

CALIFORNIA AMPLIFIER INC
Form 10-K/A
May 23, 2001

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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

Amendment Number 2 to

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

For the fiscal year ended February 26, 2000

Commission File Number 0-12182

CALIFORNIA AMPLIFIER, INC.

(Exact name of Registrant as specified in its Charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

95-3647070

(I.R.S. Employer Identification No.)

460 Calle San Pablo, Camarillo, California

(Address of principal executive offices)

93012

(Zip Code)

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

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

Title of each class

Name of each exchange

None

None

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

\$.01 par value Common Stock

(Title of Class)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

The aggregate market value of the voting stock of the Registrant held by non-affiliates of the Registrant as of May 15, 2000 was approximately \$338,000,000.

There were 13,234,322 shares of the Registrant's Common Stock outstanding as of May 15, 2000.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive Proxy Statement for the Annual Meeting of Stockholders to be held on July 14, 2000 are incorporated by reference into Part III, Items 11, 12 and 13 of this Form 10-K. This Proxy Statement will be filed within 120 days after the end of the fiscal year covered by this report.

PART I

ITEM 1. BUSINESS

Restatement of February 26, 2000 Financial Statements

On March 29, 2001, the Company announced that during preparation for the Company's fiscal 2001 audit, the corporate controller abruptly resigned and advised management by letter that he had made certain improper adjustments to the Company's accounting records that caused a reduction in recorded expenses. The Company began an investigation into the circumstances reported by the controller and determined that expenses had been inappropriately reduced. As part of its investigation, the Company reviewed substantially all of the journal entries input by the controller and reviewed the general ledger closings for each period in fiscal 2000. The investigation revealed that the controller had reduced reported expenses through the posting of improper journal entries and irregularities in the consolidation of its Hong Kong subsidiary. All of these improper journal entries and irregularities were previously unknown to management.

The Company has determined the effect of these irregularities on its previously issued financial statements and has restated the accompanying financial statements for the year ended February 26, 2000. The improper journal entries have been reversed, and the general ledger closings for each period within the fiscal year have been re-performed and properly consolidated with the accounts of the Company's Hong Kong subsidiary.

As a result of the cumulative effect of the increase in net loss in fiscal year 2000 and the reduction in net income for the first nine months of fiscal 2001 in connection with the restatement, the Company reassessed the realizability of the deferred tax asset. The Company concluded that the deferred tax asset, specifically as it relates to the future tax deductibility for the exercise of non-qualified stock options, should be reduced for amounts previously recognized in fiscal years 2000 and 2001. Accordingly, deferred taxes and stockholders' equity were reduced by \$5,800,000 in fiscal year 2000 and by an additional \$3,775,000 for the nine months ended November 25, 2000.

The Company's investigation determined that there has been no misappropriation of cash or other assets.

On March 29, 2001, subsequent to the Company's announcement, NASDAQ halted trading of the Company's common stock.

On April 4, 2001, the Company announced that Arthur Andersen LLP had withdrawn its opinion with respect to the Company's financial statements for the fiscal year ended February 26, 2000.

On May 3, 2001, the Company announced that it had received notification from NASDAQ that due to the Company's failure to comply with filing requirements requiring audited financial statements to be included in its annual report, NASDAQ intended to delist shares of the Company's common stock at the opening of business on May 8, 2001. The Company appealed the notice of delisting and currently has a hearing scheduled for May 25, 2001. Until the hearing, the Company's common stock will continue to be listed on NASDAQ, although trading will continue to be halted.

On May 4, 2001, the Company announced that it had received notice from the Securities and Exchange Commission (the "SEC") that the SEC is conducting an informal inquiry into the circumstances that caused the Company to restate its financial statements. The Company intends to cooperate with the SEC inquiry.

The Company's Form 10-K/A for the year ended February 26, 2000 is being filed to reflect the restatement described above (see also Note 1 Restatement of February 26, 2000 Financial Statements in the Notes to Consolidated Financial Statements included elsewhere herein).

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During the period from March 29, 2001 to May 21, 2001, twenty lawsuits have been filed against the Company and certain officers.

See also Note 13 Subsequent Events in the Notes to Consolidated Financial Statements included elsewhere herein.

The Company

California Amplifier, Inc. (the "Company") was incorporated in 1981. Since its inception, the Company has been engaged in the design, manufacture and marketing of microwave components used in both defense and commercial markets, primarily relating to the amplification and conversion of microwave signals used in various reception applications. In 1990, the Company discontinued its involvement in its defense business and focused its business strategy on two major product lines: Satellite Television and Wireless Cable products. In January 1998, the Company reorganized into the following business units: Satellite Products, Wireless Cable Products, and Voice and Data Products. In September 1999, the Company combined its Wireless Cable and Voice and Data Products into a separate business unit, Wireless Access Products, to more keenly focus its resources on the emerging two-way fixed wireless broadband market.

In addition, the Company has a 50.5% ownership interest in Micro Pulse, Inc., a company who designs, manufactures and markets antennas for various wireless applications, primarily for Global Positioning Satellite (GPS) applications.

Satellite Products

Satellite dishes are used for the reception of video, audio and data transmitted from orbiting satellites. The Company's products, which are components of the dish assembly, are used in both commercial satellite dish applications and home satellite dishes. The Company's Satellite product sales to date have been primarily generated from sales of integrated downconverters, amplifiers and feedhorns used in home satellite dish and cable headend dish applications.

The satellite dish is a parabolic reflector antenna. Microwave signals transmitted primarily in Ku-band or C-band for video and data transmission, are transmitted from orbiting satellites toward the earth's surface. The dish reflects the microwaves back to a focal point where a feedhorn collects the microwaves transferring the signals into an amplifier/downconverter. The microwave amplifier amplifies the microwave signal millions of times for further processing. The downconverter changes the frequency into an intermediate frequency so that the receiver and television can process the signal and create a picture.

Since its inception the Company has been a leading supplier of C-band downconverters and amplifiers for the "large backyard dish" to markets worldwide, but primarily to markets in the United States, Brazil and the Middle East. With the Company's 1998 reorganization into separate business units, the Satellite Products business unit focused its resources on Ku-DBS applications, as well as a broad line of C-band and Ku-band commercial applications. In April 1999, the Company purchased substantially all of the satellite television products from Gardiner Communications Corp. This acquisition allowed the Company immediate entry into the U.S. Ku-band Direct Broadcast Satellite mainstream consumer market, and provides the Company with competitive products for Europe, and China, both of which position the Company to be a more significant supplier to key markets around the world.

In fiscal year 2000, approximately 80% of the Company's satellite product sales were Ku-DBS products, while approximately 20% were C-band consumer and commercial products. The Company believes Ku-DBS products will continue to comprise a significant percentage of satellite product sales

as the Company focuses on the DBS market opportunities in the United States, Europe and Latin America.

Wireless Access Products

Wireless Cable Video

Wireless Cable television operates in many ways similar to coaxial cable multichannel television transmission. The key difference is that Wireless Cable does not have cable connecting the headend/transmission site to each home, but instead uses a microwave frequency band (MMDS) to transmit programming within a local service area. The signal can generally be received by subscribers within a 25-40 mile omni-directional radius of the transmission tower depending on the transmitter power; however, the subscriber must have a direct line-of-sight or "view" between the tower and the receive antenna. Typically, 65%-80% of the homes within the service area will be able to receive the wireless signal, with the remainder shadowed from the transmitter. The percentage of line-of-sight homes is affected by the tower elevation, local topography and the subscriber antenna height.

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In 1995, the Wireless Cable industry in the United States generated a great deal of interest with Tele-TV, a consortium comprised of Bell Atlantic, NYNEX and Pacific Telesis, which announced its intention to deliver video to customers using Wireless Cable digital compression technology. Initial projections for a digital subscriber rollout by Tele-TV were 2.0 million subscribers within three years of introduction. In late 1996, the Tele-TV consortium announced that certain members had changed their strategic emphasis and were not going forward with their Wireless Cable plans. In 1996, BellSouth announced its plan to use digital Wireless Cable technology to deliver video services in the southeastern region of the United States. To date, BellSouth has launched video programming in Atlanta, New Orleans, Orlando, Daytona Beach, and Jacksonville.

The Tele-TV participation in Wireless Cable television was viewed by many industry experts as the beginning of well financed companies entering the Wireless Cable market through acquisition or alliances with existing domestic, multiple system operators. The decision by the Tele-TV partners to re-assess their video delivery strategy, combined with other factors, resulted in a significant slowdown in the domestic Wireless Cable market. Independent operators were confronted with limited financing alternatives, negative cash flow from operations with their current subscriber levels, and the decision of whether to expand subscriber counts using analog equipment prior to the availability of digital equipment. Additionally, the quality and breadth of programming offered by satellite programmers put analog wireless cable operators at a distinct disadvantage. These factors, coupled with the U.S. household market opportunities becoming more focused on Internet services, has resulted in the MMDS industry largely abandoning one-way video services for two-way fixed Internet and telephony applications (see Wireless Access Products).

Internationally, the Wireless Cable industry has experienced significant growth in response to increasing worldwide demand for multichannel television and the increased availability of a variety of programming such as HBO, CNN, MTV, ESPN and Disney. The Company believes that Wireless Cable technology, in many instances, is better suited than traditional cable to provide multichannel television to the consumer, especially in less developed countries and in areas that are not densely populated. The lack of a need for a cable network allows Wireless Cable operators to commence broadcasting more quickly, with less of an initial investment than for traditional cable, and to quickly expand throughout a service area. To date, Wireless Cable systems have been launched throughout the world, including major systems in Canada, Mexico, Venezuela, Brazil, Argentina, Paraguay, Chile, Qatar, Thailand, Malaysia, Nigeria, Australia, Czech Republic, Russia and Ireland. Similar launches in these countries, and other geographical areas, are expected to continue as programming is made available to these areas. Because the international markets do not have a high percentage of pay television subscribers to television households, and are not dominated by a single method of delivery, as cable is

4

in the United States, the potential for Wireless Cable as a programming delivery method internationally is still significant if capital becomes available for operators to roll-out systems. In addition, many operators/MMDS spectrum owners may re-assess their video strategy and focus on two-way Internet and telephony services as the United States market has initiated as described below.

Two-Way Transceiver Products

Terrestrial Wireless Cable operators owned significant wireless spectrum in the 2.5 to 2.7 gigahertz range. As worldwide markets move toward wireless communications, wireless cable operators have considered using a portion or all of the video bandwidth for voice (telephony) or data (Internet access) applications.

By deploying MMDS two-way wireless technology, operators can offer a high-speed data service alternative for bridging the critical "last mile" between networks and customers. There are key distinctions between MMDS and the two most prevalent traditional high-speed pipelines, cable and digital subscriber line (DSL), typically provided by local cable or telephone companies. MMDS not only allows rapid deployment of this new wireless alternative at relatively low build out costs, it extends high-speed access to rural and suburban markets that are not served or are underserved by cable or DSL. Essentially, operators will establish two-way transmissions to and from central headends, homes, and businesses operating in many instances like cellular systems. California Amplifier would provide outdoor premise equipment, which the system operator would install on the subscriber's home or business rooftop. Each base-station sends and receives data traffic to and from customer premise modems. The network management system manages and controls the traffic transmitted over the broadband wireless system. The modems connect to PCs or LANs located in residences, small/home offices, and medium sized businesses. These modems send and receive data traffic and provide access to the Internet.

Beginning in March 1999, MCI WorldCom and Sprint began making debt and equity investments in many of the U.S. multi-system operators, essentially acquiring over 60% of the MMDS spectrum in major cities throughout the United States. In conjunction with their acquisitions, the companies announced their intention to initiate a broad-based roll-out of fixed wireless services to consumers in approximately 100 U.S. cities by the end of 2001. As of May 2000, both companies were performing field trials, but had not formally announced their rollout strategies.

In addition, two-way system field trials are being performed in Canada, Brazil and Ireland.

Antenna Products

In January 1993, the Company purchased a 50% ownership interest in Micro Pulse, Inc. ("Micro Pulse") for \$500,000. Micro Pulse designs, manufactures and markets antennas and amplifiers used principally in GPS applications. Such products are used in surveying applications, vehicle tracking and marine and airborne navigation. In fiscal year 1998, the Company acquired additional shares resulting in a 50.5% controlling interest and, as a result, beginning in fiscal year 1998, the Company began to consolidate Micro Pulse in its financial statements.

Products

The Company designs, manufactures and markets a broad line of integrated amplifiers, downconverters, and antennas used in the reception, conversion and amplification of microwave signals used in conjunction with the reception of video, audio, and data transmitted from satellites or earth-based transmitters using microwave signals, as will two-way transceivers which downconvert and upconvert microwave signals used in two-way voice and data for terrestrial wireless communication between fixed locations.

5

The Company also markets MultiCipher, a broadband analog scrambling system for the Wireless Cable industry. Because MultiCipher is a broadband scrambling system, it decodes all channels transmitted simultaneously which allows a "whole-house" solution for the Wireless Cable operator thereby eliminating the requirement of installing conventional set-top boxes on each television in the subscriber's home.

The Company, through its 50.5% controlling interest in Micro Pulse, designs manufactures and markets a broad line of antenna products used in GPS applications for vehicle and asset tracking, surveying, and marine and airborne navigation.

During fiscal years 2000, 1999, and 1998, Satellite products accounted for 69.9%, 33.7%, and 28.0% of the Company's sales, respectively. Wireless access products accounted for 22.0%, 54.8%, and 59.1% of the Company's sales, respectively. Antenna products, which represent sales by Micro Pulse, accounted for 8.1%, 11.5%, and 12.9% of the Company's consolidated sales in fiscal years 2000, 1999 and 1998, respectively.

For additional information regarding the Company's sales by segment and geographical area, see Note 11 of Notes to Consolidated Financial Statements.

Manufacturing

The Company currently manufactures and assembles its products in Camarillo, California, and Garland, Texas, USA, and under a subcontract arrangement in China. Manufacturing operations consist of placing hundreds of electronic devices onto printed circuit boards, assembling one or more boards into primarily aluminum housings, tuning microwave devices, and testing of final assembled products.

Electronic devices, components and made-to-order assemblies used in the Company's products are generally obtained from a number of suppliers, although certain materials are obtained from a limited number of sources. Some devices or components are standard items while others are manufactured to the Company's specifications by its suppliers. The Company attempts to operate without substantial levels of raw materials by depending on certain key suppliers to provide material on a "just-in-time" basis. The Company believes that most raw materials are available from alternative suppliers. However, any significant interruption in the delivery of such items could have an adverse effect on the Company's operations. During the second half of fiscal year 2000, and during the first quarter of fiscal year 2001, the Company has been experiencing difficulty in receiving timely delivery of certain key components which, to some extent, affected shipments and manufacturing productivity. In addition, the Company currently utilizes two manufacturing facilities for the manufacture of DBS products which to date has resulted in significant under-absorbed labor and overhead costs as the Company balances product and customer demand requirements.

ISO 9001 International Certification

In August 1995, the Company became registered to ISO 9001, the international standard for conformance to quality excellence in meeting market needs in all areas including product design, manufacturing, quality assurance and marketing. The registration assessment was performed by Underwriter's Laboratory, Inc., according to the ISO 9001:1994 International Standard. Continuous assessments to maintain certification are performed semi-annually, and the Company has maintained its certification through each audit evaluation, most recently May 1999.

Research and Development

Each of the markets the Company competes in are characterized by technological change, evolving industry standards, and new product requirements to meet market growth. During the last three years, the Company has focused its research and development resources on four

primary areas: Ku-DBS

6

products, two-way MMDS transceivers, digital Wireless Cable video reception products, and the MultiCipher "whole-house" broadband scrambling system. In addition, development resources were allocated to broaden existing product lines, reduce product costs and improve performance by product redesign efforts.

Research and development expenses were \$5,540,000, \$4,764,000, and \$4,475,000, during fiscal years 2000, 1999, and 1998, respectively.

Sales and Marketing

The Company sells its wireless access products directly to system operators as well as through distributors and system integrators. The Company sells its Satellite products through satellite equipment distributors, but, from time to time, sells certain products to manufacturers for incorporation into complete satellite dish systems, or directly to DBS operators.

The Company's sales and marketing functions for each business unit are centralized in its Camarillo California, USA, corporate headquarters. In addition, the Company has sales offices and personnel in Paris, France; Sao Paulo, Brazil; as well as some sales activity in its Hong Kong, China material procurement operation. The Company may add additional sales offices and employees as market conditions warrant, in market areas that require additional sales and customer support not adequately served by a major distributor or reseller.

Micro Pulse sales and marketing functions are centralized in its Camarillo California, USA corporate headquarters. In addition, Micro Pulse also utilizes sales representatives to identify markets and customers, and to sell its products.

See also Note 11 of Notes to Consolidated Financial Statements for segment and geographical sales information.

Competition

The markets in which the Company competes are highly competitive. In addition, if the markets for the Company's products continue to grow, the Company anticipates increased competition from new companies entering such markets, some of whom may have financial and technical resources substantially greater than those of the Company. Furthermore, because some of the Company's products may not be proprietary, they may be duplicated by low-cost producers, resulting in price and margin pressures.

The Company believes that competition in its markets is based primarily on price, performance, reputation, product reliability and technical support. In the terrestrial Wireless access market, the Company has supplier relationships with major Wireless Cable operators in various regions of the world, and believes that its pricing, accompanied by product performance, reliability, low field failure rate, and its ongoing technical support, are currently competitive advantages to the Company. In the Satellite Television market, where the Company has participated since its inception in 1981, its reputation for performance and quality allows the Company a competitive advantage if pricing of its products is comparable to its competitors. The acquisition of Gardiner's satellite products broadened the Company's satellite product offering, and strengthened its competitive position in key markets. In the GPS and wireless antenna markets Micro Pulse relies upon its reputation for innovation, quality and its quick time to market with new design requirements.

The Company's continued success in these markets, however, will depend upon its ability to continue to design and manufacture quality products at competitive prices.

7

Backlog

The Company's products are sold to customers that do not usually enter into long-term purchase agreements, and as a result, the Company's backlog at any date is not significant to the annualized sales trends. In addition, because of customer order modifications, cancellations, or orders requiring wire transfers or letters of credit from international customers, the Company's backlog as of any particular date, may not be indicative of sales for any future period. Moreover, the lack of backlog makes it more difficult for the Company to forecast its sales from period to period, since "book and ship" orders are such a significant percentage of sales.

Patents, Trademarks and Licenses

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

The Company currently has fourteen patents ranging from design features for downconverter and antenna products, to its MultiCipher broadband scrambling system. Those that relate to its downconverter products do not give the Company any significant advantage since other manufacturers using different design approaches can offer similar microwave products in the marketplace. The Company does believe, however, that certain Wireless Cable antenna patented designs, and the broadband scrambling technology for encoding and decoding multi-channel television signals used in the MultiCipher system are significant and may result in a competitive advantage for the Company.

The Company currently has six other patents pending.

California Amplifier® and MultiCipher® are federally registered trademarks of the Company. The Company has also filed for trademark protection for its MultiCipher Plus product line.

Employees

At February 26, 2000, the Company had 706 employees, including contract employees, and Micro Pulse had 60 employees. None of the Company's employees are represented by a labor union.

8

ITEM 2. PROPERTIES

The Company's corporate headquarters and manufacturing facility is located in Camarillo, California (approximately 60 miles north of Los Angeles) and consists of approximately 64,000 square feet located on approximately four acres of land. The Company also leases an aggregate of approximately 30,000 square feet of space in two facilities across from its headquarters facility which are used for finished goods storage, and a tool and die operation. These leases expire in 2004. The Company also leases 37,000 square feet for assembly in Garland, Texas, and offices in Paris, France; Sao Paulo, Brazil; and Hong Kong, China. See also Note 9 to Consolidated Financial Statements.

Micro Pulse's corporate headquarters and manufacturing facility is located on approximately 15,000 square feet of leased space in Camarillo, California, which Micro Pulse rents on a month-to-month basis.

ITEM 3. LEGAL PROCEEDINGS

On June 11, 1997, the Company and certain of its directors and officers had two legal actions filed against them, one in the United States District Court, Central District of California, entitled *Yourish v. California Amplifier, Inc., et al.*, Case No. 97-4293 CBM (Mcx), and the other in the Superior Court for the State of California, County of Ventura, entitled *Yourish v. California Amplifier, Inc. et al.*, Case No. CIV 173569. On June 30, 1997, another legal action was filed against the same defendants in the Superior Court for the State of California, County of Ventura, entitled *Burns, et al., v. California Amplifier, Inc., et al.*, Case No. CIV 173981. All three actions are purported class actions on behalf of purchasers of the common stock of the Company between September 12, 1995 and August 8, 1996. The actions claim that the defendants engaged in a scheme to make false and misleading statements and omitted disclosure of material adverse facts to the public concerning the Company, allegedly causing the Company's stock price to artificially rise, and thereby allegedly allowing the individual defendants to sell stock at inflated prices. Plaintiffs claim that the purported stockholder class was damaged when the price of the stock declined upon disclosure of the alleged adverse facts. On September 21, 1998, the Federal legal action was dismissed in the United States District Court. The dismissal was upheld by the U.S. Court of Appeals for the Ninth Circuit on October 8, 1999.

On March 27, 2000, the trial began for the lawsuit filed in the Superior Court for the State of California, County of Ventura, entitled *Yourish v. California Amplifier, Inc., et al.*, Case No. CIV 173569. On March 29, 2000, the parties reached a settlement. Under terms of the settlement, the Company will issue 187,500 shares of its common stock along with a cash payment of \$3.5 million, funded in part by insurance proceeds. This represents a total settlement of approximately \$11.0 million of which \$9.5 million was accrued in the accompanying consolidated financial statements for the year ended February 26, 2000. The Company has filed a lawsuit against one of its insurance carriers seeking \$2.0 million of coverage in connection with this settlement that the insurer has refused to provide.

On March 7, 2000, the Company announced it had received a complaint of patent infringement from Andrew Corporation. The complaint, filed against California Amplifier in the U.S. District Court for the Eastern District of Texas but not served, alleges that California Amplifier has infringed Andrew Corporation's patent in the design of certain products. California Amplifier believes that the allegations are unfounded and without merit and will vigorously defend any attempt by the plaintiff to prosecute this action.

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From March 29, 2001 to May 21, 2001, the Company and certain officers were named in twenty punitive actions in Federal Court.

See also Note 10 Legal Proceedings and Note 13 Subsequent Events in the Notes to Consolidated Financial Statements included elsewhere herein.

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

During the three months ended February 26, 2000, no matters were submitted to a vote of the Company's security holders.

9

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED SECURITY HOLDER MATTERS

The Company's Common Stock trades on The Nasdaq Stock Market under the symbol "CAMP." The following table sets forth for each fiscal period indicating the high and low closing sale prices for the Company's Common Stock, as reported by Nasdaq:

	<u>Low</u>	<u>High</u>
Fiscal Year Ended February 26, 2000:		
1st Quarter	\$ 1.69	\$ 5.88
2nd Quarter	4.06	14.94
3rd Quarter	11.18	25.12
4th Quarter	22.25	45.00
Fiscal Year Ended February 27, 1999:		
1st Quarter	\$ 2.50	\$ 3.44
2nd Quarter	1.25	2.56
3rd Quarter	1.25	3.47
4th Quarter	1.44	2.88

At May 15, 2000 the number of stockholders of record of the Company's Common Stock was 259. The number of stockholders of record does not include the number of persons having beneficial ownership held in "street name" which are estimated to approximate 11,670.

The Company has never paid a cash dividend and has no current plans to pay cash dividends on its Common Stock.

10

ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth certain selected financial data which has been derived from the audited consolidated financial statements of the Company for each of the respective years giving effect to the fiscal year 2000 restatements as described in Note 1 Restatement of February 26, 2000 Financial Statements in the Notes to the Consolidated Financial Statements included elsewhere herein. The selected financial data should be read in conjunction with the consolidated financial statements and related notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations contained herein.

Consolidated Statements of Operations Data:

(in thousands, except per share data)

<u>Years Ended</u>				
<u>Feb. 26, 2000</u>	<u>Feb. 27, 1999</u>	<u>Feb. 28, 1998</u>	<u>Mar. 1, 1997</u>	<u>Mar 2, 1996</u>

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	Years Ended				
	<i>(As Restated)</i>				
Sales	\$ 85,850	\$ 37,140	\$ 46,933	\$ 49,290	\$ 61,590
Income (loss) before taxes	(7,908)	(2,217)	(4,149)	1,037	7,638
Net income (loss)(1)	(5,064)	(1,436)	(2,665)	633	4,958
Basic and diluted net income (loss) per share	(0.42)	(0.12)	(0.23)	0.05	0.41

(1) Fiscal year 2000 includes a \$9.5 million charge for settlement of litigation. Excluding this charge net income would have been approximately \$1,019,000, or \$.08 per fully diluted share.

Consolidated Balance Sheets Data:

(in thousands)

	As of Each Year End				
	2000	1999	1998	1997	1996
	<i>(As Restated)</i>				
Total assets	\$ 51,497	\$ 25,549	\$ 27,831	\$ 29,536	\$ 32,573
Working capital	4,472	15,478	14,886	15,001	15,743
Long-term debt, net of current portion	145	517	1,112	525	767
Stockholders' equity	18,281	20,065	21,397	24,148	22,924

11

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

Results of Operations

The following table sets forth, for the periods indicated, the percentage of sales represented by items included in the Company's Consolidated Statements of Operations giving effect to the fiscal year 2000 restatement as described in Note 1 Restatement of February 26, 2000 Financial Statements in the Notes to the Consolidated Financial Statements included elsewhere herein:

	Years Ended		
	Feb. 26, 2000	Feb. 27, 1999	Feb. 28, 1998
	<i>(As Restated)</i>		
Sales:			
Satellite Products	69.9 %	33.7 %	28.0 %
Wireless Access Products	22.0	54.8	59.1
Antenna Products	8.1	11.5	12.9
Total sales	100.0	100.0	100.0
Gross margin	20.8	28.4	22.8
Research and development	6.4	12.8	9.5
Selling	5.7	12.0	11.1
General and administrative	6.3	10.4	10.3

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	Years Ended		
	1999	2000	2001
Income (loss) from operations	2.4	(6.8)	(8.1)
Settlement of litigation	(11.1)		
Interest and other expense, net	(.1)		
Minority interest share in (income) loss of Micro Pulse	(.4)	.8	(.7)
Loss before benefit from income taxes	(9.2)	(6.0)	(8.8)
Benefit from income taxes	3.3	2.1	3.2
Net loss	(5.9)%	(3.9)%	(5.6)%

Fiscal Years 2000 and 1999 (As Restated)

Sales increased \$48.8 million, or 131%, from \$37.1 million in fiscal year 1999 to \$85.9 million in fiscal year 2000. The fiscal year 2000 sales increase resulted primarily from the significant increase in sales of satellite products.

Sales of Satellite products increased \$47.5, or 380%, from \$12.5 million to \$60.0 million. Sales of Wireless access products decreased \$1.5 million, or 7.2%, from \$20.3 million to \$18.9 million. Sales of Antenna products, which represent total sales by Micro Pulse, increased \$2.7 million, or 63%, from \$4.3 million to \$7.0 million.

The \$47.5 million sales increase in Satellite products resulted primarily from significantly higher unit sales of U.S. DBS products, which were acquired from Gardiner Communications in April 1999.

The \$1.5 million sales decrease in Wireless access products was a result of approximately \$3.0 million decrease in sales of wireless cable video products, offset by a \$1.5 million increase in sales of two-way transceiver products. The Company anticipates that there may be continued softness of unit sales in traditional wireless cable products as system operators consider two-way Internet and telephony offerings.

12

The \$2.7 million sales increase in sales of Antenna products resulted primarily from Micro Pulse expanding its customer base for certain GPS applications with a resulting increase in units sold.

Gross profits increased \$7.3 million, or 69%, from \$10.5 million in fiscal year 1999 to \$17.8 million in fiscal year 2000. The increase in gross profits occurred because of a 131% increase in sales offset by lower product gross margins of 20.8%, as a result of sales of lower margin satellite DBS products which represented a larger percentage of total sales in fiscal year 2000 as compared to fiscal year 1999.

Gross margins decreased from 28.4% in fiscal year 1999 to 20.8% in fiscal year 2000. The decrease in gross margins relates primarily to the fact that approximately 70% of total sales were sales of satellite products with gross margins of approximately 15.2%. The Satellite products gross margins for fiscal year 2000 were negatively impacted by significantly lower product gross margins in the third and fourth quarter of fiscal year 2000. Factors affecting satellite product gross margins in the third and fourth quarter of fiscal year 2000 were as follows: competitive pricing, higher than anticipated labor and overhead costs to initiate production of DBS products in two factories beginning in September 1999, higher pricing for critical components used in manufacturing of the product, and assembly line shut downs because of electronic component shortages. Wireless Access products gross margins of 31.7%, although higher than satellite products, were impacted negatively by excess manufacturing capacity.

See also Note 11 Segment and Geographic Data to Notes to Consolidated Financial Statements included elsewhere herein.

Research and development expenses increased by \$776,000, from \$4.8 million in fiscal year 1999 to \$5.5 million in fiscal year 2000. The increase results from additional personnel to support the new satellite products, and company-wide salary increases to remain competitive with industry compensation trends. As a percentage of sales, however, research and development expenses decreased to 6.4% from 12.8% in fiscal year 1999. This is primarily a result of the significant increase in sales and the fact that in prior years the Company maintained research and

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development regardless of lower sales in the near-term.

Selling expenses increased by \$436,000 from \$4.4 million in fiscal year 1999 to \$4.9 million in fiscal year 2000. The increase relates primarily to increases in salaries and additions in personnel to support increased satellite sales.

General and administrative expenses increased by \$1.5 million from \$3.9 million in fiscal year 1999 to \$5.4 million in fiscal year 2000. The increase results primarily from increases in incentive bonuses, legal fees, and additions relating to the acquisition of Gardiner, including goodwill amortization.

Each of the functional operating expenses declined as a percentage of sales due to the 131% increase in total sales, so it is difficult to analyze such costs from year-to-year as a percentage of sales.

Income (loss) from operations increased by \$4.6 million from a loss of \$2.5 million in fiscal year 1999 to income of \$2.0 million in fiscal year 2000.

The settlement of litigation relates to the class action litigation filed in June 1997 (see also Note 10 to notes to consolidated financial statements included elsewhere herein).

The benefit from income taxes was \$2.8 million, or 36% of the loss before taxes in fiscal year 2000. This is relatively consistent with the tax rate of approximately 35% in fiscal year 1999.

For the reasons outlined above, the net loss for fiscal year 2000 was \$5.1 million, as compared to a net loss of \$1.4 million in fiscal year 1999.

13

Fiscal Years 1999 and 1998

Sales decreased \$9.8 million, or 20.9%, from \$46.9 million in fiscal year 1998 to \$37.1 million in fiscal year 1999. The fiscal year 1999 sales decrease resulted from decreases in sales in each of the Company's product groups.

Sales of Wireless products decreased \$7.4 million, or 26.7%, from \$27.7 million to \$20.3 million. Sales of Satellite products decreased \$628,000, or 4.8%, from \$13.1 million to \$12.5 million. Sales of Antenna products, which represent total sales by Micro Pulse, decreased \$1.8 million, or 29.1%, from \$6.1 million to \$4.3 million.

The \$7.4 million sales decrease in Wireless products was primarily a result of decreases in sales of MultiCipher scrambling products in key markets in Africa, Latin America, and the United States. Wireless cable operators in most major markets curtailed expansion of new systems, as well as net subscriber growth in their existing systems due primarily to a lack of available capital. Sales of Wireless reception products remained relatively flat with the prior year, with increased sales in the United States and Canada because of new systems by BellSouth and Look TV, offset by decreases in Latin America and Africa, and other U.S. operators. The Company's two-way Wireless Access products accounted for approximately \$1.1 million in sales in fiscal year 1999, its first year of offering such products.

The \$628,000 sales decrease in Satellite products resulted primarily from lower C-Band sales in the United States and the Middle East, offset by increases in Ku-Band DBS sales in Canada.

The \$1.8 million sales decrease in sales of Antenna products by Micro Pulse resulted primarily from significantly lower unit sales to certain major GPS customers, as foreign competition increased, and the end of a major military contract.

Gross profits decreased approximately \$200,000, or 1%, from \$10.7 million in fiscal year 1998 to \$10.5 million in fiscal year 1999. The decrease in gross profits occurred because of a \$9.8 million sales decrease, offset by higher gross margins.

Gross margins increased from 22.8% in fiscal year 1998 to 28.4% in fiscal year 1999. The gross margin between years should be compared, however, after adjusting for a fiscal year 1998 inventory obsolescence charge of \$3.0 million which impacted 1998 gross margins by 6.4%. Adjusting for this charge, the gross margins between years were relatively constant. Factors affecting fiscal year 1999 gross margins was the \$9.8 million, or 20.9%, decrease in sales, as well as the aggressive inventory reduction program, both of which impacted overhead utilization. Offsetting these factors were improvements in supply management which reduced material component costs, improved productivity, reduced overhead, and lowered product returns under warranty.

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Research and development expenses increased by approximately \$300,000, from \$4.5 million in fiscal year 1998 to \$4.8 million in fiscal year 1999. As a percentage of sales however, research and development increased from 9.5% to 12.8%. Although the Company continued to focus on cost containment programs, the Company remained committed to new product design, and therefore, development expenditures increased in fiscal year 1999 as compared to fiscal year 1998. The increase relates primarily to increased salaries for engineers, and some personnel additions.

Selling expenses decreased by approximately \$800,000 from \$5.2 million in fiscal year 1998 to \$4.4 million in fiscal year 1999. The decrease relates primarily to the decreases in certain discretionary sales and marketing expenses.

General and administrative expenses decreased by approximately \$900,000 from \$4.8 million in fiscal year 1998 to \$3.9 million in fiscal year 1999. The decrease results primarily from certain reorganization expenses incurred in 1998 and not in 1999 and lower bad debt expense in fiscal year 1999.

14

The loss from operations decreased by approximately \$1.3 million from \$3.8 million in fiscal year 1998 to \$2.5 million in fiscal year 1999. The principal reasons for the improvement were, as described above, decreased sales offset by lower operating expenses.

The benefit from taxes was \$781,000, or 35.2% of the loss before taxes in fiscal year 1999. This is relatively consistent with the tax rate of approximately 35.8% in fiscal year 1998.

For the reasons outlined above, the net loss for fiscal year 1999 was \$1.4 million, as compared to net loss of \$2.7 million in fiscal year 1998.

Liquidity and Capital Resources

As of February 26, 2000, the Company had cash and cash equivalents on hand of \$2.8 million and \$4.5 million available under a working capital facility with U.S. Bank.

In September 2000, the Company finalized a new banking arrangement with U.S. Bank. Under the agreement the Company borrowed a \$5.0 million term loan interest only at Libor plus 2.2%, until September 2001 at which time the loan converts to a five-year term loan. In addition, the Company obtained an \$8.0 million working capital credit facility. The credit facility contains certain financial covenants and ratios the Company is required to maintain. At March 3, 2001, the Company was in default with certain debt covenants which were waived by the bank. In addition, U.S. Bank agreed to amend the credit facility's covenants for fiscal 2002.

The Company believes that cash flow from operations together with the funds available under its credit facility, are sufficient to support operations and capital equipment requirements over the next twelve months. See also the accompanying Consolidated Statement of Cash Flows for each of the three years in the period ended February 26, 2000.

The Company believes that inflation and foreign currency exchange rates have not had a material effect on its operations. The Company believes that fiscal year 2001 will not be impacted significantly by foreign exchange rate fluctuations since a significant portion of the Company's fiscal year 2001 projected sales are to U.S. markets, or to international markets where its sales are negotiated in U.S. dollars.

New Authoritative Pronouncements

In June 1998 and June 1999, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities," and SFAS No. 137, which delayed the effective date of SFAS No. 133. Management does not expect adoption of this standard to have a material impact on the Company's financial position or results of operations.

In December 1999, the SEC staff released Staff Accounting Bulletin (SAB) No. 101, "Revenue Recognition in Financial Statements," to provide guidance on the recognition, presentation and disclosure of revenue in financial statements. The adoption of SAB No. 101 did not have a material impact on the Company's revenue recognition and results of operations.

15

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

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The Company's primary market risk exposure is interest rate risk. As of February 26, 2000, the Company's credit facility with its bank was subject to a variable interest rate. The Company monitors the level of risk by keeping variable rate exposures at acceptable levels.

SAFE HARBOR STATEMENT

Forward looking statements in this Form 10-K/A which include, without limitation, statements relating to the Company's plans, strategies, objectives, expectations, intentions, projections and other information regarding future performance, are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The words "believes," "anticipates," "expects," and similar expressions are intended to identify forward-looking statements. These forward-looking statements reflect the Company's current views with respect to future events and financial performance and are subject to certain risks and uncertainties, including, without limitation, product demand, market growth, new competition, competitive pricing and continued pricing declines in the DBS market, supplier constraints, manufacturing yields, meeting demand with multiple facilities, timing and market acceptance of new product introductions, new technologies, the financial investigation announced on March 29, 2001, litigation and related matters and other risks and uncertainties that are detailed from time to time in the Company's periodic reports filed with the Securities and Exchange Commission, copies of which may be obtained from the Company upon request. Such risks and uncertainties could cause actual results to differ materially from historical results or those anticipated. Although the Company believes the expectations reflected in such forward-looking statements are based upon reasonable assumptions, it can give no assurance that its expectations will be attained. The Company undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

16

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements and related financial information required to be filed hereunder are indexed on page 21 of this report and are incorporated herein by reference.

ITEM 9. DISAGREEMENTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS

The directors and executive officers of the Company are as follows:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Ira Coron	71	Chairman of the Board of Directors
Fred M. Sturm	42	Chief Executive Officer, President and Director
Benson Chin	51	Vice President, Operations
Philip Cox	60	Vice President, Wireless Products
Michael R. Ferron	45	Vice President, Finance, Chief Financial Officer and Corporate Secretary
Robert Hannah	39	Vice President, Satellite Products
Kris Kelkar	36	Vice President, Wireless Access Products
Arthur H. Hausman (1)	76	Director
William E. McKenna (1)(2)	80	Director
Thomas L. Ringer (2)	68	Director

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(1) Member of Compensation Committee.

(2) Member of Audit Committee.

Ira Coron has been Chairman of the Board for California Amplifier, Inc. since March of 1994, and in addition was the Chief Executive Officer until 1997 and remained an officer of the Company until February 1999. From 1989 to 1994 he was an independent management consultant to several companies and venture capital firms. He retired from TRW, Inc., after serving in numerous senior management positions from June 1967 to July 1989 among which was Vice President and General Manager of TRW's Electronic Components Group. He also serves as a member of the Executive Committee of the Wireless Communications Association.

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

Benson Chin joined the Company as Vice President, Operations in February 2000. From 1998 until joining California Amplifier, Mr. Chin was Vice President of Wireless Manufacturing for Superconductor Technologies, Inc. From 1990 to 1998 Mr. Chin has held various positions with Harman International, Inc., most recently Director of Manufacturing.

17

Philip Cox joined the Company in July 1996. In January 1998, in conjunction with the reorganization previously mentioned, Mr. Cox was appointed Vice President, Wireless Products. Prior to July 1996, he held various sales and marketing positions with Signal Technology and M/A-Com.

Michael R. Ferron joined the Company as Vice President, Finance and Chief Financial Officer in October 1990 and was appointed Corporate Secretary in March 1991. Prior to October 1990, Mr. Ferron was employed by the accounting firms of Deloitte & Touche (1987-1990) and Arthur Young & Company (1977-1987).

Robert Hannah joined the Company as Vice President of Engineering in April 1995. In January 1998, in conjunction with the reorganization previously mentioned, Mr. Hannah was appointed Vice President, Satellite Products. Prior to April 1995, Mr. Hannah held various positions with Hughes, most recently the position of Technical Manager at Hughes Network Systems.

Kris Kelkar was appointed Senior Vice President of Sales and Marketing in April 1995 and Vice President, Marketing in April 1997. In January 1998, in conjunction with the reorganization previously mentioned, Mr. Kelkar was appointed Vice President, Voice and Data Products, and, most recently, Vice President, Wireless Access Products. Prior to April 1995, he held various positions with General Instrument Corporation, the most recent Vice President of International Marketing for General Instrument's Communications Division.

Arthur H. Hausman has been a director of the Company since 1987. Mr. Hausman is Chairman Emeritus of the Board of Ampex Corporation. He served as Chairman of the Board of Directors and Chief Executive Officer of Ampex, having been with Ampex for 27 years until his retirement in 1988. He currently serves as a director of Drexler Technology Corporation, and director emeritus of TCI, Inc. He was appointed by President Reagan to the President's Export Council, to the Council's Executive Committee and to the Chairmanship of the Export Administration Subordinate Committee of the Council for the period 1985 to 1989.

William E. McKenna has been a director of the Company since October 1983. Since December 1977, Mr. McKenna has been general partner of MCK Investment Company, a private investment company. Mr. McKenna was Chairman of the Board of Directors of Technicolor, Inc. from 1970 to 1976 and was formerly Chairman of the Board of Directors and Chief Executive Officer of Hunt Foods & Industries, Inc. and its successor, Norton Simon, Inc. From 1960 to 1967, Mr. McKenna was associated with Litton Industries, Inc. as a Director and in various executive capacities. He is currently a director of Midway Games, Inc., Drexler Technology Company and WMS Industries, Inc.

Thomas L. Ringer has been a director of the Company since August 1996. Since 1990, Mr. Ringer has been actively involved as a member of the boards of directors for various companies. Mr. Ringer is currently Chairman of Wedbush Morgan Securities, Inc., Chairman of M.S. Aerospace, Inc., Chairman of Document Sciences Corporation, Chairman of Aquatec Water Systems, and Chairman of the Center for Innovation and Entrepreneurship. Prior to 1990, Mr. Ringer served as Chairman, President and Chief Executive Officer of Recognition Equipment, Inc., President and Chief Executive Officer of Fujitsu Systems of America, Inc., and President and Chief Executive Officer of Computer Machinery Corporation.

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Each director holds office until the next annual meeting of stockholders or until his successor has been duly elected and qualified. Each non-employee director receives an annual stock option grant to purchase 8,000 shares at the fair-market-value at time of grant, which vest over a one-year period, a monthly fee of \$1,250, and reimbursement of out-of-pocket expenses in attending the Company's Board of Directors meetings. There are no family relationships among any directors or executive officers of the Company.

18

The Company has a Compensation Committee which reviews and makes recommendations to the Board of Directors with respect to the compensation of the Company's executive officers and to administer the Company's Stock Option Plans.

The Company also has an Audit Committee which reviews the scope of audit procedures employed by the Company's independent auditors, approves the audit fee charged by the independent auditors, and reviews the audit reports rendered by the Company's independent auditors. The Audit Committee reports to the Board of Directors with respect to such matters and recommends the selection of independent auditors.

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

ITEM 11. EXECUTIVE COMPENSATION

Incorporated by reference from the information under the captions "Executive Compensation" in the Company's definitive proxy statement for the Annual Meeting of Stockholders to be held on July 14, 2000.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Incorporated by reference from the information under the caption "Stock Ownership" in the Company's definitive proxy statement for the Annual Meeting of Stockholders to be held on July 14, 2000.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Incorporated by reference from the information contained under the caption "Certain Relationships and Related Transactions" in the Company's definitive proxy statement for the Annual Meeting of Stockholders to be held on July 14, 2000.

19

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K.

- (a) *Financial Statements.* Reference is made to the Index to Consolidated Financial Statements on page 21 of this report.
- (b) *Form 8-K.* The Company made no filings on Form 8-K during the three months ended February 26, 2000.
- (c) *Exhibits.* Reference is made to the Index to Exhibits on pages 42-43 of this report.

20

SIGNATURES

	<u>Page</u>
FINANCIAL STATEMENTS:	
Consolidated Balance Sheets	24
Consolidated Statements of Operations	25
Consolidated Statements of Stockholders' Equity and Comprehensive Loss	26
Consolidated Statements of Cash Flows	27
Notes to Consolidated Financial Statements	28-44

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To California Amplifier, Inc.:

We have audited the accompanying consolidated balance sheets, as restated (see Note 1), of California Amplifier, Inc. (a Delaware corporation) and Subsidiaries (the "Company") as of February 26, 2000 and February 27, 1999, and the related consolidated statements of operations, stockholders' equity and comprehensive loss, and cash flows, as restated (see Note 1), for each of the three years in the period ended February 26, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of California Amplifier, Inc. and Subsidiaries as of February 26, 2000 and February 27, 1999, and the results of their operations and their cash flows for each of the three years in the period ended February 26, 2000, in conformity with accounting principles generally accepted in the United States.

ARTHUR ANDERSEN LLP

Los Angeles, California
May 21, 2001

CALIFORNIA AMPLIFIER, INC.

CONSOLIDATED BALANCE SHEETS (in thousands, except par value)

	<u>Feb. 26, 2000</u>	<u>Feb. 27, 1999</u>
	<i>(As Restated, See Note 1)</i>	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,791	\$ 9,312
Accounts receivable, net of allowance of \$473 at February 26, 2000, and \$535 at February 27, 1999	16,038	4,823
Inventories	12,893	3,974

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	Feb. 26, 2000	Feb. 27, 1999
Deferred tax asset	4,864	1,597
Prepaid expenses and other current assets	615	625
	<u>37,201</u>	<u>20,331</u>
Total current assets	37,201	20,331
Property and equipment, at cost, net of accumulated depreciation and amortization	9,736	4,498
Goodwill, net of accumulated amortization of \$225	3,827	
Other assets	733	720
	<u>\$ 51,497</u>	<u>\$ 25,549</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Accounts payable	\$ 14,658	\$ 2,644
Accrued liabilities	13,099	1,613
Short-term and current portion of long-term debt	4,972	596
	<u>32,729</u>	<u>4,853</u>
Total current liabilities	32,729	4,853
Long-term debt	145	517
Minority interest share in net assets of Micro Pulse, Inc.	342	114
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, 3,000 shares authorized; no shares issued and outstanding		
Common stock, \$.01 par value; 30,000 shares authorized; 12,658 shares outstanding in February 2000 and 11,785 in February 1999		
	127	118
Additional paid-in capital	17,377	14,050
Accumulated other comprehensive loss	(226)	(170)
Retained earnings	1,003	6,067
	<u>18,281</u>	<u>20,065</u>
Total stockholders' equity	18,281	20,065
	<u>\$ 51,497</u>	<u>\$ 25,549</u>

See accompanying notes to consolidated financial statements.

CALIFORNIA AMPLIFIER, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except net loss per share)

	Years Ended		
	Feb. 26, 2000	Feb. 27, 1999	Feb. 28, 1998

	Years Ended		
	(As Restated, See Note 1)		
Sales	\$ 85,850	\$ 37,140	\$ 46,933
Cost of sales	68,013	26,595	36,236
Gross profit	17,837	10,545	10,697
Research and development	5,540	4,764	4,475
Selling	4,877	4,441	5,215
General and administrative	5,395	3,880	4,813
Income (loss) from operations	2,025	(2,540)	(3,806)
Settlement of litigation	(9,500)		
Interest and other income (expense), net	(131)	28	(59)
Minority interest share in (income) loss of Micro Pulse	(302)	295	(284)
Loss before benefit from income taxes	(7,908)	(2,217)	(4,149)
Benefit from income taxes	2,844	781	1,484
Net loss	\$ (5,064)	\$ (1,436)	\$ (2,665)
Net loss per share:			
Basic and Diluted	\$ (.42)	\$ (.12)	\$ (.23)
Shares used in per share calculation	12,072	11,782	11,734

See accompanying notes to consolidated financial statements.

CALIFORNIA AMPLIFIER, INC.

**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
AND COMPREHENSIVE LOSS
(in thousands)**

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
	Shares	Amount				
Balances at March 1, 1997	11,713	\$ 117	\$ 13,990	\$ 10,168	\$ (127)	\$ 24,148

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	<u>Common Stock</u>			<u>Accumulated Other Comprehensive Loss</u>		
Comprehensive loss:						
Net loss				(2,665)		(2,665)
Foreign translation adjustment					(122)	(122)
						<u>(2,787)</u>
Exercise of stock options	58	1	35			36
Balances at February 28, 1998	11,771	118	14,025	7,503	(249)	21,397
Comprehensive loss:						
Net loss				(1,436)		(1,436)
Foreign translation adjustment					79	79
						<u>(1,357)</u>
Exercise of stock options	14		25			25
Balances at February 27, 1999	11,785	118	14,050	6,067	(170)	20,065
Comprehensive loss:						
Net loss (As Restated, See Note 1)				(5,064)		(5,064)
Foreign translation adjustment					(56)	(56)
						<u>(5,120)</u>
Exercise of stock options	873	9	3,327			3,336
Balances at February 26, 2000 (As Restated, See Note 1)	12,658 \$	127 \$	17,377 \$	1,003 \$	(226) \$	18,281

See accompanying notes to consolidated financial statements.

26

CALIFORNIA AMPLIFIER, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	<u>Years Ended</u>		
	<u>Feb. 26, 2000</u>	<u>Feb. 27, 1999</u>	<u>Feb. 28, 1998</u>
<i>(As Restated, see Note 1)</i>			
Cash flows from operating activities:			
Net loss	\$ (5,064)	\$ (1,436)	\$ (2,665)
Adjustments to reconcile net loss to net cash provided by operating activities:			

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	Years Ended		
Non-cash litigation charge	9,500		
Provision for doubtful accounts	37	96	592
Depreciation and amortization	2,990	3,013	3,280
Loss on sale of property and equipment	3	14	1
Minority interest share in net income (loss) of Micro Pulse, net of tax	228	(207)	195
Deferred tax asset	(4,252)	403	(1,200)
Change in assets and liabilities, net of effect from purchase of controlling interest in Micro Pulse in 1998 and Gardiner acquisition in 2000:			
Accounts receivable	(11,252)	826	945
Inventories	(6,267)	2,877	1,983
Prepaid expenses and other assets	263	352	824
Accounts payable	10,014	783	(766)
Accrued liabilities	4,615	(786)	(37)
Net cash provided by operating activities	815	5,935	3,152
Cash flows from investing activities:			
Purchases of property and equipment	(5,357)	(1,321)	(2,750)
Proceeds from sale of property and equipment	7	912	12
Purchase of controlling interest in Micro Pulse			327
Net assets acquired from Gardiner	(6,170)		
Net cash used in investing activities	(11,520)	(409)	(2,411)
Cash flows from financing activities:			
Debt borrowings	1,500		1,582
Debt repayments	(596)	(740)	(980)
Issuances of common stock	3,336	25	36
Net cash provided by (used in) financing activities	4,240	(715)	638
Effect of foreign exchange rates	(56)	79	(122)
Net (decrease) increase in cash and cash equivalents	(6,521)	4,890	1,257
Cash and cash equivalents at beginning of year	9,312	4,422	3,165
Cash and cash equivalents at end of year	\$ 2,791	\$ 9,312	\$ 4,422

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(As Restated, see Note 1)

1. General and Restatement of February 26, 2000 Financial Statements**General**

California Amplifier, Inc. (the "Company") designs, manufactures and markets microwave equipment used in the reception of video transmitted from satellites and wireless terrestrial transmission sites, and two-way wireless transceivers used in the emerging fixed point wireless voice (telephony) and data (Internet) applications.

The Company also has a 50.5% controlling interest in Micro Pulse, Inc. ("Micro Pulse"), a company that designs, manufactures and markets antennas and amplifiers used principally in global positioning systems (See Note 2).

Restatement of February 26, 2000 Financial Statements

On March 29, 2001, the Company announced that during preparation for the Company's fiscal 2001 audit, the corporate controller abruptly resigned and advised management by letter that he had made certain improper adjustments to the Company's accounting records that caused a reduction in recorded expenses. The Company began an investigation into the circumstances reported by the controller and determined that expenses had been inappropriately reduced. As part of its investigation, the Company reviewed substantially all of the journal entries input by the controller and reviewed the general ledger closings for each period in fiscal 2000. The investigation revealed that the controller had reduced reported expenses through the posting of improper journal entries and irregularities in the consolidation of its Hong Kong subsidiary. All of these improper journal entries and irregularities were previously unknown to the Company's management.

The Company has determined the effect of these irregularities on its previously issued financial statements and has restated the accompanying financial statements for the year ended February 26, 2000. The improper journal entries have been reversed, and the general ledger closings for each period within the fiscal year have been re-performed and properly consolidated with the accounts of the Company's Hong Kong subsidiary.

As a result of the cumulative effect of the increase in net loss in fiscal year 2000 and the reduction in net income for the first nine months of fiscal 2001 in connection with the restatement, the Company reassessed the realizability of the deferred tax asset. The Company concluded that the deferred tax asset, specifically as it relates to the future tax deductibility for the exercise of non-qualified stock options, should be reduced for amounts previously recognized in fiscal years 2000 and 2001. Accordingly, deferred taxes and stockholders' equity were reduced by \$5,800,000 in fiscal year 2000.

In the process of reclosing the financial statements, the Company identified other minor discrepancies which are corrected in the accompanying financial statements.

The Company's investigation determined that there has been no misappropriation of cash or other assets.

28

The effect of the restatement as of February 26, 2000 and for the year ended February 26, 2000 is as follows (in thousands):

	<u>As Originally Reported</u>	<u>Restatement Adjustments</u>	<u>As Restated</u>
Statement of Operations Data:			
Sales	\$ 85,628	\$ 222	\$ 85,850
Cost of sales	62,197	5,816	68,013
Gross profit	23,431	(5,594)	17,837
Operating expenses	15,610	202	15,812
Other income (expense), net	(9,998)	65	(9,933)
Loss before taxes	(2,177)	(5,731)	(7,908)
Benefit from income taxes	784	2,060	2,844
Net loss	(1,393)	(3,671)	(5,064)
Net loss per share			
Basic and Diluted	\$ (.12)	\$ (.30)	\$ (.42)

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	<u>As Originally Reported</u>	<u>Restatement Adjustments</u>	<u>As Restated</u>
Balance Sheet Data:			
Cash and cash equivalents	\$ 3,074	\$ (283)	\$ 2,791
Inventories	12,948	(55)	12,893
Deferred tax asset	8,487	(3,623)	4,864
Prepaid expenses and other current assets	685	(70)	615
Property and equipment, net	9,731	5	9,736
Other assets	762	(29)	733
Accounts payable	9,242	5,416	14,658
Stockholders' equity	27,752	(9,471)	18,281

2. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the Company (a Delaware corporation) and its wholly-owned subsidiaries: California Amplifier s.a.r.l., the Company's French subsidiary, Cal Amp FSC, Inc., a foreign sales corporation and Cal Amp Limited, the Company's Hong Kong subsidiary since April 1999. The consolidated financial statements also include the accounts of Micro Pulse. In fiscal year 1998, the Company acquired additional shares of Micro Pulse which resulted in the Company holding a 50.5% controlling interest. All significant intercompany transactions have been eliminated.

Fiscal Year

The Company reports results on the basis of a 52/53 week accounting calendar ending on the last Saturday of February or the first Saturday of March. Each of the fiscal years 2000, 1999, and 1998 consisted of 52 weeks. Fiscal year 2001 will consist of 53 weeks.

Revenue Recognition

The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable and collection is probable. Generally, these criteria are met at the time product is shipped.

29

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Concentration of Risk

At February 26, 2000 and February 27, 1999, the Company had cash and cash equivalents in three U.S. banks in excess of Federally insured amounts, foreign banks, and grade A1P1 commercial paper investments at Salomon Smith Barney as follows (in 000's):

	<u>2000</u>	<u>1999</u>
U.S. banks	\$ 2,166	\$ 4,884
Foreign banks	625	362
Salomon Smith Barney		4,066
	<u>\$ 2,791</u>	<u>\$ 9,312</u>

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As of February 26, 2000, the Company had an account receivable due from one customer in the amount of \$4,486,000, or 28.0% of consolidated accounts receivable, another customer in the amount of \$2,471,000, or 15.4% of consolidated accounts receivable, and another customer in the amount of \$1,658,000, or 10.3% of consolidated accounts receivable. At February 27, 1999 the Company had an account receivable due from one customer in the amount of \$1,145,000, or 23.7% of consolidated accounts receivable, and from another customer in the amount of \$678,000, or 14.1% of consolidated accounts receivable.

Cash and Cash Equivalents

The Company considers all liquid investments with an original maturity of less than three months to be cash equivalents.

Allowance for Doubtful Accounts

The Company has established a reserve for potential write-offs relating to noncollectibility of accounts receivable. In fiscal years 2000, 1999, and 1998, \$37,000, \$96,000, and \$592,000, was charged to expense, respectively. Amounts charged to the allowance account for bad debt write-offs and costs relating to product returns were \$99,000, \$411,000, and \$443,000, in fiscal years 2000, 1999, and 1998, respectively.

Warranty

The Company warrants its products against defects over periods ranging from ninety days to five years. An accrual for estimated future costs relating to products returned under warranty is recorded as an expense when products are shipped. Warranty expense was \$201,000, \$377,000, and \$834,000, in fiscal years 2000, 1999, and 1998, respectively. Amounts charged against accrued warranty for the actual costs of maintaining the Company's warranty program were \$284,000, \$487,000, and \$734,000, in fiscal years 2000, 1999, and 1998, respectively.

30

Inventories

Inventories include costs of materials, labor and manufacturing overhead and are stated at the lower of cost (first-in, first-out) or market, and consist of the following (in 000's):

	Feb. 26, 2000	Feb. 27, 1999
Raw materials	\$ 10,147	\$ 2,441
Work in process	1,073	40
Finished goods	1,673	1,493
	\$ 12,893	\$ 3,974

Property and Equipment

Property and equipment is stated at cost and consists of the following (in 000's):

	Feb. 26, 2000	Feb. 27, 1999
Machinery and equipment	\$ 16,780	\$ 9,362
Furniture and computers	4,652	5,013
Tooling	3,438	3,955
Leasehold improvements	1,129	1,116
	25,999	19,446
Less accumulated depreciation and amortization	(16,263)	(14,948)
	\$ 9,736	\$ 4,498

Feb. 26, 2000	Feb. 27, 1999
_____	_____
_____	_____

At February 26, 2000, the Company had approximately \$1.9 million of machinery and equipment that was not yet placed in service.

The Company follows the policy of capitalizing expenditures which materially increase asset lives, and charging ordinary maintenance and repairs to operations, as incurred. When assets are sold or disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is included in income (loss) from operations.

Depreciation and amortization are based upon the estimated useful lives of the related assets using the straight-line method. Useful lives range from two to five years, and in the case of leasehold improvements over the life of the lease.

Accounting for Long-Lived Assets

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

Foreign Currency Translation and Comprehensive Income

The financial statements of the Company's Paris, France subsidiary are translated into United States dollars using current or historical exchange rates, as appropriate, with gains or losses included in the accumulated other comprehensive loss account in the stockholders' equity section of the

consolidated balance sheets. Foreign currency translation adjustments are the Company's only component of comprehensive income, which includes all non-owner changes in stockholders' equity. The Hong Kong subsidiary's functional currency is the United States Dollar.

Net Loss Per Share

Basic loss per share is computed by dividing reported earnings available to common stockholders by the weighted average number of shares outstanding. The diluted per share calculation increase the weighted average number of shares outstanding for the dilutive effect of stock options, warrants, and convertible debt arrangements. No diluted per share amounts were calculated for fiscal years 2000, 1999 and 1998 since the inclusion would be anti-dilutive and reduce the loss per share for each of the respective fiscal years.

Goodwill

Goodwill represents the excess of purchase price and related costs over the value assigned to the net tangible assets of businesses acquired. Goodwill is amortized on a straight-line basis over 15 years. The Company continually evaluates whether events and circumstances have occurred that indicate the remaining estimated useful life of goodwill might warrant revision or that the remaining balance of goodwill may not be recoverable. When factors indicate that goodwill should be evaluated for possible impairment, the Company uses an estimate of undiscounted future net cash flows over the remaining life of goodwill to determine if impairment has occurred. Assets are grouped at the lowest level for which there are identifiable cash flows that are largely independent from other asset groups. The Company uses discounted future expected net cash flows to determine the amount of impairment loss. Amortization expense was \$225,000 in fiscal year 2000.

Statements of Cash Flows

Supplemental Disclosure of Cash Flow Information:

In fiscal years 2000, 1999, and 1998, the Company paid interest of \$382,000, \$199,000, and \$212,000, respectively.

In fiscal years 2000 and 1998 the Company paid income taxes of \$21,000 and \$375,000, respectively. No income taxes were paid in fiscal year 1999.

Noncash Investing and Financing Activities:

In fiscal year 1998, the Company exchanged \$100,000 in amounts due from Micro Pulse for an additional ownership interest increasing its ownership from 50.0% to 50.5%.

In fiscal year 2000, the Company issued a \$3,100,000 promissory note in connection with the Gardiner acquisition. This note has been excluded from the statement of cash flows.

At February 26, 2000, the Company accrued a \$9,500,000 litigation settlement in its consolidated balance sheet as a charge to fiscal year 2000 operations. In connection with this charge, the Company recorded a non-cash income tax benefit of \$3,606,000.

Accounting for Stock Options

As allowed by Statement of Financial Accounting Standards (SFAS) No. 123, the Company has elected to continue to measure compensation cost under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" APB No. 25 and comply with the pro forma disclosure requirements of the standard (see Note 8).

32

New Authoritative Pronouncements

In June 1998 and June 1999, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities," and SFAS No. 137, which delayed the effective date of SFAS No. 133. Management does not expect adoption of this standard to have a material impact on the Company's financial position or results of operations.

In December 1999, the SEC staff released Staff Accounting Bulletin (SAB) No. 101, "Revenue Recognition in Financial Statements," to provide guidance on the recognition, presentation and disclosure of revenue in financial statements. The adoption of SAB No. 101 did not have a material impact on the Company's revenue recognition and results of operations.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

3. Acquisition and Pro Forma Results of Operations

On April 19, 1999, the Company acquired the technology and product rights to substantially all of Gardiner Communications Corp.'s (Gardiner) products, inventory, and manufacturing and development related equipment. The total purchase price, including assumption of certain liabilities and certain costs incurred in connection with the acquisition was approximately \$9.3 million. The Company paid \$6.2 million in cash, and Gardiner received a \$3.1 million, 8% one year convertible promissory note due April 19, 2000. In April 2000, a portion of the debt was converted into 525,000 shares of the Company's common stock at \$4.25 per share, which was the market value at the date of the acquisition, and the remaining balance was paid in cash. As part of the purchase, the Company recorded Goodwill of \$4.1 million which is being amortized over 15 years.

The purchase price was allocated as follows (in 000's):

Inventory and prepaid expenses	\$ 2,900
Equipment	2,700
Goodwill	4,100
Assumption of liabilities and cost of acquisition	(400)
	<hr/>
Total purchase price	\$ 9,300
	<hr/>

The following unaudited pro forma statements combine the operations of the Company and Gardiner as if the acquisition had occurred at the beginning of each of the respective periods (in 000's except per share data):

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	Year Ended February 26, 2000		Year Ended February 27, 1999	
	As Reported	Pro Forma	As Reported	Pro Forma
Sales	\$ 85,850	\$ 87,850	\$ 37,140	\$ 58,901
Net income (loss)	\$ (5,064)	\$ (4,904)	\$ (1,436)	\$ 321
Net income (loss) per share				
Basic	\$ (.42)	\$ (.41)	\$ (.12)	\$.03
Diluted	\$ (.42)	\$ (.41)	\$ (.12)	\$.03
Shares used in per share calculation				
Basic	12,072	12,072	11,782	11,782
Diluted	12,072	12,072	11,782	12,600

33

4. Accrued Liabilities

Accrued liabilities consist of the following (in 000's):

	Feb. 26, 2000	Feb. 27, 1999
Payroll and related expenses	\$ 1,924	\$ 727
Warranty	462	545
Income taxes	78	6
Accrued settlement for litigation	9,500	
Other accrued liabilities	1,135	335
	\$ 13,099	\$ 1,613

5. Short-Term Borrowings

In conjunction with the Gardiner acquisition (Note 3), the Company issued a \$3.1 million one-year convertible promissory note bearing interest at 8%, due on April 19, 2000. Subsequent to February 26, 2000, a portion of the note was converted into 525,000 shares of common stock, and the remaining balance was paid.

34

As of February 26, 2000, the Company had a \$6.0 million working capital credit facility with U.S. Bank. Borrowings outstanding bear interest at the bank's prime rate (8.75% at February 26, 2000) and are secured by substantially all of the Company's assets, excluding the assets secured by other debt arrangements. At February 26, 2000, \$1.5 million was outstanding under this credit facility and \$4.5 million was available for borrowing. The credit facility contains certain financial covenants and ratios that the Company is required to maintain. At February 26, 2000, the Company was in default with certain covenants but they were waived by the bank.

In September 2000 the Company finalized a new banking arrangement with U.S. Bank. Under the agreement the Company borrowed a \$5.0 million term loan interest only at Libor plus 2.2%, until September 2001 at which time the loan converts to a five-year term loan. In addition, the Company obtained an \$8.0 million working capital credit facility. The credit facility contains certain financial covenants and ratios the Company is required to maintain. At May 21, 2001, the Company was in default with certain covenants but they were waived by the bank.

6. Long-Term Debt

Long-term debt consists of the following (in 000's):

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	<u>Feb. 26, 2000</u>	<u>Feb. 27, 1999</u>
Notes payable to a bank, secured by equipment, bearing interest at rates ranging from 8.19% to 8.24% payable monthly through January 2002	\$ 517	\$ 1,113
Less portion due within one year	(372)	(596)
	<u>\$ 145</u>	<u>\$ 517</u>

Annual maturities on long-term debt as of February 26, 2000, are as follows (in 000's):

2001	\$ 372
2002	145
	<u>\$ 517</u>

7. Income Taxes

The benefit from income taxes for fiscal years 2000, 1999, and 1998, are as follows (in 000's):

	<u>2000</u>	<u>1999</u>	<u>1998</u>
Current			
Federal	\$ 610	\$ (352)	\$ (584)
State	133		(95)
Foreign	161	(26)	395
Deferred			
Federal	(3,185)	(343)	(1,020)
State	(563)	(60)	(180)
	<u>\$ (2,844)</u>	<u>\$ (781)</u>	<u>\$ (1,484)</u>

35

Differences between the benefit from income taxes and income taxes computed using the statutory federal income tax rate for fiscal years 2000, 1999 and 1998 are as follows (in 000's):

	<u>2000</u>	<u>1999</u>	<u>1998</u>
Income tax at statutory federal rate (34%)	\$ (2,681)	\$ (788)	\$ (1,772)
State income taxes, net of federal income tax effect	(153)	(107)	(300)
Foreign taxes	161	(26)	395
Research and development credit		96	
Other, net	(171)	44	193
	<u>\$ (2,844)</u>	<u>\$ (781)</u>	<u>\$ (1,484)</u>

The components of the net deferred income tax asset are as follows (in 000's):

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	Feb. 26, 2000	Feb. 27, 1999
Depreciation	\$ 294	\$ 290
Warranties	158	187
Compensation accrual	121	104
Inventory reserve	353	346
Allowance for doubtful accounts	132	165
Research and development credit	1,707	2,240
Litigation settlement accrual	3,606	
Tax loss carryforward	6,608	
Tax credits	818	1,907
Other, net	(84)	79
	<u>13,713</u>	<u>5,318</u>
Valuation allowance	(8,849)	(3,721)
	<u>\$ 4,864</u>	<u>\$ 1,597</u>

The Company establishes a valuation allowance in accordance with the provisions of SFAS No. 109, "Accounting for Income Taxes." The Company continually reviews the adequacy of the valuation allowance and recognizes the benefits from its deferred tax assets only when an analysis of both positive and negative factors indicate that it is more likely than not that the benefits will be realized. Based on the Company's analysis of its operating performance in fiscal 1999 and 2000 and estimated realizability of its deferred tax assets, the Company has recorded valuation allowances of approximately \$8.8 million and \$3.7 million at February 26, 2000 and February 27, 1999, respectively. Approximately \$5.1 million of the valuation allowance at February 26, 2000 is related to tax assets generated upon the exercise of non-qualified stock options. As such, any future benefit from the recognition of this \$5.1 million portion of the gross deferred tax asset will be an adjustment to additional paid in capital.

At February 26, 2000, the Company has net operating loss carryforwards of approximately \$15.6 million and \$4.5 million for Federal and State purposes expiring at various dates through 2020 and 2005, respectively.

8. Stock Options

The Company has two stock option plans for its employees, the 1989 Key Employee Stock Option Plan (1989 Plan), and the 1999 Stock Option Plan (1999 Plan). Under the 1999 Plan, stock options can be granted at exercise prices not less than 100% of the fair market value of the Company's stock at the date of grant. Option grants are exercisable at the discretion of the Compensation Committee, but usually over a four-year vesting period. The 1989 Plan expired in May 1999 and no additional options may be granted under this plan. Under provisions of the 1989 Stock Option Plan, all options vest upon a change in control of ownership of the Company.

36

The following table summarizes the option activity for fiscal years 2000, 1999, and 1998, (in 000's except dollar amounts):

	Number Shares	Weighted Average Option Price
Outstanding at March 1, 1997	1,388	\$ 7.49
Granted	976	3.42
Exercised	(95)	1.68
Canceled	(400)	15.13
	<u>1,869</u>	<u>4.16</u>
Outstanding at February 28, 1998	1,869	4.16
Granted	340	2.23
Exercised	(14)	1.98
Canceled	(178)	3.81
	<u>2,017</u>	<u>3.88</u>
Outstanding at February 27, 1999	2,017	3.88

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	Number Shares	Weighted Average Option Price
Granted	706	19.25
Exercised	(873)	3.82
Canceled	(165)	3.74
Outstanding at February 26, 2000	1,685	\$ 10.36

The weighted average fair value for options granted during the year was \$9.43, \$1.77, and \$2.59 for fiscal years 2000, 1999, and 1998, respectively.

The number of common stock options available for grant as of each fiscal year end were 500,000 for 2000, 175,225 for 1999, and 337,100 for 1998.

Options outstanding at February 26, 2000 and related weighted average price and life information is as follows:

Range of Exercise Prices	Total Options Outstanding	Weighted Average Remaining Life (Years)	Total Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercise Price
\$ 0.69-\$1.75	146,700	8.62	\$ 1.73	14,450	\$ 1.56
\$ 1.875-\$2.76	464,350	8.00	\$ 2.19	188,100	\$ 2.19
\$ 3.50-\$4.09	313,500	6.78	\$ 3.89	134,250	\$ 3.80
\$ 4.72-\$6.88	162,875	8.02	\$ 5.49	57,875	\$ 5.96
\$ 7.22-\$9.125	177,750	6.92	\$ 7.82	112,000	\$ 7.35
\$ 11.00-\$16.25	123,500	9.30	\$ 11.66	21,300	\$ 12.97
\$ 21.88-\$27.00	43,000	8.10	\$ 25.80	17,500	\$ 24.06
\$ 40.00	253,000	9.95	\$ 40.00	0	0
\$ 0.69-\$40.00	1,684,675	8.11	\$ 10.36	545,475	\$ 5.15

As permitted by SFAS No. 123, the Company continues to apply the accounting rules of APB No. 25 governing the recognition of compensation expense from its Stock Option Plans. Such accounting rules measure compensation expense on the first date at which both the number of shares and the exercise price are known. Under the Company's plans, this would typically be the grant date. To the extent that the exercise price equals or exceeds the market value of the stock on the grant date, no expense is recognized. As options are generally granted at exercise prices not less than the fair market value on the date of grant, no compensation expense is recognized under this accounting treatment in the accompanying consolidated statements of operations.

37

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

	2000	1999	1998
Expected life (years)	10	10	10
Dividend yield			

The range for interest rates is 4.15% 7.14%, and the range for volatility is 49% 77%. The estimated stock-based compensation cost calculated using the assumptions indicated totaled \$846,000, \$949,000, and \$713,000 in fiscal years 2000, 1999, and 1998 respectively. This would result in pro forma net losses resulting from the increased compensation cost of \$5,605,000, or \$.46 per share, \$2,043,000, or \$.17 per share, and \$3,121,000, or \$.27 per share, in fiscal year 2000, 1999, and 1998 respectively. The effect of stock-based compensation on net losses for fiscal 2000, 1999, and 1998 may not be representative of the effect on pro forma net income or loss in future years because compensation expense related to grants made prior to fiscal 1996 is not considered.

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For fiscal years 2000, 1999 and 1998 there were 1,357,000, 175,000 and 239,000 options, respectively, not considered in the diluted weighted average shares calculation since their inclusion would be anti-dilutive.

9. Commitments

The Company leases its corporate and manufacturing facilities under operating leases that expire in February 2004. The lease agreement for its corporate facility requires the Company to pay all property taxes and insurance premiums associated with the coverage of the facility.

In addition, the Company leases a manufacturing facility in Garland, Texas, sales offices in Paris, France, Sao Paulo, Brazil, and Hong Kong, China, under certain lease arrangements. The Company also leases certain equipment used in the manufacturing operation under operating lease arrangements.

The following table represents the future minimum rent payments required under all operating leases with terms in excess of one year as of February 26, 2000 (in 000's):

Fiscal Year:	
2001	\$ 610
2002	590
2003	600
2004	605
2005	480
	<hr/>
	\$ 2,885
	<hr/>

Rent expense for fiscal years 2000, 1999, and 1998, was \$732,000, \$780,000, and \$707,000, respectively.

10. Legal Proceedings

On June 11, 1997, the Company and certain of its directors and officers had two legal actions filed against them, one in the United States District Court, Central District of California, entitled *Yourish v. California Amplifier, Inc., et al.*, Case No. 97-4293 CBM (Mcx), and the other in the Superior Court for the State of California, County of Ventura, entitled *Yourish v. California Amplifier, Inc. et al.*, Case No. CIV 173569. On June 30, 1997, another legal action was filed against the same defendants in the Superior Court for the State of California, County of Ventura, entitled *Burns, et al., v. California Amplifier, Inc., et al.*, Case No. CIV 173981. All three actions are purported class actions on behalf of

38

purchasers of the common stock of the Company between September 12, 1995 and August 8, 1996. The actions claim that the defendants engaged in a scheme to make false and misleading statements and omitted disclosure of material adverse facts to the public concerning the Company, allegedly causing the Company's stock price to artificially rise, and thereby allegedly allowing the individual defendants to sell stock at inflated prices. Plaintiffs claim that the purported stockholder class was damaged when the price of the stock declined upon disclosure of the alleged adverse facts. On September 21, 1998, the Federal legal action was dismissed in the United States District Court. The dismissal was upheld by the U.S. Court of Appeals for the Ninth Circuit on October 8, 1999.

On March 27, 2000 the trial began for the lawsuit filed in the Superior Court for the State of California, County of Ventura, entitled *Yourish v. California Amplifier, Inc., et al.*, Case No. CIV 173569. On March 29, 2000, the parties reached a settlement. Under terms of the settlement, the Company will issue 187,500 shares of its common stock along with a cash payment of \$3.5 million, funded in part by insurance proceeds. This represents a total settlement of approximately \$11.0 million of which \$9.5 million was accrued in the accompanying consolidated financial statements for the year ended February 26, 2000. By Order dated September 14, 2000, the court approved the terms of the settlement and dismissed the action with prejudice. As of November 25, 2000, the Company had issued 65,625 of the 187,500 shares and paid \$2.5 million of the \$3.5 million with one of its insurance carriers paying the remaining \$1.0 million.

In connection with the settlement of the *Yourish* action the Company and certain of its former and current officers and directors have filed a lawsuit (*California Amplifier, Inc., et al. v. RLI Insurance Company, et al.*, Ventura County Superior Court Case No. CIV196258), against one of its insurance carriers to recover \$2.0 million of coverage the insurance carrier has stated was not covered under its policy of insurance. The

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insurance carrier filed a Motion for Judgment on the Pleadings seeking judgment on the basis, *inter alia*, that the claims in the *Yourish* action for alleged violations of Sections 25400 and 25500 of the California Corporation Code were not insurable as a matter of law pursuant to Insurance Code Section 533. The Plaintiffs opposed the motion and a hearing was held on September 22, 2000. On October 18, 2000, the Court entered an Order on granting the motion for judgment on the pleadings. Judgment was entered on November 9, 2000, and Notice of Entry of Judgment given on November 15, 2000. California Amplifier filed a Notice of Appeal on November 21, 2000 and an Opening Brief on March 1, 2001. The Defendants filed a Response Brief on April 30, 2001. Plaintiff's Reply Brief was filed on May 21, 2001. No hearing date has been set to argue the appeal.

On March 7, 2000, the Company announced it had received a complaint of patent infringement from Andrew Corporation. The complaint, filed against California Amplifier in the U.S. District Court for the Eastern District of Texas but not served, alleges that California Amplifier has infringed Andrew Corporation's patent in the design of certain products. California Amplifier believes that the allegations are unfounded and without merit and will vigorously defend any attempt by the plaintiff to prosecute this action.

From March 29, 2001 to May 21, 2001, the Company and certain officers were named in twenty putative actions in Federal Court.

See also Note 13 Subsequent Events in the Notes to Consolidated Financial Statements included elsewhere herein.

11. Segment and Geographic Data

In conjunction with the Company's reorganization into separate business units in January 1998, the Company adopted SFAS No. 131 "Disclosures about Segments of an Enterprise and Related Information" in fiscal year 1999. In fiscal year 1998 (and for all prior years), the Company managed its business as a single segment with separate product lines. Accordingly, for fiscal year 1998, separate

39

segment information is unavailable. The adoption of this standard had no effect on the Company's financial position or results of operations, but did change the presentation of segment information presented below (in 000's):

Fiscal Year 2000:

	Satellite	Wireless Access	Antenna	Corporate	Total
Sales	\$ 59,981	\$ 18,881	\$ 6,988	\$	\$ 85,850
Gross Profit	9,146	5,987	2,704		17,837
Gross Margin	15.2%	31.7%	38.7%		20.8%
Income (loss) before tax	5,440	752	309	(14,409)	(7,908)
Depreciation and amortization	1,573	977	190	250	2,990
Identifiable Assets	\$ 31,768	\$ 8,058	\$ 2,531	\$ 9,140	\$ 51,497

Fiscal Year 1999:

	Satellite	Wireless Access	Antenna	Corporate	Total
Sales	\$ 12,503	\$ 20,338	\$ 4,299	\$	\$ 37,140
Gross Profit	3,377	5,837	1,331		10,545
Gross Margin	27%	28.7%	31.0%		28.4%
Income (loss) before taxes	850	557	(518)	(3,106)	(2,217)
Depreciation and amortization	994	1,526	227	266	3,013
Identifiable Assets	\$ 4,146	\$ 7,347	\$ 1,582	\$ 12,474	\$ 25,549

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

40

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Sales information by product line for each of the three years in the period ended February 26, 2000, are as follows (in 000's):

	2000	1999	1998
Satellite Products	\$ 59,981	\$ 12,503	\$ 13,131
Wireless Products	18,881	20,338	27,738
Antenna Products	6,988	4,299	6,064
	\$ 85,850	\$ 37,140	\$ 46,933

Sales information by geographical area for each of the three years in the period ended February 26, 2000 is as follows (000's):

	2000	1999	1998
United States	\$ 66,726	\$ 20,265	\$ 19,378
Canada	5,419	2,987	2,750
Latin America	1,240	3,556	12,122
Europe	4,394	3,094	4,726
Middle East	847	520	203
Africa	1,832	3,739	4,014
Asia	4,368	1,449	2,757
Australia	1,024	1,530	983
	\$ 85,850	\$ 37,140	\$ 46,933

In fiscal year 2000 one U.S. satellite products customer accounted for 19.4% of consolidated sales, and another U.S. satellite customer accounted for 17.4% of consolidated sales. In fiscal years 1999 and 1998 no customer accounted for 10% or more of consolidated sales.

12.

Quarterly Financial Information (unaudited)

The following summarizes certain quarterly statement of operations data for each of the quarters in fiscal years 2000 and 1999 (in 000's, except percentages and per share data):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Fiscal 2000
Sales	\$ 12,928	\$ 18,657	\$ 26,577	\$ 27,688	\$ 85,850
Gross profits	3,643	5,252	3,236	5,706	17,837
Gross margins	28.1%	28.2%	12.2%	20.6%	20.8%
Net income (loss)	239	933	(572)	(5,664)	(5,064)
Income (loss) per diluted share	\$ 0.02	\$ 0.07	\$ (0.05)	\$ (0.46)	\$ (0.42)
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Fiscal 1999
Sales	\$ 9,060	\$ 8,322	\$ 9,681	\$ 10,077	\$ 37,140
Gross profits	2,793	1,939	2,776	3,037	10,545
Gross margins	30.8%	23.3%	28.7%	30.1%	28.4%
Net income (loss)	(485)	(837)	(205)	91	(1,436)
Income (loss) per diluted share	\$ (0.04)	\$ (0.07)	\$ (0.02)	\$ 0.01	\$ (0.12)

41

13. Subsequent Events

On March 29, 2001, the Company announced that it was investigating improper adjustments made by the corporate controller to the Company's accounting records (see Note 1). On March 29, 2001, subsequent to the Company's announcement, NASDAQ halted trading of the

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Company's common stock.

On April 4, 2001, the Company announced that Arthur Andersen LLP had withdrawn its opinion with respect to the Company's financial statements for the fiscal year ended February 26, 2000.

On May 3, 2001, the Company announced that it had received notification from NASDAQ that due to the Company's failure to comply with filing requirements requiring audited financial statements to be included in its annual report, NASDAQ intended to delist the shares of the Company's common stock at the opening of business on May 8, 2001. The Company appealed the notice of delisting and currently has a hearing scheduled for May 25, 2001. Until the hearing, the Company's common stock will continue to be listed on NASDAQ, although trading will continue to be halted.

On May 4, 2001, the Company announced that it had received notice from the Securities and Exchange Commission (the SEC) that the SEC is conducting an informal inquiry into the circumstances that caused the Company to restate its financial statements. The Company intends to cooperate with the SEC inquiry.

Following the announcement by the Company on March 29, 2001 of the resignation of its Controller and the possible overstatement of net income for the fiscal year ended February 26, 2000, the Company and certain of its officers and directors have been named defendants in twenty putative class actions in federal court:

(A) *John Michael Roberts and David Sciorsci, On Behalf of Themselves and All Others Similarly Situated, Plaintiffs v. California Amplifier, Inc., Defendant*, United States District Court, Central District of California, Western Division, Case No. CV-01-02988 MMM (RNBx). This action alleges violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder.

(B) *Mike Rogers, On His Own Behalf and On Behalf of All Others Similarly Situated, Plaintiff v. California Amplifier, Inc., Fred Sturm, and Michael R. Ferron, Defendants*, United States District Court, Central District of California, Western Division, Case No. CV-01-02992 ER (JWJx). This action alleges violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder.

(C) *James Leonhard, On His Own Behalf and On Behalf of All Others Similarly Situated, Plaintiff v. California Amplifier, Inc., Fred Sturm and Michael R. Ferron, Defendants*, United States District Court, Central District of California, Western Division, Case No. CV-01-03046 ER (CWx). This action alleges violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder.

(D) *Stephen W. Brock, On His Own Behalf and On Behalf of All Others Similarly Situated, Plaintiff v. California Amplifier, Inc., Fred Sturm, and Michael R. Ferron, Defendants*, United States District Court, Central District of California, Western Division, Case No. SACV-01-373 DOC (ANx). This action alleges violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder.

(E) *Edward Kall, On His Own Behalf and On Behalf of All Others Similarly Situated, Plaintiff v. California Amplifier, Inc., Fred Sturm, and Michael R. Ferron, Defendants*, United States District Court, Central District of California, Western Division, Case No. SACV-01-382 DOC (ANx). This

42

action alleges violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder.

(F) *Richard Taylor, Individually and On Behalf of All Others Similarly Situated, Plaintiff v. California Amplifier, Inc., Fred Sturm, and Michael R. Ferron, Defendants*, United States District Court, Central District of California, Western Division, Case No. CV-01-03112 MRP (AIJx). This action alleges violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder.

(G) *Michael Sebani, On Behalf of Himself and All Others Similarly Situated, Plaintiff v. California Amplifier, Inc., Defendant*, United States District Court, Central District of California, Western Division, Case No. CV-01-03187 FMC (CWx). This action alleges violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder.

(H) *Peter Chervin, On Behalf of Himself and All Others Similarly Situated, Plaintiff v. California Amplifier, Inc., Defendant*, United States District Court, Central District of California, Western Division, Case No. CV-01-03300 (Ex). This action alleges violations of

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Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder.

(I) *Brian Abramson, On Behalf of Himself and All Others Similarly Situated, Plaintiff v. California Amplifier, Inc., Defendant*, United States District Court, Central District of California, Western Division, Case No. CV-01-03322 MRP (DNBx). This action alleges violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder.

(J) *Orlando Martinez, On Behalf of Himself and All Others Similarly Situated, Plaintiff v. California Amplifier, Inc., Defendant*, United States District Court, Central District of California, Western Division, Case No. CV-01-03329 NM (SHx). This action alleges violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder.

(K) *Charles Medalie, On Behalf of Himself and All Others Similarly Situated, Plaintiff v. California Amplifier, Inc., Defendant*, United States District Court, Central District of California, Western Division, Case No. CV-01-03379 CBM (BQRx). This action alleges violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder.

(L) *Dennis M. McCarthy, On Behalf of Himself and All Others Similarly Situated, Plaintiff v. California Amplifier, Inc., Defendant*, United States District Court, Central District of California, Western Division, Case No. CV-01-03441 WJR (MANx). This action alleges violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder.

(M) *Ronald E. Beard, On Behalf of Himself and All Others Similarly Situated, Plaintiff v. California Amplifier, Inc., Defendant*, United States District Court, Central District of California, Western Division, Case No. CV-01-03507 GAF (CTx). This action alleges violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder.

(N) *David G. Hess, Individually and On Behalf of All Others Similarly Situated, Plaintiff v. California Amplifier, Inc., Fred Sturm, Michael R. Ferron, and John Doe Defendants*, United States District Court, Central District of California, Western Division, Case No. CV-01-03508 DT (CWx). This action alleges violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder.

(O) *Richard Bradford Brewer, On His Own Behalf and On Behalf of All Others Similarly Situated, Plaintiff v. California Amplifier, Inc., Fred Sturm, and Michael R. Ferron, Defendants*, United States District Court, Central District of California, Western Division, Case No. CV-01-03511 AHM (RZ). This action alleges violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder.

43

(P) *Yousef Machour, On Behalf of Himself and All Others Similarly Situated, Plaintiff v. California Amplifier, Inc., Defendant*, United States District Court, Central District of California, Western Division, Case No. CV-01-03587 CM (BQRx). This action alleges violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder.

(Q) *James Welch, On Behalf of Himself and All Others Similarly Situated, Plaintiff v. California Amplifier, Inc., Defendant*, United States District Court, Central District of California, Western Division, Case No. CV-01-03758 SVW (MANx). This action alleges violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder.

(R) *James S. Thomas, On Behalf of Himself and All Others Similarly Situated, Plaintiff v. California Amplifier, Inc., Fred Sturm, and Michael R. Ferron, Defendants*, United States District Court, Central District of California, Western Division, Case No. CV-01-03774 TJH (MANx). This action alleges violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder.

(S) *Greg Moccia, On Behalf of Himself and All Others Similarly Situated, Plaintiff v. California Amplifier, Inc., Defendant*, United States District Court, Central District of California, Western Division, Case No. CV-01-03776 FMC (MANx). This action alleges violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder.

(T) *Chadrakant Itchhaporia, On Behalf of Himself and All Others Similarly Situated, Plaintiff v. California Amplifier, Inc., Defendant*, United States District Court, Central District of California, Western Division, Case No. CV-01-03896 DDP (Mcx). This action alleges violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder.

Sixteen of the class actions seek to represent a class of purchasers of the Company's common stock for the period between April 6 or 7, 2000 to March 28, 2001. Four of the class actions seek to represent a class of purchasers of the Company's common stock for the period between June 10 or 11, 1999 to March 28 or 29, 2001 (*Taylor, Welch, Moccia, and Itchhaporia*). All of the complaints cite to the Company's March 29,

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2001 announcement regarding the resignation of the Company's corporate controller and statement that net income for the fiscal year ended February 26, 2000 may have been overstated by as much as \$2.2 million. The complaints generally allege that the defendants artificially inflated the price of the Company's stock during the class period by allegedly making false representations about the Company's financial results or failing to disclose adverse facts about its financial results. The complaints also allege without specific facts that the individual defendants knew or were reckless in making the alleged false statements about the Company's financial results.

The twenty actions are expected to be consolidated into a single action pursuant to stipulation of the parties. The Company expects to move to dismiss the complaints after they are consolidated and a lead plaintiffs' counsel appointed, and intends to defend the actions vigorously. At this time it is not possible to determine the outcome of these actions.

INDEX TO EXHIBITS

- 3.1 Certificate of Incorporation of the Registrant, as amended, filed as Exhibit 3.1 to the Registrant's Registration Statement on Form S-1 (33-59702) and by this reference is incorporated herein and made a part hereof.
- 3.1.1 Amendment to Certificate of Incorporation of the Registrant, as filed with the Delaware Secretary of State on September 19, 1996, filed as Exhibit 3.1.1 to the Registrant's Interim Report on Form 10-Q for the period ended August 31, 1996.
- 3.2 Bylaws of the Registrant, as amended, filed as Exhibit 3.2 to the Registrant's Form 8-K dated February 27, 1992 and by this reference is incorporated herein and made a part hereof.
- 10.1 1984 Key Employee Stock Option Plan filed as Exhibit 10.1 to the Registrant's Registration Statement on Form S-1 (2-87042) and by this reference is incorporated herein and made a part hereof.
- 10.2 Form of Incentive Stock Option Agreement filed as Exhibit 10.2 to the Registrant's Registration Statement on Form S-1 (2-87042) and by this reference is incorporated herein and made a part hereof.
- 10.3 Form of Nonqualified Stock Option Agreement filed as Exhibit 10.3 to the Registrant's Registration Statement on Form S-1 (2-87042) and by this reference is incorporated herein and made a part hereof.
- 10.4 1989 Key Employee Stock Option Plan filed as Exhibit 4.4 to the Registrant's Registration Statement on Form S-8 (33-31427) and by this reference is incorporated herein and made a part hereof.
- 10.4.1 Amendment No. 1 to the 1989 Key Employee Stock Option Plan filed as Exhibit 4.7 to the Registrant's Registration Statement on Form S-8 (33-36944) and by this reference is incorporated herein and made a part hereof.
- 10.4.2 Amendment No. 2 to the 1989 Key Employee Stock Option Plan filed as Exhibit 4.8 to the Registrant's Registration Statement on Form S-8 (33-72704) and by this reference is incorporated herein and made a part hereof.
- 10.4.3 Amendment No. 3 to the 1989 Key Employee Stock Option Plan filed as Exhibit 4.10 to the Registrant's Registration Statement on Form S-8 (33-60879) and by this reference is incorporated herein and made a part hereof.
- 10.5 Form of Incentive Stock Option Agreement filed as Exhibit 4.6 to the Registrant's Registration Statement on Form S-8 (33-31427) and by this reference is incorporated herein and made a part hereof.
- 10.6 Form of Nonqualified Stock Option Agreement filed as Exhibit 4.6 to the Registrant's Registration

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Statement on Form S-8 (33-31427) and by this reference is incorporated herein and made a part hereof.

- 10.7 Form of Option Agreement for Non-Employee Directors filed as Exhibit 4.9 to the Registrant's Registration Statement on Form S-8 (33-36944) and by this reference is incorporated herein and made a part hereof.
- 10.8 Letter Agreements regarding sale of the building dated July 18, 1988, filed as an exhibit to Form 8-K, dated February 27, 1989, filed as an exhibit to the Registrant's Annual Report on Form 10-K for the fiscal year ended February 28, 1989 and by this reference is incorporated herein and made a part hereof.

45

- 10.9 Building Lease and Rider on building between the Registrant and Calle San Pablo Property Co. dated January 31, 1989, filed as an exhibit to the Registrant's Annual Report on Form 10-K for the fiscal year ended February 28, 1989 and by this reference is incorporated herein and made a part hereof.
- 10.9.1 Amendment of Lease on building between the Registrant and Calle San Pablo Property Co. dated February 9, 1995, filed as an exhibit to this Annual Report on Form 10-K for the fiscal year ended March 4, 1995.
- 10.10 Form of Indemnity Agreement filed as an exhibit to the Registrant's Annual Report on Form 10-K for the fiscal year ended February 29, 1988 and by this reference is incorporated herein and made a part hereof.
- 10.11 Stockholder Rights Plan filed as an exhibit to the Registrant's Form 8-K dated September 5, 1991 and by this reference is incorporated herein and made a part hereof.
- 10.12 Distribution Agreement between Registrant and Pan Asian Systems, Ltd., dated July 3, 1992 filed as Exhibit 10.17 to the Company's Registration Statement on Form S-1 (33-59702) and by this reference is incorporated herein and made a part hereof.
- 10.13 Stock Purchase Agreement dated December 31, 1992 by and among Registrant, Peter J. Connolly, Steven G. Ow and Toni Ow, and The Peter J. Connolly Charitable Remainder Unitrust dated June 15, 1992 filed as Exhibit 10.20 to the Company's Registration Statement on Form S-1 (33-59702) and by this reference is incorporated herein and made a part hereof.
- 10.24 Commercial Security Agreement between Registrant and California United Bank dated July 26, 1995, filed as Exhibit 10.24 to the Registrant's Annual Report on Form 10-K for the fiscal year ended March 2, 1996.
- 10.25 First Amendment to Business Loan Agreement between Registrant and California United Bank, dated July 26, 1995, filed as Exhibit 10.25 to the Registrant's Annual Report on Form 10-K for the fiscal year ended March 2, 1996.
- 10.26 Promissory Note between Registrant and California United Bank dated August 6, 1996, filed as an exhibit to this Annual Report on Form 10-K for the fiscal year ended March 1, 1997.
- 10.27 Second Amendment to Business Loan Agreement between Registrant and California United Bank, dated August 6, 1996, filed as an exhibit to this Annual Report on Form 10-K for the fiscal year ended March 1, 1997.
- 10.28 Building Lease on building between the Registrant and The Jennings Bypass Trust, dated September 11, 1996, filed as an exhibit to this Annual Report on Form 10-K for the fiscal year ended March 1, 1997.
- 10.29 Land Purchase Agreement on land between the Registrant and Rhoda-May A. Dallas Trust, dated February 13, 1996, filed as an exhibit to this Annual Report on Form 10-K for the fiscal year ended March 1, 1997.

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- 10.30 Loan Agreement between Registrant and California United Bank, dated August 22, 1997, filed as Exhibit 10.30 to the Registrant's Quarterly Report on Form 10-Q for the period ended August 30, 1997.
- 10.31 Change in Terms Agreement between Registrant and California United Bank, dated August 22, 1997, and filed as Exhibit 10.31 to the Registrant's Quarterly Report on Form 10-Q for the period ended August 30, 1997.
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Filed herewith

46

QuickLinks

[PART I](#)

[PART II](#)

[PART IV](#)

[SIGNATURES](#)

[CALIFORNIA AMPLIFIER, INC. Index to Consolidated Financial Statements](#)

[REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS](#)

[CALIFORNIA AMPLIFIER, INC. CONSOLIDATED BALANCE SHEETS \(in thousands, except par value\)](#)

[CALIFORNIA AMPLIFIER, INC. CONSOLIDATED STATEMENTS OF OPERATIONS \(in thousands, except net loss per share\)](#)

[CALIFORNIA AMPLIFIER, INC. CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE LOSS \(in thousands\)](#)

[CALIFORNIA AMPLIFIER, INC. CONSOLIDATED STATEMENTS OF CASH FLOWS \(in thousands\)](#)

[NOTES TO CONSOLIDATED FINANCIAL STATEMENTS \(As Restated, see Note 1\)](#)

[INDEX TO EXHIBITS](#)