COMTECH TELECOMMUNICATIONS CORP /DE/
Form 10-Q
December 08, 2011

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

FORM
10-Q

(Mark One)

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

For the quarterly period ended October 31, 2011

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

Commission File Number: 0-7928

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

As of December 5, 2011, the number of outstanding shares of Common Stock, par value $.10 per share, of the registrant was 20,344,330 shares.

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

Item 1.

Assets	October 31, 2011 (Unaudited)	July 31, 2011
Current assets:		
Cash and cash equivalents	$474,322,000	558,804,000
Accounts receivable, net	74,472,000	70,801,000
Inventories, net	74,700,000	74,661,000
Prepaid expenses and other current assets	6,863,000	7,270,000
Deferred tax asset, net	11,367,000	11,529,000
Total current assets	641,724,000	723,065,000
Property, plant and equipment, net	25,661,000	26,638,000
Goodwill	137,354,000	137,354,000
Intangibles with finite lives, net	43,751,000	45,470,000
Deferred financing costs, net	3,706,000	3,823,000
Other assets, net	1,177,000	1,159,000
Total assets	$853,373,000	937,509,000
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$18,631,000	23,501,000
Accrued expenses and other current liabilities	43,573,000	49,858,000
Dividends payable	6,102,000	6,100,000
Customer advances and deposits	8,937,000	11,011,000
Interest payable	3,031,000	1,531,000
Income taxes payable	4,422,000	4,056,000
Total current liabilities	84,696,000	96,057,000
Convertible senior notes	200,000,000	200,000,000
Other liabilities	6,335,000	6,360,000
Income taxes payable	3,096,000	3,811,000
Deferred tax liability	2,484,000	2,101,000
Total liabilities	296,611,000	308,329,000
Commitments and contingencies (See Note 20)		
Stockholders' equity:		
Preferred stock, par value $.10 per share; shares authorized and unissued 2,000,000	-	-
Common stock, par value $.10 per share; authorized 100,000,000 shares; issued 28,842,543 shares and 28,731,265 shares at October 31, 2011 and July 31, 2011, respectively	2,884,000	2,873,000
Additional paid-in capital	357,225,000	355,001,000
Retained earnings	399,608,000	393,109,000
	759,717,000	750,983,000

Less:		
Treasury stock, at cost (7,225,838 shares and 4,508,445 shares at October 31, 2011 and July 31, 2011, respectively)	(202,955,000)	(121,803,000)
Total stockholders' equity	556,762,000	629,180,000
Total liabilities and stockholders' equity	$853,373,000	937,509,000

See accompanying notes to condensed consolidated financial statements.

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

		Three months ended October 31, 2011	2010
Net sales	$	113,361,000	178,160,000
Cost of sales		62,081,000	113,926,000
Gross profit		51,280,000	64,234,000
Expenses:			
Selling, general and administrative		24,118,000	24,015,000
Research and development		9,684,000	10,751,000
Amortization of intangibles		1,719,000	1,887,000
Merger termination fee, net		-	(12,500,000)
		35,521,000	24,153,000
Operating income		15,759,000	40,081,000
Other expenses (income):			
Interest expense		2,146,000	2,063,000
Interest income and other		(496,000)	(694,000)
Income before provision for income taxes		14,109,000	38,712,000
Provision for income taxes		1,508,000	13,056,000
Net income	$	12,601,000	25,656,000
Net income per share (See Note 6):			
Basic	$	0.54	0.91
Diluted	$	0.47	0.79
Weighted average number of common shares outstanding – basic		23,257,000	28,119,000
Weighted average number of common and common equivalent shares outstanding – diluted		29,147,000	33,771,000
Dividends declared per issued and outstanding common share as of the applicable dividend record date	$	0.275	0.25

See accompanying notes to condensed consolidated financial statements.

COMTECH TELECOMMUNICATIONS CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME
THREE MONTHS ENDED OCTOBER 31, 2011 AND 2010
(Unaudited)

	Common Stock		Additional		Treasury Stock			
			Paid-in	Retained			Stockholders'	Comprehensive
	Shares	Amount	Capital	Earnings	Shares	Amount	Equity	Income
Balance July 31, 2010	28,542,535	$2,854,000	$347,514,000	$351,449,000	210,937	$(185,000)	$701,632,000	
Equity-classified stock award compensation	-	-	1,491,000	-	-	-	1,491,000	
Proceeds from exercise of options	37,795	4,000	609,000	-	-	-	613,000	
Proceeds from issuance of employee stock purchase plan shares	12,319	1,000	285,000	-	-	-	286,000	
Cash dividends	-	-	-	(6,915,000)	-	-	(6,915,000)	
Income tax shortfall from stock-based award exercises	-	-	(3,000)	-	-	-	(3,000)	
Reversal of deferred tax assets associated with expired and unexercised stock-based awards	-	-	(1,033,000)	-	-	-	(1,033,000)	
Repurchases of common stock	-	-	-	-	720,996	(20,198,000)	(20,198,000)	
Net income	-	-	-	25,656,000	-	-	25,656,000	$25
Balance October 31, 2010	28,592,649	$2,859,000	$348,863,000	$370,190,000	931,933	$(20,383,000)	$701,529,000	$25
Balance July 31, 2011	28,731,265	$2,873,000	$355,001,000	$393,109,000	4,508,445	$(121,803,000)	$629,180,000	
Equity-classified stock award	-	-	853,000	-	-	-	853,000	

compensation								
Proceeds from exercise of options	99,260	10,000	2,231,000	-	-	-	2,241,000	
Proceeds from issuance of employee stock purchase plan shares	12,018	1,000	286,000	-	-	-	287,000	
Cash dividends	-	-	-	(6,102,000)	-	-	(6,102,000)	
Income tax shortfall from stock-based award exercises	-	-	(125,000)	-	-	-	(125,000)	
Reversal of deferred tax assets associated with expired and unexercised stock-based awards	-	-	(1,021,000)	-	-	-	(1,021,000)	
Repurchases of common stock	-	-	-	-	2,717,393	(81,152,000)	(81,152,000)	
Net income	-	-	-	12,601,000	-	-	12,601,000	$12
Balance October 31, 2011	28,842,543	$2,884,000	$357,225,000	$399,608,000	7,225,838	$(202,955,000)	$556,762,000	$12

See accompanying notes to condensed consolidated financial statements

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

	Three months ended October 31, 2011	2010
Cash flows from operating activities:		
Net income	$ 12,601,000	25,656,000
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization of property, plant and equipment	2,420,000	2,938,000
Amortization of intangible assets with finite lives	1,719,000	1,887,000
Amortization of stock-based compensation	873,000	1,508,000
Deferred financing costs	366,000	353,000
Loss on disposal of property, plant and equipment	-	1,000
(Benefit from) provision for allowance for doubtful accounts	(55,000)	410,000
Provision for excess and obsolete inventory	565,000	372,000
Excess income tax (benefit) shortfall from stock-based award exercises	(19,000)	3,000
Deferred income tax (benefit) expense	(476,000)	170,000
Changes in assets and liabilities, net of effects of acquisition:		
Accounts receivable	(3,616,000)	45,080,000
Inventories	(3,380,000)	(11,699,000)
Prepaid expenses and other current assets	407,000	735,000
Other assets	(18,000)	5,000
Accounts payable	(4,870,000)	(49,452,000)
Accrued expenses and other current liabilities	(6,466,000)	(13,780,000)
Customer advances and deposits	(2,074,000)	6,104,000
Other liabilities	225,000	137,000
Interest payable	1,500,000	1,516,000
Income taxes payable	(474,000)	7,353,000
Net cash (used in) provided by operating activities	(772,000)	19,297,000
Cash flows from investing activities:		
Purchases of property, plant and equipment	(1,443,000)	(2,000,000)
Payments for business acquisitions	-	(2,400,000)
Net cash used in investing activities	(1,443,000)	(4,400,000)
Cash flows from financing activities:		
Repurchases of common stock	(78,651,000)	(20,152,000)
Cash dividends paid	(6,100,000)	-
Proceeds from exercises of stock options	2,241,000	613,000
Proceeds from issuance of employee stock purchase plan shares	287,000	286,000
Excess income tax benefit (shortfall) from stock-based award exercises	19,000	(3,000)
Payment of contingent consideration related to business acquisition	(63,000)	-
Origination fees related to line of credit	-	(537,000)
Net cash used in financing activities	(82,267,000)	(19,793,000)
Net decrease in cash and cash equivalents	(84,482,000)	(4,896,000)

Cash and cash equivalents at beginning of period		558,804,000	607,594,000
Cash and cash equivalents at end of period	$	474,322,000	602,698,000

See accompanying notes to condensed consolidated financial statements.

(Continued)

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

	Three months ended October 31,	
	2011	2010
Supplemental cash flow disclosure		
Cash paid during the period for:		
Interest	$ 95,000	114,000
Income taxes	$ 2,459,000	5,692,000
Non-cash investing and financing activities:		
Business acquisition liabilities (See Note 18)	$ -	4,103,000
Cash dividends declared	$ 6,102,000	6,915,000
Accrued repurchases of common stock	$ 4,502,000	46,000

See accompanying notes to condensed consolidated financial statements.

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

(1) General

The accompanying condensed consolidated financial statements of Comtech Telecommunications Corp. and Subsidiaries ("Comtech," "we," "us," or "our") as of and for the three months ended October 31, 2011 and 2010 are unaudited. In the opinion of management, the information furnished reflects all material adjustments (which include normal recurring adjustments) necessary for a fair presentation of the results for the unaudited interim periods. Our results of operations for such periods are not necessarily indicative of the results of operations to be expected for the full fiscal year.

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

Our condensed consolidated financial statements should be read in conjunction with our audited consolidated financial statements, filed with the Securities and Exchange Commission ("SEC"), for the fiscal year ended July 31, 2011 and the notes thereto contained in our Annual Report on Form 10-K, and all of our other filings with the SEC.

(2) Adoption of Accounting Standards Updates

The Financial Accounting Standards Board's ("FASB") Accounting Standards Codification ("ASC") is subject to updates by FASB, which are known as Accounting Standards Updates ("ASUs"). The following are FASB ASUs which have been issued and incorporated into the FASB ASC and adopted by us:

On August 1, 2011, we adopted FASB ASU No. 2010-06, which amends the disclosure requirements of FASB ASC 820-10, "Fair Value Measurements and Disclosures – Overall." This FASB ASU requires that information about purchases, sales, issuances and settlements be presented separately, on a gross basis, in Level 3 fair value measurement reconciliations. Our adoption of this ASU did not have any impact on our condensed consolidated financial statements, as we have historically valued our money market mutual funds and U.S. Treasury securities using Level 1 inputs and do not have any other assets or liabilities in our Condensed Consolidated Balance Sheets at estimated fair value.

On August 1, 2011, we adopted FASB ASU No. 2010-28, which amends the factors considered in determining if goodwill is impaired in FASB ASC 350, "Intangibles – Goodwill and Other." This ASU requires entities that have reporting units with carrying amounts that are zero or negative to assess whether it is more likely than not that the reporting unit's goodwill is impaired and, if an impairment is likely, to perform Step 2 of the goodwill impairment test for the reporting unit(s). On August 1, 2011, the date we performed our annual goodwill impairment test for fiscal 2012, none of our reporting units with goodwill had a zero or negative carrying value and, as such, our adoption of this ASU did not have any impact on our condensed consolidated financial statements.

On August 1, 2011, we adopted FASB ASU No. 2010-29, which amends the presentation and disclosure requirements of FASB ASC 805, "Business Combinations." This ASU requires a public entity that presents comparative financial statements to disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. This ASU also expands the supplemental proforma disclosures required. Our adoption of this

ASU did not have any impact on our condensed consolidated financial statements, as we did not acquire any businesses during the three months ended October 31, 2011.

On August 1, 2011, we adopted FASB ASU No. 2010-20, which amends ASC 310, "Receivables" by requiring additional disclosures regarding troubled debt restructuring. In addition, we also adopted FASB ASU No. 2011-02, which amends the previously issued guidance on evaluation of whether or not a restructuring constitutes a troubled debt restructuring. Our adoption of these ASUs did not have any impact on our condensed consolidated financial statements given that substantially all of our receivables are classified as trade receivables.

(3) Reclassifications

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

(4) Stock-Based Compensation

We issue stock-based awards to certain of our employees and our Board of Directors and we recognize related stock-based compensation for both equity and liability-classified stock-based awards in our condensed consolidated financial statements. These awards are issued pursuant to our 2000 Stock Incentive Plan and our 2001 Employee Stock Purchase Plan (the "ESPP").

Stock-based compensation for equity-classified awards is measured at the date of grant, based on an estimate of the fair value of the award and is generally expensed over the vesting period of the grant. Stock-based compensation for liability-classified awards is determined the same way, except that the fair value of liability-classified awards is remeasured at the end of each reporting period until the award is settled, with changes in fair value recognized pro-rata for the portion of the requisite service period rendered.

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

	Three months ended October 31,	
	2011	2010
Cost of sales	$ 53,000	122,000
Selling, general and administrative expenses	645,000	1,098,000
Research and development expenses	175,000	288,000
Stock-based compensation expense before income tax benefit	873,000	1,508,000
Income tax benefit	(306,000)	(542,000)
Net stock-based compensation expense	$ 567,000	966,000

Of the total stock-based compensation expense before income tax benefit recognized in the three months ended October 31, 2011 and 2010, $61,000 and $69,000, respectively, relates to stock-based awards issued pursuant to our ESPP.

Included in total stock-based compensation expense before income tax benefit in the three months ended October 31, 2011 and 2010 is an expense of $20,000 and $17,000, respectively, as a result of the required fair value remeasurement of our liability-classified stock appreciation rights ("SARs") at the end of each of the respective reporting periods.

Stock-based compensation that was capitalized and included in ending inventory at both October 31, 2011 and July 31, 2011 was $117,000.

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

The per share weighted average grant-date fair value of stock-based awards granted during the three months ended October 31, 2011 and 2010 approximated $5.88 and $6.67, respectively. In addition to the exercise and grant-date prices of these awards, we utilized certain weighted average assumptions to estimate the initial fair value of stock-based awards.

Weighted average assumptions related to our stock-based awards are listed in the table below:

	Three months ended October 31, 2011		2010	
Expected dividend yield	4.04	%	3.66	%
Expected volatility	36.00	%	38.00	%
Risk-free interest rate	0.88	%	1.27	%
Expected life (years)	5.42		5.18	

Stock-based awards granted have exercise prices equal to the fair market value of the stock on the date of grant, a contractual term of five or ten years and a vesting period of three or five years. We settle employee stock option exercises with new shares. All SARs granted through October 31, 2011 may only be settled with cash. Included in accrued expenses at October 31, 2011 and July 31, 2011 is $42,000 and $22,000, respectively, relating to the potential cash settlement of SARs.

The expected dividend yield is the expected annual dividend as a percentage of the fair market value of the stock on the date of grant. For the stock-based awards granted during the three months ended October 31, 2011 and 2010, the expected dividend yield was equal to our targeted annual dividend of $1.10 per share and $1.00 per share, respectively, divided by the quoted market price of our common stock on the date of the grant. We estimate expected volatility by considering the historical volatility of our stock, the implied volatility of publicly traded call options on our stock, the implied volatility of call options embedded in our 3.0% convertible senior notes and our expectations of volatility for the expected life of stock-based awards. The risk-free interest rate is based on the U.S. treasury yield curve in effect at the time of grant for an instrument which closely approximates the expected option term. The expected option term is the number of years we estimate that stock-based awards will be outstanding prior to exercise. The expected life of awards issued is determined by employee groups with sufficiently distinct behavior patterns.

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

		Three months ended October 31, 2011		2010	
Actual income tax benefit recorded for the tax deductions relating to the exercise of stock-based awards	$	120,000		25,000	
Less: Tax benefit initially recognized on exercised stock-based awards vesting subsequent to the adoption of accounting standards that require us to expense stock-based awards, excluding income tax shortfalls		(99,000	)	(28,000	)
Excess income tax benefit (shortfall) recorded as an increase (decrease) to additional paid-in capital		21,000		(3,000	)
Less: Tax benefit initially disclosed but not previously recognized on exercised equity-classified stock-based awards vesting prior to the adoption of accounting standards that require us to expense stock-based awards		(2,000	)	-	
Excess income tax benefit (shortfall) from exercised equity-classified stock-based awards reported as a cash flow from financing activities in our Condensed Consolidated Statements of Cash Flows	$	19,000		(3,000	)

At October 31, 2011, total remaining unrecognized compensation cost related to unvested stock-based awards was $8,673,000, net of estimated forfeitures of $530,000. The net cost is expected to be recognized over a weighted average period of 3.7 years.

As of October 31, 2011, the amount of hypothetical tax benefits related to stock-based awards was $22,973,000. During the three months ended October 31, 2011 and 2010, we recorded $1,021,000 and $1,033,000, respectively, as a reduction to additional paid-in capital, which represented the reversal of unrealized deferred tax assets associated with certain vested equity-classified stock-based awards that expired during each respective fiscal period.

(5) Fair Value Measurements and Financial Instruments

In accordance with FASB ASC 825, “Financial Instruments,” we determined that, as of October 31, 2011 and July 31, 2011, the fair value of our 3.0% convertible senior notes was approximately $225,400,000 and $207,680,000, respectively, based on quoted market prices in an active market. Our 3.0% convertible senior notes are not marked-to-market and are shown in our accompanying Condensed Consolidated Balance Sheets at their original issuance value. As such, changes in the estimated fair value of our 3.0% convertible senior notes are not recorded in our condensed consolidated financial statements.

As of October 31, 2011 and July 31, 2011, we had approximately $127,336,000 and $152,878,000, respectively, of money market mutual funds which are classified as cash and cash equivalents in our Condensed Consolidated Balance Sheets. These money market mutual funds are recorded at their current fair value. FASB ASC 820, “Fair Value Measurements and Disclosures,” requires us to define fair value as the price that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As such, using the fair value hierarchy described in FASB ASC 820, we valued our money market mutual funds using Level 1 inputs that were based on quoted market prices. As of October 31, 2011 and July 31, 2011, we had no other assets included in our Condensed Consolidated Balance Sheets that are recorded at current fair value. If we acquire different types of assets or incur different types of liabilities in the future, we might be required to use different FASB ASC fair value methodologies.

(6) Earnings Per Share

Our basic earnings per share (“EPS”) is computed based on the weighted average number of shares outstanding during each respective period. Our diluted EPS reflects the dilution from potential common stock issuable pursuant to the exercise of equity-classified stock-based awards and convertible senior notes, if dilutive, outstanding during each respective period. When calculating our diluted EPS, we consider (i) the amount an employee must pay upon assumed exercise of stock-based awards; (ii) the amount of stock-based compensation cost attributed to future services and not yet recognized; and (iii) the amount of excess tax benefits, if any, that would be credited to additional paid-in capital assuming exercise of in-the-money stock-based awards. This excess tax benefit is the amount resulting from a tax deduction for compensation in excess of compensation expense, based on the Black Scholes option pricing model, recognized for financial reporting purposes.

Equity-classified stock-based awards to purchase 2,753,000 and 2,927,000 shares for the three months ended October 31, 2011 and 2010, respectively, were not included in our diluted EPS calculation because their effect would have been anti-dilutive. Liability-classified stock-based awards do not impact and are not included in the denominator for EPS calculations.

In addition, the weighted-average basic and diluted shares outstanding for the three months ended October 31, 2011 and 2010 reflect a reduction of approximately 993,000 and 225,000 shares as a result of the repurchase of our common shares during the respective periods. See Note (19) – “Stockholders’ Equity” for more information on the stock repurchase program.

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

	Three months ended October 31, 2011	2010
Numerator:		
Net income for basic calculation	$ 12,601,000	25,656,000
Effect of dilutive securities:		
Interest expense (net of tax) on 3.0% convertible senior notes	1,117,000	1,117,000
Numerator for diluted calculation	$ 13,718,000	26,773,000
Denominator:		
Denominator for basic calculation	23,257,000	28,119,000
Effect of dilutive securities:		
Stock options	198,000	159,000
Conversion of 3.0% convertible senior notes	5,692,000	5,493,000
Denominator for diluted calculation	29,147,000	33,771,000

(7) Accounts Receivable

Accounts receivable consists of the following:

	October 31, 2011	July 31, 2011
Billed receivables from commercial customers	$ 44,055,000	38,245,000
Billed receivables from the U.S. government and its agencies	22,148,000	22,075,000
Unbilled receivables on contracts-in-progress	9,440,000	11,701,000
Total accounts receivable	75,643,000	72,021,000
Less allowance for doubtful accounts	1,171,000	1,220,000
Accounts receivable, net	$ 74,472,000	70,801,000

Unbilled receivables on contracts-in-progress include $2,948,000 and $4,487,000 at October 31, 2011 and July 31, 2011, respectively, due from the U.S. government and its agencies. There was $28,000 of retainage included in unbilled receivables at both October 31, 2011 and July 31, 2011. In the opinion of management, substantially all of the unbilled balances will be billed and collected within one year.

(8) Inventories

Inventories consist of the following:

	October 31, 2011	July 31, 2011
Raw materials and components	$ 55,030,000	53,678,000
Work-in-process and finished goods	33,984,000	34,299,000
Total inventories	89,014,000	87,977,000
Less reserve for excess and obsolete inventories	14,314,000	13,316,000
Inventories, net	$ 74,700,000	74,661,000

At October 31, 2011 and July 31, 2011, the amount of total inventories expected to be used for long-term contracts (including contracts-in-progress) was $3,001,000 and $8,041,000, respectively.

At October 31, 2011, $716,000 of our long-term contract inventory relates to our BFT-1 contract. Our BFT-1 contract is known as an “indefinite delivery/indefinite quantity” type contract; thus, the U.S. Army is not obligated to purchase any additional products or services from us in the future. Almost the entire long-term BFT-1 inventory relates to BFT-1 orders already in our backlog. The remaining portion is expected to be used for incidental purchases and customer repairs. If we are left with inventories of unusable parts, we would likely have to write-off the remaining balance in the period that we make such determination.

At October 31, 2011 and July 31, 2011, $948,000 and $1,339,000, respectively, of the total inventory balance above related to contracts from third party commercial customers who outsource their manufacturing to us.

(9) Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consist of the following:

		October 31, 2011	July 31, 2011
Accrued wages and benefits	$	12,248,000	19,751,000
Accrued			