CEDAR FAIR L P
Form 10-Q
November 06, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 27, 2009

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 1-9444

CEDAR FAIR, L.P.

(Exact name of registrant as specified in its charter)

DELAWARE	**34-1560655**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

One Cedar Point Drive, Sandusky, Ohio 44870-5259

(Address of principal executive offices) (Zip Code)

(419) 626-0830

(Registrant s telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No ¨

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

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

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

Title of Class	**Units Outstanding As Of October 1, 2009**
Units Representing Limited Partner Interests	55,207,944

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CEDAR FAIR, L.P.

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

	9/27/09	12/31/08
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 56,203	$ 13,873
Receivables	30,341	8,518
Inventories	31,799	28,591
Prepaids and other current assets	13,433	13,552
	131,776	64,534
Property and Equipment:		
Land	301,800	320,200
Land improvements	324,954	315,519
Buildings	586,639	573,842
Rides and equipment	1,348,440	1,295,076
Construction in progress	18,743	28,110
	2,580,576	2,532,747
Less accumulated depreciation	(811,789)	(707,656)
	1,768,787	1,825,091
Goodwill	235,082	222,602
Other Intangibles, net	50,524	54,078
Other Assets	22,924	19,778
	$ 2,209,093	$ 2,186,083
LIABILITIES AND PARTNERS EQUITY		
Current Liabilities:		
Current maturities of long-term debt	$ 16,496	$ 17,450
Accounts payable	22,228	14,627
Deferred revenue	27,270	17,590
Accrued interest	10,017	3,395
Accrued taxes	43,656	16,581
Accrued salaries, wages and benefits	28,105	17,822
Self-insurance reserves	21,203	20,686
Other accrued liabilities	20,070	7,088
	189,045	115,239
Deferred Tax Liability	151,824	124,269
Derivative Liability	127,308	128,214

Other Liabilities	7,101	4,950
Long-Term Debt:		
Revolving credit loans		22,700
Term debt	1,583,663	1,683,925
	1,583,663	1,706,625
Partners Equity:		
Special L.P. interests	5,290	5,290
General partner		(1)
Limited partners, 55,208 and 55,076 units outstanding at September 27, 2009 and December 31, 2008, respectively	249,679	242,123
Accumulated other comprehensive loss	(104,817)	(140,626)
	150,152	106,786
	$ 2,209,093	$ 2,186,083

The accompanying Notes to Unaudited Condensed Consolidated Financial Statements are an integral part of these statements.

CEDAR FAIR, L.P.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per unit amounts)

	Three months ended		Nine months ended		Twelve months ended	
	9/27/09 (13 weeks)	9/28/08 (13 weeks)	9/27/09 (39 weeks)	9/28/08 (39 weeks)	9/27/09 (52 weeks)	9/28/08 (52 weeks)
Net revenues:						
Admissions	$ 307,011	$ 312,626	$ 467,874	$ 493,872	$ 540,268	$ 564,170
Food, merchandise and games	175,591	189,490	283,072	319,342	319,647	357,205
Accommodations and other	37,311	38,206	59,559	63,744	69,864	71,030
	519,913	540,322	810,505	876,958	929,779	992,405
Costs and expenses:						
Cost of food, merchandise and games revenues	45,617	47,849	74,375	81,091	83,910	93,159
Operating expenses	156,596	153,149	335,718	346,165	408,103	422,530
Selling, general and administrative	53,233	56,961	104,321	115,752	120,451	133,530
Loss on impairment of goodwill and other intangibles					86,988	
(Gain) loss on impairment / retirement of fixed assets, net	188	6,125	218	9,390	(747)	25,070
Gain on sale of other assets	(23,098)		(23,098)		(23,098)	
Depreciation and amortization	66,413	60,986	113,604	111,258	128,184	124,706
	298,949	325,070	605,138	663,656	803,791	798,995
Operating income	220,964	215,252	205,367	213,302	125,988	193,410
Interest expense	31,183	31,849	90,994	98,912	121,643	133,588
Net change in fair value of swaps	3,084		3,084		3,084	
Other (income) expense, net	1,508	240	1,303	(208)	1,102	(3,010)
Income before taxes	185,189	183,163	109,986	114,598	159	62,832
Provision (benefit) for taxes	77,575	91,614	48,265	52,143	(4,813)	9,406
Net income	107,614	91,549	61,721	62,455	4,972	53,426
Net income allocated to general partner	2	1	1	1		1
Net income allocated to limited partners	$ 107,612	$ 91,548	$ 61,720	$ 62,454	$ 4,972	$ 53,425
Basic earnings per limited partner unit:						
Weighted average limited partner units outstanding	55,208	55,058	55,177	55,193	55,148	55,190
Net income per limited partner unit	$ 1.95	$ 1.66	$ 1.12	$ 1.13	$ 0.09	$ 0.97
Diluted earnings per limited partner unit:						
Weighted average limited partner units outstanding	55,924	55,453	55,887	55,808	55,804	55,861
Net income per limited partner unit	$ 1.92	$ 1.65	$ 1.10	$ 1.12	$ 0.09	$ 0.96

The accompanying Notes to Unaudited Condensed Consolidated Financial Statements are an integral part of these statements.

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CEDAR FAIR, L.P.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF PARTNERS EQUITY

FOR THE NINE MONTHS ENDED SEPTEMBER 27, 2009

(In thousands, except per unit amounts)

	Nine Months Ended 9/27/09
Limited Partnership Units Outstanding	
Beginning balance	55,076
Limited partnership unit options exercised	24
Issuance of limited partnership units as compensation	108
	55,208
Limited Partners Equity	
Beginning balance	$ 242,123
Net income	61,720
Partnership distribution declared ($0.98 per limited partnership unit)	(54,062)
Expense recognized for limited partnership unit options	(26)
Tax effect of units involved in option exercises and treasury unit transactions	(1,240)
Issuance of limited partnership units as compensation	1,164
	249,679
General Partner s Equity	
Beginning balance	(1)
Net income	1
Special L.P. Interests	5,290
Accumulated Other Comprehensive Loss	
Cumulative foreign currency translation adjustment:	
Beginning balance	(6,075)
Current period activity, net of tax ($5,514)	5,092
	(983)
Unrealized loss on cash flow hedging derivatives:	
Beginning balance	(134,551)
Current period activity, net of tax ($5,425)	30,717
	(103,834)

		(104,817)
Total Partners Equity	$	150,152
Summary of Comprehensive Income		
Net income	$	61,721
Other comprehensive income		35,809
Total Comprehensive Income	$	97,530

The accompanying Notes to Unaudited Condensed Consolidated Financial Statements are an integral part of this statement.

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CEDAR FAIR, L.P.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Three months ended		Nine months ended		Twelve months ended	
	9/27/09 (13 weeks)	9/28/08 (13 weeks)	9/27/09 (39 weeks)	9/28/08 (39 weeks)	9/27/09 (52 weeks)	9/28/08 (52 weeks)
CASH FLOWS FROM (FOR) OPERATING ACTIVITIES						
Net income	$ 107,614	$ 91,549	$ 61,721	$ 62,455	$ 4,972	$ 53,426
Adjustments to reconcile net income to net cash from operating activities:						
Non-cash expense	68,463	62,598	120,090	117,912	136,792	131,375
Loss on impairment of goodwill and other intangibles					86,988	
(Gain) loss on impairment / retirement of fixed assets, net	188	6,125	218	9,390	(747)	25,070
Gain on sale of other assets	(23,098)		(23,098)		(23,098)	
Net change in fair value of swaps	3,084		3,084		3,084	
Excess tax benefit from unit-based compensation expense		(42)		(1,475)		(1,474)
Net change in working capital	41,863	41,791	53,182	58,237	(9,395)	(14,374)
Net change in other assets/liabilities	12,329	3,917	9,826	2,684	(4,667)	31,597
Net cash from operating activities	210,443	205,938	225,023	249,203	193,929	225,620
CASH FLOWS FROM (FOR) INVESTING ACTIVITIES						
Acquisition of Paramount Parks, net of cash acquired				6,431		6,431
Sale of Canadian real estate	53,831		53,831		53,831	
Capital expenditures	(13,051)	(12,537)	(53,251)	(73,100)	(63,917)	(85,543)
Net cash from (for) investing activities	40,780	(12,537)	580	(66,669)	(10,086)	(79,112)
CASH FLOWS FROM (FOR) FINANCING ACTIVITIES						
Net borrowings (payments) on revolving credit loans	(135,800)	(123,451)	(22,700)	(34,086)		
Term debt payments, including early termination penalties	(70,887)	(4,363)	(101,216)	(8,725)	(109,941)	(13,087)
Distributions paid to partners	(13,802)	(26,424)	(54,062)	(78,647)	(80,493)	(104,405)
Exercise of limited partnership unit options				4,538		4,968
Payment of debt issuance costs	(7,694)		(7,694)		(7,694)	
Excess tax benefit from unit-based compensation expense		42		1,475		1,474
Net cash for financing activities	(228,183)	(154,196)	(185,672)	(115,445)	(198,128)	(111,050)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	1,181	(422)	2,399	(896)	(1,206)	(734)

CASH AND CASH EQUIVALENTS						
Net increase (decrease) for the period	24,221	38,783	42,330	66,193	(15,491)	34,724
Balance, beginning of period	31,982	32,911	13,873	5,501	71,694	36,970
Balance, end of period	$ 56,203	$ 71,694	$ 56,203	$ 71,694	$ 56,203	$ 71,694
SUPPLEMENTAL INFORMATION						
Cash payments for interest expense	$ 28,847	$ 30,170	$ 79,661	$ 84,099	$ 115,357	$ 117,643
Interest capitalized	260	151	1,104	1,006	1,489	1,756
Cash payments for income taxes	6,850	7,099	13,409	11,417	16,611	15,501

The accompanying Notes to Unaudited Condensed Consolidated Financial Statements are an integral part of these statements.

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CEDAR FAIR, L.P.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE PERIODS ENDED SEPTEMBER 27, 2009 AND SEPTEMBER 28, 2008

The accompanying unaudited condensed consolidated financial statements have been prepared from the financial records of Cedar Fair, L.P. (the Partnership) without audit and reflect all adjustments necessary for a fair presentation of the results for the interim periods presented and such adjustments are of a normal recurring nature.

Due to the highly seasonal nature of the Partnership s amusement and water park operations, the results for any interim period are not indicative of the results to be expected for the full fiscal year. Accordingly, the Partnership has elected to present financial information regarding operations and cash flows for the preceding fiscal twelve-month periods ended September 27, 2009 and September 28, 2008 to accompany the quarterly results. Because amounts for the fiscal twelve months ended September 27, 2009 include actual 2008 season operating results, they may not be indicative of 2009 full calendar year operations.

(1) Significant Accounting and Reporting Policies:

The Partnership s unaudited condensed consolidated financial statements for the periods ended September 27, 2009 and September 28, 2008 included in this Form 10-Q report have been prepared in accordance with the accounting policies described in the Notes to Consolidated Financial Statements for the year ended December 31, 2008, which were included in the Form 10-K filed on March 2, 2009. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission (the Commission). These financial statements should be read in conjunction with the financial statements and the notes thereto included in the Form 10-K referred to above.

(2) Interim Reporting:

The Partnership owns and operates eleven amusement parks, six separately gated outdoor water parks, one indoor water park and five hotels. In order to more efficiently manage its properties, management has created regional designations for the parks. Parks in the Partnership s northern region include Cedar Point and the adjacent Soak City water park in Sandusky, Ohio; Kings Island near Cincinnati, Ohio; Canada s Wonderland in Toronto, Canada; Dorney Park & Wildwater Kingdom near Allentown, Pennsylvania; Valleyfair, near Minneapolis/St. Paul, Minnesota; Geauga Lake s Wildwater Kingdom near Cleveland, Ohio; and Michigan s Adventure near Muskegon, Michigan. In the southern region are Kings Dominion near Richmond, Virginia; Carowinds near Charlotte, North Carolina; and Worlds of Fun and Oceans of Fun in Kansas City, Missouri. The western region parks include Knott s Berry Farm, near Los Angeles in Buena Park, California; California s Great America located in Santa Clara, California; and three Knott s Soak City water parks located in California. Star Trek: The Experience (Star Trek), an interactive adventure in Las Vegas, was included in the western region until its closure on September 2, 2008. The results of operations of Star Trek are not material to the consolidated financial statements. The Partnership also owns and operates the Castaway Bay Indoor Waterpark Resort in Sandusky, Ohio, and operates Gilroy Gardens Family Theme Park in Gilroy, California under a management contract. Virtually all of the Partnership s revenues from its seasonal amusement parks, as well as its outdoor water parks and other seasonal resort facilities, are realized during a 130- to 140-day operating period beginning in early May, with the major portion concentrated in the third quarter during the peak vacation months of July and August.

To assure that these highly seasonal operations will not result in misleading comparisons of current and subsequent interim periods, the Partnership has adopted the following accounting and reporting procedures for its seasonal parks: (a) revenues on multi-day admission tickets are recognized over the estimated number of visits expected for each type of ticket and are adjusted periodically during the season, (b) depreciation, advertising and certain seasonal operating costs are expensed during each park s operating season, including certain costs incurred prior to the season which are amortized over the season, and (c) all other costs are expensed as incurred or ratably over the entire year.

(3) Derivative Financial Instruments:

On January 1, 2009, the Partnership adopted the Financial Accounting Standards Board s (FASB) Accounting Standards Codification s (ASC) 815 Derivatives and Hedging (Statement of Financial Accounting Standards (SFAS) No. 161, Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133). The adoption of FASB ASC 815 had no impact on the Partnership s condensed consolidated financial statements and only required additional financial statement disclosures. The Partnership has applied the requirements of FASB ASC 815 on a prospective basis. Accordingly, disclosures related to interim periods prior to the date of adoption have not been presented.

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Derivative financial instruments are only used within the Partnership s overall risk management program to manage certain interest rate and foreign currency risks from time to time. The Partnership does not use derivative financial instruments for trading purposes. Under the original terms of its Credit Agreement, the Partnership was required to swap at least 50% of its aggregate term debt to fixed rates for a period of not less than three years.

The Partnership has effectively converted a total of $1.0 billion of its variable-rate debt to fixed rates through the use of several interest rate swap agreements. Cash flows related to these interest rate swap agreements are included in interest expense over the term of the agreements. The swap agreements outstanding are set to expire in October 2011. The Partnership has designated all of its interest rate swap agreements and hedging relationships as cash flow hedges. The fair market value of these agreements at September 27, 2009 was recorded as a liability of $91.8 million in Derivative Liability on the condensed consolidated balance sheet. No ineffectiveness was recorded in any period presented.

The Partnership has also effectively converted $268.7 million of term debt related to its wholly owned Canadian subsidiary from variable U.S. dollar denominated debt to fixed-rate Canadian dollar denominated debt through the use of cross-currency swap agreements. The Partnership originally designated these cross-currency swaps as foreign currency cash flow hedges. Cash flows related to these swap agreements, which expire in February 2012, are included in interest expense over the term of the agreement. The fair market value of the cross-currency swaps was a liability of $35.5 million at September 27, 2009, which was recorded in Derivative Liability on the condensed consolidated balance sheet. As a result of paying down the underlying Canadian term debt with net proceeds from the sale of surplus land near Canada s Wonderland in August 2009, the notional amounts of the underlying debt and the cross currency swaps no longer match. Because of the mismatch of the notional amounts, the Partnership determined the swaps will no longer be highly effective going forward, resulting in the de-designation of the swaps as of the end of August.

Fair Value of Derivative Instruments in Condensed Consolidated Balance Sheet:

(In thousands):	**Condensed Consolidated Balance Sheet Location**		**Fair Value as of September 27, 2009**
Derivatives designated as hedging instruments under FASB ASC 815:			
Interest rate swaps	Derivative Liability	$	91,759
Cross-currency swaps	N/A		
Total derivatives designated as hedging instruments under FASB ASC 815:		$	91,759
Derivatives not designated as hedging instruments under FASB ASC 815:			
Interest rate swaps	N/A	$	
Cross-currency swaps	Derivative Liability		35,549
Total Derivatives		$	127,308

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Effects of Derivative Instruments on Income and Other Comprehensive Income:

(In thousands): Derivatives in FASB ASC 815 Cash Flow Hedging Relationships	Amount of Gain (Loss) recognized in OCI on Derivatives (Effective Portion) Three months ended 9/27/09	Nine months ended 9/27/09	Amount and Location of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Three months ended 9/27/09	Nine months ended 9/27/09	Amount and Location of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion)	Three months ended 9/27/09	Nine months ended 9/27/09
Interest rate swaps	$ 5,051	$ 23,142	Interest Expense	$ (13,974)	$ (43,051)		$	$
Cross currency swaps [1]	(13,566)	(22,067)	Interest Expense	(1,963)	(6,720)	Net change in fair value of swaps	(2,680)	(2,680)
Amortization of ineffective swaps						Net change in fair value of swaps	(404)	(404)
Total	$ (8,515)	$ 1,075		$ (15,937)	$ (49,771)		$ (3,084)	$ (3,084)

(1) The cross currency swaps became ineffective in August due to proceeds from a land sale near Canada s Wonderland being used to pay down debt.

The amounts reclassified from accumulated OCI into income for the three and nine-month periods noted above are in large part the result of the Partnership s requirement to swap at least 50% of its aggregate term debt to fixed rates under the terms of its Credit Agreement.

(4) Contingencies:

The Partnership is a party to a number of lawsuits arising in the normal course of business. In the opinion of management, these matters will not have a material effect in the aggregate on the Partnership s financial statements.

(5) Earnings per Unit:

Net income per limited partner unit is calculated based on the following unit amounts:

	Three months ended 9/27/09 (13 weeks)	Three months ended 9/28/08 (13 weeks)	Nine months ended 9/27/09 (39 weeks)	Nine months ended 9/28/08 (39 weeks)	Twelve months ended 9/27/09 (52 weeks)	Twelve months ended 9/28/08 (52 weeks)
	(In thousands except per unit amounts)					
Basic weighted average units outstanding	55,208	55,058	55,177	55,193	55,148	55,190
Effect of dilutive units:						
Unit options	64	112	71	352	78	417
Phantom units	652	283	639	263	578	254
Diluted weighted average units oustanding	55,924	55,453	55,887	55,808	55,804	55,861
Net income per unit - basic	$ 1.95	$ 1.66	$ 1.12	$ 1.13	$ 0.09	$ 0.97

Net income per unit - diluted	$	1.92	$	1.65	$	1.10	$	1.12	$	0.09	$	0.96

The effect of out-of-the-money and/or antidilutive unit options on the three, nine, and twelve months ended September 27, 2009, had they not been out of the money or antidilutive, would have been 439,000, 1,338,000, and 1,544,000 units, respectively. The effect of out-of-the-money and/or antidilutive unit options on the three, nine, and twelve months ended September 28, 2008, had they not been out of the money or antidilutive, would have been 47,000, 95,000, and 113,000 units, respectively.

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(6) Goodwill and Other Intangible Assets:

In accordance with FASB ASC 350-10-05 Intangibles Goodwill and Other (SFAS No. 142, Goodwill and Other Intangible Assets,) goodwill is not amortized, but, along with indefinite-lived trade-names, is evaluated for impairment on an annual basis or more frequently if indicators of impairment exist. Goodwill and trade-names have been assigned at the reporting unit, or park level, for purposes of impairment testing. Goodwill related to parks acquired prior to 2006 is annually tested for impairment as of October 1st. The Partnership completed this review during the fourth quarter in 2008 and determined the goodwill was not impaired. Goodwill and trade-names related to the Paramount Parks (PPI) acquisition in 2006, as further described in Note 3 to the Consolidated Financial Statements for the year ended December 31, 2008, as included in the Form 10-K filed on March 2, 2009, is annually tested for impairment as of April 1st. During the second quarter of 2009, we completed our annual impairment test on goodwill and other non-amortizable intangibles related to the PPI parks, which did not indicate any impairment.

A summary of changes in the Partnership s carrying value of goodwill is as follows:

(In thousands)	
Balance at December 31, 2008	$ 222,602
Translation	12,480
Balance at September 27, 2009	$ 235,082

At September 27, 2009, the Partnership s other intangible assets consisted of the following:

September 27, 2009 *(In thousands)*	**Gross Carrying Amount**	**Accumulated Amortization**	**Net Carrying Value**
Other intangible assets:			
Trade names	$ 45,437	$	$ 45,437
License / franchise agreements	13,644	8,627	5,017
Non-compete agreements	200	130	70
Total other intangible assets	$ 59,281	$ 8,757	$ 50,524

December 31, 2008 *(In thousands)*	**Gross Carrying Amount**	**Accumulated Amortization**	**Net Carrying Value**
Other intangible assets:			
Trade names	$ 43,670	$	$ 43,670
License / franchise agreements	13,750	3,442	10,308
Non-compete agreements	200	100	100
Total other intangible assets	$ 57,620	$ 3,542	$ 54,078

Amortization expense of other intangible assets for the nine months ended September 27, 2009 and September 28, 2008 was $5.2 million and $1.0 million, respectively. The increase in amortization expense is due to a license agreement expiring on December 31, 2009, that management decided not to renew. This decision triggered the acceleration of amortization of the remaining asset, which will result in the asset being fully amortized by December 31, 2009. The estimated amortization expense for the remainder of 2009 is $4.5 million. Estimated amortization expense is expected to total less than $100,000 per year during 2010 through 2014.

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(7) Long-Term Debt

On August 12, 2009, the Partnership amended its Credit Agreement, extending $900 million of term debt by two years and increasing interest rate spreads on those term borrowings by 200 basis points (bps). The extended term debt will mature in 2014 and bears interest at a rate of LIBOR plus 400 bps, as long as the Partnership s corporate rating from Moody s is better than B2 or its issuer credit rating from S&P is better than B .

The amendment also allows, among other things, the incurrence of secured debt (in the form of loans or bonds), with proceeds to repay existing term loans; up to $150 million of sales/leasebacks, with 100% of net proceeds used to repay existing term loans ahead of extended term loans; asset sales in aggregate of greater than $250 million in Fair Market Value, with 100% of net proceeds used to repay existing term loans ahead of extended term loans, and includes a revolving credit facility commitment reduction equal to 5% of the net proceeds upon such sale; and additional offerings of credit extensions.

Other terms of the amendment included a reduction in the Partnership s existing $345 million revolving credit facilities, including a $30 million reduction in its U.S. facility and a $5 million reduction in its Canadian facility.

(8) Income and Partnership Taxes:

Under FASB ASC 740-10-05 Income Taxes and FASB ASC 830-740-05 Foreign Currency Matters (SFAS No. 109, Accounting for Income Taxes) income taxes are recognized for the amount of taxes payable by the Partnership s corporate subsidiaries for the current year and for the impact of deferred tax assets and liabilities, which represent future tax consequences of events that have been recognized differently in the financial statements than for tax purposes. The income tax provision (benefit) for interim periods is determined by applying an estimated annual effective tax rate to the quarterly income (loss) of the Partnership s corporate subsidiaries. For 2009, the estimated annual effective rate includes the effect of an anticipated adjustment to the valuation allowance that relates to foreign tax credit carry-forwards arising from the corporate subsidiaries. The amount of this adjustment has a disproportionate impact on the annual effective tax rate that results in a significant variation in the customary relationship between the provision for taxes and income before taxes in interim periods. In addition to income taxes on its corporate subsidiaries, the Partnership pays a publicly traded partnership tax (PTP tax) on partnership-level gross income (net revenues less cost of food, merchandise and games). As such, the Partnership s total provision (benefit) for taxes includes amounts for both the PTP tax and for income taxes on its corporate subsidiaries.

(9) Fair Value Measurements:

The Partnership adopted FASB ASC 820 Fair Value Measurements and Disclosures and FASB ASC 815-10-05 (SFAS No. 157, Fair Value Measurements), on January 1, 2008. FASB ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). The standard outlines a valuation framework and creates a fair value hierarchy in order to increase the consistency and comparability of fair value measurements and the related disclosures. Under Generally Accepted Accounting Principles (GAAP), certain assets and liabilities must be measured at fair value, and FASB ASC 820-10 and FASB 815-10 detail the disclosures that are required for items measured at fair value. Under FASB ASC 825 Financial Instruments (SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities), entities are permitted to choose to measure many financial instruments and certain other items at fair value. The Partnership did not elect the fair value measurement option under FASB ASC 825 for any of its financial assets or liabilities.

FASB ASC 820-10 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1 inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement.

A financial instrument s categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

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The table below presents the balances of liabilities measured at fair value as of September 27, 2009 on a recurring basis:

(In thousands)	Total	Level 1	Level 2	Level 3
Interest rate swap agreements	$ 91,759	$	$ 91,759	$
Cross-currency swap agreements	35,549		35,549	
Total (1)	$ 127,308	$	$ 127,308	$

(1) Included in Derivative Liability on the Unaudited Condensed Consolidated Balance Sheet

Fair values of the interest rate and cross-currency swap agreements are provided by the counterparty. The significant inputs, including the LIBOR and foreign currency forward curves, used by the counterparty to determine fair values are considered Level 2 observable market inputs. In addition, the Partnership considered the effect of its credit and non-performance risk on the fair values provided, and recognized an adjustment reducing the derivative liabilities by approximately $1.0 million as of September 27, 2009. The Partnership monitors the credit and non-performance risk associated with its derivative counterparties and believes them to be insignificant and not warranting a credit adjustment at September 27, 2009.

FASB ASC 825-10-65 (FSP on SFAS No. 107-1 and Accounting Principles Board (APB) 28-1 Interim Disclosures about Fair Value of Financial Instruments), issued in April 2009, requires disclosures about the fair value of financial instruments in interim financial statements, as well as in annual financial statements. FASB ASC 825-10-65 amends FASB ASC 270 Interim Reporting (APB Opinion No. 28, Interim Financial Reporting), to require those disclosures in all interim financial statements. FASB ASC 825-10-65 is effective for interim periods ending after June 15, 2009. The adoption of FASB ASC 825-10-65 did not have a material effect on the Partnership s condensed consolidated financial statements.

The fair value of our term debt at September 27, 2009, was approximately $1,366.4 million, based on borrowing rates currently available to the Partnership on long-term debt with similar terms and average maturities. Under terms of the Credit Agreement and swap agreements, the Partnership may prepay some or all of its debt without premium or penalty at any time.

(10) Subsequent Events:

In connection with the preparation of the condensed consolidated financial statements, the Partnership evaluated subsequent events after the balance sheet date of September 27, 2009 through November 6, 2009, the date the financial statements were available to be issued.

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

Business Overview:

We generate our revenues primarily from sales of (1) admission to our parks, (2) food, merchandise and games inside our parks, and (3) hotel rooms, food and other attractions outside our parks. Our principal costs and expenses, which include salaries and wages, advertising, maintenance, operating supplies, utilities and insurance, are relatively fixed and do not vary significantly with attendance.

In order to efficiently manage our properties, we created regional designations for our parks. The northern region, which is the largest, includes Cedar Point and the adjacent Soak City water park, Kings Island, Canada s Wonderland, Dorney Park, Valleyfair, Geauga Lake s Wildwater Kingdom and Michigan s Adventure. The southern region includes Kings Dominion, Carowinds, Worlds of Fun and Oceans of Fun. Finally, our western region includes Knott s Berry Farm, California s Great America and the Soak City water parks located in Palm Springs, San Diego and adjacent to Knott s Berry Farm. This region also includes the management contract with Gilroy Gardens Family Theme Park in Gilroy, California and, in previous periods, Star Trek, an interactive adventure in Las Vegas, which closed to the public on September 2, 2008, after management concluded it would not renew a contract scheduled to expire on December 31, 2008. The results of operations of Star Trek are not material to the consolidated financial statements.

Critical Accounting Policies:

This management s discussion and analysis of financial condition and results of operations is based upon our unaudited condensed consolidated financial statements, which were prepared in accordance with accounting principles generally accepted in the United States of America. These principles require us to make judgments, estimates and assumptions during the normal course of business that affect the amounts reported in the unaudited condensed consolidated financial statements. Actual results could differ significantly from those estimates under different assumptions and conditions.

Management believes that judgment and estimates related to the following critical accounting policies could materially affect our consolidated financial statements:

- Accounting for Business Combinations
- Property and Equipment
- Impairment of Long-Lived Assets
- Long-Lived Intangible Assets
- Self-insurance Reserves
- Derivative Financial Instruments
- Revenue Recognition

In the third quarter of 2009, there were no changes in the above critical accounting policies previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2008.

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Adjusted EBITDA:

We believe that adjusted EBITDA (earnings before interest, taxes, depreciation, amortization, and other non-cash items) is a meaningful measure of park-level operating profitability because we use it for measuring returns on capital investments, evaluating potential acquisitions, determining awards under incentive compensation plans, and calculating compliance with certain loan covenants.

Adjusted EBITDA is provided in the discussion of results of operations that follows as a supplemental measure of our operating results and is not intended to be a substitute for operating income, net income or cash flows from operating activities as defined under generally accepted accounting principles. In addition, adjusted EBITDA may not be comparable to similarly titled measures of other companies. The table below sets forth a reconciliation of adjusted EBITDA to net income for the three, nine and twelve-month periods ended September 27, 2009 and September 28, 2008.

	Three months ended		Nine months ended		Twelve months ended	
	9/27/09 (13 weeks)	9/28/08 (13 weeks)	9/27/09 (39 weeks)	9/28/08 (39 weeks)	9/27/09 (52 weeks)	9/28/08 (52 weeks)
			(In thousands)			
Net income	$ 107,614	$ 91,549	$ 61,721	$ 62,455	$ 4,972	$ 53,426
Provision (benefit) for taxes	77,575	91,614	48,265	52,143	(4,813)	9,406
Interest expense	31,183	31,849	90,994	98,912	121,643	133,588
Depreciation and amortization	66,413	60,986	113,604	111,258	128,184	124,706
Equity-based compensation	154	181	613	639	690	814
Loss on impairment of goodwilland other intangibles					86,988	
(Gain) loss on impairment/retirement of fixed assets, net	188	6,125	218	9,390	(747)	25,070
(Gain) on sale of other assets	(23,098)		(23,098)		(23,098)	
Net change in fair value of swaps	3,084		3,084		3,084	
Other (income) expense	1,508	240	1,303	(208)	1,102	(3,010)
Adjusted EBITDA	$ 264,621	$ 282,544	$ 296,704	$ 334,589	$ 318,005	$ 344,000

Results of Operations:

Nine Months Ended September 27, 2009

The fiscal nine-month period ended September 27, 2009, consisted of 39 weeks and included a total of 2,195 operating days compared with 39 weeks and 2,170 operating days (excluding Star Trek which closed in September 2008) for the fiscal nine-month period ended September 28, 2008.

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The following table presents key financial information for the nine months ended September 27, 2009 and September 28, 2008:

	Nine Months ended 9/27/09 (39 weeks)	Nine months ended 9/28/08 (39 weeks)	Increase (Decrease) $	%
	(Amounts in thousands except per capita spending)			
Attendance	18,750	20,006	(1,256)	(6.3)
Per capita spending	$ 39.73	$ 40.28	$ (0.55)	(1.4)
Out-of-park revenues	$ 86,443	$ 93,976	$ (7,533)	(8.0)
Net revenues	$ 810,505	$ 876,958	$ (66,453)	(7.6)
Cash operating costs and expenses	513,801	542,369	(28,568)	(5.3)
Adjusted EBITDA	296,704	334,589	(37,885)	(11.3)
Depreciation and amortization	113,604	111,258	2,346	2.1
Equity-based compensation	613	639	(26)	(4.1)
Loss on impairment/retirement of fixed assets	218	9,390	(9,172)	N/M
(Gain) on sale of other assets	(23,098)		(23,098)	N/M
Operating income	$ 205,367	$ 213,302	$ (7,935)	(3.7)

N/M - Not meaningful

Although the nine-month period ending September 27, 2009 had an additional 25 operating days, net revenues for the period decreased $66.5 million to $810.5 million from $877.0 million for the nine months ended September 28, 2008. On a same park basis, excluding revenues from Star Trek, which closed in September of 2008, net revenues decreased $57.0 million.

The decrease in revenues reflects a 6%, or 1.3 million visit, decrease in attendance for the first nine months of 2009 when compared with the same period a year ago. The decrease in attendance was the result of a sharp decline in group sales business, which continues to be negatively affected by the poor economy, a decrease in season pass visits due to a decline in season pass sales during the year, and poor weather, particularly cooler than normal temperatures throughout much of the season at our northern and southern regions. The revenue decline also represents a slight decrease of 1%, or $0.55, in average in-park per capita spending for the period. In-park guest per capita spending represents the amount spent per attendee to gain admission to a park plus all amounts spent while inside the park gates. Through the first nine months of the year, average in-park per capita spending was up slightly in the southern and western regions, but was offset by a decline in the northern region. Excluding the effects of Star Trek, the decrease in per capita spending for the nine month period would have been $0.31, or less than 1%. Over the nine-month period, out-of-park revenues, which represent the sale of hotel rooms, food, merchandise and other complementary activities located outside of the park gates, decreased 8%, or $7.5 million between years, due primarily to declines in occupancy rates at most of our hotel properties.

Excluding depreciation, amortization and other non-cash expenses, operating costs and expenses decreased 5%, or $28.6 million, to $513.8 million for the period ended September 27, 2009 versus $542.4 million for the same period in 2008. The decrease in operating costs is the direct result of the successful implementation of numerous cost savings initiatives across our parks, as a proactive step to largely offset the impact of the negative attendance trends, and to a lesser extent the closing of Star Trek in late 2008.

In late August, we completed the sale of 87 acres of surplus land at Canada s Wonderland to the Vaughan Health Campus of Care in Ontario, Canada as part of our ongoing efforts to reduce debt. Net proceeds from this sale totaled $53.8 million and resulted in the recognition of a $23.1 million gain during the period. After the gain on the sale of the Canadian land, depreciation, amortization, loss on impairment / retirement of fixed assets, and all other non-cash costs, operating profit for the period decreased $7.9 million to $205.4 million in 2009 compared with $213.3 million in 2008.

Interest expense for the nine months ended September 27, 2009 decreased $7.9 million to $91.0 million, primarily due to lower interest rates on our variable-rate outstanding borrowings along with lower average debt balances. Since the beginning of the year, we ve retired $101.2 million of term debt through regularly scheduled debt amortization payments, as well as the use of available cash from the reduction in our annual distribution rate and the net proceeds from the sale of excess land at Canada s Wonderland.

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During the first nine months of the year, a provision for taxes of $48.2 million was recorded to account for the tax attributes of our corporate subsidiaries and publicly traded partnership (PTP) taxes. This compares with a $52.1 million provision for taxes for the same fiscal nine-month period in 2008. To determine the interim period income tax provision (benefit) of our corporate subsidiaries, we apply an estimated annual effective tax rate to our year-to-date income (loss). The 2009 estimated annual effective tax rate includes the effect of an anticipated adjustment to the valuation allowance that relates to foreign tax credit carry-forwards arising from our corporate subsidiaries. The amount of this adjustment has a disproportionate impact on our annual effective tax rate that results in a significant variation in the customary relationship between the provision for taxes and income before taxes in interim periods. Cash taxes paid or payable are not impacted by these interim tax provisions and are estimated to be $18-$22 million for the 2009 calendar year.

After interest expense, net change in fair value of swaps, other expense, and the provision for taxes, net income for the nine months ended September 27, 2009 totaled $61.7 million, or $1.10 per diluted limited partner unit, compared with net income of $62.5 million, or $1.12 per unit, for the same period a year ago.

For the nine-month period, adjusted EBITDA decreased $37.9 million, or 11%, to $296.7 million compared with $334.6 million during the same period a year ago. The $37.9 million decrease in EBITDA was attributable to the decline in nine-month revenues resulting largely from decreased attendance and reduced occupancy rates at our resort properties, offset largely by our continued focus on cost controls during the period.

Third Quarter

The fiscal three-month period ended September 27, 2009, consisted of 13 weeks and included a total of 1,255 operating days compared with 13 weeks and 1,191 operating days (excluding Star Trek which closed in September 2008) for the fiscal three-month period ended September 28, 2008.

The following table presents key financial information for the three months ended September 27, 2009 and September 28, 2008:

	Three months ended 9/27/09 (13 weeks)	**Three months ended 9/28/08 (13 weeks)**	**Increase (Decrease) $**	**%**
	(Amounts in thousands except per capita spending)			
Attendance	12,110	12,434	(324)	(2.6)
Per capita spending	$ 39.85	$ 40.18	$ (0.33)	(0.8)
Out-of-park revenues	$ 49,868	$ 53,500	$ (3,632)	(6.8)
Net revenues	$ 519,913	$ 540,322	$ (20,409)	(3.8)
Cash operating costs and expenses	255,292	257,778	(2,486)	(1.0)
Adjusted EBITDA	264,621	282,544	(17,923)	(6.3)
Depreciation and amortization	66,413	60,986	5,427	8.9
Equity-based compensation	154	181	(27)	(14.9)
Loss on impairment / retirement of fixed assets	188	6,125	(5,937)	N/M
(Gain) on sale of other assets	(23,098)		(23,098)	N/M
Operating income	$ 220,964	$ 215,252	$ 5,712	2.7

N/M - Not meaningful

Net revenues for the quarter ended September 27, 2009 decreased 4%, or $20.4 million, to $519.9 million from $540.3 million in 2008, despite the current quarter having an additional 64 operating days. This decrease reflects a 3%, or 324,000-visit, decline in attendance, a 7%, or $3.6 million, decrease in out-of-park revenues, and a less than 1% decrease of in-park per capita spending. As mentioned in the nine-month discussion above, the revenue and attendance declines were primarily due to shortfalls in our group sales business, a result of the poor economy reducing the number of company and group sponsored activities, and a decline in season-pass sales and visits due to the soft economy and cooler than normal temperatures throughout the operating season across our northern and southern region parks. The decrease in out-of-park revenue was primarily due to softness in occupancy rates at most of our hotel properties.

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Excluding depreciation, amortization and other non-cash expenses, operating costs and expenses for the quarter decreased 1% to $255.3 million from $257.8 million in 2008, offsetting a portion of the decline in revenues, as a result of continued cost control efforts across our parks.

The third quarter results reflect a $23.1 million gain from the sale of 87 acres of surplus land near Canada s Wonderland in Toronto, Ontario as part of our strategy to reduce debt. After the gain on the Canadian land sale, depreciation, amortization, loss on impairment / retirement of fixed assets, and other non-cash costs, operating income for the quarter totaled $221.0 million, up $5.7 million from $215.3 million for the third quarter of 2008.

Interest expense for the third quarter in 2009 compared with the same period in 2008 decreased slightly to $31.2 million from $31.8 million. During the quarter, a provision for taxes of $77.6 million was recorded to account for the tax attributes of our corporate subsidiaries and PTP taxes, compared to a provision for taxes of $91.6 million in the same period a year ago. After interest expense, the net change in fair market value of swaps, other (income) expense, and the provision for taxes, the net income for the period totaled $107.6 million, or $1.92 per diluted limited partner unit, compared with net income of $91.5 million, or $1.65 per unit, a year ago.

For the quarter, adjusted EBITDA decreased 6% to $264.6 million from $282.5 million a year ago. The $17.9 million decrease in EBITDA was attributable to the decline in third-quarter revenues resulting largely from decreased attendance and reduced occupancy rates at our resort properties, offset partially by our continued focus on cost controls during the period.

Twelve Months Ended September 27, 2009

The twelve-month period ended September 27, 2009, consisted of 52 weeks compared with 52 weeks in the twelve-month period ended September 28, 2008, and had a comparable number of operating days.

The following table presents key financial information for the twelve months ended September 27, 2009 and September 28, 2008:

	Twelve months ended 9/27/09 (52 weeks)	Twelve months ended 9/28/08 (52 weeks)	Increase (Decrease) $	%
	(Amounts in thousands except per capita spending)			
Attendance	21,464	22,515	(1,051)	(4.7)
Per capita spending	$ 39.63	$ 40.30	$ (0.67)	(1.7)
Out-of-park revenues	$ 102,386	$ 110,246	$ (7,860)	(7.1)
Net revenues	$ 929,779	$ 992,405	$ (62,626)	(6.3)
Cash operating costs and expenses	611,774	648,405	(36,631)	(5.6)
Adjusted EBITDA	318,005	344,000	(25,995)	(7.6)
Depreciation and amortization	128,184	124,706	3,478	2.8
Equity-based compensation	690	814	(124)	(15.2)
Loss on impairment of goodwill and other intangibles	86,988		86,988	N/M
(Gain) loss on impairment / retirement of fixed assets	(747)	25,070	(25,817)	N/M
(Gain) on sale of other assets	(23,098)		(23,098)	N/M
Operating income	$ 125,988	$ 193,410	$ (67,422)	(34.9)

N/M - Not meaningful

Net revenues for the twelve months ended September 27, 2009, were $929.8 million compared with $992.4 million for the twelve months ended September 28, 2008, a decrease of $62.6 million. The decrease in net revenues reflects a 5%, or 1.1 million-visit, decrease in attendance, a 2% decrease in average in-park guest per capita spending, and a decrease of 7%, or $7.9 million in out-of-park revenues, primarily due to declines in occupancy levels across our hotel properties. Excluding the effects of Star Trek, which closed in September 2008, net revenues would have decreased $52.5 million, or 5%, on a decrease of less than 1% in average in-park guest per capita spending and a decline in attendance of 4%.

For the twelve-month period, operating costs and expenses, before depreciation, amortization and other non-cash costs, decreased 6%, or $36.6 million, to $611.8 million from $648.4 million for the same period a year ago. For the twelve months ended September 27, 2009, we recognized a $23.1 million gain on the sale of surplus land at Canada s Wonderland (as discussed above), as well as an $87.0 million charge for the impairment of goodwill and other intangible assets relating to the PPI acquisition.

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During the twelve month period ended September 28, 2008, we also recognized losses of $19.0 million on non-cash impairment charges at Geauga Lake and $6.1 million on retirements of fixed assets. After these losses, the gain on the Canadian land sale, depreciation, amortization and other non-cash expenses, operating income for period totaled $126.0 million compared to operating income of $193.4 million a year ago.

Interest expense for the twelve months ended September 27, 2009 decreased $12.0 million to $121.6 million compared with $133.6 million for the same period in 2008. This decrease is primarily due to lower outstanding balances on our term debt, as we ve paid down $109.9 million in term debt borrowings. During the period, we recorded a benefit for taxes of $4.8 million to account for the tax attributes of our corporate subsidiaries and PTP taxes, which compares with a provision for taxes of $9.4 million a year ago.

After interest expense, net change in fair value of swaps, other expense, and provision for taxes, net income for the twelve months ended September 27, 2009 was $5.0 million, or $0.09 per diluted limited partner unit, compared with net income of $53.4 million, or $0.96 per diluted limited partner unit, for the twelve months ended September 28, 2008.

For the twelve-month period, adjusted EBITDA totaled $318.0 million in 2009, representing approximately an 8%, or $26.0 million, decrease from $344.0 million over the same period in 2008. Over this period, our adjusted EBITDA margin was flat compared with same period a year ago. The decrease in adjusted EBITDA in 2009 was primarily due to revenue shortfalls resulting from the difficult prevailing economic climate in 2009, as well as poor weather conditions, particularly cooler than usual temperatures in all of our regions, substantially offset by our continued focus on controlling costs.

October 2009

October operating results have continued to be negatively affected by poor weather conditions, as well as the soft economy. Compared to the record setting performance in October 2008, revenues for the month were down $10.2 million, or 11%. This decrease was in large part the result of a 255,000-visit shortfall in attendance, with flat average in-park per capita spending. Over this same period, out-of-park revenues were down approximately $315,000.

Combined revenues for the first ten months of the year, on a same-park basis (excluding the impact of Star Trek which closed in September 2008), were $912.7 million compared with $983.2 million for the same period a year ago, on 28 more operating days. This is a result of a 6% decrease in attendance to 20.6 million visitors compared with 22.0 million in 2008, a decrease of 1% in average in-park guest per capita spending to $39.65, and a decrease in out-of-park revenues of $8.0 million to $94.5 million, due to declines in hotel occupancy.

Liquidity and Capital Resources:

With respect to both liquidity and cash flow, we ended the third quarter of 2009 in sound condition. The negative working capital ratio (current liabilities divided by current assets) of 1.4 at September 27, 2009 is the result of our seasonal business and careful management of cash flow to reduce borrowings. Receivables and inventories are at normal seasonal levels and credit facilities are in place to fund current liabilities.

At the end of the quarter, we had $1,600.2 million of variable-rate term debt and no outstanding borrowings under our revolving credit facilities, and cash on hand of $56.2 million. After letters of credit, which totaled $11.2 million at September 27, 2009, we had $298.8 million of available borrowings under our revolving credit agreements. Of our total term debt, $16.5 million is scheduled to mature within the next twelve months.

In 2006, we entered into several interest rate swap agreements which effectively converted $1.0 billion of our variable-rate debt to a fixed rate of 7.6%.

In 2007, we terminated two cross-currency swaps, which were effectively converting variable-rate debt related to our wholly owned Canadian subsidiary to fixed-rate debt, and received $3.9 million in cash upon termination. We replaced these swaps with two new cross-currency swap agreements, which effectively converted $268.7 million of term debt, and the associated interest payments, from U.S. dollar denominated debt at a rate of LIBOR plus 200 bps to 6.3% fixed-rate Canadian dollar denominated debt. As a result of paying down the underlying Canadian term debt with net proceeds from the sale of surplus land near Canada s Wonderland in August, the notional amounts of the underlying debt and the cross currency swaps no longer match. Because of this mismatch of the notional amounts, we ve determined that the swaps will no longer be highly effective going forward. This resulted in the de-designation of the swaps as of the end of August.

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We entered into these various swap arrangements as a means of reducing the risk associated with volatility in interest rates in order to keep our cash interest costs predictable. The fair market value of these instruments is recorded as a liability of $127.3 million in Derivative Liability on the September 27, 2009 unaudited condensed consolidated balance sheet with the offset of the effective portion of the swaps reducing Partners Equity and the ineffective portion being recorded in the unaudited condensed consolidated statement of operations in Net change in fair market value of swaps . The liability and the amounts in Partners Equity is expected to reverse over time as the swaps approach their maturity dates and continue to serve their purpose of leveling cash interest costs.

In August of 2009, we entered into an agreement with our lenders to amend our credit agreement and extend a portion of our term debt under that agreement. As part of the amendment, $900 million of term debt scheduled to mature in 2012 was extended by two years to 2014. Other terms of the amendment included a reduction of $35 million in our revolving credit facilities. The extended term debt bears interest at a rate of LIBOR plus 400 bps. Further details of the amendment can be found in our Form 8-K filing on August 14, 2009.

We continue to look at a wide range of alternatives to address our capital structure and reduce debt levels. One such alternative examined was our distribution policy. In response to this examination, in March 2009, we announced that we were reducing our annual distribution rate from $1.92 per unit to $1.00 per unit beginning with the distribution declared during the second quarter of 2009. During the first nine months of 2009, we used the cash available from our reduced distributions to retire $39.0 million of term debt.

Also, as part of the March 2009 announcement, we made note of the marketing for sale of three of our amusement parks, as well as the continued marketing efforts to sell excess land. In August 2009, we completed a transaction with the Vaughan Health Campus of Care in Ontario, Canada for the sale of 87 acres of surplus land near Canada s Wonderland. Net proceeds from the sale of the land totaled $53.8 million and were used entirely to retire term debt. The reduction of our distribution, along with the successful execution of selling the Canadian land, has allowed us to retire more than $90 million of term debt during the first nine months of 2009.

Our efforts, although successful, have not been enough to offset the decrease in the 2009 operating performance. Based on trailing twelve month results as of September 27, 2009, preliminary October results and a tightening at December 31^{st} of the maximum consolidated leverage ratio within the Credit Agreement, it is expected that we will suspend distributions beginning in 2010 and the cash flow be redirected to retire term debt. If, as expected, the distribution is eliminated in early 2010, we should be able to reduce our debt by approximately $200 million over the next two fiscal years.

Credit facilities and cash flows from operations are expected to be sufficient to meet working capital needs, debt service and planned capital expenditures for the foreseeable future.

Off Balance Sheet Arrangements:

We have no significant off-balance sheet financing arrangements.

Forward Looking Statements

Some of the statements contained in this report (including the Management s Discussion and Analysis of Financial Condition and Results of Operations section) that are not historical in nature are forward-looking statements within the meaning of Section 27A of the Securities and Exchange Act of 1933 and Section 21E of the Securities and Exchange Act of 1934, including statements as to our expectations, beliefs and strategies regarding the future. These forward-looking statements may involve risks and uncertainties that are difficult to predict, may be beyond our control and could cause actual results to differ materially from those described in such statements. Although we believe that the expectations reflected in such forward-looking statements are reasonable, we can give no assurance that such expectations will prove to be correct. Important factors, including those listed under Item 1A in our Form 10-K, could adversely affect our future financial performance and cause actual results to differ materially from our expectations.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risks from fluctuations in interest rates, and to a lesser extent on currency exchange rates on our operations in Canada and, from time to time, on imported rides and equipment. The objective of our financial risk management is to reduce the potential negative impact of interest rate and foreign currency exchange rate fluctuations to acceptable levels. We do not acquire market risk sensitive instruments for trading purposes.

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We manage interest rate risk through the use of a combination of interest rate swaps, which fix a portion of our variable-rate long-term debt, and variable-rate borrowings under our revolving credit loans. We mitigate a portion of our foreign currency exposure from the Canadian dollar through the use of foreign-currency denominated debt. Hedging of the U.S. dollar denominated debt, used to fund a substantial portion of our net investment in our Canadian operations, is accomplished through the use of cross currency swaps. Translation exposures with regard to our Canadian operations are not hedged.

For derivative instruments that are designated and qualify as cash flow hedges under FASB ASC 815, the effective portion of the change in fair value of the derivative instrument is reported as a component of Other comprehensive income (loss) and reclassified into earnings in the period during which the hedged transaction affects earnings. Changes in fair value of derivative instruments that do not qualify as effective hedging activities under FASB ASC 815 are reported as Net change in fair value of swaps in the consolidated statement of operations. Additionally, the Other comprehensive income (loss) related to interest rate swaps that become ineffective is amortized on a straight-line basis, over the remaining life of the interest rate swap, and reported as a component of Net change in fair value of swaps in the consolidated statement of operations.

After considering the impact of interest rate swap agreements, at September 27, 2009, $1,261.9 million of our outstanding long-term debt represented fixed-rate debt and $338.3 million represented variable-rate debt. Assuming an average balance on our revolving credit borrowings, the cash flow impact of a hypothetical one percentage point change in the applicable interest rates on our variable-rate debt, after the rate swap agreements, would be approximately $4.4 million as of September 27, 2009.

A uniform 10% strengthening of the U.S. dollar relative to the Canadian dollar would result in an approximate $4.1 million decrease in annual operating income.

ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures -
The Partnership maintains a system of controls and procedures designed to ensure that information required to be disclosed by the Partnership in its reports under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified by the Commission and that such information is accumulated and communicated to the Partnership s management, including the Chief Executive Officer and the Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. As of September 27, 2009, the Partnership has evaluated the effectiveness of the design and operation of its disclosure controls and procedures under supervision of management, including the Partnership s Chief Executive Officer and Chief Financial Officer. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Partnership s disclosure controls and procedures are effective.

(b) Changes in Internal Control Over Financial Reporting -
There were no changes in the Partnership s internal controls over financial reporting in connection with its 2009 third quarter evaluation, or subsequent to such evaluation, that have materially affected, or are reasonably likely to materially affect, the Partnership s internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2008.

ITEM 6. EXHIBITS

Exhibit (31.1)	Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
Exhibit (31.2)	Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

Exhibit (32)	Certifications Pursuant to 18 U.S.C. 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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SIGNATURES

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.

CEDAR FAIR, L.P.
(Registrant)

By Cedar Fair Management, Inc.
General Partner

Date: November 6, 2009

/s/ Peter J. Crage
Peter J. Crage
Corporate Vice President - Finance
(Chief Financial Officer)

/s/ Brian C. Witherow
Brian C. Witherow
Vice President and Corporate Controller
(Chief Accounting Officer)

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INDEX TO EXHIBITS

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22

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4,341

3,983

Intangible assets amortization expense

5,641

7,568

Stock-based compensation expense

5,147

4,044

Tax benefits on vested and exercised equity awards

525

241

Amortization of convertible debt issue costs and discounts

4,537

3,679

Loss on extinguishment of debt

2,033

—

Impairment loss on equity investment

326

—

Unrealized foreign currency transaction losses

187

(385

)

Deferred tax assets, net

(211

)

669

Equity in net loss of affiliate

969

713

Other

(72

)

55

Changes in operating assets and liabilities:

Accounts receivable

505

516

Inventories

4,878

(1,440

)

Prepaid expenses and other assets

(4,879

)

(3,034

)

Accounts payable

743

4,335

Accrued liabilities

139

4,648

Deferred revenue

4,367

838

NET CASH PROVIDED BY OPERATING ACTIVITIES

36,833

36,009

CASH FLOWS FROM INVESTING ACTIVITIES:

Proceeds from maturities of marketable securities

32,792

7,268

Purchases of marketable securities

(40,312

)

(4,548

)

Capital expenditures

(5,770

)

(3,713

)

Advances to equity method investee

(1,063

)

(650

)

Other

(78

)

(135

)

NET CASH USED IN INVESTING ACTIVITIES

(14,431

)

(1,778

)

CASH FLOWS FROM FINANCING ACTIVITIES:

Proceeds from issuance of 2025 Convertible Notes

230,000

—

Payment of debt issuance costs of 2025 Convertible Notes

(7,305

)

—

Purchase of capped call on 2025 Convertible Notes

(21,160

)

—

Repurchase of 2020 Convertible Notes

(53,683

)

—

Proceeds from unwind of note hedges and warrants on 2020 Convertible Notes

3,122

—

Repurchases of common stock

(28,564

)

—

Taxes paid related to net share settlement of vested equity awards

(3,347

)

(2,335

)

Proceeds from exercise of stock options

101

128

NET CASH PROVIDED BY (USED) IN FINANCING ACTIVITIES

119,164

(2,207

)

EFFECT OF EXCHANGE RATE CHANGES ON CASH

(197

)

906

Net change in cash and cash equivalents

141,369

32,930

Cash and cash equivalents at beginning of period

132,603

93,706

Cash and cash equivalents at end of period

$

273,972

$

126,636

See accompanying notes to condensed consolidated financial statements.

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

	Common Stock Shares	Common Stock Amount	Additional Paid in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
Balances at February 28, 2018	35,718	$ 357	$ 218,217	$ (19,459)	$ (199)	$ 198,916
Cumulative adjustment upon adoption of ASU 2016-01, net of tax				434	(434)	—
Cumulative adjustment upon adoption of ASC 606, net of tax				(1,595)		(1,595)
Net income				7,657		7,657
Equity component of 2025 Convertible Notes, net of tax			51,902			51,902
Purchase of capped call on 2025 Convertible Notes, net of tax			(15,870)			(15,870)
Debt issuance costs of 2025 Convertible Notes allocated to equity, net of tax			(1,649)			(1,649)
Equity component of the repurchased 2020 Convertible Notes			(6,088)			(6,088)
Unwind of note hedges and warrants of 2020 Convertible Notes, net of tax			3,122			3,122
Stock-based compensation expense			5,147			5,147
Shares issued on net share settlement of equity awards	156	2	(3,348)			(3,346)
Issuance of shares for restricted stock awards	84	1	(1)			—
Exercise of stock options	55	1	100			101
Other comprehensive income, net of tax					3	3
Repurchases of common stock	(1,255)	(13)	(28,551)			(28,564)
Balances at August 31, 2018	34,758	$ 348	$ 222,981	$ (12,963)	$ (630)	$ 209,736

See accompanying notes to condensed consolidated financial statements.

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CALAMP CORP.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

THREE AND SIX MONTHS ENDED AUGUST 31, 2018 AND 2017

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

Description of Business

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

Certain notes and other information included in the audited financial statements in our Annual Report on Form 10-K for the fiscal year ended February 28, 2018 are condensed or omitted from the interim financial statements presented in this Quarterly Report on Form 10-Q. Therefore, these financial statements should be read in conjunction with our 2018 Annual Report on Form 10-K as filed with the U.S. Securities and Exchange Commission on May 10, 2018.

In the opinion of our management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments (consisting of normal recurring adjustments) considered necessary to present fairly our financial position at August 31, 2018 and our results of operations for the three and six months ended August 31, 2018 and 2017. The results of operations for such periods are not necessarily indicative of results to be expected for the full fiscal year.

All intercompany transactions and accounts have been eliminated in consolidation.

Revenue Recognition

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

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

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

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

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

Contract Balances. Timing of revenue recognition may differ from the timing on invoicing to customers. Contract liabilities are comprised of billings or payments received from our customers in advance of performance under the contract. We refer to these contract liabilities as “Deferred Revenues” in the accompanying condensed consolidated financial statements. During the three and six months ended August 31, 2018, we recognized $4.6 million and $11.2 million in revenue from the beginning deferred revenue balance of $41.7 million on March 1, 2018, respectively.

As of August 31, 2018, we have estimated remaining performance obligations for contractually committed revenues of $46.5 million, of which we expect to recognize approximately 26% through the remainder of fiscal 2019, 33% for fiscal 2020 and 22% for fiscal 2021. We have utilized the practical expedient exception within ASC 606 and exclude contracts that have original durations of less than one year from the aforementioned remaining performance obligation disclosure.

Cash and Cash Equivalents

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

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable consists of amounts due to us from sales arrangements that are executed in our normal business activities and are recorded at invoiced amounts. We present the aggregate accounts receivable balance net of an allowance for doubtful accounts. We mitigate a portion of our receivables credit risk through credit insurance. Generally, collateral and other security is not obtained for outstanding accounts receivable. Credit losses, if any, are recognized based on management’s evaluation of historical collection experience, customer-specific financial conditions as well as an evaluation of current industry trends and general economic conditions. Past due balances are assessed by management on a monthly basis, and balances are written off when the customer’s financial condition no longer warrants pursuit of collection. Although we expect to collect amounts due, actual collections may differ from estimated amounts. The allowance for doubtful accounts totaled $1.4 million and $1.2 million as of August 31, 2018 and February 28, 2018, respectively.

Fair Value Measurements

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

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

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

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

Convertible Senior Notes and Capped Call Transactions

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

Patent Litigation and Other Contingencies

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

We expense legal expenses as incurred.

Foreign Currency Translation

We translate the assets and liabilities of our non-U.S. dollar functional currency subsidiaries into U.S. dollars using exchange rates in effect at the end of each period. Revenue and expenses for these subsidiaries are translated using rates that approximate those in effect during the period. Gains and losses from these translations are recognized in foreign currency translation included in accumulated other comprehensive income (loss) during the period. The aggregate foreign currency transaction exchange rate gain (losses) included in determining income (loss) before income taxes were immaterial for both of the three and six months periods ended August 31, 2018 and 2017.

Recently Issued Accounting Standards

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

In May 2017, the FASB issued Accounting Standards Update 2017-09, Compensation – Stock Compensation: Scope of Modification Accounting (“ASU 2017-09”). The amendments in ASU 2017-09 provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in ASC 718 Compensation – Stock Compensation. We adopted the standard during the fiscal quarter ended May 31, 2018. The adoption of the standard had no impact on our condensed consolidated financial statements for the three and six months ended August 31, 2018.

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

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

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

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

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

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

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

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

	As of August 31, 2018		
	As reported	ASC 606 Adjustments	Without ASC 606 Adoption
Assets			
Prepaid expenses and other current assets	$14,482	(1,864)	$12,618
Deferred income tax assets	21,421	(532)	20,889
Other assets	25,773	(3,420)	22,353
Liabilities and Stockholders' Equity			
Deferred revenue	$20,683	(1,925)	18,758
Other non-current liabilities	36,200	(5,693)	30,507
Stockholders' equity:			
Accumulated deficit	$(12,963)	1,644	(11,319)

The impact of adopting ASC 606 on our condensed consolidated statements of comprehensive income (loss) for the three and six months ended August 31, 2018 was immaterial.

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NOTE 2 – CASH, CASH EQUIVALENTS AND INVESTMENTS

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

	As of August 31, 2018					
				Balance Sheet Classification of Fair Value		
	Adjusted Cost	Unrealized Gains (Losses)	Fair Value	Cash and Cash Equivalents	Short-Term Marketable Securities	Other Assets
Cash	$19,090	$ —	$19,090	$19,090	$ —	$—
Level 1:						
Money market funds	196,686	—	196,686	196,686	—	—
Mutual funds (1)	6,138	948	7,086	—	—	7,086
International equities	309	(56)	253	—	—	253
Level 2:						
Repurchase agreements	46,000	—	46,000	46,000	—	—
Corporate bonds	43,230	(8)	43,222	12,196	31,026	—
Total	$311,453	$ 884	$312,337	$273,972	$ 31,026	$7,339

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

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

NOTE 3 - INVENTORIES

Inventories consist of the following (in thousands):

	August 31, 2018	February 28, 2018

Raw materials	$17,166	$18,629
Work in process	300	567
Finished goods	13,728	17,106
	$31,194	$36,302

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NOTE 4 – GOODWILL AND OTHER INTANGIBLE ASSETS

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

		Gross				Accumulated Amortization			Net	
	Useful Life	Feb. 28, 2018	Additions	Other (1)	Aug. 31, 2018	Feb. 28, 2018	Expense	Aug. 31, 2018	Aug. 31, 2018	Feb. 28, 2018
Developed technology	2-7 years	$22,280	$ —	$—	$22,280	$14,288	$1,980	$16,268	$6,012	$7,992
Tradenames	7-10 years	37,729	6	—	37,735	9,087	1,776	10,863	26,872	28,642
Customer lists	4-7 years	22,950	—	—	22,950	19,623	843	20,466	2,484	3,327
Dealer relationships	7 years	16,850	—	(507)	16,343	4,714	1,024	5,738	10,605	12,136
Patents	5 years	483	71	—	554	124	18	142	412	359
		$100,292	$ 77	$(507)	$99,862	$47,836	$5,641	$53,477	$46,385	$52,456

Estimated future amortization expense as of August 31, 2018 is as follows (in thousands):

2019 (remainder)	$5,786
2020	9,566
2021	7,743
2022	6,110
2023	5,889
Thereafter	11,291
	$46,385

Changes in goodwill are as follows (in thousands):

	Six Months Ended August 31,	
	2018	2017
Balance at beginning of period	$72,980	$72,980
Other (1)	304	—
Balance at end of period	$73,284	$72,980

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

NOTE 5 – OTHER ASSETS

Other assets consist of the following (in thousands):

	August 31, 2018	February 28, 2018
Deferred compensation plan assets	$7,086	$5,641
Investment in international licensees	2,293	2,349
Equity investment in and loan to ThinxNet GmbH	2,648	2,674
Equity investment in and loan to Smart Driver Club	3,887	3,814
Deferred cost	9,083	3,523
Other	776	828
	$25,773	$18,829

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

We have a non-qualified deferred compensation plan in which certain members of management and all non-employee directors are eligible to participate. Participants may defer a portion of their compensation until retirement or another date specified by them in accordance with the plan. We are funding the plan obligations through cash deposits to a Rabbi Trust that are invested in various equities, bond and money market mutual funds in generally the same proportion as investment elections made by the participants. The deferred compensation plan liability is included in other non-current liabilities in the accompanying consolidated balance sheets.

In fiscal 2016, we invested £1,400,000 or approximately $2.2 million for a 49% minority ownership interest in Smart Driver Club Limited (“Smart Driver Club”), a telematics-based insurance startup company located in the United Kingdom. This investment is accounted for under the equity method since we have significant influence over the investee. To date we have made loans aggregating £4,500,000, with £500,000 made in June 2018 and £300,000 made in August 2018. The loans to Smart Driver Club bear interest at an annual interest rate of 8%, with all principal and all unpaid interest due in 2021. The foreign currency translation adjustment for the equity investment and loans amounted to $0.4 million as of August 31, 2018 and is included as a component of accumulated other comprehensive loss in the condensed consolidated balance sheet as of that date. Our equity in the net loss of Smart Driver Club amounted to $1.0 million and $0.7 million in the six months ended August 31, 2018 and 2017, respectively. To date, our equity in the cumulative net losses of Smart Driver Club is $4.5 million.

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

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

NOTE 6 – FINANCING ARRANGEMENTS

Revolving Credit Facility

On March 30, 2018, we entered into a revolving credit facility with J.P. Morgan Chase Bank, dated as of March 30, 2018 (the “Credit Agreement”), as filed with the U.S. Securities and Exchange Commission with our current report on Form 8-K on April 5, 2018, that provides for borrowings up to $50.0 million. This revolving credit facility expires on March 30, 2020. At our election, the Borrowings under this revolving credit facility bear interest at either a LIBOR-based variable rate plus an applicable margin, or at the greater of the Prime Rate, the NYFRB Rate plus an applicable margin rate and one-month LIBOR-based variable rate plus an applicable margin rate (each as defined in the Credit Agreement) determined based on our senior leverage ratio from time to time. The net proceeds available under the revolving credit facility can be used for working capital and general corporate purposes. There were no borrowings outstanding on this revolving credit facility at August 31, 2018.

The revolving credit facility contains certain negative and affirmative covenants including financial covenants that require us to maintain a minimum level of earnings before interest, income taxes, depreciation, amortization and other non-cash charges (Adjusted EBITDA) to interest ratio, a minimum senior indebtedness ratio and a total indebtedness coverage ratio, all measured on a quarterly basis. As of August 31, 2018, we were in compliance with our covenants under the revolving credit facility.

Convertible Senior Unsecured Notes

We have two outstanding convertible senior unsecured notes – a $122.5 million aggregate principal amount of convertible senior unsecured notes due 2020 (“2020 Convertible Notes”) and a $230.0 million aggregate principal amount of convertible senior unsecured notes due 2025 (“2025 Convertible Notes”, and collectively with the 2020

Convertible Notes, the “Notes”). Balances attributable to the two notes consist of the following (in thousands):

	August 31, 2018	February 28, 2018
2020 Convertible Notes		
Principal	$122,527	$172,500
Less: Unamortized debt discount	(9,002)	(16,143)
Unamortized debt issuance costs	(1,138)	(2,058)
Net carrying amount of the 2020 Convertible Notes	$112,387	$154,299
2025 Convertible Notes		
Principal	$230,000	
Less: Unamortized debt discount	(68,363)	
Unamortized debt issuance costs	(5,044)	
Net carrying amount of the 2025 Convertible Notes	$156,593	
Convertible senior unsecured notes, net	$268,980	

2020 Convertible Notes

In May 2015, we issued $172.5 million aggregate principal amount of the 2020 Convertible Notes. These notes are senior unsecured obligations and bear interest at a rate of 1.625% per year payable in cash on May 15 and November 15 of each year. The 2020 Convertible Notes mature on May 15, 2020 unless earlier converted or repurchased in accordance with their terms. We may not redeem the 2020 Convertible Notes prior to their stated maturity date and they will be convertible into cash, shares of our common stock or a combination of cash and shares of common stock, at our election, based on an initial conversion rate of 36.2398 shares of common stock per $1,000 principal amount. This ratio is equivalent to an initial conversion price of $27.594 per share of common stock, subject to customary adjustments. Holders may convert their 2020 Convertible Notes at their option at any time prior to November 15, 2019 upon the occurrence of certain events in the future, as defined in the indenture agreement dated May 6, 2015 (the “2020 Indenture”). During the period from November 15, 2019 to May 13, 2020, holders may convert all or any portion of their 2020 Convertible Notes regardless of the foregoing conditions. Our intent is to settle the principal amount of the 2020 Convertible Notes in cash upon conversion. If the conversion value exceeds the principal amount, we would deliver shares of common stock in respect to the remainder of the conversion obligation in excess of the aggregate principal amount (the “conversion spread”). The shares associated with the conversion spread, if any, would be included in the denominator for the computation of diluted earnings per share, with such shares calculated using the average closing price of our common stock during each period. As of August 31, 2018, the conditions allowing holders of the 2020 Convertible Notes to convert have not been met.

If we undergo a fundamental change (as defined in the 2020 Indenture), holders of the 2020 Convertible Notes may require us to repurchase their 2020 Convertible Notes at a repurchase price of 100% of the principal amount, plus accrued and unpaid interest, if any, up to but not including the fundamental change repurchase date. In addition, following certain corporate events that occur prior to maturity, we will increase the conversion rate for a holder who elects to convert its 2020 Convertible Notes in connection with such a corporate event in certain circumstances. In such event, an aggregate of up to 2.5 million additional shares of common stock could be issued upon conversions in connection with such corporate events, subject to adjustment in the same manner as the conversion rate.

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

The 2020 Convertible Notes are carried at their principal amount less unamortized debt discount and issuance costs, and are not carried at fair value at each period end. The original debt discount was calculated at a market interest rate for nonconvertible debt of 6.2% at the time of issuance, which represented a Level 3 fair value measurement. The approximate fair value of the 2020 Convertible Notes as of August 31, 2018 was $127.8 million, which is estimated on the basis of inputs that are observable in the market and is considered a Level 2 measurement method in the fair value hierarchy.

2025 Convertible Notes

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

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

The 2025 Convertible Notes bear interest at 2.00% per year payable semiannually in arrears in cash on February 1 and August 1 of each year, beginning on February 1, 2019. The 2025 Convertible Notes will mature on August 1, 2025, unless earlier converted, redeemed or repurchased by us in accordance with their terms. We may redeem the Notes at our option at any time on or after August 6, 2022 at a cash redemption price equal to the principal amount plus accrued interest, but only if the last reported sale price per share of our stock exceeds 130% of the conversion price on (1) 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 (2) the trading day immediately before the date we send such notice. The 2025 Convertible Notes rank senior in right of payment to any existing or future indebtedness which is subordinated by its terms, will rank equally in right of payment to any indebtedness that is not so subordinated, will be structurally subordinated to all indebtedness and liabilities of our subsidiaries and will be effectively junior to our secured indebtedness to the extent of the value of the assets securing such indebtedness.

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

Because the convertible debt may be wholly or partially settled in cash, we are required to separately account for the liability and equity components of the notes in a manner that reflects our non-convertible debt borrowing rate when interest costs are recognized in subsequent periods. The principal of $230.0 million were allocated between debt of $160.8 million and stockholders' equity of $69.2 million with the portion in stockholders' equity representing the fair value of the option to convert the debt. The fair value of the liability component of the 2025 Convertible Notes was determined using a discounted cash flow analysis, in which the projected interest and principal payments were discounted back to the issuance date of the 2025 Convertible Notes at a market interest rate for nonconvertible debt of 7.56%, which represented a Level 3 fair value measurement. The equity component of the 2025 Convertible Notes represents the fair value of the embedded conversion feature that was recorded as an increase in additional paid-in capital within the stockholders' equity section. The associated deferred tax effect of $17.3 million was recorded as a reduction of additional paid-in capital. The amount recorded in additional paid-in capital is not to be remeasured as long as it continues to meet the conditions for equity classification. The debt discount of $69.2 million is being amortized to interest expense using the effective interest method with an effective interest rate of 7.56% over the period from the issuance date through the contractual maturity date of the 2025 Convertible Notes of August 1, 2025.

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

Upon the occurrence of a "make-whole fundamental change" (as defined in the 2025 Indenture), we will in certain circumstances increase the conversion rate for a specific period of time. Additionally, upon the occurrence of a "fundamental change" (as defined in the 2025 Indenture), holders of the notes may require us to repurchase their notes at a cash repurchase price equal to the principal amount of the notes to be repurchased, plus any accrued and unpaid interest. As of August 31, 2018, none of the conditions allowing the holders of the 2025 Convertible Notes to convert have been met.

The 2025 Convertible Notes are carried at their principal amount less unamortized debt discount and issuance costs, and are not carried at fair value at each period end. The approximate fair value of the 2025 Convertible Notes as of August 31, 2018 was $227.8 million, which was estimated on the basis on inputs that are observable in the market and which is considered a Level 2 measurement method in the fair value hierarchy.

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

NOTE 7 – RESTRUCTURING CHARGES

Beginning in the first quarter of fiscal 2019, we commenced a plan to capture certain synergies and cost savings related to streamlining our global operations and sales organization, as well as rationalize certain leased properties that are not fully occupied. Our plan is aligned with our strategy to integrate the global sales organization and further outsource manufacturing functions in order to drive operational efficiency, increase supplier geographic diversity, and reduce operating expenses. Effective May 31, 2018, we recorded approximately $0.9 million in severance and employee related costs, which were substantially all under the Telematics Systems reportable segment, as well as $2.5 million for vacant office and manufacturing facility space under Corporate Expenses (defined in Note 15). For the three months ended August 31, 2018, we recorded an additional $0.3 million in severance and employee related costs, which were substantially all under Telematics Systems reportable segment, and $0.2 million for vacant office and manufacturing facility space under Corporate Expenses. The total restructuring charges were $3.9 million through August 31, 2018.

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

	Personnel	Facilities	Total
Restructuring liabilities as of February 28, 2018	$ —	$ —	$—
Charges	1,281	2,668	3,949
(Payments)	(399)	(253)	(652)
Restructuring liabilities as of August 31, 2018	$ 882	$ 2,415	$3,297

NOTE 8 - INCOME TAXES

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

The Tax Cuts and Jobs Act (the “Act”) was signed into law December 22, 2017. At February 28, 2018, we determined a reasonable provisional estimate on our existing deferred tax balances and the one-time transition tax under the U.S. Securities and Exchange Commission Staff Accounting Bulletin No. 118. At that time, we recognized a charge of $6.6 million as a component of our income tax expense principally related to the impact of remeasuring certain deferred tax assets and liabilities based on the rates at which they are expected to reverse in the future. At August 31, 2018, we had not completed our accounting for the tax effects of enactment of the Act and therefore, we are still analyzing certain aspects of the legislation and refining our calculations such as our current year estimates and filings of certain tax returns, which could affect the measurement of our deferred tax assets and liabilities.

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

NOTE 9 - EARNINGS PER SHARE

Basic earnings per share is computed by dividing net income for the period by the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed by dividing net income for the period by the weighted average number of common shares outstanding during the period plus the dilutive effect of outstanding stock options and restricted stock-based awards using the treasury stock method.

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

	Three Months Ended August 31,		Six Months Ended August 31,	
	2018	2017	2018	2017
Net income (loss)	$(854)	$12,232	$7,657	$9,579
Basic weighted average number of common shares outstanding	34,850	35,204	35,141	35,136
Effect of stock options and restricted stock units computed on treasury stock method	—	817	932	837
Diluted weighted average number of common shares outstanding	34,850	36,021	36,073	35,973
Earnings (loss) per share:				
Basic	$(0.02)	$0.35	$0.22	$0.27
Diluted	$(0.02)	$0.34	$0.21	$0.27

All outstanding options and restricted stock units for the three months ended August 31, 2018 were excluded from the computation of diluted earnings per share because we reported net loss for this quarter and the effect of inclusion would be antidilutive.

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

NOTE 10 – STOCK-BASED COMPENSATION

Stock Repurchase

On May 7, 2018, we announced that our Board of Directors authorized a share repurchase program under which we may repurchase up to $30.0 million of our outstanding common stock over the next 12 months. On July 16, 2018, our Board of Directors authorized an additional $9.0 million to repurchase our outstanding common stock, or a total up to $39.0 million through May 2019. Under the stock repurchase program, we may repurchase shares in the open market.

During the quarter ended August 31, 2018, we repurchased approximately 1.0 million shares of our common stock at an average share price of $23.20 for a total cost of $22.9 million, of which $15.0 million was funded from the proceeds from the 2025 Convertible Notes. As of August 31, 2018, $28.6 million of the $39 million had been utilized, or a remaining $10.4 million available to repurchase shares under the authorized program. All of the share repurchases were paid for and retired as of August 31, 2018.

However, the extent to which we repurchase our shares and the timing of such repurchases will depend upon a variety of factors including market conditions, regulatory requirements and other corporate considerations. The share repurchase program may be suspended or discontinued at any time. We expect to finance the purchase of additional shares under the program with existing cash balances.

Employee Stock Purchase Plan

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

Equity Awards

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

	Three Months Ended August 31,	Six Months Ended August 31,

	2018	2017	2018	2017
Cost of revenues	$212	$141	$389	$279
Research and development	420	384	785	618
Selling and marketing	680	547	1,251	933
General and administrative	1,368	1,155	2,722	2,214
	$2,680	$2,227	$5,147	$4,044

Changes in our outstanding stock options during the six months ended August 31, 2018 were as follows (options in thousands):

	Number of Options	Weighted Average Exercise Price	Weighted average remaining contractual life (years)	Aggregate intrinsic value
Outstanding at February 28, 2018	980	$ 11.29	5.9	
Granted	140	23.08		
Exercised	(55)	1.83		
Forfeited or expired	—	—		
Outstanding at August 31, 2018	1,065	$ 13.33	6.3	$ 10,831
Exercisable at August 31, 2018	683	$ 9.85	4.7	$ 9,316

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Changes in our outstanding restricted stock shares, performance stock units ("PSUs") and restricted stock units ("RSUs") during the six months ended August 31, 2018 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 Minimum Withholding Taxes
Outstanding at February 28, 2018	1,434	$ 17.72	
Granted	658	23.05	
Vested	(438)	17.21	148
Forfeited	(126)	19.24	
Outstanding at August 31, 2018	1,528	$ 20.03	

As of August 31, 2018, there was $31.7 million of total unrecognized stock-based compensation cost related to outstanding nonvested equity awards that is expected to be recognized as an expense over a weighted-average remaining vesting period of 3.3 years.

NOTE 11 – COMPREHENSIVE INCOME (LOSS)

Comprehensive income (loss) consists of two components, net income and Other Comprehensive Income (Loss) ("OCI"). OCI refers to revenue, expenses, and gains and losses that under GAAP are recorded as an element of stockholders' equity but are excluded from net income. Our OCI consists of currency translation adjustments from our foreign subsidiaries that do not use the U.S. dollar as their functional currency and unrealized gains and losses on equity investments and marketable securities classified as available-for-sale. As described in Note 1, upon adoption of ASU 2016-01 on March 1, 2018, we reclassified the unrealized gain on available-for-sale securities from Accumulated Other Comprehensive Income ("AOCI") to beginning accumulated deficit.

The following table shows the changes in AOCI by component for the six months ended August 31, 2018 (in thousands):

	Cumulative Foreign Currency Translation	Unrealized Gains/Losses on Marketable Securities	Total
Balances at February 28, 2018	$ (633)	$ 434	$(199)
Other comprehensive loss, net of tax	3	(434)	(431)
Balances at August 31, 2018	$ (630)	$ -	$(630)

NOTE 12 - CONCENTRATION OF RISK

Significant Customers

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

	Three Months Ended August 31, 2018	2017	Six Months Ended August 31, 2018	2017
Revenues:				
Customer A	16%	12 %	14%	11 %

	August 31, 2018	February 28, 2018
Accounts receivable:		
Customer A	16 %	15 %
Customer B	7 %	13 %

Customer B represents certain of our customers, which are considered affiliates under common control and collectively represented approximately 13% of our accounts receivable at February 28, 2018. Throughout our history and presently we have dealt with separate purchasing departments for the individual customers and have at all times sold different products to each of them.

Significant Suppliers

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

	Three Months Ended August 31,		Six Months Ended August 31,	
	2018	2017	2018	2017
Inventory purchases:				
Supplier A	29%	32 %	29%	31 %
Supplier B	21%	14 %	21%	16 %
Supplier C	6 %	13 %	7 %	11 %

	August 31, 2018	February 28, 2018
Accounts payable:		
Supplier A	32 %	40 %
Supplier B	19 %	16 %

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

NOTE 13 - PRODUCT WARRANTIES

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

Six Months
Ended

	August 31, 2018	2017
Balance at beginning of period	$5,734	$6,518
Charged to costs and expenses	558	688
Deductions	(722)	(1,158)
Balance at end of period	$5,570	$6,048

NOTE 14 – OTHER FINANCIAL INFORMATION

Supplemental Balance Sheet Information

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

	August 31, 2018	February 28, 2018
Warranty reserves	$5,570	$5,734
Litigation reserve	18,446	17,559
Accrued restructuring costs	1,719	—
Other	5,886	8,395
	$31,621	$31,688

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

	August 31, 2018	February 28, 2018
Deferred revenue	$25,803	$16,763
Deferred compensation plan liability	7,088	5,642
Accrued restructuring costs	1,578	—
Other	1,731	1,844
	$36,200	$24,249

Supplemental Statement of Comprehensive Income (Loss) Information

Interest expense consists of the following (in thousands):

	Three Months Ended August 31,		Six Months Ended August 31,	
	2018	2017	2018	2017
Interest expense on 2020 Convertible Notes:				
Stated interest at 1.625% per annum	$611	$704	$1,312	$1,405
Amortization of note discount	1,515	1,653	3,228	3,263
Amortization of debt issue costs	176	210	394	416
	2,302	2,567	4,934	5,084
Interest expense on 2025 Convertible Notes:				
Stated interest at 2.00% per annum	511	—	511	—
Amortization of note discount	839	—	839	—
Amortization of debt issue costs	62	—	62	—
	1,412	—	1,412	—
Other interest expense	53	—	86	1
Total interest expense	$3,767	$2,567	$6,432	$5,085

Supplemental Cash Flow Information

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

	Six Months Ended August 31,	
	2018	2017
Interest expense paid	$1,547	$1,442
Income tax paid	$738	$733

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

	Six Months Ended August 31,	
	2018	2017
Equity investment in and loan to ThinxNet (see Note 5)	$300	$2,674

NOTE 15 - SEGMENT INFORMATION AND GEOGRAPHIC DATA

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

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

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The Software & Subscription Services segment offers cloud-based, application enablement and telematics service platforms that facilitate integration of our own applications, as well as those of third parties, through open Applications 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.

Segment information for the three and six months ended August 31, 2018 and 2017 is as follows (in thousands):

	Three Months Ended August 31, 2018 Operating Segments				Three Months Ended August 31, 2017 Operating Segments			
	Telematics Systems	Software & Subscription Services	Corporate Expenses	Total	Telematics Systems	Software & Subscription Services	Corporate Expenses	Total
Revenues	$77,100	$ 18,937	$ —	$96,037	$74,070	$ 15,697	$ —	$89,767
Adjusted EBITDA	$11,682	$ 3,373	$ (1,366)	$13,689	$11,505	$ 2,050	$ (1,254)	$12,301

	Six Months Ended August 31, 2018 Operating Segments				Six Months Ended August 31, 2017 Operating Segments			
	Telematics Systems	Software & Subscription Services	Corporate Expenses	Total	Telematics Systems	Software & Subscription Services	Corporate Expenses	Total
Revenues	$153,452	$ 37,473	$ —	$190,925	$146,066	$ 31,782	$ —	$177,848
Adjusted EBITDA	$22,496	$ 6,295	$ (2,925)	$25,866	$24,325	$ 3,271	$ (2,114)	$25,482

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

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

	Three Months Ended August 31,		Six Months Ended August 31,	
	2018	2017	2018	2017
Net income (loss)	$(854)	$12,232	$7,657	$9,579
Investment income	(1,007)	(396)	(1,860)	(729)
Interest expense	3,767	2,567	6,432	5,085
Income tax provision	(497)	3,699	1,274	2,619

Depreciation	2,298	1,958	4,341	3,983
Amortization of intangible assets	2,893	3,710	5,641	7,568
Stock-based compensation	2,680	2,227	5,147	4,044
Loss on extinguishment of debt	2,033	—	2,033	—
Equity in net loss of affiliate	530	376	969	713
Restructuring charges	566	—	3,949	—
Legal expenses for LoJack battery performance issue	564	430	2,250	927
Litigation provision	459	411	887	6,486
Gain on LoJack battery performance legal Settlement	—	(15,032)	(13,333)	(15,032)
Other	257	119	479	239
Adjusted EBITDA	$13,689	$12,301	$25,866	$25,482

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

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

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

	Three Months Ended August 31,		Six Months Ended August 31,	
	2018	2017	2018	2017
United States	$70,647	$65,879	$141,064	$129,744
Europe, Middle East and Africa	13,788	11,374	27,132	22,536
South America	1,723	1,986	4,129	5,779
Canada	2,338	4,202	3,702	7,561
Asia and Pacific Rim	3,480	3,320	7,239	6,120
All other	4,061	3,006	7,659	6,108
	$96,037	$89,767	$190,925	$177,848

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, 2018 and 2017.

NOTE 16 – LEGAL PROCEEDINGS

EVE battery claim

On October 27, 2014, LoJack and LoJack Equipment Ireland DAC ("LJEI"), a wholly-owned subsidiary of LoJack, commenced arbitration proceedings against EVE Energy Co., Ltd. ("EVE") by filing a notice of arbitration with a tribunal (the "Tribunal") before the Hong Kong International Arbitration Centre (the "HKIAC"). LoJack and LJEI alleged that EVE breached representations and warranties made in supply agreements relating to the quality and performance of battery packs supplied by EVE. On June 2, 2017, we were notified that the Tribunal rendered a decision and awarded damages to us (the "Damage Award") for EVE's breach of contract. On June 9, 2017, we entered into a settlement agreement with EVE and its controlling shareholder EVE Holdings Limited to resolve the Damage Award by having EVE Holdings Limited, make payments to us in the aggregate amount of approximately $46.6 million, which amount is net of attorneys' fees and insurance subrogation payment (the "Settlement"). As of August 31, 2018, we had received approximately $41.6 million, of which approximately $15.0 million was received in June 2017, $13.3 million was received in November 2017 and $13.3 million was received in April 2018. The Settlement amounts are reported as other non-operating income in our consolidated statement of comprehensive income for the fiscal year ended February 28, 2018 and the six months ended August 31, 2018. We expect to receive the remaining $5.0 million in installments from September 2018 through February 2019. On September 14, 2018, we received an installment payment of $0.3 million.

Other legal matters

As previously disclosed on Form 10-Q for the first quarter ended May 31, 2018 that was filed with the U.S. Securities and Exchange Commission on June 28, 2018, the following are other outstanding legal matters:

We filed motions with the court seeking judgment as a matter of law and for a new trial in response to the patent infringement lawsuit that Omega Patents, LLC, ("Omega") filed against us. The court denied these motions and we then filed an appeal at the Court of Appeals for the Federal Circuit ("CAFC"). We expect that the CAFC will hear oral argument on the appeal in December 2018 or January 2019. We continue to believe that our products do not infringe any valid claims of Omega’s patents. While it is not feasible to predict with certainty the outcome of this litigation, its ultimate resolution could be material to our cash flows or results of operations.

In December 2016, Tracker Connect (Pty) LTD ("Tracker"), LoJack's international licensee in South Africa, commenced arbitration proceedings against LJEI, by filing a notice of arbitration. The filing alleges breaches of the parties' license agreement, misrepresentations, unjust enrichment and other claims. Tracker seeks monetary damages and recovery of attorneys' fees. On March 3, 2017, LJEI filed its response to the notice. The arbitral tribunal was selected, the arbitration was conducted in March 2018, and the closing arguments were heard on June 25, 2018. We expect the arbitral panel will render its decision on or before October 31, 2018. While it is not feasible to predict with certainty the outcome of this litigation, the ultimate resolution could be material to our cash flows and results of operations.

In addition to the foregoing matters, from time to time as a normal consequence of doing business, various claims and litigation may be asserted or commenced against us. In particular, in the ordinary course of business, we may receive claims concerning contract performance, or claims that our products or services infringe the intellectual property of third parties. While the outcome of any such claims or litigation cannot be predicted with certainty, management does not believe that the outcome of any of such matters existing at the present time would have a material adverse effect on our consolidated results of operations, financial condition and 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 consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The preparation of these financial statements requires management to make estimates and assumptions that may affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues, costs and expenses during the reporting periods. Actual results could differ materially from these estimates. The critical accounting policies listed below involve our more significant accounting judgments and estimates that are used in the preparation of the consolidated financial statements. These policies are described in greater detail in Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") under Part II, Item 7 of our Annual Report on Form 10-K for the fiscal year ended February 28, 2018, as filed with the U.S. Securities and Exchange Commission on May 10, 2018, and include the following areas:

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

Other than the adoption of ASC 606 and ASU 2016-01 (see Note 1), there have been no significant changes to these accounting policies as of August 31, 2018.

RESULTS OF OPERATIONS

OUR COMPANY

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

TELEMATICS SYSTEMS

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

SOFTWARE & SUBSCRIPTION SERVICES

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

Adjusted EBITDA

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

OPERATING RESULTS

Three months ended August 31, 2018 compared to three months ended August 31, 2017:

Revenue by Segment

	Three Months Ended August 31,									
	2018			2017						
(In thousands)	$	% of Revenue		$	% of Revenue		$ Change	% Change	
Segment									
Telematics Systems	$77,100	80.3	%	$74,070	82.5	%	$3,030	4.1	%
Software & Subscription Services	18,937	19.7	%	15,697	17.5	%	3,240	20.6	%
Total	$96,037	100.0	%	$89,767	100.0	%	$6,270	7.0	%

Telematics Systems revenue increased by $3.0 million or 4.1% for the three months ended August 31, 2018 compared to the same period last year. The increase was due to an increase in sales volume for our MRM telematics and Network and OEM products as demand from our customers, including our top customer, increased due to more favorable conditions in the fleet management, asset tracking and heavy equipment markets.

Software & Subscription Services revenue increased by $3.2 million or 20.6% for the three months ended August 31, 2018 compared to the same period last year. The increase was due to growth in our LoJack Italia operations and our fleet management services especially as the subscriber base with a large freight transport customer continues to grow. This increase in revenue was partially offset by a less favorable Euro to U.S. dollar exchange rate compared to the same period last year.

Cost of Revenues and Gross Profit

	Three Months Ended August 31,					
	2018		2017			
(In thousands)	$	% of Revenue	$	% of Revenue	$ Change	% Change
Revenues	$96,037	100.0 %	$89,767	100.0 %	$6,270	7.0 %
Cost of revenues	56,216	58.5 %	52,929	59.0 %	3,287	6.2 %
Gross profit	$39,821	41.5 %	$36,838	41.0 %	$2,983	8.1 %

Consolidated gross profit increased by $3.0 million or 8.1% for the three months ended August 31, 2018 compared to the same period last year. The increase in absolute dollar terms was due to higher revenue in the Telematics Systems business and continuous growth in our LoJack Italia operations. Consolidated gross margin increased to 41.5% for the three months ended August 31, 2018 from 41.0% for the same period last year. This increase was primarily due to favorable product and service mix driven by strong growth in our MRM telematics and Network and OEM products revenue coupled with growth in revenues for our Software & Subscriptions Services as described above.

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

Operating Expenses

	Three Months Ended August 31,					
	2018		2017			
(In thousands)	$	% of Revenue	$	% of Revenue	$ Change	% Change
Research and development	$7,599	7.9 %	$6,725	7.5 %	$ 874	13.0 %
Selling and marketing	12,523	13.0 %	12,515	13.9 %	8	0.1 %
General and administrative	11,991	12.5 %	10,756	12.0 %	1,235	11.5 %
Restructuring	566	0.6 %	—	0.0 %	566	100.0 %
Intangible asset amortization	2,893	3.0 %	3,710	4.1 %	(817)	(22.0 %)
Total	$35,572	37.0 %	$33,706	37.5 %	$ 1,866	5.5 %

Consolidated research and development expense increased by $0.9 million or 13.0% for the three months ended August 31, 2018 compared to the same period last year. The increase was primarily driven by increased employee compensation and benefits due to increased headcount. Consolidated research and development expense as a percentage of revenues increased to 7.9% for the three months ended August 31, 2018 compared to 7.5% in the same period last year. We are investing in research and development of new products and technologies to be sold through the U.S. and international sales channels.

Consolidated selling and marketing expense was consistent for the three months ended August 31, 2018 compared to the same period last year.

Consolidated general and administrative expenses increased by $1.2 million or 11.5% for the three months ended August 31, 2018 compared to the same period last year. The increase was primarily driven by increased employee compensation and benefits due to increased headcount as well as an increase in service fees related to a new cloud-based ERP system that we are implementing to support the growth in our global operations. Certain implementation costs on the new ERP system were capitalized.

As described in Note 7, during the three months ended May 31, 2018, we commenced a plan to capture certain synergies and cost savings related to streamlining our global operations and sales organization as well as rationalize certain leased properties that are partially vacant. During the three months ended August 31, 2018, we incurred additional charges under this initiative. As a result, we recorded approximately $0.4 million in severance and employee related costs as well as $0.2 million in rent and related costs associated with office and manufacturing plant facilities where we have ceased use. Restructuring costs are shown separately in the operating expenses in our condensed consolidated statement of comprehensive income (loss).

Amortization of intangibles decreased by $0.8 million or 22.0% for the three months ended August 31, 2018 compared to the same period last year due to completion of amortization on various certain older intangible assets.

Non-operating Income (Expense), Net

Investment income increased by $0.6 million to $1.0 million for the three months ended August 31, 2018 from $0.4 million for the three months ended August 31, 2017. The increase was due to an increase in investment income on Rabbi Trust assets that serve to informally fund the non-qualified deferred compensation plan and increase in interest income resulting from increased investments in various cash equivalent and short-term marketable securities.

Interest expense increased $1.2 million to $3.8 million for the three months ended August 31, 2018 from $2.6 million for the three months ended August 31, 2017 due to primarily to additional convertible debt discount and issue costs related to the 2025 Convertible Notes issued in July 2018 that are being amortized on the effective interest method.

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

Other non-operating expense for the three months ended August 31, 2018 was $0.3 million and decreased from income of $0.3 million from the comparable period of the prior year due to an unfavorable shift in currency exchange rates.

Overall Profitability Measures

GAAP-basis net loss in the three months ended August 31, 2018 was $0.9 million as compared to a net income of $12.2 million in the three months ended August 31, 2017. The decrease is primarily the result of the $15.0 million net non-operating gain from the supplier legal Settlement from prior year and partially offset by lower legal expenses during the latest quarter.

	Three Months Ended August 31,			
(In thousands)	2018	2017	$ Change	% Change
Segment				
Telematics Systems	$ 11,682	$ 11,505	$ 177	1.5 %
Software & Subscription Services	3,373	2,050	1,323	64.5 %
Corporate Expenses	(1,366)	(1,254)	(112)	8.9 %
Total Adjusted EBITDA	$ 13,689	$ 12,301	$ 1,388	11.3 %

Adjusted EBITDA for Telematics Systems in the three months ended August 31, 2018 remained consistent with the same period last year. Adjusted EBITDA for Software & Subscription Services increased by $1.3 million compared to the same period last year due primarily to continuous growth in gross profit from our Lojack Italia operations and higher gross profit from our fleet management service deployments.

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

Six months ended August 31, 2018 compared to six months ended August 31, 2017:

Revenue by Segment

	Six Months Ended August 31,					
	2018		2017			
(In thousands)	$	% of Revenue	$	% of Revenue	$ Change	% Change
Segment						
Telematics Systems	$ 153,452	80.4 %	$ 146,066	82.1 %	$ 7,386	5.1 %
Software & Subscription Services	37,473	19.6 %	31,782	17.9 %	5,691	17.9 %
Total	$ 190,925	100.0 %	$ 177,848	100.0 %	$ 13,077	7.4 %

Telematics Systems revenue increased by $7.4 million or 5.1% for the six months ended August 31, 2018 compared to the same period last year. The increase was due to an increase in sales volume for our MRM telematics and Network and OEM products as demand from our customers, including our top customer, increased due to more favorable conditions in the fleet management, asset tracking and heavy equipment OEM markets.

Software & Subscription Services revenue increased by $5.7 million or 17.9% for the six months ended August 31, 2018 compared to the same period last year. The increase was due to growth in our LoJack Italia operations and our fleet management services especially as the subscriber base with a large freight transport customer continues to grow. The increase was partially offset by a less favorable Euro to U.S. dollar exchange rate compared to the same period last year.

Cost of Revenues and Gross Profit

	Six Months Ended August 31,									
	2018			2017						
		% of			% of		$	%		
(In thousands)	$	Revenue		$	Revenue		Change	Change		
Revenues	$190,925	100.0	%	$177,848	100.0	%	$13,077	7.4	%	
Cost of revenues	113,013	59.2	%	103,567	58.2	%	9,446	9.1	%	
Gross profit	$77,912	40.8	%	$74,281	41.8	%	$3,631	4.9	%	

Consolidated gross profit increased by $3.6 million or 4.9% for the six months ended August 31, 2018 compared to the same period last year. The increase in absolute dollar terms was due to higher revenue in both the Telematics Systems and Software & Subscription Services business. Consolidated gross margin decreased to 40.8% for the six months ended August 31, 2018 from 41.8% for the same period last year. This decrease was primarily due to a change in product mix in the current period as well as the impact of high margin revenue earned on a strategic technology partnership arrangement in the same period last year.

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

Operating Expenses

	Six Months Ended August 31,					
	2018		2017			
(In thousands)	$	% of Revenue	$	% of Revenue	$ Change	% Change
Research and development	$14,200	7.4 %	$12,557	7.1 %	$1,643	13.1 %
Selling and marketing	25,020	13.1 %	25,186	14.2 %	(166)	(0.7 %)
General and administrative	25,427	13.3 %	27,166	15.3 %	(1,739)	(6.4 %)
Restructuring	3,949	2.1 %	—	0.0 %	3,949	100.0 %
Intangible asset amortization	5,641	3.0 %	7,568	4.3 %	(1,927)	(25.5 %)
Total	$74,237	38.9 %	$72,477	40.9 %	$1,760	2.4 %

Consolidated research and development expense increased by $1.6 million or 13.1% for the six months ended August 31, 2018 compared to the same period last year. The increase was primarily driven by increased employee compensation and benefits due to increased headcount. Consolidated research and development expense as a percentage of revenues increased to 7.4% for the six months ended August 31, 2018 compared to 7.1% in the same period last year. We are investing in research and development of new products and technologies to be sold through the U.S. and international sales channels.

Consolidated selling and marketing expense decreased by $0.2 million or 0.7% for the six months ended August 31, 2018 compared to the same period last year. The decrease was primarily driven by a decrease in professional services and web design costs as we substantially completed our CalAmp and LoJack brand refresh initiatives during the prior fiscal year.

Consolidated general and administrative expenses decreased by $1.7 million or 6.4% for the six months ended August 31, 2018 compared to the same period last year. The decrease was primarily driven by a decline in litigation provisions and expenses related to existing legal matters (see Note 16) and partially offset by increased employee compensation and benefits due to increased headcounts and increased professional services coupled with service fees related to a new cloud-based ERP system that we are implementing to support the growth in our global operations. Certain implementation costs on the new ERP system were capitalized.

As described in Note 7, during the three months ended May 31, 2018, we commenced a plan to capture certain synergies and cost savings related to streamlining our global operations and sales organization as well as rationalize certain leased properties that are partially vacant. As a result, we recorded approximately $1.3 million in severance and employee related costs as well as $2.7 million in rent and related costs associated with office and manufacturing plant facilities where we have ceased use for the six months ended August 31, 2018. Restructuring costs are shown separately in the operating expenses in the condensed consolidated statement of comprehensive income (loss).

Amortization of intangibles decreased by $1.9 million or 25.5% for the six months ended August 31, 2018 compared to the same period last year due to completion of amortization on various certain older intangible assets.

Non-operating Income (Expense), Net

Investment income increased by $1.1 million to $1.9 million for the six months ended August 31, 2018 from $0.7 million for the six months ended August 31, 2017. The increase was due primarily to an increase in investment income on Rabbi Trust assets that serve to informally fund the non-qualified deferred compensation plan and increase in interest income resulting from increased investments in various cash equivalent and short-term marketable securities.

Interest expense increased to $6.4 million for the six months ended August 31, 2018 from $5.1 million for the six months ended August 31, 2017 due to primarily to the addition of convertible debt discount and issue costs relating to the 2025 Convertible Notes issued in July 2018 that are being amortized on the effective interest method.

See Note 16 to the accompanying unaudited condensed consolidated financial statements for information concerning the $13.3 million and $15.0 million net gain for the six months ended August 31, 2018 and 2017 on the legal Settlement with a supplier.

Other non-operating expense for six months ended August 31, 2018 was $0.5 million as compared to an income of $0.4 million for the same period prior year due to an unfavorable shift in currency exchange rates.

Overall Profitability Measures

GAAP-basis net income in the six months ended August 31, 2018 was $7.7 million as compared to $9.6 million in the six months ended August 31, 2017. In the six months ended August 31, 2018, we recorded a $13.3 million gain from the supplier legal Settlement, where it was $15.0 million in the six months ended August 31, 2017. The decrease of $1.7 million in gain from the supplier legal Settlement was coupled with a $2.0 million loss on extinguishment of debt as well as $3.9 million of restructuring charges incurred. These decreases are partially offset by a favorable decline in legal expenses.

(In thousands)	Six Months Ended August 31, 2018	2017	$ Change	% Change
Segment				
Telematics Systems	$22,496	$24,325	$(1,829)	(7.5%)
Software & Subscription Services	6,295	3,271	3,024	92.4%
Corporate Expenses	(2,925)	(2,114)	(811)	38.4%
Total Adjusted EBITDA	$25,866	$25,482	$384	1.5%

Adjusted EBITDA for Telematics Systems in the six months ended August 31, 2018 decreased $1.8 million compared to the same period last year primarily due to the impact of high margin revenue earned on a strategic technology partnership arrangement in the six months ended August 31, 2017 coupled with higher operating expenses in Telematics Systems as a result of increased headcount and outsourced professional services fees. Adjusted EBITDA for Software & Subscription Services increased $3.0 million compared to the same period last year due primarily to continuous growth in gross profit from our Italia market and higher gross profit from our fleet management services.

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

Income Tax Provision

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

The effective income tax rate was 12.9% in the six months ended August 31, 2018 compared to 20.3% in the same period prior year. The effective tax rate in the six months ended August 31, 2018 is lower than the statutory U.S. federal income tax rate of 21% due primarily to a portion of our income before provision for income taxes being earned in jurisdictions subject to tax rates lower than 21%, federal and state research and development tax credits and tax benefits, and from exercise of stock options and vesting of equity awards.

As disclosed in the Form 10-K filed on May 10, 2018, we determined a reasonable provisional estimate on our existing deferred tax balances and the one-time transition tax under the U.S. Securities and Exchange Commission

Staff Bulletin No. 118 as of February 28, 2018. We continue to evaluate the impact of the Tax Cuts and Jobs Act signed into law on December 22, 2017.

LIQUIDITY AND CAPITAL RESOURCES

Consistent with fiscal 2018, our primary cash needs have been for working capital purposes and, to a lesser extent, capital expenditures. We have historically funded our principal business activities through cash flows generated from operations. As we continue to grow our customer base and increase our revenues, there will be a need for working capital in the future. Our immediate sources of liquidity are cash, cash equivalents, marketable securities and our revolving credit facility. As of August 31, 2018, we have $305.0 million of cash, cash equivalents and marketable securities. We expect to continue to finance our operations from cash, cash equivalents and marketable securities without borrowing under our revolving credit facility over the next twelve months.

On March 30, 2018, we entered into a revolving credit facility with J.P. Morgan Chase Bank, N.A. that provides for borrowings of up to $50.0 million. This revolving credit facility expires on March 30, 2020. Borrowings under this revolving credit facility bear interest at either a Prime or LIBOR-based variable rate as selected by us on a periodic basis. This revolving credit facility contains financial covenants that require us to maintain a minimum level of earnings before interest, income taxes, depreciation, amortization and other noncash charges (EBITDA) and minimum debt coverage ratios. There were no borrowings outstanding on this revolving credit facility at August 31, 2018.

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

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

Cash flows from operating activities

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

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

For the six months ended August 31, 2018, net cash provided by operating activities was $36.8 million. Net income was $7.7 million, which was primarily attributable to a $13.3 million net gain from a legal Settlement with a former supplier of LoJack that was realized as non-operating income during the period. We expect to receive the remaining $5.0 million in installments from September 2018 through February 2019. On September 14, 2018, we received an installment payment of $0.3 million. Our non-cash expenses, comprised principally of depreciation, intangible assets amortization, stock-based compensation expense, amortization of convertible debt issue costs and discount, loss on extinguishment of debt, deferred income taxes and equity in net loss of affiliate was a $22.5 million. Changes in operating assets and liabilities represented a $5.8 million source of cash, primarily driven by changes in working capital including an increase in deferred revenue and prepaid expenses but partially offset by a decrease in inventory. The increases in our net income and working capital accounts was attributable to an increase in sales volume especially during the period.

For the six months ended August 31, 2017, net cash provided by operating activities was $36.0 million, which primarily resulted from a net income of $9.6 million, as well as similar activities within other non-cash items and changes in working capital as noted above.

Cash flow from investing activities

For the six months ended August 31, 2018 and 2017, our net cash used in investing activities was $14.4 million and $1.8 million, respectively. In each of these periods, our primary investing activities consisted of the purchase and sale of marketable securities in accordance with our corporate investment policy as well as strategic initiatives including certain investments in and advances to our affiliate.

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

Cash flow from financing activities

For the six months ended August 31, 2018 and 2017, our net cash provided (used) by financing activities was $119.2 million and $(2.2) million. In each of these periods, we have payments for taxes related to the net share settlement of vested equity awards and the proceeds for the exercise of stock options. For the six months ended August 31, 2018, we issued $230.0 million of the 2025 Convertible Notes and used the net proceeds to pay the cost of the capped call transactions; repurchase shares of our common stock; and repurchase a portion of our outstanding 2020 Convertible Notes as discussed above. We also received proceeds of $3.1 million through the unwind of the note hedges and warrants related to the 2020 Convertible Notes.

On May 7, 2018, we announced that our Board of Directors authorized a share repurchase program, under which we may repurchase up to $30.0 million of our outstanding common stock over the next 12 months. On July 16, 2018, our Board of Directors approved an additional $9.0 million to repurchase our outstanding common stock, or a total of up to $39.0 million through May 2019. For the six months ended August 31, 2018, we repurchased $28.6 million of our common stock. All shares repurchased were retired.

Off-Balance Sheet Arrangements

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

Contractual Cash Obligations

The following is a summary of our contractual cash obligations as of August 31, 2018 (in thousands):

	Future Estimated Cash Payments Due by Fiscal Year				
	Less than 1 year	1 - 3 years	3 - 5 years	>5 years	Total
Convertible senior notes principal	$-	$122,527	$-	$230,000	$352,527
Convertible senior notes stated interest	6,744	11,191	9,200	9,200	36,335
Operating leases	5,663	6,010	3,283	1,156	16,112
Purchase obligations	26,923	-	-	-	26,923
Total contractual obligations	$39,330	$139,728	$12,483	$240,356	$431,897

Purchase obligations consist primarily of inventory purchase commitments.

FORWARD LOOKING STATEMENTS

Forward looking statements in this Form 10-Q which include, without limitation, statements relating to our plans, strategies, objectives, expectations, intentions, projections and other information regarding future performance, are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The words “may”, “will”, “could”, “plans”, “intends”, “seeks”, “believes”, “anticipates”, “expects”, “estimates”, “judgment”, “goal”, and variatio words and similar expressions, are intended to identify forward-looking statements. These forward-looking statements reflect our current views with respect to future events and financial performance and are subject to certain risks and uncertainties that are difficult to predict, including, without limitation, product demand, competitive pressures and pricing declines in our markets, the timing of customer approvals of new product designs, intellectual property infringement claims, interruption or failure of our Internet-based systems used to wirelessly configure and communicate with the tracking and monitoring devices that we sell, our ability to collect the remaining installments under the Settlement with EVE, and other risks and uncertainties that are set forth in Part I, Item 1A of the Annual Report on Form 10-K for the fiscal year ended February 28, 2018 as filed with the U.S. Securities and Exchange Commission on May 10, 2018. Such risks and uncertainties could cause actual results to differ materially from historical or anticipated results. Although we believe the expectations reflected in such forward-looking statements are based upon reasonable assumptions, we can give no assurance that our expectations will be attained. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Currency Risk

We have international operations, giving rise to exposure to market risks from changes in currency exchange rates. A cumulative foreign currency translation loss of $0.6 million related to our foreign subsidiaries is included in “Accumulated other comprehensive loss” in the Stockholders' equity section of the consolidated balance sheet at August 31, 2018. The aggregate foreign currency transaction exchange rate gain (loss) included in determining loss before income taxes and equity in net loss of affiliate were $0.5 million and $(0.4) million in the six months ended August 31, 2018 and 2017, respectively.

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

Interest Rate Risk

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

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

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

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

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

Internal Control Over Financial Reporting

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

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

See Note 16, Legal Proceedings, of the Notes to Unaudited Condensed Consolidated Financial Statements above for information regarding the legal proceedings in which we are involved.

ITEM 1A. RISK FACTORS

The reader is referred to Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended February 28, 2018, as filed with the U.S. Securities and Exchange Commission on May 10, 2018, for a discussion of factors that could materially affect our business, financial condition, results of operations, or future results except for the risk factor below:

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

We import certain products and components from suppliers in China. Earlier this year, the Office of the U.S. Trade Representative (the "USTR") enacted tariffs on imports into the U.S. from China. In September 2018, the USTR enacted another tariff on the import of other Chinese products with an additional combined import value of approximately $200 billion. The tariff became effective on September 24, 2018, with an initial rate of 10%. Although some of the products and components we import are included on this list, at this time, we do not expect these tariffs to have a material impact on our business, financial condition or results of operations.

ITEM 2. UNREGISTERED SALES OF SECURITIES AND USE OF PROCEEDS

The following table contains information with respect to purchases made by or on behalf of CalAmp or any "affiliated purchaser" (as defined in Rule 10b-18(a) (3) under the Securities Exchange Act of 1934), of our common stock during second quarter ended August 31, 2018:

	Total Number of Shares Purchased	Average Price Paid per Share (1)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that may be Purchased Under the Plans or Programs (2)
June 1 - June 30, 2018	310,880	$ 22.16	580,880	$ 26,401,418
July 1 - July 31, 2018	674,200	$ 23.68	1,255,080	$ 10,435,956
August 1 - August 31, 2018	-	$ -	1,255,080	$ 10,435,956
Total	985,080	$ 23.20	1,255,080	$ 10,435,956

(1) Average price paid per share for shares purchased as part of our share repurchase program (includes brokerage commissions).

(2) As announced on May 7, 2018, our Board of Directors approved a share repurchase program of up to $30.0 million of our outstanding common stock. On July 16, 2018, our Board of Directors authorized an additional $9.0 million to repurchase our outstanding common stock, or a total up to $39.0 million through May 2019. As of August 31, 2018, $28.6 million of the $39.0 million had been utilized. The remaining $10.4 million in the table represents the amount available to repurchase shares under the authorized program as of August 31, 2018. Our share repurchase program does not obligate us to acquire any specific number of shares. Under the program, shares may be repurchased in privately negotiated and/or open market transactions, including under plans complying with Rule 10b5-1 under the Exchange Act.

ITEM 5. OTHER INFORMATION

Say-On-Pay Frequency Vote

At the Annual Meeting of Shareholders held on July 25, 2018, our stockholders voted, on an advisory basis, in favor of holding an annual advisory vote on the compensation of our named executive officers (“Say-on-Pay Vote”), as previously reported in the Current Report on Form 8-K filed with the U.S. Securities and Exchange Commission on July 27, 2018. As a result, the Board has determined that the Company will hold an annual Say-on-Pay Vote unless changed as a result of a subsequent vote on the frequency of future Say-on-Pay votes.

CalAmp Corp. 2018 Employee Stock Purchase Plan

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

Administration. Our Board of Directors or its committee has full and exclusive authority to interpret the terms of the ESPP and determine eligibility. Our Compensation Committee is the “Administrator” of the ESPP.

Eligibility. The Administrator may designate certain of our subsidiaries as participating “designated subsidiaries” in the ESPP and may change these designations from time to time. Employees of the Company and our designated subsidiaries are eligible to participate in the ESPP if they meet the eligibility requirements under the ESPP established from time to time by the Administrator. However, an employee may not be granted rights to purchase stock under our ESPP if such employee, immediately after the grant, would own (directly or through attribution) stock possessing 5% or more of the total combined voting power or value of all classes of our common stock or other class of stock.

Eligible employees become participants in the ESPP by enrolling and authorizing payroll deductions by the deadline established by the Administrator prior to the relevant offering date. Directors who are not employees, as well as consultants, are not eligible to participate. Employees who choose not to participate, or are not eligible to participate at the start of an offering period but who become eligible thereafter, may enroll in any subsequent offering period.

Offering Periods. The ESPP is intended to qualify under Section 423 of the Internal Revenue Code and common stock will be offered under the ESPP during offering periods. The length of the offering periods under the ESPP will be determined by the Administrator and may be up to 27 months long. Employee payroll deductions will be used to purchase shares on each purchase date during an offering period. The number of purchase periods within, and purchase dates during, each offering period will be established by the Administrator prior to the commencement of each offering period. Offering periods under the ESPP will commence when determined by the Administrator. The Administrator may, in its discretion, modify the terms of future offering periods. The first offering period under the ESPP is expected to commence in February 2019.

Purchase Price. The purchase price of the shares, in the absence of a contrary determination by the Administrator, and subject to applicable laws and provisions of the ESPP, will be 85% of the lower of the fair market value of our common stock on the first trading day of the offering period or on the applicable purchase date, which will be the final trading day of the applicable purchase period. The fair market value per share of our common stock under the ESPP generally is the closing sale price of our common stock on the Nasdaq Global Select Market on the date for which fair market value is being determined, or if there is no closing sales price for a share of our common stock on the date in question, the closing sales price for a share of common stock on the last preceding date for which such quotation exists.

Enrollment; Contributions. The ESPP permits participants to purchase common stock through payroll deductions of up to 15% of their eligible compensation, which includes a participant’s gross base compensation for services to us, including overtime payments, vacation pay, holiday pay, certain leave pay, incentive cash compensation, one-time cash bonuses, but excluding education/tuition reimbursements, expense reimbursements, income received in connection with compensatory equity awards, fringe benefits and other special payments. The Administrator will establish a maximum number of shares that may be purchased by a participant during any offering period, which, in the absence of a contrary designation, will be 2,000 shares. In addition, no employee will be permitted to accrue the right to purchase stock under the ESPP at a rate in excess of $25,000 worth of shares during any calendar year during which such a purchase right is outstanding (based on the fair market value per share of our common stock as of the first day of the offering period during which such right is granted).

Termination of Employment; Withdrawal. Participants may voluntarily end their participation in the ESPP at any time at least one week prior to the end of the applicable offering period (or such shorter or longer period specified by the Administrator), and will be paid their accrued payroll deductions that have not yet been used to purchase shares of common stock. Participation ends automatically upon a participant's termination of employment.

Other Provisions. The ESPP also contains provisions with respect to share proration under certain circumstances, adjustments and treatment of awards upon certain corporate transactions, transferability of awards and tax withholding requirements. The Administrator may amend, suspend or terminate the ESPP at any time, subject to certain limitations requiring shareholder consent. The ESPP will terminate no later than the tenth anniversary of the initial adoption of the ESPP by our Board of Directors.

The terms and conditions of the ESPP are described in the section entitled "Proposal Four — Approval of the CalAmp Corp. 2018 Employee Stock Purchase Plan" in our definitive proxy statement as filed with the U.S. Securities and Exchange Commission on June 14, 2018. The Company's executive officers may be eligible to participate in the ESPP. The foregoing description of the ESPP does not purport to be complete and is qualified in its entirety by reference to the complete text of the ESPP, which was filed as Exhibit 99.1 to our Registration Statement on Form S-8, filed with the U.S. Securities and Exchange Commission on September 27, 2018 and is incorporated herein by reference

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ITEM 6. EXHIBITS

Exhibit 4.1	Indenture, dated July 20, 2018, between CalAmp Corp. and The Bank of New Yrok Mellon Trust Company, N.A. (incorporated by reference to Exhibit 4.1 of the Company's Current Reort on Form 8-K filed on July 20, 2018)
Exhibit 4.2	Form of 2.00% Convertible Senior Notes due August 1, 2025 (incorporated by reference to Exhibit A to Exhibit 4.1 of the Company's Current Report on Form 8-K filed on July 20, 2018).
Exhibit 10.1	Confirmation of Base Call Option Transaction, dated July 17, 2018, between CalAmp Corp. and Nomura Global Financial Products, Inc. (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on July 20, 2018)
Exhibit 10.2	Confirmation of Base Call Option Transaction, dated July 17, 2018, between CalAmp Corp. and Jefferies International Limited. (incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K filed on July 20, 2018)
Exhibit 10.3	Confirmation of Base Call Option Transaction, dated July 17, 2018, between CalAmp Corp. and Deutsche Bank AG, London Branch. (incorporated by reference to Exhibit 10.3 of the Company's Current Report on Form 8-K filed on July 20, 2018)
Exhibit 10.4	Confirmation of Base Call Option Transaction, dated July 17, 2018, between CalAmp Corp. and Goldman Sachs & Co. LLC. (incorporated by reference to Exhibit 10.4 of the Company's Current Report on Form 8-K filed on July 20, 2018)
Exhibit 10.5	Confirmation of Additional Base Call Option Transaction, dated July 17, 2018, between CalAmp Corp. and Nomura Global Financial Products, Inc. (incorporated by reference to Exhibit 10.5 of the Company's Current Report on Form 8-K filed on July 20, 2018)
Exhibit 10.6	Confirmation of Additional Base Call Option Transaction, dated July 17, 2018, between CalAmp Corp. and Jefferies International Limited. (incorporated by reference to Exhibit 10.6 of the Company's Current Report on Form 8-K filed on July 20, 2018)
Exhibit 10.7	Confirmation of Additional Base Call Option Transaction, dated July 17, 2018, between CalAmp Corp. and Deutsche Bank AG, London Branch. (incorporated by reference to Exhibit 10.7 of the Company's Current Report on Form 8-K filed on July 20, 2018)
Exhibit 10.8	Confirmation of Additional Base Call Option Transaction, dated July 17, 2018, between CalAmp Corp. and Goldman Sachs & Co. LLC. (incorporated by reference to Exhibit 10.8 of the Company's Current Report on Form 8-K filed on July 20, 2018)
Exhibit 10.9	CalAmp Corp. 2018 Employee Stock Purchase Plan
Exhibit 31.1	Chief Executive Officer Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 31.2	Chief Financial Officer Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

Exhibit 32	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101 .INS	XBRL Instance Document
101 .SCH	XBRL Taxonomy Extension Schema Document
101 .CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101 .LAB	XBRLTaxonomy Extension Label Linkbase Document
101 .PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101 .DEF	XBRL Taxonomy Extension Definition Linkbase Document

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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 27, 2018	/s/ Kurtis Binder
Date	EVP & Chief Financial Officer
	(Principal Financial Officer and
	Chief Accounting Officer)

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