

Edgar Filing: CalAmp Corp. - Form 10-Q

CalAmp Corp.
Form 10-Q
October 11, 2007

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: September 1, 2007

☐ 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, or a non-accelerated filer. (Check one):
Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐

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

The registrant had 23,815,342 shares of Common Stock outstanding as of
October 1, 2007.

Edgar Filing: CalAmp Corp. - Form 10-Q

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	August 31, 2007	February 28, 2007
	-----	-----
Assets		
Current assets:		
Cash and cash equivalents	\$ 8,370	\$ 37,537
Accounts receivable, less allowance for doubtful accounts of \$1,140 and \$347 at August 31, 2007 and February 28, 2007, respectively	24,837	38,439
Inventories	26,987	25,729
Deferred income tax assets	1,817	4,637
Prepaid expenses and other current assets	13,124	7,182
	-----	-----
Total current assets	75,135	113,524
	-----	-----
Property, equipment and improvements, net of accumulated depreciation and amortization	5,952	6,308
Deferred income tax assets, less current portion	6,828	-
Goodwill	100,602	90,001
Other intangible assets, net	27,539	18,643
Other assets	4,550	1,227
	-----	-----
	\$220,606	\$229,703
	=====	=====
Liabilities and Stockholders' Equity		
Current liabilities:		
Current portion of long-term debt	\$ 32,782	\$ 2,944
Accounts payable	14,184	26,186
Accrued payroll and employee benefits	3,194	3,478
Accrued warranty costs	11,449	1,295
Other current liabilities	11,193	2,799
Deferred revenue	5,659	1,935
	-----	-----
Total current liabilities	78,461	38,637
	-----	-----
Long-term debt, less current portion	-	31,314
Deferred income tax liabilities	-	7,451
Other non-current liabilities	4,701	1,050
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; 23,635 and 23,595 shares issued and outstanding at August 31, 2007 and February 28, 2007, respectively	236	236
Additional paid-in capital	140,423	139,175
Retained earnings (accumulated deficit)	(2,735)	13,000
Accumulated other comprehensive loss	(480)	(1,160)
	-----	-----

Edgar Filing: CalAmp Corp. - Form 10-Q

Total stockholders' equity	137,444	151,251
	-----	-----
	\$220,606	\$229,703
	=====	=====

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,	
	2007	2006	2007	2006
Revenues:				
Product sales	\$ 31,383	\$ 54,538	\$ 76,217	\$ 97,492
Service revenues	1,285	91	2,844	94
	-----	-----	-----	-----
Total revenues	32,668	54,629	79,061	97,586
	-----	-----	-----	-----
Cost of revenues:				
Cost of product sales	25,379	41,950	76,219	74,818
Cost of service revenues	974	23	1,913	24
	-----	-----	-----	-----
Total cost of revenues	26,353	41,973	78,132	74,842
	-----	-----	-----	-----
Gross profit	6,315	12,656	929	22,744
	-----	-----	-----	-----
Operating expenses:				
Research and development	3,795	3,613	8,114	6,119
Selling	2,373	2,067	4,642	2,724
General and administrative	3,457	2,600	6,659	4,655
Intangible asset amortization	1,558	1,150	3,302	1,309
Write-off of acquired in-process research and development	-	-	310	6,850
	-----	-----	-----	-----
Total operating expenses	11,183	9,430	23,027	21,657
	-----	-----	-----	-----
Operating income (loss)	(4,868)	3,226	(22,098)	1,087
	-----	-----	-----	-----
Non-operating income (expense):				
Interest income	110	297	289	828
Interest expense	(567)	(636)	(1,190)	(863)
Other, net	(50)	102	(189)	762
	-----	-----	-----	-----
Total non-operating income (expense)	(507)	(237)	(1,090)	727
	-----	-----	-----	-----
Income (loss) from continuing operations before income taxes	(5,375)	2,989	(23,188)	1,814
	-----	-----	-----	-----
Income tax benefit (provision)	2,117	(1,291)	8,985	(3,525)
	-----	-----	-----	-----
Income (loss) from continuing operations	(3,258)	1,698	(14,203)	(1,711)
	-----	-----	-----	-----
Loss from operations of				

Edgar Filing: CalAmp Corp. - Form 10-Q

discontinued segment, net of tax	(180)	(463)	(597)	(31,105)
Loss on sale of discontinued operations, net of tax	(935)	-	(935)	-
Loss on discontinued operations	(1,115)	(463)	(1,532)	(31,105)
Net income (loss)	\$ (4,373)	\$ 1,235	\$ (15,735)	\$ (32,816)
Basic and diluted earnings (loss) per share:				
Income (loss) from continuing operations	\$ (0.14)	\$ 0.07	\$ (0.60)	\$ (0.07)
Loss on discontinued operations	(0.05)	(0.02)	(0.07)	(1.34)
Total basic and diluted earnings (loss) per share	\$ (0.19)	\$ 0.05	\$ (0.67)	\$ (1.41)
Shares used in per share calculations:				
Basic	23,623	23,337	23,612	23,230
Diluted	23,623	23,689	23,612	23,230

See notes to unaudited consolidated financial statements.

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

	Six Months Ended August 31,	
	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (15,735)	\$ (32,816)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	5,201	3,111
Stock-based compensation expense	1,027	1,073
Write-off of in-process research and development	310	6,850
Impairment loss	-	29,848
Excess tax benefit from stock-based compensation expense	(55)	(258)
Deferred tax assets, net	(14,388)	(261)
Loss on sale of discontinued operations, net of tax	935	-
Gain on sale of investment	(331)	-
Changes in operating assets and liabilities:		
Accounts receivable	14,732	(4,139)
Inventories	(774)	1,451
Prepaid expenses and other assets	1,364	(3,517)
Accounts payable	(12,934)	3,853
Accrued liabilities	17,238	(5,237)
Deferred revenue	1,308	(47)
Other	(2)	58

Edgar Filing: CalAmp Corp. - Form 10-Q

NET CASH USED IN OPERATING ACTIVITIES	(2,104)	(31)
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(920)	(1,382)
Proceeds from sale of property and equipment	4	16
Proceeds from sale of discontinued operations	4,000	-
Proceeds from sale of investment	1,045	-
Acquisition of Aircept	(19,315)	-
Acquisition of assets of SmartLink	(7,944)	-
Cash restricted for repayment of debt	(3,309)	-
Acquisition of Dataradio, net of cash acquired	-	(48,038)
Acquisition of assets of TechnoCom product line	-	(2,478)
Proceeds from Vyteck escrow fund distribution	-	480
	-----	-----
NET CASH USED IN INVESTING ACTIVITIES	(26,439)	(51,402)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from long-term debt	-	38,000
Debt repayments	(1,476)	(7,658)
Proceeds from exercise of stock options	157	533
Excess tax benefit from stock-based compensation expense	55	258
	-----	-----
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	(1,264)	31,133
	-----	-----
EFFECT OF EXCHANGE RATE CHANGES ON CASH	640	2
	-----	-----
Net change in cash and cash equivalents	(29,167)	(20,298)
Cash and cash equivalents at beginning of period	37,537	45,783
	-----	-----
Cash and cash equivalents at end of period	\$ 8,370	\$ 25,485
	=====	=====

See notes to unaudited consolidated financial statements.

CALAMP CORP. AND SUBSIDIARIES NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS SIX MONTHS ENDED AUGUST 31, 2007 and 2006

Note 1 - DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

CalAmp Corp. ("CalAmp" or the "Company") is a provider of wireless communications products that enable anytime/anywhere access to critical information, data and entertainment content. CalAmp is a supplier of direct broadcast satellite (DBS) outdoor customer premise equipment to the U.S. satellite television market. The Company also provides wireless data communications solutions for the telemetry and asset tracking markets, private wireless networks, public safety communications, and critical infrastructure and process control applications.

In March 2007, the Company split the Products Division into two separate reporting segments: the Satellite Division and the Wireless DataCom Division. The Satellite Division consists of the Company's DBS business, and the Wireless DataCom Division consists of the remaining businesses of the Products Division, including Dataradio, the TechnoCom Mobile Resource Management (MRM) product line, CalAmp's legacy wireless businesses other than DBS, and the operations of Aircept and SmartLink that were acquired in the fiscal 2008 first quarter, as discussed in Note 2.

The Company uses a 52-53 week fiscal year ending on the Saturday closest

Edgar Filing: CalAmp Corp. - Form 10-Q

to February 28, which for fiscal 2007, a 53-week year, fell on March 3, 2007. Fiscal 2008, a 52-week year, will end on March 1, 2008. The actual six month year-to-date periods ended on September 1, 2007, consisting of 26 weeks of operations, and September 2, 2006, consisting of 27 weeks of operations. The second fiscal quarters ended September 1, 2007 and September 2, 2006 both consisted of 13 weeks of operations. In the accompanying consolidated financial statements, the 2007 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 2007 Annual Report on Form 10-K as filed with the Securities and Exchange Commission on May 17, 2007.

In the opinion of the Company's management, the accompanying consolidated financial statements reflect all adjustments necessary to present fairly the Company's financial position at August 31, 2007 and its results of operations for the six months ended August 31, 2007 and 2006. 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.

The accompanying consolidated statements of operations for the quarter and six months ended August 31, 2006 have been reclassified to present the Solutions Division as a discontinued operation. See Note 2 - Recent Acquisitions and Disposition for further discussion.

Note 2 - RECENT ACQUISITIONS AND DISPOSITION

Aircept -----

On March 16, 2007, the Company acquired Aircept, a wireless vehicle tracking business, from AirIQ Inc., a Canadian company, for cash consideration of \$19 million. The source of funds for the purchase price was the Company's cash on hand. Aircept's business involves the sale of Global Positioning Satellite (GPS) and cellular-based wireless asset tracking products and services to vehicle lenders that specialize in automobile financing for high credit risk individuals. Aircept, which has approximately 35 employees, became part of the Company's new Wireless DataCom Division. Aircept had revenues of approximately \$15 million and a gross profit margin of approximately 35% during its calendar 2006 year.

The Company has not yet obtained all information required to complete the purchase price allocation related to this acquisition. The final allocation will be completed within the current fiscal year. Following is a preliminary purchase price allocation (in thousands):

Purchase price paid in cash	\$19,000
Direct costs of acquisition	315

Total cost of acquisition	19,315
Fair value of net assets acquired:	
Current assets	\$ 3,819
Property and equipment	275
Other assets	55

Edgar Filing: CalAmp Corp. - Form 10-Q

Intangible assets:		
Developed/core technology	\$4,970	
Customer lists	1,730	
Contracts backlog	530	
Covenants not to compete	510	

Total intangible assets		7,740
Current liabilities		(3,909)

Total fair value of net assets acquired		7,980

Goodwill		\$11,335
		=====

The Company paid a premium (i.e., goodwill) over the fair value of the net tangible and identified intangible assets acquired for the following reasons:

- * Aircept is the market leader for this product and the associated services.
- * Aircept offers an end-to-end solution comprised of hardware, hosted application software and wireless data services. This brings core competencies to CalAmp that can be leveraged across other business units.

The goodwill arising from the Aircept acquisition is expected to be deductible for income tax purposes.

Pro forma financial information on this acquisition has not been provided because the effects are not material to the Company's consolidated financial statements.

SmartLink -----

On April 4, 2007, the Company acquired the business and substantially all the assets of SmartLink Radio Networks, a privately-held company, for \$7.9 million cash. The source of funds for the purchase price was the Company's cash on hand. SmartLink provides proprietary interoperable radio communications platforms and integration services for public safety and critical infrastructure applications. Based on a software defined switch, SmartLink's platform provides interoperability without the need to replace the installed base of land mobile radios. SmartLink became part of the Company's new Wireless DataCom Division. SmartLink's operations will be integrated into CalAmp's Dataradio facilities in Montreal, Canada and Atlanta, Georgia.

The Company has not yet obtained all information required to complete the purchase price allocation related to this acquisition. The final allocation will be completed within the current fiscal year. Following is a preliminary purchase price allocation (in thousands):

Purchase price paid in cash	\$ 7,900
Direct costs of acquisition	44

Total cost of acquisition	7,944
Fair value of net assets acquired:	
Current assets	\$ 717
Property and equipment	208
Intangible assets:	
Developed/core technology	\$3,730
Customer lists	910

Edgar Filing: CalAmp Corp. - Form 10-Q

Contracts backlog	740	
In-process research and development ("IPR&D")	310	

Total intangible assets		5,690
Current liabilities		(1,866)

Total fair value of net assets acquired		4,749

Goodwill		\$ 3,195
		=====

The Company paid a premium (i.e., goodwill) over the fair value of the net tangible and identified intangible assets acquired for the following reasons:

- * SmartLink has a competitively positioned unique product for the large public safety mobile voice communications market.
- * SmartLink's public safety mobile voice products and systems are complementary to Dataradio's public safety mobile data communications business.
- * SmartLink's products have historically had relatively high gross margins.

The \$310,000 allocated to IPR&D in the preliminary purchase price allocation above was charged to expense immediately following the acquisition.

The goodwill arising from the SmartLink acquisition is expected to be deductible for income tax purposes.

Pro forma financial information on this acquisition has not been provided because the effects are not material to the Company's consolidated financial statements.

Solutions Division -----

The Company sold the TelAlert software business of the Solutions Division to a privately held company on August 9, 2007 for total consideration of \$9.4 million, consisting of \$4.0 million in cash, a non-interest bearing note with present value of \$2.3 million and preferred stock of the acquirer valued at \$3.1 million. The note is payable in 18 equal monthly installment of \$140,000 commencing on November 9, 2007.

The Company recognized a pre-tax gain of \$2.1 million on the sale of the TelAlert software business. The income tax expense attributable to the gain was \$3.0 million because at the time of sale there was goodwill of \$5.4 million associated with this business that is not deductible for income tax purposes.

The TelAlert software business was the last remaining business of the Solutions Division. Operating results for the Solutions Division have been presented in the accompanying consolidated statements of operations as a discontinued operation, and are summarized as follows (in thousands):

	Three Months Ended August 31,		Six Months Ended August 31,	
	2007	2006	2007	2006
	-----	-----	-----	-----
Revenues	\$ 641	\$2,591	\$ 1,691	\$ 5,947

Edgar Filing: CalAmp Corp. - Form 10-Q

Operating loss	\$ (310)	\$ (423)	\$ (1,005)	\$ (31,605)
Loss from discontinued operations, net of tax	\$ (180)	\$ (463)	\$ (597)	\$ (31,105)

The Solutions Division operating loss in the six months ended August 31, 2006 includes the goodwill impairment charge of \$29,012,000 and intangible assets impairment charge of \$836,000.

Note 3 - INVENTORIES

Inventories include the cost of material, labor and manufacturing overhead, are stated at the lower of cost (determined on the first-in, first-out method) or market, and consist of the following (in thousands):

	August 31, 2007	February 28, 2007
	-----	-----
Raw materials	\$21,439	\$21,256
Work in process	107	505
Finished goods	5,441	3,968
	-----	-----
	\$26,987	\$25,729
	=====	=====

Note 4 - GOODWILL AND OTHER INTANGIBLE ASSETS

As further described in Note 1 and Note 13, in March 2007 the Company split the Products Division into two separate reporting segments: the Satellite Division and the Wireless DataCom Division. The Products Division goodwill balance as of February 28, 2007 was allocated to Satellite Division and Wireless DataCom Division on the basis of the relative fair values of these two new divisions after specifically allocating the goodwill arising from the Dataradio acquisition to the Wireless DataCom Division.

Changes in goodwill of each reporting unit during the six months ended August 31, 2007 are as follows (in thousands):

	Satellite Division	Wireless DataCom Division	Solutions Division	Total
	-----	-----	-----	-----
Balance as of February 28, 2007	\$ 46,619	\$ 37,956	\$ 5,426	\$ 90,001
Goodwill associated with Aircept acquisition	-	11,335	-	11,335
Goodwill associated with SmartLink acquisition	-	3,195	-	3,195
Goodwill associated with TechnoCom acquisition	-	2,205	-	2,205
Adjustment of goodwill associated with Dataradio acquisition	-	(609)	-	(609)
Goodwill associated with discontinued operations	-	-	(5,426)	(5,426)
Other changes	-	(99)	-	(99)
	-----	-----	-----	-----
Balance as of August 31, 2007	\$ 46,619	\$ 53,983	\$ -	\$100,602
	=====	=====	=====	=====

Edgar Filing: CalAmp Corp. - Form 10-Q

The \$2.2 million increase in goodwill associated with the TechnoCom acquisition represents an earn-out amount payable in cash based on the level of sales achieved in the first 12 months following the acquisition in May 2006. The Company made an earn-out payment of \$300,000 during the six months ended August 31, 2007, leaving a balance of \$1.9 million which is included in other accrued liabilities in the consolidated balance sheet at August 31, 2007. The Company intends to pay the balance owed during the next 12 months out of cash flows generated from operations.

Impairment tests of goodwill associated with the Satellite Division and Wireless DataCom Division are conducted annually as of December 31 and, in certain situations, on an interim basis if indicators of impairment arise. 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. Pursuant to this process, management concluded that there is no impairment of goodwill in the current quarter. However, subsequent events may occur and circumstances may change that could result in triggering events and potential impairment of goodwill of a reporting segment.

The annual impairment test of the Solutions Division goodwill is conducted as of April 30. The Company used a market approach to calculate the fair value of the Solutions Division as of April 30, 2007, which resulted in the determination that there was no impairment of the Solutions Division goodwill as of that date. The Company discontinued the operations of the Solutions Division during the second quarter ended August 31, 2007. See Note 2 - Recent Acquisitions and Disposition for further discussion.

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

		August 31, 2007			February 28, 2007		
	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	\$3,110	\$15,473	\$12,992	\$3,816	\$ 9,176
Customer lists	5-7 yrs.	8,313	1,611	6,702	6,680	1,848	4,832
Contracts backlog	1 yr.	3,060	2,333	727	1,790	1,378	412
Covenants not to compete	4-5 yrs.	1,001	244	757	491	148	343
Tradename	N/A	3,880	-	3,880	3,880	-	3,880
		<u>\$34,837</u>	<u>\$7,298</u>	<u>\$27,539</u>	<u>\$25,833</u>	<u>\$7,190</u>	<u>\$18,643</u>

Amortization expense of intangible assets was \$1,558,000 and \$1,150,000 for the three months ended August 31, 2007 and 2006, respectively, and was \$3,302,000 and \$1,309,000 for the six month periods then ended. All intangible asset amortization expense is attributable to the Wireless DataCom Division.

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

2008 (remainder)	\$3,115,000
2009	\$5,053,000

Edgar Filing: CalAmp Corp. - Form 10-Q

2010	\$4,961,000
2011	\$4,438,000
2012	\$4,091,000
Thereafter	\$2,001,000

Note 5 - FINANCING ARRANGEMENTS AND CONTRACTUAL CASH OBLIGATIONS

Bank Credit Facility

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. The credit facility is comprised of a term loan and a \$10 million working capital line of credit.

The Company initially borrowed \$35 million under the term loan and \$3 million under the working capital line of credit. Borrowings are secured by substantially all of the assets of CalAmp Corp. and its domestic subsidiaries. Of the total proceeds of \$38 million, \$7 million was used to pay off the Company's existing loans with U.S. Bank and the remaining \$31 million, plus cash on hand of approximately \$23 million, was used to fund the purchase price for the Dataradio acquisition. In the fiscal 2007 third quarter, the Company repaid in full the \$3 million principal balance of the working capital line of credit. At August 31, 2007, \$2,975,000 of the line of credit was reserved for outstanding irrevocable stand-by letters of credit.

The maturity date of the line of credit is May 26, 2011. The term loan repayment schedule provides that principal is payable in quarterly installments on the last day of March, June, September and December in each year with a final payment of \$8,563,000 on May 26, 2011. However, as a result of the event of default described below, all term loan principal has been classified as a current liability in the accompanying balance sheet at August 31, 2007.

Borrowings under the Credit Agreement bear interest at the Bank of Montreal's prime rate ("Prime Based Loans") plus a margin ranging from 0% to 0.25% (the "Prime Rate Margin") or LIBOR ("LIBOR Based Loans") plus a margin ranging from 0.75% to 1.25% (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. The Credit Agreement also provides that the interest rate on borrowings can be increased by 2.0% during any period in which an event of default exists but at the present time the banks have applied this additional interest only to \$734,000 of the loan balance.

The Credit Agreement contains certain financial covenants and ratios that the Company is required to maintain, including: a total Leverage Ratio of not more than 2.75; total stockholders' equity of not less than the sum of (i) \$140,887,000, (ii) 50% of net income for each fiscal year (excluding years with net losses) and (iii) 50% of net cash proceeds from any issuance of equity; and a fixed charge coverage ratio (earnings before interest, taxes, depreciation and other noncash charges to fixed charges) of not less than 1.50.

The Credit Agreement also includes customary affirmative and negative covenants including, without limitation, negative covenants regarding

Edgar Filing: CalAmp Corp. - Form 10-Q

additional indebtedness, investments, maintenance of the business, liens, guaranties, transfers and sales of assets, and the payment of dividends and other restricted payments. The Credit Agreement also contains certain events of default, including the failure to make timely payments under the Credit Agreement or other material indebtedness and the failure to adhere to certain covenants, that would permit the bank to accelerate borrowings under the Credit Agreement in the event that a default were to occur and not be cured within applicable grace periods.

The net loss of \$11.4 million in the first quarter of fiscal 2008 caused an event of default with respect to the financial covenants under the Credit Agreement that will preclude additional borrowing under the revolving credit facility until the Company is able to obtain a waiver from its lenders and/or an amendment of the credit agreement. The Company has notified its lenders and is in discussions with them to resolve the issue. Because the lenders have the right to call the loans under the Credit Agreement until such time that a waiver is obtained, \$28.9 million of debt previously classified as a long-term liability has been reclassified to current liabilities in the accompanying consolidated balance sheet as of August 31, 2007. As a condition to obtaining the banks' consent to sell the TelAlert software business, the Company placed \$3.3 million of the cash proceeds from the sale of the TelAlert software business in an escrow account controlled by Bank of Montreal as collateral for outstanding borrowings under the Credit Agreement. The restricted cash is included in prepaid expenses and other current assets in the accompanying consolidated balance sheet at August 31, 2007.

Note 6 - 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 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 FASB issued FASB Interpretation No. 48, "Accounting for Income Tax Uncertainties" ("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 at the beginning of the fiscal 2008 first quarter. As a result of adopting FIN 48, the Company: (i) increased deferred income tax assets and income taxes payable by \$5.0 million each; and (ii) increased income taxes receivable and reduced goodwill by \$609,000 each. After giving effect to the adoption of FIN 48, the balance of unrecognized tax benefits totaled \$5.9 million. If and when recognized, \$2.1 million of unrecognized tax benefits would be recorded as a reduction in income tax expense and \$3.8 million would be recorded as a reduction in goodwill.

Estimated interest and penalties related to the underpayment of income

Edgar Filing: CalAmp Corp. - Form 10-Q

taxes are classified as a component of interest expense in the consolidated statement of 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 1999 and earlier are not subject to examination by U.S. federal, state and foreign tax authorities. Certain income tax returns for fiscal years 2000 through 2007 remain open to examination by U.S. federal, state or foreign tax authorities. The Company believes that it has made adequate provision for all income tax uncertainties pertaining to these open tax years.

At August 31, 2007, the Company had an aggregate deferred tax asset balance of \$8,645,000. The current portion of the deferred tax asset is \$1,817,000 and the noncurrent portion is \$6,828,000.

Income tax expense (benefit) allocated to income (loss) from continuing operations for the six months ended August 31, 2007 and 2006 was \$(8,985,000) and \$3,525,000, respectively. Income tax expense (benefit) allocated to income (loss) from discontinued operations for the six months ended August 31, 2007 and 2006 was \$2,617,000 and \$(893,000), respectively. The effective income tax rate on income (loss) from continuing operations was 39% and 194% in the six months ended August 31, 2007 and 2006, respectively. Excluding the IPR&D write-off of \$6,850,000 that is not deductible for income tax purposes, the effective income tax rate for the six months ended August 31, 2006 was 41%.

Note 7 - 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 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 were the same for all periods presented, except for the three months ended August 31, 2006 because the Company reported income from continuing operations in the three months ended August 31, 2006. Stock options outstanding at August 31, 2007 and 2006 were excluded from the computation of diluted earnings per share for the 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 8 - 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 income (loss) for the three and six months ended August 31, 2007 and 2006 (in thousands):

Edgar Filing: CalAmp Corp. - Form 10-Q

	Three Months Ended August 31,		Six Months Ended August 31,	
	2007	2006	2007	2006
Net income (loss)	\$ (4,373)	\$ 1,235	\$ (15,735)	\$ (32,816)
Foreign currency translation adjustments	28	(112)	725	-
Reclassification of gain on investment included in earnings	-	-	(45)	2
Comprehensive loss	\$ (4,345)	\$ 1,123	\$ (15,055)	\$ (32,814)

Note 9 - 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,	
	2007	2006	2007	2006
Cost of revenues	\$ 21	\$ 75	\$ 42	\$ 105
Research and development	65	117	125	158
Selling	78	62	148	106
General and administrative	377	399	712	704
	\$ 541	\$ 653	\$ 1,027	\$ 1,073

Changes in the Company's outstanding stock options during the six months ended August 31, 2007 were as follows:

	Number of Options (000s)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at February 28, 2007	2,461	\$10.33		
Granted	355	\$ 4.46		
Exercised	(40)	\$ 3.92		
Forfeited or expired	(308)	\$12.07		
Outstanding at August 31, 2007	2,468	\$ 9.37	6.7 years	\$ 289,000
Exercisable at August 31, 2007	1,522	\$10.31	5.3 years	\$ 289,000

Changes in the Company's nonvested restricted stock and restricted stock units during the six months ended August 31, 2007 were as follows (in thousands except dollar amounts):

Number of Shares	Weighted Average Fair Value
---------------------	-----------------------------------

Edgar Filing: CalAmp Corp. - Form 10-Q

Outstanding at February 28, 2007	20	\$ 6.51
Granted	330	4.28
Vested	(20)	6.51
Forfeited	(8)	4.28

Outstanding at August 31, 2007	322	\$ 4.28
	=====	

As of August 31, 2007, there was \$6.2 million of total unrecognized stock-based compensation cost related to nonvested stock options and nonvested restricted stock and restricted stock units. That cost is expected to be recognized as expense over a weighted-average remaining vesting period of 2.8 years.

Note 10 - 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 which accounted for 10% or more of consolidated revenues for the three and six months ended August 31, 2007 or 2006, as a percent of consolidated revenues, are as follows:

Customer	Three Months Ended August 31,		Six Months Ended August 31,	
	2007	2006	2007	2006
A	3.1%	50.9%	16.5%	55.2%
B	26.1%	16.1%	24.2%	14.2%
C	13.0%	4.6%	15.6%	5.9%

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, 2007	February 28, 2007
A	9.1%	30.6%
B	16.6%	24.4%
C	18.5%	16.4%

Customers A and B are customers of the Company's Satellite Division. Customer C is a customer of the Company's Wireless DataCom Division. See Note 14 for discussion of relationship with a key DBS customer.

Note 11 - 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 warranty liability for the six months ended August 31, 2007 and 2006 is as follows (in thousands):

Edgar Filing: CalAmp Corp. - Form 10-Q

	Six months ended August 31,	
	2007	2006
Balance at beginning of period	\$ 1,295	\$ 477
Charged to costs and expenses	14,032	679
Deductions	(693)	(630)
Balance at end of period	\$14,634	\$ 526

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 product performance issues involving a DBS customer, as further described in Note 14. The warranty reserve at August 31, 2007 includes \$14.2 million that is associated with these DBS product performance issues. The cash impact of the remaining warranty reserve is anticipated to occur over the next two or more years. At August 31, 2007, \$3,185,000 of the warranty liability that is expected to be paid beyond 12 months is included in other non-current liabilities in the accompanying consolidated balance sheet.

Note 12 - OTHER FINANCIAL INFORMATION

"Net cash provided by operating activities" in the consolidated statements of cash flows includes cash payments for interest and income taxes as follows (in thousands):

	Six months ended August 31,	
	2007	2006
Interest paid	\$1,143	\$ 813
Income taxes paid (net refunds received)	\$ (638)	\$ 600

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

	Six months ended August 31,	
	2007	2006
Company common stock issued from escrow fund as additional purchase consideration for the 2004 Vytex acquisition	\$ -	\$ 2,052
Consideration for the sale of TelAlert software business of the Solutions Division:		
Note receivable	\$ 2,298	\$ -
Fair value of preferred stock	\$ 3,137	\$ -

Note 13 - SEGMENT INFORMATION

As described in Note 1, the Company changed the structure of its

Edgar Filing: CalAmp Corp. - Form 10-Q

reporting segments at the beginning of the fiscal 2008 first quarter. The Products Division was split into the Satellite Division and Wireless DataCom Division. This new structure is consistent with how management evaluates the performance of its operations. This new structure also provides greater focus on CalAmp's growing wireless data communications business. The Company assigned the assets and liabilities of the Products Division to these two new reporting segments on a specific identification basis, except that goodwill associated with the Products Division was allocated to these two new segments by using the relative fair value allocation approach. The fair value of each reporting segment was determined using the discounted cash flow approach. This change in reporting segments triggered an impairment test of the allocated goodwill of the two new segments as of the beginning of the fiscal 2008 first quarter. The results of the impairment test indicated no impairment of goodwill at that time.

Segment information for the three and six months ended August 31, 2007 and 2006 is as follows (dollars in thousands):

	Three months ended August 31, 2007				Three months ended August 31, 2006			
	Operating Segments				Operating Segments			
	Satellite Division	Wireless DataCom	Corporate	Total	Satellite Division	Wireless DataCom	Corporate	Total
Revenues	\$ 9,851	\$ 22,817		\$ 32,668	\$ 38,955	\$ 15,674		\$ 54,629
Gross profit (loss)	\$ (1,835)	\$ 8,150		\$ 6,315	\$ 6,123	\$ 6,533		\$ 12,656
Gross margin	(18.6%)	35.7%		19.3%	15.7%	41.7%		23.1%
Operating income (loss)	\$ (3,064)	\$ (500)	\$ (1,304)	\$ (4,868)	\$ 4,425	\$ 330	\$ (1,529)	\$ 3,226

	Six months ended August 31, 2007				Six months ended August 31, 2006			
	Operating Segments				Operating Segments			
	Satellite Division	Wireless DataCom	Corporate	Total	Satellite Division	Wireless DataCom	Corporate	Total
Revenues	\$ 32,882	\$ 46,179		\$ 79,061	\$ 73,046	\$ 24,540		\$ 97,586
Gross profit (loss)	\$ (15,751)	\$ 16,680		\$ 929	\$ 13,047	\$ 9,697		\$ 22,744
Gross margin	(47.9%)	36.1%		1.2%	17.9%	39.5%		23.1%
Operating income (loss)	\$ (18,295)	\$ (1,146)	\$ (2,657)	\$ (22,098)	\$ 9,658	\$ (5,760)	\$ (2,811)	\$ 1,087

Edgar Filing: CalAmp Corp. - Form 10-Q

The Satellite Division'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 14.

The Wireless DataCom Division operating loss of \$5.8 million in the six months ended August 31, 2006 includes a charge of \$6.9 million to write-off in-process research and development costs associated with the Dataradio acquisition. Amortization expense of intangible assets related to the Wireless DataCom Division was \$1.6 million and \$1.2 million for the three months ended August 31, 2007 and 2006, respectively, and was \$3.3 million and \$1.3 million for the six month periods then ended.

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 executive officers other than division presidents, other corporate staff, and corporate expenses such as audit fees, investor relations, stock listing fees, director and officer liability insurance, and director fees and expenses.

Note 14 - COMMITMENTS AND CONTINGENCIES

Product Performance Issues with Key DBS Customer

During fiscal 2007, the Company received notification from one of its DBS customers of field performance issues with a DBS product that the Company began shipping in September 2004. After examining the various component parts used in the manufacture of these products, it was determined by the Company that the performance issue was the result of a deterioration of the printed circuit board (PCB) laminate material used in these products.

During fiscal 2007, the DBS customer returned approximately 250,000 units to the Company for analysis and rework. An additional 560,000 units have been returned by this customer subsequent to fiscal 2007, and it is likely that additional units will be returned to the Company in the future. In addition to returning product, in late May 2007 this DBS customer put on hold all orders for CalAmp products, including newer generation products, pending the requalification of all products manufactured by the Company for this customer.

During the fiscal 2007 fourth quarter, CalAmp increased its accrued warranty costs by \$500,000 for this matter. This amount was predicated on the customer accepting a planned corrective action procedure that CalAmp had developed for existing and projected future product returns. Under this planned corrective action, CalAmp expected that the field performance issue could be resolved by retuning the circuitry as a lower cost alternative to replacing certain parts and materials.

Prior to the issuance of its financial statements for the fiscal 2008 first quarter, the Company learned that the DBS customer would not accept the Company's proposed rework approach for the previous generation products that involved retuning the circuitry. This led the Company to conclude that certain parts, including the radio frequency board assembly, would need to be replaced, which is a significantly more costly process. As a result, the Company recorded a charge of \$16.3 million in the quarter ended May 31, 2007 to increase reserves for this matter. These additional reserves encompass activities such as:

Edgar Filing: CalAmp Corp. - Form 10-Q

- * Extending corrective measures to cover all products returned within three years of initial shipment that utilize the aforementioned laminate;
- * Performing substantial corrective measures on older generation products by replacing the PCB material and components; and
- * Reserving for materials that are expected to be unusable.

The \$16.3 million charge in the quarter ended May 31, 2007 and resulting loss for that quarter caused an event of default with respect to the financial covenants under the Company's bank credit agreement, as discussed further in Note 5. During the quarter ended August 31, 2007 the Company recorded an additional \$1.5 million charge related to this matter. The aggregate charge of \$17.8 million is included in cost of revenues for the six months ended August 31, 2007. Of this amount, approximately \$2.6 million is a reduction of inventories, approximately \$1.5 million is an increase in other accrued liabilities, and the remainder is an increase in accrued warranty costs. The Company is still in discussions with this customer working towards resolution of this matter, and expects that it will soon achieve that resolution and resume making shipments to this customer.

Other Contingencies

A lawsuit was filed against the Company on September 15, 2006 by CN Capital, the seller of the assets of Skybility which the Company acquired in April 2005. The lawsuit contends that the Company owes CN Capital approximately \$1.6 million under the earn-out provision of the Skybility Asset Purchase Agreement dated April 18, 2005. On February 26, 2007, the Company filed a cross-complaint against CN Capital for breach of contract, negligent interference with prospective economic advantage, and contract rescission. The Company believes the lawsuit filed by CN Capital is without merit and intends to vigorously defend against this action. No loss accrual has been made in the accompanying financial statements for this matter.

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

Edgar Filing: CalAmp Corp. - Form 10-Q

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 1 to the accompanying consolidated financial statements, the Company's customer base is quite concentrated, with three customers accounting for 56% of the Company's total revenue for the six months ended August 31, 2007 and 44% of the Company's net accounts receivable balance as of August 31, 2007. Changes in either a key customer's financial position, or the economy as a whole, could cause actual write-offs to be 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 under Results of Operations below, the Company recorded a charge of \$17.8 million for the six months ended August 31, 2007 that represents management's best estimate of additional costs and expenses associated with warranty repairs, inventory modifications and reserving for materials that are expected to be unusable to resolve a product performance issue with a key DBS customer. Of this amount, approximately \$2.6 million is a reduction of inventories, approximately \$1.5 million is an increase in other accrued liabilities, and the remainder is an increase in accrued warranty costs.

Product Warranties

The Company 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 under Results of Operations below, the Company recorded a charge of \$17.8 million for the six months ended August 31, 2007 that represents management's best estimate of additional costs and expenses associated with warranty repairs, inventory modifications and reserving for materials that are expected to be unusable to resolve a product performance issue with a key DBS customer. Of this amount, approximately \$13.7 million represents an increase in the warranty reserve for this matter.

Deferred Income Taxes and Uncertain Tax Positions

Deferred income taxes reflect the net tax effects of temporary

Edgar Filing: CalAmp Corp. - Form 10-Q

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 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 evidence 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 Income Tax Uncertainties" ("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 at the beginning of the fiscal 2008 first quarter. As a result of adopting FIN 48, as of the end of the fiscal 2008 first quarter the Company: (i) increased deferred income tax assets and income taxes payable by \$5.0 million each; and (ii) increased income taxes receivable and reduced goodwill by \$609,000 each.

At August 31, 2007, the Company had an aggregate deferred tax asset balance of \$8,645,000. The current portion of the deferred tax asset is \$1,817,000 and the noncurrent portion is \$6,828,000.

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

At August 31, 2007, the Company had \$100.6 million in goodwill and \$27.5 million in net purchased intangible assets on its 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 purchased 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 Division and Wireless DataCom Division 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. Pursuant to this process, management concluded that there is no impairment of goodwill in the current quarter. However, subsequent events may occur and circumstances may change that could result in triggering events and potential impairment of goodwill of a reporting segment.

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.

Edgar Filing: CalAmp Corp. - Form 10-Q

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 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.

As a result of the Solutions Division goodwill impairment test conducted as of April 30, 2006, the Company recorded impairment charges on goodwill and other intangible assets of the Solutions Division of \$29,012,000 and \$836,000, respectively, in the first quarter of fiscal 2007. The Solutions Division goodwill impairment test conducted as of April 30, 2007, which utilized a market-based approach to determine fair value, indicated that no impairment existed as of that date. The Company sold the TelAlert software business of the Solutions Division in August 2007 which resulted in the discontinuance of the operations of the Solutions Division. See Note 2 - Acquisitions and Disposition for further discussion.

Recent Authoritative Pronouncements

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements." This statement defines fair value, establishes a framework for using fair value to measure assets and liabilities, and expands disclosures about fair value measurements. The statement applies whenever other statements require or permit assets or liabilities to be measured at fair value. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. The Company is currently determining the effect, if any, this pronouncement will have on its financial statements.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities". SFAS No. 159 permits entities to choose to measure, on an item-by-item basis, specified financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected are required to be reported in earnings at each reporting date. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007, the provisions of which are required to be applied prospectively. The Company is currently determining the effect, if any, this pronouncement will have on its financial statements.

RESULTS OF OPERATIONS

Basis of presentation:

The Company uses a 52-53 week fiscal year ending on the Saturday closest to February 28, which for fiscal 2007, a 53-week year, fell on March 3, 2007. Fiscal 2008, a 52-week year, will end on March 1, 2008. The actual six month year-to-date periods ended on September 1, 2007, consisting of 26 weeks of operations, and September 2, 2006, consisting of 27 weeks of operations. The second fiscal quarters ended September 1, 2007 and September 2, 2006 both consisted of thirteen weeks of operations. In the accompanying consolidated financial statements, the fiscal 2007 year end is shown as

Edgar Filing: CalAmp Corp. - Form 10-Q

February 28 and the interim period end for both years is shown as August 31 for clarity of presentation.

Overview:

CalAmp is a provider of wireless communications products that enable anytime/anywhere access to critical information, data and entertainment content. CalAmp is a supplier of direct broadcast satellite (DBS) outdoor customer premise equipment to the U.S. satellite television market. The Company also provides wireless data communications solutions for the telemetry and asset tracking markets, private wireless networks, public safety communications, and critical infrastructure and process control applications.

The Company's DBS reception products are sold primarily to the two U.S. DBS system operators, EchoStar Communications Corporation and DirecTV Group Inc., for incorporation into complete subscription satellite television systems. The Company sells its other wireless access products directly to system operators as well as through distributors and system integrators.

On May 26, 2006 the Company acquired privately held Dataradio Inc., a leading supplier of proprietary advanced wireless data systems, products, and solutions for public safety, critical infrastructure and industrial control applications, for a cash payment of Canadian \$60.1 million, or U.S. \$54.3 million at the effective exchange rate. In connection with the acquisition of Dataradio, the Company recorded a charge of \$6,850,000 to write-off in-process research and development costs of the acquired business as part of the purchase price allocation.

Also on May 26, 2006, the Company acquired the mobile-resource management (MRM) product line from privately held TechnoCom Corporation for \$2.4 million in cash and an earn-out payment equal to revenues in excess of \$3,100,000 during the 12-month period following the acquisition. Pursuant to this provision, the Company has made earn-out payments of \$300,000 and accrued an additional earn-out payment liability of approximately \$1.9 million, which is included in other accrued liabilities in the consolidated balance sheet as of August 31, 2007. The Company intends to pay the balance owed during the next 12 months out of cash flows generated from operations.

In March 2007, the Company split the Products Division into two separate reporting segments: the Satellite Division and the Wireless DataCom Division. The Satellite Division consists of the Company's DBS business, and the Wireless DataCom Division consists of the remaining businesses of the Products Division, including Dataradio, the MRM product line, CalAmp's legacy wireless businesses other than DBS, and the operations of Aircept and SmartLink that were acquired in the fiscal 2008 first quarter, as discussed below. Segment information presented in this Form 10-Q for the six months ended August 31, 2006 has been reclassified to present information on this new reporting segment basis. The Solutions Division, for which the remaining operations were sold in August 2007, is presented as a discontinued operation in the accompanying consolidated statements of operations.

On March 16, 2007, the Company acquired Aircept, a vehicle tracking business, from AirIQ Inc., a Canadian company, for cash consideration of \$19 million. The source of funds for the purchase price was the Company's cash on hand. Aircept's business involves the sale of Global Positioning Satellite (GPS) and cellular-based wireless asset tracking products and services to vehicle lenders that specialize in automobile financing for high credit risk individuals. The results of operations of Aircept are included in the Company's Wireless DataCom reporting segment for the 24-week period from date of acquisition to the end of the fiscal 2008 second quarter. During this period Aircept generated revenues of \$6.1 million and

Edgar Filing: CalAmp Corp. - Form 10-Q

gross profit of approximately \$1.2 million.

On April 4, 2007, the Company acquired the business and substantially all the assets of SmartLink Radio Networks, a privately-held company, for \$7.9 million cash. The source of funds for the purchase price was the Company's cash on hand. SmartLink provides proprietary interoperable radio communications platforms and integration services for public safety and critical infrastructure needs. Based on a software defined switch, SmartLink's platform provides interoperability without the need to replace the installed base of land mobile radios. SmartLink is currently in the process of deploying its platform for several important customers including Solano County, Calif., the U.S. Department of Justice in San Francisco and Grand Bahama Power Company. Depending on the size and scope of a deployment, a SmartLink system sale generates revenues in the range of one hundred thousand dollars to several million dollars. The results of operations of SmartLink are included in the Company's Wireless DataCom reporting segment for the 22-week period from date of acquisition to the end of the fiscal 2008 second quarter. During this period SmartLink generated revenues of \$492,000 and gross profit of \$67,000.

Solutions Division

The Company sold the TelAlert software business of the Solutions Division to a privately held company on August 9, 2007 for total consideration of \$9.4 million, consisting of \$4.0 million in cash, a non-interest bearing note with present value of \$2.3 million and preferred stock of the acquirer valued at \$3.1 million. The note is payable in 18 equal monthly installment of \$140,000 commencing on November 9, 2007.

The Company recognized a pre-tax gain of \$2.1 million on the sale of the TelAlert software business. The income tax expense attributable to the gain was \$3.0 million because at the time of sale there was goodwill of \$5.4 million associated with this business that is not deductible for income tax purposes.

The TelAlert software business was the remaining business of the Solutions Division. Operating results for the Solution Division have been presented in the accompanying consolidated statements of operations as a discontinued operation, as further described in Note 2 to the accompanying unaudited consolidated financial statements.

Product Performance Issues with Key DBS Customer:

During fiscal 2007, the Company received notification from one of its DBS customers of a field performance issue with a DBS product that the Company began shipping in September 2004. After examining the various component parts used in the manufacture of these products, it was determined by the Company that the performance issue was the result of a deterioration of the printed circuit board (PCB) laminate material used in these products.

In March 2007, the Company learned that the DBS customer had awarded its orders for future requirements of this product beginning June 2007 to other suppliers. The Company believes that the field performance issue was the primary reason for the loss of this business. The Company has continued to work with the customer to mitigate the impact of this performance issue and to identify and implement a corrective action plan.

From the time the problem was isolated to the PCB laminate material until March 2007, the Company worked with the supplier of the laminate material and with the DBS customer to identify a corrective action. Notwithstanding these efforts, on March 26, 2007 the laminate supplier filed

Edgar Filing: CalAmp Corp. - Form 10-Q

a Complaint for Declaratory Relief in the State of Massachusetts in which it claimed that it is not responsible for the field performance issue of these DBS products.

On May 16, 2007, the Company filed a lawsuit against the PCB laminate supplier in the U.S. District Court for the Central District of California for negligence, strict product liability, intentional misrepresentation and negligent interference with prospective economic advantage, among other causes of action. CalAmp expects to vigorously pursue all legal options to recover its damages from that supplier.

During fiscal 2007, the DBS customer returned approximately 250,000 units to the Company for analysis and rework. An additional 560,000 units have been returned by this customer subsequent to fiscal 2007, and it is likely that additional units will be returned to the Company in the future. In addition to returning product, in late May 2007 this DBS customer put on hold all orders for CalAmp products, including newer generation products, pending the requalification of all products manufactured by the Company for this customer.

During the fiscal 2007 fourth quarter, CalAmp increased its accrued warranty costs by \$500,000 for this matter. This amount was predicated on the customer accepting a planned corrective action procedure for the previous generation products that CalAmp had developed for existing and projected future product returns. Under this planned corrective action, CalAmp expected that the field performance issue could be resolved by retuning the circuitry as a lower cost alternative to replacing certain parts and materials.

Prior to the issuance of its financial statements for the fiscal 2008 first quarter, the Company learned that the DBS customer would not accept the Company's proposed rework approach for the previous generation products that involved retuning the circuitry. This led the Company to conclude that certain parts, including the radio frequency board assembly, would need to be replaced, which is a significantly more costly process. As a result, the Company recorded a charge of \$16.3 million in the quarter ended May 31, 2007 to increase the reserves for this matter. The resulting loss caused an event of default with respect to the financial covenants under the Company's bank credit agreement, as discussed further under Liquidity and Capital Resources below. During the quarter ended August 31, 2007, the Company recorded an additional \$1.5 million charge related to this matter. At August 31, 2007, the Company has reserves in the aggregate amount of \$18.2 million for this matter, of which \$2.5 million represents inventory reserves.

While the Company believes that \$17.8 million is the best estimate of the additional expenses necessary to resolve this matter based on the facts and circumstances of which the Company is currently aware, no assurances can be given that the final charges will not materially increase from the current estimate. The cash impact of these reserves is anticipated to occur over the next two or more years.

The Company is still in discussions with this customer working towards resolution of this matter, and expects that it will soon achieve that resolution and resume making shipments to this customer.

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

Edgar Filing: CalAmp Corp. - Form 10-Q

Division	Three Months Ended August 31,				Six Months Ended August 31,			
	2007		2006		2007		2006	
	\$000s	% of	\$000s	% of	\$000s	% of	\$000s	% of
		Total		Total		Total		Total
Satellite	\$ 9,851	30.2%	\$38,955	71.3%	\$32,882	41.6%	\$73,046	74.9%
Wireless DataCom	22,817	69.8%	15,674	28.7%	46,179	58.4%	24,540	25.1%
Total	\$32,668	100.0%	\$54,629	100.0%	\$79,061	100.0%	\$97,586	100.0%
	=====	=====	=====	=====	=====	=====	=====	=====

GROSS PROFIT (LOSS) BY SEGMENT

Division	Three Months Ended August 31,				Six Months Ended August 31,			
	2007		2006		2007		2006	
	\$000s	% of	\$000s	% of	\$000s	% of	\$000s	% of
		Total		Total		Total		Total
Satellite	\$ (1,835)	(29.1%)	\$ 6,123	48.4%	\$ (15,751)	(1,695.5%)	\$13,047	57.4%
Wireless DataCom	8,150	129.1%	6,533	51.6%	16,680	1,795.5%	9,697	42.6%
Total	\$ 6,315	100.0%	\$12,656	100.0%	\$ 929	100.0%	\$22,744	100.0%
	=====	=====	=====	=====	=====	=====	=====	=====

OPERATING INCOME (LOSS) BY SEGMENT

Division	Three Months Ended August 31,				Six Months Ended August 31,			
	2007		2006		2007		2006	
	\$000s	% of	\$000s	% of	\$000s	% of	\$000s	% of
		Total		Total		Total		Total
Satellite	\$ (3,064)	62.9%	\$ 4,425	137.2%	\$ (18,295)	82.8%	\$ 9,658	888.5%
Wireless DataCom	(500)	10.3%	330	10.2%	(1,146)	5.2%	(5,760)	(529.9%)
Corporate Expenses	(1,304)	26.8%	(1,529)	(47.4%)	(2,657)	12.0%	(2,811)	(258.6%)
Total	\$ (4,868)	100.0%	\$ 3,226	100.0%	\$ (22,098)	100.0%	1,087	100.0%
	=====	=====	=====	=====	=====	=====	=====	=====

The Satellite Division operating loss 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 key DBS customer.

The Wireless DataCom Division operating loss in the six months ended May 31, 2006 includes a charge of \$6.9 million to write-off in-process research and development costs associated with the Dataradio acquisition. Amortization expense of intangible assets related to the Wireless DataCom

Edgar Filing: CalAmp Corp. - Form 10-Q

Division was \$1.6 million and \$1.2 million for the three months ended August 31, 2007 and 2006, respectively, and was \$3.3 million and \$1.3 million for the six month periods then ended.

Revenue

Satellite Division revenue declined \$29.1 million, or 75%, to \$9.9 million in the three months ended August 31, 2007 from \$39.0 million for the same period in the previous fiscal year. This decline was primarily attributable to the action taken by a key DBS customer to put on hold all orders with the Company, including orders for newer generation products, pending a requalification of all products manufactured by CalAmp for this customer, as discussed above. Revenues from this customer in the three months ended August 31, 2007 were \$26.8 million lower than the same period last year.

For the six months ended August 31, 2007, Satellite Division revenue decreased \$40.1 million, or 55%, to \$32.9 million from \$73.0 million over the same period of the prior year due to the same reason discussed in the preceding paragraph. Revenues from the customer that put its orders on hold were \$40.9 million lower in the six months ended August 31, 2007 than the same period last year.

Wireless DataCom Division revenue increased by \$7.1 million, or 46%, to \$22.8 million in the second quarter of fiscal 2008 compared to the fiscal 2007 second quarter due to: (i) a \$3.6 million increase in sales of the MRM product line; and (ii) the acquisition of Aircept in March 2007 and SmartLink in April 2007 that contributed revenues of \$3.2 million and \$229,000, respectively, to the fiscal 2008 second quarter.

For the six months ended August 31, 2007, Wireless DataCom revenue increased \$21.7 million, or 88%, to \$46.2 million over the same period of the prior year. This increase in revenue is due to: (i) a \$6.6 million increase in sales of radio modules to a Wireless DataCom customer in support of that customer's contract with the U.S. Department of Defense; (ii) the acquisition of Aircept in March 2007 that contributed MRM product line revenues of \$6.1 million to the six months ended August 31, 2007; and the fact that the operations of Dataradio and the Technocom MRM product line are included for all 26 weeks of the fiscal 2008 first half and only 14 weeks of the fiscal 2007 first half.

Gross Profit (Loss) and Gross Margins

The Satellite Division had negative gross profit of \$(1.8) million in the fiscal 2008 second quarter compared with a gross profit of \$6.1 million in second quarter of last year. The decline in gross profit is primarily attributable to the \$29.1 million decline in revenue in the latest quarter compared to the second quarter of last year and the \$1.5 million additional charge for estimated expenses to correct a product performance issue with a key DBS customer

The Satellite Division had negative gross profit of \$(15.8) million for the six months ended August 31, 2007 compared with a gross profit of \$13.0 for the same period last year. The decline in gross profit is primarily attributable to the \$17.8 million charge for estimated expenses to correct a product performance issue with a key DBS customer and the \$40.1 million decline in revenue in the latest six month period compared to the prior year.

Gross profit of the Wireless DataCom Division increased 25% to \$8.2 million in the latest quarter compared to the second quarter of last year,

Edgar Filing: CalAmp Corp. - Form 10-Q

which is commensurate with the 46% revenue increase of this division. Wireless DataCom's gross margin decreased from 41.7% in the second quarter of fiscal 2007 to 35.7% in the second quarter of fiscal 2008 due to a change in product mix. Approximately half of the decrease in gross margin is attributable to lower margin on Aircept revenue, compared to the rest of the Wireless DataCom businesses. Aircept was acquired in March 2007, and hence was not included in fiscal 2007 operating results.

Wireless DataCom Division gross profit increased 72% to \$16.7 million for the six months ended August 31, 2007, compared to \$9.7 million for the same period of the prior year, which is commensurate with the 88% revenue increase of this division. Wireless DataCom's gross margin decreased from 39.5% for the six month period ended August 31, 2006 to 36.1% for the same period of the current year due to a change in product mix, with more than half of the decrease in gross margin attributable to lower margin on Aircept revenue.

See also Note 13 to the accompanying unaudited consolidated financial statements for additional operating data by business segment.

Operating Expenses

Consolidated research and development ("R&D") expense increased by \$182,000 to \$3,795,000 in the second quarter of fiscal 2008 from \$3,613,000 last year. For the six month year-to-date periods, R&D expense increased \$1,995,000 from \$6,119,000 last year to \$8,114,000 this year. Dataradio's R&D expense accounted for \$2.4 million of the increase, offset by a reduction in R&D expense related to the Company's DBS and MRM product lines. Dataradio was included for only 14 weeks of the fiscal 2007 first half compared to all 26 weeks of the fiscal 2008 first half.

Consolidated selling expenses increased by \$306,000 to \$2,373,000 in the second quarter this year from \$2,067,000 last year. This increase is primarily due to the inclusion of Aircept selling expenses in fiscal 2008. As noted above, Aircept was acquired in March 2007. For the six month year-to-date periods, selling expenses increased \$1,918,000 from \$2,724,000 last year to \$4,642,000 this year. The selling expenses of Dataradio and Aircept accounted for \$1.1 million and \$0.5 million of the increase, respectively.

Consolidated general and administrative expenses ("G&A") increased by \$857,000 to \$3,457,000 in the second quarter of this year compared to the prior year. This increase is primarily due to the inclusion of Aircept G&A for the fiscal 2008 second quarter. Consolidated G&A increased by \$2,004,000 for the six months ended August 31, 2007, which increase is primarily due to the acquisitions of Dataradio in May 2006, Aircept in March 2007 and SmartLink in April 2007, which collectively accounted for increased G&A of \$1.9 million in the six months ended August 31, 2007 compared to the same period of last year.

Amortization of intangibles increased from \$1,150,000 in the second quarter of last year to \$1,558,000 in the second quarter of this year. The increase was primarily attributable to the acquisitions of Aircept and SmartLink.

The in-process research and development ("IPR&D") write-off declined from \$6,850,000 for the six months ended August 31, 2006 to \$310,000 in the 2008 fiscal year period. Last year's IPR&D write-off was related to the acquisition of Dataradio, while this year's IPR&D write-off was related to the acquisition of SmartLink.

Operating Loss

Edgar Filing: CalAmp Corp. - Form 10-Q

The operating loss in the second quarter of this year was (\$4,868,000), compared to operating income of \$3,226,000 in the second quarter of last year. The operating loss in the second quarter of this year is primarily attributable to the decline in revenues from a key DBS customer and the \$1.5 million charge for estimated expenses to correct a product performance issue with that customer.

The operating loss in the six months ended August 31, 2007 was (\$22,098,000), compared to operating income of \$1,087,000 in the six months ended August 31, 2006. The operating loss in the current period is attributable to the \$17.8 million charge for the DBS product performance issue noted above and the decline in revenues from a key DBS customer.

Non-Operating Income (Expense), Net

Non-operating expense in the second quarter of this year was \$507,000, compared to \$237,000 in the second quarter of last year. The change was due to: (i) an increase in net interest expense of \$118,000 because of lower invested cash and higher debt in fiscal 2008; and (ii) the \$159,000 swing in foreign currency from a \$103,000 gain in the second quarter of last year to a \$56,000 foreign currency loss in the second quarter of this year due to the weakening of the US dollar relative to the Canadian dollar.

Non-operating expense was \$(1,090,000) in the six months ended August 31, 2007, compared to non-operating income of \$727,000 in the six months ended August 31, 2006. The change was due to (i) an increase in net interest expense of \$866,000 because of lower invested cash and higher debt in fiscal 2008; (ii) \$520,000 in foreign currency loss in the current year compared to a \$73,000 gain last year; (iii) a gain of \$689,000 last year on currency hedging activities in connection with the Dataradio acquisition, for which the purchase price was denominated in Canadian dollars; and (iv) a non-operating gain of \$330,000 on the sale of an investment that was recorded in the six months ended August 31, 2007.

Income Tax Provision

The income tax expense (benefit) on income (loss) from continuing operations for the six months ended August 31, 2007 and 2006 was \$(8,985,000) and \$3,525,000, respectively. Income tax expense (benefit) on income (loss) from discontinued operations for the six months ended August 31, 2007 and 2006 was \$2,617,000 and \$(893,000), respectively. The effective income tax rate was 39% and 194% in the six months ended August 31, 2007 and 2006, respectively. Excluding the IPR&D write-off of \$6,850,000 that is not deductible for income tax purposes, the effective income tax rate for the six months ended August 31, 2006 was 41%.

LIQUIDITY AND CAPITAL RESOURCES

The Company's primary sources of liquidity are its cash and cash equivalents, which amounted to \$8,370,000 at August 31, 2007. During the six months ended August 31, 2007, cash and cash equivalents decreased by \$29.2 million. This decrease is comprised primarily of cash used by operating activities of \$2.1 million, the Aircept and SmartLink acquisitions of \$27.3 million, capital expenditures of \$0.9 million, cash restricted for repayment of debt of \$3.3 million, and debt repayments of \$1.5 million, partially offset by proceeds from the sale of discontinued operations of \$4.0 million, proceeds from the sale of investment of \$1.0 million, proceeds from the exercise of stock options of \$0.2 million and the effect of exchange rate changes on cash of \$0.6 million.

In May 2006, the Company entered into a Credit Agreement (the "Credit

Edgar Filing: CalAmp Corp. - Form 10-Q

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. The credit facility is comprised of a term loan and a \$10 million working capital line of credit.

The Company initially borrowed \$35 million under the term loan and \$3 million under the working capital line of credit. Borrowings are secured by substantially all of the assets of CalAmp Corp. and its domestic subsidiaries. Of the total proceeds of \$38 million, \$7 million was used to pay off the Company's existing loans with U.S. Bank and the remaining \$31 million, plus cash on hand of approximately \$23 million, was used to fund the purchase price for Dataradio. In the fiscal 2007 third quarter, the Company repaid in full the \$3 million principal balance of the line of credit. At August 31, 2007, \$2,975,000 of the line of credit was reserved for outstanding irrevocable stand-by letters of credit.

The maturity date of the line of credit is May 26, 2011. The term loan repayment schedule provides that principal is payable in quarterly installments on the last day of March, June, September and December in each year with a final payment of \$8,563,000 on May 26, 2011. However, as a result of the event of default described below, all term loan principal has been classified as a current liability in the accompanying balance sheet at August 31, 2007.

Borrowings under the Credit Agreement bear interest at the Bank of Montreal's prime rate ("Prime Based Loans") plus a margin ranging from 0% to 0.25% (the "Prime Rate Margin") or LIBOR ("LIBOR Based Loans") plus a margin ranging from 0.75% to 1.25% (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. The Credit Agreement also provides that the interest rate on borrowings can be increased by 2.0% during any period in which an event of default exists but at the present time the banks have applied this additional interest only to \$734,000 of the loan balance.

The Credit Agreement contains certain financial covenants and ratios that the Company is required to maintain, including: a total Leverage Ratio of not more than 2.75; total stockholders' equity of not less than the sum of (i) \$140,887,000, (ii) 50% of net income for each fiscal year (excluding years with net losses) and (iii) 50% of net cash proceeds from any issuance of equity; and a fixed charge coverage ratio (earnings before interest, taxes, depreciation and other noncash charges to fixed charges) of not less than 1.50.

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. The Credit Agreement also contains certain events of default, including the failure to make timely payments under the Credit Agreement or other material indebtedness and the failure to adhere to certain covenants, that would permit the bank to accelerate borrowings under the Credit Agreement in the event that a default were to occur and not be cured within applicable grace periods.

As discussed above, during the six months ended August 31, 2007 the Company recorded a charge of \$17.8 million for warranty repairs and other costs to resolve a product performance issue with a key DBS customer. The net loss of \$11.4 million in the first quarter of fiscal 2008, which was

Edgar Filing: CalAmp Corp. - Form 10-Q

primarily attributable to the \$16.3 million charge in the fiscal 2008 first quarter, caused an event of default with respect to the financial covenants under the Credit Agreement that will preclude additional borrowing under the revolving credit facility until the Company is able to obtain a waiver from its lenders and/or an amendment of the Credit Agreement. The Company has notified its lenders and is in discussions with them to resolve the issue. In the next 12 months the Company believes that it has sufficient liquidity such that the restriction on borrowing under the revolving credit facility will not adversely affect its operations. However, if the lenders are unwilling to agree to a waiver or an amendment or exercise their rights to accelerate borrowings outstanding under the Credit Agreement, the inability to borrow under the revolving credit facility and/or the acceleration of such indebtedness would materially adversely affect the Company's financial position and operations, including its ability to fund its currently anticipated working capital and capital expenditure needs. Furthermore, because the lenders will have the right to call the loans under the Credit Agreement until such time that a waiver is obtained, \$28.9 million of debt previously classified as a long-term liability has been reclassified to current liabilities in the accompanying consolidated balance sheet as of August 31, 2007. The lenders have not provided the Company with the written notice that would be required to accelerate the loans under the Credit Agreement, and the Company believes that it will be able to obtain a waiver or amendment and avoid an acceleration of such loans. Nonetheless, no assurance can be given that the Company will be successful in obtaining a waiver or amendment, or that it will be able to avoid an acceleration of such loans.

As discussed under "Product Performance Issues with Key DBS Customer" above, at August 31, 2007 the Company had aggregate reserves in the amount of \$18.2 million for warranty obligations, vendor purchase commitments and inventory reserves. While the Company believes that \$18.2 million is the best estimate of the reserves necessary to resolve this matter based on the facts and circumstances of which the Company is currently aware, no assurances can be given that the final charges will not materially increase from the current estimate. The cash impact of these reserves is anticipated to occur over the next two or more years.

The Company believes that inflation and foreign currency exchange rates have not had a material effect on its operations. Although the acquisition of Dataradio has increased the Company's exposure to changes in foreign currency exchange rates, the Company believes that fiscal 2008 will not be impacted significantly by foreign exchange since a significant portion of the Company's sales will continue to be to U.S. markets, or to international markets where its sales are denominated in U.S. dollars.

FORWARD LOOKING STATEMENTS

Forward looking statements in this Form 10-Q which include, without limitation, statements relating to the Company's plans, strategies, objectives, expectations, intentions, projections and other information regarding future performance, are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The words "may", "will", "could", "plans", "intends", "seeks", "believes", "anticipates", "expects", "estimates", "judgment", "goal", and variations of these words and similar expressions, are intended to identify forward-looking statements. These forward-looking statements reflect the Company's current views with respect to future events and financial performance and are subject to certain risks and uncertainties, including, without limitation, product demand, market growth, new competition, competitive pricing and continued pricing declines in the DBS market, supplier constraints, manufacturing yields, the ability to manage cost increases in inventory materials including timing and

Edgar Filing: CalAmp Corp. - Form 10-Q

market acceptance of new product introductions, the Company's ability to harness new technologies in a competitively advantageous manner, the Company's success at integrating its acquired businesses, the Company's success in obtaining a waiver from the lenders under its Credit Agreement of the event of default under the Credit Agreement, the Company's ability to successfully requalify with respect to the sale of newer generation products to one of its key DBS customers, the risk that the ultimate cost of resolving a product performance issue with a key DBS customer may exceed the amount of reserves established for that purpose, and other risks and uncertainties that are set forth under the "Risk Factors" in Part I, Item 1A of the Annual Report on Form 10-K for the year ended February 28, 2007 as filed with the Securities and Exchange Commission on May 17, 2007. Such risks and uncertainties could cause actual results to differ materially from historical results or those anticipated. Although the Company believes the expectations reflected in such forward-looking statements are based upon reasonable assumptions, it can give no assurance that its expectations will be attained. The Company undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's primary market risk exposure is interest rate risk. At August 31, 2007, the Company's term debt and credit facility with its bank are subject to variable interest rates. The Company monitors its debt and interest bearing cash equivalents to mitigate the risk of interest rate fluctuations. A fluctuation of one percent in interest rates related to the Company's outstanding variable rate debt would not have a material impact on the Company's consolidated statement of operations.

The Company has market risk arising from changes in foreign currency exchange rates related to Dataradio's operations in Canada. A 10% adverse change in the foreign currency exchange rate would not have a significant impact on the Company's results of operations or financial position. The Company does not manage its foreign currency exchange rate risk through the use of derivative instruments except for the forward currency exchange contracts that were entered into and closed in May 2006 in connection with the acquisition of Dataradio, which resulted in a gain of \$689,000 in that month.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

The Company's principal executive officer and principal financial officer have concluded, based on their evaluation of disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, (the "Exchange Act")) as of the end of the period covered by this Report, that the Company's disclosure controls and procedures are effective to ensure that the information required to be disclosed in reports that are filed or submitted under the Exchange Act is accumulated and communicated to management, including the principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure and that such information is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities Exchange Commission.

Internal Control Over Financial Reporting

There has been no change in the Company's internal control over

Edgar Filing: CalAmp Corp. - Form 10-Q

financial reporting that occurred during the Company's most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

A lawsuit was filed against the Company on September 15, 2006 by CN Capital, the seller of the assets of Skybility which the Company acquired in April 2005. The lawsuit contends that the Company owes CN Capital approximately \$1.6 million under the earn-out provision of the Skybility Asset Purchase Agreement dated April 18, 2005. On February 26, 2007, the Company filed a cross-complaint against CN Capital for breach of contract, negligent interference with prospective economic advantage, and contract rescission. The Company believes the lawsuit filed by CN Capital is without merit and intends to vigorously defend against this action. No loss accrual has been made in the accompanying financial statements for this matter.

Item 1A. Risk Factors

The reader is referred to the factors discussed in Part I, "Item 1A. Risk Factors" in the Company's Annual Report on Form 10-K for the year ended February 28, 2007, which could materially affect the Company's business, financial condition or future results. The risks described in the Company's Annual Report on Form 10-K are not the only risks facing the Company. As a result of the recent developments discussed in Item 2 of Part I under "Product Performance Issues with Key DBS Customer", there are additional risks, namely the Company's success in obtaining a waiver from the lenders under its Credit Agreement of the event of default under the Credit Agreement, the Company's ability to successfully requalify with respect to the sale of newer generation products to one of its key DBS customers and the risk that the ultimate cost of resolving product performance issues with a key DBS customer may exceed the amount of reserves established for that purpose. Additional risks and uncertainties not currently known to management or that are currently deemed to be immaterial also may materially adversely affect the Company's business, financial condition and/or operating results.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

At the 2007 Annual Meeting of Stockholders held on August 1, 2007, six directors stood for reelection to a one year term expiring at the fiscal 2008 Annual Meeting. All six of the director nominees were reelected. The results of the election of directors are summarized as follows:

	Votes		
	Against or		
	Votes For	Withheld	Unvoted
	-----	-----	-----
Richard Gold	19,013,934	2,052,869	2,560,087
Arthur Hausman	19,017,021	2,049,782	2,560,087
A.J. "Bert" Moyer	18,926,300	2,140,503	2,560,087
Thomas Pardun	19,047,445	2,019,358	2,560,087
Frank Perna, Jr.	19,043,624	2,023,179	2,560,087
Fred Sturm	18,969,012	2,097,791	2,560,087

Edgar Filing: CalAmp Corp. - Form 10-Q

ITEM 5. OTHER INFORMATION

On August 9, 2007, the Company entered into the Second Amendment and Consent to Credit Agreement with Bank of Montreal ("BMO"), in which BMO consented to the sale of the Company's TelAlert software business and also made amendments to the Credit Agreement dated May 26, 2006. The amendments include the requirement that the Company deposit the net cash proceeds from the sale of the TelAlert software business into an escrow account under the control of BMO as additional collateral for outstanding bank borrowings.

ITEM 6. EXHIBITS

Exhibit 10.1 - Second Amendment and Consent to Credit Agreement dated August 9, 2007 between CalAmp Corp. and Bank of Montreal (1)

Exhibit 31.1 - Chief Executive Officer Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (1)

Exhibit 31.2 - Chief Financial Officer Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (1)

Exhibit 32 - Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (1)

(1) Filed herewith.

SIGNATURE

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

October 11, 2007

/s/ Richard K. Vitelle

Date

Richard K. Vitelle
Vice President Finance & CFO
(Principal Financial Officer
and Chief Accounting Officer)