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

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)
Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended October 31, 2014
Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File Number: 0-7928
(Exact name of registrant as specified in its charter)

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

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

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

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

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

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company

Indicate by check mark whether registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS:

As of December 5, 2014, the number of outstanding shares of Common Stock, par value $.10 per share, of the registrant was 16,215,111 shares.

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PART I - FINANCIAL INFORMATION
Item 1. Financial Statements
COMTECH TELECOMMUNICATIONS CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	October 31, 2014 (Unaudited)	July 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	$144,536,000	154,500,000
Accounts receivable, net	61,327,000	54,887,000
Inventories, net	66,384,000	61,332,000
Prepaid expenses and other current assets	6,585,000	9,947,000
Deferred tax asset, net	9,849,000	10,178,000
Total current assets	288,681,000	290,844,000
Property, plant and equipment, net	17,674,000	18,536,000
Goodwill	137,354,000	137,354,000
Intangibles with finite lives, net	24,659,000	26,220,000
Deferred financing costs, net	—	65,000
Other assets, net	871,000	833,000
Total assets	$469,239,000	473,852,000
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$17,800,000	18,902,000
Accrued expenses and other current liabilities	25,881,000	29,803,000
Dividends payable	4,863,000	4,844,000
Customer advances and deposits	11,212,000	12,610,000
Interest payable	29,000	29,000
Income taxes payable	551,000	—
Total current liabilities	60,336,000	66,188,000
Other liabilities	4,514,000	4,364,000
Income taxes payable	1,661,000	2,743,000
Deferred tax liability, net	4,094,000	3,632,000
Total liabilities	70,605,000	76,927,000
Commitments and contingencies (See Note 18)		
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 31,068,829 shares and 31,016,469 shares at October 31, 2014 and July 31, 2014, respectively	3,107,000	3,102,000
Additional paid-in capital	422,638,000	421,240,000
Retained earnings	409,749,000	409,443,000
	835,494,000	833,785,000
Less:		
Treasury stock, at cost (14,857,582 shares at October 31 and July 31, 2014)	(436,860,000)	(436,860,000)
Total stockholders' equity	398,634,000	396,925,000
Total liabilities and stockholders' equity	$469,239,000	473,852,000

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 October 31,	
	2014	2013
Net sales	$76,391,000	83,368,000
Cost of sales	41,066,000	46,990,000
Gross profit	35,325,000	36,378,000
Expenses:		
Selling, general and administrative	15,526,000	16,198,000
Research and development	10,019,000	8,499,000
Amortization of intangibles	1,561,000	1,582,000
	27,106,000	26,279,000
Operating income	8,219,000	10,099,000
Other expenses (income):		
Interest expense	265,000	2,018,000
Interest income and other	(84,000)	(273,000)
Income before provision for income taxes	8,038,000	8,354,000
Provision for income taxes	2,813,000	3,049,000
Net income	$5,225,000	5,305,000
Net income per share (See Note 5):		
Basic	$0.32	0.32
Diluted	$0.32	0.28
Weighted average number of common shares outstanding – basic	16,217,000	16,454,000
Weighted average number of common and common equivalent shares outstanding – diluted	16,513,000	22,698,000
Dividends declared per issued and outstanding common share as of the applicable dividend record date	$0.30	0.275

See accompanying notes to condensed consolidated financial statements.

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COMTECH TELECOMMUNICATIONS CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
THREE MONTHS ENDED OCTOBER 31, 2014 AND 2013
(Unaudited)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Treasury Stock		Stockholders' Equity
	Shares	Amount			Shares	Amount	
Balance as of July 31, 2013	29,066,792	$2,907,000	$363,888,000	$403,398,000	12,608,501	$(366,131,000)	$404,062,000
Equity-classified stock award compensation	—	—	944,000	—	—	—	944,000
Equity-classified stock awards issued	—	—	139,000	—	—	—	139,000
Proceeds from exercise of options	4,050	—	79,000	—	—	—	79,000
Proceeds from issuance of employee stock purchase plan shares	10,345	1,000	213,000	—	—	—	214,000
Common stock issued for net settlement of stock-based awards	3,496	—	(25,000)	—	—	—	(25,000)
Cash dividends declared	—	—	—	(4,529,000)	—	—	(4,529,000)
Accrual of dividend equivalents	—	—	—	(26,000)	—	—	(26,000)
Net excess income tax benefit from settlement of stock-based awards	—	—	10,000	—	—	—	10,000
Reversal of deferred tax assets associated with expired and unexercised stock-based awards	—	—	(1,921,000)	—	—	—	(1,921,000)
Repurchases of common stock	—	—	—	—	124,753	(3,585,000)	(3,585,000)

Net income	—	—	—	5,305,000	—	—	5,305,000
Balance as of October 31, 2013	29,084,683	$2,908,000	$363,327,000	$404,148,000	12,733,254	$(369,716,000)	$400,667,000
Balance as of July 31, 2014	31,016,469	$3,102,000	$421,240,000	$409,443,000	14,857,582	$(436,860,000)	$396,925,000
Equity-classified stock award compensation	—	—	1,337,000	—	—	—	1,337,000
Proceeds from issuance of employee stock purchase plan shares	7,699	1,000	242,000	—	—	—	243,000
Common stock issued for net settlement of stock-based awards	44,661	4,000	(93,000)	—	—	—	(89,000)
Cash dividends declared	—	—	—	(4,863,000)	—	—	(4,863,000)
Accrual of dividend equivalents	—	—	—	(56,000)	—	—	(56,000)
Net income tax shortfall from settlement of stock-based awards	—	—	(76,000)	—	—	—	(76,000)
Reversal of deferred tax assets associated with expired and unexercised stock-based awards	—	—	(12,000)	—	—	—	(12,000)
Net income	—	—	—	5,225,000	—	—	5,225,000
Balance as of October 31, 2014	31,068,829	$3,107,000	$422,638,000	$409,749,000	14,857,582	$(436,860,000)	$398,634,000

See accompanying notes to condensed consolidated financial statements.

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

	Three months ended October 31,	
	2014	2013
Cash flows from operating activities:		
Net income	$5,225,000	5,305,000
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization of property, plant and equipment	1,608,000	1,710,000
Amortization of intangible assets with finite lives	1,561,000	1,582,000
Amortization of stock-based compensation	1,337,000	947,000
Deferred financing costs	65,000	357,000
Change in fair value of contingent earn-out liability	—	(239,000)
Loss on disposal of property, plant and equipment	1,000	30,000
Provision for allowance for doubtful accounts	137,000	104,000
Provision for excess and obsolete inventory	558,000	702,000
Excess income tax benefit from stock-based award exercises	(99,000)	—
Deferred income tax benefit	(316,000)	(999,000)
Changes in assets and liabilities:		
Accounts receivable	(6,577,000)	(12,209,000)
Inventories	(5,602,000)	(4,111,000)
Prepaid expenses and other current assets	920,000	306,000
Other assets	(38,000)	(3,000)
Accounts payable	(1,102,000)	(1,279,000)
Accrued expenses and other current liabilities	(4,008,000)	(3,355,000)
Customer advances and deposits	(1,406,000)	4,746,000
Other liabilities	96,000	75,000
Interest payable	—	1,500,000
Income taxes payable	2,930,000	3,591,000
Net cash used in operating activities	(4,710,000)	(1,240,000)
Cash flows from investing activities:		
Purchases of property, plant and equipment	(747,000)	(1,027,000)
Net cash used in investing activities	(747,000)	(1,027,000)
Cash flows from financing activities:		
Cash dividends paid	(4,849,000)	(4,524,000)
Proceeds from issuance of employee stock purchase plan shares	243,000	214,000
Excess income tax benefit from stock-based award exercises	99,000	—
Repurchases of common stock	—	(3,585,000)
Proceeds from exercises of stock options	—	79,000
Payment of contingent consideration related to business acquisition	—	(6,000)
Net cash used in financing activities	(4,507,000)	(7,822,000)
Net decrease in cash and cash equivalents	(9,964,000)	(10,089,000)
Cash and cash equivalents at beginning of period	154,500,000	356,642,000
Cash and cash equivalents at end of period	$144,536,000	346,553,000

See accompanying notes to condensed consolidated financial statements.

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

	Three months ended October 31,	
	2014	2013
Supplemental cash flow disclosures:		
Cash paid during the period for:		
Interest	$88,000	90,000
Income taxes	$200,000	456,000
Non-cash investing and financing activities:		
Cash dividends declared but unpaid (including accrual of dividend equivalents)	$5,030,000	4,555,000
Equity-classified stock awards issued	$—	139,000

See accompanying notes to condensed consolidated financial statements.

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

(1) General

The accompanying condensed consolidated financial statements of Comtech Telecommunications Corp. and Subsidiaries ("Comtech," "we," "us," or "our") as of and for the three months ended October 31, 2014 and 2013 are unaudited. In the opinion of management, the information furnished reflects all material adjustments (which include normal recurring adjustments) necessary for a fair presentation of the results for the unaudited interim periods. Our results of operations for such periods are not necessarily indicative of the results of operations to be expected for the full fiscal year.

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

Our condensed consolidated financial statements should be read in conjunction with our audited consolidated financial statements, filed with the Securities and Exchange Commission ("SEC"), for the fiscal year ended July 31, 2014 and the notes thereto contained in our Annual Report on Form 10-K, and all of our other filings with the SEC.

(2) Adoption of Accounting Standards and Updates

We are required to prepare our consolidated financial statements in accordance with the Financial Accounting Standards Board's ("FASB") Accounting Standards Codification ("ASC") which is the source for all authoritative U.S. generally accepted accounting principles, which is commonly referred to as "GAAP." The FASB ASC is subject to updates by FASB, which are known as Accounting Standards Updates ("ASUs"). On August 1, 2014, we adopted FASB:

ASU No. 2013-04, which provides guidance for the recognition, measurement and disclosure of obligations resulting from joint and several liability arrangements, for which the total amount of the obligation is fixed at the reporting date. Our adoption of this ASU did not have any impact on our consolidated financial statements and or disclosures.

ASU No. 2013-05, which requires a parent company that ceases to have a controlling interest in a subsidiary or group of assets that is a non profit entity or business within a foreign entity, to release any cumulative translation adjustment into net income only if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided. Our adoption of this ASU did not have any impact on our consolidated financial statements.

ASU No. 2013-07, which clarifies that an entity should apply the liquidation basis of accounting when liquidation is imminent, as defined. This ASU also provides principles for the recognition and measurement of assets and liabilities and requirements for financial statements prepared using the liquidation basis of accounting. Our adoption of this ASU did not have any impact on our consolidated financial statements.

ASU No. 2013-11, which amends the presentation requirements of ASC 740, "Income Taxes," and requires that unrecognized tax benefits, or portions of unrecognized tax benefits, relating to a net operating loss carryforward, a similar tax loss, or a tax credit carryforward be presented in the financial statements as a reduction to the associated deferred tax asset. See Note (11) "Income Taxes" for further information about the impact of adopting this ASU.

ASU No. 2014-17, issued in November 2014, which provides an acquired entity with an option to apply pushdown accounting in its separate financial statements upon occurrence of an event in which an acquirer obtains control of the acquired entity. We adopted this ASU, as required, on November 18, 2014. Adoption of this ASU did not have any impact on our consolidated financial statements.

(3) Reclassifications

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

(4) Fair Value Measurements and Financial Instruments

As of October 31, 2014 and July 31, 2014, we had approximately $3,129,000 and $4,628,000, respectively, consisting principally of money market mutual funds which are classified as cash and cash equivalents in our Condensed Consolidated Balance Sheets. These money market mutual funds are recorded at fair value. FASB ASC 820, “Fair Value Measurements and Disclosures,” requires us to define fair value as the price that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As such, using the fair value hierarchy described in FASB ASC 820, we valued our money market mutual funds using Level 1 inputs that were based on quoted market prices.

As of October 31, 2014 and July 31, 2014, other than our cash and cash equivalents, we have no other significant assets or liabilities included in our Condensed Consolidated Balance Sheets recorded at fair value. If we acquire different types of assets or incur different types of liabilities in the future, we might be required to use different FASB ASC fair value methodologies.

(5) Earnings Per Share

Our basic earnings per share (“EPS”) is computed based on the weighted average number of shares, including vested but unissued stock units, share units, performance shares and restricted stock units ("RSUs"), outstanding during each respective period. Our diluted EPS reflects the dilution from potential common stock issuable pursuant to the exercise of equity-classified stock-based awards and convertible senior notes, if outstanding and dilutive, during each respective period. During the three months ended October 31, 2013, we had $200,000,000 of our 3.0% convertible senior notes outstanding, all of which were redeemed or repurchased in May 2014. Pursuant to FASB ASC 260, "Earnings Per Share," equity-classified stock-based awards that are subject to performance conditions are not considered in our diluted EPS calculations until the respective performance conditions have been satisfied. When calculating our diluted earnings per share, we consider (i) the amount a recipient must pay upon assumed exercise of stock-based awards; (ii) the amount of stock-based compensation cost attributed to future services and not yet recognized; and (iii) the amount of excess tax benefits, if any, that would be credited to additional paid-in capital assuming exercise of in-the-money stock-based awards. This excess tax benefit is the amount resulting from a tax deduction for compensation in excess of compensation expense recognized for financial reporting purposes.

Weighted average basic and diluted shares outstanding for the three months ended October 31, 2013 reflects a reduction of approximately 14,000 shares as a result of the repurchase of our common shares during the respective period. There were no repurchases of our common stock during the three months ended October 31, 2014. See Note (17) – “Stockholders’ Equity” for more information on our stock repurchase program.

Weighted average stock options outstanding to purchase 246,000 and 2,750,000 shares for the three months ended October 31, 2014 and 2013, respectively, were not included in our diluted EPS calculation because their effect would have been anti-dilutive.

Our EPS calculations exclude 118,000 and 49,000 weighted average RSUs with performance measures (which we refer to as performance shares) outstanding for the three months ended October 31, 2014 and 2013, respectively, as the respective performance conditions had not yet been satisfied. However, the compensation expense related to these awards is included in net income (the numerator) for EPS calculations for each respective period.

Liability-classified stock-based awards, when outstanding, do not impact and are not included in the denominator for EPS calculations.

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

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

	Three months ended October 31,	
	2014	2013
Numerator:		
Net income for basic calculation	$5,225,000	5,305,000
Effect of dilutive securities:		
Interest expense (net of tax) on 3.0% convertible senior notes	—	1,117,000
Numerator for diluted calculation	$5,225,000	6,422,000
Denominator:		
Denominator for basic calculation	16,217,000	16,454,000
Effect of dilutive securities:		
Stock-based awards	296,000	75,000
Conversion of 3.0% convertible senior notes	—	6,169,000
Denominator for diluted calculation	16,513,000	22,698,000

(6) Accounts Receivable

Accounts receivable consist of the following at:

	October 31, 2014	July 31, 2014
Billed receivables from commercial customers	$37,530,000	31,681,000
Billed receivables from the U.S. government and its agencies	7,044,000	10,316,000
Unbilled receivables on contracts-in-progress	17,516,000	13,517,000
Total accounts receivable	62,090,000	55,514,000
Less allowance for doubtful accounts	763,000	627,000
Accounts receivable, net	$61,327,000	54,887,000

Of the unbilled receivables at October 31, 2014 and July 31, 2014, $16,703,000 and $9,990,000, respectively, relates to our large over-the-horizon microwave system contracts directly with our large U.S. prime contractor customer for our North African country end-customer. The remaining unbilled receivables include $221,000 and $770,000 at October 31, 2014 and July 31, 2014, respectively, due from the U.S. government and its agencies. We had virtually no retainage included in unbilled receivables at October 31, 2014 and $120,000 of retainage at July 31, 2014. In the opinion of management, substantially all of the unbilled receivables at October 31, 2014 will be billed and collected within one year.

As of October 31, 2014 and July 31, 2014, 34.9% and 19.8%, respectively, of total accounts receivable related to our North African country end-customer, of which 34.2% and 18.2%, respectively, was due from one large U.S. prime contractor customer.

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

(7) Inventories

Inventories consist of the following at:

	October 31, 2014	July 31, 2014
Raw materials and components	$50,613,000	50,423,000
Work-in-process and finished goods	31,290,000	27,218,000
Total inventories	81,903,000	77,641,000
Less reserve for excess and obsolete inventories	15,519,000	16,309,000
Inventories, net	$66,384,000	61,332,000

At October 31, 2014 and July 31, 2014, the amount of inventory directly related to long-term contracts (including contracts-in-progress) was $1,778,000 and $1,000,000, respectively.

At October 31, 2014 and July 31, 2014, $720,000 and $654,000, respectively, of the inventory above related to contracts from third party commercial customers who outsource their manufacturing to us.

(8) Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consist of the following at:

	October 31, 2014	July 31, 2014
Accrued wages and benefits	$8,652,000	12,410,000
Accrued warranty obligations	8,718,000	8,618,000
Accrued commissions and royalties	3,105,000	3,215,000
Other	5,406,000	5,560,000
Accrued expenses and other current liabilities	$25,881,000	29,803,000

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

Changes in our product warranty liability were as follows:

	Three months ended October 31,	
	2014	2013
Balance at beginning of period	$8,618,000	7,797,000
Provision for warranty obligations	1,316,000	1,983,000
Charges incurred	(1,216,000)	(1,845,000)
Balance at end of period	$8,718,000	7,935,000

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

(9) Cost Reduction Actions

Wind-Down of Microsatellite Product Line
During fiscal 2013, we completed our fiscal 2012 plan to wind-down our mobile data communications segment's microsatellite product line. The activity pertaining to the accruals with respect to this plan, since July 31, 2014, is summarized as follows:

	Facility exit costs	Other	Total
Balance as of July 31, 2014	$236,000	50,000	$286,000
Payments made	(35,000)	—	(35,000)
Balance as of October 31, 2014	$201,000	50,000	$251,000

The total remaining liability of $251,000 is included in accrued expenses and other current liabilities in our Condensed Consolidated Balance Sheet as of October 31, 2014.

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

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

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

As of October 31, 2014, the amount of the acquisition-related restructuring reserve is as follows:

	Cumulative Activity Through October 31, 2014
Present value of estimated facility exit costs at August 1, 2008	$2,100,000
Cash payments made	(6,666,000)
Cash payments received	7,305,000
Accreted interest recorded	1,149,000
Net liability as of October 31, 2014	3,888,000

Amount recorded as prepaid expenses in the Condensed Consolidated Balance Sheet	466,000
Amount recorded as other liabilities in the Condensed Consolidated Balance Sheet	$4,354,000

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

As of July 31, 2014, the present value of the estimated facility exit costs was $3,773,000. During the three months ended October 31, 2014, we made cash payments of $270,000 and we received cash payments of $319,000. Interest accreted for the three months ended October 31, 2014 and 2013 was $66,000 and $59,000, respectively, and is included in interest expense for each respective fiscal period.

Future cash payments associated with our restructuring plan are summarized below:

	As of October 31, 2014
Future lease payments to be made in excess of anticipated sublease payments	$4,354,000
Less net cash to be received in next twelve months	(466,000)
Interest expense to be accreted in future periods	891,000
Total remaining net cash payments	$4,779,000

(10) Credit Facility

Effective October 31, 2014, we entered into an uncommitted $15,000,000 secured credit facility (the "Credit Facility") with one bank that provides for the extension of credit to us in the form of revolving loans, including letters of credit and standby letters of credit, at any time and from time to time during its term, in an aggregate principal amount at any time outstanding not to exceed $15,000,000. Subject to covenant limitations, the Credit Facility may be used for working capital, capital expenditures and other general corporate purposes. The Credit Facility, which expires October 31, 2015, can be terminated by us or the bank at any time without penalty. At October 31, 2014, we had $1,707,000 of standby letters of credit outstanding related to our guarantees of future performance on certain customer contracts and no outstanding commercial letters of credit.

Interest expense, including amortization of deferred financing costs, recorded during the three months ended October 31, 2014 and 2013 was $198,000 and $186,000, respectively, all of which related to a committed $100,000,000 secured revolving credit facility that expired on October 31, 2014.

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(11) Income Taxes

Excluding the impact of any potential discrete tax items, our fiscal 2015 effective tax rate is expected to approximate 35.0%. This rate reflects the expiration of the federal research and experimentation credit on December 31, 2013.

At October 31, 2014 and July 31, 2014, total unrecognized tax benefits were $2,756,000 and $2,743,000, respectively. As of October 31, 2014, $1,661,000 of our unrecognized tax benefits was recorded as non-current income taxes payable in our Condensed Consolidated Balance Sheet. The remaining unrecognized tax benefits of $1,095,000 were presented as an offset to the associated non-current deferred tax asset in our Condensed Consolidated Balance Sheet, as required by ASU No. 2013-11, which we adopted prospectively during the three months ended October 31, 2014. As of July 31, 2014, all of our unrecognized tax benefits were recorded as non-current income taxes payable in our Consolidated Balance Sheet. Interest recorded on unrecognized tax benefits was $47,000 and $40,000 at October 31, 2014 and July 31, 2014, respectively. Of the total unrecognized tax benefits at October 31, 2014 and July 31, 2014, $2,155,000 and $2,152,000, respectively, net of the reversal of the federal benefit recognized as deferred tax assets relating to state reserves, excluding interest, would positively impact our effective tax rate, if recognized.

Unrecognized tax benefits result from income tax positions taken or expected to be taken on our income tax returns for which a tax benefit has not been recorded in our financial statements. Our policy is to recognize interest and penalties relating to uncertain tax positions in income tax expense.

Our federal income tax returns for fiscal 2011 through 2014 are subject to potential future IRS audit. Future tax assessments or settlements could have a material adverse effect on our consolidated results of operations and financial condition.

(12) Stock Based Compensation

Overview

We issue stock-based awards to certain of our employees and our Board of Directors pursuant to our 2000 Stock Incentive Plan, as amended, (the “Plan”) and our 2001 Employee Stock Purchase Plan (the “ESPP”) and recognize related stock-based compensation in our consolidated financial statements. The Plan provides for the granting to employees and consultants of Comtech (including prospective employees and consultants): (i) incentive and non-qualified stock options, (ii) restricted stock units (“RSUs”), (iii) RSUs with performance measures (which we refer to as “performance shares”), (iv) restricted stock, (v) stock units (reserved for issuance to non-employee directors) and share units (reserved for issuance to employees) (collectively, “share units”) and (vi) stock appreciation rights (“SARs”), among other types of awards. Our non-employee directors are eligible to receive non-discretionary grants of stock-based awards, subject to certain limitations. The aggregate number of shares of common stock which may be issued, pursuant to the Plan, may not exceed 8,962,500. Stock options granted may not have a term exceeding ten years or, in the case of an incentive stock award granted to a stockholder who owns stock representing more than 10.0% of the voting power, no more than five years. We expect to settle all outstanding awards under the Plan and ESPP with new shares.

As of October 31, 2014, we had granted stock-based awards pursuant to the Plan representing the right to purchase and/or acquire an aggregate of 7,327,237 shares (net of 2,793,914 expired and canceled awards), of which an aggregate of 4,871,353 have been exercised or converted into common stock, substantially all of which related to stock options.

As of October 31, 2014, the following stock-based awards, by award type, were outstanding:

	October 31, 2014
Stock options	2,229,033
Performance shares	167,787
RSUs and restricted stock	50,923
Share units	8,141
Total	2,455,884

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Our ESPP, approved by our shareholders on December 12, 2000, provides for the issuance of 675,000 shares of our common stock. Our ESPP is intended to provide our eligible employees the opportunity to acquire our common stock at 85% of fair market value at the date of issuance. Through October 31, 2014, we have cumulatively issued 562,442 shares of our common stock to participating employees in connection with our ESPP.

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

	Three months ended October 31,	
	2014	2013
Cost of sales	$67,000	53,000
Selling, general and administrative expenses	1,102,000	771,000
Research and development expenses	168,000	123,000
Stock-based compensation expense before income tax benefit	1,337,000	947,000
Estimated income tax benefit	(468,000)	(346,000)
Net stock-based compensation expense	$869,000	601,000

Stock-based compensation for equity-classified awards is measured at the date of grant, based on an estimate of the fair value of the award and is generally expensed over the vesting period of the award. Stock-based compensation for liability-classified awards is determined the same way, except that the fair value of liability-classified awards is re-measured 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. At October 31, 2014, unrecognized stock-based compensation of $10,942,000, net of estimated forfeitures of $652,000, is expected to be recognized over a weighted average period of 3.1 years. Total stock-based compensation capitalized and included in ending inventory at both October 31, 2014 and July 31, 2014 was $68,000. There are no liability-classified stock-based awards outstanding as of October 31, 2014 and July 31, 2014.

Stock-based compensation expense, by award type, is summarized as follows:

	Three months ended October 31,	
	2014	2013
Stock options	$758,000	648,000
Performance shares	408,000	177,000
ESPP	53,000	45,000
RSUs and restricted stock	104,000	68,000
Share units	14,000	6,000
Equity-classified stock-based compensation expense	1,337,000	944,000
Liability-classified stock-based compensation expense (SARs)	—	3,000
Stock-based compensation expense before income tax benefit	1,337,000	947,000
Estimated income tax benefit	(468,000)	(346,000)
Net stock-based compensation expense	$869,000	601,000

ESPP stock-based compensation expense primarily relates to the 15% discount offered to employees participating in the ESPP.

The estimated income tax benefit, as shown in the above table, was computed using income tax rates expected to apply when the awards are settled and results in a deferred tax asset which is netted in our long-term deferred tax liability in our Condensed Consolidated Balance Sheet. The actual income tax benefit recognized for tax reporting is based on the fair market value of our common stock at the time of settlement and can significantly differ from the estimated income tax benefit recorded for financial reporting.

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The following table reconciles the actual income tax benefit recognized for tax deductions relating to the settlement of stock-based awards to the excess income tax benefit reported as a cash flow from financing activities in our Condensed Consolidated Statements of Cash Flows:

	Three months ended October 31,	
	2014	2013
Actual income tax benefit recorded for the tax deductions relating to the settlement of stock-based awards	$615,000	54,000
Less: Tax benefit initially recognized on settled stock-based awards vesting subsequent to the adoption of accounting standards that require us to expense stock-based awards	516,000	41,000
Excess income tax benefit recorded as an increase to additional paid-in capital	99,000	13,000
Less: Tax benefit initially disclosed but not previously recognized on settled equity-classified stock-based awards vesting prior to the adoption of accounting standards that require us to expense stock-based awards	—	13,000
Excess income tax benefit from settled equity-classified stock-based awards reported as a cash flow from financing activities in our Condensed Consolidated Statements of Cash Flows	$99,000	—

As of October 31, 2014 and July 31, 2014, the amount of hypothetical tax benefits related to stock-based awards, recorded as a component of additional paid-in capital, was $17,486,000 and $17,574,000, respectively. These amounts represent the initial hypothetical tax benefit of $8,593,000 determined upon adoption of ASC 718 (which reflects our estimate of cumulative actual tax deductions for awards issued and settled prior to the August 1, 2005), adjusted for actual excess income tax benefits or shortfalls since that date. During the three months ended October 31, 2014, we recorded an $88,000 reduction to additional paid-in capital and accumulated hypothetical tax benefits, which primarily represents net income tax shortfalls recognized from the settlement of stock-based awards during the respective period. During the three months ended October 31, 2013, we recorded a $1,911,000 net reduction to additional paid-in capital and accumulated hypothetical tax benefits, which primarily represents the reversal of unrealized deferred tax assets associated with certain vested equity-classified stock-based awards that expired during the respective period.

Stock Options

The following table summarizes the Plan's activity during the three months ended October 31, 2014:

	Awards (in Shares)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at July 31, 2014	2,132,896	$28.17		
Granted	253,000	33.94		
Expired/canceled	(9,900)	29.10		
Exercised	(146,963)	26.43		
Outstanding at October 31, 2014	2,229,033	$28.94	7.25	$20,355,000

Exercisable at October 31, 2014	854,391	$28.20	5.64	$8,432,000
Vested and expected to vest at October 31, 2014	2,160,923	$28.93	7.22	$19,757,000

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Stock options outstanding as of October 31, 2014 have exercise prices ranging between $24.35 - $33.94. The total intrinsic value relating to stock options exercised during the three months ended October 31, 2014 and 2013 was $1,153,000 and $41,000, respectively. Stock options granted during the three months ended October 31, 2014 and 2013 had exercise prices equal to the fair market value of our common stock on the date of grant, a contractual term of ten years and a vesting period of five years. There were no SARs granted or exercised during the three months ended October 31, 2014 and 2013.

During the three months ended October 31, 2014, at the election of certain holders of vested stock options, all 146,963 stock options were net settled upon exercise. As a result, 32,073 net shares of our common stock were issued after reduction of shares retained to satisfy the exercise price and minimum statutory tax withholding requirements. There were no net settlements of stock options during the three months ended October 31, 2013.

The estimated per-share weighted average grant-date fair value of stock options granted during the three months ended October 31, 2014 and 2013 was $5.94 and $5.47, respectively, and was determined using the Black-Scholes option pricing model, and included the following weighted average assumptions:

	Three months ended October 31,	
	2014	2013
Expected dividend yield	3.54 %	4.04 %
Expected volatility	27.00 %	32.89 %
Risk-free interest rate	1.76 %	1.38 %
Expected life (years)	5.43	5.44

Expected dividend yield is the expected annual dividend as a percentage of the fair market value of our common stock on the date of grant, based on our Board's annual dividend target at the time of grant, which was $1.20 per share for grants in the three months ended October 31, 2014 and $1.10 per share for grants in the three months ended October 31, 2013. We estimate expected volatility by considering the historical volatility of our stock, the implied volatility of publicly-traded call options on our stock, the implied volatility of call options embedded in our 3.0% convertible senior notes (prior to their settlement in May 2014) and our expectations of volatility for the expected life of stock options. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant for an instrument which closely approximates the expected term. The expected term is the number of years we estimate that awards will be outstanding prior to exercise and is determined by employee groups with sufficiently distinct behavior patterns. Assumptions used in computing the fair value of stock-based awards reflect our best estimates, but involve uncertainties relating to market and other conditions, many of which are outside of our control. Estimates of fair value are not intended to predict actual future events or the value ultimately realized by recipients of stock-based awards.

Performance Shares, RSUs, Restricted Stock and Share Unit Awards

The following table summarizes the Plan's activity relating to performance shares, RSUs, restricted stock and share units:

	Awards (in Shares)	Weighted Average Grant Date Fair Value	Aggregate Intrinsic Value
Outstanding at July 31, 2014	180,097	$26.20	
Granted	60,378	33.97	

Converted to common stock	(13,376	)	27.75	
Forfeited	(248	)	31.44	
Outstanding at October 31, 2014	226,851		$28.17	$8,636,000
Vested at October 31, 2014	22,946		$26.94	$874,000
Vested and expected to vest at October 31, 2014	218,877		$28.15	$8,333,000

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The total intrinsic value relating to fully-vested awards converted into our common stock during the three months ended October 31, 2014 and 2013 was $504,000 and $110,000, respectively. Performance shares granted to employees prior to fiscal 2014 vest over a 5.3 year period, beginning on the date of grant if pre-established performance goals are attained, and are convertible into shares of our common stock generally at the time of vesting, on a one-for-one basis for no cash consideration. The performance shares granted to employees since fiscal 2014 principally vest over a three year performance period, if pre-established performance goals are attained or as specified pursuant to the Plan and related agreement. As of October 31, 2014, the number of outstanding performance shares included in the above table, and the related compensation expense, assume achievement of the pre-established goals at a target level. During the three months ended October 31, 2014, our Board of Directors determined that the pre-established performance goals for performance shares granted in fiscal 2013 had been attained, and as a result, the first tranche of 5,568 performance shares vested and converted into 4,149 shares of our common stock, after reduction of shares retained to satisfy deferral requirements.

RSUs and restricted stock granted to non-employee directors have a vesting period of three years and are convertible into shares of our common stock generally at the time of termination, on a one-for-one basis for no cash consideration, or earlier under certain circumstances. RSUs granted to employees have a vesting period of five years and are convertible into shares of our common stock generally at the time of vesting, on a one-for-one basis for no cash consideration.

Share units are vested when issued and are convertible into shares of our common stock generally at the time of termination, on a one-for-one basis for no cash consideration, or earlier under certain circumstances. No share units granted to date have been converted into common stock.

The fair value of performance shares, RSUs, restricted stock and share units is determined using the closing market price of our common stock on the date of grant, less the present value of any estimated future dividend equivalents such awards are not entitled to receive. RSUs and performance shares granted in fiscal 2012 are not entitled to dividend equivalents. RSUs, performance shares and restricted stock granted in fiscal 2013, 2014 and 2015 are entitled to dividend equivalents unless forfeited before vesting occurs; however, performance shares granted in fiscal 2013 were not entitled to such dividend equivalents until our Board of Directors determined that the pre-established performance goals were met. Share units granted prior to fiscal 2014 are not entitled to dividend equivalents. Share units granted beginning in fiscal 2014 are entitled to dividend equivalents while the underlying shares are unissued.

Dividend equivalents are subject to forfeiture, similar to the terms of the underlying stock-based awards, and are payable in cash generally at the time of conversion of the underlying shares into our common stock. During the three months ended October 31, 2014, we accrued $56,000 of dividend equivalents and paid out $5,000. As of October 31, 2014 and July 31, 2014, accrued dividend equivalents were $167,000 and $116,000, respectively. Such amounts were recorded as a reduction to retained earnings.

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(13) Customer and Geographic Information

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

	Three months ended October 31,	
	2014	2013
United States		
U.S. government	24.9 %	25.6 %
Commercial	13.9 %	17.4 %
Total United States	38.8 %	43.0 %
International		
North African country	14.6 %	12.4 %
Other international	46.6 %	44.6 %
Total International	61.2 %	57.0 %

Sales to U.S. government end customers include the Department of Defense ("DoD") and intelligence and civilian agencies, as well as sales directly to or through prime contractors.

Excluding sales in our mobile data communications segment, sales to U.S. government end customers were 18.4% and 20.6% for the three months ended October 31, 2014 and 2013, respectively.

International sales for the three months ended October 31, 2014 and 2013 (which include sales to U.S. domestic companies for inclusion in products that will be sold to international customers) were $46,756,000 and $47,540,000, respectively.

For the three months ended October 31, 2014 and 2013, sales to a prime contractor represented approximately 14.4% and 12.5%, respectively, of consolidated net sales (almost all of which related to our North African country end-customer). For the three months ended October 31, 2014 and 2013, no other customer or individual country (including sales to U.S. domestic companies for inclusion in products that will be sold to a foreign country) represented more than 10% of consolidated net sales.

(14) Segment Information

Reportable operating segments are determined based on Comtech’s management approach. The management approach, as defined by FASB ASC 280, “Segment Reporting,” is based on the way that the chief operating decision-maker organizes the segments within an enterprise for making decisions about resources to be allocated and assessing their performance. Our chief operating decision-maker is our President and Chief Executive Officer.

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

Telecommunications transmission products include satellite earth station products (such as analog and digital modems, frequency converters, power amplifiers, transceivers and voice gateways) and over-the-horizon microwave

communications products and systems (such as digital troposcatter modems).

RF microwave amplifier products include traveling wave tube amplifiers and solid-state, high-power narrow and broadband amplifier products that use the microwave and radio frequency spectrums.

Mobile data communications products and services substantially relate to our support of the U.S. Army's BFT-1 and MTS programs, which are currently in a sustainment mode. We currently perform engineering services and satellite network operations on a cost-plus-fixed fee basis and program management services on a firm-fixed-price basis and we license certain of our intellectual property to the U.S. Army.

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

	Three months ended October 31, 2014				
	Telecommunications Transmission	RF Microwave Amplifiers	Mobile Data Communications	Unallocated	Total
Net sales	$51,356,000	18,764,000	6,271,000	—	$76,391,000
Operating income (loss)	8,166,000	1,063,000	2,867,000	(3,877,000)	8,219,000
Interest income and other (expense)	(29,000)	(18,000)	3,000	128,000	84,000
Interest expense (income)	67,000	—		198,000	265,000
Depreciation and amortization	2,213,000	879,000	70,000	1,344,000	4,506,000
Expenditure for long-lived assets, including intangibles	538,000	92,000	84,000	33,000	747,000
Total assets at October 31, 2014	239,365,000	87,467,000	4,898,000	137,509,000	469,239,000

	Three months ended October 31, 2013				
	Telecommunications Transmission	RF Microwave Amplifiers	Mobile Data Communications	Unallocated	Total
Net sales	$54,365,000	20,197,000	8,806,000	—	$83,368,000
Operating income (loss)	8,929,000	591,000	4,106,000	(3,527,000)	10,099,000
Interest income and other (expense)	6,000	(5,000)	3,000	269,000	273,000
Interest expense (income)	59,000	—	—	1,959,000	2,018,000
Depreciation and amortization	2,259,000	943,000	74,000	963,000	4,239,000
Expenditure for long-lived assets, including intangibles	933,000	94,000	—	—	1,027,000
Total assets at October 31, 2013	243,851,000	92,774,000	7,236,000	338,714,000	682,575,000

Unallocated expenses result from such corporate expenses as executive compensation, accounting, legal and other regulatory compliance related costs. In addition, unallocated expenses for the three months ended October 31, 2014 and 2013 include $1,337,000 and $947,000, respectively, of stock-based compensation expense. Interest expense for the three months ended October 31, 2013 primarily reflects interest on our 3.0% convertible senior notes which were settled in May 2014. Interest expense for both the three months ended October 31, 2014 and 2013 includes interest on our committed $100,000,000 secured revolving credit facility that expired on October 31, 2014 and amortization of deferred financing costs, neither of which is allocated to the operating segments. Depreciation and amortization includes amortization of stock-based compensation. In addition, unallocated expenses for the three months ended October 31, 2014 include $585,000 of expenses related to our strategic alternatives analysis. There were no such expenses during the three months ended October 31, 2013. Unallocated assets at October 31, 2014 consist principally of cash and deferred tax assets.

Substantially all of our long-lived assets are located in the U.S.

Intersegment sales for the three months ended October 31, 2014 and 2013 by the telecommunications transmission segment to the RF microwave amplifiers segment were $289,000 and $301,000, respectively. Intersegment sales for the three months ended October 31, 2014 and 2013 by the telecommunications transmission segment to the mobile data communications segment were $196,000 and $38,000, respectively.

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All intersegment sales have been eliminated from the tables above.

(15) Goodwill

The carrying amount of goodwill by segment as of October 31, 2014 and July 31, 2014 are as follows:

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

In accordance with FASB ASC 350, “Intangibles - Goodwill and Other,” we perform a goodwill impairment analysis at least annually (in the first quarter of each fiscal year), unless indicators of impairment exist in interim periods.

On August 1, 2014 (the first day of our fiscal 2015), pursuant to the accounting standards update, we performed a qualitative assessment (commonly referred to as a "Step Zero" test) to determine if it was more likely than not that the fair value of each of our reporting units with goodwill exceeded its carrying value. In making this assessment, we evaluated overall business and macroeconomic conditions since the date of our last quantitative assessment, which was on August 1, 2013. We also considered in our qualitative assessment, among other things, expectations of projected revenues and cash flows, assumptions impacting the weighted average cost of capital, trends in market multiples, changes in our stock price and changes in the carrying values of our reporting units with goodwill. Based on this evaluation, we concluded that our goodwill was not likely impaired and we did not perform a quantitative Step One assessment. In the future, we will either perform a qualitative Step Zero assessment or a quantitative Step One assessment. A quantitative Step One assessment involves determining the fair value of each reporting unit using market participant assumptions. If we believe that the carrying value of a reporting unit with goodwill exceeds its estimated fair value, we will perform a quantitative Step Two assessment. Step Two compares the carrying value of the reporting unit to the fair value of all of the assets and liabilities of the reporting unit (including any unrecognized intangibles) as if the reporting unit was acquired in a business combination. If the carrying amount of a reporting unit's goodwill exceeds the implied fair value of its goodwill, an impairment loss is recognized in an amount equal to the excess.

For purposes of reviewing impairment and the recoverability of goodwill and other intangible assets, each of our three operating segments constitutes a reporting unit and we must make various assumptions regarding estimated future cash flows and other factors in determining the fair values of the reporting unit. The annual goodwill impairment assessment is based on several factors requiring judgment and is based on how our President and Chief Executive Officer manages the business. If these estimates or their related assumptions change in the future, or if we change our future reporting unit structure, we may be required to record impairment charges in future periods. If assumed revenue growth is not achieved in future periods, our telecommunications transmission and RF microwave amplifiers reporting units could be at risk of failing Step One of the goodwill impairment test and goodwill and intangibles assigned to the respective reporting units could be written off. It is possible that, during fiscal 2015, business conditions (both in the U.S. and internationally) could deteriorate from the current state and our current or prospective customers could materially postpone, reduce or even forgo purchases of our products and services to a greater extent than we currently anticipate. A significant decline in defense spending that is greater than we anticipate or a shift in funding priorities

may also have a negative effect on future orders, sales, income and cash flows and we might be required to perform a Step One interim goodwill impairment test during fiscal 2015. In any event, we are required to perform the next annual goodwill impairment analysis on August 1, 2015 (the start of our fiscal 2016).

If our assumptions and related estimates change in the future, or if we change our reporting unit structure or other events and circumstances change (e.g., a sustained decrease in the price of our common stock (considered on both absolute terms and relative to peers)), we may be required to record impairment charges when we perform these tests, or in other future periods. Any impairment charges that we may record in the future could be material to our results of operations and financial condition.

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(16) Intangible Assets

Intangible assets with finite lives as of October 31, 2014 and July 31, 2014 are as follows:

	October 31, 2014 Weighted Average Amortization Period	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Technologies	11.8	$47,370,000	37,004,000	$10,366,000
Customer relationships	10.0	29,831,000	18,769,000	11,062,000
Trademarks and other	20.0	5,794,000	2,563,000	3,231,000
Total		$82,995,000	58,336,000	$24,659,000

	July 31, 2014 Weighted Average Amortization Period	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Technologies	11.8	$47,370,000	36,240,000	$11,130,000
Customer relationships	10.0	29,831,000	18,031,000	11,800,000
Trademarks and other	20.0	5,794,000	2,504,000	3,290,000
Total		$82,995,000	56,775,000	$26,220,000

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

Amortization expense for the three months ended October 31, 2014 and 2013 was $1,561,000 and $1,582,000, respectively.

The estimated amortization expense for the fiscal years ending July 31, 2015, 2016, 2017, 2018, and 2019 is $6,211,000, $4,962,000, $4,782,000, $4,782,000 and $862,000, respectively.

(17) Stockholders' Equity

Stock Repurchase Program
During the three months ended October 31, 2013, we repurchased 124,753 shares of our common stock in open-market transactions with an average price per share of $28.73 and at an aggregate cost of $3,585,000 (including transaction costs). There were no repurchases of our common stock during the three months ended October 31, 2014.

As of October 31, 2014 and December 9, 2014, we were authorized to repurchase up to an additional $13,650,000 of our common stock, pursuant to our current $100,000,000 stock repurchase program. Our stock repurchase program has no time restrictions and repurchases may be made in open-market or privately negotiated transactions and may be made pursuant to SEC Rule 10b5-1 trading plans.

Dividends
Since September 2010, we have paid quarterly dividends pursuant to an annual targeted dividend amount established by our Board of Directors which, commencing December 9, 2013, was set at $1.20 per common share.

On October 9, 2014, our Board of Directors declared a quarterly dividend of $0.30 per common share which was paid to shareholders on November 19, 2014.

On December 10, 2014, our Board of Directors declared a dividend of $0.30 per common share, payable on February 18, 2015, to shareholders of record at the close of business on January 16, 2015.

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(18) Legal Proceedings and Other Matters

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

Separately, in connection with an investigation by the Securities and Exchange Commission (“SEC”) into trading in securities of CPI International, Inc. (“CPI”), in March and April 2012, we and our CEO received subpoenas from the SEC for documents concerning transactions in CPI stock by our CEO and other persons (including one subsidiary employee). Our CEO purchased CPI stock in November 2010 which was after the September 2010 termination of our May 2010 agreement to acquire CPI. The independent members of our Board of Directors have monitored these matters with the assistance of independent counsel.

We and our CEO have cooperated with the U.S. government regarding the above matters and have not been contacted by the government with respect to either matter since September 2012.

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

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

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

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

OVERVIEW

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

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

Our RF microwave amplifiers segment designs, develops, manufactures and markets traveling wave tube amplifiers ("TWTA's") and solid-state, high-power amplifiers ("SSPA's"), including high-power, narrow and broadband RF microwave amplifier products.

Our mobile data communications segment's products and services substantially relate to our support of the U.S. Army's Blue Force Tracking ("BFT-1") and the U.S. Army's Movement Tracking System ("MTS") programs, which are currently in a sustainment mode. We license certain of our intellectual property to the U.S. Army and provide engineering services and satellite network operations on a cost-plus-fixed-fee basis and program management services on a firm-fixed-price basis.

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

Our contracts with the U.S. government can be terminated for convenience by it at any time and orders are subject to unpredictable funding, deployment and technology decisions by the U.S. government. Some of these 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. We have in the past experienced and we continue to expect significant fluctuations in sales and operating results from quarter-to-quarter and period-to-period. As such, comparisons between periods and our current results may not be indicative of a trend or future performance.

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

CRITICAL ACCOUNTING POLICIES

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

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

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

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

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

Historically, we have been able to perform on our long-term contracts.

Accounting for Stock-Based Compensation. As discussed further in "Notes to Condensed Consolidated Financial Statements – Note (12) Stock-Based Compensation," we issue stock-based awards to certain of our employees and members of our Board of Directors and we recognize related stock-based compensation in our condensed consolidated financial statements.

We have used and expect to continue to use the Black-Scholes option pricing model to compute the estimated fair value of certain stock-based awards. The Black-Scholes option pricing model includes assumptions regarding dividend yield, expected volatility, expected option term and risk-free interest rates. The expected dividend yield is the expected annual dividend as a percentage of the fair market value of the stock on the date of grant. We estimate expected volatility by considering the historical volatility of our stock, the implied volatility of publicly-traded call options on our stock, the implied volatility from call options embedded in our 3.0% convertible senior notes (prior to their settlement in May 2014) and our expectations of volatility for the expected life of stock options. The expected option term is the number of years that we estimate that stock options will be outstanding prior to exercise based upon exercise patterns. The risk-free interest rate is based on the U.S. treasury yield curve in effect at the time of grant for an instrument which closely approximates the expected option term.

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The assumptions used in computing the fair value of stock-based awards reflect our best estimates, but involve uncertainties relating to market and other conditions, many of which are outside of our control. Estimates of fair value are not intended to predict actual future events or the value ultimately realized by the recipients of stock-based awards. As a result, if other assumptions or estimates had been used, stock-based compensation expense that was recorded could have been materially different. Furthermore, if different assumptions are used in future periods, stock-based compensation expense could be materially impacted in the future.

Impairment of Goodwill and Other Intangible Assets. As of October 31, 2014, goodwill recorded on our Condensed Consolidated Balance Sheet aggregated $137.4 million (of which $107.8 million relates to our telecommunications transmission segment and $29.6 million relates to our RF microwave amplifiers segment). Our mobile data communications segment has no goodwill recorded. Each of our three operating segments constitutes a reporting unit and we must make various assumptions in determining their estimated fair values.

In accordance with FASB ASC 350, “Intangibles - Goodwill and Other,” we perform a goodwill impairment analysis at least annually (in the first quarter of each fiscal year), unless indicators of impairment exist in interim periods. On August 1, 2014 (the first day of our fiscal 2015), pursuant to the accounting standards update, we performed a qualitative assessment (commonly referred to as a "Step Zero" test) to determine if it was more likely than not that the fair value of each of our reporting units with goodwill exceeded its carrying value. In making this assessment, we evaluated overall business and macroeconomic conditions since the date of our last quantitative assessment, which was on August 1, 2013. We also considered in our qualitative assessment, among other things, expectations of projected revenues and cash flows, assumptions impacting the weighted average cost of capital, trends in market multiples, changes in our stock price and changes in the carrying values of our reporting units with goodwill. Based on this evaluation, we concluded that our goodwill was not likely impaired and we did not perform a quantitative Step One assessment. In the future, we will either perform a qualitative Step Zero assessment or a quantitative Step One assessment. A quantitative Step One assessment involves determining the fair value of each reporting unit using market participant assumptions. If we believe that the carrying value of a reporting unit with goodwill exceeds its estimated fair value, we will perform a quantitative Step Two assessment. Step Two compares the carrying value of the reporting unit to the fair value of all of the assets and liabilities of the reporting unit (including any unrecognized intangibles) as if the reporting unit was acquired in a business combination. If the carrying amount of a reporting unit's goodwill exceeds the implied fair value of its goodwill, an impairment loss is recognized in an amount equal to the excess.

For purposes of reviewing impairment and the recoverability of goodwill and other intangible assets, each of our three operating segments constitutes a reporting unit and we must make various assumptions regarding estimated future cash flows and other factors in determining the fair values of the reporting unit. The annual goodwill impairment assessment is based on several factors requiring judgment and is based on how our President and Chief Executive Officer manages the business. If these estimates or their related assumptions change in the future, or if we change our future reporting unit structure, we may be required to record impairment charges in future periods. If assumed revenue growth is not achieved in future periods, our telecommunications transmission and RF microwave amplifiers reporting units could be at risk of failing Step One of the goodwill impairment test and goodwill and intangibles assigned to the respective reporting units could be written off. As discussed further in the section entitled “Business Outlook for Fiscal 2015,” it is possible that, during fiscal 2015, business conditions (both in the U.S. and internationally) could deteriorate from the current state and our current or prospective customers could materially postpone, reduce or even forgo purchases of our products and services to a greater extent than we currently anticipate. A significant decline in defense spending that is greater than we anticipate or a shift in funding priorities may also have a negative effect on future orders, sales, income and cash flows and we might be required to perform a Step One interim goodwill impairment test during fiscal 2015. In any event, we are required to perform the next annual goodwill impairment analysis on August 1, 2015 (the start of our fiscal 2016).

If our assumptions and related estimates change in the future, or if we change our reporting unit structure or other events and circumstances change (e.g., a sustained decrease in the price of our common stock (considered on both absolute terms and relative to peers)), we may be required to record impairment charges when we perform these tests, or in other future periods. Any impairment charges that we may record in the future could be material to our results of operations and financial condition.

In addition to our impairment analysis of goodwill, we are also required to evaluate the recoverability of net intangibles with finite lives recorded on our Condensed Consolidated Balance Sheet which, as of October 31, 2014, aggregated $24.7 million (of which $13.4 million relates to our telecommunications transmission segment and $11.3 million relates to our RF microwave amplifiers segment). Based on our analysis of estimated undiscounted future cash flows expected to result from the use of these net intangibles with finite lives, and other factors, we believe that their carrying values were recoverable as of October 31, 2014.

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

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

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

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

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

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

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Business Outlook for Fiscal 2015

We are pleased with our solid first quarter results. We experienced the highest level of quarterly bookings in over a year with a number of large orders, including: (i) $6.7 million of orders from two different international OEMs for broadband, solid-state, high-power RF microwave amplifier systems that will be utilized as part of multiple communications jamming systems, (ii) $6.1 million of additional funding from the U.S. Army for our BFT-1 sustainment contract, which fully funded the base year of our three-year contract, (iii) a $4.3 million order for the production of terminals for the U.S. Navy's Advanced Time Division Multiple Access Interface Processor ("ATIP"), and (iv) a $3.5 million order from a mobile network operator in Eastern Asia for satellite earth station equipment. In addition, we signed a purchase agreement valued at $6.0 million and received related orders of $3.7 million to supply solid-state high-power amplifiers for use in a complex Identification Friend or Foe system.

Although order flow during our first quarter of fiscal 2015 across all of our three operating segments was strong, recent developments have resulted in a more volatile business environment and have caused our Business Outlook for Fiscal 2015 to be less predictable. Global oil prices have plunged in recent weeks and many oil-producing countries and certain businesses are experiencing dramatic reductions in revenue. At the same time, sanctions issued by U.S. and European governments have negatively impacted the Russian economy and it is difficult to determine what, if any, ramifications may occur elsewhere. These developments have and may further result in reduced spending by some of our customers. Our Business Outlook for Fiscal 2015 continues to depend on orders from our international customers as well as the receipt of significant new orders from the U.S. government (including prime contractors to the U.S. government). It is possible that the U.S. government could reduce or further delay its spending on, or reprioritize its spending away from, government programs we participate in and it remains difficult, if not impossible, to determine specific amounts that are or will be appropriated for many of our products and services and our assessment may prove to be incorrect.

As a result of the aforementioned, we believe it is prudent to be cautious in our Business Outlook for Fiscal 2015 as it relates to certain end-markets and are now expecting sales in our satellite earth station product line in fiscal 2015 to be comparable to fiscal 2014. Based on the level of our consolidated backlog and expected order flow, we have not changed our outlook as it relates to our other product lines and now expect annual consolidated net sales and operating income in fiscal 2015 to be only slightly higher than the levels we achieved in fiscal 2014. Growth is expected to be heavily weighted towards the second half of fiscal 2015, with the fourth quarter of fiscal 2015 being the peak quarter, by far. Our fiscal 2015 second quarter financial results are anticipated to be similar to our results for the first quarter of fiscal 2015. In line with our expectations of fiscal 2015 revenue growth, total operating expenses (in dollars), which includes research and development expenses, selling, general and administrative expenses, amortization of intangibles and amortization of stock-based compensation, in fiscal 2015 are expected to be slightly higher than in fiscal 2014. Excluding the impact of $0.6 million of expenses associated with our strategic alternatives analysis, we are targeting our fiscal 2015 operating income, as a percentage of consolidated net sales, to be approximately 13.0%. Excluding the impact of any potential discrete tax items, our fiscal 2015 estimated effective tax rate is expected to approximate 35.0%.

As of October 31, 2014, we had $144.5 million of cash and cash equivalents. Pursuant to a $100.0 million stock repurchase program that was approved by our Board of Directors, as of December 9, 2014, we are authorized to repurchase approximately $13.7 million of our common stock.

On December 9, 2014, we announced that our Board of Directors has completed a review of strategic alternatives. After considering various strategic alternatives to enhance shareholder value, including a possible merger or sale of our Company, our Board of Directors determined that the interests of our Company and our shareholders will be best served by our Company remaining independent.

On December 10, 2014, our Board of Directors declared a dividend of $0.30 per common share, payable on February 18, 2015 to shareholders of record at the close of business on January 16, 2015.

Our customers continue to be challenged by global economic and unstable political conditions. In addition, we are continuing to evaluate the impact of the sudden plunge in oil prices on our customers and as well as monitoring the more volatile business environment, including assessing U.S. government spending. The U.S. government's budget for fiscal 2015 has not yet been approved, continues to be hotly debated, and sequestration may ultimately occur. If business conditions deteriorate or our current or prospective customers materially postpone, reduce or even forgo purchases of our products and services to a greater extent than we currently anticipate, our Business Outlook for Fiscal 2015 will be adversely affected.

Additional information related to our Business Outlook for Fiscal 2015 is included in the below section entitled "Comparison of the Results of Operations for the Three Months Ended October 31, 2014 and October 31, 2013."

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COMPARISON OF THE RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED OCTOBER 31, 2014 AND OCTOBER 31, 2013

Net Sales. Consolidated net sales were $76.4 million and $83.4 million for the three months ended October 31, 2014 and 2013, respectively, representing a decrease of $7.0 million, or 8.4%. As further discussed below, the period-over-period decrease reflects lower net sales in all three of our operating segments.

Telecommunications Transmission
Net sales in our telecommunications transmission segment were $51.4 million and $54.4 million for the three months ended October 31, 2014 and 2013, respectively, a decrease of $3.0 million, or 5.5%. This decrease reflects lower net sales in our satellite earth station product line, partially offset by higher net sales in our over-the-horizon microwave systems product line.

Sales of our satellite earth station products were lower during the three months ended October 31, 2014 as compared to the three months ended October 31, 2013, primarily as a result of lower sales to international customers. Sales during both the three months ended October 31, 2014 and 2013 include our efforts related to cost-plus-incentive-fee development work on our contract to develop and manufacture the ATIP for the U.S. Navy's Space and Naval Warfare Systems Command. Development work on this contract was completed during the three months ended October 31, 2014 and we expect to begin shipping production units during the second half of fiscal 2015. Although our book-to-bill ratio for our satellite earth station products during the three months ended October 31, 2014 was at the highest quarterly level in over four years, as discussed in the section entitled “Business Outlook for Fiscal 2015,” we believe it is prudent to be cautious as it relates to certain end-markets and are now expecting sales in our satellite earth station product line in fiscal 2015 to be comparable to fiscal 2014. Based on the timing of expected orders and related shipments, including ATIP production units, we expect sales to be heavily weighted towards the second half of fiscal 2015, with the fourth quarter of fiscal 2015 being the peak quarter, by far. If we do not receive and ship expected orders, we may not be able to achieve our expected level of net sales for this product line in fiscal 2015.

Sales of our over-the-horizon microwave systems were higher during the three months ended October 31, 2014 as compared to the three months ended October 31, 2013, primarily as a result of performance on a contract with a major international oil company and our ongoing performance on our large multi-year contracts to design and supply over-the-horizon microwave systems and equipment for use in a North African government's communications network. Our transportable troposcatter system has completed network integration evaluation (referred to as NIE testing) by the U.S. military which is expected to significantly increase the potential number of deployable troposcatter units by standardizing the U.S. military on our product portfolio. As a result, we expect significant U.S. government orders and sales in the latter part of the second half of fiscal 2015. Although new orders and related sales for over-the-horizon microwave systems contracts are generally difficult to predict, based on expected performance on contracts that are currently in our backlog and other contracts that we anticipate receiving, we expect annual net sales in this product line in fiscal 2015 to be higher than the level we achieved in fiscal 2014.

Our telecommunications transmission segment represented 67.3% of consolidated net sales for the three months ended October 31, 2014, as compared to 65.2% for the three months ended October 31, 2013. Bookings, sales and profitability in our telecommunications transmission segment can fluctuate from period-to-period due to many factors, including the book and ship nature of our satellite earth station product business, the current adverse conditions in the global economy, and the timing of, and our related performance on, contracts from the U.S. government (including prime contractors to the U.S. government) and international customers.

RF Microwave Amplifiers
Net sales in our RF microwave amplifiers segment were $18.7 million for the three months ended October 31, 2014, as compared to $20.2 million for the three months ended October 31, 2013, a decrease of $1.5 million, or 7.4%. This

decrease reflects lower sales in our solid-state high-power amplifier product line, partially offset by higher sales in our traveling wave tube amplifier product line.

Bookings for our RF microwave amplifier products for the three months ended October 31, 2014 were at the highest quarterly level in over four years and are expected to remain strong for each of the remaining quarters of fiscal 2015, although not at the same level we achieved during our most recent quarter. Based on orders currently in our backlog and timing of certain orders we expect to receive and ship, we expect net sales in this segment in fiscal 2015 to be significantly higher than the level we achieved in fiscal 2014, with growth expected to occur primarily in the latter part of fiscal 2015. If we do not receive expected orders, we may not be able to achieve our expected level of sales in this segment in fiscal 2015.

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Our RF microwave amplifiers segment represented 24.5% of consolidated net sales for the three months ended October 31, 2014 as compared to 24.2% for the three months ended October 31, 2013. Bookings, sales and profitability in our RF microwave amplifiers segment can fluctuate from period-to-period due to many factors, including the challenging business conditions and U.S. and international military budget constraints that currently exist, and the timing of, and our related performance on, contracts from the U.S. government (including prime contractors to the U.S. government) and international customers.

Mobile Data Communications

Net sales in our mobile data communications segment were $6.3 million for the three months ended October 31, 2014 as compared to $8.8 million for the three months ended October 31, 2013, a decrease of $2.5 million, or 28.4%. This decline in sales is largely attributable to the absence of sales in our most recent quarter of certain SENS technology and products. In the first quarter of fiscal 2014, we sold certain of our SENS technology and products, including certain intellectual property, to one of our customers for approximately $2.0 million and generated nominal royalties in this product line for the three months ended October 31, 2014.

During the three months ended October 31, 2014 and 2013, BFT-1 sustainment sales to the U.S. Army were $5.9 million, or 93.7%, and $5.5 million, or 62.5%, respectively, of our mobile data communications segment's sales. Sales in both comparative periods include $2.5 million of revenue related to our annual $10.0 million BFT-1 intellectual property license fee.

We are currently providing BFT-1 sustainment support for the U.S. Army pursuant to two three-year contracts aggregating $68.2 million. The first contract consists of a three-year BFT-1 sustainment contract which has a not-to-exceed value of $38.2 million, whereby we are providing engineering services and satellite network operations on a cost-plus-fixed-fee basis and program management services on a firm-fixed-price basis. The base performance period for this contract began April 1, 2014 and ends March 31, 2015, and provides for two twelve-month option periods exercisable by the U.S. Army. The second contract is in the form of a BFT-1 intellectual property license agreement with a potential value of $30.0 million. The intellectual property license requires the U.S. Army to pay us a $10.0 million annual license fee for a base period which began April 1, 2014 and ends March 31, 2015, with two twelve-month option periods exercisable by the U.S. Army. If the U.S. Army pays an aggregate of $30.0 million of annual intellectual property license fees, the U.S. Army will receive a limited non-exclusive right to use our intellectual property after March 31, 2017 for no additional license fee. Through October 31, 2014, we have received funded orders of $23.6 million under these two contracts (including the $10.0 million annual intellectual property license fee for the performance period from April 1, 2014 through March 31, 2015) and funding for the base year for both of these contracts is now complete.

Although future funding is difficult to predict given the ongoing U.S. government budget pressures, we currently expect that the U.S. Army will exercise the two twelve-month option periods for both contracts and that we will receive incremental funding beyond the base year. Our current BFT-1 sustainment and intellectual property license contracts can be terminated for convenience by the U.S. government at any time, are not subject to automatic renewal, and the U.S. Army is not obligated to purchase any additional services, purchase intellectual property, provide incremental funding, or exercise its option to extend these contracts.

Given the discontinuation of sales of certain of our SENS technology-based solutions, as discussed above, net sales in our mobile data communications segment are expected to be lower in fiscal 2015 as compared to fiscal 2014.

Our mobile data communications segment represented 8.2% of consolidated net sales for the three months ended October 31, 2014, as compared to 10.6% for the three months ended October 31, 2013. Bookings, sales and profitability in our mobile data communications segment can fluctuate dramatically from period-to-period due to many factors, including unpredictable funding, deployment and technology decisions by the U.S. government. As

such, period-to-period comparisons of our results may not be indicative of a trend or future performance.

Geography and Customer Type

Sales to U.S. government end customers approximated 24.9% and 25.6% of consolidated net sales for the three months ended October 31, 2014 and 2013, respectively. Excluding net sales in our mobile data communications segment (which derives a substantial majority of its net sales from the U.S. government), sales to U.S. government end customers were 18.4% and 20.6% for the three months ended October 31, 2014 and 2013, respectively.

International sales (which include sales to U.S. companies for inclusion in products that are sold to international customers) approximated 61.2% and 57.0% of consolidated net sales for the three months ended October 31, 2014 and 2013, respectively. Domestic commercial sales approximated 13.9% and 17.4% of consolidated net sales for the three months ended October 31, 2014 and 2013, respectively.

Gross Profit. Gross profit was $35.3 million and $36.4 million for the three months ended October 31, 2014 and 2013, respectively, representing a decrease of $1.1 million which was primarily driven by a decrease in consolidated net sales, partially offset by a higher gross profit percentage in all three of our operating segments.

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Gross profit, as a percentage of consolidated net sales, for the three months ended October 31, 2014 was 46.2% as compared to 43.6% for the three months ended October 31, 2013. The increase in consolidated gross profit, as a percentage of sales, is largely due to the period-over-period higher percentage of overall consolidated net sales occurring in our telecommunications transmission segment, which generally has higher gross margins than our RF microwave amplifiers segment and the cost-plus-fixed fee BFT-1 sustainment services that our mobile data communications segment performs for the U.S. Army. Gross profit, as a percentage of related segment sales, is further discussed below.

Our telecommunications transmission segment's gross profit, as a percentage of related segment net sales, for the three months ended October 31, 2014, was higher than the percentage achieved for the three months ended October 31, 2013. This increase is primarily the result of changes in overall segment sales mix.

Our RF microwave amplifiers segment's gross profit, as a percentage of related segment net sales, for the three months ended October 31, 2014 was higher than the percentage achieved for the three months ended October 31, 2013. This increase is primarily the result of changes in overall segment sales mix.

Our mobile data communications segment's gross profit, as a percentage of related segment net sales, for the three months ended October 31, 2014, was higher as compared to the three months ended October 31, 2013. The increase is primarily the result of changes in overall segment mix. In particular, given the absence of sales of certain SENS technology and products in our most recent quarter (as discussed above), the $2.5 million of revenue related to our annual $10.0 million BFT-1 intellectual property license fee, which was recorded in both periods, represented a higher percentage of this segment’s sales.

Included in consolidated cost of sales for the three months ended October 31, 2014 and 2013 are provisions for excess and obsolete inventory of $0.6 million and $0.7 million, respectively. As discussed in our “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.

Because our consolidated gross profit, as a percentage of consolidated net sales, depends on sales, sales mix and related gross profit for each individual segment, it is difficult to forecast. Nevertheless, based on our anticipated performance on orders currently in our consolidated backlog and on orders we expect to receive, we anticipate that our consolidated gross profit in fiscal 2015, as a percentage of consolidated net sales, will be slightly lower than the level we achieved in fiscal 2014.

Selling, General and Administrative Expenses. Selling, general and administrative expenses were $15.5 million and $16.2 million for the three months ended October 31, 2014 and 2013, respectively, representing a decrease of $0.7 million. As a percentage of consolidated net sales, selling, general and administrative expenses were 20.3% and 19.4% for the three months ended October 31, 2014 and 2013, respectively.

Excluding $0.6 million of expenses related to our strategic alternatives analysis, during the three months ended October 31, 2014, selling, general and administrative expenses for the three months ended October 31, 2014 would have been $14.9 million or 19.5%. Excluding a $0.2 million benefit relating to a change in the fair value of a contingent earn-out liability associated with our acquisition of Stampede, selling, general and administrative expenses for the three months ended October 31, 2013 would have been $16.4 million, or 19.7%, of consolidated net sales. The decrease in selling, general and administrative expenses (after such exclusions), both in dollars and as a percentage of consolidated net sales, is primarily related to our ongoing efforts to contain operating costs and lower spending associated with lower consolidated net sales.

Amortization of stock-based compensation expense recorded as selling, general and administrative expenses increased to $1.1 million in the three months ended October 31, 2014 as compared to $0.8 million in the three months ended October 31, 2013. This increase is primarily related to changes in the timing of grants for certain stock-based awards.

In light of consolidated net sales growth expected in fiscal 2015, selling, general and administrative expenses, in dollars, are expected to be slightly higher in fiscal 2015 as compared to fiscal 2014. As a percentage of consolidated net sales, we expect selling, general and administrative expenses in fiscal 2015 to be slightly lower than fiscal 2014.

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Research and Development Expenses. Research and development expenses were $10.0 million and $8.5 million for the three months ended October 31, 2014 and 2013, respectively, representing an increase of $1.5 million, or 17.6%.

For the three months ended October 31, 2014 and 2013, research and development expenses of $7.3 million and $6.1 million, respectively, related to our telecommunications transmission segment, and $2.2 million and $2.3 million, respectively, related to our RF microwave amplifiers segment. Research and development expenses in our mobile data communications segment were $0.3 million and a nominal amount for the three months ended October 31, 2014 and 2013, respectively. The remaining research and development expenses of $0.2 million and $0.1 million for the three months ended October 31, 2014 and 2013, respectively, relate to the amortization of stock-based compensation expense, which is not allocated to our three reportable operating segments.

As a percentage of consolidated net sales, research and development expenses were 13.1% and 10.2% for the three months ended October 31, 2014 and 2013, respectively. The increase in research and development expenses, as a percentage of consolidated net sales, is attributable to both increased spending and lower net sales during the three months ended October 31, 2014 as compared to the three months ended October 31, 2013. We expect fiscal 2015 research and development expenses, in dollars, to be comparable to the amount we spent in fiscal 2014.

As an investment for the future, we are continually enhancing our existing products and developing new products and technologies. Whenever possible, we seek customer funding for research and development to adapt our products to specialized customer requirements. During the three months ended October 31, 2014 and 2013, customers reimbursed us $2.3 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. Included in customer-funded research and development for both the three months ended October 31, 2014 and 2013 is funding related to work performed on our cost-plus-incentive-fee development contract for the U.S. Navy's ATIP.

Amortization of Intangibles. Amortization relating to intangible assets with finite lives was $1.6 million for both the three months ended October 31, 2014 and 2013.

Operating Income. Operating income for the three months ended October 31, 2014 and 2013 was $8.2 million, or 10.7% of consolidated net sales, and $10.1 million, or 12.1% of consolidated net sales, respectively.

Excluding the previously discussed $0.6 million of expenses related to our strategic alternatives analysis and the $0.2 million of benefit related to the change in the fair value of a contingent earn-out liability associated with our acquisition of Stampede, operating income for the three months ended October 31, 2014 and 2013 would have been $8.8 million, or 11.5%, and $9.9 million, or 11.9%, respectively, of consolidated net sales. This decrease in operating income (both in dollars and as a percentage of consolidated net sales) is primarily due to lower consolidated net sales during the three months ended October 31, 2014 as compared to the three months ended October 31, 2013. Operating income, by segment, is discussed further below.

Operating income in our telecommunications transmission segment was $8.2 million, or 16.0% of related segment net sales, for the three months ended October 31, 2014, as compared to $8.9 million, or 16.4% of related segment net sales for the three months ended October 31, 2013. Excluding the $0.2 million change in fair value of the Stampede contingent earn-out liability during the three months ended October 31, 2013, operating income would have been $8.7 million or 16.0% of related segment net sales. Based on the nature and type of orders that are currently in our backlog and anticipated orders we expect to receive, we expect operating income in this segment in fiscal 2015 (both in dollars and as a percentage of related segment net sales) to be higher than the level we achieved in fiscal 2014.

Our RF microwave amplifiers segment generated operating income of $1.1 million, or 5.9% of related segment net sales, for the three months ended October 31, 2014 as compared to $0.6 million, or 3.0% of related segment net sales,

for the three months ended October 31, 2013. This increase in operating income, both in dollars and as a percentage of related segment net sales, is primarily due to a higher gross profit percentage and lower research and development expenses, as discussed above. Based on the nature and type of orders that are currently in our backlog, anticipated orders we expect to receive, and anticipated research and development spending, we expect operating income (both in dollars and as a percentage of related net sales) in this segment for fiscal 2015 to be higher than the level we achieved in fiscal 2014.

Our mobile data communications segment generated operating income of $2.9 million, or 46.0% of related segment net sales, for the three months ended October 31, 2014 as compared to $4.1 million, or 46.6% of related segment net sales, for the three months ended October 31, 2013. The fluctuations in operating income metrics were primarily driven by lower net sales and increased research and development expenses, as discussed above. Based on the nature and type of orders that are currently in our backlog and the anticipated orders we expect to receive, operating income in this segment, both in dollars and as a percentage of related net sales, in fiscal 2015 is expected to be lower than the level we achieved in fiscal 2014.

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Unallocated operating expenses were $3.9 million and $3.5 million for the three months ended October 31, 2014 and 2013, respectively. Unallocated operating expenses during the three months ended October 31, 2014 include $0.6 million of expenses related to our strategic alternatives analysis. Amortization of stock-based compensation expense, which is included in unallocated operating expenses, was $1.3 million for the three months ended October 31, 2014 as compared to $0.9 million in the three months ended October 31, 2013, primarily due to changes in the timing of grants for certain stock-based awards. Based on the amount of outstanding equity awards, stock-based compensation expense in fiscal 2015 is expected to be higher than fiscal 2014.

Because overall global business conditions remain challenging, it remains difficult to predict our consolidated sales mix, making it difficult to estimate future operating margins as a percentage of consolidated net sales. Nevertheless, and excluding the impact of expenses related to our strategic alternatives analysis, we are targeting operating income, as a percentage of consolidated net sales, in fiscal 2015 to be approximately 13.0%.

Interest Expense. Interest expense was $0.3 million and $2.0 million for the three months ended October 31, 2014 and 2013, respectively. The significant decrease is primarily the result of the settlement of $200.0 million principal amount of our 3.0% convertible senior notes in May 2014.

Interest Income and Other. Interest income and other for the three months ended October 31, 2014 and 2013 was $0.1 million and $0.3 million, respectively. The decrease of $0.2 million is primarily attributable to lower cash balances. Interest income and other for both periods is primarily generated from interest earned on our cash and cash equivalents. All of our available cash and cash equivalents are currently invested in bank deposits, money market mutual funds, certificates of deposit, and short-term U.S. Treasury securities which, at this time, are currently yielding a blended annual interest rate of approximately 0.44%.

Provision for Income Taxes. The provision for income taxes was $2.8 million and $3.0 million for the three months ended October 31, 2014 and 2013, respectively. Our effective tax rate was 35.0% for the three months ended October 31, 2014, as compared to 36.5% for the three months ended October 31, 2013. The decrease from 36.5% to 35.0% is principally attributable to the expected product and geographical mix changes reflected in our fiscal 2015 business outlook, offset, in part, by the expiration of the federal research and experimentation credit on December 31, 2013.

Excluding the impact of any potential discrete tax items, our fiscal 2015 estimated effective tax rate is expected to approximate 35.0%. This rate reflects the expiration of the federal research and experimentation credit on December 31, 2013.

Our federal income tax returns for fiscal 2011 through 2014 are subject to potential future IRS audit. Future tax assessments or settlements could have a material adverse effect on our consolidated results of operations and financial condition.

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LIQUIDITY AND CAPITAL RESOURCES

Our unrestricted cash and cash equivalents decreased to $144.5 million at October 31, 2014 from $154.5 million at July 31, 2014, a decrease of $10.0 million. The decrease in cash and cash equivalents during the three months ended October 31, 2014 was driven by the following:

- Net cash used in operating activities was $4.7 million for the three months ended October 31, 2014 as compared to net cash used of $1.2 million for the three months ended October 31, 2013. Changes in cash flow from operating activities from quarter to quarter are attributable to overall changes in net working capital requirements, most notably the timing of billings and payments related to our large over-the-horizon microwave system contracts. Given our expected fiscal 2015 sales level, we expect to generate significant operating cash flows in fiscal 2015; however, such amount is expected to be lower than the cash flows generated in fiscal 2014, almost entirely due to expected performance on our over-the-horizon microwave systems contracts. The positive cash flows we expect to generate will be heavily weighted toward the second half of fiscal 2015.

- Net cash used in investing activities for the three months ended October 31, 2014 was $0.7 million as compared to $1.0 million for the three months ended October 31, 2013. Both of these amounts primarily represent expenditures relating to ongoing equipment upgrades and enhancements.

- Net cash used in financing activities was $4.5 million for the three months ended October 31, 2014 as compared to $7.8 million for the three months ended October 31, 2013. This change was largely due to the fact that during the three months ended October 31, 2014, we did not repurchase any of our common stock. During the three months ended October 31, 2013, we spent $3.6 million for repurchases of our common stock. During the three months ended October 31, 2014 and 2013, we paid $4.8 million and $4.5 million, respectively, in cash dividends to our stockholders.

Our investment policy relating to our unrestricted cash and cash equivalents is intended to minimize principal loss while at the same time maximize the income we receive without significantly increasing risk. To minimize risk, we generally invest our cash and cash equivalents in money market mutual funds (both government and commercial), certificates of deposit, bank deposits, and U.S. Treasury securities. Many of our money market mutual funds invest in direct obligations of the U.S. government, bank securities guaranteed by the Federal Deposit Insurance Corporation, certificates of deposit and commercial paper and other securities issued by other companies. While we cannot predict future market conditions or market liquidity or the ultimate outcome of the current European monetary issues and related concerns, we believe our investment policies are appropriate in the current environment. Ultimately, the availability of our cash and cash equivalents is dependent on a well-functioning liquid market.

As of October 31, 2014, our material short-term cash requirements primarily consist of cash necessary to fund: (i) our ongoing working capital needs, including income tax payments, (ii) accrued and anticipated quarterly dividends and (iii) repurchases of our common stock that we may make pursuant to our stock repurchase program.

During the three months ended October 31, 2013, we repurchased 124,753 shares of our common stock in open-market transactions with an average price per share of $28.73 and at an aggregate cost of $3.6 million (including transaction costs). There were no repurchases of our common stock during the three months ended October 31, 2014.

As of October 31, 2014 and December 9, 2014, we were authorized to repurchase up to an additional $13.7 million of our common stock, pursuant to our current $100.0 million stock repurchase program. Our stock repurchase program has no time restrictions and repurchases may be made in open-market or privately negotiated transactions and may be made pursuant to SEC Rule 10b5-1 trading plans.

In December 2013, our Board of Directors increased our annual target dividend from $1.10 per common share to $1.20 per common share. On October 9, 2014, our Board of Directors declared a quarterly dividend of $0.30 per common share, totaling $4.9 million, which was paid on November 19, 2014. On December 10, 2014, our Board of Directors declared a quarterly dividend of $0.30 per common share, payable on February 18, 2015 to shareholders of record at the close of business on January 16, 2015. This latest dividend declaration represents our eighteenth consecutive quarterly dividend. Future dividends are subject to Board approval.

Our material long-term cash requirements primarily consist of payments relating to our operating leases. In addition, we expect to make future cash payments of approximately $4.8 million related to our 2009 Radyne-related restructuring plan, including accreted interest. For further information regarding our Radyne restructuring plan, see “Notes to Condensed Consolidated Financial Statements – Note (9) Cost Reduction Actions - Radyne Acquisition-Related Restructuring Plan.”

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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 cash generated from financing transactions.

In light of ongoing tight credit market conditions and overall adverse business conditions, we continue to receive requests from our customers for higher credit limits and longer payment terms. Because of our strong cash position and the nominal amount of interest we are earning on our cash and cash equivalents, we have, on a limited basis, approved certain customer requests. We continue to monitor our accounts receivable credit portfolio and have not had any material negative customer credit experiences to date.

Although it is difficult in the current economic and credit 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.

As discussed in “Notes to Condensed Consolidated Financial Statements – Note (18) Legal Proceedings and Other Matters,” we have incurred legal fees and professional costs associated with legal proceedings and other matters. The outcome of these legal proceedings and investigations is inherently difficult to predict and an adverse outcome in one or more matters could have a material adverse effect on our consolidated financial condition and results of operations.

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 operating cash requirements.

We currently expect capital expenditures for fiscal 2015 to be approximately $5.0 million to $7.0 million.

FINANCING ARRANGEMENTS

Credit Facility
Effective October 31, 2014, we entered into an uncommitted $15.0 million secured credit facility (the "Credit Facility") with one bank that provides for the extension of credit to us in the form of revolving loans, including letters of credit and standby letters of credit, at any time and from time to time during its term, in an aggregate principal amount at any time outstanding not to exceed $15.0 million. Subject to covenant limitations, the Credit Facility may be used for working capital, capital expenditures and other general corporate purposes. The Credit Facility, which expires October 31, 2015, can be terminated by us or the bank at any time without penalty. At October 31, 2014, we had $1.7 million of standby letters of credit outstanding related to our guarantees of future performance on certain customer contracts and no outstanding commercial letters of credit.

OFF-BALANCE SHEET ARRANGEMENTS

As of October 31, 2014, we did not have any off-balance sheet arrangements as defined in Item 303(a)(4) of Regulation S-K.

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 October 31, 2014, will materially adversely affect our liquidity. At October 31, 2014, cash payments due under long-term obligations, excluding purchase orders that we entered into in our normal course of business, are as follows:

	Obligations Due by Fiscal Years or Maturity Date (in thousands)				
	Total	Remainder of 2015	2016 and 2017	2018 and 2019	After 2019
Operating lease commitments	$26,481	4,894	8,965	6,081	6,541
Less contractual sublease payments	(1,292)	(968)	(324)	—	—
Net contractual cash obligations	$25,189	3,926	8,641	6,081	6,541

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As discussed further in “Notes to Condensed Consolidated Financial Statements – Note (17) Stockholders’ Equity,” on December 10, 2014, our Board of Directors declared a quarterly dividend of $0.30 per common share, payable on February 18, 2015 to shareholders of record at the close of business on January 16, 2015. Future dividends are subject to Board approval. No dividend amounts are included in the above table.

At October 31, 2014, we have approximately $1.7 million of standby letters of credit outstanding under our Credit Facility related to the guarantee of future performance on certain contracts. Such amounts are not included in the above table.

In the ordinary course of business, we include indemnification provisions in certain of our customer contracts. Pursuant to these agreements, we have agreed to indemnify, hold harmless and reimburse the indemnified party for losses suffered or incurred by the indemnified party, including but not limited to losses related to third-party intellectual property claims. It is not possible to determine the maximum potential amount under these agreements due to a history of nominal claims and the unique facts and circumstances involved in each particular agreement. To date, there have not been any material costs or expenses incurred in connection with such indemnification clauses.

Our insurance policies may not cover the cost of defending indemnification claims or providing indemnification. As a result, if a claim were asserted against us by any party that we have agreed to indemnify, we could incur future legal costs and damages.

We have change in control agreements and indemnification agreements with certain of our executive officers and certain key employees. All of these agreements may require payments by us, in certain circumstances, including, but not limited to, a change in control of our Company.

Pursuant to an indemnification agreement with our CEO (see Exhibit 10.1, "Form of Indemnification Agreement" in our Current Report on Form 8-K filed with the Securities and Exchange Commission ("SEC") on March 8, 2007), our Board of Directors agreed to pay, on behalf of our CEO, expenses incurred by him in connection with an investigation conducted by the SEC and an investigation by the United States Attorney for the Eastern District Court of New York, on the condition that Mr. Kornberg repay such amounts to the extent that it is ultimately determined that he is not entitled to be indemnified by us. To-date, legal expenses paid on behalf of our CEO have been nominal. We have incurred approximately $1.5 million of expenses (of which approximately $1.0 million was incurred in fiscal 2012 and approximately $0.5 million was incurred in fiscal 2013) responding to the subpoenas that are discussed in “Notes to Condensed Consolidated Financial Statements - Note (18) Legal Proceedings and Other Matters.” Any amounts that may be advanced to our CEO in the future are not included in the above table.

Our Condensed Consolidated Balance Sheet at October 31, 2014 includes total liabilities of $2.8 million for uncertain tax positions, including interest, all of which may result in cash payment. The future payments related to uncertain tax positions have not been presented in the table above due to the uncertainty of the amounts and timing of any potential cash settlement with the taxing authorities.

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RECENT ACCOUNTING PRONOUNCEMENTS

We are required to prepare our consolidated financial statements in accordance with the Financial Accounting Standards Board's ("FASB") Accounting Standards Codification ("ASC") which is the source for all authoritative U.S. generally accepted accounting principles, which is commonly referred to as "GAAP." The ASC is subject to updates by the FASB, which are known as Accounting Standards Updates ("ASUs").

As further discussed in "Note (2) Adoption of Accounting Standards and Updates" included in "Part I — Item 1. — Notes to Condensed Consolidated Financial Statements," during the three months ended October 31, 2014, we adopted FASB:

- ASU No. 2013-04, which provides guidance for the recognition, measurement and disclosure of obligations resulting from joint and several liability arrangements, for which the total amount of the obligation is fixed at the reporting date. Our adoption of this ASU did not have any impact on our consolidated financial statements and or disclosures.

- ASU No. 2013-05, which requires a parent company that ceases to have a controlling interest in a subsidiary or group of assets that is a non profit entity or business within a foreign entity, to release any cumulative translation adjustment into net income only if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided. Our adoption of this ASU did not have any impact on our consolidated financial statements.

- ASU No. 2013-07, which clarifies that an entity should apply the liquidation basis of accounting when liquidation is imminent, as defined. This ASU also provides principles for the recognition and measurement of assets and liabilities and requirements for financial statements prepared using the liquidation basis of accounting. Our adoption of this ASU did not have any impact on our consolidated financial statements.

- ASU No. 2013-11, which amends the presentation requirements of ASC 740, "Income Taxes," and requires that unrecognized tax benefits, or portions of unrecognized tax benefits, relating to a net operating loss carryforward, a similar tax loss, or a tax credit carryforward be presented in the financial statements as a reduction to the associated deferred tax asset. Although adoption of this ASU was not material, information about its impact on us is described in "Note (11) Income Taxes" included in "Part I - Item 1. - Notes to Condensed Consolidated Financial Statements."

- ASU No. 2014-17, issued in November 2014, which provides an acquired entity with an option to apply pushdown accounting in its separate financial statements upon occurrence of an event in which an acquirer obtains control of the acquired entity. We adopted this ASU, as required, on November 18, 2014. Adoption of this ASU did not have any impact on our consolidated financial statements.

In addition, the following FASB ASUs have been issued and incorporated into the ASC and have not yet been adopted by us as of October 31, 2014:

- FASB ASU No. 2014-08, issued in April 2014, which changed the definition of discontinued operations and related disclosure requirements. Only those disposed components (or components held-for-sale) representing a strategic shift that have (or will have) a major effect on operations and financial results will be reported as discontinued operations. Continuing involvement will no longer prevent a disposal group from being presented as discontinued operations. This ASU is effective prospectively in our first quarter of fiscal 2016. Early application is permitted for those disposals (or new classifications as held-for-sale) that have not been previously reported in financial statements previously issued. As we do not currently have any disposals contemplated, we do not expect this ASU to impact our consolidated financial statements or disclosures upon adoption.

FASB ASU No. 2014-09, issued in May 2014, which provides new guidance related to how an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, this ASU provides a five-step approach to determine when and how revenue is to be recognized. In addition, this ASU specifies the accounting for some costs to obtain or fulfill a contract with a customer and requires an entity to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers. This ASU is effective in our first quarter of fiscal 2018, and can be adopted either retrospectively to each prior reporting period presented, or as a cumulative-effect adjustment as of the date of adoption. Early adoption is not permitted. We are currently determining which transition approach to use and evaluating the impact of this ASU on our consolidated financial statements.

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- FASB ASU No. 2014-12, issued in June 2014, which requires that a performance target which affects vesting and that could be achieved after the requisite service period be treated as a performance condition. As such, the performance target should not be reflected in estimating the grant-date fair value of the award at the grant date. This ASU is effective in our first quarter of fiscal 2017, and can be adopted either (a) prospectively to all awards granted or modified after the effective date, or (b) retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified awards thereafter. As we currently do not have share-based awards outstanding with a performance target that could be achieved after the requisite service period, we do not expect this ASU to impact our consolidated financial statements or disclosures upon adoption.

- FASB ASU No. 2014-15, issued in August 2014, which provides guidance about management's responsibility to evaluate whether there is a substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. This ASU is effective for the annual period ending after December 15, 2016 (our fiscal year ending on July 31, 2017). Early adoption is permitted. As we currently do not believe that there is a substantial doubt about our ability to continue as a going concern, we do not expect this ASU to impact our consolidated financial statements or disclosures upon adoption.

- FASB ASU No. 2014-16, issued in November 2014, which requires an entity that issues or invests in hybrid financial instruments, issued in the form of a share, to determine the nature of the host contract by considering all stated and implied substantive terms and features of the hybrid financial instrument, weighing each term and feature on the basis of relevant facts and circumstances and including the embedded derivative feature that is being evaluated for separate accounting from the host contract. This ASU is effective for fiscal years beginning after December 15, 2015 (our fiscal year beginning on August 1, 2016). Early adoption is permitted. As we currently do not issue or invest in such hybrid financial instruments, we do not expect this ASU to impact our consolidated financial statements or disclosures upon adoption.

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.

As of October 31, 2014, we had unrestricted cash and cash equivalents of $144.5 million, which consisted of cash and highly-liquid money market mutual funds, certificates of deposit, bank deposits and U.S. Treasury securities. Many of these investments are subject to fluctuations in interest rates, which could impact our results. Based on our investment portfolio balance as of October 31, 2014, a hypothetical change in interest rates of 10% would have a nominal impact on interest income over a one-year period. Ultimately, the availability of our cash and cash equivalents is dependent on a well-functioning liquid market.

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 our disclosure controls and procedures was carried out by us under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by the report to provide reasonable assurance that the information required to be disclosed by us 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.

There have been no changes in our internal controls over financial reporting during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

The certifications of our 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 control over financial reporting.

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PART II
OTHER INFORMATION

Item 1. Legal Proceedings

See “Notes to Condensed Consolidated Financial Statements - Note (18) Legal Proceedings and Other Matters,” in Part I, Item 1. of this Form 10-Q for information regarding legal proceedings and other matters.

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, 2014, except as follows:

The continued effects of the adverse global economic climate and volatile political conditions have had and could continue to have a material adverse impact on our business outlook, our business, operating results and financial condition.

We participate in the global commercial and government communications markets, which are characterized by rapid technological advances and constant changes. For the past several years, our customers and the end-markets that we serve have been materially impacted by adverse global economic conditions. These conditions have resulted in: (i) changes to our commercial and government customers’ historical spending priorities, (ii) reduced military budgets, and (iii) extreme pressures on government budgets throughout the world. In addition to operating in a difficult global economic environment, some of our end customers are located in emerging countries that have and continue to undergo sweeping political changes. Political conditions around the world are unstable and current and potential future economic sanctions could be imposed on some of our end customers (such as Russia) which could adversely impact our sales.

The dramatic decline in global oil and natural gas prices in 2014 will likely impair the ability of customers in the oil and gas producing regions of the world to invest in telecommunications products and infrastructure. Global international monetary issues and concerns continue to be unsettled and it remains possible that another worldwide credit crisis could occur. We believe that the aggregation of these conditions has resulted in, and may continue to result in or worsen, the suppression of end-market demand for many of the products that we sell and services that we provide. Although we achieved revenue growth in fiscal 2014 and expect to continue to grow in fiscal 2015, we believe that nearly all of our customers are challenged by capital and operating budget constraints and a difficult credit environment. As such, the impact, severity and duration of these conditions are impossible to predict with precision. Many of our international customers (including our Middle Eastern and African customers) rely on European bank financing to procure funding for large systems, many of which include our equipment. We believe that European financing has been and continues to be difficult to obtain. If interest rates remain low or turn negative (as has occurred in some European countries), our customers may become reluctant to spend funds required to purchase our equipment. In addition, if worldwide interest rates increase, it is possible that new projects to install or upgrade telecommunications networks that are currently being contemplated by our customers, particularly in emerging markets which generally receive financing from European banks and/or financial assistance from various governments, will be postponed or canceled.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

There were no repurchases of our common stock during the three months ended October 31, 2014.

As of October 31, 2014 and December 9, 2014, we were authorized to repurchase up to $13.7 million of our common stock, pursuant to our existing $100.0 million stock repurchase program. Our stock repurchase program has no time restrictions and repurchases may be made in open-market or privately negotiated transactions and may be made pursuant to SEC Rule 10b5-1 trading plans.

Item 4. Mine Safety Disclosures

Not applicable.

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Item 6. Exhibits

(a) Exhibits

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

Exhibit 101.INS - XBRL Instance Document

Exhibit 101.SCH - XBRL Taxonomy Extension Schema Document

Exhibit 101.CAL - XBRL Taxonomy Extension Calculation Linkbase Document

Exhibit 101.LAB - XBRL Taxonomy Extension Labels Linkbase Document

Exhibit 101.PRE - XBRL Taxonomy Extension Presentation Linkbase Document

Exhibit 101.DEF - XBRL Taxonomy Extension Definition Linkbase Document

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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: December 10, 2014

By: /s/ Fred Kornberg
Fred Kornberg
Chairman of the Board
Chief Executive Officer and President
(Principal Executive Officer)

Date: December 10, 2014

By: /s/ Michael D. Porcelain
Michael D. Porcelain
Senior Vice President and
Chief Financial Officer
(Principal Financial and Accounting Officer)