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

FORM 10-Q

(Mark One)

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

For the quarterly period ended: September 30, 2022

or

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

For the transition period from __________ to __________

Commission File Number: 001-39080

POWERFLEET, INC.
(Exact name of registrant as specified in its charter)

Delaware	**83-4366463**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
123 Tice Boulevard Woodcliff Lake, New Jersey	**07677**
(Address of principal executive offices)	(Zip Code)

(201) 996-9000
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value $0.01 per share	PWFL	The Nasdaq Global Market

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

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

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes ☐ No ☒

The number of shares of the registrant's common stock, $0.01 par value per share, outstanding as of the close of business on November 3, 2022, was 36,170,937.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

POWERFLEET, INC. AND SUBSIDIARIES
Condensed Balance Sheets
(In thousands, except per share data)

	December 31, 2021*	**September 30, 2022**
		(Unaudited)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 26,452	**$ 16,703**
Restricted cash	308	**309**
Accounts receivable, net of allowance for doubtful accounts of $3,176 and $2,835 in 2021 and 2022, respectively	32,094	**33,352**
Inventory, net	18,243	**23,572**
Deferred costs - current	1,762	**1,025**
Prepaid expenses and other current assets	9,051	**8,868**
Total current assets	87,910	**83,829**
Deferred costs - less current portion	249	**-**
Fixed assets, net	8,988	**8,994**
Goodwill	83,487	**83,487**
Intangible assets, net	26,122	**23,312**
Right of use asset	9,787	**7,999**
Severance payable fund	4,359	**3,614**
Deferred tax asset	4,262	**3,740**
Other assets	4,703	**5,086**
Total assets	$ 229,867	**$ 220,061**
LIABILITIES		
Current liabilities:		
Short-term bank debt and current maturities of long-term debt	6,114	**9,366**
Accounts payable and accrued expenses	29,015	**28,818**
Deferred revenue - current	6,519	**6,523**
Lease liability - current	2,640	**2,464**
Total current liabilities	44,288	**47,171**
Long-term debt, less current maturities	18,110	**11,914**
Deferred revenue - less current portion	4,428	**4,208**
Lease liability - less current portion	7,368	**5,793**
Accrued severance payable	4,887	**4,148**
Deferred tax liability	5,220	**5,182**
Other long-term liabilities	706	**628**
Total liabilities	85,007	**79,044**
Commitments and Contingencies (note 20)		
MEZZANINE EQUITY		
Convertible redeemable preferred stock: Series A – 100 shares authorized, $0.01 par value; 55 and 58 shares issued and outstanding at December 31, 2021 and September 30, 2022	52,663	**56,309**
Preferred stock; authorized 50,000 shares, $0.01 par value;	-	**-**
Common stock; authorized 75,000 shares, $0.01 par value; 37,263 and 37,584 shares issued at December 31, 2021 and September 30, 2022, respectively; shares outstanding, 35,882 and 36,156 at December 31, 2021 and September 30, 2022, respectively	373	**376**
Additional paid-in capital	234,083	**233,590**
Accumulated deficit	(134,437)	**(139,784)**
Accumulated other comprehensive gain (loss)	391	**(1,050)**
Treasury stock; 1,381 and 1,429 common shares at cost at December 31, 2021 and September 30, 2022, respectively	(8,299)	**(8,492)**
Total Powerfleet, Inc. stockholders' equity	92,111	**84,640**
Non-controlling interest	86	**68**
Total equity	92,197	**84,708**
Total liabilities and stockholders' equity	$ 229,867	**$ 220,061**

* Derived from audited balance sheet as of December 31, 2021.

See accompanying notes to unaudited condensed consolidated financial statements.

POWERFLEET, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Operations
(In thousands, except per share data)
(Unaudited)

	Three Months Ended September 30, 2021	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2022
Revenues:				
Products	$ 10,785	**$ 14,021**	**$ 37,671**	**$ 43,231**
Services	18,461	**20,267**	**54,114**	**58,812**
Total revenues	29,246	**34,288**	**91,785**	**102,043**
Cost of Revenues:				
Cost of products	8,172	**9,839**	**27,186**	**33,152**
Cost of services	6,809	**7,268**	**19,819**	**21,081**
	14,981	**17,107**	**47,005**	**54,233**
Gross profit	14,265	**17,181**	**44,780**	**47,810**
Operating expenses:				
Selling, general and administrative expenses	13,959	**16,664**	**40,988**	**47,393**
Research and development expenses	2,735	**1,735**	**8,259**	**6,965**
	16,694	**18,399**	**49,247**	**54,358**
Loss from operations	(2,429)	**(1,218)**	**(4,467)**	**(6,548)**
Interest income	11	**20**	**35**	**48**
Interest expense	(777)	**(331)**	**(1,446)**	**1,262**
Other (expense) income, net	7	**-**	**5**	**1**
Net loss before income taxes	(3,188)	**(1,529)**	**(5,873)**	**(5,237)**
Income tax benefit (expense)	(161)	**(770)**	**(701)**	**(107)**
Net loss before non-controlling interest	(3,349)	**(2,299)**	**(6,574)**	**(5,344)**
Non-controlling interest	4	**(1)**	**5**	**(3)**
Net loss	(3,345)	**(2,300)**	**(6,569)**	**(5,347)**
Accretion of preferred stock	(168)	**(168)**	**(504)**	**(504)**
Preferred stock dividend	(1,028)	**(1,067)**	**(3,084)**	**(3,143)**
Net loss attributable to common stockholders	$ (4,541)	**$ (3,535)**	**$ (10,157)**	**$ (8,994)**
Net loss per share attributable to common stockholders - basic and diluted	$ (0.13)	**$ (0.10)**	**$ (0.30)**	**$ (0.25)**
Weighted average common shares outstanding - basic and diluted	35,019	**35,406**	**34,398**	**35,375**

See accompanying notes to unaudited condensed consolidated financial statements.

POWERFLEET, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Comprehensive Loss
(In thousands, except per share data)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2022	2021	2022
Net loss attributable to common stockholders	$ (4,541)	**$ (3,535)**	$ (10,157)	**$ (8,994)**
Other comprehensive (loss) income, net:				
Foreign currency translation adjustment	(92)	**12**	(423)	**(1,441)**
Total other comprehensive income (loss)	(92)	**12**	(423)	**(1,441)**
Comprehensive loss	$ (4,633)	**$ (3,523)**	$ (10,580)	**$ (10,435)**

See accompanying notes to unaudited condensed consolidated financial statements.

POWERFLEET, INC. AND SUBSIDIARIES
Condensed Consolidated Statement of Changes in Stockholders' Equity
(In thousands, except per share data)
(Unaudited)

	Common Stock		Additional		Other		Non-	
	Number of Shares	Amount	Paid-in Capital	Accumulated Deficit	Comprehensive Income (Loss)	Treasury Stock	controlling Interest	Stockholders' Equity
Balance at January 1, 2022	37,263	$ 373	$ 234,083	$ (134,437)	$ 391	$ (8,299)	$ 86	**$ 92,197**
Net loss attributable to common stockholders	-	-	(1,195)	(2,929)	-	-	-	**(4,124)**
Net income attributable to non-controlling interest	-	-	-	-	-	-	1	**1**
Foreign currency translation adjustment	-	-	-	-	253	-	15	**268**
Issuance of restricted shares	398	4	(4)	-	-	-	-	**-**
Forfeiture of restricted shares	(121)	(1)	1	-	-	-	-	**-**
Vesting of restricted stock units	30	-	-	-	-	-	-	**-**
Shares withheld pursuant to vesting of restricted stock	-	-	-	-	-	(181)	-	**(181)**
Stock based compensation	-	-	457	-	-	-	-	**457**
Balance at March 31, 2022	37,570	$ 376	$ 233,342	$ (137,366)	$ 644	$ (8,480)	$ 102	**$ 88,618**
Net loss attributable to common stockholders	-	-	(1,216)	(118)	-	-	-	**(1,334)**
Net income attributable to non-controlling interest	-	-	-	-	-	-	1	**1**
Foreign currency translation adjustment	-	-	-	-	(1,706)	-	(18)	**(1,724)**
Forfeiture of restricted shares	(24)	(1)	1	-	-	-	-	**-**
Shares withheld pursuant to vesting of restricted stock	-	-	-	-	-	(5)	-	**(5)**
Stock based compensation	-	-	1,629	-	-	-	-	**1,629**
Balance at June 30, 2022	37,546	$ 375	$ 233,756	$ (137,484)	$ (1,062)	$ (8,485)	$ 85	**$ 87,185**
Net loss attributable to common stockholders	-	-	(1,235)	(2,300)	-	-	-	**(3,535)**
Net income attributable to non-controlling interest	-	-	-	-	-	-	1	**1**
Issuance of restricted stock	78	1	(1)	-	-	-	-	-
Foreign currency translation adjustment	-	-	-	-	12	-	(18)	**(6)**
Forfeiture of restricted shares	(40)	-	-	-	-	-	-	**-**
Shares withheld pursuant to vesting of restricted stock	-	-	-	-	-	(7)	-	**(7)**
Stock based compensation	-	-	1,070	-	-	-	-	**1,070**
Balance at September 30, 2022	37,584	$ 376	$ 233,590	$ (139,784)	$ (1,050)	$ (8,492)	$ 68	**$ 84,708**

	Common Stock				Accumulated			
			Additional		Other		Non-	
	Number of Shares	Amount	Paid-in Capital	Accumulated Deficit	Comprehensive Income (Loss)	Treasury Stock	controlling Interest	Stockholders' Equity
Balance at January 1, 2021	32,280	$ 323	$ 206,499	$ (121,150)	$ 399	$ (6,858)	$ 75	**$ 79,288**
Net loss attributable to common stockholders	-	-	(1,196)	(1,787)	-	-	-	**(2,983)**
Foreign currency translation adjustment	-	-	-	-	(1,334)	-	(2)	**(1,336)**
Issuance of restricted shares	415	4	(4)	-	-	-	-	**-**
Forfeiture of restricted shares	(6)	-	-	-	-	-	-	**-**
Vesting of restricted stock units	34		-	-	-	-	-	**-**
Shares issued pursuant to exercise of stock options	129	1	716	-	-	-	-	**717**
Shares withheld pursuant to vesting of restricted stock	-	-	-	-	-	(347)	-	**(347)**
Shares withheld pursuant to exercise of stock options	-	-	-	-	-	(647)	-	**(647)**
Stock based compensation	-	-	1,357	-	-	-	-	**1,357**
Common shares issued, net of issuance costs	4,428	44	26,822	-	-	-	-	**26,866**
Balance at March 31, 2021	37,280	$ 372	$ 234,194	$ (122,937)	$ (935)	$ (7,852)	$ 73	**$ 102,915**
Net loss attributable to common stockholders	-	-	(1,195)	(1,438)	-	-	-	**(2,633)**
Net loss attributable to non-controlling interest	-	-	-	-	-	-	(1)	**(1)**
Foreign currency translation adjustment	-	-	-	-	1,003	-	7	**1,010**
Forfeiture of restricted shares	(14)	-	-	-	-	-	-	**-**
Vesting of restricted stock units	-		-	-	-	-	-	**-**
Shares issued pursuant to exercise of stock options	12	1	71	-	-	-	-	**72**
Shares withheld pursuant to vesting of restricted	-	-	-	-	-	(15)	-	**(15)**

stock								
Stock based compensation	-	-	1,095	-	-	-	-	**1,095**
Balance at June 30, 2021	37,278	$ 373	$ 234,165	$ (124,375)	$ 68	$ (7,867)	$ 79	$ 102,443
Net loss attributable to common stockholders	-	-	(1,196)	(3,345)	-	-	-	**(4,541)**
Net loss attributable to non-controlling interest	-	-	-	-	-	-	(4)	**(4)**
Foreign currency translation adjustment	-	-	-	-	(92)	-	19	**(73)**
Issuance of restricted shares	34	1	-	-	-		-	**1**
Forfeiture of restricted shares	(67)	(1)	-	-	-	-	-	**(1)**
Stock based compensation	-		928	-	-	-	-	**928**
Shares issued pursuant to exercise of stock options	12	-	68	-	-	-	-	**68**
Shares withheld pursuant to vesting of restricted stock	-	-	-	-	-	(20)	-	**(20)**
Balance at September 30, 2021	37,257	$ 373	$ 233,965	$ (127,720)	$ (24)	$ (7,887)	$ 94	$ 98,801

See accompanying notes to unaudited condensed consolidated financial statements.

POWERFLEET, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows
(In thousands, except per share data)
(Unaudited)

	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2022
Cash flows from operating activities		
Net loss	$ (6,569)	**$ (5,347)**
Adjustments to reconcile net loss to cash (used in) provided by operating activities:		
Non-controlling interest	(5)	3
Inventory reserve	122	**177**
Stock based compensation expense	3,380	**3,156**
Depreciation and amortization	6,377	**6,152**
Right-of-use assets, non-cash lease expense	1,839	**2,071**
Bad debt expense	824	**102**
Deferred income taxes	701	**107**
Other non-cash items	229	**660**
Changes in:		
Accounts receivable	(7,469)	**(3,025)**
Inventory	(3,689)	**(5,544)**
Prepaid expenses and other assets	(871)	**(761)**
Deferred costs	2,888	**986**
Deferred revenue	(1,365)	**(197)**
Accounts payable and accrued expenses	4,130	**1,717**
Lease liabilities	(1,757)	**(2,034)**
Accrued severance payable, net	(12)	**63**
Net cash provided by (used in) operating activities	(1,247)	**(1,714)**
Cash flows from investing activities:		
Capital expenditures	(2,534)	**(4,001)**
Net cash (used in) investing activities	(2,534)	**(4,001)**
Cash flows from financing activities:		
Net proceeds from stock offering	26,907	**-**
Payment of preferred stock dividends	(3,084)	**-**
Repayment of long-term debt	(4,040)	**(4,279)**
Short-term bank debt, net	94	**3,949**
Proceeds from exercise of stock options, net	170	**-**
Purchase of treasury stock upon vesting of restricted stock	(383)	**(193)**
Net cash provided by (used in) financing activities	19,664	**(523)**
Effect of foreign exchange rate changes on cash and cash equivalents	(189)	**(3,510)**
Net increase (decrease) in cash, cash equivalents and restricted cash	15,694	**(9,748)**
Cash, cash equivalents and restricted cash - beginning of period	18,435	**26,760**
Cash, cash equivalents and restricted cash - end of period	$ 34,129	**$ 17,012**
Reconciliation of cash, cash equivalents, and restricted cash, beginning of period		
Cash and cash equivalents	18,127	**26,452**
Restricted cash	308	**308**
Cash, cash equivalents, and restricted cash, beginning of period	$ 18,435	**$ 26,760**
Reconciliation of cash, cash equivalents, and restricted cash, end of period		
Cash and cash equivalents	33,821	**16,703**
Restricted cash	308	**309**
Cash, cash equivalents, and restricted cash, end of period	$ 34,129	**$ 17,012**
Supplemental disclosure of cash flow information:		
Cash paid for:		
Taxes	50	**52**
Interest	1,129	**945**
Noncash investing and financing activities:		
Value of shares withheld pursuant to exercise of stock options	$ 647	**$ -**

See accompanying notes to unaudited condensed consolidated financial statements.

NOTE 1 - DESCRIPTION OF THE COMPANY AND BASIS OF PRESENTATION

Description of the Company

The Company is a global leader of Internet-of-Things ("IoT") solutions providing valuable business intelligence for managing high-value enterprise assets that improve operational efficiencies.

I.D. Systems, Inc. ("I.D. Systems") was incorporated in the State of Delaware in 1993. Powerfleet, Inc. was incorporated in the State of Delaware in February 2019 for the purpose of effectuating the transactions (the "Transactions") pursuant to which the Company acquired Pointer Telocation Ltd. ("Pointer") and commenced operations on October 3, 2019. Upon the closing of the Transactions, Powerfleet became the parent entity of I.D. Systems and Pointer.

Impact of COVID-19 and Supply Chain Disruptions

The ongoing COVID-19 pandemic, and mitigation efforts by governments to attempt to control its spread, has resulted in significant economic disruption and continues to adversely impact the broader global economy. The extent of the impact of the pandemic on our business and financial results will depend largely on the future developments that cannot be accurately predicted at this time, including the duration of the spread of the outbreak and COVID-19 variants, the extent and effectiveness of containment actions and vaccination campaigns, and the impact of these and other factors on capital and financial markets and the related impact on the financial circumstances of our employees, customers and suppliers.

In addition, the Company has experienced a significant impact to its supply chain given COVID-19 and the related global semiconductor chip shortage, including delays in supply chain deliveries, extended lead times and shortages of certain key components, some raw material cost increases and slowdowns at certain production facilities. As a result of these supply chain issues, the Company has had to increase its volume of inventory to ensure supply. During the three- and nine-month periods ended September 30, 2022, the Company incurred supply chain constraint expenses which lowered its gross margins and decreased its profitability. The supply chain disruptions and the related global semiconductor chip shortage have delayed and may continue to delay the timing of some orders and expected deliveries of the Company's products. If the impact of the supply chain disruptions are more severe than the Company expects, it could result in longer lead times, inventory supply challenges and further increased costs, all of which could result in the deterioration of the Company's results, potentially for a longer period than currently anticipated.

As of the date of these unaudited consolidated financial statements, the full extent to which the COVID-19 pandemic and the related supply chain issues may materially impact the Company's business, results of operations and financial condition is uncertain.

Basis of presentation

The unaudited interim condensed consolidated financial statements include the accounts of the Company and its wholly-owned and majority-owned subsidiaries. All material intercompany balances and transactions have been eliminated in consolidation. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information and the instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, such statements include all adjustments (consisting only of normal recurring items) which are considered necessary for a fair presentation of the consolidated financial position of the Company as of September 30, 2022, the consolidated results of its operations for the three- and nine-month periods ended September 30, 2021 and 2022, the consolidated change in stockholders' equity for the three-month periods ended March 31, June 30, and September 30, 2021 and 2022, and the consolidated cash flows for the nine-month periods ended September 30, 2021 and 2022. The results of operations for the three- and nine-month periods ended September 30, 2022 are not necessarily indicative of the operating results for the full year. These financial statements should be read in conjunction with the audited consolidated financial statements and related disclosures for the year ended December 31, 2021 included in the Company's Annual Report on Form 10-K for the year then ended.

Liquidity

As of September 30, 2022, the Company had cash (including restricted cash) and cash equivalents of $17,012 and working capital of $36,658. The Company's primary sources of cash are cash flows from operating activities, its holdings of cash, cash equivalents and investments from the sale of its capital stock and borrowings under its credit facility. To date, the Company has not generated sufficient cash flows solely from operating activities to fund its operations.

In addition, the Company's subsidiaries, Powerfleet Israel Ltd. ("Powerfleet Israel") and Pointer, are party to a Credit Agreement (the "Credit Agreement") with Bank Hapoalim B.M. ("Hapoalim"), pursuant to which Hapoalim provided Powerfleet Israel with two senior secured term loan facilities in an aggregate principal amount of $30,000 (comprised of two facilities in the aggregate principal amount of $20,000 and $10,000) and a five-year revolving credit facility to Pointer in an aggregate principal amount of $10,000. The proceeds of the term loan facilities were used to finance a portion of the cash consideration payable in the Company's acquisition of Pointer. The proceeds of the revolving credit facility may be used by Pointer for general corporate purposes. The Company borrowed net $3,949 under the revolving credit facility as of September 30, 2022. See Note 11 for additional information.

In June 2012, Pointer entered into a one-year $1,000 revolving credit facility with Discount Bank, which renews annually, subject to the bank's approval. The proceeds of the revolving credit facility may be used by Pointer for general corporate purposes. The Company did not have any borrowings outstanding under the revolving credit facility with Discount Bank as of September 30, 2022.

On October 31, 2022, the Borrowers entered into a third amendment to the Credit Agreement (the "Third Amendment") with Hapoalim. The Third Amendment provides for, among other things, a new revolving credit facility to Pointer in the aggregate principal amount of $10 million (the "New Revolver"). The New Revolver will be available for a period of one month, commencing on October 31, 2022, and will continue to be available for successive one-month periods until and including October 30, 2023, unless the Borrowers deliver a notice to Hapoalim of their request not to renew the New Revolver.

The New Revolver will initially bear interest at the Secured Overnight Financing Rate plus 2.59%. Such interest is subject to monthly changes by Hapoalim, provided that Hapoalim gives Pointer advance notice regarding such change prior to the end of the applicable calendar month.

The New Revolver will be secured by a first ranking fixed pledge and assignment by Pointer over its new bank account, which was opened in connection with the New Revolver, and all of the rights relating thereunder as well as a cross guarantee by Powerfleet Israel.

Pointer is required to pay a credit allocation fee equal to 0.5% per annum on undrawn and uncancelled amounts of the New Revolver.

The Company has on file a shelf registration statement on Form S-3 that was declared effective by the Securities and Exchange Commission (the "SEC") on November 27, 2019. Pursuant to the shelf registration statement, the Company may offer to the public from time to time, in one or more offerings, up to $60,000 of its common stock, preferred stock, warrants, debt securities, and units, or any combination of the foregoing, at prices and on terms to be determined at the time of any such offering. The specific terms of any future offering will be determined at the time of the offering and described in a prospectus supplement that will be filed with the SEC in connection with such offering.

On February 1, 2021, the Company closed an underwritten public offering (the "Underwritten Public Offering") of 4,428 shares of common stock (which included the full exercise of the underwriters' over-allotment option) for gross proceeds of approximately $28,800, before deducting the underwriting discounts and commissions and other offering expenses. The offer and sale of common stock in the Underwritten Public Offering were made pursuant to the Company's shelf registration statement.

Because of the COVID-19 pandemic, there continues to be significant uncertainty surrounding the potential impact on our results of operations and cash flows. During 2021 and 2022, we proactively took steps to increase available cash on hand including, but not limited to, targeted reductions in discretionary operating expenses and capital expenditures.

The Company believes that its available working capital, anticipated level of future revenues, expected cash flows from operations and available borrowings under its revolving credit facility with Hapoalim will provide sufficient funds to cover capital requirements through at least November 9, 2023.

NOTE 2 – USE OF ESTIMATES

The preparation of financial statements in conformity with U.S. GAAP 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. The Company continually evaluates estimates used in the preparation of the financial statements for reasonableness. The most significant estimates relate to capitalized software, realization of deferred tax assets, the impairment of intangible assets including goodwill, and market-based stock compensation costs. Actual results could differ from those estimates.

As of September 30, 2022, the impact of COVID-19 continues to unfold. In addition, the Company has experienced increased economic uncertainty due to rising interest rates, higher inflation and supply chain disruptions. As a result, many of our estimates and assumptions required increased judgment and carry a higher degree of variability and volatility. As events continue to evolve and additional information becomes available, our estimates may change materially in future periods.

NOTE 3 – CASH AND CASH EQUIVALENTS

The Company considers all highly liquid debt instruments with an original maturity of three months or less when purchased to be cash equivalents unless they are legally or contractually restricted. The Company's cash and cash equivalent balances exceed Federal Deposit Insurance Corporation (FDIC) and other local jurisdictional limits. Restricted cash at December 31, 2021 and September 30, 2022 consists of cash held in escrow for purchases from a vendor.

NOTE 4 - REVENUE RECOGNITION

The Company and its subsidiaries generate revenue from sales of systems and products and from customer SaaS and hosting infrastructure fees. Revenue is measured as the amount of consideration the Company expects to receive in exchange for transferring goods or providing services. Sales, value add, and other taxes the Company collects concurrently with revenue-producing activities are excluded from revenue. Incidental items that are immaterial in the context of the contract are recognized as expense. The expected costs associated with the Company's base warranties continue to be recognized as expense when the products are sold (see Note 12).

Revenue is recognized when performance obligations under the terms of a contract with our customer are satisfied. Product sales are recognized at a point in time when title transfers, when the products are shipped, or when control of the system is transferred to the customer, which usually is upon delivery of the system and when contractual performance obligations have been satisfied. For products which do not have stand-alone value to the customer separate from the SaaS services provided, the Company considers both hardware and SaaS services a bundled performance obligation. Under the applicable accounting guidance, all of the Company's billings for equipment and the related cost for these systems are deferred, recorded, and classified as a current and long-term liability and a current and long-term asset, respectively. The deferred revenue and cost are recognized over the service contract life, ranging from one to five years, beginning at the time that a customer acknowledges acceptance of the equipment and service.

The Company recognizes revenue for remotely hosted SaaS agreements and post-contract maintenance and support agreements beyond our standard warranties over the life of the contract. Revenue is recognized ratably over the service periods and the cost of providing these services is expensed as incurred. Amounts invoiced to customers which are not recognized as revenue are classified as deferred revenue and classified as short-term or long-term based upon the terms of future services to be delivered. Deferred revenue also includes prepayment of extended maintenance, hosting and support contracts.

The Company earns other service revenues from installation services, training and technical support services which are short-term in nature and revenue for these services are recognized at the time of performance when the service is provided.

The Company also derives revenue from leasing arrangements. Such arrangements provide for monthly payments covering product or system sale, maintenance, support and interest. These arrangements meet the criteria to be accounted for as sales-type leases. Accordingly, an asset is established for the "sales-type lease receivable" at the present value of the expected lease payments and revenue is deferred and recognized over the service contract, as described above. Maintenance revenues and interest income are recognized monthly over the lease term.

The Company's contracts with customers may include multiple performance obligations. For such arrangements, the Company allocates revenue to each performance obligation based on its relative standalone selling price. The Company generally determines standalone selling prices based on observable prices charged to customers or adjusted market assessment or using expected cost-plus margin when one is available. Adjusted market assessment price is determined based on overall pricing objectives taking into consideration market conditions and entity specific factors.

The Company recognizes an asset for the incremental costs of obtaining the contract arising from the sales commissions to employees because the Company expects to recover those costs through future fees from the customers. The Company amortizes the asset over one to five years because the asset relates to the services transferred to the customer during the contract term of one to five years.

The Company does not disclose the value of unsatisfied performance obligations for (i) contracts with an original expected length of one year or less and (ii) contracts for which the Company recognizes revenue at the amount to which the Company has the right to invoice for services performed.

The following table presents the Company's revenues disaggregated by revenue source for the three- and nine-months ended September 30, 2021 and 2022:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2022	2021	2022
Products	$ 10,785	**$ 14,021**	$ 37,671	**$ 43,231**
Services	18,461	**20,267**	54,114	**58,812**
	$ 29,246	**$ 34,288**	$ 91,785	**$ 102,043**

The balances of contract assets, and contract liabilities from contracts with customers are as follows as of December 31, 2021 and September 30, 2022:

	December 31, 2021		September 30, 2022 (unaudited)	
Assets:				
Deferred contract costs	$	3,045	**$**	**2,797**
Deferred costs	$	2,011	**$**	**1,025**
Liabilities:				
Deferred revenue- services (1)	$	8,401	**$**	**9,463**
Deferred revenue - products (1)		2,546		**1,268**
		10,947		**10,731**
Less: Deferred revenue and contract liabilities - current portion		(6,519)		**(6,523)**
Deferred revenue and contract liabilities - less current portion	$	4,428	**$**	**4,208**

(1) The Company records deferred revenues when cash payments are received or due in advance of the Company's performance. For the three- and nine-month periods ended September 30, 2021 and 2022, the Company recognized revenue of $2,547 and $7,767, respectively, and $3,174 and $8,040, respectively, that was included in the deferred revenue balance at the beginning of each reporting period. The Company expects to recognize as revenue these deferred revenue balances before the year 2027, when the services are performed and, therefore, satisfies its performance obligation to the customers.

NOTE 5 – PREPAID EXPENSES AND OTHER ASSETS

Prepaid expenses and other current assets consist of the following:

	December 31, 2021		September 30, 2022 (Unaudited)	
Finance receivables, current	$	786	**$**	**1,117**
Prepaid expenses		4,580		**5,227**
Contract assets		1,124		**1,146**
Other current assets		2,561		**1,378**
	$	9,051	**$**	**8,868**

NOTE 6 - INVENTORY

Inventory, which primarily consists of finished goods and components used in the Company's products, is stated at the lower of cost or net realizable value using the "moving average" cost method or the first-in first-out (FIFO) method. Inventory is shown net of a valuation reserve of $260 at December 31, 2021 and $406 at September 30, 2022.

Inventories consist of the following:

	December 31, 2021		**September 30, 2022**
			(Unaudited)
Components	$	11,137	**$**	**13,386**
Work in process		699		**586**
Finished goods, net		6,407		**9,600**
	$	18,243	**$**	**23,572**

NOTE 7 - FIXED ASSETS

Fixed assets are stated at cost, less accumulated depreciation and amortization, and are summarized as follows:

		December 31, 2021		**September 30, 2022**
				(Unaudited)
Installed products	$	6,190	**$**	**7,702**
Computer software		6,732		**7,036**
Computer and electronic equipment		5,688		**5,507**
Furniture and fixtures		2,246		**1,932**
Leasehold improvements		1,445		**1,373**
		22,301		**23,550**
Accumulated depreciation and amortization		(13,313)		**(14,556)**
	$	8,988	**$**	**8,994**

Depreciation and amortization expense of fixed assets for the three- and nine-month periods ended September 30, 2021 was $865 and $2,498, respectively, and for the three- and nine- month periods ended September 30, 2022 was $752 and $2,336, respectively. This includes amortization of costs associated with computer software for the three- and nine-month periods ended September 30, 2021 of $106 and $316, respectively, and for the three- and nine-month periods ended September 30, 2022 of $11 and $145, respectively.

NOTE 8 - INTANGIBLE ASSETS AND GOODWILL

Costs incurred internally in researching and developing software products are charged to expense until technological feasibility has been established for the product. Once technological feasibility is established, software costs are capitalized until the product is available for general release to customers. Judgment is required in determining when technological feasibility of a product is established. The amortization of these costs will be included in cost of revenue over the estimated life of the products.

The following table summarizes identifiable intangible assets of the Company as of December 31, 2021 and September 30, 2022:

September 30, 2022	Useful Lives (In Years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortized:				
Customer relationships	9-12	$ 19,264	$ (5,576)	$ 13,688
Trademark and tradename	3-15	7,553	(2,698)	4,855
Patents	7-11	628	(329)	299
Technology	7	10,911	(7,612)	3,299
Software to be sold or leased	3-6	1,006	-	1,006
Favorable contract interest	4	388	(388)	-
Covenant not to compete	5	208	(208)	-
		39,958	(16,811)	23,147
Unamortized:				
Customer List		104	-	104
Trademark and tradename		61	-	61
		165	-	165
Total		$ 40,123	$ (16,811)	$ 23,312

December 31, 2021	Useful Lives (In Years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortized:				
Customer relationships	9-12	$ 19,264	$ (4,356)	$ 14,908
Trademark and tradename	3-15	7,553	(2,096)	5,457
Patents	7-11	628	(262)	366
Technology	7	10,911	(5,709)	5,202
Favorable contract interest	4	388	(388)	-
Covenant not to compete	5	208	(184)	24
		38,952	(12,995)	25,957
Unamortized:				
Customer List		104	-	104
Trademark and tradename		61	-	61
		165	-	165
Total		$ 39,117	$ (12,995)	$ 26,122

At September 30, 2022, the weighted-average amortization period for the intangible assets was 8.9 years. At September 30, 2022, the weighted-average amortization periods for customer relationships, trademarks and trade names, patents, technology, favorable contract interests and covenant not to compete were 11.9, 9.6, 7.0, 4.3, 0.0 and 5.0 years, respectively.

Amortization expense for the three- and nine-month periods ended September 30, 2021 was $1,282 and $3,879, respectively, and for the three- and nine-month periods ended September 30, 2022 was $1,267 and $3,816, respectively. Estimated future amortization expense for each of the five succeeding fiscal years for these intangible assets is as follows:

Year ending December 31:	
2022 (remaining)	$ 1,264
2023	5,035
2024	2,622
2025	2,495
2026	2,413
2027	2,233
Thereafter	7,085
	$ 23,147

The Company tests for goodwill impairment at the reporting unit level on October 1 of each year and between annual tests if a triggering event indicates the possibility of an impairment. The Company monitors changing business conditions as well as industry and economic factors, among others, for events which could trigger the need for an interim impairment analysis. The Company concluded that a sustained decline in its stock price coupled with continuing losses, represented a triggering event for impairment during the third quarter.

Accordingly, the Company performed an interim quantitative impairment analysis at September 30, 2022 using a market-based quantitative assessment utilizing a combination of the (i) the guideline public company method("GPC") applying revenue and adjusted EBITDA multiples of similar companies and, (ii) the discounted cash flow method

(‘DCF”). The fair value determination used in the impairment assessment requires estimates of the fair values based present value or other valuation techniques or a combination thereof, necessitating subjective judgments and assumptions by management. These estimates and assumptions could result in significant differences to the amounts reported if underlying circumstances were to change. The Company concluded that no impairment relating to goodwill existed at September 30, 2022.

There have been no changes in the carrying amount of goodwill from January 1, 2022 to September 30, 2022.

NOTE 9 - STOCK-BASED COMPENSATION

Stock Option Plans

During the first fiscal quarter of 2022, the Company granted options to purchase 5,065,000 shares of the Company's common stock to certain executives. The options have an exercise price that range from $2.85 to $21.00. The options will vest and become exercisable if the volume weighted average price of the Company's common stock during a consecutive 60-day trading period (the "60 Day VWAP") ranges between $10.50 and $21.00. The Company valued the market-based performance stock option awards using a Monte Carlo simulation model using a daily price forecast over ten years until expiration utilizing Geometric Brownian Motion that considers a variety of factors including, but not limited to, the Company's common stock price, risk-free rate (1.7%), and expected stock price volatility (51.7%) over the expected life of awards (10 years). The weighted average fair value of options granted during the period was $1.27.

[A] Stock options:

The following table summarizes the activity relating to the Company's market-based stock options that were granted to certain executives for the nine-month period ended September 30, 2022:

	Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Terms	Aggregate Intrinsic Value
Outstanding at beginning of year	-	$ -		
Granted	5,065	14.14		
Exercised	-	-		
Forfeited or expired	-	-		
Outstanding at end of period	5,065	$ 14.14	9.3 years	$ -
Exercisable at end of period	-	$ -	-	$ -

The following table summarizes the activity relating to the Company's stock options, excluding the market-based stock options that were granted to certain executives, for the nine-month period ended September 30, 2022:

	Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Terms	Aggregate Intrinsic Value
Outstanding at beginning of year	3,470	$ 5.91		
Granted	895	4.08		
Exercised	-	-		
Forfeited or expired	(1,578)	5.95		
Outstanding at end of period	2,787	$ 5.30	7.3 years	$ 2
Exercisable at end of period	1,124	$ 5.80	5.8 years	$ 2

The fair value of each option grant on the date of grant is estimated using the Black-Scholes option-pricing model reflecting the following weighted-average assumptions:

	September 30, 2021	September 30, 2022
Expected volatility	50.2%	**49.4%**
Expected life of options (in years)	7	**7**
Risk free interest rate	0.69%	**1.73%**
Dividend yield	0%	**0%**
Weighted-average fair value of options granted during year	$ 3.81	**$ 2.04**

Expected volatility is based on historical volatility of the Company's common stock and the expected life of options is based on historical data with respect to employee exercise periods.

The Company recorded stock-based compensation expense of $345 and $1,061, for the three- and nine-month periods ended September 30, 2021, respectively, and $809 and $2,110, for the three- and nine-month periods ended September 30, 2022, respectively, in connection with awards made under the stock option plans.

The fair value of options vested during the nine-month periods ended September 30, 2021 and 2022 was $508 and $409, respectively. The total intrinsic value of options exercised during the three-month periods ended September 30, 2021 and 2022 was $470 and $-0-, respectively.

As of September 30, 2022, there was approximately $6,558 of unrecognized compensation cost related to non-vested options granted under the Company’s stock option plans for the performance stock options that were granted to certain executives. That cost is expected to be recognized over a weighted-average period of 3.20 years.

As of September 30, 2022, there was approximately $2,266 of unrecognized compensation cost related to non-vested options granted under the Company’s stock option plans that exclude the performance stock options. That cost is expected to be recognized over a weighted average period of 3.10 years.

The Company estimates forfeitures at the time of valuation and reduces expense ratably over the vesting period. This estimate is adjusted periodically based on the extent to which actual forfeitures differ, or are expected to differ, from the previous estimate.

[B] Restricted Stock Awards:

The Company grants restricted stock to employees, whereby the employees are contractually restricted from transferring the shares until they are vested. The stock is unvested at the time of grant and, upon vesting, there are no legal restrictions on the stock. The fair value of each share is based on the Company’s closing stock price on the date of the grant. A summary of all non-vested restricted stock for the nine-month period ended September 30, 2022 is as follows:

	Number of Non-Vested Shares	Weighted-Average Grant Date Fair Value
Restricted stock, non-vested, beginning of year	629	$ **7.06**
Granted	476	**3.74**
Vested	(183)	**7.26**
Forfeited	(185)	**7.08**
Restricted stock, non-vested, end of period	737	$ **4.86**

The Company recorded stock-based compensation expense of $533 and $1,908 for the three- and nine-month periods ended September 30, 2021, respectively, and $254 and $997 for the three-and nine-month periods ended September 30, 2022, respectively, in connection with restricted stock grants. As of September 30, 2022, there was $2,557 of total unrecognized compensation cost related to non-vested shares. That cost is expected to be recognized over a weighted-average period of 2.58 years.

[C] Restricted Stock Units:

The Company also has granted restricted stock units (RSUs) to employees. The following table summarizes the activity relating to the Company’s restricted stock units for the three-month period ended September 30, 2022:

	Number of Restricted Stock Units	Weighted-Average Grant Date Fair Value
Restricted stock units, non-vested, beginning of year	36	$ **5.60**
Granted	-	**-**
Vested	(31)	**5.60**
Forfeited	-	**-**
Restricted stock units, non-vested, end of period	5	$ **5.60**

The Company recorded stock-based compensation expense of $51 and $152 for the three- and nine-month periods ended September 30, 2021, respectively, and $7 and $49 for the three- and nine-month periods ended September 30, 2022, respectively, in connection with the RSUs. As of September 30, 2022, there was $3 total unrecognized compensation cost related to non-vested RSUs. That cost is expected to be recognized over a weighted-average period of 0.13 years.

NOTE 10 - NET LOSS PER SHARE

Net loss per share for the three- and nine-month periods ended September 30, 2021 and 2022 are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2022	2021	2022
Basic and diluted loss per share				
Net loss attributable to common stockholders	$ (4,541)	**$ (3,535)**	$ (10,157)	**$ (8,994)**
Weighted-average common share outstanding - basic and diluted	35,019	**35,406**	34,398	**35,375**
Net loss attributable to common stockholders - basic and diluted	$ (0.13)	**$ (0.10)**	$ (0.30)	**$ (0.25)**

Basic loss per share is calculated by dividing net loss attributable to common shareholders by the weighted-average number of common shares outstanding during the period. Diluted loss per share reflects the potential dilution assuming common shares were issued upon the exercise of outstanding options and the proceeds thereof were used to purchase outstanding common shares. Dilutive potential common shares include outstanding stock options, warrants and restricted stock and performance share awards. We include participating securities (unvested share-based payment awards and equivalents that contain non-forfeitable rights to dividends or dividend equivalents) in the computation of earnings per share pursuant to the two-class method. Our participating securities consist solely of preferred stock, which have contractual participation rights equivalent to those of stockholders of unrestricted common stock. The two-class method of computing earnings per share is an allocation method that calculates earnings per share for common stock and participating securities. During periods of net loss, no effect is given to the participating securities because they do not share in the losses of the Company. For the nine-month periods ended September 30, 2021 and 2022, the basic and diluted weighted-average shares outstanding are the same, since the effect from the potential exercise of outstanding stock options, conversion of preferred stock, and vesting of restricted stock and restricted stock units totaling 11,939 and 16,517, respectively, would have been anti-dilutive due to the loss.

NOTE 11 - SHORT-TERM BANK DEBT AND LONG-TERM DEBT

	December 31, 2021	September 30, 2022 (Unaudited)
Current maturities of long-term debt	$ 6,114	**$ 9,366**
Long term debt - less current maturities	$ 18,110	**$ 11,914**

Long-term debt

In connection with the Transactions, Powerfleet Israel incurred $30,000 in term loan borrowings on the closing date of the Transactions (the "Closing Date") under the Credit Agreement, pursuant to which Hapoalim agreed to provide Powerfleet Israel with two senior secured term loan facilities in an aggregate principal amount of $30,000 (comprised of two facilities in the aggregate principal amount of $20,000 and $10,000, respectively (the "Term A Facility" and "Term B Facility", respectively, and collectively, the "Term Facilities")) and a five-year revolving credit facility (the "Revolving Facility") to Pointer in an aggregate principal amount of $10,000 (collectively, the "Credit Facilities"). As of September 30, 2022, the Company borrowed $3,949 under the Revolving Facility.

The Credit Facilities will mature on the date that is five years from the Closing Date. The indicative interest rate provided for the Term Facilities in the original Credit Agreement was approximately 4.73% for the Term A Facility and 5.89% for the Term B Facility. The interest rate for the Revolving Facility is, with respect to NIS-denominated loans, Hapoalim's prime rate + 2.5%, and with respect to US dollar-denominated loans, LIBOR + 4.6%. In addition, the Company agreed to pay a 1% commitment fee on the unutilized and uncancelled availability under the Revolving Facility. The Credit Facilities are secured by the shares held by Powerfleet Israel in Pointer and by Pointer over all of its assets. The original Credit Agreement includes customary representations, warranties, affirmative covenants, negative covenants (including the following financial covenants, tested quarterly: Pointer's net debt to EBITDA; Pointer's net debt to working capital; minimum equity of Powerfleet Israel; Powerfleet Israel equity to total assets; Powerfleet Israel net debt to EBITDA; and Pointer EBITDA to current payments and events of default.

On August 23, 2021, Powerfleet Israel and Pointer (the "Borrowers") entered into an amendment (the "Amendment"), effective as of August 1, 2021, to the Credit Agreement with Hapoalim. The Amendment memorializes the agreements between the Borrowers and Hapoalim regarding a reduction in the interest rates of the two Term Facilities. Pursuant to the Amendment, commencing as of November 12, 2020, the interest rate with respect to the Term A Facility was reduced to a fixed rate of 3.65% per annum and the interest rate with respect to the Term B Facility was reduced to a fixed rate of 4.5% per annum. The Amendment also provides, among other things, for (i) a reduction in the credit allocation fee on undrawn and uncancelled amounts of the Revolving Facility from 1% to 0.5% per annum, (ii) removal of the requirement that Powerfleet Israel maintain $3,000 on deposit in a separate reserve fund, and (iii) modifications to certain of the affirmative and negative covenants, including a financial covenant regarding the ratio of the Borrowers' debt levels to Pointer's EBITDA. The Company is in compliance with the covenants as of September 30, 2022.

In connection with the Credit Facilities, the Company incurred debt issuance costs of $742. For the three- and nine-month periods ended September 30, 2021, amortization of the debt issuance costs was $68 and $223, respectively. For the three- and nine-month periods ended September 30, 2022, amortization of the debt issuance costs was $49 and $168, respectively. The Company recorded charges of $268 and $821 for the three- and nine-month periods ended September 30, 2021, respectively, and $196 and $642 for the three- and nine-month periods ended September 30, 2022, respectively, to interest expense on its consolidated statements of operations related to interest expense and amortization of debt issuance costs associated with the Credit Facilities.

In June 2012, Pointer entered into a one-year $1,000 revolving credit facility with Discount Bank, which renews annually, subject to the bank's approval. The proceeds of the revolving credit facility may be used by Pointer for general corporate purposes. The Company did not have any borrowings outstanding under the revolving credit facility with Discount Bank as of September 30, 2022.

On October 31, 2022, the Borrowers entered into a third amendment to the Credit Agreement (the "Third Amendment") with Hapoalim. The Third Amendment provides for, among other things, a new revolving credit facility to Pointer in the aggregate principal amount of $10 million (the "New Revolver"). The New Revolver will be available for a period of one month, commencing on October 31, 2022, and will continue to be available for successive one-month periods until and including October 30, 2023, unless the Borrowers deliver a notice to Hapoalim of their request not to renew the New Revolver.

The New Revolver will initially bear interest at the Secured Overnight Financing Rate plus 2.59%. Such interest is subject to monthly changes by Hapoalim, provided that Hapoalim gives Pointer advance notice regarding such change prior to the end of the applicable calendar month.

The New Revolver will be secured by a first ranking fixed pledge and assignment by Pointer over its new bank account, which was opened in connection with the New Revolver, and all of the rights relating thereunder as well as a cross guarantee by PowerFleet Israel.

Pointer is required to pay a credit allocation fee equal to 0.5% per annum on undrawn and uncancelled amounts of the New Revolver.

Scheduled maturities of the long-term debt as of September 30, 2022 are as follows:

Year ending December 31:		
October - December 2022	$	5,392
2023		4,563
2024		11,325
		21,280
Less: Current Portion		9,366
Total	$	11,914

The Term B Facility is not subject to amortization over the life of the loan and instead the original principal amount is due in one installment on the fifth anniversary of the date of the consummation of the Transactions.

NOTE 12 - ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consist of the following:

	December 31, 2021	**September 30, 2022**
		(Unaudited)
Accounts payable	$ 17,748	**$ 18,422**
Accrued warranty	1,146	**1,708**
Accrued compensation	6,644	**6,132**
Government authorities	2,080	**1,963**
Other current liabilities	1,397	**593**
	$ 29,015	**$ 28,818**

The Company’s products are warranted against defects in materials and workmanship for a period of one to three years from the date of acceptance of the product by the customer. The customers may purchase an extended warranty providing coverage up to a maximum of 60 months. A provision for estimated future warranty costs is recorded for expected or historical warranty matters related to equipment shipped and is included in accounts payable and accrued expenses in the Condensed Consolidated Balance Sheets as of December 31, 2021 and September 30, 2022.

The following table summarizes warranty activity for the nine-month periods ended September 30, 2021 and 2022:

	Nine Months Ended September 30,	
	2021	**2022**
Accrued warranty reserve, beginning of year	$ 742	**$ 1,333**
Accrual for product warranties issued	639	**998**
Product replacements and other warranty expenditures	(565)	**(373)**
Expiration of warranties	19	**(83)**
Accrued warranty reserve, end of period (a)	$ 835	**$ 1,875**

(a) Includes non-current accrued warranty included in other long-term liabilities at December 31, 2021 and September 30, 2022 of $187 and $167, respectively.

NOTE 13 - STOCKHOLDERS' EQUITY

[A] Public Offering:

On February 1, 2021, the Company closed an underwritten public offering of 4,428 shares of common stock (which included the full exercise of the underwriters' over-allotment option) for gross proceeds of approximately $28,800, before deducting the underwriting discounts and commissions and other offering expenses.

[B] Redeemable preferred stock

The Company is authorized to issue 150 shares of preferred stock, par value $0.01 per share of which 100 shares are designated Series A Convertible Preferred Stock ("Series A Preferred Stock") and 50 shares are undesignated.

Series A Preferred Stock

In connection with the completion of the Transactions, on October 3, 2019, the Company issued 50 shares of Series A Preferred Stock to ABRY Senior Equity V, L.P., ABRY Senior Equity Co-Investment Fund V, L.P and ABRY Investment Partnership, L.P. (the "Investors"). For the nine-month periods ended September 30, 2021 and September 30, 2022, the Company issued -0- and 3 additional shares of Series A Preferred Stock, respectively.

Liquidation

The Series A Preferred Stock has a liquidation preference equal to the greater of (i) the original issuance price of $1,000.00 per share, subject to certain adjustments (the "Series A Issue Price"), plus all accrued and unpaid dividends thereon (except in the case of a deemed liquidation event, then 150% of such amount), and (ii) the amount such holder would have received if the Series A Preferred Stock had converted into common stock immediately prior to such liquidation.

Dividends

Holders of Series A Preferred Stock are entitled to receive cumulative dividends at a minimum rate of 7.5% per annum (calculated on the basis of the Series A Issue Price), quarterly in arrears. The dividends are payable at the Company's election, in kind, through the issuance of additional shares of Series A Preferred Stock, or in cash, provided no dividend payment failure has occurred and is continuing and that there has not previously occurred two or more dividend payment failures. Commencing on the 66-month anniversary of the date on which any shares of Series A Preferred Stock are first issued (the "Original Issuance Date"), and on each monthly anniversary thereafter, the dividend rate will increase by 100 basis points, until the dividend rate reaches 17.5% per annum, subject to the Company's right to defer the increase for up to three consecutive months on terms set forth in the Company's Amended and Restated Certificate of Incorporation (the "Charter"). During the nine-month period ended September 30, 2022, the Company paid dividends in the amounts of 3 shares to the holders of the Series A Preferred Stock. As of September 30, 2022, dividends in arrears were $-0-.

Voting; Consent Rights

The holders of Series A Preferred Stock will be given notice by the Company of any meeting of stockholders or action to be taken by written consent in lieu of a meeting of stockholders as to which the holders of common stock are given notice at the same time as provided in, and in accordance with, the Company's Amended and Restated Bylaws. Except as required by applicable law or as otherwise specifically set forth in the Charter, the holders of Series A Preferred Stock are not entitled to vote on any matter presented to the Company's stockholders unless and until any holder of Series A Preferred Stock provides written notification to the Company that such holder is electing, on behalf of all holders of Series A Preferred Stock, to activate their voting rights and in doing so rendering the Series A Preferred Stock voting capital stock of the Company (such notice, a "Series A Voting Activation Notice"). From and after the delivery of a Series A Voting Activation Notice, all holders of the Series A Preferred Stock will be entitled to vote with the holders of common stock as a single class on an as-converted basis (provided, however, that any holder of Series A Preferred Stock shall not be entitled to cast votes for the number of shares of common stock issuable upon conversion of such shares of Series A Preferred Stock held by such holder that exceeds the quotient of (1) the aggregate Series A Issue Price for such shares of Series A Preferred Stock divided by (2) $5.57 (subject to adjustment for stock splits, stock dividends, combinations, reclassifications and similar events, as applicable)). So long as shares of Series A Preferred Stock are outstanding and convertible into shares of common stock that represent at least 10% of the voting power of the common stock, or the Investors or their affiliates continue to hold at least 33% of the aggregate amount of Series A Preferred Stock issued to the Investors on the Original Issuance Date, the consent of the holders of at least a majority of the outstanding shares of Series A Preferred Stock will be necessary for the Company to, among other things, (i) liquidate the Company or any operating subsidiary or effect any deemed liquidation event (as such term is defined in the Charter), except for a deemed liquidation event in which the holders of Series A Preferred Stock receive an amount in cash not less than the Redemption Price (as defined below), (ii) amend the Company's organizational documents in a manner that adversely affects the Series A Preferred Stock, (iii) issue any securities that are senior to, or equal in priority with, the Series A Preferred Stock or issue additional shares of Series A Preferred Stock to any person other than the Investors or their affiliates, (iv) incur indebtedness above the agreed-upon threshold, (v) change the size of the Company's board of directors to a number other than seven, or (vi) enter into certain affiliated arrangements or transactions.

Redemption

At any time, each holder of Series A Preferred Stock may elect to convert each share of such holder's then-outstanding Series A Preferred Stock into the number of shares of the Company's common stock equal to the quotient of (x) the Series A Issue Price, plus any accrued and unpaid dividends, divided by (y) the Series A Conversion Price in effect at the time of conversion. The Series A Conversion Price is initially equal to $7.319, subject to certain adjustments as set forth in the Charter.

At any time after the third anniversary of the Original Issuance Date, subject to certain conditions, the Company may redeem the Series A Preferred Stock for an amount per share, equal to the greater of (i) the product of (x) 1.5 multiplied by (y) the sum of the Series A Issue Price, plus all accrued and unpaid dividends and (ii) the product of (x) the number of shares of common stock issuable upon conversion of such Series A Preferred Stock multiplied by (y) the volume weighted average price of the common stock during the 30 consecutive trading day period ending on the trading date immediately prior to the date of such redemption notice or, if calculated in connection with a deemed liquidation event, the value ascribed to a share of common stock in such deemed liquidation event (the "Redemption Price").

Further, at any time (i) after the 66-month anniversary of the Original Issuance Date, (ii) following delivery of a mandatory conversion notice by us, or (iii) upon a deemed liquidation event, subject to Delaware law governing distributions to stockholders, the holders of the Series A Preferred Stock may elect to require us to redeem all or any portion of the outstanding shares of Series A Preferred Stock for an amount per share equal to the Redemption Price.

NOTE 14 - ACCUMULATED OTHER COMPREHENSIVE LOSS

Comprehensive income (loss) includes net loss and foreign currency translation gains and losses.

The accumulated balances for each classification of other comprehensive loss for the nine-month period ended September 30, 2022 are as follows:

	Foreign currency translation adjustment	Accumulated other comprehensive income/(loss)
Balance at January 1, 2022	$ 391	$ 391
Net current period change	(1,441)	(1,441)
Balance at September 30, 2022	$ (1,050)	$ (1,050)

The accumulated balances for each classification of other comprehensive loss for the nine-month period ended September 30, 2021 are as follows:

	Foreign currency translation adjustment	Accumulated other comprehensive income/(loss)
Balance at January 1, 2021	$ 399	$ 399
Net current period change	(423)	(423)
Balance at September 30, 2021	$ (24)	$ (24)

The Company's reporting currency is the U.S. dollar (USD). For businesses where the majority of the revenues are generated in USD or linked to the USD and a substantial portion of the costs are incurred in USD, the Company's management believes that the USD is the primary currency of the economic environment and thus their functional currency. Due to the fact that Argentina has been determined to be highly inflationary, the financial statements of our subsidiary in Argentina have been remeasured as if its functional currency was the USD. The Company also has foreign operations where the functional currency is the local currency. For these operations, assets and liabilities are translated using the end-of-period exchange rates and revenues, expenses and cash flows are translated using average rates of exchange for the period. Equity is translated at the rate of exchange at the date of the equity transaction. Translation adjustments are recognized in stockholders' equity as a component of accumulated other comprehensive income (loss). Net translation gains/(losses) from the translation of foreign currency financial statements of $(423) and $(1,441) at September 30, 2021 and 2022, respectively, are included in comprehensive loss in the Consolidated Statement of Changes in Stockholders' Equity.

Foreign currency translation gains and losses related to operational expenses denominated in a currency other than the functional currency are included in determining net income or loss. Foreign currency translation (losses) gains for the three- and nine-month periods ended September 30, 2021 of $(345) and $(139), respectively, and for the three- and nine-month periods ended September 30, 2022 of $(922) and $(1,844), respectively, are included in selling, general and administrative expenses in the Consolidated Statement of Operations. Foreign currency translation gains (losses) related to long-term debt of $(261) and $151 for the three- and nine-month periods ended September 30, 2021, respectively, and $191 and $2,803 for the three- and nine-month periods ended September 30, 2022, respectively, are included in interest expense in the Consolidated Statement of Operations.

NOTE 15 – SEGMENT INFORMATION

The Company operates in one reportable segment, wireless IoT asset management. The following table summarizes revenues by geographic region.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	**2022**	2021	**2022**
United States	$ 10,976	**$ 14,548**	$ 36,186	**$ 42,670**
Israel	10,655	**10,925**	33,343	**34,007**
Other	7,615	**8,815**	22,256	**25,366**
	$ 29,246	**$ 34,288**	$ 91,785	**$ 102,043**

	December 31, 2021	**September 30, 2022 (Unaudited)**
Long lived assets by geographic region:		
United States	$ 1,123	**$ 1,048**
Israel	3,675	**3,450**
Other	4,190	**4,496**
	$ 8,988	**$ 8,994**

NOTE 16 - INCOME TAXES

The Company records its interim tax provision based upon a projection of the Company's annual effective tax rate ("AETR"). This AETR is applied to the year-to-date consolidated pre-tax income to determine the interim provision for income taxes before discrete items. The Company updates the AETR on a quarterly basis as the pre-tax income projections are revised and tax laws are enacted. The effective tax rate ("ETR") each period is impacted by a number of factors, including the relative mix of domestic and foreign earnings and adjustments to recorded valuation allowances. The currently forecasted ETR may vary from the actual year-end due to the changes in these factors.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	**2022**	2021	**2022**
Domestic pre-tax book income/(loss)	$ (3,481)	**$ (3,739)**	$ (7,854)	**$ (12,083)**
Foreign pre-tax book income/(loss)	293	**2,210**	1,981	**6,846**
Total income before income (loss) taxes	(3,188)	**(1,529)**	(5,873)	**(5,237)**
Income tax benefit (expense)	(161)	**(770)**	(701)	**(107)**
Total income (loss) after taxes	(3,349)	**(2,299)**	(6,574)	**(5,344)**
Effective tax rate	$ (5.03)%	**$ (50.35)%**	$ (11.9)%	**$ (2.04)%**

For the three- and nine-month periods ended September 30, 2021 and September 30, 2022, the effective tax rate differed from the statutory tax rates primarily due to the mix of domestic and foreign earnings amongst taxable jurisdictions, recorded valuation allowances to fully reserve against deferred tax assets in non-Israel foreign jurisdictions and certain discrete items.

On August 16, 2022, the President of the United States signed into law H.R. 5376, commonly referred to as the Inflation Reduction Act of 2022 (the "IRA"). The tax measures include, among other items, a corporate alternative minimum tax of 15%; an excise tax of 1% on corporate stock buy-backs; energy-related tax credits; and additional funding for the IRS for taxpayer services and enforcement. The passage of the IRA did not have a material impact to the Company nor its calculated AETR as of September 30, 2022.

On August 9, 2022, the President of the United States signed into law H.R. 4346, "The CHIPS and Science Act of 2022." Tax measures include a 25% advanced investment tax credit (ITC) for certain investments in semiconductor manufacturing. The passage of the CHIPS and Science Act did not have a material impact to the Company nor its calculated AETR as of September 30, 2022.

On March 11, 2021, the President of the United States signed the American Rescue Plan Act (the "ARPA") into law as a continuing response to the COVID-19 pandemic. The ARPA implemented new entity taxation provisions as well as extended unemployment benefits and related incentives to provide further economic relief to US businesses. The passage of the ARPA did not have a material impact to the Company nor its calculated AETR as of September 30, 2022.

NOTE 17 - LEASES

The Company has operating leases for office space and office equipment. The Company's leases have remaining lease terms of one year to seven years, some of which include options to extend the lease term for up to five years.

The Company has lease arrangements which are classified as short-term in nature. These leases meet the criteria for operating lease classification. Lease costs associated with the short-term leases are included in selling, general and administrative expenses on the Company's condensed consolidated statements of operations during the three- and nine-months ended September 30, 2021 and 2022.

Components of lease expense are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	**2022**	2021	**2022**
Short term lease cost:	$ 117	**$ 102**	$ 472	**$ 346**

Supplemental cash flow information and non-cash activity related to our operating leases are as follows:

	Nine Months Ended September 30,	
	2021	**2022**
Non-cash activity:		
Right-of-use assets obtained in exchange for lease obligations	**$ 2,341**	**$ 1,042**

Weighted-average remaining lease term and discount rate for our operating leases are as follows:

	September 30, 2022
Weighted-average remaining lease term (in years)	3.3
Weighted-average discount rate	4.4%

Scheduled maturities of operating lease liabilities outstanding as of September 30, 2022 are as follows:

Year ending December 31:	
October - December 2022	$ 769
2023	2,616
2024	1,939
2025	1,760
2026	802
Thereafter	1,202
Total lease payments	9,088
Less: Imputed interest	(831)
Present value of lease liabilities	$ 8,257

NOTE 18 - FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company's cash and cash equivalents are carried at fair value. The carrying value of financing receivables approximates fair value due to the interest rate implicit in the instruments approximating current market rates. The carrying value of accounts receivables, accounts payable and accrued liabilities and short term bank debt approximates their fair values due to the short period to maturity of these instruments. The fair value of the Company's long term debt is based on observable relevant market information and future cash flows discounted at current rates, which are Level 2 measurements.

	September 30, 2022	
	Carrying Amount	**Fair Value**
Long term debt	$ 21,280	**$ 21,280**

NOTE 19 - CONCENTRATION OF CUSTOMERS

For the nine-month periods ended September 30, 2021 and 2022, there were no customers who generated revenues greater than 10% of the Company's consolidated total revenues or generated greater than 10% of the Company's consolidated accounts receivable.

NOTE 20 - COMMITMENTS AND CONTINGENCIES

Except for normal operating leases, the Company is not currently subject to any material commitments.

From time to time, the Company is involved in various litigation matters involving claims incidental to its business and acquisitions, including employment matters, acquisition related claims, patent infringement and contractual matters, among other issues. While the outcome of any such litigation matters cannot be predicted with certainty, management currently believes that the outcome of these proceedings, including the matters described below, either individually or in the aggregate, will not have a material adverse effect on its business, results of operations or financial condition. The Company records reserves related to legal matters when losses related to such litigation or contingencies are both probable and reasonably estimable.

In August 2014, Pointer do Brasil Comercial Ltda. ("Pointer Brazil") received a notification of lack of payment of VAT tax (Brazilian ICMS tax) in the amount of $217, plus $978 of interest and penalty, totaling $1,195 as of September 30, 2022. The Company is vigorously defending this tax assessment before the administrative court in Brazil, but in light of the administrative and judicial processes in Brazil, it could take up to 14 years before the dispute is finally resolved. In case the administrative court rules against the Company, the Company could claim before the judicial court, an appellate court in Brazil, a substantial reduction of interest charged, potentially reducing the Company's total exposure. The Company's legal counsel is of the opinion that the chance of loss is not probable and for this reason the Company has not made any provision.

In July 2015, Pointer Brazil received a tax deficiency notice alleging that the services provided by Pointer Brazil should be classified as "telecommunication services" and therefore Pointer Brazil should be subject to the state value-added tax. The aggregate amount claimed to be owed under the notice was approximately $11,193 as of September 30, 2022. On August 14, 2018, the lower chamber of the State Tax Administrative Court in São Paulo rendered a decision that was favorable to Pointer Brazil in relation to the ICMS demands, but adverse in regards to the clerical obligation of keeping in good order a set of ICMS books and related tax receipts. The state has the opportunity to appeal to the higher chamber of the State Tax Administrative Court. The Company's legal counsel is of the opinion that the chance of loss is not probable and that no material costs will arise in respect to these claims. For this reason, the Company has not made any provision.

NOTE 21 - RECENT ACCOUNTING PRONOUNCEMENTS

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments - Credit Losses (Topic 326) Measurement of Credit Losses on Financial Instruments," which amends the guidance on measuring credit losses on financial assets held at amortized cost. The amendment is intended to address the issue that the previous "incurred loss" methodology was restrictive for an entity's ability to record credit losses based on not yet meeting the "probable" threshold. The new language will require these assets to be valued at amortized cost presented at the net amount expected to be collected with a valuation provision. This updated standard is effective for fiscal years beginning after December 15, 2022. The Company is currently evaluating the impact of this ASU on the consolidated financial statements.

NOTE 22 – SUBSEQUENT EVENTS

On October 31, 2022, the Borrowers entered into a third amendment to the Credit Agreement (the "Third Amendment") with Hapoalim. The Third Amendment provides for, among other things, a new revolving credit facility to Pointer in the aggregate principal amount of $10 million (the "New Revolver"). The New Revolver will be available for a period of one month, commencing on October 31, 2022, and will continue to be available for successive one-month periods until and including October 30, 2023, unless the Borrowers deliver a notice to Hapoalim of their request not to renew the New Revolver.

The New Revolver will initially bear interest at the Secured Overnight Financing Rate plus 2.59%. Such interest is subject to monthly changes by Hapoalim, provided that Hapoalim gives Pointer advance notice regarding such change prior to the end of the applicable calendar month.

The New Revolver will be secured by a first ranking fixed pledge and assignment by Pointer over its new bank account, which was opened in connection with the New Revolver, and all of the rights relating thereunder as well as a cross guarantee by Powerfleet Israel.

Pointer is required to pay a credit allocation fee equal to 0.5% per annum on undrawn and uncancelled amounts of the New Revolver.

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

The following discussion and analysis of the consolidated financial condition and results of operations of Powerfleet, Inc. and its subsidiaries ("Powerfleet", "we", "our" or "us") should be read in conjunction with the consolidated financial statements and notes thereto appearing in Part I, Item 1 of this report. In the following discussions, most percentages and dollar amounts have been rounded to aid presentation, and, accordingly, all amounts are approximations.

Cautionary Note Regarding Forward-Looking Statements

This report contains "forward-looking statements" (within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act")), which may include information concerning the Company's beliefs, plans, objectives, goals, expectations, strategies, anticipations, assumptions, estimates, intentions, future events, future revenues or performance, capital expenditures and other information that is not historical information. Forward-looking statements involve known and unknown risks, uncertainties and other factors, which may be beyond the Company's control, and which may cause the Company's actual results, performance or achievements to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. When used in this report, the words "seek," "estimate," "expect," "anticipate," "project," "plan," "contemplate," "plan," "continue," "intend," "believe" and variations of such words or similar expressions are intended to identify forward-looking statements. All forward-looking statements are based upon the Company's current expectations and various assumptions. The Company believes there is a reasonable basis for its expectations and beliefs, but there can be no assurance that the Company will realize its expectations or that its beliefs will prove to be correct.

There are a number of risks and uncertainties that could cause the Company's actual results to differ materially from the forward-looking statements contained in this report. Important factors that could cause the Company's actual results to differ materially from those expressed as forward-looking statements herein include, but are not limited, to: future economic and business conditions; the ability to recognize the anticipated benefit of the acquisition of Pointer Telocation Ltd. ("Pointer"); the loss of any of the Company's key customers or reduction in the purchase of the Company's products by any such customers; the failure of the markets for the Company's products to continue to develop; the possibility that the Company may not be able to integrate successfully the business, operations and employees of I.D. Systems, Inc. ("I.D. Systems") and Pointer; the Company's inability to adequately protect its intellectual property; the Company's inability to manage growth; the effects of competition from a wide variety of local, regional, national and other providers of wireless solutions; changes in laws and regulations or changes in generally accepted accounting policies, rules and practices; changes in technology or products, which may be more difficult or costly, or less effective, than anticipated; the effects of outbreaks of pandemics or contagious diseases, including the length and severity of the recent global outbreak of the novel coronavirus, COVID-19, and its impact on the Company's business; and other risks detailed from time to time in the Company's filings with the Securities and Exchange Commission (the "SEC"), including the Company's annual report on Form 10-K for the year ended December 31, 2021.

There may be other factors of which the Company is currently unaware or which it currently deems immaterial that may cause its actual results to differ materially from the forward-looking statements. All forward-looking statements attributable to the Company or persons acting on the Company's behalf apply only as of the date they are made and are expressly qualified in their entirety by the cautionary statements included in this report. Except as may be required by law, the Company undertakes no obligation to publicly update or revise any forward-looking statement to reflect events or circumstances occurring after the date they were made or to reflect the occurrence of unanticipated events, or otherwise.

The Company makes available through its Internet website, free of charge, its Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to such reports and other filings made by the Company with the SEC, as soon as practicable after the Company electronically files such reports and filings with the SEC. The Company's website address is www.powerfleet.com. The information contained in the Company's website is not incorporated by reference into this report.

Overview

Powerfleet, Inc. (together with its subsidiaries, “Powerfleet,” the “Company,” “we,” “our” or “us”) is a global leader of Internet-of-Things (“IoT”) solutions providing valuable business intelligence for managing high-value enterprise assets that improve operational efficiencies.

We are headquartered in Woodcliff Lake, New Jersey, with offices located around the globe.

Our patented technologies address the needs of organizations to monitor and analyze their assets to improve safety, increase efficiency and productivity, reduce costs, and improve profitability. Our offerings are sold under the global brands Powerfleet, Pointer and Cellocator.

We have an established history of IoT device development and innovation creating devices that can withstand harsh and rugged environments. With 54 patents and patent applications and 25 years’ experience, we believe we are well positioned to evolve our offerings for even greater value to customers through our cloud-based applications for unified operations.

We deliver advanced data solutions that connect mobile assets to increase visibility, operational efficiency and profitability. Across our spectrum of vertical markets, we differentiate ourselves by developing mobility platforms that collect data from unique sensors. Further, because we are original equipment manufacturer (“OEM”) agnostic, we help organizations view and manage their mixed assets homogeneously. All of our solutions are paired with software as a service (“SaaS”) and analytics platforms to provide an even deeper level of insights and understanding of how assets are utilized and how drivers and operators operate those assets. These insights include a full set of Key Performance Indicators (“KPI’s”) to drive operational and strategic decisions. Our customers typically get a return on their investment in less than 12 months from deployment.

Our enterprise software applications have machine learning capabilities and are built to integrate with our customers’ management systems to provide a single, integrated view of asset and operator activity across multiple locations while providing real-time enterprise-wide benchmarks and peer-industry comparisons. We look for analytics, as well as the data contained therein, to differentiate us from our competitors, adding significant value to customers’ business operations, and helping to contribute to their bottom line. Our solutions also feature open application programming interfaces (“API’s”) for additional integrations and development to boost other enterprise management systems and third-party applications.

We market and sell our connected IoT data solutions to a wide range of customers in the commercial and government sectors. Our customers operate in diverse markets, such as manufacturing, automotive manufacturing, wholesale and retail, food and grocery distribution, pharmaceutical and medical distribution, construction, mining, utilities, aerospace, vehicle rental, as well as logistics, shipping, transportation, and field services. Traditionally, these businesses have relied on manual, often paper-based, processes or on-premise legacy software to operate their high-value assets, manage workforce resources, and distributed sites; and face environmental, safety, and other regulatory requirements. In today’s landscape, it is crucial for these businesses to invest in solutions that enable easy analysis and sharing of real-time information.

Our Solutions

We provide critical actionable information that powers unified operations throughout organizations. We are solving the challenge of inefficient data collection, real-time visibility, and analysis that leads to transformative business operations. Our SaaS cloud-based applications take data from our IoT devices and ecosystem of third-party and partner applications to present actionable information for customers to increase efficiencies, improve safety and security, and increase their profitability in easy-to-understand reports, dashboards, and real-time alerts.

Key Applications of our IoT Solutions:

The Company provides real-time intelligence for organizations with high-value assets allowing them to make informed decisions and ultimately improve their operations, safety, and bottom line. Our applications enable organizations to capture IoT data from various types of assets with devices and sensors creating a holistic view for analysis and action.

The core applications our IoT solutions address include:

End-to-end Visibility: Organizations with expensive assets such as vehicles, machinery, or equipment need to keep track of where the assets are located, monitor for misuse, and understand how and when assets are being used. By having complete visibility of their assets, customers can improve security, utilization and customer service. In addition, our visibility solutions help with personnel workflows and resource management, freight visibility through load status, equipment availability status, dwell and idle time, geofencing, two-way temperature control and management, multizone temperature monitoring, arrival and departure times, and supply chain allocation.

Regulatory Compliance: Businesses must comply with government regulations and provide proof of compliance, which is commonly an onerous process to enforce and maintain. Our solutions provide critical data points and reports to help customers stay within compliance, avoid fines for non-compliance, and automate the reporting process. We deliver real-time position reports, hours-of-service, temperature monitoring and control, electronic safety checklists, workflow management, controlling vehicle access to only authorized operators, inspection reports, and history logs of use.

Improve Safety: Our applications are designed to provide asset and operator management, monitoring, and visibility for safer environments. Our solutions allow our customers to monitor their fleet of vehicles on various parameters, including but not limited to, vehicle location, speed, engine fault codes, driver behavior, eco-driving, and ancillary sensors and can receive reports and alerts, either automatically or upon request wirelessly via the internet, email, mobile phone or an SMS. In addition, our dash camera provides critical video capture that can be used to help exonerate drivers when in accidents or help bolster training and coaching programs of employees. We also offers preventative solutions such as safety warning products to alert vehicle operators of objects or pedestrians in their pathway to prevent accidents, injuries, and damage. Our analytics platform features dashboards with KPIs and can help manager identify patterns, trends and outliers that can be used as flags for interventions.

Drive Operational Efficiency & Productivity: To increase utilization of mobile assets, our solutions enable the identification of a change in status, real-time location, geo-fencing alerts when an asset is approaching or leaving its destination, cargo status, and on-board intelligence utilizing a motion sensor and proprietary logic that identifies the beginning of a drive and the end of a drive. Having this information enables customers to increase capacity, speed of service, right-size their fleets, and improve communication internally and with customers. In addition, customers can reduce revenue per mile, reduce claims and claims processing times, and reduce the number of assets needed. This is achieved through proving such things as two-way integrated workflows for drivers, control assignments and work change, Electronic Driver Logging (“ELD”) and automated record keeping for regulatory compliance, monitoring of asset pools and geofence violations, and various reporting insights that flag under-utilized assets, the closest assets, and alerts on dwell time and exceeding the allotted time for loading and unloading.

We help customers to automate processes and increase productivity of their employees. Our applications enable customers to determine where operators are assigned and can temporarily reassign them based on peak needs, evaluate any disparity in the amount employees are paid compared to the time they actually spend operating a vehicle. Our applications help answer the question of why does it take some employees longer than others to do specific tasks, where to focus labor resources, and how to forecast vehicles and operators needed for future workflow.

In addition, for our rental car vertical, our applications automatically upload vehicle identification number, mileage and fuel data as a vehicle enters and exits the rental lot, which can significantly expedite the rental and return processes for travelers, and provide the rental company with more timely inventory status, more accurate billing data that can generate higher fuel-related revenue, and an opportunity to utilize customer service personnel for more productive activities, such as inspecting vehicles for damage and helping customers with luggage.

Our solution for "car sharing" permits a rental car company to remotely control, track and monitor their rental vehicles wherever they are parked. Whether for traditional "pod-based" rental or for the emerging rent-anywhere model, the system, through APIs integrated into any rental company's fleet management system, (i) manages member reservations by smart phone or Internet, and (ii) charges members for vehicle use by the hour.

For our customers with a variety of make-model-years in their fleet, we have developed an unmatched library of certified vehicle code interfaces through our second-generation On-Board Diagnostics ("OBD-II"), industry standard. Our patented fleet management system helps fleet owners improve asset utilization, reduce capital costs, and cut operating expenses, such as vehicle maintenance or service and support.

Increase Security: Our solutions allow our customers to reduce theft and improve inventory management. Customers can lockdown their assets with automated e-mail or text message alerts, emergency tracking of assets (higher frequency of reports) if theft is expected, geo-fencing alerts when an asset enters a prohibited geography or location, and near real-time sensors that alert based on changes in temperature and shock, among other things. We also provide stolen vehicle retrieval ("SVR") services. Most of the SVR products used to provide our SVR services are mainly sold to (i) local car dealers and importers that in turn sell the products equipped in the vehicle to the end users who purchase the SVR services directly from us, or (ii) leasing companies which purchase our SVR services in order to secure their own vehicles.

Reduce Costs

We enable our customers to improve asset utilization, reduce capital costs, and cut operating expenses, such as vehicle maintenance or service and support. Our solutions provide engine performance, machine diagnostics, fuel consumption, and battery life to improve preventative maintenance scheduling, increase uptime, and gain a longer service life of equipment. Through our software applications, customers can optimize capacity, analyze resource allocation, and improve utilization of assets to reduce capital expenses such as purchasing new or leasing additional equipment. Our applications provide root cause analysis for any cargo claims and helps with exoneration of drivers in accidents via dash camera visibility.

Analytics and Machine Learning

Our analytics platforms provide our customers with a holistic view of their asset activity across their enterprise. For example, our image machine learning system allows us to process images from our freight camera and other sources and identify key aspects of operations and geospatial information such as location, work being accomplished, type of cargo, how cargo is loaded and if there are any visible issues such as damage.

Key Performance Indicators & Benchmarks

Our cloud-based software applications provide a single, integrated view of asset activity across multiple locations, generating enterprise-wide benchmarks, peer-industry comparisons, and deeper insights into asset operations. In addition, our customers can set real-time alerts for exception-based reporting or critical activity that needs immediate attention. This enables management teams to make more informed, effective decisions, raise asset performance standards, increase productivity, reduce costs, and enhance safety.

Specifically, our analytics platforms allow users to quantify best-practice enterprise benchmarks for asset utilization and safety, reveal variations and inefficiencies in asset activity across both sites and geographic regions, or identify opportunities to eliminate or reallocate assets, to reduce capital and operating costs. We provide an extensive set of decision-making tools and a variety of standard and customized reports to help businesses improve overall operations.

We look for analytics and machine learning to make a growing contribution to drive platform and SaaS revenue, further differentiate our offerings and add value to our solutions. We also use our analytics platform for our own internal platform quality control.

Services

Hosting Services. We provide the use of our systems as a remotely hosted service, with the system server and application software residing in our colocation center or on a cloud platform provider's infrastructure (e.g., Azure, AWS). This approach helps us reduce support costs and improve quality control. It separates the system from the restrictions of the customers' local IT networks, which helps reduce their system support efforts and makes it easier for them to receive the benefits of system enhancements and upgrades. Our hosting services are typically offered with extended maintenance and support services over a multi-year term of service, with automatic renewals following the end of the initial term.

Software as a Service. We provide system monitoring, help desk technical support, escalation procedure development, routine diagnostic data analysis and software updates services as part of the ongoing contract term. These services ensure deployed systems remain in optimal performance condition throughout the contract term and provide access to newly developed features and functions on an annual basis.

Maintenance Services. We provide a warranty on the hardware components of our system. During the warranty period, we either replace or repair defective hardware. We also make extended maintenance contracts available to customers and offer ongoing maintenance and support on a time and materials basis.

Customer Support and Consulting Services for Ease of Use, Adoption, and Added Value. We have developed a framework for the various phases of system training and support that offer our customers both structure and flexibility. Major training phases include hardware installation and troubleshooting, software installation and troubleshooting, "train-the-trainer" training on asset hardware operation, preliminary software user training, system administrator training, information technology issue training, ad hoc training during system launch and advanced software user training.

Increasingly, training services are provided through scalable online interactive training tools. Support and consulting services are priced based on the extent of training that the customer requests. To help our customers derive the most benefit from our system, we supply a broad range of documentation and support including videos, interactive online tools, hardware user guides, software manuals, vehicle installation overviews, troubleshooting guides, and issue escalation procedures.

We provide our consulting services both as a stand-alone service to study the potential benefits of implementing an IoT business intelligence solution and as part of the system implementation itself. In some instances, customers prepay us for extended maintenance, support and consulting services. In those instances, the payment amount is recorded as deferred revenue and revenue is recognized over the service period.

Recent Developments

Rising interest rates, higher inflation, supply chain disruptions, the ongoing COVID-19 pandemic, and the conflict between Russia and Ukraine have resulted in significant economic disruption and adversely impacted the broader global economy, including our customers and suppliers. Given the dynamic and uncertain nature of the current macroeconomic environment, we cannot reasonably estimate the impact of such developments on our financial condition, results of operations or cash flows into the foreseeable future. The ultimate extent of the effects of these developments remain highly uncertain, and such effects could exist for an extended period of time.

The Inflation Reduction Act of 2022 (the "IRA") was signed into law in August 2022. The IRA is federal legislation designed to raise revenue from lowering of prescription drug prices and imposition of certain corporate tax measures, while authorizing spending on energy and climate change initiatives, subsidizing the Affordable Care Act, and enacting of certain tax reforms. Management continues to monitor any potential impact of the IRA on our results. No immediate or direct effect from the legislation has had a material impact on our results at this time.

The CHIPS and Science Act ("CHIPS") was signed into law in August 2022. CHIPS is a federal statue providing funding for research and domestic production of semiconductors. Additional funding can be provided through CHIPS to various federal agencies as well as towards climate science research. No immediate or direct material effect from the legislation has had a material impact on our results at this time.

Risks to Our Business

We expect that many customers who utilize our solutions will do so as part of a large-scale deployment of these solutions across multiple or all divisions of their organizations. A customer's decision to deploy our solutions throughout its organization will involve a significant commitment of its resources. Accordingly, initial implementations may precede any decision to deploy our solutions enterprise-wide. Throughout this sales cycle, we may spend considerable time and expense educating and providing information to prospective customers about the benefits of our solutions, and there can be no assurance that our solutions will be deployed on a wider scale by the customer.

The timing of the deployment of our solutions may vary widely and will depend on the specific deployment plan of each customer, the complexity of the customer's organization and the difficulty of such deployment. Customers with substantial or complex organizations may deploy our solutions in large increments on a periodic basis. Accordingly, we may receive purchase orders for significant dollar amounts on an irregular and unpredictable basis. Because of our limited operating history and the nature of our business, we cannot predict the timing or size of these sales and deployment cycles. Long sales cycles, as well as our expectation that customers will tend to place large orders sporadically with short lead times, may cause our revenue and results of operations to vary significantly and unexpectedly from quarter to quarter. These variations could materially and adversely affect the market price of our common stock.

Our ability to increase our revenues and generate net income will depend on a number of factors, including, for example, our ability to:

- increase sales of products and services to our existing customers;
- convert our initial programs into larger or enterprise-wide purchases by our customers;
- increase market acceptance and penetration of our products; and
- develop and commercialize new products and technologies.

As of September 30, 2022, we had cash (including restricted cash) and cash equivalents of $17.0 million and working capital of $36.6 million. Our primary sources of cash are cash flows from operating activities, our holdings of cash, cash equivalents and investments from the sale of our capital stock and borrowings under our credit facility. To date, we have not generated sufficient cash flow solely from operating activities to fund our operations.

We believe that our available working capital, anticipated level of future revenues, expected cash flows from operations and available borrowings under the revolving credit facility with Bank Hapoalim B.M. will provide sufficient funds to cover capital requirements through November 9, 2023.

Additional risks and uncertainties to which we are subject are described under the heading "Risk Factors" in Part II, Item 1A of this report and in our Annual Report on Form 10-K for the year ended December 31, 2021.

Critical Accounting Policies

For the three-month period ended September 30, 2022, there were no significant changes to our critical accounting policies as identified in our Annual Report on Form 10-K for the year ended December 31, 2021.

Results of Operations

The following table sets forth, for the periods indicated, certain operating information expressed as a percentage of revenue:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	**2022**	2021	**2022**
Revenue:				
Products	36.9%	**40.9%**	41.0%	**42.4%**
Services	63.1%	**59.1%**	59.0%	**57.6%**
	100.0%	**100.0%**	100.0%	**100.0%**
Cost of Revenue:				
Cost of products	27.9%	**28.7%**	29.6%	**32.5%**
Cost of services	23.3%	**21.2%**	21.6%	**20.7%**
	51.2%	**49.9%**	51.2%	**53.2%**
Gross profit	48.8%	**50.1%**	48.8%	**46.8%**
Operating expenses:				
Selling, general and administrative expenses	47.7%	**48.6%**	44.7%	**46.4%**
Research and development expenses	9.4%	**5.1%**	9.0%	**6.8%**
Total operating expenses	57.1%	**53.7%**	53.7%	**53.2%**
Loss from operations	(8.3)%	**(3.6)%**	(4.9)%	**(6.4)%**
Interest income	0.0%	**0.1%**	0.0%	**0.0%**
Interest expense	(2.6)%	**(1.0)%**	(1.5)%	**1.3%**
Other income (expenses) net,	0.0%	**0.0%**	0.0%	**0.0%**
Net loss before income taxes	(10.9)%	**(4.5)%**	(6.4)%	**(5.1)%**
Income tax benefit (expense)	(0.6)%	**(2.2)%**	(0.8)%	**(0.1)%**
Net loss before non-controlling interest	(11.5)%	**(6.7)%**	(7.2)%	**(5.2)%**
Non-controlling interest	0.0%	**0.0%**	0.0%	**0.0%**
Net loss	(11.5)%	**(6.7)%**	(7.2)%	**(5.2)%**
Accretion of preferred stock	(0.5)%	**(0.5)%**	(0.5)%	**(0.5)%**
Preferred stock dividend	(3.5)%	**(3.1)%**	(3.4)%	**(3.1)%**
Net loss attributable to common shareholders	(15.5)%	**(10.3)%**	(11.1)%	**(8.8)%**

Three Months Ended September 30, 2022 Compared to Three Months Ended September 30, 2021

REVENUES. Revenues increased by approximately $5.0 million, or 17.2%, to $34.3 million in the three months ended September 30, 2022, from $29.2 million in the same period in 2021.

Revenues from products increased approximately $3.2 million, or 30%, to $14.0 million in the three months ended September 30, 2022, from $10.8 million in the same period in 2021. The increase in product revenue is principally due to increased product sales in our Powerfleet for Logistics business and Powerfleet for Industrial business.

Revenues from services increased approximately $1.8 million, or 9.8%, to $20.3 million in the three months ended September 30, 2022, from $18.5 million in the same period in 2021. The increase in services revenue is principally due to an increase in our install base that generates service revenue and installation revenue.

COST OF REVENUES. Cost of revenues increased by approximately $2.1 million, or 14.2%, to $17.1 million in the three months ended September 30, 2022, from $14.9 million for the same period in 2021. Gross profit was $17.2 million in the three months ended September 30, 2022, compared to $14.3 million in the same period in 2021. As a percentage of revenues, gross profit increased to 50.1% in 2022 from 48.8% in 2021. The increase in gross profit as a percentage of revenue was principally due to improved management of raw materials costs related to the global supply chain issues and electronic component shortages.

Cost of products increased by approximately $1.6 million, or 20.4%, to $9.8 million in the three months ended September 30, 2022, from $8.2 million in the same period in 2021. Gross profit for products was $4.2 million in the three months ended September 30, 2022, compared to $2.6 million in the same period in 2021. As a percentage of product revenues, gross profit increased to 29.8% in 2022 from 24.2% in 2021. The increase in gross profit as a percentage of revenue was principally due to product mix and improved management of raw materials costs related to the global supply chain issues and electronic component shortages.

Cost of services increased by approximately $0.4 million, or 6.8%, to $7.3 million in the three months ended September 30, 2022, from $6.8 million in the same period in 2021. Gross profit for services was $12.9 million in the three months ended September 30, 2022, compared to $11.6 million in the same period in 2021. As a percentage of service revenues, gross profit increased to 64.1% in 2022 from 63.1% in 2021. The increase in gross profit as a percentage of services revenues was principally due to an increase in our install base that generates service revenue.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative (“SG&A”) expenses increased by approximately $2.7 million, or 19.3%, to approximately $16.7 million in the three months ended September 30, 2022, compared to $14.0 million in the same period in 2021, principally due to foreign currency losses, increased salaries and related expenses, and marketing expenses. As a percentage of revenues, SG&A expenses increased to 48.6% in the three months ended September 30, 2022, from 47.7% in the same period in 2021, primarily due to the reasons described above.

RESEARCH AND DEVELOPMENT EXPENSES. Research and development (“R&D”) expenses decreased by approximately $1.0 million, or 36.6%, to approximately $1.7 million in the three months ended September 30, 2022, compared to $2.7 million in the same period in 2021 principally due to the capitalization of software development expenses for new product development. As a percentage of revenues, R&D expenses decreased to 5.1% in the three months ended September 30, 2022, from 9.4% in the same period in 2021, primarily due to the reason described above.

INTEREST EXPENSE. Interest expense decreased by approximately $446 thousand, or 57.4%, to approximately $(331) thousand in the three months ended September 30, 2022, compared to $(777) thousand in the same period in 2021, principally due to foreign currency translation gains from the Term Facilities.

NET LOSS ATTIBUTABLE TO COMMON STOCKHOLDERS. Net loss was $3.5 million, or $(0.10) per basic and diluted share, for the three months ended September 30, 2022, as compared to net loss of $4.5 million, or $(0.13) per basic and diluted share, for the same period in 2021. The decrease in the net loss was due primarily to the reasons described above.

Nine Months Ended September 30, 2022 Compared to Nine Months Ended September 30, 2021

REVENUES. Revenues increased by approximately $10.3 million, or 11.2%, to $102.0 million in the nine months ended September 30, 2022, from $91.8 million in the same period in 2021.

Revenues from products increased by approximately $5.6 million, or 14.8%, to $43.2 million in the nine months ended September 30, 2022, from $37.6 million in the same period in 2021. The increase in product revenue is due to increased product sales in our Powerfleet for Logistics business and Powerfleet for Industrial business.

Revenues from services increased by approximately $4.7 million, or 8.7%, to $58.8 million in the nine months ended September 30, 2022, from $54.1 million in the same period in 2021. The increase in services revenue is principally due to an increase in our install base that generates service revenue.

COST OF REVENUES. Cost of revenues increased by approximately $7.2 million, or 15.4%, to $54.2 million in the nine months ended September 30, 2022, from $47.0 million for the same period in 2021. Gross profit was $47.8 million in the nine months ended September 30, 2022, compared to $44.8 million for the same period in 2021. As a percentage of revenues, gross profit decreased to 46.9% in 2022 from 48.8% in 2021. The decrease in gross profit as a percentage of revenue was principally due to higher raw materials costs related to the global supply chain issues.

Cost of products increased by approximately $6.0 million, or 21.9%, to $33.2 million in the nine months ended September 30, 2022, from $27.2 million in the same period in 2021. Gross profit for products was $10.1 million in the nine months ended September 30, 2022, compared to $10.5 million in the same period in 2021. As a percentage of product revenues, gross profit decreased to 23.3% in 2022 from 27.8% in 2021. The decrease in gross profit as a percentage of revenue was impacted by product mix, higher costs associated with supply chain issues, electronic component shortages and inflation.

Cost of services increased by approximately $1.3 million, or 6.3%, to $21.1 million in the nine months ended September 30, 2022, from $19.8 million in the same period in 2021. Gross profit for services was $37.7 million in the nine months ended September 30, 2022, compared to $34.3 million in the same period in 2021. As a percentage of service revenues, gross profit increased to 64.2% in 2022 from 63.4% in 2021. The increase in gross profit as a percentage of services revenues was principally due to an increase in our install base that generates service revenue.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. SG&A expenses increased by approximately $6.4 million, or 15.6%, to approximately $47.4 million in the nine months ended September 30, 2022, compared to $41.0 million in the same period in 2021, principally due to increased salaries and related expenses, foreign currency losses, marketing and travel expenses, and professional fees. As a percentage of revenues, SG&A expenses increased to 46.4% in the nine months ended September 30, 2022, from 44.7% in the same period in 2021, primarily due to the reasons described above.

RESEARCH AND DEVELOPMENT EXPENSES. R&D expenses decreased by approximately $1.3 million, or 15.7%, to approximately $7.0 million in the nine months ended September 30, 2022, compared to $8.3 million in the same period in 2021, principally due to the capitalization of software development expenses for new product development. As a percentage of revenues, R&D expenses decreased to 6.8% in the nine months ended September 30, 2022, from 9.0% in the same period in 2021, primarily due to the reason described above.

INTEREST EXPENSE. Interest expense decreased by approximately $2.7 million, or 187.3%, to approximately $(1.3) million in the nine months ended September 30, 2022, compared to $1.4 million in the same period in 2021, principally due to foreign currency translation gains from the Term Facilities.

NET LOSS ATTIBUTABLE TO COMMON STOCKHOLDERS. Net loss was $9.0 million, or $(0.25) per basic and diluted share, for the nine months ended September 30, 2022, as compared to net loss of $10.2 million, or $(0.30) per basic and diluted share, for the same period in 2021. The decrease in the net loss was due primarily to the reasons described above.

Liquidity and Capital Resources

Historically, our capital requirements have been funded primarily from the net proceeds from the issuance of our securities, including any issuances of our common stock upon the exercise of options. As of September 30, 2022, we had cash (including restricted cash) and cash equivalents of $17.0 million and working capital of $36.6 million.

On October 3, 2019, in connection with our acquisition of Pointer, we issued and sold 50,000 shares of Series A Convertible Preferred Stock, par value $0.01 per share (the “Series A Preferred Stock”), to ABRY Senior Equity V, L.P., ABRY Senior Equity Co-Investment Fund V, L.P and ABRY Investment Partnership, L.P. (the “Investors”), pursuant to the terms of an Investment and Transaction Agreement, dated as of March 13, 2019 (as such agreement has been amended from time to time, the “Investment Agreement”) for an aggregate purchase price of $50.0 million. The proceeds received from such sale were used to finance a portion of the cash consideration payable in our acquisition of Pointer.

In addition, our wholly-owned subsidiaries, Powerfleet Israel and Pointer (the “Borrowers”) are party to a Credit Agreement (the “Credit Agreement”) with Bank Hapoalim B.M. (“Hapoalim”), pursuant to which Hapoalim agreed to provide Powerfleet Israel with two senior secured term loan facilities in an aggregate principal amount of $30 million (comprised of two facilities in the aggregate principal amount of $20 million (the “Term A Facility”) and $10 million (the “Term B Facility”)) and a five-year revolving credit facility to Pointer in an aggregate principal amount of $10 million (the “Revolving Facility”). The outstanding amount under the term loan facilities was $21.3 million as of September 30, 2022. The proceeds of the term loan facilities were used to finance a portion of the cash consideration payable in our acquisition of Pointer. The proceeds of the revolving credit facility may be used by Pointer for general corporate purposes. As of September 30, 2022, the Company borrowed $3.9 million under the revolving credit facility.

On August 23, 2021, the Borrowers entered into an amendment (the “Amendment”), effective as of August 1, 2021, to the Credit Agreement with Hapoalim. The Amendment memorializes the agreements between the Borrowers and Hapoalim regarding a reduction in the interest rates of the Term A Facility and the Term B Facility. Pursuant to the Amendment, commencing as of November 12, 2020, the interest rate with respect to the Term A Facility was reduced to a fixed rate of 3.65% per annum and the interest rate with respect to the Term B Facility was reduced to a fixed rate of 4.5% per annum. The Amendment also provides, among other things, for (i) a reduction in the credit allocation fee on undrawn and uncancelled amounts of the Revolving Facility from 1% to 0.5% per annum, (ii) removal of the requirement that Powerfleet Israel maintain $3,000 on deposit in a separate reserve fund, and (iii) modifications to certain of the affirmative and negative covenants, including a financial covenant regarding the ratio of the Borrowers’ debt levels to Pointer’s EBITDA.

In June 2012, Pointer entered into a one-year $1,000 revolving credit facility with Discount Bank, which renews annually, subject to the bank’s approval. The proceeds of the revolving credit facility may be used by Pointer for general corporate purposes. The Company did not have any borrowings outstanding under the revolving credit facility with Discount Bank as of September 30, 2022.

On October 31, 2022, the Borrowers entered into a third amendment to the Credit Agreement (the “Third Amendment”) with Hapoalim. The Third Amendment provides for, among other things, a new revolving credit facility to Pointer in the aggregate principal amount of $10 million (the “New Revolver”). The New Revolver will be available for a period of one month, commencing on October 31, 2022, and will continue to be available for successive one-month periods until and including October 30, 2023, unless the Borrowers deliver a notice to Hapoalim of their request not to renew the New Revolver.

The New Revolver will initially bear interest at the Secured Overnight Financing Rate plus 2.59%. Such interest is subject to monthly changes by Hapoalim, provided that Hapoalim gives Pointer advance notice regarding such change prior to the end of the applicable calendar month.

The New Revolver will be secured by a first ranking fixed pledge and assignment by Pointer over its new bank account, which was opened in connection with the New Revolver, and all of the rights relating thereunder as well as a cross guarantee by Powerfleet Israel.

Pointer is required to pay a credit allocation fee equal to 0.5% per annum on undrawn and uncancelled amounts of the New Revolver.

We have on file a shelf registration statement on Form S-3 that was declared effective by the SEC on November 27, 2019. Pursuant to the shelf registration statement, we may offer to the public from time to time, in one or more offerings, up to $60.0 million of our common stock, preferred stock, warrants, debt securities, and units, or any combination of the foregoing, at prices and on terms to be determined at the time of any such offering. The specific terms of any future offering will be determined at the time of the offering and described in a prospectus supplement that will be filed with the SEC in connection with such offering.

On February 1, 2021, we closed an underwritten public offering (the “Underwritten Public Offering”) of 4,427,500 shares of common stock (which includes the full exercise of the underwriters’ over-allotment option) for gross proceeds of approximately $28.8 million, before deducting the underwriting discounts and commissions and other offering expenses. The offer and sale of common stock in the Underwritten Public Offering were made pursuant to our shelf registration statement.

As a result of rising interest rates, higher inflation, supply chain disruptions the ongoing COVID-19 pandemic and the conflict between Russia and Ukraine, there remains uncertainty surrounding the potential impact of such events on our results of operations and cash flows. We are proactively taking steps to increase available cash on hand including, but not limited to, targeted reductions in discretionary operating expenses and capital expenditures and borrowing under the revolving credit facility.

Capital Requirements

As of September 30, 2022, we had cash (including restricted cash) and cash equivalents of $17.0 million and working capital of $36.6 million. Our primary sources of cash are cash flows from operating activities, our holdings of cash, cash equivalents and investments from the sale of our capital stock and borrowings under our credit facility. To date, we have not generated sufficient cash flow solely from operating activities to fund our operations.

We believe our available working capital, anticipated level of future revenues and expected cash flows from operations will provide sufficient funds to cover capital requirements through at least November 9, 2023.

Our capital requirements depend on a variety of factors, including, but not limited to, the length of the sales cycle, the rate of increase or decrease in our existing business base, the success, timing, and amount of investment required to bring new products to market, revenue growth or decline and potential acquisitions. Failure to generate positive cash flow from operations will have a material adverse effect on our business, financial condition and results of operations.

Operating Activities

Net cash used in operating activities was $1.7 million for the nine months ended September 30, 2022, compared to net cash used in operating activities of $1.2 million for the same period in 2021. The net cash used in operating activities for the nine months ended September 30, 2022, reflects a net loss of $5.3 million and includes non-cash charges of $3.2 million for stock-based compensation, $6.2 million for depreciation and amortization expense and $2.1 million for right of use asset amortization. Changes in working capital items included:

- an increase in accounts receivable of $3.0 million;
- an increase in inventory of $5.5 million;
- an increase in prepaid expenses and other assets of $0.7 million;
- an increase in accounts payable of $1.7 million; and
- a decrease in lease liabilities of $2.0 million.

Investing Activities

Net cash used in investing activities was $4.0 million for the nine months ended September 30, 2022, compared to net cash used in investing activities of $2.5 million for the same period in 2021. The cash used in investing activities for the nine months ended September 30, 2022 and 2021 was related to capital expenditures.

Financing Activities

Net cash used in financing activities was $0.5 million for the nine months ended September 30, 2022, compared to net cash provided by financing activities of $19.7 million for the same period in 2021. The cash used in financing activities for the nine months ended September 30, 2022 was primarily due to the repayment of long-term debt of $4.3 million, partially offset by net borrowings under the line of credit of $3.9 million. The change from the same period in 2021 was primarily due to the net proceeds from our stock offering of $26.9 million which was offset by the repayment of long-term debt of $4.0 million and the payment of preferred stock dividends of $3.1 million.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on our financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Contractual Obligations

As of September 30, 2022, there have been no material charges in contractual obligations as disclosed under the caption “Contractual Obligations and Commitments” in Item 7 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2021.

Inflation

Rising inflation and other macroeconomic trends in the U.S. have resulted in higher costs of raw materials, freight, and labor, which has impacted our operating costs. We expect the inflationary environment to continue for the remainder of the year, resulting in corresponding pressure on our operating costs and gross margins. In addition, we operate in several emerging market economies that are particularly vulnerable to the impact of inflationary pressures that could materially and adversely impact our operations in the foreseeable future.

Impact of Recently Issued Accounting Pronouncements

The Company is subject to recently issued accounting standards, accounting guidance and disclosure requirements. For a description of these new accounting standards, see Note 21 to our consolidated financial statements contained in Item 1 of Part I of this Quarterly Report on Form 10-Q, which is incorporated herein by reference.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

Item 4. Controls and Procedures

a. Disclosure controls and procedures.

Disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) are controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission (the "SEC"). Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in the reports that we file under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and our principal financial officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. Due to the inherent limitations of control systems, not all misstatements may be detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. Controls and procedures can only provide reasonable, not absolute, assurance that the above objectives have been met.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness, as of December 31, 2021, of our internal control over financial reporting based on the framework in 2013 Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under this framework, the Chief Executive Officer and the Chief Financial Officer concluded that our internal control over financial reporting was not effective as of December 31, 2021, as disclosed under the caption "Management's Report on Internal Control over Financial Report" in Item 9A of our Annual Report on Form 10-K for the year ended December 31, 2021, due to a material weakness in our internal control over financial reporting described below, which has not been remediated as of September 30, 2022.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis. Management has concluded that a material weakness existed as of December 31, 2021, with respect to its Israel component:

- Controls were not designed, documented, and maintained to ensure accurate reporting of results in Israel including (i) insufficient design and operating effectiveness of management review controls including the appropriate level of precision required to mitigate the potential for a material misstatement, (ii) insufficient documentation evidencing management's review to support the financial statement close process and (iii) inadequate verification for completeness and accuracy of key reports.

The material weakness did not result in any restatements of consolidated financial statements previously reported by us, there were no changes in previously released financial results and management concluded that the consolidated financial statements included in this report present fairly, in all material respects, our financial position, results of operations, and cash flows for the periods presented, in conformity with accounting principles generally accepted in the United States.

We will take certain steps to remediate the material weakness described above and otherwise improve the overall design and operation of our control environment. These steps include:

- Utilizing external resources to support our efforts to rework certain control gaps across the various processes in Israel with identified deficiencies;
- Implementing enhanced documentation associated with management review controls and validation of the completeness and accuracy of key reports in Israel; and
- Training of relevant personnel reinforcing existing policies and enhanced policies with regards to the appropriate steps and procedures required to be performed related to the execution and documentation of internal controls.

b. Changes in internal control over financial reporting.

There was no change in our system of internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) during the quarter ended September 30, 2022 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

In the ordinary course of its business, the Company is at times subject to various legal proceedings. For a description of our material pending legal proceedings, see Note 20 to our consolidated financial statements contained in Item 1 of Part I of this Quarterly Report on Form 10-Q, which is incorporated herein by reference.

Item 1A. Risk Factors

In addition to the other information set forth under the heading "Risks to Our Business" in Part I, Item 2 of this report, you should carefully consider the factors discussed in Part I, Item 1A. "Risk Factors," in the Company's Annual Report on Form 10-K for the year ended December 31, 2021 as such factors could materially affect the Company's business, financial condition, and future results. The risks described in the Company's Annual Report on Form 10-K are not the only risks that the Company faces. Additional risks and uncertainties not currently known to the Company, or that the Company currently deems to be immaterial, also may have a material adverse impact on the Company's business, financial condition, or results of operations.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Purchases of Equity Securities by the Issuer

The following table provides information regarding our shares withheld activity for each month of the quarterly period ended September 30, 2022 (in thousands). These shares were withheld to satisfy minimum tax withholding obligations in connection with the vesting of restricted stock.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
July 1, 2022 - July 31, 2022	-	$ -	$ -	$ -
August 1, 2022 - August 31, 2022	2,000(1)	$ 3.35	$ -	$ -
September 1, 2022 - September 30, 2022		$ -	$ -	$ -
Total	2,000	$ 3.35	$ -	$ -

(1) Represents shares of common stock withheld to satisfy minimum tax withholding obligations in connection with the vesting of restricted stock.

Item 6. Exhibits

The following exhibits are filed with this Quarterly Report on Form 10-Q:

Exhibits:

Exhibit Number	Description
31.1	Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
31.2	Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
32	Certification of Principal Executive Officer and Principal Financial Officer Pursuant to 18 U.S.C. § 1350 As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
101	The following financial statements from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2022, formatted in Inline XBRL: (i) Condensed Consolidated Balance Sheets as of December 31, 2021 and September 30, 2022; (ii) Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2021 and 2022; (iii) Condensed Consolidated Statements of Comprehensive Loss for the three and nine months ended September 30, 2021 and 2022; (iv) Condensed Consolidated Statement of Changes in Stockholders' Equity for the periods January 1, 2021 through September 30, 2021 and January 1, 2022 through September 30, 2022; (v) Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2021 and 2022; and (vi) Notes to Unaudited Condensed Consolidated Financial Statements.
104	The cover page from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2022, formatted in Inline XBRL (included as Exhibit 101).

* Furnished herewith.

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.

	POWERFLEET, INC.
Date: November 9, 2022	By: */s/ Steve Towe* Steve Towe Chief Executive Officer (Principal Executive Officer)
Date: November 9, 2022	By: */s/ Joaquin Fong* Joaquin Fong Global Controller (Principal Financial and Accounting Officer)

Exhibit 31.1

CERTIFICATION

I, Steve Towe, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Powerfleet, Inc.;

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

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

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

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

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

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

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

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

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

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

Date: November 9, 2022

/s/ Steve Towe

Steve Towe
Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION

I, Joaquin Fong, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Powerfleet, Inc.;

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

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

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

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

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

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

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

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

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

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

Date: November 9, 2022

/s/ Joaquin Fong

Joaquin Fong
Global Controller
(Principal Financial and Accounting Officer)

Exhibit 32

CERTIFICATION
PURSUANT TO 18 U.S.C. §1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Steve Towe, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q of Powerfleet, Inc. for the quarter ended September 30, 2022, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Powerfleet, Inc. at the dates and for the periods indicated.

I, Joaquin Fong, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q of Powerfleet, Inc. for the quarter ended September 30, 2022, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Powerfleet, Inc. at the dates and for the periods indicated.

By: */s/ Steve Towe*
Steve Towe
Chief Executive Officer
(Principal Executive Officer)
Date: November 9, 2022

By: */s/ Joaquin Fong*
Joaquin Fong
Global Controller
(Principal Financial and Accounting Officer)
Date: November 9, 2022

The foregoing certification is being furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code) and is not being filed as part of the Quarterly Report on Form 10-Q of Powerfleet, Inc. for the quarter ended September 30, 2022 or as a separate disclosure document.

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Powerfleet, Inc. and will be retained by Powerfleet, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.