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

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

FORM
10-Q

(Mark One)

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

For the quarterly period ended January 31, 2009

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

Commission File Number: 0-7928

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation /organization)	11-2139466 (I.R.S. Employer Identification Number)
68 South Service Road, Suite 230, Melville, NY (Address of principal executive offices)	11747 (Zip Code)

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

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

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

Large accelerated filer T Accelerated filer o Non-accelerated filer o

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

o Yes T No

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

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

Item 1.

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

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

See accompanying notes to condensed consolidated financial statements.

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

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

See accompanying notes to condensed consolidated financial statements.

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

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

Supplemental cash flow disclosures:			
Cash paid during the period for:			
Interest	$	1,054,000	1,068,000
Income taxes	$	17,214,000	17,881,000
Non cash investing and financing activities:			
Radyne acquisition transaction costs not yet paid (See Note 9)	$	428,000	-
Common stock issued in exchange for convertible senior notes (See Note 11)	$	384,000	-

See accompanying notes to condensed consolidated financial statements.

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

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results may differ from those estimates.

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

(2) Reclassifications

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

(3) Stock-Based Compensation

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(4) Fair Value Measurement

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

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

(5) Earnings Per Share

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

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

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

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

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

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

(6) Acquisitions

The Radyne Acquisition

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

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

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

Diluted net income per share	0.90	1.25

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

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

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

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

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

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

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

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

Amplifiers Segment						
Technology #1	$ 1,553,000	61%	November 2008	14%	2009	In-Process
Technology #2	971,000	54%	January 2009	14%	2009	In-Process
Technology #3	776,000	76%	October 2008	14%	2009	Complete
Telecommunications Transmission Segment						
Technology #4	2,900,000	75%	October 2008	14%	2009	Complete
Total	$ 6,200,000					

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

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

The Verso Acquisition

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

(7) Accounts Receivable

Accounts receivable consist of the following:

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

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

(8) Inventories

Inventories consist of the following:

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

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

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

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

(9) Accrued Expenses

Accrued expenses and other current liabilities consist of the following:

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

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

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

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

(10) Restructuring Plan

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

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

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

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

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

(1) Facilities-related restructuring costs are presented at net present value.
(2) Facilities-related restructuring costs include accreted interest.

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

Other

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

(11) 2.0% Convertible Senior Notes

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

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

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

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

(12) Income Taxes

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

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

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

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

(13) Stock Option Plans and Employee Stock Purchase Plan

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

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

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

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

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

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

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

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

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

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

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

(14) Customer and Geographic Information

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

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

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

(15) Segment Information

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

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

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

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

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

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

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

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

	Six months ended January 31, 2008				
(in thousands)	Telecommunications Transmission	Mobile Data Communications	RF Microwave	Unallocated	Total

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

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

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

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

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

(16) Intangible Assets

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

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

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

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

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

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

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

(17) Legal Matters and Proceedings

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

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

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

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

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

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

U.S. Department of Defense Investigation

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

Other Legal Proceedings

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

(18) Condensed Consolidating Financial Information

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

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

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

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

(18) Condensed Consolidating Financial Information (continued)

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

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

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

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(18) Condensed Consolidating Financial Information (continued)

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

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

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

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

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

(18) Condensed Consolidating Financial Information (continued)

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

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Entries	Consolidated Total
Net sales	$ -	327,054,000	18,374,000	(9,627,000)	$ 335,801,000
Cost of sales	-	185,465,000	13,507,000	(9,627,000)	189,345,000
Gross profit	-	141,589,000	4,867,000	-	146,456,000
Expenses:					
Selling, general and administrative	-	51,135,000	3,812,000	-	54,947,000
Research and development	-	25,099,000	1,548,000	-	26,647,000
Amortization of acquired in-process research and development	-	6,200,000	-	-	6,200,000
Amortization of intangibles	-	3,312,000	277,000	-	3,589,000
	-	85,746,000	5,637,000	-	91,383,000
Operating income (loss)	-	55,843,000	(770,000)	-	55,073,000
Other expense (income):					
Interest expense	1,323,000	54,000	-	-	1,377,000
Interest income and other	(1,801,000)	102,000	(204,000)	-	(1,903,000)
Income (loss) before provision for (benefit from) income taxes and equity in undistributed earnings (loss) of subsidiaries	478,000	55,687,000	(566,000)	-	55,599,000
Provision for (benefit from) income taxes	177,000	20,640,000	(429,000)	-	20,388,000
Net earnings (loss) before equity in undistributed earnings (loss) of subsidiaries	301,000	35,047,000	(137,000)	-	35,211,000
Equity in undistributed earnings (loss) of subsidiaries	34,910,000	(137,000)	-	(34,773,000)	-
Net income (loss)	$ 35,211,000	34,910,000	(137,000)	(34,773,000)	$ 35,211,000

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

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiary	Consolidating Entries	Consolidated Total
Net sales	$ -	261,192,000	6,099,000	(206,000)	$ 267,085,000
Cost of sales	-	147,735,000	2,753,000	(206,000)	150,282,000
Gross profit	-	113,457,000	3,346,000	-	116,803,000

Expenses:					
Selling, general and administrative	-	39,005,000	2,698,000	-	41,703,000
Research and development	-	18,759,000	1,422,000	-	20,181,000
Amortization of intangibles	-	725,000	88,000	-	813,000
	-	58,489,000	4,208,000	-	62,697,000
Operating income (loss)	-	54,968,000	(862,000)	-	54,106,000
Other expense (income):					
Interest expense	1,323,000	24,000	-	-	1,347,000
Interest income and other	(8,434,000)	(82,000)	(26,000)	-	(8,542,000)
Income (loss) before provision for (benefit from) income taxes and equity in undistributed earnings (loss) of subsidiaries	7,111,000	55,026,000	(836,000)	-	61,301,000
Provision for (benefit from) income taxes	2,631,000	19,011,000	(504,000)	-	21,138,000
Net earnings (loss) before equity in undistributed earnings (loss) of subsidiaries	4,480,000	36,015,000	(332,000)	-	40,163,000
Equity in undistributed earnings (loss) of subsidiaries	35,683,000	(332,000)	-	(35,351,000)	-
Net income (loss)	$ 40,163,000	35,683,000	(332,000)	(35,351,000)	$ 40,163,000

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(18) Condensed Consolidating Financial Information (continued)

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

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Entries	Consolidated Total
Cash flows from operating activities:					
Net income (loss)	$ 35,211,000	34,910,000	(137,000)	(34,773,000)	$ 35,211,000
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:					
Depreciation and amortization of property, plant and equipment	105,000	5,728,000	132,000	-	5,965,000
Amortization of acquired in-process research and development	-	6,200,000	-	-	6,200,000
Amortization of intangible assets with finite lives	-	3,312,000	277,000	-	3,589,000
Amortization of stock-based compensation	1,996,000	2,751,000	(37,000)	-	4,710,000
Amortization of fair value inventory step-up	-	1,520,000	-	-	1,520,000
Deferred financing costs	273,000	-	-	-	273,000
Loss on disposal of property, plant and equipment	-	10,000	-	-	10,000
Provision for allowance for doubtful accounts	-	731,000	54,000	-	785,000
Provision for excess and obsolete inventory	-	1,983,000	29,000	-	2,012,000
Excess income tax benefit from stock award exercises	(2,491,000)	-	-	-	(2,491,000)
Deferred income tax (benefit) expense	(9,794,000)	9,077,000	-	-	(717,000)
Equity in undistributed (earnings) loss of subsidiaries	(34,910,000)	137,000	-	34,773,000	-
Intercompany accounts	33,891,000	169,204,000	2,111,000	(205,206,000)	-
Changes in assets and liabilities, net of effects of acquisitions:					
Accounts receivable	-	(2,056,000)	(2,433,000)	-	(4,489,000)
Inventories	-	58,000	1,029,000	-	1,087,000
Prepaid expenses and other current assets	528,000	(2,795,000)	(578,000)	(55,000)	(2,900,000)
Other assets	-	(45,000)	(18,000)	-	(63,000)
Accounts payable	(861,000)	(8,737,000)	(1,286,000)	(3,665,000)	(14,549,000)
Accrued expenses and other current liabilities	(7,216,000)	(7,871,000)	(82,000)	-	(15,169,000)

Customer advances and deposits	-	(1,284,000)	349,000	-	(935,000)
Other liabilities	-	212,000	-	-	212,000
Income taxes payable	4,102,000	-	(53,000)	55,000	4,104,000
Net cash provided by (used in) operating activities	20,834,000	213,045,000	(643,000)	(208,871,000)	24,365,000
Cash flows from investing activities:					
Purchases of property, plant and equipment	(37,000)	(7,651,000)	(156,000)	-	(7,844,000)
Purchase of proprietary technology	-	(100,000)	-	-	(100,000)
Payments for business acquisitions, net of cash acquired	(205,206,000)	(205,223,000)	-	205,206,000	(205,223,000)
Net cash used in investing activities	(205,243,000)	(212,974,000)	(156,000)	205,206,000	(213,167,000)
Cash flows from financing activities:					
Principal payments on other obligations	-	(71,000)	-	-	(71,000)
Excess income tax benefit from stock award exercises	2,491,000	-	-	-	2,491,000
Proceeds from exercises of stock options	7,864,000	-	-	-	7,864,000
Proceeds from issuance of employee stock purchase plan shares	658,000	-	-	-	658,000
Net cash provided by (used in) financing activities	11,013,000	(71,000)	-	-	10,942,000
Net decrease in cash and cash equivalents	(173,396,000)	-	(799,000)	(3,665,000)	(177,860,000)
Cash and cash equivalents at beginning of period	408,065,000	-	4,056,000	(2,054,000)	410,067,000
Cash and cash equivalents at end of period	$ 234,669,000	-	3,257,000	(5,719,000)	$ 232,207,000

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(18) Condensed Consolidating Financial Information (continued)

The following reflects the condensed consolidating statement of cash flows for the six months ended January 31, 2008:

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiary	Consolidating Entries	Consolidated Total
Cash flows from operating activities:					
Net income (loss)	$ 40,163,000	35,683,000	(332,000)	(35,351,000)	$ 40,163,000
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:					
Depreciation and amortization of property, plant and equipment	101,000	4,160,000	110,000	-	4,371,000
Amortization of intangible assets with finite lives	-	725,000	88,000	-	813,000
Amortization of stock-based compensation	2,164,000	3,020,000	87,000	-	5,271,000
Amortization of deferred financing costs	273,000	-	-	-	273,000
Provision for (benefit from) allowance for doubtful accounts	-	45,000	(50,000)	-	(5,000)
Provision for excess and obsolete inventory	-	1,228,000	8,000	-	1,236,000
Excess income tax benefit from stock award exercises	(1,523,000)	-	-	-	(1,523,000)
Deferred income tax (benefit) expense	(106,000)	9,000	-	-	(97,000)
Equity in undistributed (earnings) loss of subsidiaries	(35,683,000)	332,000	-	35,351,000	-
Intercompany accounts	(12,765,000)	15,118,000	(2,353,000)	-	-
Changes in assets and liabilities, net of effects of acquisition:					
Accounts receivable	-	(43,074,000)	4,288,000	-	(38,786,000)
Inventories	-	(16,492,000)	(391,000)	-	(16,883,000)
Prepaid expenses and other current assets	586,000	819,000	(3,034,000)	316,000	(1,313,000)
Other assets	-	65,000	4,000	-	69,000
Accounts payable	(15,000)	3,471,000	1,593,000	(3,191,000)	1,858,000
Accrued expenses and other current liabilities	(3,866,000)	(324,000)	204,000	-	(3,986,000)
Customer advances and deposits	-	925,000	3,085,000	-	4,010,000
Income taxes payable	3,880,000	-	-	(316,000)	3,564,000
Net cash (used in) provided by operating activities	(6,791,000)	5,710,000	3,307,000	(3,191,000)	(965,000)
Cash flows from investing activities:					

Purchases of property, plant and equipment	(52,000)	(6,169,000)	(165,000)	-	(6,386,000)
Purchase of other intangibles with finite lives	-	(193,000)	-	-	(193,000)
Payments for business acquisition	-	(265,000)	-	-	(265,000)
Net cash used in investing activities	(52,000)	(6,627,000)	(165,000)	-	(6,844,000)
Cash flows from financing activities:					
Principal payments on other obligations	-	(66,000)	-	-	(66,000)
Excess income tax benefit from stock award exercises	1,523,000	-	-	-	1,523,000
Proceeds from exercises of stock options	3,939,000	-	-	-	3,939,000
Proceeds from issuance of employee stock purchase plan shares	448,000	-	-	-	448,000
Net cash provided by (used in) financing activities	5,910,000	(66,000)	-	-	5,844,000
Net (decrease) increase in cash and cash equivalents	(933,000)	(983,000)	3,142,000	(3,191,000)	(1,965,000)
Cash and cash equivalents at beginning of period	340,617,000	983,000	1,303,000	-	342,903,000
Cash and cash equivalents at end of period	$ 339,684,000	-	4,445,000	(3,191,000)	$ 340,938,000

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 the Company's management and the Company's 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 the Company's control which may cause actual results, future performance and financial condition, and achievement of plans and objectives of the Company's management 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 the Company's performance on, new 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 the results of ongoing investigations into the Company's compliance with export regulations, risks associated with the Radyne acquisition, risks associated with the Department of Defense subpoenas, and other factors described in the Company's filings with the Securities and Exchange Commission.

OVERVIEW

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

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 is utilized, in part, by our mobile data communications and RF microwave amplifiers segments as well as third-party commercial customers who outsource a portion of their manufacturing to us. Accordingly, our telecommunications transmission segment benefits from the related increased operating efficiencies. Our mobile data communications segment provides customers with an integrated solution, including mobile satellite transceivers and satellite network support, to enable global satellite-based communications when mobile, real-time, secure transmission is required for applications including logistics, support and battlefield command and control. Our mobile data communications segment also designs and manufactures microsatellites and related components. Our RF microwave amplifiers segment designs, manufactures and markets satellite earth station traveling wave tube amplifiers, klystron amplifiers and solid-state amplifiers, including high-power, broadband RF microwave amplifier products.

A substantial portion of our sales may be derived from a limited number of relatively large customer contracts, such as our Movement Tracking System ("MTS") contract with the U.S. Army and our U.S. Army's Force XXI Battle Command, Brigade-and-Below command and control systems (also known as Blue Force Tracking ("BFT")) contract, for which the timing of revenues cannot be predicted. Quarterly and period-to-period sales and operating results may be significantly affected by one or more of such contracts. 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. 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 MTS and BFT contracts, 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. Accordingly, we can experience significant fluctuations in sales and operating results from quarter-to-quarter and period-to-period comparisons may not be indicative of a trend or future performance.

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 American Institute of Certified Public Accountants ("AICPA") Statement of Position 81-1, "Accounting for Performance of Construction-Type and Certain Production-Type Contracts" ("SOP 81-1"). Revenue from contracts that contain multiple elements that are not accounted for under SOP 81-1 are generally accounted for in accordance with Emerging Issues Task Force ("EITF") Issue No. 00-21, "Revenue Arrangements with Multiple Deliverables." Revenue from these contracts is allocated to each respective element based on each element's relative fair value and is recognized when the respective revenue recognition criteria for each element are met.

THE RADYNE ACQUISITION

In August 2008, we acquired Radyne Corporation ("Radyne") for a preliminary aggregate purchase price of approximately $231.7 million (including estimated transaction costs and payments made for outstanding share-based stock awards). We believe that the acquisition of Radyne resulted in the following strategic benefits:

- Strengthened our leadership position in our satellite earth station product lines in our telecommunications transmission segment;

- More than doubled the size of our RF microwave amplifiers segment by expanding our amplifier product portfolio which immediately made us a leader, not only in the solid-state amplifier market, but in the satellite earth station traveling wave tube amplifier market;

- Broadened the number of products and services that our mobile data communications segment offered and allowed us to market additional mobile tracking products as well as the design and manufacture of microsatellites and related components; and

- Further diversified our overall global customer base and expanded our addressable markets.

We believe that, over time, our combined engineering and sales team will drive further innovation in the marketplace and deliver new and advanced products to our customers in all three of our operating segments. Our combined satellite earth station sales and marketing team now offers current and prospective customers an expanded one-stop shopping approach by providing them the opportunity to buy Comtech and/or Radyne branded products. In addition, we are continuing to integrate and share technology across our product lines. These strategies have resulted in individual brands becoming less distinguishable and historical sales patterns and mix less relevant. As a result, we believe that period-to-period comparisons of individual brands as indicators of our performance are not meaningful.

We have achieved operating efficiencies by eliminating redundant functions and related expenses. On August 1, 2008 (the date we acquired Radyne), we immediately adopted and implemented a restructuring plan and have now vacated and subleased Radyne's Phoenix, Arizona manufacturing facility. Radyne's satellite earth station product line's manufacturing and engineering operations have been integrated into our high-volume technology manufacturing center located in Tempe, Arizona. In addition, Radyne's corporate functions, which were co-located in Radyne's Phoenix, Arizona manufacturing facility, were moved to our Melville, New York corporate headquarters. We completed our Radyne restructuring plan as of January 31, 2009.

From an operational and financial reporting perspective, as of August 1, 2008, Radyne's satellite electronics and video encoder and decoder product lines became part of our telecommunications transmission segment; Radyne's traveling wave tube amplifier ("TWTA") and klystron tube power amplifier ("KPA") product portfolios became part of our RF microwave amplifiers segment; and Radyne's microsatellites and Sensor Enabled Notification ("SENS") technology products became part of our mobile data communications segment.

Because our historical results, prior to August 1, 2008, do not include Radyne, you should not rely on period-to-period comparisons as an indicator of our future performance as these comparisons may not be meaningful.

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 SOP 81-1. We primarily apply the percentage-of-completion 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. These 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 Accounting Research Bulletin No. 43 "Government Contracts, Cost-Plus Fixed-Fee Contracts" ("ARB 43"), in addition to SOP 81-1.

We have been engaged in the production and delivery of goods and services on a continual basis under contractual arrangements for many years. Historically, we have demonstrated an ability to accurately estimate revenues and 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 position.

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 position. 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 (3) Stock-Based Compensation," we adopted Statement of Financial Accounting Standards ("SFAS") No. 123(R) on August 1, 2005 using the modified prospective method.

We have used and expect to continue to use the Black-Scholes option pricing model to compute the estimated fair value of stock-based awards. The Black-Scholes option pricing model includes assumptions regarding dividend yields, expected volatility, expected option term and risk-free interest rates. The assumptions used in computing the fair value of stock-based awards reflect our best estimates, but involve uncertainties relating to market and other conditions, many of which are outside of our control. We estimate expected volatility by considering the historical volatility of our stock, the implied volatility of publicly traded stock options in our stock and our expectations of volatility for the expected life of stock-based compensation awards. As a result, if other assumptions or estimates had been used for options granted, 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 January 31, 2009, our goodwill and other intangible assets aggregated $207.0 million. For purposes of reviewing impairment and the recoverability of goodwill, each of our three operating segments constitutes a reporting unit and we must make various assumptions regarding estimated future cash flows and other factors in determining the fair values of the reporting unit. If these estimates or their related assumptions change in the future, or if we change our reporting structure, we may be required to record impairment charges in future periods. If global economic conditions deteriorate from current levels, or if the market value of our equity or similar assets significantly declines, or if we are not successful in achieving our expected sales levels associated with our Radyne acquisition, our goodwill may become impaired in future periods. We perform an annual impairment review in the first quarter of each fiscal year. Based on the impairment review performed at the start of our first quarter of fiscal 2009, there was no impairment of goodwill. Unless there are future indicators of impairments, such as a significant adverse change in our future financial performance, our next impairment review for goodwill will be performed and completed in the first quarter of fiscal 2010. Any impairment charges that we may take in the future, could be material to our results of operations and financial condition.

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.

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, applying enacted tax rates expected to be in effect for the year in which the differences are expected to reverse. The provision for income taxes is based on domestic 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 certain 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. 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 charges could be material to our results of operations and financial condition.

During the three months ended January 31, 2009, we received an order for $281.5 million under our MTS contract with the U.S. Army for the supply of 20,000 new ruggedized tablet computers and related accessories, all of which are expected to be integrated into previously deployed MTS systems which currently utilize ruggedized laptop computers. As of January 31, 2009, we have approximately 2,000 ruggedized laptop computers and related accessories on hand with a net book value of approximately $11.2 million. We have shipped in excess of 15,000 ruggedized laptop computers to-date, primarily to our MTS customer, including approximately 1,000, during fiscal 2009, of the exact model that we currently have on-hand. We expect that we will ultimately sell these computers for amounts in excess of their current net book value based on a variety of factors, including our belief that there may be additional deployments of MTS systems using laptop computers and that we intend to continue to actively market them to potential customers including the Army National Guard and NATO. In the future, if we determine that this inventory will not be utilized or cannot be sold above our net book value, we would be required to record a write-down of the value of such inventory in our consolidated financial statements at the time of such determination. Any such charge could be material to our consolidated 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 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. While such credit losses have historically been within our expectations and 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 such 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 2009

Business conditions are much more challenging than they were just a few months ago. Nearly all businesses and governments around the world are facing capital and operating budget constraints and a much tighter credit environment. Looking forward, it is more difficult than ever to accurately forecast our business outlook as we cannot predict the ultimate severity or duration of the current negative economic environment or the impact it will have on demand for our products. Although it is predicted that the global economic downturn will persist for some time, we believe our market leadership positions will enable us to achieve another record year of sales in fiscal 2009 and that our overall business momentum will continue into fiscal 2010. Our business outlook for fiscal 2009 by segment is as follows:

- Telecommunications transmission segment – Although our customers potentially could materially reduce, postpone or forgo expenditures on our products and systems, we continue to expect annual sales in our telecommunications transmission segment to increase in fiscal 2009 as compared to fiscal 2008. Despite some recent softness in our commercial bookings as a result of the challenging economic environment, sales of our satellite earth station products are still expected to increase year-over-year due to incremental demand, particularly for our modems that incorporate our DoubleTalk® Carrier-in-Carrier® technology, and the inclusion of sales of Radyne-branded satellite earth station products. Fiscal 2009 sales of our over-the-horizon microwave systems are expected to be lower than the levels experienced in fiscal 2008. We continue to be involved in lengthy negotiations and discussions relating to a number of large international over-the-horizon microwave system opportunities and, although we expect to ultimately receive one or more contract awards, it remains difficult to predict the timing of any potential contract award or related revenue. Bookings, sales and profitability in our telecommunications transmission segment can fluctuate dramatically from period-to-period due to many factors, including the strength of our satellite earth station product line bookings and the timing and related receipt of, and performance on, large contracts from the U.S. government and international customers for our over-the-horizon microwave systems.

- Mobile data communications segment – We believe that demand for our mobile data communications segment's products and services has never been stronger. In January 2009, we announced the receipt of the single largest order in our history of $281.5 million for the supply of new MTS ruggedized tablet computers and related accessories. In addition, in February 2009, we believe the MTS program signaled its commitment to the future of the MTS program by issuing a "Request for Information" for a possible follow-on to our current MTS contract. Similarly, in November 2008, the BFT program office announced it was conducting what it terms a "Market Survey" that potentially could result in a continuation of our BFT efforts through December 2013 and that it may increase the ceiling on our current contract to $833.0 million, which represents an increase of $617.0 million from our current contract ceiling level of $216.0 million. We have and continue to be focused on maintaining and expanding our role in both programs by upgrading and enhancing the performance of our satellite network and transceivers. As a result of our efforts, in February 2009, we introduced our next-generation BFT High-Capacity Transceiver ("BFT-HC") and related advanced ground station technology and believe that we are well-positioned to continue to support the U.S. Army. Our current MTS and BFT contracts expire in July 2010 and December 2011, respectively. Although, as noted above, we believe demand for our products has never been stronger, our ability to predict specific customer fielding schedules, amounts and timing of orders and product mix requirements remains largely unpredictable. Currently, we do not expect to begin recognizing sales related to the $281.5 million MTS order until late in the fourth quarter of fiscal 2009; thus, sales in our mobile data communications segment, in fiscal 2009, are expected to be significantly lower than in fiscal 2008. Also included in our expected sales levels for fiscal 2009, as a result of our acquisition of Radyne, is incremental revenue from the design and manufacture of microsatellites and mobile tracking products that incorporate SENS technology. 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 well as risks associated with the uncertainty of the prevailing political and economic environments.

- RF microwave amplifiers segment – We believe that fiscal 2009 will be a record year of sales and profitability in our RF microwave amplifiers segment. Substantially all of this anticipated growth is expected to result from the Radyne acquisition which we anticipate will more than double the size of our RF microwave amplifiers segment. The Radyne acquisition has established us as a leader in the satellite earth station traveling wave tube amplifier market. Based on the timing of orders that are currently in our backlog and that we expect to receive for the remainder of fiscal 2009, we anticipate that sales in our RF microwave amplifier segment for the second half of fiscal 2009 will be higher than the first half of fiscal 2009; however, we currently do not expect to achieve the same level of commercial bookings during the second half of fiscal 2009 as we did in the first half of fiscal 2009, as a result of the challenging business environment. Bookings, sales and profitability in our RF microwave amplifiers segment can fluctuate dramatically from period-to-period due to many factors, including the receipt of and performance on large contracts from the U.S. government and international customers.

Below is a summary of our aggregated business outlook on certain income statement line items.

- Our gross profit, as a percentage of fiscal 2009 net sales, is expected to significantly decline from the percentage we achieved in fiscal 2008, primarily as a result of lower sales and lower production of our mobile data communications segment's mobile satellite transceivers as compared to fiscal 2008. Our gross profit, both as a percentage of net sales and as an absolute dollar amount, is expected to be lower in our mobile data communications segment because our $281.5 million MTS order is not expected to generate significant revenue until fiscal 2010 and because the order consists entirely of third-party manufactured ruggedized MTS tablet computers and related accessories. These ruggedized tablet computers are expected to be integrated into previously deployed MTS systems, and they have significantly lower gross margins than our mobile satellite transceivers which we produce and ship when we sell new MTS systems. Based on discussions with the U.S. Army, we currently do not expect to produce or ship a significant amount of mobile satellite transceivers for the remainder of fiscal 2009. In addition, despite achieving significant operating synergies associated with our Radyne acquisition, our telecommunications transmission segment, which operates our high-volume technology manufacturing center located in Tempe, Arizona and produces our mobile satellite transceivers, will also experience lower gross margins as it is not expected to achieve the same level of operating efficiencies as it did in fiscal 2008. Our gross margins in fiscal 2009 will also be impacted by incremental sales of Radyne's products which traditionally have been sold at gross margins below those of our legacy businesses. In an effort to offset the lower expected volume of production and unfavorable change in product mix discussed above, during the three months ended January 31, 2009, we initiated cost reduction activities on a company-wide basis.

- Although selling, general and administrative expenses in fiscal 2009 will benefit from significant operating synergies associated with the complete integration of Radyne's corporate functions into our Melville, New York corporate headquarters, we expect selling, general and administrative expenses for fiscal 2009, as a percentage of net sales, to be higher than fiscal 2008. Despite lower sales in our mobile data communications segment (based on our expectation that our $281.5 million MTS order will not generate significant revenue until fiscal 2010), we intend to continue our selling and marketing efforts to the U.S. Army for both the current and next-generation MTS and BFT programs. In connection with our introduction in February 2009 of our next-generation BFT–HC Transceiver and related advanced ground station technology, we have planned numerous product promotional activities to showcase our next-generation products and technology.

- Research and development expenses for fiscal 2009, as a percentage of net sales, are expected to be higher than fiscal 2008. As a result of the Radyne acquisition, we intend to take advantage of our combined engineering and sales teams to drive further innovation in the marketplace and deliver new and advanced products to our customers in all three of our business segments. Also, as discussed above, we intend to continue our efforts in developing next-generation MTS and BFT products. In addition, as earlier reported, in connection with the Radyne acquisition, and in accordance with SFAS No. 141, "Business Combinations," we recorded a one-time amortization charge of $6.2 million in fiscal 2009, reflecting the fair value of acquired in-process research and development.

- Total amortization of stock-based compensation expense (which is allocated to cost of sales, selling, general and administrative and research and development expense line items in our condensed consolidated statement of operations) for fiscal 2009 is expected to be slightly lower than in fiscal 2008.

- Amortization of intangibles is expected to substantially increase in fiscal 2009 primarily due to the Radyne acquisition and the acquisition of Verso, acquired in August 2008 and July 2008, respectively. The acquisitions of both Radyne and Verso are being accounted for in accordance with SFAS No. 141. We currently expect total amortization expense to approximate $8.7 million in fiscal 2009, of which approximately $7.2 million is related to acquired intangible assets (to be recorded as operating expenses in our consolidated statement of operations) and approximately $1.5 million is related to the amortization of the fair value of inventory step-up (to be recorded as cost of sales in our consolidated statement of operations).

- Interest income is expected to significantly decline year-over-year due to the use of our cash and cash equivalents for the Radyne acquisition, a significant decline in interest rates and a change in our investment strategy. During fiscal 2009, we changed our investment strategy for our cash and cash equivalents to include investing in commercial and government money market funds, short-term U.S. Treasury obligations and bank deposits, substantially all of which currently have interest rates below 1.0%.

- Interest expense in fiscal 2009 primarily reflects interest associated with our 2.0% convertible senior notes. As further discussed in the caption entitled "Notes to Condensed Consolidated Financial Statements – Note (11) 2.0% Convertible Senior Notes," these notes were fully converted into 3,333,327 shares of our common stock by February 12, 2009. As such, interest expense in fiscal 2009 is expected to be significantly lower than in fiscal 2008.

- Our fiscal 2009 estimated effective tax rate is expected to approximate 35.8% as compared to 35.3% for fiscal 2008. Excluding discrete items including a non-deductible charge for acquired-in-process research and development and the retroactive extension of the Federal research and experimentation credit from December 31, 2007 through December 31, 2009, our fiscal 2009 estimated effective tax rate is expected to approximate 34.5%.

As discussed above, we are operating in the midst of a global economic downturn. Although adverse conditions in the global economy and credit markets that are negatively impacting nearly all industries and businesses are expected to persist for the foreseeable future, we remain confident in the long-term demand drivers for our businesses. However, if 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.

COMPARISON OF THE RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED JANUARY 31, 2009 AND JANUARY 31, 2008

Net Sales. Consolidated net sales were $143.9 million and $152.0 million for the three months ended January 31, 2009 and 2008, respectively, representing a decrease of $8.1 million, or 5.3%. Our results for the three months ended January 31, 2009 reflects incremental sales in all three business segments associated with the Radyne acquisition and core organic growth in our telecommunications transmission and RF microwave amplifiers business segments, all of which was offset by an expected significant decrease of sales in our mobile data communications segment, as further discussed below.

Telecommunications transmission
Net sales in our telecommunications transmission segment were $69.5 million and $50.2 million for the three months ended January 31, 2009 and 2008, respectively, an increase of $19.3 million, or 38.4%. Net sales in this segment reflect increased sales of our satellite earth station products, which were partially offset by significantly lower sales, as anticipated, of our over-the-horizon microwave systems.

Despite difficult economic conditions in almost all of the countries that we do business in, sales of our satellite earth station products increased due to incremental demand, particularly for our modems which incorporate DoubleTalk® Carrier-in-Carrier® technology, as well as the inclusion of sales of Radyne-branded satellite earth station products. As a result of the Radyne acquisition, we now offer our current and prospective customers an expanded one-stop shopping approach by providing them the opportunity to buy Comtech and/or Radyne branded products and we continue to integrate and share technology across our product lines. Accordingly, we do not believe that sales performance comparisons between our individual brands are meaningful indicators of performance. Sales of our video encoder and decoder products (which we acquired from Radyne) were significantly lower than expected and further declined from the levels we achieved in the three months ended October 31, 2008 as our commercial broadcasting customers experienced further deterioration in their end-markets which we expect will continue for the foreseeable future. Overall sales of our satellite earth station products are expected to increase in fiscal 2009 as compared to fiscal 2008. However, we have experienced some recent softness in commercial satellite earth station product bookings, and as a result, we are taking a cautious approach for the second half of fiscal 2009. Accordingly, we expect that satellite earth station product sales in our third and fourth quarter of fiscal 2009 will be lower than the level we achieved during the three months ended January 31, 2009.

Net sales of our over-the-horizon microwave systems for the three months ended January 31, 2009, as expected, were significantly lower than the three months ended January 31, 2008 primarily due to lower sales to the U.S. Department of Defense ("DoD") and lower indirect sales to our North African country end-customer. We continue to be involved in lengthy negotiations and discussions relating to a number of large international over-the-horizon microwave system opportunities and, although we expect to ultimately receive one or more contract awards, it remains difficult to predict the timing of any potential contract award or related revenue.

Our telecommunications transmission segment represented 48.3% of consolidated net sales for the three months ended January 31, 2009 as compared to 33.0% for the three months ended January 31, 2008.

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 associated with our satellite earth station products, the current adverse conditions in the global economy and credit markets, and the timing of, and our related performance on, contracts from the U.S. government and international customers for our over-the-horizon microwave systems.

Mobile data communications

Net sales in our mobile data communications segment were $38.9 million for the three months ended January 31, 2009 and $87.7 million for the three months ended January 31, 2008, a decrease of $48.8 million, or 55.6%. The decrease in sales is primarily attributable to both an absence of sales during the three months ended January 31, 2009 to the Army National Guard and a decrease in deliveries to the U.S. Army for orders placed under our MTS and BFT contracts. Sales to the Army National Guard during the three months ended January 31, 2008 were funded by a supplemental defense appropriations bill commonly referred to as the Leahy-Bond Amendment. Sales for the three months ended January 31, 2009 include incremental sales relating to the design and manufacture of microsatellites and from mobile tracking products that incorporate SENS technology which we acquired as part of our acquisition of Radyne.

As discussed in the caption entitled Item 2., Management's Discussion and Analysis of Financial Condition and Results of Operations, "Business Outlook for Fiscal 2009," based on the anticipated timing of current delivery schedules for orders that are in our backlog and because we do not expect to receive significant additional orders for the remainder of fiscal 2009, we expect sales in our mobile data communications segment to be significantly lower in fiscal 2009 as compared to fiscal 2008. Shipments of our $281.5 million MTS order are not expected to begin, at the earliest, until late in the fourth quarter of fiscal 2009. As such, we expect sales during the three months ending April 30, 2009 to be lower than sales during the three months ended January 31, 2009 and we expect sales in the three months ending July 31, 2009 to be slightly higher than the three months ended January 31, 2009. If the computers relating to our MTS order are not delivered timely by the third-party manufacturer or if actual field deployment schedules are delayed, a portion of the sales that we are currently expecting in the fourth quarter of fiscal 2009 could shift into fiscal 2010. Through January 31, 2009, we have received $427.1 million in total orders under our $605.1 million MTS contract, which expires in July 2010 and $161.7 million in total orders under our $216.0 million BFT contract, which expires in December 2011.

Our mobile data communications segment represented 27.0% of consolidated net sales for the three months ended January 31, 2009 as compared to 57.7% for the three months ended January 31, 2008.

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. Our MTS and BFT contracts are both IDIQ contracts and, as such, the U.S. Army is generally not obligated to purchase any equipment or services under these contracts. In addition, we are aware that on occasion, the U.S. government has experienced delays in the receipt of certain components that are eventually provided to us for incorporation into our mobile satellite transceivers. If we do not receive these U.S. government furnished components in a timely manner, we could experience delays in fulfilling funded and anticipated orders from our customers.

RF microwave amplifiers

Net sales in our RF microwave amplifiers segment were $35.5 million for the three months ended January 31, 2009, compared to $14.1 million for the three months ended January 31, 2008, an increase of $21.4 million, or 151.8%. Sales for the period benefited as the Radyne acquisition expanded our customer base and we immediately became a leading supplier of satellite earth station traveling wave tube amplifiers. As a result of the acquisition, we more than doubled our sales for the three months ended January 31, 2009. During the three months ended January 31, 2009, we also experienced increased period-over-period sales of our solid-state, high-power broadband amplifiers and high-power switches that are incorporated into defense-related systems. Based on the timing of orders that are currently in our backlog and that we expect to receive for the remainder of fiscal 2009, we anticipate that sales in our RF microwave amplifier segment for the second half of fiscal 2009 will be higher than the first half of fiscal 2009; however, we currently do not expect to achieve the same level of commercial bookings during the second half of fiscal 2009 as we did in the first half of fiscal 2009 as a result of the challenging business environment.

Our RF microwave amplifiers segment represented 24.7% of consolidated net sales for the three months ended January 31, 2009 as compared to 9.3% for the three months ended January 31, 2008.

Bookings, sales and profitability in our RF microwave amplifiers segment can fluctuate from period-to-period due to many factors including the current adverse conditions in the global economy and credit markets, and the timing of, and our related performance on, contracts from the U.S. government and international customers.

Geography and Customer Type

Sales to the U.S. government (including sales to prime contractors of the U.S. government) represented 51.3% and 70.6% of consolidated net sales for the three months ended January 31, 2009 and 2008, respectively. International sales (which include sales to U.S. companies for inclusion in products that are sold to international customers) represented 36.3% and 23.4% of consolidated net sales for the three months ended January 31, 2009 and 2008, respectively. Domestic commercial sales represented 12.4% and 6.0% of consolidated net sales for the three months ended January 31, 2009 and 2008, respectively.

Gross Profit. Gross profit was $59.5 million and $66.3 million for the three months ended January 31, 2009 and 2008, respectively, representing a decrease of $6.8 million, or 10.3%. Gross profit as a percentage of net sales decreased to 41.3% for the three months ended January 31, 2009 as compared to 43.6% for the three months ended January 31, 2008. The decrease in gross profit percentage was attributable to significantly lower gross profit percentages in both our telecommunications transmission and mobile data communications segments, partially offset by an increase in gross profit percentage in our RF microwave amplifiers segment.

Although we expect to continue to achieve significant operating synergies associated with our Radyne acquisition, our telecommunications transmission segment experienced a significantly lower gross profit percentage during the three months ended January 31, 2009 as compared to the three months ended January 31, 2008. The decline in gross profit percentage was primarily the result of an overall reduction in usage of our high-volume technology manufacturing center, located in Tempe, Arizona which was driven by a decline in production of mobile satellite transceivers for our mobile data communications segment. The impact of the lower production of mobile satellite transceivers resulted in lower net operating efficiencies which more than offset the improved gross margins we achieved as a result of our successful execution of our Radyne-related restructuring plan. Our Radyne-related restructuring plan included the closing of Radyne’s Phoenix, Arizona satellite earth station manufacturing and engineering facility and integrating that operation into our high-volume technology manufacturing center. As of January 31, 2009, these restructuring efforts were complete; however, in an effort to offset expected lower volume of production of mobile satellite transceivers for the remainder of fiscal 2009, we have initiated additional cost reduction activities on a company-wide basis.

Our mobile data communications segment experienced a significant decline in gross profit percentage during the three months ended January 31, 2009 as compared to the three months ended January 31, 2008 primarily as a result, as expected, of lower sales of mobile satellite transceivers. Significant period-to-period fluctuations in our gross margins can occur in our mobile data communications segment as a result of the nature and timing of actual delivery schedules driven by the U.S. Army. Based on the nature and anticipated timing of delivery schedules for orders that are in our backlog and the anticipated nature and timing of additional orders that we expect to receive during the remainder of fiscal 2009, we expect our gross profit, as a percentage of net sales in our mobile data communications segment, during the second half of fiscal 2009 to further decline. As noted above, our $281.5 million MTS order consists entirely of ruggedized tablet computers and related accessories which are manufactured by a third party and have significantly lower gross margins than our mobile satellite transceivers and, based on discussions with the U.S. Army, we currently expect to produce and ship less mobile satellite transceivers during the second half of fiscal 2009 as compared to the first half of fiscal 2009.

Our RF microwave amplifiers segment experienced a higher gross profit percentage during the three months ended January 31, 2009 as compared to the three months ended January 31, 2008 as it benefited from a more favorable product mix as a result of the Radyne acquisition and a slight improvement in gross margins in our legacy product line of solid-state, high-power broadband amplifiers and switches. Our RF microwave amplifier product line now includes satellite earth station traveling wave tube amplifiers, which were sold at higher gross margins than those of our legacy product lines. In addition, during the three months ended January 31, 2008, we experienced a lower gross profit percentage than the three months ended January 31, 2009 due to long production times associated with certain complex solid-state, high power amplifiers and high-power switches that employ newer technology. These shipments are nearly complete and we expect our gross profit percentage for the remainder of fiscal 2009 in our RF microwave amplifiers segment to remain relatively consistent with its gross profit percentage for the three months ended January 31, 2009.

Included in cost of sales for the three months ended January 31, 2009 is amortization of $0.7 million related to the estimated fair value step-up of Radyne inventory acquired. In addition, included in cost of sales for the three months ended January 31, 2009 and 2008 are provisions for excess and obsolete inventory of $1.0 million and $0.7 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. As of January 31, 2009, we have approximately 2,000 ruggedized laptop computers and related accessories on hand with a net book value of approximately $11.2 million. We have shipped in excess of 15,000 ruggedized laptop computers to-date, including approximately 1,000, during fiscal 2009, of the exact model that we currently have on-hand. We expect that we will ultimately sell these computers for amounts in excess of their current net book value based on a variety of factors, including our belief that there may be additional deployments of MTS systems using laptop computers and that we intend to continue to actively market them to potential customers including the Army National Guard and NATO. In the future, if we determine that this inventory will not be utilized or cannot be sold above our net book value, we would be required to record a write-down of the value of such inventory in our consolidated financial statements at the time of such determination. Any such charge could be material to our consolidated results of operations and financial condition.

Selling, General and Administrative Expenses. Selling, general and administrative expenses were $26.0 million and $21.3 million for the three months ended January 31, 2009 and 2008, respectively, representing an increase of $4.7 million, or 22.1%. As a percentage of consolidated net sales, selling, general and administrative expenses were 18.1% and 14.0% for the three months ended January 31, 2009 and 2008, respectively.

Selling, general and administrative expenses for the three months ended January 31, 2009 includes incremental spending associated with the acquired Radyne businesses as well as increased legal and other professional fees incurred in connection with the legal and other matters, discussed in the caption entitled "Notes to Condensed Consolidated Financial Statements – Note (17) Legal Matters and Proceedings." In addition, as discussed above under the caption entitled "Business Outlook for Fiscal 2009," despite lower net sales in our mobile data communications segment, during the three months ended January 31, 2009, we continued our selling and marketing efforts associated with our next-generation MTS and BFT products and services to the U.S. Army.

During the three months ended January 31, 2009, we successfully executed and completed the restructuring plan associated with the Radyne acquisition and eliminated redundant functions and related expenses. Such efforts included the closing of several duplicative sales offices and fully integrating Radyne's corporate functions that were previously located in Phoenix, Arizona, into our Melville, New York corporate headquarters. Assuming no significant change or unexpected findings related to the legal and other matters referred to above and because we expect to continue our selling and marketing efforts to the U.S. Army despite anticipated lower sales in our mobile data communications segment for the remainder of fiscal 2009, we anticipate selling, general and administrative expenses, as a percentage of net sales, to be higher in fiscal 2009 as compared to fiscal 2008.

Amortization of stock-based compensation expense recorded as selling, general and administrative expenses decreased to $1.6 million in the three months ended January 31, 2009 from $2.0 million in the three months ended January 31, 2008.

Research and Development Expenses. Research and development expenses were $12.5 million and $9.1 million for the three months ended January 31, 2009 and 2008, respectively, representing an increase of $3.4 million, or 37.4%. The increase in expenses primarily reflects our continued investment in research and development efforts as well as incremental investments associated with the expanded product lines that we now offer. As a percentage of consolidated net sales, research and development expenses were 8.7% and 6.0% for the three months ended January 31, 2009 and 2008, respectively.

For the three months ended January 31, 2009 and 2008, research and development expenses of $7.3 million and $5.8 million, respectively, related to our telecommunications transmission segment, $3.1 million and $2.0 million, respectively, related to our mobile data communications segment, $1.7 million and $0.9 million, respectively, related to our RF microwave amplifiers segment, with the remaining expenses related 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 was $0.4 million for the three months ended January 31, 2009 and 2008.

As an investment for the future, we are continually enhancing our 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 January 31, 2009 and 2008, customers reimbursed us $1.9 million and $2.4 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.

Amortization of Intangibles. Amortization relating to intangible assets with finite lives was $1.8 million and $0.4 million for the three months ended January 31, 2009 and 2008, respectively. The significant increase for the three months ended January 31, 2009 as compared to the three months ended January 31, 2008 is primarily attributable to the amortization of intangible assets with finite lives acquired in connection with the August 1, 2008 acquisition of Radyne.

Operating Income. Operating income for the three months ended January 31, 2009 and 2008 was $19.2 million and $35.4 million, respectively. The significant decrease in operating income during the three months ended January 31, 2009 was primarily due to lower consolidated net sales and gross profit and increased operating expenses as discussed above.

Operating income in our telecommunications transmission segment increased to $17.1 million for the three months ended January 31, 2009 from $13.2 million for the three months ended January 31, 2008. This increase was primarily due to the higher volume of net sales and the successful achievement of expense synergies associated with the Radyne acquisition which were partially offset by lower net operating efficiencies (resulting from the lower production of mobile satellite transceivers for our mobile data communications segment) in addition to increased research and development expenses and amortization of intangibles.

Our mobile data communications segment generated operating income of $4.3 million for the three months ended January 31, 2009 as compared to $28.3 million for the three months ended January 31, 2008. The decrease in operating income was primarily due to the significant decline in net sales and gross margins and continued investment in both our selling and marketing activities and research and development efforts, primarily relating to our next-generation MTS and BFT products and services.

Our RF microwave amplifiers segment generated operating income of $3.7 million for the three months ended January 31, 2009 as compared to $1.0 million for the three months ended January 31, 2008. Operating income increased due to a higher level of net sales and gross margins achieved, primarily as a result of the Radyne acquisition, which were partially offset by increased research and development expenses and increased amortization of intangibles.

Unallocated operating expenses decreased to $5.9 million for the three months ended January 31, 2009 from $7.1 million for the three months ended January 31, 2008 primarily due to lower cash-based incentive compensation as a result of our lower consolidated net operating income. Amortization of stock-based compensation expense, which is included in unallocated operating expenses, amounted to $2.3 million in the three months ended January 31, 2009 as compared to $2.6 million in the three months ended January 31, 2008.

Interest Expense. Interest expense was $0.7 million for the three months ended January 31, 2009 and 2008. Interest expense primarily represents interest associated with our 2.0% convertible senior notes. As discussed in the caption entitled Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operation, "Business Outlook for Fiscal 2009," interest expense in fiscal 2009 is expected to be significantly lower than fiscal 2008 due to the full conversion of our 2.0% convertible senior notes by February 12, 2009 into 3,333,327 shares of our common stock.

Interest Income and Other. Interest income and other for the three months ended January 31, 2009 was $0.6 million, as compared to $4.1 million for the three months ended January 31, 2008. The decrease of $3.5 million was primarily due to the significant reduction in our cash and cash equivalents primarily driven by payments relating to the August 1, 2008 Radyne acquisition. In addition, period-over-period interest rates have significantly declined and we also changed our investment strategy relating to the substantial increase in principal risks associated with maintaining cash and cash equivalents solely in commercial-based money market accounts. Our investment strategy now includes investing in both commercial and government money market funds, short-term U.S. Treasury obligations and bank deposits, substantially all of which currently have interest rates below 1.0%. As a result of our overall cash management strategy, we expect interest income in each of the remaining quarters of fiscal 2009 to be similar or slightly lower than the amount we earned during the three months ended January 31, 2009.

Provision for Income Taxes. The provision for income taxes was $6.3 million and $13.4 million for the three months ended January 31, 2009 and 2008, respectively. Our effective tax rate was 32.8% and 34.5% for the three months ended January 31, 2009 and 2008, respectively.

Our effective tax rate for the three months ended January 31, 2009 and 2008 reflects discrete tax benefits of $0.3 million and $0.1 million, respectively. Excluding discrete items in both periods, our estimated effective tax rate for the three months ended January 31, 2009 was 34.5% as compared to 34.75% for the three months ended January 31, 2008. This decrease is primarily attributable to the retroactive extension of the expiration of the Federal research and experimentation credit ("R&E") from December 31, 2007 to December 31, 2009. Our effective tax rate for fiscal 2009, excluding the amortization of acquired in-process research and development and the discrete tax benefits recorded, is expected to approximate 34.5%.

During the three months ended January 31, 2009, the Internal Revenue Service ("IRS") continued to audit our Federal income tax return for the fiscal year ended July 31, 2006 and extended its audit to include our Federal income tax return for the fiscal year ended July 31, 2007. In fiscal 2008, we reached an agreement with the IRS relating to the allowable amount of R&E credits utilized and interest expense relating to our 2.0% convertible senior notes for our Federal income tax returns for the fiscal years ended July 31, 2004 and 2005 and we adjusted our estimate of anticipated future disallowable R&E credits and interest expense based on the results of the audit. Although adjustments relating to the audits and related settlements of our fiscal 2004 and fiscal 2005 tax returns were immaterial, a resulting tax assessment or settlement for fiscal 2006 and 2007 could have a material adverse impact on our results of operations and financial position.

COMPARISON OF THE RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED JANUARY 31, 2009 AND JANUARY 31, 2008

Net Sales. Consolidated net sales were $335.8 million and $267.1 million for the six months ended January 31, 2009 and 2008, respectively, representing an increase of $68.7 million, or 25.7%. The increase in net sales for the six months ended January 31, 2009 reflects incremental sales in all three business segments associated with the Radyne acquisition and core organic growth in our telecommunications transmission and RF microwave amplifiers business segments. These increases were partially offset, as expected, by a significant decline in revenues in our mobile data communications segment, as further discussed below.

Telecommunications transmission
Net sales in our telecommunications transmission segment were $144.1 million and $99.1 million for the six months ended January 31, 2009 and 2008, respectively, an increase of $45.0 million, or 45.4%. Net sales in this segment reflect increased sales of our satellite earth station products, which were partially offset by lower sales, as anticipated, of our over-the-horizon microwave systems.

Despite difficult economic conditions in almost all of the countries that we do business in, sales of our satellite earth station products increased due to incremental demand, particularly for our modems which incorporate DoubleTalk® Carrier-in-Carrier® technology, as well as the inclusion of sales of Radyne-branded satellite earth station products. As a result of the Radyne acquisition, we now offer our current and prospective customers an expanded one-stop shopping approach by providing them the opportunity to buy Comtech and/or Radyne branded products and we continue to integrate and share technology across our product lines. Accordingly, we do not believe that sales performance comparisons between our individual brands are meaningful indicators of performance. Sales of our video encoder and decoder products (which we acquired from Radyne) were significantly lower than expected and further declined from the levels we achieved in the three months ended October 31, 2008, as our commercial broadcasting customers experienced further deterioration in their end-markets which we expect will continue for the foreseeable future. Overall sales of our satellite earth station products are expected to increase in fiscal 2009 as compared to fiscal

2008. However, we have experienced some recent softness in commercial satellite earth station product bookings, and as a result, we are taking a cautious approach for the second half of fiscal 2009. Accordingly, we expect that satellite earth station product sales in our third and fourth quarter of fiscal 2009 will be lower than the level we achieved during the three months ended January 31, 2009.

Net sales of our over-the-horizon microwave systems for the six months ended January 31, 2009, as expected, were significantly lower than the six months ended January 31, 2008 primarily due to lower sales to the U.S. Department of Defense ("DoD") and lower indirect sales to our North African country end-customer. We continue to be involved in lengthy negotiations and discussions relating to a number of large international over-the-horizon microwave system opportunities and, although we expect to ultimately receive one or more contract awards, it remains difficult to predict the timing of any potential contract award or related revenue.

Our telecommunications transmission segment represented 42.9% of consolidated net sales for the six months ended January 31, 2009 as compared to 37.1% for the six months ended January 31, 2008.

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 associated with our satellite earth station products, the current adverse conditions in the global economy and credit markets, and the timing of, and our related performance on, contracts from the U.S. government and international customers for our over-the-horizon microwave systems.

Mobile data communications

Net sales in our mobile data communications segment were $120.8 million for the six months ended January 31, 2009 and $140.7 million for the six months ended January 31, 2008, a decrease of $19.9 million, or 14.1%. The decrease in sales during the six months ended January 31, 2009 is attributable to an absence of sales to the Army National Guard that was partially offset by an increase in our MTS and BFT product and service sales. Sales to the Army National Guard during the six months ended January 31, 2008 were funded by a supplemental defense appropriations bill commonly referred to as the Leahy-Bond Amendment.

Sales for the six months ended January 31, 2009 include incremental sales relating to the design and manufacture of microsatellites and from mobile tracking products that incorporate SENS technology which we acquired as part of our acquisition of Radyne.

Our mobile data communications segment represented 36.0% of consolidated net sales for the six months ended January 31, 2009 as compared to 52.7% for the six months ended January 31, 2008.

As discussed in the caption entitled Item 2., Management’s Discussion and Analysis of Financial Condition and Results of Operations, “Business Outlook for Fiscal 2009,” based on the anticipated timing of current delivery schedules for orders that are in our backlog and because we do not expect to receive significant additional orders for the remainder of fiscal 2009, we expect sales in our mobile data communications segment to be significantly lower in fiscal 2009 as compared to fiscal 2008. Shipments of our $281.5 million MTS order are not expected to begin, at the earliest, until late in the fourth quarter of fiscal 2009. As such, we expect sales during the three months ending April 30, 2009 to be lower than sales during the three months ended January 31, 2009 and we expect sales in the three months ending July 31, 2009 to be slightly higher than the three months ended January 31, 2009. If the computers relating to our MTS order are not delivered timely by the third-party manufacturer or if actual field deployment schedules are delayed, a portion of the sales that we are currently expecting in the fourth quarter of fiscal 2009 could shift into fiscal 2010. Through January 31, 2009, we have received $427.1 million in total orders under our $605.1 million MTS contract, which expires in July 2010 and $161.7 million in total orders under our $216.0 million BFT contract, which expires in December 2011.

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. Our MTS and BFT contracts are both IDIQ contracts and, as such, the U.S. Army is generally not obligated to purchase any equipment or services under these contracts. In addition, we are aware that on occasion, the U.S. government has experienced delays in the receipt of certain components that are eventually provided to us for incorporation into our mobile satellite transceivers. If we do not receive these U.S. government furnished components in a timely manner, we could experience delays in fulfilling funded and anticipated orders from our customers.

RF microwave amplifiers

Net sales in our RF microwave amplifiers segment were $70.9 million for the six months ended January 31, 2009, as compared to $27.3 million for the six months ended January 31, 2008, an increase of $43.6 million, or 159.7%. Sales for the period benefited as the Radyne acquisition expanded our customer base and we immediately became a leading supplier of satellite earth station traveling wave tube amplifiers. As a result of the acquisition, we more than doubled our sales for the six months ended January 31, 2009. During the six months ended January 31, 2009, we also experienced increased period-over-period sales of our solid-state, high-power broadband amplifiers and high-power switches that are incorporated into defense-related systems. Based on the timing of orders that are currently in our backlog and that we expect to receive for the remainder of fiscal 2009, we anticipate that sales in our RF microwave amplifier segment for the second half of fiscal 2009 will be higher than the first half of fiscal 2009; however, we currently do not expect to achieve the same level of commercial bookings during the second half of fiscal 2009 as we did in the first half of fiscal 2009 as a result of the challenging business environment.

Our RF microwave amplifiers segment represented 21.1% of consolidated net sales for the six months ended January 31, 2009 as compared to 10.2% for the six months ended January 31, 2008.

Bookings, sales and profitability in our RF microwave amplifiers segment can fluctuate from period-to-period due to many factors including the current adverse conditions in the global economy and credit markets, and the timing of, and our related performance on, contracts from the U.S. government and international customers.

Geography and Customer Type
Sales to the U.S. government (including sales to prime contractors of the U.S. government) represented 57.2% and 66.3% of consolidated net sales for the six months ended January 31, 2009 and 2008, respectively. International sales (which include sales to U.S. companies for inclusion in products that are sold to international customers) represented 31.9% and 26.5% of consolidated net sales for the six months ended January 31, 2009 and 2008, respectively. Domestic commercial sales represented 10.9% and 7.2% of consolidated net sales for the six months ended January 31, 2009 and 2008, respectively.

Gross Profit. Gross profit was $146.5 million and $116.8 million for the six months ended January 31, 2009 and 2008, respectively, representing an increase of $29.7 million, or 25.4%. The increase in gross profit was primarily attributable to the increase in net sales discussed above. Gross profit as a percentage of net sales decreased slightly to 43.6% for the six months ended January 31, 2009 as compared to 43.7% for the six months ended January 31, 2008. The slight decrease in gross profit percentage was attributable to lower gross profit percentages in our telecommunications transmission and mobile data communications segments partially offset by an increase in gross profit percentage in our RF microwave amplifiers segment.

Although we expect to continue to achieve significant operating synergies associated with our Radyne acquisition, our telecommunications transmission segment experienced a lower gross profit percentage during the six months ended January 31, 2009 as compared to the six months ended January 31, 2008. The decline in gross profit percentage was primarily the result of an overall reduction in usage of our high-volume technology manufacturing center, located in Tempe, Arizona which was driven by a decline in production of mobile satellite transceivers for our mobile data communications segment. The impact of the lower production of mobile satellite transceivers resulted in lower net operating efficiencies which more than offset the improved gross margins we achieved as a result of our successful execution of our Radyne-related restructuring plan. Our Radyne-related restructuring plan included the closing of Radyne’s Phoenix, Arizona satellite earth station manufacturing and engineering facility and integrating that operation into our high-volume technology manufacturing center. As of January 31, 2009, these restructuring efforts were complete; however, in an effort to offset expected lower volume of production of mobile satellite transceivers for the remainder of fiscal 2009, we have initiated additional cost reduction activities on a company-wide basis.

Our mobile data communications segment experienced a slight decline in gross profit percentage during the six months ended January 31, 2009 as compared to the six months ended January 31, 2008 primarily as a result, as expected, of lower sales of mobile satellite transceivers. Significant period-to-period fluctuations in our gross margins can occur in our mobile data communications segment as a result of the nature and timing of actual delivery schedules driven by the U.S. Army. Based on the nature and anticipated timing of delivery schedules for orders that are in our backlog and the anticipated nature and timing of additional orders that we expect to receive during the remainder of fiscal 2009, we expect our gross profit, as a percentage of net sales in our mobile data communications segment, during the second half of fiscal 2009 to further decline. Our $281.5 million MTS order consists entirely of ruggedized tablet computers and related accessories which are manufactured by a third party and have significantly lower gross margins than our mobile satellite transceivers and, based on discussions with the U.S. Army, we currently expect to produce and ship less mobile satellite transceivers during the second half of fiscal 2009 as compared to the first half of fiscal 2009.

Our RF microwave amplifiers segment experienced a higher gross profit percentage during the six months ended January 31, 2009 as compared to the six months ended January 31, 2008 as it benefited from a more favorable product mix as a result of the Radyne acquisition. Gross margins in our legacy product line of solid-state, high-power broadband amplifiers and switches were similar period-to-period. Our RF microwave amplifier product line now includes satellite earth station traveling wave tube amplifiers, which were sold at higher gross margins than those of our legacy product lines. In addition, during the six months ended January 31, 2008, we experienced a lower gross profit percentage than the six months of January 31, 2009 due to long production times associated with certain complex solid-state, high power amplifiers and high-power switches that employ newer technology.

Included in cost of sales for the six months ended January 31, 2009 is amortization of $1.5 million related to the estimated fair value step-up of Radyne inventory acquired. In addition, included in cost of sales for the six months ended January 31, 2009 and 2008 are provisions for excess and obsolete inventory of $2.0 million and $1.2 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. As of January 31, 2009, we have approximately 2,000 ruggedized laptop computers and related accessories on hand with a net book value of approximately $11.2 million. We have shipped in excess of 15,000 ruggedized laptop computers to-date, including approximately 1,000, during fiscal 2009, of the exact model that we currently have on-hand. We expect that we will ultimately sell these computers for amounts in excess of their current net book value based on a variety of factors, including our belief that there could be additional deployments of MTS systems using laptop computers and that we intend to continue to actively market them to potential customers including the Army National Guard and NATO. In the future, if we determine that this inventory will not be utilized or cannot be sold above our net book value, we would be required to record a write-down of the value of such inventory in our consolidated financial statements at the time of such determination. Any such charge could be material to our consolidated results of operations and financial condition.

Selling, General and Administrative Expenses. Selling, general and administrative expenses were $55.0 million and $41.7 million for the six months ended January 31, 2009 and 2008, respectively, representing an increase of $13.3 million, or 31.9%. As a percentage of consolidated net sales, selling, general and administrative expenses were 16.4% and 15.6% for the six months ended January 31, 2009 and 2008, respectively.

Selling, general and administrative expenses for the six months ended January 31, 2009 includes incremental spending associated with the acquired Radyne businesses, incremental spending as a result of the organic sales growth of the company and increased legal and other professional fees incurred in connection with legal and other matters, discussed in the caption entitled "Notes to Condensed Consolidated Financial Statements – Note (17) Legal Matters and Proceedings." In addition, as discussed above under the caption entitled "Business Outlook for Fiscal 2009," despite lower net sales in our mobile data communications segment during the six months ended January 31, 2009, we continued our selling and marketing efforts associated with our next-generation MTS and BFT products and services to the U.S. Army.

During the six months ended January 31, 2009, we successfully executed and completed the restructuring plan associated with the Radyne acquisition and eliminated redundant functions and related expenses. Such efforts included the closing of several duplicative sales offices and fully integrating Radyne's corporate functions that were previously located in Phoenix, Arizona, into our Melville, New York corporate headquarters. Assuming no significant change or unexpected findings related to the legal and other matters referred to above and because we expect to continue our selling and marketing efforts to the U.S. Army despite anticipated lower sales in our mobile data communications segment for the remainder of fiscal 2009, we anticipate selling, general and administrative expenses, as a percentage of net sales, to be higher in fiscal 2009 as compared to fiscal 2008.

Amortization of stock-based compensation expense recorded as selling, general and administrative expenses decreased to $3.5 million in the six months ended January 31, 2009 from $4.0 million in the six months ended January 31, 2008.

Research and Development Expenses. Research and development expenses were $26.6 million and $20.2 million for the six months ended January 31, 2009 and 2008, respectively, representing an increase of $6.4 million, or 31.7%. The increase in expenses primarily reflects our continued investment in research and development efforts as well as incremental investments associated with the expanded product lines. As a percentage of consolidated net sales, research and development expenses were 7.9% and 7.6% for the six months ended January 31, 2009 and 2008, respectively.

For the six months ended January 31, 2009 and 2008, research and development expenses of $15.9 million and $12.0 million, respectively, related to our telecommunications transmission segment, $5.8 million and $5.5 million, respectively, related to our mobile data communications segment, $4.1 million and $1.8 million, respectively, related to our RF microwave amplifiers segment, with the remaining expenses related 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 decreased to $0.8 million in the six months ended January 31, 2009 from $0.9 million in the six months ended January 31, 2008.

As an investment for the future, we are continually enhancing our 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 six months ended January 31, 2009 and 2008, customers reimbursed us $4.0 million and $3.1 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.

Amortization of Acquired In-Process Research and Development. During the six months ended January 31, 2009, in connection with the August 1, 2008 acquisition of Radyne, we immediately amortized $6.2 million for the estimated fair value of acquired in-process research and development projects. Of this amount, $3.3 million related to our RF microwave amplifiers segment and $2.9 million related to our telecommunications transmission segment. Such amounts are included in each respective segment's operating income results. There was no amortization of acquired in-process research and development projects for the six months ended January 31, 2008.

Amortization of Intangibles. Amortization relating to intangible assets with finite lives was $3.6 million and $0.8 million for the six months ended January 31, 2009 and 2008, respectively. The significant increase for the six months ended January 31, 2009 as compared to the six months ended January 31, 2008 is primarily attributable to the amortization of intangible assets with finite lives acquired in connection with the August 1, 2008 acquisition of Radyne.

Operating Income. Operating income for the six months ended January 31, 2009 and 2008 was $55.1 million and $54.1 million, respectively. The slight increase in operating income during the six months ended January 31, 2009 was primarily due to increased operating income in both our telecommunications transmission and RF microwave amplifiers segments that were partially offset by a significant decline in operating income in our mobile data communications segment and a slight increase in unallocated operating expenses.

Operating income in our telecommunications transmission segment increased to $36.4 million for the six months ended January 31, 2009 from $24.1 million for the six months ended January 31, 2008. The increase in operating income was primarily due to the higher volume of net sales and the successful achievement of expense synergies associated with the Radyne acquisition which were partially offset by lower net operating efficiencies (resulting from the lower production of mobile satellite transceivers for our mobile data communications segment) in addition to increased research and development expenses and amortization of intangibles (including $2.9 million related to the amortization of acquired in-process research and development).

Our mobile data communications segment generated operating income of $28.7 million for the six months ended January 31, 2009 as compared to $41.1 million for the six months ended January 31, 2008 primarily due to the decline in net sales and gross margins and continued investment in both our selling and marketing activities and research and development efforts, primarily relating to our next-generation MTS and BFT products and services.

Our RF microwave amplifiers segment generated operating income of $3.6 million for the six months ended January 31, 2009 as compared to $2.1 million for the six months ended January 31, 2008. Operating income increased due to a higher level of net sales and gross margins achieved, primarily as a result of the Radyne acquisition, which were partially offset by increased research and development expenses and increased amortization of intangibles (including $3.3 million related to the amortization of acquired in-process research and development).

Unallocated operating expenses increased slightly to $13.6 million for the six months ended January 31, 2009 as compared to $13.2 million for the six months ended January 31, 2008 primarily due to incremental expenses associated with the Radyne acquisition. Amortization of stock-based compensation expense, which is included in unallocated operating expenses, amounted to $4.7 million in the six months ended January 31, 2009 as compared to $5.3 million in the six months ended January 31, 2008.

Interest Expense. Interest expense was $1.4 million and $1.3 million for the six months ended January 31, 2009 and 2008, respectively. Interest expense primarily represents interest associated with our 2.0% convertible senior notes. As discussed in the caption entitled Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operation, "Business Outlook for Fiscal 2009," interest expense in fiscal 2009 is expected to be significantly lower than fiscal 2008 due to the full conversion of our 2.0% convertible senior notes by February 12, 2009 into 3,333,327 shares of our common stock.

Interest Income and Other. Interest income and other for the six months ended January 31, 2009 was $1.9 million, as compared to $8.5 million for the six months ended January 31, 2008. The decrease of $6.6 million was primarily due to the significant reduction in our cash and cash equivalents primarily driven by payments relating to the August 1, 2008 Radyne acquisition. In addition, period-over-period interest rates have significantly declined and we also changed our investment strategy relating to the substantial increase in principal risks associated with maintaining cash and cash equivalents solely in commercial-based money market accounts. Our investment strategy now includes investing in both commercial and government money market funds, short-term U.S. Treasury obligations and bank deposits, substantially all of which currently have interest rates below 1.0%. As a result of our overall cash management strategy, we expect interest income in each of the remaining quarters of fiscal 2009 to be similar or slightly lower than the amount we earned during the three months ended January 31, 2009.

Provision for Income Taxes. The provision for income taxes was $20.4 million and $21.1 million for the six months ended January 31, 2009 and 2008, respectively. Our effective tax rate was 36.7% and 34.5% for the six months ended January 31, 2009 and 2008, respectively.

Our effective tax rate for the six months ended January 31, 2009 reflects the fact that we recorded an amortization charge of $6.2 million for acquired in-process research and development, which is non-deductible for income tax purposes. In addition, we recorded discrete tax benefits of $0.9 million and $0.2 million for the six months ended January 31, 2009 and 2008, respectively. The discrete tax benefits for the six months ended January 31, 2009 principally relate to the passage of legislation that included the retroactive extension of the expiration of the Federal research and experimentation credit from December 31, 2007 to December 31, 2009. Excluding these items, our effective tax rate for the six months ended January 31, 2009 was 34.5% as compared to 34.75% for the six months ended January 31, 2008. This decrease is primarily attributable to the retroactive extension of the expiration of the Federal research and experimentation credit from December 31, 2007 to December 31, 2009. Our effective tax rate for fiscal 2009, excluding the aforementioned amortization of acquired in-process research and development and the discrete tax benefits recorded, is expected to approximate 34.5%.

During the six months ended January 31, 2009, the Internal Revenue Service ("IRS") continued to audit our Federal income tax return for the fiscal year ended July 31, 2006 and extended its audit to include our Federal income tax return for the fiscal year ended July 31, 2007. In fiscal 2008, we reached an agreement with the IRS relating to the allowable amount of R&E credits utilized and interest expense relating to our 2.0% convertible senior notes for our Federal income tax returns for the fiscal years ended July 31, 2004 and 2005 and we adjusted our estimate of anticipated future disallowable R&E credits and interest expense based on the results of the audit. Although adjustments relating to the audits and related settlements of our fiscal 2004 and fiscal 2005 tax returns were immaterial, a resulting tax assessment or settlement for fiscal 2006 and 2007 could have a material adverse impact on our results of operations and financial position.

LIQUIDITY AND CAPITAL RESOURCES

Our unrestricted cash and cash equivalents decreased to $232.2 million at January 31, 2009 from $410.1 million at July 31, 2008, representing a decrease of $177.9 million. The decrease in cash and cash equivalents during the six months ended January 31, 2009, was primarily driven by payments relating to the Radyne acquisition of approximately $205.2 million (net of cash acquired), and payments made for purchases of property, plant and equipment. These payments were partially offset by net cash provided by operating activities and net cash provided by financing activities.

Net cash provided by operating activities was $24.4 million for the six months ended January 31, 2009 compared to net cash used in operating activities of $1.0 million for the six months ended January 31, 2008. The net increase in cash provided by operating activities was primarily driven by a significant decrease in net working capital requirements during the six months ended January 31, 2009 as compared to the six months ended January 31, 2008.

Net cash used in investing activities for the six months ended January 31, 2009 was $213.2 million, of which $205.2 million was used for the acquisition of Radyne (net of cash acquired) and $7.8 million was used for purchases of property, plant and equipment, including expenditures relating to ongoing equipment upgrades, primarily, enhancements to our high-volume technology manufacturing center in Tempe, Arizona. We currently expect capital expenditures for fiscal 2009 to be approximately $18.0 million to $20.0 million.

Net cash provided by financing activities was $10.9 million for the six months ended January 31, 2009, due primarily from the proceeds from stock option exercises and employee stock purchase plan shares.

As of January 31, 2009, our material short-term cash requirements primarily consist of working capital needs. Our material long-term cash requirements primarily consist of the present value of the net contractual non-cancellable lease obligations and related costs (through October 31, 2018) of $2.5 million related to Radyne's former manufacturing and engineering facility, which we have subleased to a third party through October 31, 2015.

As of February 12, 2009, we do not have any long-term debt. As discussed in "Notes to Condensed Consolidated Financial Statements – Note (11) 2.0% Convertible Senior Notes," our 2.0% convertible senior notes were fully converted into 3,333,327 shares of the Company's common stock as of February 12, 2009.

We have historically met both our short-term and long-term cash requirements with funds provided by a combination of cash and cash equivalent balances, cash generated from operating activities and financing transactions. Based on our anticipated level of future sales and operating income, we believe that our existing cash and cash equivalent balances and our cash generated from operating activities will be sufficient to meet both our currently anticipated short-term and long-term cash requirements. Although it is difficult in the current economic and financial environment to predict the terms and conditions of financing that may be available in the future should our short-term or long-term cash requirements increase beyond our current expectations, we believe that we would have sufficient access to credit from financial institutions and/or financing from public and private debt and equity markets.

FINANCING ARRANGEMENT

On January 27, 2004, we issued $105.0 million of our 2.0% convertible senior notes in a private offering pursuant to Rule 144A under the Securities Act of 1933, as amended. On January 15, 2009 we notified the Bank of New York Mellon, as trustee, that we would redeem all of our convertible outstanding senior notes for cash. The notes would have been redeemed for cash on February 12, 2009; however, prior to the redemption date all of the convertible senior notes were converted into shares of our common stock at a conversion rate of 31.746 shares of common stock for each $1,000 principal amount of convertible senior notes. Accordingly no convertible senior notes remain outstanding as of February 12, 2009. For further information, see "Notes to Condensed Consolidated Financial Statements – Note (11) 2.0% Convertible Senior Notes."

COMMITMENTS

In the normal course of business, we routinely enter into binding and non-binding purchase obligations primarily covering anticipated purchases of inventory and equipment. We do not expect that these commitments, as of January 31, 2009, will materially adversely affect our liquidity.

At January 31, 2009, we had contractual cash obligations to repay our 2.0% convertible senior notes, operating lease obligations (including satellite lease expenditures relating to our mobile data communications segment contracts) and the financing of a purchase of proprietary technology. Payments due under these long-term obligations, excluding interest on the 2.0% convertible senior notes, are as follows:

	Obligations Due by Fiscal Years (in thousands)				
	Total	Remainder of 2009	2010 and 2011	2012 and 2013	After 2013
2.0% convertible senior notes	$ 104,616	104,616	-	-	-
Operating lease commitments	39,383	7,355	13,703	6,677	11,648
Other obligations	37	37	-	-	-
Total contractual cash obligations	144,036	112,008	13,703	6,677	11,648
Contractual sublease payments	(8,304)	(592)	(2,396)	(2,437)	(2,879)
Net contractual cash obligations	$ 135,732	111,416	11,307	4,240	8,769

As discussed in "Notes to Condensed Consolidated Financial Statements – Note (11) 2.0% Convertible Senior Notes," our 2.0% convertible senior notes were fully converted into 3,333,327 shares of our common stock as of February 12, 2009.

We have entered into standby letter of credit agreements with financial institutions relating to the guarantee of future performance on certain contracts. At January 31, 2009, the balance of these agreements was $2.0 million.

We have change of control agreements with certain of our executive officers and certain key employees. All of these agreements may require payments, in certain circumstances, in the event of a change in control of our Company. Such amounts are not included in the above table.

RECENT ACCOUNTING PRONOUNCEMENTS

In November 2008, the FASB ratified EITF Issue No. 08-6, “Equity Method Investment Accounting Considerations” (“EITF 08-6”). EITF 08-6 clarifies the accounting for certain transactions and impairment considerations involving equity method investments. This EITF 08-6 shall be effective in fiscal years beginning on or after December 15, 2008, and interim periods within those fiscal years, and shall be applied prospectively. As we currently do not have any equity method investments, we do not believe the adoption of EITF 08-6 will have a material impact on our consolidated financial statements.

In June 2008, the FASB ratified EITF Issue No. 07-5, “Determining Whether an Instrument (or an Embedded Feature) Is Indexed to an Entity’s Own Stock” (“EITF 07-5”). This EITF provides guidance on whether or not a freestanding financial instrument or embedded contract feature must be accounted for as a derivative instrument. We are required to adopt this EITF beginning in the first quarter of our fiscal 2010 year. Early adoption is prohibited for those entities that already elected an alternative accounting policy. Since we only have freestanding financial instruments or embedded features that are either indexed to our stock and that would be classified as equity if they were a freestanding instrument, the adoption of this EITF will have no impact on our consolidated financial statements.

In May 2008, the FASB issued FSP Accounting Principles Board (“APB”) 14-1, “Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)” (“FSP APB 14-1”), which clarifies that convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement) are not addressed by paragraph 12 of APB Opinion No. 14, “Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants.” In addition, FSP APB 14-1 indicates that issuers of such instruments generally should separately account for the liability and equity components in a manner that will reflect the entity’s nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. FSP APB 14-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Early adoption is prohibited. We must adopt FSP APB 14-1 beginning in the first quarter of our fiscal 2010 and will be required to retroactively present prior period information. FSP APB 14-1 is applicable to our 2.0% $105.0 million convertible senior notes. With respect to the impact of adoption, the FSP will require us to retroactively separate the liability and equity components of such debt in our consolidated balance sheets on a fair value basis. The FSP will also result in lower reported net income and basic earnings per share since our historical reported interest expense will be retroactively recorded at our nonconvertible debt borrowing rate, which is higher than the stated 2.0% convertible debt rate. Due to the fact that we have historically included the common shares issuable upon conversion of the 2.0% notes and adjusted our net income to reflect our nonconvertible debt borrowing rate in diluted earnings per share, the adoption of FSP ABP 14-1 will not impact our historically reported diluted earnings per share.

In April 2008, the FASB issued FSP 142-3, “Determination of the Useful Life of Intangible Assets” (“FSP 142-3”). FSP 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, “Goodwill and Other Intangible Assets.” FSP 142-3 applies prospectively to intangible assets that are acquired, individually or with a group of other assets, after the effective date in either a business combination or asset acquisition. FSP 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Early adoption is prohibited. We must adopt FSP 142-3 beginning in the first quarter of our fiscal 2010. Adoption of FSP 142-3 is not expected to have a material effect on our consolidated financial statements.

In February 2008, the FASB issued FSP 157-2, “Effective Date of FASB Statement No. 157,” which delays the effective date of FASB Statement No. 157, “Fair Value Measurements,” for non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The delay is intended to allow the FASB and constituents additional time to consider the effect of various implementation issues that have arisen, or that may arise, from the application of SFAS No. 157. For items within the scope of FSP 157-2, the FSP defers the effective date of SFAS No. 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. We must adopt FSP 157-2 beginning in the first quarter of our fiscal 2010. Adoption of the remaining aspects of SFAS No. 157 in the first quarter of our fiscal 2010 is not anticipated to have a material effect on our consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), "Business Combinations" ("SFAS No. 141R"). SFAS No. 141R requires the acquiring entity in a business combination to recognize all the assets acquired and liabilities assumed in the transaction; establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed; and requires the acquirer to disclose all of the information required to evaluate and understand the nature and financial effect of the business combination. This statement is effective for acquisition dates on or after the beginning of the first annual reporting period beginning after December 15, 2008. Early adoption is prohibited. We must adopt SFAS No. 141R beginning in the first quarter of our fiscal 2010. Most of the requirements of SFAS No. 141R are only to be applied prospectively to business combinations we enter into on or after August 1, 2009.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51" ("SFAS No. 160"), to change the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interests and classified as a component of equity. This new consolidation method significantly changes the accounting for transactions involving minority interest holders. SFAS No. 160 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2008. Early adoption is prohibited. We must adopt SFAS No. 160 beginning in the first quarter of our fiscal 2010. We currently do not have any noncontrolling interests recorded in our financial statements; accordingly, we do not expect the adoption of SFAS No. 160 to have a material effect on our consolidated financial statements.

In December 2007, the FASB ratified the consensus in EITF Issue No. 07-1, "Accounting for Collaborative Arrangements" ("EITF 07-1"), which defines collaborative arrangements and establishes reporting requirements for transactions between participants in a collaborative arrangement and between participants in the arrangement and third parties. EITF 07-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. We must adopt EITF 07-1 beginning in the first quarter of our fiscal 2010. EITF 07-1 is generally to be applied retrospectively to all periods presented for all collaborative arrangements existing as of the effective date. We currently do not participate in collaborative arrangements as defined by EITF 07-1; accordingly, we currently do not expect the adoption of EITF 07-1 to have a material effect on our consolidated financial statements.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Our earnings and cash flows are subject to fluctuations due to changes in interest rates primarily from our investment of available cash balances. Under our current policies, we do not use interest rate derivative instruments to manage exposure to interest rate changes. If the interest rate we receive on our investment of available cash balances were to change by 10%, our annual interest income would be impacted by approximately $0.2 million.

Our 2.0% convertible senior notes bear a fixed rate of interest. As such, our earnings and cash flows are not sensitive to changes in interest rates on our long-term debt. As of January 31, 2009, we estimated the fair market value on our 2.0% convertible senior notes to be $129.5 million. As discussed in "Notes to Condensed Consolidated Financial Statements – Note (11) 2.0% Convertible Senior Notes," our 2.0% convertible senior notes were fully converted into 3,333,327 shares of our common stock as of February 12, 2009.

Item 4. Controls and Procedures

As of the end of the period covered by this Quarterly Report on Form 10-Q, an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures was carried out by the Company under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer. Except for the exclusion of the controls and procedures relating to Radyne Corporation and its subsidiaries, as further noted below, based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures have been designed and are being operated in a manner that provides reasonable assurance that the information required to be disclosed by the Company in reports filed under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. A system of controls, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the system of controls are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

As a result of our August 1, 2008 acquisition of Radyne Corporation, we continue to integrate almost all of the business processes and systems of Radyne Corporation and its subsidiaries. This includes the integration of Radyne's satellite earth station manufacturing and engineering facility into our manufacturing center and the integration of Radyne's corporate functions into our existing corporate functions. The integration of these operations will lead to changes in these controls in future fiscal periods. As such, our management excluded the related controls and procedures of Radyne Corporation from its assessment of disclosure controls and procedures. The integration and changes to internal controls and procedures is expected to continue throughout fiscal 2009.

The significance of those companies to our consolidated financial statements is reflected in "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operation" and in the "Notes to Condensed Consolidated Financial Statements – Note (6) Acquisitions – The Radyne Acquisition," in Part I, Item 1. of this Form 10-Q. Certain changes, primarily relating to company-level controls, have been made and will continue to be made to our disclosure controls and procedures and internal controls over financial reporting relating to the acquired companies until such time as these integrations are complete. There have been no other changes in our internal control over financial reporting that occurred during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

The certifications of the Company's Chief Executive Officer and Chief Financial Officer, that are Exhibits 31.1 and 31.2, respectively, should be read in conjunction with the foregoing information for a more complete understanding of the references in those Exhibits to disclosure controls and procedures and internal controls over financial reporting.

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PART II
OTHER INFORMATION

Item 1. Legal Proceedings

See "Notes to Condensed Consolidated Financial Statements – Note (17) Legal Matters and Proceedings," in Part I, Item 1. of this Form 10-Q for information regarding legal proceedings.

Item 1A. Risk Factors

There have been no material changes from the risk factors previously disclosed in our Form 10-K for the fiscal year ended July 31, 2008, except as disclosed below:

We could be adversely affected by the results of an ongoing State Department review of our compliance efforts with regard to export regulations.

In March 2008, the Enforcement Division of the U.S. Department of State informed us that it sought to confirm our company-wide ITAR compliance for the five-year period ended March 2008 (the "State Department Review"). In response, we expanded a prior internal investigation we initiated in connection with a customs export enforcement subpoena that our Florida-based subsidiary, Comtech Systems, Inc. ("CSI"), received from the U.S. Immigration and Customs Enforcement ("ICE") branch of the Department of Homeland Security (the "Brazil Export Matter").

In March 2009, we concluded our internal investigation relating to the Brazil Export Matter and agreed to pay a fine aggregating $7,500 (seven-thousand five-hundred dollars) to the Penalties Branch Office of Regulations and Rulings, Headquarters, of the U.S. Customs and Border Protection Agency of the Department of Homeland Security (the "Penalty Branch"). The Penalty Branch ultimately determined that CSI did not comply with applicable regulations relating to the export of hardware that was the subject of the subpoena relating to the Brazil Export Matter.

Our investigation and assessment relating to our export and ITAR compliance is ongoing and we have provided requested detailed information and a summary of our findings for a five-year period ended March 2008 to the U.S. Department of State. Our findings to date indicate that there were certain instances of exports and defense services during the five-year period for which we did not have the appropriate authorization from the U.S. Department of State; however, none of those instances involved Proscribed Countries as defined by ITAR.

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

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

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

We could be adversely affected by the results of an ongoing U.S. Department of Defense investigation.

In December 2008, Comtech PST Corp. ("Comtech PST"), our wholly-owned subsidiary, and Hill Engineering ("Hill"), a division of Comtech PST, each received a subpoena from the U.S. Department of Defense ("DoD") requesting a broad range of documents and other information relating to a third party's contract with the DoD and related subcontracts for the supply of specific components by Hill to the third party. We have produced, and are continuing to produce on a rolling basis, documents responsive to the subpoenas and intend to fully cooperate with the DoD's investigation. We have also begun an internal investigation. We believe that the DoD's investigation is focused primarily on whether certain of our high-power switches are susceptible to a specific quality issue that could, over time and when subjected to certain environmental conditions, lead to component failure. We have informed the third party about the issue and have had and continue to receive orders for new switches from the third party. Our internal investigation is continuing.

Although we have not been apprised of any field failures relating to our switches, at this early stage, we are unable to predict the outcome of our internal investigation and the DOD's investigation. An unfavorable outcome could potentially have a material adverse effect on our business, results of operations and cash flows.

There are number of unique risks associated with our recent $281.5 million Movement Tracking System order from the U.S. Army.

In January 2009, we announced the receipt of the single largest order in our history of $281.5 million from the U.S. Army for the supply of new ruggedized tablet computers and related accessories. These ruggedized tablet computers are intended to replace ruggedized laptop computers which are currently deployed as part of our MTS system. As part of our ongoing mobile data communications business, we maintain substantial inventory in order to provide products to the U.S. Army on a timely basis. As of January 31, 2009, we have approximately 2,000 ruggedized laptop computers and related accessories on hand with a net book value of approximately $11.2 million. Based on a variety of factors, including our belief that there may be additional deployments of MTS systems using the laptop computers and our intention to continue to actively market these computers to potential customers, including the Army National Guard and NATO, we expect that we will ultimately sell these computers for amounts in excess of their current net book value. In the future, if we determine that this inventory will not be utilized or cannot be sold above the net book value, we would be required to record a write-down of the value of such inventory in our consolidated financial statements at the time of such determination.

Also, the new ruggedized MTS tablet computers are manufactured by a third-party vendor and are not expected to be available for shipment until late in the fourth quarter of fiscal 2009. If these computers are not delivered timely by the third-party vendor or if actual field deployment schedules are delayed or ultimately can not be produced, a portion of the sales that we are currently expecting from the $281.5 million MTS order may not be achieved. In addition, this order is subject to the terms and conditions of our MTS contract which contains termination for convenience clauses that provide the U.S. Army with the right to terminate the order at any time. Historically, we have not experienced material terminations of our government orders; however, we understand that a third party who produces a different ruggedized computer has initiated actions which has resulted in a government review of the computer selection process performed that could lead to a decision by the U.S. Army to delay or cancel the order. If this order is delayed or canceled, it would have a material adverse impact on our business outlook.

Item 6. Exhibits

(a) Exhibits

Exhibit 10 - Amendment to Rights Agreement

Exhibit 31.1 - Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

Exhibit 31.2 - Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

Exhibit 32.1 - Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Exhibit 32.2 - Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

COMTECH TELECOMMUNICATIONS CORP.
(Registrant)

Date: March 9, 2009 By: /s/ Fred Kornberg
Fred Kornberg
Chairman of the Board
Chief Executive Officer and President
(Principal Executive Officer)

Date: March 9, 2009 By: /s/ Michael D. Porcelain
Michael D. Porcelain
Senior Vice President and
Chief Financial Officer
(Principal Financial and Accounting Officer)