

CalAmp Corp.  
Form 10-Q  
December 20, 2018

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 quarter ended November 30, 2018

or

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

For the transition period from        to

COMMISSION FILE NUMBER: 0-12182

CALAMP CORP.

(Exact name of Registrant as specified in its Charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

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

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

92618  
(Zip Code)

(949) 600-5600

(Registrant's telephone number, including area code)

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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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

|                         |                           |
|-------------------------|---------------------------|
| Large accelerated filer | Accelerated filer         |
| Non-accelerated filer   | Smaller reporting company |
| Emerging growth company |                           |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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, 2018 was 34,259,106.

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CALAMP CORP.

QUARTERLY REPORT ON FORM 10-Q

FOR THE QUARTER ENDED NOVEMBER 30, 2018

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## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## CALAMP CORP.

## CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except par value)

(Unaudited)

|  | November<br>30,<br>2018 | February<br>28,<br>2018 |
|--|-------------------------|-------------------------|
| Assets   |                         |                         |
| Current assets:  |                         |                         |
| Cash and cash equivalents  | \$ 271,613              | \$ 132,603              |
| Short-term marketable securities   | 30,148                  | 23,400                  |
| Accounts receivable, net   | 72,426                  | 71,580                  |
| Inventories  | 31,515                  | 36,302                  |
| Prepaid expenses and other current assets  | 13,733                  | 12,000                  |
| Total current assets   | 419,435                 | 275,885                 |
| Property and equipment, net  | 23,192                  | 21,262                  |
| Deferred income tax assets   | 21,859                  | 31,581                  |
| Goodwill   | 73,284                  | 72,980                  |
| Other intangible assets, net   | 43,518                  | 52,456                  |
| Other assets   | 26,759                  | 18,829                  |
|  | \$ 608,047              | \$ 472,993              |
| Liabilities and Stockholders' Equity   |                         |                         |
| Current liabilities:   |                         |                         |
| Accounts payable   | \$ 31,556               | \$ 35,478               |
| Accrued payroll and employee benefits  | 8,314                   | 10,606                  |
| Deferred revenue   | 20,030                  | 17,757                  |
| Other current liabilities  | 37,979                  | 31,688                  |
| Total current liabilities  | 97,879                  | 95,529                  |
| Convertible senior unsecured notes, net  | 272,420                 | 154,299                 |
| Other non-current liabilities  | 36,195                  | 24,249                  |
| Total liabilities  | 406,494                 | 274,077                 |
| Commitments and contingencies (see Note 16)  |                         |                         |
| Stockholders' equity:  |                         |                         |
| Preferred stock, \$.01 par value; 3,000 shares authorized; no shares issued or outstanding | —                       | —                       |
| Common stock, \$.01 par value; 80,000 shares authorized; 34,259 and 35,718 shares          |                         |                         |
| issued and outstanding at November 30, 2018 and February 28, 2018, respectively            | 343                     | 357                     |
| Additional paid-in capital   | 215,340                 | 218,217                 |
| Accumulated deficit  | (13,485 )               | (19,459 )               |
| Accumulated other comprehensive loss   | (645 )                  | (199 )                  |
| Total stockholders' equity   | 201,553                 | 198,916                 |
|  | \$ 608,047              | \$ 472,993              |

See accompanying notes to condensed consolidated financial statements.

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CALAMP CORP.

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(In thousands, except per share amounts)

(Unaudited)

|   | Three Months                  |          | Nine Months Ended    |           |
|---|-------------------------------|----------|----------------------|-----------|
|   | Ended<br>November 30,<br>2018 | 2017     | November 30,<br>2018 | 2017      |
| <b>Revenues:</b>  |                               |          |                      |           |
| Products  | \$67,571                      | \$77,528 | \$221,461            | \$223,165 |
| Application subscriptions and related products and other services     | 20,924                        | 16,141   | 57,959               | 48,352    |
| Total revenues  | 88,495                        | 93,669   | 279,420              | 271,517   |
| <b>Cost of revenues:</b>  |                               |          |                      |           |
| Products  | 41,397                        | 47,075   | 134,795              | 134,141   |
| Application subscriptions and related products and other services     | 10,717                        | 8,407    | 30,332               | 24,908    |
| Total cost of revenues  | 52,114                        | 55,482   | 165,127              | 159,049   |
| Gross profit  | 36,381                        | 38,187   | 114,293              | 112,468   |
| <b>Operating expenses:</b>  |                               |          |                      |           |
| Research and development  | 7,177                         | 6,296    | 21,377               | 18,853    |
| Selling and marketing   | 12,746                        | 12,981   | 37,766               | 38,167    |
| General and administrative  | 11,719                        | 10,993   | 37,146               | 38,159    |
| Restructuring (see Note 7)  | 1,247                         | —        | 5,196                | —         |
| Intangible asset amortization   | 2,893                         | 3,710    | 8,534                | 11,278    |
| Total operating expenses  | 35,782                        | 33,980   | 110,019              | 106,457   |
| Operating income  | 599                           | 4,207    | 4,274                | 6,011     |
| <b>Non-operating income (expense):</b>                                |                               |          |                      |           |
| Investment income   | 1,398                         | 619      | 3,258                | 1,348     |
| Interest expense  | (5,134 )                      | (2,573 ) | (11,566 )            | (7,658 )  |
| Gain on legal settlement (see Note 16)                                | 2,500                         | 13,301   | 15,833               | 28,333    |
| Loss on extinguishment of debt (see Note 6)                           | —                             | —        | (2,033 )             | —         |
| Other income (expense)  | (218 )                        | 12       | (721 )               | 442       |
|   | (1,454 )                      | 11,359   | 4,771                | 22,465    |
| Income (loss) before income taxes and equity in net loss of affiliate | (855 )                        | 15,566   | 9,045                | 28,476    |
| Income tax benefit (provision)  | 778                           | (3,351 ) | (496 )               | (5,970 )  |
| Income (loss) before equity in net loss of affiliate                  | (77 )                         | 12,215   | 8,549                | 22,506    |
| Equity in net loss of affiliate                                       | (445 )                        | (409 )   | (1,414 )             | (1,122 )  |
| Net income (loss)   | \$(522 )                      | \$11,806 | \$7,135              | \$21,384  |
| <b>Earnings (loss) per share:</b>                                     |                               |          |                      |           |
| Basic   | \$(0.02 )                     | \$0.33   | \$0.20               | \$0.61    |
| Diluted   | \$(0.02 )                     | \$0.33   | \$0.20               | \$0.59    |
| <b>Shares used in computing earnings (loss) per share:</b>            |                               |          |                      |           |
| Basic   | 34,561                        | 35,347   | 34,950               | 35,206    |
| Diluted   | 34,561                        | 36,247   | 35,769               | 36,064    |

Comprehensive income (loss):

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|  |          |          |         |          |
|--|----------|----------|---------|----------|
| Net income (loss)  | \$(522 ) | \$11,806 | \$7,135 | \$21,384 |
| Other comprehensive income (loss):                           |          |          |         |          |
| Foreign currency translation adjustments                     | (29 )    | 123      | (12 )   | (56 )    |
| Unrealized gain on available-for-sale securities, net of tax | -        | 419      | -       | 470      |
| Total comprehensive income (loss)                            | \$(551 ) | \$12,348 | \$7,123 | \$21,798 |

See accompanying notes to condensed consolidated financial statements.



CALAMP CORP.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

|   | Nine Months Ended<br>November 30, |                  |
|---|-----------------------------------|------------------|
|   | 2018                              | 2017             |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                      |                                   |                  |
| Net income  | \$7,135                           | \$21,384         |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                   |                  |
| Depreciation expense  | 6,602                             | 5,953            |
| Intangible assets amortization expense  | 8,534                             | 11,278           |
| Stock-based compensation expense  | 8,088                             | 6,664            |
| Tax benefits on vested and exercised equity awards                                | 591                               | 328              |
| Amortization of convertible debt issue costs and discounts                        | 7,999                             | 5,551            |
| Loss on extinguishment of debt  | 2,033                             | —                |
| Impairment loss on equity investment  | 326                               | —                |
| Unrealized foreign currency transaction losses                                    | 397                               | (404 )           |
| Deferred tax assets, net  | (716 )                            | 2,873            |
| Equity in net loss of affiliate   | 1,414                             | 1,122            |
| Other   | (32 )                             | 59               |
| Changes in operating assets and liabilities:                                      |                                   |                  |
| Accounts receivable   | (1,005 )                          | (5,120 )         |
| Inventories   | 4,454                             | (9,449 )         |
| Prepaid expenses and other assets   | (5,222 )                          | (3,977 )         |
| Accounts payable  | (3,826 )                          | 12,035           |
| Accrued liabilities   | 6,716                             | 8,783            |
| Deferred revenue  | 4,605                             | 1,651            |
| <b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>                                  | <b>48,093</b>                     | <b>58,731</b>    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                      |                                   |                  |
| Proceeds from maturities of marketable securities                                 | 36,461                            | 11,273           |
| Purchases of marketable securities  | (43,103 )                         | (17,209 )        |
| Capital expenditures  | (8,884 )                          | (5,970 )         |
| Advances to equity method investee  | (1,519 )                          | (1,312 )         |
| Other   | (103 )                            | (152 )           |
| <b>NET CASH USED IN INVESTING ACTIVITIES</b>                                      | <b>(17,148 )</b>                  | <b>(13,370 )</b> |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                      |                                   |                  |
| Proceeds from issuance of 2025 Convertible Notes                                  | 230,000                           | —                |
| Payment of debt issuance costs of 2025 Convertible Notes                          | (7,305 )                          | —                |
| Purchase of capped call on 2025 Convertible Notes                                 | (21,160 )                         | —                |
| Repurchase of 2020 Convertible Notes  | (53,683 )                         | —                |
| Proceeds from unwind of note hedges and warrants on 2020 Convertible Notes        | 3,122                             | —                |
| Repurchases of common stock   | (39,000 )                         | —                |

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|  |                |                 |
|--|----------------|-----------------|
| Taxes paid related to net share settlement of vested equity awards | (3,520 )       | (2,452 )        |
| Proceeds from exercise of stock options                            | 124            | 145             |
| <b>NET CASH PROVIDED BY (USED) IN FINANCING ACTIVITIES</b>         | <b>108,578</b> | <b>(2,307 )</b> |
| <b>EFFECT OF EXCHANGE RATE CHANGES ON CASH</b>                     | <b>(513 )</b>  | <b>1,335</b>    |
| Net change in cash and cash equivalents                            | 139,010        | 44,389          |
| Cash and cash equivalents at beginning of period                   | 132,603        | 93,706          |
| Cash and cash equivalents at end of period                         | \$271,613      | \$138,095       |

See accompanying notes to condensed consolidated financial statements.

CALAMP CORP.  
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY  
(In thousands)  
(Unaudited)

|   | Common Stock |        | Additional | Accumulated  | Accumulated | Total         |
|---|--------------|--------|------------|--------------|-------------|---------------|
|   | Shares       | Amount | Paid in    | Accumulated  | Other       | Stockholders' |
|   |              |        | Capital    | Deficit      | Loss        | Equity        |
| Balances at February 28, 2018   | 35,718       | \$ 357 | \$ 218,217 | \$ (19,459 ) | \$ (199 )   | \$ 198,916    |
| Cumulative adjustment upon adoption of ASU 2016-01, net of tax                |              |        |            | 434          | (434 )      | —             |
| Cumulative adjustment upon adoption of ASC 606, net of tax                    |              |        |            | (1,595 )     |             | (1,595 )      |
| Net income  |              |        |            | 7,135        |             | 7,135         |
| Equity component of 2025 Convertible Notes, net of tax                        |              |        | 51,902     |              |             | 51,902        |
| Purchase of capped call on 2025 Convertible Notes, net of tax                 |              |        | (15,870 )  |              |             | (15,870 )     |
| Debt issuance costs of 2025 Convertible Notes allocated to equity, net of tax |              |        | (1,649 )   |              |             | (1,649 )      |
| Equity component of the repurchased 2020 Convertible Notes                    |              |        | (6,088 )   |              |             | (6,088 )      |
| Unwind of note hedges and warrants of 2020 Convertible Notes                  |              |        | 3,122      |              |             | 3,122         |
| Stock-based compensation expense  |              |        | 8,088      |              |             | 8,088         |
| Shares issued on net share settlement of equity awards                        | 172          | 2      | (3,522 )   |              |             | (3,520 )      |
| Issuance of shares for restricted stock awards                                | 84           | 1      | (1 )       |              |             | —             |
| Exercise of stock options   | 66           | 1      | 123        |              |             | 124           |
| Other comprehensive income, net of tax  |              |        |            |              | (12 )       | (12 )         |
| Repurchases of common stock   | (1,781 )     | (18 )  | (38,982 )  |              |             | (39,000 )     |
| Balances at November 30, 2018   | 34,259       | \$ 343 | \$ 215,340 | \$ (13,485 ) | \$ (645 )   | \$ 201,553    |

See accompanying notes to condensed consolidated financial statements.

CALAMP CORP.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

THREE AND NINE MONTHS ENDED NOVEMBER 30, 2018 AND 2017

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

#### Description of Business

CalAmp Corp. (referred to herein as “CalAmp”, “the Company”, “we”, “our”, or “us”) is a telematics pioneer leading transformation in a global connected economy. We help reinvent businesses and improve lives around the globe with technology solutions that streamline complex Internet of Things (“IoT”) deployments through wireless connectivity solutions and derived data intelligence. Our software applications, scalable cloud services, and intelligent devices collect and assess business-critical data anywhere in the world from industrial machines, commercial and passenger vehicles, their passengers and contents. We are a global organization that is headquartered in Irvine, California. We operate under two reportable segments: Telematics Systems and Software & Subscription Services.

Certain notes and other information included in the audited financial statements in our Annual Report on Form 10-K for the fiscal year ended February 28, 2018 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 our 2018 Annual Report on Form 10-K as filed with the U.S. Securities and Exchange Commission on May 10, 2018.

In the opinion of our management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments (consisting of normal recurring adjustments) considered necessary to present fairly our financial position at November 30, 2018 and our results of operations for the three and nine months ended November 30, 2018 and 2017. The results of operations for such periods are not necessarily indicative of results to be expected for the full fiscal year.

All intercompany transactions and accounts have been eliminated in consolidation.

#### Revenue Recognition

In May 2014, the FASB issued Accounting Standards Update 2014-09, Revenue from Contracts with Customers (“ASC 606”). The new revenue recognition standard provides a five-step analytical framework for transactions to determine when and how revenue is recognized. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The two permitted transition methods under the new standard are the full retrospective method or the modified retrospective method. We adopted the new standard effective March 1, 2018 using the modified retrospective method, which we applied to all contracts.

Products. In accordance with ASC 606, we recognize revenue from product sales upon transfer of control of promised products to customers in an amount that reflects the transaction price, which is generally the stand-alone selling prices of the promised goods. For product shipments made on the basis of “FOB Destination” terms, revenue is recorded when the shipment reaches the customer. Customers generally do not have a right of return except for defective products returned during the warranty period. We record estimated commitments related to customer incentive programs as reductions of revenues.

Professional Services. We also provide various professional services to customers. These include project management, engineering services, installation services and an on-going early warning automated notification service, which are typically distinct from other performance obligations and are recognized as the related services are performed.

Software-as-a-Service (“SaaS”) and Platform-as-a-Service (“PaaS”). Our SaaS-based and PaaS-based subscriptions for our fleet management, vehicle finance and certain other verticals provide our customers with the ability to wirelessly communicate with monitoring devices installed in vehicles and other mobile or remote assets via our software applications. Generally, we defer the recognition of revenue for the products that are sold with application subscriptions. In such circumstances, the associated product costs are recorded as deferred costs in the balance sheet. The upfront fees for the devices are not distinct from the subscription service and are combined into the subscription service performance obligation. The upfront fees may provide a material right to the customer that has influence over the customers’ right to renew. Generally, these service arrangements do not provide the customer with the right to take possession of the software supporting the subscription service at any time. Revenues from subscription services are recognized ratably, on a straight-line basis, over the term of the subscription. Subscription renewal fees are recognized ratably over the term of the renewal. The deferred product revenue and deferred product cost amounts are amortized to application subscriptions and related products and other services revenue and cost of revenue, respectively, on a straight-line basis over the estimated average in-service lives of these devices, which are three years in the vehicle finance and four years in the fleet management verticals. Our deferred contract revenue under ASC 606 does not include future subscription fees associated with customers’ unexercised contract renewal rights. The product revenues for certain customer arrangements are presented combined within Application subscription and related products and other services in our statement of comprehensive income (loss) as the products and services are customarily part of one customer contractual arrangement.

Sales taxes. We exclude from the measurement of the transaction price all taxes assessed by a governmental authority that are both imposed on and concurrent with a specific revenue-producing transaction and collected by us from a customer.

Contract Balances. Timing of revenue recognition may differ from the timing on our invoicing to customers. Contract liabilities are comprised of billings or payments received from our customers in advance of performance under the contract. We refer to these contract liabilities as “Deferred Revenues” in the accompanying condensed consolidated financial statements. During the three and nine months ended November 30, 2018, we recognized \$4.5 million and \$15.7 million in revenue from the beginning deferred revenue balance of \$41.7 million on March 1, 2018, respectively.

As of November 30, 2018, we have estimated remaining performance obligations for contractually committed revenues of \$46.6 million, of which we expect to recognize approximately 18% through the remainder of fiscal 2019, 36% for fiscal 2020 and 25% for fiscal 2021. We have utilized the practical expedient exception within ASC 606 and exclude contracts that have original durations of less than one year from the aforementioned remaining performance obligation disclosure.

#### Cash and Cash Equivalents

We consider all highly liquid investments with maturities at date of purchase of three months or less to be cash equivalents.

#### Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable consists of amounts due to us from sales arrangements that are executed in our normal business activities and are recorded at invoiced amounts. We present the aggregate accounts receivable balance net of an allowance for doubtful accounts. Generally, collateral and other security is not obtained for outstanding accounts receivable. Credit losses, if any, are recognized based on management’s evaluation of historical collection experience, customer-specific financial conditions as well as an evaluation of current industry trends and general economic conditions. Past due balances are assessed by management on a monthly basis, and balances are written off when the customer’s financial condition no longer warrants pursuit of collection. Although we expect to collect amounts due, actual collections may differ from estimated amounts. The allowance for doubtful accounts totaled \$2.0 million and \$1.2 million as of November 30, 2018 and February 28, 2018, respectively.

#### Impairment of Other Long-Lived Assets

Long-lived assets to be held and used, including identifiable intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable. These events or changes in circumstances may include a significant deterioration of operating results, changes in business plans or changes in anticipated future cash flows. If an impairment indicator is present, we evaluate recoverability by a comparison of the carrying amount of the assets to future undiscounted net cash flows expected to be generated by the assets. If the assets are impaired, the impairment recognized is measured by the amount by which the carrying amount exceeds the fair value of the assets. Fair value is generally determined by estimates of discounted cash flows. The discount rate used in any estimate of discounted cash flows would be the rate required for similar investment of like risk.

#### Fair Value Measurements

We apply fair value accounting for all financial assets and liabilities and non-financial assets and liabilities that are recognized or disclosed at fair value in our financial statements. We define 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 arm's-length transaction between market participants at the measurement date. Fair value is estimated by using the following hierarchy:

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.

#### Convertible Senior Notes and Capped Call Transactions

We account for our convertible senior notes as separate liability and equity components. We determine the carrying amount of the liability component based on the fair value of a similar debt instrument excluding the embedded conversion option. The carrying amount of the equity component representing the conversion option is calculated by deducting the carrying value of the liability component from the principal amount of the notes as a whole. This difference represents a debt discount that is amortized to interest expense over the term of the notes using the effective interest rate method. The equity component of the notes is included in stockholders' equity and is not remeasured as long as it continues to meet the conditions for equity classification. We allocate transaction costs related to the issuance of the notes to the liability and equity components using the same proportions as the initial carrying value of the notes. Transaction costs attributable to the liability component

are being amortized to interest expense using the effective interest method over the respective term of the notes, and transaction costs attributable to the equity components are netted with the equity component of the note in stockholders' equity. We account for the cost of the capped calls as a reduction to additional paid-in capital.

#### Patent Litigation and Other Contingencies

We accrue for patent litigation and other contingencies whenever we determine that an unfavorable outcome is probable and a liability is reasonably estimable. The amount of the accrual is estimated based on a review of each claim, including the type and facts of the claim and our assessment of the merits of the claim. These accruals are reviewed at least on a quarterly basis and are adjusted to reflect the impact of recent negotiations, settlements, court rulings, advice from legal counsel and other events pertaining to the case. Such accruals, if any, are recorded as general and administrative expense in our consolidated statements of comprehensive income (loss). Although we take considerable measures to mitigate our exposure in these matters, litigation is inherently unpredictable. Nonetheless, we believe that we have valid defenses with respect to pending legal matters against us as well as adequate provisions for probable and estimable losses.

We expense legal costs as incurred.

#### Foreign Currency Translation

We translate the assets and liabilities of our non-U.S. dollar functional currency subsidiaries into U.S. dollars using exchange rates in effect at the end of each period. Revenue and expenses for these subsidiaries are translated using rates that approximate those in effect during the period. Gains and losses from these translations are recognized in foreign currency translation included in accumulated other comprehensive income (loss) during the period. The aggregate foreign currency transaction exchange rate gain (losses) included in determining income (loss) before income taxes were immaterial for both of the three and nine months ended November 30, 2018 and 2017.

#### Recently Issued Accounting Standards

In August 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update 2018-15, Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract ("ASU 2018-15"). The amendments in ASU 2018-15 provide guidance to align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by this update. The new guidance is effective for fiscal years beginning after December 15, 2019. Early adoption is permitted. We do not anticipate this pronouncement will have a significant impact on our condensed consolidated financial statements upon adoption.

In January 2017, the FASB issued ASU 2017-04, Simplifying the Test for Goodwill Impairment. This guidance eliminates Step 2 from the goodwill impairment test and instead requires that an entity measure the impairment of goodwill assigned to a reporting unit if the carrying value of assets and liabilities assigned to the reporting unit, including goodwill, exceed the reporting unit's fair value. The new guidance must be adopted for annual and interim goodwill tests in fiscal years beginning after December 15, 2019. After the adoption of this standard, which will be applied prospectively, we will follow a one-step model for goodwill impairment. We do not anticipate this pronouncement will have a significant impact on our condensed consolidated financial statements upon adoption.



In February 2016, the FASB issued ASU 2016-02, Leases, which was further clarified by ASU 2018-10, Codification Improvements to Topic 842, Leases, and ASU 2018-11, Leases – Targeted Improvement, both issued in July 2018. ASU 2016-02 affects all entities that lease assets and establishes a right-of-use (“ROU”) model that requires a lessee to record an ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the income statement. ASU 2018-10 clarifies or corrects unintended application of guidance related to ASU 2016-02. The amendments affects narrow aspects of ASU 2016-02 related to the implicit rate in the lease, impairment of the net investment in the lease, lessee reassessment of lease classification, lessor reassessment of lease term and purchase options, variable payments that depend on an index or rate and certain transition adjustments. ASU 2018-11 adds a transition option for all entities and a practical expedient only for lessors. The transition option allows entities to not apply the new leases standard in the comparative periods they present in their financial statements in the year of adoption. Under the transition option, entities can opt to continue to apply the legacy guidance in ASC 840, “Leases”, including its disclosure requirements, in the comparative periods presented in the year they adopt the new leases standard. Entities that elect this transition option will still be required to adopt the new leases standard using the modified retrospective transition method required by the standard, but they will recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption rather than in the earliest period presented. The new standards are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. For leases existing at, or entered into after the beginning of the earliest comparative period presented in the financial statements, lessees and lessors must apply a modified retrospective transition approach. We have established an implementation team to identify the various categories of capital and operating leases existing in our business operations. We are also accumulating information for the additional disclosure requirements of the new standard and are evaluating changes to our internal control structure and accounting policy. We have not completed the assessment of the impact of the accounting pronouncement on our condensed consolidated financial statements, but we do expect to record ROU assets and lease liabilities upon adoption.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments—Overall: Recognition and Measurement of Financial Assets and Financial Liabilities (“ASU 2016-01”). This standard revises an entity’s accounting related to (i) the classification and measurement of investments in equity securities and (ii) the presentation of certain fair value changes for financial liabilities measured at fair value. It also amends certain disclosure requirements associated with the fair value of financial instruments. Under the new guidance, entities will have to measure equity investments that do not result in consolidation and are not accounted for under the equity method at fair value and recognize any changes in fair value in net income unless the investments qualify for a new practicality exception. We adopted the standard during the fiscal quarter ended May 31, 2018. Upon adoption, we reclassified \$0.4 million of unrealized gain (net of income taxes) reported in accumulated other comprehensive loss for available for sale equity securities to beginning accumulated deficit.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers. The new revenue recognition standard (“ASC 606”) provides a five-step analytical framework for transactions to determine when and how revenue is recognized. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard became effective for annual reporting periods beginning after December 15, 2017; therefore, we were required to adopt this standard effective March 1, 2018. We adopted the new standard using the modified retrospective method and applied it to all of our open customer contracts. The new standard did not materially affect our results of operations, financial position or cash flows, but resulted in immaterial changes to the timing of recognition of revenues for certain deferred revenues.

Since the modified retrospective method does not result in recasting of the prior year financial statements, ASC 606 requires us to provide additional disclosures for the amount by which each financial statement line item was affected by adoption of the standard, with an explanation of the reasons for significant changes.

The cumulative effect of the changes made to our consolidated balance sheet for the adoption of ASC 606 were as follows (in thousands):

|   | Balance<br>at        |                        | Balance<br>at    |
|---|----------------------|------------------------|------------------|
|   | February<br>28, 2018 | ASC 606<br>Adjustments | March 1,<br>2018 |
| <b>Assets</b>                               |                      |                        |                  |
| Prepaid expenses and other current assets   | \$12,000             | 1,891                  | \$13,891         |
| Deferred income tax assets                  | 31,581               | 532                    | 32,113           |
| Other assets                                | 18,829               | 3,145                  | 21,974           |
| <b>Liabilities and Stockholders' Equity</b> |                      |                        |                  |
| Deferred revenue                            | \$17,757             | 2,156                  | 19,913           |
| Other non-current liabilities               | 24,249               | 5,007                  | 29,256           |
| <b>Stockholders' equity</b>                 |                      |                        |                  |
| Accumulated deficit                         | \$(19,459)           | (1,595)                | (21,054)         |

In accordance with the requirements of ASC 606, the disclosure of the impact of adoption on our condensed consolidated balance sheet for the third quarter is as follows:

|   | As of November 30, 2018 |                     |                          |
|---|-------------------------|---------------------|--------------------------|
|   | As reported             | ASC 606 Adjustments | Without ASC 606 Adoption |
| <b>Assets</b>                               |                         |                     |                          |
| Prepaid expenses and other current assets   | \$ 13,733               | (1,438 )            | \$ 12,295                |
| Deferred income tax assets                  | 21,859                  | (532 )              | 21,327                   |
| Other assets                                | 26,759                  | (3,278 )            | 23,481                   |
| <b>Liabilities and Stockholders' Equity</b> |                         |                     |                          |
| Deferred revenue                            | \$ 20,030               | (1,661 )            | 18,369                   |
| Other non-current liabilities               | 36,195                  | (5,436 )            | 30,759                   |
| <b>Stockholders' equity:</b>                |                         |                     |                          |
| Accumulated deficit                         | \$(13,485)              | 1,924               | (11,561 )                |

The impact of adopting ASC 606 on our condensed consolidated statements of comprehensive income (loss) for the three and nine months ended November 30, 2018 was immaterial.

## NOTE 2 – CASH, CASH EQUIVALENTS AND INVESTMENTS

The following tables summarize our financial instrument assets (in thousands):

| As of November 30, 2018 |                  |                                 |               | Balance Sheet Classification<br>of Fair Value |  |                 |
|-------------------------|------------------|---------------------------------|---------------|---|--|-----------------|
|                         | Adjusted<br>Cost | Unrealized<br>Gains<br>(Losses) | Fair<br>Value | Cash and<br>Cash<br>Equivalents               | Short-Term<br>Marketable<br>Securities | Other<br>Assets |
| Cash                    | \$17,496         | \$ —                            | \$17,496      | \$17,496                                      | \$ —                                   | \$—             |
| Level 1:                |                  |                                 |               |   |  |                 |
| Money market funds      | 191,188          | —                               | 191,188       | 191,188                                       | —                                      | —               |
| Mutual funds (1)        | 6,042            | 478                             | 6,520         | —   | —                                      | 6,520           |
| International equities  | 296              | (58 )                           | 238           | —   | —                                      | 238             |
| Level 2:                |                  |                                 |               |   |  |                 |
| Repurchase agreements   | 53,000           | —                               | 53,000        | 53,000  | —                                      | —               |
| Corporate bonds         | 40,112           | (35 )                           | 40,077        | 9,929   | 30,148                                 | —               |
| Total                   | \$308,134        | \$ 385                          | \$308,519     | \$271,613                                     | \$ 30,148                              | \$6,758         |

| As of February 28, 2018 |                  |                                 |               | Balance Sheet Classification<br>of Fair Value |  |                 |
|-------------------------|------------------|---------------------------------|---------------|---|--|-----------------|
|                         | Adjusted<br>Cost | Unrealized<br>Gains<br>(Losses) | Fair<br>Value | Cash and<br>Cash<br>Equivalents               | Short-Term<br>Marketable<br>Securities | Other<br>Assets |
| Cash                    | \$51,529         | \$ —                            | \$51,529      | \$51,529                                      | \$ —                                   | \$—             |
| Level 1:                |                  |                                 |               |   |  |                 |
| Money market funds      | 9,034            | —                               | 9,034         | 9,034   | —                                      | —               |
| Mutual funds (1)        | 4,920            | 721                             | 5,641         | —   | —                                      | 5,641           |
| International equities  | 2,175            | 643                             | 2,818         | —   | 2,509                                  | 309             |
| Level 2:                |                  |                                 |               |   |  |                 |
| Repurchase agreements   | 57,500           | —                               | 57,500        | 57,500  | —                                      | —               |
| Corporate bonds         | 35,444           | (13 )                           | 35,431        | 14,540  | 20,891                                 | —               |
| Total                   | \$160,602        | \$ 1,351                        | \$161,953     | \$132,603                                     | \$ 23,400                              | \$5,950         |

(1) Amounts represent various equities, bond and money market mutual funds that are held in a “Rabbi Trust” and are restricted for payment obligations to non-qualified deferred compensation plan participants.

## NOTE 3 - INVENTORIES

Inventories consist of the following (in thousands):

|          |          |
|----------|----------|
| November | February |
| 30,      | 28,      |
| 2018     | 2018     |

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|                 |           |           |
|-----------------|-----------|-----------|
| Raw materials   | \$ 17,181 | \$ 18,629 |
| Work in process | 114       | 567       |
| Finished goods  | 14,220    | 17,106    |
|                 | \$ 31,515 | \$ 36,302 |

## NOTE 4 – GOODWILL AND OTHER INTANGIBLE ASSETS

Other intangible assets consist of the following (in thousands):

|                      | Useful Life | Gross Feb. 28, 2018 | Additions(1) | Other   | Nov. 30, 2018 | Accumulated Amortization Feb. 28, 2018 | Expense  | Nov. 30, 2018 | Net Nov. 30, 2018 | Feb. 28, 2018 |
|----------------------|-------------|---------------------|--------------|---------|---------------|--|----------|---------------|-------------------|---------------|
| Developed technology | 2-7 years   | \$22,280            | \$ —         | \$—     | \$22,280      | \$14,288                               | \$2,971  | \$17,259      | \$5,021           | \$7,992       |
| Tradenames           | 10 years    | 37,729              | 6            | —       | 37,735        | 9,087                                  | 2,665    | 11,752        | 25,983            | 28,642        |
| Customer lists       | 4-7 years   | 22,950              | —            | —       | 22,950        | 19,623                                 | 1,261    | 20,884        | 2,066             | 3,327         |
| Dealer relationships | 7 years     | 16,850              | —            | (507)   | 16,343        | 4,714                                  | 1,610    | 6,324         | 10,019            | 12,136        |
| Patents              | 5 years     | 483                 | 97           | —       | 580           | 124                                    | 27       | 151           | 429               | 359           |
|                      |             | \$100,292           | \$ 103       | \$(507) | \$99,888      | \$47,836                               | \$ 8,534 | \$56,370      | \$43,518          | \$52,456      |

Intangible assets with finite lives are amortized on a straight-line basis over the expected period to be benefited by future cash flows. We monitor and assess these assets for impairment on a periodic basis. Our assessment includes various new product lines and services which leverage the existing intangible assets as well as consideration of historical and projected revenues and cash flows compared to the original valuations. As of November 30, 2018, we determined that there was no impairment of intangible assets.

Estimated future amortization expense as of November 30, 2018 is as follows (in thousands):

|                  |          |
|------------------|----------|
| 2019 (remainder) | \$2,912  |
| 2020             | 9,639    |
| 2021             | 7,817    |
| 2022             | 6,183    |
| 2023             | 5,963    |
| Thereafter       | 11,004   |
|                  | \$43,518 |

Changes in goodwill are as follows (in thousands):

|                                | Nine Months Ended November 30, |          |
|--------------------------------|--------------------------------|----------|
|                                | 2018                           | 2017     |
| Balance at beginning of period | \$72,980                       | \$72,980 |

|                          |          |          |
|--------------------------|----------|----------|
| Other (1)                | 304      | —        |
| Balance at end of period | \$73,284 | \$72,980 |

(1) Amounts represent certain adjustments related to the LoJack acquisition.

#### NOTE 5 – OTHER ASSETS

Other assets consist of the following (in thousands):

|  | November<br>30,<br>2018 | February<br>28,<br>2018 |
|--|-------------------------|-------------------------|
| Deferred compensation plan assets                  | \$ 6,520                | \$ 5,641                |
| Investment in international licensees              | 2,278                   | 2,349                   |
| Equity investment in and loan to ThinxNet GmbH     | 2,650                   | 2,674                   |
| Equity investment in and loan to Smart Driver Club | 4,401                   | 3,814                   |
| Deferred cost                                      | 10,107                  | 3,523                   |
| Other  | 803                     | 828                     |
|  | \$ 26,759               | \$ 18,829               |

Our equity investments without readily determinable fair values are measured at cost less impairment, adjusted for observable price changes for an identical or similar investment of the same issuer.

We have a non-qualified deferred compensation plan 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 another date specified by them in accordance

with the plan. We are funding the plan obligations through cash deposits to a Rabbi Trust that are invested in various equities, bond and money market mutual funds in generally the same proportion as investment elections made by the participants. The deferred compensation plan liability is included in other non-current liabilities in the accompanying consolidated balance sheets.

In fiscal 2016, we invested £1,400,000, or approximately \$2.2 million, for a 49% minority ownership interest in Smart Driver Club Limited (“Smart Driver Club”), a telematics-based insurance startup company located in the United Kingdom. This investment is accounted for under the equity method since we have significant influence over the investee. To date we have made loans aggregating £5,200,000, or approximately \$6.6 million, of which £1,500,000 was loaned in the current fiscal year. The loans to Smart Driver Club bear interest at an annual interest rate of 8%, with all principal and all unpaid interest due in 2021. The foreign currency translation adjustment for the equity investment and loans amounted to \$0.6 million as of November 30, 2018 and is included as a component of accumulated other comprehensive loss in the condensed consolidated balance sheet as of that date. Our equity in the net loss of Smart Driver Club amounted to \$1.4 million and \$1.1 million in the nine months ended November 30, 2018 and 2017, respectively. To date, our equity in the cumulative net losses of Smart Driver Club is \$4.9 million.

Effective August 24, 2017, we acquired an ownership interest valued at \$1.4 million in ThinxNet GmbH, a company headquartered in Munich, Germany (“ThinxNet”). ThinxNet is an early stage company focused on commercializing cloud-based mobile device and applications in the automotive sector throughout Europe. This represents a cost basis investment as we cannot exercise significant influence over the investee. Contemporaneously, we executed an unsecured convertible note receivable for \$1.27 million with an interest rate of 6% (the “ThinxNet Note”), which had an initial fixed term of 12 months. On August 24, 2018, the ThinxNet Note became convertible to equity of ThinxNet or a loan payable on demand at our option.

In August 2018, ThinxNet commenced a subsequent financing transaction to raise additional funds for working capital purposes. In connection with this transaction, we converted approximately \$300,000 of outstanding accounts receivable due from ThinxNet into additional ownership interest in an in-kind exchange of assets at the current valuation. Based on the fair value of ThinxNet at the time of conversion, we revalued the initial ownership interest and recorded an impairment charge of \$326,000, which is netted within Investment Income in our condensed consolidated statement of comprehensive income (loss). We also agreed to extend the fixed term on the unsecured convertible note receivable to December 24, 2018, subject to certain terms and conditions.

## NOTE 6 – FINANCING ARRANGEMENTS

### Revolving Credit Facility

On March 30, 2018, we entered into a revolving credit facility with J.P. Morgan Chase Bank, dated as of March 30, 2018 (the “Credit Agreement”), as filed with the U.S. Securities and Exchange Commission with our current report on Form 8-K on April 5, 2018, that provides for borrowings up to \$50.0 million. This revolving credit facility expires on March 30, 2020. At our election, the borrowings under this revolving credit facility bear interest at either a LIBOR-based variable rate plus an applicable margin, or at the greater of the Prime Rate, the NYFRB Rate plus an applicable margin rate and one-month LIBOR-based variable rate plus an applicable margin rate (each as defined in the Credit Agreement) determined based on our senior leverage ratio from time to time. The net proceeds available under the revolving credit facility can be used for working capital and general corporate purposes. There were no borrowings outstanding under this revolving credit facility at November 30, 2018.

The revolving credit facility contains certain negative and affirmative covenants including financial covenants that require us to maintain a minimum level of earnings before interest, income taxes, depreciation, amortization and other non-cash charges (Adjusted EBITDA) to interest ratio, a minimum senior indebtedness ratio and a total indebtedness coverage ratio, all measured on a quarterly basis. As of November 30, 2018, we were in compliance with our covenants under the revolving credit facility.





## Convertible Senior Unsecured Notes

We have two outstanding convertible senior unsecured notes – a \$122.5 million aggregate principal amount of convertible senior unsecured notes due 2020 (“2020 Convertible Notes”) and a \$230.0 million aggregate principal amount of convertible senior unsecured notes due 2025 (“2025 Convertible Notes”, and collectively with the 2020 Convertible Notes, the “Notes”). Balances attributable to the Notes consist of the following (in thousands):

|   | November<br>30,<br>2018 | February<br>28,<br>2018 |
|---|-------------------------|-------------------------|
| 2020 Convertible Notes                            |                         |                         |
| Principal   | \$ 122,527              | \$ 172,500              |
| Less: Unamortized debt discount                   | (7,748 )                | (16,143 )               |
| Unamortized debt issuance costs                   | (979 )                  | (2,058 )                |
| Net carrying amount of the 2020 Convertible Notes | \$ 113,800              | \$ 154,299              |
| 2025 Convertible Notes                            |                         |                         |
| Principal   | \$ 230,000              |                         |
| Less: Unamortized debt discount                   | (66,460 )               |                         |
| Unamortized debt issuance costs                   | (4,920 )                |                         |
| Net carrying amount of the 2025 Convertible Notes | \$ 158,620              |                         |
| Convertible senior unsecured notes, net           | \$ 272,420              |                         |

## 2020 Convertible Notes

In May 2015, we issued \$172.5 million aggregate principal amount of the 2020 Convertible Notes. These notes are senior unsecured obligations and bear interest at a rate of 1.625% per year payable in cash on May 15 and November 15 of each year. The 2020 Convertible Notes mature on May 15, 2020 unless earlier converted or repurchased in accordance with their terms. We may not redeem the 2020 Convertible Notes prior to their stated maturity date and they will be convertible into cash, shares of our common stock or a combination of cash and shares of common stock, at our election, based on an initial conversion rate of 36.2398 shares of common stock per \$1,000 principal amount. This ratio is equivalent to an initial conversion price of \$27.594 per share of common stock, subject to customary adjustments. Holders may convert their 2020 Convertible Notes at their option at any time prior to November 15, 2019 upon the occurrence of certain events in the future, as defined in the indenture agreement dated May 6, 2015 (the “2020 Indenture”). During the period from November 15, 2019 to May 13, 2020, holders may convert all or any portion of their 2020 Convertible Notes regardless of the foregoing conditions. Our intent is to settle the principal amount of the 2020 Convertible Notes in cash upon conversion. If the conversion value exceeds the principal amount, we would deliver shares of common stock in respect to the remainder of the 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 our common stock during each period. As of November 30, 2018, the conditions allowing holders of the 2020 Convertible Notes to convert have not been met.

If we undergo a fundamental change (as defined in the 2020 Indenture), holders of the 2020 Convertible Notes may require us to repurchase their 2020 Convertible Notes at a repurchase price of 100% of the principal amount, plus accrued and unpaid interest, if any, up to but not including the fundamental change repurchase date. In addition, following certain corporate events that occur prior to maturity, we will increase the conversion rate for a holder who elects to convert its 2020 Convertible 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.

On July 20, 2018, we entered into separate, privately negotiated purchase agreements to repurchase approximately \$50 million in aggregate principal amount of our 2020 Convertible Notes for \$53.8 million including accrued interest, by using a portion of the net proceeds from the 2025 Convertible Notes. The repurchase is accounted for as an extinguishment of debt, not a modification of debt. We allocated the repurchase price of \$53.7 million between the fair value of the liability of \$47.6 million and the equity component of \$6.1 million. The fair value of the liability component was determined using a discounted cash flow analysis at a market interest rate for nonconvertible debt of 4.36% based on the remaining maturity of the 2020 Convertible Notes, which represented a Level 3 fair value measurement. The carrying value of the repurchased notes was \$45.6 million, resulting in a loss on extinguishment of debt of \$2.0 million. In connection with the repurchase of the 2020 Convertible Notes, we received proceeds of \$3.1 million from the unwind of the note hedge and warrants which was recorded as additional paid-in capital.

The 2020 Convertible Notes are carried at their principal amount less unamortized debt discount and issuance costs, and are not carried at fair value at each period end. The original debt discount was calculated at a market interest rate for nonconvertible debt of 6.2% at the time of issuance, which represented a Level 3 fair value measurement. The approximate fair value of the 2020 Convertible Notes as of November 30, 2018 was \$119.2 million, which is estimated on the basis of inputs that are observable in the market and is considered a Level 2 measurement method in the fair value hierarchy.

## 2025 Convertible Notes

On July 20, 2018, we issued \$230.0 million aggregate principal amount of the 2025 Convertible Notes. These notes were issued under an indenture, dated July 20, 2018 (the “2025 Indenture”) between us and The Bank of New York Mellon Trust Company, N.A., as trustee.

The proceeds from the sale of the 2025 Convertible Notes were \$222.7 million, after deducting issuance costs of \$7.3 million. We used approximately \$90.0 million of the net proceeds from this offering to (i) pay the cost of the capped call transactions of \$21.2 million; (ii) repurchase shares of our common stock of approximately \$15.0 million; and (iii) repurchase in privately negotiated transactions approximately \$50 million principal of our outstanding 2020 Convertible Notes for approximately \$53.8 million including accrued interest. We expect to use the remaining proceeds for working capital or other general corporate purposes, which may include but not limited to, additional repurchases of the 2020 Convertible Notes, repurchases for shares of our common stock and acquisitions or other strategic transactions.

The 2025 Convertible Notes bear interest at 2.00% per year payable semiannually in arrears in cash on February 1 and August 1 of each year, beginning on February 1, 2019. The 2025 Convertible Notes will mature on August 1, 2025, unless earlier converted, redeemed or repurchased by us in accordance with their terms. We may redeem the Notes at our option at any time on or after August 6, 2022 at a cash redemption price equal to the principal amount plus accrued interest, but only if the last reported sale price per share of our stock exceeds 130% of the conversion price on (i) each of at least 20 trading days, whether or not consecutive, during the 30 consecutive trading days ending on, and including, the trading day immediately before the date we send the related redemption notice; and (ii) the trading day immediately before the date we send such notice. The 2025 Convertible Notes rank senior in right of payment to any existing or future indebtedness which is subordinated by its terms, ranks equally in right of payment to any indebtedness that is not so subordinated, is structurally subordinated to all indebtedness and liabilities of our subsidiaries and is effectively junior to our secured indebtedness to the extent of the value of the assets securing such indebtedness.

The 2025 Convertible Notes are convertible into cash, shares of our common stock or a combination of both, at our election, based on an initial conversion rate of 32.5256 shares of common stock per \$1,000 principal amount of notes, which is equivalent to an initial conversion price of \$30.7450 per share of common stock, subject to certain adjustments. Holders may convert their 2025 Convertible Notes at their option upon the occurrence of certain events, as defined in the 2025 Indenture.

Because the convertible debt may be wholly or partially settled in cash, we are required to separately account for the liability and equity components of the notes in a manner that reflects our non-convertible debt borrowing rate when interest costs are recognized in subsequent periods. The principal of \$230.0 million was allocated between debt of \$160.8 million and stockholders’ equity of \$69.2 million with the portion in stockholders’ equity representing the fair value of the option to convert the debt. The fair value of the liability component of the 2025 Convertible Notes 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 2025 Convertible Notes at a market interest rate for nonconvertible debt of

7.56%, which represented a Level 3 fair value measurement. The equity component of the 2025 Convertible Notes 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. The associated deferred tax effect of \$17.3 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 \$69.2 million is being amortized to interest expense using the effective interest method with an effective interest rate of 7.56% over the period from the issuance date through the contractual maturity date of the 2025 Convertible Notes of August 1, 2025.

In accounting for \$7.3 million of the issuance costs related to the 2025 Convertible Notes, we allocated the total amount of such costs incurred to the liability and equity components based on their relative fair values. Issuance costs of \$5.1 million attributable to the liability component were recorded as a direct deduction from the carry value of the 2025 Convertible Notes and are being amortized to expense over the term of the 2025 Convertible Notes using the effective interest method. Issuance costs of \$2.2 million attributable to the equity component were recorded as a charge to additional paid-in capital within stockholders' equity. Additionally, we recorded a deferred tax asset of \$0.5 million related to the equity component of issuance costs because such costs are deductible for tax purposes.

Upon the occurrence of a "make-whole fundamental change" (as defined in the 2025 Indenture), we will in certain circumstances increase the conversion rate for a specific period of time. Additionally, upon the occurrence of a "fundamental change" (as defined in the 2025 Indenture), holders of the notes may require us to repurchase their notes at a cash repurchase price equal to the principal amount of the notes to be repurchased, plus any accrued and unpaid interest. As of November 30, 2018, none of the conditions allowing the holders of the 2025 Convertible Notes to convert have been met.

The 2025 Convertible Notes are carried at their principal amount less unamortized debt discount and issuance costs, and are not carried at fair value at each period end. The approximate fair value of the 2025 Convertible Notes as of November 30, 2018 was \$199.6 million, which was estimated on the basis on inputs that are observable in the market and which is considered a Level 2 measurement method in the fair value hierarchy.

In connection with the issuance of the 2025 Convertible Notes, we entered into capped call transactions with certain option counterparties who are initial purchasers of the notes. The capped call transactions are expected to reduce the potential dilution of earnings per share upon conversion of the notes. Under the capped call transactions, we purchased options that in the aggregate relate to the total number of shares of our common stock underlying the notes, with a strike price equal to the conversion price of the notes and with a cap price equal to \$41.3875. The purchased capped call transactions of \$21.2 million were recorded to stockholders' equity. Additionally, we recorded a deferred tax asset of \$5.3 million related to the capped call as a charge to additional paid-in capital.

#### NOTE 7 – RESTRUCTURING CHARGES

Beginning in the first quarter of fiscal 2019, we commenced a plan to capture certain synergies and cost savings related to streamlining our global operations and sales organization, as well as rationalize certain leased properties that are not fully occupied. Our plan is aligned with our strategy to integrate the global sales organization and further outsource manufacturing functions in order to drive operational efficiency, increase supplier geographic diversity, and reduce operating expenses. For the nine months ended November 30, 2018, total restructuring charges were \$5.2 million, comprised of \$1.5 million in severance and employee related costs, of which \$0.2 million was incurred during the three months ended November 30, 2018, and \$3.7 million for vacant office and manufacturing facility space under Corporate Expenses (defined in Note 15), of which \$1.0 million was incurred in the three months ended November 30, 2018. Substantially all charges related to severance and employee costs were under the Telematics Systems reportable segment.

The anticipated rent payments for the vacant portion of leased facilities will be made through December 2025. There is no guarantee that the termination and cease use charges will not exceed the estimates or that the impact of future net costs reduction will be achieved. The following table summarizes the activity resulting from the implementation of the restructuring plan within other current and non-current liabilities:

|   | Personnel | Facilities | Total    |
|---|-----------|------------|----------|
| Restructuring liabilities as of February 28, 2018 | \$ —      | \$ —       | \$ —     |
| Charges   | 1,455     | 3,741      | 5,196    |
| (Payments)  | (764 )    | (591 )     | (1,355)  |
| Restructuring liabilities as of November 30, 2018 | \$ 691    | \$ 3,150   | \$ 3,841 |

#### NOTE 8 - INCOME TAXES

We use the assets and liabilities method when accounting for income taxes. Under this method, deferred income tax asset and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to the taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on

deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

The Tax Cuts and Jobs Act (the “Act”) was signed into law on December 22, 2017. At February 28, 2018, we determined a reasonable provisional estimate on our existing deferred tax balances and the one-time transition tax under the U.S. Securities and Exchange Commission Staff Accounting Bulletin No. 118. At that time, we recognized a charge of \$6.6 million as a component of our income tax expense principally related to the impact of remeasuring certain deferred tax assets and liabilities based on the rates at which they are expected to reverse in the future. At November 30, 2018, we had not completed our accounting for the tax effects of enactment of the Act and therefore, we are still analyzing certain aspects of the legislation and refining our calculations such as our current year estimates and filings of certain tax returns, which could affect the measurement of our deferred tax assets and liabilities.

We are subject to taxation in the United States and various foreign jurisdictions. The material jurisdictions in which we are subject to potential examination include the United States, Italy and Ireland. Income tax returns for fiscal years 2014 through 2017 remain open to examination by U.S. federal and state tax authorities. However, to the extent allowed by law, the tax authorities may have the right to examine prior periods in which net operating losses or tax credits were generated and carried forward, and to make adjustments up to the net operating loss or tax credit carryforward amount. Most of our foreign subsidiaries’ tax returns for 2013 to present remain open for examination by the tax authorities in the countries in which they are filed. Tax returns filed in Italy from 2012 to present remain open for examination. Our 2010 and subsequent tax years remain open to examination in Ireland.

#### NOTE 9 - EARNINGS PER SHARE

Basic earnings per share is computed by dividing net income for the period by the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed by dividing net income for the period by the weighted average number of

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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 calculation of the basic and diluted income (loss) per share of common stock is as follows (in thousands, except per share value):

|  | Three Months<br>Ended<br>November 30,<br>2018 |          | Nine Months<br>Ended<br>November 30,<br>2017 |          |
|--|---|----------|--|----------|
| Net income (loss)  | \$(522 )                                      | \$11,806 | \$7,135                                      | \$21,384 |
| Basic weighted average number of common shares outstanding                           | 34,561  | 35,347   | 34,950                                       | 35,206   |
| Effect of stock options and restricted stock units computed on treasury stock method | —   | 900      | 819  | 858      |
| Diluted weighted average number of common shares outstanding                         | 34,561  | 36,247   | 35,769                                       | 36,064   |
| Earnings (loss) per share:   |   |          |  |          |
| Basic  | \$(0.02 )                                     | \$0.33   | \$0.20                                       | \$0.61   |
| Diluted  | \$(0.02 )                                     | \$0.33   | \$0.20                                       | \$0.59   |

All outstanding options and restricted stock units for the three months ended November 30, 2018 were excluded from the computation of diluted earnings per share because we reported a net loss for this quarter and the effect of inclusion would be antidilutive.

We have the option to pay cash, issue shares of common stock, or any combination thereof for the aggregate amount due upon conversion of the Notes. Our 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 in excess of the principal amount of the Notes would be included in diluted earnings per share. From the time of the issuance of Notes, the average market price of our common stock has been less than the initial conversion price, and consequently no shares have been included in diluted earnings per share for the conversion value of the Notes.

#### NOTE 10 – STOCKHOLDERS’ EQUITY

##### Stock Repurchase

On May 7, 2018, we announced that our Board of Directors authorized a share repurchase program under which we could repurchase up to \$30.0 million of our outstanding common stock over the next 12 months. On July 16, 2018, our Board of Directors increased it to \$39.0 million.

During the quarter ended November 30, 2018, we repurchased approximately 0.5 million shares of our common stock at an average share price of \$19.85 for a total cost of \$10.4 million. As of November 30, 2018, the entire \$39.0 million authorized by our Board of Directors has been utilized.



On December 10, 2018, we announced that our Board of Directors authorized a new share repurchase program under which we may repurchase up to \$20.0 million of our outstanding common stock over the next 12 months. Under the stock repurchase program, we may repurchase shares in the open market.

### Employee Stock Purchase Plan

On June 7, 2018, our Board of Directors adopted the CalAmp Corp. 2018 Employee Stock Purchase Plan (the “ESPP”), which was approved by our stockholders on July 25, 2018. The ESPP provides for the issuance of 1,750,000 shares of our common stock. The first enrollment under the ESPP Plan will commence in February 2019.

### Equity Awards

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

|                            | Three Months Ended |                   | Nine Months Ended |                   |
|----------------------------|--------------------|-------------------|-------------------|-------------------|
|                            | November 30, 2018  | November 30, 2017 | November 30, 2018 | November 30, 2017 |
| Cost of revenues           | \$251              | \$198             | \$640             | \$477             |
| Research and development   | 538                | 427               | 1,323             | 1,045             |
| Selling and marketing      | 808                | 677               | 2,059             | 1,610             |
| General and administrative | 1,344              | 1,318             | 4,066             | 3,532             |
|                            | \$2,941            | \$2,620           | \$8,088           | \$6,664           |

Changes in our outstanding stock options during the nine months ended November 30, 2018 were as follows (options in thousands):

|                                  | Number of Options | Weighted Average Exercise Price | Weighted average remaining contractual life (years) | Aggregate intrinsic value |
|----------------------------------|-------------------|---------------------------------|---|---------------------------|
| Outstanding at February 28, 2018 | 980               | \$ 11.29                        | 5.9   |                           |
| Granted                          | 140               | 23.08                           |   |                           |
| Exercised                        | (66 )             | 1.87                            |   |                           |
| Forfeited or expired             | —                 | —                               |   |                           |
| Outstanding at November 30, 2018 | 1,054             | \$ 13.44                        | 6.1   | \$ 5,501                  |
| Exercisable at November 30, 2018 | 672               | \$ 9.98                         | 4.5   | \$ 5,223                  |

Changes in our outstanding restricted stock shares, performance stock units (“PSUs”) and restricted stock units (“RSUs”) during the nine months ended November 30, 2018 were as follows (restricted shares, PSUs and RSUs in thousands):

|                                  | Number of<br>Restricted<br>Shares,<br>PSUs<br>and RSUs | Weighted<br>Average Grant<br>Date Fair Value | Shares<br>Retained to<br>Cover<br>Statutory<br>Minimum<br>Withholding<br>Taxes |
|----------------------------------|--|--|--|
| Outstanding at February 28, 2018 | 1,434  | \$ 17.72                                     |  |
| Granted                          | 714  | 22.81  |  |
| Vested                           | (461 )   | 17.28  | 156  |
| Forfeited                        | (161 )   | 19.45  |  |
| Outstanding at November 30, 2018 | 1,526  | \$ 20.05                                     |  |

As of November 30, 2018, there was \$29.2 million of total unrecognized stock-based compensation cost related to outstanding nonvested equity awards that is expected to be recognized as an expense over a weighted-average remaining vesting period of 3.4 years.

#### NOTE 11 – COMPREHENSIVE INCOME (LOSS)

Comprehensive income (loss) consists of two components, net income and Other Comprehensive Income (Loss) (“OCI”). OCI refers to revenue, expenses, and gains and losses that under GAAP are recorded as an element of stockholders’ equity but are excluded from net income. Our OCI consists of currency translation adjustments from our foreign subsidiaries that do not use the U.S. dollar as their functional currency

and unrealized gains and losses on equity investments and marketable securities classified as available-for-sale. As described in Note 1, upon adoption of ASU 2016-01 on March 1, 2018, we reclassified the unrealized gain on available-for-sale securities from Accumulated Other Comprehensive Income (“AOCI”) to beginning accumulated deficit.

The following table shows the changes in AOCI by component for the nine months ended November 30, 2018 (in thousands):

|                                      | Cumulative<br>Foreign<br>Currency<br>Translation | Unrealized<br>Gains/Losses<br>on<br>Marketable<br>Securities | Total   |
|--------------------------------------|--|--|---------|
| Balances at February 28, 2018        | \$ (633 )  | \$ 434   | \$(199) |
| Other comprehensive loss, net of tax | (12 )  | (434 )   | (446)   |
| Balances at November 30, 2018        | \$ (645 )  | \$ -   | \$(645) |

#### NOTE 12 - CONCENTRATION OF RISK

##### Significant Customers

We sell telematics products and services to large global enterprises in the industrial equipment, transportation and automotive market verticals. Some of these customers accounted for more than 10% of our revenue or accounts receivable as follows (rounded):

|                  | Three<br>Months<br>Ended<br>November<br>30,<br>2018 |      | Nine<br>Months<br>Ended<br>November<br>30,<br>2017 |      |
|------------------|---|------|--|------|
| <b>Revenues:</b> |   |      |  |      |
| Customer A       | 18 %  | 14 % | 15 %   | 12 % |

  

|                             | November<br>30,<br>2018 |      | February<br>28,<br>2018 |  |
|-----------------------------|-------------------------|------|-------------------------|--|
| <b>Accounts receivable:</b> |                         |      |                         |  |
| Customer A                  | 20 %                    | 15 % |                         |  |
| Customer B                  | —                       | 13 % |                         |  |

Customer B represents certain of our customers, which are considered affiliates under common control and collectively represented less than 10% and approximately 13% of our accounts receivable at November 30, 2018 and

February 28, 2018, respectively. Throughout our history and presently we have dealt with separate purchasing departments for the individual customers and have at all times sold different products to each of them.

### Significant Suppliers

We purchase a significant amount of our product inventory from certain manufacturers or suppliers including components, assemblies and electronic manufacturing parts. The inventory is purchased under standard supply agreements that outline the terms of the product delivery. The title and risk of loss of the product passes to us upon shipment from the manufacturers' plant or warehouse. As identified below, some of these manufacturers accounted for more than 10% of our purchases and accounts payable as follows (rounded):

|                             | Three<br>Months<br>Ended<br>November<br>30,<br>2018 |      | Nine<br>Months<br>Ended<br>November<br>30,<br>2017 |      |
|-----------------------------|---|------|--|------|
| <b>Inventory purchases:</b> |   |      |  |      |
| Supplier A                  | 32 %  | 33 % | 30 %   | 31 % |
| Supplier B                  | 20 %  | 15 % | 21 %   | 15 % |
| Supplier C                  | 6 %   | 8 %  | 7 %  | 10 % |

|                          | November<br>30,<br>2018 |      | February<br>28,<br>2018 |  |
|--------------------------|-------------------------|------|-------------------------|--|
| <b>Accounts payable:</b> |                         |      |                         |  |
| Supplier A               | 37 %                    | 40 % |                         |  |
| Supplier B               | 20 %                    | 16 % |                         |  |

We are currently reliant upon these suppliers for products. Although we believe that we can obtain products from other sources, the loss of a significant supplier could have a material impact on our financial condition and results of operations as the products that are being purchased may not be available on similar terms from another supplier.

#### NOTE 13 - PRODUCT WARRANTIES

All products have a one- or two-year limited warranty against manufacturing defects and workmanship. We estimate the future costs relating to product returns subject to our warranty and record a reserve upon shipment for our products. We periodically adjust our estimate for actual warranty claims and historical claims experience as well as the impact of known product operational issues. The warranty reserve is included in Other Current Liabilities in the condensed consolidated balance sheets. Activity in the accrued warranty costs liability is as follows (in thousands):

|                                | Nine Months<br>Ended<br>November 30, |         |
|--------------------------------|--------------------------------------|---------|
|                                | 2018                                 | 2017    |
| Balance at beginning of period | \$5,734                              | \$6,518 |
| Charged to costs and expenses  | 856                                  | 1,245   |
| Deductions                     | (5,117)                              | (1,618) |
| Balance at end of period       | \$1,473                              | \$6,145 |

#### NOTE 14 – OTHER FINANCIAL INFORMATION

##### Supplemental Balance Sheet Information

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

|                                  | November<br>30,<br>2018 | February<br>28,<br>2018 |
|----------------------------------|-------------------------|-------------------------|
| Warranty reserves                | \$ 1,473                | \$5,734                 |
| Litigation reserve (see Note 16) | 25,275                  | 17,559                  |
| Accrued restructuring costs      | 1,781                   | —                       |
| Other                            | 9,450                   | 8,395                   |
|                                  | \$ 37,979               | \$31,688                |

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

|  | November<br>30,<br>2018 | February<br>28,<br>2018 |
|--|-------------------------|-------------------------|
|--|-------------------------|-------------------------|

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|                                      |           |           |
|--------------------------------------|-----------|-----------|
| Deferred revenue                     | \$ 26,565 | \$ 16,763 |
| Deferred compensation plan liability | 6,523     | 5,642     |
| Accrued restructuring costs          | 1,369     | —         |
| Other                                | 1,738     | 1,844     |
|                                      | \$ 36,195 | \$ 24,249 |

Supplemental Statement of Comprehensive Income (Loss) Information

Interest expense consists of the following (in thousands):

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|  | Three Months<br>Ended<br>November 30,<br>2018 |         | Nine Months<br>Ended<br>November 30,<br>2017 |         |
|--|---|---------|--|---------|
| <b>Interest expense on 2020 Convertible Notes:</b> |   |         |  |         |
| Stated interest at 1.625% per annum                | \$498   | \$701   | \$1,810                                      | \$2,106 |
| Amortization of note discount                      | 1,254   | 1,661   | 4,482  | 4,924   |
| Amortization of debt issue costs                   | 158   | 211     | 552  | 627     |
|  | 1,910   | 2,573   | 6,844  | 7,657   |
| <b>Interest expense on 2025 Convertible Notes:</b> |   |         |  |         |
| Stated interest at 2.00% per annum                 | 1,150   | —       | 1,661  | —       |
| Amortization of note discount                      | 1,903   | —       | 2,742  | —       |
| Amortization of debt issue costs                   | 141   | —       | 203  | —       |
|  | 3,194   | —       | 4,606  | —       |
| Other interest expense                             | 30  | —       | 116  | 1       |
| Total interest expense                             | \$5,134                                       | \$2,573 | \$11,566                                     | \$7,658 |

Supplemental Cash Flow Information

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

|                       | Nine Months<br>Ended<br>November 30,<br>2018 |         | 2017 |  |
|-----------------------|--|---------|------|--|
| Interest expense paid | \$2,550                                      | \$2,847 |      |  |
| Income tax paid       | \$768  | \$1,113 |      |  |

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

|  | Nine Months<br>Ended<br>November 30,<br>2018 |         | 2017 |  |
|--|--|---------|------|--|
| Equity investment in and loan to ThinxNet (see Note 5) | \$300  | \$2,674 |      |  |

NOTE 15 - SEGMENT INFORMATION AND GEOGRAPHIC DATA

Our business activities are organized into two reportable segments – Telematics Systems and Software & Subscription Services. Our organizational structure is based on a number of factors that our CEO, the Chief Operating Decision Maker (“CODM”), uses to evaluate and operate the business, which include, but are not limited to, customer base, homogeneity of products and technology.



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The Telematics Systems segment offers a portfolio of wireless data communications products that includes asset tracking units, mobile telematics devices, fixed and mobile wireless gateways and routers. These wireless networking devices underpin a wide range of our own and third party software and service solutions worldwide and are critical for applications demanding secure, reliable and business-critical communications.

The Software & Subscription Services segment offers cloud-based, application enablement and telematics service platforms that facilitate integration of our own applications, as well as those of third parties, through Applications Programming Interfaces (“APIs”) and micro-services to deliver full-featured IoT solutions to a wide range of customers and markets. Our scalable proprietary SaaS offerings enable rapid and cost-effective deployment of high-value solutions for customers all around the globe.

Segment information for the three and nine months ended November 30, 2018 and 2017 is as follows (in thousands):

|                 | Three Months Ended November 30, 2018 |                          |             |                       | Three Months Ended November 30, 2017 |                          |           |                       |
|-----------------|--------------------------------------|--------------------------|-------------|-----------------------|--------------------------------------|--------------------------|-----------|-----------------------|
|                 | Operating Segments                   |                          |             |                       | Operating Segments                   |                          |           |                       |
|                 | Software &                           |                          |             | Corporate<br>Expenses | Software &                           |                          |           | Corporate<br>Expenses |
|                 | Telematics<br>Systems                | Subscription<br>Services | Total       |                       | Telematics<br>Systems                | Subscription<br>Services | Total     |                       |
| Revenues        | \$68,552                             | \$ 19,943                | \$ —        | \$88,495              | \$77,775                             | \$ 15,894                | \$ —      | \$93,669              |
| Adjusted EBITDA | \$9,276                              | \$ 3,612                 | \$ (1,465 ) | \$11,423              | \$12,668                             | \$ 2,028                 | \$ (858 ) | \$13,838              |

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|                 | Nine Months Ended November 30, 2018 |                       |                    |           | Nine Months Ended November 30, 2017 |                       |                    |           |
|-----------------|-------------------------------------|-----------------------|--------------------|-----------|-------------------------------------|-----------------------|--------------------|-----------|
|                 | Operating Segments                  |                       |                    |           | Operating Segments                  |                       |                    |           |
|                 | Software & Telematics Systems       | Subscription Services | Corporate Expenses | Total     | Software & Telematics Systems       | Subscription Services | Corporate Expenses | Total     |
| Revenues        | \$222,004                           | \$ 57,416             | \$ —               | \$279,420 | \$223,841                           | \$ 47,676             | \$ —               | \$271,517 |
| Adjusted EBITDA | \$31,772                            | \$ 9,907              | \$ (4,390 )        | \$37,289  | \$36,993                            | \$ 5,301              | \$ (2,974 )        | \$39,320  |

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.

Our CODM evaluates each segment based on earnings before interest, taxes, depreciation, amortization and certain other charges (“Adjusted EBITDA”) and we therefore consider Adjusted EBITDA to be a primary measure of operating performance of our operating segments. The adjustments to our net income (losses) prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) to calculate Adjusted EBITDA are itemized below (in thousands):

|   | Three Months Ended |                   | Nine Months Ended |                   |
|---|--------------------|-------------------|-------------------|-------------------|
|   | November 30, 2018  | November 30, 2017 | November 30, 2018 | November 30, 2017 |
| Net income (loss)                                   | \$(522 )           | \$11,806          | \$7,135           | \$21,384          |
| Investment income                                   | (1,398 )           | (619 )            | (3,258 )          | (1,348 )          |
| Interest expense                                    | 5,134              | 2,573             | 11,566            | 7,658             |
| Income tax provision                                | (778 )             | 3,351             | 496               | 5,970             |
| Depreciation  | 2,261              | 1,970             | 6,602             | 5,953             |
| Amortization of intangible assets                   | 2,893              | 3,710             | 8,534             | 11,278            |
| Stock-based compensation                            | 2,941              | 2,620             | 8,088             | 6,664             |
| Loss on extinguishment of debt                      | -                  | —                 | 2,033             | —                 |
| Equity in net loss of affiliate                     | 445                | 409               | 1,414             | 1,122             |
| Restructuring charges                               | 1,247              | —                 | 5,196             | —                 |
| Legal expenses for LoJack battery performance issue | 1,483              | 652               | 3,733             | 1,579             |
| Litigation provision                                | 633                | 324               | 1,520             | 6,810             |
| Gain on LoJack battery performance legal Settlement | (2,500 )           | (13,301)          | (15,833)          | (28,333)          |
| Other   | (416 )             | 343               | 63                | 583               |
| Adjusted EBITDA                                     | \$11,423           | \$13,838          | \$37,289          | \$39,320          |

It is not practicable for us to report identifiable assets by segment because these business units share resources, functions and facilities.

We do not have significant long-lived assets outside the United States.

Revenues by geographic area are as follows (in thousands):

|                                | Three Months |              | Nine Months Ended |              |
|--------------------------------|--------------|--------------|-------------------|--------------|
|                                | Ended        |              | November 30,      |              |
|                                | November 30, | November 30, | November 30,      | November 30, |
|                                | 2018         | 2017         | 2018              | 2017         |
| United States                  | \$67,088     | \$67,441     | \$208,152         | \$197,185    |
| Europe, Middle East and Africa | 10,328       | 11,269       | 37,460            | 33,805       |
| South America                  | 832          | 3,239        | 4,961             | 9,018        |
| Canada                         | 3,249        | 4,272        | 6,951             | 11,833       |
| Asia and Pacific Rim           | 3,465        | 3,473        | 10,704            | 9,593        |
| All other                      | 3,533        | 3,975        | 11,192            | 10,083       |
|                                | \$88,495     | \$93,669     | \$279,420         | \$271,517    |

Revenues by geographic area are based upon the country of billing. The geographic location of distributors and OEM customers may be different from the geographic location of the ultimate end users of the products and services provided by us. The revenue decline in Latin America is attributable to regional macroeconomic factors impacting orders from customers in South America. No single non-U.S. country accounted for more than 10% of our revenue in the three and nine months ended November 30, 2018 and 2017.

NOTE 16 – LEGAL PROCEEDINGS

EVE battery claim

On October 27, 2014, LoJack and LoJack Equipment Ireland DAC (“LJEI”), a wholly-owned subsidiary of LoJack, commenced arbitration proceedings against EVE Energy Co., Ltd. (“EVE”) by filing a notice of arbitration with a tribunal (the “Tribunal”) before the Hong Kong International Arbitration Centre (the “HKIAC”). LoJack and LJEI alleged that EVE breached representations and warranties made in supply agreements relating to the quality and performance of battery packs supplied by EVE. On June 2, 2017, we were notified that the Tribunal rendered a decision and awarded damages to us (the “Damage Award”) for EVE’s breach of contract. On June 9, 2017, we entered into a settlement agreement with EVE and its controlling shareholder, EVE Holdings Limited, to resolve the Damage Award by having EVE Holdings Limited, make payments to us in the aggregate amount of approximately \$46.6 million, which amount is net of attorneys’ fees and insurance subrogation payment (the “Settlement”). As of November 30, 2018, we had received approximately \$44.1 million of the Settlement. The Settlement amounts are reported upon receipt as other non-operating income in our consolidated statement of comprehensive income (loss) for the fiscal year ended February 28, 2018 and the nine months ended November 30, 2018. We expect to receive the remaining \$2.5 million in installments in the fourth quarter ending February 28, 2019.

Tracker Connect (Pty) LTD (“Tracker”)

In December 2016, Tracker, LoJack’s international licensee in South Africa, commenced arbitration proceedings against LJEI, by filing a notice of arbitration. The Tracker arbitration was related to the EVE battery claim as described above. The arbitration was conducted in March 2018 and closing arguments were heard on June 25, 2018. On December 6, 2018, the arbitral tribunal issued its confidential final ruling by awarding \$6.2 million to Tracker, which was paid on December 18, 2018. In connection with this legal matter, we had accrued a contingent liability of \$4.0 million and therefore the net effect of the final award is recorded in General & Administrative expenses in our condensed consolidated statements of comprehensive income (loss) for the three and nine months ended November 30, 2018.

At this time, we believe that all outstanding legal matters related to the EVE and Tracker matters are complete.

Other legal matters

As previously disclosed on Form 10-K for the fiscal year ended February 28, 2018 and Form 10-Q for the second quarter ended August 31, 2018 that were filed with the U.S. Securities and Exchange Commission, we filed motions with the court seeking judgment as a matter of law and for a new trial in response to the patent infringement lawsuit that Omega Patents, LLC, (“Omega”) filed against us. The court denied these motions and we then filed an appeal at the Court of Appeals for the Federal Circuit (“CAFC”). We expect that the CAFC will hear oral argument on the appeal on January 9, 2019, although the court calendar is subject to change. Our aggregated accrual for this matter was approximately \$19.1 million and \$17.6 million as of November 30, 2018 and February 28, 2018, respectively. We continue to believe that our products do not infringe any valid claims of Omega’s patents. While it is not feasible to predict with certainty the outcome of this litigation, its ultimate resolution could be material to our cash flows or results of operations.

In addition to the foregoing matters, from time to time as a normal consequence of doing business, various claims and litigation may be asserted or commenced against us. In particular, in the ordinary course of business, we may receive claims concerning contract performance, or claims that our products or services infringe the intellectual property of third parties. In connection with these matters, we may be required to enter into license agreements or other settlement arrangements that require us to make significant payments in the future. While the outcome of any such claims or litigation cannot be predicted with certainty, management does not believe that the outcome of any such matters existing at the present time would have a material adverse effect on our consolidated results of operations, financial

condition and cash flows.

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

Our discussion and analysis of financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). 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 our 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 our Annual Report on Form 10-K for the fiscal year ended February 28, 2018, as filed with the U.S. Securities and Exchange Commission on May 10, 2018, and include the following areas:

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

Other than the adoption of ASC 606 and ASU 2016-01 (see Note 1), there have been no significant changes to these accounting policies as of November 30, 2018.

## RESULTS OF OPERATIONS

### OUR COMPANY

We are a telematics pioneer leading transformation in a global connected economy. We help reinvent businesses and improve lives around the globe with technology solutions that streamline complex Internet of Things ("IoT") developments through wireless connectivity solutions and derived data intelligence. Our software applications, scalable cloud services, and intelligent devices collect and assess business-critical data from mobile and fixed assets for enterprises and consumers. Our business is organized into two reportable segments: Telematics Systems and Software & Subscription Services. Our organizational structure is based on a number of factors that our CEO, the Chief Operating Decision Maker ("CODM"), uses to evaluate and operate the business, which include, but are not limited to, customer base, homogeneity of products, and technology within these two segments. A description of the reportable business segments follows.

### TELEMATICS SYSTEMS

Our Telematics Systems reportable segment offers a series of Mobile Resource Management ("MRM") telematics products and applications for the broader IoT market, which enable customers to optimize their operations by collecting, monitoring and effectively reporting business-critical information and desired intelligence from high-value remote and mobile assets. Our telematics products include asset tracking units, mobile telematics devices, fixed and mobile wireless gateways and routers. These wireless networking devices underpin a wide range of our own and third party solutions worldwide, and are ideal for applications demanding secure, reliable and business-critical

communications.

## SOFTWARE & SUBSCRIPTION SERVICES

Our Software & Subscription Services reportable segment offers cloud-based, application enablement and telematics service platforms that facilitate integration of our own applications, as well as those of third parties, through Applications Programming Interfaces (“APIs”) and micro-services to deliver full-featured IoT solutions to a wide range of customers and markets. Our scalable, proprietary Software-as-a-Service (“SaaS”) offerings enable rapid and cost-effective development of high-value solutions for customers all around the globe.

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## Adjusted EBITDA

In addition to our U.S. GAAP results, we present Adjusted EBITDA as a supplemental non-GAAP measure of our performance. A non-GAAP financial measure is defined as a numerical measure of a company's financial performance that excludes or includes amounts that are different than those included in the most directly comparable measure calculated and presented in accordance with generally accepted accounting principles in the statements of comprehensive income (loss), balance sheets or statements of cash flows. We define Adjusted EBITDA as Earnings Before Investment Income, Interest Expenses, Taxes, Depreciation, Amortization, stock-based compensation, restructuring expenses, non-cash costs and expenses arising from purchase accounting adjustments, litigation provision, gain from legal settlement and certain other adjustments. Our CEO, the CODM, uses Adjusted EBITDA to evaluate and monitor segment performance. We believe this non-GAAP financial information provides additional insight into our ongoing performance and have therefore chosen to provide this information to investors for a more consistent basis of comparison to help investors evaluate our results of ongoing operations and enable more meaningful period-to-period comparisons. Pursuant to the rule and regulations of the U.S. Securities and Exchange Commission regarding the use of non-GAAP financial measures, we have provided a reconciliation of non-GAAP financial measures to the most directly comparable financial measure. See Note 15 for additional information related to Adjusted EBITDA by reportable segments and reconciliation to net income (loss).

## OPERATING RESULTS

Three months ended November 30, 2018 compared to three months ended November 30, 2017:

## Revenue by Segment

| (In thousands)<br>Segment        | Three Months Ended November 30, |                 |          |                 |              |             |
|----------------------------------|---------------------------------|-----------------|----------|-----------------|--------------|-------------|
|                                  | 2018                            |                 | 2017     |                 |              |             |
|                                  | \$                              | % of<br>Revenue | \$       | % of<br>Revenue | \$<br>Change | %<br>Change |
| Telematics Systems               | \$68,552                        | 77.5            | \$77,775 | 83.0            | \$(9,223)    | (11.9 %)    |
| Software & Subscription Services | 19,943                          | 22.5            | 15,894   | 17.0            | 4,049        | 25.5 %      |
| Total                            | \$88,495                        | 100.0           | \$93,669 | 100.0           | \$(5,174)    | (5.5 %)     |

Telematics Systems revenue decreased by \$9.2 million or 11.9% for the three months ended November 30, 2018 compared to the same period last year. The decrease was primarily attributed to reduced sales of our legacy LoJack SVR and MRM telematics products. During the current quarter, we initiated our supply chain diversification program to transition our manufacturing to tier one global contract manufacturers with facilities outside of China. The program was initiated against the backdrop of the escalation of trade tensions between the U.S. and China. As a result, we experienced various supply disruptions related to this transition, as well as extended lead times driven by component shortages. This resulted in inbound product supply delays at quarter-end and impacted our ability to ship certain products to meet customer demand. Although we are taking steps to address these matters, the related operational challenges and supply chain disruptions may persist in the near term.

Software & Subscription Services revenue increased by \$4.0 million or 25.5% for the three months ended November 30, 2018 compared to the same period last year. The increase was due to growth in our LoJack Italia operations and our fleet management services, specifically related to the continued growth in our subscriber base with a large freight transport customer. This increase in revenue was partially offset by a less favorable Euro to U.S. dollar exchange rate compared to the same period last year.



## Cost of Revenues and Gross Profit

|                  | Three Months Ended November 30, |              |          |              |           |         |
|------------------|---------------------------------|--------------|----------|--------------|-----------|---------|
|                  | 2018                            |              | 2017     |              | \$        | %       |
| (In thousands)   | \$                              | % of Revenue | \$       | % of Revenue |           |         |
| Revenues         | \$88,495                        | 100.0 %      | \$93,669 | 100.0 %      | \$(5,174) | (5.5 %) |
| Cost of revenues | 52,114                          | 58.9 %       | 55,482   | 59.2 %       | (3,368)   | (6.1 %) |
| Gross profit     | \$36,381                        | 41.1 %       | \$38,187 | 40.8 %       | \$(1,806) | (4.7 %) |

Consolidated gross profit decreased by \$1.8 million or 4.7% for the three months ended November 30, 2018 compared to the same period last year. The decrease in absolute dollar terms was due to lower revenue in the Telematics Systems business partially offset by continued growth in LoJack subscription services as described above.

Consolidated gross margin increased to 41.1% for the three months ended November 30, 2018 from 40.8% for the same period last year. This increase was primarily due to continuous growth in revenues for our Software & Subscriptions Services as described above.

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Cost of revenues above excludes the restructuring related costs, which are shown separately in the operating expenses in our condensed consolidation statement of comprehensive income (loss).

Operating Expenses

| (In thousands)                | Three Months Ended November 30, 2018 |              | 2017       |              | \$        | %     |        |
|-------------------------------|--------------------------------------|--------------|------------|--------------|-----------|-------|--------|
|                               | \$                                   | % of Revenue | \$         | % of Revenue |           |       | Change |
| Research and development      | \$7,177                              | 8.1          | % \$6,296  | 6.7          | % \$881   | 14.0  | %      |
| Selling and marketing         | 12,746                               | 14.4         | % 12,981   | 13.9         | % (235 )  | (1.8  | %)     |
| General and administrative    | 11,719                               | 13.2         | % 10,993   | 11.7         | % 726     | 6.6   | %      |
| Restructuring                 | 1,247                                | 1.4          | % —        | 0.0          | % 1,247   | 100.0 | %      |
| Intangible asset amortization | 2,893                                | 3.3          | % 3,710    | 4.0          | % (817 )  | (22.0 | %)     |
| Total                         | \$35,782                             | 40.4         | % \$33,980 | 36.3         | % \$1,802 | 5.3   | %      |

Consolidated research and development expense increased by \$0.9 million or 14.0% for the three months ended November 30, 2018 compared to the same period last year. The increase was primarily driven by increased employee compensation and benefits due to increased headcount. Consolidated research and development expense as a percentage of revenues increased to 8.1% for the three months ended November 30, 2018 compared to 6.7% in the same period last year. We are investing in research and development of new products and technologies to be sold through the U.S. and international sales channels.

Consolidated selling and marketing expense was consistent for the three months ended November 30, 2018 compared to the same period last year.

Consolidated general and administrative expenses increased by \$0.7 million or 6.6% for the three months ended November 30, 2018 compared to the same period last year. The increase was primarily driven by increases in (i) employee compensation and benefits due to increased headcount, (ii) legal expenses and litigation settlement related to Tracker matter (see Note 16), and (iii) service fees related to a new cloud-based ERP system that we are implementing to support the growth in our global operations. Certain implementation costs on the new ERP system were capitalized as Property and Equipment in our condensed consolidated balance sheets.

As described in Note 7, during the three months ended May 31, 2018, we commenced a plan to capture certain synergies and cost savings related to streamlining our global operations and sales organization as well as rationalize certain leased properties that are partially vacant. During the three months ended November 30, 2018, we incurred additional charges under this initiative. As a result, we recorded approximately \$0.2 million in severance and employee related costs as well as \$1.0 million in rent and related costs associated with office and manufacturing plant facilities where we have ceased use. Restructuring costs are shown separately in the operating expenses in our condensed consolidated statement of comprehensive income (loss).

Amortization of intangibles decreased by \$0.8 million or 22.0% for the three months ended November 30, 2018 compared to the same period last year due to some intangible assets becoming fully amortized.

Non-operating Income (Expense), Net

Investment income increased by \$0.8 million to \$1.4 million for the three months ended November 30, 2018 from \$0.6 million for the three months ended November 30, 2017. The increase was due to an increase in investment

income resulting from increased investments in various cash equivalent and short-term marketable securities.

Interest expense increased \$2.6 million to \$5.1 million for the three months ended November 30, 2018 from \$2.6 million for the three months ended November 30, 2017 primarily due to additional interest and debt discount and issue costs related to the 2025 Convertible Notes issued in July 2018 that are being amortized on the effective interest method.

See Note 16 to the accompanying unaudited condensed consolidated financial statements for information concerning the \$2.5 million and \$13.3 million net gain for the three months ended November 30, 2018 and November 30, 2017, respectively on the Settlement with a former supplier.

Other non-operating expense for the three months ended November 30, 2018 was \$0.2 million, decreased from income from the comparable period of the prior year due to an unfavorable shift in currency exchange rates.

## Overall Profitability Measures

## Net Income (Loss):

GAAP-basis net loss in the three months ended November 30, 2018 was \$0.5 million as compared to a net income of \$11.8 million in the three months ended November 30, 2017. The decrease is due to a \$3.6 million decline in operating income caused by decreased revenue, a \$1.8 million increase in net interest expense in connection with the 2025 Convertible Notes and a \$10.8 million decrease in non-operating gain from a legal settlement as further discussed in Note 16, partially offset by a \$4.1 million decrease in income tax provision.

## Adjusted EBITDA:

| (In thousands)                   | Three Months Ended November 30, |          | \$        | %        |
|----------------------------------|---------------------------------|----------|-----------|----------|
|                                  | 2018                            | 2017     |           |          |
| Segment                          |                                 |          |           |          |
| Telematics Systems               | \$9,276                         | \$12,668 | \$(3,392) | (26.8 %) |
| Software & Subscription Services | 3,612                           | 2,028    | 1,584     | 78.1 %   |
| Corporate Expenses               | (1,465)                         | (858)    | (607)     | 70.7 %   |
| Total Adjusted EBITDA            | \$11,423                        | \$13,838 | \$(2,415) | (17.5 %) |

Adjusted EBITDA for Telematics Systems in the three months ended November 30, 2018 decreased by \$3.4 million compared to the same period last year primarily due to a decrease in revenue resulting from the supply disruption related to our supply chain diversification program as described above. Adjusted EBITDA for Software & Subscription Services increased by \$1.6 million compared to the same period last year primarily due to continued growth of LoJack subscription services and fleet management service deployments. Adjusted EBITDA for Corporate Expenses increased due to higher legal fees related to general matters coupled with higher audit fees.

See Note 15 for information related to Adjusted EBITDA by reportable segments and a reconciliation to GAAP-basis net income (loss).

Nine months ended November 30, 2018 compared to nine months ended November 30, 2017:

## Revenue by Segment

| (In thousands)                   | Nine Months Ended November 30, |         | \$        | %       | \$        | %       |
|----------------------------------|--------------------------------|---------|-----------|---------|-----------|---------|
|                                  | 2018                           | 2017    |           |         |           |         |
| Segment                          |                                |         |           |         |           |         |
| Telematics Systems               | \$222,004                      | 79.5 %  | \$223,841 | 82.4 %  | \$(1,837) | (0.8 %) |
| Software & Subscription Services | 57,416                         | 20.5 %  | 47,676    | 17.6 %  | 9,740     | 20.4 %  |
| Total                            | \$279,420                      | 100.0 % | \$271,517 | 100.0 % | \$7,903   | 2.9 %   |

Telematics Systems revenue decreased by \$1.8 million or 0.8% for the nine months ended November 30, 2018 compared to the same period last year. The decrease was attributed to reduced sales of our legacy LoJack SVR and MRM telematics products during the three months ended November 30, 2018. Legacy LoJack SVR product sales declined due to regional macroeconomic factors impacting order flow from some of the larger international licensees. The decline in MRM telematics products sales resulted from various supply disruptions related to our supply chain diversification program described above.

Software & Subscription Services revenue increased by \$9.7 million or 20.4% for the nine months ended November 30, 2018 compared to the same period last year. The increase was due to growth in LoJack subscription services and our fleet management services especially as the subscriber base with a large freight transport customer continues to grow. The increase was partially offset by a less favorable Euro to U.S. dollar exchange rate compared to the same period last year.

Cost of Revenues and Gross Profit

|                  | Nine Months Ended November 30, |              |           |              | \$       | %      |
|------------------|--------------------------------|--------------|-----------|--------------|----------|--------|
|                  | 2018                           |              | 2017      |              |          |        |
| (In thousands)   | \$                             | % of Revenue | \$        | % of Revenue | Change   | Change |
| Revenues         | \$279,420                      | 100.0 %      | \$271,517 | 100.0 %      | \$ 7,903 | 2.9 %  |
| Cost of revenues | 165,127                        | 59.1 %       | 159,049   | 58.6 %       | 6,078    | 3.8 %  |
| Gross profit     | \$114,293                      | 40.9 %       | \$112,468 | 41.4 %       | \$ 1,825 | 1.6 %  |

Consolidated gross profit increased by \$1.8 million or 1.6% for the nine months ended November 30, 2018 compared to the same period last year. The increase in absolute dollar terms was due to higher revenue in our Software & Subscription Services business. Consolidated gross margin decreased to 40.9% for the nine months ended November 30, 2018 from 41.4% for the same period last year. This decrease was primarily due to a change in product mix in the current period as well as the impact of high margin revenue sold to a strategic technology partnership arrangement in the same period last year.

Cost of revenues above excludes the restructuring related costs, which are shown separately in the operating expenses in our condensed consolidated statement of comprehensive income (loss).

### Operating Expenses

| (In thousands)                | Nine Months Ended November 30, |              | 2017      |              | \$       | %        |
|-------------------------------|--------------------------------|--------------|-----------|--------------|----------|----------|
|                               | 2018                           | % of Revenue | \$        | % of Revenue |          |          |
| Research and development      | \$21,377                       | 7.7 %        | \$18,853  | 6.9 %        | \$2,524  | 13.4 %   |
| Selling and marketing         | 37,766                         | 13.5 %       | 38,167    | 14.1 %       | (401 )   | (1.1 %)  |
| General and administrative    | 37,146                         | 13.3 %       | 38,159    | 14.1 %       | (1,013 ) | (2.7 %)  |
| Restructuring                 | 5,196                          | 1.9 %        | —         | 0.0 %        | 5,196    | 100.0 %  |
| Intangible asset amortization | 8,534                          | 3.1 %        | 11,278    | 4.2 %        | (2,744 ) | (24.3 %) |
| Total                         | \$110,019                      | 39.5 %       | \$106,457 | 39.3 %       | \$3,562  | 3.3 %    |

Consolidated research and development expense increased by \$2.5 million or 13.4% for the nine months ended November 30, 2018 compared to the same period last year. The increase was primarily driven by increased employee compensation and benefits due to increased headcount. Consolidated research and development expense as a percentage of revenues increased to 7.7% for the nine months ended November 30, 2018 compared to 6.9% in the same period last year. We are investing in the research and development of new products and technologies to be sold through the U.S. and international sales channels.

Consolidated selling and marketing expense decreased by \$0.4 million or 1.1% for the nine months ended November 30, 2018 compared to the same period last year. The decrease was primarily driven by a decrease in professional services and web design costs as we substantially completed our CalAmp and LoJack brand refresh initiatives during the prior fiscal year.

Consolidated general and administrative expenses decreased by \$1.0 million or 2.7% for the nine months ended November 30, 2018 compared to the same period last year. The decrease was primarily driven by a decline in litigation provisions and expenses related to existing legal matters (see Note 16) and partially offset by increased employee compensation and benefits due to increased headcounts and increased professional services coupled with service fees related to a new cloud-based ERP system that we are implementing to support the growth in our global operations. Certain implementation costs on the new ERP system were capitalized as Property and Equipment in our condensed consolidated balance sheets.

As described in Note 7, during the three months ended May 31, 2018, we commenced a plan to capture certain synergies and cost savings related to streamlining our global operations and sales organization as well as rationalize certain leased properties that are partially vacant. As a result, we recorded approximately \$1.5 million in severance and employee related costs as well as \$3.7 million in rent and related costs associated with office and manufacturing plant facilities where we have ceased use for the nine months ended November 30, 2018. Restructuring costs are shown separately in the operating expenses in the condensed consolidated statement of comprehensive income (loss).

Amortization of intangibles decreased by \$2.7 million or 24.3% for the nine months ended November 30, 2018 compared to the same period last year due to some intangible assets becoming fully amortized.

#### Non-operating Income (Expense), Net

Investment income increased by \$1.9 million to \$3.3 million for the nine months ended November 30, 2018 from \$1.3 million for the nine months ended November 30, 2017. The increase was due primarily to an increase in interest income resulting from increased investments in various cash equivalent and short-term marketable securities.

Interest expense increased to \$11.6 million for the nine months ended November 30, 2018 from \$7.7 million for the nine months ended November 30, 2017 primarily due to additional interest expense and debt discount and issue costs relating to the 2025 Convertible Notes issued in July 2018 that are being amortized on the effective interest method.

See Note 6 to the accompanying unaudited condensed consolidated financial statements for information concerning the \$2.0 million loss on extinguishment of debt.

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See Note 16 to the accompanying unaudited condensed consolidated financial statements for information concerning the \$15.8 million and \$28.3 million net gain for the nine months ended November 30, 2018 and 2017 on the Settlement with a former supplier.

Other non-operating expense for nine months ended November 30, 2018 was \$0.7 million as compared to an income of \$0.4 million for the same period prior year due to an unfavorable shift in currency exchange rates.

### Overall Profitability Measures

#### Net Income:

GAAP-basis net income in the nine months ended November 30, 2018 was \$7.1 million as compared to \$21.4 million in the nine months ended November 30, 2017. The decrease is due to \$5.2 million restructuring expenses, a \$2.0 million increase in net interest expense in connection with the 2025 Convertible Notes, a \$2.0 million loss on extinguishment of debt and a \$12.5 million decrease in non-operating gain from a legal settlement as further discussed in Note 16. The decreases were partially offset by a \$1.8 million increase in gross profit and a \$5.5 million decrease in income tax provision.

#### Adjusted EBITDA:

| (In thousands)<br>Segment        | Nine Months<br>Ended November<br>30, |                 | \$               | %              |
|----------------------------------|--------------------------------------|-----------------|------------------|----------------|
|                                  | 2018                                 | 2017            | Change           | Change         |
| Telematics Systems               | \$31,772                             | \$36,993        | \$(5,221)        | (14.1 %)       |
| Software & Subscription Services | 9,907                                | 5,301           | 4,606            | 86.9 %         |
| Corporate Expenses               | (4,390)                              | (2,974)         | (1,416)          | 47.6 %         |
| <b>Total Adjusted EBITDA</b>     | <b>\$37,289</b>                      | <b>\$39,320</b> | <b>\$(2,031)</b> | <b>(5.2 %)</b> |

Adjusted EBITDA for Telematics Systems in the nine months ended November 30, 2018 decreased \$5.2 million compared to the same period last year primarily due to the impact of high margin revenue earned on a strategic technology partnership arrangement in the nine months ended November 30, 2017 coupled with higher operating expenses in Telematics Systems as a result of increased headcount and outsourced professional services fees. Adjusted EBITDA for Software & Subscription Services increased \$4.6 million compared to the same period last year primarily due to continued growth in gross profit from our Italia market and higher gross profit from our fleet management services.

See Note 15 for information related to Adjusted EBITDA by reportable segments and a reconciliation to GAAP-basis net income (loss).

#### Income Tax Provision

We evaluate our estimated annual effective tax rate (“ETR”) on a quarterly basis based on current and forecasted operating results. The relationship between our income tax provision or benefit and our pretax book income or loss



can vary significantly from period to period considering, among other factors, the overall level of pretax book income or loss and changes in the blend of income or loss that is taxed at high effective rates domestically versus pretax book income or loss that is taxed at low effective rates internationally. Consequently, our ETR may fluctuate significantly period to period and may make quarterly comparisons less than meaningful.

The effective income tax rate was 5.5% in the nine months ended November 30, 2018 compared to 21.0% in the same period prior year. The effective tax rate in the nine months ended November 30, 2018 is lower than the statutory U.S. federal income tax rate of 21% primarily due to earning a portion of our income in lower tax jurisdictions, federal and state research and development tax credits and tax benefits, and from the exercise of stock options and vesting of equity awards.

As disclosed in the Form 10-K filed on May 10, 2018, we determined a reasonable provisional estimate on our existing deferred tax balances and the one-time transition tax under the U.S. Securities and Exchange Commission Staff Bulletin No. 118 as of February 28, 2018. We continue to evaluate the impact of the Tax Cuts and Jobs Act signed into law on December 22, 2017.

## LIQUIDITY AND CAPITAL RESOURCES

Consistent with fiscal 2018, our primary cash needs have been for working capital purposes and, to a lesser extent, capital expenditures. We have historically funded our principal business activities through cash flows generated from operations. As we continue to grow our customer base and increase our revenues, there will be a need for working capital in the future. Our immediate sources of liquidity are cash, cash equivalents, marketable securities and our revolving credit facility. As of November 30, 2018, we have \$301.8 million of cash, cash equivalents and marketable securities. We expect to continue to finance our operations from cash, cash equivalents and marketable securities without borrowing under our revolving credit facility over the next twelve months.

On March 30, 2018, we entered into a revolving credit facility with J.P. Morgan Chase Bank, N.A. that provides for borrowings of up to \$50.0 million. This revolving credit facility expires on March 30, 2020. Borrowings under this revolving credit facility bear interest at either a Prime or LIBOR-based variable rate as selected by us on a periodic basis. This revolving credit facility contains financial covenants that require

us to maintain a minimum level of earnings before interest, income taxes, depreciation, amortization and other noncash charges (EBITDA) and minimum debt coverage ratios. There were no borrowings outstanding on this revolving credit facility at November 30, 2018.

On July 20, 2018, we issued 2.00% Convertible Senior Notes due 2025, (the “2025 Convertible Notes”), with a principal amount of \$230.0 million. The net proceeds from our sale of the 2025 Convertible Notes were \$222.7 million and, net of issuance costs of \$7.3 million. We used approximately \$90.0 million of the net proceeds from this offering to pay (i) the cost of the capped call transactions of \$21.2 million; (ii) repurchase shares of our common stock of approximately \$15.0 million, and (iii) repurchase in privately negotiated transactions of approximately \$50 million in principal of our outstanding 2020 Convertible Notes for approximately \$53.8 million including accrued interest. As part of the repurchase of the 2020 Convertible Notes, we also unwind the related note hedges and warrants, which provided us proceeds of \$3.1 million. We expect to use the remainder of the proceeds from the 2025 Convertible Notes for working capital or other general corporate purposes, which may include but not limited to, additional repurchases of the 2020 Convertible Notes, repurchases of shares of our common stock, and acquisitions or other strategic transactions.

We are a defendant in various legal proceedings involving intellectual property claims and contract disputes in which the final resolutions have not been determined at this time. In connection with these matters, we may be required to enter into license agreements or other settlement arrangements that require us to make significant payments in the future. Based on current information available, we do not believe that there are any claims that would have a material adverse effect on our financial condition, results of operations, or liquidity. See Note 16, Legal Proceedings, of the Notes to Unaudited Condensed Consolidated Financial Statements for additional information on legal proceedings.

#### Cash flows from operating activities

Cash flows from operating activities consist of net income (loss) adjusted for certain non-cash items, including depreciation, intangible asset amortization, stock-based compensation expense, amortization of convertible debt issue costs and discount, deferred income taxes, equity in net loss of affiliate, and the effect of changes in components of working capital.

Our cash flow from operating activities are attributable to our net income as well as how well we manage our working capital, which is dictated by the volume of products we purchase from our manufacturers or suppliers and then sell to our customers along with the payment and collection terms that we negotiate with them. We purchase a majority of our products from significant suppliers located in Asia that generally provide us 60-day payment terms for products purchased. Our significant customers are located in the United States and certain foreign countries. We believe that our relationships with our key customers are very good and that these customers are in good financial condition. We generally grant credit to our customers based on their financial viability and our historical collection experience with them. We typically require payment from them within 30 to 45 days of our invoice date.

For the nine months ended November 30, 2018, net cash provided by operating activities was \$48.1 million and net income was \$7.1 million, which was primarily attributable to a \$15.8 million cash received from the Settlement with a former supplier of LoJack that was realized as non-operating income during the period. We expect to receive the remaining \$2.5 million in installments in the fourth quarter ending February 28, 2019. Our non-cash expenses, comprised principally of depreciation, intangible assets amortization, stock-based compensation expense, amortization of convertible debt issue costs and discount, loss on extinguishment of debt, deferred income taxes and equity in net

loss of our affiliate totaled \$34.0 million. Changes in operating assets and liabilities created a \$5.6 million source of cash, primarily driven by changes in working capital including an increase in deferred revenue and decrease in inventory but partially offset by an increase in prepaid expense and decrease in accounts payable. The increases in our working capital accounts were attributable to an increase in sales volume in the most recent quarter.

For the nine months ended November 30, 2017, net cash provided by operating activities was \$58.7 million, which primarily resulted from net income of \$21.4 million, which included a \$23.8 million cash received from the Settlement with a former supplier of LoJack as well as similar activities within other non-cash items and changes in working capital.

#### Cash flow from investing activities

For the nine months ended November 30, 2018 and 2017, our net cash used in investing activities was \$17.1 million and \$13.4 million, respectively. In each of these periods, our primary investing activities consisted of the purchase and sale of marketable securities in accordance with our corporate investment policy as well as strategic initiatives including certain investments in and advances to our affiliate.

Additionally, our investing activities include capital expenditures to support growth in our business. We expect that we will make additional capital expenditures in the future, including the further build-out of our corporate offices and IT infrastructure, all of which will be done to support the future growth of our business.

#### Cash flow from financing activities

For the nine months ended November 30, 2018 and November 30, our net cash provided (used) by financing activities was \$108.6 million and \$(2.3) million, respectively. In each of these periods, we have payments for taxes related to the net share settlement of vested equity awards and the proceeds for the exercise of stock options. In the nine months ended November 30, 2018, we issued \$230.0 million of the 2025 Convertible Notes and used the net proceeds to pay the cost of the capped call transactions; repurchase shares of our common stock, and

repurchase a portion of our outstanding 2020 Convertible Notes as discussed above. We also received proceeds of \$3.1 million from the unwind of the note hedges and warrants related to the 2020 Convertible Notes.

On May 7, 2018, we announced that our Board of Directors authorized a share repurchase program, under which we may repurchase up to \$30.0 million of our outstanding common stock. On July 16, 2018, our Board of Directors increased it to \$39.0 million. As of November 30, 2018, the entire \$39.0 million authorized by our Board of Directors had been utilized.

On December 10, 2018, we announced that our Board of Directors authorized a new share repurchase program, under which we may repurchase up to \$20.0 million of our outstanding common stock over the next 12 months.

#### Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements as defined in Item 303(a)(4)(ii) of the U.S. Securities and Exchange Commission Regulation S-K.

#### Contractual Cash Obligations

The following is a summary of our contractual cash obligations as of November 30, 2018 (in thousands):

|  | Future Estimated Cash Payments Due by Fiscal Year |                  |                 |                  |                  |
|--|---|------------------|-----------------|------------------|------------------|
|  | Less than 1 year                                  | 1 - 3 years      | 3 - 5 years     | >5 years         | Total            |
| Convertible senior notes principal       | \$-   | \$122,527        | \$-             | \$230,000        | \$352,527        |
| Convertible senior notes stated interest | 6,744   | 10,196           | 9,200           | 9,200            | 35,340           |
| Operating leases                         | 5,524   | 6,148            | 3,840           | 941              | 16,453           |
| Purchase obligations                     | 41,538  | -                | -               | -                | 41,538           |
| <b>Total contractual obligations</b>     | <b>\$53,806</b>                                   | <b>\$138,871</b> | <b>\$13,040</b> | <b>\$240,141</b> | <b>\$445,858</b> |

Purchase obligations consist primarily of inventory purchase commitments.

#### FORWARD LOOKING STATEMENTS

Forward looking statements in this Form 10-Q which include, without limitation, statements relating to our plans, strategies, objectives, expectations, intentions, projections and other information regarding future performance, are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The words “may”, “will”, “could”, “plans”, “intends”, “seeks”, “believes”, “anticipates”, “expects”, “estimates”, “judgment”, “goal”, and variation words and similar expressions, are intended to identify forward-looking statements. These forward-looking statements reflect our current views with respect to future events and financial performance and are subject to certain risks and uncertainties that are difficult to predict, including, without limitation, product demand, competitive pressures and

pricing declines in our 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, our ability to collect the remaining installments under the Settlement with EVE, the effect of tariffs on exports from China, and other risks and uncertainties that are set forth in Part I, Item 1A of the Annual Report on Form 10-K for the fiscal year ended February 28, 2018 as filed with the U.S. Securities and Exchange Commission on May 10, 2018. Such risks and uncertainties could cause actual results to differ materially from historical or anticipated results. Although we believe the expectations reflected in such forward-looking statements are based upon reasonable assumptions, we can give no assurance that our expectations will be attained. We undertake 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

We have international operations, giving rise to exposure to market risks from changes in currency exchange rates. A cumulative foreign currency translation loss of \$0.6 million related to our foreign subsidiaries is included in “Accumulated other comprehensive loss” in the Stockholders' equity section of the consolidated balance sheet at November 30, 2018. The aggregate foreign currency transaction exchange rate gain (loss) included in determining loss before income taxes and equity in net loss of affiliate were \$(0.6) million and \$0.5 million in the nine months ended November 30, 2018 and November 30, 2017, respectively.

As our international operations grow, our risks associated with fluctuation in currency rates will become greater, and we will continue to reassess our approach to managing this risk. In addition, currency fluctuations or a weakening U.S. dollar could increase the costs of our international expansion and operation.

## Interest Rate Risk

Our exposure to market rate risk for changes in interest rates relates primarily to our investment portfolio. The primary objective of our investment activities is to preserve principal and liquidity while at the same time maximizing yields without significantly increasing risk. To achieve this objective, we maintain our investment portfolio 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, we may suffer losses in principal if we need the funds prior to maturity and we choose to sell securities that have declined in market value due to changes in interest rates or perceived credit risk related to the securities' issuers.

As the majority of our investment portfolio has a short-term nature, we do not believe an immediate increase or decrease in interest rate would have a material effect on the fair market value of our portfolio, and therefore, we do not expect our operating results or cash flows to be materially affected by a sudden change in market interest rates.

We do not believe our cash equivalents and short-term marketable securities have significant risk of default or illiquidity. However, we cannot provide absolute assurance that in the future our investments will not be subject to adverse changes in market value. In addition, we maintain significant amounts of cash and cash equivalents at one or more financial institutions that are in excess of federally insured limits. We cannot be assured that we will not experience losses on these deposits.

## ITEM 4. CONTROLS AND PROCEDURES

### Disclosure Controls and Procedures

Our 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, as amended (the "Exchange Act")) as of the end of the period covered by this report, that our 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 U.S. Securities and Exchange Commission.

### Internal Control Over Financial Reporting

There has been no change in our internal control over financial reporting during our most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect our internal control over financial reporting.

## PART II. OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

See Note 16, Legal Proceedings, of the Notes to Unaudited Condensed Consolidated 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 our Annual Report on Form 10-K for the fiscal year ended February 28, 2018, as filed with the U.S. Securities and Exchange Commission on May 10, 2018, for a discussion of factors that could materially affect our business, financial condition, results of operations, or future results except for the risk factor below:

Changes to United States tax, tariff and import/export regulations may have a negative effect on global economic conditions, financial markets and our business.

We import certain products and components from suppliers in China. Earlier this year, the Office of the U.S. Trade Representative (the “USTR”) enacted tariffs on imports into the U.S. from China. In September 2018, the USTR enacted another tariff on the import of other Chinese products with an additional combined import value of approximately \$250 billion. The tariff became effective on September 24, 2018, with an initial rate of 10% and then 25% beginning in January 2019. Although some of the products and components we import are included on this list, at this time, we do not expect these tariffs to have a material impact on our business, financial condition or results of operations. Additionally, the current Administration continues to signal that it may further alter trade agreements between China and the United States and may impose additional tariffs on imports from China. It is possible that further tariffs may be imposed on imports of our products, or that our business will be impacted by retaliatory trade measures taken by China or other countries in response to existing or future tariffs, causing us to raise prices or make changes to our operations, any of which could have a negative impact on our revenue or operating results.

Accelerated supply chain diversification program, component shortages and uncertainty in international trade negotiations with China may adversely impact us and have a material adverse effect on our financial condition or results of operations.

We accelerated our supply chain diversification program to transition our manufacturing to tier one global contract manufacturers with facilities outside of China. This program was initiated against the backdrop of the escalation of trade tensions between the U.S. and China. These factors attributed to various supply disruptions, including component shortages, in the third quarter of fiscal 2019. Although we are taking steps to address these matters, the related operational challenges and supply chain disruptions may persist in the near term.

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

The following table contains information with respect to purchases made by or on behalf of CalAmp or any “affiliated purchaser” (as defined in Rule 10b-18(a) (3) under the Securities Exchange Act of 1934), of our common stock during

third quarter ended November 30, 2018:

|                                  | Total<br>Number of<br>Shares<br>Purchased<br>as Part of<br>Publicly<br>Announced<br>Plans or<br>Programs | Average<br>Price<br>Paid per<br>Share | Total<br>Number of<br>Shares<br>Purchased | Approximate<br>Dollar Value<br>of Shares<br>that may be<br>Purchased<br>Under the<br>Plans or<br>Programs (1) |
|----------------------------------|--|---------------------------------------|---|---|
| September 1 - September 30, 2018 | -  | \$ -                                  | -   | \$10,435,956  |
| October 1 - October 31, 2018     | 379,471  | \$ 19.78                              | 379,471                                   | \$2,931,098   |
| November 1 - November 30, 2018   | 146,252  | \$ 20.04                              | 146,252                                   | \$-   |
| Total                            | 525,723  | \$ 19.85                              | 525,723                                   | \$-   |

(1) As announced on May 7, 2018, our Board of Directors approved a share repurchase program of up to \$30.0 million of our outstanding common stock. On July 16, 2018, our Board of Directors authorized an additional \$9.0 million to repurchase our outstanding common stock, or a total up to \$39.0 million. As of November 30, 2018, the entire \$39.0 million had been utilized. Our share repurchase program did not obligate us to acquire any specific number of shares. Under the program, shares were repurchased in privately negotiated and/or open market transactions, including under plans complying with Rule 10b5-1 under the Exchange Act.



ITEM 6. EXHIBITS

|              |  |
|--------------|--|
| Exhibit 31.1 | <u>Chief Executive Officer Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u> |
| Exhibit 31.2 | <u>Chief Financial Officer Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u> |
| Exhibit 32   | <u>Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>                         |
| 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 20, 2018 /s/ Kurtis Binder  
Date EVP & Chief Financial Officer  
(Principal Financial Officer and  
Chief Accounting Officer)