

COMTECH TELECOMMUNICATIONS CORP /DE/
Form 10-Q
March 10, 2011

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

FORM
10-Q

(Mark One)

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

For the quarterly period ended January 31, 2011

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

Commission File Number: 0-7928

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation /organization)

11-2139466
(I.R.S. Employer Identification Number)

68 South Service Road, Suite 230,
Melville, NY
(Address of principal executive offices)

11747
(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

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

Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS:

As of March 7, 2011, the number of outstanding shares of Common Stock, par value \$.10 per share, of the registrant was 26,686,337 shares.

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

Item 1.	Assets	January 31, 2011 (Unaudited)	July 31, 2010
Current assets:			
Cash and cash equivalents		\$593,338,000	607,594,000
Accounts receivable, net		80,864,000	135,840,000
Inventories, net		79,947,000	73,562,000
Prepaid expenses and other current assets		7,356,000	8,876,000
Deferred tax asset		13,843,000	14,947,000
Total current assets		775,348,000	840,819,000
Property, plant and equipment, net		30,491,000	33,727,000
Goodwill		137,354,000	137,354,000
Intangibles with finite lives, net		49,670,000	48,091,000
Deferred financing costs, net		4,515,000	4,675,000
Other assets, net		1,185,000	1,896,000
Total assets		\$998,563,000	1,066,562,000
Liabilities and Stockholders' Equity			
Current liabilities:			
Accounts payable		\$23,391,000	77,844,000
Accrued expenses and other current liabilities		41,784,000	53,398,000
Dividends payable		6,699,000	-
Customer advances and deposits		18,889,000	12,780,000
Interest payable		1,531,000	1,531,000
Income taxes payable		5,521,000	8,666,000
Total current liabilities		97,815,000	154,219,000
Convertible senior notes		200,000,000	200,000,000
Other liabilities		6,307,000	2,518,000
Income taxes payable		4,729,000	5,220,000
Deferred tax liability		3,464,000	2,973,000
Total liabilities		312,315,000	364,930,000
Commitments and contingencies (See Note 20)			
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 28,634,650 shares and 28,542,535 shares at January 31, 2011 and July 31, 2010, respectively		2,863,000	2,854,000
Additional paid-in capital		350,787,000	347,514,000
Retained earnings		379,587,000	351,449,000
		733,237,000	701,817,000

Less:

Treasury stock, at cost (1,839,785 shares and 210,937 shares at January 31, 2011 and July 31, 2010, respectively)	(46,989,000)	(185,000)
Total stockholders' equity	686,248,000	701,632,000
Total liabilities and stockholders' equity	\$998,563,000	1,066,562,000

See accompanying notes to condensed consolidated financial statements.

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

	Three months ended January 31,		Six months ended January 31,	
	2011	2010	2011	2010
Net sales	\$ 162,811,000	171,132,000	340,971,000	304,948,000
Cost of sales	101,901,000	107,631,000	215,827,000	191,673,000
Gross profit	60,910,000	63,501,000	125,144,000	113,275,000
Expenses:				
Selling, general and administrative	23,175,000	22,909,000	47,190,000	44,628,000
Research and development	10,467,000	11,431,000	21,218,000	22,755,000
Amortization of intangibles	2,004,000	1,765,000	3,891,000	3,529,000
Merger termination fee, net	-	-	(12,500,000)	-
	35,646,000	36,105,000	59,799,000	70,912,000
Operating income	25,264,000	27,396,000	65,345,000	42,363,000
Other expenses (income):				
Interest expense	2,090,000	1,966,000	4,153,000	3,933,000
Interest income and other	(626,000)	(178,000)	(1,320,000)	(413,000)
Income before provision for income taxes	23,800,000	25,608,000	62,512,000	38,843,000
Provision for income taxes	7,704,000	9,275,000	20,760,000	13,478,000
Net income	\$ 16,096,000	16,333,000	41,752,000	25,365,000
Net income per share (See Note 6):				
Basic	\$ 0.59	0.58		
Category	2007	2006		
Audit Fees ⁽¹⁾	\$ 235,500	\$ 224,381		
Audit-Related Fees				
Tax Fees ⁽²⁾	\$ 13,500	\$ 17,778		
All Other Fees				
Total	\$ 249,000	\$ 242,159		

(1) For 2006, \$80,381 of the fees billed are attributable to Windes & McClaughry Accountancy Corporation, our prior principal accountant. The remaining fees billed for 2006 and all fees for 2007 to date are attributable PMB Helin Donovan, LLP.

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- (2) The services for these tax fees related to preparation of corporate income tax returns. For 2006, \$4,278 of the fees billed are attributable to Windes & McClaughry Accounting Corporation, our prior principal account. The remaining fees billed for 2006 and all fees for 2007 to date are attributable to PMB Helin Donovan, LLP.

The tax fees above were pre-approved by our Audit Committee as appropriate, which concluded that the provision of such services by PMB Helin Donovan was compatible with the maintenance of that firm's independence in the conduct of its auditing functions.

Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

On January 31, 2007, Enova Systems dismissed Windes & McClaughry Accountancy Corporation (Windes) as our registered public accounting firm and engaged PMB Helin Donovan, LLP as our new independent registered public accounting firm. The decision regarding the end of the Windes engagement and the commencement of the PMB Helin Donovan, LLP engagement was made and approved by the Audit Committee after consideration of our then current needs and position. Concurrent with the change in auditor, we also undertook changes to our finance and operations departments, including a change in our Chief Financial Officer. In light of these organization changes and given the disagreement between us and Windes with respect to the filing of our Form 10-Q for the fiscal quarter ended September 30, 2006 filed November 13, 2006 (the Form 10-Q), the Audit Committee believed that engagement of a new auditor would lead to enhanced communications with respect to audit matters.

During the course of its engagement, Windes did not provide an audit report on our financial statements. Therefore, there is no applicable disclosure within the meaning of Item 304(a)(1)(ii) of Regulation S-K.

During our two most recent fiscal years, Enova Systems and Windes had the following three disagreements within the meaning of Item 304(a)(1)(iv) of Regulation S-K on matters of accounting principles or practices, financial statement disclosure, or auditing or review scope or procedure, which if not resolved to the satisfaction of Windes would have caused it to make reference to the subject matter of the disagreement in its reports on our financial statements.

First, as reflected in the Current Reports on Form 8-K dated November 29, 2006 and December 5, 2006, Windes and Enova Systems disagreed whether Windes authorized the Form 10-Q filing. After numerous discussions among Windes and us involving management and the Audit Committee, the disagreement was resolved by filing the requisite Item 4.02 Form 8-K and later filing the amended Form 10-Q for the fiscal period ended September 30, 2006 on December 29, 2006 (the Form 10-Q/A).

Second, Windes and Enova Systems disagreed whether we followed the appropriate accounting policy and accounting literature to record revenue. This disagreement was resolved upon further analysis and by reversing the recorded revenue and related expenses in the Form 10-Q/A.

Third, Windes and Enova Systems disagreed whether adequate documentation had been produced to support a material debt forgiveness transaction which, although negotiated in the 2005 fiscal year, was completed in the first quarter of the 2006 fiscal year and therefore included in our year-to-date operations. Consistent with the Form 10-Q/A's Item 4 Controls and Procedures disclosure, we were unable to locate original documentation to support the accounting treatment for the transaction. This disagreement was resolved when we obtained replacement copies to reflect the original documentation and the accounting treatment.

The Audit Committee discussed the subject matter of all three disagreements above with Windes and we authorized Windes to respond fully to inquiries of PMB Helin Donovan, LLP concerning the subject matter of these disagreements.

During our two most recent fiscal years, the following were reportable events within the meaning of Item 304(a)(1)(v) of Regulation S-K:

(A) Consistent with the Item 4 Controls and Procedures disclosure in the Form 10-Q/A, Windes advised that material weaknesses existed in our internal controls, and thereby our financial statement preparation and disclosure, regarding the (i) correct application of relevant accounting standards; (ii) ability to produce original documentation to support an accounting treatment; and (iii) internal and external communication by us in ensuring there was appropriate independent accountant review and authorization to file periodic reports such as the Form 10-Q for the fiscal period ended September 30, 2006.

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(B) Given the three disagreements cited above, Windes expressed concern about its ability to rely on management representations. As a result, consistent with its Item 4 Controls and Procedures disclosure in the Form 10-Q/A, we agreed to dedicate additional time and resources to internal control matters and specifically agreed to (1) retain a consultant to review our accounting, documentation, and internal control policies and (2) implement more stringent oversight policies to ensure proper auditor authorization is received prior to making SEC filings.

(C) Given the third disagreement cited above with respect to adequate documentation, Windes further advised us it would need to expand significantly the scope of its audit within the meaning of Item 304(a)(1)(v)(C) to ensure that proper and sufficient documentation existed to support accounting conclusions reached in prior fiscal periods including the cited debt forgiveness transaction.

During the two most recent fiscal years, we did not consult with PMB Helin Donovan, LLP regarding (1) the application of accounting principles to a specified transaction, whether completed or proposed, (2) the type of audit opinion that might be rendered with respect to our financial statements, or (3) any matter that was either the subject of a disagreement or a reportable event as those terms are defined in Item 304(a)(1)(v) of Regulation S-K.

REPORT OF THE AUDIT COMMITTEE

The Audit Committee reviews our financial reporting process on behalf of the Board of Directors. Management has primary responsibility for this process, including our system of internal controls, and for the preparation of our consolidated financial statements in accordance with generally accepted accounting principles. Our independent auditors, and not the Audit Committee, are responsible for auditing and expressing an opinion on the conformity of our audited financial statements to generally accepted accounting principles.

The Audit Committee reviewed and discussed the audited financial statements for the fiscal year ended December 31, 2007 with management and the independent auditors. The Audit Committee also discussed with the independent auditors the matters required to be discussed by Statement on Auditing Standards No. 61 (Communication with Audit Committees). In addition, the Audit Committee received from the independent auditors the written disclosures required by Independence Standards Board No. 1 (Independence Discussions with Audit Committees) and discussed with the independent auditors their independence from Enova Systems and its management.

Based on the reviews and discussions referred to above, the Audit Committee recommended to the Board of Directors, and the Board of Directors has approved, that the audited financial statements be included in our Annual Report on SEC Form 10-K for the year ended December 31, 2007 for filing with the SEC.

Submitted by the Audit Committee

John Micek (Chair)
Bjorn Ahlstrom
John Wallace

The material in the Report of the Audit Committee is not soliciting material, is not deemed filed with the SEC and is not to be incorporated by reference into any filing by Enova Systems under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.

ADDITIONAL INFORMATION

Shareholder Proposals for Annual Meetings

Proposals of shareholders intended to be presented at the next annual meeting must be received by us at our offices at Enova Systems, Inc., 1560 West 190th Street, Torrance, California 90501, Attention: Secretary, no later than December 30, 2008, a date not less than one hundred twenty (120) days prior to one year anniversary of our initial mailing to shareholders of this proxy statement. Any shareholder proposals must satisfy the conditions established by the SEC for inclusion in our proxy materials.

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Annual Meeting Date

We did not hold a 2007 Annual Meeting of Shareholders. Historically and as provided in the Bylaws, the annual meeting was held on the third Wednesday of November. On December 4, 2007, the Board amended the Bylaws to eliminate that November annual meeting date requirement. Instead, the amended Bylaws now permit the Board to set the date of the annual meeting. We intend to hold our annual meeting in the Spring of each year. Holding the annual meeting in the traditional spring season for U.S. public companies will better enable shareholders to assess our fiscal year-end results and ensure efficient delivery of our annual report to shareholders in accordance with current AMEX rules.

Annual Report to Shareholders

Our 2007 Annual Report on Form 10-K, including financial statements for the fiscal year ended December 31, 2007, is being mailed to shareholders concurrently with this proxy statement. The Annual Report, however, is not part of the proxy solicitation material. **A copy of our Annual Report on Form 10-K filed with the SEC may be obtained free of charge by writing to Enova Systems, Inc., 1560 West 190th Street, Torrance, California 90501, Attention: Chief Financial Officer or by accessing the Investor Relations section of our website (www.enovsystems.com).**

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**DRAFT PROXY CARD
ENOVA SYSTEMS, INC.**

**ANNUAL MEETING OF SHAREHOLDERS, MAY 22, 2008, 10:00 A.M. LOCAL TIME
THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS
PROXY**

The undersigned shareholder of Common Stock and/or Series A and Series B Preferred Stock of Enova Systems, Inc., a California corporation (the Company), hereby appoints Michael Staran and Jarett Fenton and each of them, as proxies for the undersigned, each with full power of substitution, to attend the Annual Meeting of Shareholders of the Company, to be held at Enova Systems, Inc.'s principal executive office, located at 1560 West 190th Street, Torrance, California 90501 on May 22, 2008, 10:00 a.m. local time, and any adjournments or postponements thereof (the Annual Meeting), to cast on behalf of the undersigned all votes that the undersigned is entitled to cast at the Annual Meeting and otherwise to represent the undersigned with all of the powers the undersigned would possess if personally present at the Annual Meeting. The undersigned hereby acknowledges receipt of the Notice of the Annual Meeting of Shareholders and of the Proxy Statement, the terms of each of which are incorporated herein by reference, and revokes any proxy heretofore given with respect to the Annual Meeting.

IF THIS PROXY IS PROPERLY EXECUTED, THE VOTES ENTITLED TO BE CAST BY THE UNDERSIGNED WILL BE CAST AS DIRECTED HEREIN, BUT IF THIS PROXY IS EXECUTED BUT NO INSTRUCTIONS ARE SPECIFIED, THE VOTES ENTITLED TO BE CAST BY THE UNDERSIGNED WILL BE CAST FOR ALL NOMINEES NAMED IN PROPOSAL 1 AND FOR PROPOSAL 2. IF ANY OTHER BUSINESS IS PRESENTED AT THE ANNUAL MEETING OR ANY ADJOURNMENT OR POSTPONEMENT THEREOF, INCLUDING WHETHER OR NOT TO ADJOURN THE ANNUAL MEETING, THE VOTES ENTITLED TO BE CAST BY THE UNDERSIGNED WILL BE CAST BY THE PROXIES IN THEIR DISCRETION. AT THE PRESENT TIME, THE BOARD OF DIRECTORS IS NOT AWARE OF ANY OTHER BUSINESS TO BE PRESENTED AT THE ANNUAL MEETING. THIS PROXY ALSO CONFERS DISCRETIONARY AUTHORITY ON THE PROXIES TO VOTE WITH RESPECT TO THE ELECTION OF ANY INDIVIDUAL AS DIRECTOR WHERE ONE OR MORE NOMINEES ARE UNABLE TO SERVE, OR FOR GOOD CAUSE WILL NOT SERVE, AND WITH RESPECT TO MATTERS INCIDENTAL TO THE CONDUCT OF THE ANNUAL MEETING. SHAREHOLDERS WHO PLAN TO ATTEND THE ANNUAL MEETING MAY REVOKE THEIR PROXY BY CASTING THEIR VOTE AT THE ANNUAL MEETING IN PERSON.

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DRAFT PROXY CARD

Annual Meeting Proxy Card

A. Proposals The Board of Directors recommends a vote FOR all the nominees listed and FOR Proposal 2.

1. Election of Directors:

- 01 Bjorn Ahlstrom 02 Malcolm R. Currie
- 03 Richard Davies 04 John J. Micek
- 05 Edwin O. Riddell 06 Roy S. Roberts
- 07 Michael Staran 08 John R. Wallace

- o Mark here to vote FOR all nominees**
- o Mark here to WITHOLD vote from all nominees**
- o For All EXCEPT** To withhold authority to vote for any nominee(s), write the name(s) of such nominee(s) below.

	For	Against	Abstain
2. To ratify the selection of PMB Helin Donovan as the Company's independent auditors for the year ending December 31, 2008.	o	o	o

B. Authorized Signatures This section must be completed for your vote to be counted. Date and Sign Below

Please sign exactly as name(s) appears hereon. Joint owners should each sign. When signing as attorney, executor, administrator, corporate officer, trustee, guardian, or custodian, please give full title.

(mm/dd/yy) Please print date below. Signature 1 Please keep signature within box. Signature 2 Please keep signature within box

Meeting Attendance: Mark the box to the right if you plan to attend the Annual Meeting. **o**