CalAmp Corp.
Form 10-Q
January 04, 2011

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q

(Mark One)

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

For the quarterly period ended November 27, 2010

or

o **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

CALAMP CORP.
(Exact name of Registrant as specified in its Charter)

Delaware	**95-3647070**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1401 N. Rice Avenue Oxnard, California	**93030**
(Address of principal executive offices)	(Zip Code)

(805) 987-9000
(Registrant s telephone number, including area code)

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

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 o No o

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.

Large accelerated filer o	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company þ

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

The number of shares outstanding of the registrant s common stock as of December 31, 2010 was 28,145,485.

TABLE OF CONTENTS

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CALAMP CORP.
CONSOLIDATED BALANCE SHEETS (Unaudited)
(In thousands, except par value)

	November 30, 2010	February 28, 2010
Assets		
Current assets:		
Cash and cash equivalents	$ 4,251	$ 2,986
Accounts receivable, less allowance for doubtful accounts of $267 and $413 at November 30, 2010 and February 28, 2010, respectively	13,049	16,520
Inventories	9,760	10,608
Deferred income tax assets	2,161	2,656
Prepaid expenses and other current assets	5,123	4,720
Total current assets	34,344	37,490
Property, equipment and improvements, net of accumulated depreciation and amortization	1,927	2,055
Deferred income tax assets, less current portion	9,686	10,017
Intangible assets, net	4,287	5,144
Other assets	1,803	2,247
	$ 52,047	$ 56,953
Liabilities and Stockholders Equity		
Current liabilities:		
Bank working capital line of credit	$ 7,299	$ 5,901
Accounts payable	12,257	16,186
Accrued payroll and employee benefits	2,773	2,742
Deferred revenue	5,050	4,740
Other current liabilities	2,953	3,526
Total current liabilities	30,332	33,095
Long-term debt	4,387	4,170
Other non-current liabilities	578	489
Commitments and contingencies		
Stockholders equity:		
Preferred stock, $.01 par value; 3,000 shares authorized; no shares issued or outstanding		
	281	277

Common stock, $.01 par value; 40,000 shares authorized; 28,145 and 27,662 shares issued and outstanding at November 30, 2010 and February 28, 2010, respectively		
Additional paid-in capital	152,586	151,453
Accumulated deficit	(135,251)	(131,665)
Accumulated other comprehensive loss	(866)	(866)
Total stockholders equity	16,750	19,199
	$ 52,047	$ 56,953

See accompanying notes to consolidated financial statements.

Table of Contents

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

	Three Months Ended November 30, 2010	Three Months Ended November 30, 2009	Nine Months Ended November 30, 2010	Nine Months Ended November 30, 2009
Revenues	$ 29,553	$ 30,692	$ 85,389	$ 77,632
Cost of revenues	21,854	24,795	64,199	62,224
Gross profit	7,699	5,897	21,190	15,408
Operating expenses:				
Research and development	2,733	2,726	8,275	8,257
Selling	2,573	2,517	7,870	7,120
General and administrative	1,981	2,753	6,690	8,011
Intangible asset amortization	275	342	857	1,025
Total operating expenses	7,562	8,338	23,692	24,413
Operating income (loss)	137	(2,441)	(2,502)	(9,005)
Non-operating income (expense):				
Interest expense, net	(354)	(243)	(1,090)	(622)
Loss on sale of investment				(1,008)
Other income (expense), net	38	(9)	6	(258)
Total non-operating expense	(316)	(252)	(1,084)	(1,888)
Loss before income taxes	(179)	(2,693)	(3,586)	(10,893)
Income tax benefit		1,374		1,374
Net loss	$ (179)	$ (1,319)	$ (3,586)	$ (9,519)
Basic and diluted loss per share	$ (0.01)	$ (0.05)	$ (0.13)	$ (0.38)
Shares used in computing basic and diluted loss per share	27,321	25,015	27,133	24,931

See accompanying notes to consolidated financial statements.

Table of Contents

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

	Nine Months Ended November 30, 2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (3,586)	$ (9,519)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	1,860	1,906
Stock-based compensation expense	1,559	1,416
Amortization of debt issue costs and discount	402	
Loss on sale of investment		1,008
Deferred tax assets, net	807	
Changes in operating assets and liabilities:		
Accounts receivable	3,471	(739)
Inventories	848	3,588
Prepaid expenses and other assets	(492)	587
Accounts payable	(3,929)	10,187
Accrued liabilities	(453)	(4,519)
Deferred revenue	310	430
Other	9	24
NET CASH PROVIDED BY OPERATING ACTIVITIES	806	4,369
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(884)	(835)
Proceeds from sale of investment		992
Collections on note receivable	348	225
Other		(36)
NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES	(536)	346
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from bank line of credit borrowings	1,398	1,650
Debt repayments		(8,808)
Taxes paid related to net share settlement of vested equity awards	(403)	(123)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	995	(7,281)
EFFECT OF EXCHANGE RATE CHANGES ON CASH		168
Net change in cash and cash equivalents	1,265	(2,398)
Cash and cash equivalents at beginning of period	2,986	6,913

Cash and cash equivalents at end of period	$	4,251	$	4,515

See accompanying notes to consolidated financial statements.

Table of Contents

CALAMP CORP.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
NINE MONTHS ENDED NOVEMBER 30, 2010 AND 2009

NOTE 1 DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business and Basis of Presentation

CalAmp Corp. (CalAmp or the Company) develops and markets wireless communications solutions that deliver data, voice and video for critical networked communications and other applications. The Company s two business segments are Wireless DataCom, which serves utility, governmental and enterprise customers, and Satellite, which focuses on the North American Direct Broadcast Satellite market.

The Company uses a 52-53 week fiscal year ending on the Saturday closest to February 28, which for fiscal 2010 fell on February 27, 2010. The actual interim periods presented in this Form 10-Q ended on November 27, 2010 and November 28, 2009. In the accompanying unaudited consolidated financial statements, the 2010 fiscal year end is shown as February 28 and the interim period end for both years is shown as November 30 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 2010 Annual Report on Form 10-K as filed with the Securities and Exchange Commission on May 6, 2010.

In the opinion of the Company s management, the accompanying unaudited consolidated financial statements reflect all adjustments (consisting of normal recurring adjustments) considered necessary to present fairly the Company s financial position at November 30, 2010 and its results of operations for the three and nine months ended November 30, 2010 and 2009. The results of operations for such periods are not necessarily indicative of results to be expected for the full fiscal year.

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

Certain amounts in the financial statements of the prior year have been reclassified to conform to the fiscal 2011 presentation with no effect on net earnings.

Disclosures About Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate:

Cash and cash equivalents, accounts receivable and accounts payable The carrying amount is a reasonable estimate of fair value given the short maturity of these instruments.

Debt The estimated fair value of the Company s bank debt approximates the carrying value of such debt because the interest rate is variable and is market-based. The estimated fair value of the Company s 12% subordinated promissory notes due December 22, 2012 approximates the carrying value of this debt, such carrying value consisting of the $5 million face amount of the notes less a debt discount comprised of the unamortized fair value of the stock purchase warrants that were issued with the notes.

Table of Contents

NOTE 2 INVENTORIES

Inventories consist of the following (in thousands):

	November 30, 2010	February 28, 2010
Raw materials	$ 8,334	$ 9,483
Work in process	99	209
Finished goods	1,327	916
	$ 9,760	$ 10,608

NOTE 3 INTANGIBLE ASSETS

Intangible assets are comprised as follows (in thousands):

		November 30, 2010			February 28, 2010		
	Amortization Period	Gross Carrying Amount	Accum-ulated Amortiz-ation	Net	Gross Carrying Amount	Accum-ulated Amortiz-ation	Net
Developed/core technology	5-7 years	$ 3,101	$ 1,607	$ 1,494	$ 3,101	$ 1,054	$ 2,047
Customer lists	5-7 years	1,339	744	595	1,339	475	864
Covenants not to compete	4-5 years	138	96	42	138	66	72
Patents	4-5 years	39	13	26	39	8	31
Tradename	Indefinite	2,130		2,130	2,130		2,130
		$ 6,747	$ 2,460	$ 4,287	$ 6,747	$ 1,603	$ 5,144

Amortization expense of intangible assets was $275,000 and $342,000 for the three months ended November 30, 2010 and 2009, respectively, and was $857,000 and $1,025,000 for the nine-month periods then ended. All intangible asset amortization expense was attributable to the Wireless DataCom business.

Estimated future amortization expense for the fiscal years ending February 28 is as follows (in thousands):

2011 (remainder)	$ 276
2012	$ 973
2013	$ 749
2014	$ 159

NOTE 4 FINANCING ARRANGEMENTS

Bank Working Capital Line of Credit

On December 22, 2009, the Company entered into a Loan and Security Agreement (the Loan Agreement) with Square 1 Bank. This revolving credit facility has a two-year term and provides for borrowings up to the lesser of $12 million or 85% of the Company s eligible accounts receivable. Outstanding borrowings under this facility bear interest at Square 1 Bank s prime rate plus 2.0%, subject to minimum interest of 6.0% per annum or $20,000 per month, whichever is greater. Interest is payable on the last day of each calendar month. Outstanding borrowings on the revolver at November 30, 2010 and February 28, 2010 amounted to $7,299,000 and $5,901,000, respectively. At November 30, 2010 and February 28, 2010, the effective interest rate on the revolver was 6.0%.

The Loan Agreement contains a financial covenant that requires the Company to maintain minimum levels of earnings before interest, income taxes, depreciation, amortization and other noncash charges (EBITDA) on a rolling six-month basis. The Loan Agreement also provides for a number of customary events of default, including a provision that a material adverse change constitutes an event of default that permits the lender, at its option, to accelerate the loan. Among other provisions, the Loan Agreement requires a lock-box and cash collateral account whereby cash remittances from the Company s customers are directed to the cash collateral account and which amounts are applied to reduce the revolving loan principal balance. Borrowings under the Loan Agreement are secured by substantially all of the assets of the Company and its domestic subsidiaries. The Company is in compliance with the EBITDA covenant at November 30, 2010. In December 2010, the Loan Agreement was amended to set new minimum EBITDA levels for the covenant for the period from December 2010 through February 2012.

Table of Contents

Long-Term Debt

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

	November 30, 2010	February 28, 2010
Subordinated promissory notes due December 22, 2012	$ 5,000	$ 5,000
Less unamortized discount	(613)	(830)
	$ 4,387	$ 4,170

On December 22, 2009 and January 15, 2010, the Company raised a total of $5,000,000 from the issuance of subordinated debt (the Subordinated Notes), including $325,000 of Subordinated Notes that were sold to three investors affiliated with the Company. The Subordinated Notes bear interest at 12% per annum and have a maturity date of December 22, 2012. Interest is payable semiannually on the last banking day of June and December, and all Subordinated Note principal is payable at the maturity date. The discount on long-term debt represents the unamortized fair value of the warrants issued to the holders of the promissory notes in the original amount of $870,000. The fair value was estimated using the Black-Scholes option pricing model. This discount is being amortized on a straight-line basis to interest expense over the three-year term of the Subordinated Notes.

The Company also incurred debt issue costs of $543,000 on the Square 1 Bank credit facility and the Subordinated Notes. These costs are being amortized on a straight-line basis to interest expense over an average period of approximately 2.8 years. These debt issue costs, net of amortization, are included in Other Assets in the consolidated balance sheets at November 30, 2010 and February 28, 2010.

NOTE 5 INCOME TAXES

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 tax assets and a valuation allowance is provided, as necessary. 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 assets to determine if a valuation allowance is needed.

In fiscal 2008, the Company adopted the provisions of ASC 740, Income Taxes (formerly FIN 48, Accounting for Uncertainty in Income Taxes An Interpretation of FASB Statement No. 109) (ASC 740), which clarifies the accounting for income taxes by prescribing a minimum recognition threshold that a tax position is required to meet before being recognized in the financial statements. ASC 740 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. Management determined based on its evaluation of the Company s income tax positions that it has one uncertain tax position relating to federal research and development (R&D) tax credits of $1.3 million at November 30, 2010 and February 28, 2010 for which the Company has not recognized an income tax benefit for financial reporting purposes. Assuming these tax benefits were recognized at the present time, such amount would be offset by an equal increase in the deferred income tax valuation allowance because the Company has recorded a full valuation allowance against its recognized federal R&D tax credits due to uncertainty as to future realization. The fully reserved recognized federal R&D tax credit balance as of November 30, 2010 and February 28, 2010 was $2.5 million.

The Company files income tax returns in the U.S. federal jurisdiction, various states and foreign jurisdictions. Income tax returns filed for fiscal years 2005 and earlier are not subject to examination by U.S. federal and state tax authorities. Certain income tax returns for fiscal years 2006 through 2010 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 2007 through 2010 remain open to examination by Canada federal and Quebec provincial tax authorities. The Company believes that it has made adequate provision for all income tax obligations pertaining to these open tax years.

At November 30, 2010, the Company had net deferred income tax assets of $11,847,000. The current portion of the deferred tax assets is $2,161,000 and the noncurrent portion is $9,686,000. The net deferred income tax asset balance is comprised of gross deferred tax assets of $53.9 million and a valuation allowance of $42.1 million.

In August 2010, the Company received $807,000 as a recovery of U.S. federal income taxes paid in the five years preceding its fiscal year 2008. The Worker, Homeownership, and Business Assistance Act of 2009 (WHBAA) provided for a Net Operating Loss (NOL) carryback of up to five years for NOLs incurred in taxable years beginning or ending in either 2008 or 2009 (but not both). The carryback provision also qualified for Alternative Minimum Tax (AMT). Use of an AMT NOL is limited to 90% of alternative minimum taxable income; however, the WHBAA legislation suspended the 90% limitation on the use of any AMT NOL for the carryback period. Approximately 75% of the $807,000 tax refund relates to federal AMT paid in prior years, and the remainder represents regular federal taxes paid. The $807,000 tax refund was recorded as a reduction of deferred income tax assets.

No tax benefit was recorded during the three and nine-month periods ended November 30, 2010 because the future realizability of such benefit was not considered to be more likely than not. The tax benefit of $1.4 million recognized in the statement of operations for the three- and nine-month periods ended November 30, 2009 was related to the reversal of an uncertain tax position which was resolved. This uncertain tax position reversal was recorded as an income tax benefit because the benefit had been recognized in the applicable income tax returns but had not previously been recognized in the consolidated statement of operations. No other tax benefit was recorded for the three- and nine-month periods ended November 30, 2009 because future realizability of such benefit was not considered to be more likely than not.

NOTE 6 EARNINGS (LOSS) PER SHARE

Basic earnings (loss) per share is computed by dividing net income (loss) 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 then shared in the earnings of the Company. In computing diluted earnings per share, the treasury stock method assumes that outstanding stock options and warrants are exercised and the proceeds are used to purchase common stock at the average market price during the period. Options and warrants 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 was the same amount for both basic and diluted loss per share for all periods presented. Potentially dilutive securities outstanding in the amount of 5,043,000 and 4,261,000 at November 30, 2010 and 2009, respectively, were excluded from the computation of diluted earnings per share because the Company reported a net loss in these periods and the effect of inclusion would be antidilutive (i.e., including such securities would result in a lower loss per share). These potentially dilutive securities consist of options, warrants, restricted stock, and restricted stock units (RSUs).

Table of Contents

NOTE 7 COMPREHENSIVE INCOME (LOSS)

Comprehensive income (loss) is defined as the total of net income (loss) and all non-owner changes in stockholders equity. The following table details the components of comprehensive loss for the three and nine months ended November 30, 2010 and 2009 (in thousands):

	Three Months Ended November 30, 2010	Three Months Ended November 30, 2009	Nine Months Ended November 30, 2010	Nine Months Ended November 30, 2009
Net loss	$ (179)	$ (1,319)	$ (3,586)	$ (9,519)
Foreign currency translation adjustments		(20)		276
Comprehensive loss	$ (179)	$ (1,339)	$ (3,586)	$ (9,243)

NOTE 8 STOCK-BASED COMPENSATION

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

	Three Months Ended November 30, 2010	Three Months Ended November 30, 2009	Nine Months Ended November 30, 2010	Nine Months Ended November 30, 2009
Cost of revenues	$ 40	$ 55	$ 113	$ 103
Research and development	93	85	246	210
Selling	55	39	155	90
General and administrative	367	379	1,045	1,013
	$ 555	$ 558	$ 1,559	$ 1,416

Changes in the Company s outstanding stock options during the nine months ended November 30, 2010 were as follows:

	Number of Options (in 000s)	Weighted Average Option Price
Outstanding at February 28, 2010	2,023	$ 5.82
Granted	186	2.34
Exercised		
Forfeited or expired	(91)	20.23
Outstanding at November 30, 2010	2,118	$ 4.90
Exercisable at November 30, 2010	1,367	$ 6.37

Changes in the Company s restricted stock shares and RSUs during the nine months ended November 30, 2010 were as follows:

	Number of Shares	Weighted

	and RSUs (in 000s)	Average Grant Date Fair Value
Outstanding at February 28, 2010	1,784	$ 2.06
Granted	863	2.34
Vested	(542)	2.14
Forfeited	(50)	1.78