030)	(5,343)
	-----	-----
Long-term debt	\$ -	\$27,187
	=====	=====

In May 2006, the Company entered into a Credit Agreement (the "Credit Agreement") with Bank of Montreal, as administrative agent, and the other financial institutions that from time to time may become parties to the Credit Agreement (collectively, the "Banks"). At the Company's option, borrowings under the Credit Agreement bear interest at bank's prime rate ("Prime Based Loans") plus a margin ranging from 0.50% to 0.75% (the "Prime Rate Margin") or LIBOR ("LIBOR Based Loans") plus a margin ranging from 1.25% to 1.75% (the "LIBOR Margin"). The Prime Rate Margin and the LIBOR Margin vary depending on the Company's ratio of debt to earnings before interest, taxes, depreciation, amortization and other noncash charges (the "Leverage Ratio"). Interest is payable on the last day of the calendar quarter for Prime Based Loans and at the end of the fixed rate LIBOR period (ranging from 1 to 12 months) in the case of LIBOR Based Loans. At August 31, 2008, the effective interest rate on the term loan was 4.22% comprised of a one-month LIBOR rate of 2.47% plus LIBOR Margin of 1.75%.

The Credit Agreement also provides for a working capital line of credit of \$3,375,000. At August 31, 2008, \$1,725,000 of the working capital line of credit was reserved for outstanding irrevocable stand-by letters of credit and \$1,650,000 was available for working capital borrowings. Outstanding amounts under the revolver would bear interest at Bank of Montreal's prime rate plus 2% or LIBOR plus 3%. There were no outstanding borrowings on the revolver at August 31, 2008.

The Company made principal repayments of \$1,500,000 during the six months ended August 31, 2008. Term loan principal payments of \$750,000 are due on the last day of each calendar quarter during 2008, and a principal payment of \$1,250,000 is due on March 31, 2009. In addition, collections on

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a note receivable from the buyer of the TelAlert software business must be applied to reduce the term loan principal.

The Credit Agreement has a termination date of June 30, 2009, at which time all outstanding borrowings are due and payable. In the event all outstanding obligations under the Credit Agreement are not paid in full by December 31, 2008, an exit fee of \$500,000 plus penalty interest of \$204,000 will be due and payable to the Banks on June 30, 2009, except that if the Company receives cash of at least \$5,000,000 as a result of issuing equity or subordinated debt by December 31, 2008, then the exit fee and penalty interest will be reduced to \$300,000 and \$123,000, respectively. The Company recorded the penalty interest expense of \$204,000 during the four month period from November 2007 to February 2008. Beginning in March 2008, the Company has been accruing the \$500,000 exit fee as interest expense on a ratable basis over the remainder of the loan agreement term.

The Credit Agreement requires minimum levels of consolidated earnings before interest, taxes, depreciation and amortization (EBITDA) and Wireless DataCom group revenues. The Company is in compliance with these covenants at August 31, 2008. The Credit Agreement also includes customary affirmative and negative covenants including, without limitation, negative covenants regarding additional indebtedness, investments, maintenance of the business, liens, guaranties, transfers and sales of assets, and the payment of dividends and other restricted payments.

Scheduled principal payments of the bank term loan by fiscal year are as follows:

Fiscal Year	
2009 (remainder)	\$ 1,500,000
2010	24,530,000
	-----
	\$26,030,000
	=====

The Company has requested an extension of the June 30, 2009 maturity date, and is currently in discussions with the Banks on this matter. Notwithstanding the fact that the Company has made all required principal and interest payments on the term loan when due and the fact that the Company was in compliance with all loan covenants at August 31, 2008, if the Company is unable to obtain an extension of the maturity date, and if it cannot refinance the term loan balance from the proceeds of an asset-based loan and/or other funding sources by June 30, 2009, the Banks could call the loan and declare the Company to be in default.

On December 14, 2007, the Company entered into a settlement agreement with a key DBS customer. Under the terms of the settlement agreement, the Company issued to the customer a \$5 million non-interest bearing promissory note that is payable at a rate of \$5.00 per unit on the first one million DBS units purchased by this customer after the date of the settlement agreement. Based on expected shipments of DBS units to this customer, the entire \$5 million note balance has been classified as a current liability in the accompanying consolidated balance sheet as of August 31, 2008. The promissory note, which is subordinated to the outstanding indebtedness under CalAmp's bank credit facility, will be accelerated if the Company becomes insolvent, files for bankruptcy, or undergoes a change of control.

### Note 5 - INCOME TAXES

Deferred income taxes reflect the net tax effects of temporary



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differences between the carrying amount of assets and liabilities for financial reporting purposes and for income tax purposes. A deferred income tax asset is recognized if realization of such asset is more likely than not, based upon the weight of available evidence that includes historical operating performance and the Company's forecast of future operating performance. The Company evaluates the realizability of its deferred income tax assets on a quarterly basis, and a valuation allowance is provided, as necessary, in accordance with the provisions of Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes". During this evaluation, the Company reviews its forecasts of income in conjunction with the positive and negative evidence surrounding the realizability of its deferred income tax asset to determine if a valuation allowance is needed.

In June 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" (FIN 48). FIN 48 defines the threshold for recognizing the benefits of tax return positions in the financial statements as "more-likely-than-not" to be sustained by the taxing authorities. FIN 48 provides guidance on the de-recognition, measurement and classification of income tax uncertainties, along with any related interest and penalties. FIN 48 also includes guidance concerning accounting for income tax uncertainties in interim periods and increases the level of disclosures associated with any recorded income tax uncertainties. The Company adopted FIN 48 in the quarter ended May 31, 2007. As of August 31, 2008, the Company has unrecognized tax benefits of \$6,419,000 which, if recognized, would impact the effective tax rate on income from continuing operations.

The Company files income tax returns in the U.S. federal jurisdiction, various states and foreign jurisdictions. Income tax returns filed for fiscal years 1998 and earlier are not subject to examination by tax authorities. Certain income tax returns for fiscal years 1999 through 2008 remain open to examination by U.S. federal and state tax authorities. The income tax returns filed by the Company's French subsidiary for fiscal years 2004 through 2007 are currently being examined by French tax authorities. Certain income tax returns for fiscal years 2005 through 2007 remain open to examination by Canada federal and Quebec provincial tax authorities. The income tax return of the Company's Canadian subsidiary for the pre-acquisition stub period from March 1, 2006 to May 9, 2006 is being examined by the Canadian federal tax agency. The Company believes that it has made adequate provision for all income tax uncertainties pertaining to these open tax years.

The income tax benefit applicable to the loss from continuing operations for the three months ended August 31, 2008 and 2007 was \$652,000 and \$2,117,000, respectively. The income tax benefit applicable to the loss from continuing operations for the six months ended August 31, 2008 and 2007 was \$1,042,000 and \$8,985,000, respectively. The effective income tax rate on the loss from continuing operations was 34% and 39% in the six months ended August 31, 2008 and 2007, respectively. The effective tax rate in the six months ended August 31, 2008 was less than the combined U.S. federal and state statutory rates because no tax benefit was recorded on the pretax loss generated by the Company's Canadian subsidiary.

### Note 6 - EARNINGS PER SHARE

Basic earnings per share is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflects the potential dilution, using the treasury stock method, that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that

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then shared in the earnings of the Company. In computing diluted earnings per share, the treasury stock method assumes that outstanding options are exercised and the proceeds are used to purchase common stock at the average market price during the period. Options will have a dilutive effect under the treasury stock method only when the Company reports net income and the average market price of the common stock during the period exceeds the exercise price of the options.

The weighted average number of common shares outstanding used in the calculation of basic and diluted earnings per share was the same for all periods presented. Stock options outstanding at August 31, 2008 and 2007 were excluded from the computation of diluted earnings per share for the three and six month periods then ended because the Company reported a loss from continuing operations in such periods and the effect of inclusion would be antidilutive (i.e., including such options would result in a lower loss per share).

### Note 7 - COMPREHENSIVE INCOME (LOSS)

Comprehensive income (loss) is defined as the total of net income (loss) and all non-owner changes in equity. The following table details the components of comprehensive loss for the three and six months ended August 31, 2008 and 2007 (in thousands):

	Three Months Ended August 31,		Six Months Ended August 31,	
	2008	2007	2008	2007
Net loss	\$ (1,498)	\$ (4,373)	\$ (1,995)	\$ (15,735)
Foreign currency translation adjustments	(345)	28	(423)	725
Realized gain on available-for-sale investments	-	-	-	(45)
Comprehensive loss	\$ (1,843)	\$ (4,345)	\$ (2,418)	\$ (15,055)

### Note 8 - STOCK-BASED COMPENSATION

Stock-based compensation expense is included in the following captions of the consolidated statements of operations (in thousands):

	Three Months Ended August 31,		Six Months Ended August 31,	
	2008	2007	2008	2007
Cost of revenues	\$ 15	\$ 15	\$ 23	\$ 30
Research and development	46	58	95	111
Selling	16	66	48	125
General and administrative	275	375	195	708
	\$ 352	\$ 514	\$ 361	\$ 974

Changes in the Company's outstanding stock options during the six months ended August 31, 2008 were as follows:

Weighted                      Aggregate

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	Number of Options (000s)	Weighted Average Exercise Price	Average Remaining Contractual Term	Intrinsic Value (000s)
	-----	-----	-----	-----
Outstanding at February 28, 2008	2,382	\$ 9.54		
Granted	560	\$ 2.45		
Exercised	(50)	\$ 1.75		
Forfeited or expired	(777)	\$ 9.05		
	-----			
Outstanding at August 31, 2008	2,115	\$ 8.03	6.1 years	\$ 2
	=====			
Exercisable at August 31, 2008	1,260	\$10.54	4.0 years	\$ 2
	=====			

Of the 50,000 stock options exercised, 39,498 shares underlying such exercised options were retained by the Company in a net share settlement to cover the aggregate exercise price and the required amount of employee withholding taxes.

Changes in the Company's unvested restricted stock and restricted stock units (RSUs) during the six months ended August 31, 2008 were as follows (shares in thousands):

	Number of Shares	Weighted Average Fair Value at Grant Date
	-----	-----
Outstanding at February 28, 2008	534	\$ 3.70
Granted	567	2.15
Vested	(156)	4.28
Forfeited	(28)	4.28
	-----	
Outstanding at August 31, 2008	917	\$ 2.63
	=====	

Of the 156,000 restricted stock shares and RSUs that vested during the period, 42,357 shares were retained by the Company to cover the required amount of employee withholding taxes.

As of August 31, 2008, there was \$4.4 million of total unrecognized stock-based compensation cost related to nonvested stock options, restricted stock and RSUs. That cost is expected to be recognized as an expense over a weighted-average remaining vesting period of 3.0 years.

Note 9 - CONCENTRATION OF RISK

Because the Company sells into markets dominated by a few large service providers, a significant percentage of consolidated revenues and consolidated accounts receivable relate to a small number of customers.

Revenues from customers that accounted for 10% or more of consolidated revenues for the three and six months ended August 31, 2008 or 2007, as a percent of consolidated revenues, are as follows:

Customer	Three Months Ended August 31,		Six Months Ended August 31,	
	2008	2007	2008	2007
	-----	-----	-----	-----
A	8.5%	3.1%	5.3%	16.5%
B	4.7%	26.1%	15.3%	24.2%

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C	7.3%	13.0%	7.5%	15.6%
D	10.3%	6.3%	6.3%	3.5%

Accounts receivable from the customers referred to in the table above, expressed as a percent of consolidated net accounts receivable, are as follows:

Customer	August 31, 2008 -----	February 28, 2008 -----
A	11.0%	5.1%
B	4.2%	26.6%
C	11.0%	9.0%
D	5.8%	4.0%

Customers A and B are customers of the Company's Satellite business unit. Customers C and D are customers of the Company's Wireless DataCom group. See Note 13 for a description of a product performance issue and related matters involving Customer A.

### Note 10 - PRODUCT WARRANTIES

The Company generally warrants its products against defects over periods up to three years. An accrual for estimated future costs relating to products returned under warranty is recorded as an expense when products are shipped. At the end of each quarter, the Company adjusts its liability for warranty claims based on its actual warranty claims experience as a percentage of sales for the preceding three years. The Company also adjusts its liability to include amounts that are estimable and probable based on known product defects. Activity in the accrued warranty costs liability (current and non-current combined) for the six months ended August 31, 2008 and 2007 is as follows (in thousands):

	Six months ended August 31, -----	
	2008	2007
Balance at beginning of period	\$ 4,869	\$ 1,295
Charged to costs and expenses	488	14,032
Deductions	(490)	(693)
	-----	-----
Balance at end of period	\$ 4,867	\$14,634
	=====	=====

Warranty expense for the six months ended August 31, 2007 includes a charge of approximately \$13.7 million for the cost of estimated warranty repairs to correct a product performance issue involving a DBS customer, as further described in Note 13. The warranty reserve at August 31, 2007 includes \$14.2 million that is associated with this DBS product performance issue. In the Company's fiscal 2008 fourth quarter, this warranty reserve was reduced by \$8.8 million as the result of a settlement agreement that was entered into with this customer on December 14, 2007.

The cash impact of the warranty reserve is anticipated to occur over the next year.

### Note 11 - OTHER FINANCIAL INFORMATION

"Net cash provided by operating activities" in the consolidated

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statements of cash flows includes cash payments (receipts) for interest and income taxes as follows (in thousands):

	Six months ended August 31,	
	2008	2007
Interest paid	\$ 864	\$1,143
Income taxes paid (net refunds received)	\$ (740)	\$ (638)

Following is the supplemental schedule of non-cash investing and financing activities (in thousands):

	Six months ended August 31,	
	2008	2007
Earn-out amount for TechnoCom acquisition included in goodwill and other current liabilities	\$ -	\$ 1,983

Other Assets in the consolidated balance sheets consist of the following (in thousands):

	August 31, 2008	February 28, 2008
Investment in preferred stock of a privately-held company	\$ 3,137	\$ 3,137
Deposits and other	354	321
	\$ 3,491	\$ 3,458
	=====	=====

The preferred stock of the privately held company was received as partial consideration for the sale of the TelAlert software business in August 2007. This preferred stock was valued using the Black-Scholes Option Pricing Model, in which the preferred stock is treated as a series of call options on the entity's enterprise value.

Other non-current liabilities in the consolidated balance sheets consist of the following (in thousands):

	August 31, 2008	February 28, 2008
Accrued warranty costs (non-current portion)	\$ -	\$ 1,051
Deferred rent	775	981
Deferred revenue	315	343
	\$ 1,090	\$ 2,375
	=====	=====

### Note 12 - SEGMENT INFORMATION

Segment information for the three and six months ended August 31, 2008 and 2007 is as follows (dollars in thousands):

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	Three months ended August 31, 2008				Three months ended August 31, 2007			
	Business Segments				Business Segments			
	Satellite	Wireless DataCom	Corporate	Total	Satellite	Wireless DataCom	Corporate	Total
Revenues	\$ 3,176	\$ 20,132		\$ 23,308	\$ 9,851	\$ 22,817		\$ 32,668
Gross profit (loss)	\$ (81)	\$ 7,549		\$ 7,468	\$ (1,835)	\$ 8,150		\$ 6,315
Gross margin	(2.6%)	37.5%		32.0%	(18.6%)	35.7%		19.2%
Operating income (loss)	\$ (1,324)	\$ 916	\$ (1,408)	\$ (1,816)	\$ (3,064)	\$ (500)	\$ (1,304)	\$ (4,868)

	Six months ended August 31, 2008				Six months ended August 31, 2007			
	Business Segments				Business Segments			
	Satellite	Wireless DataCom	Corporate	Total	Satellite	Wireless DataCom	Corporate	Total
Revenues	\$ 10,817	\$ 40,392		\$ 51,209	\$ 32,882	\$ 46,179		\$ 79,061
Gross profit (loss)	\$ 652	\$ 16,245		\$ 16,897	\$ (15,751)	\$ 16,680		\$ 929
Gross margin	6.0%	40.2%		33.0%	(47.9%)	36.1%		1.2%
Operating income (loss)	\$ (1,656)	\$ 1,973	\$ (2,604)	\$ (2,287)	\$ (18,295)	\$ (1,146)	\$ (2,657)	\$ (22,098)

The Satellite segment's negative gross profit of \$15.8 million and operating loss of \$18.3 million in the six months ended August 31, 2007 includes a \$17.8 million charge for estimated expenses to correct a product performance issue involving a DBS customer, as further described in Note 13.

The Wireless DataCom segment's operating loss of \$1,146,000 in the six months ended August 31, 2007 includes a charge of \$310,000 to write off in-process research and development costs associated with the Smartlink acquisition. Amortization expense of intangible assets related to the Wireless DataCom segment was \$2.6 million and \$3.3 million for the six months ended August 31, 2008 and 2007, respectively.

The Company considers operating income (loss) to be the primary measure of profit or loss of its business segments. The amount shown for each period in the "Corporate" column above for operating income (loss) consists of corporate expenses not allocated to the business segments. Unallocated corporate expenses include salaries and benefits of certain executive officers, other corporate staff, and corporate expenses such as audit fees,

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investor relations, stock listing fees, director and officer liability insurance, and director fees and expenses.

Corporate expenses include stock-based compensation expense of \$228,000 and \$300,000 in the three months ended August 31, 2008 and 2007, respectively, and \$20,000 and \$565,000 in the six months ended August 31, 2008 and 2007, respectively. The decrease in stock-based compensation expense in the latest six month period is primarily attributable to the forfeiture of unvested stock options upon the resignation of the Company's former President and Chief Executive Officer in March 2008.

### Note 13 - COMMITMENTS AND CONTINGENCIES

#### DBS Product Field Performance Issues

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As previously disclosed in the Company's quarterly filings for fiscal 2008, the Company experienced a product performance issue affecting certain DBS equipment manufactured by CalAmp for a certain customer. In addressing this matter, the customer returned product to the Company for corrective action and in May 2007 put a hold on all orders for CalAmp equipment pending the requalification of the products. In December 2007, the Company reached a settlement agreement with the customer that addressed the financial and rework aspects of the product performance issue. In January 2008, the customer requalified CalAmp's designs for the affected products and in late May 2008 the Company resumed product shipments to this customer.

At August 31, 2008, the Company has aggregate reserves of \$7.5 million for DBS product field performance issues, of which \$1.7 million is an inventory reserve, approximately \$1.5 million is a vendor liability reserve included in other current liabilities, and the remaining \$4.3 million is a reserve for accrued warranty costs.

While the Company believes that its reserves of \$7.5 million as of August 31, 2008 will be adequate to cover total future product rework costs and associated vendor liabilities and inventory obsolescence, no assurances can be given that the ultimate costs will not materially differ from the current estimate.

The Company has on-hand inventory of approximately \$9.2 million and outstanding purchase commitments of \$8.7 million for materials that are specific to the products that the Company manufactures for this customer, which amounts are not currently reserved for because the Company believes these materials can be used in the ordinary course of business as future shipments of products are made to this customer. Nonetheless, changes in the forecasted product demand from this customer could require that the inventory reserve and/or the reserve for vendor commitment liabilities be increased to cover some portion of these amounts.

#### Other Contingencies

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In May 2007, a patent infringement suit was filed against the Company in the U.S. District Court for the Eastern District of Texas. The lawsuit contended that the Company infringed on four patents and sought injunctive and monetary relief. In August 2007, the Company denied the plaintiff's claims and asserted counterclaims. The District Court subsequently ordered the dismissal of claims related to three patents and in June 2008, the United States Patent and Trademarks Office (USPTO) issued a preliminary office action rejecting the plaintiff's claim involving the remaining patent in the

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lawsuit. In August 2008, the plaintiff filed a response to the USPTO's preliminary office action requesting reconsideration in light of the amendments to the claim and remarks contained in the response. In light of USPTO's office action, the case has been stayed by the District Court until the USPTO comes to a final decision in the reexamination proceeding. The Company continues to believe the lawsuit is without merit and intends to vigorously defend against this action if and when court proceedings resume. No loss accrual has been made in the accompanying financial statements for this matter.

On March 26, 2007, Rogers Corporation filed a complaint for declaratory relief in the United States District Court in Massachusetts. Rogers Corporation manufactures and supplies printed circuit laminate to sub-contractors of the Company that is incorporated into the Company's DBS products. On May 16, 2007, the Company filed a complaint against Rogers Corporation in the United States District Court in California for product liability issues related to the aforementioned laminate material and subsequent damages incurred by the Company as a result of lost business and the cost of product repair work associated with one of CalAmp's DBS customers. The Company believes that Rogers' complaint was filed in anticipation of the Company's complaint. While the Company believes that its case against Rogers Corporation is meritorious, it is not possible to predict the outcome of the matter at this time.

In addition to the foregoing matter, the Company from time to time is a party, either as plaintiff or defendant, to various legal proceedings and claims which arise in the ordinary course of business. While the outcome of these claims cannot be predicted with certainty, management does not believe that the outcome of any of these legal matters will have a material adverse effect on the Company's consolidated financial position or results of operations.

### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The Company's discussion and analysis of its financial condition and results of operations are based upon the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of sales and expenses during the reporting periods. Areas where significant judgments are made include, but are not necessarily limited to: allowance for doubtful accounts, inventory valuation, product warranties, deferred income taxes and uncertain tax positions, and the valuation of long-lived assets and goodwill. Actual results could differ materially from these estimates.

#### Allowance for Doubtful Accounts

The Company establishes an allowance for estimated bad debts based upon a review and evaluation of specific customer accounts identified as known and expected collection problems, based on historical experience, or due to insolvency, disputes or other collection issues. As further described in Note 9 to the accompanying consolidated financial statements, the Company's customer base is concentrated, with four customers accounting for 35% of the Company's total revenue for the six months ended August 31, 2008 and two customers accounting for 22% of the Company's net accounts receivable balance as of August 31, 2008. Changes in either a key customer's financial position, or the economy as a whole, could cause actual write-offs to be



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materially different from the recorded allowance amount.

### Inventories

The Company evaluates the carrying value of inventory on a quarterly basis to determine if the carrying value is recoverable at estimated selling prices. To the extent that estimated selling prices do not exceed the associated carrying values, inventory carrying amounts are written down. In addition, the Company generally treats inventory on hand or committed with suppliers, which is not expected to be sold within the next 12 months, as excess and thus appropriate write-downs of the inventory carrying amounts are established through a charge to cost of sales. Estimated usage in the next 12 months is based on firm demand represented by orders in backlog at the end of the quarter and management's estimate of sales beyond existing backlog, giving consideration to customers' forecasted demand, ordering patterns and product life cycles. Significant reductions in product pricing, or changes in technology and/or demand may necessitate additional write-downs of inventory carrying value in the future.

As further described in Note 13 to the accompanying unaudited consolidated financial statements, at August 31, 2008 the Company had an inventory reserve of \$1.7 million that was established during fiscal 2008 in connection with a product performance issue involving a key DBS customer. Also as described in Note 13, the Company had on-hand inventory of \$9.2 million and outstanding purchase commitments of \$8.7 million for materials that are specific to the products that the Company manufactures for this customer. These amounts are not currently reserved for because the Company believes these materials can be used in the ordinary course of business as future shipments of products are made to this customer. Nonetheless, changes in the forecasted product demand from this customer could require that the inventory reserve and/or the reserve for vendor commitment liabilities be increased to cover some portion of these amounts.

### Product Warranties

The Company initially provides for the estimated cost of product warranties at the time revenue is recognized. While it engages in extensive product quality programs and processes, including actively monitoring and evaluating the quality of its component suppliers, the Company's warranty obligation is affected by product failure rates and material usage and service delivery costs incurred in correcting a product failure. Should actual product failure rates, material usage or service delivery costs differ from management's estimates, revisions to the estimated warranty liability would be required.

As further described in Note 13 to the accompanying unaudited consolidated financial statements, at August 31, 2008 the Company had a \$4.3 million reserve for accrued warranty costs in connection with a product performance issue involving a key DBS customer. While the Company believes that this \$4.3 million warranty reserve will be adequate to cover total future product rework costs for this issue, no assurances can be given that the ultimate costs will not materially differ from the current estimate.

### Deferred Income Taxes and Uncertain Tax Positions

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and for income tax purposes. A deferred income tax asset is recognized if realization of such asset is more likely than not, based upon the weight of available evidence that includes historical operating performance and the Company's forecast of future operating performance. The Company evaluates the realizability of its deferred income

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tax asset on a quarterly basis, and a valuation allowance is provided, as necessary, in accordance with the provisions of Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes". During this evaluation, the Company reviews its forecasts of income in conjunction with the positive and negative evidences surrounding the realizability of its deferred income tax asset to determine if a valuation allowance is needed.

In June 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" (FIN 48). FIN 48 defines the threshold for recognizing the benefits of tax return positions in the financial statements as "more-likely-than-not" to be sustained by the taxing authorities. FIN 48 provides guidance on the de-recognition, measurement and classification of income tax uncertainties, along with any related interest and penalties. FIN 48 also includes guidance concerning accounting for income tax uncertainties in interim periods and increases the level of disclosures associated with any recorded income tax uncertainties. The Company adopted FIN 48 in the quarter ended May 31, 2007. At August 31, 2008, the Company had unrecognized tax benefits of \$6,419,000 which, if recognized, would impact the effective tax rate on income from continuing operations.

At August 31, 2008, the Company had an aggregate deferred tax asset balance of \$20,987,000. The current portion of the deferred tax asset is \$4,698,000 and the noncurrent portion is \$16,289,000.

### Impairment Assessments of Goodwill, Purchased Intangible Assets and Other Long-Lived Assets

At August 31, 2008, the Company had \$28.2 million in goodwill and \$21.9 million in other intangible assets on its consolidated balance sheet. The Company believes the estimate of its valuation of long-lived assets and goodwill is a "critical accounting estimate" because if circumstances arose that led to a decrease in the valuation it could have a material impact on the Company's results of operations.

The Company makes judgments about the recoverability of non-goodwill intangible assets and other long-lived assets whenever events or changes in circumstances indicate that an impairment in the remaining value of the assets recorded on the balance sheet may exist. The Company tests the impairment of goodwill annually and, in certain situations, on an interim basis if indicators of impairment arise. Goodwill of the Satellite and Wireless DataCom business segments is tested annually for impairment as of December 31 each year. If an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value, goodwill would be evaluated for impairment between annual tests. Management has appropriate processes in place to monitor for interim triggering events.

In order to estimate the fair value of long-lived assets, the Company typically makes various assumptions about the future prospects for the business that the asset relates to, considers market factors specific to that business and estimates future cash flows to be generated by that business. The Company must also make estimates and judgments about the adequacy of reserves established for the product performance issue with a key DBS customer as described above. These assumptions and estimates are necessarily subjective and reflect management's best estimates based on the information available at the time such estimates are made. Based on these assumptions and estimates, the Company determines whether it needs to record an impairment charge to reduce the value of the asset stated on the balance sheet to reflect its estimated fair value. Assumptions and estimates about future values and remaining useful lives are complex and often subjective. They can be affected by a variety of factors, including external factors such as industry and economic trends, and internal factors such as changes in the

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Company's business strategy and its internal forecasts. Although management believes the assumptions and estimates that have been made in the past have been reasonable and appropriate, different assumptions and estimates could materially impact the Company's reported financial results. More conservative assumptions of the anticipated future benefits from these businesses could result in impairment charges, which would decrease net income and result in lower asset values on the balance sheet. Conversely, less conservative assumptions could result in smaller or no impairment charges, higher net income and higher asset values.

### Investment in Preferred Stock of Private Company

An investment in preferred stock of a privately held company with a carrying value of \$3.1 million is included in non-current Other Assets in the consolidated balance sheets and is accounted for under the cost method of accounting because the Company does not have the ability to exercise significant influence over the issuer's operations. The ascribed cost of this preferred stock, which was received as partial consideration for the sale of the TelAlert software business in August 2007, was determined using the Black-Scholes Option Pricing Model, in which the preferred stock is treated as a series of call options on the entity's enterprise value. Under the cost method of accounting, this investment is carried at cost and is only adjusted for other-than-temporary declines in fair value and distributions of earnings. Management periodically evaluates the recoverability of this preferred stock investment based on the performance and the financial position of the issuer as well as other evidence of market value. Such evaluations include, but are not limited to, reviewing the investee's cash position, recent financings, projected and historical financial performance, cash flow forecasts and financing requirements. During the fiscal year ended February 28, 2008 and six months ended August 31, 2008, the Company did not recognize any losses due to other-than-temporary declines of the value of this investment.

### Stock-Based Compensation Expense

The FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123R"), which requires companies to measure all employee stock-based compensation awards using a fair value method and record such expense in their financial statements. The Company adopted SFAS 123R at the beginning of fiscal 2007. Accordingly, the Company measures stock-based compensation expense at the grant date, based on the fair value of the award, and recognizes the expense over the employee's requisite service (vesting) period using the straight-line method. The measurement of stock-based compensation expense is based on several criteria including, but not limited to, the valuation model used and associated input factors, such as expected term of the award, stock price volatility, risk free interest rate and forfeiture rate. Certain of these inputs are subjective to some degree and are determined based in part on management's judgment. The Company recognizes the compensation expense on a straight-line basis for its graded-vesting awards. SFAS 123R requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. However, the cumulative compensation expense recognized at any point in time must at least equal the portion of the grant-date fair value of the award that is vested at that date. As used in this context, the term "forfeitures" is distinct from "cancellations" or "expirations", and refers only to the unvested portion of the surrendered equity awards.

## RESULTS OF OPERATIONS

### Basis of presentation

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The Company uses a 52-53 week fiscal year ending on the Saturday closest to February 28, which for fiscal 2008 fell on March 1, 2008. The actual interim periods ended on August 30, 2008 and September 1, 2007. In the accompanying consolidated financial statements, the 2008 fiscal year end is shown as February 28 and the interim period end for both years is shown as August 31 for clarity of presentation.

### Overview

CalAmp Corp. is a provider of wireless communications solutions that enable anytime/anywhere access to critical data and content. CalAmp's Wireless DataCom group services the public safety, industrial monitoring and controls, and mobile resource management markets. CalAmp's Satellite business unit supplies outdoor customer premise equipment to the U.S. DBS market.

### Wireless DataCom Segment

The Wireless DataCom group services the public safety, industrial monitoring and controls, and mobile resource management markets with wireless solutions that extend communications networks to field applications, thereby enabling coordination of emergency response teams, increasing productivity and optimizing workflow for the mobile workforce, improving management controls over valuable remote assets, and enabling novel applications in a connected world.

### Satellite Segment

The Company's DBS reception products are sold primarily to the two U.S. DBS system operators, Echostar and DirecTV, for incorporation into complete subscription satellite television systems. Prior to fiscal 2008, the Company's overall revenue consisted principally of sales of satellite television outdoor reception equipment for the U.S. DBS industry. As the result of a DBS product performance issue, one of the Company's DBS customers substantially reduced its purchases of the Company's products in fiscal 2008 and the first half of fiscal 2009. During the remainder of fiscal 2009 the Company expects sales volume with this customer to ramp up. However, the Company also expects that sales to the other key DBS customer in fiscal 2009 will be significantly less than sales to this customer in fiscal 2008 due to pricing and competitive pressures. Consequently, Satellite revenue for fiscal 2009 as a whole is expected to be significantly below levels of the past several years.

### Operating Results by Business Segment:

The Company's revenue, gross profit (loss) and operating income (loss) by business segment are as follows:

#### REVENUE BY SEGMENT

Segment	Three Months Ended August 31,				Six Months Ended August 31,			
	2008		2007		2008		2007	
	\$000s	% of Total	\$000s	% of Total	\$000s	% of Total	\$000s	% of Total
Satellite	\$ 3,176	13.6%	\$ 9,851	30.2%	\$10,817	21.1%	\$32,882	41.6%
Wireless DataCom	20,132	86.4%	22,817	69.8%	40,392	78.9%	46,179	58.4%

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Total	----- \$23,308 =====	----- 100.0% =====	----- \$32,668 =====	----- 100.0% =====	----- \$51,209 =====	----- 100.0% =====	----- \$79,061 =====	----- 100.0% =====
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GROSS PROFIT (LOSS) BY SEGMENT

Segment	Three Months Ended August 31,				Six Months Ended August 31,			
	2008		2007		2008		2007	
	\$000s	% of Total	\$000s	% of Total	\$000s	% of Total	\$000s	% of Total
Satellite	\$ (81)	(1.1%)	\$ (1,835)	(29.1%)	\$ 652	3.9%	\$ (15,751)	