

CalAmp Corp.  
Form 10-Q  
December 22, 2015

**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, 2015**

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**

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**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.)

**1401 N. Rice Avenue**

**Oxnard, California**  
(Address of principal executive offices)

**93030**

(Zip Code)

**(805) 987-9000**

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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

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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 17, 2015 was 36,591,279.

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## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

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

|   | November 30,<br>2015 | February 28,<br>2015 |
|---|----------------------|----------------------|
| <b>Assets</b>   |                      |                      |
| <b>Current assets:</b>  |                      |                      |
| Cash and cash equivalents   | \$ 106,678           | \$ 34,184            |
| Short-term marketable securities  | 116,657              | 10,177               |
| Accounts receivable, less allowance for doubtful accounts of \$626 and \$673 at November 30, 2015 and February 28, 2015, respectively                             | 44,950               | 47,917               |
| Inventories   | 18,103               | 18,666               |
| Prepaid expenses and other current assets   | 3,818                | 5,110                |
| Total current assets  | 290,206              | 116,054              |
| Property, equipment and improvements, net of accumulated depreciation and amortization  | 11,285               | 10,525               |
| Deferred income tax assets  | 27,740               | 34,822               |
| Goodwill  | 16,508               | 15,483               |
| Other intangible assets, net  | 18,660               | 22,596               |
| Other assets  | 5,987                | 3,137                |
|   | \$ 370,386           | \$ 202,617           |
| <b>Liabilities and Stockholders' Equity</b>   |                      |                      |
| <b>Current liabilities:</b>   |                      |                      |
| Accounts payable  | \$ 24,919            | \$ 24,012            |
| Accrued payroll and employee benefits   | 6,036                | 5,522                |
| Deferred revenue  | 8,396                | 10,748               |
| Other current liabilities   | 5,241                | 6,723                |
| Total current liabilities   | 44,592               | 47,005               |
| 1.625% Convertible senior unsecured notes   | 138,101              | -                    |
| Other non-current liabilities   | 5,866                | 4,227                |
| <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; 36,575 and 36,225 shares issued and outstanding at November 30, 2015 and February 28, 2015, respectively | 366                  | 362                  |
| Additional paid-in capital  | 226,931              | 207,881              |
| Accumulated deficit   | (45,359)             | (56,793)             |
| Accumulated other comprehensive loss  | (111)                | (65)                 |
| Total stockholders' equity  | 181,827              | 151,385              |
|   | \$ 370,386           | \$ 202,617           |

See accompanying notes to consolidated financial statements.



**CALAMP CORP.**  
**CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME**  
(Unaudited; amounts in thousands, except per share amounts)

|  | Three Months Ended<br>November 30, |           | Nine Months Ended<br>November 30, |            |
|--|------------------------------------|-----------|-----------------------------------|------------|
|  | 2015                               | 2014      | 2015                              | 2014       |
| <b>Revenues:</b>   |                                    |           |                                   |            |
| Products   | \$ 63,980                          | \$ 52,837 | \$ 177,275                        | \$ 151,295 |
| Application subscriptions and other services                   | 10,695                             | 10,388    | 32,637                            | 30,121     |
| Total revenues   | 74,675                             | 63,225    | 209,912                           | 181,416    |
| <b>Cost of revenues:</b>                                       |                                    |           |                                   |            |
| Products   | 43,132                             | 36,165    | 119,692                           | 104,754    |
| Application subscriptions and other services                   | 4,969                              | 4,956     | 14,817                            | 13,843     |
| Total cost of revenues   | 48,101                             | 41,121    | 134,509                           | 118,597    |
| Gross profit   | 26,574                             | 22,104    | 75,403                            | 62,819     |
| <b>Operating expenses:</b>                                     |                                    |           |                                   |            |
| Research and development                                       | 5,121                              | 4,852     | 14,681                            | 14,986     |
| Selling  | 5,975                              | 5,162     | 17,320                            | 15,260     |
| General and administrative                                     | 5,202                              | 4,000     | 14,885                            | 11,529     |
| Intangible assets amortization                                 | 1,663                              | 1,635     | 4,962                             | 4,952      |
| Total operating expenses                                       | 17,961                             | 15,649    | 51,848                            | 46,727     |
| Operating income   | 8,613                              | 6,455     | 23,555                            | 16,092     |
| <b>Non-operating income (expense):</b>                         |                                    |           |                                   |            |
| Investment income  | 438                                | 37        | 423                               | 128        |
| Interest expense   | (2,252)                            | (49)      | (5,180)                           | (236)      |
| Other income (expense)   | 6                                  | (22)      | (23)                              | (17)       |
|  | (1,808)                            | (34)      | (4,780)                           | (125)      |
| Income before income taxes and equity in net loss of affiliate | 6,805                              | 6,421     | 18,775                            | 15,967     |
| Income tax provision   | (2,603)                            | (2,400)   | (7,015)                           | (5,975)    |
| Income before equity in net loss of affiliate                  | 4,202                              | 4,021     | 11,760                            | 9,992      |
| Equity in net loss of affiliate                                | (326)                              | -         | (326)                             | -          |
| Net income   | \$ 3,876                           | \$ 4,021  | \$ 11,434                         | \$ 9,992   |
| <b>Earnings per share:</b>                                     |                                    |           |                                   |            |
| Basic  | \$ 0.11                            | \$ 0.11   | \$ 0.32                           | \$ 0.28    |
| Diluted  | \$ 0.11                            | \$ 0.11   | \$ 0.31                           | \$ 0.27    |
| <b>Shares used in computing earnings per share:</b>            |                                    |           |                                   |            |
| Basic  | 36,319                             | 35,901    | 36,138                            | 35,735     |
| Diluted  | 36,803                             | 36,526    | 36,728                            | 36,508     |
| <b>Comprehensive income:</b>                                   |                                    |           |                                   |            |
| Net income   | \$ 3,876                           | \$ 4,021  | \$ 11,434                         | \$ 9,992   |
| <b>Other comprehensive loss:</b>                               |                                    |           |                                   |            |
| Foreign currency cumulative translation adjustment             | (46)                               | -         | (46)                              | -          |

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|                            |          |          |           |          |
|----------------------------|----------|----------|-----------|----------|
| Total comprehensive income | \$ 3,830 | \$ 4,021 | \$ 11,388 | \$ 9,992 |
|----------------------------|----------|----------|-----------|----------|

See accompanying notes to consolidated financial statements.

**CALAMP CORP.**  
**CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY**  
(Unaudited; amounts in thousands)

|   | Common Stock |        | Additional | Accumulated | Accumulated   | Total         |
|---|--------------|--------|------------|-------------|---------------|---------------|
|   | Shares       | Amount | Paid-in    | Deficit     | Other         | Stockholders' |
|   |              |        | Capital    |             | Comprehensive | Equity        |
|   |              |        |            |             | Loss          |               |
| Balances at February 28, 2015           | 36,225       | \$ 362 | \$ 207,881 | \$ (56,793) | \$ (65)       | \$ 151,385    |
| Net income                              |              |        |            | 11,434      |               | 11,434        |
| Stock-based compensation expense        |              |        | 4,211      |             |               | 4,211         |
| Equity component of convertible senior  |              |        |            |             |               |               |
| notes, net of tax                       |              |        | 20,104     |             |               | 20,104        |
| Purchase of note hedges, net of tax     |              |        | (19,324)   |             |               | (19,324)      |
| Sale of warrants                        |              |        | 15,991     |             |               | 15,991        |
| Issuance of shares for restricted       |              |        |            |             |               |               |
| stock awards                            | 115          | 1      | (1)        |             |               | -             |
| Shares issued on net share settlement   |              |        |            |             |               |               |
| of equity awards                        | 90           | 1      | (2,521)    |             |               | (2,520)       |
| Exercise of stock options               | 145          | 2      | 590        |             |               | 592           |
| Foreign currency translation adjustment |              |        |            |             | (46)          | (46)          |
| Balances at November 30, 2015           | 36,575       | \$ 366 | \$ 226,931 | \$ (45,359) | \$ (111)      | \$ 181,827    |

See accompanying notes to consolidated financial statements.

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

|   | Nine Months Ended |                 |
|---|-------------------|-----------------|
|   | November 30,      |                 |
|   | 2015              | 2014            |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                      |                   |                 |
| Net income  | \$ 11,434         | \$ 9,992        |
| Adjustments to reconcile net income to net cash provided by operating activities: |                   |                 |
| Depreciation expense  | 2,608             | 2,043           |
| Intangible assets amortization expense  | 4,962             | 4,952           |
| Stock-based compensation expense  | 4,211             | 2,924           |
| Amortization of debt issue costs and note discount                                | 3,396             | 380             |
| Deferred tax assets, net  | 6,595             | 5,770           |
| Equity in net loss of affiliate   | 326               | -               |
| Other   | 19                | 14              |
| Changes in operating assets and liabilities:                                      |                   |                 |
| Accounts receivable   | 2,967             | (8,508)         |
| Inventories   | 563               | (4,619)         |
| Prepaid expenses and other assets   | 210               | (1,954)         |
| Accounts payable  | 907               | 9,191           |
| Accrued liabilities   | 2,025             | 1,073           |
| Deferred revenue  | (2,352)           | 199             |
| <b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>                                  | <b>37,871</b>     | <b>21,457</b>   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                      |                   |                 |
| Proceeds from maturities of marketable securities                                 | 35,552            | 8,226           |
| Purchases of marketable securities  | (142,032)         | (15,215)        |
| Capital expenditures  | (3,388)           | (4,890)         |
| Acquisition of Crashboxx  | (1,500)           | -               |
| Equity investment in affiliate  | (2,156)           | -               |
| Other   | (95)              | (44)            |
| <b>NET CASH USED IN INVESTING ACTIVITIES</b>                                      | <b>(113,619)</b>  | <b>(11,923)</b> |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                      |                   |                 |
| Proceeds from issuance of convertible 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)           | (2,299)         |
| Taxes paid related to net share settlement of vested equity awards                | (2,520)           | (3,045)         |
| Proceeds from exercise of stock options   | 592               | 541             |
| <b>NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES</b>                           | <b>148,242</b>    | <b>(4,803)</b>  |
| Net change in cash and cash equivalents   | 72,494            | 4,731           |
| Cash and cash equivalents at beginning of period                                  | 34,184            | 19,233          |
| Cash and cash equivalents at end of period  | \$ 106,678        | \$ 23,964       |

See accompanying notes to consolidated financial statements.



**CALAMP CORP.**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**  
**THREE AND NINE MONTHS ENDED NOVEMBER 30, 2015 AND 2014**

**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.

Certain notes and other information are condensed or omitted from the interim financial statements presented in this Quarterly Report on Form 10-Q. Therefore, these financial statements should be read in conjunction with the Company's 2015 Annual Report on Form 10-K as filed with the Securities and Exchange Commission on April 21, 2015.

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, 2015 and its results of operations for the three and nine months ended November 30, 2015 and 2014. 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 finance applications in 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. The Company defers the recognition of revenue for the products that are sold with application subscriptions because the application services are essential to the functionality of the products. 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 over the renewal term.

**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.

## **Recently Adopted Accounting Standards**

In April 2015, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update 2015-03, Interest Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs ( ASU 2015-03 ). The FASB issued ASU 2015-03 to simplify the presentation of debt issuance costs related to a recognized debt liability to present the debt issuance costs as a direct deduction from the carrying value of the debt liability rather than showing the debt issuance costs as a deferred charge on the balance sheet. As permitted by ASU 2015-03, the Company early-adopted this standard with respect to the convertible senior unsecured notes issued in May 2015, as discussed further in Note 6.

In November 2015, the FASB issued Accounting Standards Update 2015-17, Balance Sheet Classification of Deferred Taxes ( ASU 2015-17 ). ASU 2015-17 amends existing guidance to require that deferred income tax liabilities and assets be classified as noncurrent in a classified balance sheet, and eliminates the prior guidance which required an entity to separate deferred tax liabilities and assets into a current amount and a noncurrent amount in a classified balance sheet. As permitted by ASU 2015-17, the Company early-adopted this standard and applied it retrospectively to all periods presented.

## **Reclassifications**

Certain amounts in the financial statements of prior years have been reclassified to conform to the fiscal 2016 presentation, with no effect on net earnings.

**NOTE 2 CASH, CASH EQUIVALENTS AND INVESTMENTS**

The following table summarizes the Company's financial instrument assets as of November 30, 2015 using the hierarchy described in Note 1 under the heading "Fair Value Measurements" (in thousands):

|                        | Adjusted<br>Cost | Unrealized<br>Gains<br>(Losses) | Fair<br>Value | Balance Sheet Classification<br>of Fair Value |  |                 |
|------------------------|------------------|---------------------------------|---------------|---|--|-----------------|
|                        |                  |                                 |               | Cash and<br>Cash<br>Equivalents               | Short-Term<br>Marketable<br>Securities | Other<br>Assets |
| Cash                   | \$ 7,005         | \$ -                            | \$ 7,005      | \$ 7,005                                      | \$ -                                   | \$ -            |
| Level 1:               |                  |                                 |               |   |  |                 |
| Commercial paper       | 73               | -                               | 73            | 73  | -                                      | -               |
| Domestic equities      | 373              | 52                              | 425           | -   | 425                                    | -               |
| Mutual funds (1)       | 3,564            | (38)                            | 3,526         | -   | -                                      | 3,526           |
| Level 2:               |                  |                                 |               |   |  |                 |
| Commercial paper       | 15,970           | -                               | 15,970        | -   | 15,970                                 | -               |
| Repurchase agreements  | 99,600           | -                               | 99,600        | 99,600  | -                                      | -               |
| Certificate of deposit | 100,348          | (86)                            | 100,262       | -   | 100,262                                | -               |
| Total                  | \$ 226,933       | \$ (72)                         | \$ 226,861    | \$ 106,678                                    | \$ 116,657                             | \$ 3,526        |

- (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. See Note 5 for additional information regarding the deferred compensation plan.

**NOTE 3 - INVENTORIES**

Inventories consist of the following (in thousands):

|                 | November<br>30,<br>2015 | February<br>28,<br>2015 |
|-----------------|-------------------------|-------------------------|
| Raw materials   | \$ 14,196               | \$ 14,519               |
| Work in process | 615                     | 361                     |
| Finished goods  | 3,292                   | 3,786                   |
|                 | \$ 18,103               | \$ 18,666               |

**NOTE 4 GOODWILL AND OTHER INTANGIBLE ASSETS**

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

|                                       | Nine Months Ended<br>November 30, |           |
|---------------------------------------|-----------------------------------|-----------|
|                                       | 2015                              | 2014      |
| Balance at beginning of period        | \$ 15,483                         | \$ 15,422 |
| Crashboxx acquisition                 | 1,025                             | -         |
| Purchase price allocation adjustments | -                                 | 57        |
| Balance at end of period              | \$ 16,508                         | \$ 15,479 |

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On April 17, 2015, the Company acquired certain intangible assets from a company doing business as Crashboxx to advance its insurance telematics strategy for a cash payment of \$1.5 million and future earn-out payments. The aggregate estimated fair value of the earn-out payments is \$455,000 based on projected revenues over a period of 5 years of products and services incorporating the acquired technology. The Company acquired developed technology from Crashboxx with a fair value of \$930,000, and paid a premium (i.e. goodwill) over the fair value of the identified assets acquired. The goodwill of \$1,025,000 is primarily attributable to the benefit of the acquired proprietary automobile accident claims process automation technology. The goodwill arising from this acquisition is deductible for income tax purposes.

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

|                          | Amortization Period | Gross             |           |             | Accumulated Amortization |                   |          |             |                   |                   |
|--------------------------|---------------------|-------------------|-----------|-------------|--------------------------|-------------------|----------|-------------|-------------------|-------------------|
|                          |                     | February 28, 2015 | Additions | Retirements | November 30, 2015        | February 28, 2015 | Expense  | Retirements | November 30, 2015 | November 30, 2015 |
| Supply contract          | 5 years             | \$ 2,220          | \$ -      | \$ -        | \$ 2,220                 | \$ 1,247          | \$ 324   | \$ -        | \$ 1,571          | \$ 649            |
| Developed technology     | 2-7 years           | 16,151            | 930       | (3,001)     | 14,080                   | 7,126             | 1,720    | (3,001)     | 5,845             | 8,233             |
| Tradename                | 7 years             | 2,130             | 13        | -           | 2,143                    | 1,217             | 229      | -           | 1,446             | 697               |
| Customer lists           | 5-7 years           | 19,438            | -         | (1,138)     | 18,300                   | 7,949             | 2,660    | (1,138)     | 9,471             | 8,825             |
| Covenants not to compete | 5 years             | 262               | -         | (92)        | 170                      | 187               | 25       | (92)        | 120               | 50                |
| Patents                  | 5 years             | 176               | 83        | -           | 259                      | 55                | 4        | -           | 59                | 200               |
|                          |                     | \$ 40,377         | \$ 1,026  | \$ (4,231)  | \$ 37,172                | \$ 17,781         | \$ 4,962 | \$ (4,231)  | \$ 18,512         | \$ 18,660         |

All intangible asset amortization expense was attributable to the Wireless DataCom business. Estimated future amortization expense for the fiscal years ending February 28 is as follows (in thousands):

| Fiscal Year      |           |
|------------------|-----------|
| 2016 (remainder) | \$ 1,672  |
| 2017             | 6,686     |
| 2018             | 6,233     |
| 2019             | 2,887     |
| 2020             | 880       |
| Thereafter       | 302       |
|                  | \$ 18,660 |

**NOTE 5 OTHER ASSETS**

Other assets consist of the following (in thousands):

|                                   | November 30, 2015 | February 28, 2015 |
|-----------------------------------|-------------------|-------------------|
| Deferred compensation plan assets | \$ 3,526          | \$ 2,222          |
| Investment in affiliate           | 1,784             | -                 |
| Other                             | 677               | 915               |
|                                   | \$ 5,987          | \$ 3,137          |

The Company established a non-qualified deferred compensation plan in August 2013 in which certain members of management and all non-employee directors are eligible to participate. Participants may defer a portion of their compensation until retirement or a date specified by the participant in accordance with the plan. The Company is informally funding the deferred compensation plan obligations by making cash deposits to a Rabbi Trust that are invested in various equity, bond and money market mutual funds in generally the same proportion as investment elections made by the participants for their compensation deferrals. The fair values of Rabbi Trust assets and deferred compensation plan liabilities as of November 30, 2015 were \$3,526,000 and \$3,543,000, respectively, and are included in other assets and other non-current liabilities, respectively, in the accompanying unaudited consolidated balance sheet at that date.

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In September 2015, the Company invested £1,400,000 or approximately \$2,156,000 for a minority ownership interest in Smart Driver Club Limited, a technology and insurance startup company located in the United Kingdom. This investment is accounted for under the equity method. The Company's equity in the net loss of this affiliate amounted to \$326,000 in the quarter ended November 30, 2015. The foreign currency translation adjustment for this equity investment was a \$46,000 loss for the quarter ended November 30, 2015, which is included in the Consolidated Income Statement as a component of Other Comprehensive Income.

## NOTE 6 - 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, 2015 or February 28, 2015.

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, 2015, the Company was in compliance with its debt covenants under the credit facility.

### 1.625% Convertible Senior Unsecured Notes

In May 2015, the Company issued \$172.5 million aggregate principal amount of 1.625% convertible senior unsecured notes (the Notes) through a private placement. The Company sold the Notes under a purchase agreement dated April 30, 2015 to J.P. Morgan Securities LLC and Jefferies LLC as representatives of the several initial purchasers. The Notes were issued under an indenture dated May 6, 2015 (the Indenture) between CalAmp and The Bank of New York Mellon Trust Company, N.A., as trustee (the Trustee).

The net proceeds from the sale of the Notes were approximately \$167.2 million, net of issuance costs of \$5.3 million. The Company used \$15.4 million of the net proceeds from this offering to pay the cost of purchased convertible note hedges that was partially offset by the proceeds from the sale of warrants, as described below under Note Hedge and Warrant Arrangements. The Company expects to use the remaining net proceeds from the issuance of the Notes for general corporate purposes including, but not limited to, acquisitions or other strategic transactions and working capital.

Under the Indenture, the Notes 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. The Company may not redeem the Notes prior to their stated maturity date. The Notes rank senior in right of payment to any existing or future indebtedness which is subordinated by its terms, will rank equally in right of payment to any indebtedness that is not so subordinated, will be structurally subordinated to all indebtedness and liabilities of the Company's subsidiaries and will be effectively junior to the secured indebtedness of the Company to the extent of the value of the assets securing such indebtedness. The Indenture contains customary terms and conditions, including that upon certain events of default occurring and continuing, either the Trustee or the holders of at least 25% in aggregate principal amount of the then outstanding Notes, by notice to the Company and the Trustee, may declare 100% of the principal amount of, and accrued and unpaid interest, if any, on all the Notes then outstanding to be due and payable immediately. Such events of default include, without limitation, the default by the Company or any of its subsidiaries with respect to indebtedness for borrowed money in excess of \$10 million and the entry of judgments for the payment of \$10 million or more against the Company or any of its subsidiaries which are not paid, discharged or stayed within 60 days.

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. 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, 2015, 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.

Accounting guidance requires that convertible debt that can be settled for cash, such as the Notes, be separated into the liability and equity component at issuance and each be assigned a value. The value assigned to the liability component is the estimated fair value, as of the issuance date, of a similar debt without the conversion feature. The difference between the principal amount of the Notes and the estimated fair value of the liability component, representing the value of the embedded conversion option assigned to the equity component, is recorded as a debt discount on the issuance date. The 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 remaining gross proceeds of the Notes of \$33.6 million represents the fair value of the embedded conversion feature that was recorded as an increase in additional paid-in capital within the stockholders' equity section, with an offsetting debt discount recorded of \$33.6 million. The associated deferred tax effect of \$16.0 million was recorded as a reduction of additional paid-in capital. The amount recorded in additional paid-in capital is not to be remeasured as long as it continues to meet the conditions for equity classification. 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.

In accounting for the transaction costs related to the Notes issuance, the Company allocated the total amount incurred to the liability and equity components based on their relative fair values. Issuance costs attributable to the liability component of \$4.3 million were recorded as a direct deduction from the carrying value of the Notes in accordance with ASU 2015-03 and are being amortized to expense over the term of the Notes using the effective interest method. Issuance costs attributable to the equity component of \$1.0 million were recorded as a charge to additional paid-in capital within stockholders' equity. Additionally, the Company recorded a deferred tax asset of \$0.4 million related to the equity component of issuance costs because such costs are deductible for tax purposes.

Balances attributable to the Notes consist of the following at November 30, 2015 (in thousands):

|                                  |            |
|----------------------------------|------------|
| Liability component:             |            |
| Principal                        | \$ 172,500 |
| Less: Unamortized debt discount  | (30,509)   |
| Unamortized debt issuance costs  | (3,890)    |
| Net carrying amount of the Notes | \$ 138,101 |

The Notes are carried at their principal amount, net of unamortized debt discount and issuance costs, and are not marked to market each period. The approximate fair value of the Notes as of November 30, 2015 was \$165 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 12 for information related to interest expense on the Notes.

#### Note Hedge and Warrant Arrangements

In connection with the sale of the Notes, the Company entered into privately negotiated note hedge transactions relating to 6.25 million shares of common stock with counterparties that include affiliates of some of the initial purchasers and other financial institutions (the Hedge Counterparties). The note hedges represent call options from the Hedge Counterparties with respect to \$172.5 million aggregate principal amount of the Notes. The Company paid \$31.3 million for the note hedges and as a result, \$19.3 million, net of deferred tax effects, was recorded as a reduction to additional paid-in capital within stockholders' equity.

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The note hedges cover, subject to anti-dilution adjustments substantially similar to those applicable to the Notes, the 6.25 million shares of the Company's common stock that initially underlie the Notes. The note hedges are intended generally to reduce the potential dilution to the Company's outstanding common stock and/or reduce the amount of any cash payments the Company is required to make in excess of the principal amount of any converted Notes upon any conversion of Notes in the event that the market price per share of the Company's common stock is greater than the strike price of the note hedges, which is initially equal to \$27.594, the same as the initial conversion price for the Notes.

Separately, the Company also entered into privately negotiated warrant transactions with the Hedge Counterparties, giving them the right to acquire the same number of shares of common stock that underlie the Notes at a strike price of \$39.42 per share, also subject to adjustment, which represents a premium of 100% over the last reported sale price of the Company's common stock of \$19.71 on April 30, 2015, the date on which the Notes were priced. The warrants become exercisable, and expire if not exercised, at the rate of 1/80<sup>th</sup> on each trading day beginning August 15, 2020 and continuing through the 79<sup>th</sup> trading day thereafter (on or around December 13, 2020). The Company received a total amount of \$16.0 million from the issuance of the warrants.

The warrants will have a dilutive effect to the extent that the market price of the Company's common stock exceeds the applicable strike price of the warrants on any expiration date of the warrants.

The note hedges and warrants are not marked to market. The note hedges and warrants are separate transactions, entered into by the Company with the Hedge Counterparties and are not part of the terms of the Notes and will not affect the holders' rights under the Notes. In addition, holders of the Notes will not have any rights with respect to the note hedges or the warrants. The values ascribed to the note hedges and warrants were initially recorded to and continue to be classified as additional paid-in capital within stockholders' equity. The Company is required, for the remaining term of the Notes, to assess whether the note hedges and warrants continue to meet the stockholders' equity classification requirements. If in any future period these derivative instruments fail to satisfy those requirements, they would need to be reclassified out of stockholders' equity, to either assets or liabilities depending on their nature, and be recorded at fair value with subsequent changes in their fair value reflected in earnings.

The Company elected to integrate the call options with the Notes for federal income tax purposes pursuant to applicable U.S. Treasury Regulations. Accordingly, the \$31.3 million cost of the note hedges will be deductible for income tax purposes as original issue discount interest over the term of the Notes. The Company recorded a deferred tax asset of \$12.0 million which represents the tax benefit of these tax deductions with an offsetting entry to additional paid-in capital.

### Contractual Cash Obligations

Following is a summary of the Company's contractual cash obligations at November 30, 2015 and excludes amounts already recorded on the consolidated balance sheets except for long-term debt (in thousands):

|  | Future Estimated Cash Payments Due by Fiscal Year |                 |                 |                 |                 |                   | Total             |
|--|---|-----------------|-----------------|-----------------|-----------------|-------------------|-------------------|
|  | 2016<br>(remainder)                               | 2017            | 2018            | 2019            | 2020            | Thereafter        |                   |
| Convertible senior notes principal       | \$ -  | \$ -            | \$ -            | \$ -            | \$ -            | \$ 172,500        | \$ 172,500        |
| Convertible senior notes stated interest | -   | 2,803           | 2,803           | 2,803           | 2,803           | 1,402             | 12,614            |
| Operating leases                         | 491   | 2,308           | 1,937           | 1,569           | 890             | 162               | 7,357             |
| Purchase obligations                     | 48,691  | -               | -               | -               | -               | -                 | 48,691            |
| Other contractual commitments            | -   | 4,510           | 1,503           | -               | -               | -                 | 6,013             |
| <b>Total contractual obligations</b>     | <b>\$ 49,182</b>                                  | <b>\$ 9,621</b> | <b>\$ 6,243</b> | <b>\$ 4,372</b> | <b>\$ 3,693</b> | <b>\$ 174,064</b> | <b>\$ 247,175</b> |



**NOTE 7 - 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, Canada, United Kingdom and New Zealand. Certain income tax returns for fiscal years 2011 through 2015 remain open to examination by U.S. federal and state tax authorities. Income tax returns in Canada for fiscal years 2011 through 2015 remain open to examination by tax authorities in that country. Income tax returns in New Zealand for fiscal years 2013 through 2015 remain open to examination by tax authorities in that country. The Company believes that it has made adequate provision for all income tax uncertainties pertaining to these open tax years.

The effective income tax rate was 37.4% in both of the nine-month periods ended November 30, 2015 and 2014.

**NOTE 8 - 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 computation of basic and diluted earnings per share (in thousands):

|  | <b>Three Months<br/>Ended<br/>November 30,</b> |             | <b>Nine Months<br/>Ended<br/>November 30,</b> |             |
|--|--|-------------|---|-------------|
|  | <b>2015</b>                                    | <b>2014</b> | <b>2015</b>                                   | <b>2014</b> |
| Basic weighted average number of common shares outstanding   | 36,319   | 35,901      | 36,138  | 35,735      |
| Effect of stock options, restricted stock and restricted stock units computed on treasury stock method | 484  | 625         | 590   | 773         |
| Diluted weighted average number of common shares outstanding   | 36,803   | 36,526      | 36,728  | 36,508      |

Shares subject to anti-dilutive stock options and restricted stock-based awards of 242,000 and 146,000 at November 30, 2015 and 2014, respectively, 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. During the three month and year-to-date periods ended November 30, 2015, the average market price of the Company's common stock was 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 9 STOCK-BASED COMPENSATION**

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

|                            | <b>Three Months Ended<br/>November 30,</b> |                 | <b>Nine Months Ended<br/>November 30,</b> |                 |
|----------------------------|--|-----------------|---|-----------------|
|                            | <b>2015</b>                                | <b>2014</b>     | <b>2015</b>                               | <b>2014</b>     |
| Cost of revenues           | \$ 51                                      | \$ 65           | \$ 170                                    | \$ 176          |
| Research and development   | 217  | 171             | 579                                       | 452             |
| Selling                    | 325  | 178             | 820                                       | 418             |
| General and administrative | 1,009                                      | 754             | 2,642                                     | 1,878           |
|                            | <b>\$ 1,602</b>                            | <b>\$ 1,168</b> | <b>\$ 4,211</b>                           | <b>\$ 2,924</b> |

Changes in the Company's outstanding stock options during the nine months ended November 30, 2015 were as follows (options in thousands):

|                                  | <b>Number of<br/>Options</b> | <b>Weighted<br/>Average<br/>Exercise<br/>Price</b> |
|----------------------------------|------------------------------|--|
| Outstanding at February 28, 2015 | 1,007                        | \$ 5.80  |
| Granted                          | 82                           | 17.54  |
| Exercised                        | (145)                        | 4.08   |
| Forfeited or expired             | (1)                          | 1.80   |
| Outstanding at November 30, 2015 | 943                          | \$ 7.08  |
| Exercisable at November 30, 2015 | 771                          | \$ 5.06  |

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, 2015 were as follows (shares, PSUs and RSUs in thousands):

|                                  | <b>Number of<br/>Restricted<br/>Shares,<br/>PSUs and<br/>RSUs</b> | <b>Weighted<br/>Average<br/>Grant<br/>Date Fair<br/>Value</b> |
|----------------------------------|---|---|
| Outstanding at February 28, 2015 | 886   | \$ 12.90  |
| Granted                          | 509   | 17.74   |
| Vested                           | (389)   | 9.49  |
| Forfeited                        | (33)  | 14.99   |
| Outstanding at November 30, 2015 | 973   | \$ 16.72  |

During the nine months ended November 30, 2015, the Company retained 141,634 shares of the vested restricted stock and RSUs to satisfy the minimum required statutory amount of employee withholding taxes.

As of November 30, 2015, there was \$15.1 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 2.9 years.

**NOTE 10 - CONCENTRATION OF RISK**

One customer of the Company's Satellite segment accounted for 16% and 14% of consolidated revenues for the three months ended November 30, 2015 and 2014, respectively, and accounted for 13% and 16% of consolidated revenues for the respective nine-month periods then ended. This customer also accounted for 12% of consolidated accounts receivable at both November 30, 2015 and February 28, 2015. One customer of the Company's Wireless DataCom segment accounted for 10% of consolidated revenues for the three months ended November 30, 2015, and 16% and 15% of consolidated accounts receivable at November 30, 2015 and February 28, 2015, respectively.

Some of the Company's components, assemblies and electronic manufacturing services are 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 55% and 59% of the Company's total inventory purchases in the nine months ended November 30, 2015 and 2014, respectively. As of November 30, 2015, this supplier accounted for 58% of the Company's total accounts payable. Another supplier accounted for 16% of the Company's total inventory purchases in the nine months ended November 30, 2015 and 14% of the Company's total accounts payable as of November 30, 2015.

**NOTE 11 - 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, 2015 and 2014 is as follows (in thousands):

|                                | Nine Months Ended<br>November 30, |          |
|--------------------------------|-----------------------------------|----------|
|                                | 2015                              | 2014     |
| Balance at beginning of period | \$ 1,819                          | \$ 1,516 |
| Charged to costs and expenses  | 1,088                             | 1,097    |
| Deductions                     | (781)                             | (778)    |
| Balance at end of period       | \$ 2,126                          | \$ 1,835 |

**NOTE 12 OTHER FINANCIAL INFORMATION****Supplemental Balance Sheet Information**

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

|  | November<br>30, | February<br>28, |
|--|-----------------|-----------------|
|  | 2015            | 2015            |
| Deferred compensation plan liability         | \$ 3,543        | \$ 2,246        |
| Deferred revenue                             | 1,203           | 1,652           |
| Deferred rent                                | 621             | 329             |
| Acquisition-related contingent consideration | 499             | -               |
|  | \$ 5,866        | \$ 4,227        |

See Note 5 for information related to non-qualified deferred compensation plan.

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The acquisition-related contingent consideration at November 30, 2015 is comprised of the estimated earn-out of \$499,000 payable to the sellers in conjunction with the April 2015 acquisition of Crashboxx. See Note 4 for additional information related to this acquisition.

**Supplemental Income Statement Information**

Investment income consists of the following (in thousands):

|   | Three Months Ended<br>November 30, |        | Nine Months Ended<br>November 30, |        |
|---|------------------------------------|--------|-----------------------------------|--------|
|   | 2015                               | 2014   | 2015                              | 2014   |
| Unrealized gains (losses) on marketable securities              | \$ 110                             | \$ (2) | \$ (27)                           | \$ (5) |
| Investment income on cash equivalents and marketable securities | 250                                | 16     | 538                               | 41     |
| Investment income (loss) on Rabbi Trust assets                  | 78                                 | 23     | (88)                              | 92     |
| Total investment income   | \$ 438                             | \$ 37  | \$ 423                            | \$ 128 |

Interest expense consists of the following (in thousands):

|   | Three Months Ended<br>November 30, |       | Nine Months Ended<br>November 30, |        |
|---|------------------------------------|-------|-----------------------------------|--------|
|   | 2015                               | 2014  | 2015                              | 2014   |
| Interest expense on convertible senior unsecured notes: |                                    |       |                                   |        |
| Stated interest at 1.625% per annum                     | \$ 685                             | \$ -  | \$ 1,567                          | \$ -   |
| Amortization of note discount                           | 1,370                              | -     | 3,106                             | -      |
| Amortization of debt issue costs                        | 175                                | -     | 396                               | -      |
|   | 2,230                              | -     | 5,069                             | -      |
| Other interest expense                                  | 22                                 | 49    | 111                               | 236    |
| Total interest expense                                  | \$ 2,252                           | \$ 49 | \$ 5,180                          | \$ 236 |

**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<br>November 30, |        |
|-----------------------|-----------------------------------|--------|
|                       | 2015                              | 2014   |
| Interest expense paid | \$ 1,511                          | \$ 4   |
| Income tax paid       | \$ 365                            | \$ 280 |

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

|  | Nine Months Ended<br>November 30, |      |
|--|-----------------------------------|------|
|  | 2015                              | 2014 |
| Acquisition of Crashboxx in April 2015:      |                                   |      |
| Accrued liability for earn-out consideration | \$ 455                            | \$ - |

### NOTE 13 - SEGMENT INFORMATION

Segment information for the three and nine months ended November 30, 2015 and 2014 is as follows (dollars in thousands):

|                  | Three Months Ended November 30, 2015 |           |            |           | Three Months Ended November 30, 2014 |           |            |           |
|------------------|--------------------------------------|-----------|------------|-----------|--------------------------------------|-----------|------------|-----------|
|                  | Operating Segments                   |           | Corporate  |           | Operating Segments                   |           | Corporate  |           |
|                  | Wireless                             | Satellite | Expenses   | Total     | Wireless                             | Satellite | Expenses   | Total     |
|                  | DataCom                              |           |            |           | DataCom                              |           |            |           |
| Revenues         | \$ 62,842                            | \$ 11,833 |            | \$ 74,675 | \$ 54,580                            | \$ 8,645  |            | \$ 63,225 |
| Gross profit     | \$ 23,416                            | \$ 3,158  |            | \$ 26,574 | \$ 20,078                            | \$ 2,026  |            | \$ 22,104 |
| Gross margin     | 37.3%                                | 26.7%     |            | 35.6%     | 36.8%                                | 23.4%     |            | 35.0%     |
| Operating income | \$ 7,821                             | \$ 1,983  | \$ (1,191) | \$ 8,613  | \$ 6,579                             | \$ 914    | \$ (1,038) | \$ 6,455  |

  

|                  | Nine Months Ended November 30, 2015 |           |            |            | Nine Months Ended November 30, 2014 |           |            |            |
|------------------|-------------------------------------|-----------|------------|------------|-------------------------------------|-----------|------------|------------|
|                  | Operating Segments                  |           | Corporate  |            | Operating Segments                  |           | Corporate  |            |
|                  | Wireless                            | Satellite | Expenses   | Total      | Wireless                            | Satellite | Expenses   | Total      |
|                  | DataCom                             |           |            |            | DataCom                             |           |            |            |
| Revenues         | \$ 182,487                          | \$ 27,425 |            | \$ 209,912 | \$ 152,631                          | \$ 28,785 |            | \$ 181,416 |
| Gross profit     | \$ 68,102                           | \$ 7,301  |            | \$ 75,403  | \$ 55,440                           | \$ 7,379  |            | \$ 62,819  |
| Gross margin     | 37.3%                               | 26.6%     |            | 35.9%      | 36.3%                               | 25.6%     |            | 34.6%      |
| Operating income | \$ 23,036                           | \$ 3,964  | \$ (3,445) | \$ 23,555  | \$ 14,904                           | \$ 4,070  | \$ (2,882) | \$ 16,092  |

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.

### NOTE 14 - COMMITMENTS AND CONTINGENCIES

#### Legal Proceedings

In December 2013, a patent infringement lawsuit was filed against the Company by a non-practicing entity ( NPE ). The lawsuit contends that certain of the Company s vehicle tracking products infringe on the patents held by the NPE plaintiff and seeks injunctive and monetary relief. The Company believes that in addition to its defensive claims of noninfringement and invalidity, it has various offensive claims against the plaintiff, and intends to vigorously defend against this action. While the outcome of this matter is currently not determinable, management does not expect that the ultimate cost to resolve this matter will have a material adverse effect on the Company s consolidated financial position or results of operations. The Company s assessment of materiality may change in the future based upon the availability of discovery and further developments. No loss accrual has been made in the accompanying unaudited consolidated financial statements for this matter.

In addition to the foregoing matter, 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 consolidated financial position or results of operations.

#### **NOTE 15 SUBSEQUENT EVENT**

On December 10, 2015, the Company publicly announced that it has made an offer to acquire all of the outstanding shares of common stock of LoJack Corporation (NASDAQ: LOJN) (LoJack), a provider of vehicle theft recovery systems and advanced fleet management solutions, for \$5.50 per share in cash, in a transaction valued at approximately \$113 million. At the present time, LoJack has not yet agreed to negotiate the terms of acquisition with the Company. Consequently, it is currently not possible to determine when or if this proposed acquisition will be consummated.

#### **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 28, 2015, as filed with the Securities and Exchange Commission on April 21, 2015, 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, intangible assets and other long-lived assets;
- Stock-based compensation expense; and
- Revenue recognition.

#### **RESULTS OF OPERATIONS**

##### **OUR COMPANY**

We are a leading provider of wireless communications solutions for a broad array of applications to customers globally. Our business activities are organized into our Wireless DataCom and Satellite reporting segments.

##### **WIRELESS DATACOM**

Our Wireless DataCom segment offers solutions for Mobile Resource Management (MRM) applications, the broader Machine-to-Machine (M2M) communications space and other emerging markets that require connectivity anytime and anywhere. Our MRM and M2M 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. Our extensive portfolio of communications devices, scalable cloud service platforms, and targeted software applications streamline otherwise complex MRM and M2M deployments for our customers. We are focused on delivering products, software services and solutions globally for our energy, government, transportation and automotive vertical markets. In addition, we anticipate future opportunities for adoption of our MRM products and M2M solutions in heavy equipment and various aftermarket applications including insurance telematics as well as other emerging applications and markets.

**SATELLITE**

Our Satellite segment develops, manufactures and sells direct-broadcast satellite (DBS) outdoor customer premise equipment and whole home video networking devices enabling the delivery of digital and high definition satellite television services. Our satellite products are sold primarily to EchoStar, an affiliate of Dish Network, for incorporation into complete subscription satellite television systems.

**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, |            |            |            |
|------------------|---------------------------------|------------|-----------|------------|--------------------------------|------------|------------|------------|
|                  | 2015                            |            | 2014      |            | 2015                           |            | 2014       |            |
|                  | \$000s                          | % of Total | \$000s    | % of Total | \$000s                         | % of Total | \$000s     | % of Total |
| Wireless DataCom | \$ 62,842                       | 84.2%      | \$ 54,580 | 86.3%      | \$ 182,487                     | 86.9%      | \$ 152,631 | 84.1%      |
| Satellite        | 11,833                          | 15.8%      | 8,645     | 13.7%      | 27,425                         | 13.1%      | 28,785     | 15.9%      |
| Total            | \$ 74,675                       | 100.0%     | \$ 63,225 | 100.0%     | \$ 209,912                     | 100.0%     | \$ 181,416 | 100.0%     |

**GROSS PROFIT BY SEGMENT**

| Segment          | Three Months Ended November 30, |            |           |            | Nine Months Ended November 30, |            |           |            |
|------------------|---------------------------------|------------|-----------|------------|--------------------------------|------------|-----------|------------|
|                  | 2015                            |            | 2014      |            | 2015                           |            | 2014      |            |
|                  | \$000s                          | % of Total | \$000s    | % of Total | \$000s                         | % of Total | \$000s    | % of Total |
| Wireless DataCom | \$ 23,416                       | 88.1%      | \$ 20,078 | 90.8%      | \$ 68,102                      | 90.3%      | \$ 55,440 | 88.3%      |
| Satellite        | 3,158                           | 11.9%      | 2,026     | 9.2%       | 7,301                          | 9.7%       | 7,379     | 11.7%      |
| Total            | \$ 26,574                       | 100.0%     | \$ 22,104 | 100.0%     | \$ 75,403                      | 100.0%     | \$ 62,819 | 100.0%     |

**OPERATING INCOME BY SEGMENT**

| Segment            | Three Months Ended November 30, |                    |          |                    | Nine Months Ended November 30, |                    |           |                    |
|--------------------|---------------------------------|--------------------|----------|--------------------|--------------------------------|--------------------|-----------|--------------------|
|                    | 2015                            |                    | 2014     |                    | 2015                           |                    | 2014      |                    |
|                    | \$000s                          | % of Total Revenue | \$000s   | % of Total Revenue | \$000s                         | % of Total Revenue | \$000s    | % of Total Revenue |
| Wireless DataCom   | \$ 7,821                        | 10.5%              | \$ 6,579 | 10.4%              | \$ 23,036                      | 11.0%              | \$ 14,904 | 8.2%               |
| Satellite          | 1,983                           | 2.7%               | 914      | 1.4%               | 3,964                          | 1.9%               | 4,070     | 2.2%               |
| Corporate expenses | (1,191)                         | (1.7%)             | (1,038)  | (1.6%)             | (3,445)                        | (1.7%)             | (2,882)   | (1.6%)             |
| Total              | \$ 8,613                        | 11.5%              | \$ 6,455 | 10.2%              | \$ 23,555                      | 11.2%              | \$ 16,092 | 8.8%               |

## Revenue

Wireless DataCom revenue increased by \$8.3 million, or 15%, to \$62.8 million in the third quarter of fiscal 2016 compared to the fiscal 2015 third quarter. This increase was due primarily to growth in shipments to a customer in the heavy equipment industry as well as increased sales in our Mobile Resource Management products business. For the nine months ended November 30, 2015, Wireless DataCom revenue increased by \$29.9 million, or 20%, to \$182.5 million compared to the same period in the prior year. This increase was due primarily to increased sales in our Mobile Resource Management products business as well as broad-based growth across most market verticals serviced by our Wireless Networks business.

Satellite revenue increased by \$3.2 million, or 37%, to \$11.8 million in the three months ended November 30, 2015 compared to the same period last year. For the nine months ended November 30, 2015, Satellite revenue decreased by \$1.4 million, or 5%, to \$27.4 million from \$28.8 million for the same period of the prior year. The year-over-year changes were due to product transitions and fluctuations in product demand on the part of the Satellite segment's principal customer.

## Gross Profit and Gross Margins

Wireless DataCom gross profit increased by \$3.3 million to \$23.4 million in the fiscal 2016 third quarter compared to \$20.1 million in the third quarter of last year primarily as a result of higher revenue. Gross margin increased to 37.3% in the third quarter of fiscal 2016 from 36.8% in the third quarter of fiscal 2015 due to revenue mix changes and increased absorption of fixed manufacturing costs on higher revenue. Wireless DataCom gross profit increased 22.8% to \$68.1 million in the nine months ended November 30, 2015, compared to \$55.4 million for the same period of the prior year primarily due to increased revenue. For the nine months ended November 30, 2015, Wireless DataCom gross margin increased to 37.3% from 36.3% for the same period of the prior year due primarily to the same factors cited above for the three month periods.

Satellite gross profit increased by \$1.1 million in the fiscal 2016 third quarter compared to the third quarter of last year due to higher revenue. Satellite's gross margin increased to 26.7% in the third quarter of fiscal 2016 from 23.4% in the third quarter of fiscal 2015 as a result of the higher revenue and changes in product mix. The Satellite segment had gross profit of \$7.3 million for the nine months ended November 30, 2015, compared to gross profit of \$7.4 million for the same period of last year. The decline in gross profit was attributable to lower revenue as discussed above. Despite the revenue decline, Satellite gross margin increased to 26.6% for the nine months ended November 30, 2015 from 25.6% for the same period of the prior year due primarily to changes in product mix.

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

## Operating Expenses

Consolidated research and development ( R&D ) expense increased by \$0.3 million to \$5.1 million in the third quarter of fiscal 2016 from \$4.9 million in the third quarter of last year due primarily to higher R&D expense associated with MRM products. For the nine month year-to-date periods, R&D decreased by \$0.3 million from \$15.0 million last year to \$14.7 million this year due primarily to lower payroll expense as a result of headcount reductions from ongoing operational integration.

Consolidated selling expense increased by \$0.8 million to \$6.0 million in the third quarter of this year compared to \$5.2 million in the third quarter of last year due primarily 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 from last year by \$2.1 million to \$17.3 million this year due primarily to the same factors cited above for the three month periods.

Consolidated general and administrative ( G&A ) expenses increased by \$1.2 million to \$5.2 million in the third quarter of this year compared to \$4.0 million in the third quarter of last year due primarily to higher payroll, legal and stock compensation expenses. For the nine month periods, consolidated G&A increased from last year by \$3.4 million to \$14.9 million this year due primarily to the same factors cited above for the three month periods.



Amortization of intangibles increased slightly from \$1.64 million in the third quarter of last year to \$1.66 million in the third quarter of this year. For the nine month periods, amortization of intangibles was almost unchanged at \$5.0 million as the net result of some intangible assets becoming fully amortized and the amortization of a new intangible associated with the acquisition of Crashboxx in the fiscal 2016 first quarter.

#### **Non-operating Expense, Net**

Investment income was \$438,000 in the third quarter of this year compared to investment income of \$37,000 last year. Investment income was \$423,000 in the nine months ended November 30, 2015 compared to investment income of \$128,000 in the comparable period of the prior year. The year-over-year increases in the three- and nine-month periods are due to investment income on the net proceeds of the convertible notes issued in May 2015.

Interest expense increased to \$2.3 million in the third quarter of this year compared to \$49,000 in the third quarter of last year, and increased to \$5.2 million in the nine months ended November 30, 2015 compared to \$236,000 in the nine months ended November 30, 2014, with both increases due to interest expense associated with the convertible notes issued in May 2015.

See Note 12 to the accompanying unaudited consolidated financial statements for additional information on investment income and interest expense.

#### **Income Tax Provision**

The effective income tax rate was 38.3% and 37.4% in the three months ended November 30, 2015 and 2014, respectively, and was 37.4% in both of the nine-month periods then ended.

#### **LIQUIDITY AND CAPITAL RESOURCES**

In May 2015, the Company issued \$172.5 million aggregate principal amount of 1.625% convertible senior unsecured notes due May 15, 2020. The convertible notes were sold in a private placement under a purchase agreement between the Company and J.P. Morgan Securities LLC and Jefferies LLC as representatives of several purchasers.

The Company used \$31.3 million of the net proceeds from the offering of the convertible notes to pay the cost of a privately-negotiated convertible note hedge. In addition, proceeds of \$16.0 million were received by the Company from the sale of warrants pursuant to warrant transactions. The Company expects 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 and working capital. See Note 6 to the unaudited consolidated financial statements for further description of the note hedges and warrants.

As described in Note 15 to the unaudited consolidated financial statements, on December 10, 2015 the Company publicly announced that it made an offer to purchase all of the outstanding common stock of LoJack for approximately \$113 million. The Company intends to fund this acquisition from its on-hand cash, cash equivalents and marketable securities, which amounted to \$223.3 million in the aggregate at November 30, 2015.

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, 2015 or February 28, 2015.

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, 2015, 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 line of credit with Square 1 Bank. During the nine months ended November 30, 2015, cash and cash equivalents increased by \$72.5 million. The increase was primarily due to the proceeds from the issuance of convertible notes of \$167.2 million net of issuance costs, proceeds from the issuance of warrants of \$16.0 million, and cash provided by operations of \$37.9 million, partially offset by net purchases of marketable securities of \$106.5 million, the \$31.3 million cost of the note hedges, capital expenditures of \$3.4 million, taxes paid related to net share settlement of vested equity awards of \$2.5 million, cash of \$2.2 million used for the equity investment in affiliate, payment of an acquisition-related note and contingent consideration of \$1.7 million, and cash used for the acquisition of Crashboxx of \$1.5 million.



See Note 6 to the accompanying unaudited consolidated financial statements for a summary of the Company's contractual cash obligations as of November 30, 2015.

### **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 wireless and satellite 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, 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 28, 2015 as filed with the Securities and Exchange Commission on April 21, 2015. 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 \$111,000 related to the Company's Canadian and United Kingdom subsidiaries is included in accumulated other comprehensive loss in the stockholders' equity section of the consolidated balance sheet at November 30, 2015. The aggregate foreign currency transaction exchange rate losses included in determining income before income taxes were \$31,000 and \$5,000 in the nine months ended November 30, 2015 and 2014, 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, 2015.

**ITEM 4. CONTROLS AND PROCEDURES**

**Disclosure Controls and Procedures**

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

**Internal Control Over Financial Reporting**

There has been no change 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 14 Commitments and Contingencies of the Notes to Unaudited Financial Statements above for information regarding the legal proceedings in which we are 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 28, 2015, as filed with the Securities and Exchange Commission on April 21, 2015, for a discussion of factors that could materially affect the Company’s business, financial condition, results of operations, or future results.

**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 22, 2015  
Date

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