UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended August 31, 2022

or

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

For the transition period from_____to_____

COMMISSION FILE NUMBER: 0-12182

CALAMP CORP.

(Exact name of Registrant as specified in its Charter)

Delaware (State or other jurisdiction of incorporation or organization)	**95-3647070** (I.R.S. Employer Identification No.)
15635 Alton Parkway, Suite 250 **Irvine, California** (Address of principal executive offices)	**92618** (Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading symbol	Name of Each Exchange On Which Registered
Common stock, $0.01 per share	CAMP	Nasdaq Global Select Market

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

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

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

Large accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

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

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

The number of shares outstanding of the registrant's common stock as of September 21, 2022 was 37,062,965.

CALAMP CORP.
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTER ENDED AUGUST 31, 2022

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

Assets	August 31, 2022	February 28, 2022
Current assets:		
Cash and cash equivalents	$ 47,721	$ 79,221
Accounts receivable, net	74,802	61,544
Inventories	22,145	18,269
Prepaid expenses and other current assets	24,781	22,348
Total current assets	169,449	181,382
Property and equipment, net	34,621	37,674
Operating lease right-of-use assets	10,367	12,327
Deferred income tax assets	3,633	4,165
Goodwill	93,377	94,436
Other intangible assets, net	28,769	31,965
Other assets	30,822	29,632
Total assets	$ 371,038	$ 391,581
Liabilities and Stockholders' Equity		
Current liabilities:		
Current portion of long-term debt	$ 1,828	$ 2,585
Accounts payable	39,863	31,815
Accrued payroll and employee benefits	10,181	10,929
Deferred revenue	23,378	26,174
Other current liabilities	15,675	18,951
Total current liabilities	90,925	90,454
Long-term debt, net of current portion	226,892	189,703
Operating lease liabilities	10,717	13,382
Other non-current liabilities	20,684	22,640
Total liabilities	349,218	316,179
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $.01 par value; 3,000 shares authorized; no shares issued or outstanding	—	—
Common stock, $.01 par value; 80,000 shares authorized; 37,061 and 36,052 shares issued and outstanding at August 31, 2022 and February 28, 2022, respectively	371	361
Additional paid-in capital	180,463	242,386
Accumulated deficit	(155,993)	(165,965)
Accumulated other comprehensive loss	(3,021)	(1,380)
Total stockholders' equity	21,820	75,402
Total liabilities and stockholders' equity	$ 371,038	$ 391,581

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended August 31,		Six Months Ended August 31,	
	2022	2021	2022	2021
Revenues:				
Products	$ 45,694	$ 51,529	$ 85,089	$ 103,526
Application subscriptions and other services	27,134	27,482	52,465	55,159
Total revenues	72,828	79,011	137,554	158,685
Cost of revenues:				
Products	30,298	32,030	56,033	65,684
Application subscriptions and other services	13,518	13,611	26,862	27,184
Total cost of revenues	43,816	45,641	82,895	92,868
Gross profit	29,012	33,370	54,659	65,817
Operating expenses:				
Research and development	6,757	7,729	13,757	14,669
Selling and marketing	12,734	12,047	24,212	24,509
General and administrative	13,530	13,198	28,692	26,220
Intangible asset amortization	1,330	1,394	2,672	2,647
Total operating expenses	34,351	34,368	69,333	68,045
Operating loss	(5,339)	(998)	(14,674)	(2,228)
Non-operating income (expense):				
Investment income (loss)	(58)	420	(172)	1,068
Interest expense	(1,464)	(3,804)	(2,997)	(7,653)
Other expense, net	(507)	(710)	(1,449)	(1,986)
Total non-operating expenses	(2,029)	(4,094)	(4,618)	(8,571)
Loss from continuing operations before income taxes	(7,368)	(5,092)	(19,292)	(10,799)
Income tax provision from continuing operations	(126)	(333)	(375)	(626)
Net loss from continuing operations	(7,494)	(5,425)	(19,667)	(11,425)
Net income from discontinued operations, net of tax	—	—	—	4,052
Net loss	$ (7,494)	$ (5,425)	$ (19,667)	$ (7,373)
Loss per share - continuing operations:				
Basic	$ (0.21)	$ (0.15)	$ (0.55)	$ (0.33)
Diluted	$ (0.21)	$ (0.15)	$ (0.55)	$ (0.33)
Earnings per share - discontinued operations:				
Basic	$ -	$ -	$ -	$ 0.12
Diluted	$ -	$ -	$ -	$ 0.12
Shares used in computing earnings (loss) per share:				
Basic	36,006	35,152	35,864	34,998
Diluted	36,006	35,152	35,864	34,998
Comprehensive income (loss):				
Net loss	$ (7,494)	$ (5,425)	$ (19,667)	$ (7,373)
Other comprehensive income (loss):				
Foreign currency translation adjustments	(1,830)	(623)	(1,641)	283
Total comprehensive loss	$ (9,324)	$ (6,048)	$ (21,308)	$ (7,090)

See accompanying notes to condensed consolidated financial statements.

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

	Six Months Ended August 31, 2022	Six Months Ended August 31, 2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (19,667)	$ (7,373)
Less: Net income from discontinued operations, net of tax	-	4,052
Net loss from continuing operations	(19,667)	(11,425)
Adjustments to reconcile net loss from continuing operations to net cash provided by (used in) operating activities:		
Depreciation expense	8,215	8,472
Intangible asset amortization	2,672	2,647
Stock-based compensation	6,156	5,409
Amortization of debt issuance costs and discount	594	5,191
Noncash operating lease cost	1,756	1,691
Revenue assigned to factors	(1,524)	(2,601)
Deferred tax assets, net	129	250
Other	(67)	200
Changes in operating assets and liabilities of continuing operations:		
Accounts receivable	(14,242)	1,013
Inventories	(4,681)	6,479
Prepaid expenses and other assets	(4,438)	398
Accounts payable	8,258	(5,138)
Accrued liabilities	(2,842)	7,270
Deferred revenue	(3,093)	(6,656)
Operating lease liabilities	(2,901)	(2,354)
Net cash provided by (used in) operating activities - continuing operations	(25,675)	10,846
Net cash used in operating activities - discontinued operations	-	(395)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(25,675)	10,451
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(4,891)	(6,569)
Net cash used in investing activities - continuing operations	(4,891)	(6,569)
Net cash provided by investing activities - discontinued operations	—	6,616
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(4,891)	47
CASH FLOWS FROM FINANCING ACTIVITIES:		
Taxes paid related to net share settlement of vested equity awards	(1,568)	(4,017)
Proceeds from exercise of stock options and contributions to employee stock purchase plan	502	900
NET CASH USED IN FINANCING ACTIVITIES	(1,066)	(3,117)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	132	(954)
Net change in cash and cash equivalents	(31,500)	6,427
Cash and cash equivalents at beginning of period	79,221	94,624
Cash and cash equivalents at end of period	$ 47,721	$ 101,051

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended August 31,		Six Months Ended August 31,	
	2022	**2021**	**2022**	**2021**
Total stockholders' equity, beginning balances	$ 28,589	$ 95,727	$ 75,402	$ 95,085
Common stock and additional paid-in capital:				
Beginning balances	178,279	235,728	242,747	234,044
Cumulative-effect adjustment related to the adoption of ASU 2020-06	—	—	(67,003)	—
Stock-based compensation expense	3,196	2,937	6,156	5,434
Shares issued on net share settlement of equity awards	(1,143)	(2,956)	(1,568)	(4,017)
Exercise of stock options and contributions to employee stock purchase plan	502	652	502	900
Ending balances	180,834	236,361	180,834	236,361
Accumulated deficit:				
Beginning balances	(148,499)	(139,922)	(165,965)	(137,974)
Cumulative-effect adjustment related to the adoption of ASU 2020-06	—	—	29,639	—
Net loss	(7,494)	(5,425)	(19,667)	(7,373)
Ending balances	(155,993)	(145,347)	(155,993)	(145,347)
Accumulated other comprehensive income (loss):				
Beginning balances	(1,191)	(79)	(1,380)	(985)
Foreign currency translation adjustments	(1,830)	(623)	(1,641)	283
Ending balances	(3,021)	(702)	(3,021)	(702)
Total stockholders' equity, ending balances	$ 21,820	$ 90,312	$ 21,820	$ 90,312

See accompanying notes to condensed consolidated financial statements.

NOTE 1 - DESCRIPTION OF BUSINESS, BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business

CalAmp Corp. (including its subsidiaries unless the context otherwise requires, "CalAmp", "the Company", "we", "our", or "us") is a connected intelligence company that leverages a data-driven solutions ecosystem to help people and organizations improve operational performance. We solve complex problems for customers within the market verticals of transportation and logistics, commercial and government fleets, industrial equipment, and consumer vehicles by providing solutions that track, monitor, and recover their vital assets. The data and insights enabled by CalAmp solutions provide real-time visibility into a user's vehicles, assets, drivers, and cargo, giving organizations greater understanding and control of their operations. Ultimately, these insights drive operational visibility, safety, efficiency, maintenance, and sustainability for organizations around the world. We are a global organization that is headquartered in Irvine, California.

Recent Events

COVID-19

In March 2020, the World Health Organization declared COVID-19 ("COVID-19" or the "pandemic") to be a public health pandemic of international concern, which has led to adverse impacts on the U.S. and global economies and continues to impact our supply chain and operations. More recently, we have experienced supply shortages as a result of global supply imbalances driven by component shortages, disruptions in accessible labor, other freight and logistical challenges and other related macro-economic factors. These supply imbalances negatively impacted all parts of our business during fiscal 2022 and have continued into fiscal 2023. It is difficult to predict the extent to which these factors will continue to impact our future business or operating results, which are highly dependent on uncertain future developments, including the severity of the continuing pandemic, the actions taken or to be taken by governments and private businesses in relation to the resolution of supply chain issues and component shortages. Because our business is dependent on telematics product sales, device installations and related subscription-based services, the ultimate effect of these factors may not be fully reflected in our operating results until future periods.

Transition of MRM Telematics Customers to Subscription Arrangements

In the second half of fiscal 2022, we prompted a strategic shift with customers who have historically purchased Mobile Resource Management ("MRM") telematics devices from us. These customers are being transitioned to subscription-based arrangements by way of bundling services with telematics devices under multi-year (generally three years) subscription contracts. Our plan is to transition the MRM business to multi-year subscription contracts over the course of fiscal 2023. As a result, our financial results associated with such subscription arrangements will be reported within our Software & Subscription Services reporting segment prospectively from the effective date of such underlying contracts. In the short term, we expect that this will lead to significant growth in our Software & Subscription Services business with a corresponding decline in our Telematics Products business. Long term we believe this shift will allow us to drive revenue growth as we generate incremental revenue from our existing customer base as well as new customers through current and anticipated broader future subscription service offerings.

Basis of Presentation

In the opinion of our management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments (consisting of normal recurring adjustments) considered necessary to present fairly our financial position at August 31, 2022 and our results of operations for the three and six months ended August 31, 2022 and 2021. The results of operations for such periods are not necessarily indicative of results to be expected for the full fiscal year ending February 28, 2023.

Certain notes and other information included in the audited financial statements in our Annual Report on Form 10-K for the fiscal year ended February 28, 2022 are condensed in or omitted from the interim financial statements presented in this Quarterly Report on Form 10-Q. Therefore, these financial statements should be read in conjunction with our 2022 Annual Report on Form 10-K as filed with the U.S. Securities and Exchange Commission ("SEC") on April 28, 2022.

All intercompany transactions and accounts have been eliminated in consolidation.

The accompanying condensed consolidated financial statements have been prepared with the assumption that the Company will continue as a going concern. Based on our current and projected level of operations we believe that our future cash flows from operating activities, our existing cash and cash equivalents and our revolving credit facility will provide adequate funds for ongoing operations and working capital requirements for at least the next 12 months. However, our business is subject to various factors that could materially impact our assumptions leading to the consumption of our available cash before that time.

Effective March 15, 2021, the Company and Spireon Holdings, L.P. ("Spireon") entered into a purchase agreement pursuant to which we sold certain assets and transferred certain liabilities of the LoJack U.S. and Canadian stolen vehicle recovery business ("LoJack North America") to Spireon for a purchase price of $8.0 million. Operations for LoJack North America are presented as *discontinued operations* in the accompanying condensed consolidated financial statements for the three and six months ended August 31, 2021. See Note 2, *Discontinued Operations*, for additional information.

Estimates and Assumptions

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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. We have considered all known and reasonably available information that existed throughout the three and six months ended and as of August 31, 2022 in making accounting judgements, estimates and disclosures. We are monitoring the potential effects of the health care related and economic conditions of COVID-19 in assessing certain matters including (but not limited to) supply chain disruptions, decreases in customer demand for our products and services, potential longer-term effects on our customer and distribution channels particularly in the U.S. and relevant end markets as well as other developments. If the impact results in longer term closures of businesses and economic recessionary conditions, we may recognize material asset impairments and charges for uncollectible accounts receivable in future periods.

Revenue Recognition

Revenues from subscription services are recognized ratably on a straight-line basis over the term of the subscription, which generally ranges from two to five years.

We recognize revenue from telematics product sales upon the transfer of control of promised products to customers in an amount that reflects the transaction price. Customers generally do not have a right of return except for defective products returned during the warranty period. We record estimated commitments related to customer incentive programs as reductions of revenues.

From time to time, we provide various professional services to customers. These services include project management, engineering services and installation services, which are often distinct from other performance obligations and are recognized as the related services are performed. For certain professional service contracts, we recognize revenue based on the proportion of total costs incurred to-date over the estimated cost of the contract, which is an input method.

In many customer arrangements, subscription services are bundled with the sale or lease of telematics devices within the same contractual arrangement. To determine the performance obligations under these arrangements, we assess the contractual elements and, in particular, whether the telematics products within the arrangement are distinct. This is an area of judgment that includes the consideration of all elements of the arrangement. Significant factors in determining whether telematics devices are distinct are whether such devices are sold separately, as well as the degree of integration and interdependency between the subscription elements of the arrangement and the associated telematics devices. If we conclude that the telematics devices within a customer arrangement are distinct and therefore represent a separate performance obligation, the total expected consideration associated with the contract is allocated between the performance obligations based upon the relative stand-alone selling price associated with each performance obligation. We base stand-alone selling prices on pricing for the same or similar items.

For some customer arrangements, we have concluded that the subscription services and associated telematics devices are not distinct performance obligations and thus represent a single combined performance obligation. For certain other customer arrangements under which devices are leased in combination with subscription services, we consider the arrangement to be predominately a subscription service and thus a combined single performance obligation for purposes of revenue recognition. In both of these circumstances, we generally recognize the total expected consideration as revenue over the term of the subscription. Device related costs associated with arrangements in which title to the device is transferred to the customer under a single combined performance obligation are recorded as deferred costs on the balance sheet and are amortized into cost of revenues over the term of the subscription or the estimated in-service lives of the devices. In contractual arrangements under which we provide devices as part of the subscription contract but we retain ownership of the devices, the cost of the devices is capitalized as property and equipment and depreciated over the estimated useful life of three to five years.

As described above, we are in the process of transitioning our MRM customer base to subscription arrangements. This transition may have an impact on our future determinations around contractual performance obligations as we anticipate selling fewer telematics products that do not include related subscription services.

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

The timing of revenue recognition may differ from the timing on our invoicing to customers. Contract assets are comprised of unbilled amounts for which we have transferred products or provided services to our customers and are classified as accounts receivable. Contract liabilities (deferred revenues) are comprised of billings or payments received from our customers in advance of performance under the contract.

During the fiscal quarter ended August 31, 2022, we recognized $10.8 million in revenue from the deferred revenue balance of $39.7 million as of February 28, 2022.

Incremental costs of obtaining a contract with a customer consist of sales commissions, which are recognized on a straight-line basis over the life of the corresponding contracts. Prepaid sales commissions included in prepaid expenses and other current assets and other assets were $1.9 million and $2.8 million, respectively, as of August 31, 2022.

We disaggregate revenue from contracts with customers into reportable segments, geography, type of goods and services and timing of revenue recognition. See Note 14, *Segment Information and Geographic Data*, for our revenue by segment and geography. The disaggregation of revenue by type of goods and services and by timing of revenue recognition is as follows (in thousands):

	Three Months Ended August 31,		Six Months Ended August 31,	
	2022	**2021**	**2022**	**2021**
Revenue by type of goods and services:				
Telematics devices and accessories	$ 45,694	$ 51,529	$ 85,089	$ 103,526
Rental income and other services	6,656	3,495	10,926	7,105
Recurring application subscriptions	20,478	23,987	41,539	48,054
Total	$ 72,828	$ 79,011	$ 137,554	$ 158,685

	Three Months Ended August 31,		Six Months Ended August 31,	
	2022	**2021**	**2022**	**2021**
Revenue by timing of revenue recognition:				
Revenue recognized at a point in time	$ 50,685	$ 53,419	$ 92,174	$ 108,123
Revenue recognized over time	22,143	25,592	45,380	50,562
Total	$ 72,828	$ 79,011	$ 137,554	$ 158,685

Telematics devices and accessories revenues presented in the table above include devices sold in customer arrangements that include both device and subscription services. Revenues related to recurring application subscriptions include subscription revenues as well as amortization of deferred revenue for contractual arrangements under which the subscription services and associated telematics devices were determined to be a single combined performance obligation.

Remaining performance obligations for Software & Subscription Services represents contracted revenue that has not yet been recognized, which includes deferred revenue on our consolidated balance sheets and unbilled amounts that will be recognized as revenue in future periods. As of August 31, 2022 and February 28, 2022, we have estimated remaining performance obligations for contractually committed revenues of $210.3 million and $202.0 million respectively. As of August 31, 2022, we expect to recognize approximately 27% of the revenue under these remaining performance obligations in fiscal 2023 and 33% in fiscal 2024. As of February 28, 2022, we expected to recognize approximately 47% of the then remaining performance obligations in fiscal 2023 and 24% in fiscal 2024. We exclude contracts that have original durations of less than one year from the aforementioned remaining performance obligation disclosure.

Cash and Cash Equivalents

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

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable consists of amounts due to us from sales arrangements executed in our normal business activities and are recorded at invoiced amounts or in some cases amounts expected to be invoiced. Our payment terms generally range between 30 to 60 days of our invoice date with a few exceptions that extend the credit terms up to 90 days, and we do not offer financing options. We present the aggregate accounts receivable balance net of an allowance for doubtful accounts. Generally, collateral and other security is not obtained for outstanding accounts receivable. Credit losses, if any, are recognized based on management's evaluation of historical collection experience, customer-specific financial conditions as well as an evaluation of current industry trends and general economic conditions. Past due balances are assessed by management on a periodic basis and balances are written off when the customer's financial condition no longer warrants pursuit of collection. Actual collections may differ from estimated amounts.

Due to the COVID-19 pandemic and other related macro-economic factors, there has been uncertainty and disruption in the global economy and financial markets. Except for the increase in expected credit losses, we are not aware of any specific event or circumstances that would require an update to our estimates or assumptions or a revision of the carrying value of our assets or liabilities as of the date of this quarterly report. These estimates and assumptions may change as new events occur and additional information is obtained. As a result, actual results could differ materially from these estimates and assumptions.

We group all accounts receivables and lease receivables into a single portfolio and analyze the credit risk associated with our accounts receivables and lease receivables. Our historical loss rates have not shown any significant differences between customer industries or geographies. As disclosed in Note 14, *Segment Information and Geographic Data*, we do not have significant international geographic concentrations of revenue, and, as a result, we do not have significant concentrations of accounts receivables or lease receivables in any single geography outside of the United States.

The allowance for doubtful accounts totaled $2.1 million and $2.6 million as of August 31, 2022 and February 28, 2022, respectively.

Goodwill and Other Long-Lived Assets

Goodwill and long-lived assets to be held and used, including identifiable intangible assets, are reviewed for impairment annually in the fourth quarter or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable. These events or changes in circumstances may include a significant deterioration of operating results, changes in business plans or changes in anticipated future cash flows. If an impairment indicator is present, we evaluate recoverability by a comparison of the carrying amount of the assets or reporting unit to the estimated fair value of those assets or reporting unit determined using either an income approach, a market approach, or a combination of both. If the assets are impaired, the impairment recognized is the amount by which the carrying amount exceeds the fair value of the assets.

Fair Value Measurements

We apply fair value accounting for all financial assets and liabilities and non-financial assets and liabilities that are recognized or disclosed at fair value in our financial statements. We define fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly manner in an arm's-length transaction between market participants at the measurement date. Fair value is estimated by using the following hierarchy:

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

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

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

Litigation and Other Contingencies

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

Foreign Currency Translation

We translate the assets and liabilities of our non-U.S. dollar functional currency subsidiaries into U.S. dollars using exchange rates in effect at the end of each period. Revenue and expenses for these subsidiaries are translated using rates that approximate those in effect during the period. Gains and losses from these translations are recognized in foreign currency translation included in accumulated other comprehensive income (loss) during the period. The aggregate foreign currency transaction exchange rate gain (loss) included in determining income (loss) before income taxes was ($0.3) million and ($0.6) million for the three and six months ended August 31, 2022, respectively. The aggregate foreign currency transaction exchange rate gain (loss) included in determining income (loss) before income taxes was ($14) thousand and $49 thousand for the three and six months ended August 31, 2021, respectively.

Comprehensive Income (Loss)

Comprehensive income (loss) consists of two components, net income (loss) and other comprehensive income (loss) ("OCI"). OCI refers to revenue, expenses and gains and losses that under GAAP are recorded as an element of stockholders' equity and excluded from net income (loss). Our OCI consists of foreign currency translation adjustments from those subsidiaries not using the U.S. dollar as their functional currency.

Recently Adopted Accounting Pronouncements

In August 2020, the Financial Accounting Standards Board ("FASB") issued ASU 2020-06, *Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging – Contracts in Entity's Own Equity (Subtopic 815-40)*, which removes certain separation models for convertible debt instruments and convertible preferred stock that require the separation of a convertible debt instrument into a debt component and an equity or derivative component. Specifically, the new pronouncement removes the separation models for convertible debt with a cash conversion feature or convertible instruments with a beneficial conversion feature. We adopted ASU 2020-06 effective March 1, 2022, the beginning of fiscal 2023, utilizing the modified retrospective approach whereby the cumulative effect of the change in accounting was recognized as an adjustment to the opening balance of retained earnings (accumulated deficit) at the date of adoption. Comparative information has not been restated and continues to be presented in accordance with accounting standards that were in effect for those periods.

Prior to the adoption of ASU 2020-06, we allocated the gross proceeds of the Convertible Notes between the liability and equity components under the cash conversion feature model using the accounting rules in GAAP (ASC 470-20). The carrying amount of the liability component was calculated based on the fair value of a similar debt instrument excluding the embedded conversion option at the issuance date. The carrying amount of the equity component representing the conversion option was calculated by deducting the carrying value of the liability component from the principal amount of the notes as a whole. This difference represented a debt discount and was being amortized to interest expense over the term of the notes using the effective interest rate method. The equity component of the notes was included in stockholders' equity and was not remeasured as long as it continued to meet the conditions for equity classification.

Effective March 1, 2022, we no longer separately present in equity an embedded conversion feature of such debt. Instead, we account for a convertible debt instrument wholly as debt unless (i) the convertible debt instrument contains features that require bifurcation as a derivative or (ii) the convertible debt instrument was issued at a substantial premium. Prior to the adoption of ASU 2020-06, debt issuance costs attributable to the liability component were amortized to interest expense using the effective interest method and debt issuance costs attributable to the equity component were netted with the equity component in stockholders' equity. Upon adoption, the entire amount of debt issuance costs is reflected as a contra-liability and amortized as interest expense using the effective interest method over the respective term of the notes. We account for the cost of the capped calls as a reduction to additional paid-in capital.

After adopting the new guidance, the use of the if-converted method is required when calculating diluted earnings per share ("EPS") for convertible instruments and the treasury stock method should no longer be used. Under the new guidance, convertible instruments that may be settled in cash or shares are to be included in the calculation of diluted EPS if the effect is more dilutive, with no option for rebutting the presumption of share settlement based on stated policy or past experience. If we make an irrevocable election to settle the principal of the Convertible Notes in cash and the excess conversion spread in shares, the if-converted method will result in a reduced number of shares issued to reflect only the excess conversion.

The below adoption adjustments were calculated based on the carrying amount of the Convertible Notes as if it had always been treated as a liability only. Furthermore, these adjustments address the debt issuance costs contra-liability and equity (additional paid-in capital) components under the same premise (i.e., as if the total amount of debt issuance costs had always been treated as a contra-liability only). Lastly, we derecognized the deferred income taxes associated with the debt discount and adjusted deferred income taxes relative to unamortized debt issuance costs associated with the Convertible Notes. This resulted in a net increase in gross deferred tax assets of $9.4 million but no impact to the net deferred tax asset balance due to the valuation allowance recorded against our deferred tax assets. We expect lower interest expense related to the Convertible Notes to be recognized in future periods subsequent to adoption as a result of accounting for the Convertible Notes as a single liability measured at amortized cost.

The following table summarizes the impact of the adoption of ASU 2020-06 on our consolidated balance sheet on March 1, 2022 (in thousands).

	February 28, 2022 As Reported	ASU 2020-06 Adoption Impact	March 1, 2022 As Adjusted
Deferred income tax assets, net	$ 4,165	$ -	4,165
Total debt (1)	192,288	37,365	229,653
Additional paid-in-capital	242,386	(67,003)	175,383
Accumulated deficit	$ (165,965)	$ 29,639	$ (136,326)

(1) Prior to adoption, the carrying value of convertible debt represented the principal amount less unamortized debt discount and unamortized debt issuance costs. After adoption, the carrying value of convertible debt represents the principal amount less unamortized debt issuance costs.

Recently Issued Accounting Pronouncements, Not Yet Adopted

There are currently no accounting standards that have been issued but not yet adopted that we believe will have a significant impact on our unaudited condensed consolidated financial position, results of operations or cash flows.

NOTE 2 – DISCONTINUED OPERATIONS

Effective March 15, 2021, a wholly owned subsidiary of the Company and Spireon entered into an agreement ("Sale Agreement") pursuant to which we sold certain assets and transferred certain liabilities of the LoJack North America business ("LoJack Transaction") for an upfront cash purchase price of approximately $8.0 million. We received net proceeds of $6.6 million, based on an estimate of certain adjustments to the gross purchase price as of the closing date. On November 9, 2021, the purchase price was reduced by $0.9 million, which was paid to Spireon, due to final working capital adjustments. We recognized a gain on the sale of the LoJack North America business of $4.1 million during the year ended February 28, 2022.

Concurrent with the closing of the transaction, we also entered into a Transition Services Agreement (the "TSA") to provide support to Spireon in the transition of customers to its telematics solution and to provide recovery services to the existing installed base of LoJack North America customers, as an agent of Spireon, for a period of six months commencing March 15, 2021. Subsequently, the transition period was extended and then effectively terminated on March 31, 2022. As consideration for these services, Spireon reimbursed us for the direct and certain indirect costs, as well as certain overhead or administrative expenses related to operating the business. Additionally, we entered into a services agreement that commenced April 1, 2022 upon the expiration of the TSA, under which we will provide certain services related to the LoJack North America tower infrastructure for a period no longer than fifty-four months. As consideration for these services, Spireon will pay us a monthly service fee over the stipulated contract term. Further, we entered into a license agreement pursuant to which we license certain intellectual property rights related to the LoJack North America business in the U.S. and Canada to Spireon. In connection with the services provided to Spireon during the three and six months ended August 31, 2022, respectively, we incurred a total cost of $0.7 million and $2.0 million of which $0.5 million and $1.0 million was billed to Spireon for the services under the TSA and the net amount of $0.2 million and $1.0 million is included as a component of other expense in the condensed consolidated statement of comprehensive loss as these costs represent non-operating expenses. During the three and six months ended August 31, 2021, respectively, we incurred a total cost of $1.2 million and $3.3 million of which $0.6 million and $1.4 million was billed to Spireon for services under the TSA and the remaining $0.6 million and $1.9 million is included within other expense in the condensed consolidated statement of comprehensive loss.

The operating results and cash flows related to the LoJack North America operations are reflected as discontinued operations in the unaudited condensed consolidated statements of comprehensive loss and the unaudited condensed consolidated statements of cash flows for the six months ended August 31, 2021. For the six months ended August 31, 2021, we have reported the operating results and cash flows related to the LoJack North America operations through March 14, 2021:

The amounts in the statement of operations that are included in discontinued operations are summarized in the following table (in thousands):

	Six Months Ended August 31, 2021
Revenues	$ 823
Cost of revenues	950
Gross profit (loss)	(127)
Operating expenses:	
Research and development	32
Selling and marketing	167
General and administrative	75
Intangible asset amortization	141
Restructuring	404
Impairment losses	—
Total operating expenses	819
Operating loss from discontinued operations	(946)
Gain on sale of discontinued operations	4,998
Net income from discontinued operations, net of tax	$ 4,052

The amounts in the statement of cash flows that are included in discontinued operations are summarized in the following table (in thousands):

	Six Months Ended August 31, 2021
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net income from discontinued operations, net of tax	$ 4,052
Adjustments to reconcile net income from discontinued operations to net cash used in operating activities:	
Intangible asset amortization	141
Stock-based compensation	25
Gain on sale of discontinued operations	(4,998)
Changes in operating assets and liabilities:	
Accounts receivable	452
Inventories	425
Prepaid expenses and other current assets	4
Accounts payable	(331)
Accrued liabilities	(135)
Deferred revenue	(30)
NET CASH USED IN OPERATING ACTIVITIES OF DISCONTINUED OPERATIONS	(395)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Net proceeds from sale of discontinued operations	6,616
NET CASH PROVIDED BY INVESTING ACTIVITIES OF DISCONTINUED OPERATIONS	6,616
Net change in cash and cash equivalents	$ 6,221

NOTE 3 – CASH, CASH EQUIVALENTS AND INVESTMENTS

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

	As of August 31, 2022				
				Balance Sheet Classification of Fair Value	
	Cost	Unrealized Gains (Losses)	Fair Value	Cash and Cash Equivalents	Other Assets
Cash	$ 26,767	$ —	$ 26,767	$ 26,767	$ —
Level 1:					
Money market funds	454	—	454	454	—
Mutual funds (1)	1,156	(1)	1,155	—	1,155
Level 2:					
Repurchase agreements	20,500	—	20,500	20,500	—
Total	$ 48,877	$ (1)	$ 48,876	$ 47,721	$ 1,155

	As of February 28, 2022				
				Balance Sheet Classification of Fair Value	
	Cost	Unrealized Gains (Losses)	Fair Value	Cash and Cash Equivalents	Other Assets
Cash	$ 28,394	$ —	$ 28,394	$ 28,394	$ —
Level 1:					
Money market funds	7,327	—	7,327	7,327	—
Mutual funds (1)	851	107	958	—	958
Level 2:					
Repurchase agreements	43,500	—	43,500	43,500	—
Total	$ 80,072	$ 107	$ 80,179	$ 79,221	$ 958

(1) Amounts represent various equities, bond and money market mutual funds that are held in an irrevocable "Rabbi Trust" for payment obligations to non-qualified deferred compensation plan participants. In addition to the mutual funds above, our "Rabbi Trust" also included Corporate-Owned Life Insurance (COLI) starting in fiscal 2020. As of August 31, 2022, the cash surrender value of COLI was $5.5 million.

NOTE 4 - INVENTORIES

Inventories consist of the following (in thousands):

	August 31, 2022	February 28, 2022
Raw materials	$ 8,447	$ 6,090
Finished goods	13,698	12,179
	$ 22,145	$ 18,269

NOTE 5 – GOODWILL AND OTHER INTANGIBLE ASSETS

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

		Gross (2)			Accumulated Amortization (2)			Net	
	Useful Life	Feb. 28, 2022	Additions & Adjustments, net (1)	August 31, 2022	Feb. 28, 2022	Expense	August 31, 2022	Feb. 28, 2022	August 31, 2022
Developed technology	4-6 years	$ 26,958	(102)	$ 26,856	$ 25,470	$ 632	$ 26,102	$ 1,488	$ 754
Tradenames	10 years	30,192	(205)	29,987	20,571	1,067	21,638	9,621	8,349
Customer relationships	10-15 years	35,404	(217)	35,187	14,883	969	15,852	20,521	19,335
Patents	5 years	589	—	589	254	4	258	335	331
		$ 93,143	$ (524)	$ 92,619	$ 61,178	$ 2,672	$ 63,850	$ 31,965	$ 28,769

(1) Amounts also include any net changes in intangible asset balances for the periods presented that resulted from foreign currency translations.

(2) This table excludes the gross value of fully amortized intangible assets totaling $23.0 million at August 31, 2022 and February 28, 2022.

Intangible assets with finite lives are amortized on a straight-line basis over the expected period to be benefited by future cash flows. We monitor and assess these assets for impairment on a periodic basis. Our assessment includes various new product lines and services, which leverage the existing intangible assets as well as consideration of historical and projected revenues and cash flows. Amortization expense of intangible assets from continuing operations was $1.3 million and $2.7 million for the three and six months ended August 31, 2022, respectively. Amortization expense of intangible assets from continuing operations was $1.4 million and $2.6 million for the three and six months ended August 31, 2021, respectively.

Estimated future amortization expense as of August 31, 2022 is as follows (in thousands):

2023 (remainder)	$	2,640
2024		4,440
2025		4,325
2026		4,056
2027		2,435
Thereafter		10,873
	$	28,769

Changes in goodwill are as follows (in thousands):

	Software & Subscription Services	Telematics Products	Total
Balance as of February 28, 2022	$ 55,256	$ 39,180	$ 94,436
Effect of exchange rate change on goodwill	(1,059)	—	(1,059)
Balance as of August 31, 2022	$ 54,197	$ 39,180	$ 93,377

As further described in Note 1 under the caption *Transition of MRM Telematics Customers to Subscription Arrangements*, we have begun entering into subscription arrangements with customers who have historically purchased MRM telematics products from us, which is expected to result in growth in Software & Subscription Services revenues and a corresponding decline in Telematics Products revenues as we transition the MRM telematics business to long-term subscription contracts. This transition is expected to be completed throughout Fiscal 2023. As a result of this strategic shift, we anticipate that the goodwill presently associated with our Telematics Products reporting unit will be re-allocated to our other reporting units in Fiscal 2023 at such time that this customer transition is substantially complete.

NOTE 6 – OTHER ASSETS

Other assets consist of the following (in thousands):

	August 31, 2022	February 28, 2022
Deferred product cost	$ 1,135	$ 1,493
Deferred compensation plan assets	6,692	7,215
Lease receivables, non-current	17,161	15,118
Prepaid commissions	2,750	2,894
Other	3,084	2,912
	$ 30,822	$ 29,632

NOTE 7 – FINANCING ARRANGEMENTS

The following table provides a summary of our debt as of August 31, 2022 and February 28, 2022 (in thousands):

	Maturity Date	Effective Interest Rate	August 31, 2022	February 28, 2022
2025 Convertible Notes, 2.00% fixed rate (2)	August 1, 2025	2.49%	230,000	230,000
Due to factors under revenue assignments	2020 - 2024	4.70%	2,305	3,829
Total term debt			232,305	233,829
Unamortized discount and issuance costs (1)			(3,585)	(41,541)
Less: Current portion of long-term term debt			(1,828)	(2,585)
Long-term debt, net of current portion			$ 226,892	$ 189,703

(1) The debt discount associated with the Convertible Notes and related unamortized debt issuance costs as of August 31, 2022 reflects the adoption impact of ASU 2020-06 effective March 1, 2022. See Note 1, *Significant Accounting Policies – Recent Accounting Pronouncements*, for further information regarding the adoption of ASU 2020-06.

(2) The effective interest rate was 7.56% prior to the adoption of ASU 2020-06.

The effective interest rates for the convertible notes include the interest on the notes and amortization of the debt issuance costs. As of August 31, 2022 and February 28, 2022, the fair value of the 2025 Convertible Notes were $204 million and $209 million, respectively, based on Level 2 inputs.

2025 Convertible Notes

In July 2018, we issued debt of $230.0 million aggregate principal amount of convertible senior unsecured notes due in 2025 ("2025 Convertible Notes"). These notes require semi-annual interest payments at an annual rate of 2.00% until maturity, conversion, redemption or repurchase, which will be no later than August 1, 2025. We may redeem the notes at our option at any time on or after August 6, 2022 at a cash redemption price equal to the principal amount plus accrued interest, but only if the last reported sale price per share of our stock exceeds 130% of the conversion price on (i) each of at least 20 trading days, whether or not consecutive, during the 30 consecutive trading days ending on, and including, the trading day immediately before the date we send the related redemption notice; and (ii) the trading day immediately before the date we send such notice. The 2025 Convertible Notes are convertible into cash, shares of our common stock or a combination of both, at our election, based on an initial conversion price of $30.7450. Holders may convert their 2025 Convertible Notes at their option upon the occurrence of certain events, as defined in the 2025 Indenture.

In accounting for the issuance of the 2025 Convertible Notes prior to the adoption of ASU 2020-06, we allocated the gross proceeds of the Notes between the liability and equity components under the cash conversion feature model using the accounting rules in GAAP (ASC 470-20). The carrying amount of the liability component was calculated by measuring the fair value of a similar debt instrument without the associated convertible feature. The carrying amount of the equity component, representing the conversion option, was determined by deducting the fair value of the liability component from the principal amount of the notes as a whole. The equity component was not re-measured as long as it continued to meet the conditions for equity classification. The excess of the principal amount of the liability component over its carrying amount (i.e., the debt discount) was amortized to interest expense using the effective interest method. Approximately $51.9 million, net of tax, was allocated to additional paid-in-capital upon issuance of these notes.

Upon adoption of ASU 2020-06 on March 1, 2022, we reversed the separation of the debt and equity components and accounted for the Convertible Notes wholly as debt. We also reversed the amortization of the debt discount, with a cumulative effect adjustment to retained earnings (accumulated deficit) on the adoption date. Prior to the adoption of this pronouncement, debt issuance costs attributable to the liability component were being amortized to interest expense using the effective interest method and debt issuance costs attributable to the equity component were netted with the equity component in stockholders' equity. Effective March 1, 2022, we reversed the debt issuance costs attributable to the equity component and account for the entire amount as debt issuance costs that will be amortized as interest expense using the effective interest method, with a cumulative effect adjustment to retained earnings (accumulated deficit) on the adoption date. See Note 1, *Significant Accounting Policies – Recent Accounting Pronouncements*, for further information regarding the adoption of ASU 2020-06 and Note 10, *Earnings Per Share*, for a description of the dilutive nature of the Convertible Notes.

In July 2018, in connection with the 2025 Convertible Notes, we entered into capped call transactions with certain option counterparties who were initial purchasers of the 2025 Convertible Notes. The capped call transactions are expected to reduce the potential dilution of earnings per share upon conversion of the 2025 Convertible Notes. Under the capped call transactions, we purchased options relating to 7.48 million shares of common stock underlying the notes, with a strike price equal to the conversion price of the notes and with a cap price equal to $41.3875. We paid $21.2 million for the note hedges and as a result, approximately $15.9 million, net of tax, was recorded as a reduction to additional paid-in capital within stockholders' equity.

Revolving Credit Facility

On July 13, 2022, we replaced our revolving credit facility with JP Morgan Chase Bank, N.A. and we entered into a new revolving credit facility with PNC Bank, N.A., that provides for an asset-based senior secured revolving credit facility for borrowings up to an aggregate of $50.0 million, subject to certain conditions, including borrowing base provisions that limit borrowing capacity to 80% of eligible accounts receivable and 50% of eligible inventory. At our election, the borrowings under this revolving credit facility bear interest at either the Bloomberg short-term bank yield rate plus a margin of 2.50% per annum or an alternate base rate plus a margin of 1.50% per annum. We also pay an unused line fee ranging from 0.50% to 0.75% per annum, based on the level of borrowings, payable quarterly in arrears. Amounts owed under the revolving credit facility are guaranteed by the Company and certain of its subsidiaries. We have also granted security interests in substantially all of our respective assets to secure these obligations. The revolving credit facility will terminate, and all outstanding loans will become due and payable on the earlier of July 13, 2025 and the date that is ninety days prior to the maturity date of our 2025 Convertible notes. The proceeds available under the revolving credit facility could be used for working capital and general corporate purposes, which could include acquisitions. The revolving credit facility contains customary events of default, that upon our default may require us to pay all amounts outstanding and allow PNC Bank to foreclose on collateral. At August 31, 2022, there were no borrowings outstanding under this revolving credit facility and total borrowing availability was $34.0 million.

The revolving credit facility contains certain negative and affirmative covenants, including financial covenants that require us to maintain a fixed charge coverage rate of not less than 1.10 to 1.00, measured as of the last day of each fiscal quarter if our liquidity position, consisting of specified cash balances plus unused availability on the revolving credit facility, falls below $40.0 million on such day. Additionally, the revolving credit facility contains a cash dominion trigger whereby PNC Bank may direct domestic cash balances and receipts to pay down borrowings under the revolving credit facility should our liquidity position, consisting of specified cash balances plus unused availability on the revolving credit facility, fall below $25.0 million at the end of any month. As of August 31, 2022, we were in compliance with our covenants under the revolving credit facility.

NOTE 8 – LEASES

We have various non-cancelable operating leases for our offices in California, Texas, Massachusetts, Indiana, Minnesota and Virginia in the United States, and Italy, Mexico and the United Kingdom. We also have various non-cancelable operating leases for towers and vehicles throughout the United States, Italy and Mexico. These leases expire at various times through 2033. Certain lease agreements contain renewal options, rent abatement, and escalation clauses that are factored into our determination of lease payments when appropriate.

The table below presents lease-related assets and liabilities recorded on the condensed consolidated balance sheet (in thousands):

	August 31, 2022	February 28, 2022
Assets		
Operating lease right-of-use assets	$ 10,367	$ 12,327
Liabilities		
Operating lease liabilities (current)	$ 5,038	$ 5,086
Operating lease liabilities (non-current)	10,717	13,382
Total lease liabilities	$ 15,755	$ 18,468

Lease Costs

The following lease costs were included in our condensed consolidated statements of comprehensive loss as follows (in thousands):

	Three months ended August 31,		Six Months Ended August 31,	
	2022	2021	2022	2021
Operating lease cost	$ 1,075	$ 1,157	$ 2,194	$ 2,288
Short-term lease cost	37	14	73	31
Variable lease cost	16	101	51	203
Total lease cost	$ 1,128	$ 1,272	$ 2,318	$ 2,522

Supplemental Information

The table below presents supplemental information related to operating leases (in thousands, except weighted-average information):

	Six Months Ended August 31,	
	2022	2021
Cash paid for amounts included in the measurement of operating lease liabilities	$ 2,943	$ 2,835
Right-of-use assets obtained in exchange for new operating lease liabilities	$ 34	$ 1,919
Weighted average remaining lease term	3.5 years	4.44 years
Weighted average discount rate	5.16%	5.17%

Undiscounted Cash Flows

The table below reconciles the undiscounted cash flows for each of the first five fiscal years and total of the remaining years to the operating lease liabilities recorded on the condensed consolidated balance sheet as of August 31, 2022 (in thousands):

Remainder of 2023	$	2,920
2024		5,539
2025		3,941
2026		3,077
2027		1,322
Thereafter		477
Total minimum lease payments		17,276
Less imputed interest		(1,521)
Present value of future minimum lease payments		15,755
Less current obligations under leases		(5,038)
Long-term lease obligations	$	10,717

NOTE 9 - INCOME TAXES

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

We evaluate our estimated annual effective tax rate ("ETR") on a quarterly basis based on current and forecasted operating results. The relationship between our income tax provision or benefit and our pretax book income or loss can vary significantly from period to period considering, among other factors, the overall level of pretax book income or loss and changes in the blend of jurisdictional income or loss that is taxed at different rates and changes in valuation allowances. The income tax expense of $0.1 million and $0.4 million for the three and six months ended August 31, 2022, respectively, was primarily attributable to one of our foreign subsidiaries. Any income tax benefit associated with the pre-tax loss for the quarter ended August 31, 2022, resulting primarily from the U.S. jurisdiction, is offset by a full valuation allowance.

NOTE 10 - EARNINGS PER SHARE

Basic earnings (loss) per share is computed by dividing net income (loss) for the period by the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed by dividing net income for the period by the weighted average number of common shares outstanding during the period plus the dilutive effect of outstanding stock options and restricted stock-based awards using the treasury stock method. The calculation of the basic and diluted loss per share of common stock is as follows (in thousands, except per share value):

	Three Months Ended August 31,				Six Months Ended August 31,			
	2022		2021		2022		2021	
Net loss from continuing operations	$	(7,494)	$	(5,425)		(19,667)		(11,425)
Net income from discontinued operations, net of tax		-		-		-		4,052
Net loss	$	(7,494)	$	(5,425)	$	(19,667)	$	(7,373)
Basic weighted average number of common shares outstanding		36,006		35,152		35,864		34,998
Effect of stock options and restricted stock units computed on treasury stock method		—		—		—		—
Diluted weighted average number of common shares outstanding		36,006		35,152		35,864		34,998
Basic net income (loss) per common share:								
Loss from continuing operations	$	(0.21)	$	(0.15)	$	(0.55)	$	(0.33)
Income from discontinued operations	$	-	$	-	$	-	$	0.12
Diluted net income (loss) per common share:								
Loss from continuing operations	$	(0.21)	$	(0.15)	$	(0.55)	$	(0.33)
Income from discontinued operations	$	-	$	-	$	-	$	0.12

All outstanding options and restricted stock units for the three and six months ended August 31, 2022 and 2021 were excluded from the computation of diluted loss per share because we reported a net loss for each of these periods and the effect of inclusion would be antidilutive.

We adopted ASU 2020-06 on March 1, 2022 under the modified retrospective method and applied the new guidance to our 2025 Convertible Notes outstanding as of that date. We have not changed previously disclosed amounts or provided additional disclosures for comparative periods. ASU 2020-06 requires the if-converted method to be applied for all convertible instruments when calculating diluted earnings per share. Under the if-converted method, diluted earnings per share will be calculated assuming that all the Convertible Notes were converted solely into shares of common stock at the beginning of the reporting period, unless the result would be anti-dilutive. Since we had a net loss for the three and six months ended August 31, 2022, respectively, the 2025 Convertible Notes were determined to be anti-dilutive and therefore had no impact to basic or diluted net loss per share for the period as a result of adopting the new pronouncement.

NOTE 11 – STOCKHOLDERS' EQUITY

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

	Three Months Ended August 31,		Six Months Ended August 31,	
	2022	2021	2022	2021
Cost of revenues	$ 30	$ 795	$ 85	$ 789
Research and development	672	321	1,436	1,031
Selling and marketing	749	979	1,309	1,623
General and administrative	1,745	723	3,326	1,783
Other non-operating expense	-	119	-	183
	$ 3,196	$ 2,937	$ 6,156	$ 5,409

Changes in our outstanding stock options during the six months ended August 31, 2022 were as follows (options in thousands):

	Number of Options	Weighted Average Exercise Price	Weighted average remaining contractual life (years)	Aggregate intrinsic value
Outstanding at February 28, 2022	664	$ 16.38	5.4	
Granted	—	—		
Exercised	—	—		
Forfeited or expired	—	—		
Outstanding at August 31, 2022	664	$ 16.38	4.9	$ -
Exercisable at August 31, 2022	577	$ 15.94	4.8	$ -

Changes in our outstanding restricted stock shares, performance stock units ("PSUs") and restricted stock units ("RSUs") during the six months ended August 31, 2022 were as follows (restricted shares, PSUs and RSUs in thousands):

	Number of Restricted Shares, PSUs and RSUs	Weighted Average Grant Date Fair Value	Shares Retained to Cover Statutory Withholding Taxes
Outstanding at February 28, 2022	2,940	$ 10.39	
Granted	2,237	4.65	
Vested	(857)	11.14	327
Forfeited	(198)	11.13	
Outstanding at August 31, 2022	4,122	$ 7.09	

As of August 31, 2022, there was $24.0 million of total unrecognized stock-based compensation cost related to outstanding nonvested equity awards that is expected to be recognized as an expense over a weighted-average remaining vesting period of 2.3 years.

NOTE 12 - CONCENTRATION OF RISK

Significant Customers

We sell telematics products and services to large global enterprises in the industrial equipment, transportation and automotive market verticals. One customer in the industrial equipment industry accounted for 17% and 16% of our consolidated revenue for the three and six months ended August 31, 2022, respectively, and 18% and 20% of our consolidated revenue for the three and six months ended August 31, 2021, respectively. The same customer accounted for 14% and 12% of our consolidated accounts receivable at August 31, 2022 and February 28, 2022, respectively.

Significant Suppliers

We purchase a significant amount of our inventory from certain manufacturers or suppliers including components, assemblies and electronic manufacturing parts. These suppliers are located in Mexico and Asia, including China. The inventory is purchased under standard supply agreements that outline the terms of the product delivery. The title and risk of loss of the product generally pass to us upon shipment from the manufacturer's plant or warehouse. Some of these manufacturers accounted for more than 10% of our purchases and accounts payable as follows (rounded):

	Three Months Ended August 31,		Six Months Ended August 31,	
	2022	2021	2022	2021
Inventory purchases:				
Supplier A	9%	17%	10%	18%
Supplier B	14%	9%	13%	11%
Supplier C	17%	14%	21%	14%
Supplier D	11%	10%	11%	12%

	August 31, 2022	February 28, 2022
Accounts payable:		
Supplier A	4%	3%
Supplier B	16%	15%
Supplier C	15%	11%
Supplier D	9%	7%

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

NOTE 13 – OTHER FINANCIAL INFORMATION

Supplemental Balance Sheet Information

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

	August 31, 2022	February 28, 2022
Operating lease liabilities	$ 5,038	$ 5,086
Warranty reserves	1,757	1,823
Customer deposits	2,217	2,586
Omega litigation reserve	-	3,000
Other (1)	6,663	6,456
	$ 15,675	$ 18,951

(1) Amount represents accruals for various operating expense such as professional fees, vendor incentives and other estimates that are expected to be paid within the next 12 months.

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

	August 31, 2022	February 28, 2022
Deferred revenue	$ 12,034	$ 13,496
Deferred compensation plan liability	6,343	6,800
Deferred tax liability	233	216
Other	2,074	2,128
	$ 20,684	$ 22,640

Supplemental Statement of Comprehensive Loss Information

Interest expense consists of the following (in thousands):

	Three Months Ended August 31,		Six Months Ended August 31,	
	2022	2021	2022	2021
Interest expense on 2025 Convertible Notes:				
Stated interest at 2.00% per annum	$ 1,150	1,150	$ 2,326	2,326
Amortization of discount and issue costs (1)	262	2,511	529	5,028
	1,412	3,661	2,855	7,354
Other interest expense	52	143	142	299
Total interest expense	$ 1,464	$ 3,804	$ 2,997	$ 7,653

(1) We adopted ASU 2020-06 during the first quarter of fiscal 2023 using the modified retrospective method. Accordingly, prior year reported amounts were not revised.

Supplemental Cash Flow Information

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

	Six Months Ended August 31,	
	2022	2021
Interest expense paid	$ 2,408	$ 2,400
Income tax paid, net of refunds	$ 75	$ 356

NOTE 14 - SEGMENT INFORMATION AND GEOGRAPHIC DATA

We operate under two reportable segments: Software & Subscription Services and Telematics Products. Our organizational structure is based on a number of factors that our CEO, the Chief Operating Decision Maker ("CODM"), uses to evaluate and operate the business, which include customer base, homogeneity of products, and technology.

Our Software & Subscription Services segment offers cloud-based, application enablement and telematics service platforms that facilitate integration of our own applications, as well as those of third parties, through open Application Programing Interfaces ("APIs") to deliver full-featured IoT solutions to a wide range of customers and markets. Our scalable proprietary SaaS offerings enable rapid and cost-effective deployment of high-value solutions for customers all around the globe. Software & Subscription Services segment revenues include SaaS, professional services, devices sold with monitoring services and amortization of revenues and costs for customized devices functional only with application subscriptions that are not sold separately.

Our Telematics Products segment offers a portfolio of wireless data communications products, which includes asset tracking units, mobile telematics devices, fixed and mobile wireless gateways and routers. These wireless networking devices underpin a wide range of our own and third party software and service solutions worldwide and are critical for applications demanding secure, reliable and business-critical communications. Telematics Products segment revenues consist primarily of distinct product sales.

Segment information is as follows (in thousands):

	Three Months Ended August 31, 2022				Three Months Ended August 31, 2021			
	Reportable Segments				Reportable Segments			
	Software & Subscription Services	Telematics Products	Corporate Expenses	Total	Software & Subscription Services	Telematics Products	Corporate Expenses	Total
Revenues	$ 44,511	$ 28,317		$ 72,828	$ 41,434	$ 37,577		$ 79,011
Gross profit	$ 20,865	$ 8,147		$ 29,012	$ 21,332	$ 12,038		$ 33,370
Gross margin	47%	29%		40%	51%	32%		42%
Adjusted EBITDA	$ 6,623	$ (1,244)	$ (613)	$ 4,766	$ 9,638	$ (378)	$ (959)	$ 8,301

	Six Months Ended August 31, 2022				Six Months Ended August 31, 2021			
	Reportable Segments				Reportable Segments			
	Software & Subscription Services	Telematics Products	Corporate Expenses	Total	Software & Subscription Services	Telematics Products	Corporate Expenses	Total
Revenues	$ 84,068	$ 53,486		$ 137,554	$ 76,477	$ 82,208		$ 158,685
Gross profit	$ 38,923	$ 15,736		$ 54,659	$ 38,154	$ 27,663		$ 65,817
Gross margin	46%	29%		40%	50%	34%		41%
Adjusted EBITDA	$ 10,578	$ (1,991)	$ (1,965)	$ 6,622	$ 15,532	$ 3,254	$ (2,100)	$ 16,686

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

Our CODM evaluates each segment based primarily on revenue and Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization ("Adjusted EBITDA"), and we therefore consider Adjusted EBITDA to be a primary measure of operating performance of our reportable segments. We define Adjusted EBITDA as earnings before investment income, interest expense, taxes, depreciation, amortization, stock-based compensation, impairment loss and other adjustments as identified below. The adjustments to our net income (losses) prepared in accordance with U.S. generally accepted accounting principles ("GAAP") to calculate Adjusted EBITDA are itemized below (in thousands):

	Three Months Ended August 31,		Six Months Ended August 31,	
	2022	2021	2022	2021
Net loss	$ (7,494)	$ (5,425)	$ (19,667)	$ (7,373)
Less: net income from discontinued operations	-	-	$ -	$ 4,052
Net loss from continuing operations	$ (7,494)	$ (5,425)	$ (19,667)	$ (11,425)
Investment expense (income)	58	(420)	172	(1,068)
Interest expense	1,464	3,804	2,997	7,653
Income tax provision	126	333	375	626
Depreciation	4,059	4,242	8,215	8,472
Amortization of intangible assets	1,330	1,394	2,672	2,647
Stock-based compensation	3,196	2,937	6,156	5,409
Non-recurring legal expenses	1,417	471	4,548	1,119
Costs incurred in transition of LoJack North America business to acquiror	233	482	985	1,715
Other	377	483	169	1,538
Adjusted EBITDA	$ 4,766	$ 8,301	$ 6,622	$ 16,686

Our CODM does not obtain identifiable assets by segment because our businesses share resources, functions and facilities. We do not have significant long-lived assets outside the United States.

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

	Three Months Ended August 31,		Six Months Ended August 31,	
	2022	2021	2022	2021
United States	$ 46,240	$ 54,320	$ 86,642	$ 105,520
EMEA	12,275	12,878	24,814	27,353
LATAM	8,189	7,625	14,166	14,150
APAC	5,590	2,794	10,809	8,195
All other	534	1,394	1,123	3,467
	$ 72,828	$ 79,011	$ 137,554	$ 158,685

Revenues by geographic area are based upon the country of billing. The geographic location of distributors and OEM customers may be different from the geographic location of the ultimate end users of the products and services provided by us. No single non-U.S. country accounted for more than 10% of our revenue in the three and six months ended August 31, 2022 and 2021.

NOTE 15 – LEGAL PROCEEDINGS

Omega patent infringement claim

On April 28, 2022, we filed our Form 10-K for the fiscal year ended February 28, 2022 which disclosed the current status of the Omega Patents LLC ("Omega") patent infringement claim.

The parties commenced a mediation on April 12, 2022, and on May 17, 2022, CalAmp and Omega executed an agreement for a settlement and release and a covenant not to sue under certain patents. On June 1, 2022, we paid $4.9 million pursuant to this settlement agreement. The parties filed a Joint Stipulation of Dismissal With Prejudice on June 15, 2022, and on June 16, 2022, the court dismissed the case with prejudice.

Philips patent infringement claim

On December 17, 2020, Koninklijke Philips N.V. ("Philips") filed four separate legal actions against us, and several other companies, accusing the companies of infringing Philips's 3G and 4G wireless standard-essential patents: (1) first, in the U.S. District Court, District of Delaware, Philips v. Quectel Wireless Solutions Co. Ltd. ("Quectel"), CalAmp, Xirgo Technologies, LLC ("Xirgo"), and Laird Connectivity, Inc. ("Laird"), Philips alleges that our location monitoring units infringe certain claims of U.S. Patent No. 7,831,271 ("the '271 patent"), U.S. Patent No. 8,199,711 ("the '711 patent"), U.S. Patent No. 7,554,943 ("the '943 patent"), and U.S. Patent No. 7,944,935 ("the '935 patent") (all four patents collectively, the "Patents"); (2) second, in the U.S. District Court, District of Delaware, Philips v. Telit Wireless Solutions, Inc., Telit Communications Plc, (collectively, "Telit"), and CalAmp, Philips alleges that our location monitoring units and certain modules therein infringe certain claims of the Patents; (3) third, in the U.S. District Court, District of Delaware, Philips v. Thales DIS AIS USA LLC (F/K/A Gemalto IoT LLC "Gemalto") F/K/A Cinterion Wireless Modules NAFTA LLC ("Cinterion"), Thales DIS AIS Deutschland GmbH (F/K/A Gemalto M2M GmbH), Thales USA, Inc., Thales S.A., (collectively, "Thales"), CalAmp, Xirgo, and Laird, Philips alleges that our location monitoring units infringe certain claims of the Patents, and (4) fourth, before The International Trade Commission ("ITC"), Philips v. Quectel, CalAmp, Xirgo, Laird, Thales, Gemalto, Cinterion, and Telit, Philips alleges violations of section 337 of the U.S. Tariff Act based upon our importation into the United States, the sale for importation, and the sale within the United States after importation of certain UMTS (Universal Mobile Telecommunications System) and LTE (Long Term Evolution) cellular communication modules and products containing the same by reason of our location monitoring units that allegedly infringe on certain claims of the Patents, and seeks (a) an investigation and a hearing under the Tariff Act for unlawful importation of allegedly infringing product, (b) an exclusion order excluding entry into the U.S. of all allegedly infringing communication modules, and (c) a permanent cease and desist order barring the importation, marketing, advertising, and sale of allegedly infringing products in the U.S.

On April 1, 2022, the administrative law judge ("ALJ") at the ITC issued a Final Initial Determination on the question of violation of section 337 (19 U.S.C. § 1337). The ALJ determined that a violation of section 337 has not occurred with respect to any of the asserted patents. On July 6, 2022, the ITC affirmed the Final Initial Determination of no violation of Section 337 and terminated the investigation.

The three district court cases are currently stayed. Considering the ITC's determination of no infringement of any of the four patents asserted we believe that we have strong defenses should the Delaware district court cases proceed. Also, we believe we have strong indemnification claims against our communication module suppliers, and are entitled to have our defense costs and any losses resulting from these proceedings paid by those suppliers, who are co-defendants in these proceedings, should the stays be removed in the three district court cases. Currently, it is not feasible to predict with certainty the outcome of the three district court cases, and no specific amount of damages has been identified. Additionally, we believe the ultimate resolution of the proceedings, including indemnification and defense by our module suppliers, will not have a material adverse effect on our consolidated results of operations, financial condition, or cash flows.

Other matters

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

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

Our discussion and analysis of financial condition and results of operations is based upon our condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The preparation of these financial statements requires management to make estimates and assumptions that may affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues, costs and expenses during the reporting periods. Actual results could differ materially from these estimates. The critical accounting policies listed below involve our more significant accounting judgments and estimates that are used in the preparation of the consolidated financial statements. These policies are described in greater detail in Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") under Part II, Item 7 of our Annual Report on Form 10-K for the fiscal year ended February 28, 2022, as filed with the U.S. Securities and Exchange Commission (the "SEC") on April 28, 2022, and include the following areas:

- Revenue recognition;
- Patent litigation and other contingencies;
- Goodwill and long-lived assets; and
- Deferred income tax assets and uncertain tax positions.

OUR COMPANY

We are a connected intelligence company that leverages a data-driven solutions ecosystem to help people and organizations improve operational performance. We solve complex problems for customers within the market verticals of transportation and logistics, commercial and government fleets, industrial equipment, government and consumer vehicles by providing solutions that track, monitor and recover their vital assets. The data and insights enabled by CalAmp solutions provide real-time visibility into a user's vehicles, assets, drivers, and cargo, giving organizations greater understanding and control of their operations. Ultimately, these insights drive operational visibility, safety, efficiency, maintenance, and sustainability for organizations around the world. We are a global organization that is headquartered in Irvine, California. We have two reportable segments, Software & Subscription Services and Telematics Products. Our organizational structure is based on a number of factors that our CEO, as the Chief Operating Decision Maker ("CODM"), uses to evaluate and operate the business, which include, but are not limited to, customer base, homogeneity of products, and technology. A description of the reportable business segments is provided below.

Software & Subscription Services

Our Software & Subscription Services segment offers cloud-based application enablement and telematics service platforms that facilitate integration of our own applications, as well as those of third parties, through open APIs to deliver full-featured mobile IoT solutions to a wide range of customers and markets. Our scalable proprietary applications and other subscription services enable rapid and cost-effective development of high-value solutions for customers all around the globe. Services include tracking and monitoring services within Fleet Management as well as Supply Chain Integrity and International Vehicle Location.

Telematics Products

Our Telematics Products segment offers a series of advanced telematics products for the broader connected vehicle and emerging industrial IoT marketplace, which enable customers to optimize their operations by collecting, monitoring and effectively reporting business-critical information and desired intelligence from high-value remote and mobile assets. Our telematics products include asset tracking units, mobile telematics devices, fixed and mobile wireless gateways, and routers. These wireless networking devices underpin a wide range of solutions, and are ideal for applications demanding secure, reliable and business-critical communications. Products and sales channels include OEM and MRM products.

Adjusted EBITDA

In addition to our GAAP results, we present Adjusted EBITDA as a supplemental non-GAAP measure of our performance. Our CEO, the CODM, uses Adjusted EBITDA to evaluate and monitor segment performance. A non-GAAP financial measure is defined as a numerical measure of a company's financial performance that excludes or includes amounts to be different than the most directly comparable measure calculated and presented in accordance with GAAP in the statements of comprehensive income (loss), balance sheets or statements of cash flows. We define Adjusted EBITDA as earnings before investment income, interest expenses, taxes, depreciation, amortization, net income (loss) from discontinued operations, stock-based compensation, acquisition and integration expenses, non-cash costs and expenses arising from purchase accounting adjustments, litigation provisions, gain from legal settlement, impairment losses and certain other adjustments. We believe this non-GAAP financial information provides additional insight into our ongoing performance and have therefore chosen to provide this information to investors for a more consistent basis of comparison to help investors evaluate our results of ongoing operations and enable more meaningful period-to-period comparisons. Pursuant to the rules and regulations of the SEC regarding the use of non-GAAP financial measures, we have provided a reconciliation of non-GAAP financial measures to the most directly comparable financial measure. See Note 14, *Segment Information and Geographic Data*, to the accompanying condensed consolidated financial statements for additional information related to Adjusted EBITDA by reportable segment and reconciliation to net loss.

Recent Developments

COVID-19 Impact and Supply Chain Constraints

In March 2020, the World Health Organization declared COVID-19 to be a public health pandemic of international concern, which has resulted in travel restrictions and in some cases, prohibitions of non-essential activities, disruption and shutdown of businesses and greater uncertainty in global financial markets.

Since March 2020 our revenues have been negatively impacted by COVID-19 as various small-to-medium sized customers postponed their capital expenditures due to the pandemic and related macro-economic uncertainties. More recently, we have experienced supply shortages as a result of global supply imbalances driven by the global pandemic. These global supply imbalances have negatively impacted all parts of our business, both in the form of reduced availability of components and devices as well as increased costs to procure available components and devices. It is difficult to predict the extent to which these factors will continue to impact our future business or operating results, which is highly dependent on uncertain future developments, including the severity of the continuing pandemic, the actions taken or to be taken by governments and private businesses in relation to its containment and resolution of supply chain issues and supply shortages. Because our business and operating results depend on telematics product sales, device installations and related subscription-based services, the ultimate effect of the pandemic and the current supply shortages may not be fully reflected in our operating results until future periods.

We have considered all known and reasonably available information that existed throughout the six months ended and as of August 31, 2022, in making accounting judgements, estimates and disclosures. We are monitoring the potential effects of the health care related and economic conditions of COVID-19 in assessing certain matters including (but not limited to) supply chain disruptions and inflationary impacts, decreases in customer demand for our products and services, potential longer-term effects on our customer and distribution channels particularly in the U.S. and relevant end markets as well as other developments. If the impact results in longer term closures of businesses and economic recessionary conditions, we may recognize material asset impairments and charges for uncollectible accounts receivable in future periods.

Transition of MRM Telematics Customers to Subscription Arrangements

In the second half of fiscal 2022, we prompted a strategic shift with customers who have historically purchased MRM telematics devices from us. These customers are being transitioned to new arrangements by way of bundling subscription services with telematics devices under multi-year (generally three years) subscription contracts. Our plan is to transition the entire base of MRM business to multi-year subscription contracts over the course of fiscal 2023. As a result, our financial results associated with such subscription arrangements will be reported within our Software & Subscription Services reporting segment prospectively from the effective date of such underlying contracts. In the short term, we expect that this will lead to significant growth in our Software & Subscription Services business with a corresponding decline in our Telematics Products business. Long term, we believe this shift will allow us to drive revenue growth as we generate incremental revenue from our existing customer base as well as new customers through current and anticipated broader future subscription service offerings.

Sale of LoJack North America Operations

Effective March 15, 2021, we sold certain assets and transferred certain liabilities of the LoJack North America business.

As further described in Note 2, *Discontinued Operations*, to the accompanying condensed consolidated financial statements, the LoJack North America operations are presented as discontinued operations in the accompanying condensed consolidated financial statements for the six months ended August 31, 2021. For the six months ended August 31, 2021, we have reported the operating results and cash flows related to the LoJack North America operations through March 14, 2021.

OPERATING RESULTS

Three months ended August 31, 2022 compared to three months ended August 31, 2021:

Revenue by Segment

	Three Months Ended August 31,					
	2022		2021			
(In thousands)	**$**	**% of Revenue**	**$**	**% of Revenue**	**$ Change**	**% Change**
Segment						
Software & Subscription Services	$ 44,511	61.1%	$ 41,434	52.4%	$ 3,077	7.4%
Telematics Products	28,317	38.9%	37,577	47.6%	(9,260)	(24.6%)
Total	$ 72,828	100.0%	$ 79,011	100.0%	$ (6,183)	(7.8%)

Our Software & Subscription Services enable customers to gather and analyze critical data used to track, monitor and recover vital mobile assets with real-time visibility and insights. Our services focus on three principal end markets: (i) transportation and logistics, (ii) government and municipalities, and (iii) connected car services. As described above, in the second half of fiscal 2022, we began entering into subscription-based arrangements with customers that historically purchased MRM telematics hardware from us, a shift that favorably impacts revenues in our Software & Subscription Services segment and unfavorably impacts revenues in our Telematics Products segment. This is a transition that we expect will continue throughout fiscal 2023 as we work toward transitioning the entire MRM telematics customer base into subscription arrangements. In fiscal 2022 we began experiencing supply shortages driven by the global pandemic. These supply imbalances have intensified in the past few quarters and adversely impacted all parts of our business. We expect these supply shortages to continue for the foreseeable future as suppliers strive to create additional production capacity.

As of August 31, 2022, our remaining contractual performance obligations were approximately $210 million, compared to $141 million as of August 31, 2021. The majority of the growth in contractual performance obligations was driven by the conversion of telematics products customers to multi-year subscription contracts as well as new customer acquisitions within the government and municipality markets and connected car markets.

Software & Subscription Services revenue increased by $3.1 million or 7.4% for the three months ended August 31, 2022 compared to the same period last year largely due to increased transportation and logistics revenues generated through the transition of MRM telematics hardware customers onto multi-year subscription arrangements, which commenced in the third quarter of fiscal 2022. Such customer transitions contributed $12.4 million to revenues during the three months ended August 31, 2022. Partially offsetting this increase in revenues was $7.5 million of revenues in the prior year period associated with 3G to 4G equipment upgrades for specific larger customers that did not recur in the current year. Active subscribers increased by 32% in the three months ended August 31, 2022 when compared to the prior year period. As mentioned above, supply shortages have impacted our ability to procure the devices we utilize to deliver our subscription services, which has constrained our ability to install our devices and initiate new subscription services.

Telematics Products revenue, comprised primarily of MRM telematics and OEM/network products, decreased by $9.3 million or 24.6% for the three months ended August 31, 2022 compared to the same period last year. This decrease was largely driven by the conversion of certain MRM telematics hardware customers onto multi-year subscription contracts, and thus revenues generated after the contract effective dates for these customers are classified within Software & Subscription Services revenues to the extent they are associated with a subscription arrangement. We expect the conversion of the rest of our MRM customer base to continue over the next two to three quarters as we continue to implement our strategy to engage with our customers under subscription arrangements, which will lead to further decreases in Telematics Products segment revenues with an associated increase in Software & Subscription Services revenues. Telematics Products revenues have also been negatively impacted by the supply shortages described above, thereby limiting our ability to fulfill customer orders during the three months ended August 31, 2022.

Gross Profit by Segment

	Three Months Ended August 31,					
	2022		2021			
(In thousands)	**$**	**% of Revenue**	**$**	**% of Revenue**	**$ Change**	**% Change**
Segment						
Software & Subscription Services	$ 20,865	46.9%	$ 21,332	51.5%	$ (467)	(2.2%)
Telematics Products	8,147	28.8%	12,038	32.0%	(3,891)	(32.3%)
Gross profit	$ 29,012	39.8%	$ 33,370	42.2%	$ (4,358)	(13.1%)

Consolidated gross profit decreased by $4.4 million or 13.1% for the three months ended August 31, 2022 compared to the same period last year largely due to decreased revenues in our Telematics Products business. Consolidated gross margin decreased by 240 basis points for the three months ended August 31, 2022 compared to the same period last year primarily due to an unfavorable shift in customer and product mix coupled with increased costs incurred in the manufacture and procurement of our telematics devices. These negative impacts to gross margin were partially offset by the increased proportion of overall sales occurring within Software & Subscription Services, which has a higher margin profile, in the current year period.

Software & Subscription Services: Gross profit decreased by $0.5 million or 2.2% for the three months ended August 31, 2022 compared to the same period last year, and gross margin decreased by 460 basis points primarily due to customer mix and increased costs in the manufacture and procurement of our telematics devices.

Telematics Products: Gross profit decreased by $3.9 million or 32.3% for the three months ended August 31, 2022 compared to the same period last year primarily due to decreased revenues. Gross margin decreased by 320 basis points primarily due to product mix and increased costs in the manufacture and procurement of our telematics devices.

As mentioned above, we are presently experiencing adverse impacts to revenues as a result of global supply shortages of certain components, which is also leading to cost increases on many of these components. As a result, in the coming quarters we may continue to experience lower gross margins if we are unable to effectively offset the impacts of these cost increases.

Operating Expenses

	Three Months Ended August 31,					
	2022		2021			
(In thousands)	**$**	**% of Revenue**	**$**	**% of Revenue**	**$ Change**	**% Change**
Research and development	$ 6,757	9.3%	$ 7,729	9.8%	$ (972)	(12.6%)
Selling and marketing	12,734	17.5%	12,047	15.2%	687	5.7%
General and administrative	13,530	18.6%	13,198	16.7%	332	2.5%
Intangible asset amortization	1,330	1.8%	1,394	1.8%	(64)	(4.6%)
Total	$ 34,351	47.2%	$ 34,368	43.5%	$ (17)	0.0%

Consolidated research and development expense decreased by $1.0 million or 12.6% for the three months ended August 31, 2022 compared to the same period last year due to a reduction in research and development activities associated with our Telematics Products business, partially offset by increased development efforts focused on expanding our telematics services offering both domestically and internationally. We plan to continue to invest in research and development to supplement and expand our telematics solutions offering.

Consolidated selling and marketing expense increased by $0.7 million or 5.7% for the three months ended August 31, 2022 compared to the same period last year primarily due to increased compensation costs resulting from changes in the composition of our salesforce to drive sales of our telematics subscription services.

Consolidated general and administrative expenses increased slightly for the three months ended August 31, 2022 compared to the same period last year.

Amortization of intangibles decreased slightly for the three months ended August 31, 2022 compared to the same period last year.

Non-operating Income (Expense)

Investment income (loss) decreased to a loss of $0.1 million for the three months ended August 31, 2022 from investment income of $0.4 million for the three months ended August 31, 2021. The decrease was primarily driven by lower investment returns on invested funds.

Interest expense decreased to $1.5 million for the three months ended August 31, 2022 from $3.8 million for the three months ended August 31, 2021 due to the adoption of ASU 2020-06 effective March 1, 2022 under which the conversion feature associated with our convertible notes is no longer separately accounted for as a debt discount and amortized to interest expense. The impacts of the adoption of ASU 2020-06 are more fully described in Note 1, under the caption “Recently Adopted Accounting Pronouncements”, to the accompanying condensed consolidated financial statements.

Other non-operating expense was $0.5 million for the three months ended August 31, 2022 as compared to $0.7 million for the three months ended August 31, 2021, and was largely comprised of costs incurred related to the wind down and transition of the LoJack North America business as well as net foreign currency exchange rate losses.

Overall Profitability Measures

Net Loss:

GAAP-basis net loss for the three months ended August 31, 2022 was $7.5 million compared to a net loss of $5.4 million in the three months ended August 31, 2021. The change in the net loss was largely driven by lower revenues in the current year period.

Adjusted EBITDA:

(In thousands)	Three Months Ended August 31, 2022	2021	$ Change	% Change
Segment				
Software & Subscription Services	$ 6,623	$ 9,638	$ (3,015)	(31.3%)
Telematics Products	(1,244)	(378)	(866)	229.1%
Corporate Expenses	(613)	(959)	346	36.1%
Total Adjusted EBITDA	$ 4,766	$ 8,301	$ (3,535)	(42.6%)

Adjusted EBITDA for Software & Subscription Services decreased $3.0 million compared to the same period last year primarily due to lower gross margins and higher operating expenses as a result of investments we are making to develop, market and sell our telematics solutions, partially offset by higher revenues. Adjusted EBITDA for Telematics Products decreased $0.9 million compared to the same period last year as a result of decreased revenues. Corporate Expenses decreased by $0.3 million compared to the same period last year.

See Note 14, *Segment Information and Geographic Data*, to the accompanying condensed consolidated financial statements for information related to Adjusted EBITDA by reportable segment and a reconciliation to GAAP-basis net loss.

Income Tax Provision

We evaluate our estimated annual effective tax rate ("ETR") on a quarterly basis based on current and forecasted operating results. The relationship between our income tax provision or benefit and our pretax book income or loss can vary significantly from period to period considering, among other factors, the overall level of pretax book income or loss and changes in the blend of jurisdictional income or loss that is taxed at different rates and changes in valuation allowances. Consequently, our ETR may fluctuate significantly period to period and may make quarterly comparisons less meaningful.

Income tax expense was $0.1 million for the three months ended August 31, 2022, compared to income tax expense of $0.3 million in the same period last year. The $0.2 million decrease in tax expense was primarily driven by a decrease in pre-tax income attributable to one of our foreign subsidiaries in the current period.

Six months ended August 31, 2022 compared to six months ended August 31, 2021:

Revenue by Segment

	Six Months Ended August 31, 2022		2021			
(In thousands)	$	% of Revenue	$	% of Revenue	$ Change	% Change
Segment						
Software & Subscription Services	$ 84,068	61.1%	$ 76,477	48.2%	$ 7,591	9.9%
Telematics Products	53,486	38.9%	82,208	51.8%	(28,722)	(34.9%)
Total	$ 137,554	100.0%	$ 158,685	100.0%	$ (21,131)	(13.3%)

Software & Subscription Services revenue increased by $7.6 million or 9.9% for the six months ended August 31, 2022 compared to the same period last year largely due to increased transportation and logistics revenues generated through the transition of MRM telematics hardware customers onto multi-year subscription arrangements, which commenced in the third quarter of fiscal 2022. Such customer transitions contributed $20.9 million to revenues during the six months ended August 31, 2022. Partially offsetting this increase in revenues was $10.5 million of revenues in the prior year period associated with 3G to 4G equipment upgrades for specific larger customers that did not recur in the current year. As mentioned above, supply shortages have impacted our ability to procure the devices we utilize to deliver our subscription services, which has constrained our ability to install our devices and initiate new subscription services.

Telematics Products revenue decreased by $28.7 million or 34.9% for the six months ended August 31, 2022 compared to the same period last year. This decrease was largely driven by the conversion of certain MRM telematics hardware customers onto multi-year subscription contracts, and thus revenues generated after the contract effective dates for these customers are classified within Software & Subscription Services revenues to the extent they are associated with a subscription arrangement. We expect the conversion of the rest of our MRM customer base to continue over the next two to three quarters as we continue to implement our strategy to engage with our customers under subscription arrangements, which will lead to further decreases in Telematics Products segment revenues with an associated increase in Software & Subscription Services revenues. Telematics Products revenues have also been negatively impacted by the supply shortages described above, thereby limiting our ability to fulfill customer orders during the three months ended August 31, 2022.

Gross Profit by Segment

	Six Months Ended August 31,					
	2022		2021			
(In thousands)	**$**	**% of Revenue**	**$**	**% of Revenue**	**$ Change**	**% Change**
Segment						
Software & Subscription Services	$ 38,923	46.3%	$ 38,154	49.9%	$ 769	2.0%
Telematics Products	15,736	29.4%	27,663	33.7%	(11,927)	(43.1%)
Gross profit	$ 54,659	39.7%	$ 65,817	41.5%	$ (11,158)	(17.0%)

Consolidated gross profit decreased by $11.2 million or 17.0% for the six months ended August 31, 2022 compared to the same period last year largely due to decreased revenues in our Telematics Products business. Consolidated gross margin decreased by 180 basis points for the six months ended August 31, 2022 compared to the same period last year primarily due to an unfavorable shift in customer and product mix coupled with increased costs incurred in the manufacture and procurement of our telematics devices. These negative impacts to gross margin were partially offset by the increased proportion of overall sales occurring within Software & Subscription Services, which has a higher margin profile, in the current year period.

Software & Subscription Services: Gross profit increased by $0.8 million or 2.0% for the six months ended August 31, 2022 compared to the same period last year, primarily as a result of increased revenues. Gross margin decreased by 360 basis points primarily due to customer mix and increased costs in the manufacture and procurement of our telematics devices.

Telematics Products: Gross profit decreased by $11.9 million or 43.1% for the six months ended August 31, 2022 compared to the same period last year primarily due to decreased revenues. Gross margin decreased by 430 basis points primarily due to product mix and increased costs in the manufacture and procurement of our telematics devices.

As mentioned above, we are presently experiencing adverse impacts to product sales as a result of global supply shortages of certain components, which is also leading to cost increases on many of these components. As a result, in the coming quarters we may continue to experience lower gross margins if we are unable to effectively offset the impacts of these cost increases.

Operating Expenses

	Six Months Ended August 31,					
	2022		2021			
(In thousands)	**$**	**% of Revenue**	**$**	**% of Revenue**	**$ Change**	**% Change**
Research and development	$ 13,757	10.0%	$ 14,669	9.2%	$ (912)	(6.2%)
Selling and marketing	24,212	17.6%	24,509	15.4%	(297)	(1.2%)
General and administrative	28,692	20.9%	26,220	16.5%	2,472	9.4%
Intangible asset amortization	2,672	1.9%	2,647	1.7%	25	0.9%
Total	$ 69,333	50.4%	$ 68,045	42.9%	$ 1,288	1.9%

Consolidated research and development expense decreased by $0.9 million or 6.2% for the six months ended August 31, 2022 compared to the same period last year due to a reduction in research and development activities associated with our Telematics Products business, partially offset by increased development efforts focused on expanding our telematics services offering both domestically and internationally. We plan to continue to invest in research and development to supplement and expand our telematics solutions offering .

Consolidated selling and marketing expense decreased slightly for the six months ended August 31, 2022 compared to the same period last year. We expect to continue to make changes in the composition of our salesforce to drive sales of our telematics subscription services.

Consolidated general and administrative expenses increased by $2.5 million or 9.4% for the six months ended August 31, 2022 compared to the same period last year primarily driven by increased legal fees and the recording of $1.9 million of incremental litigation reserves related to the final settlement of the Omega legal matter, which is described in Note 15, *Legal Proceedings*, to the accompanying condensed consolidated financial statements.

Amortization of intangibles increased slightly for the six months ended August 31, 2022 compared to the same period last year.

Non-operating Income (Expense)

Investment income (loss) decreased to a loss of $0.2 million for the six months ended August 31, 2022 from investment income of $1.1 million for the six months ended August 31, 2021. The decrease was primarily driven by lower investment returns on invested funds.

Interest expense decreased to $3.0 million for the six months ended August 31, 2022 from $7.7 million for the six months ended August 31, 2021 due to the adoption of ASU 2020-06 effective March 1, 2022 under which the conversion feature associated with our convertible notes is no longer separately accounted for as a debt discount and amortized to interest expense. The impacts of the adoption of ASU 2020-06 are more fully described in Note 1, under the caption “Recently Adopted Accounting Pronouncements”, to the accompanying condensed consolidated financial statements.

Other non-operating expense was $1.4 million for the six months ended August 31, 2022 as compared to $2.0 million for the six months ended August 31, 2021, and was largely comprised of costs incurred related to the wind down and transition of the LoJack North America business as well as, to a lesser extent, net foreign currency exchange rate losses.

Net Income from Discontinued Operations, Net of Tax

Net income from discontinued operations, net of tax was $4.1 million for the six months ended August 31, 2021 and related to the sale of the LoJack North America business that was completed on March 15, 2021. See Note 2, *Discontinued Operations*, to the accompanying condensed consolidated financial statements for additional information.

Overall Profitability Measures

Net Loss:

GAAP-basis net loss for the six months ended August 31, 2022 was $19.7 million compared to a net loss of $7.4 million in the six months ended August 31, 2021. The change in the net loss was largely driven by lower revenues in the current year period and the gain recognized on the sale of the LoJack North America business in the prior year period

Adjusted EBITDA:

	Six Months Ended August 31,			
(In thousands)	**2022**	**2021**	**$ Change**	**% Change**
Segment				
Software & Subscription Services	$ 10,578	$ 15,532	$ (4,954)	(31.9%)
Telematics Products	(1,991)	3,254	(5,245)	(161.2%)
Corporate Expenses	(1,965)	(2,100)	135	6.4%
Total Adjusted EBITDA	$ 6,622	$ 16,686	$ (10,064)	(60.3%)

Adjusted EBITDA for Software & Subscription Services decreased $5.0 million compared to the same period last year primarily due to lower gross margins and higher operating expenses as a result of investments we are making to develop, market and sell our telematics solutions, partially offset by higher revenues. Adjusted EBITDA for Telematics Products decreased $5.3 million compared to the same period last year as a result of the decrease in revenues. Corporate Expenses decreased by $0.1 million compared to the same period last year.

See Note 14, *Segment Information and Geographic Data*, to the accompanying condensed consolidated financial statements for information related to Adjusted EBITDA by reportable segment and a reconciliation to GAAP-basis net loss.

Income Tax Provision

Income tax expense was $0.4 million for the six months ended August 31, 2022, compared to $0.6 million in the same period last year. The $0.2 million decrease in tax expense was primarily driven by a decrease in pre-tax income attributable to one of our foreign subsidiaries in the current period.

LIQUIDITY AND CAPITAL RESOURCES

Consistent with fiscal 2022, our primary recurring cash needs have been for working capital purposes and to a lesser extent, capital expenditures. We have historically funded our principal business activities through cash flows generated from operations and cash on hand. As we continue to grow our customer base to a subscription model while increasing our revenues, there will be a need for working capital in the future. Our immediate sources of liquidity are cash and cash equivalents, and our revolving credit facility. As of August 31, 2022, we have $47.7 million of cash and cash equivalents and $34 million available under our revolving credit facility. We expect to continue to finance our operations with cash on hand and cash generated from operations. See Note 1, *Description of Business, Basis of Presentation and Summary of Significant Accounting Policies*, for additional information on the Company’s liquidity.

On July 13, 2022, we replaced our revolving credit facility with JP Morgan Chase Bank, N.A. and we entered into a new revolving credit facility with PNC Bank, N.A., that provides for an asset-based senior secured revolving credit facility for borrowings up to an aggregate of $50.0 million, subject to certain conditions, including borrowing base provisions that limit borrowing capacity to 80% of eligible accounts receivable and 50% of eligible inventory. The revolving credit facility will terminate, and all outstanding loans will become due and payable on the earlier of July 13, 2025 and the date that is ninety days prior to the maturity date of our 2025 Convertible notes. Borrowings under our existing credit facility bear interest at either the Bloomberg short-term bank yield rate plus a margin of 2.50% per annum or an alternate base rate plus a margin of 1.50% per annum as selected by us on a periodic basis. As of August 31, 2022, there were no borrowings outstanding on this revolving credit facility.

We are a defendant in various legal proceedings involving intellectual property claims and contract disputes. On May 17, 2022, we executed an agreement with Omega for the settlement and release of the Omega claim and a covenant not to sue under certain patents and on June 1, 2022, we paid $4.9 million pursuant to that settlement agreement. On June 16, 2022, the court dismissed the Omega case with prejudice. Regarding the Philips patent infringement claim, the ITC affirmed the Final Initial Determination of the administrative law judge of no violation of Section 337 and terminated the investigation on July 6, 2022. To date Philips has not exercised any appeal right it may have. The Delaware District Court cases are stayed pending resolution of the ITC matter, and may be reinstated after Philips' appeal rights expire. In connection with this matter, we may be required to enter into a license agreement or other settlement arrangement that requires us to make a significant payment in the future. While it is not feasible to predict with certainty the outcome of this legal proceeding, based on currently available information, including the ITC's affirmation of no violation of Section 337, we believe that the ultimate resolution of this matter will not have a material adverse effect on our condensed consolidated results of operations, financial condition and cash flows.

See Note 15, *Legal Proceedings*, of the Notes to Unaudited Condensed Consolidated Financial Statements for additional information on legal proceedings.

Sale of LoJack North America Operations

On March 14, 2021, we entered into an agreement with Spireon pursuant to which we sold certain assets and transferred certain liabilities of the LoJack North America business for a purchase price of $8.0 million. The transaction was completed effective March 15, 2021 and we received net proceeds of approximately $6.6 million. Subsequently, on November 9, 2021, the purchase price was reduced by $0.9 million, which was paid to Spireon, due to final working capital adjustments. We also entered into a Transition Service Agreement with Spireon on March 15, 2021 ("TSA") to support Spireon in the transition of LoJack North America customers and to provide recovery services to the existing installed base of LoJack North America customers as an agent of Spireon, which effectively terminated on March 31, 2022. During the service period, we invoiced Spireon for certain costs incurred in operating this business.

We also entered into a post-TSA Services Agreement with Spireon on March 15, 2021 ("SA"), that commenced April 1, 2022 upon the expiration of the TSA, under which we will continue to provide certain services related to the LoJack North America radio frequency tower infrastructure for a period of no longer than fifty-four months, as needed. As consideration for these services, Spireon will pay us a monthly service fee over the stipulated contract term.

Future Cash Obligations

During the second quarter of fiscal 2023, there were no significant changes to our estimates of future payments under our fixed contractual obligations and commitments as presented in Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, included in our Annual Report on Form 10-K for our fiscal year ended February 28, 2022 as filed with the SEC on April 28, 2022.

Cash flows from operating activities

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

Our cash flow from operating activities are attributable to our net loss as well as how well we manage our working capital, which is dictated by the volume of products we purchase from our manufacturers or suppliers and then sell to our customers along with the payment and collection terms that we negotiate with them. We purchase a majority of our products from significant suppliers located in Asia and Mexico that generally provide us 60-day payment terms for products purchased.

Our significant customers are located in the United States as well as certain foreign countries. We believe that our relationships with our key customers are good and that these customers are in good financial condition. We generally grant credit to our customers based on their financial viability and our historical collections experience with them. We typically require payment from our customers within 30 to 45 days of our invoice date with a few exceptions that extend the credit terms up to 90 days. Historically, since we paid our suppliers at or within 60 days of inventory purchase and our payment terms on our accounts receivable are generally within 45 days, we generated positive cash flows from operating activities. In the second half of fiscal 2022, we began entering into subscription arrangements with key customers who previously purchased telematics devices from us. While these subscription arrangements create recurring multi-year revenue, they elongate the cash conversion cycle as we must outlay cash for the associated device but recover this cash outlay over a subscription period. Thus the conversion of customers onto subscription arrangements has had an unfavorable impact on cash flows. We anticipate that this trend will continue over at least the next six months as we continue our efforts to transition our entire MRM telematics customer base onto similar multi-year subscription arrangements.

For the six months ended August 31, 2022, net cash used in operating activities was $25.7 million and net loss was $19.7 million. Our non-cash expenses from continuing operations, comprised principally of depreciation, intangible asset amortization, stock-based compensation expense, amortization of debt discount and issuance costs, noncash operating lease costs and changes in deferred income taxes totaled $19.5 million. These non-cash expenses were slightly offset by non-cash revenues of $1.5 million related to acquired revenue assignment arrangements. Changes in operating assets and liabilities from continuing operations used $23.9 million of cash, largely as a result of the increase in accounts receivable and the decrease in deferred revenue. Both the increase in accounts receivable and decrease in deferred revenue were driven by differences in timing of collections under new subscription arrangements such that less cash is collected at contract inception. Operating cash flows were favorably impacted by the timing of payments on accounts payable.

For the six months ended August 31, 2021, net cash provided by operating activities was $10.5 million and net loss was $7.4 million. Our non-cash expenses from continuing operations, comprised principally of depreciation, intangible asset amortization, stock-based compensation expense, amortization of debt discount and issue costs, noncash operating lease costs and changes in deferred income taxes totaled $23.9 million. These non-cash expenses were partially offset by non-cash revenues of $2.6 million related to acquired revenue assignment arrangements. Changes in operating assets and liabilities from continuing operations provided $1.0 million of cash, primarily driven by the impact of lower inventory levels, partly offset by a net decrease in accounts payable. Net cash used in discontinued operations was $0.4 million.

Cash flow from investing activities

For the six months ended August 31, 2022 and 2021, our net cash used in investing activities of continuing operations was $4.9 million and $6.6 million, respectively. In each of these periods, our primary investing activities consisted of capital expenditures. We expect that we will make additional capital expenditures in the future, including the devices that we lease to customers under subscription agreements in order to support the future growth of our business.

Net cash provided by investing activities of discontinued operations was $6.6 million during the six months ended August 31, 2021 and was comprised of cash proceeds received from the sale of the LoJack North America business.

Cash flow from financing activities

For the six months ended August 31, 2022 and 2021, our net cash used in financing activities was $1.1 million and $3.1 million, respectively, driven primarily by payments for taxes related to the net share settlement of vested equity awards.

We continue to monitor the impact of the pandemic and supply chain constraints on our operating results and liquidity as they have had an unfavorable impact on our financial condition and results of operations and we believe the pandemic and supply chain constraints may continue to have an unfavorable impact going forward.

FORWARD LOOKING STATEMENTS

Forward looking statements in this Form 10-Q which include, without limitation, statements relating to our plans, strategies, objectives, expectations, intentions, projections and other information regarding future performance, are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The words “may”, “will”, “could”, “plans”, “intends”, “seeks”, “believes”, “anticipates”, “expects”, “estimates”, “judgment”, “goal”, and variations of these words and similar expressions, are intended to identify forward-looking statements. These forward-looking statements reflect our current views with respect to future events and financial performance and are subject to certain risks and uncertainties that are difficult to predict, including, without limitation, product demand, competitive pressures and pricing declines in our markets, the timing of customer approvals of new product designs, intellectual property infringement claims, interruption or failure of our Internet-based systems used to wirelessly configure and communicate with the tracking and monitoring devices that we sell, global component supply shortages due to ongoing supply chain constraints, the effect of tariffs on exports from China and other countries, the ongoing effects of the COVID-19 pandemic, and other risks and uncertainties that are set forth in Part I, Item 1A of the Annual Report on Form 10-K for the fiscal year ended February 28, 2022 as filed with the SEC on April 28, 2022 and in Part II, Item 1A of the Quarterly Report on Form 10-Q for the quarter ended May 31, 2022, as filed with the SEC on June 23, 2022. Such risks and uncertainties could cause actual results to differ materially from historical or anticipated results. Although we believe the expectations reflected in such forward-looking statements are based upon reasonable assumptions, we can give no assurance that our expectations will be attained. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Currency Risk

We have international operations, giving rise to exposure to market risks from changes in currency exchange rates. A cumulative foreign currency translation loss of $3.0 million related to our foreign subsidiaries is included in “Accumulated other comprehensive loss” in the Stockholders' Equity section of the condensed consolidated balance sheet at August 31, 2022. The aggregate foreign currency transaction exchange rate losses included in determining loss before income taxes was $0.6 million and $49,000 for the six months ended August 31, 2022 and 2021, respectively.

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

Interest Rate Risk

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

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

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

Loans outstanding under our revolving credit facility bear interest at either the Bloomberg short-term bank yield rate plus a margin of 2.50% per annum or an alternate base rate plus a margin of 1.50% per annum. Changes in interest rates would impact our variable rate borrowings. As of August 31, 2022, there was no outstanding borrowings under our revolving credit facility.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

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

Changes in Internal Control Over Financial Reporting

There were no changes in our internal controls over financial reporting (as defined in Rules 13a-15(f) and 15d 15(f) under the Exchange Act) that occurred during the second quarter of fiscal 2023 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

See Note 15, *Legal Proceedings*, of the Notes to Unaudited Condensed Consolidated Financial Statements above for information regarding the legal proceedings in which we are involved.

ITEM 1A. RISK FACTORS

The reader is referred to Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended February 28, 2022, as filed with the SEC on April 28, 2022, and to Part II, "Item 1A. Risk Factors" in our Quarterly Report on Form 10-Q for the quarter ended May 31, 2022, as filed with the SEC on June 23, 2022, for a discussion of factors that could materially affect our business, financial condition, results of operations, or future results.

Other than the risks described in the above-referenced Form 10-K and Form 10-Q, the Company is subject to the following risk:

Our revolving credit facility contains covenant restrictions that may limit our ability to operate our business.

Our senior asset-based revolving credit agreement contains, and any of our other future debt agreements may contain, covenant restrictions that limit our ability to operate our business, including restrictions on our ability to, among other things, incur additional debt or issue guarantees, create liens, repurchase stock, or make other restricted payments, and make certain voluntary prepayments of specified debt. In addition, under certain circumstances we are required to comply with a fixed charge coverage ratio. As a result of these covenants, our ability to respond to changes in business and economic conditions and engage in beneficial transactions, including to obtain additional financing as needed, may be restricted. Furthermore, our failure to comply with our debt covenants could result in a default under our revolving credit facility, which could permit the holders to accelerate our obligation to repay the debt. If any of our debt is accelerated, we may not have sufficient funds available to repay it.

The revolving credit facility also contains certain negative and affirmative covenants, including financial covenants that require us to maintain a fixed charge coverage rate of not less than 1.10 to 1.00, measured as of the last day of each fiscal quarter if our liquidity position, consisting of specified cash balances plus unused availability on the revolving credit facility, falls below $40.0 million on such day. Additionally, the revolving credit facility contains a cash dominion trigger whereby PNC Bank may direct domestic cash balances and receipts to pay down borrowings under the revolving credit facility should our liquidity position, consisting of specified cash balances plus unused availability on the revolving credit facility, fall below $25.0 million at the end of any month. As of August 31, 2022, we were in compliance with our covenants under the revolving credit facility. However, if we are unable to comply with our covenants under the revolving credit facitilty in the future, our availability of cash resources may be reduced and our business may be adversely affected.

ITEM 2. UNREGISTERED SALES OF SECURITIES AND USE OF PROCEEDS

The following table contains information with respect to purchases made by or on behalf of CalAmp or any "affiliated purchaser" (as defined in Rule 10b18(a) (3) under the Securities Exchange Act of 1934), of our common stock during the second quarter ended August 31, 2022:

	Total Number of Shares Purchased (1)	Average Price Paid per Share (2)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that may be Purchased Under the Plans or Programs
June 1 - June 30, 2022	5,454	$ 6.75	-	$ -
July 1 - July 31, 2022	237,726	$ 4.62	-	$ -
August 1 - August 31, 2022	1,417	$ 6.13	-	$ -
Total	244,597	$ 4.68	-	$ -

(1) The amounts in this column represent shares of our common stock surrendered by employees to the Company, upon vesting of restricted stock, to satisfy tax withholding requirements.

(2) Amounts in this column reflect the weighted average price paid for shares tendered to us in satisfaction of employee tax withholding obligations upon the vesting of restricted stock granted under our stock plan.

ITEM 5. OTHER INFORMATION

Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers.

On September 20, 2022, the Board of Directors of the Company appointed Xiaolian (Cindy) Zhang as the Company's Senior Vice President and Interim Chief Financial Officer, and Erik Schulz as the Company's Interim Chief Accounting Officer, each to be effective as of September 23, 2022. Ms. Zhang replaces Kurt Binder, who provided the Company with notice on August 24, 2022 that he will resign as the Company's Executive Vice President and Chief Financial Officer. Mr. Binder's resignation was not the result of any disagreements with management.

As Senior Vice President and Interim Chief Financial Officer, Ms. Zhang will be the Company's principal financial officer on an interim basis, and as Interim Chief Accounting Officer, Mr. Schulz will be the company's principal accounting officer on an interim basis.

The Board adjusted Ms. Zhang's compensation in connection with her appointment to Senior Vice President, Financial Planning and Analysis that occurred on August 31, 2022, by increasing her annual base salary to $270,000 from $264,000 and increasing her annual target incentive opportunity to 40% of base salary from 30% of base salary. In connection with Ms. Zhang's appointment as Senior Vice President and Interim Chief Financial Officer, the Board approved (i) a $10,000 per month bonus while serving in this interim role, and (ii) a retention bonus in the amount of $80,000 that will be payable contingent upon Ms. Zhang remaining employed by the Company through April 30, 2023. In connection with the appointment of Mr. Schulz as Interim Chief Accounting Officer, he received an increase in his base salary to $263,750 from $258,750, effective September 25, 2022. Additionally, the Board approved a retention bonus in the amount of $60,000 that will be payable contingent upon Mr. Schulz remaining employed by the Company through April 30, 2023.

Ms. Zhang, age 50, joined CalAmp in 2017 and has been a senior leader of the finance team, contributing to the Company's strategic multi-year financial plan, forecast models, and accounting functions, while working closely with the Company's operations and sales teams. Ms. Zhang most recently served as Senior Vice President, Financial Planning and Analysis since August 2022, and prior to that served as Vice President, Financial Planning and Analysis. Prior to CalAmp, Ms. Zhang served as Senior Director, Finance at Vizio Inc. from 2015 to 2017 and prior to that served as Senior Manager, Finance & Strategy at The Walt Disney Company from 2005 to 2015. She holds a Master of Business Administration from The University of Chicago Booth School of Business, a Master in Foreign Trade from Hunan University and a Bachelor of Science in Electrical Engineering from Wuhan University of Technology.

Mr. Schulz, age 51, joined CalAmp in October 2020 and since then has served as the Company's Vice President and Corporate Controller. Mr. Schulz has over 20 years of financial leadership experience. From June 2019 to September 2020, Mr. Schulz served as Vice President of Finance and Corporate Controller of Sonendo Inc., a dental technology company, and from September 2012 to May 2019, Mr. Schulz served as Vice President and Corporate Controller of Universal Electronics Inc., a smart home technology company. Prior to this experience, Mr. Schulz held various senior finance roles with Guess? Inc., VF Corporation and Iteris, Inc. Mr. Schulz began his professional career as an assurance manager with Ernst & Young LLP where he served clients in a broad range of industry sectors. Mr. Schulz is a certified public accountant (inactive) in the state of California and holds a Bachelor of Arts degree in finance and accounting from California State University Fullerton.

Neither of Ms. Zhang nor Mr. Schulz has a family relationship that would require disclosure under Item 401(d) of Regulation S-K, and there is no arrangement or understanding between Ms. Zhang, or Mr. Schulz, and any other person, pursuant to which Ms. Zhang or Mr. Schulz is to be selected as an officer of the Company that would require disclosure under Item 401(b) of Regulation S-K. Neither of Ms. Zhang nor Mr. Schulz is a party to nor has any direct or indirect material interest in any transaction with the Company that would require disclosure under Item 404(a) of Regulation S-K.

ITEM 6. EXHIBITS

Exhibit 31.1	Chief Executive Officer Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 31.2	Chief Financial Officer Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 32	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101 .INS	Inline XBRL Instance Document
101 .SCH	Inline XBRL Taxonomy Extension Schema Document
101 .CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101 .DEF	Inline XBRL Taxonomy Definition Linkbase Document
101 .LAB	Inline XBRLTaxonomy Extension Label Linkbase Document
101 .PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	CALAMP CORP.
September 22, 2022	/s/ Kurtis Binder
Date	EVP & Chief Financial Officer (Principal Financial Officer and Chief Accounting Officer)

EXHIBIT 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO RULE 13a-14(a) AND RULE 15d-14(a)
OF THE SECURITIES EXCHANGE ACT, AS AMENDED

I, Jeffery Gardner, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of CalAmp Corp.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

September 22, 2022	/s/ Jeffery Gardner
Date	Jeffery Gardner Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO RULE 13a-14(a) AND RULE 15d-14(a)
OF THE SECURITIES EXCHANGE ACT, AS AMENDED

I, Kurtis Binder, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of CalAmp Corp.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

September 22, 2022	/s/ Kurtis Binder
Date	Kurtis Binder Chief Financial Officer

EXHIBIT 32

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
AND CHIEF FINANCIAL OFFICER PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of CalAmp Corp. (the "Company") on Form 10-Q for the quarter ended August 31, 2022 as filed with the Securities and Exchange Commission (the "Report"), we, Jeffery Gardner, Chief Executive Officer of the Company, and Kurtis Binder, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to our knowledge:

(1). The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2). The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Jeffery Gardner
Jeffery Gardner
Chief Executive Officer

/s/ Kurtis Binder
Kurtis Binder
Chief Financial Officer

September 22, 2022

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.