COMTECH TELECOMMUNICATIONS CORP /DE/
Form 10-Q
March 10, 2011

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

FORM
10-Q

(Mark One)

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

For the quarterly period ended January 31, 2011

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

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

Non-accelerated filer Smaller reporting company

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 7, 2011, the number of outstanding shares of Common Stock, par value $.10 per share, of the registrant was 26,686,337 shares.

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

Item 1.	January 31, 2011	July 31, 2010
Assets	(Unaudited)	
Current assets:		
Cash and cash equivalents	$593,338,000	607,594,000
Accounts receivable, net	80,864,000	135,840,000
Inventories, net	79,947,000	73,562,000
Prepaid expenses and other current assets	7,356,000	8,876,000
Deferred tax asset	13,843,000	14,947,000
Total current assets	775,348,000	840,819,000
Property, plant and equipment, net	30,491,000	33,727,000
Goodwill	137,354,000	137,354,000
Intangibles with finite lives, net	49,670,000	48,091,000
Deferred financing costs, net	4,515,000	4,675,000
Other assets, net	1,185,000	1,896,000
Total assets	$998,563,000	1,066,562,000
Liabilities and Stockholders’ Equity		
Current liabilities:		
Accounts payable	$23,391,000	77,844,000
Accrued expenses and other current liabilities	41,784,000	53,398,000
Dividends payable	6,699,000	-
Customer advances and deposits	18,889,000	12,780,000
Interest payable	1,531,000	1,531,000
Income taxes payable	5,521,000	8,666,000
Total current liabilities	97,815,000	154,219,000
Convertible senior notes	200,000,000	200,000,000
Other liabilities	6,307,000	2,518,000
Income taxes payable	4,729,000	5,220,000
Deferred tax liability	3,464,000	2,973,000
Total liabilities	312,315,000	364,930,000
Commitments and contingencies (See Note 20)		
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 28,634,650 shares and 28,542,535 shares at January 31, 2011 and July 31, 2010, respectively	2,863,000	2,854,000
Additional paid-in capital	350,787,000	347,514,000
Retained earnings	379,587,000	351,449,000
	733,237,000	701,817,000

Less:		
Treasury stock, at cost (1,839,785 shares and 210,937 shares at January 31, 2011 and July 31, 2010, respectively)	(46,989,000)	(185,000)
Total stockholders’ equity	686,248,000	701,632,000
Total liabilities and stockholders’ equity	$998,563,000	1,066,562,000

See accompanying notes to condensed consolidated financial statements.

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

	Three months ended January 31,		Six months ended January 31,	
	2011	2010	2011	2010
Net sales	$162,811,000	171,132,000	340,971,000	304,948,000
Cost of sales	101,901,000	107,631,000	215,827,000	191,673,000
Gross profit	60,910,000	63,501,000	125,144,000	113,275,000
Expenses:				
Selling, general and administrative	23,175,000	22,909,000	47,190,000	44,628,000
Research and development	10,467,000	11,431,000	21,218,000	22,755,000
Amortization of intangibles	2,004,000	1,765,000	3,891,000	3,529,000
Merger termination fee, net	-	-	(12,500,000)	-
	35,646,000	36,105,000	59,799,000	70,912,000
Operating income	25,264,000	27,396,000	65,345,000	42,363,000
Other expenses (income):				
Interest expense	2,090,000	1,966,000	4,153,000	3,933,000
Interest income and other	(626,000)	(178,000)	(1,320,000)	(413,000)
Income before provision for income taxes	23,800,000	25,608,000	62,512,000	38,843,000
Provision for income taxes	7,704,000	9,275,000	20,760,000	13,478,000
Net income	$16,096,000	16,333,000	41,752,000	25,365,000
Net income per share (See Note 6):				
Basic	$0.59	0.58	1.51	0.90
Diluted	$0.52	0.51	1.32	0.81
Weighted average number of common shares outstanding – basic	27,209,000	28,250,000	27,664,000	28,236,000
Weighted average number of common and common equivalent shares outstanding – diluted	32,983,000	34,080,000	33,403,000	34,069,000
Dividends declared per issued and outstanding common share as of the applicable dividend record date	$0.25	-	0.50	-

See accompanying notes to condensed consolidated financial statements.

COMTECH TELECOMMUNICATIONS CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME
SIX MONTHS ENDED JANUARY 31, 2011 AND 2010
(Unaudited)

	Common Stock				Treasury Stock			
	Shares	Amount	Additional Paid-in Capital	Retained Earnings	Shares	Amount	Stockholders' Equity	Compr In
Balance July 31, 2009	28,390,855	$2,839,000	$335,656,000	$290,819,000	210,937	$(185,000)	$629,129,000	
Equity-classified stock award compensation	-	-	3,420,000	-	-	-	3,420,000	
Proceeds from exercise of options	66,925	7,000	1,066,000	-	-	-	1,073,000	
Proceeds from issuance of employee stock purchase plan shares	24,375	2,000	677,000	-	-	-	679,000	
Excess income tax benefit from stock-based award exercises	-	-	238,000	-	-	-	238,000	
Net income	-	-	-	25,365,000	-	-	25,365,000	$25,3
Balance January 31, 2010	28,482,155	$2,848,000	$341,057,000	$316,184,000	210,937	$(185,000)	$659,904,000	$25,3
Balance July 31, 2010	28,542,535	$2,854,000	$347,514,000	$351,449,000	210,937	$(185,000)	$701,632,000	
Equity-classified stock award compensation	-	-	2,807,000	-	-	-	2,807,000	
Proceeds from exercise of options	66,945	7,000	1,005,000	-	-	-	1,012,000	
Proceeds from issuance of employee stock purchase plan shares	25,170	2,000	585,000	-	-	-	587,000	

Cash dividends	-	-	-	(13,614,000)	-	-	(13,614,000)	
Excess income tax benefit from stock-based award exercises	-	-	113,000	-	-	-	113,000	
Reversal of deferred tax assets associated with expired and unexercised stock-based awards	-	-	(1,237,000)	-	-	-	(1,237,000)	
Repurchases of common stock	-	-	-	-	1,628,848	(46,804,000)	(46,804,000)	
Net income	-	-	-	41,752,000	-	-	41,752,000	$41,
Balance January 31, 2011	28,634,650	$2,863,000	$350,787,000	$379,587,000	1,839,785	$(46,989,000)	$686,248,000	$41,

See accompanying notes to condensed consolidated financial statements.

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

	Six months ended January 31, 2011	2010
Cash flows from operating activities:		
Net income	$41,752,000	25,365,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of property, plant and equipment	6,620,000	5,820,000
Amortization of intangible assets with finite lives	3,891,000	3,529,000
Amortization of stock-based compensation	2,859,000	3,426,000
Deferred financing costs	699,000	693,000
(Gain) loss on disposal of property, plant and equipment	(1,000)	86,000
Provision for allowance for doubtful accounts	315,000	69,000
Provision for excess and obsolete inventory	932,000	1,626,000
Excess income tax benefit from stock award exercises	(113,000)	(231,000)
Deferred income tax expense (benefit)	358,000	(1,164,000)
Changes in assets and liabilities, net of effects of acquisitions and sale of certain assets and liabilities:		
Accounts receivable	54,661,000	(21,420,000)
Inventories	(7,350,000)	1,393,000
Prepaid expenses and other current assets	1,520,000	6,228,000
Other assets	711,000	(728,000)
Accounts payable	(54,453,000)	14,398,000
Accrued expenses and other current liabilities	(11,075,000)	(10,065,000)
Customer advances and deposits	6,087,000	(8,278,000)
Other liabilities	350,000	42,000
Interest payable	-	113,000
Income taxes payable	(3,523,000)	7,061,000
Net cash provided by operating activities	44,240,000	27,963,000
Cash flows from investing activities:		
Purchases of property, plant and equipment	(3,350,000)	(3,040,000)
Purchases of other intangibles with finite lives	(50,000)	(113,000)
Proceeds from sale of certain assets and liabilities	-	2,038,000
Payments related to business acquisitions	(2,550,000)	-
Net cash used in investing activities	(5,950,000)	(1,115,000)
Cash flows from financing activities:		
Repurchases of common stock	(46,804,000)	-
Cash dividends paid	(6,915,000)	-
Proceeds from exercises of stock options	1,012,000	1,073,000
Proceeds from issuance of employee stock purchase plan shares	587,000	679,000
Excess income tax benefit from stock award exercises	113,000	231,000
Origination fees related to line of credit	(539,000)	(8,000)
Transaction costs related to issuance of convertible senior notes	-	(118,000)
Net cash (used in) provided by financing activities	(52,546,000)	1,857,000

Net (decrease) increase in cash and cash equivalents	(14,256,000)	28,705,000
Cash and cash equivalents at beginning of period	607,594,000	485,450,000
Cash and cash equivalents at end of period	$593,338,000	514,155,000

See accompanying notes to condensed consolidated financial statements.

(Continued)

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

	Six months ended January 31,	
	2011	2010
Supplemental cash flow disclosures:		
Cash paid during the period for:		
Interest	$3,215,000	3,038,000
Income taxes	$24,204,000	7,702,000
Non cash investing and financing activities:		
Cash dividends declared	$6,699,000	-
Accrued business acquisition payments (See Note 18)	$4,103,000	-

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 ("Comtech," "we," "us," or "our") as of and for the three and six months ended January 31, 2011 and 2010 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. Our results of operations for such periods are not necessarily indicative of the results of operations to be expected for the full fiscal year.

The preparation of our financial statements in conformity with accounting principles generally accepted in the United States of America requires us 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.

Our condensed consolidated financial statements should be read in conjunction with our audited consolidated financial statements, filed with the Securities and Exchange Commission ("SEC"), for the fiscal year ended July 31, 2010 and the notes thereto contained in our Annual Report on Form 10-K, and all of our other filings with the SEC.

(2) Adoption of Accounting Standards Updates

The Financial Accounting Standards Board's ("FASB") Accounting Standards Codification ("ASC") is subject to updates by FASB, which are known as Accounting Standards Updates ("ASU"). The following are FASB ASUs which have been issued and incorporated into the FASB ASC and adopted by us:

On August 1, 2010, we adopted FASB ASU No. 2010-17, which is an update of FASB ASC 605 "Revenue Recognition - Milestone Method: Milestone Method of Revenue Recognition." ASU 2010-17 provides guidance on applying the milestone method to milestone payments for achieving specified performance measures when those payments are related to uncertain future events. The scope of ASU 2010-17 is limited to transactions involving research or development. During the six months ended January 31, 2011, we did not have any research and development transactions with milestone payments that were covered under this ASU; thus, the adoption of this ASU did not have any impact on our Condensed Consolidated Statement of Operations or financial position.

On August 1, 2010, we adopted FASB ASU No. 2009-14, which amends FASB ASC 985 "Software." This FASB ASU indicates that tangible products containing both software and non-software components that function together to deliver the tangible product's essential functionality are no longer within the scope of the software revenue guidance in FASB ASC 985-605. This FASB ASU also requires that hardware components of a tangible product containing software components always be excluded from the software revenue guidance. Our adoption of this ASU did not have a material impact on our Condensed Consolidated Statement of Operations or financial position.

On August 1, 2010, we adopted FASB ASU No. 2009-13 which is an update of FASB ASC 605-25 "Revenue Recognition - Multiple-Element Arrangements." In addition to establishing a hierarchy for determining the selling price of a deliverable, this FASB ASU eliminates the residual method of allocation of arrangement consideration and instead requires use of the relative selling price method. Our adoption of this ASU did not have a material impact on our Condensed Consolidated Statement of Operations or financial position.

(3) Reclassifications

Certain reclassifications have been made to previously reported financial statements to conform to our current financial statement format.

(4) Stock-Based Compensation

We issue stock-based awards to certain of our employees and our Board of Directors and we recognize related stock-based compensation for both equity and liability-classified stock-based awards in our condensed consolidated financial statements. These awards are issued pursuant to our 2000 Stock Option Plan and our 2001 Employee Stock Purchase Plan (the "ESPP").

Stock-based compensation for equity-classified awards is measured at the date of grant, based on an estimate of the fair value of the award and is expensed over the vesting period of the grant. Stock-based compensation for liability-classified awards is determined the same way, except that 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.

Stock-based compensation for awards issued is reflected in the following line items in our Condensed Consolidated Statements of Operations:

	Three months ended January 31,		Six months ended January 31,	
	2011	2010	2011	2010
Cost of sales	$ 151,000	148,000	273,000	307,000
Selling, general and administrative expenses	953,000	1,184,000	2,051,000	2,474,000
Research and development expenses	247,000	318,000	535,000	645,000
Stock-based compensation expense before income tax benefit	1,351,000	1,650,000	2,859,000	3,426,000
Income tax benefit	(489,000)	(651,000)	(1,031,000)	(1,295,000)
Net stock-based compensation expense	$ 862,000	999,000	1,828,000	2,131,000

Of the total stock-based compensation expense before income tax benefit recognized in the three months ended January 31, 2011 and 2010, $79,000 and $75,000, respectively, related to awards issued pursuant to our ESPP. Of the total stock-based compensation expense before income tax benefit recognized in the six months ended January 31, 2011 and 2010, $148,000 and $163,000, respectively, related to awards issued pursuant to our ESPP.

Included in total stock-based compensation expense before income tax benefit in the three months ended January 31, 2011 and 2010 is a benefit of $7,000 and an expense of $39,000, respectively, as a result of the required fair value remeasurement of our liability-classified stock appreciation rights ("SARs") at the end of each of the respective reporting periods. Included in total stock-based compensation expense before income tax benefit in the six months ended January 31, 2011 and 2010 is an expense of $10,000 and $6,000, respectively, related to SARs.

Stock-based compensation that was capitalized and included in ending inventory at January 31, 2011 and July 31, 2010 was $117,000 and $159,000, respectively.

We estimate 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 our best estimates, but involve uncertainties relating to market and other conditions, many of which are outside of our 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.

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There were no stock-based awards granted during the three months ended January 31, 2011. The per share weighted average grant-date fair value of stock-based awards granted during the three months ended January 31, 2010 approximated $8.86. The per share weighted average grant-date fair value of stock-based awards granted during the six months ended January 31, 2011 and 2010 approximated $6.67 and $9.32, 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,	
	2011	2010	2011	2010
Expected dividend yield	-	0 %	3.66 %	0 %
Expected volatility	-	38.00 %	38.00 %	38.00 %
Risk-free interest rate	-	1.21 %	1.27 %	1.33 %
Expected life (years)	-	3.50	5.18	3.50

Stock-based awards granted have exercise prices equal to the fair market value of the stock on the date of grant, a contractual term of five or ten years and a vesting period of three or five years. We settle employee stock option exercises with new shares. All SARs granted through January 31, 2011 may only be settled with cash. Included in accrued expenses at January 31, 2011 and July 31, 2010 is $84,000 and $74,000, respectively, relating to the cash settlement of SARs.

The expected dividend yield is the expected annual dividend as a percentage of the fair market value of the stock on the date of grant. For the stock-based awards granted during the six months ended January 31, 2011, the expected dividend yield was equal to our targeted annual dividend of $1.00 per share divided by the quoted market price of our common stock on the date of the grant. We estimate expected volatility by considering the historical volatility of our stock, the implied volatility of publicly traded call options on our stock, the implied volatility of call options embedded in our 3.0% convertible senior notes and our expectations of volatility for the expected life of stock-based awards. The risk-free interest rate is based on the U.S. treasury yield curve in effect at the time of grant for an instrument which closely approximates the expected option term. The expected option term is the number of years we estimate that stock-based awards will be outstanding prior to exercise. Effective August 1, 2007, the expected life of awards issued 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, 2011	Six months ended January 31, 2010
Actual income tax benefit recorded for the tax deductions relating to the exercise of stock-based awards	$ 215,000	$ 422,000
Less: Tax benefit initially recognized on exercised stock-based awards vesting subsequent to the adoption of accounting standards that require us to expense stock-based awards	(102,000)	(184,000)
Excess income tax benefit recorded as an increase to additional paid-in capital	113,000	238,000
Less: Tax benefit initially disclosed but not previously recognized on exercised equity-classified stock-based awards vesting prior to the adoption of accounting standards that require us to expense stock-based awards	-	(7,000)

Excess income tax benefit from exercised equity-classified stock-based awards reported as a cash flow from financing activities in our Condensed Consolidated Statements of Cash Flows	$ 113,000	$ 231,000

At January 31, 2011, total remaining unrecognized compensation cost related to unvested stock-based awards was $8,695,000, net of estimated forfeitures of $666,000. The net cost is expected to be recognized over a weighted average period of approximately 2.9 years.

As of January 31, 2011, the amount of hypothetical tax benefits related to stock-based awards was $24,832,000. During the three and six months ended January 31, 2011, we recorded $204,000 and $1,237,000, respectively, as a reduction to additional paid-in capital, which represented the reversal of unrealized deferred tax assets associated with certain vested equity-classified stock-based awards that expired during the period.

(5) Fair Value Measurements and Financial Instruments

We believe that the book value of our current monetary assets and liabilities approximates fair value as a result of the short-term nature of such assets and liabilities.

In accordance with FASB ASC 825, “Financial Instruments,” we determined that, as of January 31, 2011, the fair value of our 3.0% convertible senior notes was approximately $210,500,000 based on a quoted market price in an active market. Our 3.0% convertible senior notes are not marked-to-market and are shown on the accompanying balance sheet at their original issuance value. As such, changes in the estimated fair value of our 3.0% convertible senior notes are not recorded in our condensed consolidated financial statements.

As of January 31, 2011, the only asset that is included in our Condensed Consolidated Balance Sheet at estimated fair value is approximately $197,221,000 of our cash and cash equivalents, substantially all of which was invested in money market mutual funds. FASB ASC 820, “Fair Value Measurements and Disclosures,” requires us to define 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. As such, using the fair value hierarchy described in FASB ASC 820, we valued our money market mutual funds using Level 1 inputs that were based on quoted market prices. If we acquire different types of assets or incur different types of liabilities in the future, we might be required to use different FASB ASC fair value methodologies.

(6) Earnings Per Share

Our basic earnings per share (“EPS”) is computed based on the weighted average number of shares outstanding. Our 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. When calculating our diluted earnings per share, we consider (i) the amount an employee must pay upon assumed exercise of stock-based awards; (ii) the amount of stock-based compensation cost attributed to future services and not yet recognized; and (iii) the amount of excess tax benefits, if any, that would be credited to additional paid-in capital assuming exercise of in-the-money stock-based awards. This excess tax benefit is the amount resulting from a tax deduction for compensation in excess of compensation expense, based on the Black Scholes option pricing model, recognized for financial reporting purposes.

Equity-classified stock-based awards to purchase 2,435,000 and 2,050,000 shares, for the three months ended January 31, 2011 and 2010, respectively, were not included in our diluted EPS calculation because their effect would have been anti-dilutive. Equity-classified stock-based awards to purchase 2,464,000 and 2,053,000 shares, for the six months ended January 31, 2011 and 2010, respectively, were not included in our diluted 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.

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

	Three months ended January 31,		Six months ended January 31,	
	2011	2010	2011	2010
Numerator:				
Net income for basic calculation	$ 16,096,000	16,333,000	41,752,000	25,365,000
Effect of dilutive securities:				
Interest expense (net of tax) on 3.0% convertible senior notes	1,117,000	1,117,000	2,234,000	2,234,000
Numerator for diluted calculation	$ 17,213,000	17,450,000	43,986,000	27,599,000
Denominator:				
Denominator for basic calculation	27,209,000	28,250,000	27,664,000	28,236,000
Effect of dilutive securities:				
Stock options	234,000	342,000	223,000	345,000
Conversion of 3.0% convertible senior notes	5,540,000	5,488,000	5,516,000	5,488,000
Denominator for diluted calculation	32,983,000	34,080,000	33,403,000	34,069,000

(7) Accounts Receivable

Accounts receivable consist of the following:

	January 31, 2011	July 31, 2010
Billed receivables from the U.S. government and its agencies	$ 40,337,000	89,843,000
Billed receivables from commercial customers	34,727,000	35,230,000
Unbilled receivables on contracts-in-progress	7,242,000	11,894,000
Total accounts receivable	82,306,000	136,967,000
Less allowance for doubtful accounts	1,442,000	1,127,000
Accounts receivable, net	$ 80,864,000	135,840,000

Unbilled receivables on contracts-in-progress include $4,157,000 and $11,430,000 at January 31, 2011 and July 31, 2010, respectively, due from the U.S. government and its agencies. There was $28,000 of retainage included in unbilled receivables at both January 31, 2011 and July 31, 2010. 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, 2011	July 31, 2010
Raw materials and components	$ 57,790,000	55,380,000
Work-in-process and finished goods	36,098,000	31,973,000
Total inventories	93,888,000	87,353,000
Less reserve for excess and obsolete inventories	13,941,000	13,791,000
Inventories, net	$ 79,947,000	73,562,000

At January 31, 2011 and July 31, 2010, the amount of inventory directly related to long-term contracts (including contracts-in-progress) was $12,281,000 and $12,063,000, respectively.

Our MTS and BFT-1 contracts are known as “indefinite delivery/ indefinite quantity” type contracts; thus, the U.S. Army is not obligated to purchase any additional products or services from us in the future. At January 31, 2011, $8,086,000 of our long-term contract inventory relates to our MTS and BFT-1 contracts. Almost all of this amount relates to MTS or BFT-1 orders already in our backlog. The remaining portion is expected to be used for incidental purchases and customer repairs. If we are left with inventories of unusable parts, we would likely have to write-off the remaining balance in the period that we make such determination.

At January 31, 2011 and July 31, 2010, $1,992,000 and $1,976,000, respectively, of the total inventory balance above related to contracts from third party commercial customers who outsource their manufacturing to us.

(9) Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consist of the following:

		January 31, 2011	July 31, 2010
Accrued wages and benefits	$	15,416,000	21,607,000
Accrued warranty obligations		9,731,000	10,562,000
Accrued commissions and royalties		3,035,000	2,997,000
Accrued business acquisition payments		795,000	1,350,000
Other		12,807,000	16,882,000
Accrued expenses and other current liabilities	$	41,784,000	53,398,000

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

Changes in our product warranty liability during the six months ended January 31, 2011 and 2010 were as follows:

		January 31, 2011	January 31, 2010
Balance at beginning of period	$	10,562,000	14,500,000
Provision for warranty obligations		3,680,000	3,494,000
Reversal of warranty liability		(525,000)	(888,000)
Warranty obligation transferred with sale of certain assets and liabilities		-	(400,000)
Charges incurred		(3,986,000)	(4,442,000)
Balance at end of period	$	9,731,000	12,264,000

(10) Cost Reduction Actions

Fiscal 2011 Cost Reduction Actions

During the six months ended January 31, 2011, we implemented certain cost reduction actions in all of our reportable operating segments. In our mobile data communications segment, we began aligning staffing levels with expected future business activity. We also reduced our manufacturing headcount in our telecommunications transmission segment to align with the expected lower level of manufacturing of products for our mobile data communications segment. In our RF microwave amplifiers segment we also reduced headcount and deferred certain merit raises. In our unallocated or corporate segment, we substantially reduced the use of outside consultants and reduced headcount. Our cost reduction efforts will continue throughout fiscal 2011. To-date, severance costs, which are included in our Condensed Consolidated Statements of Operations for the three and six months ended January 31, 2011, have not been material.

Fiscal 2010 Cost Reduction Actions

In August 2009, in connection with cost reduction actions we adopted in July 2009, we sold a small product line to a third party for $2,038,000.

Fiscal 2009 Radyne Acquisition-Related Restructuring Plan

In connection with our August 1, 2008 acquisition of Radyne, we immediately adopted a restructuring plan to achieve operating synergies. In connection with this plan, we vacated and subleased Radyne's Phoenix, Arizona manufacturing facility and integrated Radyne's satellite earth station manufacturing and engineering operations into our high-volume technology manufacturing center located in Tempe, Arizona. In addition, Radyne's corporate functions were moved to our Melville, New York corporate headquarters. The Radyne acquisition-related restructuring was completed in fiscal 2009.

In connection with these activities, we recorded approximately $2,713,000 of estimated restructuring costs, including $2,100,000 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 grandfathered accounting standards that were not incorporated into FASB ASC, we recorded these costs, at fair value, as assumed liabilities as of August 1, 2008, with a corresponding increase to goodwill.

The severance portion of the acquisition-related restructuring plan was completed in fiscal 2009 upon payout of the full amount. The estimated facility exit costs of approximately $2,100,000 reflect the net present value of the total gross non-cancelable lease obligations of $12,741,000 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 $8,600,000. We estimated sublease income based on the terms of fully executed sublease agreements for the facility and our assessment of future uncertainties relating to the real estate market. Based on our assessment of commercial real estate market conditions, we currently believe that it is not probable that we will be able to sublease the facility beyond the executed sublease terms which expire on October 31, 2015.

The following represents a summary of the facility exit portion of the acquisition-related restructuring plan:

	Accrued July 31, 2010	Net Cash Inflow	Accretion of Interest	Net Accrued January 31, 2011	Total Costs Accrued to Date (1)	Total Net Expected Costs (2)
Facilities	$ 2,136,000	111,000	78,000	$ 2,325,000	$ 2,325,000	$ 4,141,000

(1) Facilities-related restructuring costs are presented at net present value; accreted interest from inception to date that was recorded in interest expense is $347,000.

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

At January 31, 2011, net accrued restructuring costs of $2,325,000 represents $2,715,000 for accrued lease run-out costs (which is included in other liabilities in our consolidated balance sheet) less $390,000 for sublease rental payments received in excess of lease payments made (which is included in prepaid expenses and other current assets in our consolidated balance sheet). Interest accreted on the facility-related costs during the three and six months ended January 31, 2011 was approximately $40,000 and $78,000, respectively, as compared to $36,000 and $79,000, respectively, for the three and six months ended January 31, 2010, and is included in interest expense for each respective fiscal period.

(11) Credit Facility

We have a committed $150,000,000 unsecured revolving credit facility ("Credit Facility") with a syndicate of bank lenders. The Credit Facility, as amended on September 21, 2010, expires on January 31, 2014 and provides for the extension of credit to us in the form of revolving loans, including letters of credit, at any time and from time to time during its term, in an aggregate principal amount at any time outstanding not to exceed $150,000,000 for both revolving loans and letters of credit, with sub-limits of $15,000,000 for commercial letters of credit and $35,000,000 for standby letters of credit. The Credit Facility may be used for acquisitions, stock repurchases, dividends, working capital and other general corporate purposes.

At our election, borrowings under the Credit Facility will bear interest either at LIBOR plus an applicable margin or at the base rate plus an applicable margin. The interest rate margin over LIBOR ranges from 2.25 percent, up to a maximum amount of 2.75 percent. The base rate is a fluctuating rate equal to the highest of (i) the Prime Rate; (ii) the Federal Funds Effective Rate from time to time plus 0.5 percent; and (iii) two hundred (200) basis points in excess of the floating rate of interest determined, on a daily basis, in accordance with the terms of the agreement. The interest rate margin over the base rate ranges from 1.25 percent up to a maximum amount of 1.75 percent. In both cases, the applicable interest rate is based on the ratio of our consolidated total indebtedness to our consolidated earnings before interest, taxes, depreciation and amortization ("Consolidated EBITDA"). As defined in the Credit Facility, Consolidated EBITDA is adjusted for certain items.

The Credit Facility contains covenants, including covenants limiting certain debt, certain liens on assets, certain sales of assets and receivables, certain payments (including dividends), certain repurchases of shares of our common stock, certain sale and leaseback transactions, certain guaranties and certain investments. The Credit Facility also contains financial condition covenants including that we (i) maintain a minimum Consolidated EBITDA (as defined in the Credit Facility), measured on a consolidated basis based on the four prior consecutive fiscal quarters then ending; (ii) not exceed a maximum ratio of consolidated total indebtedness to Consolidated EBITDA (each as defined in the Credit Facility), and; (iii) maintain a minimum fixed charge ratio (as defined in the Credit Facility); in each case measured on the last day of each fiscal quarter.

The Credit Facility includes certain events of default, including: failure to make payments; failure to perform or observe terms, covenants and agreements; material inaccuracy of any representation or warranty; payment default relating to any indebtedness, as defined, with a principal amount in excess of $7,500,000 or acceleration of such indebtedness; occurrence of one or more final judgments or orders for the payment of money in excess of $7,500,000 that remain unsatisfied; incurrence of certain liabilities in connection with failure to maintain or comply with the Employee Retirement Income Security Act of 1974 ("ERISA"); any bankruptcy or insolvency; or a change of control, including if a person or group becomes the beneficial owner of 50 percent or more of our voting stock. If an event of default occurs, the interest rate on outstanding borrowings increases by an incremental default rate and the lenders may, among other things, terminate their commitments and declare all outstanding borrowings to be immediately due and payable together with accrued interest and fees. All amounts borrowed or outstanding under the Credit Facility are due and mature on January 31, 2014, unless the commitments are terminated earlier either at our request or if certain events of default occur.

At January 31, 2011, we had $1,910,000 of standby letters of credit outstanding related to our guarantees of future performance on certain customer contracts and no outstanding commercial letters of credit.

At January 31, 2011, had borrowings been outstanding under the Credit Facility, the applicable interest rate margin above LIBOR and base rate borrowings would have been 2.50 percent and 1.50 percent, respectively. We are also subject to an undrawn line fee based on the ratio of our consolidated total indebtedness to our Consolidated EBITDA, as defined and adjusted for certain items in the Credit Facility. Interest expense, including amortization of deferred financing costs, related to our credit facility recorded during the three and six months ended January 31, 2011 was $158,000 and $368,000, respectively, as compared to $153,000 and $299,000 during the three and six months ended January 31, 2010, respectively.

The Credit Facility currently provides for, among other things, (i) an allowance of dividend payments of up to $30,000,000 during any four consecutive fiscal-quarter period (and the related exclusion of such amount from the calculation of the fixed charge coverage ratio), and (ii) an allowance of cash dividends (the portion of which amount is in excess of $30,000,000 during any four consecutive fiscal-quarter period) and equity security repurchases of $100,000,000 (and the related exclusion of such amount from the calculation of the fixed charge coverage ratio). The Credit Facility requires us to maintain $100,000,000 of unrestricted cash and cash equivalents and achieve certain amounts of Consolidated EBITDA (as defined in the Credit Facility) during any four consecutive fiscal-quarter period beginning with the fiscal quarter ended October 31, 2010.

At January 31, 2011, based on our Consolidated EBITDA (as defined in the Credit Facility) and our business outlook, we believe we will meet our financial covenants for the foreseeable future.

(12) 3.0% Convertible Senior Notes

In May 2009, we issued $200,000,000 of our 3.0% 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 $194,541,000 after deducting the initial purchasers' discount and other transaction costs of $5,459,000.

The 3.0% convertible senior notes bear interest at an annual rate of 3.0% and, effective January 21, 2011 (the record date of our dividend declared on December 8, 2010), are convertible into shares of our common stock at a conversion price of $35.80 per share (a conversion rate of 27.9292 shares per $1,000 original principal amount of notes) at any time prior to the close of business on the second scheduled trading day immediately preceding the maturity date, subject to adjustment in certain circumstances. Pursuant to the terms of the 3.0% convertible senior notes indenture, cash dividends require an adjustment to the conversion rate, effective on the record date.

We may, at our option, redeem some or all of the 3.0% convertible senior notes on or after May 5, 2014. Holders of the 3.0% convertible senior notes will have the right to require us to repurchase some or all of the outstanding 3.0% convertible senior notes, solely for cash, on May 1, 2014, May 1, 2019 and May 1, 2024 and upon certain events, including a change in control. If not redeemed by us or repaid pursuant to the holders' right to require repurchase, the 3.0% convertible senior notes mature on May 1, 2029.

The 3.0% convertible notes are senior unsecured obligations of Comtech.

(13) Income Taxes

At January 31, 2011 and July 31, 2010, total unrecognized tax benefits, excluding interest, were $6,718,000 and $7,056,000, respectively. Of these amounts, $5,714,000 and $6,060,000, respectively, net of the reversal of the federal benefit recognized relating to potential state tax liabilities, would positively impact our effective tax rate, if recognized. Unrecognized tax benefits result from income tax positions taken or expected to be taken on our income tax returns for which a tax benefit has not been recorded in our financial statements. Of the total unrecognized tax benefits, $4,729,000 and $5,220,000 were recorded as non-current income taxes payable in our Condensed Consolidated Balance Sheets at January 31, 2011 and July 31, 2010, respectively.

Our policy is to recognize interest and penalties relating to uncertain tax positions in income tax expense. At January 31, 2011 and July 31, 2010, interest accrued relating to income taxes was $506,000 and $580,000, respectively, net of the related income tax benefit.

The Internal Revenue Service ("IRS") has conducted audits of our federal income tax returns for the past several years and is currently conducting an audit for the fiscal years ended July 31, 2007 and July 31, 2008. Tax years prior to fiscal 2007 are not subject to examination by the IRS. For both years currently under audit, we believe the IRS is focusing on the allowable amount of federal research and experimentation credits utilized as well as the amount of our domestic production activities deduction. Although adjustments relating to the audits and related settlements for prior years were immaterial, a resulting tax assessment or settlement for fiscal 2007, fiscal 2008, or other potential future periods could have a material adverse effect on our consolidated results of operations and financial condition. The IRS is not currently examining any of the federal income tax returns filed by Radyne.

(14) Stock Option Plan and Employee Stock Purchase Plan

We issue stock-based awards pursuant to the following plans:

2000 Stock Incentive Plan – The 2000 Stock Incentive Plan, as amended, provides for the granting to all employees and consultants of Comtech (including prospective employees and consultants) non-qualified stock options, SARs, restricted stock, performance shares, performance units and other stock-based awards. In addition, our employees are eligible to be granted incentive stock options. Our non-employee directors 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 8,962,500. Grants of incentive and non-qualified stock awards may not have a term exceeding ten years or, in the case of an incentive stock award granted to a stockholder who owns stock representing more than 10% of the voting power, no more than five years.

As of January 31, 2011, we had granted stock-based awards representing the right to purchase an aggregate of 6,684,133 shares (net of 1,069,067 canceled awards) at prices ranging between $3.13 - $51.65, of which 3,181,008 are outstanding at January 31, 2011. As of January 31, 2011, 3,503,125 stock-based awards have been exercised, of which 750 were SARs.

The following table summarizes certain stock option plan activity during the six months ended January 31, 2011:

	Number of Shares Underlying Stock-Based Awards	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at July 31, 2010	3,520,667	$ 32.75		

Granted	2,000		27.35			
Expired/canceled	(210,664)		35.28			
Exercised	(37,795)		16.21			
Outstanding at October 31, 2010	3,274,208		32.78			
Granted	-		-			
Expired/canceled	(64,050)		38.16			
Exercised	(29,150)		13.69			
Outstanding at January 31, 2011	3,181,008	$	32.84	3.67	$	5,164,000
Exercisable at January 31, 2011	1,946,242	$	32.97	2.23	$	5,163,000
Expected to vest at January 31, 2011	1,142,508	$	32.45	6.03	$	1,000

Included in the number of shares underlying stock-based awards outstanding at January 31, 2011, in the above table, are 38,500 SARs with no aggregate intrinsic value.

The total intrinsic value of stock-based awards exercised during the three months ended January 31, 2011 and 2010 was $490,000 and $356,000, respectively. The total intrinsic value of stock-based awards exercised during the six months ended January 31, 2011 and 2010 was $987,000 and $1,232,000, respectively.

2001 Employee Stock Purchase Plan – The ESPP was approved by the shareholders on December 12, 2000, and 675,000 shares of our common stock were reserved for issuance. The ESPP is intended to provide our eligible employees the opportunity to acquire our common stock 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 2011, we issued 405,074 shares of our common stock to participating employees in connection with the ESPP.

(15) 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,			
	2011		2010		2011		2010	
United States								
U.S. government	62.7	%	64.7	%	68.3	%	65.1	%
Commercial customers	7.7	%	6.1	%	7.0	%	6.7	%
Total United States	70.4	%	70.8	%	75.3	%	71.8	%
International	29.6	%	29.2	%	24.7	%	28.2	%

International sales for the three months ended January 31, 2011 and 2010, which include sales to U.S. domestic companies for inclusion in products that will be sold to international customers, were $48,254,000 and $50,024,000, respectively. International sales for the six months ended January 31, 2011 and 2010, which include sales to U.S. domestic companies for inclusion in products that will be sold to international customers, were $84,318,000 and $86,079,000, respectively.

For the three and six months ended January 31, 2011 and 2010, except for sales to the U.S. government which include sales to prime contractors of the U.S. government, no other customer or individual country, including sales to U.S. domestic companies for inclusion in products that will be sold to a foreign country, represented more than 10% of consolidated net sales.

(16) Segment Information

Reportable operating segments are determined based on Comtech's management approach. The management approach, as defined by accounting standards which have been codified into FASB ASC 280, "Segment Reporting," 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. Our chief operating decision-maker is our President and Chief Executive Officer.

While our 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, transceivers and voice gateways) and over-the-horizon microwave communications products and systems (such as digital troposcatter modems). Mobile data communications products include satellite-based mobile location tracking and messaging hardware (such as mobile satellite transceivers and third-party produced ruggedized computers) and related services and the design and production of microsatellites. RF microwave amplifier products include traveling wave tube amplifiers and solid-state, high-power broadband amplifier products that use the microwave and radio frequency spectrums.

Corporate 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, 2011	Telecommunications Transmission	Mobile Data Communications	RF Microwave Amplifiers	Unallocated	Total
Net sales	$62,268,000	76,654,000	23,889,000	-	$162,811,000
Operating income (loss)	15,450,000	14,320,000	407,000	(4,913,000)	25,264,000
Interest income and other (expense)	16,000	12,000	(5,000)	603,000	626,000
Interest expense	159,000	-	-	1,931,000	2,090,000
Depreciation and amortization	2,887,000	1,611,000	1,122,000	1,417,000	7,037,000
Expenditures for long-lived assets, including intangibles	899,000	271,000	227,000	3,000	1,400,000
Total assets at January 31, 2011	256,111,000	48,283,000	101,400,000	592,769,000	998,563,000

Three months ended January 31, 2010	Telecommunications Transmission	Mobile Data Communications	RF Microwave Amplifiers	Unallocated	Total
Net sales	$58,463,000	84,186,000	28,483,000	-	$171,132,000
Operating income (loss)	13,656,000	16,925,000	2,330,000	(5,515,000)	27,396,000
Interest income and other (expense)	16,000	2,000	(3,000)	163,000	178,000
Interest expense	40,000	-	-	1,926,000	1,966,000
Depreciation and amortization	2,706,000	783,000	1,144,000	1,700,000	6,333,000
Expenditures for long-lived assets, including intangibles	970,000	535,000	411,000	17,000	1,933,000
Total assets at January 31, 2010	259,293,000	88,569,000	103,615,000	518,538,000	970,015,000

Six months ended January 31, 2011	Telecommunications Transmission	Mobile Data Communications	RF Microwave Amplifiers	Unallocated	Total
Net sales	$111,409,000	182,873,000	46,689,000	-	$340,971,000
Operating income	23,770,000	39,383,000	1,044,000	1,148,000	65,345,000
Interest income and other (expense)	87,000	24,000	(2,000)	1,211,000	1,320,000
Interest expense	240,000	-	-	3,913,000	4,153,000
Depreciation and amortization	5,652,000	2,483,000	2,243,000	2,992,000	13,370,000
Expenditures for long-lived assets, including intangibles	7,872,000	628,000	306,000	47,000	8,853,000
Total assets at January 31, 2011	256,111,000	48,283,000	101,400,000	592,769,000	998,563,000

Six months ended January 31, 2010	Telecommunications Transmission	Mobile Data Communications	RF Microwave Amplifiers	Unallocated	Total
Net sales	$ 105,125,000	138,324,000	61,499,000	-	$ 304,948,000
Operating income (loss)	22,111,000	24,980,000	5,424,000	(10,152,000)	42,363,000
Interest income and other (expense)	6,000	24,000	(18,000)	401,000	413,000

Interest expense	88,000	-	-	3,845,000	3,933,000
Depreciation and amortization	5,417,000	1,568,000	2,263,000	3,527,000	12,775,000
Expenditures for long-lived assets, including intangibles	1,769,000	781,000	586,000	17,000	3,153,000
Total assets at January 31, 2010	259,293,000	88,569,000	103,615,000	518,538,000	970,015,000

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Unallocated operating income for the six months ended January 31, 2011 includes the receipt of a net termination fee of $12,500,000 related to a Termination and Release Agreement dated September 7, 2010, by which we and CPI International, Inc. ("CPI") terminated a previously announced Merger Agreement dated May 8, 2010.

Unallocated expenses result from such corporate expenses as legal, accounting and executive compensation. In addition, for the three and six months ended January 31, 2011, unallocated expenses include $1,351,000 and $2,859,000, respectively, of stock-based compensation expense and for the three and six months ended January 31, 2010, unallocated expenses include $1,650,000 and $3,426,000, respectively, of stock-based compensation expense. Interest expense (which includes amortization of deferred financing costs) associated with our convertible senior notes and our Credit Facility 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 our long-lived assets are located in the U.S.

Intersegment sales for the three months ended January 31, 2011 and 2010 by the telecommunications transmission segment to the mobile data communications segment were $7,658,000 and $30,530,000, respectively. For the six months ended January 31, 2011 and 2010, intersegment sales by the telecommunications transmission segment to the mobile data communications segment were $14,309,000 and $30,595,000, respectively.

For the three months ended January 31, 2011 and 2010, intersegment sales by the telecommunications transmission segment to the RF microwave amplifiers segment were $1,154,000 and $909,000, respectively. Intersegment sales for the six months ended January 31, 2011 and 2010 by the telecommunications transmission segment to the RF microwave amplifiers segment were $1,862,000 and $5,041,000, respectively.

Intersegment sales for the three and six months ended January 31, 2011 by the RF microwave amplifiers segment to the telecommunications transmission segment were $0 and $31,000, 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, 2010.

All intersegment sales have been eliminated from the tables above.

(17) Goodwill

The carrying amount of goodwill by segment at both January 31, 2011 and July 31, 2010 is as follows:

	Telecommunications Transmission	Mobile Data Communications	RF Microwave Amplifiers	Total
Goodwill	$ 107,779,000	13,249,000	29,575,000	$ 150,603,000
Accumulated impairment	-	(13,249,000)	-	(13,249,000)
Balance	$ 107,779,000	-	29,575,000	$ 137,354,000

For purposes of reviewing impairment and the recoverability of goodwill, each of our three operating segments constitutes a reporting unit and we must make various assumptions regarding estimated future cash flows and other factors in determining the fair value of each reporting unit. We perform an annual impairment review in the first quarter of each fiscal year.

Based on our annual impairment review performed on August 1, 2010 (the start of our first quarter of fiscal 2011), we determined that none of the goodwill recorded on our consolidated balance sheet was impaired. During the six months ended January 31, 2011, there were no indicators of impairment which would have required us to perform an interim impairment test in accordance with FASB ASC 350, "Intangibles – Goodwill and Other."

Unless there are future indicators of impairment, such as a significant adverse change in our future financial performance, our next impairment review for goodwill will be performed and completed in the first quarter of fiscal 2012.

Any impairment charges that we may record in the future could be material to our results of operations and financial condition.

(18) Intangible Assets

Intangible assets with finite lives as of January 31, 2011 and July 31, 2010 are as follows:

	January 31, 2011			
	Weighted Average Amortization Period	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Technologies	10.0	$ 47,694,000	24,630,000	$ 23,064,000
Customer relationships	9.9	29,931,000	7,757,000	22,174,000
Trademarks and other	17.6	6,044,000	1,612,000	4,432,000
Total		$ 83,669,000	33,999,000	$ 49,670,000

	July 31, 2010			
	Weighted Average Amortization Period	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Technologies	10.6	$ 42,224,000	22,531,000	$ 19,693,000
Customer relationships	9.9	29,931,000	6,223,000	23,708,000
Trademarks and other	17.6	6,044,000	1,354,000	4,690,000
Total		$ 78,199,000	30,108,000	$ 48,091,000

In October 2010, we acquired the WAN optimization technology assets and assumed certain liabilities of Stampede Technologies, Inc. (“Stampede”) for a purchase price of approximately $5,303,000 (including $3,803,000 which represents the acquisition date fair value of contingent earn-out payments that we expect to make within three years). As of January 31, 2011, $1,200,000 of the total purchase price was paid in cash with $300,000 scheduled to be paid in April 2011. Of the contingent earn-out payments we expect to make, $3,456,000 is included in other liabilities in our consolidated balance sheet at January 31, 2011 with the remaining amount included in accrued expenses and other current liabilities. Almost all of the purchase price for Stampede was allocated to the estimated fair value of technologies acquired and was assigned an estimated amortizable life of five years.

Stampede was immediately combined with our existing business and is now part of the telecommunications transmission reportable operating segment. Sales and income related to the Stampede acquisition were not material to our results of operations for the six months ended January 31, 2011 and the effects of the acquisition would not have been material to our historical consolidated financial statements.

Amortization expense for the three months ended January 31, 2011 and 2010 was $2,004,000 and $1,765,000, respectively. Amortization expense for the six months ended January 31, 2011 and 2010 was $3,891,000 and $3,529,000, respectively. The estimated amortization expense related to intangible assets with finite lives for the fiscal years ending July 31, 2011, 2012, 2013, 2014 and 2015 is $7,870,000, $6,586,000, $6,408,000, $6,336,000 and $6,246,000, respectively.

(19) Stockholders’ Equity

Stock Repurchase Program

In September 2010, our Board of Directors authorized the repurchase of up to $100,000,000 of our common stock. There is no time restriction on this authorization and repurchases may be made in open-market or privately negotiated transactions and may be made pursuant to SEC Rule 10b5-1 trading plans. During the six months ended January 31, 2011, we repurchased 1,628,848 shares in open-market transactions for an aggregate cost of $46,804,000, (including transaction costs) with an average price per share of $28.73. As of January 31, 2011, we have the authority to repurchase up to an additional $53,244,000 of our common stock.

Dividends

In December 2010, our Board of Directors approved a cash dividend of $0.25 per share of Comtech common stock which was paid to shareholders on February 21, 2011. On March 9, 2011, our Board of Directors declared a dividend of $0.25 per share payable on May 20, 2011 to shareholders of record at the close of business on April 21, 2011. While future dividends will be subject to Board approval, our Board of Directors is currently targeting annual dividend payments aggregating $1.00 per share.

(20) Legal Proceedings and Other Matters

Export Matters

In connection with previously reported violations with respect to our compliance with the International Traffic in Arms Regulations ("ITAR"), at the request of the Enforcement Division of the Office of Defense Trade Controls Compliance ("DDTC") of the U.S. Department of State, we agreed to have an ITAR compliance audit performed by an independent auditor. The ITAR compliance audit plan and the independent auditor were approved by the DDTC and in January 2011 the audit was completed and the results were provided to the DDTC.

The audit found no violations of ITAR, that we have taken numerous steps to significantly improve our export control processes and that we made demonstrable efforts in developing an export compliance program. We expect to continue to improve and enhance our internal controls relating to exports and to implement further changes to reduce the risk of non-compliance with ITAR in the future. The DDTC is currently reviewing the audit report. Although the ultimate outcome of their review is difficult to accurately predict, we believe that the final outcome of their review will not have a material adverse effect on our business, results of operations or financial condition.

Patent Infringement Suit

We license our Double Talk® Carrier-in-Carrier® technology from a third party. We recently moved to join the third party as a plaintiff in the case against multiple defendants who we believe are infringing upon certain patents that are underlying the technology. One defendant has asserted counterclaims of infringement by and against us and the third party. We believe these counterclaims have no merit and have agreed with the third party to share equally in the cost of defending the matter and enforcing our rights to such licensed technology. In July 2010, we, along with the third party, reached a settlement agreement in principle with one of the defendants, which will likely result in the receipt by us of payment for damages and subsequent royalties to be paid to us. Terms of the settlement agreement and license are being negotiated. We intend to continue to pursue our claim against the remaining defendants. A trial date has been set for April 2, 2012. Although the ultimate outcome of litigation is difficult to accurately predict, we believe that the final outcome of this action will not have a material adverse effect on our business, results of operations or financial condition.

Other Proceedings

There are certain other pending and threatened legal actions, which arise in the normal course of business. Although the ultimate outcome of litigation is difficult to accurately predict, we believe that the outcome of these pending and threatened actions will not have a material adverse effect on our consolidated financial condition or results of operations.

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

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Certain information in this Quarterly Report on Form 10-Q contains forward-looking statements, including but not limited to, information relating to our future performance and financial condition, plans and objectives of our management and our assumptions regarding such future performance, financial condition, and plans and objectives that involve certain significant known and unknown risks and uncertainties and other factors not under our control which may cause our actual results, future performance and financial condition, and achievement of our plans and objectives to be materially different from the results, performance or other expectations implied by these forward-looking statements. These factors include the nature and timing of receipt of, and our performance on, new or existing orders that can cause significant fluctuations in net sales and operating results, the timing and funding of government contracts, adjustments to gross profits on long-term contracts, risks associated with international sales, rapid technological change, evolving industry standards, frequent new product announcements and enhancements, changing customer demands, changes in prevailing economic and political conditions, risks associated with our legal proceedings and other matters, risks associated with our MTS and BFT contracts, risks associated with our obligations under our revolving credit facility, and other factors described in our filings with the Securities and Exchange Commission.

OVERVIEW

We design, develop, produce and market innovative products, systems and services for advanced communications solutions. We believe many of our solutions play a vital role in providing or enhancing communication capabilities when terrestrial communications infrastructure is unavailable, inefficient or too expensive. We conduct our business through three complementary operating segments: telecommunications transmission, mobile data communications and RF microwave amplifiers. We sell our products to a diverse customer base in the global commercial and government communications markets. We believe we are a leader in the market segments that we serve.