CalAmp

2005 Annual Report

CalAmp

CalAmp is a leading provider of wireless equipment, engineering services and software that enable anytime/anywhere access to critical information, data and entertainment content. With comprehensive capabilities ranging from product design and development through volume production, CalAmp delivers cost-effective high quality solutions to a broad array of customers and end markets.

During its 24 year operating history, CalAmp has developed valuable long-term strategic relationships with key players in wireless communications. CalAmp is the leading supplier of direct broadcast satellite (DBS) outdoor customer premise equipment to the U.S. satellite television market. The Company also provides wireless connectivity solutions for the telemetry and asset tracking markets, healthcare industry, enterprise-class wireless fidelity, or Wi-Fi, networks and digital multimedia delivery applications.

The Company is headquartered in Oxnard, California and has approximately 625 employees. CalAmp (Nasdaq:CAMP) has been publicly traded since 1983. For additional information, please visit the Company's website at www.calamp.com.

Dear Fellow Stockholders:

Fiscal 2005 was a defining period in the evolution of CalAmp. The Company made tremendous strides this past year — generating record revenue growth with improving margins, solidifying its leadership position in its core business, cultivating its key long-term customer relationships, and developing promising new products for emerging markets. While we are proud of our accomplishments, our team is mindful that significant work lies ahead in order to achieve our Company's full potential. We believe that CalAmp has the right combination of compelling products, strong customer relationships and financial strength to capitalize on growth opportunities and maximize shareholder value.

For the fifth consecutive year, CalAmp posted solid financial results. In fiscal 2005, we achieved record revenues of $220 million. Gross margins rebounded to nearly 19% in fiscal 2005, after falling to approximately 14% in fiscal 2004 due mainly to extreme quarter-to-quarter volatility in customer demand and production activity. The improved gross margin performance, coupled with a strong balance sheet that included more than $31 million in cash and relatively low amount of long-term debt, gives us the financial flexibility to fund our strategic initiatives and grow our business.

Similar to prior years, our fiscal 2005 financial results were driven by our position as a leading supplier of outdoor customer premise equipment to the Direct Broadcast Satellite (DBS) television industry. Today, CalAmp is a primary supplier of this equipment to the two U.S. DBS providers, DIRECTV and Echostar, operator of the DISH Network, and we believe our current share of this market is approximately 50%.

From its inception in 1994, the DBS industry has been among the fastest growing U.S. consumer electronics products/services in history and currently boasts approximately 25 million subscribers. This represents one out of every four television households in the U.S. With more than 7 million gross customer additions in 2004 alone, the DBS industry continues to grow by taking market share away from the competing cable television operators. Each new DBS subscriber is a potential revenue opportunity for CalAmp.

The outlook for the DBS industry in the U.S. remains quite robust. According to industry analysts, total DBS subscribers are expected to approach 35 million by 2010. After taking into account expected customer disconnects, or churn, this translates into approximately 6 to 8 million gross customer additions per year through the end of the decade — nearly all of whom will require new outdoor reception equipment. To achieve these levels of growth, the DBS providers have committed to significant investments in new services. Near term examples include enhanced digital video recording capabilities and a massive expansion of high-definition television (HDTV) programming. Over the longer term, premium services will likely include the concept of the home media gateway, which is based on whole-house connectivity to all multimedia systems along with mobility for wireless devices outside the home.

To derive full economic benefit form these services, both DBS providers are introducing next generation outdoor equipment that is dramatically more complex than the legacy products. CalAmp is poised to benefit from this upgrade cycle since this advanced equipment carries significantly higher average selling prices and generates higher gross profit. As a strategic partner in the truest sense of the word, CalAmp is working closely with both DBS providers to develop, design and produce these value-added products at a competitive price. While the competition in the outdoor DBS equipment market remains challenging, we believe that we can remain a leading supplier of outdoor customer premise equipment. CalAmp's low cost, high volume manufacturing capabilities coupled with its unparalleled industry experience and design expertise position the Company well for a continued leadership role.

As part of a concerted effort to diversify our customer base and develop new product opportunities, CalAmp is parlaying its manufacturing and product development capabilities, strong financial position and core competencies in wireless communications to establish positions in emerging markets. For example, we recently announced the acquisition of Skybility, a privately held supplier of cellular transceivers for machine-to-machine (M2M) wireless communications, with a specific emphasis on applications for asset tracking, remote equipment monitoring and other forms of wireless control. We believe that the acquisition of Skybility and its suite of M2M products is an excellent fit with our existing wireless technology expertise. It also accelerates our entry into markets such as logistics and security that offer significant longer term growth potential as the technology becomes more widely adopted.

Our purchase of Vytek Corporation, which closed in early fiscal 2005, is another key component of our diversification efforts. With the completion of this acquisition, we realigned CalAmp's operational structure to consist of two divisions — the Products Division that incorporated our existing satellite and wireless access businesses along with Vytek's manufacturing operations; and the Solutions Division, comprised of Vytek's core software applications, professional consulting and engineering design businesses.

While the integration of Vytek has proven to be more challenging than originally expected, we are making steady progress toward our objective of getting the Solutions Division to operating profitability in the fourth quarter of fiscal 2006. Longer term, we see the Solutions Division playing an important role in CalAmp's growth strategy by providing complementary software development, consulting and design capabilities for new and emerging wireless business opportunities. We're particularly enthusiastic about the prospects for our TelAlert^{TM} urgent messaging software. TelAlert is currently used by more than 75 of Fortune 100 companies for mission-critical IT communications and we believe that we can reposition and expand the TelAlert solution to address burgeoning demand for enterprise urgent messaging applications in various vertical markets.

We will also continue to look for opportunities that leverage our strength in product design and development in conjunction with our flexible, high volume manufacturing capabilities. An excellent example of this is the manufacturing agreement signed during fiscal 2005 with EF Johnson for the production of modules for hand held radios for federal, state and local agencies involved with homeland security and public safety applications. These types of arrangements are expected to improve overall profit margins while better balancing our manufacturing product mix. To date, we have delivered over 10,000 units to EF Johnson and we are in the process of actively targeting other opportunities like this to build on the success of this business model.

The future is bright and it is with great excitement that we look ahead to fiscal 2006 and beyond. In a marketplace with an ever expanding desire for convenient and reliable access to critical information and entertainment content on an anytime/anywhere basis, CalAmp is well positioned to build on leadership positions in the markets we serve and expand into emerging markets with new products and services. As always, our number one priority is to build shareholder value. We believe we're on the right path to accomplish this and thank you for your ongoing support.

Sincerely,

Fred Sturm
President and Chief Executive Officer

June 27, 2005

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

FOR THE FISCAL YEAR ENDED FEBRUARY 28, 2005

COMMISSION FILE NUMBER: 0-12182

CALAMP CORP.

(Exact name of Registrant as specified in its Charter)

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

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: **(805) 987-9000**

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE
None	**None**

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

$.01 par value Common Stock	**Nasdaq National Market**
(Title of Class)	(Name of each exchange on which registered)

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, and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No □

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes ☒ No □

The aggregate market value of the common stock of the Registrant held by non-affiliates computed by reference to the price at which the common stock was last sold as of the last business day of the Registrant's most recently completed second fiscal quarter was approximately $134,777,000.

There were 22,719,236 shares of the Registrant's Common Stock outstanding as of May 3, 2005.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's definitive Proxy Statement for the Annual Meeting of Stockholders to be held on August 2, 2005 are incorporated by reference into Part III, Items 10, 11, 12, 13 and 14 of this Form 10-K. This Proxy Statement will be filed within 120 days after the end of the fiscal year covered by this report.

PART I

ITEM 1. BUSINESS

THE COMPANY

CalAmp Corp. (“CalAmp” or the “Company”), formerly known as California Amplifier, Inc., is a provider of wireless products and engineering services that enable anytime/anywhere access to critical information, data and entertainment content. CalAmp is the leading supplier of direct broadcast satellite (DBS) outdoor customer premise equipment to the U.S. satellite television market. The Company also provides wireless connectivity solutions for the healthcare industry, public safety organizations, telemetry and asset tracking markets, enterprise-class 802.11 ‘Wi-Fi’ networks, and digital multimedia delivery applications.

On April 12, 2004, the Company completed the acquisition of Vytek Corporation (“Vytek”), a privately held company. The acquisition of Vytek was motivated primarily by the strategic goal of increasing the Company’s presence in markets which offer higher growth and profit margin potential, and diversifying the Company’s business and customer base beyond its current dependence on the two U.S. DBS system operators. Concurrent with the acquisition of Vytek, the Company realigned its operations into a divisional structure. The legacy operations of CalAmp, previously segregated into the Satellite and Wireless Access business units, were combined together with Vytek’s products manufacturing business to form the new Products Division. The operations of Vytek, which are principally service oriented, comprise the Company’s Solutions Division.

PRODUCTS DIVISION

The Products Division develops, manufactures and sells devices and systems utilizing wireless technology that receive television programming transmitted from satellites and terrestrial transmission towers, that provide wireless high-speed Internet (broadband) service, or that provide connectivity for access to critical information, data and entertainment content.

The Products Division currently generates most of its revenue from the sale of DBS outdoor reception equipment, with such sales accounting for approximately 95%, 93% and 87% of total Products Division revenues in fiscal years 2005, 2004 and 2003, respectively. Sales of the Company’s Products Division amounted to $194.8 million, $128.6 million and $100.0 million in fiscal years 2005, 2004 and 2003, respectively. The Company believes that DBS reception equipment will continue to be a significant portion of its overall Products Division revenue for the foreseeable future.

The Company’s DBS reception products are installed at subscribers’ premises to receive subscription television programming signals that are transmitted from orbiting satellites. These DBS reception products consist principally of reflector dish antennae, feedhorns, and electronics which receive, process and amplify satellite television signals for distribution over coaxial cable into the building. The dish antenna reflects the satellite microwave signal back to a focal point where a feedhorn collects the microwaves and transfers the signals into an integrated amplifier/downconverter that is referred to in the satellite industry as a Low Noise Block Feed (“LNBF”). The microwave amplifier boosts the signal millions of times for further processing. The downconverter changes the signal from a microwave frequency into a lower intermediate frequency that can be easily transmitted down coaxial cable and that a satellite television receiver can acquire, recognize and process to create a picture.

SOLUTIONS DIVISION

The Company’s Solutions Division provides technology integration solutions consisting of a mix of professional services and proprietary software and hardware to enterprise customers and original equipment manufacturers. These solutions primarily involve wireless and mobile computing applications in several different vertical markets, including healthcare and medical devices, public safety, multimedia content delivery, and transportation, and include customization services to adapt technology and applications to a customer’s specific needs. The Solutions Division provides development and consulting services under either “time and materials” or fixed price contracts.

The Solutions Division’s experience includes mobile computing, embedded computing, urgent messaging, enterprise content delivery, and integrated networks. Its mobile computing expertise extends enterprise business processes to mobile workers by establishing connectivity between enterprise applications and a wide range of mobile and telephony devices. Embedded computing offerings include the development of end-to-end solutions that build and connect a wide range of devices to back-end systems. Its messaging and paging offerings include an urgent messaging software platform known as TelAlert as well as a series of paging hardware products. The Solutions Division also provides industry specific solutions such as its suite of public safety applications that address the needs of federal, state and local law enforcement agencies.

For additional information regarding the Company's sales by business segment and geographical area, see Note 13 to the accompanying consolidated financial statements.

MANUFACTURING

Electronic devices, components and made-to-order assemblies used in the Company's products are generally obtained from a number of suppliers, although certain components are obtained from sole source suppliers. Some devices or components are standard items while others are manufactured to the Company's specifications by its suppliers. The Company believes that most raw materials are available from alternative suppliers. However, any significant interruption in the delivery of such items could have an adverse effect on the Company's operations.

Over the past several years, printed circuit board assembly has been outsourced to contract manufacturers in the Pacific Rim. The Company performs final assembly and test of most its satellite LNBF and other wireless access products at its facilities in Oxnard, California. Printed circuit assemblies are mounted in various aluminum and plastic housings, electronically tested, and subjected to additional environmental tests on a sampled basis prior to packaging and shipping.

Satellite dish antennas are manufactured on a subcontract basis by a non-affiliated metal fabrication company in the U.S. In addition, some of the Company's satellite LNBF products are manufactured on a subcontract basis by a company located in Taiwan.

A substantial portion of the Company's components, and substantially all printed circuit board assemblies and housings, are procured from foreign suppliers and contract manufacturers located primarily in China, Taiwan, and other Pacific Rim countries. Any significant shift in U.S. trade policy toward these countries, or a significant downturn in the economic or financial condition of, or any political instability in, these countries, could cause disruption of the Company's supply chain or otherwise disrupt the Company's operations, which could adversely impact the Company's business.

ISO 9001 INTERNATIONAL CERTIFICATION

The Company became registered to ISO 9001:1994 in 1995, and upgraded its registration to ISO9001:2000 in 2003. ISO 9001:2000 is the widely recognized international standard for quality management in product design, manufacturing, quality assurance and marketing. The Company believes that ISO certification is important to its business because most of the Company's key customers expect their suppliers to have and maintain ISO certification. The registration assessment was performed by Underwriter's Laboratory, Inc. according to the ISO 9001:2000 International Standard. Continuous assessments to maintain certification are performed semi-annually, and the Company has maintained its certification through each audit evaluation, most recently in March 2005. In addition, the Company conducts internal audits of processes and procedures on a quarterly basis. The Company believes that the loss of its ISO certification could have a material adverse effect on its operations, and the Company can provide no assurance that it will be successful in continuing to maintain such certification.

RESEARCH AND DEVELOPMENT

Each of the markets the Company competes in is characterized by technological change, evolving industry standards, and new product features to meet market requirements. During the last three years, the Company has focused its research and development resources primarily on satellite DBS products and smart antenna technology for use in 802.11 "Wi-Fi" broadband wireless networks. In addition, development resources were allocated to broaden existing product lines, reduce product costs and improve performance by product redesign efforts.

Research and development expenses in fiscal years 2005, 2004 and 2003 were $8,320,000, $5,363,000 and $5,982,000, respectively. During this three year period the Company's research and development expenses have ranged between 3.8% and 6.0% of annual sales.

SALES AND MARKETING

The Company's revenues were derived mainly from customers in the United States, which represented 97%, 96% and 91% of consolidated revenues in fiscal 2005, 2004 and 2003, respectively. No other country's customers accounted for more than 4% of revenues in any of these years.

The Products Division sells its satellite reception products primarily to the two DBS system operators in the U.S. for incorporation into complete subscription satellite television systems. Other wireless access products are sold directly to system operators as well as through distributors and system integrators.

The sales and marketing functions for the Products Division are located primarily at the Company's corporate headquarters location in Oxnard, California. In addition, the Products Division has a small sales office in Paris, France. The sales and marketing functions for the Solutions Division are located at several offices in California and on the East Coast.

Sales to customers that accounted for 10% or more of consolidated annual sales in any one of the last three years, as a percent of consolidated sales, are as follows:

		Year ended February 28,		
Customer	Segment	2005	2004	2003
Echostar	Products	43.4%	39.4%	43.8%
DirecTV	Products	17.1%	22.9%	9.8%

Echostar Communications Corporation owns and operates the DISH satellite television service in the U.S. DirecTV Group Inc. is the largest satellite television service provider in the U.S. The Company believes that the loss of Echostar or DirecTV as a customer would have a material adverse effect on the Company's financial position and results of operations.

COMPETITION

The Company's markets are highly competitive. In addition, if the markets for the Company's products grow, the Company anticipates increased competition from new companies entering such markets, some of whom may have financial and technical resources substantially greater than those of the Company. The Company believes that competition in its markets is based primarily on performance, reputation, product reliability, technical support and price. The Company's continued success in these markets will depend in part upon its ability to continue to design and manufacture quality products at competitive prices.

Products Division:

The Company believes that its principal competitors for its DBS outdoor reception products include Sharp Corporation, Wistron NeWeb Corporation, Winegard Company, Andrew Corporation, Microelectronics Technology, Inc. and ProBrand. Based on information announced quarterly by the U.S. DBS system operators as to the total number of subscribers and the subscriber turnover rate, the Company believes that it is the leading supplier of outdoor subscriber premise equipment to the U.S. DBS television industry. In the U.S. DBS television market, the Company believes its reputation for performance and quality allows the Company a competitive advantage if pricing of its products is comparable to its competitors. Because the Company's satellite products are not proprietary, it is possible that they may be duplicated by low-cost producers, resulting in price and margin pressures.

Solutions Division:

The engineering solutions market in which the Solutions Division operates includes a large number of companies, is intensely competitive and faces rapid technological change. The Solutions Division expects the competition to continue and intensify, which could result in price reductions, reduced profitability and loss of current or future customers. The Solutions Division's competitors fall into the following categories: internal information technology or engineering departments of current and potential customers; large information technology consulting services providers such as Accenture, Electronic Data Systems Corporation and International Business Machines

Corporation; traditional information technology services providers such as Sapient Corporation; Internet professional services firms; mobile computing consulting and solutions providers such as Wireless Facilities and Aether Systems; and emerging offshore software developers such as Cognizant, Satyam, Infosys, and HCL. In addition, the Solutions Division faces competition in its embedded products business from software and hardware companies such as Wind River Systems, BSQUARE Corporation, Accelent Systems, Inc., Intrinsyc Software, Inc. and Venturcom, Inc.

The principal competitive factors in the Solutions Division's business market are leading edge technical knowledge, the reputation and experience of professionals delivering services, customer value and service; the success and reliability of the delivered system; the ability to attract and retain highly skilled, specialized, experienced engineering/consulting professionals; and price. A number of the Solutions Division's competitors and potential competitors have longer operating histories, significantly greater financial, technical, marketing and other resources, greater name recognition and a larger installed base of customers.

BACKLOG

The Company's products are sold to customers that do not usually enter into long-term purchase agreements, and as a result, the Company's backlog at any date is not significant in relation to its annual sales. In addition, because of customer order modifications, cancellations, or orders requiring wire transfers or letters of credit from international customers, the Company's backlog as of any particular date may not be indicative of sales for any future period.

INTELLECTUAL PROPERTY

Products Division:

The Company's timely application of its technology and its design, development and marketing capabilities have been of substantially greater importance to its business than patents or licenses.

The Products Division currently has 16 patents ranging from design features for downconverter and antenna products to its MultiCipher broadband scrambling system. Those that relate to its downconverter products do not give the Company any significant advantage since other manufacturers using different design approaches can offer similar microwave products in the marketplace. In addition to its awarded patents, the Products Division currently has 10 patent applications pending.

CalAmp® is a federally registered trademark of the Company.

Solutions Division:

The Solutions Division relies on a combination of trademark, patent, copyright, service mark, trade secret laws and contractual restrictions to establish and protect proprietary rights in the Solutions Division's products and services. The Solutions Division has applied for various trademarks and patents.

Use by customers of the Solutions Division's software is governed by executed license agreements. The Solutions Division also enters into written agreements with each of its resellers for the distribution of its software. In addition, the Solutions Division seeks to avoid disclosure of trade secrets by requiring each of its employees and others with access to proprietary information to execute confidentiality agreements. The Solutions Division protects its software, documentation and other written materials under trade secret and copyright laws, which afford only limited protection.

EMPLOYEES

At February 28, 2005, the Company had approximately 400 employees and approximately 200 contracted production workers. None of the Company's employees are represented by a labor union. The contracted production workers are engaged through independent temporary labor agencies in California.

EXECUTIVE OFFICERS

The executive officers of the Company are as follows:

Name	Age	Position
Fred Sturm	47	Director, President and Chief Executive Officer
Patrick Hutchins	41	President, Products Division
Steven L'Heureux	49	President, Solutions Division
Richard Vitelle	51	Vice President, Finance, Chief Financial Officer and Corporate Secretary

FRED STURM was appointed Chief Executive Officer, President and Director in August 1997. Prior to joining the Company from 1990 to 1997, Mr. Sturm was President of Chloride Power Systems (USA), and Managing Director of Chloride Safety, Security, and Power Conversion (UK), both of which are part of Chloride Group, PLC (LSE: CHLD). From 1979 to 1990, he held a variety of general management positions with M/A-Com and TRW Electronics, which served RF and microwave markets.

PATRICK HUTCHINS joined the Company as Vice President, Operations in August 2001, and was appointed President of the Company's Products Division effective April 12, 2004. From March 1997 until joining the Company, Mr. Hutchins served in general management capacities with several units of Chloride Group PLC and Genlyte Thomas LLC, most recently serving as the President and General Manager of Chloride Systems, a division of Genlyte Thomas.

STEVEN L'HEUREUX was appointed as President of the Company's Solutions Division in December 2004. From 2003 to 2004, Mr. L'Heureux was the President of the Automation Solutions Group at Encoda Systems, Inc., an enterprise software solutions provider to the media industry. From 1999 to 2003, Mr. L'Heureux served as President of Odetics Broadcast, a subsidiary of Odetics, Inc., a supplier of equipment for the television broadcast, video security, telecommunications, and transportation safety industries.

RICHARD VITELLE joined the Company as Vice President, Finance, Chief Financial Officer and Corporate Secretary in July 2001. Prior to joining the Company, he served as Vice President of Finance and CFO of SMTEK International, Inc., a publicly held electronics manufacturing services provider, where he was employed for a total of 11 years. Earlier in his career Mr. Vitelle served as a senior manager with Price Waterhouse.

Officers are appointed by and serve at the discretion of the Board of Directors.

ITEM 2. PROPERTIES

The Company's principal facilities, all leased, are as follows:

Location	Square Footage	Use
Oxnard, California	98,000	Corporate office, Products Division offices and manufacturing plant
San Diego, California	36,000	Solutions Division offices
Oakland, California	3,000	Administrative and sales office
Newport Beach, California	1,000	Sales office
Vista, California	6,000	Product design facility
Reston, Virginia	3,000	Sales office
Chanhassen, Minnesota	4,000	Product design facility
Parsippany, New Jersey	12,000	Sales office and service center
Latham, New York	3,000	Administrative and sales office
Paris, France	150	Sales office

ITEM 3. LEGAL PROCEEDINGS

Investigation by the Securities and Exchange Commission:

In May 2001, the Securities and Exchange Commission ("SEC") opened an investigation into the circumstances surrounding the misstatements in the Company's consolidated financial statements for its 2000 and 2001 fiscal years caused by its former controller. In April 2004, the SEC concluded its investigation and issued a cease and desist order directing the Company to not violate federal securities laws in the future.

Property lease lawsuit and cross-complaint

On May 21, 2004, the Company was served with a lawsuit filed by the owner of a building in Camarillo, California that was formerly used as the Company's corporate offices and principal manufacturing plant under a 15-year lease agreement that expired on February 28, 2004. The building owner contends that it is owed approximately $500,000 for damages to the premises allegedly caused by the Company. In May 2004, the Company filed a cross-complaint, seeking payment by the building owner of approximately $180,000 in deposits and other amounts which the Company believes it is owed. In March 2005, the lawsuit and the cross-complaint were voluntarily withdrawn, and since that time the parties have been attempting to mediate the dispute. If the mediation fails to resolve the dispute, the parties have agreed in writing to submit the matter to binding arbitration. The Company believes that the ultimate resolution of this matter will not have a material adverse effect on the Company's financial position or results of operations.

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

During the three months ended February 28, 2005, no matters were submitted to a vote of the Company's security holders.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The Company's Common Stock trades on The Nasdaq Stock Market under the ticker symbol CAMP. The following table sets forth for the last two years the quarterly high and low sale prices for the Company's Common Stock, as reported by Nasdaq:

	LOW	HIGH
Fiscal Year Ended February 28, 2005:		
1st Quarter	$6.63	$17.20
2nd Quarter	5.12	8.20
3rd Quarter	5.57	10.00
4th Quarter	6.76	10.18
Fiscal Year Ended February 28, 2004:		
1st Quarter	$3.07	$ 4.23
2nd Quarter	3.07	4.42
3rd Quarter	4.05	11.60
4th Quarter	7.40	16.87

At May 4, 2005 the Company had approximately 1,600 stockholders of record. The number of stockholders of record does not include the number of persons having beneficial ownership held in "street name" which are estimated to approximate 10,000. The Company has never paid a cash dividend and has no current plans to pay cash dividends on its Common Stock. The Company's bank credit agreement prohibits payment of dividends without the prior written consent of the bank.

At February 28, 2005, the Company had four stock option plans, the "1989 Plan", the "1999 Plan", the "2000 Plan" and the "2004 Plan". Options to purchase the Company's common stock have been granted to both employees and non-employee directors. Options can no longer be granted under the 1989, 1999 and 2000 Plans. The 1989, 1999 and 2004 Plans were approved by the Company's stockholders. The 2000 Plan and outstanding employee stock options thereunder were assumed by the Company in connection with the acquisition of Vytek on April 12, 2004.

Further information about these plans is set forth in Note 8 to the consolidated financial statements. Certain information about the plans is as follows:

Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in the first column)
2,692,135	$10.48	2,797,500

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ITEM 6. SELECTED FINANCIAL DATA

	Year ended February 28,				
	2005	2004	2003	2002	2001
	(In thousands except per share amounts)				
OPERATING DATA					
Revenues	$220,027	$128,616	$100,044	$100,715	$117,129
Cost of revenues	178,649	110,950	79,511	78,342	94,128
Gross profit	41,378	17,666	20,533	22,373	23,001
Operating expenses:					
Research and development	8,320	5,363	5,982	7,337	6,066
Selling	6,397	2,336	2,560	3,456	3,460
General and administrative	11,499	3,880	3,685	6,051	5,096
Amortization of intangibles	1,643	104	96	270	270
In-process research and development write-off	471	—	—	—	—
Total operating expenses	28,330	11,683	12,323	17,114	14,892
Operating income	13,048	5,983	8,210	5,259	8,109
Non-operating income (exp.):					
Settlement of litigation	—	—	—	(1,125)	—
Other income (expense), net	(120)	(243)	(215)	47	(359)
Total non-operating expense	(243)	(243)	(215)	(1,078)	(359)
Income from continuing operations before income tax	12,928	5,740	7,995	4,181	7,750
Income tax provision	(4,852)	(26)	(2,835)	(1,307)	(2,810)
Income from continuing operations	8,076	5,714	5,160	2,874	4,940
Income (loss) from discontinued operations, net of tax	—	—	—	(25)	269
Gain on sale of discontinued operations, net of tax	—	—	—	1,615	—
Net income	$ 8,076	$ 5,714	$ 5,160	$ 4,464	$ 5,209
Basic earnings per share:					
Income from continuing operations	$ 0.38	$ 0.39	$ 0.35	$ 0.21	$ 0.37
Income from discontinued operations	—	—	—	—	0.02
Gain on sale of disc. ops.	—	—	—	0.12	—
	$ 0.38	$ 0.39	$ 0.35	$ 0.33	$ 0.39
Diluted earnings per share:					
Income from continuing operations	$ 0.36	$ 0.37	$ 0.35	$ 0.21	$ 0.35
Income from discontinued operations	—	—	—	—	0.02
Gain on sale of disc. ops.	—	—	—	0.11	—
	$ 0.36	$ 0.37	$ 0.35	$ 0.32	$ 0.37

	February 28,				
	2005	2004	2003	2002	2001
	(In thousands)				
BALANCE SHEET DATA					
Current assets	$ 88,534	$67,365	$53,092	$45,739	$35,523
Current liabilities	$ 29,662	$24,722	$18,405	$15,480	$15,032
Working capital	$ 58,872	$42,643	$34,687	$30,259	$20,491
Current ratio	3.0	2.7	2.9	3.0	2.4
Total assets	$196,755	$98,619	$89,597	$56,688	$49,812
Long-term debt	$ 7,679	$ 7,690	$12,569	$ 3,628	$ 4,500
Stockholders' equity	$158,288	$65,363	$58,623	$37,580	$29,624

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

CalAmp is a provider of wireless products and engineering services that enable anytime/anywhere access to critical information, data and entertainment content. CalAmp is the leading supplier of direct broadcast satellite (DBS) outdoor customer premise equipment to the U.S. satellite television market. The Company also provides wireless connectivity solutions for the healthcare industry, public safety organizations, telemetry and asset tracking markets, enterprise-class 802.11 'Wi-Fi' networks, and digital multimedia delivery applications.

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

On April 12, 2004, the Company completed the acquisition of Vytek Corporation ("Vytek"), a privately held company. The acquisition of Vytek was motivated primarily by the strategic goal of increasing the Company's presence in markets which offer higher growth and profit margin potential, and diversifying the Company's business and customer base beyond its current dependence on the two U.S. DBS system operators. Concurrent with the acquisition of Vytek, the Company realigned its operations into a divisional structure. The legacy operations of CalAmp, previously segregated into the Satellite and Wireless Access business units, were combined together with Vytek's products manufacturing business to form the new Products Division. The operations of Vytek, which are principally service oriented, comprise the Company's Solutions Division.

Revenue consists principally of sales of satellite television outdoor reception equipment for the U.S. DBS industry, which accounted for 84% of consolidated revenue in the fiscal year ended February 28, 2005. The DBS system operators have approximately 25% share of the total subscription television market in the U.S. In calendar 2004, the size of the U.S. DBS market is estimated by industry analysts to have grown by 15% from 21.6 million subscribers to approximately 24.8 million subscribers at December 31, 2004.

Demand for the Company's satellite television reception products is driven not only by the growth in the overall DBS subscriber base, but also by product upgrade cycles and subscriber "churn". Churn, which is defined as subscribers whose service is disconnected for any reason, is an important factor driving demand for the Company's satellite products because the outdoor reception equipment typically is not redeployed by the service provider when churn occurs. Average monthly churn in the U.S. DBS market was approximately 1.5% in calendar year 2004. Given the average size of the U.S. satellite television market of about 23 million subscribers during calendar 2004, this means that in calendar 2004 the aggregate churn amounted to approximately 4.4 million subscribers.

The demand for the Company's products has been affected in the past, and may continue to be affected in the future, by various factors, including, but not limited to, the following:

- the timing, rescheduling or cancellation of orders from one of CalAmp's key customers in CalAmp's satellite products business and the Company's ability, as well as the ability of its customers, to manage inventory;
- the rate of subscriber churn in the U.S. DBS market, and the ability of the system operators to manage and reduce their churn rates;
- the rate of growth in the overall subscriber base in the U.S. DBS Market;
- the economic and market conditions in the wireless communications markets;
- CalAmp's ability to specify, develop or acquire, complete, introduce, market and transition to volume production new products and technologies in a timely manner;
- the rate at which CalAmp's present and future customers and end-users adopt the Company's products and technologies in its target markets; and
- the qualification, availability and pricing of competing products and technologies and the resulting effects on sales and pricing of the Company's products.

For these and other reasons, the Company's net revenue in fiscal 2005 may not necessarily be indicative of future years' revenue amounts. From time to time, the Company's key customers significantly reduce their product orders, or may place significantly larger orders, either of which can cause the Company's quarterly revenues to fluctuate significantly. The Company expects these fluctuations to continue in the future.

Material opportunities for the Company include increasing the Company's market share for outdoor reception equipment in the U.S. DBS market, expanding its presence in wireless industry market segments for both fixed and mobile wireless applications, and leveraging CalAmp's high volume manufacturing capabilities to gain production contracts with customers of the Solutions Division's product design and consulting engineering services. The Company's principal challenges include eliminating the operating losses in the Solutions Division and improving Product Division gross margins.

Basis of Presentation

The Company uses a 52-53 week fiscal year ending on the Saturday closest to February 28, which for fiscal years 2005, 2004 and 2003 fell on February 26, 2005, February 28, 2004 and March 1, 2003, respectively. In these consolidated financial statements, the fiscal year end for all years is shown as February 28 for clarity of presentation. Fiscal years 2005, 2004 and 2003 each consisted of 52 weeks.

Critical Accounting Policies

The Company's discussion and analysis of its financial condition and results of operations are based upon the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of sales and expenses during the reporting periods. Areas where significant judgments are made include, but are not limited to: allowance for doubtful accounts, inventory valuation, product warranties, the deferred tax asset valuation allowance, and the valuation of long-lived assets and goodwill. Actual results could differ materially from these estimates.

Allowance for Doubtful Accounts

The Company establishes an allowance for estimated bad debts based upon a review and evaluation of specific customer accounts identified as known and expected collection problems, based on historical experience, due to insolvency, disputes or other collection issues. As further described in Note 1 to the accompanying consolidated financial statements, the Company's customer base is quite concentrated, with two customers accounting for 60.5% of the Company's fiscal 2005 sales. Changes in either a key customer's financial position, or the economy as a whole, could cause actual write-offs to be materially different from the recorded allowance amount.

Inventories

The Company evaluates the carrying value of inventory on a quarterly basis to determine if the carrying value is recoverable at estimated selling prices. To the extent that estimated selling prices do not exceed the associated carrying values, inventory carrying amounts are written down. In addition, the Company generally treats inventory on hand or committed with suppliers, which is not expected to be sold within the next 12 months, as excess and thus appropriate write-downs of the inventory carrying amounts are established through a charge to cost of sales. Estimated usage in the next 12 months is based on firm demand represented by orders in backlog at the end of the quarter and management's estimate of sales beyond existing backlog, giving consideration to customers' forecasted demand, ordering patterns and product life cycles. Significant reductions in product pricing, or changes in technology and/or demand may necessitate additional write-downs of inventory carrying value in the future.

Product Warranties

The Company provides for the estimated cost of product warranties at the time revenue is recognized. While it engages in extensive product quality programs and processes, including actively monitoring and evaluating the quality of its component suppliers, the Company's warranty obligation is affected by product failure rates and material usage and service delivery costs incurred in correcting a product failure. Should actual product failure rates, material usage or service delivery costs differ from management's estimates, revisions to the estimated warranty liability would be required.

Deferred Income Tax Asset Valuation Allowance

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

During fiscal year 2003, the valuation allowance was reduced by $5,389,000, substantially all of which related to tax benefits associated with exercises of non-qualified stock options in prior years and was therefore recognized by increasing additional paid-in capital. This reduction of the valuation allowance in fiscal year 2003 exhausted that portion of the valuation allowance that was related to tax benefits from option exercises. During fiscal years 2004 and 2005, the deferred tax asset valuation allowance was further reduced by $1,405,000 and $630,000, respectively, which had the effect of reducing income tax expense by corresponding amounts in these respective years.

Vytek, which was acquired by the Company in April 2004, has tax loss carryforwards and other tax assets that the Company believes will be utilizable to some extent in the future, subject to change of ownership limitations pursuant to Section 382 of the Internal Revenue Code and to the ability of the combined post-merger company to generate sufficient taxable income to utilize the benefits before the expiration of the applicable carryforward periods. In the purchase price allocation described in Note 2 to the accompanying consolidated financial statements, $8,783,000 was the value assigned to Vytek's deferred tax assets, which is net of a valuation allowance of $1,892,000.

At February 28, 2005 the Company's net deferred income tax asset was $11,403,000, which amount is net of a valuation allowance of $1,892,000.

If in the future a portion or all of the $1,892,000 valuation allowance at February 28, 2005 is no longer deemed to be necessary, reductions of the valuation allowance will decrease the goodwill balance associated with the Vytek acquisition. Conversely, if in the future the Company were to change its realization probability assessment to less than 50%, the Company would provide an additional valuation allowance for all or a portion of the net deferred income tax asset, which would increase the income tax provision.

Valuation of Long-lived Assets and Goodwill

The Company accounts for long-lived assets other than goodwill in accordance with the provisions of Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment and Disposal of Long Lived Assets" ("SFAS 144"), which supersedes Statement of Financial Accounting Standards No. 121 and certain sections of Accounting Principles Board Opinion No. 30 specific to discontinued operations. SFAS 144 classifies long-lived assets as either: (1) to be held and used; (2) to be disposed of by other than sale; or (3) to be disposed of by sale. This standard introduces a probability-weighted cash flow estimation approach to address situations where alternative courses of action to recover the carrying amount of a long-lived asset are under consideration or a range is estimated for the amount of possible future cash flows. The Company has adopted this statement, which has not had a material impact on its financial position or results of operations. SFAS 144 requires, among other things, that an entity review its long-lived assets and certain related intangibles for impairment whenever changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable. During fiscal years 2005 and 2004, the Company recorded impairment writedowns of $241,000 and $739,000, respectively, on property and equipment which had become underutilized due to increased outsourcing to contract manufacturers.

The Company also adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" at the beginning of fiscal 2003. As a result, goodwill is no longer amortized, but is subject to a transitional impairment analysis and is tested for impairment on an annual basis, or more frequently as impairment indicators arise. The test for impairment involves the use of estimates related to the fair values of the business operations with which goodwill is associated and is usually based on projected cash flows or a market value approach.

As further described in Note 2 to the accompanying consolidated financial statements, the goodwill of $71,896,000 that resulted from the Vytek acquisition was apportioned on the basis of a valuation analysis between the Company's Products Division and Solutions Division because both of these reporting units are expected to benefit from the synergies of this business combination. This valuation analysis resulted in an apportionment of the Vytek acquisition goodwill to the Products Division and the Solutions Division in the amounts of $36,847,000 and $35,049,000, respectively.

As further described in Note 5 to the accompanying consolidated financial statements, the Company tested its Products Division goodwill for impairment as of December 31, 2004, which indicated that there was no impairment as of that date. The initial annual impairment test of the Solutions Division goodwill will be performed during the first quarter of fiscal 2006 using a testing date of April 30, 2005. Based on its most recent financial projections, and specifically on the improving trend of operating results that the Company expects for its Solutions Division in fiscal 2006 compared to fiscal 2005 as discussed further below under "Recent Developments", at the present time the Company does not believe that this fiscal 2006 first quarter impairment test will result in an impairment of the Solutions Division goodwill.

The Company believes the estimate of its valuation of long-lived assets and goodwill is a "critical accounting estimate" because if circumstances arose that led to a decrease in the valuation it could have a material impact on the Company's results of operations.

Recent Developments

Subsequent to February 28, 2005, the Company experienced a significant reduction in orders from the U.S. DBS service providers, which are the two key customers of its Products Division. Based on information obtained from these key customers, the Company believes that the primary reason for the decline in orders is that these key customers are adjusting their inventory holding levels. The Company believes that this is a temporary situation and does not, in management's judgment, represent a fundamental shift either in its market share or the DBS industry as a whole. The Company expects that this decline in orders will adversely affect sales and results of operations for the first quarter of fiscal 2006. The Company believes that its DBS business will improve in the fiscal 2006 second quarter as these two key customers reach their target inventory levels and resume normal ordering patterns.

The Company expects that the Solutions Division's operating loss in the fiscal 2006 first quarter will be reduced significantly from the operating loss of $2.1 million it incurred in the fourth quarter of fiscal 2005 as a result of continuing actions that are being taken to eliminate the losses in this division. It is a goal of the Company to bring this business into operating profitability by the fourth quarter of fiscal 2006.

Results of Operations, Fiscal Years 2003 Through 2005

The following table sets forth, for the periods indicated, the percentage of sales represented by items included in the Company's Consolidated Statements of Income:

	Year Ended February 28,		
	2005	2004	2003
Sales	100.0%	100.0%	100.0%
Cost of goods sold	81.2	86.3	79.5
Gross profit	18.8	13.7	20.5
Operating expenses:			
Research and development	3.8	4.2	6.0
Selling	2.9	1.8	2.6
General and administrative	5.2	3.1	3.8
Amortization of intangibles	0.8		
In-process research and development write-off	0.2	—	—
Operating income	5.9	4.6	8.1
Other expense, net	—	(0.2)	(0.2)
Income before income taxes	5.9	4.4	7.9
Income tax provision	(2.2)	—	(2.8)
Net income	3.7%	4.4%	5.1%

The Company's sales and gross profit by business segment for the last three years are as follows:

REVENUE BY SEGMENT

	Year Ended February 28,					
	2005		2004		2003	
Segment (Division)	$000s	% of Total	$000s	% of Total	$000s	% of Total
Products	$194,835	88.6%	$128,616	100.0%	$100,044	100.0%
Solutions	25,192	11.4%	—	—	—	—
Total	$220,027	100.0%	$128,616	100.0%	$100,044	100.0%

GROSS PROFIT BY SEGMENT

	Year Ended February 28,					
	2005		2004		2003	
Segment (Division)	$000s	% of Total	$000s	% of Total	$000s	% of Total
Products	$35,765	86.4%	$17,666	100.0%	$20,533	100.0%
Solutions	5,613	13.6%	—	—	—	—
Total	$41,378	100.0%	$17,666	100.0%	$20,533	100.0%

The Products Division generates substantially all of its revenue from the sale of outdoor reception equipment for use with subscription satellite television programming services. Such products accounted for approximately 95%, 93% and 87% of total Products Division revenues in fiscal years 2005, 2004 and 2003, respectively. The remaining portion of the Products Division revenue in these fiscal years was generated primarily from the sale of wireless access equipment.

Fiscal Year 2005 compared to Fiscal Year 2004

Revenue

Products Division revenue in fiscal 2005 increased $66,219,000, or 51%, over fiscal 2004, primarily as the result of increased unit sales of DBS reception equipment, specifically LNBFs. Sales of DBS products increased during fiscal 2005 in part because the Company began volume shipments of two new products in the fiscal 2005 third quarter in support of customers' multi-satellite and digital video recorder service offerings. The increasing availability of high-definition television programming and the introduction of set-top boxes with integrated digital video recorders is driving demand for increasingly complex DBS outdoor reception equipment that the Company supplies. These latest generation satellite products typically have higher average selling prices than earlier generation DBS outdoor reception products.

The Solutions Division revenue in fiscal 2005 represents the service operations of Vytek which was acquired effective April 12, 2004. The products manufacturing business of Vytek is included in the Products Division.

Gross Profit and Gross Margins

Products Division gross profit increased by $18,099,000, or 102%, in fiscal 2005 compared to fiscal 2004. Approximately one-half of the gross profit increase is attributable to the $66,219,000 increase in revenue in fiscal 2005, and the remaining gross profit increase is attributable to the year-over-year improvement in the gross margin percentage. The Products Division gross margin improved from 13.7% in fiscal 2004 to 18.4% in fiscal 2005.

The gross margin improvement in fiscal 2005 is due mainly to the fact that the Products Division gross margin during fiscal 2004 was adversely affected by quarter-to-quarter volatility in ordering patterns from the Company's two key customers. This demand volatility required the Company to make a rapid contraction in production capability in the fiscal 2004 first quarter, and a rapid expansion of production capability in the fiscal 2004 third quarter, all of which adversely affected manufacturing efficiencies and gross margins during fiscal 2004.

Fiscal 2005 gross profit and gross margin of the Solutions Division were $5,613,000 and 22.3%, respectively. During fiscal 2005 the Company took action to improve the cost structure and gross margins of the Solutions Division, and management expects that gross margins of this division will be higher in fiscal 2006.

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

Operating Expenses

Consolidated research and development ("R&D") expense increased by $2,957,000 to $8,320,000 in fiscal 2005 from $5,363,000 in fiscal 2004. This increase in R&D expense was primarily due to the inclusion of the operations of the Solutions Division (formerly known as Vytek) in fiscal 2005, which accounted for $2,133,000 or 72% of the increase. The remaining increase is primarily attributable to increased salaries and temporary labor expense ($522,000), increased incentive compensation expense ($99,000), and increased workers compensation insurance expense ($155,000).

Consolidated sales and marketing expenses increased by $4,061,000 in fiscal 2005 compared to fiscal 2004. Substantially all of this increase is attributable to the inclusion of the Solution Division's operations in fiscal 2005.

Consolidated general and administrative expense increased from $3,880,000 last year to $11,499,000 this year. The $7,619,000 increase is primarily explained by the inclusion of the Solutions Division's operations in fiscal 2005, which accounted for $5,848,000 of the increase. The remaining increase is attributable primarily to increased auditing and accounting fees ($584,000), increased incentive compensation expense ($272,000), increased legal expense ($260,000), increased salaries and wages expense ($176,000), increased recruiting fees ($106,000), increased consulting fees ($78,000), and the fact that the gain on sales of property and equipment, which is netted against G&A expense, was $115,000 less in fiscal 2005 compared to fiscal 2004.

Amortization expense of intangible assets in fiscal 2005 was $1,643,000, compared to $104,000 in fiscal 2004. This increase is attributable to the intangible assets arising from the acquisition of Vytek in April 2004. The write-off of in-process R&D of $471,000 in fiscal 2005 is also attributable to the Vytek acquisition.

Operating Income

Operating income was $13,048,000 and $5,983,000 during fiscal years 2005 and 2004, respectively. The increased profitability is attributable to the improvement in the satellite products portion of the Company's Products Division, as discussed above under the headings "Revenue" and "Gross Profit and Gross Margins".

Fiscal 2005 operating income of $13,048,000 is comprised of operating income of the Products Division of $25,316,000, an operating loss of the Solutions Division of $8,051,000, and unallocated corporate expenses of $4,217,000. The Company has taken recent steps to reduce the losses of the Solutions Division by strengthening the sales and marketing organization, by reducing overhead costs, and by making a leadership change. Management is closely monitoring the performance of this business unit with the objective of achieving profitable results for the Solutions Division as soon as possible.

Income Tax Provision

During fiscal years 2005 and 2004, the deferred tax asset valuation allowance was reduced by $630,000 and $1,405,000, respectively, which had the effect of reducing income tax expense by corresponding amounts in these respective years. The effective income tax rate was 37.5% and 0.5% in fiscal years 2005 and 2004, respectively. The increase in effective tax rate in fiscal 2005 is attributable primarily to the fact that the reduction in the valuation allowance in fiscal 2004 as a percentage of fiscal 2004 pretax income was significantly greater than the reduction in the valuation allowance in fiscal 2005 as a percentage of fiscal 2005 pretax income. In addition, the Company was able to utilize a greater amount of tax credits in fiscal 2004 compared to fiscal 2005.

Fiscal Year 2004 compared to Fiscal Year 2003

Sales

Substantially all of the Company's satellite product sales consist of outdoor reception equipment for the U.S. Direct Broadcast Satellite (DBS) industry. Sales of satellite products increased $32,563,000, or 37%, in fiscal 2004 from fiscal 2003. This increase resulted primarily from substantially higher customer orders in fiscal 2004 for the newer generation LNBFs, which have higher average selling prices compared to older LNBF products. Also, satellite product revenues in the second half of fiscal 2003 were depressed because of lower unit sales of LNBF products caused by a delay in obtaining customer acceptance of new product designs that were approved in the latter part of fiscal 2003's third quarter. A new LNBF product was introduced during fiscal 2004 which generated sales of $8.8 million. Also, the number of units sold in fiscal 2004 for all other LNBF products was approximately 13% higher than in fiscal 2003, and the average selling price of these other LNBF products increased by approximately 16% in fiscal 2004 compared to fiscal 2003.

Sales of non-satellite products in fiscal 2004 declined by $3,991,000, or 34%, from fiscal 2003. This decline resulted mainly because fiscal 2003's revenue included several large sales that were nonrecurring.

Gross Profit and Gross Margins

In fiscal 2004, gross profit on sales of satellite products declined by $1,286,000, or 7%, from fiscal 2003, and gross margin declined to 13.2% in fiscal 2004 from 19.5% in fiscal 2003. Despite the fact that satellite product sales in fiscal 2004 were 37% higher than in fiscal 2003, the quarter-to-quarter volatility of sales in fiscal 2004 was extreme, ranging from a low of $16.6 million in the first quarter and a high of $42.6 million in the third quarter. This volatility in fiscal 2004 sales, which resulted in similar volatility in manufacturing activity, was caused by rapid shifts in demand on the part of the two U.S. DBS system operators. This required the Company to make a rapid contraction in production capability in the fiscal 2004 first quarter, and a rapid expansion of production capability in the third quarter, all of which adversely affected manufacturing efficiencies and gross margins.

Also contributing to the declines in gross profit and gross margin for satellite products in fiscal 2004 were the effect of persistent competitive pricing pressures on certain satellite products and significantly higher freight costs incurred for the procurement of raw materials and subassemblies in the third quarter of fiscal 2004. In addition, included in satellite cost of sales for fiscal 2004 were asset impairment writedowns of $739,000 on property and equipment which had become underutilized due to increased outsourcing to contract manufacturers, and a lower of cost or market inventory writedown of $242,000.

Gross profit for non-satellite products decreased $1,581,000, or 48%, and gross margin for non-satellite products decreased to 22.3% in fiscal 2004 from 28.3% in fiscal 2003. The decline in gross profit was primarily due to the 34% year-over-year decrease in sales. The decline in gross margin in fiscal 2004 was also attributable to the decrease in sales of non-satellite products, which resulted in higher unabsorbed fixed overhead costs that are included in cost of sales.

Operating Expenses

Research and development expense decreased by $619,000, or 10%, from $5,982,000 in fiscal 2003 to $5,363,000 in fiscal 2004. The decline in R&D expense in fiscal 2004 is due in part to the cancellation, in the third quarter of fiscal 2003, of a product development contract for broadband wireless application specific integrated circuits (ASICs) because the market timing for large scale deployment of this technology was considered to be uncertain in the near-term future. This cancellation resulted in a reduction of approximately $345,000 in outside service expense in fiscal 2004. Also contributing to the decline in R&D expense in fiscal 2004 was lower salaries expense due to staffing reductions ($420,000).

Selling expense decreased by $224,000, or 9%, in fiscal 2004 to $2,336,000 from $2,560,000 in fiscal 2003. This decrease was primarily due to the fact that bad debts expense for fiscal 2003 included a charge of $258,000 to write down the carrying amount of an available-for-sale investment in common stock that had been received in fiscal 2002 in satisfaction of an accounts receivable balance from a customer that went through a legal reorganization.

General and administrative expense increased by $203,000 in fiscal 2004 compared to fiscal 2003. This increase was primarily due to the Company's relocation of its facilities in Ventura County, California during the fourth quarter of fiscal 2004. Expense incurred in connection with this relocation amounted to approximately $255,000.

Non-operating Expense, Net

Net non-operating expense increased by $28,000 from $215,000 in fiscal 2003 to $243,000 in fiscal 2004. This increase in net non-operating expense was primarily attributable to a decline in foreign currency gains from $97,000 in fiscal 2003 to $75,000 in fiscal 2004.

Income Taxes

The effective income tax rate was 0.5% and 35.5% in fiscal years 2004 and 2003, respectively. The decline in effective tax rate in fiscal 2004 was attributable primarily to the fact that, in fiscal 2004, reductions in the deferred tax asset valuation allowance had a corresponding impact on the income tax provision. Prior to fiscal 2004, reductions of the deferred tax asset valuation allowance were offset by increases in additional paid-in capital, and accordingly the effective income tax rate in fiscal 2003 was not impacted by reductions in the valuation allowance.

Liquidity and Capital Resources

The Company's primary sources of liquidity are its cash and cash equivalents, which amounted to $31,048,000 at February 28, 2005, and its $10 million working capital line of credit with a bank. During fiscal year 2004, cash and cash equivalents increased by $8,163,000. This net increase consisted of cash provided by operating activities of $12,536,000, proceeds from sale of property and equipment of $1,749,000, and proceeds from stock option exercises of $1,056,000, less cash used for capital expenditures of $2,359,000, net repayments of debt of $3,043,000 and cash used in the Vytek acquisition of $1,776,000.

Net cash provided by operating activities during fiscal 2005 was $12,536,000, comprised of $17,641,000 (net income of $8,076,000 after adjustment for non-cash items of $9,565,000) reduced by cash used in operating working capital of $5,105,000.

Cash was used by an increase in operating working capital during fiscal 2005 in the aggregate amount of $5,105,000, comprised of a $3,192,000 increase in accounts receivable, a $825,000 increase in inventories, a $1,237,000 decrease in accounts payable, and a decrease of $3,114,000 in accrued liabilities, partially offset by a $3,263,000 decrease in prepaid expenses and other assets.

The Company believes that inflation and foreign currency exchange rates did not have a material effect on its operations in fiscal 2005. The Company believes that fiscal 2006 will not be impacted significantly by foreign exchange since substantially all of the Company's sales are to U.S. markets, or to international markets where its sales are denominated in U.S. dollars.

At February 28, 2005 the Company had a $10 million working capital line of credit with a commercial bank that matures on August 3, 2006. Borrowings under this line of credit bear interest at LIBOR plus 1.75% or the bank's prime rate, and are secured by substantially all of the Company's assets. At February 28, 2005, $3 million was outstanding on this line of credit which is classified as long-term at that date. Also at that date, $3,674,000 was reserved under the line of credit for outstanding irrevocable stand-by letters of credit. The Company also has two term loans with this bank that had an aggregate outstanding principal balance of $7,465,000 at February 28, 2005, as further described in Note 6 to the consolidated financial statements.

The bank credit agreement that encompasses the working capital line of credit and the two bank term loans contains certain financial covenants and ratios that the Company is required to maintain, including a fixed charge coverage ratio of not less than 1.25, a current ratio of not less than 2.0, a leverage ratio of not more than 2.25, tangible net worth of at least $19,050,000 (such minimum amount increasing by $1 million annually beginning on March 1, 2003), cash and cash equivalents not less than $8 million, and net income of at least $1.00 in each fiscal year. The Company's bank credit agreement also prohibits payment of dividends without the prior written consent of the bank. At February 28, 2005 and 2004, the Company was in compliance with all such covenants. The bank credit agreement contains a subjective acceleration clause that enables the bank to call the loans in the event of a material adverse change (as defined in the credit agreement) in the Company's business. Based on the Company's history of profitable operations and positive operating cash flow over the past five years, and based on the Company's internal financial forecasts for the next year, the Company does not believe it is probable that the bank will assert the material adverse change clause in the next 12 months.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Contractual Obligations

Following is a summary of the Company's contractual cash obligations as of February 28, 2005 (in thousands):

	Payments Due by Period			
Contractual Obligations	Less Than 1 year	1–3 years	3–5 years	Total
Debt	$ 2,823	$ 7,642	$ —	$10,465
Capital leases	82	42	—	124
Operating leases	2,129	5,464	3,743	11,336
Purchase obligations	22,513	—	—	22,513
Total contractual cash obligations	$27,547	$13,148	$3,743	$44,438

Purchase obligations consist of obligations under non-cancelable purchase orders, primarily for inventory purchases of raw materials, components and subassemblies.

The Company believes that its cash on hand, its cash generated from operations and the amount available under its working capital line of credit, are collectively sufficient to support operations, fund capital equipment requirements and discharge contractual cash obligations.

New Authoritative Pronouncements

See Note 1 of the accompanying consolidated financial statements for a description of new authoritative accounting pronouncements either recently adopted or which had not yet been adopted by the Company as of the end of fiscal 2005.

Forward Looking Statements

Forward looking statements in this Form 10-K which include, without limitation, statements relating to the Company's plans, strategies, objectives, expectations, intentions, projections and other information regarding future performance, are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The words "may", "will", "could", "plans", "intends", "seeks", "believes", "anticipates", "expects", "estimates", "judgment", "goal", and variations of these words and similar expressions, are intended to identify forward-looking statements. These forward-looking statements reflect the Company's current views with respect to future events and financial performance and are subject to certain risks and uncertainties, including, without limitation, product demand, market growth, new competition, competitive pricing and continued pricing declines in the DBS market, supplier constraints, manufacturing yields, the ability to manage cost increases in inventory materials including raw steel, timing and market acceptance of new product introductions, new technologies, the Company's ability to eliminate operating losses in its Solutions Division and make this business segment profitable, and other risks and uncertainties that are set forth under the heading "Risk Factors" in the Company's registration statement on Form S-4 (number 333-112851) as filed with the Securities and Exchange Commission on February 13, 2004. Such risks and uncertainties could cause actual results to differ materially from historical results or those anticipated. Although the Company believes the expectations reflected in such forward-looking statements are based upon reasonable assumptions, it can give no assurance that its expectations will be attained. The Company undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's primary market risk exposure is interest rate risk. At February 28, 2005, the Company's term debt and credit facility with its bank are subject to variable interest rates. The Company monitors its debt and interest bearing cash equivalents levels to mitigate the risk of interest rate fluctuations. A fluctuation of one percent in interest rates would have an annual impact of approximately $100,000 net of tax on the Company's consolidated statement of operations.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of CalAmp Corp. is responsible for establishing and maintaining adequate internal control over financial reporting.

CalAmp Corp. management has assessed the effectiveness of the Company's internal control over financial reporting as of February 28, 2005. In making this assessment, management used criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control — Integrated Framework. Based on its assessment, management of CalAmp Corp. believes that, as of February 28, 2005, the Company's internal control over financial reporting is effective based on those criteria.

CalAmp Corp. acquired Vytek Corporation on April 12, 2004, and as permitted by the guidance issued by the Office of the Chief Accountant of the Securities and Exchange Commission, management excluded from its assessment of the effectiveness of CalAmp Corp.'s internal control over financial reporting as of February 28, 2005, Vytek Corporation's internal control over financial reporting associated with total assets of $82,663,000 and total revenues of $26,912,000 included in the consolidated financial statements of CalAmp Corp. and subsidiaries as of and for the year ended February 28, 2005.

KPMG LLP, the independent registered public accounting firm that audited the consolidated financial statements included in this Annual Report on Form 10-K for the fiscal year ended February 28, 2005, has issued an attestation report on management's assessment of the Company's internal control over financial reporting.

/s/ Richard K. Vitelle Richard Vitelle	VP Finance, Chief Financial Officer and Treasurer (principal accounting officer)
/s/ Fred M. Sturm Fred M. Sturm	President, Chief Executive Officer and Director (principal executive officer)

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
CalAmp Corp:

We have audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting, that CalAmp Corp. maintained effective internal control over financial reporting as of February 28, 2005, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Cal Amp Corp.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that CalAmp Corp. maintained effective internal control over financial reporting as of February 28, 2005, is fairly stated, in all material respects, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also, in our opinion, CalAmp Corp. maintained, in all material respects, effective internal control over financial reporting as of February 28, 2005, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

CalAmp Corp. acquired Vytek Corporation and subsidiaries ("Vytek") on April 12, 2004, and management excluded from its assessment of the effectiveness of CalAmp Corp.'s internal control over financial reporting as of February 28, 2005, Vytek's internal control over financial reporting associated with total assets of $82,663,000 and total revenues of $26,912,000 included in the consolidated financial statements of CalAmp Corp. and subsidiaries as of and for the year ended February 28, 2005. Our audit of internal control over financial reporting of CalAmp Corp. also excluded an evaluation of the internal control over financial reporting of Vytek.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of CalAmp Corp. and subsidiaries as of February 28, 2005 and 2004, and the related consolidated statements of income, stockholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended February 28, 2005, and our report dated May 5, 2005 expressed an unqualified opinion on those consolidated financial statements.

KPMG LLP

Los Angeles, California
May 5, 2005

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
CalAmp Corp.:

We have audited the accompanying consolidated balance sheets of CalAmp Corp. and subsidiaries as of February 28, 2005 and 2004, and the related consolidated statements of income, stockholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended February 28, 2005. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CalAmp Corp. and subsidiaries as of February 28, 2005 and 2004, and the results of their operations and their cash flows for each of the years in the three-year period ended February 28, 2005, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of CalAmp Corp.'s internal control over financial reporting as of February 28, 2005, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated May 5, 2005 expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

KPMG LLP

Los Angeles, California
May 5, 2005

CALAMP CORP.

CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT PAR VALUE)

	February 28, 2005	February 28, 2004
Assets		
Current assets:		
Cash	$ 31,048	$22,885
Accounts receivable, less allowance for doubtful accounts of $477 and $211 at February 28, 2005 and 2004, respectively	27,027	18,579
Inventories, net	21,465	20,253
Deferred income tax assets	6,118	2,404
Prepaid expenses and other current assets	2,876	3,244
Total current assets	88,534	67,365
Property, equipment and improvements, net of accumulated depreciation and amortization	5,383	5,358
Deferred income tax assets, less current portion	5,285	4,359
Goodwill	92,834	20,938
Other intangible assets, net	4,028	200
Other assets	691	399
	$196,755	$98,619
Liabilities and Stockholders' Equity		
Current liabilities:		
Current portion of long-term debt	$ 2,897	$ 3,603
Accounts payable	18,389	17,395
Accrued payroll and employee benefits	3,652	1,513
Other current liabilities	3,127	2,211
Deferred revenue	1,597	—
Total current liabilities	29,662	24,722
Long-term debt, less current portion	7,679	7,690
Other non-current liabilities	1,126	844
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $.01 par value; 3,000 shares authorized; no shares issued or outstanding	—	—
Common Stock, $.01 par value; 40,000 shares authorized; 22,714 and 14,910 shares issued and outstanding at February 28, 2005 and 2004, respectively	227	149
Additional paid-in capital	131,784	44,486
Less common stock held in escrow	(2,548)	—
Retained earnings	29,626	21,550
Accumulated other comprehensive loss	(801)	(822)
Total stockholders' equity	158,288	65,363
	$196,755	$98,619

See accompanying notes to consolidated financial statements.

CALAMP CORP.

CONSOLIDATED STATEMENTS OF INCOME
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	Year ended February 28,		
	2005	2004	2003
Revenues:			
Product sales	$200,098	$128,616	$100,044
Service revenues	19,929	—	—
Total revenues	220,027	128,616	100,044
Cost of revenues:			
Cost of product sales	163,154	110,950	79,511
Cost of service revenues	15,495	—	—
Total cost of revenues	178,649	110,950	79,511
Gross profit	41,378	17,666	20,533
Operating expenses:			
Research and development	8,320	5,363	5,982
Selling	6,397	2,336	2,560
General and administrative	11,499	3,880	3,685
Amortization of intangibles	1,643	104	96
In-process research and development write-off	471	—	—
Total operating expenses	28,330	11,683	12,323
Operating income	13,048	5,983	8,210
Non-operating expense:			
Other expense, net	(120)	(243)	(215)
Income before income taxes	12,928	5,740	7,995
Income tax provision	(4,852)	(26)	(2,835)
Net income	$ 8,076	$ 5,714	$ 5,160
Earnings per share:			
Basic	$ 0.38	$ 0.39	$ 0.35
Diluted	$ 0.36	$ 0.37	$ 0.35
Shares used in computing basic and diluted earnings per share:			
Basic	21,460	14,791	14,639
Diluted	22,193	15,390	14,870

See accompanying notes to consolidated financial statements.

CALAMP CORP.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME (IN THOUSANDS)

	Common Stock		Additional Paid-in Capital	Common Stock Held in escrow	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders Equity
	Shares	Amount					
Balances at February 28, 2002	13,630	$136	$ 27,569	$ —	$10,676	$(801)	$ 37,580
Net income and comprehensive income	—	—	—	—	5,160	—	5,160
Exercise of stock options	64	1	159	—	—	—	160
Issuances of common stock	1,051	10	10,074	—	—	—	10,084
Tax benefits from exercise of non-qualified stock options	—	—	5,639	—	—	—	5,639
Balances at February 28, 2003	14,745	147	43,441	—	15,836	(801)	58,623
Net income	—	—	—	—	5,714	—	5,714
Unrealized loss on available-for-sale investments	—	—	—	—	—	(21)	(21)
Comprehensive income							5,693
Exercise of stock options	165	2	615	—	—	—	617
Tax benefits from exercise of non-qualified stock options	—	—	430	—	—	—	430
Balances at February 28, 2004	14,910	149	44,486	—	21,550	(822)	65,363
Net income	—	—	—	—	8,076	—	8,076
Change in unrealized loss on available-for-sale investments	—	—	—	—	—	21	21
Comprehensive income							8,097
Issuance of common stock for Vytek acquisition	8,123	81	91,090	(9,624)	—	—	81,547
Cancellation of escrow shares	(628)	(6)	(7,070)	7,076	—	—	—
Fair value of options and warrants assumed in acquisition	—	—	1,837	—	—	—	1,837
Exercise of stock options	309	3	1,053	—	—	—	1,056
Tax benefits from exercise of non-qualified stock options	—	—	388	—	—	—	388
Balances at February 28, 2005	22,714	$227	$131,784	$(2,548)	$29,626	$(801)	$158,288

See accompanying notes to consolidated financial statements.

CALAMP CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	Year ended February 28,		
	2005	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 8,076	$ 5,714	$ 5,160
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	4,340	3,400	3,669
Write-off of in-process research and development	471		
Property and equipment impairment writedowns	241	739	—
Gain on sale of equipment	(76)	(227)	(157)
Increase in equity associated with tax benefit from exercise of stock options	388	430	5,639
Deferred tax assets, net	4,201	(233)	(2,950)
Changes in operating assets and liabilities:			
Accounts receivable	(3,192)	(2,351)	(7,834)
Inventories	(825)	(7,391)	(2,360)
Prepaid expenses and other assets	3,263	(573)	(61)
Accounts payable	(1,237)	5,842	5,840
Accrued liabilities	(3,114)	744	(1,467)
NET CASH PROVIDED BY OPERATING ACTIVITIES	12,536	6,094	5,479
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures	(2,359)	(3,693)	(1,670)
Proceeds from sale of property and equipment	1,749	2,201	327
Acquisition of Kaul-Tronics	—	—	(16,534)
Acquisition of Vytek, net of cash acquired	(1,776)	—	—
NET CASH USED IN INVESTING ACTIVITIES	(2,386)	(1,492)	(17,877)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from long-term debt	2,000	1,000	12,000
Debt repayments	(5,043)	(5,281)	(971)
Proceeds from exercise of stock options	1,056	617	160
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(1,987)	(3,664)	11,189
Net change in cash and cash equivalents	8,163	938	(1,209)
Cash and cash equivalents at beginning of year	22,885	21,947	23,156
Cash and cash equivalents at end of year	$31,048	$22,885	$ 21,947

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Description of Business

CalAmp Corp. ("CalAmp" or the "Company"), formerly known as California Amplifier, Inc., designs, manufactures and markets microwave equipment used in the reception of television programming transmitted from satellites and wireless terrestrial transmission sites, and two-way transceivers used for wireless high-speed Internet (broadband) service. The Company's principal business is the design and sale of outdoor reception equipment used in the U.S. Direct Broadcast Satellite ("DBS") subscription television market.

On April 12, 2004, the Company completed the acquisition of Vytek Corporation ("Vytek"), a privately held company. The operations of Vytek are included in the Company's consolidated financial statements since that date. Effective with the acquisition of Vytek, the Company realigned its operations into a divisional structure. The legacy operations of CalAmp, previously segregated into the Satellite and Wireless Access business units, were combined together with Vytek's products manufacturing business into a new Products Division. The operations of Vytek, which are principally service oriented, comprise the Company's Solutions Division.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company (a Delaware corporation) and its two wholly-owned subsidiaries, California Amplifier SARL (a French corporation) and CalAmp Solutions Holdings, Inc. (formerly known as Vytek Corporation). All significant intercompany transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Areas where significant judgments are made include, but are not limited to: allowance for doubtful accounts, inventory valuation, product warranties, deferred income tax asset valuation allowances, and valuation of long-lived assets and goodwill. Actual results could differ materially from these estimates.

Fiscal Year

The Company uses a 52-53 week fiscal year ending on the Saturday closest to February 28, which for fiscal years 2005, 2004 and 2003 fell on February 26, 2005, February 28, 2004 and March 1, 2003, respectively. In these consolidated financial statements, the fiscal year end for all years is shown as February 28 for clarity of presentation. Fiscal years 2005, 2004 and 2003 each consisted of 52 weeks.

Revenue Recognition

The Company's Products Division recognizes revenue from product sales when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed and determinable and collection of the sales price is probable. Generally, these criteria are met at the time product is shipped, except for shipments made on the basis of "FOB Destination" terms, in which case title transfers to the customer and the revenue is recorded by the Company when the shipment reaches the customer. Customers do not have rights of return except for defective products returned during the warranty period.

NOTE 1 — DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenues of the Company's Solutions Division consist of the sales of hardware products, software and software maintenance, and services. Product revenues of the Solutions Division are generally recognized upon shipment of goods, except that some product revenues associated with systems design and engineering contracts are recognized on the percentage of completion method principally utilizing labor costs to measure the extent of progress toward completion.

The Company generally licenses its software pursuant to multiple element arrangements that include maintenance. Where no significant obligations remain, software license revenue is recognized upon delivery of the software provided collection is considered probable, the fee is fixed or determinable, there is evidence of an arrangement and vendor specific objective evidence exists to allocate the total fee to the elements of the arrangement.

Revenues from maintenance and software support services, which includes upgrades, are generally collected before the services are performed and are recognized ratably over the period of the services. The Company's software maintenance arrangements do not contain specific upgrade rights.

Service revenues are recognized as the services are rendered, provided that no significant obligations remain and collection of the receivable is probable. Generally, contracts for services call for billings on a time and material basis; however, in instances when a fixed-fee contract is signed, revenue is recognized on a percentage of completion basis. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined.

In accordance with Emerging Issues Task Force Issue No. 00-10, "Accounting for Shipping and Handling Fees and Costs", the Company includes shipping and handling fees billed to customers as sales. Shipping and handling fees included in revenues for fiscal years 2005, 2004 and 2003 were $239,000, $345,000 and $574,000, respectively.

Concentrations of Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of money market instruments and trade receivables. The Company currently invests its excess cash in money market mutual funds managed by or affiliated with its U.S. commercial bank. The Company had cash and cash equivalents in one U.S. bank in excess of federally insured amounts. Cash and cash equivalents in U.S. and foreign banks are as follows (in thousands):

	February 28,	
	2005	2004
U.S. banks	$28,149	$22,280
Foreign banks	2,899	605
	$31,048	$22,885

Because the Company sells into markets dominated by a few large service providers, a significant percentage of consolidated revenues and consolidated accounts receivable relate to a small number of customers. Revenues from customers which accounted for 10% or more of consolidated annual revenues in any one of the last three years, as a percent of consolidated revenues, are as follows:

	Year ended February 28,		
Customer	2005	2004	2003
A	43.4%	39.4%	43.8%
B	17.1%	22.9%	9.8%

NOTE 1 — DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounts receivable amounts at fiscal year-end from the customers referred to in the table above, expressed as a percent of consolidated net accounts receivable, are as follows:

	February 28,	
Customer	2005	2004
A	49.8%	49.4%
B	25.2%	22.0%

Allowance for Doubtful Accounts

The Company establishes an allowance for estimated bad debts based upon a review and evaluation of specific customer accounts identified as known and expected collection problems, based on historical experience, due to insolvency, disputes or other collection issues.

Inventories

Inventories include costs of materials, labor and manufacturing overhead. Inventories are stated at the lower of cost or net realizable value, with cost determined principally by the use of the first-in, first-out method.

Investments

The Company classifies investments in one of three categories: trading, available-for-sale or held-to-maturity. Trading securities are bought and held principally for the purpose of selling them in the near term. Held-to-maturity securities are those securities that the Company has the ability and intent to hold until maturity. All other securities not included in trading or held-to-maturity are classified as available-for-sale.

Held-to-maturity securities are recorded at amortized cost, adjusted for the amortization or accretion of premiums or discounts. Unrealized holding gains and losses on trading securities are included in earnings. Unrealized holding gains and losses, net of the related tax effect, on available-for-sale securities are excluded from earnings and are reported as a component of accumulated other comprehensive income until realized, or until holding losses are deemed to be permanent, at which time an impairment charge is recorded.

At February 28, 2004, the Company had no trading or held-to-maturity investments. Its sole available-for-sale investment, acquired in connection with the settlement during fiscal year 2002 of a former customer's outstanding accounts receivable balance, had a carrying value of $24,000 at February 28, 2004 and is included in prepaid expenses and other current assets in the accompanying balance sheet at that date. The Company recorded an impairment charge of $258,000 on this investment during fiscal 2003, which is included in selling expenses in the accompanying consolidated statement of income because the investment asset had been initially recorded in fiscal 2002 with an offsetting reduction of bad debts expense, which is also classified as a selling expense. During fiscal 2004, the Company sold a portion of this investment, which generated net cash proceeds of $29,000. At February 28, 2004, the Company had an unrealized holding loss of $21,000 for this available-for-sale investment that was carried as a component of accumulated other comprehensive loss. This loss of $21,000 was realized in fiscal 2005 upon the sale of the investment. At February 28, 2005, the Company had no investments.

Property, equipment and improvements

Property, equipment and improvements are stated at cost. The Company follows the policy of capitalizing expenditures that increase asset lives, and charging ordinary maintenance and repairs to operations, as incurred. When assets are sold or disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is included in operating income.

NOTE 1 — DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Depreciation and amortization are based upon the estimated useful lives of the related assets using the straight-line method. Plant equipment and office equipment are depreciated over useful lives ranging from two to five years, while tooling is depreciated over 18 months. Leasehold improvements are amortized over the shorter of the lease term or the useful life of the improvements.

Operating Leases

Rent expense under operating leases is recognized on a straight-line basis over the lease term. The difference between the rent expense and the rent payment is recorded as a deferred rent liability.

The Company accounts for tenant allowances in lease agreements as a deferred rent liability. The liability is then amortized on a straight-line basis over the lease term as a reduction of rent expense.

The deferred rent liability is included in other current liabilities and other non-current liabilities in the accompanying consolidated balance sheets.

Goodwill

Goodwill represents the excess of purchase price and related costs over the value assigned to the net tangible assets and identifiable intangible assets of businesses acquired. Through the end of fiscal 2002, goodwill was amortized on a straight-line basis over 15 years. As a result of adopting Statement of Financial Accounting Standards No. 142, “Accounting for Goodwill and Intangible Assets” at the beginning of fiscal 2003, goodwill is no longer being amortized. Instead, goodwill is tested for impairment on an annual basis and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount.

Accounting for Long-Lived Assets Other Than Goodwill

The Company reviews property and equipment and other long-lived assets other than goodwill for impairment whenever events or changes in circumstances indicate that the carrying amounts of an asset may not be recoverable. Recoverability is measured by comparison of the asset’s carrying amount to the undiscounted future net cash flows an asset is expected to generate. If an asset is considered to be impaired, the impairment to be recognized is measured by the amount at which the carrying amount of the asset exceeds the projected discounted future cash flows arising from the asset.

Disclosures About Fair Value of Financial Instruments

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

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

Long-term debt — The carrying value approximates fair value since the interest rate on the long-term debt approximates the interest rate which is currently available to the Company for the issuance of debt with similar terms and maturities.

Warranty

The Company warrants its products against defects over periods ranging from 3 to 24 months. An accrual for estimated future costs relating to products returned under warranty is recorded as an expense when products are shipped. At the end of each quarter, the Company adjusts its liability for warranty claims based on its actual warranty

NOTE 1 — DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

claims experience as a percentage of revenues for the preceding three years. See Note 10 for a table of annual increases in and reductions of the warranty liability for the last three years.

Deferred Income Tax Assets

Deferred income tax assets reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. A deferred income tax asset is recognized if realization of such asset is more likely than not, based upon the weight of available evidence which includes historical operating performance and the Company's forecast of future operating performance. The Company evaluates the realizability of its deferred income tax assets on a quarterly basis, and a valuation allowance is provided, as necessary, in accordance with the provisions of Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes". During this evaluation, the Company reviews its forecasts of income in conjunction with the positive and negative evidence surrounding the realizability of its deferred income tax assets to determine if a valuation allowance is needed.

Foreign Currency Translation and Accumulated Other Comprehensive Loss Account

Prior to February 1, 2002, the Company's French subsidiary used the local currency as its functional currency. The local currency was the French franc until January 1, 2002 and the Euro beginning on that date. The financial statements of the French subsidiary were translated into U.S. dollars using current or historical exchange rates, as appropriate, with translation gains or losses included in the accumulated other comprehensive loss account in the stockholders' equity section of the consolidated balance sheet.

In connection with the conversion of the French subsidiary's local currency from the French franc to the Euro, effective January 1, 2002, the Company evaluated which currency, the Euro or the U.S. dollar, was best suited to be used as the functional currency. On the basis of this evaluation, management determined that the functional currency should be changed from the Euro to the U.S. dollar, and this change was made effective February 1, 2002. As a result of this change, the foreign currency translation account balance of $801,000 included in accumulated other comprehensive loss will remain unchanged until such time as the French subsidiary ceases to be part of the Company's consolidated financial statements. No income tax expense or benefit has been allocated to this component of accumulated other comprehensive loss because the Company expects that undistributed earnings of this foreign subsidiary will be reinvested indefinitely.

The aggregate foreign exchange gains included in determining income before income taxes were $35,000, $75,000 and $97,000 in fiscal 2005, 2004 and 2003, respectively.

Earnings Per Share

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

Accounting for Stock Options

As allowed by Statement of Financial Accounting Standards No. 123 ("SFAS 123"), the Company has elected to continue to measure compensation cost under Accounting Principles Board Opinion No. 25, "Accounting for

NOTE 1 — DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Stock Issued to Employees" ("APB No. 25") and comply with the pro forma disclosure requirements of SFAS 123, as set forth in Note 8.

The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS 123 to stock-based employee compensation (in thousands except per share amounts):

	Year ended February 28,		
	2005	2004	2003
Net income as reported	$ 8,076	$ 5,714	$ 5,160
Less total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(1,647)	(2,672)	(2,681)
Pro forma net income	$ 6,429	$ 3,042	$ 2,479
Earnings per share:			
Basic —			
As reported	$.38	$.39	$.35
Pro forma	$.30	$.21	$.17
Diluted —			
As reported	$.36	$.37	$.35
Pro forma	$.29	$.20	$.17

Recent Authoritative Pronouncements

In November 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 151, "Inventory Costs, an amendment of ARB No. 43, Chapter 4" ("SFAS 151"). SFAS 151 clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). SFAS 151 requires that those items be recognized as current-period charges regardless of whether they meet the criterion of "so abnormal". In addition, it requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. SFAS 151 is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. Earlier application is permitted. The Company plans to adopt SFAS 151 at the beginning of its fiscal 2007. The Company believes that SFAS 151, when adopted, will not have a significant impact on its financial position or results of operations.

In December 2004, the FASB issued Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123R"). SFAS 123R requires companies to recognize in the income statement the grant-date fair value of stock options and other equity-based compensation issued to employees. SFAS 123R eliminates the ability to account for share-based compensation transactions using APB Opinion No. 25, "Accounting for Stock Issued to Employees". The Company will be required to adopt SFAS 123R at the beginning of its fiscal 2007. The Company believes that the adoption of SFAS 123R could have a material impact on the amount of earnings it reports in fiscal 2007. The Company has not yet determined the specific impact that adoption of this standard will have on its financial position or results of operations.

Reclassifications

The accompanying consolidated financial statements for fiscal 2004 contain certain reclassifications to conform with the presentation used in fiscal 2005. Specifically, in the fiscal 2004 consolidated statement of cash flows, a $1,000,000 reimbursement from the landlord for the cost of leasehold improvements made to the Company's leased headquarters facility was reclassified from cash flows from investing activities to cash flows from operating

NOTE 1 — DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

activities. And in the February 28, 2004 consolidated balance sheet, property, equipment and improvements was increased by $977,000 with a corresponding increase in deferred rent. Of the deferred rent amount, $133,000 was included in other current liabilities and $844,000 was included in other non-current liabilities at February 28, 2004.

NOTE 2 — VYTEK ACQUISITION

On April 12, 2004, the Company acquired Vytek Corporation, a privately held company headquartered in San Diego, California, pursuant to an acquisition agreement entered into and announced on December 23, 2003. The transaction was approved by the stockholders of both companies during special meetings held on April 8, 2004.

Vytek is a provider of technology integration solutions involving a mix of professional services and proprietary software and hardware products, serving the needs of enterprise customers and original equipment manufacturers. This acquisition was motivated primarily by the strategic goals of increasing the Company's presence in markets which offer higher growth and profit margin potential, and diversifying the Company's business and customer base beyond its current dependence on the two major U.S. DBS system operators.

Pursuant to the acquisition agreement, the Company issued approximately 8,123,400 shares of common stock as the purchase consideration, of which 854,700 shares were originally placed into an escrow account and approximately 7,268,700 shares were issued to the selling shareholders of Vytek. The Company also assumed all unexercised Vytek stock options and stock purchase warrants that were outstanding at the time of the merger.

For purchase accounting purposes, the fair market value per share used to value the 7,268,700 shares issued to the Vytek selling stockholders was $11.26 per share, which was the average closing price of the Company's common stock on the NASDAQ National Market for the period beginning two trading days before and ending two trading days after December 23, 2003, the day that the merger terms were agreed to and announced. Also for purchase accounting purposes, the fair value of the Vytek options and warrants assumed by the Company in the merger was calculated using the Black-Scholes option pricing model. The fair value of options and warrants assumed was estimated using the Black-Scholes option pricing model with an interest rate of 3.3%, a dividend yield of 0%, a volatility factor of 134.8%, and an expected life of 5 years in the case of stock options and 2.25 years to 9.25 years in the case of warrants.

The Company entered into an escrow agreement with a designated representative of the selling stockholders of Vytek and an independent escrow agent. Under the terms of the escrow agreement, the 854,700 shares of the CalAmp's common stock deposited into the escrow account were to serve as security for potential indemnity claims by the Company under the acquisition agreement. The acquisition agreement provided that in the event Vytek's balance sheet as of the acquisition date reflected working capital (as defined in the acquisition agreement) of less than $4 million, then CalAmp could recover such deficiency from the escrow account (the "Working Capital Adjustment"). On November 19, 2004, the Company and the selling stockholders of Vytek reached an agreement on the final Working Capital Adjustment of $4,907,000, which equated to 628,380 shares of CalAmp's common stock based on its average share price (as defined in the acquisition agreement). These 628,380 shares were canceled and were returned to the status of authorized, unissued shares. As of February 28, 2005, there were 226,320 shares of CalAmp's common stock remaining in the escrow account. Subject to any claims by the Company for indemnification, except for an amount equal in value to $2 million, all shares of the Company's common stock in the escrow account will be released to the selling stockholders of Vytek, in accordance with their pro rata interests, 15 months after the April 12, 2004 closing date. All remaining shares of the Company's common stock, if any, in the escrow account will be released to the Vytek selling stockholders two years after the April 12, 2004 closing date, subject to any then pending and unresolved claims for indemnification.

NOTE 2 — VYTEK ACQUISITION (Continued)

Following is the calculation of the recorded value of common stock issued and options and warrants assumed in the Vytek acquisition (in thousands, except per share amounts):

	Issued to sellers	Deposited to escrow account	Total
Number of common shares issued	7,268.7	854.7	8,123.4
Escrow shares canceled	—	(628.4)	(628.4)
Shares issued net of cancellation	7,268.7	226.3	7,495.0
Fair market value per share	$ 11.26	$ 11.26	$ 11.26
Value of shares issued	$ 81,847	$ 2,548	$ 84,395
Less stock registration costs	(300)	—	(300)
Fair value of shares issued net of registration costs	81,547	2,548	84,095
Fair value of fully vested Vytek options and warrants assumed by CalAmp	1,837	—	1,837
Recorded value of common shares issued and assumed options and warrants	$ 83,384	$ 2,548	$ 85,932

The common shares deposited to the escrow account are, for accounting purposes, treated as contingent consideration, and accordingly are excluded from the purchase price determination until such time as the shares are issued to the sellers from the escrow account.

Following is the purchase price allocation for the Vytek acquisition (in thousands):

Recorded value of common stock issued to sellers and assumed options and warrants (excluding shares deposited to escrow account)			$83,384
Direct costs of acquisition including legal, accounting and financial advisory fees			2,630
Total cost of Vytek acquisition (excluding common stock held in the escrow account)			86,014
Fair value of net assets acquired:			
Current assets		$ 8,341	
Property and equipment		1,185	
Intangible assets:			
Developed/core technology	$3,349		
Customer lists	1,127		
Contracts backlog	845		
In-process research and development	471		
Total intangible assets		5,792	
Deferred tax assets, net		8,783	
Other assets		2,124	
Current liabilities		(11,811)	
Long-term liabilities		(296)	
Total fair value of net assets acquired			14,118
Goodwill			$71,896

Factors that contributed to a purchase price that resulted in the recognition of goodwill include the following: (i) CalAmp's core satellite products business is heavily dependent on just two key customers, and it was believed that the Vytek acquisition would provide CalAmp with both customer diversification and the opportunity to expand

NOTE 2 — VYTEK ACQUISITION (Continued)

into product markets that offer higher long-term growth potential; (ii) the acquisition was expected to provide the opportunity for certain operational cost efficiencies for the combined organization; (iii) Vytek, through its roll-up strategy, had acquired seven operating companies from April 2000 through April 2003, and CalAmp believed that acquiring Vytek would accelerate its expansion into the wireless product vertical markets served by Vytek's various operating units; (iv) Vytek is primarily a provider of professional design and engineering services, and consequently it had a relatively small amount of net tangible assets at the time of the acquisition by CalAmp; and (v) CalAmp's stock price increased significantly immediately following the announcement of the merger agreement on December 23, 2003, which increased the value ascribed to the common stock shares issued, and the resultant goodwill, by approximately $17 million.

Another motivating factor for the acquisition of Vytek was the belief that CalAmp and Vytek had complementary strengths — CalAmp's radio frequency (RF) engineering expertise, high volume manufacturing capability, leadership position as a supplier of microwave reception and transmission equipment and strong balance sheet, with Vytek's hardware and software design expertise for wireless access and mobile computing solutions, diversified customer base arrayed across a number of vertical markets, and a larger, more geographically dispersed sales and marketing force.

Concurrent with the acquisition, CalAmp realigned its operations into a divisional structure in which the Company's existing satellite products and wireless access products businesses were combined, together with Vytek's products manufacturing business, into a new Products Division. The remainder of Vytek's operations, consisting of revenues generated by professional engineering services and the development of software applications, comprise the Solutions Division.

The goodwill of $71,896,000 that resulted from the Vytek acquisition was apportioned between the Company's two reporting units (the Products Division and the Solutions Division) because both reporting units are expected to benefit from the synergies of the merger. An independent valuation specialist was engaged to perform this goodwill apportionment analysis. The Company provided the valuation specialist with (i) Vytek's financial forecasts that existed at the time of the acquisition in April 2004, and (ii) management's estimate of the incremental revenue and profits expected to be generated by the Products Division reporting unit that are attributable to the business combination synergies. The valuation specialist then segregated the projected cash flows between those associated with the Products Division reporting unit and those associated with the Solutions Division reporting unit. The cash flows attributable to the Products Division reporting unit in this valuation analysis did not include any revenues, profits or cash flows associated with CalAmp's legacy satellite products and wireless access businesses. Residual values were then calculated to estimate the earnings of the businesses beyond the forecast period. Next, the present values of the forecasted cash flows and residual values for each reporting unit were determined through a discounted cash flow analysis to arrive at the fair value of the acquired business segregated into the two reporting units. From these fair value amounts the valuation specialist subtracted the fair value of the identifiable net assets acquired to arrive at the goodwill amounts for each reporting unit. This process resulted in an apportionment of the total Vytek acquisition goodwill to the Products Division and the Solutions Division in the amounts of $36,847,000 and $35,049,000, respectively.

NOTE 2 — VYTEK ACQUISITION (Continued)

Following is a table that summarizes the results of the process described in the preceding paragraph by which the Vytek acquisition goodwill was assigned to the Company's two reporting units (in thousands):

	Reporting Unit		
	Products Division	Solutions Division	Total
Fair value of acquired business	$36,064	$49,949	$86,013
Less fair value of identifiable net assets acquired:			
Deferred income tax assets, net	(244)	(8,539)	(8,783)
Identifiable intangible assets	—	(5,792)	(5,792)
Other	1,027	(569)	458
Goodwill	$36,847	$35,049	$71,896

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

The $471,000 allocated to in-process research and development in the purchase price allocation above was charged to expense immediately following the acquisition. At the acquisition date, the Company was expected to incur approximately $300,000 to complete the in-process technology.

The following is supplemental pro forma information presented as if the acquisition of Vytek had occurred at the beginning of each of the respective periods (in thousands):

	Year Ended February 28, 2005		Year Ended February 28, 2004	
	As reported	Pro forma	As reported	Pro forma
Revenues	$220,027	$224,188	$128,616	$176,484
Net income	$ 8,076	$ 7,293	$ 5,714	$ (4,196)
Earnings per share:				
Basic	$ 0.38	$ 0.32	$ 0.39	$ (0.19)
Diluted	$ 0.36	$ 0.31	$ 0.37	$ (0.19)

The pro forma adjustments for the year ended February 28, 2005 consist of adding Vytek's estimated results of operations for the six weeks ended April 12, 2004, because Vytek is included in the "As reported" amounts for the 46 week period from the April 12 acquisition date to February 28, 2005.

The pro forma adjustments for the year ended February 28, 2004 consist of adding Vytek's results of operations for the twelve months ended March 31, 2004.

NOTE 3 — INVENTORIES

Inventories consist of the following (in thousands):

	February 28,	
	2005	2004
Raw materials	$17,680	$11,671
Work in process	676	417
Finished goods	3,109	8,165
	$21,465	$20,253

NOTE 4 — PROPERTY, EQUIPMENT AND IMPROVEMENTS

Property, equipment and improvements consist of the following (in thousands):

	February 28,	
	2005	2004
Buildings and improvements	$ 1,344	$ 1,220
Plant equipment and tooling	14,619	15,493
Office equipment, computers and furniture	4,657	3,077
	20,620	19,790
Less accumulated depreciation and amortization	(15,237)	(14,432)
	$ 5,383	$ 5,358

NOTE 5 — GOODWILL AND OTHER INTANGIBLE ASSETS

As a result of adopting SFAS 142 at the beginning of fiscal 2003, the Company no longer records amortization on goodwill. Instead, goodwill is tested periodically for impairment. The change in the carrying amount of goodwill is as follows (in thousands):

Balance as of February 28, 2004	$20,938
Goodwill acquired in April 2004 (Note 2)	71,896
Balance as of February 28, 2005	$92,834

The goodwill balance of $20,938,000 at February 28, 2004 is associated entirely with the Products Division. As described further in Note 2, the $71,896,000 goodwill amount arising from the Vytek acquisition was allocated to the Company's Products Division and Solutions Division in the amounts of $36,847,000 and $35,049,000, respectively, based on the relative benefits that were expected to be derived from the acquisition.

Impairment tests of goodwill associated with the Products Division are conducted annually as of December 31. These tests, conducted as of December 31, 2004, 2003 and 2002, indicated that there was no impairment of Products Division goodwill as of those dates. The Company used a discounted cash flow approach to estimate the fair value of the Products Division in these impairment tests. The initial annual impairment test of the Solutions Division goodwill balance will be performed during the first quarter of fiscal 2006 using a testing date of April 30, 2005.

NOTE 5 — GOODWILL AND OTHER INTANGIBLE ASSETS (Continued)

Intangible assets are comprised as follows (in thousands):

		February 28, 2005			February 28, 2004		
	Amortization Period	Gross Carrying Amount	Accum. Amortization	Net	Gross Carrying Amount	Accum. Amortization	Net
Developed/core technology	5 yrs.	$3,349	$ 592	$2,757	$ —	$ —	$ —
Customer lists	5 yrs.	1,127	199	928	—	—	—
Contracts backlog	1 yr.	845	748	97	—	—	—
Covenants not to compete	4.1 yrs.	400	304	96	400	200	200
Licensing right	2 yrs.	200	50	150	—	—	—
		$5,921	$1,893	$4,028	$400	$200	$200

All intangible assets in the table above resulted from the acquisition of Vytek in April 2004 except for the covenants not to compete and licensing rights. The covenants not to compete arose from the acquisition of the satellite dish manufacturing business of Kaul-Tronics in April 2002. The licensing right which was acquired by the Solutions Division in September 2004 is being amortized to cost of revenues.

Amortization expense of intangible assets was $1,693,000, $104,000 and $96,000 for the years ended February 28, 2005, 2004 and 2003, respectively.

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

2006	$1,187,000
2007	$ 945,000
2008	$ 895,000
2009	$ 895,000
2010	$ 106,000

NOTE 6 — FINANCING ARRANGEMENTS AND CONTRACTUAL CASH OBLIGATIONS

Working capital line of credit

At February 28, 2005, the Company had a $10 million working capital line of credit with a commercial bank. The maturity date of the line of credit is August 3, 2006. Borrowings under this line of credit bear interest at LIBOR plus 1.75% or the bank's prime rate, and are secured by substantially all of the Company's assets. At February 28, 2005, $3 million was outstanding on this line of credit which is classified as long-term at that date. Also at that date, $3,674,000 was reserved under the line of credit for outstanding irrevocable stand-by letters of credit.

NOTE 6 — FINANCING ARRANGEMENTS AND CONTRACTUAL CASH OBLIGATIONS (Continued)

Long-term Debt

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

	February 28,	
	2005	2004
Bank term loan payable, interest floating at LIBOR plus 1.75% or bank prime rate, principal due in monthly installments of $86 through August 2006	$ 1,362	$ 2,390
Bank term loan payable, interest floating at LIBOR plus 1.75% or bank prime rate, principal due in monthly installments of $150 through April 2008	6,103	7,903
Bank working capital line of credit	3,000	1,000
Capital lease obligations	111	—
Total debt	10,576	11,293
Less portion due within one year	(2,897)	(3,603)
Long-term debt	$ 7,679	$ 7,690

The bank credit agreement that encompasses the working capital line of credit and the two bank term loans contains certain financial covenants and ratios that the Company is required to maintain, including a fixed charge coverage ratio of not less than 1.25, a current ratio of not less than 2.0, a leverage ratio of not more than 2.25, tangible net worth of at least $19,050,000 (such minimum amount increasing by $1 million annually beginning on March 1, 2003), cash and cash equivalents not less than $8 million, and net income of at least $1.00 in each fiscal year. At February 28, 2005 and 2004, the Company was in compliance with all such covenants.

The bank credit agreement contains a subjective acceleration clause that enables the bank to call the loans in the event of a material adverse change (as defined in the credit agreement) in the Company's business. Based on the Company's history of profitable operations and positive operating cash flow over the past five years, and based on the Company's internal financial forecasts for the next year, the Company does not believe it is probable that the bank will assert the material adverse change clause in the next 12 months.

Contractual Cash Obligations

Following is a summary of the Company's contractual cash obligations as of February 28, 2005 (in thousands):

	Future Cash Payments Due by Fiscal Year						
Contractual Obligations	2005	2006	2007	2008	2009	Thereafter	Total
Debt	$ 2,823	$5,139	$1,800	$ 703	$ —	$ —	$10,465
Capital leases	82	34	8	—	124		
Operating leases	2,129	1,783	1,821	1,860	1,939	1,804	11,336
Purchase obligations	22,513	—	—	—	—	—	22,513
Total contractual cash obligations	$27,547	$6,956	$3,629	$2,563	$1,939	$1,804	$44,438

Purchase obligations consist of obligations under non-cancelable purchase orders, primarily for inventory purchases of raw materials, components and subassemblies.

Rent expense under operating leases was $2,363,000, $929,000 and $760,000 for fiscal years 2005, 2004 and 2003, respectively.

NOTE 7 — INCOME TAXES

The Company's income before income taxes consists of the following (in thousands):

	Year ended February 28,		
	2005	2004	2003
Domestic	$13,089	$5,649	$7,642
Foreign	(161)	91	353
	$12,928	$5,740	$7,995

The tax provision consists of the following (in thousands):

	Year ended February 28,		
	2005	2004	2003
Current:			
Federal	$ 185	$ (49)	$ 59
State	200	1	79
Foreign	(121)	(124)	(57)
Total current	264	(172)	81
Deferred:			
Federal	2,940	245	(2,395)
State	1,202	(477)	(490)
Total deferred	4,142	(232)	(2,885)
Charge in lieu of taxes attributable to tax benefit from employee stock options	446	430	5,639
	$4,852	$ 26	$ 2,835

Differences between the income tax provision and income taxes computed using the statutory federal income tax rate are as follows (in thousands):

	Year ended February 28,		
	2005	2004	2003
Income tax at statutory federal rate (34%)	$4,395	$ 1,952	$2,718
State income taxes, net of federal income tax effect	800	193	106
Foreign taxes	(66)	(155)	(176)
Valuation allowance	(630)	(1,405)	505
Tax credits	—	(517)	(264)
Extraterritorial income exclusion	(15)	(14)	(68)
In-process research and development	160		
Other, net	208	(28)	14
	$4,852	$ 26	$2,835

NOTE 7 — INCOME TAXES (Continued)

The components of the net deferred income tax asset at February 28, 2005 and 2004 are as follows (in thousands):

	February 28,	
	2005	2004
Inventory reserve	$ 720	$ 221
Allowance for doubtful accounts	189	84
Warranty reserve	120	63
Compensation and vacation accruals	117	121
Depreciation	(150)	(274)
Goodwill amortization	(1,641)	(1,099)
Capitalized R&D cost amortization	303	400
Net operating loss carryforward	10,627	2,876
Research and development credits	2,668	2,803
Financial accounting basis of net assets of acquired companies different than tax basis	(1,673)	—
Other tax credits	1,861	1,803
Other, net	154	395
	13,295	7,393
Valuation allowance	(1,892)	(630)
	11,403	6,763
Less current portion	(6,118)	(2,404)
Non-current portion	$ 5,285	$ 4,359

At February 28, 2005, the Company has net operating loss carryforwards ("NOLs") of approximately $37.7 million and $19 million for federal and state purposes, respectively. The federal NOLs expire at various dates through fiscal 2023, and the state NOLs expire at various dates through fiscal 2012.

As of February 28, 2005, the Company had foreign tax credit carryforwards of $633,000 expiring at various dates through 2013, research and development tax credit carryforwards of $1,839,000 and $1,257,000 for federal and state income tax purposes, respectively, expiring at various dates through 2023, and manufacturing investment credit carryforwards of $809,000 for state income tax purposes expiring at various dates through 2012.

During fiscal year 2003, the deferred tax asset valuation allowance was reduced by $5,389,000, substantially all of which related to tax benefits associated with exercises of non-qualified stock options in prior years and was therefore recognized by increasing additional paid-in capital. This reduction of the valuation allowance in fiscal 2003 exhausted that portion of the valuation allowance that was related to tax benefits from option exercises. In fiscal 2004, on the basis of management's updated assessment of the future realizability of the deferred tax assets, the valuation allowance was further reduced by $1,405,000, which had the effect of reducing the income tax provision by a corresponding amount. At February 28, 2004 the Company's net deferred income tax asset was $6,763,000, which amount was net of a valuation allowance of $630,000. The Company reversed the valuation allowance of $630,000 in fiscal 2005 based on its assessment that the deferred tax assets would be realized in the future. As of February 28, 2005, the valuation allowance was $1,892,000 pertaining to the deferred tax assets acquired from Vytek.

The Company has not provided withholdings and U.S. federal income taxes on approximately $211,000 of undistributed earnings of its foreign subsidiaries because such earnings are or will be reinvested indefinitely in such subsidiaries or will be approximately offset by credits for foreign taxes paid. It is not practical to determine the U.S. federal income tax liability, if any, that would be payable if such earnings were not reinvested indefinitely.

NOTE 8 — STOCKHOLDERS' EQUITY

Stock Options

Effective July 30, 2004, the Company adopted the 2004 Incentive Stock Plan which replaced the Company's 1999 Stock Option Plan. Beginning on such date, the 1999 Stock Option Plan became frozen and stock options can no longer be granted under this plan. The 1989 Key Employee Stock Option Plan expired in May 1999 and no additional options may be granted under this plan. Under the 2004 Plan, stock options can be granted at prices not less than 100% of the fair market value at the date of grant. Option grants become exercisable on a vesting schedule established by the Compensation Committee of the Board of Directors at the time of grant, usually over a four-year period.

The following table summarizes the option activity for fiscal years 2005, 2004 and 2003 (in thousands except dollar amounts):

	Number of Options	Weighted Average Option Price
Outstanding at February 28, 2002	2,204	$11.17
Granted	341	5.22
Exercised	(64)	2.53
Canceled	(169)	11.44
Outstanding at February 28, 2003	2,312	$10.51
Granted	534	6.95
Exercised	(165)	3.73
Canceled	(103)	14.46
Outstanding at February 28, 2004	2,578	$10.05
Granted	762	9.44
Assumed in Vytek acquisition	149	42.87
Exercised	(309)	3.41
Canceled	(536)	18.25
Outstanding at February 28, 2005	2,644	$10.46

NOTE 8 — STOCKHOLDERS' EQUITY (Continued)

Options outstanding at February 28, 2005 and related weighted average price and life information is as follows:

Range of Exercise Prices	Total Options Outstanding	Weighted Average Remaining Life (Years)	Total Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercise Price
$ 0.12	24,474(a)	8.6	$ 0.12	24,474	$ 0.12
1.75 – 1.88	112,500	4.0	1.80	112,500	1.80
2.06 – 2.76	137,000	3.0	2.20	137,000	2.20
3.16 – 4.99	813,050	6.3	3.99	569,050	4.22
5.00 – 7.95	837,313	7.7	6.43	317,063	5.67
8.00 – 10.88	70,000	4.2	8.91	70,000	8.91
12.25 – 14.76	288,500	9.0	14.17	46,750	14.71
15.75 – 19.88	81,000	5.3	19.52	81,000	19.52
20.19 – 27.44	33,000	5.1	25.15	33,000	25.15
39.38 – 40.00	108,000	5.0	39.97	108,000	39.97
40.66 – 50.56	107,138	5.1	45.03	107,138	45.03
50.80 – 304.67	31,871(a)	6.4	70.61	31,871	70.61
$ 0.12 – $304.67	2,643,846	6.6	$10.46	1,637,846	$12.10

(a) These outstanding fully-vested options were assumed by CalAmp in the Vytek acquisition, as further discussed in Note 2.

CalAmp also assumed outstanding warrants in the Vytek acquisition. These warrants entitle the holders to purchase CalAmp's common stock aggregating 48,289 with exercise prices ranging from $0.12 to $34.54 per share.

Excluding the options and warrants assumed in the Vytek acquisition, the weighted average fair value for stock options granted by CalAmp in fiscal years 2005, 2004 and 2003 was $8.06, $6.15 and $4.48, respectively.

The number of stock options available for grant under the 2004 Incentive Stock Plan at February 28, 2005 was 2,797,500.

As permitted by SFAS 123, the Company continues to apply the accounting rules of APB No. 25 governing the recognition of compensation expense for options granted under its stock option plans. Such accounting rules measure compensation expense on the first date at which both the number of shares and the exercise price are known. Under the Company's plans, this would typically be the grant date. To the extent that the exercise price equals or exceeds the market value of the stock on the grant date, no expense is recognized. As options are generally granted at exercise prices not less than the market value on the date of grant, no compensation expense is recognized under this accounting treatment in the accompanying consolidated statements of income. The Company will be required to adopt SFAS 123R, which requires the expensing of stock options, at the beginning of its fiscal 2007. See discussion under Recent Authoritative Pronouncements in Note 1.

NOTE 8 — STOCKHOLDERS' EQUITY (Continued)

The fair value of options at date of grant was estimated using the Black-Scholes option pricing model with the following assumptions:

	Year ended February 28,		
	2005	2004	2003
Expected life (years)	5	5	5
Dividend yield	0%	0%	0%
Interest	3.3%–4.8%	2.6%–3.1%	3.5%–4.0%
Volatility	135%–136%	133%–135%	97%–133%

The estimated stock-based compensation cost calculated using the assumptions indicated totaled $2,648,000, $3,686,000 and $4,155,000 in fiscal 2005, 2004, and 2003, respectively.

Preferred Stock Purchase Rights

At February 28, 2005, 14,909,512 preferred stock purchase rights are outstanding. Each right may be exercised to purchase one-hundredth of a share of Series A Participating Junior Preferred Stock at a purchase price of $50 per right, subject to adjustment. The rights may be exercised only after commencement or public announcement that a person (other than a person receiving prior approval from the Company) has acquired or obtained the right to acquire 20% or more of the Company's outstanding common stock. The rights, which do not have voting rights, may be redeemed by the Company at a price of $.01 per right within ten days after the announcement that a person has acquired 20% or more of the outstanding common stock of the Company. In the event that the Company is acquired in a merger or other business combination transaction, provision shall be made so that each holder of a right shall have the right to receive that number of shares of common stock of the surviving company which at the time of the transaction would have a market value of two times the exercise price of the right. 750,000 shares of Series A Junior Participating Cumulative Preferred Stock, $.01 par value, are authorized.

NOTE 9 — EARNINGS PER SHARE

Following is a summary of the calculation of basic and diluted weighted average shares outstanding for fiscal 2005, 2004 and 2003 (in thousands):

	Year ended February 28,		
	2005	2004	2003
Weighted average shares:			
Weighted average number of common shares outstanding	21,460	14,791	14,591
Weighted average number of shares issuable for legal settlement	—	—	48
Basic weighted average number of common shares outstanding	21,460	14,791	14,639
Effect of dilutive securities:			
Stock options	632	599	231
Shares held in escrow	101	—	—
Diluted weighted average number of common shares outstanding	22,193	15,390	14,870

Outstanding stock options in the amount of 836,000, 1,220,000 and 1,128,000 at February 28, 2005, 2004 and 2003, respectively, which had exercise prices ranging from $7.95 to $304.67, $3.69 to $50.56 and $4.95 to $50.56, respectively, were not included in the computation of diluted earnings per share for the years then ended because

NOTE 9 — EARNINGS PER SHARE (Continued)

the exercise price of these options was greater than the average market price of the common stock and accordingly the effect of inclusion would be antidilutive.

In connection with the acquisition of Vytek, 226,320 shares of common stock are being held in an escrow account to satisfy any claims by the Company for indemnification as further described in Note 2 herein. These shares held in escrow have been excluded from the basic weighted average number of common shares outstanding. However, the dilutive impact of these shares has been included in the diluted weighted average number of common shares outstanding for the year ended February 28, 2005.

NOTE 10 — OTHER FINANCIAL INFORMATION

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

	Year ended February 28,		
	2005	2004	2003
Interest paid	$462	$ 527	$588
Income taxes paid (net refunds received)	$ 78	$(170)	$262

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

	Year ended February 28,		
	2005	2004	2003
Issuance of common stock and assumption of stock options and warrants as consideration for acquisition of Vytek Corporation, net of common stock held in escrow	$83,384	$ —	$ —
Issuance of common stock as partial consideration for acquisition of Kaul-Tronics	$ —	$ —	$6,054
Issuance of common stock to reduce accrued liability	$ —	$ —	$4,030

Valuation and Qualifying Accounts and Reserves

Following is the Company's schedule of valuation and qualifying accounts and reserves for the last three years (in thousands):

	Balance at beginning of period	Charged (credited) to costs and expenses	Deductions	Others	Balance at end of period
Allowance for doubtful accounts:					
Fiscal 2003	$417	$ (96)	$ (48)	$ —	$273
Fiscal 2004	273	34	(96)	—	211
Fiscal 2005	211	192	(236)	310(1)	477
Warranty reserve:					
Fiscal 2003	$376	$396	$(281)	$ —	$491
Fiscal 2004	491	164	(496)	—	159
Fiscal 2005	159	234	(514)	867(1)	746

(1) These represent amounts of allowances and reserves pertaining to the assets acquired from Vytek.

NOTE 11 — COMMITMENTS AND CONTINGENCIES

The Company leases the building that houses its corporate office, Products Division offices and manufacturing plant in Oxnard, California under an operating lease that expires June 30, 2011. The lease agreement requires the Company to pay all maintenance, property taxes and insurance premiums associated with the building. In addition, the Company's Products Division leases small facilities in Minnesota and France. The Company's Solutions Division leases offices in California, Virginia, New Jersey and New York. The Company also leases certain manufacturing equipment and office equipment under operating lease arrangements. A summary of future operating lease commitments is included in the contractual cash obligations table in Note 6.

NOTE 12 — LEGAL PROCEEDINGS

Investigation by the Securities and Exchange Commission:

In May 2001, the Securities and Exchange Commission ("SEC") opened an investigation into the circumstances surrounding the misstatements in the Company's consolidated financial statements for its 2000 and 2001 fiscal years caused by its former controller. In April 2004, the SEC concluded its investigation and issued a cease and desist order directing the Company to not violate federal securities laws in the future.

Property lease lawsuit and cross-complaint

On May 21, 2004, the Company was served with a lawsuit filed by the owner of a building in Camarillo, California that was formerly used as the Company's corporate offices and principal manufacturing plant under a 15-year lease agreement that expired on February 28, 2004. The building owner contends that it is owed approximately $500,000 for damages to the premises allegedly caused by the Company. In May 2004, the Company filed a cross-complaint, seeking payment by the building owner of approximately $180,000 in deposits and other amounts which the Company believes it is owed. In March 2005, the lawsuit and the cross-complaint were voluntarily withdrawn, and since that time the parties have been attempting to mediate the dispute. If the mediation fails to resolve the dispute, the parties have agreed in writing to submit the matter to binding arbitration. The Company believes that the ultimate resolution of this matter will not have a material adverse effect on the Company's financial position or results of operations.

NOTE 13 — SEGMENT AND GEOGRAPHIC DATA

Information by business segment is as follows:

	Year Ended February 28, 2005				Year Ended February 28, 2004			
	Operating Segments				Operating Segments			
	Products Division	Solutions Division	Corporate	Total	Products Division	Solutions Division	Corporate	Total
Revenues:								
Products	$194,835	$ 5,263		$200,098	$128,616	$ —		$128,616
Services	—	19,929		19,929	—	—		—
Total	$194,835	$25,192		$220,027	$128,616	$ —		$128,616
Gross profit:								
Products	$ 35,765	$ 1,179		$ 36,944	$ 17,666	$ —		$ 17,666
Services	—	4,434		4,434	—	—		—
Total	$ 35,765	$ 5,613		$ 41,378	$ 17,666	$ —		$ 17,666
Gross margin:								
Products	18.4%	22.4%		18.5%	13.7%	—		13.7%
Services	—	22.2%		22.2%	—	—		—
Total	18.4%	22.3%		18.8%	13.7%	—		13.7%
Operating income (loss)	$ 25,316	$ (8,051)	$(4,217)	$ 13,048	$ 8,112	$ —	$(2,129)	$ 5,983
Identifiable assets	$150,996	$45,759	$ —	$196,755	$ 98,619	$ —	$ —	$ 98,619

	Year Ended February 28, 2003			
	Operating Segments			
	Products Division	Solutions Division	Corporate	Total
Revenues:				
Products	$100,044	$ —		$100,044
Services	—	—		—
Total	$100,044	$ —		$100,044
Gross profit:				
Products	$ 20,533	$ —		$ 20,533
Services	—	—		—
Total	$ 20,533	$ —		$ 20,533
Gross margin:				
Products	20.5%	—		20.5%
Services	—	—		—
Total	20.5%	—		20.5%
Operating income (loss)	$ 10,559	$ —	$(2,349)	$ 8,210
Identifiable assets	$ 89,597	$ —	$ —	$ 89,597

Product revenue of the Solutions Division represents primarily hardware that is bundled with software applications.

Included in cost of revenues for Products Division during the year ended February 28, 2004 were impairment writedowns of $739,000 on property and equipment which had become underutilized due to increased outsourcing to contract manufacturers. These impairment writedowns had an adverse impact of 0.6% on Products gross margin in fiscal 2004.

NOTE 13 — SEGMENT AND GEOGRAPHIC DATA (Continued)

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

The Company does not have significant long-lived assets outside the United States.

The Company's revenues were derived mainly from customers in the United States, which represented 97%, 96% and 91% of consolidated revenues in fiscal 2005, 2004 and 2003, respectively. No other country's customers accounted for more than 4% of revenues in any of these years.

NOTE 14 — QUARTERLY FINANCIAL INFORMATION (unaudited)

The following summarizes certain quarterly statement of income data for each of the quarters in fiscal years 2005 and 2004 (in thousands, except percentages and per share data):

	Fiscal 2005				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Revenues	$44,997	$50,827	$57,066	$67,137	$220,027
Gross profit	8,301	10,324	10,299	12,454	41,378
Gross margin	18.4%	20.3%	18.0%	18.6%	18.8%
Net income	1,309	1,746	1,787	3,234	8,076
Net income per diluted share	0.07	0.08	0.08	0.14	0.36

	Fiscal 2004				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Revenues	$18,566	$24,197	$44,248	$41,605	$128,616
Gross profit	1,306	3,200	6,734	6,426	17,666
Gross margin	7.0%	13.2%	15.2%	15.4%	13.7%
Net income (loss)	(1,102)	390	3,452	2,974	5,714
Net income (loss) per diluted share	(0.07)	0.03	0.22	0.18	0.37

NOTE 15 — SUBSEQUENT EVENT

On April 18, 2005, the Company acquired the business and certain assets of Skybility, a privately held company located in Carlsbad, California, pursuant to an Asset Purchase Agreement dated April 18, 2005 (the "Agreement"). Skybility is a developer and supplier of embedded cellular transceivers used in telemetry and asset tracking applications that operate on the Global System for Mobile Communications (GSM) network and the Advanced Mobile Phone Service (AMPS) network. During calendar 2004, Skybility had unaudited revenues of approximately $9 million with a gross margin of approximately 30%. The Skybility business, which has 17 employees, became part of the Company's Products Division.

NOTE 15 — SUBSEQUENT EVENT (Continued)

The Company acquired the business of Skybility, its inventory, fixed assets, intellectual property, tradename and other intangible assets. No liabilities were assumed in the acquisition. Pursuant to the Agreement, the Company made an initial cash payment of $4,829,000 and agreed to make a future cash payment (the "Earn-out Payment"). The formula for the Earn-out Payment is as follows:

Net sales during the 12-month period ending 4/18/06 ("Earn-out Period")	Earn-out Payment
Less than $10 million	None
$10 million or more but not more than $13 million	50% of gross profit on all net sales during the Earn-out Period
More than $13 million but not more than $20 million	75% of gross profit on all net sales during the Earn-out Period
$20 million or more	75% of gross profit on the first $20 million of net sales during the Earn-out Period

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

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

Internal Control Over Financial Reporting

There have been no significant changes in the Company's internal control over financial reporting that occurred during the Company's most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting. See "Management's Report on Internal Control Over Financial Reporting" and "Report of Independent Registered Public Accounting Firm" preceding the Company's consolidated financial statements.

ITEM 9B. OTHER INFORMATION

On May 4, 2005, the Company entered into indemnification agreements with each of its directors and executive officers. The indemnification agreements, which were approved by the Board of Directors, provide that the Company must indemnify the director or officer in the event that the director or officer is involved in any threatened, pending, or completed action, suit or other proceeding, whether civil, criminal, administrative, legislative, investigative or any, by reason of the director's or officer's relationship with the Company, against all expenses (as defined in the indemnification agreements), liability and loss (including attorneys' fees, judgments, fines, ERISA excise and other taxes penalties and amounts paid or to be paid in settlement) reasonably incurred or suffered by such person in connection therewith. Each indemnification agreement also provides for the Company to advance all expenses incurred in advance of the final disposition of such proceeding so long as the director or officer delivers an undertaking to repay all amounts advanced if it should be determined that such person is not entitled to the payment of such expenses. The Company also must maintain directors' and officers' liability insurance in reasonable amounts unless the Company makes a good faith determination that the premium costs for such insurance are disproportionate to the amount of coverage provided.

On May 4, 2005, the Company's Board of Directors, upon the recommendation of the Compensation Committee, approved fiscal 2005 bonus payments to its named executive officers in the following amounts: Fred Sturm, President and Chief Executive Officer, $183,600; Patrick Hutchins, President — Products Division, $178,800; Steven L'Heureux, President — Solutions Division, $25,000; and Richard Vitelle, Vice President Finance and Chief Financial Officer, $106,600.

On May 4, 2005, the Company's Board of Directors, upon the recommendation of the Compensation Committee, approved new annual base salaries for Messrs. Sturm, Hutchins and Vitelle in the amounts of $400,000, $260,000 and $260,000, respectively, retroactive to March 1, 2005, the beginning of fiscal 2006.

On May 4, 2005, the Company's Board of Directors, upon the recommendation of the Compensation Committee, established the target and maximum bonuses and performance goals under the fiscal 2006 executive officer incentive compensation plan for Messrs. Sturm, Hutchins, L'Heureux and Vitelle. Mr. Sturm is eligible for target and maximum bonuses of up to 80% and 130%, respectively, of his annual salary. Messrs. Hutchins, L'Heureux and Vitelle are each eligible for target bonuses of up to 60% of annual salary, and maximum bonuses of up to 100% of annual salary. The target and maximum bonuses for Messrs. Sturm and Vitelle are based on the Company's fiscal 2006 consolidated pretax income. The target and maximum bonuses for Mr. Hutchins are based 70% on Products Division fiscal 2006 operating income and 30% on fiscal 2006 consolidated pretax income. The target and maximum bonuses for Mr. L'Heureux are based 70% on Solutions Division fiscal 2006 operating income and 30% on fiscal 2006 consolidated pretax income.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information about executive officers is included in Part I, Item 1 of this Annual Report on Form 10-K.

The following information is included in the Company's definitive proxy statement for the Annual Meeting of Stockholders to be held on August 2, 2005 and is incorporated herein by reference:

- Information regarding directors of the Company who are standing for reelection.
- Information regarding the Company's Audit Committee and designated "audit committee financial experts".
- Information on the Company's "Code of Business Conduct and Ethics" for directors, officers and employees.

ITEM 11. EXECUTIVE COMPENSATION

The information under the caption "Executive Compensation" in the Company's definitive proxy statement for the Annual Meeting of Stockholders to be held on August 2, 2005 is incorporated herein by reference and made a part hereof.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information under the caption "Security Ownership of Certain Beneficial Owners and Management" in the Company's definitive proxy statement for the Annual Meeting of Stockholders to be held on August 2, 2005 is incorporated herein by reference and made a part hereof.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information contained under the caption "Certain Relationships and Related Transactions" in the Company's definitive proxy statement for the Annual Meeting of Stockholders to be held on August 2, 2005 is incorporated herein by reference and made a part hereof.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information contained under the caption "Independent Registered Public Accounting Firm" in the Company's definitive proxy statement for the Annual Meeting of Stockholders to be held on August 2, 2005 is incorporated herein by reference and made a part hereof.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as part of this Report:

1. **All Financial Statements**	**Form 10-K Page No.**
Report of Independent Registered Public Accounting Firm	21
Consolidated Balance Sheets	23
Consolidated Statements of Income	24
Consolidated Statements of Stockholders' Equity and Comprehensive Income	25
Consolidated Statements of Cash Flows	26
Notes to Consolidated Financial Statements	27

2. **Financial Statements Schedules:**

Financial statement schedules are either not applicable, not required or the information required to be set forth therein is included in the Consolidated Financial Statements or Notes thereto included in this report.

3. **Exhibits**

Exhibits required to be filed as part of this report are:

Exhibit Number **Description**

2.1 Asset Purchase Agreement dated April 5, 2002 between and among the Company, Kaul-Tronics, Inc., NGP, Inc., and Interactive Technologies International, LLC (incorporated by reference to Exhibit 2.1 of the Company's Current Report on Form 8-K dated April 5, 2002).

2.2 Agreement and Plan of Merger and Reorganization dated December 23, 2003 between the Company and Vytek Corporation (incorporated by reference to Exhibit 2.1 of the Company's Registration Statement No. 333-112851 on Form S-4).

3.1 Amended and Restated Certificate of Incorporation reflecting the change in the Company's name to CalAmp Corp. and the increase in authorized common stock from 30 million to 40 million shares (incorporated by reference to Exhibit 3.1 of the Company's Report on Form 10-Q for the period Ended August 31, 2004).

3.2 Bylaws of the Company (filed herewith).

4.1 Amended and Restated Rights Agreement, amended and restated as of September 5, 2001, by and between Registrant and Mellon Investor Services LLC, as Rights Agent (incorporated by reference to Exhibit 4.1 of the Company's Current Report on Form 8-K filed on September 6, 2001).

4.2 Registration Rights agreement dated February 11, 2004, as Exhibit H to the Agreement and Plan of Merger and Reorganization dated December 23, 2003 among the Registrant, Mobile Acquisition Sub, Inc., Vytek Corporation, and James E. Ousley, as Stockholder Representative (incorporated by reference to Exhibit 2.1 of the Registrant's Registration Statement on Form S-4 filed on February 13, 2004).

Exhibit Number	Description
10.	Material Contracts:
(i)	Other than Compensatory Plan or Arrangements:
10.1	Building lease dated June 10, 2003 between the Company and Sunbelt Enterprises for a facility in Oxnard, California (incorporated by reference to Exhibit 10-1 filed with the Company's Report on Form 10-Q for the quarter ended May 31, 2003).
10.2	Loan and Security Agreement by and between the Company and U.S. Bank National Association dated May 2, 2002 (incorporated by reference to Exhibit 10.6 of the Company's Annual Report on Form 10-K for the year ended February 28, 2002).
10.2.1	Amendment No. 1 dated April 3, 2003 to the Loan and Security Agreement between the Company and U.S. Bank National Association dated May 2, 2002 (incorporated by reference to Exhibit 10-2 filed with the Company's Report on Form 10-Q for the quarter ended May 31, 2003).
10.2.2	Amendment No. 2 dated July 3, 2003 to the Loan and Security Agreement between the Company and U.S. Bank National Association dated May 2, 2002 (incorporated by reference to Exhibit 10-2 filed with the Company's Report on Form 10-Q for the quarter ended May 31, 2003).
10.2.3	Amendment No. 3 dated January 5, 2004 to the Loan and Security Agreement between the Company and U.S. Bank National Association dated May 2, 2002 (incorporated by reference to Exhibit 10.5.3 filed with Company's Annual Report on Form 10-K for the year ended February 28, 2004).
10.2.4	Amendment No. 4 dated February 27, 2004 to the Loan and Security Agreement between the Company and U.S. Bank National Association dated May 2, 2002 (incorporated by reference to Exhibit 10.5.4 filed with Company's Annual Report on Form 10-K for the year ended February 28, 2004).
10.2.5	Amendment No. 5 dated November 23, 2004 to the Loan and Security Agreement between the Company and U.S. Bank National Association dated May 2, 2002 (incorporated by reference to Exhibit 10.1 filed with Company's Report on Form 10-Q for the quarter ended November 30, 2004).
10.3	Form of Directors and Officers Indemnity Agreement (filed herewith)
(ii)	Compensatory Plans or Arrangements required to be filed as Exhibits to this Report pursuant to Item 15 (b) of this Report:
10.4	1989 Key Employee Stock Option Plan (incorporated by reference to Exhibit 4.4 of the Company's Registration Statement No. 33-31427 on Form S-8).
10.4.1	Amendment No. 1 to the 1989 Key Employee Stock Option Plan (incorporated by reference to Exhibit 4.7 of the Company's Registration Statement No. 33-36944 on Form S-8).
10.4.2	Amendment No. 2 to the 1989 Key Employee Stock Option Plan (incorporated by reference to Exhibit 4.8 of the Company's Registration Statement No. 33-72704 on Form S-8).
10.4.3	Amendment No. 3 to the 1989 Key Employee Stock Option Plan (incorporated by reference to Exhibit 4.10 of the Company's Registration Statement No. 33-60879 on Form S-8).
10.5	The 1999 Stock Option Plan (incorporated by reference to Exhibit 4.1 of the Company's Registration Statement No. 333-93097 on Form S-8).
10.6	CalAmp Corp. 2004 Stock Incentive Plan approved by stockholders at the 2004 annual meeting on July 30, 2004 (incorporated by reference to Exhibit 10.2 of the Company's Report on Form 10-Q for the period ended August 31, 2004).
10.7	Vytek Wireless, Inc. 2000 Stock Option Plan, as amended (incorporated by reference to Exhibit 10.14 of the Company's Registration Statement on Form S-4 as filed February 13, 2004).

Exhibit Number	Description
10.8	Employment Agreement between the Company and Patrick Hutchins dated May 31, 2002 (incorporated by reference to Exhibit 10.6 filed with Company's Annual Report on Form 10-K for the year ended February 28, 2004).
10.9	Employment Agreement between the Company and Fred Sturm dated May 31, 2002 (incorporated by reference to Exhibit 10.7 filed with Company's Annual Report on Form 10-K for the year ended February 28, 2004).
10.10	Employment Agreement between the Company and Richard Vitelle dated May 31, 2002 (incorporated by reference to Exhibit 10.9 filed with Company's Annual Report on Form 10-K for the year ended February 28, 2004).
10.11	Employment Letter Agreement between CalAmp Corp. and Steven A. L'Heureux effective December 13, 2004 (incorporated by reference to Exhibit 10.2 filed with Company's Report on Form 10-Q for the quarter ended November 30, 2004).
21	Subsidiaries of the Registrant.
23	Consent of Independent Registered Public Accounting Firm.
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Each management contract or compensatory plan or arrangement required to be filed as an exhibit to this form is filed as part of Item 15(a)(3)Exhibits and specifically identified as such.

(c) Other Financial Statement Schedules. None

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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, on May 5, 2005.

CALAMP CORP.

By: /s/ Fred M. Sturm
Fred M. Sturm
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Richard Gold Richard Gold	Chairman of the Board of Directors	May 5, 2005
/s/ Arthur Hausman Arthur Hausman	Director	May 5, 2005
/s/ A.J. Moyer A.J. Moyer	Director	May 5, 2005
/s/ James Ousley James Ousley	Director	May 5, 2005
/s/ Frank Perna, Jr. Frank Perna, Jr.	Director	May 5, 2005
/s/ Thomas Ringer Thomas Ringer	Director	May 5, 2005
/s/ Fred M. Sturm Fred M. Sturm	President, Chief Executive Officer and Director (principal executive officer)	May 5, 2005
/s/ Richard Vitelle Richard Vitelle	VP Finance, Chief Financial Officer and Treasurer (principal accounting officer)	May 5, 2005

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CalAmp Corp.

Directors, Executive Officers and Other Corporate Information

Board of Directors

Richard Gold, Chairman of the Board
Managing Director, InnoCal Venture Capital

Fred Sturm
President and Chief Executive Officer
CalAmp Corp.

Arthur Hausman
Private Investor and
Chairman Emeritus of the Board
Ampex Corporation

A.J. "Bert" Moyer
Business Consultant and
Private Investor

James Ousley
Private Investor and
former President and Chief Executive Officer
of Vytek Corporation

Frank Perna, Jr.
Chairman Emeritus
MSC Software Corporation

Thomas Ringer
Vice Chairman
Wedbush Morgan Securities, Inc.

Executive Officers

Fred Sturm
President and Chief Executive Officer

Patrick Hutchins
President, Products Division

Steven L'Heureux
President, Solutions Division

Richard Vitelle
Vice President Finance, Chief Financial Officer
and Corporate Secretary

Independent Accountants

KPMG LLP
Los Angeles, CA

Legal Counsel

Gibson, Dunn & Crutcher LLP
Los Angeles, CA

Transfer Agent & Registrar

American Stock Transfer and Trust Co.
59 Maiden Lane
New York, NY 10038

Investor Relations

Financial Relations Board
8687 Melrose Ave., 7th Floor
Los Angeles, CA 90069
lglassen@financialrelationsboard.com

Forward Looking Statements: This annual report, including the Letter to Stockholders, contains forward looking statements within the meaning of the federal securities laws. Words such as "believes", "expects", "anticipates", "will", "could", and variations of these words and similar expressions, are intended to identify forward looking statements. Our actual results could differ materially from the results anticipated in these forward looking statements as a result of the factors set forth under the heading "Risk Factors" in the Company's registration statement on Form S-3 as filed with the Securities and Exchange Commission on October 20, 2004.

CalAmp
Enabling Anytime/Anywhere Access

CalAmp

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