

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

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q/A

Amendment Number 1 to

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

For the quarterly period ended: May 27, 2000

OR

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

For the transition period from _____ to _____

Commission File Number: 012182

CALIFORNIA AMPLIFIER, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or Other Jurisdiction of
incorporation or organization)

95-3647070
(IRS Employer
Identification No.)

460 Calle San Pablo
Camarillo, California
(Address of principal executive offices)

93012
(Zip Code)

(805) 987-9000

(Registrant's telephone number including area code)

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

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the close of the period covered by this report.

Common Stock Outstanding as of May 27, 2000: 13,244,872

Number of pages in this Form 10-Q/A: 16

PART I FINANCIAL INFORMATION

ITEM 1: Financial Statements

CONSOLIDATED BALANCE SHEETS

(in thousands, except par value)

	May 27, 2000	Feb. 26, 2000
	(Unaudited)	(As Restated,
	(As Restated,	see Note 1)
	see Note 1)	see Note 1)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 4,887	\$ 2,791
Accounts receivable, net	16,199	16,038
Inventories	13,482	12,893
Deferred tax asset	4,190	4,864
Prepaid expenses and other current assets	462	615
	<u>39,220</u>	<u>37,201</u>
Total current assets	39,220	37,201
Property and equipment, at cost, net of accumulated depreciation and amortization	9,931	9,736
Goodwill, net of amortization	3,760	3,827
Other assets	442	733
	<u>\$ 53,353</u>	<u>\$ 51,497</u>
	<u>\$ 53,353</u>	<u>\$ 51,497</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 12,551	\$ 14,658
Accrued liabilities	12,665	13,099
Current portion of long-term obligations	5,239	4,972
	<u>30,455</u>	<u>32,729</u>
Total current liabilities	30,455	32,729
Long-term obligations, net of current portion	141	145
Minority interest share in net assets of Micro Pulse, Inc.	442	342
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; 13,245 shares outstanding in May 2000 and 12,658 in February 2000	132	127
Additional paid-in capital	19,893	17,377
Accumulated other comprehensive loss	(253)	(226)
Retained earnings	2,543	1,003
	<u>2,543</u>	<u>1,003</u>

	May 27, 2000	Feb. 26, 2000
Total stockholders' equity	22,315	18,281
	\$ 53,353	\$ 51,497

See Notes to Unaudited Consolidated Financial Statements

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CONSOLIDATED STATEMENTS OF INCOME

(unaudited; in thousands, except per share data)

	Three Months Ended	
	May 27, 2000	May 29, 1999
	<i>(As Restated, see Note 1)</i>	<i>(As Restated, see Note 1)</i>
Sales	\$ 31,849	\$ 12,928
Cost of sales	25,062	9,285
Gross profit	6,787	3,643
Research and development	1,682	1,143
Selling	1,037	1,073
General and administrative	1,439	1,104
Income from operations	2,629	323
Interest and other income (expense), net	(73)	48
Minority interest share in (income) loss of Micro Pulse	(151)	2
Income before provision for income taxes	2,405	373
Provision for income taxes	(865)	(134)
Net income	\$ 1,540	\$ 239
Net income per share		
Basic	\$.12	\$ 0.02
Diluted	\$.11	\$ 0.02
Shares used in per share calculations		
Basic	12,955	11,791
Diluted	14,086	12,346

See Notes to Unaudited Consolidated Financial Statements

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CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited; in thousands)

	Three Months Ended	
	May 27, 2000	May 29, 1999
	<i>(As Restated, see Note 1)</i>	<i>(As Restated, see Note 1)</i>
Cash flows from operating activities:		
Net income	\$ 1,540	\$ 239
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Provision for doubtful accounts	19	30
Depreciation and amortization	897	661
Loss on sale of property and equipment	1	2
Minority interest share in net income (loss) of Micro Pulse, net of tax	100	(2)
Deferred tax asset	673	25
Change in assets and liabilities, net of effect of Gardiner acquisition in fiscal year 2000:		
Accounts receivable	(180)	(3,402)
Inventories	(589)	794
Prepaid expenses and other assets	444	183
Accounts payable	(2,107)	1,462
Accrued liabilities	(434)	(157)
Net cash provided by (used in) operating activities	364	(165)
Cash flows from investing activities:		
Purchase of property and equipment	(1,026)	(17)
Net assets acquired from Gardiner		(2,747)
Net cash used in investing activities	(1,026)	(2,764)
Cash flows from financing activities:		
Debt borrowings	5,000	
Debt repayments	(2,506)	(149)
Issuances of common stock	291	43
Net cash provided by (used in) financing activities	2,785	(106)
Effect of foreign exchange rates	(27)	(70)
Net increase (decrease) in cash and cash equivalents	2,096	(3,105)
Cash and cash equivalents at the beginning of period	2,791	9,312
Cash and cash equivalents at end of period	\$ 4,887	\$ 6,207

See Notes to Unaudited Consolidated Financial Statements

CALIFORNIA AMPLIFIER, INC.

Notes to Unaudited Consolidated Financial Statements

(As Restated)

1. Basis of Presentation The accompanying unaudited consolidated financial statements have been prepared in accordance with the requirements of Form 10-Q and, therefore, do not include all information and footnotes which would be presented were such financial statements prepared in accordance with generally accepted accounting principles. These statements should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended February 26, 2000. In the opinion of management, these interim financial statements reflect all adjustments necessary for a fair presentation of the financial position and results of operations for each of the periods presented. The results of operations and cash flows for such periods are not necessarily indicative of results to be expected for the full fiscal year.

Restatement of 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 and the interim periods of fiscal year 2001. 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 as of February 26, 2000 and May 27, 2000 and for the three months ended May 27, 2000 and May 29, 1999. The improper journal entries have been reversed, and the general ledger closings for each period presented 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, would 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 \$700,000 for the three months ended May 27, 2000.

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

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

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Statement of Operations Data

(in thousands)

	Three Months Ended					
	May 27, 2000			May 29, 1999		
	Originally Reported	Restatement Adjustments	Restated	Originally Reported	Restatement Adjustments	Restated
Sales	\$ 32,284	\$ (435)	\$ 31,849	\$ 13,093	\$ (165)	\$ 12,928
Cost of sales	24,352	710	25,062	9,180	105	9,285
Gross profit	7,932	(1,145)	6,787	3,913	(270)	3,643
Operating expenses	4,380	(222)	4,158	3,386	(66)	3,320
Other income (expense), net	(241)	(17)	(224)	33	17	50
Provision for income taxes	(1,189)	324	(865)	(202)	68	(134)

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Three Months Ended

Net income	2,122	(582)	1,540	358	(119)	239
Net income per share						
Basic	\$ 0.16	\$ (0.04)	\$ 0.12	\$ 0.03	\$ (0.01)	\$ 0.02
Diluted	\$ 0.15	\$ (0.04)	\$ 0.11	\$ 0.03	\$ (0.01)	\$ 0.02

Balance Sheet Data

(in thousands)

As of

	May 27, 2000			February 26, 2000		
	Originally Reported	Restatement Adjustments	Restated	Originally Reported	Restatement Adjustments	Restated
Cash and cash equivalents	\$ 4,887	\$ -0-	\$ 4,887	\$ 3,074	\$ (283)	\$ 2,791
Accounts receivable, net	16,191	8	16,199	16,038	-0-	16,038
Inventories	13,485	(3)	13,482	12,948	(55)	12,893
Deferred tax asset	8,099	(3,909)	4,190	8,487	(3,623)	4,864
Prepaid expenses and other current assets	563	(101)	462	685	(70)	615
Property and equipment, Net	9,903	28	9,931	9,731	5	9,736
Other assets	576	(134)	442	762	(29)	733
Accounts payable	6,362	6,189	12,551	9,242	5,416	14,658
Accrued liabilities	12,212	453	12,665	13,099	-0-	13,099
Stockholders' equity	33,068	(10,753)	22,315	27,752	(9,471)	18,281

2. **Inventories** Inventories include the cost of material, 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):

	May 27, 2000	Feb. 26, 2000
Raw materials	\$ 11,044	\$ 10,147
Work in process	1,113	1,073
Finished goods	1,325	1,673
	\$ 13,482	\$ 12,893

3. **Net Income Per Share** Basic income per share is computed by dividing reported earnings available to common stockholders by weighted average shares outstanding. Diluted income per share

increases the weighted average shares outstanding for the dilutive effect of stock options, warrants, and convertible debt arrangements.

Three Months Ended

	May 27, 2000	May 29, 1999
Weighted average shares outstanding Basic	12,955	11,791
Effect of dilutive securities		
Options	715	316
Litigation settlement	124	
Convertible debt	292	239

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	Three Months Ended	
	May 27, 2000	May 29, 1999
Weighted average shares outstanding Diluted	14,086	12,346

4. **Comprehensive Income** Comprehensive income is defined as the total of net income and all non-owner changes in equity. The following table details the components of comprehensive income for the three months ended May 27, 2000 and May 29, 1999 (in thousands):

	Three Months Ended	
	May 27, 2000	May 29, 1999
Net income	\$ 1,540	\$ 239
Foreign currency translation adjustment, net of tax	(27)	(70)
Comprehensive income	\$ 1,513	\$ 169

5. **Concentration of Risk** As of May 27, 2000, the Company had accounts receivable due from one customer of \$4,568,000 or 28.2% of consolidated accounts receivable, and another customer of \$3,174,000 or 19.6% of consolidated accounts receivable.

6. **Statement of Cash Flows** In fiscal year 2001, the Company issued 525,000 shares of its common stock for retirement of \$2,231,250 of debt. These amounts were excluded from the statement of cash flows.

In the first quarter of fiscal year 2000, the Company recorded goodwill of \$3.9 million in conjunction with the acquisition of certain assets from Gardiner Communications and issued a note payable for \$3.1 million. The non-cash portion of this acquisition was excluded from the statement of cash flows.

7. **Segments** The Company currently manages its business under three identifiable business segments, Satellite Products, Wireless Access Products and Antenna Products.

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Segment information for the three months ended May 27, 2000 and May 29, 1999 is as follows (in thousands):

	Three Months Ended May 27, 2000				
	Satellite	Wireless Access	Antenna	Corporate	Total
Sales	\$ 24,370	\$ 5,392	\$ 2,087	\$	\$ 31,849
Gross Profit	3,956	1,890	941		6,787
Product Gross Margins	16.2%	35.1%	45.1%		21.3%
Income (Loss) Before Tax	2,919	637	131	(1,282)	2,405

	Three Months Ended May 29, 1999				
	Satellite	Wireless Access	Antenna	Corporate	Total
Sales	\$ 6,866	\$ 4,969	\$ 1,093	\$	\$ 12,928
Gross Profit	1,796	1,381	466		3,643
Product Gross Margins	26.2%	27.8%	42.6%		28.2%
Income (Loss) Before Tax	1,093	200	(1)	(919)	373

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For the three months ended May 27, 2000, two satellite product customers accounted for 28.9% and 17.8% of consolidated sales. For the three months ended May 29, 1999, another satellite product customer accounted for 18.1% of consolidated sales.

8. 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 \$3,100,000, 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 promissory note issuance, and the remaining balance was paid. As part of the purchase in fiscal year 2000, the Company recorded Goodwill of \$4.1 million which is being amortized over 15 years.

The following pro forma information combines the operations of the Company and Gardiner for the three months ended May 29, 1999, as if the acquisition had occurred at February 27, 1999 (in thousands):

	3 Months Ended May 29, 1999	
	As Reported	Pro Forma
Sales	\$ 12,928	\$ 14,928
Net income	\$ 239	\$ 399
Net income per diluted share	\$.02	\$.03

9. Subsequent Events

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 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

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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 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 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.

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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

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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 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 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)

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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

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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.

(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)

Chdrakant 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, 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.

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

RESULTS OF OPERATIONS

Three Months Ended May 27, 2000 and May 29, 1999

Sales

Sales increased \$18.9 million, or 146%, from \$12.9 million for the three months ended May 29, 1999 to \$31.8 million for the three months ended May 27, 2000. Sales of Satellite products increased \$17.5 million, or 255%, from \$6.9 million to \$24.4 million. Sales of Wireless Access products increased \$423,000, or 9%, from \$5.0 million to \$5.4 million. Sales of Antenna products by Micro Pulse increased \$994,000, or 91%, from \$1.1 million to \$2.1 million.

The increase in sales of Satellite products resulted from continued strong demand for the Company's U.S. DBS products, and initial shipments of certain Satellite products to European markets. In the comparable prior year period the Company did not sell significant amounts of Satellite products to these markets until its acquisition of Gardiner Communications on April 19, 1999.

The increase in the sales of Wireless Access products is a result of increases in the Company's sales of two-way transceiver products to the emerging fixed broadband wireless market, offset by the continued slowdown in the Wireless Cable video market which resulted in lower dollar and unit shipments of the Company's Wireless Cable video products. The Company shipped approximately \$2.6 million of voice and data access during the three months ended May 27, 2000, as compared to \$300,000 for the three months ended May 29, 1999.

The increase in sales of Antenna products resulted primarily from Micro Pulse expanding its customer base with a broader antenna product offering.

Gross Profits and Gross Margins

Gross profits increased by \$3.1 million, or 86%, from \$3.6 million for the three months ended May 29, 1999 to \$6.8 million for the three months ended May 27, 2000. Gross margins decreased to 21.3% from 28.2%. The 86% increase in gross profits resulted from the 146% increase in sales, offset by lower product gross margins. The significant decline in gross margins resulted primarily from pricing pressures in satellite products and traditional Wireless Cable products, and a sales mix comprised of 77% Satellite products (53% in the prior year period) which are currently being sold at gross margins of approximately 16%. The Satellite products gross margins remain under continued pressure primarily as a result of higher material procurement costs, inefficiencies operating multiple factories, labor inefficiencies because of difficulties in obtaining certain electronic components on a timely basis thereby causing assembly shut-downs, and under-absorbed factory overhead at the Company's two manufacturing facilities. The Company believes it has initiated certain measures to alleviate some of these issues, but does not expect to see improvement in gross margins during the second quarter of fiscal year 2001.

Gross margins for the Company's Wireless Access Products improved to 35.1% from 27.8% due to increased sales of higher margin two-way Transceivers.

See also Note 7 "Segments," included in Notes to Unaudited Consolidated Financial Statements included elsewhere herein for additional operating data for separate business units.

Operating Expenses

Research and development expenses increased by \$539,000 from \$1.1 million to \$1.7 million. The increase related to additional engineering and design personnel, higher salaries to remain competitive with industry compensation trends, and higher material costs relating to new product

design.

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Selling expenses decreased by \$36,000 from \$1.1 million to \$1.0 million. The decrease relates primarily to increased personnel to support higher sales offset by decreases in discretionary marketing spending.

General and administrative expenses increased by \$335,000 from \$1.1 million to \$1.4 million. The increase related to increased personnel and higher salaries to support the larger business unit organizations.

Income from Operations

Income from operations, for the reasons noted above, increased by \$2.3 million, to \$2.6 million from \$323,000 in the comparable prior year period.

Minority Interest Share in Income (Loss) of Micro Pulse

The Company consolidates 100% of the sales and expenses of Micro Pulse. The minority interest share in income of Micro Pulse eliminates the 49.5% of the income (loss) of Micro Pulse.

Provision for Income Taxes

The provision for taxes for the first quarter of fiscal 2001 is based upon an annualized tax rate of 36%, the same tax rate as fiscal year 2000. This tax rate assumes savings from benefits allowed for export sales through a foreign sales corporation and research and development tax credits, plus benefits from the exercise of nonqualified stock options.

Net Income

Net income, for reasons outlined above, increased by \$1.3 million to \$1.5 million from \$239,000 in the comparable prior year period.

See also Note 7 "Segments," included in Notes to Unaudited Consolidated Financial Statements included elsewhere herein for additional operating data for separate business units.

LIQUIDITY AND CAPITAL RESOURCES

In May 2000, the Company renegotiated its financial arrangement with U.S. Bank. Under the terms of the new credit and debt arrangement, the Company borrowed \$5.0 million as a term loan, with interest only at LIBOR plus 2.2% until June 2001, at which time the loan will convert to a five-year fully amortizing term loan. However, such loan can be prepaid without penalty. In addition, the Company's working capital facility was increased to \$8.0 million. The borrowings are currently classified as current borrowings until the agreement is contractually signed.

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 current credit facility, are sufficient to support operations and capital equipment requirements over the next twelve months.

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

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by foreign exchange rate fluctuation 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. Import tariffs in countries such as Brazil and China have made it more difficult to compete with in-country manufacturers.

SAFE HARBOR STATEMENT

Forward looking statements in this 10-Q/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.

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PART II OTHER INFORMATION

ITEM 1. 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 and as of May 27, 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.

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 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.

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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.

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See also Note 9 Subsequent Events in the Notes to Consolidated Financial Statements included elsewhere herein.

ITEM 2. Changes in Securities

None.

ITEM 3. Defaults upon Senior Securities

None.

ITEM 4. Submission of Matters to a Vote of Security Holders

None.

ITEM 5. Other Information

None.

ITEM 6. Exhibits and Reports on Form 8-K

No reports on Form 8-K were filed during the quarter ended May 27, 2000.

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SIGNATURES

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

CALIFORNIA AMPLIFIER, INC.

(Registrant)

May 21, 2001

/s/ MICHAEL R. FERRON

Michael R. Ferron
Vice President, Finance and Chief Accounting Officer

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SIGNATURES