

COMTECH TELECOMMUNICATIONS CORP /DE/  
Form 10-K  
September 27, 2017

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

FORM 10-K

(Mark One)

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

For the fiscal year ended July 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)

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

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

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

None

(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes      No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes      No

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

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Yes                      No

The aggregate market value of the registrant's voting stock held by non-affiliates of the registrant, computed by reference to the closing sales price as quoted on the NASDAQ Global Market on January 31, 2017 was approximately \$247,917,000.

The number of shares of the registrant's common stock outstanding on September 22, 2017 was 23,585,941.

#### DOCUMENTS INCORPORATED BY REFERENCE.

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

Proxy Statement for 2017 Annual Meeting of Stockholders - Part III

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

#### Note About Forward-Looking Statements

This Form 10-K contains "forward-looking statements" including statements concerning the future of our industry, product development, business strategy, continued acceptance of our products, market growth, and dependence on significant customers. These statements can be identified by the use of forward-looking terminology such as "may," "will," "should," "could," "would," "expect," "plan," "anticipate," "believe," "estimate," "predict," "potential," "continue," the negative of these terms, or other similar words or comparable terminology. All statements in this report, other than statements of historical fact, are forward-looking information. When considering forward-looking statements, you should keep in mind the risk factors and other cautionary statements included in this Form 10-K. However, the risks described in this Form 10-K are not the only risks that we face. Additional risks and uncertainties, not currently known to us or that do not currently appear to be material, may also materially adversely affect our business, financial condition and/or operating results in the future. We describe risks and uncertainties that could cause actual results and events to differ materially in "Risk Factors" (Part I, Item 1A of this Form 10-K), "Quantitative and Qualitative Disclosures about Market Risk" (Part II, Item 7A of this Form 10-K), and "Management's Discussion and Analysis of Financial Condition and Results of Operations" (Part II, Item 7 of this Form 10-K). We undertake no obligation to update or revise publicly any forward-looking statements, whether because of new information, future events, or otherwise.

## PART I

### ITEM 1. BUSINESS

We are a leading provider of advanced communications solutions for both commercial and government customers worldwide. Our solutions fulfill our customers' needs for secure wireless communications in some of the most demanding environments, including those where traditional communications are unavailable or cost-prohibitive, and in mission-critical scenarios where performance is crucial.

As more fully described throughout this Form 10-K, fiscal 2017 turned out to be a successful year for Comtech. We have largely completed the integration of our February 23, 2016 acquisition of TeleCommunication Systems, Inc. ("TCS"), the largest acquisition in our history. The TCS acquisition was transformative for our business and a significant step in our strategy of entering complementary markets and expanding our domestic and international commercial offerings.

Our fiscal 2017 results include a full twelve months of TCS operations and we reported consolidated net sales of \$550.4 million, consolidated net income of \$15.8 million and Adjusted EBITDA (a Non-GAAP financial measure) of \$70.7 million. For a definition and explanation of Adjusted EBITDA, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Comparison of Fiscal 2017 and 2016 - Adjusted EBITDA." We generated significant cash flows from operations and significantly reduced our long-term indebtedness.

We enter fiscal 2018 with a solid backlog and a pipeline of opportunities that give us reason to be excited about our future prospects. Our Business Outlook for Fiscal 2018 is discussed further in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Business Outlook for Fiscal 2018."

Our Internet website is [www.comtechtel.com](http://www.comtechtel.com) and we make available on our website: our filings with the Securities and Exchange Commission ("SEC"), including annual reports, quarterly reports, current reports and any amendments to those filings. The reference to our website address does not constitute incorporation by reference of the information contained therein into this Form 10-K. We also use our website to disseminate other material information to our

investors (on the Home Page and in the "Investor Relations" section). Among other things, we post on our website our press releases and information about our public conference calls (including the scheduled dates, times and the methods by which investors and others can listen to those calls), and we make available for replay webcasts of those calls and other presentations.

We also use social media channels to communicate with customers and the public about our Company, our products, services and other issues, and we use social media and the Internet to communicate with investors, including information about our stockholder meetings. Information and updates about our Annual Meetings will continue to be posted on our website at [www.comtechtel.com](http://www.comtechtel.com) in the "Investor Relations" section.

Any materials filed with the SEC may be read and copied by the public at the SEC's Public Reference Room at 100 F Street, N.E., Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

We are incorporated in the state of Delaware and were founded in 1967.

#### Corporate Strategies

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

• Seek leadership positions in markets where we can provide differentiated products and technology solutions;

• Identify and participate in emerging technologies that enhance or expand our product portfolio;

- Maximize responsiveness to our customers, including offering more integrated systems and solutions;

• Expand and further penetrate our diversified and balanced customer base; and

• Pursue acquisitions of complementary businesses and technologies.

#### Competitive Strengths

The successful execution of our principal corporate strategies is based on our competitive strengths, including the following:

##### (1) We Have Significant Exposure to Large, Growing End Markets

We believe Comtech is well positioned to capitalize on some of the most significant emerging technology trends occurring worldwide and that customers around the world will increasingly turn to us to fulfill their needs for secure wireless communications in some of the most demanding environments, including those where traditional communications are unavailable or cost-prohibitive, and in mission-critical scenarios where performance is crucial. These important emerging technology trends include growth in global wireless penetration and mobile data consumption, proliferation of mobile applications requiring trusted location data, the need for public safety agencies to seamlessly connect individuals with first responders, widespread deployment of in-flight connectivity solutions by airlines worldwide, and the rapidly expanding breadth of High Definition ("HD") and 4K broadcasting content.

##### (2) We Believe We Are a Market Leader in the End-Markets That We Serve

#### Commercial Solutions Segment

**Communication Technologies** - We believe we are the leading provider of Single Carrier per Channel ("SCPC") satellite earth station modems. Many of our key satellite earth station products incorporate Turbo Product Code ("TPC") forward error correction technology and our licensed DoubleTalk® Carrier-in-Carrier® bandwidth compression technology which enables our customers to optimize their satellite networks by either reducing their satellite transponder lease costs or increasing data throughput. We believe we are a leader in the traveling wave tube amplifiers ("TWTAs") market and we differentiate our product offerings by our ability to develop the most efficient size, weight and power profile. Our TWTAs products are vital to satellite communication applications such as traditional broadcast, direct-to-home ("DTH") broadcast and satellite newsgathering. We provide solid-state amplifiers

that are also used to amplify signals carrying voice, video or data for air-to-satellite-to-ground communications. For example, our amplifiers, when incorporated into an aircraft satellite communication system, can provide passengers with email, Internet access and video conferencing. Certain of our high-powered amplifiers are AS-900 (an airborne quality standard ) certified. We believe we are a leader in providing amplifiers for the growing in-flight connectivity market.

**Safety and Security Technologies** - We believe that we are a leader in public safety communication technologies used for delivery of 911 calls. We believe we have significant market share in the routing of U.S. wireless 911 calls, Voice over Internet Protocol ("VoIP") 911 calls and Text to 911 deployments. We believe we are one of two companies fulfilling the Federal Communications Commission ("FCC") requirements for Enhanced 911 ("E911") call-routing to public safety answering points ("PSAPs") for wireless and VoIP network operators. E911 refers to 911 calls for both wireline and wireless telephones that are enhanced to provide location information of the caller. We are focusing our marketing and research and development efforts to meet system standards for next generation 911 ("NG911"), which refers to an Internet Protocol ("IP") based system that allows digital information (e.g., voice, photos, videos, text messages) to flow seamlessly from the public, through the 911 network, and on to emergency responders.

**Enterprise Technologies** - Our Short-Messaging Service ("SMS") Center software has been used by wireless carrier subscribers to send and receive text or data messages to and from wireless devices for almost two decades. We provide ongoing operational support for our installed base of systems, including administration of system components, system optimization and configuration management. Our systems include our Location Trust Score technology, a unique process we developed to reliably identify a mobile location by generating a "Location Trust Score." Additionally, we offer Location Studio™, a complete end-to-end location-based services platform for mobile carriers, application developers and enterprises. The platform consists of multiple modular technology suites that provide a rich set of functionalities, including indoor and outdoor positioning, geolocation, mapping, search, routing, navigation, real-time message updates, and analytics. This platform includes Look4™ geo-services which enable customers to build their own applications powered by our location-based technology and a cloud-based positioning engine. We believe the positioning of Location Studio™ is unique in the industry and is an appealing alternative to free consumer-based mapping services which are subject to change by the supplier and which may not meet an enterprise's privacy and security requirements.

#### Government Solutions Segment

**Command and Control Technologies** - We are a key supplier to the U.S. Army for mission critical command and control technology solutions and field support services. We are a prime contractor under several indefinite delivery, indefinite quantity ("IDIQ") defense contract vehicles, including the: (i) Army's Global Tactical Advanced Communications Systems ("GTACS") contract, (ii) Defense Information Systems Agency's Custom SATCOM Solutions ("CS2") contract and (iii) "Complex Commercial SATCOM Solutions" ("CS3") contract from the General Services Administration. We also provide the U.S. Department of Defense ("DoD") personnel with curriculum development and training services to support cybersecurity workforce development. We currently provide sustainment services to the U.S. Army's AN/TSC-198 family of communication systems that are commonly referred to as "SNAP" ("Secret Internet Protocol Router ("SIPR") and Non-secure Internet Protocol Router ("NIPR") Access Point) Very Small Aperture Terminals ("VSATs"). Additionally, we have provided and expect to continue to provide Blue Force Tracking-1 sustainment services to the U.S. Army well into the future.

**Troposcatter Technologies** - We have designed, manufactured and sold over-the-horizon microwave products and systems for approximately forty years and believe we are the leading supplier in this specialized product market. We believe we offer the only available adaptive troposcatter modem operating at 50 Mbps. Our Modular Tactical Transmission System ("MTTS") systems provide a high capacity, beyond-line-of-sight modular communications system designed for easy and rapid deployment. Our MTTS systems also offer seamless compatibility and interoperability with legacy-fielded troposcatter systems currently used by the U.S. military, including all versions of the AN/TRC-170.

**RF Power & Switching Technologies** - We are one of the largest independent suppliers of broadband, high-power, high-performance RF microwave amplifiers, which reproduce signals with high power and are extremely complex and critical to the performance of the systems into which they are incorporated. Many of these amplifiers are produced in-house by large companies; however, our expertise has created a cost-effective and technologically superior

alternative to in-house sourcing. Some of the companies who have outsourced amplifier production to us include Rockwell Collins, Inc., Thales Group, European Aeronautic Defense and Space Company ("EADS"), Telephonics Corporation, Northrop Grumman Corporation, BAE Systems PLC and Raytheon Company. Our amplifiers are also used in oncology treatment systems that allow physicians to give cancer patients higher doses of radiation that are more closely focused on cancerous tissue, thereby minimizing damage to healthy tissue.

(3) We Believe We Provide Industry Leading Innovation, Capabilities and Solutions

We have established a leading position of technology innovation in our fields through internal and customer-funded research and development activities, which have yielded significant advances. Examples of our industry-leading innovation include:

**Our HEIGHTS Networking Platform** - In fiscal 2017, we announced the general availability of our Heights™ Dynamic Network Access Technology ("HEIGHTS"), a potentially revolutionary technology designed to deliver the highest Internet Protocol bits per Hertz in its class, as well as robust reliability. HEIGHTS is an advanced networking platform that combines our most efficient waveforms, compression engines and the ability to provide dynamic bandwidth and power management to meet the demands of customers operating on traditional fixed satellite service systems ("FSS") while providing advantages for customers who plan to transition to high throughput satellite ("HTS") systems in the future. Our HEIGHTS networking platform, a successor to our advanced VSAT series of products, is ideally suited for cellular backhaul, universal service obligation networks and other applications that require high performance in a hub-spoke environment.

**Our New Line of SLM-5650B Satellite Modems** - During the fourth quarter of fiscal 2017, the U.S. Space and Naval Warfare System Command, in support of the Program Executive Office for Command, Control, Communications, Computer and Intelligence, publicly announced its intention to sole-source a five year, IDIQ contract to procure our SLM-5650B satellite modems and upgrade kits. There are over eight-hundred older generation modems currently utilized by multiple Navy programs and our new modems and related upgrade kits will meet critical Navy requirements. We believe no other competitor responded to the Navy's Request for Proposal ("RFP") and that we are the only company in the world that is able to meet the Navy's requirements.

**Our Gallium Nitride Based Amplifiers** - These amplifiers, which incorporate Gallium Nitride ("GaN") technology, offer an efficient size, weight and power profile affording customers more power with higher efficiency. With continued technology evolution in the GaN semiconductor marketplace, we have successfully developed solid-state products with our GaN semiconductor partners that are achieving power levels of traditional tube amplifier products. We believe this will create o