

COMTECH TELECOMMUNICATIONS CORP /DE/

Form 10-Q

March 08, 2017

Index

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended January 31, 2017

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

Commission File Number: 0-7928

(Exact name of registrant as specified in its charter)

Delaware

11-2139466

(State or other jurisdiction of incorporation /organization) (I.R.S. Employer Identification Number)

68 South Service Road, Suite 230,

Melville, NY

11747

(Address of principal executive offices)

(Zip Code)

(631) 962-7000

(Registrant's telephone number, including area code)

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

Yes

No

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

Yes

No

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

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

Yes

No

APPLICABLE ONLY TO CORPORATE ISSUERS:

As of March 2, 2017, the number of outstanding shares of Common Stock, par value \$.10 per share, of the registrant was 23,553,159 shares.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

COMTECH TELECOMMUNICATIONS CORP. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

	January 31, 2017	July 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	\$63,144,000	66,805,000
Accounts receivable, net	125,545,000	150,967,000
Inventories, net	71,168,000	71,354,000
Prepaid expenses and other current assets	18,638,000	14,513,000
Total current assets	278,495,000	303,639,000
Property, plant and equipment, net	35,759,000	38,667,000
Goodwill	290,633,000	287,618,000
Intangibles with finite lives, net	272,607,000	284,694,000
Deferred financing costs, net	2,946,000	3,309,000
Other assets, net	3,068,000	3,269,000
Total assets	\$883,508,000	921,196,000
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$24,807,000	33,462,000
Accrued expenses and other current liabilities	88,795,000	98,034,000
Dividends payable	2,343,000	7,005,000
Customer advances and deposits	23,714,000	29,665,000
Current portion of long-term debt	13,281,000	11,067,000
Current portion of capital lease obligations	3,064,000	3,592,000
Interest payable	850,000	1,321,000
Total current liabilities	156,854,000	184,146,000
Non-current portion of long-term debt, net	229,834,000	239,969,000
Non-current portion of capital lease obligations	2,696,000	4,021,000
Income taxes payable	3,012,000	2,992,000
Deferred tax liability, net	12,479,000	9,798,000
Customer advances and deposits, non-current	8,726,000	5,764,000
Other liabilities	3,448,000	4,105,000
Total liabilities	417,049,000	450,795,000
Commitments and contingencies (See Note 19)		
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 38,586,476 shares and 38,367,997 shares at January 31, 2017 and July 31, 2016, respectively	3,859,000	3,837,000
Additional paid-in capital	526,267,000	524,797,000
Retained earnings	378,182,000	383,616,000
	908,308,000	912,250,000
Less:		

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Treasury stock, at cost (15,033,317 shares at January 31, 2017 and July 31, 2016)	(441,849,000)	(441,849,000)
Total stockholders' equity	466,459,000	470,401,000
Total liabilities and stockholders' equity	\$ 883,508,000	921,196,000

See accompanying notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three months ended January 31,		Six months ended January 31,	
	2017	2016	2017	2016
Net sales	\$ 139,028,000	70,323,000	274,814,000	134,440,000
Cost of sales	85,824,000	40,885,000	169,502,000	76,800,000
Gross profit	53,204,000	29,438,000	105,312,000	57,640,000
Expenses:				
Selling, general and administrative	30,988,000	17,390,000	63,673,000	34,108,000
Research and development	13,314,000	7,663,000	27,410,000	15,603,000
Amortization of intangibles	6,032,000	1,196,000	12,087,000	2,572,000
Settlement of intellectual property litigation	(9,979,000)	—	(9,979,000)	—
	40,355,000	26,249,000	93,191,000	52,283,000
Operating income	12,849,000	3,189,000	12,121,000	5,357,000
Other expenses (income):				
Interest expense and other	2,852,000	73,000	6,177,000	148,000
Interest income and other	(74,000)	(110,000)	(76,000)	(222,000)
Income before provision for income taxes	10,071,000	3,226,000	6,020,000	5,431,000
Provision for income taxes	3,486,000	750,000	1,924,000	1,516,000
Net income	\$ 6,585,000	2,476,000	4,096,000	3,915,000
Net income per share (See Note 5):				
Basic	\$0.28	0.15	0.17	0.24
Diluted	\$0.28	0.15	0.17	0.24
Weighted average number of common shares outstanding – basic	23,428,000	16,186,000	23,406,000	16,178,000
Weighted average number of common and common equivalent shares outstanding – diluted	23,445,000	16,205,000	23,427,000	16,201,000
Dividends declared per issued and outstanding common share as of the applicable dividend record date	\$0.10	0.30	0.40	0.60

See accompanying notes to condensed consolidated financial statements.

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COMTECH TELECOMMUNICATIONS CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
SIX MONTHS ENDED JANUARY 31, 2017 AND 2016
(Unaudited)

	Common Stock		Additional	Retained	Treasury Stock		Stockholders'
	Shares	Amount	Paid-in Capital	Earnings	Shares	Amount	Equity
Balance as of July 31, 2015	31,165,401	\$3,117,000	\$427,083,000	\$413,058,000	15,033,317	\$(441,849,000)	\$401,409,000
Equity-classified stock award compensation	—	—	2,084,000	—	—	—	2,084,000
Proceeds from issuance of employee stock purchase plan shares	20,131	2,000	346,000	—	—	—	348,000
Common stock issued for net settlement of stock-based awards	9,925	1,000	(74,000	) —	—	—	(73,000)
Cash dividends declared	—	—	—	(9,692,000	) —	—	(9,692,000)
Accrual of dividend equivalents, net of reversal	—	—	—	(41,000	) —	—	(41,000)
Net income tax shortfall from settlement of stock-based awards	—	—	(43,000	) —	—	—	(43,000)
Reversal of deferred tax assets associated with expired and unexercised stock-based awards	—	—	(35,000	) —	—	—	(35,000)
Net income	—	—	—	3,915,000	—	—	3,915,000
Balance as of January 31, 2016	31,195,457	\$3,120,000	\$429,361,000	\$407,240,000	15,033,317	\$(441,849,000)	\$397,872,000
Balance as of July 31, 2016	38,367,997	\$3,837,000	\$524,797,000	\$383,616,000	15,033,317	\$(441,849,000)	\$470,401,000

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Equity-classified stock award compensation	—	—	1,989,000	—	—	—	1,989,000
Proceeds from issuance of employee stock purchase plan shares	33,226	3,000	345,000	—	—	—	348,000
Issuance of restricted stock	144,899	15,000	(15,000) —	—	—	—
Common stock issued for net settlement of stock-based awards	40,354	4,000	(248,000	) —	—	—	(244,000)
Cash dividends declared, net	—	—	—	(9,351,000	) —	—	(9,351,000)
Accrual of dividend equivalents, net of reversal	—	—	—	(179,000	) —	—	(179,000)
Net income tax shortfall from settlement of stock-based awards	—	—	(257,000	) —	—	—	(257,000)
Reversal of deferred tax assets associated with expired and unexercised stock-based awards	—	—	(344,000	) —	—	—	(344,000)
Net income	—	—	—	4,096,000	—	—	4,096,000
Balance as of January 31, 2017	38,586,476	\$3,859,000	\$526,267,000	\$378,182,000	15,033,317	\$(441,849,000)	\$466,459,000

See accompanying notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six months ended January 31,	
	2017	2016
Cash flows from operating activities:		
Net income	\$4,096,000	3,915,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of property, plant and equipment	7,317,000	2,996,000
Amortization of intangible assets with finite lives	12,087,000	2,572,000
Amortization of stock-based compensation	1,989,000	2,125,000
Amortization of deferred financing costs	968,000	—
Settlement of intellectual property litigation	(9,979,000)) —
Gain on disposal of property, plant and equipment	(146,000)	) (2,000)
Provision for allowance for doubtful accounts	433,000	520,000
Provision for excess and obsolete inventory	1,061,000	1,294,000
Excess income tax benefit from stock-based award exercises	(61,000)	) (5,000)
Deferred income tax expense (benefit)	4,307,000	(2,479,000)
Changes in assets and liabilities, net of effects of business acquisition:		
Accounts receivable	24,989,000	14,986,000
Inventories	(875,000)	) 2,369,000
Prepaid expenses and other current assets	409,000	1,836,000
Other assets	201,000	11,000
Accounts payable	(8,572,000)	) 2,555,000
Accrued expenses and other current liabilities	(4,126,000)	) (484,000)
Customer advances and deposits	(2,989,000)	) (8,112,000)
Other liabilities, non-current	(749,000)	) (269,000)
Interest payable	(471,000)) —
Income taxes payable	(4,525,000)	) (436,000)
Net cash provided by operating activities	25,364,000	23,392,000
Cash flows from investing activities:		
Purchases of property, plant and equipment	(4,147,000)	) (1,463,000)
Net cash used in investing activities	(4,147,000)	) (1,463,000)
Cash flows from financing activities:		
Cash dividends paid	(14,177,000)	) (9,691,000)
Repayment of long-term debt under Term Loan Facility	(4,427,000)) —
Net payments under Revolving Loan Facility	(4,100,000)) —
Repayment of principal amounts under capital lease obligations	(1,853,000)) —
Payment of issuance costs related to equity offering	(626,000)	) (78,000)
Payment of deferred financing costs	(104,000)) —
Proceeds from issuance of employee stock purchase plan shares	348,000	348,000
Excess income tax benefit from stock-based award exercises	61,000	5,000
Net cash used in financing activities	(24,878,000)	) (9,416,000)
Net (decrease) increase in cash and cash equivalents	(3,661,000)	) 12,513,000
Cash and cash equivalents at beginning of period	66,805,000	150,953,000

Cash and cash equivalents at end of period	\$63,144,000	163,466,000
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See accompanying notes to condensed consolidated financial statements. (Continued)

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

	Six months ended January 31,	
	2017	2016
Supplemental cash flow disclosures:		
Cash paid during the period for:		
Interest	\$5,538,000	—
Income taxes	\$2,143,000	4,431,000
Non-cash investing and financing activities:		
Cash dividends declared but unpaid (including accrual of dividend equivalents)	\$2,522,000	5,206,000
Accrued additions to property, plant and equipment	\$1,147,000	—
Issuance of restricted stock	\$15,000	—
Accrued deferred financing costs	\$—	759,000
Accrued shelf registration costs	\$—	235,000

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 its subsidiaries ("Comtech," "we," "us," or "our") as of and for the three and six months ended January 31, 2017 and for the three and six months ended January 31, 2016 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 condensed consolidated 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 consolidated financial statements, and the reported amounts of net sales 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, 2016 and the notes thereto contained in our Annual Report on Form 10-K, and all of our other filings with the SEC.

As disclosed in more detail in our Annual Report on Form 10-K for the fiscal year ended July 31, 2016 and "Notes to Condensed Consolidated Financial Statements - Note (15) - Segment Information," beginning with our third quarter of fiscal 2016, we began managing our business in two reportable segments: Commercial Solutions and Government Solutions. Accordingly, certain prior period amounts have been reclassified to conform to current period presentation. We had previously reported three reportable segments: Telecommunications Transmission, RF Microwave Amplifiers and Mobile Data Communications.

(2) Acquisition

On February 23, 2016, we completed the acquisition of TeleCommunication Systems, Inc. ("TCS"), pursuant to the Agreement and Plan of Merger, dated as of November 22, 2015 (the "Merger Agreement"), among Comtech, TCS and Typhoon Acquisition Corp., a Maryland corporation and a direct, wholly owned subsidiary of Comtech ("Merger Sub").

TCS is a leading provider of commercial solutions such as public safety systems and enterprise application technologies and government solutions such as command and control (also known as Command, Control, Communications, Computers, Intelligence, Surveillance and Reconnaissance ("C4ISR") applications). The TCS acquisition resulted in Comtech entering complementary markets and expanding our domestic and international commercial offerings. TCS is now a wholly-owned subsidiary of Comtech.

The acquisition has an aggregate purchase price for accounting purposes of \$340,432,000 (also referred to as the transaction equity value) and an enterprise value of \$423,629,000. The fair value of consideration transferred in connection with the TCS acquisition was \$280,535,000 in cash, which is net of \$59,897,000 of cash acquired. We funded the acquisition (including approximately \$48,000,000 of transaction and merger related expenditures) and repaid \$134,101,000 of debt assumed in connection with the acquisition by redeploying a significant amount of our combined cash and cash equivalents, with the remaining funds coming from a \$400,000,000 Secured Credit Facility (the "Secured Credit Facility"), which is discussed further in Note (10) - "Secured Credit Facility."

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COMTECH TELECOMMUNICATIONS CORP. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Unaudited)

We have incurred transaction and merger related expenditures totaling \$48,000,000, which includes significant amounts for: (i) change-in-control payments, (ii) severance, (iii) costs associated with establishing our Secured Credit Facility and equity offering, and (iv) professional fees for financial and legal advisors for both Comtech and TCS. Through January 31, 2017, acquisition plan expenses were \$21,276,000 and primarily related to the TCS acquisition. The remaining transaction and merger related expenditures have been accounted for by TCS prior to being acquired by Comtech or have been capitalized (such as deferred financing costs) or recorded as a reduction to additional paid-in capital (such as issuance costs related to our June 2016 equity offering) on our Condensed Consolidated Balance Sheet. There were no transaction and merger related expenses during the three and six months ended January 31, 2017. There were \$2,337,000 and \$3,729,000, respectively, of transaction and merger related expenses recorded during the three and six months ended January 31, 2016.

Our condensed consolidated financial results for the three and six months ended January 31, 2017 include \$75,885,000 and \$153,885,000, respectively, of net sales from TCS operations.

We are accounting for the TCS acquisition under the acquisition method of accounting in accordance with FASB ASC 805, "Business Combinations." The purchase price was allocated to the assets acquired and liabilities assumed, based on their fair value at February 23, 2016, pursuant to the business combination accounting rules. Acquisition-related transaction costs are not included as components of consideration transferred but are expensed in the period incurred. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed in connection with the TCS acquisition:

	Purchase Price Allocation ⁽¹⁾	Measurement Period Adjustments ⁽²⁾	Purchase Price Allocation (as adjusted)	
Shares of TCS common stock purchased	\$318,605,000	—	318,605,000	
Stock-based awards settled	21,827,000	—	21,827,000	
Aggregate purchase price at fair value	\$340,432,000	—	340,432,000	
Allocation of aggregate purchase price:				
Cash and cash equivalents	\$59,897,000	—	59,897,000	
Current assets	115,996,000	(83,000)	115,913,000	
Deferred tax assets, net, non-current	83,431,000	2,059,000	85,490,000	
Property, plant and equipment	25,689,000	—	25,689,000	
Other assets, non-current	2,641,000	—	2,641,000	
Current liabilities (excluding interest accrued on debt)	(119,756,000)	(4,200,000)	(123,956,000)	
Debt (including interest accrued)	(134,101,000)	—	(134,101,000)	
Capital lease obligations	(8,993,000)	—	(8,993,000)	
Other liabilities	(9,156,000)	—	(9,156,000)	
Net tangible assets at fair value	\$15,648,000	(2,224,000)	13,424,000	
Identifiable intangible assets, deferred taxes and goodwill:				Estimated Useful Lives
Customer relationships and backlog	\$223,100,000	—	223,100,000	21 years
Trade names	20,000,000	—	20,000,000	10 to 20 years
Technology	35,000,000	—	35,000,000	5 to 15 years
Deferred tax liabilities	(104,371,000)	—	(104,371,000)	

Goodwill	151,055,000	2,224,000	153,279,000	Indefinite
Allocation of aggregate purchase price	\$340,432,000	—	340,432,000	

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COMTECH TELECOMMUNICATIONS CORP. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Unaudited)

(1) As reported in the Company's Quarterly Report on Form 10-Q for the three months ended October 31, 2016.

Primarily relates to the finalization of: (i) the estimated fair value of TCS's 911 call handling software warranty obligations; (ii) TCS's income tax returns for the pre-acquisition period which began January 1, 2016 and ended February 23, 2016; and (iii) the related adjustments to deferred income taxes. These measurement period adjustments were recorded to reflect final determinations of estimated fair values of the assets acquired and the liabilities assumed in connection with the TCS acquisition based on facts and circumstances that existed as of the acquisition date.

The purchase price allocation shown in the above table includes the estimated fair value of contingent liabilities associated with TCS's intellectual property matters and the warranty obligations for TCS's 911 call handling software, which are discussed in more detail in Note (19) - "Legal Proceedings and Other Matters" and Note (8) - "Accrued Expenses and Other Current Liabilities," respectively. These estimated fair values reflect market participant assumptions, as required by FASB ASC 850 "Business Combinations," and do not reflect our settlement position or amounts we actually may pay.

The acquired identifiable intangible assets are being amortized on a straight-line basis, which we believe approximates the pattern in which the assets are utilized, over their estimated useful lives. The fair value of technologies and trade names was based on the discounted capitalization of royalty expense saved because we now own the assets. The estimated fair value of customer relationships and backlog was primarily based on the value of the discounted cash flows that the related intangible asset could be expected to generate in the future. Among the factors contributing to the recognition of goodwill, as a component of the purchase price allocation, were synergies in products and technologies and the addition of a skilled, assembled workforce. This goodwill has been assigned to our Government Solutions and Commercial Solutions segments based on specific identification and, while generally not deductible for income tax purposes, certain goodwill related to previous business combinations by TCS will be deductible for income tax purposes.

(3) Adoption of Accounting Standards and Updates

We are required to prepare our condensed consolidated financial statements in accordance with the Financial Accounting Standard Board ("FASB") Accounting Standards Codification ("ASC") which is the source for all authoritative U.S. generally accepted accounting principles, which are commonly referred to as "GAAP." The FASB ASC is subject to updates by the FASB, which are known as Accounting Standards Updates ("ASUs"). During the six months ended January 31, 2017, we adopted:

FASB ASU No. 2014-12, issued in June 2014, which requires that a performance target which affects vesting and that could be achieved after the requisite service period be treated as a performance condition. Our adoption of this FASB ASU did not impact our condensed consolidated financial statements or disclosures.

FASB ASU No. 2014-15, issued in August 2014, which provides guidance about management's responsibility to evaluate whether there is a substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. Our adoption of this ASU did not impact our condensed consolidated financial statements or disclosures.

FASB ASU No. 2015-11, issued in July 2015, which simplifies the guidance on the subsequent measurement of inventory other than inventory measured using the last-in, first out or the retail inventory method. This ASU requires in-scope inventory to be subsequently measured at the lower of cost and net realizable value, the latter of which is

defined as the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. Our early adoption of this ASU did not have any impact on our condensed consolidated financial statements or disclosures.

FASB ASU No. 2016-07, issued in March 2016, which eliminates the requirement to retroactively adopt the equity method of accounting for an investment as a result of an increase in the level of ownership interest or degree of influence. Our early adoption of this ASU did not have any impact on our condensed consolidated financial statements or disclosures.

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COMTECH TELECOMMUNICATIONS CORP. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Unaudited)

FASB ASU No. 2016-17, issued in October 2016, which amends the consolidation guidance on how a reporting entity (that is the single decision maker of a Variable Interest Entity ("VIE")) should treat indirect interests in the entity held through related parties that are under common control with the reporting entity when determining whether it is the primary beneficiary of that VIE. Our early adoption of this ASU did not have any impact on our condensed consolidated financial statements or disclosures.

FASB ASU No. 2016-18, issued in November 2016, which requires that amounts generally described as restricted cash and restricted cash equivalents be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. Our early adoption of this ASU did not have any impact on our condensed consolidated financial statements or disclosures.

FASB ASU No. 2017-01, issued in January 2017, which clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. Our early adoption of this ASU did not have any impact on our condensed consolidated financial statements or disclosures.

(4) Fair Value Measurements and Financial Instruments

FASB ASC 820, "Fair Value Measurements and Disclosures," defines 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 cash and cash equivalents using Level 1 inputs that were based on quoted market prices.

We believe that the carrying amounts of our other current financial assets and liabilities, including accounts receivable, accounts payable and accrued expenses and other current liabilities approximate their fair values due to their short-term maturities.

The fair value of the non-current portion of our Secured Credit Facility as of January 31, 2017 approximates its carrying amount due to its variable interest rate and pricing grid that is dependent upon our leverage ratio as of the end of each fiscal quarter. We believe the fair value of our non-current portion of capital lease obligations, which currently has a blended interest rate of 5.4%, would not be materially different than its \$2,696,000 carrying value as of January 31, 2017.

As of January 31, 2017 and July 31, 2016, other than the financial instruments discussed above, we had no other significant assets or liabilities included in our Condensed Consolidated Balance Sheets recorded at fair value, as such term is defined by FASB ASC 820.

(5) Earnings Per Share

Our basic earnings per share ("EPS") is computed based on the weighted average number of common shares (including vested but unissued stock units, share units, performance shares and restricted stock units ("RSUs")), 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, if dilutive, outstanding during each respective period. Pursuant to FASB ASC 260, "Earnings Per Share," equity-classified stock-based awards that are subject to performance conditions are not considered in our diluted EPS calculations until the respective performance conditions have been

satisfied. When calculating our diluted earnings per share, 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 recognized for financial reporting purposes.

There were no repurchases of our common stock during the six months ended January 31, 2017 and 2016.

Weighted average stock options, RSUs and restricted stock outstanding of 2,173,000 and 2,369,000 for the three months ended January 31, 2017 and 2016, respectively, and 2,305,000 and 2,367,000 for the six months ended January 31, 2017 and 2016, respectively, were not included in our diluted EPS calculation because their effect would have been anti-dilutive.

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(Unaudited)

Our EPS calculations exclude 237,000 and 144,000 weighted average performance shares outstanding for the three months ended January 31, 2017 and 2016, respectively, and 229,000 and 143,000 weighted average performance shares outstanding for the six months ended January 31, 2017 and 2016, respectively, as the performance conditions have not yet been satisfied. However, the compensation expense related to these awards is included in net income (the numerator) for EPS calculations for each respective period.

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

	Three months ended January 31,		Six months ended January 31,	
	2017	2016	2017	2016
Numerator:				
Net income for basic calculation	\$6,585,000	2,476,000	4,096,000	3,915,000
Numerator for diluted calculation	\$6,585,000	2,476,000	4,096,000	3,915,000
Denominator:				
Denominator for basic calculation	23,428,000	16,186,000	23,406,000	16,178,000
Effect of dilutive securities:				
Stock-based awards	17,000	19,000	21,000	23,000
Denominator for diluted calculation	23,445,000	16,205,000	23,427,000	16,201,000

(6) Accounts Receivable

Accounts receivable consist of the following at:

	January 31, 2017	July 31, 2016
Billed receivables from commercial and international customers	\$73,002,000	90,185,000
Unbilled receivables from commercial and international customers	23,405,000	19,333,000
Billed receivables from the U.S. government and its agencies	16,958,000	21,465,000
Unbilled receivables from the U.S. government and its agencies	13,642,000	21,013,000
Total accounts receivable	127,007,000	151,996,000
Less allowance for doubtful accounts	1,462,000	1,029,000
Accounts receivable, net	\$125,545,000	150,967,000

Unbilled receivables relate to contracts-in-progress for which revenue has been recognized but we have not yet billed the customer for work performed. We had \$118,000 of retainage included in unbilled receivables at both January 31, 2017 and July 31, 2016 and management estimates that substantially all of the total unbilled receivables at January 31, 2017 will be billed and collected within one year. Of the unbilled receivables from commercial and international customers at January 31, 2017 and July 31, 2016, approximately \$3,860,000 and \$6,070,000, respectively, relates to a large over-the-horizon microwave system contract with our large U.S. prime contractor customer (all of which related to our North African country end-customer).

As of January 31, 2017, the U.S. government (and its agencies) and Verizon Communications Inc. (through various divisions) represented 24.1% and 11.7%, respectively, of total accounts receivable. As of July 31, 2016, except for the U.S. government (and its agencies), which represented 27.9% of total accounts receivable, there were no other

customers which accounted for greater than 10.0% of total accounts receivable.

As of January 31, 2017 and July 31, 2016, 11.8% and 10.5%, respectively, of our total accounts receivable related to our North African country end customers.

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(Unaudited)

(7) Inventories

Inventories consist of the following at:

	January 31, 2017	July 31, 2016
Raw materials and components	\$54,913,000	54,723,000
Work-in-process and finished goods	32,027,000	32,829,000
Total inventories	86,940,000	87,552,000
Less reserve for excess and obsolete inventories	15,772,000	16,198,000
Inventories, net	\$71,168,000	71,354,000

As of January 31, 2017 and July 31, 2016, the amount of inventory directly related to long-term contracts (including contracts-in-progress) was \$1,823,000 and \$2,896,000, respectively.

As of January 31, 2017 and July 31, 2016, \$1,829,000 and \$1,428,000, respectively, of the inventory balance above related to contracts from third party commercial customers who outsource their manufacturing to us.

(8) Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consist of the following at:

	January 31, 2017	July 31, 2016
Accrued wages and benefits	\$23,395,000	23,394,000
Accrued legal costs	19,909,000	32,469,000
Accrued warranty obligations	19,014,000	15,362,000
Accrued acquisition-related costs	—	2,119,000
Accrued contract costs	10,687,000	8,348,000
Accrued commissions and royalties	3,233,000	3,473,000
Other	12,557,000	12,869,000
Accrued expenses and other current liabilities	\$88,795,000	98,034,000

Accrued legal costs as of January 31, 2017 and July 31, 2016 include \$14,758,000 and \$28,112,000, respectively, related to estimated costs associated with certain TCS intellectual property matters. The amount accrued as of January 31, 2017 does not reflect our settlement position or amounts we actually may pay. Ongoing legal expenses associated with defending these legacy TCS intellectual property legal proceedings and their ultimate resolution could vary and have a material adverse effect on our future consolidated results of operations, financial position or cash flows. TCS intellectual property matters are discussed in more detail in Note (19) - "Legal Proceedings and Other Matters."

Accrued contract costs represent direct and indirect costs on contracts as well as estimates of amounts owed for invoices not yet received from vendors or reflected in accounts payable.

Accrued warranty obligations relate to estimated liabilities for warranty coverage that we provide to our customers. We generally provide warranty coverage for some of our products for a period of at least one year from the date of delivery. We record a liability for estimated warranty expense based on historical claims, product failure rates and

other factors. Some of our product warranties are provided under long-term contracts, the costs of which are incorporated into our estimates of total contract costs.

Accrued warranty obligations include warranty obligations for a TCS 911 call handling software solution that was licensed to customers prior to our acquisition of TCS. During the three months ended January 31, 2017, we finalized our estimated fair value for this pre-acquisition contingent liability and, as a result, we recorded an increase of \$4,200,000 to accrued warranty obligations. In aggregate, \$10,595,000 of accrued warranty obligations as of January 31, 2017 related to this contingent liability, net of charges incurred to date. This amount reflects a consideration of contractual obligations as well as an estimate of future costs to resolve software issues.

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(Unaudited)

Changes in our product warranty liability during the six months ended January 31, 2017 and 2016 were as follows:

	Six months ended January 31,	
	2017	2016
Balance at beginning of period	\$15,362,000	8,638,000
Provision for warranty obligations	3,234,000	2,096,000
Adjustment to TCS pre-acquisition contingent liability	4,200,000	—
Charges incurred	(3,782,000)	(2,110,000)
Balance at end of period	\$19,014,000	8,624,000

(9) Acquisition-Related Restructuring Plans

Radyne

In connection with our August 1, 2008 acquisition of Radyne, we adopted a restructuring plan for which we recorded \$2,713,000 of estimated restructuring costs. Of this amount, \$613,000 related to severance for Radyne employees which was paid in fiscal 2009. The remaining estimated amounts relate to facility exit costs and were determined as follows:

	At August 1, 2008
Total non-cancelable lease obligations	\$12,741,000
Less: Estimated sublease income	8,600,000
Total net estimated facility exit costs	4,141,000
Less: Interest expense to be accreted	2,041,000
Present value of estimated facility exit costs	\$2,100,000

Our total non-cancelable lease obligations were based on the actual lease term which runs from November 1, 2008 through October 31, 2018. We estimated sublease income based on (i) the terms of a fully executed sublease agreement that expired on October 31, 2015, and (ii) our assessment of future uncertainties relating to the commercial real estate market. Based on our assessment of commercial real estate market conditions, we currently believe that it is not probable that we will be able to sublease the facility for the remaining lease term. As such, in accordance with grandfathered accounting standards that were not incorporated into the FASB's ASC, we recorded these costs, at fair value, as assumed liabilities as of August 1, 2008, with a corresponding increase to goodwill.

As of January 31, 2017, the amount of the acquisition-related restructuring reserve is as follows:

	Cumulative Activity Through January 31, 2017
Present value of estimated facility exit costs at August 1, 2008	\$2,100,000
Cash payments made	(9,795,000)
Cash payments received	8,600,000
Accreted interest recorded	1,747,000
Liability as of January 31, 2017	2,652,000

Amount recorded as accrued expenses and other current liabilities in the Condensed Consolidated Balance Sheet	1,459,000
Amount recorded as other liabilities in the Condensed Consolidated Balance Sheet	\$1,193,000

As of July 31, 2016, the present value of the estimated facility exit costs was \$3,327,000. During the six months ended January 31, 2017, we made cash payments of \$782,000. Interest accreted for the three and six months ended January 31, 2017 and 2016 was \$51,000 and \$107,000, respectively, and \$73,000 and \$148,000, respectively, and is included in interest expense for each respective fiscal period.

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Future cash payments associated with our restructuring plan are summarized below:

	As of January 31, 2017
Future lease payments to be made	\$2,652,000
Interest expense to be accreted in future periods	294,000
Total remaining payments	\$2,946,000

TCS

In connection with our February 23, 2016 acquisition of TCS, we continue to implement a tactical shift in strategy in our Government Solutions segment and have initiated certain cost reduction actions. To date, we have incurred an immaterial amount of severance and retention costs related to our shift in strategy.

(10) Secured Credit Facility

On February 23, 2016, in connection with our acquisition of TCS, we entered into a \$400,000,000 Secured Credit Facility with a syndicate of lenders. The Secured Credit Facility comprises a senior secured term loan A facility of \$250,000,000 (the "Term Loan Facility") and a secured revolving loan facility of up to \$150,000,000, including a \$25,000,000 letter of credit sublimit (the "Revolving Loan Facility") and, together, with the Term Loan Facility, matures on February 23, 2021. The proceeds of these borrowings were primarily used to finance our acquisition of TCS, including the repayment of certain existing indebtedness of TCS. The Term Loan Facility requires mandatory quarterly repayments. During the six months ended January 31, 2017, we repaid \$4,427,000 principal amount of borrowings under the Term Loan Facility. Under the Revolving Loan Facility, we had outstanding balances ranging from \$56,904,000 to \$84,904,000 during the six months ended January 31, 2017. As of January 31, 2017 and July 31, 2016, amounts outstanding under our Secured Credit Facility, net, were as follows:

	January 31, 2017	July 31, 2016
Term Loan Facility	\$168,220,000	172,647,000
Less unamortized deferred financing costs related to Term Loan Facility	4,909,000	5,515,000
Term Loan Facility, net	163,311,000	167,132,000
Revolving Loan Facility	79,804,000	83,904,000
Amount outstanding under Secured Credit Facility, net	243,115,000	251,036,000
Less current portion of long-term debt	13,281,000	11,067,000
Non-current portion of long-term debt	\$229,834,000	239,969,000

Interest expense, including amortization of deferred financing costs, recorded during the three and six months ended January 31, 2017 related to the Secured Credit Facility was \$2,708,000 and \$5,883,000, respectively, and reflects a blended interest rate of approximately 5.06% and 4.79%, respectively. There was no corresponding interest expense recorded during the three and six months ended January 31, 2016.

At January 31, 2017, we had \$3,690,000 of standby letters of credit outstanding related to our guarantees of future performance on certain customer contracts and no outstanding commercial letters of credit.

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(Unaudited)

The Revolving Loan Facility can be used for working capital and other general corporate purposes of the Company, including the issuance of letters of credit. Borrowings under the Secured Credit Facility, pursuant to terms defined in the Secured Credit Facility, shall be either (i) Alternate Base Rate ("ABR") borrowings, which bear interest from the applicable borrowing date at a rate per annum equal to (x) the greatest of (a) the Prime Rate in effect on such day, (b) the Federal Funds Effective Rate in effect on such day plus 0.50% per annum and (c) the Adjusted LIBO Rate on such day (or, if such day is not a business day, the immediately preceding business day) plus 1.00% per annum (provided that if the LIBO Rate is less than 1.00%, then the LIBO Rate shall be deemed to be 1.00%), plus (y) the Applicable Rate, or (ii) Eurodollar borrowings, which bear interest from the applicable borrowing date at a rate per annum equal to (x) the Adjusted LIBO Rate for such interest period (provided that if the LIBO Rate is less than 1.00%, then the LIBO Rate shall be deemed to be 1.00%) plus (y) the Applicable Rate. The Applicable Rate is determined based on a pricing grid that is dependent upon our leverage ratio as of the end of each fiscal quarter. The Secured Credit Facility contains customary representations, warranties and affirmative covenants and customary negative covenants, subject to negotiated exceptions, on (i) liens, (ii) investments, (iii) indebtedness, (iv) significant corporate changes, including mergers and acquisitions, (v) dispositions, (vi) restricted payments, including stockholder dividends, and (vii) certain other restrictive agreements. The Secured Credit Facility also contains certain financial covenants and customary events of default (subject to grace periods, as appropriate), such as payment defaults, cross-defaults to other material indebtedness, bankruptcy and insolvency, the occurrence of a defined change in control and the failure to observe the negative covenants and other covenants related to the operation of our business.

Our Secured Credit Facility requires that we maintain compliance with various financial covenants, including a maximum Leverage Ratio (which, in simple terms, represents Total Indebtedness less Available Cash (up to \$50,000,000) divided by the trailing twelve months Consolidated EBITDA, as such terms are defined in the Secured Credit Facility). The definition of Consolidated EBITDA is similar to our Adjusted EBITDA metric (which is fully described in Note (15) - "Segment Information"); however, Adjusted EBITDA is reduced by the favorable adjustment to operating income related to the settlement of a TCS intellectual property matter during the three months ended January 31, 2017 (which is discussed in Note (19) - "Legal Proceedings and Other Matters"). As such, the trailing twelve months Consolidated EBITDA for purposes of our Secured Credit Facility financial covenant calculations is higher by \$9,979,000 as compared to the Adjusted EBITDA financial metric presented in our segment disclosures for the same period.

During the three months ended January 31, 2017, our Leverage Ratio was 2.57x Consolidated EBITDA as compared to a maximum allowable of 3.00x Consolidated EBITDA. The maximum allowable Leverage Ratio for the third quarter of fiscal 2017 will remain at 3.00x Consolidated EBITDA and will decrease to 2.75x Consolidated EBITDA by the end of our fiscal 2017. Given our \$63,144,000 of cash and cash equivalents as of January 31, 2017 and our expected fiscal 2017 business performance, we anticipate maintaining compliance with our Leverage Ratio and other covenants in our Secured Credit Facility for at least the remainder of fiscal 2017. We may not be able to maintain compliance with such covenants at all times in the future. Accordingly, in order to obtain increased flexibility and other enhancements, we continue to be actively engaged in substantive discussions with our financial lenders to modify various terms and conditions contained in our Secured Credit Facility. We believe we have good working relationships with our financial lenders and, based on specific feedback we have received, we believe we will be able to obtain modifications and or waivers, if necessary, to remain in compliance with the terms of our Secured Credit Facility.

The obligations under the Secured Credit Facility are guaranteed by certain of our domestic subsidiaries (the "Subsidiary Guarantors"). As collateral security for amounts outstanding under our Secured Credit Facility and the

guarantees thereof, we and our Subsidiary Guarantors have granted to an administrative agent, for the benefit of the lenders, a lien on, and first priority security interest in, substantially all of our tangible and intangible assets.

Capitalized terms used but not defined herein have the meanings set forth for such terms in the credit agreement, dated as of February 23, 2016, pursuant to which the Secured Credit Facility is documented and which has been filed with the SEC.

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(Unaudited)

(11) Capital Lease Obligations

We lease certain equipment under capital leases, the majority of which we assumed in connection with our acquisition of TCS. As of January 31, 2017 and July 31, 2016, the net book value of the leased assets which collateralize the capital lease obligations was \$7,125,000 and \$8,698,000, respectively, and consisted primarily of machinery and equipment. As of January 31, 2017, our capital lease obligations reflect a blended interest rate of approximately 5.4%. Our capital leases generally contain provisions whereby we can purchase the equipment at the end of the lease for a one dollar buyout. Depreciation of leased assets is included in depreciation expense.

Future minimum payments under capital lease obligations consisted of the following at January 31, 2017:

Remainder of fiscal 2017	\$1,880,000
Fiscal 2018	2,473,000
Fiscal 2019	1,469,000
Fiscal 2020	304,000
Fiscal 2021	—
Total minimum lease payments	6,126,000
Less: amounts representing interest	366,000
Present value of net minimum lease payments	5,760,000
Current portion of capital lease obligations	3,064,000
Non-current portion of capital lease obligations	\$2,696,000

(12) Income Taxes

At January 31, 2017 and July 31, 2016, total unrecognized tax benefits were \$9,068,000 and \$9,171,000, respectively, including interest of \$97,000 and \$63,000, respectively. At January 31, 2017 and July 31, 2016, \$3,012,000 and \$2,992,000, respectively, of our unrecognized tax benefits were recorded as non-current income taxes payable in our Condensed Consolidated Balance Sheets. At January 31, 2017 and July 31, 2016, the remaining unrecognized tax benefits of \$6,056,000 and \$6,179,000, respectively, were recorded on our Condensed Consolidated Balance Sheets in non-current deferred tax liabilities (as an offset to the associated deferred tax asset). Of the total unrecognized tax benefits at January 31, 2017 and July 31, 2016, \$8,084,000 and \$8,261,000, respectively, net of the reversal of the Federal benefit recognized as a deferred tax asset relating to state reserves, excluding interest, would positively impact our effective tax rate, if recognized. Unrecognized tax benefits result from income tax positions taken or expected to be taken on our income tax returns for which a tax benefit has not been recorded in our condensed consolidated financial statements. Our policy is to recognize interest and penalties relating to uncertain tax positions in income tax expense.

During the six months ended January 31, 2017, we reached an effective settlement with the Internal Revenue Service (“IRS”) relating to its audit of our Federal income tax return for fiscal 2014. This effective settlement did not have a material impact on our results of operations. Our Federal income tax returns for fiscal 2013 and 2015 are also subject to potential future IRS audit. None of our state income tax returns prior to fiscal 2012 are subject to audit. TCS’s Federal income tax returns for tax years 2013 through 2015 and the tax period from January 1, 2016 to February 23, 2016 are subject to potential future IRS audit. None of TCS’s state income tax returns prior to calendar year 2012 are subject to audit. Future tax assessments or settlements could have a material adverse effect on our condensed consolidated results of operations and financial condition.

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(Unaudited)

(13) Stock Based Compensation

Overview

We issue stock-based awards to certain of our employees and our Board of Directors pursuant to our 2000 Stock Incentive Plan, as amended, (the "Plan") and our 2001 Employee Stock Purchase Plan (the "ESPP"), and recognize related stock-based compensation in our condensed consolidated financial statements. The Plan provides for the granting to employees and consultants of Comtech (including prospective employees and consultants): (i) incentive and non-qualified stock options, (ii) restricted stock units ("RSUs"), (iii) RSUs with performance measures (which we refer to as "performance shares"), (iv) restricted stock, (v) stock units (reserved for issuance to non-employee directors) and share units (reserved for issuance to employees) (collectively, "share units") and (vi) stock appreciation rights ("SARs"), among other types of awards. Our non-employee directors are eligible to receive non-discretionary grants of stock-based awards, subject to certain limitations. The aggregate number of shares of common stock which may be issued, pursuant to the Plan, may not exceed 9,462,500. Stock options granted may not have a term exceeding ten years or, in the case of an incentive stock award granted to a stockholder who owns stock representing more than 10.0% of the voting power, no more than five years. We expect to settle all outstanding awards under the Plan and ESPP with the issuance of new shares of our common stock.

As of January 31, 2017, we had granted stock-based awards pursuant to the Plan representing the right to purchase and/or acquire an aggregate of 7,685,537 shares (net of 3,650,782 expired and canceled awards), of which an aggregate of 5,206,985 have been exercised or converted into common stock.

As of January 31, 2017, the following stock-based awards, by award type, were outstanding:

Stock options	1,910,576
Performance shares	252,000
RSUs and restricted stock	308,217
Share units	7,759
Total	2,478,552

Our ESPP provides for the issuance of up to 800,000 shares of our common stock. Our ESPP is intended to provide our eligible employees the opportunity to acquire our common stock at 85% of fair market value at the date of issuance. Through January 31, 2017, we have cumulatively issued 667,598 shares of our common stock to participating employees in connection with our ESPP.

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

	Three months ended January 31,		Six months ended January 31,	
	2017	2016	2017	2016
Cost of sales	\$58,000	100,000	106,000	163,000
Selling, general and administrative expenses	878,000	881,000	1,729,000	1,755,000
Research and development expenses	83,000	93,000	154,000	207,000
Stock-based compensation expense before income tax benefit	1,019,000	1,074,000	1,989,000	2,125,000
Estimated income tax benefit	(361,000)	(347,000)	(702,000)	(712,000)
Net stock-based compensation expense	\$658,000	727,000	1,287,000	1,413,000

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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 award. At January 31, 2017, unrecognized stock-based compensation of \$8,741,000, net of estimated forfeitures of \$771,000, is expected to be recognized over a weighted average period of 3.0 years. Total stock-based compensation capitalized and included in ending inventory at both January 31, 2017 and July 31, 2016 was \$51,000. There are no liability-classified stock-based awards outstanding as of January 31, 2017 or July 31, 2016.

Stock-based compensation expense, by award type, is summarized as follows:

	Three months ended January 31,		Six months ended January 31,	
	2017	2016	2017	2016
Stock options	\$386,000	609,000	632,000	1,212,000
Performance shares	372,000	390,000	866,000	724,000
RSUs and restricted stock	224,000	35,000	412,000	106,000
ESPP	37,000	40,000	79,000	83,000
Stock-based compensation expense before income tax benefit	1,019,000	1,074,000	1,989,000	2,125,000
Estimated income tax benefit	(361,000)	(347,000)	(702,000)	(712,000)
Net stock-based compensation expense	\$658,000	727,000	1,287,000	1,413,000

ESPP stock-based compensation expense primarily relates to the 15% discount offered to participants in the ESPP.

The estimated income tax benefit as shown in the above table was computed using income tax rates expected to apply when the awards are settled. Such deferred tax asset was recorded net as part of our non-current deferred tax liability in our Condensed Consolidated Balance Sheet as of January 31, 2017. The actual income tax benefit recognized for tax reporting is based on the fair market value of our common stock at the time of settlement and can significantly differ from the estimated income tax benefit recorded for financial reporting.

The following table reconciles the actual income tax benefit recognized for tax deductions relating to the settlement of stock-based awards to the excess income tax benefit reported as a cash flow from financing activities in our Condensed Consolidated Statements of Cash Flows:

	Six months ended January 31,	
	2017	2016
Actual income tax benefit recorded for the tax deductions relating to the settlement of stock-based awards	\$335,000	132,000
Less: Tax benefit initially recognized on settled stock-based awards vesting subsequent to the adoption of accounting standards that require us to expense stock-based awards	274,000	127,000
Excess income tax benefit from settled equity-classified stock-based awards recorded as an increase to additional paid-in capital and reported as a cash inflow from financing activities in our Condensed Consolidated Statements of Cash Flows	\$61,000	5,000

As of January 31, 2017 and July 31, 2016, the amount of hypothetical tax benefits related to stock-based awards, recorded as a component of additional paid-in capital, was \$16,336,000 and \$16,937,000, respectively. These amounts represent the initial hypothetical tax benefit of \$8,593,000 determined upon adoption of FASB ASC 718 (which reflects our estimate of cumulative actual tax deductions for awards issued and settled prior to August 1, 2005),

adjusted for actual excess income tax benefits or shortfalls since that date. During the six months ended January 31, 2017 and 2016, we recorded \$601,000 and \$78,000, respectively, of a reduction to additional paid-in capital and accumulated hypothetical tax benefits, which represent net income tax shortfalls recognized from the settlement of stock-based awards and the reversal of unrealized deferred tax assets associated with certain vested equity-classified stock-based awards that expired during each of the respective periods.

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(Unaudited)

Stock Options

The following table summarizes the Plan's activity during the six months ended January 31, 2017:

	Awards (in Shares)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at July 31, 2016	2,256,679	\$ 28.87		
Expired/canceled	(118,505)	27.34		