

CalAmp Corp.  
Form 10-Q  
December 21, 2016

**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 November 30, 2016**

or

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

**For the transition period from to**

**COMMISSION FILE NUMBER: 0-12182**

---

**CALAMP CORP.**

(Exact name of Registrant as specified in its Charter)

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

**95-3647070**  
(I.R.S. Employer  
Identification No.)

**15635 Alton Parkway, Suite 250**  
**Irvine, California**  
(Address of principal executive offices)

**92618**  
(Zip Code)

**(949) 600-5600**  
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Edgar Filing: CalAmp Corp. - Form 10-Q

Non-accelerated filer  
(Do not check if a smaller reporting company)

Smaller reporting company

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

The number of shares outstanding of the registrant's common stock as of December 15, 2016 was 35,412,382.

---

## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

**CALAMP CORP.**  
**CONSOLIDATED BALANCE SHEETS**  
(Unaudited; amounts in thousands, except par value)

	November 30, 2016	February 29, 2016
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 75,147	\$ 139,388
Short-term marketable securities	25,675	88,718
Accounts receivable, less allowance for doubtful accounts of \$773 and \$622 at November 30, 2016 and February 29, 2016, respectively	66,969	49,432
Inventories	31,484	16,731
Prepaid expenses and other current assets	7,847	4,498
Total current assets	207,122	298,767
Property, equipment and improvements, net of accumulated depreciation and amortization	21,676	11,225
Deferred income tax assets	28,024	30,213
Goodwill	63,564	16,508
Other intangible assets, net	71,074	17,010
Other assets	11,287	10,640
	\$ 402,747	\$ 384,363
<b>Liabilities and Stockholders' Equity</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 33,392	\$ 24,938
Accrued payroll and employee benefits	10,977	6,814
Deferred revenue	15,243	9,438
Other current liabilities	14,380	8,375
Total current liabilities	73,992	49,565
1.625% convertible senior unsecured notes	145,021	139,800
Other non-current liabilities	15,244	5,551
Total liabilities	234,257	194,916
<b>Commitments and contingencies</b>		
<b>Stockholders' equity:</b>		
Preferred stock, \$.01 par value; 3,000 shares authorized; no shares issued or outstanding	-	-
Common stock, \$.01 par value; 80,000 shares authorized; 35,479 and 36,667 shares issued and outstanding at November 30, 2016 and February 29, 2016, respectively	355	367
Additional paid-in capital	212,137	229,159
Accumulated deficit	(43,518)	(39,853)
Accumulated other comprehensive loss	(484)	(226)
Total stockholders' equity	168,490	189,447
	\$ 402,747	\$ 384,363

See accompanying notes to consolidated financial statements.

## CALAMP CORP.

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**  
(Unaudited; in thousands, except per share amounts)

	Three Months Ended November 30,		Nine Months Ended November 30,	
	2016	2015	2016	2015
<b>Revenues:</b>				
Products	\$ 67,580	\$ 63,980	\$ 219,985	\$ 177,275
Application subscriptions and other services	15,770	10,695	44,991	32,637
Total revenues	83,350	74,675	264,976	209,912
<b>Cost of revenues:</b>				
Products	40,764	43,132	135,139	119,692
Application subscriptions and other services	7,469	4,969	22,272	14,817
Total cost of revenues	48,233	48,101	157,411	134,509
Gross profit	35,117	26,574	107,565	75,403
<b>Operating expenses:</b>				
Research and development	5,297	5,121	17,273	14,681
Selling	12,818	5,975	36,809	17,320
General and administrative	11,352	5,202	38,619	14,885
Intangible asset amortization	3,857	1,663	11,203	4,962
Total operating expenses	33,324	17,961	103,904	51,848
Operating income	1,793	8,613	3,661	23,555
<b>Non-operating income (expense):</b>				
Investment income	201	438	1,109	423
Interest expense	(2,479)	(2,252)	(7,377)	(5,180)
Other income (expense)	(587)	6	(174)	(23)
	(2,865)	(1,808)	(6,442)	(4,780)
Income (loss) before income taxes and equity in net loss of affiliate	(1,072)	6,805	(2,781)	18,775
Income tax benefit (provision)	(135)	(2,603)	120	(7,015)
Income (loss) before equity in net loss of affiliate	(1,207)	4,202	(2,661)	11,760
Equity in net loss of affiliate	(320)	(326)	(1,004)	(326)
Net income (loss)	\$ (1,527)	\$ 3,876	\$ (3,665)	\$ 11,434
<b>Earnings (loss) per share:</b>				
Basic	\$ (0.04)	\$ 0.11	\$ (0.10)	\$ 0.32
Diluted	\$ (0.04)	\$ 0.11	\$ (0.10)	\$ 0.31
<b>Shares used in computing earnings (loss) per share:</b>				
Basic	35,731	36,319	36,196	36,138
Diluted	35,731	36,803	36,196	36,728
<b>Comprehensive income (loss):</b>				
Net income (loss)	\$ (1,527)	\$ 3,876	\$ (3,665)	\$ 11,434
<b>Other comprehensive loss:</b>				
Foreign currency translation adjustments	444	(46)	(180)	(46)

Edgar Filing: CalAmp Corp. - Form 10-Q

Unrealized loss on equity investment in French licensee, net of tax		(70)		-		(78)		-
Total comprehensive income (loss)	\$	(1,153)	\$	3,830	\$	(3,923)	\$	11,388

See accompanying notes to consolidated financial statements.

## CALAMP CORP.

**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
 (Unaudited; amounts in thousands)

	Nine Months Ended November 30,	
	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income (loss)	\$ (3,665)	\$ 11,434
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation expense	6,034	2,608
Intangible assets amortization expense	11,203	4,962
Stock-based compensation expense	5,669	4,211
Amortization of convertible debt issue costs and discount	5,221	3,502
Deferred tax assets, net	(511)	6,595
Equity in net loss of affiliate	1,004	326
Impairment of internal use software	1,364	-
Changes in operating assets and liabilities:		
Accounts receivable	3,496	2,967
Inventories	(1,785)	563
Prepaid expenses and other assets	1,904	210
Accounts payable	(1,245)	907
Accrued liabilities	(9,742)	2,025
Deferred revenue	860	(2,352)
Other	(12)	(87)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>19,795</b>	<b>37,871</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from maturities of marketable securities	88,742	35,552
Purchases of marketable securities	(25,699)	(142,032)
Capital expenditures	(5,818)	(3,388)
Acquisition of Crashboxx	-	(1,500)
Acquisition of LoJack, net of cash acquired	(116,982)	-
Equity investment in and advances to affiliate	(1,401)	(2,156)
Other	(51)	(95)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(61,209)</b>	<b>(113,619)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from issuance of convertible senior notes	-	172,500
Payment of debt issuance costs	-	(5,291)
Purchase of convertible note hedges	-	(31,343)
Proceeds from issuance of warrants	-	15,991
Payment of acquisition-related note and contingent consideration	-	(1,687)
Repurchases of common stock	(21,923)	-
Taxes paid related to net share settlement of vested equity awards	(1,614)	(2,520)
Proceeds from exercise of stock options	834	592
<b>NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES</b>	<b>(22,703)</b>	<b>148,242</b>
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH</b>	<b>(124)</b>	<b>-</b>
Net change in cash and cash equivalents	(64,241)	72,494
Cash and cash equivalents at beginning of period	139,388	34,184
Cash and cash equivalents at end of period	\$ 75,147	\$ 106,678

See accompanying notes to consolidated financial statements.



**CALAMP CORP.**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**  
**THREE AND NINE MONTHS ENDED NOVEMBER 30, 2016 AND 2015**

**NOTE 1 - DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Description of Business**

CalAmp Corp. ( CalAmp or the Company ) is a leading provider of wireless communications solutions for a broad array of applications to customers globally. The Company's business activities are organized into its Wireless DataCom and Satellite business segments.

In March 2016, the Company completed the acquisition of all outstanding shares of common stock of LoJack Corporation ( LoJack ), a global leader in products and services for tracking and recovering cars, trucks and other valuable mobile assets. See Note 2 for a description of this acquisition.

Products of the Company's Satellite segment were sold to EchoStar, an affiliate of Dish Network, for incorporation into complete subscription satellite television systems. In April 2016, EchoStar notified the Company that it would stop purchasing products from the Company at the end of its then-current product demand forecast as a result of a consolidation of its supplier base. EchoStar's product demand forecast with the Company extended through August 2016, and the products covered by this forecast were substantially all shipped prior to August 31, 2016. In light of the fact that EchoStar accounted for essentially all of the revenues of the Satellite segment, the Company's Satellite business was shut down effective August 31, 2016.

Certain notes and other information included in the audited financial statements included in the Company's Annual Report on Form 10-K 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 2016 Annual Report on Form 10-K as filed with the Securities and Exchange Commission on April 20, 2016.

In the opinion of the Company's management, the accompanying unaudited consolidated financial statements reflect all adjustments (consisting of normal recurring adjustments) considered necessary to present fairly the Company's financial position at November 30, 2016 and its results of operations for the three and nine months ended November 30, 2016 and 2015. 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.

**Revenue Recognition**

The Company recognizes revenue from product sales when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable and collection of the sales price is reasonably assured. Generally, for product sales that are not bundled with an application service these criteria are met at the time product is shipped, except for shipments made on the basis of "FOB Destination" terms, in which case title transfers to the customer and the revenue is recorded by the Company when the shipment reaches the customer. Customers generally do not have a right of return except for defective products returned during the warranty period. The Company records estimated commitments related to customer incentive programs as reductions of revenues.

In addition to product sales, the Company provides Software as a Service (SaaS) subscriptions for its fleet management and vehicle telematics applications through which customers are provided with the ability to wirelessly communicate with monitoring devices installed in vehicles and other mobile or remote assets via software applications hosted by the Company. Generally, the Company defers the recognition of revenue for the products that are sold with application subscriptions because the products are not functional without the application services. In such circumstances, the associated product costs are recorded as deferred costs in the balance sheet. The deferred product revenue and deferred product cost amounts are amortized to application subscriptions revenue and cost of revenue on a straight-line basis over minimum contractual subscription periods of one to five years. Revenues from renewals of data communication services after the initial contract term are recognized as application subscriptions revenue when the services are provided. When customers prepay application subscription renewals, such amounts are recorded as deferred revenues and are recognized ratably over the renewal term.



In the United States, the Company generally recognizes revenue on LoJack product sales that have no associated continuing service obligations on the part of the Company upon installation of the products. Revenue relating to sales made to the Company's third party installation partners, who purchase the Company's products and perform installations themselves, is recognized upon shipment, which is prior to the installation of the related products in the end user's vehicle. Revenue from the sales of products to international licensees is recognized upon shipment of the products to the licensee or when payment becomes reasonably assured, whichever is later.

In Italy, the purchase of an initial vehicle monitoring service contract is a requirement at the time the consumer purchases a LoJack product. Revenue is recognized over the life of the contract. These contracts, which are sold separately from the LoJack hardware, are offered for terms ranging from 8 to 96 months and are generally payable in full upon activation of the related unit or renewal of a previous contract. Customers are also offered a month-to-month option for service contracts.

The Company offers several types of extended warranty contracts in the United States related to its LoJack products. For those contracts for which an independent third party insurer, and not the Company, is the primary obligor, the Company recognizes revenue at the time of the sale of the warranty. For those warranty contracts to which the Company is the primary obligor, revenue is deferred and is recognized over five years, which is the estimated life of new vehicle ownership. For the majority of extended warranty contracts originated after 2011, the Company recognizes revenue at the time of sale.

For those warranties for which an independent third party insurer, and not the Company, is the primary obligor, the Company records revenue on a gross basis, with related costs being included in cost of goods sold. The Company considered the factors associated with gross vs. net revenue recording and determined that despite not being the primary obligor for the majority of these arrangements, gross revenue reporting was appropriate based on the relevant accounting guidance. Specifically, the Company has latitude in establishing price; it can change the product offering; it has discretion in supplier selection; it is involved in the determination of product or service specifications; it bears the credit risk; and the amount that it earns on each contract is not fixed.

#### **Cash and Cash Equivalents**

The Company considers all highly liquid investments with remaining maturities at date of purchase of three months or less to be cash equivalents.

#### **Fair Value Measurements**

The Company applies fair value accounting for all financial assets and liabilities and non-financial assets and liabilities that are recognized or disclosed at fair value in the financial statements. The Company defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly manner in an arms-length transaction between market participants at the measurement date. Fair value is estimated by applying the following hierarchy, which prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement:

*Level 1* Quoted prices in active markets for identical assets or liabilities.

*Level 2* Observable inputs other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

*Level 3* Inputs that are generally unobservable and typically reflect management's estimate of assumptions that market participants would use in pricing the asset or liability.

In accordance with the fair value accounting requirements, companies may choose to measure eligible financial instruments and certain other items at fair value. The Company has elected the fair value option for its investment in marketable securities on a contract-by-contract basis at the time each contract is initially recognized in the financial statements or upon an event that gives rise to a new basis of accounting for the items.

### Foreign Currency Translation and Accumulated Other Comprehensive Loss Account

A cumulative foreign currency translation loss of \$406,000 related to the Company's foreign subsidiaries is included in accumulated other comprehensive loss in the stockholders' equity section of the consolidated balance sheet at November 30, 2016. The aggregate foreign currency transaction exchange rate losses included in determining income (loss) before income taxes and equity in net loss of affiliate were \$173,000 and \$31,000 in the nine months ended November 30, 2016 and 2015, respectively.

### Recently Issued Accounting Standards

In June, 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update 2016-13, Financial Instruments - Credit Losses. This update amends the FASB's guidance on the impairment of financial instruments. Under the new guidance, an entity recognizes as an allowance its estimate of expected credit losses, which the FASB believes will result in more timely recognition of such losses. This update is effective for fiscal years beginning after December 15, 2019. Early adoption will be permitted. The Company does not anticipate a significant impact on the financial statements upon adoption.

In March 2016, the FASB issued Accounting Standards Update 2016-09, Compensation - Stock Compensation: Improvements to Employee Share-Based Payment Accounting (ASU 2016-09). This update is intended to simplify the accounting for share-based payment transactions, including the accounting for income taxes, forfeitures and statutory tax withholding requirements, as well as classification in the statement of cash flows. The amendments in this update are effective for annual periods beginning after December 15, 2016, and interim periods within those fiscal years. The Company is currently evaluating the impact of adoption of the new standard on its consolidated financial statements.

In February 2016, the FASB issued Accounting Standards Update 2016-02, Leases. The new standard establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. Early adoption is permitted. The Company is currently evaluating the impact of adoption of the new standard on its consolidated financial statements.

In January 2016, the FASB issued Accounting Standards Update 2016-01, Financial Instruments - Overall: Recognition and Measurement of Financial Assets and Financial Liabilities (ASU 2016-01). This standard revises an entity's accounting related to (1) the classification and measurement of investments in equity securities and (2) the presentation of certain fair value changes for financial liabilities measured at fair value. It also amends certain disclosure requirements associated with the fair value of financial instruments. Under the new guidance, entities will have to measure equity investments that do not result in consolidation and are not accounted for under the equity method at fair value and recognize any changes in fair value in net income unless the investments qualify for the new practicality exception. ASU 2016-01 is effective for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (ASU 2014-09). The revenue recognition standard provides a five-step analysis of transactions to determine when and how revenue is recognized. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers: Deferral of the Effective Date, which deferred the effective date of this revenue standard for periods beginning after December 15, 2016 to December 15, 2017, with early adoption permitted but not earlier than the original effective date. ASU 2014-09 must be applied retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. The Company is continuing to evaluate the effect and methodology of adopting this accounting standard on its results of operations, cash flows and financial position.

In April 2014, the FASB issued Accounting Standards Update No. 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity (ASU 2014-08). This update amends the definition of a discontinued operation, and requires additional disclosures about discontinued operations, as well as disposal transactions that do not meet the discontinued operations criteria. Under this new guidance, only disposals of a component representing a strategic shift in operations that has or will have a major impact on the Company's operations or financial results should be classified as discontinued operations. The effective date of this standard was March 1, 2015. See Note 15 which describes the effect of the adoption of this standard.

**Reclassifications**

Certain amounts in the financial statements of prior years have been reclassified to conform to the fiscal 2017 presentation, with no effect on net earnings.

**NOTE 2 LOJACK ACQUISITION**

In March 2016, the Company completed the acquisition of all outstanding shares of common stock of LoJack. As a result of the acquisition, LoJack became a wholly-owned subsidiary of CalAmp and is consolidated with the Company's financial statements beginning March 15, 2016 as a component of the Company's Wireless DataCom business segment. The Company funded the acquisition from cash on hand. The total purchase price was \$131.7 million, which included the \$5.5 million fair value of the 850,100 shares of LoJack common stock that CalAmp purchased in the open market in November and December 2015, prior to entering into a definitive acquisition agreement with LoJack.

Pursuant to the Company's business combinations accounting policy, the Company estimated the preliminary fair values of net tangible and intangible assets acquired, and the excess of the consideration transferred over the aggregate of such fair values was recorded as goodwill. The preliminary fair values of net tangible assets and intangible assets acquired were based upon preliminary valuations. The Company's estimates and assumptions reflected in such preliminary valuations are subject to change within the measurement period, which is up to one year from the acquisition date. The primary areas that remain preliminary relate to the fair values of intangible assets acquired, certain tangible assets and liabilities acquired, certain legal matters, deferred income taxes and goodwill. The Company expects to continue to obtain information to assist in determining the fair values of the net assets acquired during the remainder of the measurement period. The following is the preliminary purchase price allocation for LoJack (in thousands):

Purchase price		\$ 131,735
Less cash acquired, net of debt assumed		(9,303)
Net cash paid		122,432
Fair value of net assets acquired:		
Current assets other than cash	\$ 41,262	
Property and equipment	12,075	
Developed technology	8,200	
Tradename	35,500	
Customer lists	4,650	
Dealer relationships	16,850	
Other non-current assets	4,208	
Deferred tax liability	(2,700)	
Current liabilities	(33,387)	
Deferred revenue, non-current	(8,698)	
Other non-current liabilities	(2,584)	
Total fair value of net assets acquired		75,376
Goodwill		\$ 47,056

The Company paid a premium (i.e., goodwill) over the fair value of the net tangible and identified intangible assets acquired. The Company believes the acquisition aligns with its strategy to deliver innovative, next generation connected vehicle telematics technologies, thereby accelerating the Company's strategic roadmap in this large and fast growing market. Furthermore, the Company believes that combining CalAmp's leading portfolio of wireless connectivity devices, software, services and applications with LoJack's world-renowned brand, proprietary stolen vehicle recovery product, unique law enforcement network and strong relationships with auto dealers, heavy equipment providers and global licensees will create a market leader that is well-positioned to drive the broad adoption of connected vehicle telematics technologies and applications worldwide. The combined enterprise offers customers access to integrated, turnkey offerings that enable a multitude of high value applications encompassing vehicle security and enhanced driver safety. Furthermore, the combination of CalAmp's and LoJack's technology offerings is expected to provide global customers with connected vehicle applications to help ensure that retail auto dealers remain competitive and relevant in today's rapidly evolving markets.

## Edgar Filing: CalAmp Corp. - Form 10-Q

The goodwill arising from the LoJack acquisition is not deductible for income tax purposes.

The fair value of the LoJack trade receivables at March 15, 2016 was \$21.2 million, comprised of a gross contractual amount of \$22.3 million net of receivables of \$1.1 million not expected to be collected.

In connection with the acquisition of LoJack, the Company has assumed liabilities related to quality assurance programs, warranty claims and contract obligations which are included in accrued expenses and other current liabilities in the purchase price allocation described above. The fair value of inventories acquired included a purchase accounting fair market value step-up of \$4.6 million. In the nine months ended November 30, 2016, the Company recognized \$4.3 million of this markup as a component of cost of revenues that reflects the extent to which the inventory that was subject to step-up was sold to the Company's customers in such period. Included in inventory as of November 30, 2016 was \$0.3 million relating to the remaining fair value step-up associated with the LoJack acquisition.

In August 2016, the Company received an independent appraisal of LoJack's property and equipment, which resulted in a purchase accounting fair market value step-up of \$2.6 million. In the nine months ended November 30, 2016, the Company recognized \$0.5 million of this markup as a component of cost of revenues and operating expenses that reflects the extent to which the property, equipment and improvements that were subject to the step-up were depreciated.

Acquisition and integration-related costs of \$0.6 million and \$4.2 million were included in selling, general, and administrative expenses in the Company's statements of comprehensive income (loss) for the three and nine months ended November 30, 2016.

Revenues of LoJack included in the consolidated statements of operations for the three and nine months ended November 30, 2016 were \$29.9 million and \$89.7 million, respectively. Post-acquisition earnings of LoJack on a standalone basis are impracticable to determine, because immediately following the acquisition CalAmp began to integrate LoJack into its existing operations.

The following is unaudited pro forma consolidated financial information for the Company presented as if the acquisition of LoJack had occurred on March 1, 2015, the beginning of the Company's prior fiscal year.

(in thousands except per share amounts)

	<b>Pro Forma</b>	
	<b>Nine Months Ended</b>	
	<b>November 30,</b>	
	<b>2016</b>	<b>2015</b>
Revenues	\$ 270,231	\$ 309,268
Net income	\$ 4,782	\$ 6,316
<b>Earnings per share:</b>		
Basic	\$ 0.13	\$ 0.17
Diluted	\$ 0.13	\$ 0.17
<b>Shares used in computing earnings per share:</b>		
Basic	36,196	36,138
Diluted	36,651	36,728

Edgar Filing: CalAmp Corp. - Form 10-Q

The following adjustments were included in the unaudited pro forma financial information (in thousands):

	<b>Pro Forma Nine Months Ended November 30,</b>	
	<b>2016</b>	<b>2015</b>
<b>LoJack standalone net income:</b>		
From March 1 to March 14, 2016	\$ 973	\$ -
For the nine month period ended December 31, 2015	-	4,846
Increase (decrease) in revenue for fair valuation of deferred revenue	1,434	(1,434)
<b>(Increase) decrease in costs and expenses:</b>		
Amortization of inventory step-up	4,318	(4,318)
Amortization of intangible assets and depreciation of property, equipment and improvements acquired	(309)	(5,551)
Acquisition and integration expenses	4,169	(3,195)
Net increase (decrease) in pretax income (loss)	10,585	(9,652)
Income tax effects	(2,138)	4,534
Change in net income (loss)	8,447	(5,118)
Net income (loss) as reported	(3,665)	11,434
Pro forma net income	\$ 4,782	\$ 6,316

The pro forma consolidated financial information is not necessarily indicative of what the Company's actual results of operations would have been had LoJack been included in the Company's historical consolidated financial statements for each of the nine month periods ended November 30, 2016 and 2015. In addition, the pro forma consolidated financial information does not attempt to project the future results of operations of the combined company.

**NOTE 3 CASH, CASH EQUIVALENTS AND INVESTMENTS**

The following tables summarize the Company's financial instrument assets as of November 30, 2016 and February 29, 2016 using the hierarchy described in Note 1 under the heading Fair Value Measurements (in thousands):

	<b>As of November 30, 2016</b>					
	<b>Adjusted Cost</b>	<b>Unrealized Gains (Losses)</b>	<b>Fair Value</b>	<b>Balance Sheet Classification of Fair Value</b>		
				<b>Cash and Cash Equivalents</b>	<b>Short-Term Marketable Securities</b>	<b>Other Assets</b>
Cash	\$ 30,332	\$ -	\$ 30,332	\$ 30,332	\$ -	\$ -
<b>Level 1:</b>						
Commercial paper	5,058	-	5,058	60	4,998	-
Mutual funds (1)	5,324	119	5,443	-	-	5,443
Equity investment in French licensee (2)	296	(81)	215	-	-	215
<b>Level 2:</b>						
Repurchase agreements	28,700	-	28,700	28,700	-	-
Corporate bonds	36,748	(16)	36,732	16,055	20,677	-
<b>Total</b>	<b>\$ 106,458</b>	<b>\$ 22</b>	<b>\$ 106,480</b>	<b>\$ 75,147</b>	<b>\$ 25,675</b>	<b>\$ 5,658</b>

As of February 29, 2016							
	Adjusted Cost	Unrealized Gains (Losses)	Fair Value	Balance Sheet Classification of Fair Value			
				Cash and Cash Equivalents	Short-Term Marketable Securities	Other Assets	
Cash	\$ 6,890	\$ -	\$ 6,890	\$ 6,890	\$ -	\$ -	
Level 1:							
Mutual funds (1)	3,753	(383)	3,370	-	-	-	3,370
LoJack common stock (3)	4,050	1,416	5,466	-	-	-	5,466
Level 2:							
Repurchase agreements	130,900	-	130,900	130,900	-	-	-
Corporate bonds	82,300	(16)	82,284	1,556	80,728	-	-
Commercial paper	8,032	-	8,032	42	7,990	-	-
<b>Total</b>	<b>\$ 235,925</b>	<b>\$ 1,017</b>	<b>\$ 236,942</b>	<b>\$ 139,388</b>	<b>\$ 88,718</b>	<b>\$ -</b>	<b>\$ 8,836</b>

- (1) The Company has established a non-qualified deferred compensation plan for certain members of management and all non-employee directors. The Company is informally funding its obligations under the deferred compensation plan by purchasing shares in various equity, bond and money market mutual funds that are held in a Rabbi Trust and are restricted for payment of obligations to plan participants. The deferred compensation plan liability is included in Other Non-current Liabilities in the accompanying consolidated balance sheets.
- (2) The equity investment in LoJack's French licensee, in the form of a publicly-traded common stock, is accounted for as an available-for-sale security and is valued at the quoted closing price on its market exchange. The related unrealized gains or losses are included in accumulated other comprehensive income (loss) in the stockholders' equity section of the consolidated balance sheet.
- (3) The Company purchased 850,100 shares of LoJack common stock in the open market in November and December 2015, prior to entering into a definitive agreement to acquire 100% of LoJack's common stock. These shares were considered trading securities and were recorded at fair value as of February 29, 2016.

#### NOTE 4 - INVENTORIES

Inventories consist of the following (in thousands):

	November 30, 2016	February 29, 2016
Raw materials	\$ 16,909	\$ 14,145
Work in process	336	180
Finished goods	14,239	2,406
	\$ 31,484	\$ 16,731

**NOTE 5 GOODWILL AND OTHER INTANGIBLE ASSETS**

All goodwill shown in the accompanying consolidated balance sheets is associated with the Company's Wireless DataCom segment. Changes in goodwill are as follows (in thousands):

	Nine Months Ended November 30,	
	2016	2015
Balance at beginning of period	\$ 16,508	\$ 15,483
Acquisition of LoJack	47,056	-
Acquisition of Crashboxx	-	1,025
Balance at end of period	\$ 63,564	\$ 16,508

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

	Amortization Period	Gross		Accumulated Amortization			Net		
		Feb. 29, 2016	Nov. 30, 2016	Feb. 29, 2016	Nov. 30, 2016	Nov. 30, 2016	Feb. 29, 2016		
Supply contract	5 years	\$ 2,220	-	\$ 2,220	\$ 1,679	\$ 325	\$ 2,004	\$ 216	\$ 541
Developed technology	2-7 years	14,080	8,200	22,280	6,427	2,905	9,332	12,948	7,653
Tradenames	7-10 years	2,143	35,500	37,643	1,522	2,741	4,263	33,380	621
Customer lists	4-7 years	18,300	4,650	22,950	10,358	3,483	13,841	9,109	7,942
Dealer relationships	7 years	-	16,850	16,850	-	1,705	1,705	15,145	-
Covenants not to compete	5 years	170	-	170	128	25	153	17	42
Patents	5 years	273	67	340	62	19	81	259	211
		\$ 37,186	\$ 65,267	\$ 102,453	\$ 20,176	\$ 11,203	\$ 31,379	\$ 71,074	\$ 17,010

Estimated future amortization expense is as follows (in thousands):

Fiscal Year	
2017 (remainder)	\$ 3,866
2018	15,008
2019	11,663
2020	9,655
2021	7,833
Thereafter	23,049
	\$ 71,074

**NOTE 6 OTHER ASSETS**

Other assets consist of the following (in thousands):

	November 30,	February 29,
	2016	2016
Deferred compensation plan assets	\$ 5,443	\$ 3,370
Investment in international licensees	2,256	-
Equity investment in and loans to UK affiliate	1,407	1,167
Other	2,181	637
Investment in LoJack common stock	-	5,466
	\$ 11,287	\$ 10,640

## Edgar Filing: CalAmp Corp. - Form 10-Q

Included in the assets of the LoJack acquisition are investments in international licensees at the preliminary valuation of \$2,256,000 consisting of a 12.5% equity interest in LoJack's Mexican licensee of \$1,541,000, a 17.5% equity interest in LoJack's Benelux licensee of \$500,000, and a 5.5% interest in LoJack's French licensee of \$215,000. The Company has not yet obtained all information required to complete the valuation of the Mexican and Benelux investments. The investment in LoJack's French licensee, in the form of a marketable equity security, is accounted for as an available-for-sale security and is valued at the quoted closing price on its market exchange as of the reporting date.



The equity investment and loans to the Company's UK affiliate of \$1,407,000 include a 49% equity interest in and loans to Smart Driver Club Limited. The investment is accounted for under the equity method since the Company has significant influence over the investee. The Company's equity in the net loss of this affiliate amounted to \$1.0 million for the nine months ended November 30, 2016. The Company made loans aggregating \$1.4 million denominated in British pounds to Smart Driver Club Limited bearing interest at an annual interest rate of 8%, with principal of £1.0 million and all unpaid interest due in 2020.

LoJack became a wholly-owned subsidiary of the Company in March 2016, at which time the investment in LoJack common stock of \$5.5 million as of February 29, 2016 became part of the purchase price of the LoJack acquisition, as described in Note 2.

## NOTE 7 - FINANCING ARRANGEMENTS

### Bank Credit Facility

The Company has a credit facility with Square 1 Bank that provides for borrowings up to \$15 million or 85% of eligible accounts receivable, whichever is less. The credit facility expires on March 1, 2017. Borrowings under this line of credit bear interest at the bank's prime rate. There were no borrowings outstanding under this credit facility at November 30, 2016 or February 29, 2016.

The bank credit facility contains financial covenants that require the Company to maintain a minimum level of earnings before interest, income taxes, depreciation, amortization and other noncash charges (EBITDA) and a minimum debt coverage ratio, both measured monthly on a rolling 12-month basis. At November 30, 2016, the Company was in compliance with its debt covenants under the credit facility.

### 1.625% Convertible Senior Unsecured Notes

As of November 30, 2016, the Company had \$172.5 million aggregate principal amount of convertible senior unsecured notes (the Notes) outstanding. The Notes are senior unsecured obligations of the Company and bear interest at a rate of 1.625% per year payable in cash on May 15 and November 15 of each year beginning on November 15, 2015. The Notes will mature on May 15, 2020 unless earlier converted or repurchased in accordance with their terms. The Company may not redeem the Notes prior to their stated maturity date. The Notes will be convertible into cash, shares of the Company's common stock or a combination of cash and shares of common stock, at the Company's election, based on an initial conversion rate of 36.2398 shares of common stock per \$1,000 principal amount of Notes, which is equivalent to an initial conversion price of \$27.594 per share of common stock, subject to customary adjustments. Holders may convert their Notes at their option at any time prior to November 15, 2019 upon the occurrence of certain events in the future, as defined in the indenture agreement dated May 6, 2015 (the Indenture). During the period from November 15, 2019 to May 13, 2020, holders may convert all or any portion of their Notes regardless of the foregoing conditions. The Company's intent is to settle the principal amount of the Notes in cash upon conversion. If the conversion value exceeds the Note principal amount, the Company would deliver shares of its common stock in respect to the remainder of its conversion obligation in excess of the aggregate principal amount (the conversion spread). The shares associated with the conversion spread, if any, would be included in the denominator for the computation of diluted earnings per share, with such shares calculated using the average closing price of the Company's common stock during each period. As of November 30, 2016, none of the conditions allowing holders of the Notes to convert have been met.

If the Company undergoes a fundamental change (as defined in the Indenture), holders of the Notes may require the Company to repurchase their Notes at a repurchase price of 100% of the principal amount of the Notes, plus any accrued and unpaid interest, if any, to but not including the fundamental change repurchase date.

In addition, following certain corporate events that occur prior to maturity, the Company will increase the conversion rate for a holder who elects to convert its Notes in connection with such a corporate event in certain circumstances. In such event, an aggregate of up to 2.5 million additional shares of common stock could be issued upon conversions in connection with such corporate events, subject to adjustment in the same manner as the conversion rate.

Balances attributable to the Notes consist of the following (in thousands):

	<b>November 30, 2016</b>	<b>February 29, 2016</b>
Principal	\$ 172,500	\$ 172,500
Less: Unamortized debt discount	(24,371)	(29,002)
Unamortized debt issuance costs	(3,108)	(3,698)
Net carrying amount of the Notes	\$ 145,021	\$ 139,800

The Notes are carried at their principal amount, net of unamortized debt discount and issuance costs, and are not carried at fair value at each period end. The issuance date fair value of the liability component of the Notes in the amount of \$138.9 million was determined using a discounted cash flow analysis, in which the projected interest and principal payments were discounted back to the issuance date of the Notes at a market interest rate for nonconvertible debt of 6.2%, which represents a Level 3 fair value measurement. The debt discount of \$33.6 million is being amortized to interest expense using the effective interest method with an effective interest rate of 6.2% over the period from the issuance date through the contractual maturity date of the Notes of May 15, 2020. The approximate fair value of the Notes as of November 30, 2016 was \$166 million, which was estimated on the basis of inputs that are observable in the market and which is considered a Level 2 measurement method in the fair value hierarchy.

See Note 14 for information related to interest expense on the Notes.

#### NOTE 8 - 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. The Company evaluates the realizability of its deferred income tax assets and a valuation allowance is provided, as necessary. In assessing this valuation allowance, the Company reviews historical and future expected operating results and other factors, including its recent cumulative earnings experience, expectations of future taxable income by taxing jurisdiction and the carryforward periods available for tax reporting purposes, to determine whether it is more likely than not that deferred tax assets are realizable.

The Company files income tax returns in the U.S. federal jurisdiction, various U.S. states and Puerto Rico, Canada, United Kingdom, Ireland, Italy, Netherlands, Brazil, Mexico, Uruguay and New Zealand. Income tax returns filed for fiscal year 2011 and earlier are not subject to examination by U.S. federal and state tax authorities. Certain income tax returns for fiscal years 2012 through 2016 remain open to examination by U.S. federal and state tax authorities. However, to the extent allowed by law, the tax authorities may have the right to examine prior periods in which net operating losses or tax credits were generated and carried forward, and to make adjustments up to the net operating loss or tax credit carryforward amount. Income tax returns for fiscal years 2013 through 2016 remain open to examination by tax authorities in Canada, United Kingdom, Ireland, Italy, Netherlands, Brazil, Mexico, Uruguay, New Zealand, and Puerto Rico.

#### NOTE 9 - EARNINGS PER SHARE

Basic earnings per share is computed by dividing net income for the period by the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed by dividing net income for the period by the weighted average number of common shares outstanding during the period, plus the dilutive effect of outstanding stock options and restricted stock-based awards using the treasury stock method. The following table sets forth the composition of weighted average shares used in the computation of basic and diluted earnings per share (in thousands):

	<b>Three Months Ended November 30,</b>		<b>Nine Months Ended November 30,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Basic weighted average number of common shares outstanding	35,731	36,319	36,196	36,138
Effect of stock options and restricted stock units computed on treasury stock method	-	484	-	590
Diluted weighted average number of common shares outstanding	35,731	36,803	36,196	36,728



All outstanding options and restricted stock units in the amount of 995,000 and 1,266,000, respectively, at November 30, 2016 were excluded from the computation of diluted earnings per share for the three and nine month periods then ended because the Company reported a net loss and the effect of inclusion would be antidilutive. Shares subject to anti-dilutive stock options and restricted stock-based awards of 242,000 at November 30, 2015 were excluded from the calculations of diluted earnings per share for the three and nine month periods then ended.

The Company has the option to pay cash, issue shares of common stock or any combination thereof for the aggregate amount due upon conversion of the Notes. The Company's intent is to settle the principal amount of the Notes in cash upon conversion. As a result, only the shares issuable for the conversion value, if any, in excess of the principal amounts of the Notes would be included in diluted earnings per share. From the time of the issuance of Notes, the average market price of the Company's common stock has been less than the \$27.594 initial conversion price of the Notes, and consequently no shares have been included in diluted earnings per share for the conversion value of the Notes.

**NOTE 10 COMPREHENSIVE INCOME**

Comprehensive income consists of two components, net income (loss) and other comprehensive income (loss) (OCI). OCI refers to revenue, expenses and gains and losses that under U.S. Generally Accepted Accounting Principles (GAAP) are recorded as an element of stockholders equity but are excluded from net income (loss). The Company's OCI consists of foreign currency translation adjustments from those subsidiaries not using the U.S. dollar as their functional currency and unrealized gains and losses on marketable securities classified as available-for-sale.

The following table shows the changes in Accumulated Other Comprehensive Loss by component for the nine months ended November 30, 2016 (in thousands):

	<b>Cumulative Foreign Currency Translation</b>	<b>Unrealized Gains/Losses on Marketable Securities</b>	<b>Total</b>
Balances at February 29, 2016	\$ (226)	\$ -	\$ (226)
Other comprehensive loss, net of tax	(180)	(78)	(258)
Balances at November 30, 2016	\$ (406)	\$ (78)	\$ (484)

**NOTE 11 STOCKHOLDERS EQUITY**

**Stock Repurchase**

In June 2016, the Company's Board of Directors authorized a stock repurchase program, under which the Company may repurchase up to \$25 million of its outstanding shares of common stock. Under the stock repurchase program, the Company may repurchase shares in open market purchases in accordance with all applicable securities laws and regulations, including Rule 10b-18 of the Securities Exchange Act of 1934, as amended. The extent to which CalAmp repurchases its shares, and the timing of such repurchases, will depend upon a variety of factors, including market conditions, regulatory requirements and other corporate considerations, as determined by CalAmp's management team. The repurchase program may be suspended or discontinued at any time. The Company expects to finance the purchases with existing cash balances.

During the nine months ended November 30, 2016, the Company repurchased 1.6 million shares of its common stock at an average share cost of \$14.10, including commissions. The total cost of the stock repurchases during the nine months ended November 30, 2016 was \$21.9 million. All of the stock repurchases were paid for as of November 30, 2016. All common stock repurchased was retired as of November 30, 2016. Of the \$25 million authorized for stock repurchases, \$3.1 million was remaining as of November 30, 2016.

**Equity Awards**

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

	Three Months Ended November 30,		Nine Months Ended November 30,	
	2016	2015	2016	2015
Cost of revenues	\$ 118	\$ 51	\$ 250	\$ 170
Research and development	274	217	811	579
Selling	536	325	1,234	820
General and administrative	1,136	1,009	3,374	2,642
	\$ 2,064	\$ 1,602	\$ 5,669	\$ 4,211

Changes in the Company's outstanding stock options during the nine months ended November 30, 2016 were as follows (options in thousands):

	Number of Options	Weighted Average Exercise
Outstanding at February 29, 2016	860	\$ 6.96
Granted	228	14.49
Exercised	(86)	9.74
Forfeited or expired	(7)	(15.70)
Outstanding at November 30, 2016	995	\$ 8.39
Exercisable at November 30, 2016	664	\$ 4.92

Changes in the Company's outstanding restricted stock shares, performance stock units ( PSUs ) and restricted stock units ( RSUs ) during the nine months ended November 30, 2016 were as follows (shares, PSUs and RSUs in thousands):

	Number of Restricted Shares, PSUs and RSUs	Weighted Average Grant Date Fair Value
Outstanding at February 29, 2016	953	\$ 16.66
Granted	760	14.63
Vested	(353)	14.87
Forfeited	(94)	15.68
Outstanding at November 30, 2016	1,266	\$ 16.01

During the nine months ended November 30, 2016, the Company retained 110,815 shares of vested restricted stock and RSUs to satisfy the minimum required statutory amount of employee withholding taxes.

As of November 30, 2016, there was \$19.1 million of total unrecognized stock-based compensation cost related to outstanding nonvested equity awards that is expected to be recognized as expense over a weighted-average remaining vesting period of 3.0 years.

**NOTE 12 - CONCENTRATION OF RISK**

One Wireless DataCom customer in the heavy equipment industry accounted for 8% and 15% of consolidated accounts receivable at November 30, 2016 and February 29, 2016, respectively.

The Company has contract manufacturing arrangements with sole source suppliers for LoJack stolen vehicle recovery products and transmission towers. As of November 30, 2016, one such supplier accounted for 11% of the Company's total inventory purchases in the nine months ended November 30, 2016, and 12% of the Company's total accounts payable. Some of the Company's other components, assemblies and electronic manufacturing services are also purchased from sole source suppliers. In addition, a substantial portion of the Company's inventory is purchased from one supplier that functions as an independent foreign procurement agent and contract manufacturer. This supplier accounted for 37% and 55% of the Company's total inventory purchases in the nine months ended November 30, 2016 and 2015, respectively. As of November 30, 2016, this supplier accounted for 34% of the Company's total accounts payable. Another supplier accounted for 13% and 16% of the Company's total inventory purchases in the nine months ended November 30, 2016 and 2015, respectively, and 18% of the Company's total accounts payable as of November 30, 2016.

**NOTE 13 - PRODUCT WARRANTIES**

The Company generally warrants its products against defects over periods ranging from 12 to 24 months. 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 fiscal quarter, the Company adjusts its liability for warranty claims based on its actual warranty claims experience as a percentage of revenues for the preceding one to two years and also considers the impact of the known operational issues that may have a greater impact than historical trends. The warranty reserve is included in Other Current Liabilities in the unaudited consolidated balance sheets. Activity in the accrued warranty costs liability for the nine months ended November 30, 2016 and 2015 is as follows (in thousands):

	<b>Nine Months Ended November 30,</b>	
	<b>2016</b>	<b>2015</b>
Balance at beginning of period	\$ 1,892	\$ 1,819
Assumed from acquisition of LoJack	1,883	-
Charged to costs and expenses	916	1,088
Deductions	(2,127)	(781)
Balance at end of period	\$ 2,564	\$ 2,126

In September 2014, LoJack commenced a quality assurance program in the U.S. related to a battery performance issue in self-powered LoJack units under base or extended warranty. LoJack also entered into agreements to support quality assurance programs with all major international licensees that identified performance issues in certain self-powered units equipped with the battery pack. At November 30, 2016, the Company had a reserve of \$0.8 million, which is included in the accrued warranty costs liability, for certain costs associated with this program in the U.S., quality assurance programs in other countries and markets, and other business concessions related to the battery performance matter as further described in Note 16. CalAmp anticipates that the U.S. quality assurance program will be completed by the end of fiscal 2018.

**NOTE 14 OTHER FINANCIAL INFORMATION****Supplemental Balance Sheet Information**

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

	November 30, 2016	February 29, 2016
Deferred compensation plan liability	\$ 5,468	\$ 3,392
Deferred revenue	7,668	1,070
Deferred rent	413	559
Acquisition-related contingent consideration	610	530
Other	1,085	-
	\$ 15,244	\$ 5,551

The acquisition-related contingent consideration is comprised of the estimated earn-out payable to the sellers in conjunction with the Company's April 2015 acquisition of Crashboxx.

**Supplemental Statements of Comprehensive Income (Loss) Information**

Investment income consists of the following (in thousands):

	Three Months Ended November 30,		Nine Months Ended November 30,	
	2016	2015	2016	2015
Investment income on cash equivalents and marketable securities	\$ 129	\$ 360	\$ 458	\$ 511
Investment income (loss) on deferred compensation plan Rabbi Trust assets	72	78	537	(88)
Dividend income	-	-	114	-
Total investment income	\$ 201	\$ 438	\$ 1,109	\$ 423

Interest expense consists of the following (in thousands):

	Three Months Ended November 30,		Nine Months Ended November 30,	
	2016	2015	2016	2015
Interest expense on convertible senior unsecured notes:				
Stated interest at 1.625% per annum	\$ 701	\$ 685	\$ 2,103	\$ 1,567
Amortization of note discount	1,562	1,370	4,631	3,106
Amortization of debt issue costs	199	175	590	396
	2,462	2,230	7,324	5,069
Other interest expense	17	22	53	111
Total interest expense	\$ 2,479	\$ 2,252	\$ 7,377	\$ 5,180

**Supplemental Cash Flow Information**

Net cash provided by operating activities includes cash payments for interest and income taxes as follows (in thousands):

	Nine Months Ended November 30,	
	2016	2015
Interest expense paid	\$ 2,851	\$ 1,511

Edgar Filing: CalAmp Corp. - Form 10-Q

Income tax paid	\$	1,202	\$	365
-----------------	----	-------	----	-----



Edgar Filing: CalAmp Corp. - Form 10-Q

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

	Nine Months Ended November 30, 2016		2015	
Acquisition of Crashboxx in April 2015:				
Accrued liability for earn-out consideration	\$	-	\$	455

**NOTE 15 - SEGMENT INFORMATION**

Segment information for the three and nine months ended November 30, 2016 and 2015 is as follows (dollars in thousands):

	Three Months Ended November 30, 2016				Three Months Ended November 30, 2015			
	Operating Segments		Corporate		Operating Segments		Corporate	
	Wire less	Satellite	Expenses	Total	Wireless	Satellite	Expenses	Total
	DataCom	Satellite	Expenses	Total	DataCom	Satellite	Expenses	Total
Revenues	\$ 83,350	\$ -	\$ -	\$ 83,350	\$ 62,842	\$ 11,833	\$ -	\$ 74,675
Gross profit	\$ 35,117	\$ -	\$ -	\$ 35,117	\$ 23,416	\$ 3,158	\$ -	\$ 26,574
Gross margin	42.1%	-	-	42.1%	37.3%	26.7%	-	35.6%
Operating income	\$ 3,171	\$ -	\$ (1,378)	\$ 1,793	\$ 7,389	\$ 2,415	\$ (1,191)	\$ 8,613

  

	Nine Months Ended November 30, 2016				Nine Months Ended November 30, 2015			
	Operating Segments		Corporate		Operating Segments		Corporate	
	Wireless	Satellite	Expenses	Total	Wireless	Satellite	Expenses	Total
	DataCom	Satellite	Expenses	Total	DataCom	Satellite	Expenses	Total
Revenues	\$ 249,907	\$ 15,069	\$ -	\$ 264,976	\$ 182,487	\$ 27,425	\$ -	\$ 209,912
Gross profit	\$ 103,836	\$ 3,729	\$ -	\$ 107,565	\$ 68,102	\$ 7,301	\$ -	\$ 75,403
Gross margin	41.5%	24.7%	-	40.6%	37.3%	26.6%	-	35.9%
Operating income	\$ 9,243	\$ 1,547	\$ (7,129)	\$ 3,661	\$ 21,808	\$ 5,192	\$ (3,445)	\$ 23,555

The Company considers operating income to be a primary measure of operating performance of its business segments. The amount shown for each period in the Corporate Expenses column above consists of expenses that are not allocated to the business segments. These non-allocated corporate expenses include salaries and benefits of certain corporate staff and expenses such as audit fees, investor relations, stock listing fees, director and officer liability insurance, and director fees and expenses.

Products of the Company's Satellite segment were sold to EchoStar. In August 2016, EchoStar ceased purchasing products from CalAmp and the Satellite business was shut down effective August 31, 2016. Historically, shared service expenses for accounting, human resources, information technology and legal administration have been allocated to the two reporting segments. Any such shared expenses that will not be eliminated in future periods as a result of the shutdown of the Satellite business have been reclassified in the segment information for all periods presented above from the Satellite segment to the Wireless DataCom segment, with no effect on total operating income.

In fiscal 2016 and the fiscal 2017 nine month period to November 30, 2016, Satellite segment revenues accounted for only 14% and 6%, respectively, of the Company's consolidated revenues. After giving retroactive effect to the reclassification of general and administration expense from the Satellite segment to the Wireless DataCom segment for shared service expenses that will not be eliminated as a result of the Satellite business shutdown, Satellite segment operating income in fiscal 2016 and the fiscal 2017 nine month period represented 23% and 14%, respectively, of total business unit operating income, excluding corporate expenses not allocated to the business units of \$6,480,000 and \$7,129,000 in fiscal 2016 and the fiscal 2017 nine month period, respectively. Also, as a result of transitioning the Satellite business to a variable cost operating model in fiscal 2012, in which all Satellite product manufacturing was moved to a contract manufacturer, assets and liabilities of the Satellite segment represented only about 2% of consolidated assets and liabilities at the end of fiscal 2016. Accordingly, the Company believes that the shutdown of the Satellite segment does not qualify for discontinued operations accounting treatment because it represents neither a strategic shift nor did it have or will it have a major impact on the Company's business or consolidated financial statements.



**NOTE 16 - COMMITMENTS AND CONTINGENCIES****Lease Commitments**

A summary of future payments of operating lease commitments is as follows (dollars in thousands):

2017 (remainder)	\$ 1,934
2018	6,799
2019	5,119
2020	3,198
2021	1,638
Thereafter	3,774
<b>Total</b>	<b>\$ 22,462</b>

**Legal Proceedings****Omega patent infringement claim**

In December 2013, a patent infringement lawsuit was filed against the Company by Omega Patents, LLC, ( Omega ), a non-practicing entity. Omega alleged that certain of the Company's vehicle tracking products infringed on certain patents asserted by Omega. On February 24, 2016, a jury in the U.S. District Court for the Middle District of Florida awarded Omega damages of \$2.9 million, for which CalAmp recorded a full reserve in the fiscal 2016 fourth quarter. Following trial, Omega brought a motion seeking entry of judgment, an injunction and requesting the court to exercise its discretion to treble damages and assess attorneys' fees. The Company filed an opposition to Omega's motion, and the judge's ruling has not yet been rendered. Motions for judgment as a matter of law and a new trial have not yet been filed because no judgment has been entered. If, following resolution of all post-trial motions, judgment is ultimately entered in Omega's favor, CalAmp intends to pursue an appeal at the Court of Appeals for the Federal Circuit. In addition to its appeal, CalAmp is seeking to invalidate a number of Omega's patents in actions filed with the U.S. Patent and Trademark Office. Notwithstanding the adverse jury verdict, the Company continues to believe that its products do not infringe Omega's patents and that Omega's patents are not valid, and accordingly CalAmp intends to continue pursuing its judicial and administrative options. While it is not feasible to predict with a high degree of certainty the outcome of this litigation, its ultimate resolution could be material to CalAmp's cash flows and results of operations. Furthermore, if an injunction is issued by the court, the Company could be prevented from manufacturing and selling a number of its products, which could have a material adverse effect on the Company's business, results of operations, financial condition and cash flows.

**Orbcomm patent infringement claim**

On April 7, 2016, a patent infringement lawsuit was filed against the Company by Orbcomm Inc. ( Orbcomm ) in the U.S. District Court for the Eastern District of Virginia. Orbcomm alleged that certain of the Company's systems for tracking, monitoring, and controlling vehicles, machinery, and other assets infringed five patents asserted by Orbcomm. Through its suit, Orbcomm seeks compensatory damages, treble damages, and an injunction. On October 19, 2016, pursuant to the Company's motion, filed May 27, 2016, the Court dismissed Orbcomm's claims under one of the five patents because such patent was found to be directed at ineligible subject matter and therefore invalid under 35 U.S.C. § 101. Since then, Orbcomm has dismissed its claims under three of the four other asserted patents. Accordingly, only one of the five originally asserted patents remains at issue in the suit, U.S. Patent No. 6,611,686. Orbcomm's damages claim on this remaining patent is approximately \$3.6 million through May 31, 2017. The Company believes that its products and services do not infringe this patent and that the patent is invalid. In addition, the Company alleges that this patent is unenforceable due to inequitable conduct committed by Orbcomm when it revived the asserted patent claims in the Patent Office after they had been invalidated by another district court. In response to these allegations, Orbcomm then filed a motion to dismiss CalAmp's inequitable conduct counterclaim and to strike CalAmp's inequitable conduct defense. On September 9, 2016, the court denied Orbcomm's motion to dismiss and strike. Thereafter, CalAmp filed its own patent infringement suit against Orbcomm in the U.S. District Court for the Eastern District of Virginia, asserting that Orbcomm is infringing two of CalAmp's patents, U.S. Patent Nos. 6,151,355 and 6,850,839. At this early stage of the lawsuit, it is not feasible to predict with any certainty the outcome of this litigation, and the Company has made no accrual for this claim.

**EVE battery claim**

LoJack was notified in 2013 by some of its international licensees that some of the batteries manufactured by LoJack's former battery supplier, EVE Energy Co., Ltd. (EVE), and included in self-powered LoJack units these licensees had purchased from LoJack, exhibited degraded performance below LoJack's quality standards. These notifications led LoJack to perform its own investigation. As a result of this investigation, LoJack confirmed that batteries manufactured by EVE that were included in certain self-powered LoJack units sold in the United States and to LoJack's international licensees were exhibiting a failure to power over a period of time that could impact the ability of the LoJack unit to transmit a signal when called upon for stolen vehicle recovery. LoJack manufactures both vehicle and self-powered (battery) units and this degraded performance potentially affects only the transmit battery pack in the self-powered units. As of the date of this report, the majority of LoJack units in circulation are vehicle powered.

LoJack has incurred, and expects to continue to incur, costs and expenses related to the actions that it decided to take to address this matter. These costs and expenses may include, among others, those related to quality assurance programs, product or battery replacements, warranty claims, extension of product warranties, legal and other professional fees, litigation, and payments or other business concessions to LoJack's customers. Because of the ongoing nature of this matter, the Company cannot predict what other actions will be required, nor can it predict the outcome nor estimate the possible loss or range of loss with respect to any such actions. See Note 13 for the accrued warranty cost liability related to this matter.

LoJack filed a formal claim under its relevant insurance policy and was paid \$5,000,000.

On October 27, 2014, LoJack and its wholly-owned subsidiary LoJack Ireland commenced arbitration proceedings against EVE by filing a notice of arbitration with a tribunal of with the Hong Kong International Arbitration Centre (the Tribunal). The filing alleges that EVE breached representations and warranties made in a supply agreement relating to the quality and performance of batteries supplied by EVE. The arbitration proceedings against EVE were held in Hong Kong on June 6 to 24, 2016. The Tribunal held an additional hearing on September 15 to 16, 2016, and the Tribunal has scheduled an additional hearing for January 9 to 10, 2017, focused on damages. The Company cannot predict the ultimate outcome of the arbitration proceedings or the amount of damages, if any, that the Company may be awarded by the Tribunal.

In addition to the foregoing matters, from time to time as a normal consequence of doing business, various claims and litigation may be asserted or commenced against the Company. In particular, the Company in the ordinary course of business may receive claims concerning contract performance, or claims that its products or services infringe the intellectual property of third parties. While the outcome of any such claims or litigation cannot be predicted with certainty, management does not believe that the outcome of any of such matters existing at the present time would have a material adverse effect on the Company's business, results of operations, financial condition and cash flows.

### **LoJack Financing Recourse Agreement**

LoJack's financing recourse agreement to certain automobile dealers represents the maximum potential amount of future payments under an agreement with a certain financing company. Pursuant to the recourse agreement, the Company will reimburse participating dealers the unamortized dealer cost of LoJack units purchased by customers via auto loans underwritten by the financing company upon a borrower's default within the initial 18 months of the auto loan. This agreement was renewed for the year ending December 31, 2016. Based on the unamortized cost of units sold and assuming the default of all borrowers, the Company's maximum potential amount of future payments under this agreement is \$4.2 million as of November 30, 2016. The expected obligation is accrued based on sales to the participating dealers and historical loss experience. As of November 30, 2016, the Company had accrued \$81,000 under these guarantees. Accruals for the financing recourse agreement are recorded as a reduction of revenue in the consolidated statement 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 may affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues, costs and expenses during the reporting periods. Actual results could differ materially from these estimates. The critical accounting policies listed below involve the Company's more significant accounting judgments and estimates that are used in the preparation of the consolidated financial statements. These policies are described in greater detail in Management's Discussion and Analysis of Financial Condition and Results of Operations ( MD&A ) under Part II, Item 7 of the Company's Annual Report on Form 10-K for the year ended February 29, 2016, as filed with the Securities and Exchange Commission on April 20, 2016, and include the following areas:

- Allowance for doubtful accounts;
- Inventory write-downs;
- Product warranties;
- Deferred income tax assets and uncertain tax positions;
- Impairment assessments of goodwill, purchased intangible assets and other long-lived assets;
- Stock-based compensation expense; and
- Revenue recognition.

### **RESULTS OF OPERATIONS**

#### **OUR COMPANY**

The Company is a leading provider of wireless communications products, services and solutions for a broad array of applications to customers globally. The Company's business activities are organized into our Wireless DataCom and Satellite business segments. As discussed below, the Satellite segment was shut down effective August 31, 2016.

#### **WIRELESS DATACOM**

The Company's Wireless DataCom segment offers an extensive portfolio of intelligent communications devices, a scalable cloud service platform, and targeted software applications to streamline otherwise complex Machine-to-Machine (M2M) and connected vehicle deployments. In March 2016, the Company completed the acquisition of LoJack. LoJack focuses on providing a differentiated range of connected vehicle solutions including the industry's benchmark system for effective stolen vehicle recovery. CalAmp products, services and solutions enable customers to optimize their operations by collecting, monitoring and efficiently reporting business critical data and desired intelligence from high-value mobile and remote assets.

**SATELLITE**

Up to and including the quarter ended August 31, 2016, products of the Company's Satellite segment were sold to EchoStar, an affiliate of Dish Network, for incorporation into complete subscription Direct Broadcast Satellite ( DBS ) television systems. From fiscal 2000 through fiscal 2007, the Satellite segment represented CalAmp's core business, reaching a concentration peak in fiscal 2004 when it accounted for 94% of the Company's consolidated revenue. To diversify away from the Company's dependence on the lower margin U.S. DBS products industry, during a 36 month period beginning in April 2004, the Company consummated six business and product line acquisitions to grow its Wireless DataCom business. As a result of these and subsequent acquisitions and organic growth in this segment, combined with a substantial decline in sales to EchoStar as a result of a DBS product performance issue in fiscal 2008, Wireless DataCom revenues surpassed Satellite revenues for the first time in fiscal 2008, and from that year through fiscal 2016 Wireless DataCom annual revenues have ranged between two and six times the amount of Satellite segment revenues, with the exception of the recession-impacted fiscal 2010.

In April 2016, EchoStar notified the Company that it would stop purchasing products from the Company at the end of its then-current product demand forecast as a result of a consolidation of its supplier base. EchoStar's product demand forecast with CalAmp extended through August 2016, and the products covered by this forecast were substantially all shipped prior to August 31, 2016. In light of the fact that EchoStar accounted for essentially all of the revenues of the Satellite segment, and it was not considered feasible to resume doing business with DirecTV, the only other DBS service provider in the U.S. that CalAmp last sold product to in fiscal 2009, the Company's Satellite business was shut down effective August 31, 2016.

In fiscal 2016 and the fiscal 2017 nine month period, Satellite segment revenues accounted for only 14% and 6%, respectively, of the Company's consolidated revenues. After giving retroactive effect to the reclassification of general and administration expense from the Satellite segment to the Wireless DataCom segment for shared service expenses that will not be eliminated as a result of the Satellite business shutdown, Satellite segment operating income in fiscal 2016 and the fiscal 2017 nine month period represented 23% and 14%, respectively, of total business unit operating income, excluding corporate expenses not allocated to the business units of \$6,480,000 and \$7,129,000 in fiscal 2016 and the fiscal 2017 nine month period, respectively. Also, as a result of transitioning the Satellite business to a variable cost operating model in fiscal 2012, in which all DBS product manufacturing was moved to a contract manufacturer, assets and liabilities of the Satellite segment represented only about 2% of consolidated assets and liabilities at the end of fiscal 2016. Accordingly, the Company believes that the shutdown of the Satellite segment does not qualify for discontinued operations accounting treatment because it represents neither a strategic shift nor did it have or will it have a major impact on the Company's business or consolidated financial statements.

**Operating Results by Reporting Segment**

The Company's revenue, gross profit and operating income by reporting segment are as follows:

**REVENUE BY SEGMENT**

Segment	Three Months Ended November 30,				Nine Months Ended November 30,			
	2016		2015		2016		2015	
	\$000s	% of Total	\$000s	% of Total	\$000s	% of Total	\$000s	% of Total
Wireless DataCom	\$ 83,350	100.0%	\$ 62,842	84.2%	\$ 249,907	94.3%	\$ 182,487	86.9%
Satellite	-	0.0%	11,833	15.8%	15,069	5.7%	27,425	13.1%
Total	\$ 83,350	100.0%	\$ 74,675	100.0%	\$ 264,976	100.0%	\$ 209,912	100.0%

## GROSS PROFIT BY SEGMENT

Segment	Three Months Ended November 30,				Nine Months Ended November 30,			
	2016		2015		2016		2015	
	\$000s	% of Total	\$000s	% of Total	\$000s	% of Total	\$000s	% of Total
Wireless DataCom	\$ 35,117	100.0%	\$ 23,416	88.1%	\$ 103,836	96.5%	\$ 68,102	90.3%
Satellite	-	0.0%	3,158	11.9%	3,729	3.5%	7,301	9.7%
Total	\$ 35,117	100.0%	\$ 26,574	100.0%	\$ 107,565	100.0%	\$ 75,403	100.0%

## OPERATING INCOME BY SEGMENT

Segment	Three Months Ended November 30,				Nine Months Ended November 30,			
	2016		2015		2016		2015	
	\$000s	% of Total Revenue	\$000s	% of Total Revenue	\$000s	% of Total Revenue	\$000s	% of Total Revenue
Wireless DataCom	\$ 3,171	3.8%	\$ 7,389	9.9%	\$ 9,243	3.5%	\$ 21,808	10.4%
Satellite	-	0.0%	2,415	3.2%	1,547	0.6%	5,192	2.5%
Corporate expenses	(1,378)	(1.7%)	(1,191)	(1.6%)	(7,129)	(2.7%)	(3,445)	(1.7%)
Total	\$ 1,793	2.1%	\$ 8,613	11.5%	\$ 3,661	1.4%	\$ 23,555	11.2%

## Revenue

Wireless DataCom revenue increased by \$20.5 million, or 33%, to \$83.4 million in the third quarter of fiscal 2017 compared to the fiscal 2016 third quarter. This increase was due to the revenue contribution of the recently acquired LoJack business, which accounted for revenue of \$29.9 million in the third quarter, offset by a decrease in Mobile Resource Management ( MRM ) product revenues. For the nine months ended November, 2016, Wireless DataCom revenue increased by \$67.4 million, or 37%, to \$249.9 million compared to the same period in the prior year. This increase was due to the LoJack business, which contributed \$89.7 million to revenue, and a \$4.3 million increase in revenue from our heavy equipment customer, offset by decreases in revenue of our other lines of business, primarily MRM product revenues.

There were no sales in the Satellite segment in the three months ended November 30, 2016 compared to revenues of \$11.8 million in the same period last year, and for the nine months ended November 30, 2016, Satellite revenue decreased by \$12.4 million, or 45%, to \$15.1 million from \$27.4 million for the same period of the prior year. These decreases were due to the cessation of product demand on the part of EchoStar, the Satellite segment's sole customer which, as explained above, led the Company to shut down its Satellite business effective August 31, 2016.

## Gross Profit and Gross Margins

Wireless DataCom gross profit increased by \$11.7 million to \$35.1 million in the fiscal 2017 third quarter compared to \$23.4 million in the third quarter of last year primarily as a result of higher revenue. Gross margin increased to 42.1% in the third quarter of fiscal 2017 from 37.3% in the third quarter of fiscal 2016. These improvements were primarily due to higher margins for the LoJack business acquired in March 2016.

Wireless DataCom gross profit increased 53% to \$103.8 million in the nine months ended November 30, 2016, compared to \$68.1 million for the same period of the prior year primarily due to increased revenue. Gross margin increased to 41.5% in the nine months ended November 30, 2016 from 37.3% for the same period of the prior year primarily due to higher margins for the LoJack business.

The Satellite segment had gross profit of \$3.7 million for the nine months ended November 30, 2016, compared to gross profit of \$7.3 million for the same period of last year. Satellite's gross margin decreased to 24.7% in the nine months ended November 30, 2016 compared to 26.6% in the same period of the prior year. These decreases were due to lower revenue resulting from the closing of the Satellite business at the end of the fiscal 2017 second quarter.

## Operating Expenses

Consolidated research and development ( R&D ) expense increased by \$0.2 million to \$5.3 million in the third quarter of fiscal 2017 from \$5.1 million in the third quarter of last year. For the nine month year-to-date periods, R&D increased by \$2.6 million from \$14.7 million last year to \$17.3 million this year. These increases were due primarily to LoJack R&D expense.

Consolidated selling expense increased by \$6.8 million to \$12.8 million in the third quarter of this year compared to \$6.0 million in the third quarter of last year due primarily to the LoJack acquisition, which accounted for \$6.5 million of the increase. The remaining increase was due to higher payroll expense as a result of additional sales and marketing personnel and stock compensation expenses. For the nine month year-to-date periods, selling expenses increased by \$19.5 million to \$36.8 million due to the same factors cited above for the three month periods. The LoJack acquisition accounted for \$18.0 million of the increase for the nine month year-to-date periods.

Consolidated general and administrative ( G&A ) expenses increased by \$6.2 million to \$11.4 million in the third quarter of this year compared to \$5.2 million in the third quarter of last year due primarily to the LoJack G&A expenses, which accounted for \$4.8 million of the increase. The remaining increase in G&A expenses was due to higher legal expenses related to two patent infringement lawsuits. For the nine month periods, consolidated G&A increased by \$23.7 million to \$38.6 million this year due primarily to the LoJack G&A expenses, which accounted for \$16.5 million of the increase. Also, transaction and integration expenses for the LoJack acquisition were \$4.2 million in the nine months ended November 30, 2016. The remaining increase in G&A expenses for the nine month periods was due to higher legal expenses related to two patent infringement lawsuits and higher stock compensation expenses.

Amortization of intangibles increased from \$1.7 million in the third quarter of last year to \$3.9 million in the third quarter of this year. For the nine month periods, amortization of intangibles increased from \$5.0 million last year to \$11.2 million this year. These increases were due to the amortization of new intangibles associated with the acquisition of LoJack in the fiscal 2017 first quarter.

## Non-operating Expense, Net

Investment income was \$201,000 in the third quarter of this year compared to \$438,000 last year, due to a decrease in investment income on cash equivalents and marketable securities. Investment income increased to \$1.1 million in the nine months ended November 30, 2016 compared to \$423,000 in the comparable period of the prior year due to an increase in investment income on deferred compensation plan Rabbi Trust assets and dividend income of \$114,000 received from a minority-owned LoJack licensee during the nine months ended November 30, 2016.

Interest expense increased to \$2.5 million in the third quarter of this year compared to \$2.3 million in the third quarter of last year, and increased to \$7.4 million in the nine months ended November 30, 2016 compared to \$5.2 million in the nine months ended November 30, 2015 due to interest expense associated with the convertible notes issued in May 2015.

See Note 14 to the accompanying unaudited consolidated financial statements for additional information on investment income and interest expense.

## Income Tax Provision

The Company evaluates its estimated annual effective tax rate ( ETR ) on a quarterly basis based on current and forecasted operating results. The relationship between the Company's income tax provision or benefit and its pretax book income or loss can vary significantly from period to period considering, among other factors, the overall level of pretax book income or loss and changes in the blend of income or loss that is taxed at high effective rates domestically versus pretax book income or loss that is taxed at low effective rates internationally. Consequently, the Company's ETR may fluctuate significantly period to period and may make quarterly comparisons less than meaningful.

The Company has an income tax benefit of \$120,000 for the nine months ended November 30, 2016 due primarily to the geographic mix of earnings (losses) as a result of the acquisition of LoJack in fiscal 2017. The income tax benefit was estimated using a discrete period computation. The Company cannot develop a reliable estimate of an annual effective tax rate since a small change in the Company's estimated ordinary income could produce a significant change in the ETR. In such a case, an estimate of the ETR would not be reliable if a small change in ordinary income were likely to occur.

The income tax provision was \$7.0 million for the nine months ended November 30, 2015, with an ETR of 37.4%.



## LIQUIDITY AND CAPITAL RESOURCES

In June 2016, the Company's Board of Directors authorized a stock repurchase program, under which the Company may repurchase up to \$25 million of shares of its outstanding common stock. Under the stock repurchase program, the Company may repurchase shares in open market purchases in accordance with all applicable securities laws and regulations, including Rule 10b-18 of the Securities Exchange Act of 1934, as amended. The extent to which CalAmp repurchases its shares, and the timing of such repurchases, will depend upon a variety of factors, including market conditions, regulatory requirements and other corporate considerations, as determined by CalAmp's management team. The repurchase program may be suspended or discontinued at any time. The Company expects to finance the purchases with existing cash balances.

During the nine months ended November 30, 2016, the Company repurchased 1.6 million shares of its common stock at an average share cost of \$14.10, including commissions. The total cost of the stock repurchases during the nine months ended November 30, 2016 was \$21.9 million. All of the stock repurchases were paid for as of November 30, 2016. All common stock repurchased was retired as of November 30, 2016. Of the \$25 million authorized for share repurchases, \$3.1 million was remaining as of November 30, 2016.

In March 2016 the Company completed the acquisition of LoJack. The Company funded the acquisition from cash on hand. The total purchase price was \$131.7 million which included the \$5.5 million fair value of 850,100 shares of LoJack common stock that were purchased by CalAmp in the open market in November and December 2015, prior to entering into a definitive acquisition agreement with LoJack.

In May 2015, the Company issued \$172.5 million aggregate principal amount of 1.625% convertible senior unsecured notes due May 15, 2020. The Company has used, and expects to continue to use, the remaining net proceeds from the offering of the convertible notes for general corporate purposes including, but not limited to, acquisitions or other strategic transactions, working capital and repurchases of the Company's stock.

The Company has a credit facility with Square 1 Bank that provides for borrowings up to \$15 million or 85% of eligible accounts receivable, whichever is less. The credit facility expires on March 1, 2017. Borrowings under this line of credit bear interest at the bank's prime rate. There were no borrowings outstanding under this credit facility at November 30, 2016 or February 29, 2016.

The Square 1 Bank credit facility contains financial covenants that require the Company to maintain a minimum level of earnings before interest, income taxes, depreciation, amortization and other noncash charges ( EBITDA ) and a minimum debt coverage ratio, both measured monthly on a rolling 12-month basis. At November 30, 2016, the Company was in compliance with its debt covenants under the credit facility.

The Company's primary sources of liquidity are its cash, cash equivalents, marketable securities and the credit facility with Square 1 Bank. During the nine months ended November 30, 2016, cash and cash equivalents decreased by \$64.2 million. The decrease was primarily due to the cash used for the acquisition of LoJack, net of cash acquired, of \$117.0 million. Other uses of cash were common stock repurchases of \$21.9 million, capital expenditures of \$5.8 million, taxes paid related to net share settlement of vested equity awards of \$1.6 million, and advances to an unconsolidated affiliate of \$1.4 million. Offsetting these uses of cash and cash equivalents was cash provided by operations of \$19.8 million, net proceeds from maturities of marketable securities of \$63.0 million, and proceeds from stock option exercises of \$0.8 million.

**Contractual Cash Obligations**

The following is a summary of the Company's contractual cash obligations at November 30, 2016 (in thousands):

	Future Estimated Cash Payments Due by Fiscal Year						
	2017 (remainder)	2018	2019	2020	2021	Thereafter	Total
Convertible senior notes principal	\$ -	\$ -	\$ -	\$ -	\$ 172,500	\$ -	\$ 172,500
Convertible senior notes stated interest	-	2,803	2,803	2,803	1,402	-	9,811
Operating leases	1,934	6,799	5,119	3,198	1,638	3,774	22,462
Purchase obligations	32,965	-	-	-	-	-	32,965
Other contractual commitments	1,873	-	-	-	-	-	1,873
Total contractual obligations	\$ 36,772	\$ 9,602	\$ 7,922	\$ 6,001	\$ 175,540	\$ 3,774	\$ 239,611

Purchase obligations consist primarily of inventory purchase commitments.

**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, 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, competitive pressures and pricing declines in the Company's markets, the timing of customer approvals of new product designs, intellectual property infringement claims, interruption or failure of our Internet-based systems used to wirelessly configure and communicate with the tracking and monitoring devices that we sell, the risk that we do not repurchase some or all of the shares we anticipate purchasing pursuant to our stock repurchase program, and other risks and uncertainties that are set forth in Part I, Item 1A of the Annual Report on Form 10-K for the year ended February 29, 2016 as filed with the Securities and Exchange Commission on April 20, 2016. Such risks and uncertainties could cause actual results to differ materially from historical or anticipated results. 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****Foreign Currency Risk**

The Company has international operations, giving rise to exposure to market risks from changes in foreign exchange rates. A cumulative foreign currency translation loss of \$406,000 related to the Company's foreign subsidiaries is included in accumulated other comprehensive loss in the stockholders' equity section of the consolidated balance sheet at November 30, 2016. The aggregate foreign currency transaction exchange rate losses included in determining income (loss) before income taxes and equity in net loss of affiliate were \$173,000 and \$31,000 in the nine months ended November 30, 2016 and 2015, respectively.

**Interest Rate Risk**

The Company's exposure to market rate risk for changes in interest rates relates primarily to its investment portfolio. The primary objective of the Company's investment activities is to preserve principal and liquidity while at the same time maximizing yields without significantly increasing risk. To achieve this objective, the Company maintains its portfolio of short-term and long-term investments in a variety of available-for-sale fixed debt securities, including both government and corporate obligations and money market funds. Investments in fixed rate interest earning instruments carry a degree of interest rate risk. Fixed rate securities may have their fair market value adversely impacted due to a rise in prevailing interest rates. Due in part to these factors, the Company may suffer losses in principal if it needs the funds prior to maturity and chooses to sell securities that have declined in market value due to changes in interest rates or perceived credit risk related to the securities issuers.



The Company has variable-rate bank debt. A fluctuation of one percent in the interest rate on the \$15 million credit facility with Square 1 Bank would have an annual impact of approximately \$150,000 on the Company's results of operations assuming that the full amount of the facility was borrowed. There were no borrowings outstanding on this facility at November 30, 2016.

#### **ITEM 4. CONTROLS AND PROCEDURES**

##### **Disclosure Controls and Procedures**

During the review of the financial statements for the quarter ended November 30, 2016, the Company's independent auditors identified a material weakness in the Company's internal controls over the classification of cash equivalents and marketable securities. This condition resulted in the misclassification of a short-term marketable security with a carrying amount of \$7.0 million as a cash equivalent security. After re-evaluation, the Company reclassified the investment to short-term marketable securities in its November 30, 2016 consolidated balance sheet. This reclassification had no impact on the aggregate amount of cash, cash equivalents and marketable securities as of November 30, 2016, nor on operating cash flow for the three and nine month periods then ended. To remediate this internal control weakness the Company implemented new control procedures over the classification of cash equivalents and marketable securities. This internal control weakness will not be considered remediated until the new control procedures operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively. The Company expects that this internal control weakness will be fully remediated during the fourth quarter ending February 28, 2017.

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, due to the internal control weakness described above, the Company's disclosure controls and procedures are not 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 and Exchange Commission. The Company's management, including our Chief Executive Officer and Chief Financial Officer, has concluded that notwithstanding the internal control weakness in our internal control over financial reporting as described above, the condensed consolidated financial statements in this Quarterly Report fairly present, in all material respects, the Company's financial position, results of operations and cash flows for the periods presented in conformity with U.S. GAAP.

##### **Internal Control Over Financial Reporting**

In March 2016, the Company acquired LoJack and, as a result, the Company has begun integrating the processes, systems and controls relating to LoJack into its existing system of internal control over financial reporting in accordance with its integration plans. Except for the processes, systems and controls relating to the integration of LoJack, there have not been any changes in the Company's internal control over 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**

See Note 16 - Commitments and Contingencies of the Notes to Unaudited Financial Statements above for information regarding the legal proceedings in which the Company is involved.

#### **ITEM 1A. RISK FACTORS**

The reader is referred to Part I, Item 1A. Risk Factors in the Company's Annual Report on Form 10-K for the year ended February 29, 2016, as filed with the Securities and Exchange Commission on April 20, 2016, for a discussion of factors that could materially affect the Company's business, financial condition, results of operations, or future results.

**ITEM 2. UNREGISTERED SALES OF SECURITIES AND USE OF PROCEEDS**

The following table contains information with respect to purchases made by or on behalf of CalAmp or any affiliated purchaser (as defined in Rule 10b-18(a) (3) under the Securities Exchange Act of 1934), of the Company's common stock during the Company's third quarter ended November 30, 2016.

	Total Number of Shares	Average Price Paid per Share (1)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that may be Purchased Under the Plans or Programs (2)
September 1 - September 30, 2016	114,876	\$ 14.99	114,876	\$ 14,826,896
October 1 - October 31, 2016	500,129	\$ 13.54	500,129	\$ 8,054,190
November 1 - November 30, 2016	359,716	\$ 13.84	359,716	\$ 3,077,360
Total	974,721	\$ 13.82	974,721	\$ 3,077,360

- (1) Average price paid per share for shares purchased as part of the Company's share repurchase program (includes brokerage commissions).

- (2) As announced on June 28, 2016, the Company's Board of Directors approved a stock repurchase program of up to \$25 million of shares of its outstanding common stock. As of November 30, 2016, \$21.9 million of the \$25 million had been utilized. The remaining \$3.1 million in the table represents the amount available to repurchase shares under the authorized repurchase program as of November 30, 2016. The Company's stock repurchase program does not obligate it to acquire any specific number of shares. Under the program, shares may be repurchased in privately negotiated and/or open market transactions, including under plans complying with Rule 10b5-1 under the Exchange Act.

**ITEM 6. EXHIBITS**

Exhibit 31.1	Chief Executive Officer Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 31.2	Chief Financial Officer Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 32	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

**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.

CALAMP CORP.

December 21, 2016  
Date

/s/ Richard Vitelle  
Richard Vitelle  
Executive Vice President & CFO  
(Principal Financial Officer and  
Chief Accounting Officer)