COMTECH TELECOMMUNICATIONS CORP /DE/
Form 10-K
September 19, 2007

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

**FORM 10-K**

(Mark One)

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

**For the fiscal year ended July 31, 2007**

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

Commission File Number: 0-7928

(Exact name of registrant as specified in its charter)

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

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

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Name of each exchange on which registered |
|---|---|
| **Common Stock, par value $.10 per share** | **NASDAQ Stock Market LLC** |
| **Series A Junior Participating Cumulative Preferred Stock par value $.10 per share** | **NASDAQ Stock Market LLC** |

Securities registered pursuant to Section 12(g) of the Act:
**None**
(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
x Yes o No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 of Section 15(d) of the Act.
o Yes x No

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.
x Yes o No

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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

Large accelerated filer x Accelerated filer o Non-accelerated filer o

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

o Yes x No

The aggregate market value of the registrant's voting stock held by non-affiliates of the registrant, computed by reference to the closing sales price as quoted on the NASDAQ National Market on January 31, 2007 was approximately $818,761,000.

The number of shares of the registrant's common stock outstanding on September 10, 2007 was 23,895,917.

DOCUMENTS INCORPORATED BY REFERENCE.

Certain portions of the document listed below have been incorporated by reference into the indicated Part of this Annual Report on Form 10-K:

Proxy Statement for Annual Meeting of Stockholders to be held December 6, 2007 - Part III

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**Note:** As used in this Annual Report on Form 10-K, the terms "Comtech," "we," "us," "our" and "our Company" mean Comtech Telecommunication Corp. and Comtech's subsidiaries.

# PART I

## ITEM 1. BUSINESS

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 segments: telecommunications transmission, mobile data communications and RF microwave amplifiers. We sell our products to a diverse customer base in the global commercial and government communications markets. We believe we are a leader in the market segments that we serve.

In the past several years, we have expanded our product lines, completed tactical acquisitions, increased our research and development efforts and broadened our customer base. These actions have resulted in significant growth over the past five years. Our fiscal 2007 sales of $445.7 million and net income of $65.2 million are the highest in the history of our company. As of July 31, 2007, we have $342.9 million of unrestricted cash and cash equivalents on hand.

Our Internet website is www.comtechtel.com and we make available free of charge, on our website, our annual reports, quarterly reports, current reports and any related amendments. Unless specifically noted, the reference to our website address does not constitute incorporation by reference of the information contained therein into this Annual Report on Form 10-K. In addition, any materials filed with the SEC may be read and copied by the public at the SEC's Public Reference Room at 100 F Street, N.E., Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. We are incorporated in the state of Delaware and were founded in 1967.

### Industry Background

The global commercial and government communications markets have experienced rapid technological advances and changes during the past decade. The markets we directly operate in have been affected by many factors including the following:

- *The Global Development of Information-Intensive Economies.* Businesses, governments and consumers have become increasingly reliant upon the Internet and multimedia applications to communicate voice, video and data to their customers, suppliers, and employees around the world. We expect demand for these high-bandwidth applications to continue to grow.

- *Demand for Increased Communications Cost Efficiencies.* Due to the significant increase in global voice, video and data communications traffic, communications service providers have been forced to increase their investments in transmission infrastructure in order to maintain the quality and availability of their services. As a result, communications service providers are continually seeking technology solutions that increase the efficiency of their networks in order to reduce overall network operating costs. In light of the relatively high cost of satellite transmission versus other transmission channels, we believe that communications service providers will make their satellite equipment vendor selections based upon the operating efficiency and quality of the products and solutions.

- *The Emergence of Information-Based, Network-Centric Warfare.* Militaries around the world, including the United States ("U.S.") military, have become increasingly reliant on information and communications technology to provide critical advantages in battlefield, support and logistics operations. Situational awareness, defined by knowledge of the location and strength of friendly and unfriendly forces during battle, can increase the likelihood of success during a conflict. As evidenced in the recent Iraqi conflict, stretched battle and supply lines have used satellite-based or over-the-horizon microwave communications solutions to span distances that normal radio communications, such as terrestrial-based systems, are unable to cover. We expect the need for these technologies to remain high due to the lack of terrestrial-based communications infrastructure in many parts of the world where the U.S. and other militaries operate.

- *The Need for Developing Countries To Upgrade Their Commercial and Defense Communication Systems.* We believe many developing countries are committing greater resources and are now placing a higher priority on developing and upgrading their communications systems than in the past. Many of these countries lack the financial resources to install extensive land-based networks, particularly where they have large geographic areas or unfriendly terrain that make the installation of telecommunications infrastructure more costly. We believe that satellite and over-the-horizon microwave technologies often provide the most affordable and effective solutions to meet the requirements for communications services in these countries.

We continue to respond to these trends across our three business segments by focusing internal and customer funded research and development resources to produce secure, scalable and reliable technologies to meet these evolving market needs.

**Corporate Strategies**

We manage our business with the following principal corporate business strategies:

- Seek leadership positions in markets where we can provide specialized products and services;
- Identify and participate in emerging technologies that enhance or expand our product portfolio;
- Operate business segments flexibly to maximize responsiveness to our customers;
- Strengthen our diversified and balanced customer base; and
- Pursue acquisitions of businesses and technologies.

We believe that, as a result of these business strategies, we are well positioned to continue to capitalize on growth opportunities in the global commercial and government communications markets.

**Competitive Strengths**

The successful execution of our principal corporate strategies is based on our competitive strengths, which are described below:

***Leadership Positions in All Three Business Segments –*** In our telecommunications transmission segment, we believe we are the leading provider of satellite earth station modems, over-the-horizon microwave systems, and integrated circuits incorporating Turbo Product Code (“TPC”) forward error correction technology. In our mobile data communications segment, we are the sole supplier of the U.S. Army logistics community’s Movement Tracking System (“MTS”) and continue to integrate our technologies and products with other U.S. military battlefield command and control applications and systems. In our RF microwave amplifiers segment, we believe we are one of the largest independent suppliers of broadband, high-power, high-performance RF microwave amplifiers.

***Innovative Leader with Emphasis on Research and Development –*** We have established a leading technology position in our fields through internal and customer funded research and development activities. We believe we were the first company to begin full-scale deployment of TPC in digital satellite earth station modems, which can significantly reduce satellite transponder lease costs or increase satellite earth station modem data throughput. Our field-proven over-the-horizon microwave systems utilize a proprietary 16 megabits per second (“Mbps”) adaptive digital modem. Our mobile data communications system is the leading L-band satellite-based mobile data communications system used by the U.S. Army logistics community for near real-time messaging and location tracking of mobile assets.

***Diverse Customer Base with Long-Standing Relationships –*** We have established long-standing relationships with leading domestic and international system and network suppliers in the satellite, defense and aerospace industries, as well as the U.S. government and foreign governments. Our products are in service around the globe and we continue to expand our geographic distribution. We believe that our customers recognize our ability to develop new technologies and to meet stringent program requirements.

***Core Manufacturing Expertise That Supports All Three Business Segments –*** Our high-volume manufacturing center located in Tempe, Arizona utilizes state-of-the-art design and production techniques, including analog, digital and RF microwave production, hardware assembly and full-service engineering. All three of our business segments utilize this manufacturing center for certain high-volume production which allows us to secure volume discounts on key components, control the quality of our manufacturing process and maximize the utilization of our manufacturing capacity.

***Successful Acquisition Track Record –*** We have demonstrated that we can successfully integrate acquired businesses, achieve increased efficiencies and capitalize on market and technological synergies. We believe that our disciplined approach in identifying, integrating and capitalizing on acquisitions provides us with a proven platform for additional growth.

## Our Three Business Segments

We conduct our business through three complementary business segments: telecommunications transmission, mobile data communications and RF microwave amplifiers. By operating independently with their own management teams, our business segments are able to maintain a high level of focus on their respective businesses and customers. Our corporate senior management team supports the business segments by, among other things, actively seeking to exploit synergies that exist between the segments, including in areas such as manufacturing, technology, sales, marketing and customer support. Financial information about our business segments is provided in Note 12 to the consolidated financial statements beginning on page F-24.

### Telecommunications Transmission Segment

***Overview***

Our telecommunications transmission segment, which is currently our largest business 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. These products and systems are used in a wide variety of commercial and government applications including the transmission of voice, video and data over the Internet (such as Voice over Internet Protocol (“VoIP”) and broadband video), long distance telephony, the backhaul of cellular traffic using satellites, broadcast, cable and highly secure defense applications.

The following are the key products and systems, along with related markets and applications, for our telecommunications transmission segment:

*Satellite Earth Station Equipment and Systems* – We provide customers a one-stop shopping approach by offering a broad range of satellite earth station equipment, including modems, frequency converters, power amplifiers, transceivers, access devices, voice gateways, IP encapsulators and media routers that are used in commercial and government satellite applications. We believe we are the leading provider of satellite earth station modems. Our modems incorporate TPC, an advanced form of forward error correction. We believe we were the first company to offer TPC in satellite earth station modems which can significantly reduce satellite transponder lease costs or increase satellite earth station modem data throughput. During the past several years, we have introduced a new line of satellite modems that allow for greater data transmission than ever before. For example, some of our modems now include technology including low density parity check (“LDPC”), a next-generation form of forward error correction, as well as Carrier-in-Carrier™, a technique in our modems that allows satellite earth stations to transmit and receive at the same frequency, effectively reducing transponder bandwidth requirements by 50%. Our time division multiple access (“TDMA”) and single channel per carrier (“SCPC”) based communication products and software enable our customers to utilize satellite network bandwidth management techniques to more cost-effectively enable, among others, applications such as video teleconferencing, distance learning, telemedicine and Internet content delivery.

*Over-the-Horizon Microwave Equipment and Systems* – We design, develop, produce and market over-the-horizon microwave communications equipment and systems that can transmit signals over unfriendly or inaccessible terrain from 20 to 600 miles by reflecting the transmitted signals off of the troposphere, an atmospheric layer located approximately seven miles above the earth’s surface. Over-the-horizon microwave communications is a cost-effective, secure alternative to satellite communications as it does not require the leasing of satellite transponder space. Traditional end-users of our equipment have included foreign governments who have used our over-the-horizon microwave systems to, among other things, transport radar tracking information from remote border locations, and oil and gas companies, who use our systems to enable communication links for offshore oilrigs and other remote exploration activities. Our continued advancements in over-the-horizon microwave technology are enabling new applications for these systems, such as the transmission of video. The recent introduction of our 16 Mbps adaptive digital troposcatter modem upgrade kit to the U.S. military market resulted in our receipt of significant orders.

*Forward Error Correction Technology* – We design, develop and market forward error correction integrated circuit solutions which allow for more efficient transmission of voice, video and data in wireless communication channels. We have been issued several U.S. patents relating to our forward error correction technology. We incorporate this technology into our satellite earth station modems, which we believe increases the efficiency of our modems for the transmission of satellite traffic. We have also integrated TPC technology into our over-the-horizon microwave systems. We believe that the cost efficiency to our customers of this technology provides us with a competitive advantage in the markets we serve. In addition, we market data compression integrated circuits which are used by leading manufactures of copiers and data storage products.

**Business Strategies**

Our telecommunications transmission segment business strategies are as follows:

*Expand Leadership Position in Satellite Earth Station Market* – Our satellite earth station modems, which incorporate leading technologies and standards such as TPC, LDPC, Digital Video Broadcasting Standard 2 (DVB-S2) and Carrier-in-Carrier,™ have established us as a leading provider to domestic and international commercial satellite systems and network customers, as well as U.S. and foreign governments. Our product offerings have been expanded to include access devices and voice gateways which allow customers to consolidate multi-service network traffic such as voice, video and data. When combined with our satellite earth station modems, the solution is ideal for backhauling cellular traffic using satellites, which can reduce customer bandwidth requirements by up to 90%. We have recently introduced our CDM-700 satellite modem that will allow our customers to transmit data at 155 Mbps per second – faster than any other modem we have ever developed. In order to better serve the U.S government market, we are focusing sales efforts on the SLM-5650, a high speed, compact, rugged modem that is ideally suited for many government and military applications such as fixed, at-the-halt and on-the-move communications. We expect to continue to expand our leadership position by offering new products and solutions to meet the expected increased demand from commercial, government and defense customers.

*Capitalize on Increased Demand for Over-the-Horizon Microwave Systems and Upgrades* – As the leading supplier in this specialized product line, we expect to continue to capitalize on increased demand for new systems, as well as demand for upgrades to a large global installed base of older systems. These systems are sometimes referred to as troposcatter systems and are extremely reliable and secure when compared to satellite-based systems. Our systems, which include our patented TPC forward error correction technology, are able to transmit video and other broadband applications at throughput speeds in excess of 16 Mbps. To date, the largest single end-customer for our over-the-horizon microwave systems has been a North African country which we believe is between major phases of a multi-year roll-out of a large project. Although it is difficult for us to predict the timing of future awards relating to the North African country’s project, we are actively bidding on the next stage. In fiscal 2007, the U.S. Department of Defense (“DoD”) began purchasing our 16 Mbps adaptive digital modem upgrade kits to be used on a portion of the DoD’s inventory of AN/TRC-170 digital troposcatter terminals and we are in continuing discussions with the DoD to upgrade additional terminals and other components within the AN/TRC-170. The increased capability of the upgraded AN/TRC-170 terminals could reduce the DoD’s dependence on satellite communications in areas of conflict. As a result of our success with our North African end-customer and the DoD, other foreign countries and militaries have shown interest in our over-the-horizon microwave systems technology and we believe the overall market for our products and systems is expanding.

*Continue to Develop Technology for Efficient Satellite Bandwidth Utilization* – As demand for satellite bandwidth continues to increase, technological advances will be needed to provide affordable bandwidth solutions for our customers. We intend to continue to develop next generation advances of our forward error correction technology and believe this will have important utility in responding to the increasing demand for satellite bandwidth utilization, particularly by U.S. military, security and intelligence agencies. We intend to continue to enhance our Internet, TDMA and SCPC-based software and products which enable customers to utilize bandwidth management techniques to enable, among others, applications such as video teleconferencing, distance learning, telemedicine and Internet content delivery. We have introduced our new CDM-Qx modem that incorporates the above-mentioned Carrier-in-Carrier™ technology. This licensed technology, when combined with our advanced forward error correction and modulation techniques, will enable us to integrate additional bandwidth savings functionality into our satellite modems. In fiscal 2007, we expanded our satellite earth station product offerings and began selling IP encapsulators and media routers, that, when combined with our bandwidth efficient satellite earth station modems, can reduce operating expenses for service providers delivering IP-based broadcast connectivity.

**Mobile Data Communications Segment**

***Overview***

Our mobile data communications segment, currently our fastest growing segment, provides customers with an integrated solution to enable global satellite-based communications when mobile, real-time, secure transmission is required. Products and systems include mobile satellite transceivers, the supply and operation of satellite packet data networks (including arranging for and providing satellite capacity), ruggedized computers and satellite earth station network gateways, and associated installation, training and maintenance. Our technology and products have been integrated into several U.S. military logistics and battlefield command and control applications and have been installed on a variety of vehicles including Abrams tanks, Bradley Fighting Vehicles, helicopters such as the Apache, Black Hawk and Chinook helicopters and High Mobility Multipurpose Wheeled Vehicles (“HMMWV”). When equipped with this technology, soldiers operating these vehicles are able to be continually tracked and maintain communications with a command center and fellow soldiers in the field. Our extremely reliable proprietary network service employs full end-to-end path redundancy as well as back-up capability in the event of a major catastrophe, and we maintain a 24 x 7 network operations and customer care center that provides customers with ongoing support any time day and night.

The key products in our mobile data communications segment include the following:

*MT-2011* – A single sealed mobile satellite transceiver with no moving parts, the MT 2011 is used by customers to transmit and receive near real-time packet data and is proven to operate under rugged environmental and operating conditions on land, in the air, and on the water. It has a single interface port for connecting the terminal to power and to devices such as mobile and handheld computers. The MT 2011 can operate anywhere in the world over any available L-band satellite systems.

*MT-2012* – Incorporating all of the features of our field-proven MT-2011 mobile satellite transceiver, this enhanced transceiver features embedded radio frequency identification devices (“RFID”) and selected availability anti-spoofing modules (“SAASM”). The built-in RFID interrogator provides total asset visibility by communicating with RFID tags attached to inventory, such as cargo containers, and transmits data back to the requesting user. The transceiver also contains an expanded memory buffer which allows the MT-2012 to accept larger data files for transmission over satellite.

*MTM-203* – This miniaturized L-band transceiver incorporates the key features of our MT-2011. It incorporates state-of-the-art technology created for users where both restrictions in size and weight are critical. We have recently submitted our MTM-203 satellite transceiver module for Federal Information Processing Standards (“FIPS”) 140-2 validation. We believe we will receive this validation and it will allow for increased sales of the MTM-203 to users who must operate on certain secure military networks.

*geoOps™ Enterprise Location Management System* – This web-based software provides an integrated capability to command, control and manage mobile ground vehicles. The software integrates the functions of route planning, transportation control, dispatching, travel and road condition monitoring and is updated via an easy to use electronic map.

The following are the key applications for our mobile data communications segment's products and services:

*The U.S. Army's Movement Tracking System ("MTS")* – We have continuously provided a turnkey solution to the U.S. Army's logistics community since 1999 under a competitively awarded contract. We believe the MTS system, which is currently being used by U.S. forces in Iraq and in certain other areas of the world, is the leading L-band satellite-based mobile data communication system for near real-time messaging and location tracking of logistics-oriented mobile assets. In August 2007, we were awarded a new indefinite delivery/indefinite quantity ("IDIQ") contract, with a ceiling value of $605.1 million, to continue to provide and support MTS products and services through July 12, 2010. Although we anticipate the roll-out and ongoing maintenance of the MTS system to continue, the contract can be terminated at any time, is not subject to automatic renewal or extension, and orders are subject to unpredictable funding, deployment and technology decisions by the U.S. government.

*Battlefield Command and Control Applications* – Pursuant to various contracts with the U.S. Army Communications Electronics Command ("CECOM"), our technology has been integrated into the U.S. Army's Force XXI Battle Command, Brigade and Below command and control systems, also known as Blue Force Tracking ("BFT"). Our efforts include the supply of mobile satellite transceivers, the lease of satellite capacity, the supply and operation of the satellite packet data network and network gateways, and associated systems support and maintenance. In August 2007, we were awarded an IDIQ contract to continue to provide products and services in support of the BFT program through December 31, 2011. The BFT contract has a ceiling value of $216.0 million and similar to our MTS contract, it can be terminated at any time, is not subject to automatic renewal or extension, and orders are subject to unpredictable funding, deployment and technology decisions.

*Homeland Security and Multi-National Applications* – Our products and services can also be used to facilitate communications in the event that natural disasters or other situations, such as a terrorist attack, disable or limit existing terrestrial communications. For example, the Army National Guard has purchased our mobile data communication products for use on the MTS system to better prepare for and react to disaster recovery operations at the local, state and national levels. In addition, the North Atlantic Treaty Organization ("NATO") is incorporating our geoOps™ Enterprise Location Management System into a multi-national satellite-based friendly force tracking system. The geoOps™ software can also be used to share real-time operational data allowing the same view of unfolding operations or emergency scenarios amongst friendly forces.

*Commercial Satellite-Based Mobile Data Applications* – We believe that there may be opportunities to leverage our core strengths and expertise in satellite-based mobile tracking and messaging services into commercial market applications. These include vehicle tracking and communication for domestic and international transportation companies, private fleets and heavy equipment fleets. We continue to carefully explore this market opportunity and seek to identify markets that have a particular requirement for our high quality, real-time and secure satellite-based communications network. Such markets could include fleet operators whose vehicles transport dangerous or hazardous materials, such as armaments, explosives, or flammable materials (e.g., oil or industrial chemicals). We will continue to market our solutions in a methodical way and target them to those customers whose needs best fit our technology offerings. We do not expect a significant amount of commercial sales in this area in fiscal 2008.

**Business Strategies**

Our mobile data communications segment business strategies are as follows:

*Continue to Capitalize on Opportunities with the U.S. Army* – The number of logistics and combat vehicles that use our system, as a percentage of the total number of vehicles the U.S. Army deploys, remains relatively small. We believe that the reliable and effective performance of our system has demonstrated to the U.S. Army the value of a mobile global satellite-based communications network when real-time, secure transmission is required. In fiscal 2007, the BFT program's prime contractor has awarded a competitor a contract to develop a new prototype network and related equipment to increase network capacity for the U.S. Army's BFT tracking system. We are currently working closely with the U.S. Army to provide additional enhancements to both our network capabilities and communications performance and believe that we have and are developing new products that provide compelling technological advancement to our existing products and that is, importantly, backwards compatible with the large number of existing BFT and MTS systems in active deployment today. We also continue to develop new products that feature enhancements, including miniaturization and updated software that can provide increased speed, functionality and a more intuitive and easier to use graphical user interface for end-users. Ultimately, we believe that by seeking to work collaboratively with the U.S. Army to ensure that its short-term and long-term needs are addressed, we will enhance our competitive positioning for a potential future recompete, renewal or extension of the MTS and BFT contracts.

*Leverage our Current Installed Base into other Military Commands* – In light of the integration of our mobile satellite transceivers into the U.S. Army's BFT tracking system command and control systems used in Iraq, Afghanistan and elsewhere around the world, we believe and have demonstrated that there are a number of opportunities for us to market our products and solutions to other military commands, both in the U.S. and internationally. The Army National Guard and the First Marine Expeditionary Forces have received funding to purchase our products and services. Both the Republic of Georgia and the Australian Defense Force have recently begun deployments of our products. Also, our geoOps™ Enterprise Location Management System software platform has been incorporated into NATO's International Security Assistance Force Tracking System, a satellite-based mobile communication system. We continue to work with a number of other international military commands to increase brand and product awareness. Although the sales cycle relating to these other military commands is long and difficult to predict, we believe that our products and technologies can meet other potential customer country requirements.

*Market and Develop New Commercial Satellite-Based Mobile Data Applications* – Although the market for commercial satellite-based mobile data applications is extremely competitive, we believe the performance of our system in the military setting may establish our system as an attractive choice for users in certain commercial markets. We are currently focusing our efforts, in a methodical way, on selling to those potential customers whose needs best fit with our technology offerings.

**RF Microwave Amplifiers Segment**

***Overview***

We believe we are one of the largest independent companies designing, developing, manufacturing and marketing solid-state, high-power, broadband amplifiers in the microwave and RF spectrums. Our amplifiers reproduce signals with greater power, current or voltage amplitude, and are extremely complex and critical to the performance of the systems into which they are incorporated. We sell our amplifiers to domestic and foreign commercial and government users. The following are the principal markets and applications for our amplifiers:

*Defense Applications* – U.S. and foreign military customers use our amplifiers in a variety of telecommunications systems (such as transmitting and boosting signals) and electronic warfare systems (such as simulation, radar, jamming and in identification friend or foe ("IFF") systems). The U.S. military also uses our amplifiers in systems designed to help protect U.S. troops from radio-controlled road side bombs. Our integrated radio frequency assemblies, which consist of one of our high-power RF amplifiers and a UHF radio frequency assembly integrated into a single module, are used in the Enhanced Position Location Reporting System ("EPLRS"). The EPLRS radio network is a highly reliable communication system used by the DoD that automatically reconfigures itself to overcome the line-of-sight limitations of UHF communications, as well as jamming threats. We believe that ongoing military activities and heightened homeland security concerns are resulting in increased interest in our amplifier products.

*Sophisticated Commercial Applications* – Our amplifiers are key components in sophisticated commercial applications. For example, our amplifiers are used in oncology treatment systems that allow doctors to give patients who are suffering from cancer higher doses of radiation while focusing closer on the tumors, thereby avoiding damage to healthy tissue. In addition, our amplifiers are used to amplify signals carrying voice, video or data for air-to-satellite-to-ground communications. For example, our amplifiers, when incorporated as part of an aircraft satellite communication system, can provide passengers with e-mail, Internet access and video conferencing. Manufacturers also use our amplifiers to test their electronic systems for electromagnetic compatibility and susceptibility to interference. Such testing may be used to determine whether the various electronic systems in a commercial aircraft are likely to be affected by the use of laptop computers, wireless telephones or video games by passengers in flight.

**Business Strategies**

We manage our RF microwave amplifiers segment with the following principal strategies:

*Continue to Penetrate the Market for Outsourced Amplifier Production* – Because solid-state, high-power, broadband amplifiers are important to the performance of the larger systems into which they are incorporated, many large systems companies often prefer to manufacture these amplifiers in-house. We believe that our focus on and expertise in designing and manufacturing solid-state, high-power, broadband amplifiers, as well as our high-volume manufacturing capability, often make us a cost-effective and technologically superior alternative to such in-house manufacturing. Our current customers include Rockwell Collins, Inc., Thales Group, European Aeronautic Defense

and Space Company, Telephonics Corporation, Northrop Grumman Corporation, BAE Systems PLC, EDO Corporation and Raytheon.

*Expand Marketing and Sales Efforts in the Defense Market* – We believe there are a number of long-term opportunities in the defense and military markets, particularly for solid-state, high-power, broadband amplifiers used in electronic warfare applications, and that we can increase our share of this market by pursuing partnering arrangements with existing and new prime contractors. For example, we were recently selected by one of our customers to participate in the Counter Remote Controlled Improvised Explosive Device Electronic Warfare 2.1 program ("CREW 2.1") and are supplying broadband, solid-state high-power radio signal jamming amplifiers and switches to be used to help protect U.S. troops from the ever-evolving threat of radio controlled road side bombs. The participation in this program allows us to demonstrate our latest developments in the next generation of amplifier technology and our high volume production capabilities.

*Enhance Position as an Innovative Supplier by Increasing Research and Development* – We will continue to pursue customer funded research and development to fuel new product development, as well as continue our internally funded research and development activities. We expect this emphasis on research and development to enhance our existing product lines, develop new capabilities and solidify and strengthen our position in our principal markets.

**Summary of Key Products, Systems and Services by Business Segment**

| Business Segment | Products/Systems and Services | Representative Customers | End-User Applications |
|---|---|---|---|
| Telecommunications transmission | Satellite earth station equipment and systems including: analog and digital modems, frequency converters, power amplifiers, transceivers, access devices, voice gateways and network management systems | Satellite systems integrators, wireless and other communication service providers and defense contractors such as Intelsat and Globecom, as well as U.S. and foreign governments | Commercial and defense applications including the transmission of voice, video and data over the Internet, broadband, long distance telephone, broadcast and cable, distance learning and telemedicine |
| | Over-the-horizon microwave systems and 16 Mbps adaptive modems | Military customers and related prime manufacturers, as well as oil companies such as BP Amoco | Secure defense applications, such as transmission of military data, and commercial applications such as the transmission of voice and data to and from oil platforms |
| | Forward error correction technology such as TPC, LDPC and data compression technology | Satellite and wireless equipment providers and leading manufacturers of copier and data storage products, such as Sony | Enables more efficient transmission of voice, video and data in wireless communication channels |
| Mobile data communications | Mobile satellite transceivers, network services, installation, training and maintenance | U.S. Army logistics community, CECOM, foreign governments, and prime contractors to the U.S. Armed Forces and commercial customers | Two-way satellite-based mobile tracking, messaging services (U.S. Army's MTS), battlefield command and control applications (BFT), RFID applications and commercial applications such as fleet tracking |
| RF microwave amplifiers | Solid-state, high-power, broadband RF microwave amplifiers | Domestic and international defense customers, prime contractors and system suppliers such as Raytheon, EDO Corporation and Thales, medical equipment companies such as Varian, and aviation industry system integrators such as Rockwell Collins | Defense applications including communications, radar, jamming and IFF and commercial applications such as medical applications (oncology treatment systems) and satellite communications (including air-to- satellite-to-ground communications) |

**Acquisitions**

We have made acquisitions of businesses and enabling technologies during the past three years and have followed a disciplined approach in identifying, executing and capitalizing on these acquisitions.

In February 2005, we acquired certain assets and assumed certain liabilities of Tolt Technologies, Inc. (“Tolt”) for an aggregate purchase price of $3.7 million, including transaction costs of $0.2 million. In fiscal 2006, we significantly de-emphasized stand-alone sales of Tolt’s turnkey employee mobility solutions, and are focusing our efforts on selling commercial satellite-based mobile data applications. This operation is part of our mobile data communications segment.

In August 2006, we acquired certain assets and assumed certain liabilities of Insite Consulting, Inc. (“Insite”), a logistics application software company, for $3.2 million, including transaction costs of $0.3 million. As of July 31, 2007, we have paid $2.9 million and, in the first quarter of fiscal 2008, we made the final guaranteed payment of $0.3 million. In addition to the guaranteed purchase price, we may be required to make certain earn-out payments based on the achievement of future sales targets. The first part of the earn-out cannot exceed $1.4 million and is limited to a five-year period ending August 2011. The second part of the earn-out, which is for a ten-year period ending August 2016, is unlimited and based on a per unit future sales target primarily relating to new commercial satellite-based mobile data communications markets. Insite has developed the geoOps™ Enterprise Location Monitoring System, a software-based solution that allows customers to integrate legacy data systems with near-real time logistics and operational data systems. This operation was combined with our existing business and is part of our mobile data communications segment.

In February 2007, we acquired certain assets and assumed certain liabilities of Digicast Networks, Inc. (“Digicast”), a manufacturer of digital video broadcasting equipment, for $1.0 million. This operation was combined with our existing business and is part of our telecommunications transmission segment.

**Sales, Marketing and Customer Support**

Sales and marketing strategies vary with particular markets served and include direct sales through sales, marketing and engineering personnel, sales through independent representatives, value-added resellers or a combination of the foregoing. We intend to continue to expand international marketing efforts by engaging additional independent sales representatives, distributors and value-added resellers and by establishing additional foreign sales offices. As appropriate and as guided by corporate senior management, our three business segments capitalize on manufacturing, technology, sales, marketing and customer support synergies between them.

Our management, technical and marketing personnel establish and maintain relationships with customers. Our strategy includes a commitment to provide ongoing customer support for our systems and equipment. This support involves providing direct access to engineering staff or trained technical representatives to resolve technical or operational issues.

Our over-the-horizon microwave systems, mobile data communications products and services, solid-state, high-power, broadband RF microwave amplifier product lines and satellite earth station products that use relatively new technology have long sales cycles. Once a product is designed into a system, customers may be reluctant to change the incumbent supplier due to the extensive qualification process and potential redesign required in using alternative sources. Accordingly, management is actively involved in key aspects of relations with our major customers.

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

| | Fiscal Years Ended July 31, | | |
|---|---|---|---|
| | 2007 | 2006 | 2005 |
| United States | | | |
| U.S. government | 61.3% | 47.3% | 42.1% |
| Commercial customers | 12.5% | 17.1% | 13.9% |
| Total United States | 73.8% | 64.4% | 56.0% |

| | | | |
|---|---|---|---|
| International | | | |
| North African country | 3.0% | 9.7% | 13.2% |
| Other international customers | 23.2% | 25.9% | 30.8% |
| Total International | 26.2% | 35.6% | 44.0% |

International sales include sales to U.S. domestic companies for inclusion in products that will be sold to international customers. One customer, a prime contractor, represented 5.4% of consolidated net sales in fiscal 2007 and 10.2% of consolidated net sales in both fiscal 2006 and 2005.

**Backlog**

Our backlog as of July 31, 2007 and 2006 was $129.0 million and $186.0 million, respectively. We expect that a majority of the backlog as of July 31, 2007 will be recognized as sales during fiscal 2008. At July 31, 2007, 47.9% of the backlog consisted of U.S. government contracts, subcontracts and government funded programs, 42.9% consisted of orders for use by international customers (including sales to U.S. domestic companies for inclusion in products that will be sold to international customers) and 9.2% consisted of orders for use by U.S. commercial customers.

Almost all of the contracts in our backlog are subject to cancellation at the convenience of the customer or for default in the event that we are unable to perform under the contract. Backlog for our U.S. government customers includes amounts appropriated by Congress and allotted to the contract by the procuring government agency. Our backlog does not include the value of options that may be exercised in the future on multi-year contracts, nor does it include the value of additional purchase orders that we may receive under IDIQ contracts or basic ordering agreements. Almost all of our U.S. government revenues in fiscal 2007, 2006 and 2005 were derived from firm fixed-price contracts. Under these types of contracts, we perform for an agreed-upon price and we can derive benefits from cost savings, but bear the risk of cost overruns. Our cost-plus-fixed-fee contracts, which to date have been insignificant, typically provide for reimbursement of allowable costs incurred plus a negotiated fee.

Variations in backlog from time to time are attributable, in part, to the timing of contract proposals, the timing of contract awards and the delivery schedules on specific contracts. Our satellite earth station equipment product line operates under short lead times and usually generates sales out of inventory. As a result, we believe our backlog at any point in the fiscal year is not necessarily indicative of the total sales anticipated for any particular future period.

**Manufacturing and Service**

Our manufacturing operations consist principally of the assembly and testing of electronic products that we design and build from purchased fabricated parts, printed circuits and electronic components.

We consider our facilities to be well maintained and adequate for current and planned production requirements. All of our manufacturing facilities, including those that serve the military market, must comply with stringent customer specifications. We employ formal quality management programs and other training programs, including the International Standard Organization's ("ISO-9000") quality procedure registration programs.

Our ability to deliver products to customers on a timely basis is dependent, in part, upon the availability and timely delivery by subcontractors and suppliers (including the U.S. government) of the components and subsystems that we use in manufacturing our products. Electronic components and raw materials used in our products are generally obtained from independent suppliers. Some components are standard items and are available from a number of suppliers. Others are manufactured to our specifications by subcontractors. Although we obtain certain components and subsystems from a single source or a limited number of sources, we believe that most components and equipment are available from multiple sources. Certain U.S. government contracts require us to incorporate government furnished parts into our products. Delays in our receipt of such parts can adversely impact the timing of our performance on the related contracts.

**Research and Development**

We reported research and development expenses for financial reporting purposes of $32.5 million, $25.8 million and $21.2 million in fiscal 2007, 2006 and 2005, respectively, representing 7.3%, 6.6% and 6.9% of total net sales, respectively, for these periods.

A portion of our research and development efforts relates to the adaptation of our basic technology to specialized customer requirements and is recoverable under contracts, and such expenditures are not included in our research and development expenses for financial reporting purposes. During fiscal 2007, 2006 and 2005, we were reimbursed by customers for such activities in the amounts of $4.2 million, $4.4 million and $3.0 million, respectively. Our aggregate research and development expenditures (internal and customer funded) were $36.6 million, $30.2 million and $24.2 million or 8.2%, 7.7% and 7.8% of total net sales in fiscal 2007, 2006 and 2005, respectively.

**Intellectual Property**

We rely upon trade secrets, technical know-how and continuing technological innovation to develop and maintain our competitive position. The products we sell require significant engineering design and manufacturing expertise. The majority of these technological capabilities, however, are not protected by patents and licenses. We rely on the expertise of our employees and our learned experiences in both the design and manufacture of our products and the delivery of our services.

Some of our telecommunications transmission technology is protected by patents, which are significant to protecting our proprietary technology. We have been issued several U.S. patents relating to forward error correction technology that is utilized in our TPC-enabled satellite modems. The earliest of these patents expires in 2012.

**Competition**

Our businesses are highly competitive and are characterized by rapid technological change. A significant technological breakthrough by others, including new companies or our customers, could have a material adverse effect on our business. Our growth and financial condition depend on, among other things, our ability to keep pace with such changes and developments and to respond to the sophisticated requirements of an increasing variety of electronic equipment users and transmission technologies.

Certain of our competitors are substantially larger, have significantly greater financial, marketing, research and development, technological and operating resources and broader product lines than we do. The competitors in our telecommunications transmission segment include ViaSat, Inc., Radyne Corporation, Miteq Inc., iDirect, Inc. and Paradise Datacom LLC. The competitors in our mobile data communications segment include Qualcomm, Inc. and EMS Technologies, Inc. The competitors in our RF microwave amplifiers segment include Herley Industries, Inc., Aethercomm and Empower RF Systems, Inc. Some large companies such as Raytheon Company, General Dynamics Corporation and Northrop Grumman Corporation have subsidiaries or divisions that compete against us in one or more business segments. In addition, new and potential competitors are always emerging.

Certain of our customers, such as prime contractors who currently outsource their engineering and manufacturing requirements to us, have technological capabilities in our product areas and could choose to replace our products with their own. In some cases, we partner or team with companies (both large and mid-tier) to compete against other teams for large defense programs. In some cases, these same companies may be competitors as it relates to certain aspects of our business.

We believe that competition in all of our markets is based primarily on technology innovation, product performance, reputation, delivery times, customer support and price. Due to our flexible organizational structure and proprietary know-how, we believe we have the ability to develop, produce and deliver products on a cost-effective basis faster than many of our competitors.

**Employees**

At July 31, 2007, we had 1,230 employees (including temporary employees and contractors), 693 of whom were engaged in production and production support, 312 in research and development and other engineering support and 225 in marketing and administrative functions. None of our employees are represented by a labor union. We believe that our employee relations are good.

**Regulatory Matters**

We are subject to a variety of local, state and federal governmental regulations. Our products that are incorporated into wireless communications systems must comply with various governmental regulations, including those of the Federal Communications Commission (“FCC”). Our manufacturing facilities, which may store, handle, emit, generate and dispose of hazardous substances that are used in the manufacture of our products, are subject to a variety of local, state and federal regulations, including those issued by the Environmental Protection Agency. Our international sales are subject to U.S. and foreign regulations and may require licenses (including export licenses) from U.S. government agencies or require the payment of certain tariffs. In addition, we are subject to recent directives by the European Union (“EU”) related to the recycling of electrical and electronic equipment. Our financial reporting, corporate governance, public disclosure and compliance practices are governed by laws such as the Sarbanes-Oxley Act of 2002 and rules and regulations issued by the Securities and Exchange Commission (“SEC”). As a U.S. government contractor and subcontractor, we are subject to a variety of rules and regulations,

such as the Federal Acquisition Regulations. To date, we have incurred costs in connection with compliance with these regulations in the normal course of business.

## ITEM 1A. RISK FACTORS

**Forward-Looking Statements**

This Form 10-K contains "forward-looking statements" including statements concerning the future of our industry, product development, business strategy, continued acceptance of our products, market growth, and dependence on significant customers. These statements can be identified by the use of forward-looking terminology such as "may," "expect," "anticipate," "estimate," "continue," or other similar words. When considerin forward-looking statements, you should keep in mind the risk factors and other cautionary statements in this Form 10-K. However, the risks described in this Form 10-K are not the only risks that we face. Additional risks and uncertainties, not currently known to us or that do not currently appear to be material, may also materially adversely affect our business, financial condition and/or operating results in the future. The risk factors noted below and other factors noted throughout this Form 10-K could cause our actual financial condition or results to differ significantly from those contained in any forward-looking statement.

**Due to many factors, including the amount of business represented by large contracts, new orders, net sales and our operating results are difficult to forecast and may be volatile.**

We have experienced, and will experience in the future, significant fluctuations in new orders, net sales and operating results, including our net income and earnings per share, from quarter-to-quarter. One reason for this is that a significant portion of our business — primarily the over-the-horizon microwave systems of our telecommunications transmission segment, our RF microwave amplifiers segment and our mobile data communications segment — is derived from a limited number of relatively large customer contracts, the timing of which cannot be predicted. Our new orders, net sales and operating results, including our net income and earnings per share, also may vary significantly from period-to-period because of the following factors: product mix sold; fluctuating market demand; price competition; new product introductions by our competitors; fluctuations in foreign currency exchange rates; unexpected changes in delivery of components or subsystems; political instability; regulatory developments; changes in income tax rates or tax credits; the price and expected volatility of our stock (which will impact, among other items, the amount of stock-based compensation expense we may record); and general economic conditions. Accordingly, you should not rely on period-to-period comparisons as indications of our future performance because these comparisons may not be meaningful.

**Our business, results of operations, liquidity and financial position depend on our ability to maintain our level of U.S. government business.**

In recent years, we have increased our dependence on U.S. government business. Our sales to the U.S. government (including sales to prime contractors to the U.S. government) accounted for approximately 61.3%, 47.3% and 42.1% of our consolidated net sales for the fiscal years ended July 31, 2007, 2006 and 2005, respectively. Approximately 47.9% of our backlog at July 31, 2007 consisted of orders from the U.S. government. We expect such business to represent a significant portion of our consolidated net sales for the foreseeable future. U.S. government business exposes us to various risks, including:

- unexpected contract or project terminations or suspensions;
- unpredictable order placements, reductions or cancellations;
- reductions in government funds available for our projects due to government policy changes, budget cuts and other spending priorities;
- penalties arising from post-award contract audits;
- cost audits in which the value of our contracts may be reduced;
- higher-than-expected final costs, particularly relating to software and hardware development, for work performed under contracts where we commit to specified deliveries for a fixed price; and
- 

unpredictable cash collections of unbilled receivables that may be subject to acceptance of contract deliverables by the customer and contract close out procedures, including government approval of final indirect rates.

All of our U.S. government contracts can be terminated by the U.S. government for its convenience. Termination for convenience provisions provide only for our recovery of costs incurred or committed, settlement expenses and profit on work completed prior to termination. In addition to the right of the U.S. government to terminate, U.S. government contracts are conditioned upon the continuing approval by Congress of the necessary spending. Congress usually appropriates funds for a given program on a fiscal year basis even though contract performance may take more than one year. Consequently, at the beginning of a major program, the contract may not be fully funded, and additional monies are normally committed to the contract only if, and when, appropriations are made by Congress for future fiscal years.

We obtain U.S. government contracts through a competitive bidding process. We cannot assure you that we will continue to win competitively awarded contracts or that awarded contracts will generate sufficient net sales to result in profitability.

**If we are unable to comply with complex U.S. government regulations governing security and contracting practices, we could be disqualified as a supplier to the U.S government.**

As a supplier to the U.S. government we must comply with numerous regulations, including those governing security and contracting practices. Failure to comply with these procurement regulations and practices could result in fines being imposed against us or our suspension for a period of time from eligibility for bidding on, or for award of, new government contracts. If we are disqualified as a supplier to government agencies, we would lose most, if not all, of our U.S. government customers and revenues from sales of our products would decline significantly. Among the potential causes for disqualification are violations of various statutes, including those related to procurement integrity, export control, U.S. government security regulations, employment practices, protection of the environment, accuracy of records in the recording of costs, and foreign corruption. The government could investigate and make inquiries of our business practices and conduct audits of contract performance and cost accounting. Based on the results of such audits, the U.S. government could adjust our contract-related costs and fees. Depending on the results of these audits and investigations, the government could make claims against us, and if it were to prevail, certain incurred costs would not be recoverable by us.

**Our dependence on international sales and international sales agents may adversely affect us.**

Sales for use by international customers (including sales to U.S. domestic companies for inclusion in products that will be sold to international customers) represented approximately 26.2%, 35.6% and 44.0% of our consolidated net sales for the fiscal years ended July 31, 2007, 2006 and 2005, respectively. Approximately 42.9% of our backlog at July 31, 2007 consisted of orders for use by foreign customers. Direct and indirect sales to a North African country during the fiscal years ended July 31, 2007, 2006 and 2005, respectively, were 3.0%, 9.7% and 13.2% of consolidated net sales. We expect that international sales will continue to be a substantial portion of our consolidated net sales.

These sales expose us to certain risks, including barriers to trade, fluctuations in foreign currency exchange rates (which may make our products less price-competitive), political and economic instability, exposure to public health epidemics, availability of suitable export financing, tariff regulations, and other U.S. and foreign regulations that may apply to the export of our products and the generally greater difficulties of doing business abroad.

We attempt to reduce the risk of doing business in foreign countries by seeking subcontracts with large systems suppliers, contracts denominated in U.S. dollars, advance or milestone payments and irrevocable letters of credit in our favor. However, we may not be able to reduce the economic risk of doing business in foreign countries, in all instances. In such cases, billed and unbilled receivables relating to international sales are subject to increased collectibility risk and may result in significant write-offs, which could have a material adverse impact on our business, results of operations and financial condition.

In some countries, such as the aforementioned North African country, we rely upon one international sales agent. We attempt to reduce our reliance on sales agents by establishing additional foreign sales offices and by engaging, where practicable, more than one independent sales representative in a territory.

Foreign defense contracts generally contain provisions relating to termination at the convenience of the government. In addition, certain of our products and systems may require licenses from U.S. government agencies for export from the U.S., and some of our products are not permitted to be exported. We cannot be sure of our ability to gain any licenses that may be required to export our products, and failure to receive required licenses could materially reduce our ability to sell our products outside the U.S.

**All of our businesses are subject to rapid technological change; we must keep pace with changes to compete successfully.**

We are engaged in businesses characterized by rapid technological change, evolving industry standards, frequent new product announcements and enhancements, and changing customer demands. The introduction of products and services embodying new technologies and the emergence of new industry standards could render any of our products and services obsolete or non-competitive. The technology used in our products and services evolves rapidly, and our business position depends, in large part, on the continuous refinement of our scientific and engineering expertise and the development, either through internal research and development or acquisitions, of new or enhanced products and technologies. We may not have the economic or technological resources to be successful in such efforts and we may not be able to identify and respond to technological improvements made by our competitors in a timely or cost-effective fashion. A significant technological breakthrough by others, including smaller competitors or new firms, could have a material adverse impact on our business, results of operations and financial condition.

**Reductions in telecommunications equipment and systems spending may negatively affect our revenues, profitability and the recoverability of our assets, including intangible assets.**

For the last several years, the U.S. and global economies have been growing and our revenues and profits have increased as our customers have increased their spending on telecommunications equipment and systems. However, in the fourth quarter of fiscal 2007, adverse conditions in the U.S. consumer mortgage market appear to have spread to the commercial loan market and nearly all businesses, including ours, are facing uncertain economic environments. Some economists are now predicting a recession.

Our businesses have been negatively affected in the past by uncertain economic environments both in the overall market, and more specifically in the telecommunications sector. If the economy slows, some of our customers may reduce their budgets for spending on telecommunications equipment and systems. As a consequence, our current customers and other prospective customers may postpone, reduce or even forego the purchase of our products and systems, which could adversely affect our revenues, profitability and the recoverability of our assets, including intangible assets.

In the third quarter of fiscal 2007, bookings of our satellite earth station products were below our expectations. We believe this was most likely due to inherent order flow fluctuations that exist in any communications technology book and ship business; and in fact, during the fourth quarter of 2007, bookings regained their strength and met our expectations. Although we remain confident that the long-term demand drivers for our businesses, including our satellite earth station products, remain strong, it is currently difficult to assess whether or not future bookings will meet or exceed the levels experienced in fiscal 2007.

**Our mobile data communications business is subject to unique risks.**

Although sales and earnings have increased significantly in the past few years, our mobile data communications business has a relatively limited operating history compared to our other business segments. Our mobile data communications business segment is reliant upon just a few contracts and it is subject to many of the risks inherent in the operation of a new business enterprise. In addition to the other risk factors described in this section, the risk factors applicable to our mobile data communications business include the following:

- Our mobile data communications segment’s revenues and profits are primarily derived from the Movement Tracking Systems (“MTS”) contract and the U.S. Army’s Force XXI Battle Command, Brigade and Below command and control systems (also known as Blue Force Tracking (“BFT”)) contract. Both of these contracts can be terminated at any time and orders are subject to unpredictable funding, deployment and technology decisions by the U.S. government. Because both these contracts are indefinite delivery/indefinite quantity (“IDIQ”) contracts, the U.S. Army is not obligated to purchase any equipment or services under the contracts.

- Our MTS and BFT contracts are not subject to automatic renewal or extension upon their scheduled expiration on July 12, 2010 and December 31, 2011, respectively. In addition, the U.S. Army may decide to award future orders, at any time, to other parties. If another party is awarded future orders or if one or both of our contracts are not renewed, extended or if we fail to succeed in a recompete process, it would have a material adverse impact on our business and results of operations.

- The BFT program's prime contractor, Northrop Grumman Corporation, has awarded a contract to a competitor to develop a new prototype network and related equipment to increase network capacity for the U.S. Army's BFT tracking system. Although we are currently working closely with the U.S. Army to provide additional enhancements to our network capabilities and communications performance and believe that we have and are developing new products that provide compelling technological advancement to our existing products and that is, importantly, backwards compatible with the large number of existing BFT and MTS systems in active deployment today, it is possible that the U.S. Army (including our MTS customers) will ultimately cease or reduce its ordering levels of our products and services. If this occurs, it would have a material adverse impact on our business and results of operations.

- We currently anticipate that we will continue to maintain a substantial inventory in order to provide products to our customers on a timely basis. Certain components required in our production process have purchasing lead-times of four months or longer, and the delivery timetables on our contracts require us to provide products in shorter timeframes after we receive an order. If forecasted orders are not received, we may be left with large inventories of slow moving or unusable parts or terminals that would result in an adverse impact on our business, results of operations and financial position.

- We lease the satellite capacity necessary to operate our system from a limited number of third party satellite networks. Our ability to grow and remain profitable depends on the ability of our satellite network providers to provide sufficient network capacity, reliability and security to our customers. If our satellite network providers were to increase the prices of their services, or to suffer operational or technical failures, our business, results of operation and financial condition could be adversely affected.

- Our systems occasionally experience downtime. All satellite communications are subject to the risk that a satellite or ground station failure or a natural disaster may interrupt service. Interruptions in service could have a material adverse impact on our business, results of operations and financial condition. Should we be required to restore service on another system in the event of a satellite failure, our costs could increase which would have a material adverse effect on our business, results of operations and financial condition.

- To date, commercial satellite-based mobile data applications have not been a material part of our business. Our future success in commercial markets will depend on, among other things, our ability to access the best distribution channels, the development or licensing of applications which create value for the customer and our ability to attract and retain qualified personnel. We may have to increase our operating expenses to be successful in the commercial satellite-based mobile data market.

- There are several existing and potential commercial and defense-related competitors, such as Qualcomm, Inc. and Northrop Grumman Corporation, that participate in the mobile data communications market and who have much greater financial resources than us. Existing competitors, including terrestrial-based service providers, are also aggressively pricing their products and services and may continue to do so in the future. Competitors such as ViaSat, Inc. and Harris Corporation continue to offer new value-added products and services, which we may be unable to match on a timely or cost effective basis. Increased competition may adversely impact margins throughout the industry. We anticipate that new competitors will also enter the mobile data communications market in the future. This could adversely impact our existing business, results of operations and financial condition and could also impair our ability to penetrate the commercial market in a significant way.

**Our backlog is subject to customer cancellation or modification and such cancellation could result in decreased sales and increased provisions for excess and obsolete inventory.**

We currently have a backlog of orders, mostly under contracts that the customer may modify or terminate. Almost all of the contracts in our backlog are subject to cancellation at the convenience of the customer or for default in the event that we are unable to perform under the contract. We cannot assure you that our backlog will result in net sales.

We record a provision for excess and obsolete inventory based on historical and future usage trends and other factors including the consideration of the amount of backlog we have on hand at any particular point in time. If our backlog is canceled or modified, our estimates of future product demand may prove to be inaccurate, in which case we may have understated the provision required for excess and obsolete inventory. In the future, if we determine that our inventory is overvalued, we will be required to recognize such costs in our financial statements at the time of such determination. Any such charges could be material to our results of operations and financial condition.

**Our dependence on component availability, government furnished equipment, subcontractor availability and performance and key suppliers, including the core manufacturing expertise of our high-volume technology manufacturing center located in Tempe, Arizona, may adversely affect us.**

None of our business segments generally maintain a substantial inventory of components and subsystems. Although we obtain certain components and subsystems from a single source or a limited number of sources, we believe that most components and subsystems are available from alternative suppliers and subcontractors. A significant interruption in the delivery of such items, however, could have a material adverse impact on our business, results of operations and financial condition.

In recent years, we have increased the company-wide dependency on our high-volume technology manufacturing center located in Tempe, Arizona, which is part of our telecommunications transmission segment. In fiscal 2007, 2006 and 2005, intersegment sales by the telecommunications transmission segment to the mobile data communications segment were $78.3 million, $55.7 million and $19.5 million, respectively. Intersegment sales in fiscal 2007, 2006 and 2005 by the telecommunications transmission segment to the RF microwave amplifiers segment were $6.5 million, $7.5 million and $8.6 million, respectively. If a natural disaster or other business interruption occurred, we do not have immediate access to other manufacturing facilities, and as a result, our business would suffer. In addition, if our high-volume technology manufacturing center is unable to produce sufficient product or maintain quality, it could have a material adverse impact on all three of our business segments, our results of operations and our financial condition.

Throughout fiscal 2007, the U.S. government experienced delays in the receipt of certain components that are ultimately provided to us for incorporation into our satellite transceivers that we ship to the U.S. government. If we do not receive these government furnished components in a timely manner, we could experience delays in fulfilling orders from our customers.

**Contract cost growth on our fixed price contracts and other contracts that cannot be justified as an increase in contract value due from customers exposes us to reduced profitability and the potential loss of future business and other risks.**

Almost all of our products and services are sold under fixed price contracts. This means that we bear the risk of unanticipated technological, manufacturing, supply or other problems, price increases or other increases in the cost of performance. Operating margin is adversely affected when contract costs that cannot be billed to the customer are incurred. This cost growth can occur if initial estimates used for calculating the contract price were incorrect, or if estimates to complete increase. The cost estimation process requires significant judgment and expertise. Reasons for cost growth may include unavailability and productivity of labor, the nature and complexity of the work to be performed, the effect of change orders, the availability of materials, the effect of any delays in performance, availability and timing of funding from the customer, natural disasters, and the inability to recover any claims included in the estimates to complete. A significant change in an estimate on one or more programs could have a material impact on our business, results of operations and financial condition.

**Adverse regulatory changes could impair our ability to sell products.**

Our products are incorporated into wireless communications systems that must comply with various U.S. government regulations, including those of the FCC, as well as international laws and regulations. Regulatory changes, including changes in the allocation and availability of frequency spectrum, and in the military standards and specifications that define the current satellite networking environment, could materially harm our business by (i) restricting development efforts by us and our customers, (ii) making our current products less attractive or obsolete, or (iii) increasing the opportunity for additional competition.

Changes in, or our failure to comply with, applicable laws and regulations could materially harm our business. In addition, the increasing demand for wireless communications has exerted pressure on regulatory bodies worldwide to adopt new standards and reassign bandwidth for these products and services. The reduced number of available frequencies for other products and services and the time delays inherent in the government approval process of new products and services have caused and may continue to cause our customers to cancel, postpone or reschedule their installation of communications systems including their satellite, over-the-horizon microwave, or terrestrial line-of-sight microwave communication systems. This, in turn, could have a material adverse effect on our sales of products to our customers.

The EU has adopted two directives to facilitate the recycling of electrical and electronic equipment sold in the EU. The first of these is the Waste from Electrical and Electronic Equipment directive, which directs EU member states to enact laws, regulations, and administrative provisions to ensure that producers of electrical and electronic equipment are financially responsible for the collection, recycling, treatment, and environmentally sound disposal of

certain products placed on the market after August 13, 2005, and from products in use prior to that date that are being replaced. The EU has also adopted the Restriction on the Use of Certain Hazardous Substances in Electrical and Electronic Equipment ("RoHS") directive. The RoHS directive restricts the use of lead, mercury, and certain other substances in electrical and electronic products placed on the market in the EU after July 1, 2006.

Similar laws and regulations have been or may be enacted in other regions, including in the U.S., China and Japan. Other environmental regulations may require us to reengineer our products to utilize components that are more environmentally compatible, and such reengineering and component substitution may result in additional costs to us. There can be no assurance that such existing or future laws will not have a material adverse effect on our business.

**Acquisitions and strategic investments may divert our resources and management attention; results may fall short of expectations.**

We intend to continue pursuing selected acquisitions of and investments in businesses, technologies and product lines as a key component of our growth strategy. Any future acquisition or investment may result in the use of significant amounts of cash, potentially dilutive issuances of equity securities, incurrence of debt and amortization expenses or in process research and development charges related to intangible assets. Acquisitions involve numerous risks, including:

- difficulties in the integration and assimilation of the operations, technologies, products and personnel of an acquired business;
- diversion of management's attention from other business concerns;
- increased expenses associated with the acquisition; and
- loss of key employees or customers of any acquired business.

We cannot assure you that our acquisitions will be successful and will not adversely affect our business, results of operations or financial condition.

**We have investments in recorded goodwill as a result of prior acquisitions, and changes in future business conditions could cause these investments to become impaired, requiring substantial write-downs that would reduce our operating income.**

Goodwill recorded on our balance sheet as of July 31, 2007 was $24.4 million. We evaluate the recoverability of recorded goodwill amounts annually, or when evidence of potential impairment exists. The annual impairment test is based on several factors requiring judgment. Changes in our operating performance or business conditions, in general, could result in an impairment of goodwill which could be material to our results of operations.

**The loss of key technical or management personnel could adversely affect our business.**

Our success depends on the continued contributions of key technical management personnel, including the key corporate and operating unit management at each of our subsidiaries. Many of our key personnel, particularly the key engineers of our subsidiaries, would be difficult to replace, and are not subject to employment or noncompetition agreements. Our growth and future success will depend in large part upon our ability to attract and retain highly qualified engineering, sales and marketing personnel. Competition for such personnel from other companies, academic institutions, government entities and other organizations is intense. Although we believe that we have been successful to date in recruiting and keeping key personnel, we may not be successful in attracting and retaining the personnel we will need to continue to grow and operate profitably. Also, the management skills that have been appropriate for us in the past may not continue to be appropriate if we continue to grow and diversify.

**Our business and operating results may be negatively impacted if we are unable to continue to manage growth of our businesses.**

Certain of our businesses have experienced periods of rapid growth that have placed, and may continue to place, significant demands on our managerial, operational and financial resources. In order to manage this growth, we must continue to improve and expand our management, operational and financial systems and controls. We also need to continue to recruit and retain personnel and train and manage our employee base. We must carefully manage research and development capabilities and production and inventory levels to meet product demand, new product introductions and product and technology transitions. If we are not able to timely and effectively manage our growth and maintain the

quality standards required by our existing and potential customers, we could experience a material adverse impact on our business, results of operations and financial condition.

**Our markets are highly competitive.**

The markets for our products are highly competitive. We cannot assure you that we will be able to successfully compete or that our competitors will not develop new technologies and products that are more effective than our own. We expect the DoD’s increased use of commercial off-the-shelf products and components in military equipment will encourage new competitors to enter the market. Also, although the implementation of advanced telecommunications services is in its early stages in many developing countries, we believe competition may intensify as businesses and foreign governments realize the market potential of telecommunications services. Many of our competitors have financial, technical, marketing, sales and distribution resources greater than ours.

**Protection of our intellectual property is limited; we are subject to the risk of third party claims of infringement.**

Our businesses rely in large part upon our proprietary scientific and engineering “know-how” and production techniques. Historically, patents have not been an important part of our protection of our intellectual property rights. We rely upon the laws of unfair competition, restrictions in licensing agreements and confidentiality agreements to protect our intellectual property. We limit access to and distribution of our proprietary information. These efforts allow us to rely upon the knowledge and experience of our management and technical personnel to market our existing products and to develop new products. The departure of any of our key management and technical personnel, the breach of their confidentiality and non-disclosure obligations to us or the failure to achieve our intellectual property objectives may have a material adverse impact on our business, results of operations and financial condition.

Our ability to compete successfully and achieve future revenue growth will depend, in part, on our ability to protect our proprietary technology and operate without infringing upon the rights of others. We may fail to do so. In addition, the laws of certain countries in which our products are or may be sold may not protect our products and intellectual property rights to the same extent as the laws of the U.S.

We believe that we own or have licensed all intellectual property rights necessary for the operation of our businesses as currently contemplated. If the technology we use is found to infringe on protected technology, we could be required to change our business practices, license the protected technology, and/or pay damages or other compensation to the infringed party. If we are unable to license protected technology that we use in our business or if we are required to change our business practices, we could be prohibited from making and selling our products or providing certain telecommunications services.

**Our operations are subject to environmental laws and regulations and we may be subject to environmental liabilities.**

We engage in manufacturing and are subject to a variety of local, state and federal governmental regulations relating to the storage, discharge, handling, emission, generation, manufacture and disposal of toxic or other hazardous substances used to manufacture our products, such as the fabrication of fiberglass antennas by our Comtech Antenna Systems, Inc. subsidiary. We are also subject to the RoHS directive which restricts the use of lead, mercury and other substances in electrical and electronic products. The failure to comply with current or future environmental requirements could result in the imposition of substantial fines, suspension of production, alteration of our manufacturing processes or cessation of operations that could have a material adverse impact on our business, results of operations and financial condition.

In addition, the handling, treatment or disposal of hazardous substances by us or our predecessors may have resulted or could in the future result in contamination requiring investigation or remediation, or leading to other liabilities, any of which could have a material adverse impact on our business, results of operations and financial condition.

**Our fiscal 2004 Federal income tax return is being audited by the Internal Revenue Service, other returns may be selected for audit and a resulting tax assessment or settlement could have a material adverse impact on our results of operations and financial position.**

We are subject to income taxes in both the U.S. and certain foreign jurisdictions, including Canada. Significant judgment is required in determining the provision for income taxes. Although we believe our tax estimates are reasonable, the final determination of tax examinations and any related litigation could be materially different than what is reflected in historical income tax provisions and accruals.

In fiscal 2006, we were informed by the Internal Revenue Service that our Federal income tax return for the fiscal year ended July 31, 2004 was selected for a general tax audit. The audit is ongoing and additional income tax returns for other fiscal years may be examined. If the outcome of the audit differs materially from our original income tax provisions, it could have a material impact on our results of operations and financial condition.

**Recently enacted securities laws and regulations are increasing our costs.**

The Sarbanes-Oxley Act of 2002 required changes in some of our corporate governance, public disclosure and compliance practices. For example, the SEC has promulgated new rules on a variety of subjects. In addition, the NASDAQ Stock Market LLC ("NASDAQ") has revised its requirements for companies, such as us, that are listed on the NASDAQ. These changes are increasing our legal and financial compliance costs including making it more difficult and more expensive for us to obtain director and officer liability insurance or maintain our current liability coverage. We believe that these new laws and regulations could make it more difficult for us to attract and retain qualified members of our Board of Directors, particularly to serve on our audit committee, and qualified executive officers.

**We are subject to the ongoing internal control provisions of Section 404 of the Sarbanes-Oxley Act of 2002. Identification of material weaknesses in internal controls, if identified, could indicate a lack of proper controls to generate accurate financial statements.**

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 and related SEC rules, we are required to furnish a report of management's assessment of the effectiveness of our internal controls as part of our Annual Report on Form 10-K. Our independent registered accountants are required to attest to and report on management's assessment, as well as provide a separate opinion. To issue our report, we document our internal control design and the testing processes that support our evaluation and conclusion, and then we test and evaluate the results. There can be no assurance, however, that we will be able to remediate material weaknesses, if any, that may be identified in future periods, or maintain all of the controls necessary for continued compliance. There likewise can be no assurance that we will be able to retain sufficient skilled finance and accounting personnel, especially in light of the increased demand for such personnel among publicly traded companies.

**Changes in financial accounting standards related to stock-based awards are expected to continue to have a significant effect on our reported results.**

In fiscal 2006, we adopted Statement of Financial Accounting Standards No. 123(R), "Share-Based Payment," a revised standard that requires that we record compensation expense in the statement of operations for employee and director stock-based awards using a fair value method. The adoption of the new standard had a significant effect on our reported earnings, and could adversely impact our ability to provide accurate guidance on our future reported financial results due to the variability of the factors used to estimate the value of stock-based awards. As a result, the ongoing application of this standard could impact the future value of our common stock and may result in greater stock price volatility.

In addition, since our inception, we have used stock-based awards as a fundamental component of our employee compensation packages. We believe that stock-based awards directly motivate our employees to maximize long-term stockholder value and, through the use of long-term vesting, encourage employees to remain with us. To the extent that this accounting standard makes it less attractive to grant stock-based awards to employees, we may incur increased compensation costs, change our equity compensation strategy or find it difficult to attract, retain and motivate employees, each of which could have a material adverse impact on our business, results of operations and financial condition.

**We face risks from the uncertainty of prevailing political conditions.**

Current global political conditions are uncertain. Because the accuracy of our budgeting and forecasting process relies on stable political conditions, the prevailing political environment renders estimates of future income and expenses even more difficult than usual to formulate. The future direction of the political environment could have a material adverse impact on our business, results of operations and financial condition.

**Terrorist attacks and threats, and government responses thereto, and threats of war elsewhere may negatively impact all aspects of our operations, revenues, costs and stock price.**

Terrorist attacks, the U.S. government's and other governments' responses thereto, and threats of war could adversely impact our business, results of operations and financial condition. Any escalation in these events or similar or future events may disrupt our operations or those of our customers and may affect the availability of

materials needed to manufacture our products or the means to transport those materials to manufacturing facilities and finished products to customers. In addition, these could have an adverse impact on the U.S. and world economy in general.

**Provisions in our corporate documents, stockholder rights plan, and Delaware law could delay or prevent a change in control of Comtech.**

We have taken a number of actions that could have the effect of discouraging, delaying or preventing a merger or acquisition involving Comtech that our stockholders may consider favorable. For example, we have a classified board and the employment contract of our chief executive officer provides for a substantial payment in the event of a change of control of Comtech. We also adopted a stockholder rights plan that could cause substantial dilution to a stockholder, and substantially increase the cost paid by a stockholder, who attempts to acquire us on terms not approved by our Board of Directors. These provisions could prevent us from being acquired. In addition, our certificate of incorporation grants our Board of Directors the authority to fix the rights, preferences and privileges of and issue up to 2,000,000 shares of preferred stock without stockholder action. Although we have no present intention to issue shares of preferred stock, such an issuance of any class or series of our preferred stock could have rights which would adversely affect the voting power of the common stock or which could delay, defer, or prevent a change in control of Comtech. In addition, we are subject to the provisions of Section 203 of the Delaware General Corporation Law, an anti-takeover law. In general, this statute provides that except in certain limited circumstances a corporation shall not engage in any “business combination” with an “interested stockholder” for a period of three years after the date of the transaction in which the person became an interested stockholder, unless the business combination is approved in a prescribed manner. A “business combination” includes mergers, asset sales and other transactions resulting in a financial benefit to the interested stockholder. Subject to certain exceptions, for purposes of Section 203 of the Delaware General Corporation Law, an “interested stockholder” is a person who, together with affiliates, owns, or within three years did own, 15% or more of the corporation’s voting stock. This provision could have the effect of delaying or preventing a change in control of Comtech.

**Our debt service obligations may adversely affect our cash flow.**

The higher level of indebtedness resulting from the issuance of our 2.0% convertible senior notes increases the risk that we may default on our debt obligations. We cannot assure you that we will be able to generate sufficient cash flow to pay the interest on our debt or that future working capital, borrowings or equity financing will be available to pay or refinance such debt.

The level of our indebtedness, among other things, could:

- make it difficult for us to make payments on our debt;
- make it difficult for us to obtain any necessary financing in the future for working capital, acquisitions, capital expenditures, debt service requirements or other purposes;
- limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we compete; and
- make us more vulnerable in the event of a downturn in our business.

**Our stock price is volatile.**

The stock market in general, and the stock prices of technology-based companies in particular, have experienced extreme volatility that often has been unrelated to the operating performance of any specific public company. The market price of our common stock has fluctuated significantly in the past and is likely to fluctuate significantly in the future as well. Factors that could have a significant impact on the market price of our stock are described throughout the Risk Factors section and include:

- strategic transactions, such as acquisitions and divestures;
- future announcements concerning us or our competitors;
- receipt or non-receipt of substantial orders for products and services;
- quality deficiencies in services or products;

- results of technological innovations;
- new commercial products;
- changes in recommendations of securities analysts;
- government regulations;

- proprietary rights or product or patent litigation;
- changes in economic conditions generally, particularly in the telecommunications sector;
- changes in securities market conditions, generally;
- energy blackouts;
- acts of terrorism or war;
- inflation or deflation; and
- rumors or allegations regarding our financial disclosures or practices.

Shortfalls in our sales or earnings in any given period relative to the levels expected by securities analysts could immediately, significantly and adversely affect the trading price of our common stock.

## ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

## ITEM 2. PROPERTIES

Our corporate headquarters are located in an office building complex in Melville, New York. The lease, which is for 9,600 square feet, provides for our use of the premises for seven years through July 2013.

Our RF microwave amplifiers segment is primarily located in a 46,000 square foot engineering and manufacturing facility on more than two acres of land in Melville, New York. We lease this facility from a partnership controlled by our Chairman, Chief Executive Officer and President. The lease, as amended, provides for our use of the premises as they now exist for a term of ten years through December 2011. We have a right of first refusal in the event of a sale of the facility. The base annual rent under the lease is subject to customary adjustments.

Although primarily used for our satellite earth station product lines which are part of the telecommunications transmission segment, all three of our business segments utilize our four high-volume technology manufacturing facilities located in Tempe, Arizona. These manufacturing facilities comprising 146,000 square feet utilize state-of-the-art design and production techniques, including analog, digital and RF microwave production, hardware assembly and full service engineering. The leases for these facilities expire in fiscal 2011 and in each lease we have the option to extend the term of the lease for an additional five-year period.

Our telecommunications transmission segment leases an additional twelve facilities, six of which are located in the U.S. The U.S. facilities (excluding our Tempe, Arizona facility) aggregate 126,000 square feet and are primarily utilized for manufacturing, engineering, and general office use. Our telecommunications transmission segment also operates six small offices in China, India, North Africa, Thailand, the United Kingdom and Canada that are primarily utilized for customer support, engineering and sales.

Our mobile data communications segment operates in a leased 31,000 square foot facility located in Germantown, Maryland. Our lease expires in fiscal 2008. We have signed a letter of intent to renew the lease and expect to finalize the terms of the lease in the near future.

The terms for all of our leased facilities are generally for multi-year periods and we believe that we will be able to renew these leases or find comparable facilities elsewhere.

## ITEM 3. LEGAL PROCEEDINGS

*Hurricane-Related Proceedings*

During fiscal 2005, two of our leased facilities located in Florida experienced hurricane damage to both leasehold improvements and personal property. As of July 31, 2007, we have completed all restoration efforts relating to the hurricane damage and have recorded a $0.8 million insurance recovery receivable and accrued a total of $2.2 million for hurricane related costs. Despite a written agreement with the general contractor that we believe limits our liability for the cost of the repairs to the amount of insurance proceeds ultimately received from our

insurance company, a dispute has arisen with the general contractor and a certain subcontractor over the subcontractor's demand for payment directly from us (by virtue of a purported assignment of rights and other grounds) in an amount exceeding the insurance proceeds by $0.8 million, plus late charges, interest, fees, costs and certain treble damages. As a result of this dispute, we deposited approximately $1.4 million, representing the balance of the insurance proceeds received, in our attorneys' trust account and filed a complaint for declaratory judgment in the 9th Judicial Circuit Court for Orange County, Florida. The general contractor and the subcontractor have filed separate and

independent actions against us and our insurance company, all of which have now been consolidated under our original action. The Court has postponed the trial date several times and has not scheduled a new trial date. We have also filed a cross-claim against our insurance company asserting that the insurer is responsible for whatever liability, if any, we are ultimately adjudged to have to the general contractor or the subcontractor. However, to the extent that insurance recoveries are inadequate, we might be required to fund the shortfall. All parties have held and are currently engaged in mediation and settlement discussions. However, to date, no agreements have been reached. We do not expect that the outcome of this matter will have a material adverse effect on our consolidated financial position.

*Other Legal Proceedings*

In March 2007, a lawsuit was brought against us in the Federal District Court for the Western District of Texas by a company that claims that it was a consultant and a reseller of certain of our products and that it is owed damages for alleged lost profits, as well as punitive damages, costs and attorney's fees. We believe that we have substantial legal and factual defenses to the plaintiff's allegations and we intend to vigorously defend ourselves in this matter. We do not expect that the ultimate outcome of this matter will have a material adverse effect on our consolidated financial position.

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

## ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to our stockholders during the fourth quarter of the fiscal year ended July 31, 2007.

# PART II

## ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

### Stock Performance Graph and Cumulative Total Return

The graph below compares the cumulative total stockholder return on our common stock with the cumulative total return on the S&P's 500 Index and the NASDAQ Telecommunications Index for each of the last five fiscal years ended July 31, assuming an investment of $100 at the beginning of such period and the reinvestment of any dividends. The comparisons in the graphs below are based upon historical data and are not indicative of, nor intended to forecast, future performance of our common stock.

**COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN***

Among Comtech Telecommunications Corp., The S&P 500 Index
And The NASDAQ Telecommunications Index

* $100 invested on 7/31/02 in stock or index-including reinvestment of dividends. Fiscal year ending July 31.

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www.researchdatagroup.com/S&P.htm

Our common stock trades on the NASDAQ Stock Market LLC ("NASDAQ") under the symbol "CMTL." The following table shows the quarterly range of the high and low sale prices for our common stock as reported by the NASDAQ. Such prices do not include retail markups, markdowns or commissions.

| | Common Stock | |
|---|---|---|
| | High | Low |
| **Fiscal Year Ended July 31, 2006** | | |
| First Quarter | $ 43.36 | $ 30.60 |
| Second Quarter | 45.65 | 29.42 |
| Third Quarter | 33.44 | 27.40 |
| Fourth Quarter | 33.80 | 25.67 |
| **Fiscal Year Ended July 31, 2007** | | |
| First Quarter | 36.96 | 26.88 |
| Second Quarter | 39.86 | 33.56 |
| Third Quarter | 40.23 | 33.21 |
| Fourth Quarter | 48.94 | 37.93 |

**Dividends**

We have never paid cash dividends on our common stock. Although we currently expect to use earnings and cash on hand to finance the development and expansion of our businesses, our Board of Directors reviews our dividend policy periodically. The payment of dividends in the future will depend upon our earnings, capital requirements, financial condition and other factors considered relevant by our Board of Directors.

**Recent Sales of Unregistered Securities**

None.

**Issuer Purchases of Equity Securities**

We did not repurchase any of our equity securities during fiscal 2007.

**Approximate Number of Equity Security Holders**

As of September 11, 2007, there were approximately 782 holders of our common stock. Such number of record owners was determined from our shareholder records and does not include beneficial owners of our common stock held in the name of various security holders, dealers and clearing agencies.

**ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA**

The following table shows selected historical consolidated financial data for our Company. During the fiscal quarter ended January 31, 2005, the Company adopted Emerging Issues Task Force ("EITF") Issue No. 04-8, "The Effect of Contingently Convertible Instruments on Diluted Earnings Per Share." The Company has restated, for comparative purposes, the historical share and per share data, including earnings per share ("EPS"), to reflect the impact of the assumed conversion of the Company's 2.0% convertible senior notes in calculating diluted EPS. No restatement of EPS for periods prior to fiscal 2004 was required since the convertible senior notes were not outstanding during these periods. In addition, effective August 1, 2005, we adopted the provisions of SFAS No. 123(R), "Share-Based Payment" using the modified prospective method and, as a result, periods prior to August 1, 2005 do not reflect the recognition of stock-based compensation expense.

All share and per share amounts have also been adjusted to reflect the three-for-two stock splits of the Company's common shares that occurred in April 2005 and July 2003. Detailed historical financial information is included in the audited consolidated financial statements for fiscal 2007, 2006 and 2005.

| | Fiscal Years Ended July 31, (In thousands, except per share amounts) | | | | |
|---|---|---|---|---|---|
| | 2007 | 2006 | 2005 | 2004 | 2003 |
| **Consolidated Statement of Operations Data:** | | | | | |
| Net sales | $ 445,684 | 391,511 | 307,890 | 223,390 | 174,035 |
| Cost of sales | 252,389 | 232,210 | 180,524 | 135,858 | 114,317 |
| Gross profit | 193,295 | 159,301 | 127,366 | 87,532 | 59,718 |
| Expenses: | | | | | |
| Selling, general and administrative | 73,312 | 67,071 | 51,819 | 36,016 | 28,045 |
| Research and development | 32,469 | 25,834 | 21,155 | 15,907 | 12,828 |
| In-process research and development | — | — | — | 940 | — |
| Amortization of intangibles | 2,592 | 2,465 | 2,328 | 2,067 | 2,039 |
| | 108,373 | 95,370 | 75,302 | 54,930 | 42,912 |
| Operating income | 84,922 | 63,931 | 52,064 | 32,602 | 16,806 |
| Other expenses (income): | | | | | |
| Interest expense | 2,731 | 2,687 | 2,679 | 1,425 | 2,803 |
| Interest income and other | (14,208) | (9,243) | (4,072) | (921) | (275) |
| Income before provision for income taxes | 96,399 | 70,487 | 53,457 | 32,098 | 14,278 |
| Provision for income taxes | 31,186 | 25,218 | 16,802 | 10,271 | 4,569 |
| Net income | $ 65,213 | 45,269 | 36,655 | 21,827 | 9,709 |

| | | | | | |
|---|---|---|---|---|---|
| Net income per share: | | | | | |
| Basic | $ 2.81 | 1.99 | 1.69 | 1.03 | 0.57 |
| Diluted | $ 2.42 | 1.72 | 1.42 | 0.92 | 0.53 |
| Weighted average number of common shares outstanding - basic | 23,178 | 22,753 | 21,673 | 21,178 | 17,168 |
| Weighted average number of common and common equivalent shares outstanding assuming dilution – diluted | 27,603 | 27,324 | 27,064 | 24,781 | 18,290 |

(continued)

| | Fiscal Years Ended July 31, (In thousands) | | | | |
|---|---|---|---|---|---|
| | 2007 | 2006 | 2005 | 2004 | 2003 |
| **Other Consolidated Operating Data:** | | | | | |
| Backlog at period-end | $ 129,044 | 186,007 | 153,314 | 83,549 | 100,142 |
| New orders | 388,721 | 424,204 | 377,655 | 206,797 | 230,056 |
| Research and development expenditures - internal and customer funded | 36,639 | 30,243 | 24,156 | 21,656 | 16,504 |

| | As of July 31, (In thousands) | | | | |
|---|---|---|---|---|---|
| | 2007 | 2006 | 2005 | 2004 | 2003 |
| **Consolidated Balance Sheet Data:** | | | | | |
| Total assets | $ 556,342 | 455,266 | 382,403 | 306,390 | 164,250 |
| Working capital | 397,083 | 308,986 | 254,690 | 201,218 | 74,801 |
| Convertible senior notes | 105,000 | 105,000 | 105,000 | 105,000 | — |
| Other long-term obligations | 108 | 243 | 396 | 158 | 393 |
| Stockholders' equity | 345,768 | 254,242 | 196,629 | 142,398 | 117,568 |

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

**Overview**

We design, develop, produce and market innovative products, systems and services for advanced communications solutions. We believe many of our solutions play a vital role in providing or enhancing communication capabilities when terrestrial communications infrastructure is unavailable or ineffective.

We conduct our business through three complementary segments: telecommunications transmission, mobile data communications and RF microwave amplifiers. We sell our products to a diverse customer base in the global commercial and government communications markets. We believe we are a leader in the market segments that we serve.

Our telecommunications transmission segment, which is currently our largest business 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 mobile data communications segment, currently our fastest growing segment, provides customers with an integrated solution, including mobile satellite transceivers and satellite network support, to enable global satellite-based communications when mobile, real-time, secure transmission is required for applications including logistics, support and battlefield command and control. Our RF microwave amplifiers segment designs, manufactures and markets solid-state, high-power, broadband RF microwave amplifier products.

A substantial portion of our sales may be derived from a limited number of relatively large customer contracts, such as our Movement Tracking System ("MTS") contract with the U.S. Army and our U.S. Army's Force XXI Battle Command, Brigade and Below command and control systems (also known as Blue Force Tracking ("BFT")) contract, for which the timing of revenues cannot be predicted. Quarterly and period-to-period sales and operating results may be significantly affected by one or more of such contracts. In addition, our gross profit is affected by a variety of factors, including the mix of products, systems and services sold, production efficiencies, estimates of warranty expense, price competition and general economic conditions. Our gross profit may also be affected by the impact of any cumulative adjustments to contracts that are accounted for under the percentage-of-completion method. Our contracts with the U.S. government can be terminated at any time and orders are subject to unpredictable funding, deployment and technology decisions by the U.S. government. Some of these contracts, such as the MTS and BFT

contracts, are indefinite delivery/indefinite quantity (“IDIQ”) contracts, and as such, the U.S. Army is not obligated to purchase any equipment or services under the contracts. Accordingly, we can experience significant fluctuations in sales and operating results from quarter-to-quarter and period-to-period comparisons may not be indicative of a trend or future performance.

Revenue from the sale of our products is generally recognized when the earnings process is complete, upon shipment or customer acceptance. Revenue from contracts relating to the design, development or manufacture of complex electronic equipment to a buyer's specification or to provide services relating to the performance of such contracts is generally recognized using the percentage-of-completion method. Revenue from contracts that contain multiple elements that are not accounted for under the percentage-of-completion method are generally accounted for in accordance with Emerging Issues Task Force ("EITF") Issue No. 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables." Revenue from these contracts is allocated to each respective element based on each element's relative fair value and is recognized when the respective revenue recognition criteria for each element are met.

**Recent Acquisitions**

In February 2005, we acquired certain assets and assumed certain liabilities of Tolt Technologies, Inc. ("Tolt") for an aggregate purchase price of $3.7 million, including transaction costs of $0.2 million. In fiscal 2006, we significantly de-emphasized stand-alone sales of Tolt's turnkey employee mobility solutions, and are focusing our efforts on selling commercial satellite-based mobile data applications. This operation was combined with our existing business in 2006 and is part of our mobile data communications segment.

In August 2006, we acquired certain assets and assumed certain liabilities of Insite Consulting, Inc. ("Insite"), a logistics application software company, for $3.2 million, including transaction costs of $0.3 million. Insite has developed the geoOps™ Enterprise Location Monitoring System, a software-based solution that allows customers to integrate legacy data systems with near-real time logistics and operational data systems. This operation was combined with our existing business and is part of our mobile data communications segment.

In February 2007, we acquired certain assets and assumed certain liabilities of Digicast Networks, Inc. ("Digicast"), a manufacturer of digital video broadcasting equipment, for $1.0 million. This operation was combined with our existing business and is part of the telecommunications transmission segment.

**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 AICPA Statement of Position 81-1, "Accounting for Performance of Construction-Type and Certain Production-Type Contracts" ("SOP 81-1"). We primarily apply the percentage-of-completion method and generally recognize revenue based on the relationship of total costs incurred to total projected costs, or, alternatively, based on output measures, such as units delivered. Profits expected to be realized on such contracts are based on total estimated sales for the contract compared to total estimated costs, including warranty costs, at completion of the contract. These estimates are reviewed and revised periodically throughout the lives of the contracts, and adjustments to profits resulting from such revisions are made cumulative to the date of the change. Estimated losses on long-term contracts are recorded in the period in which the losses become evident. Long-term U.S. government cost-reimbursable type contracts are also specifically covered by Accounting Research Bulletin No. 43 "Government Contracts, Cost-Plus Fixed-Fee Contracts" ( ARB 43 ), in addition to SOP 81-1.

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

In addition, most government contracts have termination for convenience clauses that provide the customer with the right to terminate the contract at any time. Such terminations could impact the assumptions regarding total contract revenues and expenses utilized in recognizing profit under the percentage-of-completion method of accounting. Changes to these assumptions could materially impact our results of operations and financial position. Historically, we have not experienced material terminations of our long-term contracts.

We also address customer acceptance provisions in assessing our ability to perform our contractual obligations under long-term contracts. Our inability to perform on our long-term contracts could materially impact our results of operations and financial condition. Historically, we have been able to perform on our long-term contracts.

***Accounting for Stock-Based Compensation.*** As discussed further in *"Notes to Consolidated Financial Statements – Note 1(j) Accounting for Stock-Based Compensation,"* we adopted Statement of Financial Accounting Standards ("SFAS") No. 123(R) on August 1, 2005 using the modified prospective method. Through July 31, 2005, we accounted for our stock option and employee stock purchase plans under the intrinsic value method of Accounting Principles Board ("APB") Opinion No. 25, and as a result no compensation costs had been recognized in our historical consolidated statements of operations.

We have used and expect to continue to use the Black-Scholes option pricing model to compute the estimated fair value of stock-based awards. The Black-Scholes option pricing model includes assumptions regarding dividend yields, expected volatility, expected option term and risk-free interest rates. The assumptions used in computing the fair value of stock-based awards reflect our best estimates, but involve uncertainties relating to market and other conditions, many of which are outside of our control. We estimate expected volatility by considering the historical volatility of our stock, the implied volatility of publicly traded stock options in our stock and our expectations of volatility for the expected term of stock-based compensation awards. As a result, if other assumptions or estimates had been used for options granted, stock-based compensation expense that was recorded could have been materially different. Furthermore, if different assumptions are used in future periods, stock-based compensation expense could be materially impacted in the future.

***Impairment of Goodwill and Other Intangible Assets.*** As of July 31, 2007, our company's goodwill and other intangible assets aggregated $30.1 million. In assessing the recoverability of goodwill and other intangibles, we must make various assumptions regarding estimated future cash flows and other factors in determining the fair values of the respective assets. If these estimates or their related assumptions change in the future, we may be required to record impairment charges for these assets in future periods. Any such resulting impairment charges could be material to our results of operations.

***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. Some of our warranties are provided under long-term contracts, the costs of which are incorporated into our estimates of total contract costs. There exist inherent risks and uncertainties in estimating warranty expenses, particularly on larger or longer-term contracts. As such, if we do not accurately estimate our warranty costs, any changes to our original estimates could be material to our results of operations and financial condition.

***Accounting for Income Taxes.*** Our deferred tax assets and liabilities are determined based on temporary differences between financial reporting and tax bases of assets and liabilities, applying enacted tax rates expected to be in effect for the year in which the differences are expected to reverse. The provision for income taxes is based on domestic and international statutory income tax rates in the tax jurisdictions where we operate, permanent differences between financial reporting and tax reporting and available credits and incentives. 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 provide tax reserves for tax exposures relating to periods subject to audit. The development of reserves for these exposures 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. It is our policy to recognize interest and penalties related to uncertain tax positions in income tax expense. If actual outcomes differ materially from these estimates, they could have a material impact on our results of operations and financial position. As discussed in *"Notes to Consolidated Financial Statements – Note 1(h) Income Taxes and Note 9 Income Taxes",* on August 1, 2007 we adopted FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109" ("FIN 48").

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

***Allowance for Doubtful Accounts.*** We perform credit evaluations of our customers and adjust credit limits based upon customer payment history and current creditworthiness, as determined by our review of our customers' current credit information. Generally, we will require cash in advance or payment secured by irrevocable letters of credit before an order is accepted from an international customer that we do not do business with regularly. In addition, we seek to obtain insurance for certain international customers. We monitor collections and payments from our customers and maintain an allowance for doubtful accounts based upon our historical experience and any specific customer collection issues that we have identified. While such credit losses have historically been within our expectations and the allowances established, we cannot guarantee that we will continue to experience the same credit loss rates that we have in the past. Measurement of such losses requires consideration of historical loss experience, including the need to adjust for current conditions, and judgments about the probable effects of relevant observable data, including present economic conditions such as delinquency rates and the financial health of specific customers. Changes to the estimated allowance for doubtful accounts could be material to our results of operations and financial condition.

**Results of Operations**

The following table sets forth, for the periods indicated, certain income and expense items expressed as a percentage of our consolidated net sales:

| | Fiscal Years Ended July 31, | | |
|---|---|---|---|
| | 2007 | 2006 | 2005 |
| Net sales | 100.0% | 100.0% | 100.0% |
| Gross margin | 43.4 | 40.7 | 41.4 |
| Selling, general and administrative expenses | 16.4 | 17.1 | 16.8 |
| Research and development expenses | 7.3 | 6.6 | 6.9 |
| Amortization of intangibles | 0.6 | 0.6 | 0.8 |
| Operating income | 19.1 | 16.3 | 16.9 |
| Interest expense (income), net | (2.5) | (1.7) | (0.5) |
| Income before provision for income taxes | 21.6 | 18.0 | 17.4 |
| Net income | 14.6 | 11.6 | 11.9 |

**Comparison of Fiscal 2007 and 2006**

***Net Sales.*** Consolidated net sales were $445.7 million and $391.5 million for fiscal 2007 and 2006, respectively, representing an increase of $54.2 million, or 13.8%. The increase in net sales reflects growth in our telecommunications transmission and mobile data communications segments, partially offset by lower net sales in our RF microwave amplifiers segment.

Net sales in our telecommunications transmission segment were $219.9 million and $197.9 million for fiscal 2007 and 2006, respectively, an increase of $22.0 million, or 11.1%. The increase in net sales in this segment primarily reflects increased sales of our over-the-horizon microwave systems and satellite earth station products. Sales of our over-the-horizon microwave systems for fiscal 2007 were higher than fiscal 2006 due to deliveries of our new 16 Mbps troposcatter modem upgrade kits for use on the U.S. Department of Defense's ("DoD") AN/TRC-170 digital troposcatter terminals. On the other hand, sales of our over-the-horizon microwave systems, both direct and indirect, to our North African country end-customer were lower during fiscal 2007 as we believe the end-customer is between major phases of a multi-year roll-out of a large project. Net sales in fiscal 2007 include sales of $1.2 million relating to a gross profit adjustment, as discussed below, on a large over-the-horizon microwave system contract. Sales of satellite earth station products in fiscal 2007 were higher than fiscal 2006 as we continued to benefit from demand for our bandwidth efficient satellite earth station modems, including those used to support cellular backhaul applications. Our telecommunications transmission segment represented 49.3% of consolidated net sales for fiscal 2007 as compared to 50.5% for fiscal 2006.

Although sales in our telecommunications transmission segment can fluctuate from period-to-period based on the strength of our satellite earth station bookings and the receipt of and performance on large over-the-horizon microwave system contracts, we currently believe that net sales in our telecommunications transmission segment should increase in fiscal 2008. We believe that the demand drivers for our satellite earth station products remain strong and that we will receive at least one large over-the-horizon microwave system contract in fiscal 2008.

Net sales in our mobile data communications segment were $189.6 million and $149.5 million for fiscal 2007 and 2006, respectively, an increase of $40.1 million, or 26.8%. The increase in net sales was due to an increase in deliveries to the U.S. Army and Army National Guard for ongoing support of MTS program activities and higher sales of battlefield command and control applications to the U.S. military. This increase was partially offset by a decline in net sales of $17.3 million related to the impact of our decision, made in fiscal 2006, to significantly de-emphasize stand-alone sales of low margin turnkey employee mobility solutions. Net sales in fiscal 2007 and 2006 include sales of $1.1 million and $9.5 million, respectively, relating to gross profit adjustments on our original MTS contract, discussed below. Our mobile data communications segment represented 42.6% of consolidated net sales for fiscal 2007 as compared to 38.2% for fiscal 2006.

Our original (and subsequently extended) $463.2 million MTS contract expired in August 2007. We ultimately received total orders against the original MTS contract of $459.8 million. In August 2007, we were awarded a new IDIQ contract, with a ceiling value of $605.1 million, to continue to provide and support MTS products and services through July 12, 2010. In addition to our new MTS contract, we were also awarded a separate IDIQ contract to continue to provide our mobile data communication products and services in support of the U.S. Army's BFT tracking system. This contract has a ceiling value of $216.0 million and continues through December 31, 2011. Although it is difficult to predict the timing and amount of funding that we expect to ultimately receive on our new MTS and BFT contracts, we currently anticipate that our mobile data communications segment will experience continued growth in fiscal 2008. 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. Also, we are aware that the U.S. government has experienced delays in the receipt of certain components that are provided to us for incorporation into our mobile satellite transceivers. If we do not receive these U.S. government furnished components in a timely manner, we could experience delays in fulfilling funded and anticipated orders from our customers.

Net sales in our RF microwave amplifiers segment were $36.2 million for fiscal 2007 compared to $44.1 million for fiscal 2006, a decrease of $7.9 million, or 17.9%. The decrease in net sales was due to lower sales of our amplifiers that are incorporated into improvised explosive device jamming systems, as well as certain orders currently in backlog that are now expected to ship in fiscal 2008. A portion of our backlog is comprised of more complex amplifiers employing newer technology which has resulted in longer than expected production times to ensure that these amplifiers meet our customers' specifications. Our RF microwave amplifiers segment represented 8.1% of consolidated net sales for fiscal 2007 as compared to 11.3% for fiscal 2006.

Based on the amount of our current backlog and anticipated future orders, we currently expect sales in our RF microwave amplifiers segment to increase in fiscal 2008. In the second half of fiscal 2007, we were selected by one of our customers to participate in the Counter Remote Controlled Improvised Explosive Device Electronic Warfare ("CREW") program and we expect to receive additional orders for these types of amplifiers in fiscal 2008.

International sales (which include sales to U.S. companies for inclusion in products which are sold to international customers) represented 26.2% and 35.6% of consolidated net sales for fiscal 2007 and 2006, respectively. Domestic commercial sales represented 12.5% and 17.1% of consolidated net sales for fiscal 2007 and 2006, respectively. Sales to the U.S. government (including sales to prime contractors to the U.S. government) represented 61.3% and 47.3% of consolidated net sales for fiscal 2007 and 2006, respectively.

During fiscal 2007 and 2006, one customer, a prime contractor, represented 5.4% and 10.2% of consolidated net sales, respectively.

***Gross Profit.*** Gross profit was $193.3 million and $159.3 million for fiscal 2007 and 2006, respectively, representing an increase of $34.0 million, or 21.3%. The increase in gross profit was primarily attributable to the increase in net sales discussed above, as well as an increase in the gross profit percentage to 43.4% for fiscal 2007 from 40.7% for 2006.

As discussed further below, we recorded favorable cumulative adjustments relating to certain long-term contracts, which were partially offset by a firmware-related warranty provision in both periods. Excluding the impact of these adjustments and the firmware-related warranty provision, to both net sales and gross profit, our gross profit as a percentage of sales for fiscal 2007 and 2006 would have been 41.0% and 39.8%, respectively. The increase in the adjusted gross profit percentage was primarily due to increased gross margins within our telecommunications transmission segment, primarily due to the benefit of higher sales of our new 16 Mbps troposcatter modem upgrade kits, and increased operating efficiencies in our mobile data communications segment, including the benefit of our decision to significantly de-emphasize stand-alone sales of low margin turnkey employee mobility solutions. The

increase in gross margins was offset, in part, by lower gross margins in our RF microwave amplifiers segment primarily due to lower sales and product mix.

During fiscal 2007 and 2006, we recorded favorable cumulative gross profit adjustments of $11.8 million (of which $10.7 million related to the mobile data communications segment and $1.1 million related to the telecommunications transmission segment) and $9.1 million (of which $8.5 million related to the mobile data communications segment and $0.6 million related to the RF microwave amplifiers segment), respectively, relating to our ongoing review of total estimated contract revenues and costs, and the related gross margin at completion, on long-term contracts. Offsetting these adjustments, in our mobile data communications segment and included in cost of sales for fiscal 2007 and 2006, is a firmware-related warranty provision of $0.1 million and $1.7 million, respectively.

The favorable cumulative gross profit adjustments recorded in both periods in our mobile data communications segment resulted from the increase in the estimated gross profit at completion on our original MTS contract. The adjustments are primarily related to increased operating efficiencies and, as it relates to fiscal 2007, the finalization of our total contract costs (including estimates for warranty obligations) relating to the completion of the original MTS contract. The favorable cumulative gross profit adjustment recorded in our telecommunications transmission segment during fiscal 2007 related to an increase in the estimated gross profit at completion on a large over-the-horizon microwave system contract. The favorable cumulative gross profit adjustment recorded in our RF microwave amplifiers segment during fiscal 2006 related to a U.S. military contract that was substantially completed in fiscal 2006.

Included in cost of sales for fiscal 2007 and 2006 are provisions for excess and obsolete inventory of $4.5 million and $2.0 million, respectively. As discussed in our “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.

***Selling, General and Administrative Expenses.*** Selling, general and administrative expenses were $73.3 million and $67.1 million for fiscal 2007 and 2006, respectively, representing an increase of $6.2 million, or 9.2%. The increase in expenses was primarily attributable to higher payroll-related expenses (including amortization of stock-based compensation) and increased other costs associated with the growth of our business. This increase was offset, in part, by lower expenses in our mobile data communications segment as we continue to de-emphasize stand-alone sales of low margin turnkey employee mobility solutions. As a percentage of consolidated net sales, selling, general and administrative expenses were 16.4% and 17.1% for fiscal 2007 and 2006, respectively.

Amortization of stock-based compensation expense recorded as selling, general and administrative expenses increased to $5.8 million in fiscal 2007 from $4.6 million in fiscal 2006.

***Research and Development Expenses.*** Research and development expenses were $32.5 million and $25.8 million for fiscal 2007 and 2006, respectively, representing an increase of $6.7 million, or 26.0%. Approximately $21.0 million and $19.0 million of such amounts, respectively, related to our telecommunications transmission segment, with the remaining expenses primarily related to our mobile data communications segment and, to a lesser extent, our RF microwave amplifiers segment. As a percentage of consolidated net sales, research and development expenses were 7.3% and 6.6% for fiscal 2007 and 2006, respectively.

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 fiscal 2007 and 2006, customers reimbursed us $4.2 million and $4.4 million, respectively, which is not reflected in the reported research and development expenses, but is included in net sales with the related costs included in cost of sales.

Amortization of stock-based compensation expense recorded as research and development expenses increased to $1.1 million in fiscal 2007 from $0.7 million in fiscal 2006.

***Amortization of Intangibles.*** Amortization of intangibles for fiscal 2007 and 2006 was $2.6 million and $2.5 million, respectively. The amortization primarily relates to intangibles with finite lives that we acquired in connection with various acquisitions (including the acquisitions of Insite and Digicast that occurred in fiscal 2007).

***Operating Income.*** Operating income for fiscal 2007 and 2006 was $84.9 million and $63.9 million, respectively. The $21.0 million, or 32.9% increase, was primarily the result of the higher sales and gross profit, discussed above.

Operating income in our telecommunications transmission segment increased to $59.2 million for fiscal 2007 from $49.8 million for fiscal 2006, as a result of increased net sales and gross profit, partially offset by increased operating expenses. In addition, as discussed above under "*Gross Profit*," included in operating income for fiscal 2007 is a cumulative adjustment related to a large over-the-horizon microwave systems contract which favorably impacted operating income by $0.9 million.

Our mobile data communications segment generated operating income of $45.4 million for fiscal 2007 compared to $21.7 million for fiscal 2006. The increase in operating income was primarily due to the increase in net sales and operating efficiencies achieved, including the benefit of lower selling, general and administrative expenses as we continue to de-emphasize stand-alone sales of low margin turnkey employee mobility solutions. In addition, as discussed above under "*Gross Profit*," included in operating income for fiscal 2007 and 2006, are positive impacts from the cumulative adjustments, net of the respective firmware-related warranty provisions, of $9.1 million and $5.8 million, respectively.

Operating income in our RF microwave amplifiers segment decreased to $3.7 million for fiscal 2007 from $8.3 million for fiscal 2006 due primarily to lower net sales and lower gross margins. In addition, as discussed above under "*Gross Profit*," included in operating income for fiscal 2006 is a cumulative adjustment which favorably impacted operating income by $0.5 million.

Unallocated operating expenses increased to $23.3 million for fiscal 2007 from $15.9 million for fiscal 2006 due primarily to higher payroll-related expenses (including increased amortization of stock-based compensation), as well as increased other costs associated with growing our business. Amortization of stock-based compensation expense increased to $7.4 million in fiscal 2007 from $5.7 million in fiscal 2006. This increase is primarily attributable to an increase in both the number and related fair value of stock-based awards that are being amortized over their respective service periods for fiscal 2007 as compared to fiscal 2006. Amortization of stock-based compensation is expected to increase in fiscal 2008 as a result of ongoing amortization of awards currently outstanding (including those issued through September 18, 2007).

***Interest Expense.*** Interest expense was $2.7 million for both fiscal 2007 and 2006. Interest expense primarily relates to our 2.0% convertible senior notes.

***Interest Income and Other.*** Interest income and other for fiscal 2007 was $14.2 million, as compared to $9.2 million for fiscal 2006. The $5.0 million increase was primarily due to an increase in interest rates and additional investable cash since July 2006.

***Provision for Income Taxes.*** The provision for income taxes was $31.2 million and $25.2 million for fiscal 2007 and 2006, respectively. Our effective tax rate was 32.4% and 35.8% for fiscal 2007 and 2006, respectively.

The decrease in the effective tax rate was primarily attributable to the passage of legislation, in fiscal 2007, extending the Federal research and experimentation credit, including $0.6 million of tax benefits related to the retroactive application of the credit to fiscal 2006, and the approval by our stockholders of an amendment to the 2000 Stock Incentive Plan (the "Plan") which will permit us to claim tax deductions for cash incentive awards anticipated to be paid under the Plan without limitation under §162(m) of the Internal Revenue Code. In addition, we also recorded incremental tax benefits aggregating $2.0 million during fiscal 2007 including a $1.0 million tax benefit due to the expiration of applicable statutes of limitations. Our tax rate for fiscal 2006 was favorably impacted by the recording of a net benefit of $0.6 million primarily relating to the favorable settlement of a state tax matter. Excluding adjustments, our effective tax rate for fiscal 2007 approximated 35.0%.

We currently expect that our fiscal 2008 effective tax rate will be approximately 35.0%. The expected increase in the effective tax rate from the 32.4% experienced in fiscal 2007 is primarily the result of (i) the items impacting the 2007 tax rate discussed above, (ii) the expiration, in December 2007, of the Federal research and experimentation credit, (iii) the repeal, in December 2006, of the extraterritorial income exclusion, offset by (iv) the scheduled phase-in of the deduction for domestic production activities.

Our Federal income tax return for the fiscal year ended July 31, 2004 is currently being audited by the Internal Revenue Service. Additional income tax returns for other fiscal years may also be examined. If the outcome of the audit differs materially from our original income tax provisions, it could have a material adverse effect on our results of operations and financial position.

**Comparison of Fiscal 2006 and 2005**

***Net Sales.*** Consolidated net sales were $391.5 million and $307.9 million for fiscal 2006 and 2005, respectively, representing an increase of $83.6 million, or 27.2%. The increase in net sales was driven by an increase in our telecommunications transmission and our mobile data communications segments, partially offset by lower net sales in our RF microwave amplifiers segment.

Net sales in our telecommunications transmission segment were $197.9 million and $174.5 million for fiscal 2006 and 2005, respectively, an increase of $23.4 million, or 13.4%. The growth in this segment resulted primarily from an increase in demand for our satellite earth station products and sales related to a contract with a third-party commercial customer to outsource its manufacturing. Fiscal 2005 also includes a $4.0 million cumulative adjustment to net sales which resulted from lower than anticipated costs on two large over-the-horizon microwave system contracts. Sales in the over-the-horizon microwave systems product line can fluctuate dramatically from period to period based on the receipt of large contracts and our performance thereon. Our telecommunications transmission segment represented 50.5% of consolidated net sales for fiscal 2006 as compared to 56.7% for fiscal 2005.

Net sales in our mobile data communications segment were $149.5 million and $86.1 million for fiscal 2006 and 2005, respectively, an increase of $63.4 million, or 73.6%. The increase in net sales was due to (i) higher sales on the MTS contract, including $9.5 million of sales relating to the gross profit adjustment discussed below under *"Gross Profit,"* (ii) higher sales of battlefield command and control applications to the U.S. military, and (iii) our acquisition of Tolt in February 2005 which contributed $18.7 million of net sales for fiscal 2006 compared to $11.3 million of net sales for fiscal 2005. In the second half of fiscal 2006, we significantly de-emphasized stand-alone sales of Tolt's low margin turnkey employee mobility solutions to further focus its sales efforts on commercial satellite-based mobile data applications. Stand-alone sales of these low margin turnkey employee mobility solutions during fiscal 2006 were approximately $15.0 million. Net sales for fiscal 2005 were positively impacted by a favorable cumulative adjustment associated with the change from the usage method to the straight-line method of accounting for MTS prepaid service time revenue, which contributed $3.8 million to net sales. Period-to-period sales and profitability in our mobile data communications segment can fluctuate dramatically due to funding fluctuations. Our mobile data communications segment represented 38.2% of consolidated net sales for fiscal 2006 as compared to 27.9% for fiscal 2005.

Net sales in our RF microwave amplifiers segment were $44.1 million for fiscal 2006 compared to $47.3 million for fiscal 2005, a decrease of $3.2 million, or 6.8%. The decrease in net sales was due primarily to lower sales of our amplifiers that are incorporated into improvised explosive device jamming systems, partially offset by increased demand for other defense-related products in this segment. Our RF microwave amplifiers segment represented 11.3% of consolidated net sales for fiscal 2006 as compared to 15.4% for fiscal 2005.

International sales (which include sales to U.S. companies for inclusion in products which are sold to international customers) represented 35.6% and 44.0% of consolidated net sales for fiscal 2006 and 2005, respectively. Domestic commercial sales represented 17.1% and 13.9% of consolidated net sales for fiscal 2006 and 2005, respectively. Sales to the U.S. government (including sales to prime contractors to the U.S. government) represented 47.3% and 42.1% of consolidated net sales for fiscal 2006 and 2005, respectively.

One customer, a prime contractor, represented 10.2% of consolidated net sales in both fiscal 2006 and 2005. Direct and indirect sales to a North African country, including certain sales to the prime contractor mentioned above, represented 9.7% and 13.2% of consolidated net sales for fiscal 2006 and 2005, respectively.

***Gross Profit.*** Gross profit was $159.3 million and $127.4 million for fiscal 2006 and 2005, respectively, representing an increase of $31.9 million, or 25.0%. Our gross profit percentage was 40.7% for fiscal 2006 as compared to 41.4% for fiscal 2005.

Excluding the impact of adjustments to both net sales and gross profit in both periods, as discussed below, our adjusted gross profit as a percentage of net sales for fiscal 2006 and 2005 would have been 39.8% and 40.5%, respectively. This decrease was primarily due to a higher proportion of our consolidated net sales being in the mobile data communications segment, which typically realizes lower gross margins than sales in our other two segments. In addition, fiscal 2006 includes higher sales relating to Tolt's turnkey employee mobility solutions, which have lower gross margins than any of our other product lines. The decline in gross margin percentage due to the change in product mix was partially offset by continued increased operating efficiencies associated with increased usage of our high-volume technology manufacturing facility during fiscal 2006.

During fiscal 2006, we recorded favorable cumulative gross profit adjustments of $9.1 million (of which $8.5 million relates to the mobile data communications segment and $0.6 million relates to the RF microwave amplifiers segment). The adjustment in our mobile data communications segment was primarily the result of increased MTS funding from the U.S. Army, as well as improved operating efficiencies. The adjustment in our RF microwave amplifiers segment related to a military contract that was substantially completed in fiscal 2006. These favorable adjustments were partially offset by a $1.7 million warranty provision in our mobile data communications segment relating to certain of our firmware that had to be modified. During fiscal 2005, we recorded cumulative adjustments related to two large over-the-horizon microwave system contracts and the MTS contract with an aggregate impact of $5.8 million on gross profit (of which $2.2 million relates to the mobile data communications segment and $3.6 million relates to the telecommunications transmission segment).

Included in cost of sales for fiscal 2006 and 2005 are provisions for excess and obsolete inventory of $2.0 million and $2.1 million, respectively. As discussed under *"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.

***Selling, General and Administrative Expenses.*** Selling, general and administrative expenses were $67.1 million and $51.8 million for fiscal 2006 and 2005, respectively, representing an increase of $15.3 million, or 29.5%. The increase in expenses was primarily attributable to (i) the increased level of net sales and activity in our telecommunications transmission and mobile data communications segments, (ii) the recording of $4.6 million of stock-based compensation expense during fiscal 2006, and (iii) a full year of expenses associated with Tolt, which was acquired in February 2005. There was no stock-based compensation expense included in selling, general and administrative expenses in fiscal 2005. As a percentage of consolidated net sales, selling, general and administrative expenses were 17.1% and 16.8% for fiscal 2006 and 2005, respectively.

***Research and Development Expenses.*** Research and development expenses were $25.8 million and $21.2 million for fiscal 2006 and 2005, respectively, representing an increase of $4.6 million, or 21.7%. Approximately $19.0 million and $17.7 million of such amounts, respectively, related to our telecommunications transmission segment, with the remaining expenses primarily related to our mobile data communications segment and, to a lesser extent, our RF microwave amplifiers segment. In addition, during fiscal 2006, we recorded $0.7 million of stock-based compensation expense in research and development expenses. There was no stock-based compensation expense included in research and development expenses in fiscal 2005. 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 fiscal 2006 and 2005, customers reimbursed us $4.4 million and $3.0 million, respectively, which is not reflected in the reported research and development expenses, but is included in net sales with the related costs included in cost of sales.

***Amortization of Intangibles.*** Amortization of intangibles for fiscal 2006 and 2005 was $2.5 million and $2.3 million, respectively. The amortization primarily relates to intangibles with finite lives that we acquired in connection with various acquisitions.

***Operating Income.*** Operating income for fiscal 2006 and 2005 was $63.9 million and $52.1 million, respectively. The $11.8 million, or 22.6% increase, was the result of the higher sales and gross profit, discussed above, partially offset by higher operating expenses.

Operating income in our telecommunications transmission segment increased to $49.8 million for fiscal 2006 from $40.2 million for fiscal 2005, as a result of increased net sales and gross profit, partially offset by increased operating expenses. In addition, fiscal 2005 included a $3.1 million positive impact on operating income from the cumulative gross margin adjustments discussed above under "*Gross Profit*" related to two large over-the-horizon microwave system contracts.

Our mobile data communications segment generated operating income of $21.7 million for fiscal 2006 compared to $11.9 million for fiscal 2005 due primarily to the significant increase in net sales and gross profit, partially offset by increased operating expenses, including increased research and development expenses. The operations relating to Tolt, which incurred an operating loss of $5.0 million in fiscal 2006, have been combined into our network operations center facility. In addition, fiscal 2006 and 2005 included positive impacts on operating income from the cumulative gross margin adjustments, net of the warranty provision in the fiscal 2006 period, discussed above under *"Gross Profit"* of $5.8 million and $2.0 million, respectively.

Operating income in our RF microwave amplifiers segment increased to $8.3 million for fiscal 2006 from $8.2 million for fiscal 2005. Operating income for fiscal 2006 includes a $0.5 million benefit from a positive gross margin adjustment on a contract discussed above under *"Gross Profit."*

Unallocated operating expenses increased to $15.9 million for fiscal 2006 from $8.2 million for fiscal 2005 due primarily to the recording of $5.7 million of stock-based compensation expense associated with SFAS No. 123(R) and increased incentive compensation costs in connection with the significant increase in pre-tax income.

***Interest Expense.*** Interest expense was $2.7 million for both fiscal 2006 and 2005. Interest expense primarily relates to our 2.0% convertible senior notes issued in January 2004.

***Interest Income.*** Interest income for fiscal 2006 was $9.2 million, as compared to $4.1 million for fiscal 2005. The $5.1 million increase was due primarily to an increase in interest rates and additional investable cash, primarily provided by our operating cash flow.

***Provision for Income Taxes.*** The provision for income taxes was $25.2 million and $16.8 million for fiscal 2006 and 2005, respectively. Our effective tax rate for fiscal 2006 was 35.8% as compared to 31.4% for fiscal 2005.

The increase in the effective tax rate was primarily attributable to (i) the increased level of pre-tax profit, (ii) the nondeductibility of stock-based compensation expense in fiscal 2006 relating to incentive stock options, (iii) the expiration, in December 2005, of the Federal research and experimentation credit, and (iv) the scheduled phase-out of the extraterritorial income exclusion which was slightly offset by the scheduled phase-in of the deduction for domestic production activities.

In fiscal 2006, we recorded a net tax benefit of $0.6 million primarily relating to the favorable settlement of a state tax matter. In fiscal 2005, we recorded a $1.1 million tax benefit related to the reduction in the valuation allowance that was established for the extended write-off period of acquired in-process research and development.

**Liquidity and Capital Resources**

Our unrestricted cash and cash equivalents increased to $342.9 million at July 31, 2007 from $251.6 million at July 31, 2006, representing an increase of $91.3 million.

Net cash provided by operating activities was $89.2 million for fiscal 2007 compared to $44.3 million for fiscal 2006. This increase is primarily attributable to increased net income, depreciation, amortization (including the amortization of stock-based compensation) and advanced payments received from customers offset by net changes in other working capital accounts.

Net cash used in investing activities for fiscal 2007 was $16.1 million, of which $12.1 million was for purchases of property, plant and equipment including expenditures related to the continued expansion of our high-volume technology manufacturing center located in Tempe, Arizona, and continued enhancements to our network operations facility in Germantown, Maryland. In fiscal 2007 we paid $3.9 million relating to our acquisitions of Insite and Digicast. We currently expect capital expenditures for fiscal 2008 to be between $14 million and $15 million.

Net cash provided by financing activities was $18.1 million for fiscal 2007, primarily due to the exercises of stock-based awards, including the related income tax benefit.

*Financing Arrangement*

On January 27, 2004, we issued $105.0 million of our 2.0% convertible senior notes in a private offering pursuant to Rule 144A under the Securities Act of 1933, as amended. For further information concerning this financing, see *"Notes to Consolidated Financial Statements – Note 8 - 2.0% Convertible Senior Notes due 2024*."

*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 July 31, 2007 will materially adversely affect our liquidity.

At July 31, 2007, we had contractual cash obligations to repay our 2.0% convertible senior notes, capital lease and operating lease obligations (including satellite lease expenditures relating to our mobile data communications segment contracts) and the financing of a purchase of proprietary technology. Payments due under these long-term obligations, excluding interest on the 2.0% convertible senior notes, are as follows:

| | Obligations Due by Fiscal Years | | | | |
|---|---|---|---|---|---|
| | Total | 2008 | 2009 and 2010 | 2011 and 2012 | After 2012 |
| 2.0% convertible senior notes | $ 105,000,000 | — | — | — | 105,000,000 |
| Operating lease commitments | 21,760,000 | 11,946,000 | 6,306,000 | 3,102,000 | 406,000 |
| Other obligations | 263,000 | 150,000 | 113,000 | — | — |
| Total contractual cash obligations | $ 127,023,000 | 12,096,000 | 6,419,000 | 3,102,000 | 105,406,000 |

As further discussed in *"Notes to Consolidated Financial Statements – Note 8 - 2.0% Convertible Senior Notes due 2024,"* we may, at our option, redeem some or all of the notes on or after February 4, 2009. Holders of our 2.0% convertible senior notes will have the right to require us to repurchase some or all of the outstanding notes on February 1, 2011, February 1, 2014 and February 1, 2019 and upon certain events. The notes can be converted, at the option of the noteholders, during the conversion period of September 17, 2007 through December 14, 2007. Upon receiving notification of a noteholder's intent to convert, we, in accordance with the provisions of the indenture, will inform the noteholder of our intention to deliver shares of common stock or cash, or a combination thereof.

We have entered into standby letter of credit agreements with financial institutions relating to the guarantee of future performance on certain contracts. At July 31, 2007, the balance of these agreements was $3.4 million.

We believe that our cash and cash equivalents will be sufficient to meet our operating cash requirements for the foreseeable future. In the event that we identify a significant acquisition that requires additional cash, we would seek to borrow funds or raise additional equity capital.

**Legal Proceedings**

*Hurricane-Related Proceedings*
During fiscal 2005, two of our leased facilities located in Florida experienced hurricane damage to both leasehold improvements and personal property. As of July 31, 2007, we have completed all restoration efforts relating to the hurricane damage and have recorded a $0.8 million insurance recovery receivable and accrued a total of $2.2 million for hurricane related costs. Despite a written agreement with the general contractor that we believe limits our liability for the cost of the repairs to the amount of insurance proceeds ultimately received from our insurance company, a dispute has arisen with the general contractor and a certain subcontractor over the subcontractor's demand for payment directly from us (by virtue of a purported assignment of rights and other grounds) in an amount exceeding the insurance proceeds by $0.8 million, plus late charges, interest, fees, costs and certain treble damages. As a result of this dispute, we deposited approximately $1.4 million, representing the balance of the insurance proceeds received, in our attorney's trust account and filed a complaint for declaratory judgment in the 9th Judicial Circuit Court for Orange County, Florida. The general contractor and the subcontractor have filed separate and independent actions against us and our insurance company, all of which have now been consolidated under our original action. The Court has postponed the trial date several times and has not scheduled a new date. We have also filed a cross-claim against our insurance company asserting that the insurer is responsible for whatever liability, if any, we are ultimately adjudged to have to the general contractor or the subcontractor. However, to the extent that insurance recoveries are inadequate, we might be required to fund the shortfall. All parties have held and are currently engaged in mediation and settlement discussions. However, to date, no agreements have been reached. We do not expect that the outcome of this matter will have a material effect on our consolidated financial condition.

*Other Legal Proceedings*

In March 2007, a lawsuit was brought against us in the Federal District Court for the Western District of Texas by a company that claims that it was a consultant and a reseller of certain of our products and that it is owed damages for alleged lost profits, as well as punitive damages, costs and attorney's fees. We believe that we have substantial legal and factual defenses to the plaintiff's allegations and we intend to vigorously defend ourselves in this matter. We do

not expect that the ultimate outcome of this matter will have a material adverse effect on our consolidated financial condition.

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

**Recent Accounting Pronouncements**

In February 2007, the FASB released SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS No. 159") to provide companies with an option to report selected financial assets and liabilities at fair value. The objective of SFAS No. 159 is to reduce both the complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. SFAS No. 159 is effective as of the beginning of our fiscal 2009. Early adoption is permitted. We are not yet in a position to determine what, if any, effect SFAS No. 159 will have on our consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS No. 157") to clarify the definition of fair value, establish a framework for measuring fair value and expand the disclosures on fair value measurements. SFAS No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS No. 157 also stipulates that, as a market-based measurement, fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability, and establishes a fair value hierarchy that distinguishes between (a) market participant assumptions developed based on market data obtained from sources independent of the reporting entity (observable inputs) and (b) the reporting entity's own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs). SFAS No. 157 will be effective for our first quarter of fiscal 2009 and we are currently evaluating the impact its adoption will have on our consolidated financial statements.

In September 2006, the SEC issued SAB No. 108 ("SAB No. 108") which provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. We adopted SAB No. 108 in the fourth quarter of fiscal 2007 and its adoption had no impact on our consolidated financial statements.

In July 2006, the FASB released FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 clarifies the accounting and reporting for uncertainties in income tax law and prescribes a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of uncertain tax positions taken or expected to be taken in income tax returns. FIN 48 prescribes a two-step evaluation process for tax positions. The first step is recognition based on a determination of whether it is more-likely-than-not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The second step is to measure a tax position that meets the more-likely-than-not threshold. The tax position is measured at the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement. If a tax position does not meet the more-likely-than-not recognition threshold, the benefit of that position is not recognized in the financial statements. We adopted FIN 48 on August 1, 2007 and its adoption had no material impact on our consolidated financial statements.

In June 2006, the EITF reached a consensus on EITF 06-3, "How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement" ("EITF 06-3"). EITF 06-3 provides that taxes imposed by a governmental authority on a revenue producing transaction between a seller and a customer should be shown in the income statement on either a gross or a net basis, based on the entity's accounting policy, which should be disclosed pursuant to APB Opinion No. 22, "Disclosure of Accounting Policies." We adopted EITF 06-3 in the first quarter of fiscal 2007 and continue to present taxes within the scope of EITF 06-3 on a net basis. As such, the adoption of EITF 06-3 did not have any effect on our consolidated financial statements.

## ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our earnings and cash flows are subject to fluctuations due to changes in interest rates, primarily from our investment of available cash balances. Under our current policies, we do not use interest rate derivative instruments to manage exposure to interest rate changes. If the interest rate we receive on our investment of available cash balances were to change by 10%, our interest income would be impacted by approximately $1.7 million.

Our 2.0% convertible senior notes bear a fixed rate of interest. As such, our earnings and cash flows are not sensitive to changes in interest rates on our long-term debt.

## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Reports of Independent Registered Public Accounting Firm, Consolidated Financial Statements, Notes to Consolidated Financial Statements and Related Financial Schedule are listed in the Index to Consolidated Financial Statements and Schedule annexed hereto.

## ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

## ITEM 9A. CONTROLS AND PROCEDURES

*Evaluation of Disclosure Controls and Procedures*

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

*Management's Report on Internal Control Over Financial Reporting*

Management of Comtech is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accounted accounting principles.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company's internal control over financial reporting as of July 31, 2007. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control – Integrated Framework. Based on our assessment, we determined that, as of July 31, 2007, the Company's internal control over financial reporting was effective based on those criteria.

KPMG LLP ("KPMG"), our independent registered public accounting firm, has performed an audit of our assessment of the effectiveness of the Company's internal control over financial reporting as of July 31, 2007. This audit is required to be performed in accordance with the standards of the Public Company Accounting Oversight

Board (United States). Our independent auditors were given unrestricted access to all financial records and related data. KPMG's audit reports appear on pages F-2 and F-3 of this annual report.

*Changes In Internal Control Over Financial Reporting*

There have been no changes in our internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act that occurred during our fiscal quarter ended July 31, 2007, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## ITEM 9B. OTHER INFORMATION

Not applicable.

# PART III

## ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF REGISTRANT

Certain information concerning directors and officers is incorporated by reference to our Proxy Statement for the Annual Meeting of Stockholders to be held December 6, 2007 (the "Proxy Statement") which will be filed with the Securities and Exchange Commission no more than 120 days after the close of our fiscal year.

## ITEM 11. EXECUTIVE COMPENSATION

Information regarding executive compensation is incorporated by reference to the Proxy Statement, which will be filed with the Securities and Exchange Commission no more than 120 days after the close of our fiscal year.

## ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information regarding securities authorized for issuance under equity compensation plans and certain information regarding security ownership of certain beneficial owners and management is incorporated by reference to the Proxy Statement, which will be filed with the Securities and Exchange Commission no more than 120 days after the close of our fiscal year.

## ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information regarding certain relationships and related transactions is incorporated by reference to the Proxy Statement, which will be filed with the Securities and Exchange Commission no more than 120 days after the close of our fiscal year.

## ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information regarding principal accountant fees and services is incorporated by reference to the Proxy Statement, which will be filed with the Securities and Exchange Commission no more than 120 days after the close of our fiscal year.

**PART IV**

**ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES**

(a) (1) The Registrant's financial statements together with a separate index are annexed hereto.
(2) The Financial Statement Schedule listed in a separate index is annexed hereto.
(3) Exhibits required by Item 601 of Regulation S-K are listed below.

| Exhibit Number | Description of Exhibit | Incorporated By Reference to Exhibit |
|---|---|---|
| 3(a)(i) | Restated Certificate of Incorporation of the Registrant | |
| 3(a)(ii) | Amended and Restated By-Laws of the Registrant | Exhibit 3(c) to the Registrant's 1998 Form 10-K |
| 4(a) | Rights Agreement dated as of December 15, 1998 between the Registrant and American Stock Transfer and Trust Company, as Rights Agent | Exhibit 4(1) to the Registrant's Form 8-A/A dated December 23, 1998 |
| 4(b) | Indenture by and between the Registrant and The Bank of New York, as trustee, dated as of January 27, 2004, including form of Note | Exhibit 4.2 to the Registrant's Form S-3 (File No. 333-114268) |
| 4(c) | Registration Rights Agreement dated as of January 27, 2004, between the Registrant and Bear, Stearns & Co. Inc., as Initial Purchaser | Exhibit 4.4 to the Registrant's Form S-3 (File No. 333-114268) |
| 10(a)* | Amended and restated Employment Agreement dated September 17, 2007, between the Registrant and Fred Kornberg | |
| 10(b)* | Amended and restated Employment Agreement dated September 17, 2007, between the Registrant and Robert G. Rouse | |
| 10(c)* | Form of Change in Control Agreement between the Registrant and Richard L. Burt, Robert L. McCollum, Michael D. Porcelain and Daniel S. Wood | |
| 10(d)* | Amended and restated 1993 Incentive Stock Option Plan | Appendix A to the Registrant's Proxy Statement dated November 3, 1997 |
| 10(e)* | Amended and restated 2000 Stock Incentive Plan | Exhibit 10.1 to Registrant's Form 8-K filed December 11, 2006 |
| 10(f)* | Form of Stock Option Agreement pursuant to the 2000 Stock Incentive Plan | Exhibit 10(f)(7) to the Registrant's 2005 Form 10-K |
| 10(g)* | Form of Stock Option Agreement for Non-employee Directors pursuant to the 2000 Stock Incentive Plan | Exhibit 10(f)(8) to the Registrant's 2006 Form 10-K |
| 10(h)* | 2001 Employee Stock Purchase Plan | Appendix B to the Registrant's Proxy Statement dated November 6, 2000 |
| 10(i) | Lease and amendment thereto on the Melville, New York Facility | Exhibit 10(k) to the Registrant's 1992 Form 10-K |

| | |
|---|---|
| 10(j) | Movement Tracking System Contract between Comtech Mobile Datacom Corporation and the U.S. Army's Contract Agency dated August 31, 2007 |

| Exhibit Number | Description of Exhibit | Incorporated By Reference to Exhibit |
|---|---|---|
| 10(k) | Blue Force Tracking System Contract between Comtech Mobile Datacom Corporation and the U.S. Army CECOM dated August 31, 2007† | |
| 10(l) | Form of Indemnification Agreement between the Registrant and Richard L. Burt, Robert L. McCollum, Michael D. Porcelain and Daniel S. Wood | Exhibit 10.1 to Registrant's 8-K filed on March 8, 2007 |
| 21 | Subsidiaries of the Registrant | |
| 23 | Consent of Independent Registered Public Accounting Firm | |
| 31.1 | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 | |
| 31.2 | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 | |
| 32.1 | Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | |
| 32.2 | Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | |

* Management contract or compensatory plan or arrangement.

† Certain portions of this agreement have been omitted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment.

Exhibits to this Annual Report on Form 10-K are available from the Company upon request and payment to the Company for the cost of reproduction. The information is also available on our Internet website at www.comtechtel.com.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15 (d) of the Securities and 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. |
|---|---|
| September 19, 2007 | By: /s/Fred Kornberg |
| (Date) | Fred Kornberg, Chairman of the Board<br>and Chief Executive Officer |

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| | Signature | Title |
|---|---|---|
| September 19, 2007 | /s/Fred Kornberg | Chairman of the Board<br>Chief Executive Officer and President |
| (Date) | Fred Kornberg | (Principal Executive Officer) |
| September 19, 2007 | /s/Michael D. Porcelain | Senior Vice President and<br>Chief Financial Officer |
| (Date) | Michael D. Porcelain | (Principal Financial and Accounting Officer) |
| September 19, 2007 | /s/Richard L. Goldberg | Director |
| (Date) | Richard L. Goldberg | |
| September 19, 2007 | /s/Edwin Kantor | Director |
| (Date) | Edwin Kantor | |
| September 19, 2007 | /s/Ira Kaplan | Director |
| (Date) | Ira Kaplan | |
| September 19, 2007 | /s/Gerard R. Nocita | Director |
| (Date) | Gerard R. Nocita | |
| September 19, 2007 | /s/Robert G. Paul | Director |
| (Date) | Robert G. Paul | |

**COMTECH TELECOMMUNICATIONS CORP. AND SUBSIDIARIES**

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Schedules not listed above have been omitted because they are either not applicable or the required information has been provided elsewhere in the consolidated financial statements or notes thereto.

KPMG LLP
Suite 200
1305 Walt Whitman Road
Melville, NY 11747-4302

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of Comtech Telecommunications Corp.:

We have audited the accompanying consolidated balance sheets of Comtech Telecommunications Corp. and subsidiaries as of July 31, 2007 and 2006, and the related consolidated statements of operations, stockholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended July 31, 2007. In connection with our audits of the consolidated financial statements, we also have audited the financial statement schedule listed in the accompanying index. These consolidated financial statements and the financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and the financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Comtech Telecommunications Corp. and subsidiaries as of July 31, 2007 and 2006, and the results of their operations and their cash flows for each of the years in the three-year period ended July 31, 2007, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Notes 1(j) to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 123(R), "Share-Based Payment", effective August 1, 2005.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Comtech Telecommunications Corp.'s internal control over financial reporting as of July 31, 2007, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated September 18, 2007 expressed an unqualified opinion on management's assessment of, and the effective operation of, the Company's internal control over financial reporting.

Melville, New York
September 18, 2007

KPMG LLP
Suite 200
1305 Walt Whitman Road
Melville, NY 11747-4302

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of Comtech Telecommunications Corp.:

We have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that Comtech Telecommunications Corp. maintained effective internal control over financial reporting as of July 31, 2007, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Comtech Telecommunications Corp.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Comtech Telecommunications Corp. maintained effective internal control over financial reporting as of July 31, 2007, is fairly stated, in all material respects, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also, in our opinion, Comtech Telecommunications Corp. maintained, in all material respects, effective internal control over financial reporting as of July 31, 2007, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Comtech Telecommunications Corp. and subsidiaries as of July 31, 2007 and 2006, and the related consolidated statements of operations, stockholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended July 31, 2007, and our report dated September 18, 2007, expressed an unqualified opinion on those consolidated financial statements. Our report, dated September 18, 2007, refers to the Company's adoption of Statement of Financial Accounting Standards No. 123(R), "Share-Based Payment", effective August 1, 2005.

Melville, New York
September 18, 2007

COMTECH TELECOMMUNICATIONS CORP.
AND SUBSIDIARIES
Consolidated Balance Sheets
As of July 31, 2007 and 2006

| | 2007 | 2006 |
|---|---|---|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | $ 342,903,000 | 251,587,000 |
| Restricted cash | — | 1,003,000 |
| Accounts receivable, net | 73,585,000 | 70,047,000 |
| Inventories, net | 61,987,000 | 61,043,000 |
| Prepaid expenses and other current assets | 6,734,000 | 7,178,000 |
| Deferred tax asset – current | 9,380,000 | 7,591,000 |
| Total current assets | 494,589,000 | 398,449,000 |
| Property, plant and equipment, net | 29,282,000 | 24,732,000 |
| Goodwill | 24,387,000 | 22,244,000 |
| Intangibles with finite lives, net | 5,717,000 | 6,855,000 |
| Deferred financing costs, net | 1,903,000 | 2,449,000 |
| Other assets, net | 464,000 | 537,000 |
| Total assets | $ 556,342,000 | 455,266,000 |
| Liabilities and Stockholders' Equity | | |
| Current liabilities: | | |
| Accounts payable | $ 26,137,000 | 28,337,000 |
| Accrued expenses and other current liabilities | 47,332,000 | 41,230,000 |
| Customer advances and deposits | 20,056,000 | 3,544,000 |
| Deferred service revenue | — | 9,896,000 |
| Current installments of other obligations | 135,000 | 154,000 |
| Interest payable | 1,050,000 | 1,050,000 |
| Income taxes payable | 2,796,000 | 5,252,000 |
| Total current liabilities | 97,506,000 | 89,463,000 |
| Convertible senior notes | 105,000,000 | 105,000,000 |
| Other obligations, less current installments | 108,000 | 243,000 |
| Deferred tax liability – non-current | 7,960,000 | 6,318,000 |
| Total liabilities | 210,574,000 | 201,024,000 |
| Commitments and contingencies (See Note 13) | | |
| 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 24,016,329 shares and 23,052,593 shares at July 31, 2007 and 2006, respectively | | 2,402,000 | 2,305,000 |
| Additional paid-in capital | | 165,703,000 | 139,487,000 |
| Retained earnings | | 177,848,000 | 112,635,000 |
| | | 345,953,000 | 254,427,000 |
| Less: | | | |
| Treasury stock (210,937 shares) | | (185,000) | (185,000) |
| Total stockholders’ equity | | 345,768,000 | 254,242,000 |
| Total liabilities and stockholders’ equity | $ | 556,342,000 | 455,266,000 |

See accompanying notes to consolidated financial statements.

COMTECH TELECOMMUNICATIONS CORP.
AND SUBSIDIARIES
Consolidated Statements of Operations
Fiscal Years Ended July 31, 2007, 2006 and 2005

| | 2007 | 2006 | 2005 |
|---|---|---|---|
| Net sales | $ 445,684,000 | 391,511,000 | 307,890,000 |
| Cost of sales | 252,389,000 | 232,210,000 | 180,524,000 |
| Gross profit | 193,295,000 | 159,301,000 | 127,366,000 |
| Expenses: | | | |
| Selling, general and administrative | 73,312,000 | 67,071,000 | 51,819,000 |
| Research and development | 32,469,000 | 25,834,000 | 21,155,000 |
| Amortization of intangibles | 2,592,000 | 2,465,000 | 2,328,000 |
| | 108,373,000 | 95,370,000 | 75,302,000 |
| Operating income | 84,922,000 | 63,931,000 | 52,064,000 |
| Other expenses (income): | | | |
| Interest expense | 2,731,000 | 2,687,000 | 2,679,000 |
| Interest income and other | (14,208,000) | (9,243,000) | (4,072,000) |
| Income before provision for income taxes | 96,399,000 | 70,487,000 | 53,457,000 |
| Provision for income taxes | 31,186,000 | 25,218,000 | 16,802,000 |
| Net income | $ 65,213,000 | 45,269,000 | 36,655,000 |
| Net income per share (See Note 1(i)): | | | |
| Basic | $ 2.81 | 1.99 | 1.69 |
| Diluted | $ 2.42 | 1.72 | 1.42 |
| Weighted average number of common shares outstanding – basic | 23,178,000 | 22,753,000 | 21,673,000 |
| Weighted average number of common and common equivalent shares outstanding assuming dilution – diluted | 27,603,000 | 27,324,000 | 27,064,000 |

See accompanying notes to consolidated financial statements.

COMTECH TELECOMMUNICATIONS CORP.
AND SUBSIDIARIES
Consolidated Statements of Stockholders' Equity and Comprehensive Income
Fiscal Years Ended July 31, 2007, 2006 and 2005

| | Common Stock | | Additional Paid-in Capital | Retained Earnings | Treasury Stock | | Stockholders' Equity | Comprehensive Income |
|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | | | Shares | Amount | | |
| **Balance July 31, 2004** | 21,557,002 | $ 2,156,000 | $ 109,716,000 | $ 30,711,000 | 210,937 | $ (185,000) | $ 142,398,000 | |
| Proceeds from exercise of options | 1,209,799 | 121,000 | 7,116,000 | — | — | — | 7,237,000 | $ — |
| Proceeds from issuance of employee stock purchase plan shares | 28,827 | 3,000 | 517,000 | — | — | — | 520,000 | — |
| Termination of unvested restricted shares | (13,950) | (2,000) | (75,000) | — | — | — | (77,000) | — |
| Income tax benefit from stock award exercises | — | — | 9,896,000 | — | — | — | 9,896,000 | — |
| Net income | — | — | — | 36,655,000 | — | — | 36,655,000 | 36,655,000 |
| **Balance July 31, 2005** | 22,781,678 | 2,278,000 | 127,170,000 | 67,366,000 | 210,937 | (185,000) | 196,629,000 | 36,655,000 |
| Equity-classified stock award compensation | — | — | 5,742,000 | — | — | — | 5,742,000 | — |
| Proceeds from exercise of options | 244,737 | 24,000 | 1,839,000 | — | — | — | 1,863,000 | — |
| Proceeds from issuance of employee stock purchase plan shares | 26,178 | 3,000 | 671,000 | — | — | — | 674,000 | — |
| Excess income tax benefit from stock award exercises | — | — | 4,065,000 | — | — | — | 4,065,000 | — |
| Net income | — | — | — | 45,269,000 | — | — | 45,269,000 | 45,269,000 |
| **Balance July 31, 2006** | 23,052,593 | 2,305,000 | 139,487,000 | 112,635,000 | 210,937 | (185,000) | 254,242,000 | 45,269,000 |
| Equity-classified stock award compensation | — | — | 7,408,000 | — | — | — | 7,408,000 | — |
| Proceeds from exercise of options | 938,000 | 94,000 | 9,441,000 | — | — | — | 9,535,000 | — |
| Proceeds from issuance of employee stock purchase plan shares | 25,736 | 3,000 | 755,000 | — | — | — | 758,000 | — |
| Excess income tax benefit from stock award exercises | — | — | 8,612,000 | — | — | — | 8,612,000 | — |
| Net income | — | — | — | 65,213,000 | — | — | 65,213,000 | 65,213,000 |
| **Balance July 31, 2007** | 24,016,329 | $ 2,402,000 | $ 165,703,000 | $ 177,848,000 | 210,937 | $ (185,000) | $ 345,768,000 | $ 65,213,000 |

See accompanying notes to consolidated financial statements.

COMTECH TELECOMMUNICATIONS CORP.
AND SUBSIDIARIES
Consolidated Statements of Cash Flows
Fiscal Years Ended July 31, 2007, 2006 and 2005

| | 2007 | 2006 | 2005 |
|---|---|---|---|
| Cash flows from operating activities: | | | |
| Net income | $ 65,213,000 | 45,269,000 | 36,655,000 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization of property, plant and equipment | 7,536,000 | 6,242,000 | 5,315,000 |
| Amortization of intangible assets with finite lives | 2,592,000 | 2,465,000 | 2,328,000 |
| Amortization of stock-based compensation | 7,401,000 | 5,681,000 | — |
| Amortization of deferred financing costs | 546,000 | 546,000 | 546,000 |
| Loss on disposal of property, plant and equipment | 203,000 | 36,000 | 284,000 |
| (Benefit from) provision for allowance for doubtful accounts | (375,000) | 748,000 | 287,000 |
| Provision for excess and obsolete inventory | 4,491,000 | 2,030,000 | 2,098,000 |
| Income tax benefit from stock award exercises | — | — | 9,896,000 |
| Excess income tax benefit from stock award exercises | (7,990,000) | (4,065,000) | — |
| Deferred income tax (benefit) expense | (147,000) | 832,000 | 2,768,000 |
| Changes in assets and liabilities, net of effects of acquisitions: | | | |
| Restricted cash securing letter of credit obligations | 1,003,000 | 31,000 | 3,020,000 |
| Accounts receivable | (3,163,000) | (14,743,000) | (13,337,000) |
| Inventories | (4,818,000) | (17,909,000) | (7,236,000) |
| Prepaid expenses and other current assets | 492,000 | (2,791,000) | (2,373,000) |
| Other assets | 73,000 | (260,000) | 69,000 |
| Accounts payable | (2,200,000) | 4,760,000 | 14,011,000 |
| Accrued expenses and other current liabilities | 5,608,000 | 7,733,000 | 12,532,000 |
| Customer advances and deposits | 16,512,000 | (1,738,000) | (2,008,000) |
| Deferred service revenue | (9,896,000) | 1,686,000 | (5,506,000) |
| Interest payable | — | — | (23,000) |
| Income taxes payable | 6,156,000 | 7,777,000 | (3,272,000) |
| Net cash provided by operating activities | 89,237,000 | 44,330,000 | 56,054,000 |
| Cash flows from investing activities: | | | |
| Purchases of property, plant and equipment | (12,075,000) | (12,327,000) | (9,532,000) |
| Purchases of other intangibles with finite lives | (38,000) | (197,000) | (75,000) |
| Payments for business acquisitions | (3,937,000) | (1,000,000) | (2,735,000) |
| Net cash used in investing activities | (16,050,000) | (13,524,000) | (12,342,000) |
| Cash flows from financing activities: | | | |
| Principal payments on other obligations | (154,000) | (234,000) | (271,000) |
| Excess income tax benefit from stock award exercises | 7,990,000 | 4,065,000 | — |
| Proceeds from exercises of stock options | 9,535,000 | 1,863,000 | 7,160,000 |
| Proceeds from issuance of employee stock purchase plan shares | 758,000 | 674,000 | 520,000 |

| | | | |
|---|---|---|---|
| Net cash provided by financing activities | 18,129,000 | 6,368,000 | 7,409,000 |

(Continued)

COMTECH TELECOMMUNICATIONS CORP.
AND SUBSIDIARIES
Consolidated Statements of Cash Flows (continued)
Years ended July 31, 2007, 2006 and 2005

| | 2007 | 2006 | 2005 |
|---|---|---|---|
| Net increase in cash and cash equivalents | $ 91,316,000 | 37,174,000 | 51,121,000 |
| Cash and cash equivalents at beginning of period | 251,587,000 | 214,413,000 | 163,292,000 |
| Cash and cash equivalents at end of period | $ 342,903,000 | 251,587,000 | 214,413,000 |
| Supplemental cash flow disclosure | | | |
| Cash paid during the period for: | | | |
| Interest | $ 2,150,000 | 2,142,000 | 2,156,000 |
| Income taxes | $ 24,778,000 | 16,573,000 | 7,456,000 |
| Non cash investing activities: | | | |
| Purchase of proprietary technology through financing obligation | $ — | — | 509,000 |
| Accrued business acquisition payments (See Note 2) | $ 290,000 | — | 1,000,000 |

See accompanying notes to consolidated financial statements.

COMTECH TELECOMMUNICATIONS CORP.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(1) Summary of Significant Accounting and Reporting Policies

(a) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Comtech Telecommunications Corp. and its subsidiaries ("the Company"), all of which are wholly-owned. All significant intercompany balances and transactions have been eliminated in consolidation.

(b) Nature of Business

The Company designs, develops, produces and markets innovative products, systems and services for advanced communications solutions.

The Company's business is highly competitive and characterized by rapid technological change. The Company's growth and financial position depends, among other things, on its ability to keep pace with such changes and developments and to respond to the sophisticated requirements of an increasing variety of electronic equipment users. Many of the Company's competitors are substantially larger, and have significantly greater financial, marketing and operating resources and broader product lines than the Company. A significant technological breakthrough by others, including smaller competitors or new companies, could have a material adverse effect on the Company's business. In addition, certain of the Company's customers have technological capabilities in the Company's product areas and could choose to replace the Company's products with their own.

International sales expose the Company to certain risks, including barriers to trade, fluctuations in foreign currency exchange rates (which may make the Company's products less price competitive), political and economic instability, availability of suitable export financing, export license requirements, tariff regulations, and other United States ("U.S.") and foreign regulations that may apply to the export of the Company's products, as well as the generally greater difficulties of doing business abroad. The Company attempts to reduce the risk of doing business in foreign countries by seeking contracts denominated in U.S. dollars, advance or milestone payments, credit insurance and irrevocable letters of credit in its favor.

The Company currently provides mobile data communications products and services to the U.S. government under contracts which can be terminated at any time and are not subject to automatic renewals or extension. The loss of these contracts would have a material adverse effect on the Company's future business, results of operations and financial condition.

(c) Revenue Recognition

Revenue is generally recognized when the earnings process is complete, upon shipment or customer acceptance. Revenue from contracts relating to the design, development or manufacturing 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 AICPA Statement of Position No. 81-1, "Accounting for Performance of Construction-Type and Certain Production-Type Contracts" ("SOP No. 81-1"). The Company primarily applies the percentage-of-completion method and generally recognizes revenue based on the relationship of total costs incurred to total projected costs, or, alternatively, based on output measures, such as units delivered. Profits expected to be realized on such contracts are based on total estimated sales for the contract compared to total estimated costs, including warranty costs, at completion of the contract. These estimates are reviewed and revised periodically throughout the lives of the contracts, and adjustments to profits resulting from such revisions are made cumulative to the date of the change. Provision for anticipated losses on uncompleted contracts is made in the period in which such losses become evident. Long-term U.S. government cost-reimbursable type contracts are also specifically covered by Accounting Research Bulletin No. 43 "Government Contracts, Cost-Plus-Fixed-Fee Contracts" ("ARB 43"), in addition to SOP No. 81-1.

COMTECH TELECOMMUNICATIONS CORP.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

The Company has historically demonstrated an ability to estimate contract revenues and expenses in applying the percentage-of-completion method of accounting. However, there exist risks and uncertainties in estimating future revenues and expenses, particularly on larger or longer-term contracts. Changes to such estimates could have a material effect on the Company's consolidated financial position and results of operations.

Revenue recognized in excess of amounts billable under long-term contracts accounted for under the percentage-of-completion method are recorded as unbilled receivables in the accompanying consolidated balance sheets. Unbilled receivables are billable upon various events, including the attainment of performance milestones, delivery of hardware, submission of progress bills based on time and materials, or completion of the contract.

In the case of the Company's mobile data communications segment's MTS and BFT contracts with the U.S. Army, the Company utilizes the percentage-of-completion method. The Company does not recognize revenue, or record unbilled receivables, until it receives fully funded orders.

Almost all of the Company's U.S. government revenues in fiscal 2007, 2006 and 2005 are derived from firm fixed-price contracts. Under these types of contracts, the Company performs for an agreed-upon price and derives benefits from cost savings, but bears the risk of cost overruns. The Company's cost-plus-fixed-fee contracts, which to date have been insignificant, typically provide for reimbursement of allowable costs incurred plus a negotiated fee.

Most government contracts have termination for convenience clauses that provide the customer with the right to terminate the contract at any time. Historically, the Company has not experienced material contract terminations or write-offs of unbilled receivables. The Company addresses customer acceptance provisions in assessing its ability to perform its contractual obligations under long-term contracts. Historically, the Company has been able to perform on its long-term contracts.

Revenue from contracts that contain multiple elements that are not accounted for under the percentage-of-completion method are accounted for in accordance with Emerging Issues Task Force ("EITF") Issue No. 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables." Revenue from these contracts is allocated to each respective element based on each element's relative fair value, if determinable, and is recognized when the respective revenue recognition criteria for each element are met.

(d) Cash, Cash Equivalents and Restricted Cash

The Company's cash equivalents are short-term, highly liquid investments that are both readily convertible to known amounts of cash and that have insignificant risk of change in value because of changes in interest rates. The Company's cash equivalents, as of July 31, 2007 and 2006, amounted to $330,008,000 and $231,261,000, respectively, and primarily consist of money market funds and U.S. Treasury securities (with maturities at the time of purchase of three months or less). Cash equivalents are carried at cost, which approximates fair market value. Restricted cash as of July 31, 2006 represents the amount the Company had pledged against guarantees of performance on certain of its contracts.

(e) Inventories

Work-in-process inventory reflects all accumulated production costs, which are comprised of direct production costs and overhead, and is reduced by amounts recorded in cost of sales as the related revenue is recognized. These inventories are reduced to their estimated net realizable value by a charge to cost of sales in the period such excess costs are determined.

Raw materials and components and finished goods inventory are stated at the lower of cost or market, computed on the first-in, first-out ("FIFO") method.

COMTECH TELECOMMUNICATIONS CORP.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(f) Long-Lived Assets

The Company's machinery and equipment, which are recorded at cost, are depreciated or amortized over their estimated useful lives (three to eight years) under the straight-line method. Capitalized values of properties and leasehold improvements under leases are amortized over the life of the lease or the estimated life of the asset, whichever is less.

Goodwill represents the excess cost of a business acquisition over the fair value of the net assets acquired. In accordance with the Financial Accounting Standards Board's ("FASB") Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets," goodwill is not amortized. The Company periodically, at least on an annual basis, reviews goodwill, considering factors such as projected cash flows and revenue and earnings multiples, to determine whether the carrying value of the goodwill is impaired. If the goodwill is deemed to be impaired, the difference between the carrying amount reflected in the financial statements and the estimated fair value is recognized as an expense in the period in which the impairment occurs. The Company defines its reporting units to be the same as its segments.

The Company assesses the recoverability of the carrying value of its other long-lived assets, including identifiable intangible assets with finite useful lives, whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. The Company evaluates the recoverability of such assets based upon the expectations of undiscounted cash flows from such assets. If the sum of the expected future undiscounted cash flows were less than the carrying amount of the asset, a loss would be recognized for the difference between the fair value and the carrying amount.

(g) Research and Development Costs

The Company charges research and development costs to operations as incurred, except in those cases in which such costs are reimbursable under customer funded contracts. In fiscal 2007, 2006 and 2005, the Company was reimbursed by customers for such activities in the amount of $4,170,000, $4,409,000 and $3,001,000, respectively.

(h) Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The Company's policy is to recognize interest and penalties related to uncertain tax positions in income tax expense.

In July 2006, the FASB released FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 clarifies the accounting and reporting for uncertainties in income tax law and prescribes a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of uncertain tax positions taken or expected to be taken in income tax returns. FIN 48 prescribes a two-step evaluation process for tax positions. The first step is recognition based on a determination of whether it is more-likely-than-not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The second step is to measure a tax position that meets the more-likely-than-not threshold. The tax position is measured at the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement. If a tax position does not meet the more-likely-than-not recognition threshold, the benefit of that position is not recognized in the financial statements. The Company adopted FIN 48 on August 1, 2007 and its adoption had no material impact on the Company's consolidated results of operations or financial condition.

COMTECH TELECOMMUNICATIONS CORP.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(i) Earnings Per Share

The Company calculates earnings per share ("EPS") in accordance with SFAS No. 128, "Earnings per Share." Basic EPS is computed based on the weighted average number of shares outstanding. Diluted EPS reflects the dilution from potential common stock issuable pursuant to the exercise of stock awards and convertible senior notes, if dilutive, outstanding during each period. Equity-classified stock-based awards to purchase 706,000, 712,000 and 49,000 shares for fiscal 2007, 2006 and 2005, respectively, were not included in the EPS calculation because their effect would have been anti-dilutive.

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

In accordance with EITF Issue No. 04-8, "The Effect of Contingently Convertible Instruments on Diluted Earnings per Share," the Company has (i) included the impact of the assumed conversion of its 2.0% convertible senior notes in calculating diluted EPS commencing in the fiscal quarter ended January 31, 2005, and (ii) restated prior periods' diluted EPS.

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

| | Fiscal Years Ended July 31, | | |
|---|---|---|---|
| | 2007 | 2006 | 2005 |
| Numerator: | | | |
| Net income for basic calculation | $ 65,213,000 | 45,269,000 | 36,655,000 |
| Effect of dilutive securities: | | | |
| Interest expense (net of tax) on convertible senior notes | 1,667,000 | 1,662,000 | 1,817,000 |
| Numerator for diluted calculation | $ 66,880,000 | 46,931,000 | 38,472,000 |
| Denominator: | | | |
| Denominator for basic calculation | 23,178,000 | 22,753,000 | 21,673,000 |
| Effect of dilutive securities: | | | |
| Stock options | 1,092,000 | 1,238,000 | 2,058,000 |
| Conversion of convertible senior notes | 3,333,000 | 3,333,000 | 3,333,000 |
| Denominator for diluted calculation | 27,603,000 | 27,324,000 | 27,064,000 |

(j) Accounting for Stock-Based Compensation

Effective August 1, 2005, the Company adopted the provisions of SFAS No. 123(R), "Share-Based Payment," which establishes the accounting for employee stock-based awards. Under the provisions of SFAS No. 123(R), stock-based compensation for both

equity and liability-classified awards is measured at the grant date, based on the calculated fair value of the award, and is recognized as an expense over the requisite employee service period (generally the vesting period of the grant). The fair value of liability-classified awards is remeasured at the end of each reporting period until the award is settled, with changes in fair value recognized pro-rata for the portion of the requisite service period rendered. The Company adopted SFAS No. 123(R) using the modified prospective method and, as a result, periods prior to August 1, 2005 have not been restated.

COMTECH TELECOMMUNICATIONS CORP.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

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

| | Fiscal Years Ended | |
|---|---|---|
| | July 31, 2007 | July 31, 2006 |
| Cost of sales | $ 539,000 | 385,000 |
| Selling, general and administrative expenses | 5,793,000 | 4,585,000 |
| Research and development expenses | 1,069,000 | 711,000 |
| Stock-based compensation expense before income tax benefit | 7,401,000 | 5,681,000 |
| Income tax benefit | (2,394,000) | (1,312,000) |
| Net stock-based compensation expense | $ 5,007,000 | 4,369,000 |

Of the total stock-based compensation expense before income tax benefit recognized in fiscal 2007 and 2006, $170,000 and $163,000, respectively, relates to stock-based awards issued pursuant to the ESPP. Of the total stock-based compensation expense before income tax recognized in fiscal 2007 and 2006, $38,000 and $0, respectively, related to awards of SARs. Stock-based compensation that was capitalized and included in ending inventory at July 31, 2007 and 2006 was $106,000 and $61,000, respectively.

During fiscal 2005 (and for periods prior to August 1, 2005), the Company recorded compensation expense for employee stock-based awards based upon their intrinsic value on the date of grant pursuant to Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees." Since the exercise price for such stock-based awards was equal to the fair market value of the Company's stock at the date of grant, the stock-based awards had no intrinsic value upon grant and, therefore, no expense was recorded in the Consolidated Statements of Operations for fiscal 2005 and prior.

Stock-based compensation expense, net of the related income tax benefit, resulted in a decrease of $0.22 and $0.15 in basic and diluted earnings per share, respectively, for fiscal 2007. Stock-based compensation expense, net of the related income tax benefit, resulted in a decrease of $0.19 and $0.14 in basic and diluted earnings per share, respectively, for fiscal 2006.

Had the compensation cost of the Company's stock-based award plans for fiscal 2005 been determined in accordance with SFAS No. 123, the Company's pro forma net income and net income per share would have been:

| | Fiscal Year Ended |
|---|---|
| | July 31, 2005 |

| | | | |
|---|---|---|---|
| Net income, as reported | | $ | 36,655,000 |
| Less: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects | | | (4,236,000) |
| Pro forma net income | | $ | 32,419,000 |
| Net income per share: | | | |
| As reported | Basic | $ | 1.69 |
| | Diluted | $ | 1.42 |
| Pro forma | Basic | $ | 1.50 |
| | Diluted | $ | 1.28 |

COMTECH TELECOMMUNICATIONS CORP.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

Under the modified prospective method, SFAS No. 123(R) applies to new awards and to awards outstanding on the effective date that are subsequently modified or cancelled. Compensation expense for outstanding awards for which the requisite service had not been fully rendered as of July 31, 2005 is being recognized over the remaining service period using the compensation cost calculated for pro forma disclosure purposes under SFAS No. 123. Through July 31, 2007, the Company valued graded vesting awards based on vesting tanches. Prior to the adoption of SFAS No. 123(R), the Company valued graded vesting awards based on the entire award for purposes of pro forma disclosure. The Company amortizes the fair values of all awards on a straight-line basis over the total requisite service period. Cumulative compensation expense recognized at any date will at least equal the grant date fair value of the vested portion of the award at that time. Additionally, the Company includes the excess hypothetical tax benefit related to stock-based awards which were fully vested upon adoption of SFAS No. 123(R) when calculating earnings per share.

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

The per share weighted average grant-date fair value of stock-based awards granted during fiscal 2007, 2006 and 2005 was $10.85, $14.03 and $8.52, respectively. In addition to the exercise and grant-date prices of the awards, certain weighted average assumptions that were used to estimate the fair value of stock-based awards in the respective periods are listed in the table below:

| | Fiscal Years Ended July 31, | | |
|---|---|---|---|
| | 2007 | 2006 | 2005 |
| Expected dividend yield | 0% | 0% | 0% |
| Expected volatility | 45.14% | 51.44% | 64.83% |
| Risk-free interest rate | 4.87% | 4.20% | 3.70% |
| Expected life (years) | 3.63 | 3.63 | 5.00 |

Stock-based awards granted during fiscal 2007 and 2006 have exercise prices equal to the fair market value of the stock on the date of grant, a contractual term of five years and a vesting period of three years. All stock-based awards granted through July 31, 2005 had exercise prices equal to the fair market value of the stock on the date of grant, a contractual term of ten years and generally a vesting period of five years. The Company settles employee stock option exercises with new shares. All SARs granted through July 31, 2007 may only be settled with cash.

The Company estimates expected volatility by considering the historical volatility of the Company’s stock, the implied volatility of publicly traded stock options in the Company’s stock and the Company’s expectations of volatility for the expected term of stock-based compensation awards. The risk-free interest rate is based on the U.S. treasury yield curve in effect at the time of grant. The expected option term is the number of years that the Company estimates that options will be outstanding prior to exercise. The expected life of the awards issued after July 31, 2005 and through July 31, 2007 was determined using the “simplified method” prescribed in SEC Staff Accounting Bulletin (“SAB”) No. 107.

COMTECH TELECOMMUNICATIONS CORP.
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Notes to Consolidated Financial Statements, Continued

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

| | Fiscal Years Ended | |
|---|---|---|
| | July 31, 2007 | July 31, 2006 |
| Actual income tax benefit recorded for the tax deductions relating to the exercise of stock-based awards | $ 9,366,000 | 4,065,000 |
| Less: Tax benefit initially recognized on exercised stock-based awards vesting subsequent to the adoption of SFAS No. 123(R) | (754,000) | — |
| Excess income tax benefit recorded as an increase to additional paid-in capital in the Company's Consolidated Statements of Stockholders' Equity and Comprehensive Income | 8,612,000 | 4,065,000 |
| Less: Tax benefit initially disclosed but not previously recognized on exercised equity-classified stock-based awards vesting prior to the adoption of SFAS No. 123(R) | (622,000) | — |
| Excess income tax benefit from exercised equity-classified stock-based awards reported as a cash flow from financing activities in the Company's Consolidated Statements of Cash Flows | $ 7,990,000 | 4,065,000 |

At July 31, 2007, total remaining unrecognized compensation cost related to unvested stock-based awards was $11,849,000, net of estimated forfeitures of $1,054,000. The net cost is expected to be recognized over a weighted average period of 1.8 years.

In August 2007, the Company authorized, in accordance with the Company's 2000 Stock Incentive Plan, 588,000 stock-based awards (including 9,500 SARs). Total unrecognized stock-based compensation, net of estimated forfeitures, related to these awards was approximately $8,784,000. These awards have exercise prices equal to the fair market value of the stock on the date of grant, a contractual term of five years and a vesting period of five years. In accordance with SAB No. 107, the Company no longer utilized the "simplified method," rather, it valued these awards based on the expected life of the total award with the expected life determined by employee groups with sufficiently distinct behavior patterns.

(k) Financial Instruments

The Company believes that the book value of its current monetary assets and liabilities approximates fair value as a result of the short-term nature of such assets and liabilities. The Company further believes that the fair market value of its capital lease obligations does not differ materially from the carrying value. As of July 31, 2007, the Company estimates the fair market value of its 2.0% convertible senior notes to be approximately $150,000,000 based on recent trading activity.

(l) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. The Company makes significant estimates in many areas of its accounting, including but not limited to the following: long-term contracts, stock-based compensation, intangible assets, provision for excess and obsolete inventory, allowance for doubtful accounts, warranty obligations and income taxes. Actual results may differ from those estimates.

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(m) Comprehensive Income

The Company has adopted SFAS No. 130, "Reporting Comprehensive Income," which requires companies to report all changes in equity during a period, except those resulting from investment by owners and distribution to owners, for the period in which they are recognized. Comprehensive income is the total of net income and all other non-owner changes in equity (or other comprehensive income) such as unrealized gains/losses on securities classified as available-for-sale, foreign currency translation adjustments and minimum pension liability adjustments. Comprehensive income was the same as net income in fiscal 2007, 2006 and 2005.

(n) Reclassifications

Certain reclassifications have been made to previously reported consolidated financial statements to conform to the fiscal 2007 presentation.

(2) Acquisitions

In February 2005, the Company acquired certain assets and assumed certain liabilities of Tolt Technologies, Inc. ("Tolt"). Sales and income for fiscal 2005 relating to the Tolt assets acquired would not have been material to the Company's results of operations for such period. The purchase price of the business was $3,735,000, including transaction costs of $235,000. Of the total purchase price excluding transaction costs, $2,500,000 was paid at closing and the remaining $1,000,000 was paid in fiscal 2006.

In August 2006, the Company acquired certain assets and assumed certain liabilities of Insite Consulting, Inc. ("Insite"), a logistics application software company, for $3,227,000, including transaction costs of $256,000. To date, the Company has paid $2,937,000 and has accrued business acquisition payments of $290,000. In the first quarter of fiscal 2008, the Company made its final guaranteed payment. In addition to the guaranteed purchase price, the Company may be required to make certain earn-out payments based on the achievement of future sales targets. The first part of the earn-out cannot exceed $1,350,000 and is limited to a five-year period. The second part of the earn-out, which is for a ten-year period, is unlimited and based on a per unit future sales target primarily relating to new commercial satellite-based mobile data communication markets. Insite has developed the geoOps™ Enterprise Location Management System, a software-based solution that allows customers to integrate legacy data systems with near-real time logistics and operational data systems. Sales and income for fiscal 2007, 2006 and 2005 relating to the Insite assets acquired would not have been material to the Company's results of operations for those periods. This operation was combined with the Company's existing business and is part of the mobile data communications segment.

In February 2007, the Company acquired certain assets and assumed certain liabilities of Digicast Networks, Inc. ("Digicast"), a manufacturer of digital video broadcasting equipment, for $1,000,000. Sales and income for fiscal 2007, 2006 and 2005 related to the Digicast assets acquired would not have been material to the Company's results of operations for those periods. This operation was combined with the Company's existing business and is part of the telecommunications transmission segment.

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Notes to Consolidated Financial Statements, Continued

The Company allocated the purchase price of these acquisitions as follows:

| | Tolt | Insite | Digicast | Estimated Useful Lives |
|---|---|---|---|---|
| Fair value of net tangible assets acquired | $ 4,000 | 335,000 | 408,000 | |
| Adjustments to record intangible assets at fair value: | | | | |
| Existing technology | — | 447,000 | — | 7 years |
| Other intangibles | 160,000 | 302,000 | 592,000 | 1 to 10 years |
| Goodwill | 3,571,000 | 2,143,000 | — | Indefinite |
| | 3,731,000 | 2,892,000 | 592,000 | |
| Aggregate purchase price | $ 3,735,000 | 3,227,000 | 1,000,000 | |

The valuation of existing technology was based primarily on the discounted capitalization of royalty expense saved because the Company now owns the asset. The valuation of other intangibles was primarily based on the value of the discounted cash flows that the related assets could be expected to generate in the future.

(3) Accounts Receivable

Accounts receivable consist of the following at July 31, 2007 and 2006:

| | 2007 | 2006 |
|---|---|---|
| Accounts receivable from commercial customers | $ 33,859,000 | 36,700,000 |
| Unbilled receivables on contracts-in-progress | 1,638,000 | 10,361,000 |
| Amounts receivable from the U.S. government and its agencies | 38,773,000 | 24,362,000 |
| | 74,270,000 | 71,423,000 |
| Less allowance for doubtful accounts | 685,000 | 1,376,000 |
| Accounts receivable, net | $ 73,585,000 | 70,047,000 |

There was no retainage included in unbilled receivables at July 31, 2007 or 2006.

(4) Inventories

Inventories consist of the following at July 31, 2007 and 2006:

| | 2007 | 2006 |
|---|---|---|
| Raw materials and components | $ 32,669,000 | 35,835,000 |
| Work-in-process and finished goods | 37,822,000 | 31,331,000 |
| | 70,491,000 | 67,166,000 |
| Less reserve for excess and obsolete inventories | 8,504,000 | 6,123,000 |
| Inventories, net | $ 61,987,000 | 61,043,000 |

Inventories directly related to long-term contracts were $6,547,000 and $8,349,000 at July 31, 2007 and 2006, respectively. Included in the inventory balance above, at July 31, 2007 and 2006, is $2,286,000 and $3,406,000, respectively, related to a contract from a third party commercial customer to outsource its manufacturing.

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Notes to Consolidated Financial Statements, Continued

(5) Property, Plant and Equipment

Property, plant and equipment consists of the following at July 31, 2007 and 2006:

| | 2007 | 2006 |
|---|---|---|
| Machinery and equipment | $ 64,562,000 | 54,305,000 |
| Leasehold improvements | 5,185,000 | 4,338,000 |
| Equipment financed by capital lease | 243,000 | 522,000 |
| | 69,990,000 | 59,165,000 |
| Less accumulated depreciation and amortization | 40,708,000 | 34,433,000 |
| Property, plant and equipment, net | $ 29,282,000 | 24,732,000 |

Depreciation and amortization expense on property, plant and equipment amounted to approximately $7,536,000, $6,242,000 and $5,315,000 for the fiscal years ended July 31, 2007, 2006 and 2005, respectively.

(6) Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consist of the following at July 31, 2007 and 2006:

| | 2007 | 2006 |
|---|---|---|
| Accrued wages and benefits | $ 20,657,000 | 17,361,000 |
| Accrued commissions | 5,360,000 | 5,745,000 |
| Accrued warranty | 9,685,000 | 10,468,000 |
| Accrued hurricane related costs (See Note 13(c)) | 2,240,000 | 2,240,000 |
| Accrued business acquisition payments | 290,000 | — |
| Other | 9,100,000 | 5,416,000 |
| Accrued expenses and other current liabilities | $ 47,332,000 | 41,230,000 |

The Company provides warranty coverage for most of its products for a period of at least one year from the date of shipment. The Company records a liability for estimated warranty expense based on historical claims, product failure rates and other factors. Some of the Company's product warranties are provided under long-term contracts, the costs of which are incorporated into the Company's estimates of total contract costs. Changes in the Company's product warranty liability during the fiscal years ended July 31, 2007 and 2006 were as follows:

| | 2007 | 2006 |
| --- | --- | --- |
| Balance at beginning of period | $ 10,468,000 | 7,910,000 |
| Provision for warranty obligations | 5,417,000 | 7,260,000 |
| Reversal of warranty liability | (1,056,000) | — |
| Charges incurred | (5,144,000) | (4,702,000) |
| Balance at end of period | $ 9,685,000 | 10,468,000 |

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Notes to Consolidated Financial Statements, Continued

(7) Other Obligations

Other obligations consist of the following at July 31, 2007 and 2006:

| | 2007 | 2006 |
|---|---|---|
| Obligations under capital leases and for technology purchase | $ 243,000 | 397,000 |
| Less current installments | 135,000 | 154,000 |
| | $ 108,000 | 243,000 |

Other obligations in both years related to certain equipment and a technology license. The net carrying value of assets acquired under these obligations was $589,000 and $830,000 at July 31, 2007 and 2006, respectively.
Future minimum lease payments under other obligations as of July 31, 2007 are as follows:

| Fiscal years ending July 31, | |
|---|---|
| 2008 | $ 150,000 |
| 2009 | 113,000 |
| Total minimum lease payments | 263,000 |
| Less amounts representing interest (at a rate of 8.0%) | 20,000 |
| | 243,000 |
| Less current installments | 135,000 |
| Other obligations, net of current installments | $ 108,000 |

(8) 2.0% Convertible Senior Notes due 2024

On January 27, 2004, the Company issued $105,000,000 of its 2.0% convertible senior notes in a private offering pursuant to Rule 144A under the Securities Act of 1933, as amended. The net proceeds from this transaction were $101,179,000 after deducting the initial purchaser's discount and other transaction costs of $3,821,000.

The notes bear interest at an annual rate of 2.0% and, during certain periods, the notes are convertible into shares of the Company's common stock at an initial conversion price of $31.50 per share (a conversion rate of 31.7460 shares per $1,000 original principal amount of notes), subject to adjustment in certain circumstances. The notes may be converted if, during a conversion period on each of at least 20 trading days, the closing sale price of the Company's common stock exceeds 120% of the conversion price in effect. Upon conversion of the notes, in lieu of delivering common stock, the Company may, in its discretion, deliver cash or a combination of cash and common stock. The notes can be converted, at the option of the noteholders, during the conversion period of September 17, 2007 through December 14, 2007. Upon receiving notification of a noteholder's intent to convert, the Company, in accordance with the provisions of the indenture, will inform the noteholder of its intention to deliver shares of common stock or cash, or a combination thereof. The

Company may, at its option, redeem some or all of the notes on or after February 4, 2009. Holders of the notes will have the right to require the Company to repurchase some or all of the outstanding notes on February 1, 2011, February 1, 2014 and February 1, 2019 and upon certain events, including a change in control. If not redeemed by the Company or repaid pursuant to the holders' right to require repurchase, the notes mature on February 1, 2024. The notes have substantive conversion features as defined by EITF No. 05-1, "Accounting for the Conversion of an Instrument that Becomes Convertible Upon the Issuers Exercise of a Call Option." Accordingly, the Company will not recognize a gain or loss if it issues common stock upon the conversion and settlement of these notes.

The 2.0% interest is payable in cash, semi-annually, through February 1, 2011. After such date, the 2.0% interest will be accreted into the principal amount of the notes. Also, commencing with the six-month period beginning February 1, 2009, if the average note price for the applicable trading period equals 120% or more of the accreted principal amount of such notes, the Company will pay contingent interest at an annual rate of 0.25%.

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The notes are general unsecured obligations of the Company, ranking equally in right of payment with all of its other existing and future unsecured senior indebtedness and senior in right of payment to any of its future subordinated indebtedness. All of Comtech Telecommunications Corp.'s (the "Parent") wholly-owned subsidiaries have issued full and unconditional guarantees in favor of the holders of the Company's 2.0% convertible senior notes (the "Guarantor Subsidiaries"), except for the subsidiary that purchased Memotec, Inc. in fiscal 2004 (the "Non-Guarantor Subsidiary"). Tolt, which was purchased in February 2005, became a guarantor in July 2005. These full and unconditional guarantees are joint and several. Other than supporting the operations of its subsidiaries, the Parent has no independent assets or operations and there are currently no significant restrictions on its ability, or the ability of the guarantors, to obtain funds from each other by dividend or loan. Consolidating financial information regarding the Parent, the Guarantor Subsidiaries and the Non-Guarantor Subsidiary can be found in Note 16 to the consolidated financial statements beginning on page F-29.

The net proceeds of the offering are being used for working capital and general corporate purposes and potentially may be used for future acquisitions of businesses or technologies or repurchases of the Company's common stock. The Company filed a registration statement with the Securities and Exchange Commission ("SEC"), which has become effective, for the resale of the notes and the shares of common stock issuable upon conversion of the notes.

(9) Income Taxes

Income before provision for income taxes consists of the following:

| | Fiscal Years Ended July 31, | | |
|---|---|---|---|
| | 2007 | 2006 | 2005 |
| U.S. | $ 97,215,000 | 68,024,000 | 53,942,000 |
| Foreign | (816,000) | 2,463,000 | (485,000) |
| | $ 96,399,000 | 70,487,000 | 53,457,000 |

The provision for income taxes included in the accompanying consolidated statements of operations consists of the following:

| | Fiscal Years Ended July 31, | | |
|---|---|---|---|
| | 2007 | 2006 | 2005 |
| Federal – current | $ 29,388,000 | 22,085,000 | 13,135,000 |
| Federal – deferred | (628,000) | 854,000 | 2,605,000 |

| | | | |
|---|---|---|---|
| State and local – current | 2,091,000 | 1,539,000 | 931,000 |
| State and local – deferred | 509,000 | 85,000 | 163,000 |
| Foreign – current | (146,000) | 762,000 | (32,000) |
| Foreign – deferred | (28,000) | (107,000) | — |
| | $ 31,186,000 | 25,218,000 | 16,802,000 |

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The provision for income taxes differed from the amounts computed by applying the U.S. Federal income tax rate as a result of the following:

| | Fiscal Years Ended July 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2007 | | 2006 | | 2005 | |
| | Amount | Rate | Amount | Rate | Amount | Rate |
| Computed “expected” tax expense | $ 33,740,000 | 35.0% | 24,670,000 | 35.0% | 18,710,000 | 35.0% |
| Increase (reduction) in income taxes resulting from: | | | | | | |
| Nondeductible compensation | 51,000 | 0.1 | 961,000 | 1.4 | 906,000 | 1.7 |
| State and local income taxes, net of Federal benefit | 1,678,000 | 1.8 | 922,000 | 1.3 | 711,000 | 1.3 |
| Nondeductible stock-based compensation | 529,000 | 0.5 | 615,000 | 0.9 | — | — |
| Extraterritorial income exclusion | (666,000) | (0.7) | (726,000) | (1.0) | (1,862,000) | (3.5) |
| Domestic production activities deduction | (806,000) | (0.8) | (646,000) | (0.9) | — | — |
| Research and experimentation credits | (3,400,000) | (3.5) | (415,000) | (0.6) | (694,000) | (1.3) |
| Change in the beginning of the year valuation allowance for deferred tax assets | (50,000) | (0.1) | (111,000) | (0.2) | (1,189,000) | (2.2) |
| Other | 110,000 | 0.1 | (52,000) | (0.1) | 220,000 | 0.4 |
| | $ 31,186,000 | 32.4% | 25,218,000 | 35.8% | 16,802,000 | 31.4% |

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities at July 31, 2007 and 2006 are presented below.

| | 2007 | 2006 |
|---|---|---|
| Deferred tax assets: | | |
| Allowance for doubtful accounts receivable | $ 210,000 | 404,000 |
| Intangibles | 715,000 | 675,000 |
| Inventory and warranty reserves | 5,871,000 | 5,025,000 |
| Compensation and commissions | 2,632,000 | 2,049,000 |
| State research and experimentation credits | 1,162,000 | 1,162,000 |
| Stock-based compensation | 3,057,000 | 1,312,000 |
| Other | 1,134,000 | 1,245,000 |
| Less valuation allowance | (1,312,000) | (1,362,000) |

| | | |
|---|---|---|
| Total deferred tax assets | 13,469,000 | 10,510,000 |
| Deferred tax liabilities: | | |
| Convertible senior notes | (8,899,000) | (6,374,000) |
| Plant and equipment | (3,150,000) | (2,863,000) |
| Total deferred tax liabilities | (12,049,000) | (9,237,000) |
| Net deferred tax assets | $ 1,420,000 | 1,273,000 |

The Company provides for income taxes under the provisions of SFAS No. 109, "Accounting for Income Taxes." SFAS No. 109 requires an asset and liability based approach in accounting for income taxes. In assessing the realizability of deferred tax assets and liabilities, management considers whether it is more likely than not that some portion or all of them will not be realized. As of July 31, 2007 and 2006, the Company's deferred tax asset has been offset by a valuation allowance primarily related to state research and experimentation credits which may not be utilized in future periods. The Company must generate approximately $41,100,000 of taxable income to fully utilize its deferred tax assets. Management believes it is more likely than not that the results of future operations will generate sufficient taxable income to realize the net deferred tax assets.

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In fiscal 2006, the Company's Federal income tax return for the fiscal year ended July 31, 2004 was selected for audit by the Internal Revenue Service. The audit is ongoing and additional income tax returns for other fiscal years may be examined. If the outcome of the audit differs materially from the Company's original income tax provisions, the Company's results of operations and financial position could be materially impacted. The years that remain open to examination by the U.S. Federal tax authorities are fiscal 2004 and forward. In addition, the Company is subject to taxes in various states and its Canadian subsidiary is subject to Canadian Federal and Provincial taxes. In general, these returns are open for examination by the applicable tax authorities for fiscal 2004 and forward.

(10) Stockholders' Equity

(a) Stock Split

In April 2005, the Company completed a three-for-two stock split, which was effected in the form of a 50% stock dividend. All share and per share information in the consolidated financial statements and notes thereto has been adjusted to reflect the stock split.

(b) Stock Option Plans and Employee Stock Purchase Plan

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

1993 Incentive Stock Option Plan – The 1993 Incentive Stock Option Plan, as amended, provided for the granting to key employees and officers of incentive and non-qualified stock options to purchase up to 2,345,625 shares of the Company's common stock at prices generally not less than the fair market value at the date of grant with the exception of anyone who, prior to the grant, owns more than 10% of the voting power, in which case the exercise price cannot be less than 110% of the fair market value. In addition, it provided formula grants to non-employee members of the Company's Board of Directors. The term of the options could be no more than ten years. However, for incentive stock options granted to any employee who, prior to the granting of the option, owns stock representing more than 10% of the voting power, the option term could be no more than five years. As of July 31, 2007, the Company had granted stock-based awards representing the right to purchase an aggregate of 2,016,218 shares (net of 428,441 canceled awards) at prices ranging between $0.67 - $5.31 per share, of which 146,337 are outstanding at July 31, 2007. To date, 1,869,881 shares have been exercised. Outstanding awards have been transferred to the 2000 Stock Incentive Plan. The terms applicable to these awards prior to the transfer continue to apply. The plan was terminated by the Company's Board of Directors in December 1999 due to the approval by the shareholders of the 2000 Stock Incentive Plan.

2000 Stock Incentive Plan – The 2000 Stock Incentive Plan, as amended, provides for the granting to all employees and consultants of the Company (including prospective employees and consultants) non-qualified stock options, SARs, restricted stock, performance shares, performance units and other stock-based awards. In addition, employees of the Company are eligible to be granted incentive stock options. Non-employee directors of the Company are eligible to receive non-discretionary grants of nonqualified stock options subject to certain limitations. The aggregate number of shares of common stock which may be issued may not exceed 5,737,500 plus the shares that were transferred to the Plan relating to outstanding awards that were previously granted under the 1982 Incentive Stock Option Plan and the 1993 Incentive Stock Option Plan. The Stock Option Committee of the Company's Board of Directors, consistent with the terms of the Plan, will determine the types of awards to be granted, the terms and conditions of each award and the number of shares of common stock to be covered by each award. Grants of incentive and non-qualified stock options may not have a term exceeding ten years or no more than five years in the case of an incentive stock option granted to a stockholder who owns stock representing more than 10% of the voting power. As of July 31, 2007, the Company had granted stock-based awards representing the right to purchase an aggregate of 4,861,885 shares (net of 547,415 canceled awards) at prices ranging between $3.13 - $44.75 of which 2,353,680 are outstanding at July 31, 2007. As of July 31, 2007, 2,508,205 stock-based awards have been exercised. All stock-based awards granted through July 31, 2005 had exercise prices equal to the fair market value of the stock on the date of grant and a term of ten years. All stock-based

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awards granted since August 1, 2005 have had exercise prices equal to the fair market value of the stock on the date of grant and a term of five years.

The following table summarizes certain stock option plan activity during the three years ended July 31, 2007:

| | Number of Shares Underlying Stock-Based Awards | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term (Years) | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Outstanding at July 31, 2004 | 3,105,906 | $ 7.11 | | |
| Granted | 732,750 | 15.20 | | |
| Expired/canceled | (61,975) | 10.25 | | |
| Exercised | (1,209,799) | 5.98 | | |
| Outstanding at July 31, 2005 | 2,566,882 | 9.87 | | |
| Granted | 706,000 | 35.30 | | |
| Expired/canceled | (108,903) | 16.00 | | |
| Exercised | (244,737) | 7.61 | | |
| Outstanding at July 31, 2006 | 2,919,242 | 15.99 | | |
| Granted | 716,600 | 27.91 | | |
| Expired/canceled | (197,825) | 14.90 | | |
| Exercised | (938,000) | 10.17 | | |
| Outstanding at July 31, 2007 | 2,500,017 | $ 21.67 | 4.5 | $ 54,498,000 |
| Exercisable at July 31, 2007 | 425,517 | $ 19.09 | 4.8 | $ 10,372,000 |
| Expected to vest at July 31, 2007 | 1,986,755 | $ 22.17 | 4.4 | $ 42,319,000 |

Included in the number of shares underlying stock-based awards outstanding at July 31, 2007, in the above table, are 15,500 SARs with an aggregate intrinsic value of $137,000.

The total intrinsic value of stock-based awards exercised during the years ended July 31, 2007, 2006 and 2005 was $27,302,000, $6,602,000 and $32,590,000, respectively.

2001 Employee Stock Purchase Plan – The ESPP was approved by the shareholders on December 12, 2000, and 675,000 shares of the Company's common stock were reserved for issuance. The ESPP is intended to provide eligible employees of the Company the opportunity to acquire common stock in the Company at 85% of fair market value at date of issuance through participation in the payroll-deduction based ESPP. Through fiscal 2007, the Company issued 260,587 shares of its common stock to participating employees in connection with the ESPP.

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(11) Customer and Geographic Information

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

| | Fiscal Years Ended July 31, | | |
|---|---|---|---|
| | 2007 | 2006 | 2005 |
| United States | | | |
| U.S. government | 61.3% | 47.3% | 42.1% |
| Commercial customers | 12.5% | 17.1% | 13.9% |
| Total United States | 73.8% | 64.4% | 56.0% |
| International | | | |
| North African country | 3.0% | 9.7% | 13.2% |
| Other international customers | 23.2% | 25.9% | 30.8% |
| Total International | 26.2% | 35.6% | 44.0% |

International sales include sales to U.S. domestic companies for inclusion in products that will be sold to international customers. One customer, a prime contractor, represented 5.4% of consolidated net sales in fiscal 2007 and 10.2% of consolidated net sales in both fiscal 2006 and 2005.

(12) Segment Information

Reportable operating segments are determined based on the Company’s management approach. The management approach, as defined by SFAS No. 131, is based on the way that the chief operating decision-maker organizes the segments within an enterprise for making decisions about resources to be allocated and assessing their performance. While the Company’s results of operations are primarily reviewed on a consolidated basis, the chief operating decision-maker also manages the enterprise in three operating segments: (i) telecommunications transmission, (ii) mobile data communications and (iii) RF microwave amplifiers. Telecommunications transmission products include satellite earth station products (such as analog and digital modems, frequency converters, power amplifiers, and voice gateways) and over-the-horizon microwave communications products and systems. Mobile data communications products include satellite-based mobile location, tracking and messaging hardware and related services. RF microwave amplifier products include solid-state, high-power, broadband amplifier products that use the microwave and radio frequency spectrums.

Unallocated expenses result from such corporate expenses as legal, accounting and executive compensation. In addition, for fiscal 2007 and 2006, unallocated expenses include $7,401,000 and $5,681,000 of stock-based compensation expense, respectively. There was no stock-based compensation expense recorded for fiscal 2005. Interest expense (which includes amortization of deferred financing costs) associated with the Company’s 2.0% convertible senior notes is not allocated to the operating segments. Depreciation and amortization includes amortization of stock-based compensation. Unallocated assets consist principally of cash, deferred financing costs and deferred tax assets. Substantially all of the Company’s long-lived assets are located in the U.S.

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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.

| | Fiscal Year Ended July 31, 2007 | | | | |
|---|---|---|---|---|---|
| (in thousands) | Telecommunications Transmission | Mobile Data Communications | RF Microwave Amplifiers | Unallocated | Total |
| Net sales | $ 219,935 | 189,575 | 36,174 | — | $ 445,684 |
| Operating income (expense) | 59,205 | 45,403 | 3,658 | (23,344) | 84,922 |
| Interest income and other | (59) | 22 | — | 14,245 | 14,208 |
| Interest expense | 48 | 37 | — | 2,646 | 2,731 |
| Depreciation and amortization | 6,995 | 1,556 | 1,392 | 7,586 | 17,529 |
| Expenditure for long-lived assets, including intangibles | 8,616 | 5,858 | 1,298 | 114 | 15,886 |
| Total assets at July 31, 2007 | 118,300 | 48,275 | 34,993 | 354,774 | 556,342 |

| | Fiscal Year Ended July 31, 2006 | | | | |
|---|---|---|---|---|---|
| (in thousands) | Telecommunications Transmission | Mobile Data Communications | RF Microwave Amplifiers | Unallocated | Total |
| Net sales | $ 197,891 | 149,463 | 44,157 | — | $ 391,511 |
| Operating income (expense) | 49,797 | 21,730 | 8,311 | (15,907) | 63,931 |
| Interest income and other | 48 | 2 | — | 9,193 | 9,243 |
| Interest expense | 38 | — | 3 | 2,646 | 2,687 |
| Depreciation and amortization | 6,086 | 1,193 | 1,317 | 5,792 | 14,388 |
| Expenditure for long-lived assets, including intangibles | 8,914 | 1,545 | 1,477 | 588 | 12,524 |
| Total assets at July 31, 2006 | 134,567 | 45,641 | 24,588 | 250,470 | 455,266 |

| | Fiscal Year Ended July 31, 2005 | | | | |
|---|---|---|---|---|---|
| (in thousands) | Telecommunications Transmission | Mobile Data Communications | RF Microwave Amplifiers | Unallocated | Total |

| | | | | | |
|---|---|---|---|---|---|
| Net sales | $ 174,488 | 86,084 | 47,318 | — | $ 307,890 |
| Operating income (expense) | 40,194 | 11,848 | 8,224 | (8,202) | 52,064 |
| Interest income and other | (2) | 1 | 3 | 4,070 | 4,072 |
| Interest expense | 22 | — | 11 | 2,646 | 2,679 |
| Depreciation and amortization | 5,497 | 796 | 1,262 | 88 | 7,643 |
| Expenditure for long-lived assets, including intangibles | 6,962 | 5,344 | 1,604 | 65 | 13,975 |
| Total assets at July 31, 2005 | 99,197 | 32,827 | 25,320 | 225,059 | 382,403 |

Intersegment sales in fiscal 2007, 2006 and 2005 by the telecommunications transmission segment to the RF microwave amplifiers segment were $6,495,000, $7,512,000 and $8,579,000, respectively. In fiscal 2007, 2006 and 2005, intersegment sales by the telecommunications transmission segment to the mobile data communications segment were $78,319,000, $55,667,000 and $19,466,000, respectively. Intersegment sales have been eliminated from the tables above.

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Notes to Consolidated Financial Statements, Continued

(13) Commitments and Contingencies

(a) Operating Leases

The Company is obligated under noncancellable operating lease agreements, including satellite lease expenditures relating to its mobile data communications segment contracts. At July 31, 2007, the future minimum lease payments under operating leases are as follows:

| | |
|---|---|
| 2008 | $ 11,946,000 |
| 2009 | 3,335,000 |
| 2010 | 2,971,000 |
| 2011 | 2,076,000 |
| 2012 | 1,026,000 |
| Thereafter | 406,000 |
| Total | $ 21,760,000 |

Lease expense charged to operations was $3,871,000, $3,379,000 and $3,018,000 in fiscal 2007, 2006 and 2005, respectively. Lease expense excludes satellite lease expenditures incurred of approximately $15,456,000, $13,382,000 and $11,854,000 in fiscal 2007, 2006 and 2005, respectively, relating to the Company's mobile data communications segment. Satellite lease expenditures are allocated to individual contracts and expensed to cost of sales.

In December 1991, the Company and a partnership controlled by the Company's Chairman, Chief Executive Officer and President entered into an agreement in which the Company leases from the partnership its Melville, New York production facility. The lease was for an initial term of ten years. In December 2001, the Company exercised its option for an additional ten-year period. For financial reporting purposes, the lease for the extension period is an operating lease. The annual rentals, of approximately $552,000 for fiscal 2007, are subject to annual adjustments equal to the lesser of 5% or the change in the Consumer Price Index.

(b) United States Government Contracts

Certain of the Company's contracts are subject to audit by applicable governmental agencies. Until such audits are completed, the ultimate profit on these contracts cannot be determined; however, it is management's belief that the final contract settlements will not have a material adverse effect on the Company's consolidated financial condition or results of operations.

(c) Legal Proceedings

*Hurricane-Related Proceedings*

During fiscal 2005, two of the Company's leased facilities located in Florida experienced hurricane damage to both leasehold improvements and personal property. As of July 31, 2007, the Company has completed all restoration efforts relating to the hurricane damage and has recorded an $816,000 insurance recovery receivable and accrued a total of $2,240,000 for hurricane related costs. Despite a written agreement with the general contractor that the Company believes

limits its liability for the cost of the repairs to the amount of insurance proceeds ultimately received from its insurance company, a dispute has arisen with the general contractor and a certain subcontractor over the subcontractor's demand for payment directly from the Company (by virtue of a purported assignment of rights and other grounds) in an amount exceeding the insurance proceeds by $816,000, plus late charges, interest, fees, costs and certain treble damages. As a result of this dispute, the Company deposited $1,422,000, representing the balance of the insurance proceeds it has received, in its attorneys' trust account and filed a complaint for declaratory judgment in the 9th Judicial Circuit Court for Orange County, Florida. The general contractor and the subcontractor have filed separate and independent actions against the Company and its insurance company, all of which have now been consolidated under the Company's original action. The Court has postponed its anticipated trial date several times and has not scheduled a new trial date. The Company has also filed a cross-claim against its insurance company asserting that the insurer is responsible for whatever liability, if any, the Company is

COMTECH TELECOMMUNICATIONS CORP.
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Notes to Consolidated Financial Statements, Continued

ultimately adjudged to have to the general contractor or the subcontractor. However, to the extent that insurance recoveries are inadequate, the Company might be required to fund the shortfall. All parties have held and are currently engaged in mediation and settlement discussions. However, to date, no agreements have been reached. The Company does not expect that the outcome of this matter will have a material adverse effect on its consolidated financial condition.

*Other Legal Proceedings*

In March 2007, a lawsuit was brought against the Company in the Federal District Court for the Western District of Texas by a company that claims that it was a consultant and a reseller of certain of the Company's products and that it is owed damages for alleged lost profits, as well as punitive damages, costs and attorney's fees. The Company believes that it has substantial legal and factual defenses to the plaintiff's allegations and intends to vigorously defend itself in this matter. The Company does not expect that the ultimate outcome of this matter will have a material adverse effect on its consolidated financial condition.

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

(d) Employment and Change of Control Agreements

The Company has employment agreements with its Chairman of the Board, Chief Executive Officer and President, and its Executive Vice President and Chief Operating Officer. The employment agreements generally provide for an annual salary and bonus award. The Company has also entered into change of control agreements with certain of its officers. All of the agreements may require payments, in certain circumstances, in the event of a change in control of the Company.

(14) Stockholder Rights Plan

On December 15, 1998, the Company's Board of Directors approved the adoption of a stockholder rights plan in which one stock purchase right ("Right") was distributed as a dividend on each outstanding share of the Company's common stock to stockholders of record at the close of business on January 4, 1999. Under the plan, the Rights will be exercisable only if triggered by a person or group's acquisition of 15% or more of the Company's common stock. If triggered, each Right, other than Rights held by the acquiring person or group, would entitle its holder to purchase a specified number of the Company's common shares for 50% of their market value at that time. Unless a 15% acquisition has occurred, the Rights may be redeemed by the Company at any time prior to the termination date of the plan.

This Right to purchase common stock at a discount will not be triggered by a person or group's acquisition of 15% or more of the common stock pursuant to a tender or exchange offer which is for all outstanding shares at a price and on terms that the Company's Board of Directors determines (prior to acquisition) to be adequate and in the best interest of the Company and its stockholders. The Rights will expire on December 15, 2008.

COMTECH TELECOMMUNICATIONS CORP.
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Notes to Consolidated Financial Statements, Continued

(15) Intangible Assets

Intangible assets with finite lives arising from acquisitions as of July 31, 2007 and 2006 are as follows:

| | | 2007 | | 2006 | |
|---|---|---|---|---|---|
| | Weighted Average Amortization Period | Gross Carrying Amount | Accumulated Amortization | Gross Carrying Amount | Accumulated Amortization |
| Existing technology | 7.22 | $ 12,903,000 | 11,168,000 | 12,456,000 | 9,494,000 |
| Proprietary, core and licensed technology | 8.31 | 5,851,000 | 2,326,000 | 5,145,000 | 1,554,000 |
| Other | 5.61 | 975,000 | 518,000 | 834,000 | 532,000 |
| Total | | $ 19,729,000 | 14,012,000 | 18,435,000 | 11,580,000 |

Amortization expense for the years ended July 31, 2007, 2006 and 2005 was $2,592,000, $2,465,000 and $2,328,000, respectively. The estimated amortization expense for the fiscal years ending July 31, 2008, 2009, 2010, 2011 and 2012 is $1,430,000, $1,397,000, $1,282,000, $1,120,000 and $262,000, respectively.

The changes in carrying amount of goodwill by segment for the year ended July 31, 2007 are as follows:

| | Telecommunications Transmission | Mobile Data Communications | RF Microwave Amplifiers | Total |
|---|---|---|---|---|
| Balance at July 31, 2006 | $ 8,817,000 | 5,005,000 | 8,422,000 | $ 22,244,000 |
| Acquisition of Insite (See Note 2) | — | 2,143,000 | — | 2,143,000 |
| Balance at July 31, 2007 | $ 8,817,000 | 7,148,000 | 8,422,000 | $ 24,387,000 |

COMTECH TELECOMMUNICATIONS CORP.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(16) Consolidating Financial Information

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

The following reflects the consolidating balance sheet as of July 31, 2007:

| | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiary | Consolidating Entries | Consolidated Total |
|---|---|---|---|---|---|
| Assets | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | $ 340,617,000 | 983,000 | 1,303,000 | — | $ 342,903,000 |
| Accounts receivable, net | — | 66,240,000 | 7,345,000 | — | 73,585,000 |
| Inventories, net | — | 61,337,000 | 650,000 | — | 61,987,000 |
| Prepaid expenses and other current assets | 1,868,000 | 4,311,000 | 555,000 | — | 6,734,000 |
| Deferred tax asset – current | 645,000 | 8,735,000 | — | — | 9,380,000 |
| Total current assets | 343,130,000 | 141,606,000 | 9,853,000 | — | 494,589,000 |
| Property, plant and equipment, net | 844,000 | 27,796,000 | 642,000 | — | 29,282,000 |
| Investment in subsidiaries | 248,952,000 | 4,755,000 | — | (253,707,000) | — |
| Goodwill | — | 23,440,000 | 947,000 | — | 24,387,000 |
| Intangibles with finite lives, net | — | 4,972,000 | 745,000 | — | 5,717,000 |
| Deferred tax asset – non-current | — | — | 190,000 | (190,000) | — |
| Deferred financing costs, net | 1,903,000 | — | — | — | 1,903,000 |
| Other assets, net | 56,000 | 386,000 | 22,000 | — | 464,000 |
| Intercompany receivables | — | 126,210,000 | — | (126,210,000) | — |
| Total assets | $ 594,885,000 | 329,165,000 | 12,399,000 | (380,107,000) | $ 556,342,000 |
| Liabilities and Stockholders' Equity | | | | | |
| Current liabilities: | | | | | |
| Accounts payable | $ 374,000 | 25,616,000 | 147,000 | — | $ 26,137,000 |
| Accrued expenses and other current liabilities | 10,340,000 | 36,378,000 | 614,000 | — | 47,332,000 |
| Customer advances and deposits | — | 15,189,000 | 4,867,000 | — | 20,056,000 |
| Current installments of other obligations | — | 135,000 | — | — | 135,000 |
| Interest payable | 1,050,000 | — | — | — | 1,050,000 |
| Income taxes payable | 3,283,000 | — | (487,000) | — | 2,796,000 |

| | | | | | |
|---|---|---|---|---|---|
| Total current liabilities | 15,047,000 | 77,318,000 | 5,141,000 | — | 97,506,000 |
| Convertible senior notes | 105,000,000 | — | — | — | 105,000,000 |
| Other obligations, less current installments | — | 108,000 | — | — | 108,000 |
| Deferred tax liability – non-current | 5,363,000 | 2,787,000 | — | (190,000) | 7,960,000 |
| Intercompany payables | 123,707,000 | — | 2,503,000 | (126,210,000) | — |
| Total liabilities | 249,117,000 | 80,213,000 | 7,644,000 | (126,400,000) | 210,574,000 |
| Commitments and contingencies | | | | | |
| Stockholders' equity: | | | | | |
| Preferred stock | — | — | — | — | — |
| Common stock | 2,402,000 | 4,000 | — | (4,000) | 2,402,000 |
| Additional paid-in capital | 165,703,000 | 81,410,000 | 5,187,000 | (86,597,000) | 165,703,000 |
| Retained earnings (deficit) | 177,848,000 | 167,538,000 | (432,000) | (167,106,000) | 177,848,000 |
| | 345,953,000 | 248,952,000 | 4,755,000 | (253,707,000) | 345,953,000 |
| Less: | | | | | |
| Treasury stock | (185,000) | — | — | — | (185,000) |
| Total stockholders' equity | 345,768,000 | 248,952,000 | 4,755,000 | (253,707,000) | 345,768,000 |
| Total liabilities and stockholders' equity | $ 594,885,000 | 329,165,000 | 12,399,000 | (380,107,000) | $ 556,342,000 |

COMTECH TELECOMMUNICATIONS CORP.
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Notes to Consolidated Financial Statements, Continued

(16) Consolidating Financial Information (continued)

The following reflects the consolidating balance sheet as of July 31, 2006:

| | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiary | Consolidating Entries | Consolidated Total |
|---|---|---|---|---|---|
| Assets | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | $ 238,298,000 | 9,949,000 | 3,340,000 | — | $ 251,587,000 |
| Restricted cash | — | 1,003,000 | — | — | 1,003,000 |
| Accounts receivable, net | — | 66,025,000 | 4,022,000 | — | 70,047,000 |
| Inventories, net | — | 61,043,000 | — | — | 61,043,000 |
| Prepaid expenses and other current assets | 1,101,000 | 5,565,000 | 512,000 | — | 7,178,000 |
| Deferred tax asset – current | 551,000 | 7,040,000 | — | — | 7,591,000 |
| Total current assets | 239,950,000 | 150,625,000 | 7,874,000 | — | 398,449,000 |
| Property, plant and equipment, net | 914,000 | 23,295,000 | 523,000 | — | 24,732,000 |
| Investment in subsidiaries | 191,046,000 | 5,496,000 | — | (196,542,000) | — |
| Goodwill | — | 21,297,000 | 947,000 | — | 22,244,000 |
| Intangibles with finite lives, net | — | 5,933,000 | 922,000 | — | 6,855,000 |
| Deferred tax asset – non-current | — | — | 174,000 | (174,000) | — |
| Deferred financing costs, net | 2,449,000 | — | — | — | 2,449,000 |
| Other assets, net | 56,000 | 459,000 | 22,000 | — | 537,000 |
| Intercompany receivables | — | 59,824,000 | — | (59,824,000) | — |
| Total assets | $ 434,415,000 | 266,929,000 | 10,462,000 | (256,540,000) | $ 455,266,000 |
| Liabilities and Stockholders' Equity | | | | | |
| Current liabilities: | | | | | |
| Accounts payable | $ 390,000 | 27,497,000 | 450,000 | — | $ 28,337,000 |
| Accrued expenses and other current liabilities | 6,683,000 | 32,806,000 | 1,741,000 | — | 41,230,000 |
| Customer advances and deposits | — | 3,502,000 | 42,000 | — | 3,544,000 |
| Deferred service revenue | — | 9,896,000 | — | — | 9,896,000 |
| Current installments of other obligations | — | 154,000 | — | — | 154,000 |
| Interest payable | 1,050,000 | — | — | — | 1,050,000 |
| Income taxes payable | 4,428,000 | — | 824,000 | — | 5,252,000 |
| Total current liabilities | 12,551,000 | 73,855,000 | 3,057,000 | — | 89,463,000 |
| Convertible senior notes | 105,000,000 | — | — | — | 105,000,000 |
| Other obligations, less current installments | — | 243,000 | — | — | 243,000 |

| | | | | | |
|---|---|---|---|---|---|
| Deferred tax liability – non-current | 4,707,000 | 1,785,000 | — | (174,000) | 6,318,000 |
| Intercompany payables | 57,915,000 | — | 1,908,000 | (59,823,000) | — |
| Total liabilities | 180,173,000 | 75,883,000 | 4,965,000 | (59,997,000) | 201,024,000 |
| Commitments and contingencies | | | | | |
| Stockholders' equity: | | | | | |
| Preferred stock | — | — | — | — | — |
| Common stock | 2,305,000 | 4,000 | — | (4,000) | 2,305,000 |
| Additional paid-in capital | 139,487,000 | 81,410,000 | 5,187,000 | (86,597,000) | 139,487,000 |
| Retained earnings | 112,635,000 | 109,632,000 | 310,000 | (109,942,000) | 112,635,000 |
| | 254,427,000 | 191,046,000 | 5,497,000 | (196,543,000) | 254,427,000 |
| Less: | | | | | |
| Treasury stock | (185,000) | — | — | — | (185,000) |
| Total stockholders' equity | 254,242,000 | 191,046,000 | 5,497,000 | (196,543,000) | 254,242,000 |
| Total liabilities and stockholders' equity | $ 434,415,000 | 266,929,000 | 10,462,000 | (256,540,000) | $ 455,266,000 |

COMTECH TELECOMMUNICATIONS CORP.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(16) Consolidating Financial Information (continued)

The following reflects the consolidating statement of operations for the year ended July 31, 2007:

| | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiary | Consolidating Entries | Consolidated Total |
|---|---|---|---|---|---|
| Net sales | $ — | 436,075,000 | 10,045,000 | (436,000) | $ 445,684,000 |
| Cost of sales | — | 247,364,000 | 5,461,000 | (436,000) | 252,389,000 |
| Gross Profit | — | 188,711,000 | 4,584,000 | — | 193,295,000 |
| Expenses: | | | | | |
| Selling, general and administrative | — | 69,613,000 | 3,699,000 | — | 73,312,000 |
| Research and development | — | 30,633,000 | 1,836,000 | — | 32,469,000 |
| Amortization of intangibles | — | 2,415,000 | 177,000 | — | 2,592,000 |
| | — | 102,661,000 | 5,712,000 | — | 108,373,000 |
| Operating income (loss) | — | 86,050,000 | (1,128,000) | — | 84,922,000 |
| Other expense (income): | | | | | |
| Interest expense | 2,646,000 | 73,000 | 12,000 | — | 2,731,000 |
| Interest income and other | (14,245,000) | 76,000 | (39,000) | — | (14,208,000) |
| Income (loss) before provision for benefit from income taxes and equity in undistributed earnings (loss) of subsidiaries | 11,599,000 | 85,901,000 | (1,101,000) | — | 96,399,000 |
| Provision for (benefit from) income taxes | 4,292,000 | 27,253,000 | (359,000) | — | 31,186,000 |
| Net earnings (loss) before equity in undistributed earnings (loss) of subsidiaries | 7,307,000 | 58,648,000 | (742,000) | — | 65,213,000 |
| Equity in undistributed earnings (loss) of subsidiaries | 57,906,000 | (742,000) | — | (57,164,000) | — |
| Net income (loss) | $ 65,213,000 | 57,906,000 | (742,000) | (57,164,000) | $ 65,213,000 |

The following reflects the consolidating statement of operations for the year ended July 31, 2006:

| | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiary | Consolidating Entries | Consolidated Total |
|---|---|---|---|---|---|

| | | | | | |
|---|---|---|---|---|---|
| Net sales | $ — | 377,003,000 | 14,971,000 | (463,000) | $ 391,511,000 |
| Cost of sales | — | 227,042,000 | 5,631,000 | (463,000) | 232,210,000 |
| Gross Profit | — | 149,961,000 | 9,340,000 | — | 159,301,000 |
| Expenses: | | | | | |
| Selling, general and administrative | — | 61,467,000 | 5,604,000 | — | 67,071,000 |
| Research and development | — | 24,392,000 | 1,442,000 | — | 25,834,000 |
| Amortization of intangibles | — | 2,288,000 | 177,000 | — | 2,465,000 |
| | — | 88,147,000 | 7,223,000 | — | 95,370,000 |
| Operating income | — | 61,814,000 | 2,117,000 | — | 63,931,000 |
| Other expense (income): | | | | | |
| Interest expense | 2,646,000 | 41,000 | — | — | 2,687,000 |
| Interest income and other | (9,193,000) | (60,000) | 10,000 | — | (9,243,000) |
| Income before provision for income taxes and equity in undistributed earnings of subsidiaries | 6,547,000 | 61,833,000 | 2,107,000 | — | 70,487,000 |
| Provision for income taxes | 2,435,000 | 22,133,000 | 650,000 | — | 25,218,000 |
| Net earnings before equity in undistributed earnings of subsidiaries | 4,112,000 | 39,700,000 | 1,457,000 | — | 45,269,000 |
| Equity in undistributed earnings of subsidiaries | 41,157,000 | 1,457,000 | — | (42,614,000) | — |
| Net income | $ 45,269,000 | 41,157,000 | 1,457,000 | (42,614,000) | $ 45,269,000 |

COMTECH TELECOMMUNICATIONS CORP.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(16) Consolidating Financial Information (continued)

The following reflects the consolidating statement of operations for the year ended July 31, 2005:

| | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiary | Consolidating Entries | Consolidated Total |
|---|---|---|---|---|---|
| Net sales | $ — | 301,749,000 | 6,334,000 | (193,000) | $ 307,890,000 |
| Cost of sales | — | 178,099,000 | 2,618,000 | (193,000) | 180,524,000 |
| Gross Profit | — | 123,650,000 | 3,716,000 | — | 127,366,000 |
| Expenses: | | | | | |
| Selling, general and administrative | — | 48,710,000 | 3,109,000 | — | 51,819,000 |
| Research and development | — | 20,261,000 | 894,000 | — | 21,155,000 |
| Amortization of intangibles | — | 2,076,000 | 252,000 | — | 2,328,000 |
| | — | 71,047,000 | 4,255,000 | — | 75,302,000 |
| Operating income (loss) | — | 52,603,000 | (539,000) | — | 52,064,000 |
| Other expense (income): | | | | | |
| Interest expense | 2,646,000 | 33,000 | — | — | 2,679,000 |
| Interest income and other | (4,070,000) | (14,000) | 12,000 | — | (4,072,000) |
| Income (loss) before provision for (benefit from) income taxes and equity in undistributed earnings (loss) of subsidiaries | 1,424,000 | 52,584,000 | (551,000) | — | 53,457,000 |
| Provision for (benefit from) income taxes | 530,000 | 16,318,000 | (46,000) | — | 16,802,000 |
| Net earnings (loss) before equity in undistributed earnings (loss) of subsidiaries | 894,000 | 36,266,000 | (505,000) | — | 36,655,000 |
| Equity in undistributed earnings (loss) of subsidiaries | 35,761,000 | (505,000) | — | (35,256,000) | — |
| Net income (loss) | $ 36,655,000 | 35,761,000 | (505,000) | (35,256,000) | $ 36,655,000 |

COMTECH TELECOMMUNICATIONS CORP.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(16) Consolidating Financial Information (continued)

The following reflects the consolidating statement of cash flows for the year ended July 31, 2007:

| | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiary | Consolidating Entries | Consolidated Total |
|---|---|---|---|---|---|
| Cash flows from operating activities: | | | | | |
| Net income (loss) | $ 65,213,000 | 57,906,000 | (742,000) | (57,164,000) | $ 65,213,000 |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | | | | |
| Depreciation and amortization of property, plant and equipment | 185,000 | 7,129,000 | 222,000 | — | 7,536,000 |
| Amortization of intangible assets with finite lives | — | 2,415,000 | 177,000 | — | 2,592,000 |
| Amortization of stock-based compensation | 2,932,000 | 4,430,000 | 39,000 | — | 7,401,000 |
| Amortization of deferred financing costs | 546,000 | — | — | — | 546,000 |
| Loss on disposal of property, plant and equipment | — | 201,000 | 2,000 | — | 203,000 |
| Benefit from allowance for doubtful accounts | — | (308,000) | (67,000) | — | (375,000) |
| Provision for (benefit from) excess and obsolete inventory | — | 4,519,000 | (28,000) | — | 4,491,000 |
| Excess income tax benefit from stock award exercises | (7,990,000) | — | — | — | (7,990,000) |
| Deferred income tax expense (benefit) | 562,000 | (693,000) | (16,000) | — | (147,000) |
| Equity in undistributed (earnings) loss of subsidiaries | (57,906,000) | 742,000 | — | 57,164,000 | — |
| Intercompany accounts | 70,268,000 | (70,861,000) | 593,000 | — | — |
| Changes in assets and liabilities, net of effects of acquisitions: | | | | | |
| Restricted cash securing letter of credit obligations | — | 1,003,000 | — | — | 1,003,000 |
| Accounts receivable | — | 93,000 | (3,256,000) | — | (3,163,000) |
| Inventories | — | (4,196,000) | (622,000) | — | (4,818,000) |
| Prepaid expenses and other current assets | (767,000) | 1,302,000 | (43,000) | — | 492,000 |
| Other assets | — | 73,000 | — | — | 73,000 |
| Accounts payable | (16,000) | (1,881,000) | (303,000) | — | (2,200,000) |
| Accrued expenses and other current liabilities | 3,657,000 | 3,116,000 | (1,165,000) | — | 5,608,000 |
| Customer advances and deposits | — | 11,687,000 | 4,825,000 | — | 16,512,000 |
| Deferred service revenue | — | (9,896,000) | — | — | (9,896,000) |
| Income taxes payable | 7,467,000 | — | (1,311,000) | — | 6,156,000 |
| Net cash provided by (used in) operating activities | 84,151,000 | 6,781,000 | (1,695,000) | — | 89,237,000 |
| Cash flows from investing activities: | | | | | |
| Purchases of property, plant and equipment | (115,000) | (11,618,000) | (342,000) | — | (12,075,000) |
| Purchase of other intangibles with finite lives | — | (38,000) | — | — | (38,000) |

| | | | | | |
|---|---|---|---|---|---|
| Payments for business acquisitions | — | (3,937,000) | — | — | (3,937,000) |
| Net cash used in investing activities | (115,000) | (15,593,000) | (342,000) | — | (16,050,000) |
| Cash flows from financing activities: | | | | | |
| Principal payments on other obligations | — | (154,000) | — | — | (154,000) |
| Excess income tax benefit from stock award exercises | 7,990,000 | — | — | — | 7,990,000 |
| Proceeds from exercises of stock options | 9,535,000 | — | — | — | 9,535,000 |
| Proceeds from issuance of employee stock purchase plan shares | 758,000 | — | — | — | 758,000 |
| Net cash provided by (used in) financing activities | 18,283,000 | (154,000) | — | — | 18,129,000 |
| Net increase (decrease) in cash and cash equivalents | 102,319,000 | (8,966,000) | (2,037,000) | — | 91,316,000 |
| Cash and cash equivalents at beginning of period | 238,298,000 | 9,949,000 | 3,340,000 | — | 251,587,000 |
| Cash and cash equivalents at end of period | $ 340,617,000 | 983,000 | 1,303,000 | — | $ 342,903,000 |

COMTECH TELECOMMUNICATIONS CORP.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(16) Consolidating Financial Information (continued)

The following reflects the consolidating statement of cash flows for the year ended July 31, 2006:

| | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiary | Consolidating Entries | Consolidated Total |
|---|---|---|---|---|---|
| Cash flows from operating activities: | | | | | |
| Net income | $ 45,269,000 | 41,157,000 | 1,457,000 | (42,614,000) | $ 45,269,000 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | | |
| Depreciation and amortization of property, plant and equipment | 111,000 | 6,019,000 | 112,000 | — | 6,242,000 |
| Amortization of intangible assets with finite lives | — | 2,289,000 | 176,000 | — | 2,465,000 |
| Amortization of stock-based compensation | 2,176,000 | 3,495,000 | 10,000 | — | 5,681,000 |
| Amortization of deferred financing costs | 546,000 | — | — | — | 546,000 |
| Loss on disposal of property, plant and equipment | — | 35,000 | 1,000 | — | 36,000 |
| Provision for allowance for doubtful accounts | — | 556,000 | 192,000 | — | 748,000 |
| Provision for excess and obsolete inventory | — | 1,981,000 | 49,000 | — | 2,030,000 |
| Excess income tax benefit from stock award exercises | (4,065,000) | — | — | — | (4,065,000) |
| Deferred income tax expense (benefit) | 1,013,000 | (74,000) | (107,000) | — | 832,000 |
| Equity in undistributed earnings of subsidiaries | (41,157,000) | (1,457,000) | — | 42,614,000 | — |
| Intercompany accounts | 7,876,000 | (9,822,000) | 1,946,000 | — | — |
| Changes in assets and liabilities, net of effects of acquisition: | | | | | |
| Restricted cash securing letter of credit obligations | 31,000 | — | — | — | 31,000 |
| Accounts receivable | — | (11,775,000) | (2,968,000) | — | (14,743,000) |
| Inventories | — | (17,860,000) | (49,000) | — | (17,909,000) |
| Prepaid expenses and other current assets | (213,000) | (2,262,000) | (316,000) | — | (2,791,000) |
| Other assets | (56,000) | (195,000) | (9,000) | — | (260,000) |
| Accounts payable | 39,000 | 4,392,000 | 329,000 | — | 4,760,000 |
| Accrued expenses and other current liabilities | 1,181,000 | 5,271,000 | 1,281,000 | — | 7,733,000 |
| Customer advances and deposits | — | (1,780,000) | 42,000 | — | (1,738,000) |
| Deferred service revenue | — | 1,686,000 | — | — | 1,686,000 |
| Income taxes payable | 6,953,000 | — | 824,000 | — | 7,777,000 |
| Net cash provided by operating activities | 19,704,000 | 21,656,000 | 2,970,000 | — | 44,330,000 |
| Cash flows from investing activities: | | | | | |
| Purchases of property, plant and equipment | (587,000) | (11,387,000) | (353,000) | — | (12,327,000) |
| Purchase of other intangibles with finite lives | — | (197,000) | — | — | (197,000) |
| Payments for business acquisition | — | (1,000,000) | — | — | (1,000,000) |

| | | | | | |
|---|---|---|---|---|---|
| Net cash used in investing activities | (587,000) | (12,584,000) | (353,000) | — | (13,524,000) |
| Cash flows from financing activities: | | | | | |
| Principal payments on other obligations | — | (234,000) | — | — | (234,000) |
| Excess income tax benefit from stock award exercises | 4,065,000 | — | — | — | 4,065,000 |
| Proceeds from exercises of stock options | 1,863,000 | — | — | — | 1,863,000 |
| Proceeds from issuance of employee stock purchase plan shares | 674,000 | — | — | — | 674,000 |
| Net cash provided by (used in) financing activities | 6,602,000 | (234,000) | — | — | 6,368,000 |
| Net increase in cash and cash equivalents | 25,719,000 | 8,838,000 | 2,617,000 | — | 37,174,000 |
| Cash and cash equivalents at beginning of period | 212,579,000 | 1,111,000 | 723,000 | — | 214,413,000 |
| Cash and cash equivalents at end of period | $ 238,298,000 | 9,949,000 | 3,340,000 | — | $ 251,587,000 |

COMTECH TELECOMMUNICATIONS CORP.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(16) Consolidating Financial Information (continued)

The following reflects the consolidating statement of cash flows for the year ended July 31, 2005:

| | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiary | Consolidating Entries | Consolidated Total |
|---|---|---|---|---|---|
| Cash flows from operating activities: | | | | | |
| Net income (loss) | $ 36,655,000 | 35,761,000 | (505,000) | (35,256,000) | $ 36,655,000 |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | | | | |
| Depreciation and amortization of property, plant and equipment | 145,000 | 5,087,000 | 83,000 | — | 5,315,000 |
| Amortization of intangible assets with finite lives | — | 2,076,000 | 252,000 | — | 2,328,000 |
| Amortization of deferred financing costs | 546,000 | — | — | — | 546,000 |
| Loss on disposal of property, plant and equipment | — | 284,000 | — | — | 284,000 |
| Provision for allowance for doubtful accounts | — | 287,000 | — | — | 287,000 |
| Provision for excess and obsolete inventory | — | 2,081,000 | 17,000 | — | 2,098,000 |
| Income tax benefit from stock award exercises | 9,896,000 | — | — | — | 9,896,000 |
| Deferred income tax expense | 2,164,000 | 604,000 | — | — | 2,768,000 |
| Equity in undistributed (earnings) loss of subsidiaries | (35,761,000) | 505,000 | — | 35,256,000 | — |
| Intercompany accounts | 33,407,000 | (34,162,000) | 755,000 | — | — |
| Changes in assets and liabilities, net of effects of acquisition: | | | | | |
| Restricted cash securing letter of credit obligations | 10,000 | 3,010,000 | — | — | 3,020,000 |
| Accounts receivable | — | (12,674,000) | (663,000) | — | (13,337,000) |
| Inventories | — | (7,267,000) | 31,000 | — | (7,236,000) |
| Prepaid expenses and other current assets | (478,000) | (1,731,000) | (164,000) | — | (2,373,000) |
| Other assets | — | 74,000 | (5,000) | — | 69,000 |
| Accounts payable | 22,000 | 13,914,000 | 75,000 | — | 14,011,000 |
| Accrued expenses and other current liabilities | 1,884,000 | 10,385,000 | 127,000 | 136,000 | 12,532,000 |
| Customer advances and deposits | — | (2,008,000) | — | — | (2,008,000) |
| Deferred service revenue | — | (5,506,000) | — | — | (5,506,000) |
| Interest payable | (23,000) | — | — | — | (23,000) |
| Income taxes payable | (3,272,000) | — | — | — | (3,272,000) |
| Net cash provided by operating activities | 45,195,000 | 10,720,000 | 3,000 | 136,000 | 56,054,000 |
| Cash flows from investing activities: | | | | | |
| Purchases of property, plant and equipment | (64,000) | (9,263,000) | (205,000) | — | (9,532,000) |
| Purchase of other intangibles with finite lives | — | (75,000) | — | — | (75,000) |
| Payments for business acquisition | (2,735,000) | (2,735,000) | — | 2,735,000 | (2,735,000) |

| | | | | | |
|---|---|---|---|---|---|
| Net cash used in investing activities | (2,799,000) | (12,073,000) | (205,000) | 2,735,000 | (12,342,000) |
| Cash flows from financing activities: | | | | | |
| Proceeds from issuance of stock in subsidiary | — | 2,735,000 | — | (2,735,000) | — |
| Principal payments on other obligations | — | (271,000) | — | — | (271,000) |
| Proceeds from exercises of stock options | 7,160,000 | — | — | — | 7,160,000 |
| Proceeds from issuance of employee stock purchase plan shares | 520,000 | — | — | — | 520,000 |
| Net cash provided by financing activities | 7,680,000 | 2,464,000 | — | (2,735,000) | 7,409,000 |
| Net increase (decrease) in cash and cash equivalents | 50,076,000 | 1,111,000 | (202,000) | 136,000 | 51,121,000 |
| Cash and cash equivalents at beginning of period | 162,503,000 | — | 925,000 | (136,000) | 163,292,000 |
| Cash and cash equivalents at end of period | $ 212,579,000 | 1,111,000 | 723,000 | — | $ 214,413,000 |

COMTECH TELECOMMUNICATIONS CORP.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

(17) Unaudited Quarterly Financial Data

The following is a summary of unaudited quarterly operating results (amounts in thousands, except per share data):

| Fiscal 2007 | First Quarter | Second Quarter | Third Quarter | Fourth Quarter | Total |
|---|---|---|---|---|---|
| Net sales | $ 97,070 | 111,383 | 119,417 | 117,814 | 445,684 |
| Gross profit | 39,375 | 49,850 | 51,575 | 52,495 | 193,295 |
| Net income | 10,827 | 18,171 | 19,128 | 17,087 | 65,213 |
| Diluted income per share | $ 0.41 | 0.68 | 0.71 | 0.63 | 2.42* |

| Fiscal 2006 | First Quarter | Second Quarter | Third Quarter | Fourth Quarter | Total |
|---|---|---|---|---|---|
| Net sales | $ 106,567 | 95,741 | 88,997 | 100,206 | 391,511 |
| Gross profit | 40,204 | 41,091 | 34,213 | 43,793 | 159,301 |
| Net income | 11,464 | 13,304 | 8,722 | 11,779 | 45,269 |
| Diluted income per share | $ 0.43 | 0.50 | 0.33 | 0.45 | 1.72* |

* Income per share information for the full fiscal year may not equal the total of the quarters within the year as a result of rounding.

Schedule II

COMTECH TELECOMMUNICATIONS CORP.
AND SUBSIDIARIES

Valuation and Qualifying Accounts and Reserves

Fiscal Years Ended July 31, 2007, 2006 and 2005

| Column A | Column B | Column C Additions | | Column D | Column E |
|---|---|---|---|---|---|
| Description | Balance at beginning of period | Charged to cost and expenses | Charged to other accounts - describe | Transfers (deductions) - describe | Balance at end of period |
| Allowance for doubtful accounts - accounts receivable: | | | | | |
| Year ended July 31, | | | | | |
| 2007 | $ 1,376,000 | (375,000) (C) | — | (316,000) (D) | $ 685,000 |
| 2006 | 636,000 | 748,000 (C) | — | (8,000) (D) | 1,376,000 |
| 2005 | 732,000 | 287,000 (C) | — | (383,000) (D) | 636,000 |
| Inventory reserves: | | | | | |
| Year ended July 31, | | | | | |
| 2007 | $ 6,123,000 | 4,491,000 (A) | — | (2,110,000) (B) | $ 8,504,000 |
| 2006 | 6,509,000 | 2,030,000 (A) | — | (2,416,000) (B) | 6,123,000 |
| 2005 | 5,622,000 | 2,098,000 (A) | — | (1,211,000) (B) | 6,509,000 |

(A) Provision for excess and obsolete inventory.
(B) Write-off of inventory.
(C) (Benefit from) provision for doubtful accounts.
(D) Write-off of uncollectible receivables.