

COMTECH TELECOMMUNICATIONS CORP /DE/
Form 10-Q
March 09, 2009

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 January 31, 2009

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File Number: 0-7928

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation /organization)

11-2139466
(I.R.S. Employer Identification Number)

68 South Service Road, Suite 230,
Melville, NY
(Address of principal executive offices)

11747
(Zip Code)

(631) 962-7000
(Registrant's telephone number, including
area code)

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

Yes No

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

Large accelerated filer Accelerated filer Non-accelerated
filer

Indicate by check mark whether registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes

No

APPLICABLE ONLY TO CORPORATE ISSUERS:

As of March 5, 2009, the number of outstanding shares of Common Stock, par value \$.10 per share, of the registrant was 28,128,573 shares.

COMTECH TELECOMMUNICATIONS CORP.
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PART I
FINANCIAL INFORMATION
COMTECH TELECOMMUNICATIONS CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

Item 1.	Assets	January 31, 2009 (Unaudited)	July 31, 2008
Current assets:			
Cash and cash equivalents		\$ 232,207,000	410,067,000
Accounts receivable, net		95,672,000	70,040,000
Inventories, net		111,622,000	85,966,000
Prepaid expenses and other current assets		12,041,000	5,891,000
Deferred tax asset		17,297,000	10,026,000
Total current assets		468,839,000	581,990,000
Property, plant and equipment, net		39,433,000	34,269,000
Goodwill		147,677,000	24,363,000
Intangibles with finite lives, net		59,275,000	7,505,000
Deferred financing costs, net		1,080,000	1,357,000
Other assets, net		708,000	3,636,000
Total assets		\$ 717,012,000	653,120,000
Liabilities and Stockholders' Equity			
Current liabilities:			
Accounts payable		\$ 22,588,000	31,423,000
Accrued expenses and other current liabilities		48,238,000	49,671,000
Customer advances and deposits		17,514,000	15,287,000
Current installments of other obligations		37,000	108,000
Interest payable		1,050,000	1,050,000
Total current liabilities		89,427,000	97,539,000
Convertible senior notes		104,616,000	105,000,000
Other liabilities		2,480,000	-
Income taxes payable		3,714,000	1,909,000
Deferred tax liability		22,464,000	5,870,000
Total liabilities		222,701,000	210,318,000
Commitments and contingencies (See Note 17)			
Stockholders' equity:			
Preferred stock, par value \$.10 per share; shares authorized and unissued 2,000,000		-	-
Common stock, par value \$.10 per share; authorized 100,000,000 shares; issued 25,017,923 shares and 24,600,166 shares at January 31, 2009 and July 31, 2008, respectively		2,502,000	2,460,000
Additional paid-in capital		202,502,000	186,246,000
Retained earnings		289,492,000	254,281,000
		494,496,000	442,987,000

Less:		
Treasury stock (210,937 shares)	(185,000)	(185,000)
Total stockholders' equity	494,311,000	442,802,000
Total liabilities and stockholders' equity	\$ 717,012,000	653,120,000

See accompanying notes to condensed consolidated financial statements.

COMTECH TELECOMMUNICATIONS CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three months ended January 31,		Six months ended January 31,	
	2009	2008	2009	2008
Net sales	\$ 143,886,000	152,030,000	335,801,000	267,085,000
Cost of sales	84,409,000	85,705,000	189,345,000	150,282,000
Gross profit	59,477,000	66,325,000	146,456,000	116,803,000
Expenses:				
Selling, general and administrative	25,969,000	21,304,000	54,947,000	41,703,000
Research and development	12,522,000	9,140,000	26,647,000	20,181,000
Amortization of acquired in-process research and development (See Note 6)	-	-	6,200,000	-
Amortization of intangibles	1,796,000	434,000	3,589,000	813,000
	40,287,000	30,878,000	91,383,000	62,697,000
Operating income	19,190,000	35,447,000	55,073,000	54,106,000
Other expenses (income):				
Interest expense	711,000	670,000	1,377,000	1,347,000
Interest income and other	(626,000)	(4,095,000)	(1,903,000)	(8,542,000)
Income before provision for income taxes	19,105,000	38,872,000	55,599,000	61,301,000
Provision for income taxes	6,265,000	13,403,000	20,388,000	21,138,000
Net income	\$ 12,840,000	25,469,000	35,211,000	40,163,000
Net income per share (See Note 5):				
Basic	\$ 0.52	1.06	1.43	1.67
Diluted	\$ 0.46	0.91	1.26	1.45
Weighted average number of common shares outstanding – basic				
	24,759,000	24,099,000	24,673,000	24,012,000
Weighted average number of common and common equivalent shares outstanding assuming dilution – diluted				
	28,633,000	28,303,000	28,585,000	28,256,000

See accompanying notes to condensed consolidated financial statements.

COMTECH TELECOMMUNICATIONS CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six months ended January 31,	
	2009	2008
Cash flows from operating activities:		
Net income	\$ 35,211,000	40,163,000
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization of property, plant and equipment	5,965,000	4,371,000
Amortization of acquired in-process research and development	6,200,000	-
Amortization of intangible assets with finite lives	3,589,000	813,000
Amortization of stock-based compensation	4,710,000	5,271,000
Amortization of fair value inventory step-up	1,520,000	-
Deferred financing costs	273,000	273,000
Loss on disposal of property, plant and equipment	10,000	-
Provision for (benefit from) allowance for doubtful accounts	785,000	(5,000)
Provision for excess and obsolete inventory	2,012,000	1,236,000
Excess income tax benefit from stock award exercises	(2,491,000)	(1,523,000)
Deferred income tax benefit	(717,000)	(97,000)
Changes in assets and liabilities, net of effects of acquisitions:		
Accounts receivable	(4,489,000)	(38,786,000)
Inventories	1,087,000	(16,883,000)
Prepaid expenses and other current assets	(2,900,000)	(1,313,000)
Other assets	(63,000)	69,000
Accounts payable	(14,549,000)	1,858,000
Accrued expenses and other current liabilities	(15,169,000)	(3,986,000)
Customer advances and deposits	(935,000)	4,010,000
Other liabilities	212,000	-
Income taxes payable	4,104,000	3,564,000
Net cash provided by (used in) operating activities	24,365,000	(965,000)
Cash flows from investing activities:		
Purchases of property, plant and equipment	(7,844,000)	(6,386,000)
Purchases of other intangibles with finite lives	(100,000)	(193,000)
Payments for business acquisitions, net of cash acquired	(205,223,000)	(265,000)
Net cash used in investing activities	(213,167,000)	(6,844,000)
Cash flows from financing activities:		
Principal payments on other obligations	(71,000)	(66,000)
Excess income tax benefit from stock award exercises	2,491,000	1,523,000
Proceeds from exercises of stock options	7,864,000	3,939,000
Proceeds from issuance of employee stock purchase plan shares	658,000	448,000
Net cash provided by financing activities	10,942,000	5,844,000
Net decrease in cash and cash equivalents	(177,860,000)	(1,965,000)
Cash and cash equivalents at beginning of period	410,067,000	342,903,000
Cash and cash equivalents at end of period	\$ 232,207,000	340,938,000

Supplemental cash flow disclosures:

Cash paid during the period for:

Interest	\$ 1,054,000	1,068,000
Income taxes	\$ 17,214,000	17,881,000

Non cash investing and financing activities:

Radyne acquisition transaction costs not yet paid (See Note 9)	\$ 428,000	-
Common stock issued in exchange for convertible senior notes (See Note 11)	\$ 384,000	-

See accompanying notes to condensed consolidated financial statements.

COMTECH TELECOMMUNICATIONS CORP. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

(1) General

The accompanying condensed consolidated financial statements of Comtech Telecommunications Corp. and Subsidiaries (the “Company”) as of and for the three and six months ended January 31, 2009 and 2008 are unaudited. In the opinion of management, the information furnished reflects all material adjustments (which include normal recurring adjustments) necessary for a fair presentation of the results for the unaudited interim periods. The results of operations for such periods are not necessarily indicative of the results of operations to be expected for the full fiscal year. For the three and six months ended January 31, 2009 and 2008, comprehensive income was equal to net income.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount 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 reported period. Actual results may differ from those estimates.

These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements of the Company for the fiscal year ended July 31, 2008 and the notes thereto contained in the Company’s Annual Report on Form 10-K, filed with the Securities and Exchange Commission (“SEC”), and all of the Company’s other filings with the SEC.

(2) Reclassifications

Certain reclassifications have been made to previously reported financial statements to conform to the Company’s current financial statement format.

(3) Stock-Based Compensation

The Company applies the provisions of Financial Accounting Standards Board (“FASB”) Statement of Financial Accounting Standards (“SFAS”) No. 123(R), “Share-Based Payment,” which establishes the accounting for employee stock-based awards. Under the provisions of SFAS No. 123(R), stock-based compensation for both equity and liability-classified awards is measured at the grant date, based on the calculated fair value of the award, and is recognized as an expense over the requisite employee service period (generally the vesting period of the grant). The fair value of liability-classified awards is remeasured at the end of each reporting period until the award is settled, with changes in fair value recognized pro-rata for the portion of the requisite service period rendered. The Company used the modified prospective method upon adopting SFAS No. 123(R).

The Company recognized stock-based compensation for awards issued under the Company’s Stock Option Plans and the Company’s 2001 Employee Stock Purchase Plan (the “ESPP”) in the following line items in the Condensed Consolidated Statements of Operations:

	Three months ended January 31,		Six months ended January 31,	
	2009	2008	2009	2008
Cost of sales	\$ 267,000	106,000	352,000	327,000
	1,647,000	2,023,000	3,531,000	4,043,000

Selling, general and administrative
expenses

Research and development expenses	378,000	423,000	827,000	901,000
Stock-based compensation expense before income tax benefit	2,292,000	2,552,000	4,710,000	5,271,000
Income tax benefit	(838,000)	(888,000)	(1,620,000)	(1,829,000)
Net stock-based compensation expense	\$ 1,454,000	1,664,000	3,090,000	3,442,000

Of the total stock-based compensation expense before income tax benefit recognized in the three months ended January 31, 2009 and 2008, \$109,000 and \$54,000, respectively, related to awards issued pursuant to the ESPP. Of the total stock-based compensation expense before income tax benefit recognized in the six months ended January 31, 2009 and 2008, \$165,000 and \$105,000, respectively, related to awards issued pursuant to the ESPP.

Included in total stock-based compensation expense before income tax benefit in the three months ended January 31, 2009 and 2008 is a benefit of \$80,000 and \$4,000, respectively, as a result of the required fair value remeasurement of the Company's liability-classified stock appreciation rights ("SARs") at the end of the reporting period. Included in total stock-based compensation expense before income tax benefit in the six months ended January 31, 2009 and 2008 is a benefit of \$51,000 and a charge of \$85,000, respectively, related to SARs.

Stock-based compensation that was capitalized and included in ending inventory at January 31, 2009 and July 31, 2008 was \$314,000 and \$215,000, respectively.

The Company estimates the fair value of stock-based awards using the Black-Scholes option pricing model. The Black-Scholes option pricing model includes assumptions regarding dividend yield, expected volatility, expected option term and risk-free interest rates. The assumptions used in computing the fair value of stock-based awards reflect the Company's best estimates, but involve uncertainties relating to market and other conditions, many of which are outside of its control. Estimates of fair value are not intended to predict actual future events or the value ultimately realized by the employees who receive stock-based awards.

The per share weighted average grant-date fair value of stock-based awards granted during the three months ended January 31, 2009 and 2008 approximated \$14.95 and \$17.43, respectively. The per share weighted average grant-date fair value of stock-based awards granted during the six months ended January 31, 2009 and 2008 approximated \$15.59 and \$15.73, respectively. In addition to the exercise and grant-date prices of the awards, certain weighted average assumptions that were used to estimate the initial fair value of stock-based awards in the respective periods are listed in the table below:

	Three months ended January 31,		Six months ended January 31,	
	2009	2008	2009	2008
Expected dividend yield	0%	0%	0%	0%
Expected volatility	40.44%	42.43%	40.36%	43.11%
Risk-free interest rate	1.02%	2.91%	2.81%	4.54%
Expected life (years)	3.52	3.41	3.61	3.55

Stock-based awards granted during the three and six months ended January 31, 2009 and 2008 have exercise prices equal to the fair market value of the stock on the date of grant, a contractual term of five years and a vesting period of three years. All stock-based awards granted through July 31, 2005 have exercise prices equal to the fair market value of the stock on the date of grant and a contractual term of ten years and generally a vesting period of five years. The Company settles employee stock option exercises with new shares. All SARs granted through January 31, 2009 may only be settled with cash. Included in accrued expenses at January 31, 2009 and July 31, 2008 is \$141,000 and \$192,000, respectively, relating to the cash settlement of SARs.

The Company estimates expected volatility by considering the historical volatility of the Company's stock, the implied volatility of publicly traded stock options in the Company's stock and the Company's expectations of volatility for the expected term of stock-based compensation awards. The risk-free interest rate is based on the United States ("U.S.") treasury yield curve in effect at the time of grant. The expected life is the number of years that the Company estimates awards will be outstanding prior to exercise. The expected life of the awards issued after July 31, 2005 and through

July 31, 2007 was determined using the “simplified method” prescribed in SEC Staff Accounting Bulletin (“SAB”) No. 107. Effective August 1, 2007, the expected life of awards was determined by employee groups with sufficiently distinct behavior patterns.

The following table provides the components of the actual income tax benefit recognized for tax deductions relating to the exercise of stock-based awards:

	Six months ended January 31,	
	2009	2008
Actual income tax benefit recorded for the tax deductions relating to the exercise of stock-based awards	\$ 3,718,000	2,088,000
Less: Tax benefit initially recognized on exercised stock-based awards vesting subsequent to the adoption of SFAS No. 123(R)	(1,227,000)	(565,000)
Excess income tax benefit recorded as an increase to additional paid-in capital	2,491,000	1,523,000
Less: Tax benefit initially disclosed but not previously recognized on exercised equity-classified stock-based awards vesting prior to the adoption of SFAS No. 123(R)	-	-
Excess income tax benefit from exercised equity-classified stock-based awards reported as a cash flow from financing activities in the Company's Condensed Consolidated Statements of Cash Flows	\$ 2,491,000	1,523,000

At January 31, 2009, total remaining unrecognized compensation cost related to unvested stock-based awards was \$13,627,000, net of estimated forfeitures of \$884,000. The net cost is expected to be recognized over a weighted average period of 1.9 years.

(4) Fair Value Measurement

Effective August 1, 2008, the Company adopted SFAS No. 157, "Fair Value Measurements." SFAS No. 157 defines fair value as the price that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It establishes a fair value hierarchy that distinguishes between (a) Level 1 inputs which are based on quoted market prices for identical assets or liabilities in active markets at the measurement date; (b) Level 2 inputs which are observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data; and (c) Level 3 inputs which reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date and which are both unobservable in the market and significant to the instrument's valuation.

The only assets or liabilities measured at fair value on a recurring basis as of January 31, 2009 were investments owned by the Company that are classified as cash and cash equivalents. As of January 31, 2009, substantially all of the Company's cash and cash equivalents consist of money market funds which were valued using Level 1 inputs.

(5) Earnings Per Share

The Company calculates earnings per share ("EPS") in accordance with SFAS No. 128, "Earnings per Share." Basic EPS is computed based on the weighted average number of shares outstanding. Diluted EPS reflects the dilution from potential common stock issuable pursuant to the exercise of equity-classified stock-based awards and convertible senior notes, if dilutive, outstanding during each period. Equity-classified stock-based awards to purchase 1,115,000 and 586,000 shares for the three months ended January 31, 2009 and 2008, respectively, were not included in the EPS calculation because their effect would have been anti-dilutive. Equity-classified stock-based awards to purchase

1,113,000 and 588,000 shares for the six months ended January 31, 2009 and 2008, respectively, were not included in the EPS calculation because their effect would have been anti-dilutive. Liability-classified stock-based awards do not impact, and are not included in, the denominator for EPS calculations.

In accordance with Emerging Issues Task Force (“EITF”) Issue No. 04-8, “The Effect of Contingently Convertible Instruments on Diluted Earnings per Share,” the Company includes the impact of the assumed conversion of its 2.0% convertible senior notes in calculating diluted EPS.

The following table reconciles the numerators and denominators used in the basic and diluted EPS calculations:

	Three months ended January 31,		Six months ended January 31,	
	2009	2008	2009	2008
Numerator:				
Net income for basic calculation	\$ 12,840,000	25,469,000	35,211,000	40,163,000
Effect of dilutive securities:				
Interest expense (net of tax) on convertible senior notes	417,000	417,000	833,000	833,000
Numerator for diluted calculation	\$ 13,257,000	25,886,000	36,044,000	40,996,000
Denominator:				
Denominator for basic calculation	24,759,000	24,099,000	24,673,000	24,012,000
Effect of dilutive securities:				
Stock options	541,000	871,000	579,000	911,000
Conversion of convertible senior notes	3,333,000	3,333,000	3,333,000	3,333,000
Denominator for diluted calculation	28,633,000	28,303,000	28,585,000	28,256,000

As discussed in “Notes to Condensed Consolidated Financial Statements – Note (11) 2.0% Convertible Senior Notes,” the Company’s 2.0% Convertible Senior Notes were fully converted into 3,333,327 shares of the Company’s common stock as of February 12, 2009.

(6) Acquisitions

The Radyne Acquisition

On August 1, 2008, the Company acquired Radyne Corporation (“Radyne”) for a preliminary aggregate purchase price of approximately \$231,684,000 (including estimated transaction costs and liabilities assumed for outstanding share-based awards). The operating results of Radyne have been included in the consolidated statement of operations from August 1, 2008 (the beginning of the Company’s fiscal year 2009) through January 31, 2009. From an operational and financial reporting perspective, Radyne’s satellite electronics and video encoder and decoder product lines are now part of the Company’s telecommunications transmission segment; Radyne’s traveling wave tube amplifier (“TWTA”) and klystron tube power amplifier (“KPA”) product portfolios are now part of the Company’s RF microwave amplifiers segment; and Radyne’s microsatellites and Sensor Enabled Notification (“SENS”) Technology product lines are now part of the Company’s mobile data communications segment.

The unaudited pro forma financial information in the table below, for the three months ended January 31, 2008, combines the historical results of Comtech for the three months ended January 31, 2008 and, due to the differences in the companies’ reporting periods, the historical results of Radyne from October 1, 2007 through December 31, 2007. The unaudited pro forma financial information in the table below, for the six months ended January 31, 2008, combines the historical results of Comtech for the six months ended January 31, 2008 and, due to the differences in the companies’ reporting periods, the historical results of Radyne from July 1, 2007 through December 31, 2007.

	Three months ended January 31, 2008	Six months ended January 31, 2008
Total revenues	\$ 191,744,000	345,173,000
Net income	24,918,000	34,355,000
Basic net income per share	1.03	1.43

Diluted net income per share	0.90	1.25
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The pro forma financial information is not indicative of the results of operations that would have been achieved if the acquisition and cash paid had taken place at the beginning of the three or six months ended January 31, 2008. For the three and six months ended January 31, 2008, the pro forma financial information includes adjustments for:

- incremental amortization expense of \$0 and \$6,200,000, respectively, for the estimated fair value of acquired in-process research and development;

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- incremental amortization expense of \$833,000 and \$1,716,000, respectively, associated with the increase in acquired other intangible assets;
 - incremental amortization of \$760,000 and \$1,520,000, respectively, related to the fair value step-up of certain inventory acquired;
 - lower interest income of \$2,552,000 and \$5,104,000, respectively, due to assumed cash payments relating to the Radyne acquisition; and
- the net tax impact of all of these adjustments.

The Company accounts for business combinations in accordance with FASB Statement No. 141, "Business Combinations" ("SFAS No. 141"). Accordingly, the preliminary aggregate purchase price for Radyne was allocated as set forth below:

Preliminary fair value of Radyne net tangible assets acquired	\$ 68,478,000	
Preliminary fair value adjustments to net tangible assets:		
Acquisition-related restructuring liabilities (See Note 10)	(3,213,000)	
Inventory step-up	1,520,000	
Deferred tax assets, net	626,000	
Preliminary fair value of net tangible assets acquired	67,411,000	
Preliminary adjustments to record intangible assets at fair value:		
In-process research and development	6,200,000	Estimated Useful Lives Expensed immediately
Customer relationships	29,600,000	10 years
Technologies	19,900,000	7 to 15 years
Trademarks and other	5,700,000	2 to 20 years
Goodwill	123,297,000	Indefinite
Deferred tax liabilities, net	(20,424,000)	
	164,273,000	
Preliminary aggregate purchase price	\$ 231,684,000	

The estimated fair value of technologies and trademarks was based on the discounted capitalization of royalty expense saved because the Company now owns the assets. The estimated fair value of customer relationships and other intangibles with finite lives was primarily based on the value of the discounted cash flows that the related intangible asset could be expected to generate in the future.

The estimated fair value ascribed to in-process research and development projects of \$6,200,000 was based upon the excess earnings approach utilizing the estimated economic life of the ultimate products to be developed, the estimated timing of when the ultimate products were expected to be commercialized and the related net cash flows expected to be generated. These net cash flows were discounted back to their net present value utilizing a weighted average cost of capital. The following table summarizes the fair value allocated to each project acquired, as well as the significant appraisal assumptions used as of the acquisition date and the current project status:

As of the Acquisition Date of August 1, 2008						
Specific Nature of In-Process Research and Development Projects	Fair Market Value Allocated	% of Estimated Efforts Complete	Original Anticipated Completion Date	Discount Rate	Fiscal Year Cash Flows Projected To Commence	Project Status as of January 31, 2009
RF Microwave						

Amplifiers Segment

			November			
Technology #1	\$ 1,553,000	61%	2008	14%	2009	In-Process
Technology #2	971,000	54%	January 2009	14%	2009	In-Process
Technology #3	776,000	76%	October 2008	14%	2009	Complete

Telecommunications

Transmission

Segment

Technology #4	2,900,000	75%	October 2008	14%	2009	Complete
Total	\$ 6,200,000					

These purchased in-process research and development efforts are complex and unique in light of the nature of the technology, which is generally state-of-the-art. Risks and uncertainties associated with completing the projects in process include the availability of skilled engineers, the introduction of similar technologies by others, changes in market demand for the technologies and changes in industry standards affecting the technology. The Company does not believe that a failure to eventually complete the remaining acquired in-process research and development projects will have a material impact on the Company's consolidated results of operations.

The allocation of the purchase price for Radyne was based upon a preliminary valuation and estimates and assumptions that are subject to change within the purchase price allocation period (generally one year from the acquisition date). The primary areas of purchase price not yet finalized include restructuring costs, income taxes, certain pre-acquisition contingencies for Radyne's export matters that existed as of the acquisition date (see "Notes to Condensed Consolidated Financial Statements – Note (17) Legal Matters and Proceedings") and residual goodwill.

The Verso Acquisition

In July 2008, the Company acquired the network backhaul assets and the NetPerformer and AccessGate product lines and assumed certain liabilities of Verso Technologies ("Verso") for \$3,917,000. This operation was combined with the Company's existing business and is part of the telecommunications transmission segment. Sales and income related to the Verso acquisition were not material to the Company's results of operation and the effects of the acquisition were not material to the Company's historical consolidated financial statements. The Company allocated the aggregate purchase price of the Verso acquisition to net tangible assets and intangible assets with an estimated useful life of seven years. The valuation of Verso's intangible assets was based primarily on the discounted capitalization of royalty expense saved because the Company now owns the assets.

(7) Accounts Receivable

Accounts receivable consist of the following:

	January 31, 2009	July 31, 2008
Billed receivables from commercial customers	\$ 59,663,000	31,758,000
Billed receivables from the U.S. government and its agencies	35,523,000	34,911,000
Unbilled receivables on contracts-in-progress	2,565,000	4,672,000
	97,751,000	71,341,000
Less allowance for doubtful accounts	2,079,000	1,301,000
Accounts receivable, net	\$ 95,672,000	70,040,000

Unbilled receivables on contracts-in-progress include \$2,192,000 and \$2,854,000 at January 31, 2009 and July 31, 2008, respectively, due from the U.S. government and its agencies. There was \$290,000 and \$145,000 of retainage included in unbilled receivables at January 31, 2009 and July 31, 2008, respectively. In the opinion of management, substantially all of the unbilled balances will be billed and collected within one year.

(8) Inventories

Inventories consist of the following:

	January 31, 2009	July 31, 2008
Raw materials and components	\$ 70,497,000	41,047,000
Work-in-process and finished goods	50,822,000	53,120,000
	121,319,000	94,167,000
Less reserve for excess and obsolete inventories	9,697,000	8,201,000
Inventories, net	\$ 111,622,000	85,966,000

Inventories directly related to long-term contracts, including the Company's contracts for the U.S. Army's Movement Tracking System ("MTS") and the U.S. Army's Force XXI Battle Command, Brigade-and-Below command and control systems (also known as Blue Force Tracking ("BFT")), were \$26,741,000 and \$29,081,000 at January 31, 2009 and July 31, 2008, respectively. During the three months ended January 31, 2009, the Company received an order for \$281,500,000 under its MTS contract with the U.S. Army for the supply of 20,000 new ruggedized tablet computers and related accessories, all of which are expected to be integrated into previously deployed MTS systems which currently utilize ruggedized laptop computers. As of January 31, 2009, the Company has approximately 2,000 ruggedized laptop computers and related accessories on hand with a net book value of approximately \$11,200,000, which is included in raw materials and components and also in the \$26,741,000 of inventory directly related to long-term contracts.

The Company has shipped in excess of 15,000 ruggedized laptop computers to-date, primarily to our MTS customer, including approximately 1,000, during fiscal 2009, of the exact model that the Company currently has on-hand. The Company expects that it will ultimately sell these ruggedized laptop computers for amounts in excess of their current net book value based on a variety of factors, including the Company's belief that there may be additional deployments of MTS systems using laptop computers and that the Company intends to continue to actively market them to potential customers, including the Army National Guard and NATO. In the future, if the Company determines that this inventory will not be utilized or cannot be sold above the net book value, it would be required to record a write-down of the value of such inventory in its consolidated financial statements at the time of such determination.

At January 31, 2009 and July 31, 2008, \$4,066,000 and \$4,336,000, respectively, of the inventory balance above related to contracts from third-party commercial customers who outsource their manufacturing to the Company.

(9) Accrued Expenses

Accrued expenses and other current liabilities consist of the following:

	January 31, 2009	July 31, 2008
Accrued wages and benefits	\$ 18,474,000	23,680,000
Accrued warranty obligations	14,768,000	12,308,000
Accrued commissions and royalties	4,061,000	4,882,000
Accrued business acquisition payments	428,000	1,169,000
Accrued acquisition-related restructuring liabilities (See Note 10)	295,000	-
Other	10,212,000	7,632,000
Accrued expenses and other current liabilities	\$ 48,238,000	49,671,000

The Company provides warranty coverage for most of its products for a period of at least one year from the date of shipment. The Company records a liability for estimated warranty expense based on historical claims, product failure rates and other factors. Some of the Company's product warranties are provided under long-term contracts, the costs of which are incorporated into the Company's estimates of total contract costs.

Changes in the Company's product warranty liability during the six months ended January 31, 2009 and 2008 were as follows:

	Six months ended January 31,	
	2009	2008
Balance at beginning of period	\$ 12,308,000	9,685,000
Provision for warranty obligations	4,216,000	4,286,000
Warranty obligations acquired from Radyne	1,975,000	-
Reversal of warranty liability	(62,000)	(156,000)
Charges incurred	(3,669,000)	(2,312,000)
Balance at end of period	\$ 14,768,000	11,503,000

(10) Restructuring Plan

Acquisition-related

In connection with the August 1, 2008 acquisition of Radyne, the Company immediately adopted a restructuring plan to achieve operating synergies. As of October 31, 2008, the Company vacated and subleased Radyne's Phoenix, Arizona manufacturing facility and integrated Radyne's satellite earth station manufacturing and engineering operations into the Company's high-volume technology manufacturing center located in Tempe, Arizona. In addition, Radyne's corporate functions, which were co-located in Radyne's manufacturing facility, have been moved to the Company's Melville, New York corporate headquarters. These actions were complete as of January 31, 2009.

In connection with these activities, the Company recorded approximately \$3,213,000 of initial restructuring costs, including \$2,500,000 related to facility exit costs and \$613,000 related to severance for Radyne employees who were informed they were terminated on August 1, 2008. In accordance with EITF Issue No. 95-3, "Recognition of Liabilities in Connection with a Purchase Business Combination," the Company recorded these costs at fair value as assumed liabilities as of August 1, 2008, with a corresponding increase to goodwill. As such, these costs are not included in the Condensed Consolidated Statement of Operations for the six months ended January 31, 2009.

The initial facility exit costs of approximately \$2,500,000 reflect the net present value of the total gross non-cancelable lease obligations of \$13,054,000 and related costs (for the period of November 1, 2008 through October 31, 2018) associated with the vacated manufacturing facility, less the net present value of estimated gross sublease income of \$8,389,000. The Company estimated sublease income based on the terms of fully executed sublease agreements for the facility and its assessment of future uncertainties relating to the real estate market. The Company currently believes that it is not probable that it will be able to sublease the facility beyond the executed sublease terms which expire on October 31, 2015. Costs associated with operating the manufacturing facility through October 31, 2008 were expensed in the Condensed Consolidated Statement of Operations for the three months ended October 31, 2008.

The following represents a summary of the acquisition-related restructuring liabilities as of January 31, 2009:

	Accrued July 31, 2008	Initial Costs (1)	Net Cash Inflow (Outflow)	Accretion of Interest	Accrued January 31, 2009	Total Costs Accrued to Date	Total Net Expected Program Costs (2)
Facilities	\$ -	2,500,000	81,000	42,000	2,623,000	2,623,000	\$ 4,665,000
Severance	-	613,000	(613,000)	-	-	613,000	613,000
Other	-	100,000	-	-	100,000	100,000	100,000
Total restructuring costs	\$ -	3,213,000	(532,000)	42,000	2,723,000	3,336,000	\$ 5,378,000

(1) Facilities-related restructuring costs are presented at net present value.

(2) Facilities-related restructuring costs include accreted interest.

Of the \$2,723,000 acquisition-related restructuring liabilities accrued as of January 31, 2009, \$295,000 is included in accrued expenses and other current liabilities and \$2,428,000 is included in other liabilities. Interest accreted on the facility-related restructuring costs were included in interest expense for the three and six months ended January 31, 2009.

Other

During the three months ended January 31, 2009, the Company initiated cost reduction activities on a company-wide basis. There were no material severance or other costs incurred or accrued in connection with this initiative.

(11) 2.0% Convertible Senior Notes

On January 27, 2004, the Company issued \$105,000,000 of its 2.0% convertible senior notes in a private offering pursuant to Rule 144A under the Securities Act of 1933, as amended. The net proceeds from this transaction were \$101,179,000 after deducting the initial purchaser's discount and other transaction costs of \$3,821,000. The notes had an annual interest rate of 2.0% and were convertible, at the option of the noteholders, during the conversion period of December 15, 2008 through March 16, 2009.

On January 15, 2009, the Company notified The Bank of New York Mellon, as trustee, that it would redeem all of its outstanding \$105.0 million principal amount 2.0% convertible senior notes due 2024 in accordance with the terms of the Indenture between the Company and the trustee. The convertible senior notes would have been redeemed for cash on February 12, 2009 at a redemption price of 100.571 percent of the principal amount of the convertible senior notes, plus accrued and unpaid interest to, but not including, the redemption date. However, prior to the date set for redemption, all of the convertible senior notes were converted by the noteholders, into shares of the Company's common stock at a conversion rate of 31.746 shares of common stock for each \$1,000 principal amount of convertible senior notes. In connection with the conversion of the convertible senior notes, the Company issued 3,333,327 shares of its common stock, plus cash in lieu of fractional shares. Accordingly, no convertible senior notes remain outstanding as of February 12, 2009. As all of the convertible senior notes have been fully converted into the Company's common stock, the notes are classified as a non-current liability in the accompanying balance sheet as of January 31, 2009.

As of January 31, 2009, unamortized deferred financing costs were \$1,080,000. Because the noteholders exercised their conversion option, and the Company delivered shares of its common stock in lieu of cash, the unamortized deferred financing costs will be recorded as a reduction to additional paid-in capital in the Company's Condensed Consolidated Financial Statements in February 2009.

The notes were general unsecured obligations of the Company, ranking equally in right of payment with all of its other existing and future unsecured senior indebtedness and senior in right of payment to any of its future subordinated indebtedness. All of Comtech Telecommunications Corp.'s (the "Parent") U.S. domiciled wholly-owned subsidiaries had issued full and unconditional guarantees in favor of the holders of the Company's 2.0% convertible senior notes (the "Guarantor Subsidiaries"). These full and unconditional guarantees were joint and several. The Company's foreign subsidiaries who had not issued guarantees were Memotec, Inc., Xicom Technology Europe, Ltd., Radyne Corporation Pte. Ltd. and Beijing Comtech EF Data Equipment Repair Service Co., Ltd. (the "Non-Guarantor Subsidiaries"). Other than supporting the operations of its subsidiaries, the Parent has no independent assets or operations and there are currently no significant restrictions on its ability, or the ability of the guarantors, to obtain funds from each other by dividend or loan. Consolidating financial information regarding the Parent, the Guarantor Subsidiaries and the Non-Guarantor Subsidiaries can be found in Note (18) to the Condensed Consolidated Financial Statements.

(12) Income Taxes

At January 31, 2009 and July 31, 2008, the total unrecognized tax benefits, excluding interest, were \$5,131,000 and \$4,467,000, respectively. At January 31, 2009 and July 31, 2008, the amount of unrecognized tax benefits that would impact the Company's effective tax rate, if recognized, was \$2,859,000 and \$2,714,000, respectively. Unrecognized tax benefits result from income tax positions taken or expected to be taken on the Company's income tax returns for which a tax benefit has not been recorded in the Company's financial statements. Of the total unrecognized tax benefits, \$3,714,000 and \$1,909,000, including interest, were recorded as non-current income taxes payable in the Condensed Consolidated Balance Sheets of the Company at January 31, 2009 and July 31, 2008, respectively.

The Company's policy is to recognize interest and penalties relating to uncertain tax positions in income tax expense. At January 31, 2009 and July 31, 2008, interest accrued relating to income taxes was \$433,000 and \$301,000, respectively, net of the related income tax benefit.

Tax years prior to fiscal 2003 are not subject to examination by the U.S. Federal tax authorities. In fiscal 2008, the Internal Revenue Service ("IRS") completed its audit of the Company's Federal income tax returns for fiscal 2004 and fiscal 2005. In addition, it informed the Company that it will audit the Company's Federal income tax returns for fiscal 2006 and fiscal 2007. The IRS audits for fiscal 2004 and 2005 were primarily focused on the allowable amount of Federal research and experimentation credits utilized and interest expense relating to the Company's 2.0% convertible senior notes.

If the final outcome of the fiscal 2006 and fiscal 2007 audits differ materially from the Company's original income tax provisions, the Company's results of operations and financial condition could be materially impacted.

(13) Stock Option Plans and Employee Stock Purchase Plan

The Company issues stock-based awards pursuant to the following plans:

1993 Incentive Stock Option Plan – The 1993 Incentive Stock Option Plan, as amended, provided for the granting to key employees and officers of incentive and non-qualified stock options to purchase up to 2,345,625 shares of the Company's common stock at prices generally not less than the fair market value at the date of grant with the exception of anyone who, prior to the grant, owns more than 10% of the voting power, in which case the exercise price cannot be less than 110% of the fair market value. In addition, it provided formula grants to non-employee members of the Company's Board of Directors. The term of the options could be no more than ten years. However, for incentive stock options granted to any employee who, prior to the granting of the option, owns stock representing more than 10% of the voting power, the option term could be no more than five years.

As of January 31, 2009, the Company had granted stock-based awards representing the right to purchase an aggregate of 2,016,218 shares (net of 428,441 canceled awards) at prices ranging between \$0.67 - \$5.31 per share. All 2,016,218 stock-based awards were exercised as of October 31, 2008.

2000 Stock Incentive Plan – The 2000 Stock Incentive Plan, as amended, provides for the granting to all employees and consultants of the Company (including prospective employees and consultants) non-qualified stock options, SARs, restricted stock, performance shares, performance units and other stock-based awards. In addition, employees of the Company are eligible to be granted incentive stock options. Non-employee directors of the Company are eligible to receive non-discretionary grants of nonqualified stock options subject to certain limitations. The aggregate number of shares of common stock which may be issued may not exceed 6,587,500. The Stock Option Committee of the Company’s Board of Directors, consistent with the terms of the Plan, will determine the types of awards to be granted, the terms and conditions of each award and the number of shares of common stock to be covered by each award. Grants of incentive and non-qualified stock awards may not have a term exceeding ten years or no more than five years in the case of an incentive stock award granted to a stockholder who owns stock representing more than 10% of the voting power.

As of January 31, 2009, the Company had granted stock-based awards representing the right to purchase an aggregate of 5,906,697 shares (net of 680,303 canceled awards) at prices ranging between \$3.13 - \$51.65, of which 2,596,065 are outstanding at January 31, 2009. As of January 31, 2009, 3,310,632 stock-based awards have been exercised. All stock-based awards granted through July 31, 2005 have exercise prices equal to the fair market value of the stock on the date of grant and a term of ten years. All stock-based awards granted since August 1, 2005 have exercise prices equal to the fair market value of the stock on the date of grant and a term of five years.

The following table summarizes certain stock option plan activity during the six months ended January 31, 2009:

	Number of Shares Underlying Stock-Based Awards	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at July 31, 2008	2,519,673	\$ 28.87		
Granted	554,100	46.94		
Expired/canceled	(72,400)	31.72		
Exercised	(347,336)	19.65		
Outstanding at October 31, 2008	2,654,037	33.77		
Granted	1,600	48.88		
Expired/canceled	(17,825)	33.76		
Exercised	(41,747)	24.85		
Outstanding at January 31, 2009	2,596,065	\$ 33.92	3.46	\$ 19,291,000
Exercisable at January 31, 2009	1,127,125	\$ 27.94	2.97	\$ 12,788,000
Expected to vest at January 31, 2009	1,366,763	\$ 38.82	3.84	\$ 5,741,000

Included in the number of shares underlying stock-based awards outstanding at January 31, 2009, in the above table, are 32,625 SARs with an aggregate intrinsic value of \$55,000.

The total intrinsic value of stock-based awards exercised during the three months ended January 31, 2009 and 2008 was \$786,000 and \$8,862,000, respectively. The total intrinsic value of stock-based awards exercised during the six months ended January 31, 2009 and 2008 was \$9,192,000 and \$16,214,000, respectively.

2001 Employee Stock Purchase Plan – The ESPP was approved by the shareholders on December 12, 2000 and 675,000 shares of the Company’s common stock were reserved for issuance. The ESPP is intended to provide eligible employees of the Company the opportunity to acquire common stock in the Company at 85% of fair market value at the date of issuance through participation in the payroll-deduction based ESPP. Through the second quarter of fiscal

2009, the Company issued 301,227 shares of its common stock to participating employees in connection with the ESPP.

(14) Customer and Geographic Information

Sales by geography and customer type, as a percentage of consolidated net sales, are as follows:

	Three months ended January 31,		Six months ended January 31,	
	2009	2008	2009	2008
United States				
U.S. government	51.3%	70.6%	57.2%	66.3%
Commercial customers	12.4%	6.0%	10.9%	7.2%
Total United States	63.7%	76.6%	68.1%	73.5%
International	36.3%	23.4%	31.9%	26.5%

International sales include sales to U.S. domestic companies for inclusion in products that will be sold to international customers. For the three and six months ended January 31, 2009 and 2008, except for sales to the U.S. government, no other customer represented more than 10% of consolidated net sales.

(15) Segment Information

Reportable operating segments are determined based on the Company's management approach. The management approach, as defined by SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("SFAS No. 131") is based on the way that the chief operating decision-maker organizes the segments within an enterprise for making decisions about resources to be allocated and assessing their performance.

While the Company's results of operations are primarily reviewed on a consolidated basis, the chief operating decision-maker also manages the enterprise in three operating segments: (i) telecommunications transmission, (ii) mobile data communications and (iii) RF microwave amplifiers.

Telecommunications transmission products include satellite earth station products (such as analog and digital modems, frequency converters, power amplifiers, voice gateways, HDTV video encoders and decoders) and over-the-horizon microwave communications products and systems. Mobile data communications products include satellite-based mobile location, tracking and messaging hardware and related services and the design and production of microsattellites. RF microwave amplifier products include traveling wave tube amplifiers, klystron tube power amplifiers and solid-state, high-power broadband amplifier products that use the microwave and radio frequency spectrums.

Unallocated expenses result from such corporate expenses as legal, accounting and executive compensation. In addition, for the three and six months ended January 31, 2009, unallocated expenses include \$2,292,000 and \$4,710,000, respectively, of stock-based compensation expense and for the three and six months ended January 31, 2008, unallocated expenses include \$2,552,000 and \$5,271,000, respectively, of stock-based compensation expense. Interest expense (which includes amortization of deferred financing costs) associated with the Company's 2.0% convertible senior notes is not allocated to the operating segments. Depreciation and amortization includes amortization of stock-based compensation. Unallocated assets consist principally of cash and cash equivalents, deferred financing costs and deferred tax assets. Substantially all of the Company's long-lived assets are located in the U.S.

The August 1, 2008 acquisition of Radyne did not result in any change to the Company's management approach and management defines and reviews segment profitability based on the same allocation methodology as presented in the segment data tables below.

Three months ended January 31, 2009

(in thousands)	RF				Total
	Telecommunications Transmission	Mobile Data Communications	Microwave Amplifiers	Unallocated	
Net sales	\$ 69,523	38,871	35,492	-	\$ 143,886
Operating income (loss)	17,098	4,292	3,690	(5,890)	19,190
Interest income and other	(13)	(7)	20	626	626
Interest expense	49	-	-	662	711
Depreciation and amortization	3,243	822	1,490	2,345	7,900
Expenditure for long-lived assets, including intangibles	1,604	1,540	355	19	3,518
Total assets at January 31, 2009	290,839	48,997	119,770	257,406	717,012

Three months ended January 31, 2008

(in thousands)	RF				Total
	Telecommunications Transmission	Mobile Data Communications	Microwave Amplifiers	Unallocated	
Net sales	\$ 50,209	87,672	14,149	-	\$ 152,030
Operating income (loss)	13,228	28,313	1,048	(7,142)	35,447
Interest income and other	47	11	-	4,037	4,095
Interest expense	7	2	-	661	670
Depreciation and amortization	1,821	534	286	2,604	5,245
Expenditure for long-lived assets, including intangibles	2,402	278	514	13	3,207
Total assets at January 31, 2008	130,501	84,483	43,165	353,319	611,468

Six months ended January 31, 2009

(in thousands)	RF				Total
	Telecommunications Transmission	Mobile Data Communications	Microwave Amplifiers	Unallocated	
Net sales	\$ 144,084	120,777	70,940	-	\$ 335,801
Operating income (loss)	36,370	28,746	3,609	(13,652)	55,073
Interest income and other	14	(7)	95	1,801	1,903
Interest expense	54	-	-	1,323	1,377
Depreciation and amortization	9,301	1,591	6,277	4,815	21,984
Expenditure for long-lived assets, including intangibles	131,136	8,831	49,996	37	190,000
Total assets at January 31, 2009	290,839	48,997	119,770	257,406	717,012

Six months ended January 31, 2008

(in thousands)	RF			Unallocated	Total
	Telecommunications Transmission	Mobile Data Communications	Microwave Amplifiers		

			Amplifiers		
Net sales	\$ 99,061	140,718	27,306	-	\$ 267,085
Operating income (loss)	24,119	41,066	2,083	(13,162)	54,106
Interest income and other	96	12	-	8,434	8,542
Interest expense	13	11	-	1,323	1,347
Depreciation and amortization	3,488	1,050	545	5,372	10,455
Expenditure for long-lived assets, including intangibles	5,286	753	753	52	6,844
Total assets at January 31, 2008	130,501	84,483	43,165	353,319	611,468

Intersegment sales for the three months ended January 31, 2009 and 2008 by the telecommunications transmission segment to the mobile data communications segment were \$10,489,000 and \$45,924,000, respectively. For the six months ended January 31, 2009 and 2008, intersegment sales by the telecommunications transmission segment to the mobile data communications segment were \$44,870,000 and \$66,943,000, respectively.

For the three months ended January 31, 2009 and 2008, intersegment sales by the telecommunications transmission segment to the RF microwave amplifiers segment were \$2,727,000 and \$4,039,000, respectively. Intersegment sales for the six months ended January 31, 2009 and 2008 by the telecommunications transmission segment to the RF microwave amplifiers segment were \$5,199,000 and \$6,207,000, respectively.

Intersegment sales for the three and six months ended January 31, 2009 by the RF microwave amplifiers segment to the telecommunications transmission segment were \$0 and \$145,000, respectively. There were no intersegment sales by the RF microwave amplifiers segment to the telecommunications transmission segment for the three and six months ended January 31, 2008.

All intersegment sales have been eliminated from the tables above. Because historical segment results do not include Radyne, period-to-period comparisons should not be relied upon as an indicator of the Company's future performance because these comparisons may not be meaningful.

(16) Intangible Assets

Intangible assets with finite lives as of January 31, 2009 and July 31, 2008 are as follows:

	January 31, 2009			
	Weighted Average Amortization Period	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Technologies	10.5	\$ 42,311,000	16,926,000	\$ 25,385,000
Customer relationships	10.0	29,931,000	1,674,000	28,257,000
Trademarks and other	17.3	6,344,000	711,000	5,633,000
Total		\$ 78,586,000	19,311,000	\$ 59,275,000

	July 31, 2008			
	Weighted Average Amortization Period	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Technologies	7.3	\$ 22,252,000	15,086,000	\$ 7,166,000
Customer relationships	7.6	331,000	172,000	159,000
Trademarks and other	4.6	644,000	464,000	180,000
Total		\$ 23,227,000	15,722,000	\$ 7,505,000

Amortization expense for the three months ended January 31, 2009 and 2008 was \$1,796,000 and \$434,000, respectively. Amortization expense for the six months ended January 31, 2009 and 2008 was \$3,589,000 and \$813,000, respectively. The estimated amortization expense related to intangible assets with finite lives for the fiscal years ending July 31, 2009, 2010, 2011, 2012 and 2013 is \$7,172,000, \$7,079,000, \$6,587,000, \$5,652,000 and \$5,445,000, respectively.

The changes in carrying amount of goodwill by segment for the six months ended January 31, 2009 are as follows:

	Telecommunications Transmission	Mobile Data Communications	RF Microwave Amplifiers	Total
Balance at July 31, 2008	\$ 8,817,000	7,124,000	8,422,000	\$ 24,363,000
Preliminary allocation of Radyne purchase price	98,400,000	4,346,000	20,457,000	123,203,000
Balance at October 31, 2008	107,217,000	11,470,000	28,879,000	147,566,000
Adjustments to Radyne purchase price (See Note 6)	58,000	49,000	(13,000)	94,000
Payment of Insite earn-out	-	17,000	-	17,000
Balance at January 31, 2009	\$ 107,275,000	11,536,000	28,866,000	\$ 147,677,000

Adjustments to Radyne acquisition goodwill relate to the finalization of certain valuations, estimates and assumptions. All adjustments were individually immaterial.

(17) Legal Matters and Proceedings

Export Matters

In October 2007, the Company's Florida-based subsidiary, Comtech Systems, Inc. ("CSI"), received a customs export enforcement subpoena from the U.S. Immigration and Customs Enforcement ("ICE") branch of the Department of Homeland Security. The subpoena related to CSI's \$1,982,000 contract with the Brazilian Naval Commission (the "Brazil contract"). The Company engaged outside counsel to assist CSI in its response to the subpoena and related matters and to conduct its own investigation into whether or not CSI was in compliance with export-related laws and regulations, including the International Traffic in Arms Regulations ("ITAR") and the Export Administration Regulations. Subsequently, the U.S. Customs and Border Protection Agency of the Department of Homeland Security informed the Company that it was seizing the detained inventory, and the inventory remains constructively seized in CSI's facility located in Orlando, Florida. Inventory related to the Brazil contract had a net book value of \$1,110,000 as of January 31, 2009.

In March 2009, the Penalties Branch Office of Regulations and Rulings, Headquarters, of the U.S. Customs and Border Protection Agency of the Department of Homeland Security informed CSI that it determined that CSI had violated export regulations, but that it will release the inventory to CSI upon payment of fines aggregating \$7,500 (seven-thousand five-hundred dollars), execution of a hold-harmless agreement, the filing of a Department of State license (known as a DSP-5) for the hardware and transmission of final records with correct information for the shipment. The Company has decided not to dispute this determination in order to bring this matter to conclusion at this time, and, in fact, on March 9, 2009, the inventory was released. The Company expects that CSI will shortly reship the Brazil inventory to the end-customer.

In addition to its review of the Brazil contract, in March 2008, the Enforcement Division of the U.S. Department of State informed the Company that it sought to confirm the Company's company-wide ITAR compliance for the five-year period ended March 2008. In response, the Company expanded its ongoing investigation and provided detailed information and a summary of its findings to the U.S. Department of State. The Company's findings to date indicate that there were certain instances of exports and defense services during the five-year period for which it did not have the appropriate authorization from the U.S. Department of State; however, none of those instances involved Proscribed Countries as defined by ITAR.

In connection with the Company's August 1, 2008 acquisition of Radyne, the Company is continuing and expanding its export internal control assessment. To date, the Company has noted opportunities for improving its procedures to comply with laws and regulations relating to exports, including at its newly acquired Radyne subsidiaries. Violations, discovered by the Company as part of its internal control assessment, including those by Radyne that occurred prior to August 1, 2008, have been reported to the U.S. Department of State. In December 2008, the Company was requested to provide additional information to the U.S. Department of State. In addition, the Company has decided to have an independent export compliance audit performed, has engaged a third party and intends to submit the results to, and cooperate with, the U.S. Department of State's review.

Since the receipt of the original Brazil subpoena in October 2007, the Company has engaged outside counsel and export consultants to help it assess and improve, as appropriate, its internal controls with respect to U.S. export control laws and regulations and laws governing record keeping and dealings with foreign representatives. The Company continues to take numerous steps to significantly improve its export control processes, including the hiring of additional employees who are knowledgeable and experienced with ITAR and the engagement of an outside export consultant to conduct additional training. The Company is also in the process of implementing enhanced formal company-wide ITAR control procedures, including at its newly acquired Radyne subsidiaries. Because the Company's assessments are continuing, the Company expects to remediate, improve and enhance its internal controls relating to exports throughout fiscal 2009.

Because the above matters are ongoing, the Company cannot determine the ultimate outcome of these matters. Violations of U.S. export control-related laws and regulations could result in civil or criminal fines and/or penalties and/or result in an injunction against the Company, all of which could, in the aggregate, materially impact its business, results of operations and cash flows. Should the Company identify a material weakness relating to its compliance, the ongoing costs of remediation could be material.

U.S. Department of Defense Investigation

In December 2008, Comtech PST Corp. (“Comtech PST”), a wholly-owned subsidiary of the Company, and Hill Engineering (“Hill”), a division of Comtech PST, each received a subpoena from the U.S. Department of Defense (“DoD”) requesting a broad range of documents and other information relating to a third party’s contract with the DoD and related subcontracts for the supply of specific components by Hill to the third party. The Company has produced, and is continuing to produce on a rolling basis, documents responsive to the subpoenas and intends to fully cooperate with the DoD’s investigation. The Company began an internal investigation which is ongoing. The Company believes that the DoD’s investigation is focused primarily on whether certain of its high-power switches are susceptible to a specific quality issue that could, over time and when subjected to certain environmental conditions, lead to component failure. The Company has informed the third party about the issue, has had and continues to receive orders for new switches from the third party, and has not been apprised of any field failures relating to its switches. The Company also has had preliminary discussions with the DoD, but at this early stage, the Company is unable to predict the outcome of the DoD’s investigation.

Other Legal Proceedings

The Company is party to certain other legal actions, which arise in the normal course of business. Although the ultimate outcome of litigation is difficult to accurately predict, the Company believes that the outcome of these actions will not have a material effect on its consolidated financial condition or results of operations.

(18) Condensed Consolidating Financial Information

The consolidating financial information presented below reflects information regarding the Parent, the Guarantor Subsidiaries and the Non-Guarantor Subsidiaries of the Company's 2.0% convertible senior notes. The Parent's expenses associated with supporting the operations of its subsidiaries are allocated to the respective Guarantor Subsidiaries and the Non-Guarantor Subsidiaries. The consolidating financial information presented herein is not utilized by the chief operating decision-maker in making operating decisions and assessing performance.

The following reflects the condensed consolidating balance sheet as of January 31, 2009:

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Entries	Consolidated Total
Assets					
Current assets:					
Cash and cash equivalents	\$ 234,669,000	-	3,257,000	(5,719,000)	\$ 232,207,000
Accounts receivable, net	-	89,117,000	6,555,000	-	95,672,000
Inventories, net	-	110,760,000	862,000	-	111,622,000
Prepaid expenses and other current assets	3,937,000	6,700,000	2,024,000	(620,000)	12,041,000
Deferred tax asset	1,532,000	15,765,000	-	-	17,297,000
Total current assets	240,138,000	222,342,000	12,698,000	(6,339,000)	468,839,000
Property, plant and equipment, net	672,000	37,991,000	770,000	-	39,433,000
Investment in subsidiaries	567,088,000	5,586,000	-	(572,674,000)	-
Goodwill	-	146,730,000	947,000	-	147,677,000
Intangibles with finite lives, net	-	56,376,000	2,899,000	-	59,275,000
Deferred tax asset	-	-	206,000	(206,000)	-
Deferred financing costs, net	1,080,000	-	-	-	1,080,000
Other assets, net	56,000	617,000	35,000	-	708,000
Intercompany receivables	-	199,213,000	-	(199,213,000)	-
Total assets	\$ 809,034,000	668,855,000	17,555,000	(778,432,000)	\$ 717,012,000
Liabilities and Stockholders' Equity					
Current liabilities:					
Accounts payable	\$ 736,000	27,095,000	476,000	(5,719,000)	\$ 22,588,000
Accrued expenses and other current liabilities	8,606,000	38,435,000	1,197,000	-	48,238,000
Customer advances and deposits	-	15,021,000	2,493,000	-	17,514,000
Current installments of other obligations	-	37,000	-	-	37,000
Interest payable	1,050,000	-	-	-	1,050,000
Income taxes payable	-	-	620,000	(620,000)	-
Total current liabilities	10,392,000	80,588,000	4,786,000	(6,339,000)	89,427,000
Convertible senior notes	104,616,000	-	-	-	104,616,000
Other liabilities	-	2,480,000	-	-	2,480,000
Income taxes payable	3,714,000	-	-	-	3,714,000
Deferred tax liability	3,971,000	18,699,000	-	(206,000)	22,464,000
Intercompany payables	192,030,000	-	7,183,000	(199,213,000)	-

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Total liabilities	314,723,000	101,767,000	11,969,000	(205,758,000)	222,701,000
Commitments and contingencies					
Stockholders' equity:					
Preferred stock	-	-	-	-	-
Common stock	2,502,000	4,000	2,000	(6,000)	2,502,000
Additional paid-in capital	202,502,000	295,296,000	5,187,000	(300,483,000)	202,502,000
Retained earnings	289,492,000	271,788,000	397,000	(272,185,000)	289,492,000
	494,496,000	567,088,000	5,586,000	(572,674,000)	494,496,000
Less:					
Treasury stock	(185,000)	-	-	-	(185,000)
Total stockholders' equity	494,311,000	567,088,000	5,586,000	(572,674,000)	494,311,000
Total liabilities and stockholders' equity	\$ 809,034,000	668,855,000	17,555,000	(778,432,000)	\$ 717,012,000

(18) Condensed Consolidating Financial Information (continued)

The following reflects the condensed consolidating balance sheet as of July 31, 2008:

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiary	Consolidating Entries	Consolidated Total
Assets					
Current assets:					
Cash and cash equivalents	\$ 408,065,000	-	4,056,000	(2,054,000)	\$ 410,067,000
Accounts receivable, net	-	67,777,000	2,263,000	-	70,040,000
Inventories, net	-	84,032,000	1,934,000	-	85,966,000
Prepaid expenses and other current assets	1,953,000	3,209,000	1,404,000	(675,000)	5,891,000
Deferred tax asset	1,243,000	8,783,000	-	-	10,026,000
Total current assets	411,261,000	163,801,000	9,657,000	(2,729,000)	581,990,000
Property, plant and equipment, net	740,000	32,763,000	766,000	-	34,269,000
Investment in subsidiaries	318,292,000	5,721,000	-	(324,013,000)	-
Goodwill	-	23,416,000	947,000	-	24,363,000
Intangibles with finite lives, net	-	4,388,000	3,117,000	-	7,505,000
Deferred tax asset	-	-	206,000	(206,000)	-
Deferred financing costs, net	1,357,000	-	-	-	1,357,000
Other assets, net	3,266,000	352,000	18,000	-	3,636,000
Intercompany receivables	-	171,277,000	-	(171,277,000)	-
Total assets	\$ 734,916,000	401,718,000	14,711,000	(498,225,000)	\$ 653,120,000
Liabilities and Stockholders' Equity					
Current liabilities:					
Accounts payable	\$ 1,597,000	30,874,000	1,006,000	(2,054,000)	\$ 31,423,000
Accrued expenses and other current liabilities	12,241,000	36,551,000	879,000	-	49,671,000
Customer advances and deposits	-	13,254,000	2,033,000	-	15,287,000
Current installments of other obligations	-	108,000	-	-	108,000
Interest payable	1,050,000	-	-	-	1,050,000
Income taxes payable	-	-	675,000	(675,000)	-
Total current liabilities	14,888,000	80,787,000	4,593,000	(2,729,000)	97,539,000
Convertible senior notes	105,000,000	-	-	-	105,000,000
Income taxes payable	1,909,000	-	-	-	1,909,000
Deferred tax liability	3,437,000	2,639,000	-	(206,000)	5,870,000
Intercompany payables	166,880,000	-	4,397,000	(171,277,000)	-
Total liabilities	292,114,000	83,426,000	8,990,000	(174,212,000)	210,318,000
Commitments and contingencies					
Stockholders' equity:					
Preferred stock	-	-	-	-	-
Common stock	2,460,000	4,000	-	(4,000)	2,460,000

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Additional paid-in capital	186,246,000	81,410,000	5,187,000	(86,597,000)	186,246,000
Retained earnings	254,281,000	236,878,000	534,000	(237,412,000)	254,281,000
	442,987,000	318,292,000	5,721,000	(324,013,000)	442,987,000
Less:					
Treasury stock	(185,000)	-	-	-	(185,000)
Total stockholders' equity	442,802,000	318,292,000	5,721,000	(324,013,000)	442,802,000
Total liabilities and stockholders' equity	\$ 734,916,000	401,718,000	14,711,000	(498,225,000)	\$ 653,120,000

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(18) Condensed Consolidating Financial Information (continued)

The following reflects the condensed consolidating statement of operations for the three months ended January 31, 2009:

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Entries	Consolidated Total
Net sales	\$ -	140,836,000	8,365,000	(5,315,000)	\$ 143,886,000
Cost of sales	-	83,267,000	6,457,000	(5,315,000)	84,409,000
Gross profit	-	57,569,000	1,908,000	-	59,477,000
Expenses:					
Selling, general and administrative	-	24,253,000	1,716,000	-	25,969,000
Research and development	-	11,819,000	703,000	-	12,522,000
Amortization of intangibles	-	1,658,000	138,000	-	1,796,000
	-	37,730,000	2,557,000	-	40,287,000
Operating income (loss)	-	19,839,000	(649,000)	-	19,190,000
Other expense (income):					
Interest expense	662,000	49,000	-	-	711,000
Interest income and other	(626,000)	115,000	(115,000)	-	(626,000)
Income (loss) before provision for (benefit from) income taxes and equity in undistributed earnings (loss) of subsidiaries	(36,000)	19,675,000	(534,000)	-	19,105,000
Provision for (benefit from) income taxes	(13,000)	6,568,000	(290,000)	-	6,265,000
Net earnings (loss) before equity in undistributed earnings (loss) of subsidiaries	(23,000)	13,107,000	(244,000)	-	12,840,000
Equity in undistributed earnings (loss) of subsidiaries	12,863,000	(244,000)	-	(12,619,000)	-
Net income (loss)	\$ 12,840,000	12,863,000	(244,000)	(12,619,000)	\$ 12,840,000

The following reflects the condensed consolidating statement of operations for the three months ended January 31, 2008:

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiary	Consolidating Entries	Consolidated Total
Net sales	\$ -	148,511,000	3,639,000	(120,000)	\$ 152,030,000
Cost of sales	-	84,256,000	1,569,000	(120,000)	85,705,000
Gross profit	-	64,255,000	2,070,000	-	66,325,000
Expenses:					
Selling, general and administrative	-	20,072,000	1,232,000	-	21,304,000

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Research and development	-	8,502,000	638,000	-	9,140,000
Amortization of intangibles	-	390,000	44,000	-	434,000
	-	28,964,000	1,914,000	-	30,878,000
Operating income	-	35,291,000	156,000	-	35,447,000
Other expense (income):					
Interest expense	661,000	9,000	-	-	670,000
Interest income and other	(4,037,000)	(41,000)	(17,000)	-	(4,095,000)
Income before provision for income taxes and equity in undistributed earnings of subsidiaries	3,376,000	35,323,000	173,000	-	38,872,000
Provision for (benefit from) income taxes	1,249,000	12,185,000	(31,000)	-	13,403,000
Net earnings before equity in undistributed earnings of subsidiaries	2,127,000	23,138,000	204,000	-	25,469,000
Equity in undistributed earnings of subsidiaries	23,342,000	204,000	-	(23,546,000)	-
Net income (loss)	\$ 25,469,000	23,342,000	204,000	(23,546,000)	\$ 25,469,000

(18) Condensed Consolidating Financial Information (continued)

The following reflects the condensed consolidating statement of operations for the six months ended January 31, 2009:

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Entries	Consolidated Total
Net sales	\$ -	327,054,000	18,374,000	(9,627,000)	\$ 335,801,000
Cost of sales	-	185,465,000	13,507,000	(9,627,000)	189,345,000
Gross profit	-	141,589,000	4,867,000	-	146,456,000
Expenses:					
Selling, general and administrative	-	51,135,000	3,812,000	-	54,947,000
Research and development	-	25,099,000	1,548,000	-	26,647,000
Amortization of acquired in-process research and development	-	6,200,000	-	-	-