COMTECH TELECOMMUNICATIONS CORP /DE/
Form 10-Q
June 06, 2013
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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 April 30, 2013
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	11-2139466
(State or other jurisdiction of incorporation /organization)	(I.R.S. Employer Identification Number)

68 South Service Road, Suite 230, Melville, NY	11747
(Address of principal executive offices)	(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 June 3, 2013, the number of outstanding shares of Common Stock, par value $.10 per share, of the registrant was 16,404,993 shares.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

COMTECH TELECOMMUNICATIONS CORP. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

	April 30, 2013 (Unaudited)	July 31, 2012
Assets		
Current assets:		
Cash and cash equivalents	$342,197,000	367,894,000
Accounts receivable, net	47,904,000	56,242,000
Inventories, net	71,101,000	72,361,000
Prepaid expenses and other current assets	10,737,000	8,196,000
Deferred tax asset, net	9,780,000	12,183,000
Total current assets	481,719,000	516,876,000
Property, plant and equipment, net	20,858,000	22,832,000
Goodwill	137,354,000	137,354,000
Intangibles with finite lives, net	34,087,000	38,833,000
Deferred tax asset, net, non-current	—	438,000
Deferred financing costs, net	1,450,000	2,487,000
Other assets, net	894,000	958,000
Total assets	$676,362,000	719,778,000
Liabilities and Stockholders’ Equity		
Current liabilities:		
Accounts payable	$12,149,000	20,967,000
Accrued expenses and other current liabilities	30,641,000	40,870,000
Dividends payable	4,544,000	4,773,000
Customer advances and deposits	13,432,000	14,516,000
Interest payable	3,029,000	1,529,000
Total current liabilities	63,795,000	82,655,000
Convertible senior notes	200,000,000	200,000,000
Other liabilities	3,883,000	5,098,000
Income taxes payable	3,266,000	2,624,000
Deferred tax liability, net	1,184,000	—
Total liabilities	272,128,000	290,377,000
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 28,996,237 shares and 28,931,679 shares at April 30, 2013 and July 31, 2012, respectively	2,900,000	2,893,000
Additional paid-in capital	361,970,000	361,458,000
Retained earnings	402,773,000	404,227,000
	767,643,000	768,578,000
Less:		
Treasury stock, at cost (12,504,352 shares and 11,564,059 shares at April 30, 2013 and July 31, 2012, respectively)	(363,409,000)	(339,177,000)
Total stockholders’ equity	404,234,000	429,401,000

Total liabilities and stockholders' equity	$676,362,000	719,778,000

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 April 30,		Nine months ended April 30,	
	2013	2012	2013	2012
Net sales	$69,856,000	99,793,000	235,386,000	312,295,000
Cost of sales	38,429,000	58,115,000	129,916,000	177,921,000
Gross profit	31,427,000	41,678,000	105,470,000	134,374,000
Expenses:				
Selling, general and administrative	15,374,000	20,005,000	47,617,000	63,749,000
Research and development	9,080,000	9,481,000	28,407,000	28,609,000
Amortization of intangibles	1,582,000	1,626,000	4,746,000	5,037,000
	26,036,000	31,112,000	80,770,000	97,395,000
Operating income	5,391,000	10,566,000	24,700,000	36,979,000
Other expenses (income):				
Interest expense	2,009,000	2,192,000	6,150,000	6,521,000
Interest income and other	(287,000)	(370,000)	(878,000)	(1,300,000)
Income before provision for income taxes	3,669,000	8,744,000	19,428,000	31,758,000
Provision for income taxes	817,000	2,678,000	6,776,000	7,270,000
Net income	$2,852,000	6,066,000	12,652,000	24,488,000
Net income per share (See Note 6):				
Basic	$0.17	0.32	0.74	1.18
Diluted	$0.17	0.29	0.69	1.04
Weighted average number of common shares outstanding – basic	16,731,000	18,853,000	17,141,000	20,746,000
Weighted average number of common and common equivalent shares outstanding – diluted	16,827,000	24,910,000	23,221,000	26,724,000
Dividends declared per issued and outstanding common share as of the applicable dividend record date	$0.275	0.275	0.825	0.825

See accompanying notes to condensed consolidated financial statements.

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COMTECH TELECOMMUNICATIONS CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
NINE MONTHS ENDED APRIL 30, 2013 AND 2012
(Unaudited)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Treasury Stock		Stockholders' Equity
	Shares	Amount			Shares	Amount	
Balance as of July 31, 2011	28,731,265	$2,873,000	$355,001,000	$393,109,000	4,508,445	$(121,803,000)	$629,180,000
Equity-classified stock award compensation	—	—	2,652,000	—	—	—	2,652,000
Proceeds from exercise of options	139,595	14,000	3,113,000	—	—	—	3,127,000
Proceeds from issuance of employee stock purchase plan shares	34,421	4,000	821,000	—	—	—	825,000
Cash dividends declared	—	—	—	(16,525,000)	—	—	(16,525,000)
Net income tax shortfall from stock-based award exercises	—	—	(50,000)	—	—	—	(50,000)
Reversal of deferred tax assets associated with expired and unexercised stock-based awards	—	—	(1,329,000)	—	—	—	(1,329,000)
Repurchases of common stock	—	—	—	—	6,054,022	(188,061,000)	(188,061,000)
Net income	—	—	—	24,488,000	—	—	24,488,000
Balance as of April 30, 2012	28,905,281	$2,891,000	$360,208,000	$401,072,000	10,562,467	$(309,864,000)	$454,307,000
Balance as of July 31, 2012	28,931,679	$2,893,000	$361,458,000	$404,227,000	11,564,059	$(339,177,000)	$429,401,000
Equity-classified stock award compensation	—	—	2,246,000	—	—	—	2,246,000
Proceeds from exercise of	32,850	4,000	483,000	—	—	—	487,000

options							
Proceeds from issuance of employee stock purchase plan shares	31,708	3,000	691,000	—	—	—	694,000
Cash dividends declared	—	—	—	(14,106,000)	—	—	(14,106,000)
Net excess income tax benefit from stock-based award exercises	—	—	85,000	—	—	—	85,000
Reversal of deferred tax assets associated with expired and unexercised stock-based awards	—	—	(2,993,000)	—	—	—	(2,993,000)
Repurchases of common stock	—	—	—	—	940,293	(24,232,000)	(24,232,000)
Net income	—	—	—	12,652,000	—	—	12,652,000
Balance as of April 30, 2013	28,996,237	$2,900,000	$361,970,000	$402,773,000	12,504,352	$(363,409,000)	$404,234,000

See accompanying notes to condensed consolidated financial statements.

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

	Nine months ended April 30, 2013	2012
Cash flows from operating activities:		
Net income	$12,652,000	24,488,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of property, plant and equipment	5,959,000	7,219,000
Amortization of intangible assets with finite lives	4,746,000	5,037,000
Amortization of stock-based compensation	2,245,000	2,718,000
Deferred financing costs	1,062,000	1,124,000
Change in fair value of contingent earn-out liability	(3,267,000)	(844,000)
Loss on disposal of property, plant and equipment	32,000	7,000
Benefit from allowance for doubtful accounts	(401,000)	(14,000)
Provision for excess and obsolete inventory	2,139,000	2,176,000
Excess income tax benefit from stock-based award exercises	(90,000)	(142,000)
Deferred income tax expense (benefit)	1,032,000	(3,843,000)
Changes in assets and liabilities:		
Accounts receivable	8,739,000	(2,194,000)
Inventories	(883,000)	(7,024,000)
Prepaid expenses and other current assets	(510,000)	(348,000)
Other assets	64,000	(35,000)
Accounts payable	(8,818,000)	(5,138,000)
Accrued expenses and other current liabilities	(8,754,000)	(7,011,000)
Customer advances and deposits	(1,084,000)	6,140,000
Other liabilities	660,000	666,000
Interest payable	1,500,000	1,513,000
Income taxes payable	(1,304,000)	(7,250,000)
Net cash provided by operating activities	15,719,000	17,245,000
Cash flows from investing activities:		
Purchases of property, plant and equipment	(4,017,000)	(4,467,000)
Net cash used in investing activities	(4,017,000)	(4,467,000)
Cash flows from financing activities:		
Repurchases of common stock	(24,232,000)	(190,062,000)
Cash dividends paid	(14,335,000)	(17,554,000)
Proceeds from exercises of stock options	487,000	3,127,000
Proceeds from issuance of employee stock purchase plan shares	694,000	825,000
Excess income tax benefit from stock-based award exercises	90,000	142,000
Payment of contingent consideration related to business acquisition	(78,000)	(163,000)
Fees related to line of credit	(25,000)	(248,000)
Net cash used in financing activities	(37,399,000)	(203,933,000)
Net decrease in cash and cash equivalents	(25,697,000)	(191,155,000)
Cash and cash equivalents at beginning of period	367,894,000	558,804,000
Cash and cash equivalents at end of period	$342,197,000	367,649,000

See accompanying notes to condensed consolidated financial statements.
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COMTECH TELECOMMUNICATIONS CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
(Unaudited)

	Nine months ended April 30,	
	2013	2012
Supplemental cash flow disclosures:		
Cash paid during the period for:		
Interest	$3,263,000	3,333,000
Income taxes	$7,049,000	18,364,000
Non-cash investing and financing activities:		
Cash dividends declared	$4,544,000	5,071,000

See accompanying notes to condensed consolidated financial statements.

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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 nine months ended April 30, 2013 and 2012 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, 2012 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 and Updates

We are required to prepare our consolidated financial statements in accordance with the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) which is the source for all authoritative U.S. generally accepted accounting principles, which is commonly referred to as “GAAP.” The FASB ASC is subject to updates by FASB, which are known as Accounting Standards Updates (“ASU”). The following FASB ASU has been issued and incorporated into the FASB ASC and adopted by us:

On February 1, 2013, we adopted FASB ASU No. 2013-02, which requires, among other things, entities to provide information about the amounts reclassified out of accumulated other comprehensive income. Our adoption of this ASU did not have any impact on our condensed consolidated financial statements or disclosures, because we do not have any other component of comprehensive income except for net income.

(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 Incentive Plan and our 2001 Employee Stock Purchase Plan (the “ESPP”). Historically, stock-based awards were granted in the form of stock options and, to a much lesser extent, stock appreciation rights ("SARs"). Commencing in fiscal 2012, we also began issuing restricted stock units ("RSUs") and, to a much lesser extent, stock units.

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 generally expensed over the vesting period of the award. We expect to settle all outstanding equity-based awards with new shares. 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. In addition, SARs may only be settled with cash.

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

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

	Three months ended April 30, 2013	Three months ended April 30, 2012	Nine months ended April 30, 2013	Nine months ended April 30, 2012
Cost of sales	$15,000	46,000	134,000	224,000
Selling, general and administrative expenses	568,000	626,000	1,783,000	2,066,000
Research and development expenses	111,000	137,000	328,000	428,000
Stock-based compensation expense before income tax benefit	694,000	809,000	2,245,000	2,718,000
Income tax benefit	(255,000)	(308,000)	(865,000)	(1,009,000)
Net stock-based compensation expense	$439,000	501,000	1,380,000	1,709,000

Stock-based compensation expense before income tax benefit, by award type, is summarized as follows:

	Three months ended April 30, 2013	Three months ended April 30, 2012	Nine months ended April 30, 2013	Nine months ended April 30, 2012
Stock options	$533,000	756,000	1,744,000	2,539,000
ESPP	44,000	56,000	145,000	176,000
RSUs with performance measures	84,000	—	256,000	—
RSUs without performance measures	27,000	—	87,000	—
Stock units	6,000	6,000	18,000	6,000
SARs	—	(9,000)	(5,000)	(3,000)
Stock-based compensation expense before income tax benefit	$694,000	809,000	2,245,000	2,718,000

There were no stock options granted during the three months ended April 30, 2013.

Stock options granted during the nine months ended April 30, 2013 had exercise prices equal to the fair market value of the stock on the date of grant, a contractual term of ten years and a vesting period of five years. Stock options granted during the nine months ended April 30, 2012 had 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. The per share weighted average grant-date fair value of stock-based awards granted during the nine months ended April 30, 2013 approximated $5.46. The per share weighted average grant-date fair value of stock-based awards granted during the three and nine months ended April 30, 2012 approximated $7.19 and $5.99, respectively. We estimate the fair value of stock options 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. In estimating the fair value of the stock options that were issued during the three and nine months ended April 30, 2013 and 2012, we utilized the following weighted average assumptions:

	Three months ended April 30, 2013	Three months ended April 30, 2012	Nine months ended April 30, 2013	Nine months ended April 30, 2012
Expected dividend yield	N/A	3.49%	4.29%	3.97%
Expected volatility	N/A	36.00%	37.00%	36.19%
Risk-free interest rate	N/A	0.85%	0.61%	0.83%
Expected life (years)	N/A	5.19	5.31	5.23

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The expected dividend yield is the expected annual dividend (based on our Board's annual dividend target which, as of April 30, 2013, is currently $1.10 per share) as a percentage of the fair market value of the stock on the date of 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 options. 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 options will be outstanding prior to exercise. The expected life of awards issued is determined by employee groups with sufficiently distinct behavior patterns.

RSUs with performance measures that were granted to certain employees vest over a 5.3 year period beginning on the date of grant, if pre-established performance goals are attained. As of April 30, 2013, we expect that the goals relating to RSUs with performance measures outstanding will be attained. RSUs without performance measures that were granted to non-employee directors have a vesting period of three years from the date of grant. The fair value of RSUs is based on the closing market price of our common stock on the date of grant less the present value of estimated future dividends using the applicable risk-free interest rate as the RSUs, issued and outstanding as of April 30, 2013, are not entitled to dividend equivalents while unvested and the underlying shares are unissued. RSUs with performance measures are convertible into shares of our common stock on a one-for-one basis at the end of each vesting tranche for no cash consideration. RSUs without performance measures are convertible into shares of our common stock generally at the time of termination, on a one-for-one basis for no cash consideration, or earlier under certain specific circumstances.

Fully-vested stock units granted during both the three and nine months ended April 30, 2013 and the three and nine months ended April 30, 2012 had a weighted average grant-date market value of $26.78 per share and $32.27 per share, respectively, based on the closing price of our common stock on the date of grant. Fully-vested stock units outstanding as of April 30, 2013, are not entitled to dividend equivalents while the underlying shares are unissued. Fully-vested stock units granted are convertible into shares of our common stock generally at the time of termination, on a one-for-one basis for no cash consideration, or earlier under certain specific circumstances. To-date, fully-vested stock units have only been issued to non-employee directors who have elected to receive fully-vested stock units in lieu of their cash retainer.

ESPP stock-based compensation expense, reflected in the table above, for the three and nine months ended April 30, 2013 and 2012 primarily relates to the 15% discount offered to employees participating in the ESPP.

Similar to our stock options, SARs that are outstanding at April 30, 2013 have exercise prices equal to the fair market value of our stock on the date of grant, a contractual term of five years, a vesting period of three years and are measured using the Black-Scholes option pricing model. Included in accrued expenses at April 30, 2013 and July 31, 2012 is $1,000 and $6,000, respectively, relating to the potential cash settlement of SARs.

Total stock-based compensation that was capitalized and included in ending inventory at April 30, 2013 and July 31, 2012 was $44,000 and $48,000, respectively.

At April 30, 2013, total remaining unrecognized compensation cost related to unvested stock-based awards was $6,952,000, net of estimated forfeitures of $666,000. The net cost is expected to be recognized over a weighted average period of 3.1 years.

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 recipients of stock-based awards.

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

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

	Nine months ended April 30,	
	2013	2012
Actual income tax benefit recorded for the tax deductions relating to the exercise of stock-based awards	$159,000	341,000
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, excluding income tax shortfalls	69,000	197,000
Excess income tax benefit recorded as an increase to additional paid-in capital	90,000	144,000
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	—	2,000
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	$90,000	142,000

As of April 30, 2013, the amount of hypothetical tax benefits related to stock-based awards, recorded as a component of additional paid-in capital, was $19,877,000. During the nine months ended April 30, 2013 and 2012, we recorded $2,993,000 and $1,329,000, respectively, as a reduction to additional paid-in capital and accumulated hypothetical tax benefits related to stock-based awards. Such amounts represent the reversal of unrealized deferred tax assets associated with certain vested equity-classified stock-based awards that expired during the period.

In June 2013, our Board of Directors authorized, in accordance with our amended 2000 Stock Incentive Plan, the issuance of 352,342 stock-based awards of which 298,775 were stock options, 25,604 were RSUs with performance measures, 2,076 were restricted stock and 25,887 were restricted stock units. Total unrecognized stock-based compensation, net of estimated forfeitures, related to these awards was approximately $2,600,000 and will be expensed in future periods.

(5) Fair Value Measurements and Financial Instruments

In accordance with FASB ASC 825, “Financial Instruments,” we determined that, as of April 30, 2013 and July 31, 2012, the fair value of our 3.0% convertible senior notes was approximately $204,260,000 and $211,920,000, respectively, based on quoted market prices 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 April 30, 2013 and July 31, 2012, we had approximately $54,174,000 and $84,610,000, respectively, of money market mutual funds which are classified as cash and cash equivalents in our Condensed Consolidated Balance Sheets. These money market mutual funds are recorded at their current fair value. 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.

At April 30, 2013 and July 31, 2012, we had a contingent earn-out liability relating to our acquisition of Stampede Technologies, Inc. (“Stampede”) of $307,000 and $3,519,000, respectively, which is recorded at current fair value using Level 3 inputs, primarily management's estimates of future sales and cash flows relating to the earn-out, which also incorporated market participant expectations. See Note (9) - "Accrued Expenses and Other Current Liabilities."

As of April 30, 2013 and July 31, 2012, other than our cash and cash equivalents and our contingent earn-out liability, we had no other assets or liabilities included in our Condensed Consolidated Balance Sheets recorded at current fair value. 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, including fully-vested stock units, outstanding during each respective period. 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 respective period. When calculating our diluted earnings per share, we consider (i) the amount a recipient 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 2,635,000 and 1,969,000 shares for the three months ended April 30, 2013 and 2012, respectively, were not included in our diluted EPS calculation because their effect would have been anti-dilutive. Equity-classified stock-based awards to purchase 2,665,000 and 2,138,000 shares for the nine months ended April 30, 2013 and 2012, respectively, were not included in our diluted EPS calculation because their effect would have been anti-dilutive. Our diluted EPS calculation for the three months ended April 30, 2013 excludes the effect of 6,035,000 shares and $1,117,000 of interest expense (net of tax) related to our 3.0% convertible senior notes, because their effect would have been anti-dilutive for the period. Liability-classified stock-based awards do not impact and are not included in the denominator for EPS calculations.

In addition, the weighted-average basic and diluted shares outstanding for the three months ended April 30, 2013 and 2012 reflects a reduction of approximately 295,000 and 458,000 shares as a result of the repurchase of our common shares during the respective periods. The weighted-average basic and diluted shares outstanding for the nine months ended April 30, 2013 and 2012 reflects a reduction of approximately 261,000 and 3,579,000 shares as a result of the repurchase of our common shares during the respective periods. See Note (19) – "Stockholders' Equity" for more information on the stock repurchase program.

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

	Three months ended April 30,		Nine months ended April 30,	
	2013	2012	2013	2012
Numerator:				
Net income for basic calculation	$2,852,000	6,066,000	12,652,000	24,488,000
Effect of dilutive securities:				
Interest expense (net of tax) on 3.0% convertible senior notes	—	1,117,000	3,351,000	3,351,000
Numerator for diluted calculation	$2,852,000	7,183,000	16,003,000	27,839,000
Denominator:				
Denominator for basic calculation	16,731,000	18,853,000	17,141,000	20,746,000

Effect of dilutive securities:				
Stock-based awards	96,000	263,000	103,000	236,000
Conversion of 3.0% convertible senior notes	—	5,794,000	5,977,000	5,742,000
Denominator for diluted calculation	16,827,000	24,910,000	23,221,000	26,724,000

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(7) Accounts Receivable

Accounts receivable consist of the following at:

	April 30, 2013	July 31, 2012
Billed receivables from commercial customers	$29,849,000	41,139,000
Billed receivables from the U.S. government and its agencies	15,507,000	11,927,000
Unbilled receivables on contracts-in-progress	3,301,000	4,764,000
Total accounts receivable	48,657,000	57,830,000
Less allowance for doubtful accounts	753,000	1,588,000
Accounts receivable, net	$47,904,000	56,242,000

Unbilled receivables on contracts-in-progress include $1,616,000 and $3,320,000 at April 30, 2013 and July 31, 2012, respectively, due from the U.S. government and its agencies. We had virtually no retainage included in unbilled receivables at both April 30, 2013 and July 31, 2012. In the opinion of management, a substantial portion of the unbilled balances will be billed and collected within one year.

(8) Inventories

Inventories consist of the following at:

	April 30, 2013	July 31, 2012
Raw materials and components	$54,226,000	55,404,000
Work-in-process and finished goods	32,837,000	33,243,000
Total inventories	87,063,000	88,647,000
Less reserve for excess and obsolete inventories	15,962,000	16,286,000
Inventories, net	$71,101,000	72,361,000

At April 30, 2013 and July 31, 2012, the amount of inventory directly related to long-term contracts (including contracts-in-progress) was $2,017,000 and $2,041,000, respectively.

At April 30, 2013 and July 31, 2012, $592,000 and $1,070,000, respectively, of the inventory 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 at:

	April 30, 2013	July 31, 2012
Accrued wages and benefits	$10,659,000	16,467,000
Accrued warranty obligations (see below)	7,712,000	7,883,000
Accrued commissions and royalties	4,523,000	3,946,000
Accrued business acquisition payments (see below)	307,000	1,752,000
Other	7,440,000	10,822,000
Accrued expenses and other current liabilities	$30,641,000	40,870,000

Accrued Warranty Obligations

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.

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Changes in our product warranty liability were as follows:

	Nine months ended April 30,	
	2013	2012
Balance at beginning of period	$7,883,000	9,120,000
Provision for warranty obligations	3,867,000	4,077,000
Charges incurred	(4,038,000)	(5,186,000)
Balance at end of period	$7,712,000	8,011,000

Accrued Business Acquisition Payments

In October 2010, we acquired the WAN optimization technology assets and assumed certain liabilities of Stampede for an estimated total purchase price of approximately $5,303,000. 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. As of April 30, 2013, we maintain a liability of approximately $307,000 for contingent earn-out payments we expect to make, through October 1, 2013, based on the likelihood that certain revenue and related gross margin milestones will be met in future periods. We review our estimates and updated forecasts on a quarterly basis and record adjustments in the fair value of the earn-out liability as required. In fiscal 2013, we recorded a benefit of $3,267,000 for the nine months ended April 30, 2013 (all of which was recorded during the first six months of fiscal 2013). In fiscal 2012, we recorded a benefit of $844,000 for both the three and nine months ended April 30, 2012. These adjustments are all reflected as a reduction to selling, general and administrative expenses in our Condensed Consolidated Statement of Operations for the respective periods.

As the contingent earn-out liability is expected to be paid on October 1, 2013, there was no interest accreted for the three months ended April 30, 2013. Interest accreted on the contingent earn-out liability was $133,000 for the nine months ended April 30, 2013, and $116,000 and $357,000 for the three and nine months ended April 30, 2012, respectively. Total interest accreted through April 30, 2013 was $986,000. As of April 30, 2013, we paid $1,797,000 of the total purchase price in cash, including $297,000 of earn-out payments.

(10) Cost Reduction Actions

Wind-Down of Microsatellite Product Line

During the nine months ended April 30, 2013, we completed our fiscal 2012 plan to wind-down our mobile data communications segment's microsatellite product line. In connection with this plan, we recorded a net pre-tax restructuring charge of $569,000 related to this plan, for the nine months ended April 30, 2013 (all of which was recorded during the first six months of fiscal 2013). Almost all of these amounts are reflected in selling, general and administrative expenses in our Condensed Consolidated Statements of Operations. There was no such pre-tax charge for the three months ended April 30, 2013 or the nine months ended April 30, 2012.

The activity pertaining to the accruals with respect to this plan, since July 31, 2012, is summarized as follows:

	Facility exit costs	Severance and related costs	Other	Total
Balance as of July 31, 2012	$496,000	310,000	330,000	$1,136,000
Additions/(reversals)	654,000	76,000	(161,000)	569,000
Payments made	(698,000)	(386,000)	(19,000)	(1,103,000)
Balance as of April 30, 2013	$452,000	—	150,000	$602,000

Of the total remaining microsatellite product line wind-down liabilities of $602,000, $378,000 is included in accrued expenses and other current liabilities and $224,000 is included in other long-term liabilities in our Condensed Consolidated Balance Sheet as of April 30, 2013. In connection with the wind-down of our mobile data communications segment's microsatellite product line, during the nine months ended April 30, 2013, we transferred certain miscellaneous assets and liabilities to third parties for no cash consideration. As the estimated fair values of the assets transferred and liabilities relinquished were approximately equal, these transactions did not result in any gain or loss.

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Radyne Acquisition-Related Restructuring Plan

In connection with our August 1, 2008 acquisition of Radyne, we adopted a restructuring plan for which we recorded $2,713,000 of estimated restructuring costs. Of this amount, $613,000 relates to severance for Radyne employees which was paid in fiscal 2009. The remaining estimated amounts relate to facility exit costs and were determined as follows:

	At August 1, 2008
Total non-cancelable lease obligations	$12,741,000
Less: Estimated sublease income	8,600,000
Total net estimated facility exit costs	4,141,000
Less: Interest expense to be accreted	2,041,000
Present value of estimated facility exit costs	$2,100,000

Our total non-cancelable lease obligations were based on the actual lease term which runs from November 1, 2008 through October 31, 2018. We estimated sublease income based on (i) the terms of a fully executed sublease agreement, whose lease term runs from November 1, 2008 through October 31, 2015 and (ii) our assessment of future uncertainties relating to the commercial 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 current sublease terms. As such, in accordance with grandfathered accounting standards that were not incorporated into the FASB's ASC, we recorded these costs, at fair value, as assumed liabilities as of August 1, 2008, with a corresponding increase to goodwill.

As of April 30, 2013, the amount of the acquisition-related restructuring reserve is as follows:

	Cumulative Activity Through April 30, 2013
Present value of estimated facility exit costs at August 1, 2008	$2,100,000
Cash payments made	(5,069,000)
Cash payments received	5,415,000
Accreted interest recorded	779,000
Net liability as of April 30, 2013	3,225,000
Amount recorded as prepaid expenses in the Condensed Consolidated Balance Sheet	434,000
Amount recorded as other liabilities in the Condensed Consolidated Balance Sheet	$3,659,000

As of July 31, 2012, the present value of the estimated facility exit costs was $2,916,000. During the nine months ended April 30, 2013, we made cash payments of $768,000 and we received cash payments of $917,000. Interest accreted for the three and nine months ended April 30, 2013 and 2012 was $55,000 and $160,000, respectively, and $48,000 and $139,000, respectively, and is included in interest expense for each respective fiscal period.

As of April 30, 2013, future cash payments associated with our restructuring plan are summarized below:

	As of April 30, 2013
Future lease payments to be made in excess of anticipated sublease payments	$3,659,000
Less net cash to be received in next twelve months	(434,000)
Interest expense to be accreted in future periods	1,262,000
Total remaining net cash payments	$4,487,000

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Other Cost Reduction Actions
In addition to the items above, during the nine months ended April 30, 2013, we continued to implement other cost reduction actions; principally headcount reductions. The costs for these actions were not material for the three and nine months ended April 30, 2013 and 2012, respectively.

(11) Credit Facility

We have a committed $100,000,000 secured revolving credit facility (the “Credit Facility”) with a syndicate of bank lenders, as amended on June 6, 2012. The Credit Facility expires on April 30, 2014 but may be extended by us to December 31, 2016, subject to certain conditions relating primarily to the repurchase, redemption or conversion of our 3.0% convertible senior notes and compliance with all other Credit Facility covenants.

The Credit Facility 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 $100,000,000 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. Subject to covenant limitations, the Credit Facility may be used for acquisitions, equity securities 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, as amended. The interest rate margin over LIBOR ranges from 1.75 percent up to a maximum amount of 2.50 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 0.50 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 0.75 percent up to a maximum amount of 1.50 percent. In both cases, the applicable interest rate margin is based on the ratio of our consolidated total indebtedness to our consolidated earnings before interest, taxes, depreciation and amortization (“Consolidated Adjusted EBITDA”). As defined in the Credit Facility, Consolidated Adjusted EBITDA is adjusted for certain items and, in the event of an acquisition with a purchase price in excess of $10,000,000, provides for the inclusion of the last twelve months of consolidated EBITDA of a target.

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 equity securities, certain sale and leaseback transactions, certain guaranties and certain investments. The Credit Facility also contains financial condition covenants requiring that we (i) not exceed a maximum ratio of consolidated total indebtedness to Consolidated Adjusted EBITDA (each as defined in the Credit Facility); (ii) not exceed a maximum ratio of consolidated senior secured indebtedness to Consolidated Adjusted EBITDA (each as defined in the Credit Facility); (iii) maintain a minimum fixed charge ratio (as defined in the Credit Facility); (iv) maintain a minimum consolidated net worth; in each case measured on the last day of each fiscal quarter and (v) in the event total consolidated indebtedness (as defined in the Credit Facility) is less than $200,000,000, we must maintain a minimum level of Consolidated Adjusted EBITDA (as defined in the Credit Facility).

At April 30, 2013, we had $1,893,000 of standby letters of credit outstanding related to our guarantees of future performance on certain customer contracts and no commercial letters of credit outstanding.

At April 30, 2013, had borrowings been outstanding under the Credit Facility, the interest rate would have been approximately 2.70 percent (LIBOR plus 2.50 percent). We are also subject to an undrawn line fee based on the ratio of our consolidated total indebtedness to our Consolidated Adjusted 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 nine months ended April 30, 2013 was $180,000 and $543,000, respectively, as compared to $256,000 and $707,000 during the three and nine months ended April 30, 2012, respectively.

At April 30, 2013, based on our Consolidated Adjusted EBITDA (as defined in the Credit Facility) and our business outlook and related business plans, we believe we will be able to meet or obtain waivers for the applicable financial covenants that we are required to maintain.

(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.

Our 3.0% convertible senior notes bear interest at an annual rate of 3.0%. 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. Effective April 19, 2013 (the record date of our dividend declared on March 7, 2013), our 3.0% convertible senior notes are convertible into shares of our common stock at a conversion price of $32.80 per share (a conversion rate of 30.4901 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.

We may, at our option, redeem some or all of our 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 our 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, our 3.0% convertible senior notes mature on May 1, 2029.

Because it is possible that the holders of our 3.0% convertible senior notes will require us to repurchase some or all of the outstanding notes on May 1, 2014, our 3.0% convertible senior notes will be reflected as a current liability in our consolidated balance sheet at July 31, 2013.

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

(13) Income Taxes

Excluding the impact of discrete tax items, our fiscal 2013 estimated effective tax rate is expected to approximate 35.5%.

At April 30, 2013 and July 31, 2012, total unrecognized tax benefits, all of which were recorded as non-current income taxes payable in our Condensed Consolidated Balance Sheets, were $3,266,000 and $2,624,000, respectively, including interest of $142,000 and $95,000, respectively. Of these amounts, $2,492,000 and $1,990,000, respectively, net of the reversal of the federal benefit recognized as deferred tax assets relating to state reserves, excluding interest, 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.

Our policy is to recognize interest and penalties relating to uncertain tax positions in income tax expense.

Our federal income tax returns for fiscal 2010, fiscal 2011 and fiscal 2012 are subject to potential future IRS audit. Future tax assessments or settlements could have a material adverse effect on our consolidated results of operations and financial condition.

(14) Stock Option Plan and Employee Stock Purchase Plan

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

2000 Stock Incentive Plan – The 2000 Stock Incentive Plan (the "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, RSUs, RSUs with performance measures (known as performance shares under the Plan), performance units, stock 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 non-qualified stock options, restricted stock, RSUs, stock units and other stock-based awards, 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 10.0% of the voting power, no more than five years.

As of April 30, 2013, we had granted stock-based awards representing the right to purchase and/or acquire an aggregate of 6,658,069 shares (net of 2,250,190 expired and canceled awards), of which 2,894,009 were outstanding at April 30, 2013. Stock options and SARs were granted at prices ranging between $3.13 - $51.65. As of April 30, 2013, an aggregate of 3,764,060 stock-based awards have been exercised, of which 750 were SARs. No stock units, RSUs or performance shares granted to date have been converted into common stock as of April 30, 2013.

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The following table summarizes stock option plan activity during the nine months ended April 30, 2013:

	Number of Shares Underlying Stock-Based Awards	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at July 31, 2012	3,506,484	$31.17		
Granted	222	—		
Expired/canceled	(542,075)	40.95		
Exercised	(16,200)	19.95		
Outstanding at October 31, 2012	2,948,431	29.44		
Granted	4,245	24.15		
Expired/canceled	(16,950)	34.35		
Exercised	(9,600)	12.72		
Outstanding at January 31, 2013	2,926,126	29.46		
Granted	233	—		
Expired/canceled	(25,300)	33.51		
Exercised	(7,050)	5.88		
Outstanding at April 30, 2013	2,894,009	$29.48	4.46	$3,422,000
Exercisable at April 30, 2013	1,669,758	$31.00	2.13	$2,249,000
Vested and expected to vest at April 30, 2013	2,809,575	$29.53	4.35	$3,379,000

RSUs, stock units and performance shares are convertible into shares of our common stock, are subject to certain terms and restrictions, do not require the recipient to pay an exercise price, and are not subject to expiration. As such, for these awards, the weighted average exercise price and the weighted average remaining contractual term reflected in the above table assumes a zero dollar exercise price and no expiration, respectively.

Included in the number of shares underlying stock-based awards outstanding at April 30, 2013 of 2,894,009, in the above table, are 16,000 vested SARs, 1,110 vested stock units, 12,668 unvested RSUs and 35,003 unvested RSUs with performance measures, with a combined aggregate intrinsic value of $1,201,000.

The total intrinsic value of stock-based awards exercised during the three months ended April 30, 2013 and 2012 was $149,000 and $295,000, respectively. The total intrinsic value of stock-based awards exercised during the nine months ended April 30, 2013 and 2012 was $413,000 and $1,304,000, 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 April 30, 2013, we have cumulatively issued 505,726 shares of our common stock to participating employees in connection with the ESPP.

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(15) Customer and Geographic Information

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

	Three months ended April 30,				Nine months ended April 30,			
	2013		2012		2013		2012	
United States								
U.S. government	36.9	%	48.6	%	38.1	%	47.8	%
Commercial	16.0	%	11.7	%	14.1	%	12.3	%
Total United States	52.9	%	60.3	%	52.2	%	60.1	%
International	47.1	%	39.7	%	47.8	%	39.9	%

Sales to U.S. government customers include the Department of Defense ("DoD") and intelligence and civilian agencies, as well as sales directly to or through prime contractors. International sales for the three months ended April 30, 2013 and 2012 (which include sales to U.S. domestic companies for inclusion in products that will be sold to international customers) were $32,907,000 and $39,653,000, respectively. International sales for the nine months ended April 30, 2013 and 2012 (which include sales to U.S. domestic companies for inclusion in products that will be sold to international customers) were $112,596,000 and $124,621,000, respectively.

For the three and nine months ended April 30, 2013 and 2012, except for sales (both direct and indirect) to U.S. government customers, 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 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) RF microwave amplifiers, and (iii) mobile data communications.

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).

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.

Mobile data communications products and services include mobile satellite transceivers, satellite network and related engineering services (including program management) on a cost-plus-fixed-fee basis and the licensing of intellectual property for the support and sustainment of the U.S. Army's Blue Force Tracking (“BFT-1”) and the U.S. Army's

Movement Tracking System (“MTS”) programs. These programs are currently in a sustainment mode. Other mobile data communications products include Sensor Enabled Notification System commercial asset tracking systems known as "SENS." Prior to July 31, 2012, we designed, manufactured and sold microsatellites, primarily to U.S. government customers. We completed a restructuring plan to wind-down our microsatellite product line in the first quarter of fiscal 2013.

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Corporate management defines and reviews segment profitability based on the same allocation methodology as presented in the segment data tables below:

	Three months ended April 30, 2013				
	Telecommunications Transmission	RF Microwave Amplifiers	Mobile Data Communications	Unallocated	Total
Net sales	$45,410,000	16,169,000	8,277,000	—	$69,856,000
Operating income (loss)	6,261,000	(121,000)	2,434,000	(3,183,000)	5,391,000
Interest income and other (expense)	(2,000)	(10,000)	3,000	296,000	287,000
Interest expense	55,000	—	—	1,954,000	2,009,000
Depreciation and amortization	2,378,000	984,000	125,000	729,000	4,216,000
Expenditure for long-lived assets, including intangibles	1,359,000	130,000	71,000	—	1,560,000
Total assets at April 30, 2013	227,138,000	94,832,000	13,780,000	340,612,000	676,362,000

	Three months ended April 30, 2012				
	Telecommunications Transmission	RF Microwave Amplifiers	Mobile Data Communications	Unallocated	Total
Net sales	$48,044,000	28,111,000	23,638,000	—	$99,793,000
Operating income (loss)	8,463,000	2,587,000	2,638,000	(3,122,000)	10,566,000
Interest income and other	15,000	9,000	7,000	339,000	370,000
Interest expense	163,000	—	—	2,029,000	2,192,000
Depreciation and amortization	2,530,000	1,121,000	366,000	856,000	4,873,000
Expenditure for long-lived assets, including intangibles	1,581,000	155,000	71,000	—	1,807,000
Total assets at April 30, 2012	244,208,000	102,816,000	37,203,000	362,133,000	746,360,000

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	Nine months ended April 30, 2013				
	Telecommunications Transmission	RF Microwave Amplifiers	Mobile Data Communications	Unallocated	Total
Net sales	$144,506,000	61,820,000	29,060,000	—	$235,386,000
Operating income (loss)	24,069,000	2,242,000	8,899,000	(10,510,000)	24,700,000
Interest income and other (expense)	(37,000)	(39,000)	15,000	939,000	878,000
Interest expense (income)	294,000	—	(6,000)	5,862,000	6,150,000
Depreciation and amortization	7,241,000	2,941,000	411,000	2,357,000	12,950,000
Expenditure for long-lived assets, including intangibles	3,428,000	472,000	112,000	5,000	4,017,000
Total assets at April 30, 2013	227,138,000	94,832,000	13,780,000	340,612,000	676,362,000

	Nine months ended April 30, 2012				
	Telecommunications Transmission	RF Microwave Amplifiers	Mobile Data Communications	Unallocated	Total
Net sales	$156,168,000	71,661,000	84,466,000	—	$312,295,000
Operating income (loss)	29,816,000	4,105,000	16,409,000	(13,351,000)	36,979,000
Interest income and other	35,000	3,000	23,000	1,239,000	1,300,000
Interest expense	495,000	—	—	6,026,000	6,521,000
Depreciation and amortization	7,604,000	3,325,000	1,183,000	2,862,000	14,974,000
Expenditure for long-lived assets, including intangibles	3,651,000	630,000	186,000	—	4,467,000
Total assets at April 30, 2012	244,208,000	102,816,000	37,203,000	362,133,000	746,360,000

Operating income in our telecommunications transmission segment for the nine months ended April 30, 2013 includes $3,267,000 of a benefit related to a change in fair value of the earn-out liability associated with our acquisition of Stampede. There was no such benefit during the three months ended April 30, 2013. Operating income in our telecommunications transmission segment for both the three and nine months ended April 30, 2012 includes $844,000 of a benefit related to a change in fair value of the earn-out liability associated with our acquisition of Stampede. See Note (9) - "Accrued Expenses and Other Current Liabilities."

Operating income in our mobile data communications segment, for the nine months ended April 30, 2013, includes a pre-tax restructuring charge of $569,000 related to the wind-down of our microsatellite product line. See Note (10) - "Cost Reduction Actions." There was no such charge during the three months ended April 30, 2013 or the three and nine months ended April 30, 2012.

Unallocated operating loss for the nine months ended April 30, 2012 includes $2,638,000 of professional fees related to a withdrawn contested proxy solicitation in connection with our fiscal 2011 annual meeting of stockholders.

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Unallocated expenses include corporate expenses such as executive compensation, accounting, legal and other regulatory compliance related costs. In addition, for the three and nine months ended April 30, 2013, unallocated expenses include $694,000 and $2,245,000, respectively, of stock-based compensation expense and for the three and nine months ended April 30, 2012, unallocated expenses include $809,000 and $2,718,000, 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, 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 April 30, 2013 and 2012 by the telecommunications transmission segment to the RF microwave amplifiers segment were $361,000 and $1,333,000, respectively. Intersegment sales for the nine months ended April 30, 2013 and 2012 by the telecommunications transmission segment to the RF microwave amplifiers segment were $2,018,000 and $3,032,000, respectively.

Intersegment sales for the three months ended April 30, 2013 and 2012 by the telecommunications transmission segment to the mobile data communications segment were $18,000 and $1,047,000, respectively. Intersegment sales for the nine months ended April 30, 2013 and 2012 by the telecommunications transmission segment to the mobile data communications segment were $2,637,000 and $5,937,000, respectively.

All other intersegment sales were immaterial for the three and nine months ended April 30, 2013 and 2012.

All intersegment sales have been eliminated from the tables above.

(17) Goodwill

The carrying amount of goodwill by segment as of April 30, 2013 and July 31, 2012 are as follows:

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

In accordance with FASB ASC 350, “Intangibles - Goodwill and Other,” we perform goodwill impairment testing at least annually, unless indicators of impairment exist in interim periods. The impairment test for goodwill uses a two-step approach. Step one compares the estimated fair value of a reporting unit with goodwill to its carrying value. If the carrying value exceeds the estimated fair value, step two must be performed. Step two compares the carrying value of the reporting unit to the fair value of all of the assets and liabilities of the reporting unit (including any unrecognized intangibles) as if the reporting unit was acquired in a business combination. If the carrying amount of a reporting unit's goodwill exceeds the implied fair value of its goodwill, an impairment loss is recognized in an amount equal to the excess.

For purposes of reviewing impairment and the recoverability of goodwill and other intangible assets, each of our three operating segments constitutes a reporting unit and we must make various assumptions in determining the fair values of the reporting unit.

As a result of challenging global business conditions, the U.S. government's failure to either identify required spending reductions or provide, with specificity, the allocation and prioritization of future U.S. Department of Defense requirements and, because many of our customers were reducing or delaying their spending for our products and services, we concluded it was appropriate for us to perform an interim step one goodwill impairment test as of January 31, 2013. In performing this test, we estimated the fair value of each of our reporting units, as of January 31, 2013, based on the income approach (also known as the discounted cash flow (“DCF”) method, which utilizes the present value of cash flows to estimate fair value). The future cash flows for our reporting units were projected based on our estimates, at that time, of future revenues, operating income and other factors (such as working capital and capital expenditures). We took into account expected challenging global industry and market conditions, including expected significant reductions in the overall budget for U.S. defense spending. As such, although both reporting units with goodwill have historically achieved significant long-term revenue and operating income growth, we assumed growth rate estimates in our projections that were below our actual long-term expectations and below each reporting unit's actual historical growth rate.

The discount rates used in our DCF method were based on a weighted-average cost of capital (“WACC”) determined from relevant market comparisons, adjusted upward for specific reporting unit risks (primarily the uncertainty of achieving projected operating cash flows). A terminal value growth rate was applied to the final year of the projected period and reflected our estimate of stable, perpetual growth. We then calculated a present value of the respective cash flows for each reporting unit to arrive at an estimate of fair value under the income approach and then used the market approach to corroborate this value. Under the market approach, we estimated a fair value based on comparable companies' market multiples of revenues and earnings before interest, taxes, depreciation and amortization and factored in a control premium. In each case, the estimated fair value determined under the market approach exceeded our estimate of fair value determined under the income approach. Finally, we compared our estimates to our January 31, 2013 total public market capitalization and assessed implied control premiums. Based on the aforementioned, we concluded that the estimated fair value determined under the income approach for each of our reporting units, as of January 31, 2013, was reasonable. In each case, the estimated fair value exceeded the respective carrying value and, as such, we concluded that the goodwill assigned to our telecommunications transmission and RF microwave amplifiers reporting units, as of January 31, 2013, was not impaired. We also concluded that our telecommunications transmission reporting unit was currently not at risk of failing step one of the goodwill impairment test as prescribed under the ASC. However, we concluded that as of January 31, 2013, our RF microwave amplifiers reporting unit was at risk of failing step one of the goodwill impairment test.

After performing our interim step one test, as of January 31, 2013, we determined that our RF microwave amplifiers reporting unit had an estimated fair value in excess of its respective carrying value of at least 5.0%. This estimated fair value is closely aligned with the ultimate amount of revenue and operating income that it achieves over the projected period. Our discounted cash flows, for goodwill impairment testing purposes, assumed that, through fiscal 2018, this reporting unit would achieve a compounded annual revenue growth rate of approximately 1.4% from its actual fiscal 2012 revenue of $102,497,000. Beyond fiscal 2018, we assumed a long-term revenue growth rate of 3.5% in the terminal year. As of January 31, 2013, we utilized a WACC of 12.0% for our RF microwave amplifiers reporting unit which reflected a 100 basis point increase from the WACC utilized in our August 1, 2012 goodwill impairment test. Given the challenging market conditions at that time, we believe these modest long-term growth rates and the WACC were appropriate to use for our future cash flow assumptions due to the uncertainty that existed amongst our customer base. We also believe that it is possible that our actual revenue growth rates could be significantly higher due to a number of factors, including: (i) continued reliance by our customers on our advanced communications systems; (ii) the continued shift toward information-based, network-centric warfare; and (iii) the need for developing countries to upgrade their communication systems. If we do not at least meet the assumed revenue growth utilized in this interim goodwill impairment analysis, our RF microwave amplifiers reporting unit will likely fail step one of a goodwill impairment test in a future period. Modest changes in other key assumptions used in our January 31, 2013 impairment analysis may also result in the requirement to proceed to step two of the goodwill impairment test in future periods. For example, keeping all other variables constant, a further 50 basis point increase in the WACC applied to our RF microwave amplifiers reporting unit or an increase to our RF microwave amplifiers carrying value of more than $5,000,000 would likely result in a step one failure. If this reporting unit fails step one in the future, we would be required to perform step two of the goodwill impairment test. If we perform step two, up to $29,575,000 of goodwill assigned to this reporting unit could be written off in the period that the impairment is triggered.

As of April 30, 2013, we qualitatively evaluated general economic conditions, equity markets, industry conditions, cost factors, other events and circumstances and reviewed projected revenues and operating income levels for our RF microwave amplifiers reporting unit. Based on our overall analysis, we noted no significant adverse matter, event or circumstance that occurred since January 31, 2013 or that existed as of April 30, 2013, that would make us believe that it was more likely than not, that the estimated fair value of our RF microwave amplifiers reporting unit would be less than its April 30, 2013 carrying amount. As such, we did not perform an interim step one test as of April 30, 2013 as we did not believe, based on our qualitative evaluation, the goodwill assigned to our RF microwave amplifiers reporting unit, as of April 30, 2013, was impaired. We believe that our RF microwave amplifiers reporting unit remains at risk of failing step one of the goodwill impairment test in future periods.

Both our interim and annual goodwill impairment analyses are sensitive to the ultimate spending decisions by our global customers. Accordingly, we will continue to monitor key assumptions and other factors required to be utilized in evaluating impairment of goodwill. It is possible that, during the fourth quarter of our fiscal 2013, business conditions (both in the U.S. and internationally) could deteriorate from the current state and our current or prospective customers could materially postpone, reduce or even forgo purchases of our products and services to a greater extent than we currently anticipate. A significant decline in defense spending that is greater than we anticipate or a shift in funding priorities may also have a negative effect on future orders, sales, income and cash flows and we might be required to perform a step one interim impairment test during the fourth quarter of our fiscal 2013. In any event, we are required to perform an annual step one impairment test on August 1, 2013 (the start of our fiscal 2014). If our assumptions and related estimates change in the future, or if we change our reporting structure or other events and circumstances change (e.g., such as a sustained decrease in the price of our common stock (considered on both absolute terms and relative to peers)), we may be required to record impairment charges when we perform these tests or in other future periods. Any impairment charges that we may take in the future could be material to our results of operations and financial condition.

In addition to our impairment analysis of goodwill, we are also required to evaluate the recoverability of net intangibles with finite lives recorded on our Condensed Consolidated Balance Sheet which, as of April 30, 2013, aggregated $34,087,000 (of which $19,000,000 relates to our telecommunications transmission segment and $15,087,000 relates to our RF microwave amplifiers segment). Based on our analysis of estimated undiscounted future cash flows expected to result from the use of these net intangibles with finite lives, we believe that their carrying values are recoverable as of April 30, 2013.

(18) Intangible Assets

Intangible assets with finite lives as of April 30, 2013 and July 31, 2012 are as follows:

	April 30, 2013 Weighted Average Amortization Period	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Technologies	11.7	$47,494,000	32,478,000	$15,016,000
Customer relationships	10.0	29,831,000	14,344,000	15,487,000
Trademarks and other	20.0	5,944,000	2,360,000	3,584,000
Total		$83,269,000	49,182,000	$34,087,000

July 31, 2012

	Weighted Average Amortization Period	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Technologies	11.7	$47,694,000	30,321,000	$17,373,000
Customer relationships	10.0	29,931,000	12,231,000	17,700,000
Trademarks and other	20.0	6,044,000	2,284,000	3,760,000
Total		$83,669,000	44,836,000	$38,833,000

The weighted average amortization period in the above table excludes fully amortized intangible assets.

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Amortization expense for the three months ended April 30, 2013 and 2012 was $1,582,000, and $1,626,000, respectively. Amortization expense for the nine months ended April 30, 2013 and 2012 was $4,746,000, and $5,037,000, respectively.

The estimated amortization expense for the fiscal years ending July 31, 2013, 2014, 2015, 2016, and 2017 is $6,327,000, $6,285,000, $6,211,000, $4,962,000 and $4,782,000, respectively.

In connection with the wind-down of our mobile data communications segment's microsatellite product line, certain fully amortized intangible assets related to this product line are no longer reflected in the gross carrying amount or accumulated amortization of our intangible assets as of April 30, 2013.

As discussed in Note (17) - "Goodwill," in addition to our impairment analysis of goodwill, we are required to evaluate the recoverability of net intangibles with finite lives recorded on our Condensed Consolidated Balance Sheet. Based on our analysis of estimated undiscounted future cash flows expected to result from the use of our net intangibles with finite lives, we believe that their carrying values are recoverable as of April 30, 2013.

(19) Stockholders’ Equity

Stock Repurchase Program
During the nine months ended April 30, 2013, we repurchased 940,293 shares of our common stock in open-market transactions with an average price per share of $25.77 and at an aggregate cost of $24,232,000 (including transaction costs). As of April 30, 2013, we were authorized to repurchase up to an additional $37,054,000 of our common stock, pursuant to a $50,000,000 stock repurchase program that was authorized by our Board of Directors in December 2012.

As of June 5, 2013, we can repurchase an additional $34,554,000 pursuant to our $50,000,000 stock repurchase program. The $50,000,000 stock repurchase program has no time restrictions 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 nine months ended April 30, 2012, we repurchased 6,054,022 shares in open-market transactions for an aggregate cost of $188,061,000 (including transaction costs), with an average price per share of $31.06. In addition, during the nine months ended April 30, 2012, we paid $2,001,000 for repurchases of our common stock which was accrued as of July 31, 2011.

Dividends
In September 2011, our Board of Directors raised our annual targeted dividend from $1.00 per common share, to $1.10 per common share.

During the nine months ended April 30, 2013, our Board of Directors declared quarterly dividends of 0.275 per common share on September 26, 2012, December 6, 2012 and March 7, 2013 which were paid to shareholders on November 20, 2012, December 27, 2012 and May 21, 2013, respectively.

On June 6, 2013, our Board of Directors declared a dividend of $0.275 per common share, payable on August 20, 2013, to shareholders of record at the close of business on July 19, 2013.

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(20) Legal Proceedings and Other Matters

U.S. Government Investigations
In June 2012, certain officers and employees of the Company received subpoenas issued by the United States District Court for the Eastern District of New York ("EDNY") seeking certain documents and records relating to our Chief Executive Officer ("CEO"). Although the EDNY subpoenas make no specific allegations, we believe the subpoenas relate to a grand jury investigation stemming from our CEO's contacts with a scientific attaché to the Israeli Purchasing Mission in the United States who our CEO met in connection with the sale of our equipment to the State of Israel during the 1980's. This scientific attaché was later alleged to have conducted intelligence operations in the U.S. In August 2012, we were informed by the U.S. government that our CEO's security clearance was suspended. In order to maintain our qualification for government contracts requiring facility security clearance, we have made certain internal organizational realignments. These changes restrict access to classified information to other Comtech senior executives, management and other employees who maintain the required level of clearance.

Separately, in connection with an investigation by the Securities and Exchange Commission ("SEC") into trading in securities of CPI International, Inc. ("CPI"), we and our CEO, and other persons, have received subpoenas for documents from the SEC concerning transactions in CPI stock by our CEO and other persons (including one subsidiary employee). Our CEO purchased CPI stock in November 2010 which was after the September 2010 termination of our May 2010 agreement to acquire CPI.

We and our CEO are cooperating with the U.S. government regarding the above matters. The independent members of our Board of Directors are monitoring these matters with the assistance of independent counsel.

The outcome of any investigation is inherently difficult, if not impossible, to predict. However, based on our work to date in respect of the subpoenas in each matter, we do not believe that it is likely that either investigation will result in a legal proceeding against our CEO or the Company. If either of these investigations results in a legal proceeding, it could have a material adverse effect on our business and results of operations.

Defense Contract Audit Agency ("DCAA") Audit
In May 2011, we were notified that our original BFT-1 contract, which was awarded to us on August 31, 2007 (our fiscal 2008), was selected for a post award audit by the DCAA. We received total funded orders against this contract, which expired December 31, 2011, of $376,330,000. A post-award audit (sometimes referred to as a Truth in Negotiations Act or "TINA" audit) generally focuses on whether the contractor disclosed current, accurate and complete cost or pricing data in the contract negotiation process pursuant to TINA and the Federal Acquisition Regulation ("FAR"). Shortly after this audit began, the Defense Contract Management Agency ("DCMA") advised us that the fiscal 2008 award of the BFT-1 contract triggered full coverage under the Cost Accounting Standards ("CAS") and that we should submit an initial CAS disclosure statement. The CAS is a set of specialized rules and standards that the U.S. government uses for determining costs on large, negotiated contracts. We have cooperated fully with the DCAA and DCMA and provided them information that supports our view that the August 2007 BFT-1 contract is subject to a CAS and TINA exemption for fixed price commercial contract line items (such as our mobile satellite transceivers and other hardware), as defined by the FAR.

In March 2013, DCMA advised us that it was not making any determination with regard to the commerciality of our products and that it withdrew its request, at that time, for a CAS disclosure statement.

In May 2013, the DCAA provided a draft audit report which stated that the commercial item exemption to TINA did not apply because there was no official determination of commerciality for Deliver Order No. 1 at the time of award. Thus, according to DCAA, TINA applied and we were required to disclose current, accurate and complete cost or pricing data. The DCAA recommended a price adjustment of $11,819,000 (plus interest). This recommended price adjustment is essentially the same amount that was included in a draft audit report that was presented to us in December 2012.

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Consistent with the position we have taken throughout the audit, we informed the DCAA that we believe the May 2013 draft audit report is erroneous. For example, we noted that the U.S. Army had previously determined, in July 2007, that the MT 2011F mobile satellite transceiver was a commercial item on a separate contract awarded to us. We also noted that the same contracting officer who signed the August 2007 BFT-1 contract, in an email sent four days after the BFT-1 contract was signed, indicated that certain of our mobile satellite transceivers and other equipment on the August 2007 BFT-1 contract were commercial. We advised the DCAA that, although the August 2007 BFT-1 contract did not initially incorporate FAR commercial clauses, the contract was modified in January 2008 to incorporate those clauses, and that an Administrative Contracting Officer confirmed, in January 2008, that Delivery Order No. 1 was for commercial items. Regardless of the commerciality determination, we informed the DCAA that we provided the U.S. Army with all information required under TINA and the FAR prior to August 31, 2007.

We disagree with the DCAA's draft audit report and have provided a formal response. Unless the matter is resolved with the DCAA, it will issue a final audit report to the Contracting Officer. If the matter is not subsequently resolved in our favor with the Contracting Officer, the U.S. government will issue a demand in the form of a Contracting Officer's Final Decision which triggers our appeal rights. If it is ultimately determined that a cost or price adjustment for our BFT-1 contract is appropriate, we would be required to refund monies to the U.S. government, with interest. These amounts could have a material adverse effect on our results of operations in the period that we believe it is probable that we are required to refund monies to the U.S. government. We do not believe this matter will ultimately have a material adverse effect on our consolidated 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 other pending and threatened actions will not have a material adverse effect on our consolidated financial condition or results of operations.

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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 certain U.S. government investigations, risks associated with our BFT-1 contracts and the post-award audit of our original BFT-1 contract, risks associated with our obligations under our revolving credit facility, and other factors described in our filings with the Securities and Exchange Commission (“SEC”).

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, RF microwave amplifiers and mobile data communications. 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.

Our telecommunications transmission segment provides sophisticated equipment and systems that are used to enhance satellite transmission efficiency and that enable wireless communications in environments where terrestrial communications are unavailable, inefficient or too expensive. Our telecommunications transmission segment also operates our high-volume technology manufacturing center that can be utilized, in part, by our other two segments and by third-party commercial customers who can outsource a portion of their manufacturing to us. Accordingly, our telecommunications transmission segment’s operating results are impacted positively or negatively by the level of utilization of our high-volume manufacturing center.

Our RF microwave amplifiers segment designs, manufactures and markets traveling wave tube amplifiers and solid-state amplifiers, including high-power, broadband RF microwave amplifier products.

Our mobile data communications segment provides products and services, including mobile satellite transceivers, satellite network and related engineering services (including program management) on a cost-plus-fixed-fee basis and the licensing of intellectual property, for support and sustainment of the U.S. Army's Force XXI Battle Command, Brigade and Below (“FBCB2”) command and control system's Blue Force Tracking (“BFT-1”) and the U.S. Army's Movement Tracking System (“MTS”) programs. Historically, the vast majority of sales in this segment have supported the U.S. Army's BFT-1 and MTS programs. These programs are currently in a sustainment mode and are further discussed in the below section entitled “BFT-1 Sustainment Activities.” Our mobile data communications segment also offers customers Sensor Enabled Notification System commercial asset tracking systems known as "SENS." Prior to July 31, 2012, our mobile data communications segment designed, manufactured and sold microsatellites, primarily to U.S. government customers. We completed a restructuring plan to wind-down our microsatellite product line in the first quarter of fiscal 2013.

Quarterly and period-to-period sales and operating results may be significantly affected by either short-term or long-term contracts with our customers. In addition, our gross profit is affected by a variety of factors, including the mix of products, systems and services sold, production efficiencies, estimates of warranty expense, price competition and general economic conditions. Our gross profit may also be affected by the impact of any cumulative adjustments to contracts that are accounted for under the percentage-of-completion method.

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Our contracts with the U.S. government can be terminated at any time and orders are subject to unpredictable funding, deployment and technology decisions by the U.S. government. Some of these contracts, such as the BFT-1 sustainment contract, are indefinite delivery/indefinite quantity ("IDIQ") contracts and, as such, the U.S. government is not obligated to purchase any equipment or services under these contracts. We have in the past experienced and we continue to expect significant fluctuations in sales and operating results from quarter-to-quarter and period-to-period. As such, comparisons between periods and our current results may not be indicative of a trend or future performance.

As further discussed below, under “Critical Accounting Policies,” revenue from the sale of our products is generally recognized when the earnings process is complete, upon shipment or customer acceptance. Revenue from contracts relating to the design, development or manufacture of complex electronic equipment to a buyer’s specification or to provide services relating to the performance of such contracts is generally recognized in accordance with accounting standards that have been codified into Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 605-35, “Revenue Recognition - Construction-Type and Production-Type Contracts” (“ASC 605-35”). Revenue from contracts that contain multiple elements that are not accounted for under FASB ASC 605-35 is generally accounted for in accordance with FASB ASC 605-25, “Revenue Recognition - Multiple Element Arrangements,” which, among other things, requires revenue associated with multiple element arrangements to be allocated to each element based on the relative selling price method.

BFT-1 Sustainment Activities

The vast majority of sales in our mobile data communications segment have historically come from sales relating to the U.S. Army’s MTS and BFT-1 programs. Our combined MTS and BFT-1 sales for the three and nine months ended April 30, 2013 and 2012 were as follows:

	Three months ended April 30,			Nine months ended April 30,		
	Net Sales (in millions)	Percentage of Mobile Data Communications Segment Net Sales	Percentage of Consolidated Net Sales	Net Sales (in millions)	Percentage of Mobile Data Communications Segment Net Sales	Percentage of Consolidated Net Sales
2013	$6.8	81.9 %	9.7 %	$23.7	81.4 %	10.1 %
2012	$19.2	81.4 %	19.2 %	$64.4	76.2 %	20.6 %

We have supplied mobile satellite transceivers, vehicle and command center application software, third-party produced ruggedized computers and satellite earth station network gateways and associated installation, training and maintenance to the MTS program which now operates under the auspices of the BFT-1 program under the direction of the Joint Battle Command Platform ("JBC-P") program office. Our MTS-related services also included the monitoring of satellite packet data networks. In July 2010, a third party vendor was selected by the U.S. Army to develop a next generation BFT program known as BFT-2. The U.S. Army has stated that it expects to transition to BFT-2 as quickly as possible and annual sales for the past three years, in this segment, have materially declined as compared to historical levels. We expect that future MTS and BFT-1 orders and related sales will largely be dependent on the ability and speed of the U.S. Army to transition to the BFT-2 system.

We are currently providing BFT-1 sustainment services and licensing certain of our intellectual property to the U.S. Army pursuant to a two-year $43.6 million IDIQ BFT-1 sustainment contract, which replaced a prior three-year IDIQ BFT-1 sustainment contract that had a not-to-exceed value of $80.7 million. In April 2013, due to budget pressures and administrative issues placed on the U.S. Army by the Continuing Resolution and Sequester, the U.S. government requested, and we agreed, to modify the terms of the three-year BFT-1 sustainment contract. Funding for Year One of the two-year BFT-1 sustainment contract (which had a performance period from April 1, 2012 through March 31, 2013) was definitized at $22.8 million (including $10.0 million of IP license fees) and funding for Year Two (which has a performance period from April 1, 2013 through March 31, 2014) was definitized at $20.8 million (including

$10.0 million of IP license fees). Under the terms of the two-year contract, we agreed to perform certain satellite network and related engineering services (including program management) on a cost-plus-fixed-fee basis and the U.S. Army is required to pay us an annual $10.0 million intellectual property license (“IP license”) fee. Specific terms and conditions related to the IP license are covered by a separate licensing agreement that provides for annual renewals, at the U.S. Army's option, for up to a five-year period ending March 31, 2017, after which time the U.S. Army will have a limited non-exclusive right to use certain of our IP for no additional IP licensing fee.

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Due to ongoing U.S. government budget pressures, future funding, contract modifications and new contract awards for BFT-1 sustainment services are difficult to predict and the U.S. Army informed us that it does not currently intend to purchase any additional equipment through March 31, 2014. However, the U.S. Army informed us that it eventually intends to award us a new contract to provide BFT-1 sustainment services (including the annual $10.0 million IP license fee) for performance periods beyond March 31, 2014. Our current BFT-1 sustainment contract can be terminated by the U.S. government at any time, is not subject to automatic renewal, and the U.S. Army is not obligated to purchase any additional services or renew its annual IP license.

CRITICAL ACCOUNTING POLICIES

We consider certain accounting policies to be critical due to the estimation process involved in each.

Revenue Recognition on Long-Term Contracts. Revenues and related costs from long-term contracts relating to the design, development or manufacture of complex electronic equipment to a buyer’s specification or to provide services relating to the performance of such contracts are recognized in accordance with FASB ASC 605, “Revenue Recognition - Construction-Type and Production-Type Contracts” (“ASC 605-35”). We primarily apply the percentage-of-completion accounting method and generally recognize revenue based on the relationship of total costs incurred to total projected costs, or, alternatively, based on output measures, such as units delivered or produced. Profits expected to be realized on such contracts are based on total estimated sales for the contract compared to total estimated costs, including warranty costs, at completion of the contract.

Direct costs (which include materials, labor and overhead) are charged to work-in-progress (including our contracts-in-progress) inventory or cost of sales. Indirect costs relating to long-term contracts, which include expenses such as general and administrative, are charged to expense as incurred and are not included in our work-in-process (including our contracts-in-progress) inventory or cost of sales. Total estimates are reviewed and revised periodically throughout the lives of the contracts, and adjustments to profits resulting from such revisions are made cumulative to the date of the change. Estimated losses on long-term contracts are recorded in the period in which the losses become evident. Long-term U.S. government cost-reimbursable type contracts are also specifically covered by FASB ASC 605-35.

We have been engaged in the production and delivery of goods and services on a continual basis under long-term contractual arrangements for many years. Historically, we have demonstrated an ability to accurately estimate total revenues and total expenses relating to our long-term contracts. However, there exist inherent risks and uncertainties in estimating revenues, expenses and progress toward completion, particularly on larger or longer-term contracts. If we do not accurately estimate the total sales, related costs and progress towards completion on such contracts, the estimated gross margins may be significantly impacted or losses may need to be recognized in future periods. Any such resulting changes in margins or contract losses could be material to our results of operations and financial condition.

In addition, most government contracts have termination for convenience clauses that provide the customer with the right to terminate the contract at any time. Such terminations could impact the assumptions regarding total contract revenues and expenses utilized in recognizing profit under the percentage-of-completion method of accounting. Changes to these assumptions could materially impact our results of operations and financial condition. Historically, we have not experienced material terminations of our long-term contracts. We also address customer acceptance provisions in assessing our ability to perform our contractual obligations under long-term contracts. Our inability to perform on our long-term contracts could materially impact our results of operations and financial condition. Historically, we have been able to perform on our long-term contracts.

Accounting for Stock-Based Compensation. As discussed further in "Notes to Condensed Consolidated Financial Statements – Note (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.

We have used and expect to continue to use the Black-Scholes option pricing model to compute the estimated fair value of certain stock-based awards. The Black-Scholes option pricing model includes assumptions regarding dividend yield, expected volatility, expected option term and risk-free interest rates. 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. 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 from call options embedded in our 3.0% convertible senior notes and our expectations of volatility for the expected life of stock options. The expected option term is the number of years that we estimate that stock options will be outstanding prior to exercise based upon exercise patterns. 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.

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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 recipients of stock-based awards. As a result, if other assumptions or estimates had been used, stock-based compensation expense that was recorded could have been materially different. Furthermore, if different assumptions are used in future periods, stock-based compensation expense could be materially impacted in the future.

Impairment of Goodwill and Other Intangible Assets. As of April 30, 2013, goodwill recorded on our Condensed Consolidated Balance Sheet aggregated $137.4 million (of which $107.8 million relates to our telecommunications transmission segment and $29.6 million relates to our RF microwave amplifiers segment). Our mobile data communications segment has no goodwill recorded. Each of our three operating segments constitutes a reporting unit and we must make various assumptions in determining their estimated fair values.

In accordance with FASB ASC 350, “Intangibles - Goodwill and Other,” we perform goodwill impairment testing at least annually, unless indicators of impairment exist in interim periods. The impairment test for goodwill uses a two-step approach. Step one compares the estimated fair value of a reporting unit with goodwill to its carrying value. If the carrying value exceeds the estimated fair value, step two must be performed. Step two compares the carrying value of the reporting unit to the fair value of all of the assets and liabilities of the reporting unit (including any unrecognized intangibles) as if the reporting unit was acquired in a business combination. If the carrying amount of a reporting unit's goodwill exceeds the implied fair value of its goodwill, an impairment loss is recognized in an amount equal to the excess. We perform an annual impairment review in the first quarter of each fiscal year and, on August 1, 2012 (the first day of our fiscal 2013), concluded that the goodwill assigned to our telecommunications transmission and RF microwave amplifiers reporting units, as of August 1, 2012, was not impaired and that neither reporting unit was at risk of failing step one of the goodwill impairment test as prescribed under the ASC.

As a result of challenging global business conditions, the U.S. government's failure to either identify required spending reductions or provide, with specificity, the allocation and prioritization of future U.S. Department of Defense requirements and, because many of our customers were reducing or delaying their spending for our products and services, we concluded it was appropriate for us to perform an interim step one goodwill impairment test as of January 31, 2013. In performing this test, we estimated the fair value of each of our reporting units, as of January 31, 2013, based on the income approach (also known as the discounted cash flow (“DCF”) method, which utilizes the present value of cash flows to estimate fair value). The future cash flows for our reporting units were projected based on our estimates, at that time, of future revenues, operating income and other factors (such as working capital and capital expenditures). We took into account expected challenging global industry and market conditions, including expected significant reductions in the overall budget for U.S. defense spending. As such, although both reporting units with goodwill have historically achieved significant long-term revenue and operating income growth, we assumed growth rate estimates in our projections that were below our actual long-term expectations and below each reporting unit's actual historical growth rate. The discount rates used in our DCF method were based on a weighted-average cost of capital (“WACC”) determined from relevant market comparisons, adjusted upward for specific reporting unit risks (primarily the uncertainty of achieving projected operating cash flows). A terminal value growth rate was applied to the final year of the projected period and reflected our estimate of stable, perpetual growth. We then calculated a present value of the respective cash flows for each reporting unit to arrive at an estimate of fair value under the income approach and then used the market approach to corroborate this value. Under the market approach, we estimated a fair value based on comparable companies' market multiples of revenues and earnings before interest, taxes, depreciation and amortization and factored in a control premium. In each case, the estimated fair value determined under the market approach exceeded our estimate of fair value determined under the income approach. Finally, we compared our estimates to our January 31, 2013 total public market capitalization and assessed implied control premiums. Based on the aforementioned, we concluded that the estimated fair value determined under the income approach for each of our reporting units, as of January 31, 2013, was reasonable. In each case, the estimated fair value exceeded the respective carrying value and, as such, we concluded that the goodwill assigned to our telecommunications transmission and RF microwave amplifiers reporting units, as of January 31, 2013, was not impaired. We also concluded that our telecommunications transmission reporting unit was currently not at risk of failing step one of the goodwill impairment test as prescribed under the ASC. However, we concluded that as of January 31, 2013, our RF microwave amplifiers reporting unit was at risk of failing step one of the goodwill impairment test.

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After performing our interim step one test, as of January 31, 2013, we determined that our RF microwave amplifiers reporting unit had an estimated fair value in excess of its respective carrying value of at least 5.0%. This estimated fair value is closely aligned with the ultimate amount of revenue and operating income that it achieves over the projected period. Our discounted cash flows, for goodwill impairment testing purposes, assumed that, through fiscal 2018, this reporting unit would achieve a compounded annual revenue growth rate of approximately 1.4% from its actual fiscal 2012 revenue of $102.5 million. Beyond fiscal 2018, we assumed a long-term revenue growth rate of 3.5% in the terminal year. As of January 31, 2013, we utilized a WACC of 12.0% for our RF microwave amplifiers reporting unit which reflected a 100 basis point increase from the WACC utilized in our August 1, 2012 goodwill impairment test. Given the challenging market conditions at that time, we believe these modest long-term growth rates and the WACC were appropriate to use for our future cash flow assumptions due to the uncertainty that existed amongst our customer base. We also believe that it is possible that our actual revenue growth rates could be significantly higher due to a number of factors, including: (i) continued reliance by our customers on our advanced communications systems; (ii) the continued shift toward information-based, network-centric warfare; and (iii) the need for developing countries to upgrade their communication systems. If we do not at least meet the assumed revenue growth utilized in this interim goodwill impairment analysis, our RF microwave amplifiers reporting unit will likely fail step one of a goodwill impairment test in a future period. Modest changes in other key assumptions used in our January 31, 2013 impairment analysis may also result in the requirement to proceed to step two of the goodwill impairment test in future periods. For example, keeping all other variables constant, a further 50 basis point increase in the WACC applied to our RF microwave amplifiers reporting unit or an increase to our RF microwave amplifiers carrying value of more than $5.0 million would likely result in a step one failure. If this reporting unit fails step one in the future, we would be required to perform step two of the goodwill impairment test. If we perform step two, up to $29.6 million of goodwill assigned to this reporting unit could be written off in the period that the impairment is triggered.

As of April 30, 2013, we qualitatively evaluated general economic conditions, equity markets, industry conditions, cost factors, other events and circumstances and reviewed projected revenues and operating income levels for our RF microwave amplifiers reporting unit. Based on our overall analysis, we noted no significant adverse matter, event or circumstance that occurred since January 31, 2013 or that existed as of April 30, 2013, that would lead us to believe that it was more likely than not that the estimated fair value of our RF microwave amplifiers reporting unit would be less than its April 30, 2013 carrying amount. As such, we did not perform an interim step one test as of April 30, 2013 as we did not believe, based on our qualitative evaluation, the goodwill assigned to our RF microwave amplifiers reporting unit, as of April 30, 2013, was impaired. We believe that our RF microwave amplifiers reporting unit remains at risk of failing step one of the goodwill impairment test in future periods.

Both our interim and annual goodwill impairment analyses are sensitive to the ultimate spending decisions by our global customers. Accordingly, we will continue to monitor key assumptions and other factors required to be utilized in evaluating impairment of goodwill. It is possible that, during the fourth quarter of our fiscal 2013, business conditions (both in the U.S. and internationally) could deteriorate from the current state and our current or prospective customers could materially postpone, reduce or even forgo purchases of our products and services to a greater extent than we currently anticipate. A significant decline in defense spending that is greater than we anticipate or a shift in funding priorities may also have a negative effect on future orders, sales, income and cash flows and we might be required to perform a step one interim impairment test during the fourth quarter of our fiscal 2013. In any event, we are required to perform an annual step one impairment test on August 1, 2013 (the start of our fiscal 2014). If our assumptions and related estimates change in the future, or if we change our reporting structure or other events and circumstances change (e.g., such as a sustained decrease in the price of our common stock (considered on both absolute terms and relative to peers)), we may be required to record impairment charges when we perform these tests or in other future periods. Any impairment charges that we may take in the future could be material to our results of operations and financial condition.

In addition to our impairment analysis of goodwill, we are also required to evaluate the recoverability of net intangibles with finite lives recorded on our Condensed Consolidated Balance Sheet which, as of April 30, 2013, aggregated $34.1 million (of which $19.0 million relates to our telecommunications transmission segment and $15.1 million relates to our RF microwave amplifiers segment). Based on our analysis of estimated undiscounted future cash flows expected to result from the use of these net intangibles with finite lives, we believe that their carrying values are recoverable as of April 30, 2013.

Provision for Warranty Obligations. We provide warranty coverage for most of our products, including products under long-term contracts, 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. Costs associated with some of our warranties that are provided under long-term contracts are incorporated into our estimates of total contract costs.

There exist inherent risks and uncertainties in estimating warranty expenses, particularly on larger or longer-term contracts. As such, if we do not accurately estimate our warranty costs, any changes to our original estimates could be material to our results of operations and financial condition.

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Accounting for Income Taxes. Our deferred tax assets and liabilities are determined based on temporary differences between financial reporting and tax bases of assets and liabilities, and applying enacted tax rates expected to be in effect for the year in which the differences are expected to reverse. Our provision for income taxes is based on domestic (including federal and state) and international statutory income tax rates in the tax jurisdictions where we operate, permanent differences between financial reporting and tax reporting and available credits and incentives. We recognize interest and penalties related to uncertain tax positions in income tax expense. The U.S. federal government is our most significant income tax jurisdiction.

Significant judgment is required in determining income tax provisions and tax positions. We may be challenged upon review by the applicable taxing authority and positions taken by us may not be sustained. We recognize all or a portion of the benefit of income tax positions only when we have made a determination that it is more-likely-than-not that the tax position will be sustained upon examination, based upon the technical merits of the position and other factors. For tax positions that are determined as more-likely-than-not to be sustained upon examination, the tax benefit recognized is the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement. The development of reserves for income tax positions requires consideration of timing and judgments about tax issues and potential outcomes, and is a subjective critical estimate. In certain circumstances, the ultimate outcome of exposures and risks involves significant uncertainties. If actual outcomes differ materially from these estimates, they could have a material impact on our results of operations and financial condition.

Provisions for Excess and Obsolete Inventory. We record a provision for excess and obsolete inventory based on historical and future usage trends. Other factors may also influence our provision, including decisions to exit a product line, technological change and new product development. These factors could result in a change in the amount of excess and obsolete inventory on hand. Additionally, our estimates of future product demand may prove to be inaccurate, in which case we may have understated or overstated the provision required for excess and obsolete inventory. In the future, if we determine that our inventory was overvalued, we would be required to recognize such costs in our financial statements at the time of such determination. Any such charge could be material to our results of operations and financial condition.

Allowance for Doubtful Accounts. We perform credit evaluations of our customers and adjust credit limits based upon customer payment history and current creditworthiness, as determined by our review of our customers' current credit information. Generally, we will require cash in advance or payment secured by irrevocable letters of credit before an order is accepted from an international customer that we do not do business with regularly. In addition, we seek to obtain credit insurance for certain domestic and international customers.

We monitor collections and payments from our customers and maintain an allowance for doubtful accounts based upon our historical experience and any specific customer collection issues that we have identified. In light of ongoing tight credit market conditions, we continue to see requests from our customers for higher credit limits and longer payment terms. Because of our strong cash position and the nominal amount of interest we are earning on our cash and cash equivalents, we have, on a limited basis, approved certain customer requests.

We continue to monitor our accounts receivable credit portfolio and have not had any significant negative customer credit experiences to date. While our credit losses have historically been within our expectations of the allowances established, we cannot guarantee that we will continue to experience the same credit loss rates that we have in the past, especially in light of the current global economic conditions and much tighter credit environment. Measurement of credit losses requires consideration of historical loss experience, including the need to adjust for current conditions, and judgments about the probable effects of relevant observable data, including present economic conditions such as delinquency rates and the financial health of specific customers. Changes to the estimated allowance for doubtful accounts could be material to our results of operations and financial condition.

Business Outlook for Fiscal 2013

Although it is difficult to assess whether or not global business conditions have improved since our last Quarterly Report on Form 10-Q was filed with the SEC on March 7, 2013, we have recently received a number of important bookings including: (i) $20.8 million of funded orders to provide the U.S. Army with Year Two BFT-1 sustainment services (including full funding of our annual $10.0 million IP license fees for the performance period ending March 31, 2014); (ii) funded orders aggregating $8.5 million related to a new satellite earth station product contract, with a total potential value of approximately $29.0 million, to develop and produce the Advanced Time Division Multiple Access Interface Processor for the U.S. government's Space and Naval Warfare Systems Command; and (iii) $6.0 million of orders for our digital over-the-horizon microwave communications systems which include the supply of troposcatter modems to a new international military customer for evaluation for integration into its system. We believe these new orders support our belief that our products and services play a vital role in providing or enhancing advanced communications solutions for our customers.

Based on our assessment of other known opportunities currently in our pipeline, we are cautiously optimistic that the positive bookings we experienced during our third quarter will continue during our fourth quarter of fiscal 2013. Based on our current backlog and this anticipated order flow, we believe that consolidated net sales and net income in our fourth quarter of fiscal 2013 will be significantly higher than the level we achieved in our most recent quarter.

As previously disclosed in our prior filings with the SEC, we continue to operate our business in an environment of challenging global economic conditions and a period in which significant U.S. and foreign government budget constraints exist. Based on year-to-date performance and expected bookings for the fourth quarter of fiscal 2013, we expect total consolidated net sales in fiscal 2013 and net sales for each of our three operating segments to be significantly lower than the amount we achieved in fiscal 2012. As a result of these expected lower levels, we have taken, and continue to take, a number of cost reduction actions throughout our operating segments. Notwithstanding our cost reduction efforts, we expect to continue to invest in research and development activities and believe that we are well-positioned to benefit when global business conditions meaningfully improve.

As of April 30, 2013, we had cash and cash equivalents of $342.2 million. During our most recent quarter, we continued to repurchase our common stock pursuant to our $50.0 million stock repurchase program that was approved by our Board of Directors in December 2012. As of June 5, 2013, we can repurchase approximately $34.6 million of additional common stock pursuant to this program.

On June 6, 2013, our Board of Directors declared a dividend of $0.275 per common share, payable on August 20, 2013 to shareholders of record at the close of business on July 19, 2013. We expect to continue to execute on our quarterly dividend and stock repurchase programs and expect to supplement long-term organic growth opportunities by pursuing one or more acquisitions as appropriate opportunities arise.

Our business outlook for the remainder of fiscal 2013 and future years is dependent, in part, on the outcome of ongoing U.S. government budget issues and the growth of the global economy. In March 2013, Congress failed to identify required spending reductions and the automatic sequestration of discretionary appropriations for various programs, including U.S. defense programs, which have been operating under continuing resolutions, went into effect. We believe the U.S. government's failure to timely resolve its budget issues has resulted in uncertainty amongst our global customer base. At the same time, many of our international customers continue to be affected by increasingly volatile political conditions in their respective countries. In aggregate, we believe these issues have resulted in many of our customers, particularly in our telecommunications transmission and RF microwave amplifiers segments, reducing or delaying their spending for our products and services. Although we believe that the majority of our products and services are well aligned with national defense and other national priorities, we cannot precisely predict the outcome of sequestration or final budget deliberations, other actions of Congress, or the extent to which any reductions in spending may impact total funding and/or individual funding for programs in which we participate and the resulting impact to our business and financial outlook and actual results. If business conditions deteriorate from the current state, or our current or prospective customers materially postpone, reduce or even forgo purchases of our products and services to a greater extent than we currently anticipate, our business outlook will be adversely affected.

Additional information related to our fiscal 2013 business outlook on certain income statement line items and recent operating segment bookings trends is included in the below section entitled “Comparison of the Results of Operations for the Three Months Ended April 30, 2013 and April 30, 2012.”

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COMPARISON OF THE RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED APRIL 30, 2013 AND APRIL 30, 2012

Net Sales. Consolidated net sales were $69.9 million and $99.8 million for the three months ended April 30, 2013 and 2012, respectively, representing a decrease of $29.9 million, or 30.0%. As further discussed below, the significant period-over-period decrease is primarily due to lower net sales in our mobile data communications and RF microwave amplifiers segments and, to a much lesser extent, our telecommunications transmission segment.

Telecommunications Transmission
Net sales in our telecommunications transmission segment were $45.4 million and $48.0 million for the three months ended April 30, 2013 and 2012, respectively, a decrease of $2.6 million, or 5.4%. This decrease reflects lower sales in our satellite earth station product line, partially offset by higher sales in our over-the-horizon microwave systems product line.

Sales of our satellite earth station products were lower during the three months ended April 30, 2013 as compared to the three months ended April 30, 2012 primarily as a result of lower sales to our international customers. Although sales and bookings continue to be suppressed due to challenging global business conditions, during our third fiscal quarter, we were awarded a contract with a potential value of approximately $29.0 million to begin the development of the Advanced Time Division Multiple Access Interface Processor for the U.S. government's Space and Naval Warfare Systems Command. During our third quarter, we received a funded order of $4.5 million for cost plus fee development and engineering services related to this contract. We have started work on this order and received additional funding of $4.0 million during the fourth quarter of fiscal 2013. Despite these favorable developments, we believe that bookings for the remainder of fiscal 2013 will be impacted by ongoing uncertainty in our global customer base that we believe exists due to: (i) U.S. government spending reductions; (ii) challenging global business conditions; and (iii) increasingly volatile political conditions in various international markets. As such, based on our current backlog and anticipated order flow, we expect sales of satellite earth station products in fiscal 2013 to be lower than the level we achieved in fiscal 2012.

Sales of our over-the-horizon microwave systems increased during the three months ended April 30, 2013 as compared to the three months ended April 30, 2012. Sales of our over-the-horizon microwave systems during the quarter include sales related to our performance on an ongoing three-year $55.0 million contract from a domestic prime contractor to design and furnish a telecommunications system for use in a North African government's communications network. During the three months ended April 30, 2013, we also delivered AN/TRC-170 modem upgrade kits to the U.S. Marine Corps that were previously expected to ship during the fourth quarter of fiscal 2013. Sales of our over-the-horizon microwave systems during the three months ended April 30, 2012 include sales related to our Modular Transportable Troposcatter System ("MTTS"). We did not have any MTTS sales during our most recent quarter and, given U.S. government defense budget constraints, we do not expect to receive additional MTTS bookings for the remainder of fiscal 2013. We continue to negotiate with a prime contractor to obtain additional business with our North African country end-customer and we expect that our efforts will result in the award of a large contract in the near future. Because the timing of award of this potential contract is difficult to predict, our fiscal 2013 business outlook does not include any associated revenues. Based on year-to-date and expected fourth quarter performance on our North African contract and other contracts that are currently in our backlog, revenues from our over-the-horizon microwave systems products in fiscal 2013 are expected to be higher than the level we achieved in fiscal 2012.

Our telecommunications transmission segment represented 64.9% of consolidated net sales for the three months ended April 30, 2013, as compared to 48.1% for the three months ended April 30, 2012. Bookings, sales and profitability in our telecommunications transmission segment can fluctuate from period-to-period due to many factors, including the book and ship nature of our satellite earth station product business, the current adverse conditions in the global economy and the timing of, and our related performance on, contracts from the U.S. government and international customers.

RF Microwave Amplifiers

Net sales in our RF microwave amplifiers segment were $16.2 million for the three months ended April 30, 2013, as compared to $28.1 million for the three months ended April 30, 2012, a decrease of $11.9 million, or 42.3%. The decline in sales occurred in both our solid state high-power and traveling wave tube amplifier product lines.

Overall market conditions for our RF microwave amplifiers segment continue to be challenging and we believe many of our customers have reduced or delayed their spending for our products and services. Although bookings in our RF microwave amplifiers segment for the three months ended April 30, 2013 were significantly lower than the level we achieved for the three months ended April 30, 2012, they were slightly higher than the three months ended January 31, 2013. It remains difficult to predict order flow; however, based on the level of our current backlog and the expected timing of new orders, sales in the fourth quarter of fiscal 2013 for this segment are expected to be near or at the peak of quarterly revenue for fiscal 2013. Based on year-to-date and expected fourth quarter performance, we expect net sales in this segment in fiscal 2013 to be lower than the level we achieved in fiscal 2012.

Our RF microwave amplifiers segment represented 23.2% of consolidated net sales for the three months ended April 30, 2013 as compared to 28.2% for the three months ended April 30, 2012. Bookings, sales and profitability in our RF microwave amplifiers segment can fluctuate from period-to-period due to many factors, including the challenging business conditions, U.S. and international military budget constraints that currently exist, and the timing of, and our related performance on, contracts from the U.S. government and international customers.

Mobile Data Communications
Net sales in our mobile data communications segment were $8.3 million for the three months ended April 30, 2013 as compared to $23.6 million for the three months ended April 30, 2012, a substantial decrease of $15.3 million, or 64.8%. This anticipated decrease is primarily attributable to a substantial decline in MTS and BFT-1 sales to the U.S. Army. In addition, as discussed in our prior filings with the SEC, we completed our fiscal 2012 restructuring plan to wind-down our microsatellite product line and we no longer sell microsatellite products. Microsatellite product revenues for the three months ended April 30, 2012 were $2.8 million.

Aggregate sales to the U.S. Army for the MTS and BFT-1 programs during the three months ended April 30, 2013 were $6.8 million, or 81.9% of our mobile data communications segment's sales, as compared to $19.2 million, or 81.4%, during the three months ended April 30, 2012. MTS and BFT-1 program sales for the three months ended April 30, 2013 reflect lower revenues resulting from the U.S. Army's July 2010 decision to award a third party a contract for the next-generation BFT-2 network and its related decision to combine the MTS program with the BFT-1 program. Sales for the three months ended April 30, 2013 and 2012 include $2.5 million and $0.8 million, respectively, of revenue related to our BFT-1 $10.0 million annual IP license fees. Sales for the three months ended April 30, 2012 include sales related to MTS and BFT-1 satellite transponder capacity to the U.S. Army, which we are no longer providing, as well as shipments of MTS and BFT-1 mobile satellite transceivers for which we currently have no additional orders in our backlog.

As discussed in the above section entitled “BFT-1 Sustainment Activities,” we currently anticipate that the majority of future sales in our mobile data communications segment will be generated from sales of MTS and BFT-1 services pursuant to a two-year $43.6 million BFT-1 IDIQ sustainment contract (which replaced a prior three-year IDIQ BFT-1 sustainment contract that had a not-to-exceed value of $80.7 million) and any additional future contracts. In April 2013, due to budget pressures and administrative issues placed on the U.S. Army by the Continuing Resolution and Sequester, the U.S. government requested, and we agreed, to modify the terms of the previously existing $80.7 million three-year BFT-1 sustainment contract. Funding for Year One of the two-year BFT-1 sustainment contract (which had a performance period from April 1, 2012 through March 31, 2013) was definitized at $22.8 million (including $10.0 million of IP license fees) and funding for Year Two (which has a performance period from April 1, 2013 through March 31, 2014) was definitized at $20.8 million (including $10.0 million of IP license fees). Due to ongoing U.S. government budget pressures, future funding, contract modifications and new contract awards for BFT-1 sustainment services are difficult to predict; however, the U.S. Army informed us that it eventually intends to award us a new contract to provide BFT-1 sustainment services (including the annual $10.0 million IP license fees) for performance periods beyond March 31, 2014. Our current BFT-1 sustainment contract can be terminated by the government at any time, is not subject to automatic renewal, and the U.S. Army is not obligated to purchase any additional services or renew its annual IP license.

Based on the timing of our performance on orders currently in our backlog and additional orders we expect to receive, we expect that sales in our mobile data communications segment, in the fourth quarter of fiscal 2013, will be slightly lower than our most recent quarter, and that sales in our mobile data communications segment will be materially lower in fiscal 2013 as compared to the level we achieved in fiscal 2012.

Our mobile data communications segment represented 11.9% of consolidated net sales for the three months ended April 30, 2013 as compared to 23.7% for the three months ended April 30, 2012. Bookings, sales and profitability in our mobile data communications segment can fluctuate dramatically from period-to-period due to many factors, including unpredictable funding, deployment and technology decisions by the U.S. government. As such, period-to-period comparisons of our results may not be indicative of a trend or future performance.

Geography and Customer Type
Sales to the U.S. government (including sales to prime contractors of the U.S. government) represented 36.9% and 48.6% of consolidated net sales for the three months ended April 30, 2013 and 2012, respectively. International sales (which include sales to U.S. companies for inclusion in products that are sold to international customers) represented 47.1% and 39.7% of consolidated net sales for the three months ended April 30, 2013 and 2012, respectively. Domestic commercial sales represented 16.0% and 11.7% of consolidated net sales for the three months ended April 30, 2013 and 2012, respectively.

The lower percentage of consolidated net sales to the U.S. government during the three months ended April 30, 2013 primarily reflects substantially lower sales to the U.S. Army for the MTS and BFT-1 programs and the wind-down of our microsatellite product line, as discussed above.

Gross Profit. Gross profit was $31.4 million and $41.7 million for the three months ended April 30, 2013 and 2012, respectively, representing a decrease of $10.3 million, which was primarily driven by the significant decline in consolidated net sales.

Gross profit, as a percentage of consolidated net sales, increased from 41.8% for the three months ended April 30, 2012 to 44.9% for the three months ended April 30, 2013. Gross profit, as a percentage of consolidated net sales, during the three months ended April 30, 2013 benefited from a significantly higher percentage of consolidated net sales occurring in our telecommunications transmission segment and changes in overall mix of products and services in our mobile data communications segment, partially offset by a lower gross profit percentage in our RF microwave amplifiers segment. Gross profit, as a percentage of related segment sales, is further discussed below.

Our telecommunications transmission segment's gross profit, as a percentage of related net sales, for the three months ended April 30, 2013, was lower than the percentage achieved for the three months ended April 30, 2012. This decrease was primarily the result of changes in overall product mix. Based on the nature and type of orders that are currently in our backlog and the anticipated lower level of related net sales in fiscal 2013, we expect the gross profit percentage in this segment to be lower than the percentage achieved in fiscal 2012.

Our RF microwave amplifiers segment experienced a lower gross profit, as a percentage of related net sales, for the three months ended April 30, 2013 as compared to the three months ended April 30, 2012. This decrease is primarily attributable to lower sales, changes in overall product mix and timing of when orders shipped. Based on the nature and type of orders that are currently in our backlog and anticipated orders we expect to receive, we expect gross profit, as a percentage of related net sales, in fiscal 2013, to be slightly lower than the percentage this segment achieved in fiscal 2012.

Our mobile data communications segment's gross profit, as a percentage of related net sales, for the three months ended April 30, 2013 was significantly higher as compared to the three months ended April 30, 2012, primarily due to changes in overall mix of product and services. Gross profit for the three months ended April 30, 2013 and 2012 reflects the benefit of $2.5 million and $0.8 million, respectively, of revenue recorded related to our $10.0 million annual IP license fees, as discussed above. Gross profit, as a percentage of related net sales, for the three months ended April 30, 2012 includes the negative impact of lower margin sales of satellite transponder capacity, which we stopped providing to the U.S. Army effective June 30, 2012. We expect our gross profit, as a percentage of sales, in this segment, during the fourth quarter of fiscal 2013 to improve from the level it achieved in our most recent quarter. Looking forward for the next few years, although we expect our annual gross profit, as a percentage of sales, in this segment to be higher than historical percentages due to our expectation of recurring annual IP license fees, as discussed in the above section entitled “BFT-1 Sustainment Activities,” the U.S. Army is not obligated to order any additional products or services. Future orders are subject to contract ceiling modifications, new funding or the award of a new BFT-1 sustainment contract. Significant period-to-period fluctuations in our gross profit percentage and gross margins can occur in our mobile data communications segment as a result of the nature, timing and mix of actual deliveries which are primarily driven by the U.S. Army's requirements.

Included in consolidated cost of sales for the three months ended April 30, 2013 and 2012 are provisions for excess and obsolete inventory of $0.8 million and $0.6 million, respectively. As discussed in “Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies - Provisions for Excess and Obsolete Inventory,” we regularly review our inventory and record a provision for excess and obsolete inventory based on historical and projected usage assumptions.

It is always difficult to predict sales and product mix for each individual segment; as such, it is difficult to estimate consolidated gross profit, as a percentage of consolidated net sales, in future periods. Nevertheless, based on orders currently in our backlog and orders we expect to receive, we anticipate that our consolidated gross profit, as a percentage of consolidated net sales, will be slightly higher in fiscal 2013 as compared to fiscal 2012.

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Selling, General and Administrative Expenses. Selling, general and administrative expenses were $15.4 million and $20.0 million for the three months ended April 30, 2013 and 2012, respectively, representing a decrease of $4.6 million, or 23.0%. As a percentage of consolidated net sales, selling, general and administrative expenses were 22.0% and 20.0% for the three months ended April 30, 2013 and 2012, respectively.

The decrease in our selling, general and administrative expenses, in dollars, was primarily due to overall lower spending associated with the significantly lower level of consolidated net sales during the three months ended April 30, 2013 as compared to the three months ended April 30, 2012. Selling, general and administrative expenses during the three months ended April 30, 2013 also benefited from cost reduction actions that we took in earlier quarters in all three of our reportable operating segments. Selling, general and administrative expenses during the three months ended April 30, 2012 includes a $0.8 million benefit relating to a change in the fair value of a contingent earn-out liability associated with our acquisition of Stampede Technologies, Inc. (discussed further in “Notes to Condensed Consolidated Financial Statements - Note (9) Accrued Expenses and Other Current Liabilities" in Part I, Item 1. of this Form 10-Q). There was no such benefit recorded during the three months ended April 30, 2013. The increase in selling, general and administrative expenses, as a percentage of consolidated net sales was primarily due to the significantly lower level of consolidated net sales during the three months ended April 30, 2013 as compared to the three months ended April 30, 2012.

Selling, general and administrative expenses during the three months ended April 30, 2013 include $0.3 million of legal costs and professional fees associated with the legal proceedings and other matters which are specifically discussed in “Notes to Condensed Consolidated Financial Statements - Note (20) Legal Proceedings and Other Matters,” in Part I, Item 1. of this Form 10-Q.

Amortization of stock-based compensation expense recorded as selling, general and administrative expenses was $0.6 million for both the three months ended April 30, 2013 and 2012.

Based on the increased level of sales activity expected during the fourth quarter of fiscal 2013 as compared to our most recent quarter, and the timing of certain planned expenditures, selling, general and administrative expenses, in dollars, are expected to increase in the fourth quarter of fiscal 2013 as compared to the third quarter of fiscal 2013. Nevertheless, selling, general and administrative expenses, in dollars, are expected to be significantly lower in fiscal 2013 as compared to fiscal 2012. Despite the year-over-year expected decline in annual consolidated net sales, given the cost reduction actions that we took in earlier quarters in all three of our reportable operating segments, we expect selling, general and administrative expenses, as a percentage of consolidated net sales, in fiscal 2013 to be comparable to fiscal 2012.

Research and Development Expenses. Research and development expenses were $9.1 million and $9.5 million for the three months ended April 30, 2013 and 2012, respectively, representing a decrease of $0.4 million, or 4.2%.

For the three months ended April 30, 2013 and 2012, research and development expenses of $7.3 million and $7.2 million, respectively, related to our telecommunications transmission segment, and $1.6 million and $2.1 million, respectively, related to our RF microwave amplifiers segment. Research and development expenses in our mobile data communications segment were $0.1 million for both the three months ended April 30, 2013 and 2012. The remaining research and development expenses we incurred relate to the amortization of stock-based compensation expense which is not allocated to our three operating segments. Amortization of stock-based compensation expense recorded as research and development expenses for both the three months ended April 30, 2013 and 2012 was $0.1 million.

As a percentage of consolidated net sales, research and development expenses were 13.0% and 9.5% for the three months ended April 30, 2013 and 2012, respectively. The increase in research and development expenses, as a percentage of consolidated net sales, is attributable to the significantly lower level of consolidated net sales during the three months ended April 30, 2013 as compared to the three months ended April 30, 2012.

Notwithstanding our cost reduction efforts, we expect to continue to invest in research and development activities. As such, we expect research and development expenses, in dollars, for fiscal 2013 to be comparable to the amount we invested during fiscal 2012 and, as a percentage of consolidated net sales, to increase.

As an investment for the future, we are continually enhancing our existing products and developing new products and technologies. Whenever possible, we seek customer funding for research and development to adapt our products to specialized customer requirements. During the three months ended April 30, 2013 and 2012, customers reimbursed us $1.0 million and $1.3 million, respectively, which is not reflected in the reported research and development expenses, but is included in net sales with the related costs included in cost of sales.

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Amortization of Intangibles. Amortization relating to intangible assets with finite lives was $1.6 million in the three months ended April 30, 2013 and 2012.

Operating Income. Operating income for the three months ended April 30, 2013 and 2012 was $5.4 million, or 7.7% of consolidated net sales, and $10.6 million, or 10.6% of consolidated net sales, respectively.

The decline in operating income (both in dollars and as a percentage of consolidated net sales) is primarily attributable to the overall lower level of consolidated net sales we achieved during the three months ended April 30, 2013 as compared to the three months ended April 30, 2012. Operating income, by segment, is discussed further below.

Operating income in our telecommunications transmission segment was $6.3 million, or 13.9% of related net sales, for the