

COMTECH TELECOMMUNICATIONS CORP /DE/
Form 10-Q
March 06, 2014
Index

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)

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

For the quarterly period ended January 31, 2014

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 March 4, 2014, the number of outstanding shares of Common Stock, par value \$.10 per share, of the registrant was 15,326,717 shares.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

COMTECH TELECOMMUNICATIONS CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	January 31, 2014 (Unaudited)	July 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	\$ 317,993,000	356,642,000
Accounts receivable, net	56,879,000	49,915,000
Inventories, net	70,095,000	65,482,000
Prepaid expenses and other current assets	11,846,000	7,428,000
Deferred tax asset, net	10,030,000	10,184,000
Total current assets	466,843,000	489,651,000
Property, plant and equipment, net	20,332,000	20,333,000
Goodwill	137,354,000	137,354,000
Intangibles with finite lives, net	29,341,000	32,505,000
Deferred financing costs, net	471,000	1,093,000
Other assets, net	873,000	879,000
Total assets	\$ 655,214,000	681,815,000
Liabilities and Stockholders' Equity		
Current liabilities:		
Convertible senior notes, current	\$ 200,000,000	200,000,000
Accounts payable	18,600,000	18,390,000
Accrued expenses and other current liabilities	25,926,000	29,892,000
Dividends payable	4,731,000	4,531,000
Customer advances and deposits	15,337,000	14,749,000
Interest payable	1,529,000	1,529,000
Total current liabilities	266,123,000	269,091,000
Other liabilities	4,161,000	3,958,000
Income taxes payable	3,162,000	2,963,000
Deferred tax liability, net	1,823,000	1,741,000
Total liabilities	275,269,000	277,753,000
Commitments and contingencies (See Note 19)		
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 29,186,440 shares and 29,066,792 shares at January 31, 2014 and July 31, 2013, respectively	2,919,000	2,907,000
Additional paid-in capital	366,889,000	363,888,000
Retained earnings	405,375,000	403,398,000
	775,183,000	770,193,000
Less:		
Treasury stock, at cost (13,544,493 shares and 12,608,501 shares at January 31, 2014 and July 31, 2013, respectively)	(395,238,000)	(366,131,000)
Total stockholders' equity	379,945,000	404,062,000
Total liabilities and stockholders' equity	\$ 655,214,000	681,815,000

See accompanying notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three months ended January 31,		Six months ended January 31,	
	2014	2013	2014	2013
Net sales	\$85,499,000	74,577,000	168,867,000	165,530,000
Cost of sales	48,130,000	42,337,000	95,120,000	91,487,000
Gross profit	37,369,000	32,240,000	73,747,000	74,043,000
Expenses:				
Selling, general and administrative	16,349,000	15,433,000	32,547,000	32,243,000
Research and development	8,266,000	9,278,000	16,765,000	19,327,000
Amortization of intangibles	1,582,000	1,582,000	3,164,000	3,164,000
	26,197,000	26,293,000	52,476,000	54,734,000
Operating income	11,172,000	5,947,000	21,271,000	19,309,000
Other expenses (income):				
Interest expense	1,998,000	2,030,000	4,016,000	4,141,000
Interest income and other	(228,000)	(315,000)	(501,000)	(591,000)
Income before provision for income taxes	9,402,000	4,232,000	17,756,000	15,759,000
Provision for income taxes	3,419,000	1,867,000	6,468,000	5,959,000
Net income	\$5,983,000	2,365,000	11,288,000	9,800,000
Net income per share (See Note 5):				
Basic	\$0.37	0.14	0.70	0.57
Diluted	\$0.32	0.14	0.60	0.51
Weighted average number of common shares outstanding – basic	15,970,000	17,300,000	16,212,000	17,340,000
Weighted average number of common and common equivalent shares outstanding – diluted	22,487,000	17,401,000	22,552,000	23,394,000
Dividends declared per issued and outstanding common share as of the applicable dividend record date	\$0.30	0.275	0.575	0.55

See accompanying notes to condensed consolidated financial statements.

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COMTECH TELECOMMUNICATIONS CORP. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
 SIX MONTHS ENDED JANUARY 31, 2014 AND 2013

(Unaudited)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Treasury Stock		Stockholders' Equity
	Shares	Amount			Shares	Amount	
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	—	—	1,532,000	—	—	—	1,532,000
Proceeds from exercise of options	25,800	3,000	443,000	—	—	—	446,000
Proceeds from issuance of employee stock purchase plan shares	21,222	2,000	476,000	—	—	—	478,000
Cash dividends declared	—	—	—	(9,562,000)	—	—	(9,562,000)
Net excess income tax benefit from settlement of stock-based awards	—	—	14,000	—	—	—	14,000
Reversal of deferred tax assets associated with expired and unexercised stock-based awards	—	—	(2,955,000)	—	—	—	(2,955,000)
Repurchases of common stock	—	—	—	—	397,798	(10,477,000)	(10,477,000)
Net income	—	—	—	9,800,000	—	—	9,800,000
Balance as of January 31, 2013	28,978,701	\$2,898,000	\$360,968,000	\$404,465,000	11,961,857	\$(349,654,000)	\$418,677,000
Balance as of July 31, 2013	29,066,792	\$2,907,000	\$363,888,000	\$403,398,000	12,608,501	\$(366,131,000)	\$404,062,000
Equity-classified stock award compensation	—	—	1,990,000	—	—	—	1,990,000

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Equity-classified stock awards issued	—	—	139,000	—	—	—	139,000
Proceeds from exercise of options	95,425	10,000	2,549,000	—	—	—	2,559,000
Proceeds from issuance of employee stock purchase plan shares	20,727	2,000	428,000	—	—	—	430,000
Issuance of common stock for vested performance shares, net of minimum withholding tax and deferrals	3,496	—	(25,000)	—	—	(25,000)
Cash dividends declared	—	—	—	(9,260,000)	—	(9,260,000)
Accrual of dividend equivalents	—	—	—	(51,000)	—	(51,000)
Net income tax shortfall from settlement of stock-based awards	—	—	(155,000)	—	—	(155,000)
Reversal of deferred tax assets associated with expired and unexercised stock-based awards	—	—	(1,925,000)	—	—	(1,925,000)
Repurchases of common stock	—	—	—	—	935,992	(29,107,000) (29,107,000)
Net income	—	—	—	11,288,000	—	—	11,288,000
Balance as of January 31, 2014	29,186,440	\$2,919,000	\$366,889,000	\$405,375,000	13,544,493	\$(395,238,000)	\$379,945,000

See accompanying notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six months ended January 31,	
	2014	2013
Cash flows from operating activities:		
Net income	\$ 11,288,000	9,800,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of property, plant and equipment	3,383,000	4,019,000
Amortization of intangible assets with finite lives	3,164,000	3,164,000
Amortization of stock-based compensation	2,016,000	1,551,000
Deferred financing costs	697,000	706,000
Change in fair value of contingent earn-out liability	(239,000)	(3,267,000)
Loss on disposal of property, plant and equipment	42,000	32,000
Provision for (benefit from) allowance for doubtful accounts	92,000	(107,000)
Provision for excess and obsolete inventory	1,485,000	1,276,000
Excess income tax benefit from stock-based award exercises	(16,000)	(19,000)
Deferred income tax (benefit) expense	(1,689,000)	1,029,000
Changes in assets and liabilities:		
Accounts receivable	(7,056,000)	14,113,000
Inventories	(5,939,000)	905,000
Prepaid expenses and other current assets	(4,308,000)	(740,000)
Other assets	6,000	15,000
Accounts payable	210,000	(6,899,000)
Accrued expenses and other current liabilities	(3,574,000)	(8,645,000)
Customer advances and deposits	409,000	(3,986,000)
Other liabilities	149,000	588,000
Income taxes payable	(66,000)	(2,141,000)
Net cash provided by operating activities	54,000	11,394,000
Cash flows from investing activities:		
Purchases of property, plant and equipment	(3,424,000)	