CalAmp Corp.
Form 10-Q
January 04, 2011

Table of Contents

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

(Mark One)

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended November 27, 2010
or

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from _____ to _____
COMMISSION FILE NUMBER: 0-12182

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ
The number of shares outstanding of the registrant s common stock as of December 31, 2010 was 28,145,485.

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION
CONSOLIDATED BALANCE SHEETS (Unaudited)
CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK
ITEM 4. CONTROLS AND PROCEDURES
PART II. OTHER INFORMATION
ITEM 1. LEGAL PROCEEDINGS
ITEM 1A. RISK FACTORS
ITEM 6. EXHIBITS
SIGNATURE
Exhibit 10.1
Exhibit 31.1
Exhibit 31.2
Exhibit 32

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

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

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

See accompanying notes to consolidated financial statements.

Table of Contents

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

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

See accompanying notes to consolidated financial statements.

Table of Contents

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

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

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

See accompanying notes to consolidated financial statements.

Table of Contents

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

NOTE 1 DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business and Basis of Presentation

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

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

Certain notes and other information are condensed or omitted from the interim financial statements presented in this Quarterly Report on Form 10-Q. Therefore, these financial statements should be read in conjunction with the Company s 2010 Annual Report on Form 10-K as filed with the Securities and Exchange Commission on May 6, 2010.

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

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

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

Disclosures About Fair Value of Financial Instruments

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

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

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

Table of Contents

NOTE 2 INVENTORIES

Inventories consist of the following (in thousands):

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

NOTE 3 INTANGIBLE ASSETS

Intangible assets are comprised as follows (in thousands):

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

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

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

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

NOTE 4 FINANCING ARRANGEMENTS

Bank Working Capital Line of Credit

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

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

Table of Contents

Long-Term Debt

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

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

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

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

NOTE 5 INCOME TAXES

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and for income tax purposes. A deferred income tax asset is recognized if realization of such asset is more likely than not, based upon the weight of available evidence that includes historical operating performance and the Company s forecast of future operating performance. The Company evaluates the realizability of its deferred income tax assets and a valuation allowance is provided, as necessary. During this evaluation, the Company reviews its forecasts of income in conjunction with the positive and negative evidence surrounding the realizability of its deferred income tax assets to determine if a valuation allowance is needed.

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

Table of Contents

The Company files income tax returns in the U.S. federal jurisdiction, various states and foreign jurisdictions. Income tax returns filed for fiscal years 2005 and earlier are not subject to examination by U.S. federal and state tax authorities. Certain income tax returns for fiscal years 2006 through 2010 remain open to examination by U.S federal and state tax authorities. The income tax returns filed by the Company s French subsidiary for fiscal years 2004 through 2007 are currently being examined by French tax authorities. Certain income tax returns for fiscal years 2007 through 2010 remain open to examination by Canada federal and Quebec provincial tax authorities. The Company believes that it has made adequate provision for all income tax obligations pertaining to these open tax years.

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

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

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

NOTE 6 EARNINGS (LOSS) PER SHARE

Basic earnings (loss) per share is computed by dividing net income (loss) available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflects the potential dilution, using the treasury stock method, that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the Company. In computing diluted earnings per share, the treasury stock method assumes that outstanding stock options and warrants are exercised and the proceeds are used to purchase common stock at the average market price during the period. Options and warrants will have a dilutive effect under the treasury stock method only when the Company reports net income and the average market price of the common stock during the period exceeds the exercise price of the options.

The weighted average number of common shares outstanding was the same amount for both basic and diluted loss per share for all periods presented. Potentially dilutive securities outstanding in the amount of 5,043,000 and 4,261,000 at November 30, 2010 and 2009, respectively, were excluded from the computation of diluted earnings per share because the Company reported a net loss in these periods and the effect of inclusion would be antidilutive (i.e., including such securities would result in a lower loss per share). These potentially dilutive securities consist of options, warrants, restricted stock, and restricted stock units (RSUs).

Table of Contents

NOTE 7 COMPREHENSIVE INCOME (LOSS)

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

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

NOTE 8 STOCK-BASED COMPENSATION

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

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

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

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

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

	Number of Shares	Weighted

	and RSUs (in 000s)	Average Grant Date Fair Value
Outstanding at February 28, 2010	1,784	$ 2.06
Granted	863	2.34
Vested	(542)	2.14
Forfeited	(50)	1.78
Outstanding at November 30, 2010	2,055	$ 2.16

Table of Contents

During the nine months ended November 30, 2010, the Company retained 169,118 of the vested restricted stock shares and RSUs to cover the required amount of employee withholding taxes in the amount of $403,000.

As of November 30, 2010, there was $4.5 million of total unrecognized stock-based compensation cost related to nonvested stock options, restricted stock and RSUs. That cost is expected to be recognized as an expense over a weighted-average remaining vesting period of 2.8 years.

NOTE 9 CONCENTRATION OF RISK

Because the Company sells into markets dominated by a few large service providers, a significant percentage of consolidated revenues and consolidated accounts receivable relate to a small number of customers. One customer of the Company s Satellite business unit accounted for 28% and 55%, respectively, of consolidated revenues for the quarters ended November 30, 2010 and 2009, respectively, and accounted for 35% and 46% of consolidated revenues for the nine-month periods then ended. This customer also accounted for 14% and 48% of consolidated net accounts receivable at November 30, 2010 and February 28, 2010, respectively. No other customer accounted for 10% or more of consolidated revenues for the three and nine months ended November 30, 2010 or 2009.

Some of the Company s components, assemblies and electronic manufacturing services are purchased from sole source suppliers. One supplier, which functions as an independent foreign procurement agent, accounted for approximately 50% of the Company s total inventory purchases in the nine months ended November 30, 2010 and 2009. At November 30, 2010, this supplier accounted for 59% of the Company s total accounts payable balance.

NOTE 10 PRODUCT WARRANTIES

The Company generally warrants its products against defects over periods ranging from 3 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 quarter, the Company adjusts its liability for warranty claims based on its actual warranty claims experience as a percentage of revenues for the preceding three years and also considers the impact of the known operational issues that may have a greater impact than historical trends. Accrued warranty costs are included in Other Current Liabilities in the consolidated balance sheets at November 30, 2010 and February 28, 2010. Activity in the accrued warranty costs liability for the nine months ended November 30, 2010 and 2009 is as follows (in thousands):

	Nine Months Ended November 30,	
	2010	**2009**
Balance at beginning of period	$ 1,231	$ 3,286
Charged to warranty expense	650	397
Deductions	(1,060)	(1,684)
Balance at end of period	$ 821	$ 1,999

Table of Contents

NOTE 11 OTHER FINANCIAL INFORMATION

Supplemental Cash Flow Information

Net cash provided by operating activities in the unaudited consolidated statements of cash flows includes interest paid and income tax refunds received as follows (in thousands):

	Nine Months Ended November 30,	
	2010	2009
Interest paid	$ 665	$ 531
Income tax refunds received, net	$ (806)	$ (5)

Other Non-Current Liabilities

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

	November 30, 2010	February 28, 2010
Deferred rent	$ 17	$ 88
Deferred revenue	561	401
	$ 578	$ 489

NOTE 12 SEGMENT INFORMATION

Segment information for the three and nine months ended November 30, 2010 and 2009 is as follows (dollars in thousands):

	Three Months Ended November 30, 2010				Three Months Ended November 30, 2009			
	Operating Segments				Operating Segments			
	Satellite	Wireless DataCom	Corporate	Total	Satellite	Wireless DataCom	Corporate	Total
Revenues	$ 8,373	$ 21,180		$ 29,553	$ 16,802	$ 13,890		$ 30,692
Gross profit	$ 191	$ 7,508		$ 7,699	$ 1,647	$ 4,250		$ 5,897
Gross margin	2.3%	35.4%		26.1%	9.8%	30.6%		19.2%
Operating income (loss)	$ (762)	$ 1,935	$ (1,036)	$ 137	$ 494	$ (1,848)	$ (1,087)	$ (2,441)

	Nine Months Ended November 30, 2010				Nine Months Ended November 30, 2009			
	Operating Segments				Operating Segments			
	Satellite	Wireless DataCom	Corporate	Total	Satellite	Wireless DataCom	Corporate	Total
Revenues	$ 30,316	$ 55,073		$ 85,389	$ 36,015	$ 41,617		$ 77,632
Gross profit	$ 2,129	$ 19,061		$ 21,190	$ 2,405	$ 13,003		$ 15,408
Gross margin	7.0%	34.6%		24.8%	6.7%	31.2%		19.8%
Operating income (loss)	$ (1,001)	$ 2,046	$ (3,547)	$ (2,502)	$ (851)	$ (4,791)	$ (3,363)	$ (9,005)

The Company considers operating income (loss) to be the primary measure of profit or loss of its business segments. The amount shown for each period in the Corporate column above for operating income (loss) consists of corporate expenses not allocated to the business segments. Unallocated corporate expenses include salaries and benefits of all executive officers and corporate expenses such as audit fees, investor relations, stock listing fees, director and officer liability insurance, and director fees and expenses.

Corporate expenses include stock-based compensation expense of $312,000 and $263,000 in the three-month periods ended November 30, 2010 and 2009, respectively, and $897,000 and $704,000, respectively, in the nine-month periods then ended.

Table of Contents

NOTE 13 COMMITMENTS AND CONTINGENCIES

DBS Product Field Performance Issues

During 2007 a product performance issue arose involving certain DBS equipment manufactured by the Company for a certain customer. After examining the various component parts used in the manufacture of these products, it was determined by the Company that the performance issue was the result of a deterioration of the printed circuit board (PCB) laminate material used in these products. In fiscal 2008, the Company recorded a charge of $17.9 million for this matter. In addition to returning product, in May 2007 this DBS customer put on hold all orders for CalAmp products, including newer generation products, pending the requalification of all products manufactured by the Company for this customer. In December 2007, the Company entered into a settlement agreement with this customer. Under the terms of the settlement agreement, the Company agreed to rework certain DBS products returned by the customer through March 14, 2009. The Company also agreed to provide extended warranty periods for workmanship (18 months) and product failures due to the issue with the PCB laminate material (36 months). In January 2008, the customer requalified CalAmp s designs for the affected products and in May 2008 the Company resumed product shipments to this customer.

At November 30, 2010, the Company has aggregate remaining reserves of $1.3 million for this matter, of which $0.5 million is an inventory reserve, $0.4 million is a vendor commitment liability included in Other Current Liabilities, and the remaining $0.4 million is a reserve for accrued warranty costs that is also included in Other Current Liabilities. The Company believes that its reserves as of November 30, 2010 of $1.3 million will be adequate to cover the full resolution of this matter.

Legal Proceedings

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

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

The Company s discussion and analysis of its financial condition and results of operations are based upon the Company s consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of sales and expenses during the reporting periods. Actual results could differ materially from these estimates. The critical accounting policies listed below affect the Company s more significant accounting judgments and estimates used in the preparation of the consolidated financial statements. These policies are described in greater detail in Management s Discussion and Analysis (MD&A) under Part II, Item 7 of the Company s Annual Report on Form 10-K for the year ended February 28, 2010 as filed with the Securities and Exchange Commission on May 6, 2010 and include the following areas:

Allowance for doubtful accounts;

Inventory write-downs;

Product warranties;

Deferred income tax and uncertain tax position;

Impairment assessments of purchased intangible assets and other long-lived assets;

Stock-based compensation expense; and

Revenue recognition.

Table of Contents

RESULTS OF OPERATIONS

Overview

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

WIRELESS DATACOM

The Wireless DataCom segment provides wireless communications technologies, products and services to the wireless networks and mobile resource management markets for a wide range of applications. CalAmp has expertise in designing and providing applications involving various combinations of private and public (cellular infrastructure) networks, narrow-band and broad-band frequencies, licensed and unlicensed radio spectrum, and mobile and fixed-remote communications. The Company s Wireless DataCom segment is comprised of Wireless Networks and Mobile Resource Management (MRM) product lines.

SATELLITE

The Company s DBS reception products have historically been sold to the two U.S. DBS system operators, EchoStar and DirecTV, for incorporation into complete subscription satellite television systems. However, during fiscal 2010 and the nine months ended November 30, 2010 the Company did not sell any products to DirecTV due to pricing and competitive pressures on older generation products and the time required to get the next generation products qualified with this customer.

Operating Results by Business Segment

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

REVENUE BY SEGMENT

	Three Months Ended November 30,				Nine Months Ended November 30,			
	2010		2009		2010		2009	
	$000s	% of Total	$000s	% of Total	$000s	% of Total	$000s	% of Total
Segment								
Satellite	$ 8,373	28.3%	$ 16,802	54.7%	$ 30,316	35.5%	$ 36,015	46.4%
Wireless DataCom	21,180	71.7%	13,890	45.3%	55,073	64.5%	41,617	53.6%
Total	$ 29,553	100.0%	$ 30,692	100.0%	$ 85,389	100.0%	$ 77,632	100.0%

GROSS PROFIT BY SEGMENT

	Three Months Ended November 30,				Nine Months Ended November 30,			
	2010		2009		2010		2009	
	$000s	% of Total	$000s	% of Total	$000s	% of Total	$000s	% of Total
Segment								
Satellite	$ 191	2.5%	$ 1,647	27.9%	$ 2,129	10.0%	$ 2,405	15.6%
Wireless DataCom	7,508	97.5%	4,250	72.1%	19,061	90.0%	13,003	84.4%
Total	$ 7,699	100.0%	$ 5,897	100.0%	$ 21,190	100.0%	$ 15,408	100.0%

Table of Contents

OPERATING INCOME (LOSS) BY SEGMENT

	Three Months Ended November 30,				Nine Months Ended November 30,			
	2010		2009		2010		2009	
	$000s	% of Total Revenue	$000s	% of Total Revenue	$000s	% of Total Revenue	$000s	% of Total Revenue
Segment								
Satellite	$ (762)	(2.6%)	$ 494	1.6%	$ (1,001)	(1.2%)	$ (851)	(1.1%)
Wireless DataCom	1,935	6.5%	(1,848)	(6.0%)	2,046	2.4%	(4,791)	(6.2%)
Corporate expenses	(1,036)	(3.5%)	(1,087)	(3.5%)	(3,547)	(4.2%)	(3,363)	(4.3%)
Total	$ 137	0.4%	$ (2,441)	(7.9%)	$ (2,502)	(3.0%)	$ (9,005)	(11.6%)

Revenue

Satellite revenue decreased 50% to $8.4 million in the three months ended November 30, 2010 from $16.8 million for the same period in the previous fiscal year because of reduced demand for the older generation products that the Company is currently producing. The Company is working closely with its two DBS customers to develop and launch new products that address their expected future requirements.

For the nine months ended November 30, 2010, Satellite revenue decreased 16% to $30.3 million from $36.0 million for the same period of the prior year due to the reason cited above.

Wireless DataCom revenue increased by $7.3 million, or 53%, to $21.2 million in the third quarter of fiscal 2011 compared to the fiscal 2010 third quarter. For the nine months ended November 30, 2010, Wireless DataCom revenue increased by $13.5 million, or 32%, to $55.1 million compared to the same period of the prior year. These revenue increases were predominantly related to the MRM product line and were attributable to the addition of new customers and growth in orders from existing customers.

Gross Profit and Gross Margins

Satellite gross profit declined by $1.5 million to $191,000 in the fiscal 2011 third quarter compared to the third quarter of last year. Satellite s gross margin decreased to 2.3% in the latest quarter from 9.8% in the third quarter of fiscal 2010 due primarily to lower absorption of fixed costs on lower revenue.

The Satellite segment had gross profit of $2.1 million for the nine months ended November 30, 2010, compared with gross profit of $2.4 million for the same period last year. The decrease in gross profit is primarily attributable to the decrease in revenue. Satellite gross margin was 7.0% for the nine months ended November 30, 2010, compared to 6.7% for the same period last year. Gross profit and gross margin for the nine months ended November 30, 2010 were benefited by (i) $717,000 associated with the sale of Satellite products for which the inventory cost had been written off in a prior year and a partial reversal of a vendor commitment liability due to consumption of materials; and (ii) royalty income of $200,000 that had no corresponding cost of revenue.

Wireless DataCom gross profit increased by $3.2 million to $7.5 million in the fiscal 2011 third quarter compared to $4.3 million in the third quarter of last year. Wireless DataCom s gross margin improved to 35.4% in the third quarter of fiscal 2011 from 30.6% in the third quarter of fiscal 2010 due primarily to increased absorption of fixed manufacturing costs on higher revenue.

Wireless DataCom gross profit increased 47% to $19.1 million in the nine months ended November 30, 2010, compared to $13.0 million for the same period of the prior year. Wireless DataCom gross margin increased from 31.2% in the nine month period of fiscal 2010 to 34.6% in the same period of fiscal 2011 due primarily to higher revenue.

See Note 12 to the accompanying unaudited consolidated financial statements for additional operating data by business segment.

Operating Expenses

Consolidated research and development (R&D) expense was $2.7 million for both of the third quarters of fiscal 2011 and fiscal 2010, and was $8.3 million for both of the nine-month year-to-date periods.

Table of Contents

Consolidated selling expense was $2.5 million for both of the third quarters of fiscal 2011 and 2010. For the nine-month year-to-date periods, selling expenses increased by $750,000 from $7,120,000 last year to $7,870,000 this year. The year-over-year increase is due primarily to higher incentive and commission expense on the higher Wireless DataCom revenue level, increased salaries expense and higher travel expenses.

Consolidated general and administrative (G&A) expense declined by $772,000 to $1,981,000 in the third quarter of this year compared to the prior year. For the nine-month periods, consolidated G&A expense decreased by $1.3 million to $6.7 million for fiscal 2011 from $8.0 million last year. Legal expense was $490,000 lower during the third quarter of this year compared to the same period of the prior year due in part to a $230,000 indemnification settlement entered into with another company involving legal defense costs. Also contributing to the decrease in G&A expense were lower payroll costs due to workforce reductions and other cost cutting actions implemented by the Company.

Amortization of intangibles decreased from $342,000 in the third quarter of last year to $275,000 in the third quarter of this year. The reduction is attributable to some intangible assets becoming fully amortized during the nine-month period of this year. For the nine-month periods, amortization of intangibles decreased to $857,000 from $1,025,000 last year.

Non-operating Expense, Net

Non-operating expense increased $64,000 from the third quarter of last year to the third quarter of this year. This increase was primarily due to an increase in net interest expense of $111,000, partially offset by an increase in foreign currency gain of $47,000. The higher interest expense in the third quarter of this year was attributable to the higher effective interest rate on the Company s borrowings due to the 6% minimum interest on the bank revolving credit facility and the 12% interest on the Subordinated Notes, as well as interest expense from amortization of debt issue costs and debt discount as discussed in Note 4 to the accompanying unaudited consolidated financial statements.

Non-operating expense was $1,084,000 in the nine months ended November 30, 2010, compared to non-operating expense of $1,888,000 in the nine months ended November 30, 2009. The decrease was due primarily to a loss of $1.0 million on the sale of an investment in the preferred stock of a privately held company last year and the $251,000 reduction of foreign currency losses from $255,000 last year to $4,000 this year, partially offset by an increase in net interest expense of $468,000. The increase in net interest expense was due to the reasons cited above.

Income Tax Provision

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

LIQUIDITY AND CAPITAL RESOURCES

The Company s primary sources of liquidity are its cash and cash equivalents, which amounted to $4,251,000 at November 30, 2010, and the working capital line of credit with Square 1 Bank. During the nine months ended November 30, 2010, cash and cash equivalents increased by $1,265,000. Cash was provided by operations in the amount of $806,000, net borrowings on the bank line of credit of $1,398,000 and collections on a note receivable of $348,000, partially offset by capital expenditures of $884,000 and employee withholding taxes paid related to net share settlement of vested equity awards of $403,000.

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

amounted to $1,984,000. At November 30, 2010 and February 28, 2010, the effective interest rate on the revolver was 6.0%.

Table of Contents

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

On December 22, 2009 and January 15, 2010, the Company raised a total of $5,000,000 from the issuance of subordinated debt (the Subordinated Notes), including $325,000 of Subordinated Notes that were sold to three investors affiliated with the Company. The Subordinated Notes bear interest at 12% per annum and have a maturity date of December 22, 2012. Interest is payable semiannually on the last day of June and December, and all Subordinated Note principal is payable at the maturity date.

At November 30, 2010 the Company had aggregate reserves of $1.3 million for a DBS product performance issue as described in Note 13 to the accompanying unaudited consolidated financial statements. While the Company believes that these reserves will be adequate to cover the remaining product rework costs under the settlement agreement reached with the particular customer and vendor commitment liabilities for materials not expected to be utilizable in the future, no assurances can be given that the ultimate costs will not materially increase from the current estimates. Substantially all of the cash impact of these reserves is anticipated to occur over the next 12 months.

FORWARD-LOOKING STATEMENTS

Forward-looking statements in this Form 10-Q which include, without limitation, statements relating to the Company s plans, strategies, objectives, expectations, intentions, projections and other information regarding future performance, are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The words may , will , could , plans , intends , seeks , believes , anticipates , expects , estimates , judgment , go words and similar expressions, are intended to identify forward-looking statements. These forward-looking statements reflect the Company s current views with respect to future events and financial performance and are subject to certain risks and uncertainties, including, without limitation, product demand, market growth, competitive pressures and pricing declines in the Company s Satellite and Wireless markets, supplier constraints, manufacturing yields, the length and extent of the global economic downturn that has and may continue to adversely affect the Company s business, and other risks and uncertainties that are set forth under the caption Risk Factors in Part I, Item 1A of the Annual Report on Form 10-K for the year ended February 28, 2010 as filed with the Securities and Exchange Commission on May 6, 2010. 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.

Table of Contents

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Currency Risk

The Company operates internationally, giving rise to exposure to market risks from changes in foreign exchange rates. A cumulative foreign currency translation loss of $866,000 related to the Company s Canadian and French subsidiaries is included in accumulated other comprehensive loss in the stockholders equity section of the consolidated balance sheet at November 30, 2010 and February 28, 2010. Foreign currency gains (losses) of $37,000 and ($10,000) were included in the consolidated statements of operations for the three months ended November 30, 2010 and 2009, respectively. Foreign currency losses of $4,000 and $255,000 were included in the consolidated statements of operations for the nine months ended November 30, 2010 and 2009, respectively.

Interest Rate Risk

The Company has variable-rate bank debt. A fluctuation of one percent in the interest rate on the $12 million revolving credit facility with Square 1 Bank would have an annual impact of approximately $70,000 net of tax on the Company s consolidated statement of operations assuming that the full amount of the facility was borrowed. The Subordinated Notes in the aggregate amount of $5,000,000 bear a fixed rate of interest and hence are not subject to interest rate risk.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

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

Internal Control Over Financial Reporting

There has been no change in the Company s internal control over 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 Item 1 under Part II of the Company s Form 10-Qs for the quarters ended May 29, 2010 and August 28, 2010 for a description of legal matters settled during those quarters.

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, 2010 as filed with the Securities and Exchange Commission on May 6, 2010, for a discussion of factors that could materially affect the Company s business, financial condition or future results.

Table of Contents

ITEM 6. EXHIBITS

Exhibit 10.1	Amendment to Loan Documents dated December 22, 2010 between Square 1 Bank, CalAmp Corp. and CalAmp s domestic subsidiaries.
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

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.

January 4, 2011	/s/ Richard K. Vitelle
Date	Richard K. Vitelle Vice President Finance & CFO (Principal Financial Officer and Chief Accounting Officer)