

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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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 )

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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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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.

(Continued)

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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	