MINERALS TECHNOLOGIES INC
Form 11-K
June 22, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 11-K

ANNUAL REPORT

PURSUANT TO SECTION 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2010

Commission file no. 1-11430

A. Full title of the plan and the address of the plan, if different from that of the issuer named below:

MINERALS TECHNOLOGIES INC.
SAVINGS AND INVESTMENT PLAN

B. Name of issuer of the securities held pursuant to the plan and the address of its principal executive office:

MINERALS TECHNOLOGIES INC.

622 Third Avenue
New York, New York, 10017-6707

Report of Independent Registered Public Accounting Firm

The Savings and Investment Plan Committee
of Minerals Technologies Inc.:

We have audited the accompanying statements of net assets available for benefits of the Minerals Technologies Inc. Savings and Investment Plan (the Plan) as of December 31, 2010 and 2009, and the related statements of changes in net assets available for benefits for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements 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, 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 financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 2010 and 2009, and the changes in net assets available for benefits for the years then ended, in conformity with U.S. generally accepted accounting principles.

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplemental schedule H, line 4i – schedule of assets (held at end of year) – December 31, 2010 is presented for the purpose of additional analysis and is not a required part of the basic financial statements but is supplementary information required by the Department of Labor’s Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. This supplemental schedule is the responsibility of the Plan’s management. The supplemental schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

/s/ KPMG LLP

New York, New York
June 21, 2011

MINERALS TECHNOLOGIES INC.
SAVINGS AND INVESTMENT PLAN
Statements of Net Assets Available for Benefits
(in thousands)

	December 31, 2010	December 31, 2009
Assets:		
Investments, at fair value (Notes 3 & 4):		
Cash and cash equivalents	$ 729	$ 493
In securities of participating employer	26,463	21,710
In securities of unaffiliated issuers:		
Common stock	14,195	15,582
Common collective funds	27,167	24,032
Pooled separate account	30,856	32,552
Mutual funds	55,154	51,638
Total investments, at fair value	154,564	146,007
Notes receivable from participants	2,811	2,718
Cash - non-interest bearing	583	596
Net assets available for benefits, at fair value	157,958	149,321
Adjustment from fair value to contract value for fully benefit-responsive investment contracts (Note 3)	356	1,641
Net assets available for benefits	$158,314	$ 150,962

See accompanying notes to the financial statements.

MINERALS TECHNOLOGIES INC.
SAVINGS AND INVESTMENT PLAN
Statements of Changes in Net Assets Available for Benefits
(in thousands)

	Year Ended December 31, 2010	2009
Additions to net assets attributed to:		
Investment income:		
Net appreciation in fair value of investments (Note 3)	$ 11,898	$ 20,615
Dividends	1,715	1,687
Interest	828	1,185
Investment income	14,441	23,487
Interest from notes receivable from participants	135	177
Contributions:		
Participants	6,182	5,810
Employer	2,661	2,704
Total contributions	8,843	8,514
Total additions	23,419	32,178
Reductions from net assets attributed to:		
Benefits paid to participants	15,971	14,367
Administrative expenses	96	193
Total reductions	16,067	14,560
Net increase	7,352	17,618
Net assets available for benefits:		
Beginning of year	150,962	133,344
End of year	$ 158,314	$ 150,962

See accompanying notes to the financial statements.

MINERALS TECHNOLOGIES INC.
SAVINGS AND INVESTMENT PLAN

Notes to Financial Statements
December 31, 2010 and 2009

(1) Description of Plan

The following description of the Minerals Technologies Inc. Savings and Investment Plan (the Plan) provides only general information. Participants should refer to the Plan agreement for a more complete description of the Plan's provisions.

General

The Plan is a defined contribution plan sponsored by Minerals Technologies Inc. (the Plan Sponsor or Company). Employees become eligible to participate in the Plan on the date of their employment.

The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

Contributions

Participants may elect to contribute between 2% and 20% of eligible earnings. Contributions may be made on a before-tax basis, on an after-tax basis, or on a combined basis. Employee contributions of up to 2% of eligible compensation are matched 100% by the Company and the next 4% are matched 50% by the Company. Employee contributions in excess of 6% are not matched. While it is the Company's intention to make matching contributions each payroll period, the Company's Board of Directors reserves the right to increase, reduce or eliminate matching contributions for any Plan Year, or for any payroll period. The Company's matching contributions are invested solely in the Company's common stock. Participants can, at any time, transfer or reallocate amounts held in the MTI Common Stock Fund to another fund under the Plan.

Participants may also contribute amounts representing distributions from other qualified defined benefit or defined contribution plans. Participants direct the investment of their contributions into various investment options offered by the Plan. The maximum before-tax contribution limit for participants under age 50 generally was $16,500 for 2010 and 2009. However, a participant's contributions may be further increased or reduced based on the rules and regulations of the Internal Revenue Code (IRC). All eligible employees who are projected to attain age 50 before the end of the year will be eligible to make catch-up contributions in accordance with certain regulations.

Participant Accounts

Each participant's account is credited with the participant's contributions and allocations of (a) the Company's contributions and (b) Plan earnings or loss, and charged with an allocation of administrative expenses. Allocations are based on participant earnings or account balances, as defined. The benefit to which a participant is entitled is the benefit that can be provided from the participant's account.

Vesting

Participants are fully vested in the entire value of their accounts at the time of contribution.

Investment Options

Each participant in the Plan elects to have contributions invested in any one or a combination of the following separate investment options as of December 31, 2010:

New York Life Insurance Anchor Account III: This fund is a New York Life Insurance Company pooled separate account which invests in fixed income securities.

Artio Total Return Bond Fund: This fund normally invests at least 80% of net assets in investment-grade fixed income securities issued by governments, supranational entities and corporations in developed and emerging markets. The fund also invests in derivatives and forward contracts.

SSgA Aged Based Strategy Funds: These funds are designed to incorporate a broad range of asset classes to provide diversification of returns and risks consistent with a stated time horizon. The Strategy Funds asset mix becomes progressively more conservative over time as the strategy target date grows nearer. The strategy target dates range from 2010 to 2045. The investments are in a combination of U.S. stocks, international stocks, bonds and cash.

American Beacon Large Cap Value Fund: The fund normally invests at least 80% of assets in equity securities of large market capitalization U.S. companies.

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American Funds - Fundamental Investors Fund: This fund invests primarily in common stocks and may invest significantly in securities of issuers domiciled outside the U.S. and Canada and not included in the S&P 500 Composite Index.
BlackRock Equity Index Fund: This fund invests in the same stocks held in the Standard & Poors Index.
Mainstay Balance Fund: This fund is invested in stocks, bonds and cash equivalents. Approximately 60% of the fund is invested in mid and large capitalization stocks, and 40% in fixed income securities and cash equivalents.
American Funds - The Growth Fund of America: This fund primarily invests in high potential growth companies. It may also invest up to 15% of assets in securities domiciled outside the U.S. and Canada and not included in the S&P 500 Index.
SSgA Russell 2000 Index Strategy Fund: This fund is designed to match the risk and return of the Russell 2000 Index, a broadly based average of the U.S. equity market.
SSgA S&P Midcap 400 Index Strategy Fund: This fund is designed to match the risk and return of the Standard & Poor's 400 Index, a broadly based average of the U.S. equity market.
MTI Common Stock Fund: This fund invests in the Company's common stock. The MTI Common Stock Fund is a participant-directed fund. All Company matching contributions are invested in this fund, and once deposited, the investments are participant-directed.
Pfizer Common Stock Fund: This fund invests in the common stock of Pfizer Inc. The fund holds contributions to the Pfizer Common Stock Fund, which were transferred from Pfizer Inc. when the Plan was established. No new contributions or transfers can be made into this fund, however, participants are allowed to transfer balances from this fund into other investment options.
Mainstay International Equity Fund: This fund invests in a broad range of international stocks traded in public markets.
TD Ameritrade Brokerage Account: This is a participant-directed brokerage account which invests primarily in a variety of publicly available mutual funds, common stock and cash and cash equivalents.
Notes Receivable from Participants
Participants may borrow from their accounts an amount up to $50,000 or 50 percent of their account balance, whichever is less. The minimum amount a participant may borrow is $1,000. The loan repayments and interest earned are allocated to each eligible investment option based upon the participant's current contribution election percentages.
Loans must be repaid over a period of not more than five years, however, if the loan is used to purchase a principal residence, the loan can be repaid over a period of not more than fifteen years. The loans are secured by the balance in the participant's account and bear interest at rates that range from 4.25 percent to 10.50 percent, which are fixed at the time of the loan and which are commensurate with prevailing rates as determined quarterly by the Plan administrator. At December 31, 2010, there were 379 individual loans outstanding, carrying an average interest rate of 5.85 percent, with maturities through 2025.
Payment of Benefits

On termination of service due to death, disability, retirement, or other reasons, a participant would receive a lump-sum amount equal to the value of the participant's account. In-service withdrawals may also be made under certain circumstances.

MINERALS TECHNOLOGIES INC.
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Notes to Financial Statements
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(2) Summary of Significant Accounting Policies

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and changes therein, and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Asset Valuation and Income Recognition

The Plan's investments are stated at fair value. Short-term investments are recorded at cost, which approximates fair value. The common stock within the MTI Common Stock Fund, Pfizer Common Stock Fund, and the shares of the mutual funds held in the brokerage account are valued using quoted market prices. Common collective funds and the pooled separate account are stated at fair value reported by the fund manager based on the underlying investments within each fund and are expressed in units representing the net asset value of each fund. The value of a unit will fluctuate in response to various factors including, but not limited to, the price of the underlying shares, dividends paid, earnings and losses, and the mix of assets in the respective fund. These investments do not have a readily determinable fair value and as a practical expedient, the Fund relies on net asset values as the fair value for certain investments as of the Plan’s measurement date.

The funds in the pooled separate account are invested in benefit responsive investments contracts and are presented at fair value in the statements of net assets available for benefits with a corresponding adjustment to contract value and are presented at contract value in the statement of changes in net assets available for benefits. The fair value of fully benefit-responsive investment contracts is calculated using a discounted cash flow model which considers recent fee bids as determined by recognized dealers, discount rate and the duration of the underlying portfolio securities.

Purchases and sales of securities are recorded on a trade date basis. The net appreciation (depreciation) in fair value of investments consists of the net realized gains and losses from the sale of investments and the unrealized appreciation (depreciation) of the fair value for the investments remaining in the Plan.

Dividend income is recorded on the ex-dividend date. Interest income is recorded on an accrual basis.

Notes receivable from participants are measured at their unpaid principal balance plus any accrued but unpaid interest. Delinquent participant loans are reclassified as distributions based upon the terms of the plan agreement.

Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents approximate fair value because of the short maturities of those instruments. Notes receivable from participants are valued at the outstanding balances, which approximates fair value.

Payment of Benefits

Benefits are recorded when paid.

New Accounting Pronouncements

Reporting Loans to Participants by Defined Contribution Pension Plans

In September 2010, the FASB issued guidance to clarify how loans to participants in defined contribution plans should be classified and measured. Participant loans are required now to be classified as notes receivable from participants and are segregated from plan investments. They are measured at their unpaid principal balance plus accrued but unpaid interest. This guidance is effective for fiscal years ending after December 15, 2010 and was adopted by the Company for fiscal year ending December 31, 2010 and retrospectively applied to December 31, 2009. Prior year amounts and disclosures have been revised to reflect the retrospective application of adopting this new standard.

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Improving Disclosures about Fair Value Measurements
In January 2010, the FASB issued guidance to improve the disclosures related to fair value measurements. The new guidance requires expanded fair value disclosures, including the reasons for significant transfers between Level 1 and Level 2 and the amount of significant transfers into each level disclosed separately from transfers out of each level. For Level 3 fair value measurements, information in the reconciliation of recurring Level 3 measurements about purchases, sales, issuances and settlements shall be presented separately on a gross basis, rather than as one net number. In addition, clarification is provided about existing disclosure requirements, such as presenting fair value measurement disclosures for each class of assets and liabilities that are determined based on their nature and risk characteristics and their placement in the fair value hierarchy (that is, Level 1, 2, or 3), as opposed to each major category of assets and liabilities, as required in the previous guidance. Disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements will be required for fair value measurement that fall in either Level 2 or Level 3. The new guidance is effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures related to the gross presentation of purchases, sales, issuances and settlements for Level 3 fair value measurements, which are effective for reporting periods beginning after December 15, 2010. The expanded disclosures are included in the Plan's financial statements effective December 31, 2010, except for the disclosures related to the gross Level 3 presentation, which will be included in the Plan's financial statements effective December 31, 2011.

(3) Investments
The following presents investments that represent 5 percent or more of the Plan's net assets:

(dollars in thousands)	December 31, 2010	December 31, 2009
MTI Common Stock Fund, 405 units and 399 units, respectively	$ 26,463	$ 21,710
Pfizer Common Stock Fund, 810 units and 854 units, respectively	$ 14,180	$ 15,532
New York Life Insurance Anchor Account III, 30,384 units and 33,009 units, respectively **	$ 30,856	$ 32,552
American Funds - Fundamental Investors Fund, 497 units and 509 units, respectively	$ 18,220	$ 16,632
BlackRock Equity Index Fund,		

1,554 units and 1,722 units, respectively	$ 19,236	$ 18,517
Mainstay Balanced Fund, 480 units and 477 units, respectively	$ 12,394	$ 11,057
Mainstay International Equity Fund, 784 units and 903 units, respectively	$ 9,756	$ 11,079

** Contract value as of December 31, 2010 and 2009 of the New York Life Insurance Anchor Account was $31,212 and $34,193 respectively. Amounts presented in the table reflect fair value.

For the years ended December 31, 2010 and 2009, the Plan's investments appreciated (including gains and losses on investments bought and sold, as well as those held during the year) in value by $11,898 and $20,615, respectively, as follows:

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Notes to Financial Statements
December 31, 2010 and 2009

(dollars in thousands)	Year Ended December 31, 2010	2009
Common stock	$ 3,957	$ 5,986
Common collective funds	3,528	5,093
Mutual funds	4,413	9,536
Total	$ 11,898	$ 20,615

The average yield of the underlying assets earned by the Plan from the New York Life Insurance Anchor Account III was 2.64% and 3.18% at December 31, 2010 and 2009, respectively. The average crediting interest rate was 2.34% and 2.88% at December 31, 2010 and 2009, respectively.

(4) Fair Value Measurements

There is a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs about which little or no market data exists, therefore requiring an entity to develop its own assumptions.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2010 or 2009.

Equity securities: The fair value is based on the unadjusted closing price reported on the active market on which the security is traded and is classified within Level 1 of the fair value hierarchy.

Mutual funds: Registered investment companies are public investment vehicles valued using net asset value ("NAV") provided by the administrator of the mutual fund. These securities are valued using quoted market prices. The NAV is an unadjusted quoted price on an active market and classified within Level 1 of the fair value hierarchy.

Common collective funds: Valued at fair value reported by the fund manager based on the underlying investments within each fund and are expressed in units representing the net asset value of each fund. These are investment vehicles valued using the NAV provided by the fund trustee based on the value of the underlying assets owned by the trust, minus its liabilities, and then divided by the number of shares outstanding. These investments do not have a readily determinable fair value and as a practical expedient, the Fund relies on net asset values as the fair value for certain investments as of the Plan's measurement date. There are no imposed redemption restrictions nor does the Plan have any contractual obligations to further invest in the common collective trust funds. The NAV is classified within Level 2 of the fair value hierarchy.

Pooled separate account: Valued at fair value reported by the fund manager based on the underlying investments within each fund and are expressed in units representing the net asset value of each fund by discounting the related cash flows based on current yields of similar instruments with comparable durations considering the credit-worthiness of the issuer. The NAV is classified within Level 2 of the fair value hierarchy.

Cash equivalents: The carrying value approximates fair value and is classified within Level 1 of the fair value hierarchy.

The following table sets forth by level, the Plan's financial assets at fair value as of December 31, 2010. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels. There were no transfers between level 1, 2 or 3 during 2010 and 2009.

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Notes to Financial Statements
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(dollars in thousands)	Investments at Fair Value as determined by Quoted Prices in active markets (Level I)		Valuation techniques based on observable market data (Level II)
Cash equivalents	$ 729	$	
[illegible] Based Strategies	$ --	$	
[illegible] account	$ --	$	
[illegible] funds [illegible] funds	$ 5,099	$	
[illegible] funds	29,957	$	
[illegible] funds	15,882	$	
Mutual funds - Participant-Directed Brokerage Account			

Equity Funds –Capital Growth	$	1,439
Equity Funds – Current Income	$	996
[illegible] Funds	$	615
Fixed Income Funds	$	153
[illegible] Funds	$	512
International Funds	$	501
[illegible] funds	$	55,154
Common stock		
Pharmaceuticals	$	26,463
Industrial	$	14,180

Our business, results of operations, liquidity and financial condition depend on our ability to maintain our le
governmen

In recent years, we have increased our dependence on U.S. government business. Our sales to the U.S. g (including sales to prime contractors to the U.S. government) accounted for approximately 66.4%, 61.3% an our consolidated net sales for the fiscal years ended July 31, 2008, 2007 and 2006, respectively. Approximatel our backlog at July 31, 2008 consisted of orders from the U.S. government. Radyne's business and net sale significantly dependent on the business it received from the U.S. government.

We expect such business to represent a significant portion of our consolidated net sales for the foreseeable f 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 cut spending priorities;
- penalties arising from post-award contract audits;
- cost audits in which the value of our contracts may be reduced;
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higher-than-expected final costs, particularly relating to software and hardware development, for work 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 delivera 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. Term convenience provisions provide only for our recovery of costs incurred or committed, settlement expenses an work completed prior to termination. In addition to the right of the U.S. government to terminate, U.S. g contracts are conditioned upon the continuing approval by Congress of the necessary spending. Congre appropriates funds for a given program on a fiscal year basis even though contract performance may take mo year. Consequently, at the beginning of a major program, the contract may not be fully funded, and additional normally committed to the contract only if, and when, appropriations are made by Congress for future fiscal y

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

If we are unable to comply with complex U.S. government regulations governing security and contracting pr 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 governi and contracting practices. Failure to comply with these procurement regulations and practices could result in imposed against us or our suspension for a period of time from eligibility for bidding on, or for awa government contracts. If we are disqualified as a supplier to government agencies, we would lose most, if no U.S. government customers and revenues from sales of our products would decline significantly. Among th causes for disqualification are violations of various statutes, including those related to procurement integr control, U.S. government security regulations, employment practices, protection of the environment, accuracy in the recording of costs, and foreign corruption. The government could investigate and make inquiries of ou practices and conduct audits of contract performance and cost accounting. Based on the results of such audit government could adjust our contract-related costs and fees. Depending on the results of these audits and inv the government could make claims against us, and if it were to prevail, certain incurred costs would not be r by us.

We could be adversely affected by the results of ongoing investigations into our compliance with export regul

In October 2007, our Florida-based subsidiary, Comtech Systems, Inc. (“CSI”), received a customs export subpoena from the U.S. Immigration and Customs Enforcement (“ICE”) branch of the Department of Homel The subpoena relates to CSI’s $2.0 million contract with the Brazilian Naval Commission (the Brazil con required the production of all books, records and documents, including copies of contracts, invoices and related to agreements between CSI, its agent, its subcontractor and the Brazilian government. We believe th investigation is focused primarily on whether or not CSI was in compliance with export-related laws and r including the International Traffic in Arms Regulations (“ITAR”) and the Export Administration Regu produced documents in response to the subpoena request. Customs officials have detained certain inventory the Brazil contract pending resolution of this matter.

We engaged outside counsel to assist CSI in its response to the subpoena and related matters and to condu investigation. Based on our ongoing investigation into this matter, we believe that the detained inventory, whi of commercial satellite equipment, was not modified or adapted in any way to meet Brazilian military requir was only subject to the jurisdiction of the Department of Commerce and not the jurisdiction of the U.S. Dep State. In addition, in order to provide certain defense services, including conducting factory acceptance testi Florida facility, we obtained a license (referred to as a Technical Assistance Agreement (“TAA”)) fr Department of State. We believe that the TAA authorized all activities under the Brazil contract that were su jurisdiction of the U.S. Department of State.

We believe that CSI made a good faith effort to comply with applicable regulations; however, we believe tha inadvertent administrative errors resulting in a TAA that did not become effective on a timely basis. The adm errors relate primarily to the execution of non-disclosure agreements (“NDA”) with certain third cou employees of CSI’s agent. These individuals have now signed appropriate NDAs, and, in December 2007, amended TAA with the U.S. Department of State. CSI has requested that the U.S. Department of State confir our view that the Brazil contract does not require any other State Department license.

In March 2008, the Enforcement Division of the U.S. Department of State informed us that they were rev amended TAA. In May 2008, the U.S. Attorney’s Office in the Middle District of Florida informed us that, conversations with the ICE agent who initiated the subpoena, it was closing its investigation into the Brazi June 2008, the ICE agent informed us that he would recommend that the detained inventory be released back the U.S. Department of State confirming our position that a State Department license for the hardware shipp required. In August 2008, the ICE agent informed us that the U.S. Department of State wanted to clarify certa matters and, on its behalf, the ICE agent was going to interview one of our engineers. This interview o September of 2008. We continue to remain cautiously optimistic that we will be able to shortly reship inventory to our customer.

In addition to their review of the Brazil contract, in March 2008, the Enforcement Division of the U.S. Dep State informed us that they sought to confirm our company-wide ITAR compliance for the five-year period en 2008. In response, we expanded the scope of our own investigation. In June 2008, we provided detailed info a summary of our findings to the U.S. Department of State. In July 2008, the U.S. Department of State supplemental information and we responded to their request. Our findings to date indicate that there w instances of exports and defense services during the five-year period for which we did not have the a authorization from the U.S. Department of State; however, none of those instances involved Proscribed C defined by ITAR. We are awaiting additional feedback from the U.S. Department of State as it relates t aforementioned matters.

Since the receipt of the original Brazil subpoena in October 2007, we have engaged outside counsel a
consultants to help us assess and improve, as appropriate, our internal controls with respect to U.S. export co
and regulations and laws governing record keeping and dealings with foreign representatives. In addition, in
with our August 1, 2008 acquisition of Radyne, we are expanding our export internal control assessment to i
newly acquired subsidiaries. To date, we have noted opportunities for improving our procedures to comply
laws and regulations, including at our newly acquired Radyne subsidiaries and are in the process
improvements.

During fiscal 2008, we have taken numerous steps to significantly improve our export control processes, inc
hiring of additional employees who are knowledgeable and experienced with ITAR and the engagement of
export consultant to conduct additional training. We are also in the process of implementing enhanc
company-wide ITAR control procedures, including at our newly acquired Radyne subsidiaries. Because our a
are continuing, we expect to remediate, improve and enhance our internal controls relating to exports throug
2009.

Because the above matters are ongoing, we cannot determine the ultimate outcome of these matters. Violatio
export control-related laws and regulations could result in civil or criminal fines and/or penalties and/or r
injunction against us, all of which could, in the aggregate, materially impact our business, results of operation
flows. Should we identify a material weakness relating to our compliance, the ongoing costs of remediatio
material. In addition, inventory related to the Brazil contract (including the inventory that has been detained
book value of $1.1 million as of July 31, 2008. If this inventory is permanently seized or not returned to us tin
can not resell the inventory to other customers, we would be required to write-off the value of this inventory
accounting period.

Our dependence on international sales and international sales agents may adversely affect us. U.S. export law
restrict our ability to sell our products abroad which reduces our ability to obtain sales from foreign customers

Sales for use by international customers (including sales to U.S. domestic companies for inclusion in produc
be sold to international customers) represented approximately 26.7%, 26.2% and 35.6% of our consolidated n
the fiscal years ended July 31, 2008, 2007 and 2006, respectively. Approximately 21.4% of our backlog at Jul
consisted of orders for use by foreign customers. We expect that international sales (including sales from Ra
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 ra
may make our products less price-competitive), political and economic instability, exposure to public health
availability of suitable export financing, tariff regulations, and other U.S. and foreign regulations that may a
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 larg
suppliers, contracts denominated in U.S. dollars, advance or milestone payments and irrevocable letters of cr
favor. However, we may not be able to reduce the economic risk of doing business in foreign countries, in al
In such cases, billed and unbilled receivables relating to international sales are subject to increased collectibil
may result in significant write-offs, which could have a material adverse impact on our business, results of
and financial condition. In addition, foreign defense contracts generally contain provisions relating to termin
convenience of the government.

In some countries, we may rely upon one international sales agent. We attempt to reduce our reliance on sale
establishing additional foreign sales offices and by engaging, where practicable, more than one indeper
representative in a territory.

Certain of our products and systems may require licenses from U.S. government agencies for export from th
some of our products are not permitted to be exported. In addition, in certain cases, U.S. export controls als
limit unlicensed technical discussions such as with any persons who are not U.S. citizens or permanent resi
result, in cases where we may need a license, it may reduce our ability to compete against a non-U.S. domici
company who may not be subject to the same U.S. laws. We cannot be sure of our ability to gain any license
be required to export our products, and failure to receive required licenses could materially reduce our ability
products outside the U.S.

We have significant operations in Florida and California, and other locations, which could be materially anc impacted, in the event of a natural disaster or other significant disruption.

Our telecommunications transmission segment designs and manufactures our over-the-horizon microwave and systems out of two facilities located in Florida, where major hurricanes have occurred in the past. As of 2008, our RF microwave amplifiers segment manufactures and designs traveling wave tube amplifier an amplifiers in Santa Clara, California, close to major earthquake fault lines.

Our operations in these and other locations (such as in our high-volume technology manufacturing center Tempe, Arizona and our mobile data communication segment's network operations center located in Ge Maryland), could be subject to natural disasters or other significant disruptions, including hurricanes, tsunamis, floods, earthquakes, fires, water shortages, other extreme weather conditions, medical epidem terrorism, power shortages and blackouts, telecommunications failures, and other natural and manmade d disruptions.

In the event of such a natural disaster or other disruption, we could experience disruptions or interrupti operations or the operations of our suppliers, distributors, resellers or customers; destruction of facilities; anc life, all of which could materially increase our costs and expenses and materially adversely affect our busine and financial condition.

All of our businesses are subject to rapid technological change; we rely upon licensed technology for sc products and we must keep pace with changes to compete successfully.

We are engaged in businesses characterized by rapid technological change, evolving industry standards, fre product announcements and enhancements, and changing customer demands. The introduction of products ar embodying new technologies and the emergence of new industry standards could render any of our products a obsolete or non-competitive. The technology used in our products and services evolves rapidly, and ou position depends, in large part, on the continuous refinement of our scientific and engineering experti development, either through internal research and development or acquisitions, of new or enhanced pro technologies. We may not have the economic or technological resources to be successful in such efforts and v be able to identify and respond to technological improvements made by our competitors in a timely or cos fashion. Our DoubleTalk® Carrier-in-Carrier® bandwidth compression technology is licensed by us from a t A significant technological breakthrough by others, including smaller competitors or new firms, could have adverse impact on our business, results of operations and financial condition.

Reductions in telecommunications equipment and systems spending may negatively affect our revenues, p 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 hav as our customers have increased their spending on telecommunications equipment and systems. However, du 2008, adverse conditions in the U.S. consumer mortgage market have negatively impacted the global eco nearly all businesses, including ours, are facing uncertain economic environments. Some economists are now a recession. Our businesses have been negatively affected in the past by uncertain economic environments overall market, and more specifically in the telecommunications sector. As a result of the current global conditions, our customers may reduce their budgets for spending on telecommunications equipment and sys consequence, our current customers and other prospective customers may postpone, reduce or even forego th of our products and systems, which could adversely affect our revenues, profitability and the recoverability of including intangible assets. Although we remain confident that the long-term demand drivers for our b including our satellite earth station products, remain strong, it is currently difficult to assess whether or bookings will meet or exceed the levels experienced in fiscal 2008.

Our mobile data communications business is subject to unique risks.

Our mobile data communications business segment is reliant upon just a few contracts. In addition to the factors described in this section, the risk factors applicable to our mobile data communications business i following:

- Our mobile data communications segment's revenues and profits are primarily derived from the Moveme Systems ("MTS") contract and the U.S. Army's Force XXI Battle Command, Brigade and Below comma systems (also known as Blue Force Tracking ("BFT")) contract. Both of these contracts can be terminate and orders are subject to unpredictable funding, deployment and technology decisions by the U.S. go Because both of these contracts are indefinite delivery/indefinite quantity ("IDIQ") contracts, the U.S. 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 expirat 12, 2010 and December 31, 2011, respectively. In addition, the U.S. Army may decide to award future or time, to other parties. If another party is awarded future orders or if one or both of our contracts are no extended or if we fail to succeed in a recompete process, it would have a material adverse impact on our bu results of operations.

- In fiscal 2007, the BFT program's prime contractor, Northrop Grumman Corporation, awarded a co competitor to develop a new prototype network and related equipment to increase network capacity fo Army's BFT tracking system. Although we are currently working closely with the U.S. Army to provide enhancements to our network capabilities and communications performance and believe that we ha developing new products that provide compelling technological advancement to our existing products an importantly, backwards compatible with the large number of existing BFT and MTS systems in active d today, it is possible that the U.S. Army (including our MTS customers) will ultimately cease or reduce i levels of our products and services. If this occurs, it would have a material adverse impact on our business of operations.

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

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

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

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To date, commercial satellite-based mobile data applications have not been a material part of our business. I
we do not have extensive experience designing, manufacturing or selling microsatellites and related compo
future success in developing these markets will depend on, among other things, our ability to acce
distribution channels, the development or licensing of applications which create value for the customer and
to attract and retain qualified personnel. We may have to increase our operating expenses to be successf
markets.

- There are several existing and potential commercial and defense-related competitors, such as Qualcomm Northrop Grumman Corporation, that participate in the mobile data communications market and who greater financial resources than us. Existing competitors, including terrestrial-based service provider aggressively pricing their products and services and may continue to do so in the future. Competitors such Inc. and Harris Corporation continue to offer new value-added products and services, which we may be match on a timely or cost effective basis. Companies, such as Surrey Satellite Technology, Ltd. and Systems, Inc., compete against us in the microsatellite and related components markets. Increased compe adversely impact margins throughout the industry. We anticipate that new competitors will also enter the communications market in the future. This could adversely impact our existing business, results of ope 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 decrease increased provisions for excess and obsolete inventory.

We currently have a backlog of orders, mostly under contracts that the customer may modify or terminate. Al the contracts in our backlog are subject to cancellation at the convenience of the customer or for default in the 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 ot including the consideration of the amount of backlog we have on hand at any particular point in time. If our canceled or modified, our estimates of future product demand may prove to be inaccurate, in which case we understated the provision required for excess and obsolete inventory. In the future, if we determine that our i overvalued, we will be required to recognize such costs in our financial statements at the tim determination. Any such charges could be material to our results of operations and financial condition.

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

Although we obtain certain components and subsystems from a single source or a limited number of sources, that most components and subsystems are available from alternative suppliers and subcontractors. A s interruption in the delivery of such items, however, could have a material adverse impact on our business operations and financial condition.

In recent years, we have increased the company-wide dependency on our high-volume technology manufactu located in Tempe, Arizona, which is part of our telecommunications transmission segment. In fiscal 2008 2006, intersegment sales by the telecommunications transmission segment to the mobile data communicatio were $123.8 million, $78.3 million and $55.7 million, respectively. Intersegment sales in fiscal 2008, 2007 a the telecommunications transmission segment to the RF microwave amplifiers segment were $16.0 million, $ and $7.5 million, respectively. If a natural disaster or other business interruption occurred, we do not have access to other manufacturing facilities, and as a result, our business would suffer. In addition, if our hi technology manufacturing center is unable to produce sufficient product or maintain quality, it could have adverse impact on all three of our business segments, our results of operations and our financial condition.

We intend to continue to increase our company-wide dependency on our high-volume technology manufactur For example, the success of the Radyne acquisition will depend, in part, on our ability to realize anticipated e and cost savings, primarily through the result of closing Radyne's Phoenix, Arizona, manufacturing f integrating that operation into our Tempe, Arizona facility. We also intend to continue to seek contracts parties to outsource a portion of their manufacturing to us. No assurances can be given that we will be able these efficiencies and cost savings.

In the past, the U.S. government experienced delays in the receipt of certain components that are ultimately p
us for incorporation into our satellite transceivers that we ship to the U.S. government. If we do not rec
government furnished components in a timely manner, we could experience delays in fulfilling order
customers.

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

A substantial portion of our products and services are sold under fixed price contracts. This means that we b
of unanticipated technological, manufacturing, supply or other problems, price increases or other increases in
performance. Operating margin is adversely affected when contract costs that cannot be billed to the cu
incurred. This cost growth can occur if initial estimates used for calculating the contract price were inco
estimates to complete increase. The cost estimation process requires significant judgment and expertise. Reas
growth may include unavailability and productivity of labor, the nature and complexity of the work to be perf
effect of change orders, the availability of materials, the effect of any delays in performance, availability an
funding from the customer, natural disasters, and the inability to recover any claims included in the es
complete. A significant change in an estimate on one or more programs could have a material impact on ou
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. g
regulations, including those of the FCC, as well as international laws and regulations. Regulatory changes
changes in the allocation and availability of frequency spectrum, and in the military standards and specific
define the current satellite networking environment, could materially harm our business by (i) restricting de
efforts by us and our customers, (ii) making our current products less attractive or obsolete, or (iii) inc
opportunity for additional competition. Changes in, or our failure to comply with, applicable laws and regula
materially harm our business. In addition, the increasing demand for wireless communications has exerted p
regulatory bodies worldwide to adopt new standards and reassign bandwidth for these products and ser
reduced number of available frequencies for other products and services and the time delays inherent in the g
approval process of new products and services have caused and may continue to cause our customers to cance
or reschedule their installation of communications systems including their satellite, over-the-horizon mic
terrestrial line-of-sight microwave communication systems. This, in turn, could have a material adverse ef
sales of products to our customers.

The EU has adopted two directives to facilitate the recycling of electrical and electronic equipment sold in t
first of these is the Waste from Electrical and Electronic Equipment directive, which directs EU member sta
laws, regulations, and administrative provisions to ensure that producers of electrical and electronic equ
financially responsible for the collection, recycling, treatment, and environmentally sound disposal of certa
placed on the market after August 13, 2005, and from products in use prior to that date that are being replac
has also adopted the Restriction on the Use of Certain Hazardous Substances in Electrical and Electronic
("RoHS") directive. The RoHS directive restricts the use of lead, mercury, and certain other substances in e
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 J
environmental regulations may require us to reengineer our products to utilize components that
environmentally compatible, and such reengineering and component substitution may result in additional
There can be no assurance that such existing or future laws will not have a material adverse effect on our busi

Our investments in recorded goodwill and other intangible assets as a result of prior acquisitions, including g
other intangible assets resulting from our Radyne acquisition could be impaired as a result of future business
requiring us to record substantial write-downs that would reduce our operating income.

We have goodwill and intangible assets of $31.9 million recorded on our balance sheet as of July 31, 2008. T
will materially increase as a result of the Radyne acquisition. We evaluate the recoverability of recorde
amounts and intangible assets annually, or when evidence of potential impairment exists. The annual impair
based on several factors requiring judgment. Changes in our operating performance or business conditions,
could result in an impairment of goodwill which could be material to our results of operations. In addition, if
successful in achieving anticipated operating efficiencies associated with the Radyne acquisition, our go
intangible assets may become impaired.

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 and operating unit management at each of our subsidiaries. Many of our key personnel, particularly the key e our subsidiaries, would be difficult to replace, and are not subject to employment or noncompetition agree growth and future success will depend in large part upon our ability to attract and retain highly qualified e sales and marketing personnel. Competition for such personnel from other companies, academic institutions, g entities and other organizations is intense. Although we believe that we have been successful to date in rec keeping key personnel, we may not be successful in attracting and retaining the personnel we will need to grow and operate profitably. Also, the management skills that have been appropriate for us in the past may n 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 gro businesses.

Certain of our businesses have experienced periods of rapid growth that have placed, and may continu significant demands on our managerial, operational and financial resources. In addition to anticipated orga our revenues are expected to significantly increase in fiscal 2009 as a result of the Radyne acquisition. manage this growth, we must continue to improve and expand our management, operational and financial s controls. We also need to continue to recruit and retain personnel and train and manage our employee bas carefully manage research and development capabilities and production and inventory levels to meet produ new product introductions and product and technology transitions. If we are not able to timely and effective our growth and maintain the quality standards required by our existing and potential customers, we could e 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 successful or that our competitors will not develop new technologies and products that are more effective than our own. the DoD's increased use of commercial off-the-shelf products and components in military equipment will en competitors to enter the market. Also, although the implementation of advanced telecommunications servi early stages in many developing countries, we believe competition may intensify as businesses and foreign g realize the market potential of telecommunications services. Many of our competitors have financial, 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 infringeme

Our DoubleTalk® Carrier-in-Carrier® bandwidth compression technology is licensed by us from a third- businesses rely in large part upon our proprietary scientific and engineering know-how and production t Historically, patents have not been an important part of our protection of our intellectual property rights. W the laws of unfair competition, restrictions in licensing agreements and confidentiality agreements to intellectual property. We limit access to and distribution of our proprietary information. These efforts allo upon the knowledge and experience of our management and technical personnel to market our existing prod develop new products. The departure of any of our key management and technical personnel, the brea confidentiality and non-disclosure obligations to us or the failure to achieve our intellectual property obje have a material adverse impact on our business, results of operations and financial condition. Our ability successfully and achieve future revenue growth will depend, in part, on our ability to protect our proprietary and operate without infringing upon the rights of others. We may fail to do so. In addition, the laws of certa in which our products are or may be sold may not protect our products and intellectual property rights to the s 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 bu
currently contemplated. If the technology we use is found to infringe on protected technology, we could be
change our business practices, license the protected technology, and/or pay damages or other compensa
infringed party. If we are unable to license protected technology that we use in our business or if we are
change our business practices, we could be prohibited from making and selling our products or providi
telecommunications services.

Our operations are subject to environmental laws and regulations and we may be subject to environmental liab

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

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

Our fiscal 2004 and fiscal 2005 Federal income tax returns were recently audited by the Internal Revenue S our fiscal 2006 tax return has been selected for audit. Other returns may be selected for audit in the future adjustments relating to our fiscal 2004 and fiscal 2005 tax return were immaterial, a resulting tax asse settlement for fiscal 2006 and other periods that may be selected for future audit could have a material adverse our results of operations and financial position.

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

Recently enacted securities laws and regulations are increasing our costs and possible future changes t reporting standards may result in incremental costs.

The Sarbanes-Oxley Act of 2002 required changes in some of our corporate governance, public discl compliance practices. These changes resulted in increased costs and as we grow, we expect to see our costs inc SEC has promulgated and proposed new rules on a variety of subjects including the possibility that we required to adopt International Financial Reporting Standards (“IFRS”). If we are required to change c reporting standards and policies to comply with IFRS, our costs could significantly increase. In addition, the Stock Market LLC (“NASDAQ”) has revised its requirements for companies, such as us, that are listed on th These changes are increasing our legal and financial compliance costs including making it more difficult expensive for us to obtain director and officer liability insurance or maintain our current liability coverage. V that these new and proposed laws and regulations could make it more difficult for us to attract and retair members of our Board of Directors, particularly to serve on our audit committee, and qualified executive offic

We are subject to the ongoing internal control provisions of Section 404 of the Sarbanes-Oxley Ac Identification of material weaknesses in internal controls (including those at our newly acquired subsidiaries a 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 management’s assessment of the effectiveness of our internal controls as part of our Annual Report on Form independent registered accountants are required to attest to and report on management’s assessment, as well a separate opinion. To issue our report, we document our internal control design and the testing processes that s evaluation and conclusion, and then we test and evaluate the results. There can be no assurance, however, that able to remediate material weaknesses, if any, that may be identified in future periods, or maintain all of th

necessary for continued compliance. There likewise can be no assurance that we will be able to retain suffic
finance and accounting personnel, especially in light of the increased demand for such personnel among publ
companies.

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

In fiscal 2006, we adopted Statement of Financial Accounting Standards No. 123(R), "Share-Based Paymer
standard that requires that we record compensation expense in the statement of operations for employee ar
stock-based awards using a fair value method. The adoption of the new standard had a significant effect on o
earnings, and could adversely impact our ability to provide accurate guidance on our future reported financial
to the variability of the factors used to estimate the value of stock-based awards. As a result, the ongoing app
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
compensation packages. We believe that stock-based awards directly motivate our employees to maximize
stockholder value and, through the use of long-term vesting, encourage employees to remain with us. To the
this accounting standard makes it less attractive to grant stock-based awards to employees, we may incur
compensation costs, change our equity compensation strategy or find it difficult to attract, retain and
employees, each of which could have a material adverse impact on our business, results of operations an
condition.

We face risks from the uncertainty of prevailing political conditions.

Current global political conditions are uncertain. For example, the winner of the November 2008 U.S. p
election could significantly change policies or priorities which could have a negative impact on our busines
the accuracy of our budgeting and forecasting process relies on stable political conditions, the prevailin
environment renders estimates of future income and expenses even more difficult than usual to formulate.
direction of the political environment could have a material adverse impact on our business, results of oper
financial condition.

Terrorist attacks and threats, and government responses thereto, and threats of war elsewhere may negatively
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 cou
impact our business, results of operations and financial condition. Any escalation in these events or simila
events may disrupt our operations or those of our customers and may affect the availability of materials
manufacture our products or the means to transport those materials to manufacturing facilities and finished p
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
control of Comtech.

We have taken a number of actions that could have the effect of discouraging, delaying or preventing a
acquisition involving Comtech that our stockholders may consider favorable. For example, we have a classi
and the employment contract with our chief executive officer and contracts with other of our executive offic
for substantial payments in certain circumstances or in the event of a change of control of Comtech. We also
stockholder rights plan that could cause substantial dilution to a stockholder, and substantially increase the cos
stockholder, who attempts to acquire us on terms not approved by our Board of Directors. These provis
prevent us from being acquired. In addition, our certificate of incorporation grants our Board of Directors the a
fix the rights, preferences and privileges of and issue up to 2,000,000 shares of preferred stock without s
action. Although we have no present intention to issue shares of preferred stock, such an issuance of any cla
of our preferred stock could have rights which would adversely affect the voting power of the common stoc

could delay, defer, or prevent a change in control of Comtech. In addition, we are subject to the provisions
203 of the Delaware General Corporation Law, an anti-takeover law. In general, this statute provides tha
certain limited circumstances a corporation shall not engage in any "business combination" with an "intereste
for a period of three years after the date of the transaction in which the person became an interested stockhol
the business combination is approved in a prescribed manner. A "business combination" includes mergers, as
other transactions resulting in a financial benefit to the interested stockholder. Subject to certain exceptions, fo
of Section 203 of the Delaware General Corporation Law, an "interested stockholder" is a person who, t
affiliates, owns, or within three years did own, 15% or more of the corporation's voting stock. This provision
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 t
we may default on our debt obligations. Our 2.0% convertible senior notes, may, at our option, be redeemab
on or after February 4, 2009. Holders of our 2.0% convertible senior notes have the right to require us to
some or all of the outstanding 2.0% convertible senior notes on February 1, 2011, February 1, 2014 and F
2019, and upon certain events, including a change in control.

Should we decide to redeem some or all of the outstanding 2.0% convertible senior notes, or if the holders o
convertible senior notes require us to repurchase some or all of the outstanding 2.0% convertible senior notes,
assure you that we will be able to generate sufficient cash flow to pay the interest on our debt or that futu
capital, borrowings or equity financing will be available to pay or refinance such debt. The level of our ind
among other things, could: make it difficult for us to make payments on our debt; make it difficult for us to
necessary financing in the future for working capital, acquisitions, capital expenditures, debt service requi
other purposes; limit our flexibility in planning for, or reacting to, changes in our business and the industry i
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 experienc
volatility that often has been unrelated to the operating performance of any specific public company. The m
of our common stock has fluctuated significantly in the past and is likely to fluctuate significantly in the future

Factors that could have a significant impact on the market price of our stock are described throughout the R
section and include:

- strategic transactions, such as acquisitions and divestures;
- issuance of potentially dilutive equity-type securities
- 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 anal
immediately, significantly and adversely affect the trading price of our common stock.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Historically, we have not owned any material properties and facilities and have relied upon a strategy of le
properties and facilities (including Radyne facilities) are noted below:

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

- Our RF microwave amplifiers segment manufactures our solid-state, high-power, broadband amplifiers, i
square foot engineering and manufacturing facility on more than two acres of land in Melville, New York a
square foot facility in Topsfield, Massachusetts. We lease the New York facility from a partnership contro
Chairman, Chief Executive Officer and President. The lease, as amended, provides for our use of the premi
now exist for a term of ten years through December 2011. We have a right of first refusal in the event of a
facility. The base annual rent under the lease is subject to customary adjustments. Our RF microwave
segment manufactures our satellite earth station traveling wave tubes amplifiers, certain solid state amp
klystron tube amplifiers in two leased manufacturing facilities located in Santa Clara, California. These tw
comprise approximately 71,000 square feet and are subject to lease agreements that expire in 201
microwave amplifiers segment also operates a small office in the United Kingdom.

- Although primarily used for our satellite earth station product lines which are part of the telecomm
transmission segment, all three of our business segments utilize our high-volume technology manufacturin
located in Tempe, Arizona. These manufacturing facilities, comprising 176,000 square feet, utilize state
design and production techniques, including analog, digital and RF microwave production, hardware ass
full service engineering. The leases for these facilities expire through fiscal 2011 and in each lease we have
to extend the term of the lease for up to an additional five-year period. As a result of the Radyne acquisitio
currently occupy approximately 75,000 square feet of building space in Phoenix, Arizona. The lease for th
currently expires in October 2018. On August 1, 2008, we adopted and initiated a restructuring plan
operating efficiencies and are currently in the process of consolidating Radyne's Phoenix, Arizona-based
into our Tempe, Arizona facility. We are currently in preliminary negotiations with a tenant who subleases,
portion of Radyne's Phoenix, Arizona facility. This tenant is interested in subleasing the remaining por
facility from us. If these negotiations are not successful, we intend to perform an assessment of whether or
be able to sublease the Phoenix, Arizona facility for the remaining duration of the lease, and at what rent,
might be able to receive, given the poor real estate market conditions in the Phoenix, Arizona areas a
uncertainties relating to the local economic environment.

- Our telecommunications transmission segment leases an additional fourteen facilities, six of which are loc
U.S. The U.S. facilities (excluding our Arizona-based facilities) aggregate 159,000 square feet and are
utilized for manufacturing, engineering, and general office use. Our telecommunications transmission se
operates five small offices in China, India, North Africa, Singapore, the United Kingdom and Canada, a
aggregate 25,000 square feet and are primarily utilized for customer support, engineering and sales.

- Our mobile data communications segment operates two main facilities aggregating 57,000 square feet. We
32,000 square foot facility located in Germantown, Maryland which contains our main network operati
This lease expires in March 2018. Our mobile data communications segment also maintains a 25,000 s
facility in Ashburn, Virginia, which is used to support the design, sales and manufacture of our microsa
SENS products. This lease expires in 2012. We also have two small offices located in Colorado that are
used for engineering capabilities.

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

ITEM 3. LEGAL PROCEEDINGS

In October 2007, our Florida-based subsidiary, Comtech Systems, Inc. ("CSI"), received a customs export subpoena from the U.S. Immigration and Customs Enforcement ("ICE") branch of the Department of Homel The subpoena relates to CSI's $2.0 million contract with the Brazilian Naval Commission (the Brazil con required the production of all books, records and documents, including copies of contracts, invoices and related to agreements between CSI, its agent, its subcontractor and the Brazilian government. We believe th investigation is focused primarily on whether or not CSI was in compliance with export-related laws and r including the International Traffic in Arms Regulations ("ITAR") and the Export Administration Regu produced documents in response to the subpoena request. Customs officials have detained certain inventory the Brazil contract pending resolution of this matter.

We engaged outside counsel to assist CSI in its response to the subpoena and related matters and to condu investigation. Based on our ongoing investigation into this matter, we believe that the detained inventory, whi of commercial satellite equipment, was not modified or adapted in any way to meet Brazilian military requir was only subject to the jurisdiction of the Department of Commerce and not the jurisdiction of the U.S. Dep State. In addition, in order to provide certain defense services, including conducting factory acceptance testi Florida facility, we obtained a license (referred to as a Technical Assistance Agreement ("TAA")) fr Department of State. We believe that the TAA authorized all activities under the Brazil contract that were su jurisdiction of the U.S. Department of State.

We believe that CSI made a good faith effort to comply with applicable regulations; however, we believe tha inadvertent administrative errors resulting in a TAA that did not become effective on a timely basis. The adm errors relate primarily to the execution of non-disclosure agreements ("NDA") with certain third cou employees of CSI's agent. These individuals have now signed appropriate NDAs, and, in December 2007, amended TAA with the U.S. Department of State. CSI has requested that the U.S. Department of State confir our view that the Brazil contract does not require any other State Department license.

In March 2008, the Enforcement Division of the U.S. Department of State informed us that they were rev amended TAA. In May 2008, the U.S. Attorney's Office in the Middle District of Florida informed us that, conversations with the ICE agent who initiated the subpoena, it was closing its investigation into the Brazi June 2008, the ICE agent informed us that he would recommend that the detained inventory be released back the U.S. Department of State confirming our position that a State Department license for the hardware shipp required. In August 2008, the ICE agent informed us that the U.S. Department of State wanted to clarify certai matters and, on its behalf, the ICE agent was going to interview one of our engineers. This interview September of 2008. We continue to remain cautiously optimistic that we will be able to shortly reshi inventory to ou

In addition to their review of the Brazil contract, in March 2008, the Enforcement Division of the U.S. Dep State informed us that they sought to confirm our company-wide ITAR compliance for the five-year period en 2008. In response, we expanded the scope of our own ongoing investigation. In June 2008, we provide information and a summary of our findings to the U.S. Department of State. In July 2008, the U.S. Departm requested supplemental information and we responded to their request. Our findings to date indicate that certain instances of exports and defense services during the five-year period for which we did not have the authorization from the U.S. Department of State; however, none of those instances involved Proscribed C defined by ITAR. We are awaiting additional feedback from the U.S. Department of State as it relates t aforementioned matters.

Since the receipt of the original Brazil subpoena in October 2007, we have engaged outside counsel a
consultants to help us assess and improve, as appropriate, our internal controls with respect to U.S. export co
and regulations and laws governing record keeping and dealings with foreign representatives. In addition, in
with our August 1, 2008 acquisition of Radyne, we are expanding our export internal control assessment to i
newly acquired subsidiaries. To date, we have noted opportunities for improving our procedures to comply
laws and regulations, including at our newly acquired Radyne subsidiaries and are in the process
improvements.

During fiscal 2008, we have taken numerous steps to significantly improve our export control processes, inc hiring of additional employees who are knowledgeable and experienced with ITAR and the engagement of export consultant to conduct additional training. We are also in the process of implementing enhanc company-wide ITAR control procedures, including at our newly acquired Radyne subsidiaries. Because our a are continuing, we expect to remediate, improve and enhance our internal controls relating to exports throug 2009.

Because the above matters are ongoing, we cannot determine the ultimate outcome of these matters. Violatio export control-related laws and regulations could result in civil or criminal fines and/or penalties and/or r injunction against us, all of which could, in the aggregate, materially impact our business, results of operation flows. Should we identify a material weakness relating to our compliance, the ongoing costs of remediatio material. In addition, inventory related to the Brazil contract (including the inventory that has been detained book value of $1.1 million as of July 31, 2008. If this inventory is permanently seized or not returned to us tin can not resell the inventory to other customers, we would be required to write-off the value of this inventory accounting period.

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, 2008

PART II

ITEM 5. MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTE
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 on the S&P’s 500 Index and the NASDAQ Telecommunications Index for each of the last five fiscal years en assuming an investment of $100 at the beginning of such period and the reinvestment of any dividends. The co in the graphs below are based upon historical data and are not indicative of, nor intended to forecast, future pe of our common stock.

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

	Common Stock High
Fiscal Year Ended July 31, 2007	
First Quarter	$ 36.96
Second Quarter	39.86
Third Quarter	40.23
Fourth Quarter	48.94
Fiscal Year Ended July 31, 2008	
First Quarter	58.00
Second Quarter	56.07
Third Quarter	48.41
Fourth Quarter	51.21

Dividends

We have never paid cash dividends on our common stock. Although we currently expect to use earnings a hand to finance the development and expansion of our businesses, our Board of Directors reviews our divid periodically. The payment of dividends in the future will depend upon our earnings, capital requirements 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 2008.

Approximate Number of Equity Security Holders

As of September 12, 2008, there were approximately 787 holders of our common stock. Such number of rec was determined from our shareholder records and does not include beneficial owners of our common stock 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 fis ended January 31, 2005, the Company adopted Emerging Issues Task Force ("EITF") Issue No. 04-8, " Contingently Convertible Instruments on Diluted Earnings Per Share." The Company has restated, for c purposes, the historical share and per share data, including earnings per share ("EPS"), to reflect the impact of conversion of the Company's 2.0% convertible senior notes in calculating diluted EPS. Effective August adopted the provisions of SFAS No. 123(R), "Share-Based Payment" using the modified prospective meth 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 split of the C common shares that occurred in April 2005. Detailed historical financial information is included in t consolidated financial statements for fiscal 2008, 2007 and 2006.

		Fiscal Years Ended July 31, (In thousands, except per share amounts)			
		2008	2007	2006	2005
Consolidated Statement of Operations Data:					
Net sales	$	531,627	445,684	391,511	307,890
Cost of sales		296,687	252,389	232,210	180,524
Gross profit		234,940	193,295	159,301	127,366
Expenses:					
Selling, general and administrative		85,967	73,312	67,071	51,819
Research and development		40,472	32,469	25,834	21,155
In-process research and development		-	-	-	-
Amortization of intangibles		1,710	2,592	2,465	2,328
		128,149	108,373	95,370	75,302
Operating income		106,791	84,922	63,931	52,064
Other expenses (income):					
Interest expense		2,683	2,731	2,687	2,679
Interest income and other		(14,065)	(14,208)	(9,243)	(4,072)
Income before provision for income taxes		118,173	96,399	70,487	53,457
Provision for income taxes		41,740	31,186	25,218	16,802
Net income	$	76,433	65,213	45,269	36,655
Net income per share:					
Basic	$	3.17	2.81	1.99	1.69
Diluted	$	2.76	2.42	1.72	1.42
Weighted average number of common shares outstanding - basic		24,138	23,178	22,753	21,673

Weighted average number of common and common equivalent shares outstanding assuming dilution – diluted	28,278	27,603	27,324	27,064

(

		Fiscal Years Ended July 31, (In thousands)			
		2008	2007	2006	2005
Other Consolidated Operating Data:					
Backlog at period-end	$	201,122	129,044	186,007	153,314
New orders		603,705	388,721	424,204	377,655
Research and development expenditures - internal and customer funded		48,224	36,639	30,243	24,156

		As of July 31, (In thousands)			
		2008	2007	2006	2005
Consolidated Balance Sheet Data:					
Total assets	$	653,120	556,342	455,266	382,403
Working capital		484,451	397,083	308,986	254,690
Convertible senior notes		105,000	105,000	105,000	105,000
Other long-term obligations		-	108	243	396
Stockholders' equity		442,802	345,768	254,242	196,629

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 comm solutions. We believe many of our solutions play a vital role in providing or enhancing communication capabi terrestrial communications infrastructure is unavailable or ineffective. We conduct our business thro complementary segments: telecommunications transmission, mobile data communications and RF m amplifiers. We sell our products to a diverse customer base in the global commercial and government comm markets. We believe we are a leader in the market segments that we serve.

Our telecommunications transmission segment provides equipment and systems that are used to enhanc transmission efficiency and that enable wireless communications in environments where terrestrial communi unavailable, inefficient or too expensive. Our telecommunications transmission segment also operates our hi technology manufacturing center that is utilized, in part, by our mobile data communications and RF m amplifiers segments as well as third party commercial customers who outsource a portion of their manufactu Accordingly, our telecommunications transmission segment benefits from the related increased operating ef Our mobile data communications segment provides customers with an integrated solution, including mobi transceivers and satellite network support, to enable global satellite-based communications when mobile, secure transmission is required. Our mobile data communications segment also designs and manufactures mic and related components. Our RF microwave amplifiers segment designs, manufactures and markets satellite ea traveling wave tube amplifiers, klystron amplifiers and solid-state amplifiers, including high-power, broa microwave amplifier products.

A substantial portion of our sales may be derived from a limited number of relatively large customer contrac our Movement Tracking System ("MTS") contract with the U.S. Army and our U.S. Army's Force XXI Batt

Brigade and Below command and control systems (also known as Blue Force Tracking ("BFT")) contract, f
timing of revenues cannot be predicted. Quarterly and period-to-period sales and operating results may be dr
affected by one or more of such contracts. In addition, our gross profit is affected by a variety of factors, inc
mix of products, systems and services sold, production efficiencies, estimates of warranty expense, price c
and general economic conditions. Our gross profit may also be affected by the impact of any cumulative adju
contracts that are accounted for under the percentage-of-completion method. Our contracts with the U.S. gove
be terminated at any time and orders are subject to unpredictable funding, deployment and technology decis
U.S. government. Some of these contracts, such as the MTS and BFT contracts, are indefinite delivery
quantity ("IDIQ") contracts, and as such, the U.S. government is not obligated to purchase any equipmen
under these contracts. Accordingly, we can experience significant fluctuations in sales and operating re
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 s customer acceptance. Revenue from contracts relating to the design, development or manufacture of complex equipment to a buyer's specification or to provide services relating to the performance of such contracts i recognized in accordance with American Institute of Certified Public Accountants ("AICPA") Statement of P "Accounting for Performance of Construction-Type and Certain Production-Type Contracts" ("SOP 81-1"). contracts that contain multiple elements that are not accounted for under SOP 81-1 are generally accou accordance with Emerging Issues Task Force ("EITF") Issue No. 00-21, "Accounting for Revenue Arran Multiple Deliverables." Revenue from these contracts is allocated to each respective element based on ea relative fair value and is recognized when the respective revenue recognition criteria for each element are met.

Recent Acquisitions

The Radyne Acquisition

In August 2008, and as more fully described throughout this Form 10-K, we acquired Radyne for a pr aggregate purchase price of approximately $231.7 million (including estimated transaction costs and payment outstanding share-based stock awards). We believe that the acquisition of Radyne resulted in the followin benefits:

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

- More than doubled the size of our RF microwave amplifiers segment by expanding our amplifier product po immediately positioning us as a leader, not only in the solid-state amplifier market, but in the satellite ea traveling wave tube amplifier market;

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

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

We believe that, over time, we will be able to take advantage of our combined engineering and sales taler further innovation in the marketplace and deliver new and advanced products to our customers in all th business segments. In connection with the Radyne acquisition, we also expect that we will be able to achieve efficiencies by eliminating redundant functions and related expenses. In order to achieve these efficiencies, or 2008, we immediately adopted a restructuring plan and are currently in the process of closing Radyne's Phoer manufacturing facility and integrating that operation into our high-volume technology manufacturing center Tempe, Arizona. In addition, Radyne's corporate functions, which were co-located in Radyne's Phoer manufacturing facility, are currently being moved to our Melville, New York corporate office. The closing o facility and related integration is expected to be completed in the second half of fiscal 2009.

In connection with the realization of operating synergies, we have preliminarily estimated that we may incur million of restructuring costs, of which, approximately $8.7 million relates to possible exit costs rela shut-down of Radyne's Phoenix Arizona manufacturing facility. We have already incurred approximately $0. severance costs for Radyne employees who were notified that they were being terminated on August 1, 20 currently in preliminary negotiations with a tenant who subleases, from us, a portion of the manufacturing fac interested in subleasing the remaining portion of this facility from us. If the negotiations with this tenant are our actual net cost related to the shut-down of the manufacturing facility will be significantly lower. We ant we will be able to capitalize all of the aforementioned costs as part of purchase accounting in accordance with Issues Task Force 95-3, "Recognition of Liabilities in Connection with a Purchase Business Combination ("EI

In addition, in connection with the acquisition, during the three months ended October 31, 2008 (our first
fiscal 2009), and in accordance with SFAS No. 141, "Business Combinations," we expect, based on a prelimi
to record a one-time charge of $6.2 million reflecting the fair-market value of in-process research and de
acquired.

From an operational and financial reporting perspective, as of August 1, 2008, Radyne's satellite electronic encoders and decoder product lines are now part of our telecommunications transmission segment, Radyne's KPA amplifier product portfolios are now part of our RF microwave amplifiers segment and Radyne's micros SENS products are now part of our mobile data communications segment.

Other Tactical and Product Line Acquisitions

In August 2006, we acquired certain assets and assumed certain liabilities of Insite Consulting, Inc. ("Insite" application software company, for $3.2 million, including transaction costs of $0.2 million. Insite has dev geoOps™ Enterprise Location Monitoring System, a software-based solution that allows customers to integrat systems with near-real time logistics and operational data systems. This operation was combined with o 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. (" manufacturer of digital video broadcasting equipment, for $1.0 million. This operation was combined with o business and is part of the telecommunications transmission segment.

In July 2008, we acquired the network backhaul assets and the NetPerformer and AccessGate product line Technologies ("Verso") for approximately $3.9 million. This operation was combined with our existing busi part of our 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 rela design, development or manufacture of complex electronic equipment to a buyer's specification or to prov relating to the performance of such contracts are recognized in accordance with SOP 81-1. We primarily percentage-of-completion method and generally recognize revenue based on the relationship of total costs total projected costs, or, alternatively, based on output measures, such as units delivered or produced. Profits be realized on such contracts are based on total estimated sales for the contract compared to total estim including warranty costs, at completion of the contract. These estimates are reviewed and revised pe throughout the lives of the contracts, and adjustments to profits resulting from such revisions are made cumul date of the change. Estimated losses on long-term contracts are recorded in the period in which the loss evident. Long-term U.S. government cost-reimbursable type contracts are also specifically covered by A Research Bulletin No. 43 "Government Contracts, Cost-Plus Fixed-Fee Contracts" ("ARB 43"), in addition to

We have been engaged in the production and delivery of goods and services on a continual basis under c arrangements for many years. Historically, we have demonstrated an ability to accurately estimate rev expenses relating to our long-term contracts. However, there exist inherent risks and uncertainties in revenues, expenses and progress toward completion, particularly on larger or longer-term contracts. If accurately estimate the total sales, related costs and progress towards completion on such contracts, the estin margins may be significantly impacted or losses may need to be recognized in future periods. Any such 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 custom right to terminate the contract at any time. Such terminations could impact the assumptions regarding tot revenues and expenses utilized in recognizing profit under the percentage-of-completion method of accountin to these assumptions could materially impact our results of operations and financial position. Historically, w experienced material terminations of our long-term contracts.

We also address customer acceptance provisions in assessing our ability to perform our contractual obligat long-term contracts. Our inability to perform on our long-term contracts could materially impact our results of 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 State 1(j) Accounting for Stock-Based Compensation,” we adopted Statement of Financial Accounting Standards 123(R) on August 1, 2005 using the modified prospective method.

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

Impairment of Goodwill and Other Intangible Assets. As of July 31, 2008, our goodwill and other intang
aggregated $31.9 million. This amount will materially increase as a result of the Radyne acquisition. In as
recoverability of goodwill and other intangibles, we must make various assumptions regarding estimated
flows and other factors in determining the fair values of the respective assets. If these estimates or th
assumptions change in the future, we may be required to record impairment charges for these asset
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 pro
long-term contracts, for a period of at least one year from the date of shipment. We record a liability fo
warranty expense based on historical claims, product failure rates and other factors. Costs associated with s
warranties that are provided under long-term contracts are incorporated into our estimates of total contract c
exist inherent risks and uncertainties in estimating warranty expenses, particularly on larger or longer-term co
such, if we do not accurately estimate our warranty costs, any changes to our original estimates could be ma
results of operations and financial condition.

Accounting for Income Taxes. Our deferred tax assets and liabilities are determined based on temporary
between financial reporting and tax bases of assets and liabilities, applying enacted tax rates expected to be i
the year in which the differences are expected to reverse. The provision for income taxes is based on do
international statutory income tax rates in the tax jurisdictions where we operate, permanent difference
financial reporting and tax reporting and available credits and incentives. We recognize interest and penalti
certain uncertain tax positions in income tax expense. The U.S. Federal government is our most significant
jurisdiction.

Significant judgment is required in determining income tax provisions and tax positions. We may be chall
review by the applicable taxing authority and positions taken by us may not be sustained. We recognize all
of the benefit of income tax positions only when we have made a determination that it is more-likely-than-
tax position will be sustained upon examination, based upon the technical merits of the position. For tax po
are determined as more-likely-than-not to be sustained upon examination, the tax benefit recognized is
amount of benefit that is greater than 50% likely of being realized upon ultimate settlement. The deve
reserves for income tax positions requires consideration of timing and judgments about tax issues an
outcomes, and is a subjective critical estimate. In certain circumstances, the ultimate outcome of exposur
involves significant uncertainties. If actual outcomes differ materially from these estimates, they could hav
impact on our results of operations and financial condition. As discussed in "Notes to Consolidated Financial
Note 1(h) Income Taxes and Note 9 Income Taxes," on August 1, 2007 we adopted FASB Interpreta
"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 inventor
historical and future usage trends. Other factors may also influence our provision, including decisions to ex
line, technological change and new product development. These factors could result in a change in the amou

and obsolete inventory on hand. Additionally, our estimates of future product demand may prove to be ina
which case we may have understated or overstated the provision required for excess and obsolete invento
future, if we determine that our inventory was overvalued, we would be required to recognize such costs in ou
statements at the time of such determination. Any such charges could be material to our results of oper
financial condition.

Allowance for Doubtful Accounts. We perform credit evaluations of our customers and adjust credit limits l
customer payment history and current creditworthiness, as determined by our review of our customers' cu
information. Generally, we will require cash in advance or payment secured by irrevocable letters of credi
order is accepted from an international customer that we do not do business with regularly. In addition,
obtain insurance for certain international customers. We monitor collections and payments from our cust
maintain an allowance for doubtful accounts based upon our historical experience and any specific customer
issues that we have identified. While such credit losses have historically been within our expectatio
allowances established, we cannot guarantee that we will continue to experience the same credit loss rates th
in the past. Measurement of such losses requires consideration of historical loss experience, including the nee
for current conditions, and judgments about the probable effects of relevant observable data, including presen
conditions such as delinquency rates and the financial health of specific customers. Changes to the estimated
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 per
our consolidated net sales:

	Fiscal Years Ended July 31,		
	2008	2007	2
Net sales	100.0%	100.0%	
Gross margin	44.2	43.4	
Selling, general and administrative expenses	16.2	16.4	
Research and development expenses	7.6	7.3	
Amortization of intangibles	0.3	0.6	
Operating income	20.1	19.1	
Interest expense (income), net	(2.1)	(2.5)	
Income before provision for income taxes	22.2	21.6	
Net income	14.4	14.6	

Business Outlook for Fiscal 2009

We expect that fiscal 2009 will be another record year of net sales and net income. We believe we will c
successfully execute our business strategies, that we will continue to experience organic growth in ou
businesses and that we will generate incremental net sales and net income as a result of the Radyne acquisition

Our outlook by business segment is noted below:

- Telecommunications transmission segment - We expect that annual net sales in our telecommunications tr
segment will increase in fiscal 2009. Our acquisition of Radyne has further strengthened our leadership pos
satellite earth station product line and we expect annual sales of our satellite earth station products to incr
believe we will benefit from ongoing strong demand for our bandwidth efficient satellite earth statio
including those used to support cellular backhaul applications. Annual sales of over-the-horizon microwa
are also expected to increase. We continue to be involved in lengthy negotiations and discussions related t
of large over-the-horizon microwave system opportunities, and, although it is extremely difficult to predict
of any potential contract award, we believe that we will be awarded one or more contracts relatin
opportunities during fiscal 2009. Sales in our telecommunications transmission segment can fluctuate dr
from period-to-period due to many factors including the strength of our satellite earth station product lin
and the timing and related receipt of and performance on, large contracts from the U.S. government and in

customers for our over-the-horizon microwave system contracts.

- Mobile data communications segment –We expect that annual net sales in our mobile data communications will increase in fiscal 2009, primarily due to increased demand for MTS product and services. Through Jul 2008, we have received $133.6 million in new orders under the MTS contract and have now supplied over 2 transceivers to the MTS program. There is approximately $184.0 million of potential MTS funding availabl Global War on Terrorism ("GWOT") funding supplement and $9.0 million from the government's fiscal 20 budget. In addition, there is $142.0 million of potential MTS funding available for the government's fiscal 2 budget (including GWOT). Although we do not expect to receive the full amount of the remaining potential funding available in fiscal 2009, we expect orders and related revenue in fiscal 2009 to increase as compare amount we received in fiscal 2008. We also believe that demand for our BFT products and services will ren strong. Through July 31, 2008, we have received $134.8 million in new orders under the BFT contract and l supplied over 60,000 transceivers to the BFT program. We continue to be focused on maintaining and expa role in both the MTS and BFT programs by upgrading and enhancing the performance of our satellite netwo transceivers. In addition, as a result of the Radyne acquisition, we expect to generate incremental revenue in 2009 from the design and manufacture of microsatellites and from mobile tracking products that incorporate technology. Sales and profitability in our mobile data communications segment can fluctuate dramatically f period-to-period due to many factors including unpredictable funding, deployment and technology decision U.S. government as well as risks from the uncertainty of prevailing political conditions.

- RF microwave amplifiers segment - We believe that annual net sales in our RF microwave amplifiers se increase. As a result of our acquisition of Radyne, we more than doubled the size of our RF microwave segment and immediately positioned ourselves, not only as a leader in the solid-state amplifier market, but in the satellite earth station traveling wave tube amplifier market and expanded our RF microwave amplifie product portfolio to include klystron tube power amplifiers. These products are used on U.S. governme programs including the Family of Advanced Beyond-Line-of-Sight Terminal and the Wideband Glob Communications programs. Sales of our solid-state high-power broadband amplifiers are expected to be c to the levels experienced in fiscal 2008. Although we currently expect sales of amplifiers that are used o 2.1 program to decline from the levels achieved in fiscal 2008, we believe we will experience increase solid-state, high-power, broadband amplifiers used for other defense-related and satellite applications. Sale microwave amplifiers segment can fluctuate dramatically from period-to-period due to many factors inc receipt of and performance on, large contracts from the U.S. government and international customers. I sales and profitability can fluctuate due to longer than anticipated production times associated with co certain complex amplifiers and high-power switches that employ newer technology.

Our gross profit, as a percentage of fiscal 2009 net sales, is expected to decline from the percentage achieve 2008, primarily due to the inclusion of sales of Radyne's products which traditionally have been sold at gr below those of our existing businesses. In connection with our acquisition of Radyne, on August 1, 2008, we restructuring plan to achieve operating efficiencies by eliminating redundant functions and related expenses Radyne's Phoenix, Arizona manufacturing facility and integrating that operation into our high-volume manufacturing center located in Tempe, Arizona. We expect this integration to be completed during the sec fiscal 2009. Our gross margin in fiscal 2009 will also be negatively impacted by amortization of $1.5 millio the estimated fair value step-up of inventory acquired.

Selling, general and administrative expenses for fiscal 2009, as a percentage of net sales, are expected to lower than our historical spending pattern over the past three years, as we expect to benefit from synergies with the acquisition of Radyne. We are currently in the process of integrating Radyne's corporate functio Melville, New York corporate headquarters. We expect this integration to be completed by the second ha 2009.

Research and development expenses for fiscal 2009, as a percentage of net sales, are expected to be compar
historical spending pattern over the past three years. During fiscal 2009, we believe that we will begin to take
of our combined engineering and sales talents to drive further innovation in the marketplace and delive
advanced products to our customers in all three of our business segments. In addition, in connection with the a
during the three months ended October 31, 2008 (our first quarter of fiscal 2009), and in accordance with SFA
"Business Combinations," we expect, based on a preliminary analysis, to record a one-time amortization cl
million reflecting the fair value of in-process research and development acquired.

Total amortization of stock-based compensation expense (which is allocated to the cost of sales, selling, g
administrative and research and development expense line items in our consolidated statement of operations
2009, is expected to be similar to f

Amortization of intangibles is expected to substantially increase in fiscal 2009 due to the Radyne and Verso ac
We are accounting for both the acquisitions of Radyne and Verso in accordance with SFAS No. 141. As o
2008, and based on our preliminary estimates, we expect incremental amortization of approximately $6.9
which $5.4 million (to be recorded as operating expenses in our consolidated statements of operations) i
amortization of intangibles and $1.5 million (to be recorded as cost of sales in our consolidated statements of
is related to the estimated fair value step-up of Radyne's inventor

Interest income is expected to be significantly lower due to the decline in interest rates as well as the use of c
Radyne acquisition. We expect to earn approximately 2.00% to 2.30% on our cash and cash equivalents in f
Interest expense is expected to primarily reflect interest associated with our 2.0% convertible notes.

Our estimated tax rate of 35.75% for fiscal 2009 reflects the fact, among others, that the Federal res
experimentation ("R&E") credit has expired as of December 31, 2007. Our tax rate for fiscal 2008 was 35.3%.

Based on the aforementioned, we believe our net income will increase from the levels achieved in fiscal 20
fiscal 2009 will be another record year.

Comparison of Fiscal 2008 and 2007

Net Sales. Consolidated net sales were $531.6 million and $445.7 million for fiscal 2008 and 2007, res
representing an increase of $85.9 million, or 19.3%. The increase in net sales reflects significant growth i
mobile data communications and RF microwave amplifiers segments, partially offset by lower net sales, as a
in our telecommunications transmission segment.

Net sales in our telecommunications transmission segment were $208.9 million and $219.9 million for fisca
2007, respectively, a decrease of $11.0 million, or 5.0%. Net sales in this segment reflect increased sales of c
earth station products which were more than offset by lower sales, as anticipated, of our over-the-horizon
systems. Sales of our satellite earth station products for fiscal 2008 were higher than fiscal 2007 as we c
benefit from the ongoing strong demand for our bandwidth efficient satellite earth station modems, including
to support cellular backhaul applications. Net sales of our over-the-horizon microwave systems for fiscal
significantly lower than fiscal 2007 primarily due to lower sales of our 16 Mbps troposcatter modem upgrade
on the U.S. Department of Defense's ("DoD") AN/TRC-170 digital troposcatter terminals and lower indire
North African country end-customer. Net sales in fiscal 2007 include sales of $1.2 million relating to a g
adjustment, as discussed below, on a large over-the-horizon microwave system contract. Our telecomm
transmission segment represented 39.3% of consolidated net sales for fiscal 2008 as compared to 49.3% for fis

Sales and profitability in our telecommunications transmission segment can fluctuate from period-to-period d
factors including the book-and-ship nature associated with our satellite earth station products and the timing
related performance on, contracts from the U.S. government and international customers for our over-t
microwave systems.

Net sales in our mobile data communications segment were a record $261.1 million for fiscal 2008 and $18
for fiscal 2007, an increase of $71.5 million, or 37.7%. This increase in net sales was due to the significant
deliveries to the U.S. Army for orders placed under our new MTS and BFT contracts. Deliveries to the Arm
Guard, for orders placed under the MTS contract, were significantly lower during fiscal 2008. Net sales for
included sales of $1.1 million relating to a favorable gross profit adjustment on our original MTS contract. C

data communications segment represented 49.1% of consolidated net sales for fiscal 2008 as compared to
fiscal 2007.

Sales and profitability in our mobile data communications segment can fluctuate dramatically from period-to-
to many factors, including unpredictable funding, deployment and technology decisions by the U.S. gove
addition, both our new MTS and BFT contracts are IDIQ contracts, and as such, the U.S. Army is generally no
to purchase any equipment or services under these contracts. In addition, we are aware, that on occasio
government has experienced delays in the receipt of certain components that are eventually provide
incorporation into our mobile satellite transceivers. If we do not receive these U.S. government furnished com
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 a record $61.6 million for fiscal 2008, compar
million for fiscal 2007, an increase of $25.4 million, or 70.2%. The significant increase in net sales was du
sales of our amplifiers and high-power switches that are incorporated into defense-related systems, prin
associated with our participation in the Counter Remote-Control Improvised Explosive Device Electronic V
("CREW 2.1") program. Our RF microwave amplifiers segment represented 11.6% of consolidated net s
2008 as compared to 8.1% for f

International sales (which include sales to U.S. companies for inclusion in products that are sold to int customers) represented 26.7% and 26.2% of consolidated net sales for fiscal 2008 and 2007, respectively commercial sales represented 6.9% and 12.5% of consolidated net sales for fiscal 2008 and 2007, respectivel the U.S. government (including sales to prime contractors of the U.S. government) represented 66.4% and consolidated net sales for fiscal 2008 and 2007, respectively.

Gross Profit. Gross profit was $234.9 million and $193.3 million for fiscal 2008 and 2007, respectively, repr increase of $41.6 million, or 21.5%. The increase in gross profit was attributable to the increase in net sales above and related increased operating efficiencies. Gross profit as a percentage of net sales increased to 44.2 2008 from 43.4% for fiscal 2007.

Excluding the impact of adjustments discussed below, our gross profit as a percentage of net sales for fiscal 2 have been 41.0%. The increase in the gross profit percentage from 41.0% to 44.2% was driven by an incr gross profit percentage in both our mobile data communications and telecommunications transmission segme increases were partially offset by the impact of a higher percentage of consolidated net sales occurring within data communications segment, which typically has a lower gross profit percentage than our telecomm transmission segment. In addition, in fiscal 2008, we experienced a lower gross profit percentage in our RF amplifiers segment.

Our mobile data communications segment experienced a higher gross profit percentage due to increased efficiencies associated with increased sales related to our new MTS and BFT contracts and a more favorable p during fiscal 2008 as compared to fiscal 2007. Our telecommunications transmission segment experienced a h profit percentage as it benefited from increased usage of our high-volume technology manufacturing center both incremental satellite earth station product sales and use by our two other operating segments) that wa offset by lower sales of our 16 Mbps troposcatter modem upgrade kits. In addition, in fiscal telecommunications transmission segment's gross profit percentage was favorably impacted by a $0.7 millio in our estimated reserve for warranty obligations due to lower than anticipated claims received on contra warranty periods have expired. Our RF microwave amplifiers segment experienced a lower gross profit perc to long production times associated with contracts for certain complex amplifiers and high-power switches t newer technology.

During fiscal 2007 we recorded favorable cumulative gross profit adjustments of $11.8 million (of which $1 related to the mobile data communications segment and $1.1 million related to the telecommunications tra segment), resulting from our ongoing review of total estimated contract revenues and costs, and the related gr at completion, on long-term contracts. These adjustments were partially offset by a $0.1 million firmwa warranty provision in our mobile data communications segment.

Included in cost of sales for fiscal 2008 and 2007 are provisions for excess and obsolete inventory of $2.4 r $4.5 million, respectively. As discussed in our "Critical Accounting Policies – Provisions for Excess a Inventory," we regularly review our inventory and record a provision for excess and obsolete invento historical and projected usage assumptions.

Selling, General and Administrative Expenses. Selling, general and administrative expenses were $86.0 m $73.3 million for fiscal 2008 and 2007, respectively, representing an increase of $12.7 million, or 17.3%. The expenses was primarily attributable to higher payroll-related expenses (including amortization of st compensation and cash-based incentive compensation) associated with the overall increase in our net sales and, to a lesser extent, legal and other professional fees, including costs associated with the Brazil Subpoena Matters, discussed in "Notes to Consolidated Financial Statements – Note (13) Commitments and Conting percentage of consolidated net sales, selling, general and administrative expenses were 16.2% and 16.4% for and 2007, respectively.

Amortization of stock-based compensation expense recorded as selling, general and administrative expenses i $8.1 million in fiscal 2008 from $5.8 million in fiscal 2007.

Research and Development Expenses. Research and development expenses were $40.5 million and $32.5
fiscal 2008 and 2007, respectively, representing an increase of $8.0 million, or 24.6%. The increase in
primarily reflects our continued investment in research and development efforts across all of our business segm
percentage of consolidated net sales, research and development expenses were 7.6% and 7.3% for fiscal 2008
respectively.

For fiscal 2008 and 2007, research and development expenses of $24.1 million and $21.0 million, respectively
our telecommunications transmission segment, $10.8 million and $7.9 million, respectively, related to our m
communications segment, $3.9 million and $2.5 million, respectively, related to our RF microwave amplifier
with the remaining expenses related to the amortization of stock-based compensation expense which is not a
our three operating segments. Amortization of stock-based compensation expense recorded as research and de
expenses increased to $1.7 million in fiscal 2008 from $1.1 million in fiscal 2007.

As an investment for the future, we are continually enhancing our existing products and developing new pr
technologies. Whenever possible, we seek customer funding for research and development to adapt our p
specialized customer requirements. During fiscal 2008 and 2007, customers reimbursed us $7.8 million and $4
respectively, which is not reflected in the reported research and development expenses, but is included in net
the related costs included in cost of sales.

Amortization of Intangibles. Amortization of intangibles was $1.7 million and $2.6 million for fiscal 2008
respectively. The amortization primarily relates to intangibles with finite lives that we acquired in conne
various acquisitions. The decrease in amortization of intangibles for fiscal 2008 is related to certain intangible
been fully amortized.

Operating Income. Operating income for fiscal 2008 and 2007 was $106.8 million and $84.9 million, respec
$21.9 million, or 25.8%, increase was primarily the result of the higher consolidated net sales and gro
percentage during fiscal 2008, partially offset by increased operating expenses (including research and de
expenses) as discussed above.

Operating income in our telecommunications transmission segment decreased to $56.7 million for fiscal
$59.2 million for fiscal 2007, primarily driven by lower net sales (at a higher gross margin percentage) and
operating expenses (including expenses associated with the Brazil Subpoena and Export Matters). In a
discussed above under Gross Profit, included in operating income for fiscal 2007 is a cumulative adjustment
large over-the-horizon microwave systems contract which favorably impacted operating income by $0.9 millio

Our mobile data communications segment generated operating income of $72.8 million for fiscal 2008 as co
$45.4 million for fiscal 2007. The increase in operating income was primarily due to the increase in net sales
margins achieved during fiscal 2008, partially offset by increased operating expenses. As discussed above u
Profit," included in operating income in fiscal 2007 is the positive impact from cumulative adjustments
firmware-related warranty provision, of $9.1 million.

Operating income in our RF microwave amplifiers segment increased to $4.4 million for fiscal 2008 from $
for fiscal 2007 due primarily to the increase in net sales (at a lower gross profit percentage) partially offset by
spending on research and development activities.

Unallocated operating expenses increased to $27.1 million for fiscal 2008 from $23.3 million for fiscal 2
higher payroll-related expenses (including amortization of stock-based compensation and cash-based
compensation) as well as increased other costs associated with growing our business. Amortization of st
compensation expense increased to $10.6 million in fiscal 2008 from $7.4 million in fiscal 2007. This i
primarily attributable to an increase in both the number and related fair value of stock-based awards tha

amortized over their respective service periods for fiscal 2008 as compared to fiscal 2007.

Interest Expense. Interest expense was $2.7 million for both fiscal 2008 and 2007. Interest expense primarily
interest associated with our 2.0% convertible senior notes.

Interest Income and Other. Interest income and other for fiscal 2008 was $14.1 million, as compared to $1
for fiscal 2007. The decrease of $0.1 million was primarily due to a decline in interest rates partially o
increase in investable cash since July 31, 2007.

Provision for Income Taxes. The provision for income taxes was $41.7 million and $31.2 million for fisca 2007, respectively. Our effective tax rate was 35.3% and 32.4% for fiscal 2008 and 2007, respectively.

Our effective tax rate for fiscal 2007 of 32.4% included discrete tax benefits of approximately $2.6 million ($1.0 million tax benefit due to the expiration of applicable statutes of limitations and a $0.6 million tax bene to the retroactive extension of Federal R&E credits in December 2006). Excluding these discrete tax b effective tax rate for fiscal 2007 was approximately 35.0%. The increase from 35.0% to 35.3% in fisca primarily driven by the expiration of the R&E credit as of Decembe

Our tax rate for fiscal 2008 reflects an agreement we reached with the Internal Revenue Service ("IRS") r completion of the audit of our Federal income tax returns for fiscal 2004 and fiscal 2005. The agreemen relates to the allowable amount of R&E credits utilized and interest expense relating to our 2% convertible se The IRS has also informed us that it intends to audit our fiscal 2006 tax return with a focus on the sa disallowed in fiscal 2004 and fiscal 2005. Our provision for income tax in fiscal 2008, reflects a net discrete approximately $0.1 million, primarily related to the agreement with the IRS and our estimate of anticip disallowable R&E credits and interest expense.

Although adjustments relating to our fiscal 2004 and fiscal 2005 tax return were immaterial, a resulting tax or settlement for fiscal 2006 and other periods that may be selected for future audit could have a material adv on our results of operations and financial position.

Comparison of Fiscal 2007 and 2006

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

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

Net sales in our mobile data communications segment were $189.6 million and $149.5 million for fiscal 200 respectively, an increase of $40.1 million, or 26.8%. The increase in net sales was due to an increase in deliv U.S. Army and Army National Guard for ongoing support of MTS program activities and higher sales of command and control applications to the U.S. military. This increase was partially offset by a decline in $17.3 million related to the impact of our decision, made in fiscal 2006, to significantly de-emphasize stand- of low margin turnkey employee mobility solutions. Net sales in fiscal 2007 and 2006 include sales of $1.1 $9.5 million, respectively, relating to gross profit adjustments on our original MTS contract, discussed b mobile data communications segment represented 42.6% of consolidated net sales for fiscal 2007 as compare for fiscal 2006.

Net sales in our RF microwave amplifiers segment were $36.2 million for fiscal 2007 compared to $44.1
fiscal 2006, a decrease of $7.9 million, or 17.9%. The decrease in net sales was due to lower sales of our amp
are incorporated into improvised explosive device jamming systems, as well as certain orders in the backlog t
in fiscal 2008. Our RF microwave amplifiers segment represented 8.1% of consolidated net sales for fisc
compared to 11.3% for fiscal 2006.

International sales (which include sales to U.S. companies for inclusion in products which are sold to int customers) represented 26.2% and 35.6% of consolidated net sales for fiscal 2007 and 2006, respectively. commercial sales represented 12.5% and 17.1% of consolidated net sales for fiscal 2007 and 2006, respectivel

Sales to the U.S. government (including sales to prime contractors to the U.S. government) represented 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 consolidate respectively.

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

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

During fiscal 2007 and 2006, we recorded favorable cumulative gross profit adjustments of $11.8 million $10.7 million related to the mobile data communications segment and $1.1 million related to the telecomm transmission segment) and $9.1 million (of which $8.5 million related to the mobile data communications se $0.6 million related to the RF microwave amplifiers segment), respectively, relating to our ongoing revi estimated contract revenues and costs, and the related gross margin at completion, on long-term contracts. these adjustments, in our mobile data communications segment and included in cost of sales for fiscal 2007 a 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 communicatio resulted from the increase in the estimated gross profit at completion on our original MTS contract. The adju primarily related to increased operating efficiencies and, as it relates to fiscal 2007, the finalization of our tot costs (including estimates for warranty obligations) relating to the completion of the original MTS co favorable cumulative gross profit adjustment recorded in our telecommunications transmission segment d 2007 related to an increase in the estimated gross profit at completion on a large over-the-horizon microw contract. The favorable cumulative gross profit adjustment recorded in our RF microwave amplifiers segm 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 $2.0 million, respectively. As discussed in our "Critical Accounting Policies – Provisions for Excess Inventory," we regularly review our inventory and record a provision for excess and obsolete invento historical and projected usage assumptions.

Selling, General and Administrative Expenses. Selling, general and administrative expenses were $73.3 $67.1 million for fiscal 2007 and 2006, respectively, representing an increase of $6.2 million, or 9.2%. The expenses was primarily attributable to higher payroll-related expenses (including amortization of st compensation) and increased other costs associated with the growth of our business. This increase was offset, lower expenses in our mobile data communications segment as we continued to de-emphasize stand-alone s margin turnkey employee mobility solutions. As a percentage of consolidated net sales, selling, ge 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 i $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
fiscal 2007 and 2006, respectively, representing an increase of $6.7 million, or 26.0%. Approximately $21.0 r
$19.0 million of such amounts, respectively, related to our telecommunications transmission segmen
remaining expenses primarily related to our mobile data communications segment and, to a lesser exte
microwave amplifiers segment. As a percentage of consolidated net sales, research and development exp
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 pr
technologies. Whenever possible, we seek customer funding for research and development to adapt our p
specialized customer requirements. During fiscal 2007 and 2006, customers reimbursed us $4.2 millio
million, respectively, which is not reflected in the reported research and development expenses, but is inclu
sales with the related costs included in cost of sales.

Amortization of stock-based compensation expense recorded as research and development expenses increa
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
respectively. The amortization primarily relates to intangibles with finite lives that we acquired in conne
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, respect
$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
million for fiscal 2006, as a result of increased net sales and gross profit, partially offset by increased operating
In addition, as discussed above under "Gross Profit," included in operating income for fiscal 2007 is a
adjustment related to a large over-the-horizon microwave systems contract which favorably impacted operati
by $0.9 million.

Our mobile data communications segment generated operating income of $45.4 million for fiscal 2007 co
$21.7 million for fiscal 2006. The increase in operating income was primarily due to the increase in ne
operating efficiencies achieved, including the benefit of lower selling, general and administrative expe
continued to de-emphasize stand-alone sales of low margin turnkey employee mobility solutions. In ad
discussed above under "Gross Profit," included in operating income for fiscal 2007 and 2006, are positive imp
cumulative adjustments, net of the respective firmware-related warranty provisions, of $9.1 million and $5
respectively.

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

Unallocated operating expenses increased to $23.3 million for fiscal 2007 from $15.9 million for fiscal
primarily to higher payroll-related expenses (including increased amortization of stock-based compensation)
increased other costs associated with growing our business. Amortization of stock-based compensatio
increased to $7.4 million in fiscal 2007 from $5.7 million in fiscal 2006. This increase was primarily attribu
increase in both the number and related fair value of stock-based awards that are being amortized over their
service periods for fiscal 2007 as compared to fiscal 2006.

Interest Expense. Interest expense was $2.7 million for both fiscal 2007 and 2006. Interest expense primaril
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
fiscal 2006. The $5.0 million increase was primarily due to an increase in interest rates and additional inve
since July 2006.

Provision for Income Taxes. The provision for income taxes was $31.2 million and $25.2 million for fisca 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, ex Federal research and experimentation credit, including $0.6 million of tax benefits related to the retroactive a of the credit to fiscal 2006, and the approval by our stockholders of an amendment to the 2000 Stock Incentiv "Plan") which will permit us to claim tax deductions for cash incentive awards anticipated to be paid ur without limitation under §162(m) of the Internal Revenue Code. In addition, we also recorded incremental t aggregating $2.0 million during fiscal 2007 including a $1.0 million tax benefit due to the expiration of statutes of limitations. Our tax rate for fiscal 2006 was favorably impacted by the recording of a net bene million primarily relating to the favorable settlement of a state tax matter. Excluding adjustments, our effecti for fiscal 2007 approximated 35.0%.

Liquidity and Capital Resources

Our unrestricted cash and cash equivalents increased to $410.1 million at July 31, 2008 from $342.9 million 2007, representing an increase of $67.2 million. None of our cash equivalents include municipal auction-rate On August 1, 2008 (the beginning of our fiscal year 2009), and as more fully described throughout this Form purchased Radyne using a portion of our existing cash and cash equivalents for a preliminary aggregate purcha approximately $231.7 million (including estimated transaction costs and payments made for outstanding s stock awards).

Net cash provided by operating activities was $77.8 million for fiscal 2008 compared to $89.2 million for f The decrease in cash provided by operating activities, during fiscal 2008 as compared to fiscal 2007, was dr increase in working capital requirements associated with the significant increase in sales activity in our m communications and RF microwave amplifiers segments. The increase in working capital requirements (pr inventory) was driven by the timing of shipments to our customers, as well as the necessary investment in in support of current backlog.

Net cash used in investing activities for fiscal 2008 was $20.5 million, of which $14.1 million was for pu property, plant and equipment including expenditures relating to ongoing equipment upgrades as well as enh to our high-volume technology manufacturing center in Tempe, Arizona. In fiscal 2008, we purchased th backhaul assets and the NetPerformer and AccessGate product lines of Verso Technologies for approxim million. Through July 31, 2008, we incurred approximately $3.2 million of acquisition costs associate purchase of Radyne, of which approximately $2.1 million were paid.

We currently expect capital expenditures for fiscal 2009 to be approximately $20.0 million to $22.0 million.

Net cash provided by financing activities was $9.8 million for fiscal 2008, due primarily to the proc stock-option exercises and employee stock purchase plan shares aggregating $7.6 million and a $2.4 mill income tax benefit from the exercise of stock awards.

We have historically met both our short-term and long-term cash requirements with funds provided by a com cash and cash equivalent balances, cash generated from operating activities and financing transactions. Ba anticipated level of future sales and operating income, we believe that our existing cash and cash equivalent ba our cash generated from operating activities will be sufficient to meet both our currently anticipated shor long-term cash requirements. In addition, should our short-term or long-term cash requirements increase b current expectations, we believe that we would have sufficient access to credit from financial instituti financing from public and private debt and equity markets.

As of July 31, 2008, our material short-term cash requirements primarily consisted of working capital nee
$231.7 million of cash and cash equivalents necessary to complete the acquisition of Radyne. In addi
aggregate purchase price, the acquisition of Radyne also triggered certain liabilities associated wit
change-in-control and professional fee agreements, which we assumed, aggregating $4.1 million.

Our material long-term cash requirements primarily consists of the possible use of cash to repay $105.0 mil 2.0% convertible senior notes due 2024, including any interest accreted into the principal amount of the February 1, 2011, and contractual non-cancellable lease obligations aggregating $14.8 million. We are c preliminary negotiations with a tenant who subleases, from us, a portion of Radyne's Phoenix, Arizona facil negotiations are not successful, we intend to perform an assessment on whether or not we will be able to su Phoenix, Arizona facility for the remaining duration of the lease, and at what rent, if any, we might be able given the poor real estate market conditions in the Phoenix, Arizona area as well as uncertainties relating t economic environment.

As of July 31, 2008, $105.0 million of our 2.0% convertible senior notes were outstanding. As discussed furth to Consolidated Financial Statements – Note (8) - 2.0% Convertible Senior Notes due 2024," we could be repurchase these notes in the short-term (i) if all or a portion of the outstanding notes are converted during a period and we elect to deliver cash to the converting noteholders, (ii) if we elect to redeem some or outstanding notes on or after February 4, 2009 using cash, or (iii) upon the occurrence of certain events, i change in control of our company.

Financing Arrangement

On January 27, 2004, we issued $105.0 million of our 2.0% convertible senior notes in a private offering p Rule 144A under the Securities Act of 1933, as amended. For further information concerning this financing, se 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 covering anticipated purchases of inventory and equipment. We do not expect that these commitments, as 2008, will materially adversely affect our liquidity.

At July 31, 2008, we had contractual cash obligations to repay our 2.0% convertible senior notes, opera obligations (including satellite lease expenditures relating to our mobile data communications segment contrac financing of a purchase of proprietary technology. Payments due under these long-term obligations, excluding the 2.0% convertible senior notes, are as follows:

	Obligations Due by Fiscal Years (in thousands)				
	Total	2009	2010 and 2011	2012 and 2013	
2.0% convertible senior notes	$ 105,000,000	-	-	-	10
Operating lease commitments	38,781,000	25,095,000	7,385,000	2,911,000	
Other obligations	113,000	113,000	-	-	
Total contractual cash obligations	$ 143,894,000	25,208,000	7,385,000	2,911,000	10

On August 1, 2008 (the beginning of our fiscal year 2009), and as more fully described throughout this Forn purchased Radyne using a portion of our existing cash and cash equivalents for a preliminary aggregate purcha approximately $231.7 million. The acquisition of Radyne also triggered certain liabilities associated wit change-in-control and professional fee agreements aggregating $4.1 million. In addition, on August 1 immediately adopted a restructuring plan and are currently in the process of closing Radyne's Phoeni manufacturing facility and integrating that operation into our high-volume technology manufacturing center Tempe, Arizona. Radyne's corporate functions, which were co-located in Radyne's Phoenix, Arizona ma facility, are currently being moved to our Melville, New York corporate office. In connection with the rea operating synergies, we have preliminarily estimated that we might incur up to $9.6 million of restructuring amounts are not included in the above table.

As further discussed in "Notes to Consolidated Financial Statements – Note (8) - 2.0% Convertible Senior No
we may, at our option, redeem some or all of the notes on or after February 4, 2009. Holders of our 2.0% c
senior notes will have the right to require us to repurchase some or all of the outstanding notes on Februar
February 1, 2014 and February 1, 2019 and upon certain events. The notes can be converted, at the op
noteholders, during the conversion period of September 15, 2008 through December 15, 2008. Upon
notification of a noteholder's intent to convert, we, in accordance with the provisions of the indenture, wil
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 guarante
performance on certain contracts. At July 31, 2008, the balance of these agreements was $2.7 million.

Legal Proceedings

Brazil Subpoena and Export Matters
In October 2007, our Florida-based subsidiary, Comtech Systems, Inc. ("CSI"), received a customs export
subpoena from the U.S. Immigration and Customs Enforcement ("ICE") branch of the Department of Homel
The subpoena relates to CSI's $2.0 million contract with the Brazilian Naval Commission (the Brazil con
required the production of all books, records and documents, including copies of contracts, invoices and
related to agreements between CSI, its agent, its subcontractor and the Brazilian government. We believe th
investigation is focused primarily on whether or not CSI was in compliance with export-related laws and r
including the International Traffic in Arms Regulations ("ITAR") and the Export Administration Regu
produced documents in response to the subpoena request. Customs officials have detained certain inventory
the Brazil contract pending resolution of this matter.

We engaged outside counsel to assist CSI in its response to the subpoena and related matters and to condu
investigation. Based on our ongoing investigation into this matter, we believe that the detained inventory, whi
of commercial satellite equipment, was not modified or adapted in any way to meet Brazilian military requir
was only subject to the jurisdiction of the Department of Commerce and not the jurisdiction of the U.S. Dep
State. In addition, in order to provide certain defense services, including conducting factory acceptance testi
Florida facility, we obtained a license (referred to as a Technical Assistance Agreement ("TAA")) fr
Department of State. We believe that the TAA authorized all activities under the Brazil contract that were su
jurisdiction of the U.S. Department of State.

We believe that CSI made a good faith effort to comply with applicable regulations; however, we believe that
inadvertent administrative errors resulting in a TAA that did not become effective on a timely basis. The adm
errors relate primarily to the execution of non-disclosure agreements ("NDA") with certain third coun
employees of CSI's agent. These individuals have now signed appropriate NDAs, and, in December 2007, C
amended TAA with the U.S. Department of State. CSI has requested that the U.S. Department of State confir
our view that the Brazil contract does not require any other State Department license.

In March 2008, the Enforcement Division of the U.S. Department of State informed us that they were rev
amended TAA. In May 2008, the U.S. Attorney's Office in the Middle District of Florida informed us that,
conversations with the ICE agent who initiated the subpoena, it was closing its investigation into the Brazil
June 2008, the ICE agent informed us that he would recommend that the detained inventory be released back
the U.S. Department of State confirming our position that a State Department license for the hardware shipp
required. In August 2008, the ICE agent informed us that the U.S. Department of State wanted to clarify certai
matters and, on its behalf, the ICE agent was going to interview one of our engineers. This interview o
September of 2008. We continue to remain cautiously optimistic that we will be able to shortly reship
inventory to our customer.

In addition to their review of the Brazil contract, in March 2008, the Enforcement Division of the U.S. Dep
State informed us that they sought to confirm our company-wide ITAR compliance for the five-year period en
2008. In response, we expanded the scope of our own ongoing investigation. In June 2008, we provide
information and a summary of our findings to the U.S. Department of State. In July 2008, the U.S. Departme
requested supplemental information and we responded to their request. Our findings to date indicate that
certain instances of exports and defense services during the five-year period for which we did not have the a
authorization from the U.S. Department of State; however, none of those instances involved Proscribed C
defined by ITAR. We are awaiting additional feedback from the U.S. Department of State as it relates to
aforementioned matters.

Since the receipt of the original Brazil subpoena in October 2007, we have engaged outside counsel
consultants to help us assess and improve, as appropriate, our internal controls with respect to U.S. export c
and regulations and laws governing record keeping and dealings with foreign representatives. In addition, in
with our August 1, 2008 acquisition of Radyne, we are expanding our export internal control assessment to
newly acquired subsidiaries. To date, we have noted opportunities for improving our procedures to compl
laws and regulations, including at our newly acquired Radyne s

During fiscal 2008, we have taken numerous steps to significantly improve our export control processes, in hiring of additional employees who are knowledgeable and experienced with ITAR and the engagement of export consultant to conduct additional training. We are also in the process of implementing enhan company-wide ITAR control procedures, including at our newly acquired Radyne subsidiaries. Because our a are continuing, we expect to remediate, improve and enhance our internal controls relating to exports throu 2009.

Because the above matters are ongoing, we cannot determine the ultimate outcome of these matters. Violati export control-related laws and regulations could result in civil or criminal fines and/or penalties and/or injunction against us, all of which could, in the aggregate, materially impact our business, results of operatio flows. Should we identify a material weakness relating to our compliance, the ongoing costs of remediati material. In addition, inventory related to the Brazil contract (including the inventory that has been detaine book value of $1.1 million as of July 31, 2008. If this inventory is permanently seized or not returned to us ti can not resell the inventory to other customers, we would be required to write-off the value of this inventory accounting period.

Other Legal Proceedings

The Company is party to certain other legal actions, which arise in the normal course of business. Although t outcome of litigation is difficult to accurately predict, the Company believes that the outcome of these actio have a material effect on its consolidated financial condition or results of operations.

Recent Accounting Pronouncements

In June 2008, the Financial Accounting Standards Board ("FASB") issued a Staff Position ("FSP") on Emerg Force ("EITF") Issue No. 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Tr Participating Securities." This FSP requires share-based payment awards that contain non-forfeitable rights t or dividend equivalents prior to vesting be accounted for as participating securities for purposes of calcu presenting earnings per share. We are required to adopt this FSP, retroactively, beginning in the first qua fiscal 2010 year. Early adoption is prohibited. As we have not historically issued share-based payment a contain such rights, the adoption of this FSP will have no impact on our consolidated financial statements.

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

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

In May 2008, the FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles 162") which defines the category and order of authority of accounting principles that are generally accepte rules and interpretations of the Securities and Exchange Commission ("SEC"). SFAS No. 162 is effec following the SEC's approval of the Public Company Accounting Oversight Board ("PCAOB") amend Section 411, "The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles." SFAS No. 162 will not have a material affect on our consolidated financial statements.

In April 2008, the FASB issued FSP 142-3, "Determination of the Useful Life of Intangible Assets" ("FS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to the useful life of a recognized intangible asset under SFAS No. 142, "Goodwill and Other Intangible Assets applies prospectively to intangible assets that are acquired, individually or with a group of other assets, after th date in either a business combination or asset acquisition. FSP 142-3 is effective for financial statements issue years beginning after December 15, 2008, and interim periods within those fiscal years. Early adoption is

We must adopt FSP 142-3 beginning in the first quarter of fiscal 2010. Adoption of FSP 142-3 will not have
affect on our consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging A
amendment of FASB Statement No. 133" ("SFAS No. 161"). SFAS No. 161 requires enhanced disclosures of
an entity uses derivative instruments, how derivative instruments and related hedged items are accountec
SFAS No. 133, and how derivative instruments and related hedged items affect an entity's financial positio
performance, and cash flows. SFAS No. 161 is effective for fiscal years and interim periods begin
November 15, 2008, with early adoption permitted. We adopted the provisions of SFAS No. 161 effecti
2008. The adoption had no impact on our consolidated financial statements and disclosures.

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

In December 2007, the FASB issued SFAS No. 141 (revised 2007), "Business Combinations" ("SFAS No.
No. 141R requires the acquiring entity in a business combination to recognize all the assets acquired and
assumed in the transaction; establishes the acquisition-date fair value as the measurement objective for
acquired and liabilities assumed; and requires the acquirer to disclose all of the information required to ev
understand the nature and financial effect of the business combination. This statement is effective for acquis
on or after the beginning of the first annual reporting period beginning after December 15, 2008. Early a
prohibited. We must adopt SFAS No. 141R beginning in the first quarter of fiscal 2010. Adoption of SFAS
will not have a material affect on our consolidated financial statements.

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

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

In February 2007, the FASB released SFAS No. 159, "The Fair Value Option for Financial Assets an
Liabilities" ("SFAS No. 159") to provide companies with an option to report selected financial assets and lia
value. The objective of SFAS No. 159 is to reduce both the complexity in accounting for financial instrume
volatility in earnings caused by measuring related assets and liabilities differently. We adopted the provisior

No. 159 effective August 1, 2008. The adoption had no impact on our consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS No. 157") to clarif
of fair value, establish a framework for measuring fair value and expand the disclosures on fair value mea
SFAS No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a lia
orderly transaction between market participants at the measurement date. SFAS No. 157 also stipulate
market-based measurement, fair value measurement should be determined based on the assumptions t
participants would use in pricing the asset or liability, and establishes a fair value hierarchy that distinguish
(a) market participant assumptions developed based on market data obtained from sources independent of th
entity (observable inputs) and (b) the reporting entity's own assumptions about market participant assumption
based on the best information available in the circumstances (unobservable inputs). Except for the deferral i
FSP 157-2 for non-financial assets and non-financial liabilities discussed above, SFAS No. 157 is effectiv
years beginning after November 15, 2007, and interim periods within those fiscal years. We adopted the pr
SFAS No. 157 applicable to financial assets and liabilities effective August 1, 2008. The adoption had no im
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 inv
available cash balances. Under our current policies, we do not use interest rate derivative instruments
exposure to interest rate changes. If the interest rate we receive on our investment of available cash balances
approximately $231.7 million that was used in connection with our Radyne acquisition) were to change by
annual interest income would be impacted by approximately $0.5 million.

Our 2.0% convertible senior notes bear a fixed rate of interest. As such, our earnings and cash flows are not s
changes in interest rates on our long-term debt. As of July 31, 2008, we estimate the fair market value o
convertible senior notes to be $164.8 million based on recent trading activity.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Reports of Independent Registered Public Accounting Firm, Consolidated Financial Statements, Notes to Co
Financial Statements and Related Financial Schedule are listed in the Index to Consolidated Financial State
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 and operation of the Company's disclosure controls and procedures was carried out by the Company supervision and with the participation of the Company's management, including the Chief Executive Officer Financial Officer. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer conclu Company's disclosure controls and procedures have been designed and are being operated in a manner tha reasonable assurance that the information required to be disclosed by the Company in reports filed under the Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time period in the SEC's rules and forms. A system of controls, no matter how well designed and operated, cannot provi assurance that the objectives of the system of controls are met, and no evaluation of controls can provid 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 ove reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. The internal control over financial reporting is a process designed to provide reasonable assurance regarding the re financial reporting and the preparation of financial statements for external purposes in accordance with accounted accounting principles.

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

Management assessed the effectiveness of the Company's internal control over financial reporting as of July making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Commission (COSO) in Internal Control – Integrated Framework. Based on our assessment, we determine July 31, 2008, 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 th internal control over financial reporting as of July 31, 2008 based on criteria established in Internal Contro Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). T required to be performed in accordance with the standards of the Public Company Accounting Oversight Boa States). Our independent auditors were given unrestricted access to all financial records and related data. KP 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) an under the Exchange Act that occurred during our fiscal quarter ended July 31, 2008, that have materially affe reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

Not applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Certain information concerning directors and officers is incorporated by reference to our Proxy Statement for
Meeting of Stockholders to be held December 5, 2008 (the “Proxy Statement”) which will be filed with the S
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 w
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 in
regarding security ownership of certain beneficial owners and management is incorporated by reference to
Statement, which will be filed with the Securities and Exchange Commission no more than 120 days after t
our fiscal year.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

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

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

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

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) (1) The Registrant's financial statements together with a separate index are annexed
(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 Ref Exhibit
3(a)(i)	Restated Certificate of Incorporation of the Registrant	Exhibit 3(a)(i) to the Reg 2006 Form 10-K
3(a)(ii)	Amended and Restated By-Laws of the Registrant	Exhibit 3(ii) to the Regist Form 8-K dated December 6, 2
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 Regist 8-A/A dated December 2
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 Registr 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 Registr S-3 (File No. 333-114268
10(a)*	Second Amended and Restated Employment Agreement dated September 16, 2008, between the Registrant and Fred Kornberg	
10(b)(1)*	Amended and Restated Form of Change in Control Agreement (Tier 2) between the Registrant and Richard L. Burt, Robert L. McCollum and Michael D. Porcelain and certain non-executive officers	
10(b)(2)*	Amended and Restated Form of Change in Control Agreement (Tier 3) between the Registrant and certain non-executive officers	
10(c)*	Amended and Restated 1993 Incentive Stock Option Plan	Appendix A to the Regist Proxy Statement dated N 1997
10(d)*	Amended and restated 2000 Stock Incentive Plan	

		Exhibit 10 to Registrant's filed December 6, 2007
10(e)*	Form of Stock Option Agreement pursuant to the 2000 Stock Incentive Plan	Exhibit 10(f)(7) to the Re 2005 Form 10-K
10(f)*	Form of Stock Option Agreement for Non-employee Directors pursuant to the 2000 Stock Incentive Plan	Exhibit 10(f)(8) to the R 2006 Form 10-K
10(g)*	2001 Employee Stock Purchase Plan	Appendix B to the Re Proxy Statement dated N 2000
10(h)*	Lease and amendment thereto on the Melville, New York Facility	Exhibit 10(k) to the R 1992 Form 10-K

Exhibit Number	Description of Exhibit	Incorporated By Reference
10(i)	Movement Tracking System Contract between Comtech Mobile Datacom Corporation and the U.S. Army's Contract Agency dated August 31, 2007…	Exhibit 10(j) to the Regis 2007 Form 10-K
10(j)	Blue Force Tracking System Contract between Comtech Mobile Datacom Corporation and the U.S. Army CECOM dated August 31, 2007…	Exhibit 10(k) to the Regis 2007 Form 10-K
10(k)	Form of Indemnification Agreement between the Registrant and Richard L. Burt, Fred Kornberg, Robert L. McCollum, Michael D. Porcelain and certain non-executive officers	Exhibit 10.1 to Regist filed on March 8, 2007
10(l)	Agreement and Plan of Merger, dated May 10, 2008, among the Company, Purchaser and Radyne	Exhibit 2.1 to the Regist 8-K filed May 12, 2008
10(m)	Amendment to Agreement and Plan of Merger, dated as of July 11, 2008, among the Company, Purchaser and Radyne	Exhibit 2.1 to the Regist 8-K filed July 14, 2008
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 payn Company for the cost of reproduction. The information is also available on our Internet website at www.comte

SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) of the Securities and Exchange Act of 1934, the registra
caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

COMTECH TELECOMMUNICATIONS CORP.

September 17, 2008
(Date)

By: /s/Fred Kornberg
Fred Kornberg, Chairman of the Board
and Chief Executive Officer

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

Signature		Title
September 17, 2008 (Date)	/s/Fred Kornberg Fred Kornberg	Chairman of the Board Chief Executive Officer and President (Principal Executive Officer)
September 17, 2008 (Date)	/s/Michael D. Porcelain Michael D. Porcelain	Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)
September 17, 2008 (Date)	/s/Richard L. Goldberg Richard L. Goldberg	Director
September 17, 2008 (Date)	/s/Edwin Kantor Edwin Kantor	Director
September 17, 2008 (Date)	/s/Ira Kaplan Ira Kaplan	Director

September 17, 2008 (Date)	/s/Gerard R. Nocita Gerard R. Nocita	Director
September 17, 2008 (Date)	/s/Robert G. Paul Robert G. Paul	Director

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 informatio provided elsewhere in the consolidated financial statements or notes thereto.

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 s
as of July 31, 2008 and 2007, and the related consolidated statements of operations, stockholders'
comprehensive income, and cash flows for each of the years in the three-year period ended July 31, 2008. In
with our audits of the consolidated financial statements, we also have audited the financial statement schedu
the accompanying index. These consolidated financial statements and the financial statement schedu
responsibility of the Company's management. Our responsibility is to express an opinion on these consolidat
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 Boa
States). Those standards require that we plan and perform the audit to obtain reasonable assurance about w
financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence
the amounts and disclosures in the financial statements. An audit also includes assessing the accounting prin
and significant estimates made by management, as well as evaluating the overall financial statement present
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 re
financial position of Comtech Telecommunications Corp. and subsidiaries as of July 31, 2008 and 2007, and
of their operations and their cash flows for each of the years in the three-year period ended July 31, 2008, in
with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement sche
considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in a
respects, the information set forth therein.

As discussed in Notes 1(j) to the consolidated financial statements, the Company adopted Statement o
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 Boa
States), Comtech Telecommunications Corp.'s internal control over financial reporting as of July 31, 200
criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Org
the Treadway Commission (COSO), and our report dated September 17, 2008 expressed an unqualified opi
effectiveness of the Company's internal control over financial reporting.

Melville, New York
September 17, 2008

Report of Independent Registered Public Accounting Firm

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

We have audited Comtech Telecommunications Corp. and subsidiaries internal control over financial repo
July 31, 2008, based on criteria established in Internal Control—Integrated Framework issued by the C
Sponsoring Organizations of the Treadway Commission (COSO). Comtech Telecommunications Corp. and su
management is responsible for maintaining effective internal control over financial reporting and for its ass
the effectiveness of internal control over financial reporting, included in the accompanying Management's An
on Internal Control Over Financial Reporting. Our responsibility is to express an opinion of the Compan
control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Boa
States). Those standards require that we plan and perform the audit to obtain reasonable assurance abou
effective internal control over financial reporting was maintained in all material respects. Our audit included
an understanding of internal control over financial reporting, assessing the risk that a material weakness
testing and evaluating the design and operating effectiveness of internal control based on the assessed risk
also included performing such other procedures as we considered necessary in the circumstances. We belie
audit provides a reasonable basis for our opinion.

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

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

In our opinion, Comtech Telecommunications Corp. and subsidiaries maintained, in all material respects
internal control over financial reporting as of July 31, 2008, based on criteria established in Internal Contro
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 Boa
States), the consolidated balance sheets of Comtech Telecommunications Corp. and subsidiaries as of July 31
2007, and the related consolidated statements of operations, stockholders' equity and comprehensive incom

flows for each of the years in the three-year period ended July 31, 2008, and our report dated September
expressed an unqualified opinion on those consolidated financial statements.

Melville, New York
September 17, 2008

COMTECH TELECOMMUNICATIONS CORP.
AND SUBSIDIARIES
Consolidated Balance Sheets
As of July 31, 2008 and 2007

Assets	2008
Current assets:	
Cash and cash equivalents	$ 410,067,000
Accounts receivable, net	70,040,000
Inventories, net	85,966,000
Prepaid expenses and other current assets	5,891,000
Deferred tax asset – current	10,026,000
Total current assets	581,990,000
Property, plant and equipment, net	34,269,000
Goodwill	24,363,000
Intangibles with finite lives, net	7,505,000
Deferred financing costs, net	1,357,000
Other assets, net	3,636,000
Total assets	$ 653,120,000
Liabilities and Stockholders’ Equity	
Current liabilities:	
Accounts payable	$ 31,423,000
Accrued expenses and other current liabilities	49,671,000
Customer advances and deposits	15,287,000
Current installments of other obligations	108,000
Interest payable	1,050,000
Income taxes payable	-
Total current liabilities	97,539,000
Convertible senior notes	105,000,000
Other obligations, less current installments	-
Income taxes payable – non-current	1,909,000
Deferred tax liability – non-current	5,870,000
Total liabilities	210,318,000
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 24,600,166 shares and 24,016,329 shares at July 31, 2008 and 2007, respectively	2,460,000
Additional paid-in capital	186,246,000
Retained earnings	254,281,000
	442,987,000
Less:	
Treasury stock (210,937 shares)	(185,000)
Total stockholders’ equity	442,802,000

Total liabilities and stockholders’ equity	$ 653,120,000	55

See accompanying notes to consolidated financial statements.

COMTECH TELECOMMUNICATIONS CORP.
AND SUBSIDIARIES
Consolidated Statements of Operations
Fiscal Years Ended July 31, 2008, 2007 and 2006

	2008	2007	
Net sales	$ 531,627,000	445,684,000	39
Cost of sales	296,687,000	252,389,000	23
Gross profit	234,940,000	193,295,000	15
Expenses:			
Selling, general and administrative	85,967,000	73,312,000	6
Research and development	40,472,000	32,469,000	2
Amortization of intangibles	1,710,000	2,592,000	
	128,149,000	108,373,000	9
Operating income	106,791,000	84,922,000	6
Other expenses (income):			
Interest expense	2,683,000	2,731,000	
Interest income and other	(14,065,000)	(14,208,000)	(
Income before provision for income taxes	118,173,000	96,399,000	7
Provision for income taxes	41,740,000	31,186,000	2
Net income	$ 76,433,000	65,213,000	4
Net income per share (See Note 1(i)):			
Basic	$ 3.17	2.81	
Diluted	$ 2.76	2.42	
Weighted average number of common shares outstanding – basic	24,138,000	23,178,000	2
Weighted average number of common and common equivalent shares outstanding assuming dilution – diluted	28,278,000	27,603,000	2

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, 2008, 2007 and 2006

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Treasury Stock Shares	Treasury Stock Amount	Stockhold Equity
Balance July 31, 2005	22,781,678	$ 2,278,000	$ 127,170,000	$ 67,366,000	210,937	$ (185,000)	$ 196,629
Equity-classified stock award compensation	-	-	5,742,000	-	-	-	5,742
Proceeds from exercise of options	244,737	24,000	1,839,000	-	-	-	1,863
Proceeds from issuance of employee stock purchase plan shares	26,178	3,000	671,000	-	-	-	674
Excess income tax benefit from stock award exercises	-	-	4,065,000	-	-	-	4,065
Net income	-	-	-	45,269,000	-	-	45,269
Balance July 31, 2006	23,052,593	2,305,000	139,487,000	112,635,000	210,937	(185,000)	254,242
Equity-classified stock award compensation	-	-	7,408,000	-	-	-	7,408
Proceeds from exercise of options	938,000	94,000	9,441,000	-	-	-	9,535
Proceeds from issuance of employee stock purchase plan shares	25,736	3,000	755,000	-	-	-	758
Excess income tax benefit from stock award exercises	-	-	8,612,000	-	-	-	8,612
Net income	-	-	-	65,213,000	-	-	65,213
	24,016,329	2,402,000	165,703,000	177,848,000	210,937	(185,000)	345,768

Balance July 31, 2007							
Equity-classified stock award compensation	-	-	10,595,000	-	-	-	10,595
Proceeds from exercise of options	559,681	56,000	6,640,000	-	-	-	6,696
Proceeds from issuance of employee stock purchase plan shares	24,156	2,000	902,000	-	-	-	904
Excess income tax benefit from stock award exercises	-	-	2,406,000	-	-	-	2,406
Net income	-	-	-	76,433,000	-	-	76,433
Balance July 31, 2008	24,600,166	$ 2,460,000	$ 186,246,000	$ 254,281,000	210,937	$ (185,000)	$ 442,802

See accompanying notes to consolidated financial

COMTECH TELECOMMUNICATIONS CORP.
AND SUBSIDIARIES
Consolidated Statements of Cash Flows
Fiscal Years Ended July 31, 2008, 2007 and 2006

	2008	2007
Cash flows from operating activities:		
Net income	$ 76,433,000	65,213,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of property, plant and equipment	9,196,000	7,536,000
Amortization of intangible assets with finite lives	1,710,000	2,592,000
Amortization of stock-based compensation	10,640,000	7,401,000
Amortization of deferred financing costs	546,000	546,000
Loss on disposal of property, plant and equipment	6,000	203,000
Provision for (benefit from) allowance for doubtful accounts	723,000	(375,000)
Provision for excess and obsolete inventory	2,414,000	4,491,000
Excess income tax benefit from stock award exercises	(2,374,000)	(7,990,000)
Deferred income tax (benefit) expense	(2,736,000)	(147,000)
Changes in assets and liabilities, net of effects of acquisitions:		
Restricted cash securing letter of credit obligations	-	1,003,000
Accounts receivable	2,822,000	(3,163,000)
Inventories	(25,038,000)	(4,818,000)
Prepaid expenses and other current assets	49,000	492,000
Other assets	39,000	73,000
Accounts payable	5,361,000	(2,200,000)
Accrued expenses and other current liabilities	1,235,000	5,608,000
Customer advances and deposits	(4,769,000)	16,512,000
Deferred service revenue	-	(9,896,000)
Income taxes payable	1,519,000	6,156,000
Net cash provided by operating activities	77,776,000	89,237,000
Cash flows from investing activities:		
Purchases of property, plant and equipment	(14,064,000)	(12,075,000)
Purchases of other intangibles with finite lives	(193,000)	(38,000)
Payments for business acquisitions	(6,194,000)	(3,937,000)
Net cash used in investing activities	(20,451,000)	(16,050,000)
Cash flows from financing activities:		
Principal payments on other obligations	(135,000)	(154,000)
Excess income tax benefit from stock award exercises	2,374,000	7,990,000
Proceeds from exercises of stock options	6,696,000	9,535,000
Proceeds from issuance of employee stock purchase plan shares	904,000	758,000
Net cash provided by financing activities	9,839,000	18,129,000

COMTECH TELECOMMUNICATIONS CORP.
AND SUBSIDIARIES
Consolidated Statements of Cash Flows (continued)
Years ended July 31, 2008, 2007 and 2006

	2008	2007	
Net increase in cash and cash equivalents	$ 67,164,000	91,316,000	3
Cash and cash equivalents at beginning of period	342,903,000	251,587,000	21
Cash and cash equivalents at end of period	$ 410,067,000	342,903,000	25
Supplemental cash flow disclosure			
Cash paid during the period for:			
Interest	$ 2,120,000	2,150,000	
Income taxes	$ 43,843,000	24,778,000	1
Non cash investing activities:			
Accrued business acquisition payments	$ 1,169,000	290,000	

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
its subsidiaries ("the Company"), all of which are wholly-owned. All significant intercompany balances and
have been eliminated in consolidation.

(b) Nature of Business

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

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

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

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

(c) Revenue Recognition

Revenue is generally recognized when the earnings process is complete, upon shipment or
acceptance. Revenue from contracts relating to the design, development or manufacture of complex
equipment to a buyer's specification or to provide services relating to the performance of such contracts i
recognized in accordance with American Institute of Certified Public Accountants ("AICPA") Statement of
81-1, "Accounting for Performance of Construction-Type and Certain Production-Type Contracts" ("SC
Company primarily applies the percentage-of-completion method and generally recognizes revenue ba
relationship of total costs incurred to total projected costs, or, alternatively, based on output measures, su

delivered or produced. Profits expected to be realized on such contracts are based on total estimated sales for t compared to total estimated costs, including warranty costs, at completion of the contract. These estimates ar and revised periodically throughout the lives of the contracts, and adjustments to profits resulting from such re made cumulative to the date of the change. Provision for anticipated losses on uncompleted contracts is m period in which such losses become evident. Long-term, U.S. government, cost-reimbursable type contrac specifically covered by Accounting Research Bulletin No. 43 "Government Contracts, Cost-Plus-Fixed-Fe ("ARB 43"), in addition to SOP 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 a percentage-of-completion method of accounting. However, there exist risks and uncertainties in estima revenues and expenses, particularly on larger or longer-term contracts. Changes to such estimates could have effect on the Company's consolidated financial condition and results of

Revenue recognized in excess of amounts billable under long-term contracts accounted for percentage-of-completion method are recorded as unbilled receivables in the accompanying consolidated bala Unbilled receivables are billable upon various events, including the attainment of performance milestones, 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 Movement Tracking System ("MTS") Battle Command, Brigade and Below command and control systems (also known as Blue Force Tracki contracts with the U.S. Army, the Company utilizes the percentage-of-completion method. The Compan recognize revenue, or record unbilled receivables, until it receives fully funded orders.

Almost all of the Company's U.S. government revenues in fiscal 2008, 2007 and 2006 are derived from firm contracts. Under these types of contracts, the Company performs for an agreed-upon price and derives benefit savings, but bears the risk of cost overruns. The Company's cost-plus-fixed-fee contracts, which to date 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 t terminate the contract at any time. Historically, the Company has not experienced material contract term write-offs of unbilled receivables. The Company addresses customer acceptance provisions in assessing it perform its contractual obligations under long-term contracts. Historically, the Company has been able to per long-term contracts.

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

(d) Cash and Cash Equivalents

The Company's cash equivalents are short-term, highly liquid investments that are both readily convertibl amounts of cash and that have insignificant risk of change in value because of changes in interest rates. The cash and cash equivalents, as of July 31, 2008 and 2007, amounted to $410,067,000 and $342,903,000, respec primarily consist of money market funds and U.S. Treasury securities (with maturities at the time of purcha months or less). None of the Company's cash equivalents include municipal auction-rate securities. Cash equi carried at cost, which approximates fair market value.

(e) Inventories

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

Raw materials and components and finished goods inventory are stated at the lower of cost or market, compu
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 the useful lives (three to eight years) under the straight-line method. Capitalized values of properties and improvements under leases are amortized over the life of the lease or the estimated life of the asset, whichever

Goodwill represents the excess cost of a business acquisition over the fair value of the net assets acquired. In with the Financial Accounting Standards Board's ("FASB") Statement of Financial Accounting Standards ("S "Goodwill and Other Intangible Assets," goodwill is not amortized. The Company periodically, at least on an reviews goodwill, considering factors such as projected cash flows and revenue and earnings multiples, to whether the carrying value of the goodwill is impaired. If the goodwill is deemed to be impaired, the differen the carrying amount reflected in the financial statements and the estimated fair value is recognized as an exp 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 i intangible assets with finite useful lives, whenever events or changes in circumstances indicate that the carryi of the assets may not be recoverable. The Company evaluates the recoverability of such assets base expectations of undiscounted cash flows from such assets. If the sum of the expected future undiscounted were less than the carrying amount of the asset, a loss would be recognized for the difference between the fai the carrying amount.

(g) Research and Development Costs

The Company charges research and development costs to operations as incurred, except in those cases in costs are reimbursable under customer funded contracts. In fiscal 2008, 2007 and 2006, the Company was rei customers for such activities in the amount of $7,752,000, $4,170,000 and $4,409,000, respectively.

(h) Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are rec the future tax consequences attributable to differences between the financial statement carrying amounts assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferre and liabilities are measured using the enacted tax rates expected to apply to taxable income in the years in w temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liab change in tax rates is recognized in income in the period that includes the enactment date. The Company's 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 Incom interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 clarifies the accounting and reporting for u income tax law and prescribes a comprehensive model for the financial statement recognition, mea presentation and disclosure of uncertain tax positions taken or expected to be taken in income tax retur prescribes a two-step evaluation process for tax positions. The first step is recognition based on a detern whether it is more-likely-than-not that a tax position will be sustained upon examination, including resolu related appeals or litigation processes, based on the technical merits of the position. The second step is to me

position that meets the more-likely-than-not threshold. The tax position is measured as the largest amount of b
is greater than 50% likely of being realized upon ultimate settlement. If a tax position does not
more-likely-than-not recognition threshold, the benefit of that position is not recognized in the financial state
Company adopted FIN 48 on August 1, 2007 and its adoption had no material impact on the Company's c
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. computed based on the weighted average number of shares outstanding. Diluted EPS reflects the dilution fro common stock issuable pursuant to the exercise of equity-classified stock-based awards and convertible seni dilutive, outstanding during each period. Equity-classified stock-based awards to purchase 601,000, 70 712,000 shares for fiscal 2008, 2007 and 2006, respectively, were not included in the EPS calculation be effect would have been anti-dilutive.

Liability-classified stock-based awards do not impact and are not included in the denominator for EPS calcu accordance with EITF Issue No. 04-8, "The Effect of Contingently Convertible Instruments on Diluted E Share," the Company includes the impact of the assumed conversion of its 2.0% convertible senior notes in diluted EPS.

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

	Fiscal Years Ended July 31,		
	2008	2007	2006
Numerator:			
Net income for basic calculation	$ 76,433,000	65,213,000	45,269,000
Effect of dilutive securities:			
Interest expense (net of tax) on convertible senior notes	1,667,000	1,667,000	1,662,000
Numerator for diluted calculation	$ 78,100,000	66,880,000	46,931,000
Denominator:			
Denominator for basic calculation	24,138,000	23,178,000	22,753,000
Effect of dilutive securities:			
Stock options	807,000	1,092,000	1,238,000
Conversion of convertible senior notes	3,333,000	3,333,000	3,333,000
Denominator for diluted calculation	28,278,000	27,603,000	27,324,000

(j) Accounting for Stock-Based Compensation

Effective August 1, 2005, the Company adopted the provisions of SFAS No. 123(R), "Share-Based Payr establishes the accounting for employee stock-based awards. Under the provisions of SFAS No. 123(R), st compensation for both equity and liability-classified awards is measured at the grant date, based on the calc value of the award, and is recognized as an expense over the requisite employee service period (generally t period of the grant). The fair value of liability-classified awards is remeasured at the end of each reporting p the award is settled, with changes in fair value recognized pro-rata for the portion of the requisite serv rendered. The Company used the modified prospective method upon adopting SFAS No. 123(R).

Under the modified prospective method, SFAS No. 123(R) applies to new awards and to awards outstanc effective date that are subsequently modified or cancelled. Compensation expense for outstanding awards for requisite service had not been fully rendered as of July 31, 2005 is being recognized over the remaining serv using the compensation cost calculated for pro forma disclosure purposes under SFAS No. 123. Through July the Company valued graded vesting awards based on vesting tranches. Effective August 1, 2007, the Comp graded vesting awards based on the entire award. The Company amortizes the fair value of all awards on a st basis over the total requisite service period. Cumulative compensation expense recognized at any date will at the grant date fair value of the vested portion of the award at that time. Additionally, the Company includes hypothetical tax benefit related to stock-based awards which were fully vested upon adoption of SFAS No. 12 calculating earnings per share.

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 P
Company's 2001 Employee Stock Purchase Plan (the "ESPP") in the following line items in the Consolidated
Operations:

	Fiscal Years Ended July 31,		
	2008	2007	2006
Cost of sales	$ 777,000	539,000	385,000
Selling, general and administrative expenses	8,129,000	5,793,000	4,585,000
Research and development expenses	1,734,000	1,069,000	711,000
Stock-based compensation expense before income tax benefit	10,640,000	7,401,000	5,681,000
Income tax benefit	(3,648,000)	(2,394,000)	(1,312,000
Net stock-based compensation expense	$ 6,992,000	5,007,000	4,369,000

Of the total stock-based compensation expense before income tax benefit recognized in fiscal 2008, 2007
$220,000, $170,000 and $163,000, respectively, relates to stock-based awards issued pursuant to the ESPP.
stock-based compensation expense before income tax recognized in fiscal 2008, 2007 and 2006, $154,000, $
$0, respectively, related to awards of stock appreciation rights ("SARs"). The Company's liability-classi
remeasured at fair value at the end of each reporting period.

Stock-based compensation that was capitalized and included in ending inventory at July 31, 2008, 2007 an
$215,000, $106,000 and $61,000, respectively.

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

The per share weighted average grant-date fair value of stock-based awards granted during fiscal 2008, 200
was $15.66, $10.85 and $14.03, respectively. In addition to the exercise and grant-date prices of the awa
weighted average assumptions that were used to estimate the fair value of stock-based awards in the respect
are listed in the table below:

	Fiscal Years Ended July 31,		
	2008	2007	2006
Expected dividend yield	0%	0%	0%
Expected volatility	43.15%	45.14%	51.44%
Risk-free interest rate	4.44%	4.87%	4.20%
Expected life (years)	3.56	3.63	3.63

Stock-based awards granted during fiscal 2008, 2007 and 2006 have exercise prices equal to the fair market v
stock on the date of grant, a contractual term of five years and a vesting period of three years. All stock-ba

granted through July 31, 2005 had exercise prices equal to the fair market value of the stock on the date
contractual term of ten years and generally a vesting period of five years. The Company settles employee st
exercises with new shares. All SARs granted through July 31, 2008 may only be settled with cash.

The Company estimates expected volatility by considering the historical volatility of the Company's stock,
volatility of publicly traded stock options in the Company's stock and the Company's expectations of vola
expected term of stock-based compensation awards. The risk-free interest rate is based on the U.S. treasury
in effect at the time of grant. The expected option term is the number of years that the Company esti
share-based awards will be outstanding prior to exercise. The expected life of the awards issued after July 31
through July 31, 2007 was determined using the "simplified method"

COMTECH TELECOMMUNICATIONS CORP.
AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

prescribed in SEC Staff Accounting Bulletin ("SAB") No. 107. Effective August 1, 2007, the expected life c issued was determined by employee groups with sufficiently distinct behavior patterns.

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

	Fiscal Years Ended July 31,		
	2008	2007	2006
Actual income tax benefit recorded for the tax deductions relating to the exercise of stock-based awards	$ 3,368,000	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)	(962,000)	(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	2,406,000	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)	(32,000)	(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	$ 2,374,000	7,990,000	4,065,000

At July 31, 2008, total remaining unrecognized compensation cost related to unvested stock-based av $10,698,000, net of estimated forfeitures of $701,000. The net cost is expected to be recognized over a weight period of 1.7 years.

In August 2008, the Company authorized, in accordance with the Company's 2000 Stock Incentive Pla stock-based awards (including 10,000 SARs). Total unrecognized stock-based compensation, net of forfeitures, related to these awards was approximately $8,205,000. These awards have exercise prices equal market value of the stock on the date of grant, a contractual term of five years and a vesting period of three yea

(k) Financial Instruments

The Company believes that the book value of its current monetary assets and liabilities approximates fair result of the short-term nature of such assets and liabilities. The Company further believes that the fair mark its capital lease obligations does not differ materially from the carrying value. As of July 31, 2008, the estimates the fair market value of its 2.0% convertible senior notes to be approximately $164,829,000 based trading activity.

(l) Use of Estimates

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

COMTECH TELECOMMUNICATIONS CORP.
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Notes to Consolidated Financial Statements, Continued

(m) Comprehensive Income

The Company has adopted SFAS No. 130, "Reporting Comprehensive Income," which requires companies
changes in equity during a period, except those resulting from investment by owners and distribution to own
period in which they are recognized. Comprehensive income is the total of net income and all other non-own
in equity (or other comprehensive income) such as unrealized gains/losses on securities classified as availab
foreign currency translation adjustments and minimum pension liability adjustments. Comprehensive incon
same as net income in fiscal 2008, 2007 and 2006.

(n) Reclassifications

Certain reclassifications have been made to previously reported consolidated financial statements to conform t
2008 presentation.

(2) Acquisitions

In August 2006, the Company acquired certain assets and assumed certain liabilities of Insite Consulting, Inc
logistics application software company, for $3,203,000, including transaction costs of $232,000. In addi
guaranteed purchase price, the Company may be required to make certain earn-out payments based on the ac
of future sales targets. The first part of the earn-out cannot exceed $1,350,000 and is limited to a five-year p
second part of the earn-out, which is for a ten-year period, is unlimited and based on a per unit future s
primarily relating to new commercial satellite-based mobile data communication markets. As of July 31
earn-out payments have been made. Insite has developed the geoOps™ Enterprise Location Manageme
software-based solution that allows customers to integrate legacy data systems with near-real time log
operational data systems. Sales and income relating to the Insite assets acquired have not been material to the
results of operations. This operation was combined with the Company's existing business and is part of the
communications segment.

In February 2007, the Company acquired certain assets and assumed certain liabilities of Digicast Netw
("Digicast"), a manufacturer of digital video broadcasting equipment, for $1,000,000. Sales and income r
Digicast assets acquired were not material to the Company's results of operations. This operation was combin
Company's existing business and is part of the telecommunications transmission segment.

In July 2008, the Company acquired certain assets and assumed certain liabilities of Verso Technologies
manufacturer of digital video broadcasting equipment, for $3,917,000. Sales and income related to the V
acquired were not material to the Company's results of operations. This operation was combined with the
existing business and is part of the telecommunications transmission segment.

COMTECH TELECOMMUNICATIONS CORP.
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Notes to Consolidated Financial Statements, Continued

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

	Insite	Digicast	Verso	Estimated Useful Lives
Fair value of net tangible assets acquired	$ 335,000	408,000	1,338,000	
Adjustments to record intangible assets at fair value:				
Existing technology	447,000	-	2,579,000	7 years
Other intangibles	302,000	592,000	-	1 to 10 years
Goodwill	2,119,000	-	-	Indefinite
	2,868,000	592,000	2,579,000	
Aggregate purchase price	$ 3,203,000	1,000,000	3,917,000	

The allocation of the Verso purchase price is preliminary and is expected to be completed within one y acquisition. The valuation of technology was based primarily on the discounted capitalization of royalty exp because the Company now owns the asset. The valuation of other intangibles was primarily based on the v 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, 2008 and 2007:

	2008	2007
Billed receivables from the U.S. government and its agencies	$ 34,911,000	38,773,000
Billed receivables from commercial customers	31,758,000	33,859,000
Unbilled receivables on contracts-in-progress	4,672,000	1,638,000
	71,341,000	74,270,000
Less allowance for doubtful accounts	1,301,000	685,000
Accounts receivable, net	$ 70,040,000	73,585,000

Unbilled receivables on contracts-in-progress include $2,854,000 and $1,308,000 at July 31, 2008 and July respectively, due from the U.S. government and its agencies. There was $145,000 and $0 of retainage i unbilled receivables at July 31, 2008 and July 31, 2007, respectively. In the opinion of management, substan the unbilled balances will be billed and collected within one year.

(4) Inventories

Inventories consist of the following at July 31, 2008 and 2007:

	2008	2007
Raw materials and components	$ 41,047,000	32,669,000
Work-in-process and finished goods	53,120,000	37,822,000

		94,167,000	70,491,000
Less reserve for excess and obsolete inventories		8,201,000	8,504,000
Inventories, net	$	85,966,000	61,987,000

Inventories directly related to long-term contracts, including the Company's MTS and BFT contracts with the were $29,081,000 and $6,547,000 at July 31, 2008 and July 31, 2007, respectively. At July 31, 2008 and July $4,336,000 and $2,286,000, respectively, of the inventory balance above related to contracts from t commercial customers to outsource their manufacturing.

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(5) Property, Plant and Equipment

Property, plant and equipment consist of the following at July 31, 2008 and 2007:

		2008	2007
Machinery and equipment	$	75,800,000	64,562,000
Leasehold improvements		6,275,000	5,185,000
Equipment financed by capital lease		52,000	243,000
		82,127,000	69,990,000
Less accumulated depreciation and amortization		47,858,000	40,708,000
Property, plant and equipment, net	$	34,269,000	29,282,000

Depreciation and amortization expense on property, plant and equipment amounted to approximately $9
$7,536,000 and $6,242,000 for the fiscal years ended July 31, 2008, 2007 and 2006, respectively.

(6) Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consist of the following at July 31, 2008 and 2007:

		2008	2007
Accrued wages and benefits	$	23,680,000	20,695,000
Accrued warranty obligations		12,308,000	9,685,000
Accrued commissions and royalties		4,882,000	6,751,000
Accrued business acquisition payments		1,169,000	290,000
Other		7,632,000	9,911,000
Accrued expenses and other current liabilities	$	49,671,000	47,332,000

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

Changes in the Company's product warranty liability during the fiscal years ended July 31, 2008 and 20
follows:

		2008	2007
Balance at beginning of period	$	9,685,000	10,468,000
Provision for warranty obligations		8,131,000	5,417,000
Reversal of warranty liability		(1,026,000)	(1,056,000
Charges incurred		(4,482,000)	(5,144,000
Balance at end of period	$	12,308,000	9,685,000

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(7) Other Obligations

Other obligations consist of the following at July 31, 2008 and 2007:

		2008	2007
Obligations under capital leases and for technology purchase	$	108,000	243,000
Less current installments		108,000	135,000
	$	-	108,000

Other obligations in fiscal 2007 related to certain equipment and a technology license. Other obligations at Jul
only related to a technology license. The net carrying value of assets acquired under these obligations was $3
$589,000 at July 31, 2008 and 2007, respectively.

Future minimum lease payments under other obligations as of July 31, 2008 are $108,000, net of $5,000 re
interest at a rate of 8.0%, all of which is current.

(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 priva
pursuant to Rule 144A under the Securities Act of 1933, as amended. The net proceeds from this transa
$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 sh
Company's common stock at an initial conversion price of $31.50 per share (a conversion rate of 31.7460
$1,000 original principal amount of notes), subject to adjustment in certain circumstances. The notes may be
if, during a conversion period on each of at least 20 trading days, the closing sale price of the Company's co
exceeds 120% of the conversion price in effect. Upon conversion of the notes, in lieu of delivering commo
Company may, in its discretion, deliver cash or a combination of cash and common stock. The notes can be co
the option of the noteholders, during the conversion period of September 15, 2008 through December 15, 2
receiving notification of a noteholder's intent to convert, the Company, in accordance with the provis
indenture, will inform the noteholder of its intention to deliver shares of common stock or cash, or a co
thereof. The Company may, at its option, redeem some or all of the notes on or after February 4, 2009. Hol
notes will have the right to require the Company to repurchase some or all of the outstanding notes on Februa
February 1, 2014 and February 1, 2019 and upon certain events, including a change in control. If not redee
Company or repaid pursuant to the holders' right to require repurchase, the notes mature on February 1, 2024
have substantive conversion features as defined by EITF 05-1, "Accounting for the Conversion of an Inst
Becomes Convertible Upon the Issuers Exercise of a Call Option." Accordingly, the Company will not reco
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% inte
accreted into the principal amount of the notes. Also, commencing with the six-month period beginning F
2009, if the average note price for the applicable trading period equals 120% or more of the accreted principal
such notes, the Company will pay contingent interest at an annual rate of 0.25%.

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Notes to Consolidated Financial Statements, Continued

The notes are general unsecured obligations of the Company, ranking equally in right of payment with all existing and future unsecured senior indebtedness and senior in right of payment to any of its future sub indebtedness. All of Comtech Telecommunications Corp.'s (the "Parent") wholly-owned subsidiaries have i unconditional guarantees in favor of the holders of the Company's 2.0% convertible senior notes (the Subsidiaries"), except for the subsidiary that purchased Memotec, Inc. in fiscal 2004 (the "Non-Guarantor These full and unconditional guarantees are joint and several. Other than supporting the operations of its subsi Parent has no independent assets or operations and there are currently no significant restrictions on its abi ability of the guarantors, to obtain funds from each other by dividend or loan. Consolidating financial in regarding the Parent, the Guarantor Subsidiaries and the Non-Guarantor Subsidiary can be found in Not consolidated financial statements beginning on page F-30.

The net proceeds of the offering are being used for working capital and general corporate purposes and poten be used for future acquisitions of businesses or technologies or repurchases of the Company's common Company filed a registration statement with the Securities and Exchange Commission ("SEC"), which 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,		
	2008	2007	2006
U.S.	$ 115,782,000	97,215,000	68,024,000
Foreign	2,391,000	(816,000)	2,463,000
	$ 118,173,000	96,399,000	70,487,000

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

	Fiscal Years Ended July 31,		
	2008	2007	2006
Federal – current	$ 39,799,000	29,388,000	22,085,000
Federal – deferred	(1,627,000)	(628,000)	854,000
State and local – current	4,375,000	2,091,000	1,539,000
State and local – deferred	(1,045,000)	509,000	85,000
Foreign – current	302,000	(146,000)	762,000
Foreign – deferred	(64,000)	(28,000)	(107,000)
	$ 41,740,000	31,186,000	25,218,000

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Notes to Consolidated Financial Statements, Continued

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

	Fiscal Years Ended July 31,					
	2008		2007		2006	
	Amount	Rate	Amount	Rate	Amount	Rate
Computed "expected" tax expense	$ 41,361,000	35.0%	33,740,000	35.0%	24,670,000	35.0%
Increase (reduction) in income taxes resulting from:						
Nondeductible compensation	26,000	0.1	51,000	0.1	961,000	1.4
State and local income taxes, net of Federal benefit	2,165,000	1.8	1,678,000	1.8	922,000	1.3
Nondeductible stock-based compensation	585,000	0.5	529,000	0.5	615,000	0.9
Extraterritorial income exclusion/ domestic production activities deduction	(1,817,000)	(1.5)	(1,472,000)	(1.5)	(1,372,000)	(1.9)
Research and experimentation credits	(1,174,000)	(1.0)	(3,400,000)	(3.5)	(415,000)	(0.6)
Change in the beginning of the year valuation allowance for deferred tax assets	(50,000)	(0.1)	(50,000)	(0.1)	(111,000)	(0.2)
Other	644,000	0.5	110,000	0.1	(52,000)	(0.1)
	$ 41,740,000	35.3%	31,186,000	32.4%	25,218,000	35.8%

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liab
July 31, 2008 and 2007 are presented below.

	2008	2007
Deferred tax assets:		
Allowance for doubtful accounts receivable	$ 484,000	210,000
Intangibles	329,000	715,000
Inventory and warranty reserves	6,922,000	5,871,000
Compensation and commissions	1,558,000	2,632,000
State research and experimentation credits	1,162,000	1,162,000

Stock-based compensation		5,623,000	3,057,000
Other		1,963,000	1,134,000
Less valuation allowance		(1,262,000)	(1,312,000
Total deferred tax assets		16,779,000	13,469,000
Deferred tax liabilities:			
Convertible senior notes		(9,672,000)	(8,899,000
Plant and equipment		(2,951,000)	(3,150,000
Total deferred tax liabilities		(12,623,000)	(12,049,000
Net deferred tax assets	$	4,156,000	1,420,000

The Company provides for income taxes under the provisions of SFAS No. 109, "Accounting for Income Ta No. 109 requires an asset and liability based approach in accounting for income taxes. In assessing the reali deferred tax assets and liabilities, management considers whether it is more likely than not that some portio them will not be realized. As of July 31, 2008 and 2007, the Company's deferred tax asset has been offset by allowance primarily related to state research and experimentation credits which may not be utilized in futu The Company must generate approximately $48,800,000 of taxable income to fully utilize its de assets. Management believes it is more likely than not that the results of future operations will generate taxable income to realize the net deferred tax assets.

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Effective August 1, 2007, the Company adopted the provisions of FASB Interpretation No. 48, "Acc
Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109" ("FIN No. 48"). Except
disclosures included in the Notes to Consolidated Financial Statements, there was no material impact and the
did not record any cumulative-effect adjustment to the opening balance in retained earnings. In accordance wi
48, there was no retrospective application to any prior financial statement periods.

At August 1, 2007 (the date of adoption of FIN No. 48) and July 31, 2008, the total unrecognized tax benefits
interest, were $3,955,000 and $4,467,000, respectively. At August 1, 2007 and July 31, 2008, the
unrecognized tax benefits that would impact the Company's effective tax rate, if recognized, was $3,9
$2,714,000, respectively. Unrecognized tax benefits result from income tax positions taken or expected to b
the Company's income tax returns for which a tax benefit has not been recorded in the Company's financia
Of the total unrecognized tax benefits, $2,801,000 and $1,909,000 were recorded as non-current income taxes
the Consolidated Balance Sheets of the Company at August 1, 2007 and July 31, 2008, respectively. The follo
summarizes the activity related to the Company's unrecognized tax benefits:

Balance as of August 1, 2007	$ 3,955,000
Increase related to prior periods	826,000
Decrease related to prior periods	(123,000
Increase related to fiscal 2008	678,000
Settlements with taxing authorities	(756,000
Expiration of statute of limitations	(113,000
Balance as of July 31, 2008	$ 4,467,000

The Company's policy is to recognize interest and penalties relating to uncertain tax positions in income tax
August 1, 2007 and July 31, 2008, interest accrued relating to income taxes was $462,000 and $301,000, re
net of the related income tax benefit.

Tax years prior to fiscal 2003 are not subject to examination by the U.S. Federal tax authorities. In fiscal
Internal Revenue Service ("IRS") completed its audit of the Company's Federal income tax returns for fi
fiscal 2005. In addition, it has informed the Company that it will audit the Company's Federal income tax retu
2006. The IRS audits for 2004 and 2005 were focused on the allowable amount of R&E credits utilized a
expense relating to the Company's 2% convertible senior notes.

If the final outcome of the fiscal 2006 audit differs materially from the Company's original income tax pr
Company's results of operations and financial condition could be materially impacted.

COMTECH TELECOMMUNICATIONS CORP.
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Notes to Consolidated Financial Statements, Continued

(10) 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 gra employees and officers of incentive and non-qualified stock options to purchase up to 2,345,625 shares of the common stock at prices generally not less than the fair market value at the date of grant with the exception who, prior to the grant, owns more than 10% of the voting power, in which case the exercise price cannot b 110% of the fair market value. In addition, it provided formula grants to non-employee members of the Comp of Directors. The term of the options could be no more than ten years. However, for incentive stock options any employee who, prior to the granting of the option, owns stock representing more than 10% of the voting option term could be no more than five years.

As of July 31, 2008, the Company had granted stock-based awards representing the right to purchase an ag 2,016,218 shares (net of 428,441 canceled awards) at prices ranging between $0.67 – $5.31 per share, of w outstanding at July 31, 2008. To date, 2,015,543 shares have been exercised. Outstanding awards have been to the 2000 Stock Incentive Plan. The terms applicable to these awards prior to the transfer continue to appl was terminated by the Company's Board of Directors in December 1999 due to the approval by the shareho 2000 Stock Incentive Plan.

2000 Stock Incentive Plan – The 2000 Stock Incentive Plan, as amended, provides for the granting to all em consultants of the Company (including prospective employees and consultants) non-qualified stock optio restricted stock, performance shares, performance units and other stock-based awards. In addition, emplo Company are eligible to be granted incentive stock options. Non-employee directors of the Company are receive non-discretionary grants of nonqualified stock options subject to certain limitations. The aggregate shares of common stock which may be issued may not exceed 6,587,500 plus the shares that were transferred relating to outstanding awards that were previously granted under the 1982 Incentive Stock Option Plan an Incentive Stock Option Plan. The Stock Option Committee of the Company's Board of Directors, consist terms of the Plan, will determine the types of awards to be granted, the terms and conditions of each awa number of shares of common stock to be covered by each award. Grants of incentive and non-qualified sto may not have a term exceeding ten years or no more than five years in the case of an incentive stock option g stockholder who owns stock representing more than 10% of the voting power.

As of July 31, 2008, the Company had granted stock-based awards representing the right to purchase an ag 5,441,222 shares (net of 590,078 canceled awards) at prices ranging between $3.13 – $51.65 of which 2, outstanding at July 31, 2008. As of July 31, 2008, 2,922,224 stock-based awards have been exercised. All s awards granted through July 31, 2005 had exercise prices equal to the fair market value of the stock on the d and a term of ten years. All stock-based awards granted since August 1, 2005 have had exercise prices equa market value of the stock on the date of grant and a term of five years.

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The following table summarizes certain stock option plan activity during the three years ended July 31, 2008:

	Number of Shares Underlying Stock-Based Awards	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
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		
Granted	622,000	42.47		
Expired/canceled	(42,663)	27.38		
Exercised	(559,681)	11.96		
Outstanding at July 31, 2008	2,519,673	$ 28.87	3.79	$ 51,058,000
Exercisable at July 31, 2008	722,533	$ 22.33	3.86	$ 19,361,000
Expected to vest at July 31, 2008	1,754,661	$ 31.63	3.76	$ 30,700,000

Included in the number of shares underlying stock-based awards outstanding at July 31, 2008, in the abov
26,000 SARs with an aggregate intrinsic value of $291,000.

The total intrinsic value of stock-based awards exercised during the years ended July 31, 2008, 2007 and
$21,125,000, $27,302,000 and $6,602,000, respectively.

2001 Employee Stock Purchase Plan – The ESPP was approved by the shareholders on December 12, 2000,
shares of the Company's common stock were reserved for issuance. The ESPP is intended to provide eligibl
of the Company the opportunity to acquire common stock in the Company at 85% of fair market value
issuance through participation in the payroll-deduction based ESPP. Through fiscal 2008, the Company issu
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,		
	2008	2007	2006
United States			
U.S. government	66.4%	61.3%	47.3%
Commercial customers	6.9%	12.5%	17.1%
Total United States	73.3%	73.8%	64.4%
International	26.7%	26.2%	35.6%

International sales include sales to U.S. domestic companies for inclusion in products that will be sold to in customers. One customer, a prime contractor, represented 3.1%, 5.4% and 10.2% of consolidated net sales in f 2007 and 2006, respectively.

(12) Segment Information

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

Unallocated expenses result from such corporate expenses as legal, accounting and executive compensation. I for fiscal 2008, 2007 and 2006, unallocated expenses include $10,640,000, $7,401,000 and $5,681,000 of s compensation expense, respectively. Interest expense (which includes amortization of deferred financ associated with the Company's 2.0% convertible senior notes is not allocated to the operating segments. Depre amortization includes amortization of stock-based compensation. Unallocated assets consist principally of cas financing costs and deferred tax assets. Substantially all of the Company's long-lived assets are located in the U

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Corporate management defines and reviews segment profitability based on the same allocation metho
presented in the segment data tables below.

	Fiscal Year Ended July 31, 2008				
(in thousands)	Telecommunications Transmission	Mobile Data Communications	RF Microwave Amplifiers	Unallocated	
Net sales	$ 208,994	261,057	61,576	-	$
Operating income (expense)	56,688	72,796	4,410	(27,103)	
Interest income and other	156	4	-	13,905	
Interest expense	25	12	-	2,646	
Depreciation and amortization	7,362	2,139	1,201	10,844	
Expenditure for long-lived assets, including intangibles	11,834	3,705	1,588	99	
Total assets at July 31, 2008	145,290	40,519	42,363	424,948	

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

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

Intersegment sales in fiscal 2008, 2007 and 2006 by the telecommunications transmission segment to the RF amplifiers segment were $16,005,000, $6,495,000 and $7,512,000, respectively. In fiscal 2008, 2007 intersegment sales by the telecommunications transmission segment to the mobile data communications seg $123,767,000, $78,319,000 and $55,667,000, respectively. Intersegment sales have been eliminated from above.

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(13) Commitments and Contingencies

(a) Operating Leases

The Company is obligated under noncancellable operating lease agreements, including satellite lease ex
relating to its mobile data communications segment contracts. At July 31, 2008, the future minimum lease
under operating leases are as follows:

2009	$ 25,095,000
2010	4,211,000
2011	3,174,000
2012	1,692,000
2013	1,219,000
Thereafter	3,390,000
Total	$ 38,781,000

Lease expense charged to operations was $4,668,000, $3,871,000 and $3,379,000 in fiscal 2008, 2007
respectively. Lease expense excludes satellite lease expenditures incurred of approximately $22,632,000, $
and $13,382,000 in fiscal 2008, 2007 and 2006, respectively, relating to the Company's mobile data com
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
President entered into an agreement in which the Company leases from the partnership its Melville,
production facility. The lease was for an initial term of ten years. In December 2001, the Company exercise
for an additional ten-year period. For financial reporting purposes, the lease for the extension period is a
lease. The annual rentals, of approximately $570,000 for fiscal 2008, are subject to annual adjustments e
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 suc
completed, the ultimate profit on these contracts cannot be determined; however, it is management's belief t
contract settlements will not have a material adverse effect on the Company's consolidated financial conditi
of operations.

(c) Legal Proceedings

In October 2007, the Company's Florida-based subsidiary, Comtech Systems, Inc. ("CSI"), received a c
enforcement subpoena from the U.S. Immigration and Customs Enforcement ("ICE") branch of the D
Homeland Security. The subpoena relates to CSI's $1,982,000 contract with the Brazilian Naval Commissio
contract) and it required the production of all books, records and documents, including copies of contracts, i
payments related to agreements between CSI, its agent, its subcontractor and the Brazilian government. Th
believes that the ICE investigation is focused primarily on whether or not CSI was in compliance with ex
laws and regulations, including the International Traffic in Arms Regulations ("ITAR") and the Export A

Regulations. CSI produced documents in response to the subpoena request. Customs officials have detai
inventory related to the Brazil contract pending resolution of this matter.

The Company engaged outside counsel to assist CSI in its response to the subpoena and related matters and
its own investigation. Based on the Company's ongoing investigation into this matter, it believes that t
inventory, which consists of commercial satellite equipment, was not modified or adapted in any way to mee
military requirements and was only subject to the jurisdiction of the Department of Commerce and not the jur
the U.S. Department of State. In addition, in order to provide certain defense services, including conduct
acceptance testing at CSI's Florida facility,

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the Company obtained a license (referred to as a Technical Assistance Agreement ("TAA")) from the U.S. D
State. The Company believes that the TAA authorized all activities under the Brazil contract that were sub
jurisdiction of the U.S. Department of State.

The Company believes that CSI made a good faith effort to comply with applicable regulations; however, the
believes that CSI made inadvertent administrative errors resulting in a TAA that did not become effective o
basis. The administrative errors relate primarily to the execution of non-disclosure agreements ("NDA") with
country national employees of CSI's agent. These individuals have now signed appropriate NDAs, and, in
2007, CSI filed an amended TAA with the U.S. Department of State. CSI has requested that the U.S. Dep
State confirm CSI's and the Company's view that the Brazil contract does not require any other State Departm

In March 2008, the Enforcement Division of the U.S. Department of State informed the Company tha
reviewing CSI's amended TAA. In May 2008, the U.S. Attorney's Office in the Middle District of Florida
Company that, based on its conversations with the ICE agent who initiated the subpoena, it was closing its in
into the Brazil matter. In June 2008, the ICE agent informed the Company that he would recommend that th
inventory be released back to the Company upon the U.S. Department of State confirming the Company's po
State Department license for the hardware shipped was not required. In August 2008, the ICE agent in
Company that the U.S. Department of State wanted to clarify certain technical matters and, on its behalf, the
was going to interview one of the Company's engineers. This interview occurred in September of 2008. Th
remains cautiously optimistic that it will be able to shortly reship the Brazil inventory to the end

In addition to its review of the Brazil contract, in March 2008, the Enforcement Division of the U.S. Departme
informed the Company that it sought to confirm the Company's company-wide ITAR compliance for the five-
ended March 2008. In response, the Company expanded its ongoing investigation. In June 2008, the Compan
detailed information and a summary of its findings to the U.S. Department of State. In July 2008, the U.S. Dep
State requested supplemental information and the Company responded to its request. The Company's find
indicate that there were certain instances of exports and defense services during the five-year period for whic
have the appropriate authorization from the U.S. Department of State; however, none of those instance
Proscribed Countries as defined by ITAR. The Company is awaiting additional feedback from the U.S. Dep
State as it relates to all of the aforementioned matters.

Since the receipt of the original Brazil subpoena in October 2007, the Company has engaged outside counsel
consultants to help it assess and improve, as appropriate, its internal controls with respect to U.S. export contr
regulations and laws governing record keeping and dealings with foreign representatives. In addition, in conn
the Company's August 1, 2008 acquisition of Radyne, the Company is expanding its export internal control as
include its newly acquired subsidiaries. To date, the Company has noted opportunities for improving its pro
comply with such laws and regulations, including at its newly acquired Radyne subsidiaries.

During fiscal 2008, the Company has taken numerous steps to significantly improve its export control
including the hiring of additional employees who are knowledgeable and experienced with ITAR and the eng
an outside export consultant to conduct additional training. The Company is also in the process of imp
enhanced formal company-wide ITAR control procedures, including at its newly acquired Radyne subsidiarie
the Company's assessments are continuing, the Company expects to remediate, improve and enhance its inter
relating to exports throughout fiscal 2009.

COMTECH TELECOMMUNICATIONS CORP.
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Notes to Consolidated Financial Statements, Continued

Because the above matters are ongoing, the Company cannot determine the ultimate outcome of thes
Violations of U.S. export control-related laws and regulations could result in civil or criminal fines and/o
and/or result in an injunction against the Company, all of which could, in the aggregate, materially impact it
results of operations and cash flows. Should the Company identify a material weakness relating to its comp
ongoing costs of remediation could be material. In addition, inventory related to the Brazil contract (inc
inventory that has been detained) had a net book value of $1,110,000 as of July 31, 2008. If this in
permanently seized or not returned to the Company timely, or the Company can not resell the invento
customers, the Company would be required to write-off the value of this inventory in a future accounting perio

(d) Employment and Change of Control Agreements

The Company has an employment agreement with its Chairman of the Board, Chief Executive Officer and
The employment agreement generally provides for an annual salary and bonus award. The Company has a
into change of control agreements with certain of its officers. All of the agreements may require payments
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 pl
one stock purchase right ("Right") was distributed as a dividend on each outstanding share of the Compa
stock to stockholders of record at the close of business on January 4, 1999. Under the plan, the Rig
exercisable only if triggered by a person or group's acquisition of 15% or more of the Company's comm
triggered, each Right, other than Rights held by the acquiring person or group, would entitle its holder to
specified number of the Company's common shares for 50% of their market value at that time. Unless a 15%
has occurred, the Rights may be redeemed by the Company at any time prior to the termination date of the pla

This Right to purchase common stock at a discount will not be triggered by a person or group's acquisitio
more of the common stock pursuant to a tender or exchange offer which is for all outstanding shares at a p
terms that the Company's Board of Directors determines (prior to acquisition) to be adequate and in the bes
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, 2008 and 2007 are as follows:

	July 31, 2008			
	Weighted Average Amortization Period	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Existing technology	6.95	$ 16,401,000	11,897,000	$ 4,504,000
Proprietary, core and licensed technology	8.31	5,851,000	3,189,000	2,662,000
Other	5.61	975,000	636,000	339,000
Total		$ 23,227,000	15,722,000	$ 7,505,000

	July 31, 2007			
	Weighted Average Amortization Period	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Existing technology	7.22	$ 12,903,000	11,168,000	$ 1,735,000
Proprietary, core and licensed technology	8.31	5,851,000	2,326,000	3,525,000
Other	5.61	975,000	518,000	457,000
Total		$ 19,729,000	14,012,000	$ 5,717,000

Amortization expense for the years ended July 31, 2008, 2007 and 2006 was $1,710,000, $2,592,000 and $
respectively. The estimated amortization expense for the fiscal years ending July 31, 2009, 2010, 2011, 201
is $2,072,000, $1,957,000, $1,545,000, $631,000 and $524,000, respectively.

The changes in carrying amount of goodwill by segment for the years ended July 31, 2008 and 2007 are as fol

	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	-	2,143,000	-	2,143,000
Balance at July 31, 2007	8,817,000	7,148,000	8,422,000	24,387,000
Acquisition of Insite (See Note 2)	-	(24,000)	-	(24,000
Balance at July 31, 2008	$ 8,817,000	7,124,000	8,422,000	$ 24,363,000

COMTECH TELECOMMUNICATIONS CORP.
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Notes to Consolidated Financial Statements, Continued

(16) Consolidating Financial Information

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

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

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiary	Consolidating Entries	Con
Assets					
Current assets:					
Cash and cash equivalents	$ 408,065,000	-	4,056,000	(2,054,000)	$ 41
Accounts receivable, net	-	67,777,000	2,263,000	-	7
Inventories, net	-	84,032,000	1,934,000	-	8
Prepaid expenses and other current assets	1,953,000	3,209,000	1,404,000	(675,000)	
Deferred tax asset – current	1,243,000	8,783,000	-	-	1
Total current assets	411,261,000	163,801,000	9,657,000	(2,729,000)	58
Property, plant and equipment, net	740,000	32,763,000	766,000	-	3
Investment in subsidiaries	318,292,000	5,721,000	-	(324,013,000)	
Goodwill	-	23,416,000	947,000	-	2
Intangibles with finite lives, net	-	4,388,000	3,117,000	-	
Deferred tax asset – non-current	-	-	206,000	(206,000)	
Deferred financing costs, net	1,357,000	-	-	-	
Other assets, net	3,266,000	352,000	18,000	-	
Intercompany receivables	-	171,277,000	-	(171,277,000)	
Total assets	$ 734,916,000	401,718,000	14,711,000	(498,225,000)	$ 65
Liabilities and Stockholders' Equity					
Current liabilities:					
Accounts payable	$ 1,597,000	30,874,000	1,006,000	(2,054,000)	$ 3
Accrued expenses and other current liabilities	12,241,000	36,551,000	879,000	-	4
Customer advances and deposits	-	13,254,000	2,033,000	-	1
Current installments of other obligations	-	108,000	-	-	
Interest payable	1,050,000	-	-	-	
Income taxes payable	-	-	675,000	(675,000)	
Total current liabilities	14,888,000	80,787,000	4,593,000	(2,729,000)	9

Convertible senior notes	105,000,000	-	-	-	10
Income taxes payable – non-current	1,909,000	-	-	-	
Deferred tax liability – non-current	3,437,000	2,639,000	-	(206,000)	
Intercompany payables	166,880,000	-	4,397,000	(171,277,000)	
Total liabilities	292,114,000	83,426,000	8,990,000	(174,212,000)	21
Commitments and contingencies					
Stockholders' equity:					
Preferred stock	-	-	-	-	
Common stock	2,460,000	4,000	-	(4,000)	
Additional paid-in capital	186,246,000	81,410,000	5,187,000	(86,597,000)	18
Retained earnings	254,281,000	236,878,000	534,000	(237,412,000)	25
	442,987,000	318,292,000	5,721,000	(324,013,000)	44
Less:					
Treasury stock	(185,000)	-	-	-	
Total stockholders' equity	442,802,000	318,292,000	5,721,000	(324,013,000)	44
Total liabilities and stockholders' equity	$ 734,916,000	401,718,000	14,711,000	(498,225,000)	$ 65

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, 2007:

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiary	Consolidating Entries	Con
Assets					
Current assets:					
Cash and cash equivalents	$ 340,617,000	983,000	1,303,000	-	$ 34
Accounts receivable, net	-	66,240,000	7,345,000	-	7
Inventories, net	-	61,337,000	650,000	-	6
Prepaid expenses and other current assets	1,868,000	4,311,000	555,000	-	
Deferred tax asset – current	645,000	8,735,000	-	-	
Total current assets	343,130,000	141,606,000	9,853,000	-	49
Property, plant and equipment, net	844,000	27,796,000	642,000	-	2
Investment in subsidiaries	248,952,000	4,755,000	-	(253,707,000)	
Goodwill	-	23,440,000	947,000	-	2
Intangibles with finite lives, net	-	4,972,000	745,000	-	
Deferred tax asset – non-current	-	-	190,000	(190,000)	
Deferred financing costs, net	1,903,000	-	-	-	
Other assets, net	56,000	386,000	22,000	-	
Intercompany receivables	-	126,210,000	-	(126,210,000)	
Total assets	$ 594,885,000	329,165,000	12,399,000	(380,107,000)	$ 55
Liabilities and Stockholders' Equity					
Current liabilities:					
Accounts payable	$ 374,000	25,616,000	147,000	-	$ 2
Accrued expenses and other current liabilities	10,340,000	36,378,000	614,000	-	4
Customer advances and deposits	-	15,189,000	4,867,000	-	2
Current installments of other obligations	-	135,000	-	-	
Interest payable	1,050,000	-	-	-	
Income taxes payable	3,283,000	-	(487,000)	-	
Total current liabilities	15,047,000	77,318,000	5,141,000	-	9
Convertible senior notes	105,000,000	-	-	-	10
Other obligations, less current installments	-	108,000	-	-	
Deferred tax liability – non-current	5,363,000	2,787,000	-	(190,000)	
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)	21
Commitments and contingencies					
Stockholders’ equity:					
Preferred stock	-	-	-	-	
Common stock	2,402,000	4,000	-	(4,000)	
Additional paid-in capital	165,703,000	81,410,000	5,187,000	(86,597,000)	16
Retained earnings (deficit)	177,848,000	167,538,000	(432,000)	(167,106,000)	17
	345,953,000	248,952,000	4,755,000	(253,707,000)	34
Less:					
Treasury stock	(185,000)	-	-	-	
Total stockholders’ equity	345,768,000	248,952,000	4,755,000	(253,707,000)	34
Total liabilities and stockholders’ equity	$ 594,885,000	329,165,000	12,399,000	(380,107,000)	$ 55

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, 2008:

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiary	Consolidating Entries	Con
Net sales	$ -	513,430,000	18,671,000	(474,000)	$ 53
Cost of sales	-	288,737,000	8,424,000	(474,000)	29
Gross profit	-	224,693,000	10,247,000	-	23
Expenses:					
Selling, general and administrative	-	79,355,000	6,612,000	-	8
Research and development	-	37,660,000	2,812,000	-	4
Amortization of intangibles	-	1,503,000	207,000	-	
	-	118,518,000	9,631,000	-	128
Operating income	-	106,175,000	616,000	-	10
Other expense (income):					
Interest expense	2,646,000	37,000	-	-	
Interest income and other	(13,905,000)	(85,000)	(75,000)	-	(1
Income before provision for benefit from income taxes and equity in undistributed earnings of subsidiaries	11,259,000	106,223,000	691,000	-	11
Provision for (benefit from) income taxes	4,166,000	37,849,000	(275,000)	-	4
Net earnings before equity in undistributed earnings (loss) of subsidiaries	7,093,000	68,374,000	966,000	-	7
Equity in undistributed earnings of subsidiaries	69,340,000	966,000	-	(70,306,000)	
Net income	$ 76,433,000	69,340,000	966,000	(70,306,000)	$ 7

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

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiary	Consolidating Entries	Con
Net sales	$ -	436,075,000	10,045,000	(436,000)	$ 44
Cost of sales	-	247,364,000	5,461,000	(436,000)	25

Gross profit	-	188,711,000	4,584,000	-	19
Expenses:					
Selling, general and administrative	-	69,613,000	3,699,000	-	7
Research and development	-	30,633,000	1,836,000	-	3
Amortization of intangibles	-	2,415,000	177,000	-	
	-	102,661,000	5,712,000	-	10
Operating income (loss)	-	86,050,000	(1,128,000)	-	8
Other expense (income):					
Interest expense	2,646,000	73,000	12,000	-	
Interest income and other	(14,245,000)	76,000	(39,000)	-	(1
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)	-	9
Provision for (benefit from) income taxes	4,292,000	27,253,000	(359,000)	-	3
Net earnings (loss) before equity in undistributed earnings (loss) of subsidiaries	7,307,000	58,648,000	(742,000)	-	6
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)	$ 6

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, 2006:

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiary	Consolidating Entries	Con
Net sales	$ -	377,003,000	14,971,000	(463,000)	$ 39
Cost of sales	-	227,042,000	5,631,000	(463,000)	23
Gross profit	-	149,961,000	9,340,000	-	15
Expenses:					
Selling, general and administrative	-	61,467,000	5,604,000	-	6
Research and development	-	24,392,000	1,442,000	-	2
Amortization of intangibles	-	2,288,000	177,000	-	
	-	88,147,000	7,223,000	-	9
Operating income	-	61,814,000	2,117,000	-	6
Other expense (income):					
Interest expense	2,646,000	41,000	-	-	
Interest income and other	(9,193,000)	(60,000)	10,000	-	(
Income before provision for income taxes and equity in undistributed earnings of subsidiaries	6,547,000	61,833,000	2,107,000	-	7
Provision for income taxes	2,435,000	22,133,000	650,000	-	2
Net earnings before equity in undistributed earnings of subsidiaries	4,112,000	39,700,000	1,457,000	-	4
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)	$ 4

COMTECH TELECOMMUNICATIONS CORP.
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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, 2008:

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiary	Consolidating Entries	Con
Cash flows from operating activities:					
Net income	$ 76,433,000	69,340,000	966,000	(70,306,000)	$ 76
Adjustments to reconcile net income to net cash provided by operating activities:					
Depreciation and amortization of property, plant and equipment	203,000	8,766,000	227,000	-	
Amortization of intangible assets with finite lives	-	1,503,000	207,000	-	
Amortization of stock-based compensation	4,377,000	6,106,000	157,000	-	10
Amortization of deferred financing costs	546,000	-	-	-	
Loss on disposal of property, plant and equipment	-	6,000	-	-	
Provision for allowance for doubtful accounts	-	663,000	60,000	-	
Provision for excess and obsolete inventory	-	2,402,000	12,000	-	
Excess income tax benefit from stock award exercises	(2,374,000)	-	-	-	(
Deferred income tax benefit	(2,524,000)	(196,000)	(16,000)	-	(
Equity in undistributed earnings of subsidiaries	(69,340,000)	(966,000)	-	70,306,000	
Intercompany accounts	49,391,000	(51,282,000)	1,891,000	-	
Changes in assets and liabilities, net of effects of acquisitions:					
Accounts receivable	-	(2,200,000)	5,022,000	-	
Inventories	-	(24,988,000)	(50,000)	-	(2
Prepaid expenses and other current assets	(85,000)	301,000	(355,000)	188,000	
Other assets	1,000	34,000	4,000	-	
Accounts payable	1,224,000	5,333,000	858,000	(2,054,000)	
Accrued expenses and other current liabilities	732,000	462,000	41,000	-	
Customer advances and deposits	-	(1,935,000)	(2,834,000)	-	(4

Deferred service revenue	-	-	-	-	
Income taxes payable	1,032,000	-	675,000	(188,000)	
Net cash provided by operating activities	59,616,000	13,349,000	6,865,000	(2,054,000)	7
Cash flows from investing activities:					
Purchases of property, plant and equipment	(100,000)	(13,739,000)	(225,000)	-	(1
Purchase of other intangibles with finite lives	-	(193,000)	-	-	
Payments for business acquisitions	(2,042,000)	(265,000)	(3,887,000)	-	(
Net cash used in investing activities	(2,142,000)	(14,197,000)	(4,112,000)	-	(2
Cash flows from financing activities:					
Principal payments on other obligations	-	(135,000)	-	-	
Excess income tax benefit from stock award exercises	2,374,000	-	-	-	
Proceeds from exercises of stock options	6,696,000	-	-	-	
Proceeds from issuance of employee stock purchase plan shares	904,000	-	-	-	
Net cash provided by (used in) financing activities	9,974,000	(135,000)	-	-	
Net increase (decrease) in cash and cash equivalents	67,448,000	(983,000)	2,753,000	(2,054,000)	6
Cash and cash equivalents at beginning of period	340,617,000	983,000	1,303,000	-	34
Cash and cash equivalents at end of period	$ 408,065,000	-	4,056,000	(2,054,000)	$ 41

COMTECH TELECOMMUNICATIONS CORP.
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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	Con
Cash flows from operating activities:					
Net income (loss)	$ 65,213,000	57,906,000	(742,000)	(57,164,000)	$ 6
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	-	
Amortization of intangible assets with finite lives	-	2,415,000	177,000	-	
Amortization of stock-based compensation	2,932,000	4,430,000	39,000	-	
Amortization of deferred financing costs	546,000	-	-	-	
Loss on disposal of property, plant and equipment	-	201,000	2,000	-	
Benefit from allowance for doubtful accounts	-	(308,000)	(67,000)	-	
Provision for (benefit from) excess and obsolete inventory	-	4,519,000	(28,000)	-	
Excess income tax benefit from stock award exercises	(7,990,000)	-	-	-	(
Deferred income tax expense (benefit)	562,000	(693,000)	(16,000)	-	
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	-	-	
Accounts receivable	-	93,000	(3,256,000)	-	(
Inventories	-	(4,196,000)	(622,000)	-	(
Prepaid expenses and other current assets	(767,000)	1,302,000	(43,000)	-	
Other assets	-	73,000	-	-	
Accounts payable	(16,000)	(1,881,000)	(303,000)	-	(
	3,657,000	3,116,000	(1,165,000)	-	

Accrued expenses and other current liabilities					
Customer advances and deposits	-	11,687,000	4,825,000	-	1
Deferred service revenue	-	(9,896,000)	-	-	(
Income taxes payable	7,467,000	-	(1,311,000)	-	
Net cash provided by (used in) operating activities	84,151,000	6,781,000	(1,695,000)	-	8
Cash flows from investing activities:					
Purchases of property, plant and equipment	(115,000)	(11,618,000)	(342,000)	-	(1
Purchase of other intangibles with finite lives	-	(38,000)	-	-	
Payments for business acquisitions	-	(3,937,000)	-	-	(
Net cash used in investing activities	(115,000)	(15,593,000)	(342,000)	-	(1
Cash flows from financing activities:					
Principal payments on other obligations	-	(154,000)	-	-	
Excess income tax benefit from stock award exercises	7,990,000	-	-	-	
Proceeds from exercises of stock options	9,535,000	-	-	-	
Proceeds from issuance of employee stock purchase plan shares	758,000	-	-	-	
Net cash provided by (used in) financing activities	18,283,000	(154,000)	-	-	1
Net increase (decrease) in cash and cash equivalents	102,319,000	(8,966,000)	(2,037,000)	-	9
Cash and cash equivalents at beginning of period	238,298,000	9,949,000	3,340,000	-	25
Cash and cash equivalents at end of period	$ 340,617,000	983,000	1,303,000	-	$ 34

COMTECH TELECOMMUNICATIONS CORP.
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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	Con
Cash flows from operating activities:					
Net income	$ 45,269,000	41,157,000	1,457,000	(42,614,000)	$ 4
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	-	
Amortization of intangible assets with finite lives	-	2,289,000	176,000	-	
Amortization of stock-based compensation	2,176,000	3,495,000	10,000	-	
Amortization of deferred financing costs	546,000	-	-	-	
Loss on disposal of property, plant and equipment	-	35,000	1,000	-	
Provision for allowance for doubtful accounts	-	556,000	192,000	-	
Provision for excess and obsolete inventory	-	1,981,000	49,000	-	
Excess income tax benefit from stock award exercises	(4,065,000)	-	-	-	(4
Deferred income tax expense (benefit)	1,013,000	(74,000)	(107,000)	-	
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	-	-	-	
Accounts receivable	-	(11,775,000)	(2,968,000)	-	(1
Inventories	-	(17,860,000)	(49,000)	-	(1
Prepaid expenses and other current assets	(213,000)	(2,262,000)	(316,000)	-	(
Other assets	(56,000)	(195,000)	(9,000)	-	
Accounts payable	39,000	4,392,000	329,000	-	
	1,181,000	5,271,000	1,281,000	-	

Accrued expenses and other current liabilities					
Customer advances and deposits	-	(1,780,000)	42,000	-	(
Deferred service revenue	-	1,686,000	-	-	
Income taxes payable	6,953,000	-	824,000	-	
Net cash provided by operating activities	19,704,000	21,656,000	2,970,000	-	4
Cash flows from investing activities:					
Purchases of property, plant and equipment	(587,000)	(11,387,000)	(353,000)	-	(1
Purchase of other intangibles with finite lives	-	(197,000)	-	-	
Payments for business acquisition	-	(1,000,000)	-	-	(
Net cash used in investing activities	(587,000)	(12,584,000)	(353,000)	-	(1
Cash flows from financing activities:					
Principal payments on other obligations	-	(234,000)	-	-	
Excess income tax benefit from stock award exercises	4,065,000	-	-	-	
Proceeds from exercises of stock options	1,863,000	-	-	-	
Proceeds from issuance of employee stock purchase plan shares	674,000	-	-	-	
Net cash provided by (used in) financing activities	6,602,000	(234,000)	-	-	
Net increase in cash and cash equivalents	25,719,000	8,838,000	2,617,000	-	3
Cash and cash equivalents at beginning of period	212,579,000	1,111,000	723,000	-	21
Cash and cash equivalents at end of period	$ 238,298,000	9,949,000	3,340,000	-	$ 25

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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 d

Fiscal 2008		First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Net sales	$	115,055	152,030	138,068	126,474	531,627
Gross profit		50,478	66,325	60,532	57,605	234,940
Net income		14,694	25,469	19,305	16,965	76,433
Diluted income per share	$	0.54	0.91	0.70	0.61	2.76

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 year as a result of rounding.

(18) Subsequent Events

In August 2008, the Company acquired Radyne Corporation ("Radyne") for a preliminary aggregate purc approximately $231,684,000 (including estimated transaction costs and liabilities assumed for outstanding s awards). Radyne designs, manufactures, sells, integrates and installs products, systems and software us transmission and reception of data and video over satellite, troposcatter, microwave and cable communicatio The acquisition will be accounted for in the first quarter of fiscal 2009.

The Company believes that the acquisition of Radyne resulted in the following strategic benefits:

-

Strengthened its leadership position in its satellite earth station product line in its telecommu
transmission segment;

- More than doubled the size of its RF microwave amplifiers segment by expanding its amplifier produ
and immediately positioning it as a leader, not only in the solid-state amplifier market but also in t
earth station traveling wave tube amplifier market;

- Broadened the number of products and services that its mobile data communications segment ca
allowing it to market additional mobile tracking products as well as design and manufacture microsa
related components; and

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

In connection with the acquisition, the Company immediately adopted a restructuring plan and is currently in
of closing Radyne's Phoenix, Arizona manufacturing facility and integrating that operation into the
high-volume technology manufacturing center located in Tempe, Arizona. In addition, Radyne's corporat
which were co-located in Radyne's Phoenix, Arizona manufacturing facility, will be moved to the Compan
New York corporate office.

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Notes to Consolidated Financial Statements, Continued

In connection with the realization of operating synergies, the Company preliminarily estimates that it approximately $9,600,000 of restructuring costs, of which approximately $8,700,000 relates to possible exit co to the shut-down of Radyne's Phoenix, Arizona manufacturing facility. The Company has already incurred $ severance costs for Radyne employees who were notified that they were being terminated on August 1, Company is in preliminary negotiations with a tenant who subleases, from it, a portion of the manufacturing f is interested in subleasing the remaining portion of this facility from the Company. If the negotiations with are successful, the Company's actual net costs related to the shut-down of the manufacturing facility will be s lower. If the negotiations with this tenant are not successful, the Company intends to perform an assessment or not it will be able to sublease the Phoenix, Arizona facility for the remaining duration of the lease, and at w any, it might be able to receive, given the poor real-estate market conditions in the Phoenix, Arizona area uncertainties relating to the local economic environment. The Company anticipates that it will be able to capi costs as part of purchase accounting in accordance with Emerging Issues Task Force 95-3, "Recognition of L Connection with a Purchase Business Combination ("EITF 95-3").

From an operational and financial reporting perspective, as of August 1, 2008, Radyne's satellite electronic encoders and decoder product lines are now part of the Company's telecommunications transmission segme TWTA and KPA amplifier product portfolios are now part of the Company's RF microwave amplifiers se Radyne's microsatellites and SENS product lines are now part of the Company's mobile data communications

The Company accounts for business combinations in accordance with FASB Statement No. 141, Combinations" ("SFAS No. 141"). In accordance with SFAS No. 141, the preliminary aggregate purch Radyne was allocated to amortizable intangible assets and acquired in-process research and development (based upon their respective preliminary estimated fair values as of August 1, 2008, as set forth below:

		Preliminary Fair Value	Estimated Useful Lives
Preliminary fair value adjustments to amortizable intangible assets and IPR&D:			
Inventory step-up	$	1,520,000	6 months
IPR&D		6,200,000	Expensed immediately
Customer relationships		29,600,000	10 years
Core technologies		19,900,000	7 to 15 years
Trademarks and other		5,600,000	2 to 20 years
Total	$	62,820,000	

The preliminary estimates in the above table are based on available information, certain assumptions and p valuation work and may change upon finalization. The primary areas of the purchase price allocation that finalized relate to the specifically identifiable intangible values (including IPR&D), goodwill, income restructuring costs. The Company expects the allocation will be finalized within one year.

Based on this preliminary allocation, the annual amortization of the above fair value adjustments will ap $6,600,000 in the Company's fiscal 2009 consolidated statements of operations, of which $5,100,000 (to be

operating expenses) is related to amortization of intangibles and $1,500,000 (to be recorded as cost of sales) i
the estimated fair value step-up of inventory acquired.

In addition, in August 2008 (the start of the Company's fiscal 2009) and in accordance with SFAS No. 141, th
expects to record the $6,200,000 of amortization associated with IPR&D.

Schedule II

COMTECH TELECOMMUNICATIONS CORP.
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Valuation and Qualifying Accounts and Reserves

Fiscal Years Ended July 31, 2008, 2007 and 2006

Column A	Column B	Column C Additions		Column D	C
Description	Balance at beginning of period	Charged to cost and expenses	Charged to other accounts - describe	Transfers (deductions) - describe	B
Allowance for doubtful accounts -					
accounts receivable:					
Year ended July 31,					
2008	$ 685,000	723,000 (A)	-	(107,000) (B)	$
2007	1,376,000	(375,000)(A)	-	(316,000) (B)	
2006	636,000	748,000 (A)	-	(8,000) (B)	
Inventory reserves:					
Year ended July 31,					
2008	$ 8,504,000	2,414,000 (C)	-	(2,717,000) (D)	$
2007	6,123,000	4,491,000 (C)	-	(2,110,000) (D)	
2006	6,509,000	2,030,000 (C)	-	(2,416,000) (D)	

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

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