

COMTECH TELECOMMUNICATIONS CORP /DE/  
Form 10-K  
September 28, 2015  
Index

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, 2015

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)

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 Preferred Stock, par value \$.10 per share	NASDAQ Stock Market LLC

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 of 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



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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, 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

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 National Market on January 31, 2015 was approximately \$521,860,000.

The number of shares of the registrant's common stock outstanding on September 24, 2015 was 16,135,627.

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 2015 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.

PART I

ITEM 1. BUSINESS

We design, develop, produce and market innovative products, systems and services for advanced communications solutions. We conduct our business through three complementary segments: telecommunications transmission, RF microwave amplifiers and mobile data communications. We sell our products to a diverse customer base in the global commercial and government communications markets. We believe we are a leader in most of the market segments that we serve.

For the past several years, we have operated our business in extremely challenging adverse macroeconomic and global political environments and in periods of significant U.S. and foreign government budget constraints. During this time, we have also assessed our business to ensure that our operations were appropriately sized and focused on organic growth opportunities via investment in research and development while continuing to closely evaluate potential acquisition targets.

In fiscal 2015, we reported consolidated net sales of \$307.3 million and consolidated operating income of \$34.1 million and as of July 31, 2015, we had cash and cash equivalents of \$151.0 million. During fiscal 2015, we paid \$19.4 million in dividends to our shareholders and repurchased 175,735 shares of our common stock in open market transactions with an average price per share of \$28.39 and at an aggregate cost of \$5.0 million. As of July 31, 2015, we have no outstanding indebtedness.

In fiscal 2015, after considering various strategic alternatives to enhance shareholder value, including a possible merger or sale of the Company, our Board of Directors (“Board”) determined that the interests of the Company and its shareholders will be best served by the Company remaining independent. Shortly thereafter, our Board named a new President and Chief Executive Officer (“CEO”) to succeed our former President and CEO who now serves as Executive Chairman of the Board.

Our new President and CEO is currently assessing our operations to determine if changes to our business approach or operations would help us better serve our customers and potentially reduce our annual operating expenses. To-date, this assessment has resulted in: (i) the formation of a joint venture consisting solely of our domestic operating subsidiaries in order to enhance internal collaboration and allow us to propose on new opportunities with a unified approach; (ii) the expansion of our corporate marketing and business development function to intensify our pursuit of existing and untapped market opportunities; and (iii) organizational changes including the planned integration of the activities and business of our mobile satellite transceiver product line with our satellite earth station product line.

As we enter fiscal 2016, given ongoing extremely challenging and adverse market conditions, we expect that our consolidated net sales and operating income in fiscal 2016 will be similar to the levels we achieved in fiscal 2015. Our President and CEO’s assessment is ongoing and we are pursuing a focused acquisition plan to expand our global footprint and further diversify our product lines. Given the strength of our existing businesses and our acquisition plan, we believe we have an appropriate strategy to continue to build long-term value for our shareholders. Our Business Outlook for fiscal 2016 is discussed further in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Business Outlook for Fiscal 2016."

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 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 shareholder 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.

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Business Conditions and Industry Background

We participate in the advanced global commercial and government communications market which is characterized by rapid technological advances and constant change. We manufacture, design, market and sell products and/or services that are generally customized to meet our customers' specific requirements.

For the past several years, the end-markets for our products and services have been significantly impacted by adverse global economic conditions. For example, many of our international end-customers are located in emerging and developing countries that are undergoing sweeping economic and political changes. Many governments around the world have also cut their spending budgets and are under pressure to further reduce them.

In fiscal 2015, global oil prices and natural gas prices have plunged, significantly impairing the ability of our customers in the oil and gas producing regions of the world to invest in telecommunications products and infrastructure. Additionally, the U.S. dollar, the currency in which virtually all of our sales are denominated, has strengthened against many international currencies resulting in lower purchasing power for many of our international end-customers.

We believe that our customers have been materially impacted by the aforementioned adverse global economic conditions and that the cumulative effect of these conditions has been to suppress end-market demand for many of our products. Although the impact, severity and duration of these conditions are impossible to predict with precision, we believe the current economic environment has resulted in, and may continue to result in, changes to our commercial and government customers' historical spending priorities and downward spending pressure on government budgets throughout the world.

Notwithstanding adverse global economic conditions, we believe that the global advanced communications market will grow in the long-term due to many factors, including the following:

**Continued Reliance on Communications Systems.** Businesses and governments around the world have become and will continue to be increasingly reliant upon advanced communications systems to communicate with their customers, suppliers, and personnel. In particular, there has been and we believe there will continue to be a significant increase in global demand for products and services that are utilized for wireless and cellular-based communications, broadcasting, Internet Protocol ("IP")-based communications (including voice, broadband video and data), long distance telephony and highly secure defense applications.

**New Applications and New Technologies Are Being Introduced and Marketed.** New applications and technologies for our products and services are currently being introduced and marketed. For example, we believe that Internet connectivity will transform the aviation and shipboard industry and demand for products and services that enable the ability to provide in-flight and shipboard connectivity (including providing in-flight and shipboard entertainment) will grow. Additionally, we believe the ongoing shift from standard broadcasting to high definition television ("HDTV") and Ultra High Definition ("Ultra HD" which is also referred to as "4K") for cable and over-the-air broadcast will result in increased need for our high power amplifiers and more efficient satellite ground station equipment. At the same time, current and potential customers are planning additional launches of new High Throughput Satellites ("HTS") that will be used to support additional applications such as broadband Internet in emerging and developing countries. These new satellites have multiple spot beams and achieve significantly greater capacity for broadcast applications and high-speed Internet service and require, in many cases, upgrade to existing satellite equipment.

**The Shift to Information-Based, Network-Centric Warfare.** Militaries around the world, including the U.S. military, have become increasingly reliant on information and communications technology to provide critical advantages in battlefield, support and logistics operations. Situational awareness, defined as knowledge of the location and strength

of friendly and unfriendly forces during battle, can increase the likelihood of success during a conflict. As evidenced by the conflicts in Iraq and Afghanistan, stretched battle and supply lines have used satellite-based (including mobile satellite-based) and over-the-horizon microwave communications solutions to span distances that normal radio communications, such as terrestrial-based systems, are unable to cover.

The Need for Emerging and Developing Countries to Upgrade Their Commercial and Defense Communications Systems. We believe many emerging and developing countries will be required to further develop and upgrade their commercial and defense communications systems. Many of these countries lack the financial resources to install extensive land-based networks, particularly where they have large geographic areas or unfriendly terrain that make the installation of land-based networks more costly. We believe satellite-based and over-the-horizon microwave technologies often provide affordable and effective solutions to meet the requirements for communications services in these countries.

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Although the health of the global economy and political stability directly impact the speed at which our industry advances and changes, we expect that we will be able to participate in our industry's expected long-term growth by focusing research and development resources to produce secure, scalable and reliable technologies to meet these evolving market needs.

### Corporate Strategies

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

Seek leadership positions in markets where we can provide differentiated products and services;

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;

Strengthen our diversified and balanced customer base; and

Pursue acquisitions of businesses and technologies.

### Competitive Strengths

The successful execution of our principal corporate strategies is based on our competitive strengths, which are briefly described below:

**Leadership Positions** – In our telecommunications transmission segment, we believe we are the leading provider of single channel per carrier ("SCPC") satellite earth station modems and over-the-horizon microwave (or troposcatter) products and systems. 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 enable our customers to optimize their satellite networks by either reducing their satellite transponder lease costs or increasing data throughput. Our over-the-horizon microwave system product line has evolved and now includes smaller, lighter, higher capacity transportable network systems. We believe we offer the only available adaptive troposcatter modem operating at 50 megabits per second ("Mbps"). In our RF microwave amplifiers segment, we believe we are a leader in the satellite earth station traveling wave tube amplifier ("TWTA") market and one of the largest independent suppliers of broadband, high-power, high-performance RF microwave amplifiers. We recently received a major production award for the in-flight connectivity market and believe we are the leader in this growing market. In our mobile data communications segment, we remain a key legacy supplier to the U.S. Army's satellite-based, tracking and communications system known as Blue Force Tracking-1 ("BFT-1").

**Innovative Leader with Emphasis on Research and Development** – We have established a leading technology position in our fields through internal and customer-funded research and development activities. We believe we were the first company to begin full-scale deployment of TPC forward error correction technology and licensed DoubleTalk® Carrier-in-Carrier® bandwidth compression technology in digital satellite earth station modems. In fiscal 2015, we announced our new Heights™ 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 those with HTS systems in their future. Our Heights™ 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. As a result of our research and development capabilities, we were selected by the U.S. Navy over a legacy supplier to develop the Advanced Time Division Multiple Access ("TDMA") Interface Processor ("ATIP"). Our field-proven over-the-horizon microwave systems utilize a proprietary 50 Mbps adaptive digital modem. In our RF microwave amplifiers segment, we differentiate our product offerings by our ability to develop the most efficient size, weight and power profile. We are incorporating Gallium Nitride technology into our products which allows us to offer customers more powerful and higher efficiency RF microwave amplifiers. In fiscal 2015, we announced the introduction of a new line of SuperPower™ TWTAs that can double available TWTA output enabling direct replacement of klystron power amplifiers in satellite communications uplinks. In addition, our traveling wave tube amplifiers have built-in block up converters ("BUCs") that significantly reduce operating costs for domestic and international broadcasters.

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Diverse Customer Base with Long-Standing Relationships – We have established long-standing relationships with leading domestic and international system and network suppliers in the satellite, defense, broadcast and aerospace industries, as well as with t