

# COMTECH

TELECOMMUNICATIONS CORP.

CONNECTIONS THAT MATTER®



A n n u a l R e p o r t 2 0 2 0

# Leadership in growing markets

**Comtech is focused on markets that are highly dependent on secure, advanced communications technologies.**

- **Satellite Ground Station Technologies**
  - **Public Safety and Location Technologies**
- 
- **Mission-Critical Technologies**
  - **High-Performance Transmission Technologies**



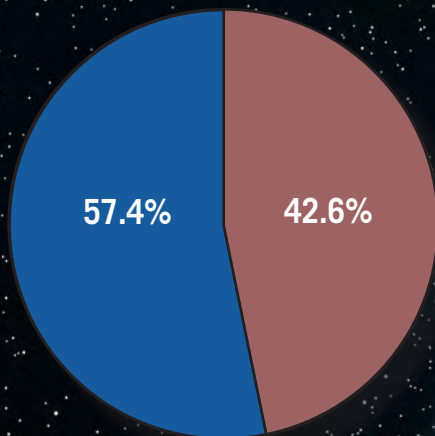
## COMMERCIAL SOLUTIONS SEGMENT

Our Commercial Solutions segment offers Satellite Ground Station Technologies (such as modems and amplifiers) and Public Safety and Location Technologies (such as 911 call routing and mapping solutions) to commercial customers and smaller government customers, such as state and local governments. This segment also serves certain large government customers (including the U.S. government) that have requirements for off-the-shelf commercial equipment. Our Satellite Ground Station Technologies are used in a wide variety of commercial and government applications, including the backhaul of satellite-based cellular traffic, connectivity to High Throughput Satellite (“HTS”) networks and applications, and high definition (“HD”) and ultra-high definition (“4K”) broadcasting. Anchored by our market leading Single Channel per Carrier (“SCPC”) modems, amplifiers, converters and network software, including our Heights™ networking platform, we offer our customers one-stop-shopping for satellite ground station technologies. We are also a leading provider of Public Safety and Location Technologies. Our next generation (“NG”) solutions enable 911 call routing via cellular networks and over the Internet (“VoIP”). In addition to 911 call routing, we provide systems integration, satellite and location infrastructure terminals and linkage to NG-911 Emergency Services IP Networks (“ESInet”).

## GOVERNMENT SOLUTIONS SEGMENT

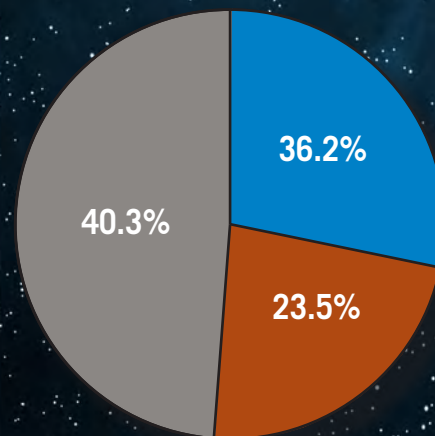
Our Government Solutions segment provides Mission-Critical Technologies (such as tactical satellite-based networks and ongoing support for complicated communication networks) and High-Performance Transmission Technologies (such as troposcatter systems and solid-state, high-power amplifiers and switches). Our Government Solutions segment is a key supplier of command and control C5ISR products and services to large government end-users (including those of foreign countries), large international customers and domestic prime contractors. Our Mission-Critical Technologies solutions include supply chain services such as the procurement of satellite-based space components, satellite-based antenna systems and high reliability Electrical, Electronic and Electromechanical (“EEE”) parts in support of critical space programs. We are recognized as an industry leader and global supplier of high reliability products. We also provide a variety of training services to our customers to help them protect networks from cyber-attacks. Our High-Performance Transmission Technologies are utilized in several critical applications, including electronic warfare, communications, radar, identification friend or foe (“IFF”) systems and medical applications such as oncology cancer treatment systems.

### FISCAL 2020 REVENUE BY SEGMENT



Commercial Solutions  
Government Solutions

### FISCAL 2020 REVENUE BY CUSTOMER



Domestic  
International  
U.S. Government

# To Our Fellow Shareholders



Fiscal 2020 was many things, but definitely not business as usual. Although we had a great start to the fiscal year, the outbreak of COVID-19 on our customers resulted in significant order delays and lower net sales for us as compared to our original business outlook. However, while COVID-19 has presented extraordinary challenges to governments, the global economy and markets around the world, I am pleased to report that we had a strong finish to a very challenging year, achieving consolidated:

- Net sales of \$616.7 million;
- Operating income of \$15.2 million;
- Net income of \$7.0 million;
- Cash flows from operating activities of \$52.8 million; and
- Adjusted EBITDA (a Non-GAAP financial measure) of \$77.8 million.

As an essential provider of critical wireless communication and location-based solutions to the U.S. government, the emergency 911 community and Mobile Network Operators (“MNOs”) around the world, we have taken measures to prioritize the health and safety of our employees, our customers and our suppliers, as well as to be prepared operationally to serve our customers and work together to navigate through these unprecedented times. Over the past several years, we have reshaped our business and adjusted our strategies, while making significant investments in technology and talent. These investments helped us demonstrate our resilience amidst a crisis.

On the acquisition front, fiscal 2020 was another busy year for us. Our acquisition plan efforts included the completion and successful integration of two complimentary businesses: CGC Technology Limited (“CGC”), a leading, worldwide provider of high precision full motion fixed and mobile XY satellite tracking antennas; and NG-911 Inc., a pioneer in providing next generation 911 (“NG-911”) solutions, including those designed by Solacom, to public safety agencies in the Midwest.

In addition to these completed acquisitions, in November 2019, we entered into an agreement to acquire UHP Networks Inc. and its sister company. This acquisition, which is pending regulatory approval, is expected to allow us to enhance our solution offerings with low cost time division multiple access (“TDMA”) satellite modems. As for our acquisition of Gilat Satellite Networks Ltd., announced in January 2020, while we believed at the outset that such merger would create significant shareholder value over time, the COVID-19 pandemic made the timing of a combination particularly challenging and would have significantly increased Comtech’s leverage if consummated. As such, in October 2020, both parties determined that the best path forward for each company, and their respective shareholders, was to terminate the agreement.

During the second half of fiscal 2020, we worked toward regaining the strong business momentum we were experiencing coming into the fiscal year. New orders, or what we refer to as bookings, were \$584.4 million during fiscal 2020, which translates into a company-wide book-to-bill ratio of 0.95. We finished the fiscal year with a healthy backlog of \$620.9 million, and when adding our backlog and the total unfunded value of multi-year contracts that we have received, our future revenue visibility approximated \$1.0 billion.

## COMMERCIAL SOLUTIONS

A large portion of this segment consists of Satellite Ground Station Technologies such as satellite modems, up-and-down frequency converters and solid-state and traveling wave tube power amplifiers. We believe that we are the leading provider of Single Channel per Carrier (“SCPC”) satellite earth station modems due to our ability to deliver the most bandwidth-efficient products.

We continue to invest in research and development to expand and grow our addressable markets. This includes investments in our Heights™ solutions. Our pipeline of opportunities remains robust and we continue to gain traction as we invest in this market, which is much larger than our traditional SCPC market. For example, in fiscal 2020, our Heights™ solutions were selected by Telefonica for a multi-year program to upgrade Vivo Brazil and Telefonica Argentina’s mobile networks in support of 2G, 3G and LTE backhaul. Also, we were awarded a \$1.4 million equipment order from a major maritime service provider in Asia. After an exhaustive evaluation of VSAT platforms, our Heights™ networking platform and complementary RF products were selected as the best fit for this customer’s demanding maritime applications. Additionally, we won \$1.6 million in orders for satellite ground station equipment from the world’s largest MNO based in China. This equipment will be utilized to support the upgrade of its existing mobile backhaul and teleport technologies. In fiscal 2020, we were also awarded a number of important orders for our Ka-band high-power traveling wave tube amplifiers for use in various applications, including trailer-based satellite communication terminals.

The U.S. government continues to be a key customer for our commercial satellite ground station products. For example, in fiscal 2020, we were awarded a \$4.7 million contract to support a critical U.S. Air Force and U.S. Army Anti-jam Modem (“A3M”) program which is intended to provide the U.S. Air Force and U.S. Army with a secure, wideband, anti-jam satellite communications terminal modem for tactical satellite communication operations.

The other significant portion of our Commercial Solutions segment is our Public Safety and Location Technologies, which consists of the routing of U.S. wireless 911 calls, Voice over Internet Protocol (“VoIP”) 911 calls and Text-to-911 messaging. We believe we are one of a limited number of 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. In fiscal 2020, we continued to provide technology solutions to Verizon, one of the largest wireless carriers in the U.S., and we are the leading provider to Verizon for E911 services for its nationwide 3G, 4G and 5G networks.

Although COVID-19 resulted in the cancellation of several key public safety trade shows and some states and municipalities have announced budget constraints, other existing and potential customers are increasing their funding for NG-911 solutions, recognizing the critical importance of upgrading their 911 systems. For example, we were recently awarded a contract valued at up to \$54.0 million to design, deploy, and operate NG-911 services for the State of South Carolina. Additionally, our pipeline of

opportunities remains strong as we continue to work with other states for multi-million dollar contracts to upgrade certain components of their 911 networks.

Our Short-Messaging Service (“SMS”) center software has been used by MNOs to enable the exchange of text or data messages to and from wireless devices for almost two decades across 2G, 3G and 4G networks, including communications with 911 PSAPs. In response to the outbreak of COVID-19 and in alignment with the FCC’s “Keep Americans Connected Pledge,” in fiscal 2020, we supported unprecedented demand for SMS text messaging and worked diligently with our MNO partners to ensure that Americans did not lose connectivity during the pandemic. In addition to SMS text messaging, we offer Location Studio™, a complete end-to-end location application platform for MNOs, application developers, public safety customers and enterprises.

We are focusing our marketing and research and development efforts in our Public Safety and Location Technologies product line to meet system standards for NG-911, which refers to an IP-based system that allows digital information (e.g., voice, photos, videos and text messages) to flow seamlessly from the public through the 911 network and on to emergency responders. Given our expertise with end-to-end location services platforms for mobile carriers, we are also addressing the FCC’s mandate that emergency services must incorporate certain location technology, like our own, which utilizes more precise location information. In this area of the business, we were recently awarded close to \$30.0 million of multi-year contracts from two U.S. tier-one MNOs for 5G virtual mobile location-based technology solutions, including public safety applications.

#### GOVERNMENT SOLUTIONS

Our Government Solutions segment provides Mission-Critical Technologies (such as tactical satellite-based networks and ongoing support for complicated communication networks) and High-Performance Transmission Technologies (such as troposcatter systems and solid-state, high-power amplifiers) to large government end-users (including those of foreign countries), large international customers and domestic prime contractors.

In our Mission-Critical Technologies product line, during fiscal 2020, we received \$37.1 million of orders to supply Manpack Satellite Terminals, networking equipment and other advanced Very Small Aperture Terminals (“VSAT”) products to the U.S. Army (which were booked pursuant to our \$223.4 million Global Tactical Advanced Communication Systems (“GTACS”) contract with the U.S. Army’s PM Tactical Network). In fiscal 2020, we also continued to execute on our previously announced contract to provide the U.S. Army with ongoing sustainment services for the AN/TSC-198A SNAP (Secret Internet Protocol Router (“SIPR”) and Non-classified Internet Protocol Router (“NIPR”) Access Point) VSAT and received \$28.2 million of orders related to this contract. We are honored to support the warfighter and these important programs.

In other product areas within Mission-Critical Technologies, we were awarded \$10.7 million of orders from the U.S. government for advanced cyber security training solutions. We were also awarded \$6.3 million of initial funding on a \$12.6 million contract from a major U.S. subcontractor for the supply of high reliability Electrical, Electronic and Electromechanical (“EEE”) space components to be utilized on NASA’s Artemis missions.

Finally, as I mentioned earlier, we acquired CGC in January 2020. CGC, known for its high precision full motion fixed and mobile X/Y satellite tracking antennas, RF feeds, reflectors, radomes and other ground station equipment, immediately brought to Comtech established relationships with several top-tier European aerospace companies and other government entities. Over time, we expect CGC to benefit from the anticipated growth in the number of low Earth orbit (“LEO”) and medium Earth orbit (“MEO”) satellite constellations.

In our High-Performance Transmission Technologies product line, while we believe COVID-19 resulted in some order delays from our international customers, demand from the U.S. military for our products remained strong and our research and development efforts have yielded significant advancements in over-the-horizon (“OTH”) microwave system technologies. For example, during the second half of fiscal 2020, we introduced the Comtech COMET™, the world’s smallest OTH microwave troposcatter terminal. COMET™, which stands for Compact Over-the-horizon Mobile Expeditionary Terminal, is rapidly deployable, low power and highly portable. The COMET™ is capable of being transported in a carrying case by a single individual and set up in under fifteen minutes. The COMET™ is ideally suited for situations where high bandwidth backhaul communications are required, extending critical services into areas where there is no communications infrastructure, or the infrastructure has been destroyed. The U.S. Army Special Operations Command has already begun procuring and deploying the COMET™ for high reliability, mission essential communications and we are very excited about this new market opportunity.

In fiscal 2020, we also received \$13.4 million of initial funding related to a 10-year, \$211.0 million IDIQ contract awarded to us by a prime contractor to provide next generation troposcatter systems in support of the U.S. Marine Corps. During fiscal 2020, we made significant progress on our initial order and I believe this multi-year opportunity validates Comtech’s market leading troposcatter technologies and expertise.

#### LOOKING AHEAD

Considering the events of fiscal 2020, I am very pleased with how our business is performing. Fiscal 2020 was obviously a challenging year for Comtech, but it illustrates the earnings power of our business and our product leadership positions. Looking ahead into fiscal 2021 and beyond, we have a strong, diversified customer base, selling to both government customers and commercial customers. We have a good mix of business and a diversified product set that has protected Comtech in the past, and I believe it is a significant source of strength today. Over the long-term, I am excited about our future and have great confidence in our senior leadership team. We all remain determined to extend our market-leading positions and are firmly focused on creating long-term shareholder value.

Our prudent financial management in these turbulent times has enabled us to generate strong operating cash flows and gave us the flexibility to not only continue to invest in our business, but to also support our quarterly cash dividend program. Also, in September 2020, we announced a new \$100.0 million share repurchase program. I believe this authorization demonstrates our confidence in the underlying value of our stock and in our future.

Our many accomplishments in fiscal 2020 would not have been possible without the contributions and support of our loyal customers and business partners, employees and their leadership teams, Board of Directors and shareholders. I thank them all for their support and dedication as we continue to execute on our short-term and long-term strategies. And of utmost importance, I hope everyone remains healthy and safe as we work together to overcome the COVID-19 pandemic, turning challenges into opportunities and emerging as an even stronger company.

Respectfully,



Fred Kornberg  
Chairman of the Board and Chief Executive Officer

# Commercial Solutions

## SATELLITE GROUND STATION TECHNOLOGIES

We believe we are a leading provider of satellite ground station technologies. Our product offerings include ground-based equipment such as satellite earth station modems, traveling wave tube amplifiers, block up converters, power amplifiers, frequency converters, transceivers, access devices, voice-gateways, internet protocol encapsulators, and media routers. We manufacture most of the satellite-based communication equipment we sell to our customers.

Our satellite-based communication products participate in the cellular backhaul over satellite and services market. We believe we are a leading provider of Single Channel Per Carrier (“SCPC”) satellite earth station modems, solid-state amplifiers and traveling wave tube amplifiers (“TWTA”).

Our Heights™ networking platform is a cornerstone of our current research and development efforts and a continuing focus of our satellite earth station equipment sales and marketing efforts. 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. Heights™ is ideally suited for cellular backhaul, universal service obligation networks and other applications that require high performance in a hub-spoke environment. Heights™ solutions are designed to deliver the highest Internet Protocol bits per Hertz in its class.

We believe we are a leader in the TWTA market, and we differentiate our amplifier product offerings by our ability to develop the most efficient size, weight and power profile. Our TWTA products are vital to satellite communication applications such as traditional broadcast, direct-to-home (“DTH”) broadcast and satellite newsgathering. Our products are used to amplify signals, carrying voice, video or data for air-to-satellite-to-ground communications, video broadcasting and the backhaul of cellular traffic.

## PUBLIC SAFETY AND LOCATION TECHNOLOGIES

We develop and deploy public safety grade 911 products and services aligned with current and evolving industry standards, federal regulations and customers’ needs. We provide thousands of public safety answering points (“PSAPs”) with both 911 calls and texts from carriers, serving over 250 million residents nationwide. Carriers and multi-systems operators (“MSOs”) of all sizes rely on our portfolio of wireless and VoIP enhanced 911 (“E911”) call routing, location determination and Text-to-911 services in order to comply with FCC mandates, supporting over 200 million subscribers.

For 911 authorities and public safety agencies, we offer the most comprehensive end-to-end in-house NG-911 technical capabilities as well as a full portfolio of service and system integration capabilities. Our NG-911 solutions include Next Generation Core Services (“NGCS”), Emergency Services IP network (“ESInet”), customer premises equipment (“CPE”), geographic information systems (“GIS”) for real-time location data, and other key functional elements. Our unparalleled experience includes nine statewide and four regional NGCS deployments covering over 58 million U.S. residents.

In partnering with carriers responsible for delivering 911 calls, and state and local governments responsible for receiving and handling those calls, Comtech’s services touch nearly every state and territory across the country. We are committed to the advancement of 911 technologies and continue to invest in the public safety industry, as evidenced by our fiscal 2019 acquisitions of Solacom Technologies, Inc. and the state and local government NG-911 business from General Dynamics Information Technology, Inc., as well as our fiscal 2020 acquisition of NG-911 Inc.

We are also a leading global provider of location and messaging platforms. Leveraging our decades of location-based technology expertise, our solutions support the generation and distribution of location information for both indoor and outdoor environments. We have developed robust mapping, navigation and geolocation solutions incorporated by industry verticals such as automotive manufacturers, mobile network operators (“MNOs”) and retail businesses. Additionally, we provide a high-capacity, multiprotocol Short-Messaging-Service (“SMS”) platform for Person-to-Person (“P2P”), Application-to-Person (“A2P”) and Machine-to-Machine (“M2M”).

Provided to MNOs globally, our virtualized Location-Based Services (“LBS”) platform is a high-availability, robust solution that allows authorized users to locate and track specific mobile devices and monitor specific areas of interest. Our flexible and modular platforms enable the MNOs with a wide range of positioning technologies based on Third Generation Partnership Project (“3GPP”) standards. On the legacy front, our LBS platform is compatible within 2G, 3G and 4G wireless networks, as well as an enabler to the MNOs to seamlessly migrate to cloud native environments, as they start on their 5G journey.

Additionally, we offer Location Studio™, a complete end-to-end location services platform consisting of maps, geoservices, application program interfaces (“APIs”) and software development kits (“SDKs”) enabling MNOs, application developers, public safety customers, and enterprises to build custom and unique applications.

Our text messaging platforms are used by wireless carriers to provide SMS to their end-customers. For our installed base of systems, we provide ongoing operational support, including administration of system components, system optimization, configuration management, and maintenance services, including tracking customer support issues, troubleshooting and developing and installing maintenance releases.



# Government Solutions

## MISSION-CRITICAL TECHNOLOGIES

We offer a variety of solutions to help close the security gap in an era of information-based, network-centric warfare. Our solutions are primarily sold to the U.S. Department of Defense (“DoD”). We are a trusted provider of mission-critical Command, Control, Communications, Computers, Cyber Intelligence, Surveillance and Reconnaissance (“C5ISR”) solutions that military, government, and commercial organizations need to enable seamless, highly secure communications between fixed, remote and mobile operations under conditions that demand the highest level of reliability, availability and security. We offer integrated satellite equipment and design, install and operate data networks that integrate computing and communications (including both satellite and terrestrial links). In addition, we provide ongoing network operation and management support services including project management, field support and maintenance solutions related to satellite ground terminals and related systems.

We are a prime contractor under several IDIQ defense contract vehicles, including the: (i) U.S. Army’s Global Tactical Advanced Communications Systems (“GTACS”) contract, (ii) U.S. Army’s GTACS II contract, (iii) U.S. Navy’s Seaport Next Generation (“SeaPort-Nxg”) contract, (iv) Complex Commercial SATCOM Solutions (“CS3”) contract; and (v) Communications Electronics Command (“CECOM”) Responsive Strategic Sourcing for Services (“RS3”) contract with the U.S. Army Contracting Command - Aberdeen Proving Ground (“ACC-APG”). Further, since fiscal 2010, we have provided sustainment support services for the U.S. Army’s BFT-1 system.

We are recognized as an industry leader and global supplier of high reliability products and supply chain services for the U.S. military and aerospace market. These services include the procurement of space components, antenna systems, high reliability Electrical, Electronic and Electromechanical (“EEE”) parts in support of critical National Aeronautics and Space Administration (“NASA”) programs, including the Artemis rocket launch program, and the design, development and installation of multiple launch vehicle tracking stations in the South Pacific for an international space agency.

We also provide a variety of in-class and on-line training services to our customers to help them protect command and control networks (and other sophisticated networks) from cyber-attacks.

Through our acquisition of CGC Technology Limited, we are also a leading, world-wide provider of high precision, full motion fixed and mobile X/Y satellite tracking antennas, RF feeds, reflectors, radomes and other ground station equipment.

## HIGH-PERFORMANCE TRANSMISSION TECHNOLOGIES

We offer several unique high-performance transmission technologies that are used in sophisticated communication systems, such as electronic warfare, radar and identification friend or foe (“IFF”).

We have designed, manufactured and delivered troposcatter systems (sometimes referred to as over-the-horizon (“OTH”) microwave products and systems) for over fifty years and are one of the largest independent suppliers of solid-state, high-power 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. We believe we offer the only adaptive troposcatter modem that can operate at 200 megabits per second (“Mbps”). Troposcatter systems readily transmit digitized voice, video and data over unfriendly or inaccessible terrain by reflecting transmitted signals off the troposphere and are an extremely reliable, secure and cost-effective alternative to satellite communication.

Traditional end-users of our troposcatter equipment have included the U.S. and foreign governments that utilize our over-the-horizon microwave systems to, among other things, transmit radar tracking, run C4ISR applications and connect to remote border locations. Additionally, energy companies use our systems to enable communication links for offshore oil rigs and other remote locations, as well as for exploration activities.

Our Modular Tactical Transmission System (“MTTS”), a modular, rapidly deployable transit case-based troposcatter system, has been purchased by the U.S. Army, incorporated into the Secret Internet Protocol Router and Non-classified Internet Router Access Point (“SNAP”) family of products used by the U.S. military and designated the Tactical Transportable TROPO (“SNAP 3T”) or AN/TRC 198(V3).



We recently introduced the Comtech COMET™, a rapidly deployable OTH microwave system. The Comtech COMET™ has a medium range (up to 60 km) and high bandwidth (up to 210 Mbps) that fills a void in distances that have long been desired by tactical communications planners. It uniquely addresses the special operations command (or “SOCOM”) community’s concern of low probability of intercept and low probability of detection (“LPI/LPD”), while providing high reliability, mission essential communications.

Our newly introduced next generation troposcatter modems provide significant reductions in size, weight and power as compared to prior models and we believe that these modems will facilitate further market expansion over the next several years. For example, commencing in fiscal 2020, we made significant progress toward providing next generation troposcatter solutions in support of a large multi-year U.S. Marine Corps contract that was awarded to our prime contractor partner in November 2019. In addition to the manufacturing and delivery of such systems, we also expect to supply test support, logistics and training documentation, training execution, fielding support and sustainment services.

In the electronic warfare marketplace, we support a variety of legacy systems and are participating in the ongoing migration to platforms that require smaller and lighter amplifiers. Our solutions increase the flexibility of systems by providing wider bandwidth capabilities to address communication needs.

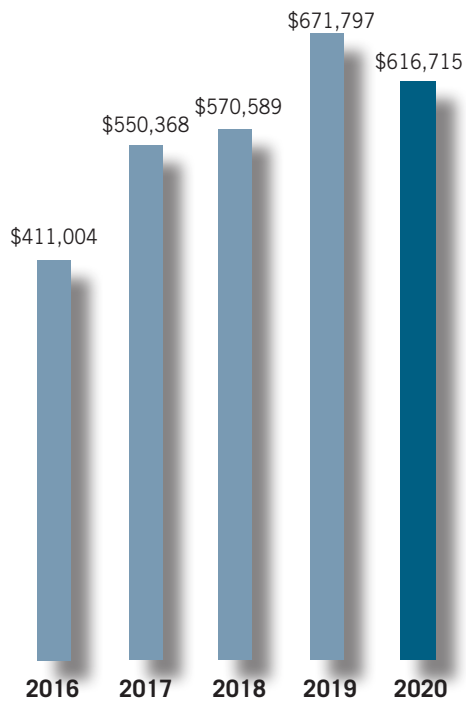
Our high power and highly reliable Gallium Nitride (“GaN”) amplifier technology is increasingly being used both to update existing radar systems for improved sensitivity and range as well as for new radar installations. In addition to technologies that enhance performance of primary radars, we also supply solutions for IFF systems that provide positive identification of radar targets.

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.

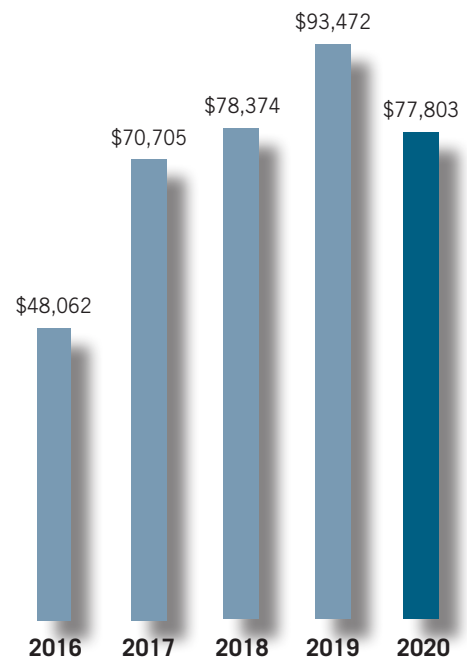


# SELECTED FINANCIAL DATA

## NET SALES \$ in thousands

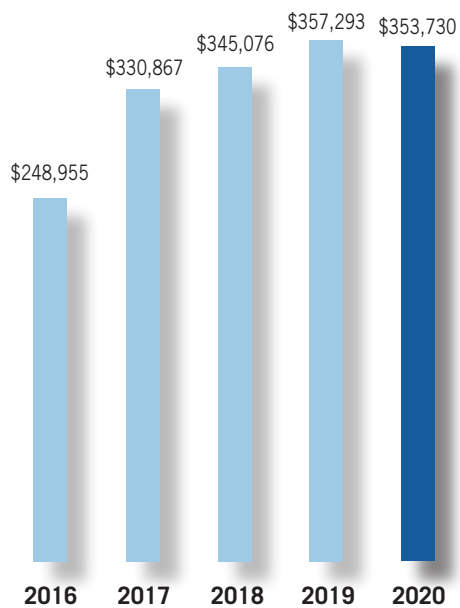


## ADJUSTED EBITDA <sup>(1)</sup> \$ in thousands

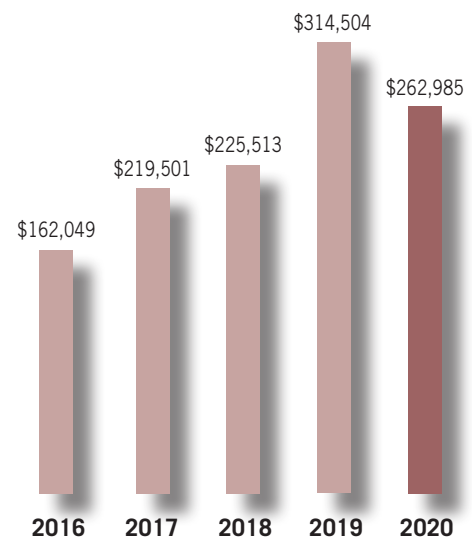


## REVENUES BY SEGMENT (\$ IN THOUSANDS)

### COMMERCIAL SOLUTIONS



### GOVERNMENT SOLUTIONS



(1) A reconciliation of Net Income to Adjusted EBITDA is included in our Annual Report on Form 10-K.

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, 2020**

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	Trading Symbol(s)	Name of each exchange on which registered
<b>Common Stock, par value \$.10 per share</b>	<b>CMTL</b>	<b>NASDAQ Stock Market LLC</b>
<b>Series A Junior Participating Cumulative Preferred Stock, par value \$0.10 per share</b>		

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 every Interactive Data file required to be submitted 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 such files).

Yes       No

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 the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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 Select Market on January 31, 2020 was approximately \$703,374,000.

The number of shares of the registrant's common stock outstanding on September 25, 2020 was 24,994,323.

#### 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 2020 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, pending litigation, potential transactions, 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. In general, all statements of fact 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, because these risks and factors could cause our actual results to differ materially from those described in such forward-looking statements. 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), "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" (Part II, Item 7 of this Form 10-K) and "*Quantitative and Qualitative Disclosures about Market Risk*" (Part II, Item 7A of this Form 10-K). We do not intend to update or revise publicly any forward-looking statements, whether because of new information, future events, or otherwise, except as required by law.

## **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. In recent years, an increase in market demand for global voice, video and data usage has contributed to our growth.

As more fully described elsewhere in this Form 10-K, fiscal 2020 was challenging due to the coronavirus disease 2019 pandemic ("COVID-19"). The impact of COVID-19 on our customers resulted in significant order delays and lower net sales for us as compared to our original business outlook for the year. Despite COVID-19, we achieved fiscal 2020 consolidated net sales of \$616.7 million, consolidated net income of \$7.0 million and Adjusted EBITDA of \$77.8 million. We also generated \$52.8 million of cash flows from operations. We completed two small acquisitions and finished fiscal 2020 with a solid backlog. As COVID-19 impacts subside, we believe that our business performance in future periods will improve from current levels. We also currently have two pending strategic acquisitions that we believe will significantly strengthen our company.

On November 21, 2019, we announced that we entered into an agreement to acquire UHP Networks Inc. and its sister company (together, "UHP"), a leading provider of innovative and disruptive satellite ground station technology solutions. With end-markets for high-speed satellite-based networks significantly growing, our acquisition of UHP will allow us to enhance our solution offerings with low cost time division multiple access ("TDMA") satellite modems which we do not currently offer.

On January 29, 2020, we announced a highly strategic acquisition of Gilat Satellite Networks Ltd. ("Gilat"). Gilat is a worldwide leader in satellite networking technology, solutions and services, with market leading positions in the satellite ground station and in-flight connectivity solutions markets and deep expertise in operating large network infrastructures. After we announced the Gilat acquisition, the COVID-19 pandemic resulted in a sudden and steep decline in the travel and aviation markets in which many of Gilat's customers operate and a significant slowdown in Gilat's business. In July 2020, we commenced litigation in the Delaware Court of Chancery seeking certain declaratory judgments including a declaratory judgment that Gilat has suffered a Material Adverse Effect (as defined in the Merger Agreement) and that, as a result, we are not obligated to complete the acquisition.

The pending acquisitions of Gilat (and related litigation) and UHP are discussed in more detail in *Part II - Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Acquisition Plan Update* and *Notes to Consolidated Financial Statements - Note (13)(a) - Commitments and Contingencies - Legal Proceedings and Other Matters* included in "*Part II - Item 8.- Financial Statements and Supplementary Data*," included in this Annual Report on Form 10-K.

Our Business Outlook for Fiscal 2021 is discussed further in *Part II - "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Impact of COVID-19 and Business Outlook for Fiscal 2021."* For a definition and explanation of Adjusted EBITDA, see *Part II - "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Comparison of Fiscal 2020 and 2019 - Adjusted EBITDA."*

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 for a limited time.

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.

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 we are well positioned to capitalize on some of the most significant long-term 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 technology trends include growth in global wireless penetration and consumption, the need for public safety agencies to seamlessly integrate various networks and protocols and utilize precise location to connect individuals with first responders, the rapidly expanding breadth of High Definition ("HD") and 4K broadcasting content and the need for governments to have more modern and mobile communications and transmission equipment to successfully complete mission-critical goals. We believe that all these long-term trends generate growth in global voice, video and data usage that, in turn, drives increased long-term demand for the secure wireless communication solutions that we provide.



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

### Commercial Solutions Segment

*Satellite Ground Station Technologies* - We believe we are the leading provider of Single Channel per Carrier ("SCPC") satellite earth station modems, solid-state amplifiers and traveling wave tube amplifiers. Many of our key satellite earth station modems incorporate Turbo Product Code ("TPC") forward error correction technology and bandwidth compression technology which enables our customers to optimize their satellite networks by either reducing their satellite transponder lease costs or increasing data throughput. Our amplifier products are used to amplify signals carrying voice, video or data for air-to-satellite-to-ground communications and are vital to satellite communication applications such as traditional broadcast, direct-to-home ("DTH") broadcast and satellite newsgathering. We differentiate our amplifier product offerings by our ability to develop the most efficient size, weight and power profile. Certain of our amplifiers are DO-160 (an airborne quality standard) certified and when incorporated into an aircraft satellite communication system, can provide passengers, both commercial and military, with email, Internet access and video conferencing.

*Public Safety and Location Technologies* - We believe that we are a leader in public safety communication and location technologies used for routing 911 calls. We meet the ISO 27001 data security standard and 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 messaging. We believe we are one of a limited number of 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 the caller's location information. We are focusing our marketing and research and development efforts to meet system standards for next generation 911 ("NG-911"), 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, to the PSAPs and on to emergency responders. Our Short-Messaging Service ("SMS") Center software has been used by Mobile Network Operators ("MNOs") to enable the exchange of text or data messages to and from wireless devices for almost two decades across 2G, 3G and 4G networks. Our flexible and modular platforms enable the MNOs with a wide range of positioning technologies based on Third Generation Partnership Project ("3GPP") standards. Additionally, we offer Location Studio™, a complete end-to-end location services platform consisting of maps, geoservices, application programming interfaces ("APIs") and software development kits ("SDKs") enabling MNOs, application developers, public safety customers, and enterprises to build custom and unique applications.

### Government Solutions Segment

*Mission-Critical Technologies* - We are a key supplier to large governments (particularly the U.S. government) and large prime contractors, for mission-critical technologies, primarily tactical satellite-based technology solutions, field support services and satellite component supply chain management. We are a prime contractor under several indefinite delivery, indefinite quantity ("IDIQ") defense contract vehicles, including the: (i) U.S. Army's Global Tactical Advanced Communications Systems ("GTACS") contract, (ii) U.S. Army's Global Tactical Advanced Communications Systems ("GTACS II") contract, (iii) U.S. Navy's Seaport Next Generation ("SeaPort-Nxg") contract, (iv) Complex Commercial SATCOM Solutions ("CS3") contract; and (v) Communications Electronics Command ("CECOM") Responsive Strategic Sourcing for Services ("RS3") contract with the U.S. Army Contracting Command - Aberdeen Proving Ground ("ACC-APG"). We provide field support sustainment services, centralized and deployed depot services, and technology insertion 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"). We also provide sustainment services for the U.S. Army's Blue Force Tracking-1 ("BFT-1") system. Our field support services include providing U.S. Department of Defense ("DoD") personnel with curriculum development and training services to support cybersecurity workforce development. We provide high reliability Electrical, Electronic and Electromechanical ("EEE") parts for use in satellite, launch vehicle and manned space applications. We also provide services encompassing all aspects of ground station life cycle to include requirements definition and analysis; design, development and integration of turnkey systems from antenna to data processing; civil works and construction; station installation and verification; operations and maintenance; and decommissioning at end of life. We also provide to customers worldwide a full line of X/Y satellite tracking antenna systems ranging in sizes from 30cm to 13m, as well as radomes, ideal for LEO, MEO and GEO constellations.

*High-Performance Transmission Technologies* - We are a world leader in the design and supply of troposcatter equipment, and a key supplier of radio frequency ("RF") solid-state, high-power amplifier and switching technologies. We have designed, manufactured and delivered troposcatter systems (sometimes referred to as over-the-horizon ("OTH") microwave products and systems) for over fifty years and are one of the largest independent suppliers of solid-state, high-power 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.

Our CS67PLUS software defined, adaptive troposcatter radio can operate at over 200 megabits per second ("Mbps"). The radio is MIL-STD 461 EMI and MIL-STD 810G environmentally compliant. Our Modular Tactical Transmission System ("MTTS") provides a high capacity, troposcatter and beyond-line-of-sight modular communications system designed for easy and rapid deployment. Our best-in-class troposcatter solutions led to our equipment being chosen to be used on the U.S. Marine Corps' next generation troposcatter system Program of Record. These dual frequency systems are designed to operate in harsh environmental conditions and are protected from Electromagnetic Interference and Electromagnetic Pulse ("EMI/EMP").

Many solid-state power amplifier and switching technologies 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 development and production to us include Rockwell Collins, Inc., European Aeronautic Defence and Space Company ("EADS"), Lockheed Martin Corporation, L3Harris Technologies, Inc., Northrop Grumman Corporation, BAE Systems Plc and Raytheon Technologies Corporation. 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* – Our Heights™ networking platform ("Heights") is a cornerstone of our current research and development efforts and a continuing focus of our satellite earth station equipment sales and marketing efforts. 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. Heights™ is ideally suited for cellular backhaul, universal service obligation networks and other applications that require high performance in a hub-spoke environment. Heights™ solutions are designed to deliver the highest Internet Protocol bits per Hertz in its class.

*Our Solacom Software Solutions* – In fiscal 2019, we acquired Solacom Technologies, Inc. ("Solacom"), a leading provider of NG-911 solutions for public safety agencies. Solacom has developed a best-in-class call handling solution marketed under the Guardian brand name which provides an integrated text-to-and-from 911 solution on a unified platform. The solution provides a flexible user interface, adapts to varying customer environments and preferences, provides powerful call conferencing capabilities, enhanced reporting capabilities and offers geospatial 911 location call display directly from a customized map. Because of its advanced features, it allows us to offer an immediate upgrade path to existing and new customers and has expanded our presence in the public safety solutions market. We are investing in product enhancements of the Guardian software including developing a cloud-based version so that we can offer software as a service (SaaS) type solutions to our public safety customers.

*Our Compact Over-the-horizon Mobile Expeditionary Terminal ("COMET")* – In fiscal 2020, we introduced the Comtech COMET, the world's smallest OTH microwave troposcatter terminal. COMET, which stands for Compact Over-the-horizon Mobile Expeditionary Terminal, is rapidly deployable, low power and highly portable. Troposcatter technology has long been associated with large antennas and high-power amplifiers that require kilowatts of prime power and large trucks to transport them to the field. The COMET has fundamentally changed this paradigm. The COMET is capable of being transported in a carry case by a single individual and set up in under fifteen minutes. The COMET is ideally suited for situations where high bandwidth backhaul communications are required, extending critical services into areas where there is no communications infrastructure, or the infrastructure has been destroyed. U.S. Special Forces have already begun procuring and deploying the COMET for high reliability, mission essential communications.

*Our "XyPoint®" Mobile Location Platform* – Our "XyPoint®" Mobile Location Platform is a standards-compliant, commercially available system used for the location of mobile devices connected to 2G, 3G, 4G-LTE, 5G NGC and Wi-Fi networks. Our XyPoint® platform provides device location for both public safety and commercial applications and enables device positioning for smartphones, tablets and internet of things ("IoT") devices connected to an MNO's 5G cloud network.

**(4) We Have a Diverse Global Customer Base**

We have established long-standing relationships with thousands of customers worldwide, including leading system and network suppliers in the global satellite (such as Intelsat S.A. and SES S.A.), mobile cellular (such as Verizon Wireless), defense, broadcast and aerospace industries, as well as the U.S. federal government (such as the U.S. Army and Navy), U.S. state and local governments, and foreign governments. Our global commercial and government customers are increasingly seeking integrated solutions to meet their operational needs. We believe that our customers recognize our ability to develop improved technologies and to meet stringent program requirements.

Our ability to solve complex problems is well known and we believe we have strong relationships with our customers. We hold prime positions on several key contracts and have had a long history of servicing key programs.

**Business Segments**

Fundamentally, we offer advanced secure wireless communication technologies with expertise in the satellite communications and cellular markets. We believe these markets are undergoing a period of significant growth and rapid technological change. We manage our business through two reportable operating segments: Commercial Solutions and Government Solutions. Our corporate senior management team supports the business segments by, among other things, actively seeking to exploit potential synergies that exist between the segments, including in areas such as manufacturing, technology, sales, marketing, customer support and finance.

The diagram below summarizes our key products, systems and services by our two reportable operating segments:

Commercial Solutions Segment Technologies (approximately 57.4% of fiscal 2020 net sales)		Government Solutions Segment Technologies (approximately 42.6% of fiscal 2020 net sales)	
<p><b>Satellite Ground Station Technologies</b></p> <ul style="list-style-type: none"> <li>Satellite ground station technologies such as single channel per carrier modems and Heights™ networking platform that facilitate the transmission of voice, video and data over satellite links</li> <li>Solid-state and traveling wave tube amplifiers used to amplify signals from satellite ground stations</li> </ul>	<p><b>Public Safety and Location Technologies</b></p> <ul style="list-style-type: none"> <li>Wireless/VoIP 911 service for network operators</li> <li>NextGen 911 solutions</li> <li>ESInet (Emergency Services IP Network)</li> <li>Call Handling applications for PSAPs</li> <li>Software and equipment for location-based and messaging services for various applications including public safety services</li> </ul>	<p><b>Mission-Critical Technologies</b></p> <ul style="list-style-type: none"> <li>Tactical satellite-based communications, field support and end-to-end integration</li> <li>Satellite-based mobile communications and tracking systems, including high precision full motion fixed and mobile X/Y satellite tracking antennas, RF feeds, reflectors and radomes</li> <li>Procurement and supply chain management of high reliability EEE parts for satellite, launch vehicle and manned space applications</li> </ul>	<p><b>High-Performance Transmission Technologies</b></p> <ul style="list-style-type: none"> <li>Over-the-horizon microwave equipment that can transmit digitized voice, video and data over distances up to 200 miles using the troposphere and diffraction</li> <li>Solid-state, high-power amplifiers designed for radar, electronic warfare, jamming, medical and aviation applications</li> </ul>

Commercial Solutions Segment Representative Customers	Government Solutions Segment Representative Customers
<p>Satellite systems integrators, wireless and other communication service providers and broadcasters</p> <p>Domestic and international defense customers, as well as U.S. and foreign governments, prime contractors and system suppliers, such as General Dynamics Corporation, Lockheed Martin Corporation, L3Harris Technologies, Inc., Raytheon Technologies Corporation, SED Systems (a division of Calian Ltd.), and ViaSat Inc.</p> <p>Satellite broadcasters, such as The DIRECTV Group and EchoStar Corporation</p> <p>U.S. state and local governments, such as the Commonwealth of Massachusetts, Iowa, Maine, South Carolina, the State of Washington and Tennessee</p> <p>End-customers also include AT&amp;T Inc., BT Group plc., China Mobile Limited, CenturyLink, Inc., Claro Argentina, Comcast Corporation, Intelsat S.A., Speedcast International Limited, Nokia Corporation, QUALCOMM Incorporated, SES S.A., T-Mobile USA, Inc. and Verizon Communications Inc.</p>	<p>U.S. Army, the U.S. Marine Corps, the U.S. Navy, prime contractors to the U.S. Armed Forces, NATO and foreign governments (i.e., ministries of defense)</p> <p>Domestic and international defense customers, prime contractors and system suppliers such as Lockheed Martin Corporation, L3 Harris Technologies, Inc., Northrop Grumman Corporation, Raytheon Technologies Corporation, Rockwell Collins, Inc., SES S.A., and The Boeing Company</p> <p>Medical equipment companies, such as Varian Medical Systems, Inc., and aviation industry system integrators such as Collins Aerospace (a subsidiary of United Technology Corporation)</p> <p>Foreign government customers in the Middle East, Europe, North Africa, Latin America and Asia Pacific and related prime contractors and systems integrators</p> <p>Oil companies such as Shell Oil Company and PETRONAS</p>

Financial information about our business segments, including net sales, operating income, Adjusted EBITDA (a Non-GAAP financial measure), total assets, and our operations outside the United States, is provided in "Notes to Consolidated Financial Statements - Note (12) Segment Information" included in "Part II - Item 8. - Financial Statements and Supplementary Data."

The markets and key technologies for each segment are further described below.

## Commercial Solutions Segment

### Overview

Our Commercial Solutions segment offers satellite ground station technologies (such as modems and amplifiers) and public safety and location technologies (such as 911 call routing, 911 call handling and mapping solutions) to commercial customers and smaller government customers, such as state and local governments. This segment also serves certain large government customers (including the U.S. government) that have requirements for off-the-shelf commercial equipment.

### Key Markets and Technology Solutions

#### Satellite Ground Station Technologies

We offer our customers one-stop-shopping for satellite ground station technologies including modems, amplifiers, frequency converters and network software for customers who utilize satellite communications. Our products are used to modulate, demodulate and amplify signals, carry voice, video and/or data over networks and are vital to satellite communication applications, including air-to-ground communications, video broadcasting and the backhaul of cellular traffic. Our Commercial Solutions segment manufactures most of the satellite ground station equipment we sell to our customers including equipment sold by our Government Solutions segment.

We believe that the overall satellite ground station equipment industry will grow over the next few years. This growth is expected to occur as a result of widespread deployment and upgrades of ground-based systems, including satellite earth stations, as well as integration of high-performance amplifiers used for high-performance systems necessary to meet long-term demand for high-performance applications of satellite communications technologies, such as satellite-based wireless backhaul, DTH, HD and 4K broadcasting and in-flight connectivity. We believe that Comtech is well positioned to capitalize on this demand through sales of our market leading satellite ground station technologies.

Examples of end-market applications that are driving long-term demand for our satellite-based communication technologies include:

- **Satellite-Based Cellular Backhaul.** Demand for satellite-based cellular backhaul services is anticipated to grow rapidly as a result of the increased penetration of smart cellular phones and network upgrades to 3G and 4G in developing regions of the world. Ultimately, as 5G services continue to be deployed, mobile data services will become more critical. As mobile data penetration expands and mobile data consumption increases, wireless carriers must invest in their mobile network infrastructure and businesses will require back-up communications. In developing regions of the world and in remote areas where terrestrial network infrastructure is lacking, wireless network operators often backhaul, or transport, their wireless data traffic using satellite-based networking technologies. Comtech is well positioned to serve the high-performance, high availability needs of satellite-based cellular backhaul through sales of our satellite modems including our Heights™ networking platform.
- **New High Throughput Satellites.** There are more than 100 new High Throughput Satellite ("HTS") payloads expected to launch over the next decade which we believe is expected to lead to increasingly complex satellite networks. As service providers work to offer connectivity to these high-speed, high-bandwidth satellites and expand their networks to handle the demand for new HTS applications, we believe our Heights™ networking platform will be incorporated into many new installations and necessary upgrades of equipment.
- **High Definition and Ultra-High Definition Broadcasting.** Reports indicate that in recent years, consumers have purchased millions of HD televisions and Ultra-High Definition or "4K" televisions. We believe this will require a significant amount of satellite bandwidth, which will require satellite service providers to upgrade equipment and find new ways to manage the cost and transmission efficiency of their networks. We believe that these requirements will drive increased demand for our satellite ground station technologies.

#### *Public Safety and Location Technologies*

We are a leading provider of public safety and location technologies. Our next generation solutions enable rich, multimedia information to be delivered with 911 calls; our E911 call routing solutions allow cellular carriers and over the Internet ("VoIP") carriers to deliver emergency calls to Public Safety emergency call centers nationwide. When someone places an emergency call, our technologies can identify the call as an emergency call, access the user's location information from the wireless network and route the call to the assigned public safety jurisdiction. Today, we provide public safety and location technologies to many U.S. telecommunication carriers, the largest being Verizon for which we provide their 911 call routing via cellular service. We believe the largest portion of the market for 911 cellular call routing service is split approximately equally between us and our leading competitor.

In addition to 911 call routing, we provide systems integration, satellite and location infrastructure terminals, and linkage to NG-911 Emergency Services IP Networks ("ESInet"). We also offer best-in-class 911 call handling solutions under the Solacom brand name. We believe state and local governments have a need to upgrade existing call handling systems and old networks to more modern NG-911 systems, including 911 text messaging services, advanced data, real-time photos and other types of information sharing over IP networks.

As the U.S. adopts upgraded call handling and NG-911 solutions, we believe that other countries will do so as well. Our public safety and location technology solutions have been deployed since 2006 and are utilized by MNOs nationally as well as internationally to provide reliable device location determination for public safety and commercial applications. Many of our technologies, such as positioning, mapping and text messaging, are embedded in our public safety and location offerings to help address mapping, routing and geolocations. We address the FCC mandates for emergency services as it relates to location by supporting precise location in our solutions. Our text messaging platforms are used by wireless carriers to provide SMS to their end-customers and are also used to communicate with 911 PSAPs through major network operators.

In order to maximize market growth opportunities, we are repositioning certain of our location technology solutions to increase our penetration into the public safety space. Although the market remains very competitive and the sales cycles are long, we believe demand for our public safety and location technologies will continue to grow and customers will continue to look for a more integrated solution. Our Location Studio™ platform enables customers, especially public safety agencies, to build their own applications with end-user functionality, such as maps, search, geocoding, routing and navigation, using their own brand. We believe that customers and prospects are increasingly looking for alternatives to mapping services that are subject to change by the provider and which meet market privacy and security requirements. As such, we are integrating our Trusted OpenStreetMap ("TOSM") technologies into our portfolio which will enhance the value proposition by providing rich maps and data while addressing privacy requirements. Our location technology solutions enable the determination of a mobile phone's geospatial position in a variety of environments leveraging a wide range of signals including Global Positioning System ("GPS"), Global Navigation Satellite Systems ("GNSS") and cellular technologies. For our installed base of systems, we provide ongoing operational support, including administration of system components, system optimization, configuration management, and maintenance services, including tracking customer support issues, troubleshooting and developing and installing maintenance release.

## **Government Solutions Segment**

### ***Overview***

Our Government Solutions segment provides mission-critical technologies (such as tactical satellite-based networks and ongoing support for complicated communication networks) and high-performance transmission technologies (such as troposcatter systems and solid-state, high-power amplifiers) to large government end-users (including those of foreign countries), large international customers and domestic prime contractors.

### ***Key Markets and Technology Solutions***

#### *Mission-Critical Technologies*

With persistent threats from state and non-state actors, governments around the world are increasingly seeking ways to mitigate vulnerabilities using information and more reliable communication systems to increase decision-makers' situational awareness. In response to this demand, we offer a variety of mission-critical technologies including the supply and field support of tactical satellite-based networks (including satellite modems, ruggedized routers and solid-state drives), sustainment services for the AN/TSC-198A SNAP (Secret Internet Protocol Router ("SIPR") and Non-classified Internet Protocol Router ("NIPR") Access Point), Very Small Aperture Terminals ("VSATs") and sustainment services for the U.S. Army's Blue Force Tracking-1 ("BFT-1") system. Many of our mission-critical technologies are part of integrated communication infrastructure systems such as the U.S. Military Command, Control, Communications, Computers, Cyber Intelligence, Surveillance and Reconnaissance (also known as "C5ISR") systems and similar complicated networks for international governments. We also provide a variety of in-class and on-line training services, labs and assessments to our customers to help them protect networks from cyber attacks.

We are recognized as an industry leader and global supplier of high reliability products. Our solutions include supply chain management and engineering services for high reliability EEE space parts and satellite and launch vehicle tracking solutions in support of critical National Aeronautics and Space Administration ("NASA") programs and for international space and defense agencies. Through our acquisition of CGC Technology Limited, we are also a leading, world-wide provider of high precision, full motion fixed and mobile X/Y satellite tracking antennas, RF feeds, reflectors, radomes and other ground station equipment.

#### *High-Performance Transmission Technologies*

We offer several unique high-performance transmission technologies that are used in sophisticated communication systems, such as electronic warfare, radar and identification friend or foe ("IFF"). As our customers push the envelope for mobility, speed and higher frequency, we believe that demand for high-performance transmission products will grow from current levels.

Our troposcatter technologies (sometimes referred to as over-the-horizon or "OTH" microwave systems) are extremely reliable and secure and are a cost-effective alternative or compliment to satellite communication as it does not require the leasing of expensive satellite transponder space with its attendant recurring costs. Our over-the-horizon microwave systems, which include our patented forward error correction technology, can transmit video and other broadband applications at throughputs of up to 200 Mbps. U.S. and foreign governments use our over-the-horizon microwave systems to, among other things, transmit radar tracking, run C4ISR applications and connect to remote border locations. Additionally, energy companies use our systems to enable communication links for offshore oil rigs and other remote locations, as well as for exploration activities. Our MTTTS, the first truly modular, rapidly deployable transit case-based troposcatter system, has been purchased by the U.S. Army, incorporated into the SNAP family of products used by the U.S. military and designated the Tactical Transportable TROPO ("SNAP 3T") or AN/TRC 198(V3). We recently introduced the Comtech COMET, a rapidly deployable OTH microwave system. The Comtech COMET has a medium range (up to 60 km) and high bandwidth (up to 210 Mbps) that fills a void in distances that have long been desired by tactical communications planners. It uniquely addresses the special operations command (or "SOCOM") community's concern of low probability of intercept and low probability of detection ("LPI/LPD"), while providing high reliability, mission essential communications.

Our solid-state, high-power amplifiers and related switching technologies are utilized in several critical applications including electronic warfare, communications, radar, IFF and medical applications such as oncology cancer treatment systems. In the electronic warfare marketplace, we support a variety of legacy systems and are participating in the ongoing migration to platforms that require smaller and lighter amplifiers. Our solutions increase the flexibility of systems by providing wider bandwidth capabilities to address communication needs. We also believe that the desire for increased situational awareness of the airspace may create increased opportunities for our radar and IFF products, which are used by government customers around the world. Our high power and highly reliable Gallium Nitride ("GaN") amplifier technology is increasingly used both to update existing radar systems for improved sensitivity and range as well as for new radar installations. In addition to technologies that enhance performance of primary radars, we also supply solutions for IFF systems that provide positive identification of radar targets.

## **Acquisitions**

In order to position ourselves to take advantage of additional growth opportunities and meet our strategic objectives, we have followed, and will continue to follow, a disciplined approach in identifying, executing and capitalizing on acquisitions.

### Completed Acquisitions

In the past several years, we have acquired businesses and enabling technologies.

On February 23, 2016, we acquired TeleCommunication Systems Inc. ("TCS"), a leading provider of commercial solutions (such as public safety and location technologies) and government solutions (such as mission-critical technologies). The TCS acquisition had an aggregate purchase price for accounting purposes of \$340.4 million (also referred to as the transaction equity value) and an enterprise value of \$423.6 million. The TCS acquisition, which has been fully integrated into our business, resulted in Comtech entering complementary markets and expanding our domestic and international commercial offerings.

On February 28, 2019, we completed our acquisition of Solacom, a leading provider of Next Generation 911 ("NG-911") solutions for public safety agencies. The acquisition of Solacom was a significant step in our strategy of enhancing our public safety and location technologies. The Solacom acquisition had an aggregate purchase price for accounting purposes of \$32.9 million and was fully integrated into our Commercial Solutions segment.

On April 29, 2019, we acquired the state and local government NG-911 business from General Dynamics Information Technology, Inc. (the "GD NG-911 business") and at the same time announced a five-year contract award in excess of \$100.0 million to develop, implement and operate a NG-911 emergency communications system for a Northeastern state. The acquisition strengthened Comtech's position in the growing NG-911 solutions market. The GD NG-911 business had an aggregate purchase price for accounting purposes of \$11.0 million and was fully integrated into our Commercial Solutions segment.

On January 27, 2020, we completed the acquisition of CGC Technology Limited ("CGC"), a small privately held company located in the United Kingdom. CGC is a leading provider of high precision full motion fixed and mobile X/Y satellite tracking antennas, reflectors, RF feeds, radomes and other ground station equipment around the world. The acquisition brought established relationships with several top-tier European aerospace companies and other government entities, and we expect it to allow us to participate in the anticipated growth in the number of low Earth orbit ("LEO") and medium Earth orbit ("MEO") satellite constellations. The CGC business has a preliminary purchase price for accounting purposes of \$23.7 million and was fully integrated into our Government Solutions segment.

On February 21, 2020, we acquired NG-911, Inc. ("NG-911"), a small privately held company based in Iowa, Illinois and Missouri. NG-911 is a pioneer in providing next generation 911 solutions, including those designed by Solacom, to public safety agencies in the Midwest. The acquisition allows us to cost-effectively expand sales of our industry leading Solacom Guardian call management solutions for public safety. The NG product line had a preliminary purchase price for accounting purposes of \$1.2 million and was fully integrated into our Commercial Solutions segment.

#### Pending Acquisitions of UHP and Gilat

On November 21, 2019, we announced that we entered into an agreement to acquire UHP, a leading provider of innovative and disruptive satellite ground station technology solutions. UHP is primarily based in Canada and has developed revolutionary technology that is transforming the Very Small Aperture Terminal ("VSAT") market. With end-markets for high-speed satellite-based networks significantly growing, our acquisition of UHP will allow us to enhance our solution offerings with low cost TDMA satellite modems which we do not currently offer. In June 2020, we agreed with UHP to amend the terms of our purchase agreement which resulted in the total aggregate purchase price being reduced by approximately 24% from \$50.0 million to \$38.0 million (of which \$5.0 million will be paid in cash, with the remainder in shares of our common stock, cash, or a combination of both, as we may elect at the time of closing). The transaction is subject to customary closing conditions, including regulatory approval to allow us to purchase UHP's sister company which is headquartered in Moscow. If we do not receive approval by December 31, 2020, either we or UHP may terminate the purchase agreement. Additional discussion and information about the pending UHP acquisition can be found in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Acquisition Plan Update."

On January 29, 2020, we announced a highly strategic acquisition of Gilat, a worldwide leader in satellite networking technology, solutions and services, with market leading positions in the satellite ground station and in-flight connectivity solutions markets and deep expertise in operating large network infrastructures. After we announced this acquisition, the COVID-19 pandemic resulted in a sudden and steep decline in the travel and aviation markets in which many of Gilat's customers operate and a significant slowdown in Gilat's business. Based on the terms agreed to on January 29, 2020 and the September 24, 2020 closing price of Comtech Common Stock of \$13.32 per share, the total amount payable to Gilat shareholders would have been approximately \$465.8 million (consisting of approximately \$402.9 million in cash with the remainder in Comtech Common Stock) or \$8.30 per Gilat ordinary share.

In July 2020, we commenced litigation in the Delaware Court of Chancery (the "Delaware Court") seeking certain declaratory judgments, including a declaratory judgment that Gilat has suffered a Material Adverse Effect (as defined in the Merger Agreement) and that, as a result, we are not obligated to complete the acquisition of Gilat. The amended complaint also seeks a declaratory judgment that certain actions, if taken by Gilat, relating to Comtech's application for Russian regulatory approval, would breach Gilat's obligations under the Merger Agreement. Gilat subsequently sued in the Delaware Court for declaratory judgments, including that it has not suffered a Material Adverse Effect and that Comtech has not used reasonable best efforts to obtain Russian regulatory approval for the transaction. To-date, we incurred significant amounts of legal expenses and professional fees in connection with the litigation and a trial is scheduled for October 5, 2020. The Delaware Court has indicated that it intends to render a judgment prior to October 29, 2020, the date that we or Gilat may terminate the Merger Agreement. Litigation related to Gilat is further discussed in "Notes to Consolidated Financial Statements - Note (13)(a) - Commitments and Contingencies - Legal Proceedings and Other Matters" included in "Part II - Item 8.- Financial Statements and Supplementary Data," included in this Annual Report on Form 10-K.

#### **Sales, Marketing and Customer Support**

Sales and marketing strategies include direct sales through sales, marketing and engineering personnel, indirect sales through independent representatives, value-added resellers, and sales through a combination of the foregoing. We devote resources to evaluating and responding to requests for proposals by governmental agencies around the world and, as needed, we employ the use of specialized consultants to develop our proposals and bids.



We intend to continue to expand international marketing efforts by engaging additional independent sales representatives, distributors and value-added resellers and by establishing additional foreign sales offices. In addition, we also leverage our relationships with larger companies (such as prime contractors to the U.S. government and large mobile wireless operators) to market our technology solutions.

We are pre-qualified as an approved vendor for certain government contracts. We collaborate in sales efforts under various arrangements with integrators. Our marketing efforts also include advertising, public relations, speaking engagements and attending and sponsoring industry conferences.

Our management, technical and marketing personnel establish and maintain relationships with customers. Our sales strategies include a commitment to providing ongoing customer support for our systems and equipment. This support involves providing direct access to engineering staff or trained technical representatives to resolve technical or operational issues.

Our products and services in many of our product lines have long sales cycles. Once a product is designed into a system, customers may be reluctant to change the incumbent supplier due to the extensive qualification process and potential redesign required in using alternative sources. In addition, in recent years, we have found that overall sales cycles for each of our product lines have significantly increased.

Sales by geography and customer type, as a percentage of related net sales, are as follows:

	Fiscal Years Ended July 31,								
	2020	2019	2018	2020	2019	2018	2020	2019	2018
	Commercial Solutions			Government Solutions			Consolidated		
U.S. government	14.8 %	19.2 %	18.1 %	65.0 %	63.8 %	62.2 %	36.2 %	40.1 %	35.5 %
Domestic	58.9 %	53.9 %	54.6 %	15.2 %	12.5 %	14.9 %	40.3 %	34.5 %	38.9 %
Total U.S.	73.7 %	73.1 %	72.7 %	80.2 %	76.3 %	77.1 %	76.5 %	74.6 %	74.4 %
International	26.3 %	26.9 %	27.3 %	19.8 %	23.7 %	22.9 %	23.5 %	25.4 %	25.6 %
Total	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %

Sales to U.S. government customers include sales to the U.S. Department of Defense ("DoD"), intelligence and civilian agencies, as well as sales directly to or through prime contractors.

Domestic sales include sales to commercial customers, as well as to U.S. state and local governments. Included in domestic sales, are sales to Verizon Communications Inc. ("Verizon"), which represented 10.0% of consolidated net sales for fiscal 2018. Except for the U.S. government, there were no customers that represented more than 10.0% of consolidated net sales during fiscal 2020 and 2019.

International sales for fiscal 2020, 2019 and 2018 (which include sales to U.S. domestic companies for inclusion in products that are sold to international customers) were \$145.1 million, \$170.6 million and \$145.8 million, respectively. When we sell internationally, we denominate virtually all of our contracts in U.S. dollars. Some of our sales to international customers are paid for by letters of credit or on an open account. From time to time, some of our international customers may require us to provide performance guarantees.

Except for the U.S., no individual country (including sales to U.S. domestic companies for inclusion in products that are sold to a foreign country) represented more than 10% of consolidated net sales for fiscal 2020, 2019 and 2018.

## Backlog

Our backlog as of July 31, 2020 was \$620.9 million (of which \$443.2 million was attributed to the Commercial Solutions segment and \$177.7 million was attributed to the Government Solutions segment). We estimate that a substantial portion of the backlog as of July 31, 2020 will be recognized as sales during the next twenty-four month period, with the rest thereafter.

At July 31, 2020, 20.5% of our backlog consisted of orders for use by U.S. commercial customers, 66.8% consisted of U.S. government contracts, subcontracts and government funded programs and 12.6% consisted of orders for use by international customers (including sales to U.S. domestic companies for inclusion in products that will be sold to international customers).

Our backlog is defined as orders (sometimes also referred to herein as bookings) that we believe to be firm. Backlog that is derived from U.S. government orders relates to U.S. government contracts that have been awarded, signed and funded. Backlog for our U.S. government customers also includes amounts appropriated by Congress and allotted to the contract by the procuring government agency. Our backlog does not include the value of options that may be exercised in the future on multi-year contracts, nor does it include the value of additional purchase orders that we may receive under indefinite delivery/indefinite quantity ("IDIQ") contracts or basic ordering agreements. In some cases, such as contracts received from large U.S. based telecommunication companies, our backlog is computed by multiplying the most recent month's contract or revenue by the months remaining under the existing long-term agreements, which we consider to be the best available information for anticipating revenue under those agreements. When we acquire a company with existing contracts, we only record bookings for those contracts that meet our definition. Almost all of the contracts in our backlog (including firm orders previously received from the U.S. government) are subject to modification, cancellation at the convenience of the customer or for default in the event that we are unable to perform under the contract. As of July 31, 2020, we performed a detailed review of our backlog, including assessing the impact of the COVID-19 pandemic, the consolidation of two mobile carriers in the United States and unused contract commitments. Based on such review, we reduced our backlog as of July 31, 2020 by \$29.8 million, which represented orders received in prior periods that we no longer believed met our definition of firm.

A significant portion of the backlog from our U.S. commercial customers relates to large, multi-year contracts to provide state and local governments (and their agencies) with public safety and location technology solutions. Although the contracts themselves represent legal, binding obligations of these governments, funding is often subject to the approval of budgets (for example, on an annual or bi-annual basis). Although funding for these multi-year contracts is dependent on future budgets being approved, we include the full estimated value of these large, multi-year contracts in our backlog given the critical nature of the services being provided and the positive historical experience of our state and local government customers passing their respective budgets.

There can be no assurance that our backlog will result in actual revenue in any particular period, or at all, or that any contract included in backlog will be profitable. There is a higher degree of risk in this regard with respect to unfunded backlog. The actual amount and timing of any revenue is subject to various contingencies, many of which are beyond our control. The actual recognition of revenue on contracts included in backlog may never occur or may change because a program schedule could change, a customer may not follow up with order details (e.g., delivery instructions), fluctuations in currency exchange rates after an order is placed could cause our products to become too expensive for a foreign customer, a customer's program could be canceled, a contract could be reduced, modified or terminated early due to changes in a customer's priorities, funding may not be included in future budgets, actual indirect rates being reimbursed on U.S. government contracts may ultimately be less than those indirect rates included in our initial proposals, or an option that we had assumed would be exercised is not exercised. As a result of these contingencies, we may adjust our backlog if we determine that such orders are no longer firm and or funded. In addition to adjustments from these types of contingencies, variations in backlog from time to time are attributable, in part, to changes in sales mix, the timing of contract proposals, the timing of contract awards, delivery schedules on specific contracts and new bookings obtained through acquisitions. A large majority of the solutions in our satellite ground station technologies product line operate under short lead times. Our Government Solutions segment backlog is highly influenced by the nature and timing of orders received from the U.S. government, which is subject to unpredictable funding, deployment and technology decisions. As a result, we believe our backlog and orders, at any point in time, are not necessarily indicative of the total sales anticipated for any future period.

## **Manufacturing and Service**

Our manufacturing operations consist principally of the assembly and testing of electronic products that we design and build from purchased fabricated parts, printed circuits and electronic components. We consider our facilities to be well maintained and adequate for current and planned production requirements. All our manufacturing facilities, including those that serve the military market, must comply with stringent customer specifications. We employ formal quality management programs and other training programs, including the International Standard Organization's quality procedure registration programs.

We operate a high-volume technology manufacturing center located in Tempe, Arizona. This manufacturing center is operated by our Commercial Solutions segment and can be utilized, in part, by our Government Solutions segment and by third-party commercial customers, including prime contractors to the U.S. government, who can outsource a portion of their product manufacturing to us. Increased usage of our high-volume technology manufacturing center allows us to secure volume discounts on key components, better control the quality of our manufacturing process and maximize the utilization of our manufacturing capacity.

To support our long-term business goals for our satellite earth station product line, in September 2020, we signed a 15-year lease for a 146,000 square foot facility in Chandler, Arizona. This facility is located less than 10 miles from our existing facility, and we anticipate that that we will be fully relocated to this new facility by February 2021.

All of our other manufacturing facilities are located in the United States except for a facility in the United Kingdom which manufactures our high precision X/Y satellite tracking antenna product line.

Our ability to deliver products to customers on a timely basis is dependent, in part, upon the availability and timely delivery by subcontractors and suppliers (including, at times, the U.S. government) of the components and subsystems that we use in manufacturing our products. Electronic components and raw materials used in our products are generally obtained from independent suppliers. Some components are standard items and are available from several suppliers. Others are manufactured to our specifications by subcontractors. Although we obtain certain components and subsystems from a single source or a limited number of sources, we believe that most components and equipment are available from multiple sources. Certain U.S. government contracts may require us to incorporate government furnished parts into our products. Delays in receipt of such parts can adversely impact the timing of our performance on the related contracts.

## **Research and Development**

We have established a leading technology position in our fields through internal and customer-funded research and development activities.

Internal research and development expenses are reported as research and development expenses for financial reporting purposes and were \$52.2 million, \$56.4 million and \$53.9 million in fiscal 2020, 2019 and 2018, respectively, representing 8.5%, 8.4% and 9.4% of total consolidated net sales, respectively, for these periods. Customer-funded research and development activities relate to the adaptation of our basic technology to specialized customer requirements which is recoverable under contracts and is reflected in net sales with the related costs included in cost of sales. Certain of our government customers contract with us from time to time to conduct research on telecommunications software, equipment and systems. During fiscal 2020, 2019 and 2018, we were reimbursed by customers for such activities in the amounts of \$11.9 million, \$14.7 million and \$16.9 million, respectively.

## **Intellectual Property**

We rely upon trade secrets, technical know-how, continuing technological innovation and, with respect to certain technologies, patents to develop and maintain our competitive position. The products we sell require significant engineering design and manufacturing expertise. For these technological capabilities that are not protected by patents or licenses, we generally rely on the expertise of our employees and our learned experiences in both the design and manufacture of our products and the delivery of our services.

Some of our key Commercial Solutions segment technology is protected by patents that are significant to protecting our proprietary technology. We have been issued several U.S. patents relating to forward error correction technology that is utilized in our TPC-enabled satellite modems. Due to our market leadership position, we do not expect that upon expiration of these patents, our future results will be negatively impacted.

We have a portfolio of several hundred patents worldwide relating to wireless location services, text messaging, GPS ephemeris data, emergency public safety data routing, electronic commerce and other areas. To-date, our strategy has been to avoid offensive and defensive patent litigation and focus on building meaningful partnerships with other companies through direct licensing, cross licensing, and other forms of agreements. We do not believe that any single patent or group of patents, patent application or patent license agreement is material to the Company's operations.

We have filed additional patent applications for certain apparatus and processes we believe we have invented covering key features of the location services, wireless text alerts, SMS Center, mobile-originated data and E911 network software. There is no assurance that any patent application will result in a patent being issued by the U.S. Patent and Trademark Office or other patent offices, nor is there any guarantee that any issued patent will be valid and enforceable. Additionally, foreign patent rights may or may not be available or pursued in any technology area for which U.S. patent applications have been filed.

Almost all the products and services we sell to the U.S. government include technology and other technical know-how that we have internally developed. In past instances where we have provided government-purpose rights, to our knowledge, the U.S. government has not exercised any of these rights. To the extent that we have provided or will provide government-purpose rights in the future, we believe that given the rapidly changing nature of our technology, our future success will depend primarily on the technical competence and creative skill of our personnel, rather than any contractual protection.

## **Competition**

Our businesses are highly competitive and are characterized by rapid technological change. Some of our competitors are substantially larger, have significantly greater financial, marketing, research and development, technological and operating resources and broader product lines than we have. Other companies are developing new technologies and the shift towards open standards such as IP-based satellite networks will likely result in increased competition. A significant technological breakthrough by others, including new companies, our existing competitors and our customers, could have a material adverse effect on our business. Our future success depends on, among other things, our ability to keep pace with such changes and developments and to respond to the increasing variety of electronic equipment users and transmission technologies.

Some large defense-based companies, such as Northrop Grumman Corporation, have subsidiaries or divisions that compete against us in one or more business segments. In addition, new and potential competitors are always emerging. Certain of our customers, such as prime contractors who currently outsource their engineering and manufacturing requirements to us, have technological capabilities in our product areas and could choose to replace our products with products they develop. In some cases, we partner or team with companies (both large and mid-tier) to compete against other teams for large defense programs. In some cases, these same companies may be among our competitors.

Listed below, in alphabetical order, are some of our competitors in each of our two business segments:

*Commercial Solutions* - ACTIA Group, Advantech Co., Ltd., Agilis Satcom, AnaCom, Inc., Bandwidth.com, CalAmp Corp., Codan Limited, CPI International, Inc., Datum Systems, Inc., dB Control Corp. (a subsidiary of HEICO Corp.), 8x8, Inc., ENENSYS Technologies, ETM, Inc., Gilat Satellite Networks Ltd., Google Inc. (a subsidiary of Alphabet Inc.), Here Technologies, Honeywell Aerospace (a subsidiary of Honeywell International Inc.), Infinite Convergence Solutions, Inc., Intermap Technologies Corporation, Intrado Corporation, Iridium Communications Inc., ITS Electronics Inc., KVH Industries Inc., LM Ericsson Telephone Company, L3Harris Technologies, Inc., Mission Microwave Technologies, LLC., Motorola Solutions, Inc., ND Satcom GmbH, Nokia Networks (a subsidiary of Nokia Corporation), NOVELSAT, Novra Technologies Inc., Orbcomm Inc., Panasonic Corporation, Paradise Datacom Ltd. (a subsidiary of Teledyne Technologies Incorporated), Polarity Inc., SatixFy Israel Ltd., SatPath Systems, Inc., Spacepath Communications Limited, Speedcast International Limited, ST Engineering iDirect, Inc. (including Newtec), Telenav, Inc., Terrasat Communications Inc, TMD Technologies LLC., TomTom N.V. and ViaSat Inc.

*Government Solutions* - Aethercomm Inc., AMERGINT Technologies, Inc., CACI International Inc., CalAmp Corp., CPI International, Inc., Cubic Corporation, dB Control Corp. (a subsidiary of HEICO Corp.), DXC Technology, Empower RF Systems, Inc., Envistacom, LLC, Escape Communications, Inc., General Dynamics Corporation, International Datacasting Corporation (a subsidiary of Novra Technologies Inc.), Kratos Defense & Security Solutions, Inc., L3Harris Technologies, Inc., Mercury Systems, Inc., NeuStar, Inc., Northrop Grumman Corporation (including the former Orbital ATK, Inc.), Raytheon Technologies Corporation, Teledyne Technologies Incorporated, The KeyW Holding Corporation, Ultra Electronics Holdings plc. and ViaSat Inc.

We believe that competition in all our markets is based primarily on technology innovation, product performance, reputation, delivery times, customer support and price. Due to our proprietary know-how, we believe we can develop, produce and deliver products and services on a cost-effective basis faster than many of our competitors.

## **Employees**

At July 31, 2020, we had 2,034 employees (including temporary employees and contractors), 1,274 of whom were engaged in production and production support, 382 in research and development and other engineering support, and 378 in marketing and administrative functions. None of our U.S. based employees are represented by a labor union. Of our 2,034 employees, 326 employees are based outside of the United States including 141 employees in the United Kingdom. We believe that our employee relations are good.

## U.S. Government Contracts and Security Clearances

The U.S. government operates on an October-to-September fiscal year. Generally, in February of each year, the President of the United States presents to the U.S. Congress ("Congress") the proposed budget for the upcoming fiscal year and from February through September of each year, the appropriations and authorization committees of Congress review the President's budget proposals and establish the funding levels for the upcoming fiscal year. Once these levels are enacted into law, the Executive Office of the President administers the funds to the agencies. Thereafter, we can receive orders pursuant to sole-source or competitively awarded contracts, which we describe below.

The U.S. government may be unable to complete its budget process before the end of any given government fiscal year and when the fiscal budget is not approved in a timely manner, the U.S. government is required either to shut down or be funded pursuant to a so-called "continuing resolution" that authorizes agencies of the U.S. government to continue operations but does not authorize new spending initiatives, either of which could result in reduced or delayed orders or payments for products and services we provide.

Sole-source contracts are generally awarded to a single contractor without a formal competition when a single contractor is deemed to have an expertise or technology superior to that of competing contractors or when there is an urgent need by the U.S. government that cannot wait for a full competitive process. Potential suppliers compete informally through research and development and marketing efforts. Competitively-bid contracts are awarded based on a formal proposal evaluation established by the procuring agency and interested contractors prepare bids. Competitively-bid contracts are awarded after a formal bid and proposal competition among suppliers.

The U.S. government has a stated policy direction to reduce the number of sole-source contract awards across all procuring agencies. In addition, the U.S. government is increasing the use of multiple-award IDIQ contracts to increase its procurement options. IDIQ contracts allow the U.S. government to select a group of eligible contractors for the same program. When the government awards IDIQ contracts to multiple bidders under the same program, a company that has already competed to be selected as a participant in the program must subsequently compete for individual delivery orders. As a result of this U.S. government shift toward multiple award IDIQ contracts, we expect to face greater competition for future U.S. government contracts and, at the same time, greater opportunities for us to participate in program areas that we do not currently participate in.

As a U.S. government contractor and subcontractor, we are subject to a variety of rules and regulations, such as the Federal Acquisition Regulations ("FAR"). Individual agencies can also have acquisition regulations. For example, the Department of Defense implements the FAR through the Defense Federal Acquisition Regulation supplement (commonly known as "DFARs"). For all Federal government entities, the FAR regulates the phases of any product or service acquisition, including: acquisition planning, competition requirements, contractor qualifications, protection of source selection and vendor information, and acquisition procedures. In addition, the FAR addresses the allowability of supplier costs, while Cost Accounting Standards address how those costs can be allocated to contracts. The FAR also subjects suppliers to audits and other government reviews. These reviews cover issues such as cost, performance and accounting practices relating to our contracts. The government may challenge a supplier's costs and fees. Suppliers are also required to comply with the National Industrial Security Program Operating Manual which relates to requirements regarding classified materials and programs. Suppliers who do not comply with these various regulations may lose and/or become ineligible for facility security clearances and/or participation in classified programs.

Under firm fixed-price contracts, we perform for an agreed-upon price and we can derive benefits from cost savings, but bear the risk of cost overruns. Our cost-reimbursable type contracts typically provide for reimbursement of allowable costs incurred plus a negotiated fee. Cost-plus-incentive-fee orders typically provide for sharing with the U.S. government savings accrued from orders performed for less than the target costs and costs incurred in excess of targets up to a negotiated ceiling price (which is higher than the target cost), and for the supplier to carry the entire burden of costs exceeding the negotiated ceiling price.

In fiscal 2020, \$223.4 million or 36.2% of our consolidated net sales were to the U.S. government (including sales to prime contractors to the U.S. government). Of this amount, firm fixed-price and cost-reimbursable type contracts (including fixed-fee, incentive-fee and time and material type contracts) accounted for approximately \$139.6 million and \$83.7 million, respectively.

## Regulatory Matters

In addition to the rules and regulations that pertain to us as a U.S. government contractor and subcontractor, we are also subject to a variety of local, state and federal governmental regulations.

Our products that are incorporated into wireless communications systems must comply with various government regulations, including those of the FCC. Our manufacturing facilities, which may store, handle, emit, generate and dispose of hazardous substances that are used in the manufacture of our products, are subject to a variety of local, state and federal regulations, including those issued by the Environmental Protection Agency. Our products are also subject to European Union directives related to the recycling of electrical and electronic equipment.

Our international sales are subject to U.S. and foreign regulations such as the Arms Export Control Act, the International Emergency Economic Powers Act ("IEEPA"), the International Traffic in Arms Regulations ("ITAR"), the Export Administration Regulations ("EAR") and the trade sanctions laws and regulations administered by the U.S. Department of the Treasury's Office of Foreign Assets Control ("OFAC"), the Department of Commerce ("DoC") as well as other applicable laws relating to trade, export controls and foreign corrupt practices, the violation of which could adversely affect our operations. We cannot be certain that we will be able to obtain necessary export licenses, and such failure would materially adversely affect our operations. If we are unable to receive appropriate export authorizations in the future, we may be prohibited from selling our products and services internationally, which may limit our sales and have a material adverse effect on our business, results of operations and financial condition. We must comply with all applicable export control laws and regulations of the U.S. and other countries. Certain of our products and systems may require licenses from U.S. government agencies for export from the U.S., and some of our products are not permitted to be exported. In addition, in certain cases, U.S. export controls also severely limit unlicensed technical discussions, such as discussions with any persons who are not U.S. citizens or permanent residents. As a result, in cases where we may need an export license, our ability to compete against a non-U.S. domiciled foreign company that may not be subject to the same U.S. laws may be materially adversely affected. In addition, we are subject to the Foreign Corrupt Practices Act ("FCPA") and other local laws that generally bar bribes or unreasonable gifts to foreign governments or officials. Violations of these laws or regulations could result in significant sanctions, including disgorgement of profits, fines, and criminal sanctions against us, our officers, our directors, or our employees, more onerous compliance requirements, more extensive debarments from export privileges or loss of authorizations needed to conduct aspects of our international business. A violation of any of the regulations enumerated above could materially adversely affect our business, financial condition and results of operations. Additionally, changes in regulatory requirements which could further restrict our ability to deliver services to our international customers, including the addition of a country to the list of sanctioned countries under the IEEPA or similar legislation could negatively impact our business.

In the past, we have self-reported violations of export control laws or regulations to the U.S. Department of State, Directorate of Defense Trade Controls ("DDTC"), DoC and OFAC. In addition, we have made various commitments to U.S. government agencies that oversee trade and export matters that we will maintain certain policies and procedures including maintaining a company-wide Office of Trade Compliance. Also, we have agreed to have independent audits in future periods and will report any future violations to those agencies.

On September 17, 2020, we reported that we reached an agreement with OFAC resolving an investigation pending since 2014. In October 2014, as previously disclosed in our SEC filings, we reported to OFAC following a self-assessment of our export transactions that a shipment of modems sent to a Canadian customer by Comtech's subsidiary, Comtech EF Data Corp., was incorporated into a communication system, the ultimate end user of which was the Sudan Civil Aviation Authority. The sales value of our equipment was approximately \$288,000. At the time of shipment, OFAC regulations prohibited U.S. persons from doing business directly or indirectly with Sudan. Most of the U.S. sanctions related to Sudan were removed in 2017. After we reported the matter to OFAC, we responded to administrative subpoenas and OFAC initiated an investigation into the matter. Pursuant to the agreement, we will make a payment to OFAC of \$894,111 and implement additional internal compliance commitments, a number of which were already in process. Additionally, we committed to creating a new position of Chief Trade Compliance Officer. Even though we take precautions to avoid engaging in transactions that may violate U.S. export control laws or regulations, including trade sanctions, those measures may not be effective in every instance. If it is determined that we have violated U.S. export control laws, civil and criminal penalties could apply, and we may suffer reputational harm.

Our financial reporting, corporate governance, public disclosure and compliance practices are governed by laws such as the Sarbanes-Oxley Act of 2002, Dodd-Frank Act of 2010, and rules and regulations issued by the SEC. The SEC has adopted rules which require, among other things, public companies to conduct certain inquiries to determine whether or not Conflict Minerals (as that term is defined in the SEC rules) that are necessary to the functionality of their manufactured products or their product's production processes originated in a Covered Country (as that term is defined in the SEC rules) and ultimately file a report with the SEC. Conflict Minerals are widely used in many industries, including the telecommunications industry and almost all of our products include component parts purchased from third-party suppliers and we must rely heavily on information received from suppliers to determine the origin of those materials. We have implemented a due diligence program consistent with the Organization for Economic Co-operation and Development guidelines to collect information concerning the country of origin of Conflict Minerals and in that regard, have adopted a policy that requires our suppliers (both public and private) to commit to a code of conduct relating to the responsible sourcing of minerals and to establish a policy to reasonably assure that the products they manufacture do not contain Conflict Minerals that originated in a Covered Country. Efforts to comply with this SEC rule have resulted in additional costs to us and, we believe, to our suppliers. As such, the availability of raw materials used in our operations could be negatively impacted and/or raw material prices could increase. Further, if we are unable to certify that our products are conflict free, we may face challenges with our customers, which could place us at a competitive disadvantage and could harm our reputation.

Laws and regulations have been enacted that affect companies conducting business on the Internet, including the European General Data Protection Regulation ("GDPR"). The GDPR imposes certain privacy related requirements on companies that receive or process personal data of residents of the European Union that are currently different than those in the United States and include significant penalties for non-compliance. Similarly, there are several legislative proposals in the United States, at both the federal and state level, that could impose new obligations in areas affecting our business, such as liability for personal data protection. In addition, some countries are considering or have passed legislation implementing data protection requirements or requiring local storage and processing of data or similar requirements that could increase the cost and complexity of delivering our services. Our costs to comply with the GDPR as well any other similar laws and regulations that emerge may negatively impact our business.

## ITEM 1A. RISK FACTORS

### Forward-Looking Statements

*The following describes major risks to our business and should be considered carefully. Any of these factors could significantly and negatively affect our business, prospects, financial condition, or operating results, which could cause the trading prices of our equity securities to decline. The risks described below are not the only risks we may face. Additional risks and uncertainties not presently known to us, or risks that we currently consider immaterial, could also negatively affect us.*

### Risks Related to our Business

**Despite our belief that Gilat Satellite Networks Ltd. ("Gilat") suffered a material adverse effect and that we are not obligated to close on our pending acquisition of Gilat, we may be required to complete such acquisition. If such event occurs, the merger with Gilat may not be successful, as we may not realize the anticipated benefits from the merger, the merger may divert our resources and management attention causing our operating results to fall short of expectations and we would incur substantial indebtedness which we may not be able to service in the future.**

On January 29, 2020, we entered into an Agreement and Plan of Merger (the "Merger Agreement") with Gilat Satellite Networks, Ltd. Under the terms of the Merger Agreement, Comtech would acquire Gilat by way of a merger of Comtech's newly formed subsidiary with and into Gilat, with Gilat surviving the merger as a wholly-owned subsidiary of Comtech. Gilat is a worldwide leader in satellite networking technology, solutions and services, with market leading positions in the satellite ground station and in-flight connectivity solutions markets and deep expertise in operating large network infrastructures.

Pursuant to the Merger Agreement, each Gilat ordinary share would be converted into the right to receive consideration of (i) \$7.18 in cash, without interest, plus (ii) 0.08425 of a share of Comtech common stock (worth approximately \$1.12 per Gilat ordinary share as of September 24, 2020), with cash payable in lieu of fractional shares. Based on the terms agreed to on January 29, 2020 and the September 24, 2020 closing price of Comtech common stock of \$13.32 per share, the total amount payable to Gilat shareholders would have been approximately \$465.8 million (consisting of approximately \$402.9 million in cash with the remainder in Comtech Common Stock) or \$8.30 per Gilat ordinary share.

Our intention would be to fund the \$402.9 million cash portion of the acquisition by redeploying a large portion of both our and Gilat's unrestricted cash and cash equivalents, with the remaining funds provided by a new secured credit facility (the "Gilat Acquisition Related Credit Facility") that would replace our existing Credit Facility, allow us to refinance our existing debt of approximately \$149.5 million as of July 31, 2020, and allow us to fund a \$5.0 million commitment related to a small pending acquisition of UHP Networks Inc. and its sister company (together, "UHP"), a leading provider of innovative and disruptive satellite ground station technology solutions.

Our obligation to acquire Gilat remains subject to certain closing conditions, including (a) regulatory approval in Russia to purchase Gilat's Russian subsidiary and (b) the absence of any Material Adverse Effect (as defined in the Merger Agreement) on Gilat. After we announced this acquisition, the COVID-19 pandemic resulted in a sudden and steep decline in the travel and aviation markets in which many of Gilat's customers operate and a significant slowdown of Gilat's business.

In July 2020, we commenced litigation in the Delaware Court of Chancery (the "Delaware Court") seeking certain declaratory judgments including a declaratory judgment that Gilat has suffered a Material Adverse Effect and that, as a result, we are not obligated to complete the acquisition of Gilat. The amended complaint also seeks a declaratory judgment that certain actions, if taken by Gilat, relating to Comtech's application for Russian regulatory approval, would breach Gilat's obligations under the Merger Agreement. Gilat subsequently sued in the Delaware Court for declaratory judgments, including that it has not suffered a Material Adverse Effect and that Comtech has not used reasonable best efforts to obtain Russian regulatory approval for the transaction. To-date, we incurred significant amounts of legal expenses and professional fees in connection with the litigation and a trial is scheduled for October 5, 2020. The Delaware Court has indicated that it intends to render a judgment prior to October 29, 2020, the date that we or Gilat may terminate the Merger Agreement. If we are required to close the Gilat acquisition, total net debt of the combined companies would be expected to approximate \$525.0 million. The acquisition of Gilat, the status of Russian regulatory approval and related litigation is discussed in detail in *Part II - "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Acquisition Plan Update"* and *"Notes to Consolidated Financial Statements - Note (13)(a) - Commitments and Contingencies - Legal Proceedings and Other Matters"* included in *"Part II - Item 8.- Financial Statements and Supplementary Data,"* included in this Annual Report on Form 10-K.

If our acquisition with Gilat is consummated, it will pose certain risks to our business.

In August 2020, Gilat publicly reported a net loss of \$16.0 million and negative Adjusted EBITDA (as Gilat defines it) of \$4.9 million for the six-month period ended June 30, 2020. The acquisition of Gilat would significantly increase our exposure to the global in-flight connectivity solutions market, which has suffered and is expected to continue to suffer, from a material and prolonged downturn as a result of the COVID-19 pandemic. If Gilat continues to experience net losses and negative Adjusted EBITDA (as it defines it), future cash flows of the combined entities will be less than currently expected and we may be unable to meet future debt service obligations, resulting in potentially material adverse consequences.

Contemporaneously with entering into the agreement to acquire Gilat, we and our banking partners entered into a commitment letter with respect to the Gilat Acquisition Related Credit Facility. Under the terms of the commitment letter, the lender's commitment to fund the facility is subject to the condition that no Material Adverse Effect has occurred with respect to Gilat or Comtech. We face the risk that our banking partners would independently determine that a Material Adverse Effect has occurred with respect to Gilat and terminate their commitments. As a result, if we are compelled to complete the acquisition of Gilat, we may have to seek alternative financing, which may not be available on favorable terms, or at all.

If our banking partners do not terminate their commitment, under the terms of the Gilat Acquisition Related Credit Facility we would be required to grant the lenders a security interest in substantially all our assets as collateral security for our payment obligations. Accordingly, if we are unable to meet our debt service obligations, we could be forced to dispose of some or all of our assets on disadvantageous terms. We may not be able to refinance our indebtedness under the Gilat Acquisition Related Credit Facility on favorable terms, or at all. Moreover, borrowings under the Gilat Acquisition Related Credit Facility following completion of the Gilat acquisition would be significantly greater than our outstanding indebtedness under our existing Credit Facility.

The prospective merger with Gilat would significantly expand the types of products that we sell, expand the businesses in which we are engaged and expand our global footprint including increasing the number of facilities we operate, thereby presenting us with significant challenges as we will need to manage the substantial increase in scale resulting from the acquisition. The success of the acquisition, if completed, will depend, in part, on our ability to integrate Gilat's workforce and complex operations (concentrated in large part in Israel and Peru), with Comtech's business. That integration will be more difficult given the international travel restrictions still in place in many parts of the world as a result of the global COVID-19 pandemic.



The operational and administrative challenges we will face as we integrate Gilat's operations into our business include maintaining our focus on meeting all customer commitments and expectations, including supporting all existing products, services and agreements.

Delays in the integration process could have a material adverse impact on our business, results of operation and financial condition. Also, the diversion of our management's attention to these matters and away from other business concerns could have an adverse effect on our business and operating results may fall short of expectations. Ultimately, we may not be successful.

**The ongoing COVID-19 pandemic has impacted our business, operating results and financial condition, as well as the operations and financial performance of many of the customers and suppliers in industries that we serve. We are unable to predict the extent to which the pandemic and related effects will adversely impact our business operations, financial performance, results of operations, financial position and the achievement of our strategic objectives.**

Comtech's second half of fiscal 2020, running from February 1 through July 31, 2020, corresponded almost precisely with the period in which significant worldwide restrictions on business activities were in force due to the COVID-19 pandemic. Most if not all of our sales and marketing personnel were unable to travel and/or meet with customers. As a result, Comtech experienced significant order delays and lower net sales during such period.

These poor business conditions have resulted in the immediate suppression of end-market demand for many of our products such as satellite ground station technologies and other short-lead time products. Because the timing, impact, severity and duration of these conditions are impossible to predict and remain ongoing, there is a risk that such conditions will have a material adverse effect on our future consolidated results of operations. Further, the COVID-19 pandemic has resulted in a widespread health crisis and numerous disease control measures being taken to limit its spread. The impact of the pandemic on our business has included or could in the future include:

- disruptions to or restrictions on our ability to ensure the continuous manufacture and supply of our products and services, including insufficiency of our existing inventory levels;
- temporary closures or reductions in operational capacity of our facilities or the facilities of our direct or indirect suppliers or customers;
- permanent closures of our direct and indirect suppliers, resulting in adverse effects to our supply chain;
- temporary shortages of skilled employees available to staff manufacturing, production and assembly facilities due to stay at home orders and travel restrictions within as well as into and out of countries;
- increases in operational expenses and other costs related to requirements implemented to mitigate the impact of the pandemic;
- supply chain disruptions;
- delays or limitations on the ability of our customers to perform or make timely payments;
- cancellations in our backlog;
- reductions in short- and long-term demand for our products, or other disruptions in technology buying patterns;
- adverse effects on economies and financial markets globally or in various markets throughout the world, potentially leading to a prolonged economic downturn or reductions in business and consumer spending, which may result in decreased net revenue, gross margins, or earnings and/or in increased expenses and difficulty in managing inventory levels;
- delays to and/or lengthening of our sales or development cycles or qualification activity;
- challenges for us, our direct and indirect suppliers and our customers in obtaining financing due to turmoil in financial markets;

- workforce disruptions due to illness, quarantines, governmental actions, other restrictions, and/or the social distancing measures we have taken to mitigate the impact of COVID-19 at certain of our locations around the world in an effort to protect the health and well-being of our employees, customers, suppliers and of the communities in which we operate (including working from home, restricting the number of employees attending events or meetings in person, limiting the number of people in our buildings and factories at any one time, further restricting access to our facilities, suspending employee travel and inability to meet in person with customers);
- increased vulnerability to cyberattacks due to the significant number of employees working remotely; and
- our management team continuing to commit significant time, attention and resources to monitoring the COVID-19 pandemic and seeking to mitigate its effects on our business and workforce.

The ultimate extent of the impact of COVID-19 on our business, financial condition and results of operations will depend on future developments, which are highly uncertain and cannot be predicted at this time. These impacts, individually or in the aggregate, could have a material and adverse effect on our business, results of operations and financial condition. Such effect may be exacerbated in the event the pandemic and the measures taken in response to it, and their effects, persist for an extended period of time, or if there is a resurgence of the outbreak. Under any of these circumstances, the resumption of normal business operations may be delayed or hampered by lingering effects of COVID-19 on our operations, direct and indirect suppliers, partners, and customers.

**Our fiscal 2021 business outlook is difficult to forecast and operating results are subject to significant fluctuations and are likely to be volatile.**

Historically, our business outlook is difficult to forecast and backlog (sometimes referred to herein as orders or bookings), net sales and operating results may vary significantly from period to period due to a number of factors including: sales mix; fluctuating market demand; price competition; new product introductions by our competitors; customer bankruptcies; changing customer partnering procurement strategies; fluctuations in foreign currency exchange rates; unexpected changes in the timing of delivery of components or subsystems; the financial performance and impact of acquisitions; new accounting standards; political instability; regulatory developments; changes in income tax rates or tax credits; the price and expected volatility of our stock (which will impact, among other items, the amount of stock-based compensation expense we may record); general global economic conditions, and the impact of natural disasters or global pandemics.

During fiscal 2020, largely as a result of the adverse impact of COVID-19 on business conditions, we ceased providing specific financial targets. Although we have now reinstated providing specific forward-looking financial targets in fiscal 2021, it remains difficult to predict the timing of customer awards and related shipments and we may not meet our targets.

We have experienced, and will experience in the future, significant fluctuations in bookings, net sales and operating results from period to period. For example, a sudden change in global economic conditions (or a worsening of the COVID-19 pandemic as described above) could have an immediate impact on a large portion of our net sales, a large amount of which are derived from products such as satellite ground station technologies, amplifier products and mission-critical technologies that generally have short order and lead times. Similarly, sales of certain of our public safety and location technologies are subject to sudden changes in wireless carrier procurement strategies, including decisions to sole-source such solutions or to perform such solutions internally. As a result of any such conditions or changes, bookings and backlog related to these solutions are extremely sensitive to short-term fluctuations in customer demand.

In addition, a large portion of our Government Solutions segment's net sales are derived in part from large U.S. government programs or large foreign government opportunities that are subject to lengthy sales cycles (including funding requirements) and are therefore difficult to predict.

**If global economic business and political conditions deteriorate as compared to the current environment it could have a material adverse impact on our business outlook and our business, operating results and financial condition.**

In addition to the unique business risks related to COVID-19, many of the end-markets for our products and services may be significantly impacted for other issues that result in adverse global economic conditions. For example, many of our international end-customers are in emerging and developing countries that are subject to sweeping economic and political changes. Many governments around the world are under pressure to reduce their spending. In recent years, global oil and natural gas prices have been volatile and significantly impaired the ability of certain of our government customers in the oil and gas producing regions of the world to invest in telecommunications products and infrastructure. Additionally, the relative strength of the U.S. dollar against many international currencies has negatively impacted the purchasing power for many of our international end-customers because virtually all of our sales are denominated in U.S. dollars. We generate significant sales from many emerging and developing countries.

We believe that the current global economic business environment is unstable and sudden negative changes could result in the immediate suppression of end-market demand for many of our products such as satellite ground station technologies and other short-lead time products. The timing, impact, severity and duration of these conditions are impossible to predict. In addition, many of our international customers (including our Middle Eastern and African customers) rely on European bank financing to procure funding for large systems, many of which include our equipment.

We believe that European financing has been and continues to be difficult to obtain. Volatility of financing conditions may cause our customers to be reluctant to spend funds required to purchase our equipment or projects could be postponed or canceled.

The United Kingdom ("U.K.") exited from the European Union ("E.U.") on January 31, 2020. Such exit is commonly referred to as "Brexit". During its 11 month transition period, the U.K. and the E.U. are expected to negotiate a free trade agreement which will (i) allow U.K. goods to move around the E.U. without extra charges and (ii) keep other barriers (such as border checks) to a minimum. However, there is no guarantee that the U.K. will reach an agreement with the E.U. by December 31, 2020. If a free trade agreement is not reached, then tariffs (taxes) and full border checks will be applied to U.K. goods travelling to the E.U. We maintain production, engineering and sales facilities in the U.K. and adverse consequences concerning Brexit could result in a deterioration in global economic conditions, instability in global financial markets, political uncertainty, volatility in currency exchange rates, or adverse changes in the cross-border agreements currently in place, any of which could have an adverse impact on our financial results in the future.

In the past, our overall business has not been immune from adverse economic conditions. If U.S. or global economic conditions deteriorate further, or political conditions become unstable, or additional economic sanctions are imposed on some of our end-customers, it could adversely impact our business in a number of ways, including:

- Difficulty in forecasting our results of operations - It is difficult to accurately forecast our results of operations during periods of adverse conditions as we cannot predict the severity or the duration of such conditions or the impact it could have on our current and prospective customers. If our current or prospective customers materially postpone, reduce or even forgo purchases of our products and services to a greater extent than we anticipate, our business outlook will prove to be inaccurate.
- Additional reductions in telecommunications equipment and systems spending may occur - In the past, our businesses have been negatively affected by uncertain economic environments in the overall market and, more specifically, in the telecommunications sector. Our customers have reduced their budgets for spending on telecommunications equipment and systems and in some cases postponed or reduced the purchase of our products and systems. In the future, our customers may again reduce their spending on telecommunications equipment and systems which would negatively impact both of our operating segments. If this occurs, it would adversely affect our business outlook, net sales, profitability and the recoverability of our assets, including intangible assets such as goodwill.

- Our customers may not be able to obtain financing - Although many of our products are relatively inexpensive when compared to the total systems or networks that they are incorporated into, our sales are affected by our customers' ability to obtain the financing they may require to build out their total systems or networks and fund ongoing operations. Many of our emerging market customers obtain financing for network buildouts from European commercial banks and/or governments. Our customers' inability to obtain adequate financing would adversely affect our net sales. In addition, if the economic environment and lack of financing results in insolvencies for our customers, it would adversely impact the recoverability of our accounts receivable which would, in turn, adversely impact our results of operations.

**Our backlog is subject to customer cancellation or modification and such cancellations could result in a decline in sales and increased provisions for excess and obsolete inventory.**

We currently have a backlog of orders, mostly under contracts that our customers may modify or terminate. Almost all of the contracts in our backlog (including firm orders previously received from the U.S. government) are subject to cancellation at the convenience of the customer or for default in the event that we are unable to perform under the contract.

In some cases, such as contracts received from large U.S. based telecommunication companies, our backlog is computed by multiplying the most recent month's contract or revenue by the months remaining under the existing long-term agreements, which we consider to be the best available information for anticipating revenue under those agreements. Also, a significant portion of the backlog from our U.S. commercial customers relates to large, multi-year contracts to provide state and local governments (and their agencies) with public safety and location technology solutions. Although the contracts themselves represent legal, binding obligations of these governments, funding is often subject to the approval of budgets (for example, on an annual or bi-annual basis). Although funding for these multi-year contracts are dependent on future budgets being approved, we include the full estimated value of these large, multi-year contracts in our backlog given the critical nature of the services being provided and the positive historical experience of our state and local government customers passing their respective budgets.

There can be no assurance that our backlog will result in actual revenue in any particular period, or at all, particularly during periods of macroeconomic instability. Nor can there be any assurance that any contract included in backlog will be profitable. The actual amount and timing of any revenue is subject to various contingencies, many of which are beyond our control. The actual recognition of revenue on contracts included in backlog may never occur or may change because a program schedule could change, a customer may not follow up with order details (e.g., delivery instructions), fluctuations in currency exchange rates after an order is placed could cause our products to become too expensive for a foreign customer, a customer's program could be canceled, a contract could be reduced, modified or terminated early due to changes in a customer's priorities, funding may not be included in future budgets, actual indirect rates being reimbursed on U.S. government contracts may ultimately be less than those indirect rates included in our initial proposals, or an option that we had assumed would be exercised is not exercised.

We record a provision for excess and obsolete inventory based on historical and projected usage trends and other factors, including the consideration of the amount of backlog we have on hand at any particular point in time. If orders in our backlog are canceled or modified, our estimates of future product demand may prove to be inaccurate, in which case we may have understated the provision required for excess and obsolete inventory. In the future, if we determine that our inventory is overvalued, we will be required to recognize such costs in our financial statements at the time of such determination. Any such charges could be materially adverse to our results of operations and financial condition.

**We have incurred indebtedness under a Credit Facility, and may incur substantial additional indebtedness in the future, and may not be able to service that debt in the future and we must maintain compliance with various covenants that impose restrictions on our business.**

On October 31, 2018, we entered into a First Amended and Restated Credit Agreement (the "Credit Facility") with a syndicate of lenders, replacing our prior Credit Agreement dated as of February 23, 2016. The Credit Facility provides a senior secured loan facility of up to \$550.0 million consisting of: (i) a revolving loan facility with a borrowing limit of \$300.0 million; (ii) an accordion feature allowing us to borrow up to an additional \$250.0 million; (iii) a \$35.0 million letter of credit sublimit; and (iv) a swingline loan credit sublimit of \$25.0 million. The obligations under the Credit Facility are secured by substantially all of our tangible and intangible assets.

As of July 31, 2020, the amount outstanding under our Credit Facility was \$149.5 million, which is reflected in the non-current portion of long-term debt on our Consolidated Balance Sheet. At July 31, 2020, we also had \$3.1 million of standby letters of credit outstanding under our Credit Facility related to guarantees of future performance on certain customer contracts.

The Credit Facility matures on October 31, 2023. If we do not have sufficient funds to repay our debt when due, it may be necessary to refinance our debt through additional debt or equity financings. If, at the time of any refinancing, prevailing interest rates or other factors result in higher interest rates on such refinancing, increases in interest expense could have a material adverse effect on our business, results of operations and financial condition.

Our Credit Facility contains various affirmative and negative covenants that may restrict our ability to, among other things, permit liens on our property, change the nature of our business, transact business with affiliates and/or merge or consolidate with any other person or sell or convey certain of our assets to any one person.

As of July 31, 2020, our Secured Leverage Ratio (as defined in the Credit Facility) was 1.99x trailing twelve month ("TTM") Consolidated EBITDA (as defined in the Credit Facility) compared to the maximum allowable Leverage Ratio of 3.75x TTM Consolidated EBITDA. Our Interest Expense Coverage Ratio as of July 31, 2020 was 14.40x TTM Adjusted EBITDA compared to the Minimum Interest Expense Coverage Ratio of 3.25x TTM Adjusted EBITDA.

Assuming we are not obligated to complete the Gilat acquisition, we anticipate maintaining compliance with the terms and financial covenants in our Credit Facility for the foreseeable future. If we complete the Gilat acquisition, we expect to replace our Credit Facility with a new Gilat Acquisition Related Credit Facility, for which terms are still being negotiated. As such, there can be no assurance that we will be able to meet covenants in this new facility.

Further, our ability to comply with covenants, terms of and conditions of either facility may be affected by events beyond our control. Failure to comply with covenants could result in an event of default, which, if not cured or waived, could accelerate our repayment obligations. Our substantial debt obligations could impede, restrict or delay the implementation of our business strategy or prevent us from entering into transactions that would otherwise benefit our business. For example:

- we may be required to dedicate a substantial portion of our cash flows from operations to payments on our indebtedness, thereby reducing the availability of our cash flows for other purposes, including business development efforts, capital expenditures, dividends or strategic acquisitions;
- if we are not able to generate sufficient cash flows to meet our substantial debt service obligations or to fund our other liquidity needs, we may have to take actions such as selling assets or raising additional equity or reducing or delaying capital expenditures, strategic acquisitions, investments and joint ventures, or restructuring our debt;
- we may not be able to fund future working capital, capital investments and other business activities;
- we may not be able to pay dividends or make certain other distributions;
- we may become more vulnerable in the event of a downturn in our business or a worsening of general economic or industry-specific conditions; and
- our flexibility in planning for, or reacting to, changes in our business and industry may be limited, thereby placing us at a competitive disadvantage compared to our competitors that have less indebtedness.

Moreover, we may incur substantial additional indebtedness in the future to fund acquisitions or to fund other activities for general business purposes. If additional new debt is added to the current or planned debt levels, the related risks that we now face could intensify. A substantial increase in our indebtedness could also have a negative impact on our credit ratings. In this regard, failure to maintain our credit ratings could adversely affect the interest rate available to us in future financings, as well as our liquidity, competitive position and access to capital markets. Any decision regarding future borrowings will be based on the facts and circumstances existing at the time, including market conditions and our credit ratings.

**In addition to the pending UHP and Gilat acquisitions, future acquisitions of companies and investments could prove difficult to integrate, disrupt our business, dilute stockholder value or adversely affect operating results or the market price of our common stock.**

We expect to continue to evaluate other acquisitions and investments as part of our growth plans. Such efforts may not result in an acquisition or ultimately be beneficial to us.

Future acquisitions or investments may result in the use of significant amounts of cash, potentially dilutive issuances of equity securities, incurrence of large amounts of debt, increases to amortization expense and future write-offs of the acquired intangibles. Acquisitions and investments involve risks that include failing to:

- properly evaluate the technology;
- accurately forecast the financial impact of the transaction, including accounting charges and transaction expenses;
- integrate the technologies, products and services, research and development, sales and marketing, support and other operations;
- integrate and retain key management personnel and other key employees;
- retain and cross-sell to acquired customers; and
- combine potentially different corporate cultures.

Acquisitions and investments could also:

- divert management's attention away from the operation of our businesses;
- result in significant goodwill and intangibles write-offs in the event an acquisition or investment does not meet expectations; and
- increase expenses, including expenses of managing the growth of such acquired businesses.

There can be no assurance that any future acquisition or investment will be successful within the anticipated time frame, or at all, will be as valuable as the amount we eventually pay to acquire it, and will not adversely affect our business, results of operations or financial condition. In addition, if we consummate future acquisitions using our equity securities or securities convertible into our equity securities, existing stockholders may be diluted, which could have a material adverse effect on the market price of our common stock.

**Our business is highly dependent on the budgetary decisions of our government customers, including the U.S. government (including prime contractors to the U.S. government), and changes in the U.S. government's fiscal policies or budgetary priorities may have a material adverse effect on our business, operating results and financial condition.**

During our fiscal years ended July 31, 2020, 2019 and 2018, sales to the U.S. government (including sales to prime contractors to the U.S. government) were \$223.4 million, \$269.2 million and \$202.7 million or 36.2%, 40.1% and 35.5% of our consolidated net sales, respectively. In addition, a large portion of our existing backlog consists of orders related to U.S. government contracts and our Business Outlook for Fiscal 2021 and beyond depends, in part, on significant new orders from the U.S. government, which undergoes extreme budgetary pressures from time to time.

We rely on particular levels of U.S. government spending on our communication solutions, and our receipt of future orders depends in large part on continued funding by the U.S. government for the programs in which we participate. These spending levels are not generally correlated with any specific economic cycle, but rather follow the cycle of general public policy and political support for this type of spending. Government contracts are conditioned upon the continuing availability of congressional appropriations and Congress's failure to appropriate funds, or Congress's actions to reduce or delay spending on, or reprioritize its spending away from, U.S. government programs which we participate in, could negatively affect our results of operations. Because many of the items we sell to the U.S. government are included in large programs realized over a period of several years, it is difficult, if not impossible, to determine specific amounts that are or will be appropriated for our products and services. As such, our assessments relating to the impact of changes in U.S. government spending may prove to be incorrect. The outcome of the national elections to be held in the U.S. in 2020 may also impact the levels of U.S. government spending.

The federal debt limit continues to be actively debated as plans for long-term national fiscal policy are discussed. The outcome of these discussions could have a significant impact on defense spending broadly and programs we support in particular. The failure of Congress to approve future budgets and/or increase the debt ceiling of the U.S. on a timely basis could delay or result in the loss of contracts for the procurement of our products and services and we may be asked or required to continue to perform for some period of time on certain of our U.S. government contracts, even if the U.S. government is unable to make timely payments. A decrease in Department of Defense or Department of Homeland Security expenditures, the elimination or curtailment of a material program in which we are involved, or changes in payment patterns of our customers as a result of changes in U.S. government spending could have a material adverse effect on our business, results of operations and financial condition.

Ultimately, the U.S. government may be unable to timely complete its budget process or fully agree upon spending priorities. As such, it is possible that a shutdown of the U.S. government may occur, or interim budgets may be adopted. As such, we may experience delayed orders, delayed payments and declines in net sales, profitability and cash flows. We may experience related supply chain delays, disruptions or other problems associated with financial constraints faced by our suppliers and subcontractors. Moreover, an outbreak of a pandemic such as the COVID-19 pandemic and associated quarantines, closures and travel restrictions may cause temporary or long-term disruptions in our supply chain and distribution systems. All of the aforementioned conditions and factors could, in the aggregate, have a material adverse effect on our business, results of operations and financial condition. Additionally, cost cutting, efficiency initiatives, reprioritization, other affordability analyses, and changes in budgetary priorities by our governmental customers, including the U.S. government, could adversely impact both of our operating segments. We are unable to predict the impact these or similar events could have on our business, financial position, results of operations or cash flows.

**Our contracts with the U.S. government are subject to unique business, commercial and government audit risks.**

We depend on the U.S. government for a significant portion of our revenues. Our contracts with the U.S. government are subject to unique business and commercial risks, including:

- unexpected contract or project terminations or suspensions;
- unpredictable order placements, reductions, accelerations, delays or cancellations;
- higher than expected final costs, particularly relating to software and hardware development, for work performed under contracts where we commit to specified deliveries for a fixed-price; and
- unpredictable cash collections of unbilled receivables that may be subject to acceptance of contract deliverables by the customer and contract close out procedures, including government audit and approval of final indirect rates.

Although we take steps to mitigate our risk with respect to contracts with the U.S. government, we may not be able to do so in every instance for any of the following reasons, among others:

- Our U.S. government contracts can easily be terminated by the U.S. government - Our U.S. government contracts can be terminated by the U.S. government for its convenience or upon an event of default by us. Termination for convenience provisions provide us with little to no recourse related to: our potential recovery of costs incurred or costs committed, potential settlement expenses and hypothetical profit on work completed prior to termination.
- Our U.S. government contracts are subject to funding by the U.S. Congress - Our U.S. government contracts are conditioned upon the continuing approval by Congress of the necessary funding. Congress usually appropriates funds for a given program on a fiscal year basis even though contract performance may take more than one year. Consequently, at the beginning of a major program, the contract may not be fully funded, and additional monies are normally committed to the contract only if, and when, appropriations are made by Congress for future fiscal years. Delays or changes in funding can impact the timing of awards or lead to changes in program content. We obtain certain of our U.S. government contracts through a competitive bidding process. There can be no assurance that we will win additional contracts or that actual contracts that are awarded will ultimately be profitable.

- We can be disqualified as a supplier to the U.S. government - As a supplier to the U.S. government, we must comply with numerous regulations, including those governing security, contracting practices and classified information. Failure to comply with these regulations and practices could result in fines being imposed against us or our suspension for a period of time from eligibility for bidding on, or for award of, new government contracts. If we are disqualified as a supplier to government agencies, we would lose most, if not all, of our U.S. government customers and revenues from sales of our products would decline significantly.

In addition, all of our U.S. government contracts can be audited by the Defense Contract Audit Agency ("DCAA") and other U.S. government agencies and we can be subject to penalties arising from post-award contract audits (sometimes referred to as a Truth in Negotiations Act or "TINA" audit) or cost audits in which the value of our contracts may be reduced. If costs are found to be improperly allocated to a specific contract, those costs will not be reimbursed, and any such costs already reimbursed would be required to be refunded. TCS underwent audits by the DCAA for periods prior to Comtech's fiscal 2016 acquisition of TCS. The DCAA has informed us that it is proposing retroactive contracts adjustments that, if finalized and issued, would result in the need for us to provide a refund to the U.S. government of approximately \$2.4 million. We disagree with the DCAA's assessment and would vigorously protest any adjustment. We have not recorded any reserve related to these audits but ultimately an adjustment may be issued. Although we record contract revenues based upon costs we expect to realize upon final audit, we cannot predict the outcome of any such future audits and adjustments, and we may be required to materially reduce our revenues or profits upon completion and final negotiation of audits. Negative audit findings could also result in termination of a contract, forfeiture of profits, suspension of payments, fines and suspension or debarment from U.S. government contracting or subcontracting for a period of time.

**Our dependence on sales to international customers exposes us to unique business, commercial and export compliance audit risks.**

Sales for use by international customers (including sales to U.S. companies for inclusion in products that will be sold to international customers) represented approximately 23.5%, 25.4% and 25.6% of our consolidated net sales for the fiscal years ended July 31, 2020, 2019 and 2018, respectively, and we expect that international sales will continue to be a significant portion of our consolidated net sales for the foreseeable future. These sales expose us to certain risks, including barriers to trade, fluctuations in foreign currency exchange rates (which may make our products less price-competitive), political and economic instability, exposure to public health epidemics, availability of suitable export financing, tariff regulations, and other U.S. and foreign regulations that may apply to the export of our products. Although we take steps to mitigate our risk with respect to international sales, we may not be able to do so in every instance for any of the following reasons, among others:

- We may not be able to continue to structure our international contracts to reduce risk - We attempt to reduce the risk of doing business in foreign countries by seeking subcontracts with large systems suppliers, contracts denominated in U.S. dollars, advance or milestone payments and irrevocable letters of credit in our favor. However, we may not be able to reduce the economic risk of doing business in foreign countries in all instances. In such cases, billed and unbilled receivables relating to international sales are subject to increased collectability risk and may result in significant write-offs, which could have a material adverse effect on our business, results of operations and financial condition. In addition, foreign defense contracts generally contain provisions relating to termination at the convenience of the government.
- We rely on a limited number of international sales agents - In some countries, we rely upon one or a small number of sales agents, exposing us to risks relating to our contracts with, and related performance of, those agents. We attempt to reduce our risk with respect to sales agents by establishing additional foreign sales offices where it is practical and by engaging, where practicable, more than one independent sales representative in a territory. It is our policy to require all sales agents to operate in compliance with applicable laws, rules and regulations. Violations of any of these laws, rules or regulations, and other business practices that are regarded as unethical, could interrupt the sales of our products and services, result in the cancellation of orders or the termination of customer relationships, and could damage our reputation, any of which developments could have a material adverse effect on our business, results of operations and financial condition.



- We currently price virtually all of our products in U.S. dollars - Today, virtually all of our sales are denominated in U.S. dollars. Over the last few years, the U.S. dollar has strengthened significantly against many international currencies. As such, many of our international customers experienced a drop in their purchasing power as it relates to their ability to purchase our products. To date, we have not materially changed our selling prices and have experienced lower sales volumes in certain cases. If the U.S. dollar strengthens from current levels against many international currencies, our customers may reduce their spending or postpone purchases of our products and services to a greater extent than we currently anticipate which could have a material adverse effect on our business, results of operations and financial condition.
- We must comply with all applicable export control laws and regulations of the U.S. and other countries - Certain of our products and systems may require licenses from U.S. government agencies for export from the U.S., and some of our products are not permitted to be exported. In addition, in certain cases, U.S. export controls also severely limit unlicensed technical discussions, such as discussions with any persons who are not U.S. citizens or permanent residents. As a result, in cases where we may need a license, our ability to compete against a non-U.S. domiciled foreign company that may not be subject to the same U.S. laws may be materially adversely affected. U.S. laws and regulations applicable to us include the Arms Export Control Act, the IEEPA, the ITAR, the EAR and the trade sanctions laws and regulations administered by the U.S. Treasury Department's OFAC.
- We must comply with the FCPA and similar laws elsewhere - We are subject to the FCPA and other foreign laws prohibiting corrupt payments to government officials, which generally bar bribes or unreasonable gifts to foreign governments or officials. Violations of these laws or regulations could result in significant sanctions, including disgorgement of profits, fines, criminal sanctions against us, our officers, our directors, or our employees, more onerous compliance requirements, more extensive debarments from export privileges or loss of authorizations needed to conduct aspects of our international business. A violation of any of the regulations enumerated above could materially adversely affect our business, financial condition and results of operations. Although we have implemented policies and procedures designed to ensure compliance with these laws and regulations, there can be no assurance that our employees, contractors, agents, or subsidiaries will not violate our policies. Additionally, changes in regulatory requirements which could restrict our ability to deliver services to our international customers, including the addition of a country to the list of sanctioned countries under the IEEPA or similar legislation could negatively impact our business. For the fiscal years ended July 31, 2020, 2019 and 2018, we have conducted no business with states designated as sponsors of terrorism.
- We must maintain a company-wide Office of Trade Compliance - In the past, we have self-reported violations of export control laws or regulations to the U.S. Department of State, Directorate of Defense Trade Controls ("DDTC"), DoC and OFAC. In addition, we have made various commitments to U.S. government agencies that oversee trade and export matters and have committed that we will maintain certain policies and procedures including maintaining a company-wide Office of Trade Compliance. Additionally, we have agreed to have independent audits in future periods and will report any future violations to those agencies. Even though we take precautions to avoid engaging in transactions that may violate U.S. export control laws or regulations, including trade sanctions, those measures may not be effective in every instance. If it is determined that we have violated U.S. export control laws or regulations or trade regulations, civil and criminal penalties could apply, and we may suffer reputational harm.
- We are subject to future export compliance audits - We continue to implement policies and procedures to ensure that we comply with all applicable export control laws and regulations. We are subject to future compliance audits that may uncover improper or illegal activities that would subject us to material remediation costs, civil and criminal fines and/or penalties and/or an injunction. In addition, we could suffer serious reputational harm if allegations of impropriety were made against us. Each of these outcomes could, individually or in the aggregate, have a material adverse effect on our business, results of operations and financial condition. The absence of comparable restrictions on competitors in other countries may adversely affect our competitive position. In addition, in order to ship our products into and implement our services in some countries, the products must satisfy the technical requirements of that particular country. If we were unable to comply with such requirements with respect to a significant quantity of our products, our sales in those countries could be restricted, which could have a material adverse effect on our business, results of operations and financial condition.

- We may be affected by the future imposition of tariffs and trade restrictions - The current U.S. administration has signaled support for, and in some instances has taken action with respect to, major changes to certain trade policies, such as the imposition of additional tariffs on imported products, the withdrawal from or renegotiation of certain trade agreements and the imposition of certain export sanctions. Such changes could result in retaliatory actions by the United States' trade partners. For example, over the last several months, the U.S. has increased tariffs on certain imports from China, as well as on steel and aluminum products imported from various countries and imposed export sanctions on certain Chinese entities. In response, China, the European Union, and several other countries have imposed or proposed additional tariffs on certain exports from the U.S. Our inability to effectively manage the negative impacts of changing U.S. and foreign trade policies, including, in connection with our business with customers outside of the United States or with newly sanctioned entities could adversely affect our business and financial results.

**Our investments in recorded goodwill and other intangible assets could be impaired as a result of future business conditions, a deterioration of the global economy or if we change our reporting unit structure.**

As of July 31, 2020, goodwill recorded on our Consolidated Balance Sheet aggregated \$330.5 million. Additionally, as of July 31, 2020, net intangibles recorded on our Consolidated Balance Sheet aggregated \$258.0 million.

For purposes of reviewing impairment and the recoverability of goodwill and other intangible assets, our Government Solutions and Commercial Solutions segment each constitute a reporting unit and we must make various assumptions in determining their estimated fair values. Reporting units are defined by how our Chief Executive Officer ("CEO") manages the business, which includes resource allocation decisions. We may, in the future, change our management approach which in turn may change the way we define our reporting units, as such term is defined by Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 350 "*Intangibles - Goodwill and Other*." A change to our management approach may require us to perform an interim goodwill impairment test and possibly record impairment charges in a future period.

In accordance with FASB ASC 350, "*Intangibles - Goodwill and Other*," we perform a goodwill impairment analysis at least annually (in the first fiscal quarter of each fiscal year), unless indicators of impairment exist in interim periods. If we fail the quantitative assessment of goodwill impairment ("quantitative assessment"), we would be required to recognize an impairment loss equal to the amount that a reporting unit's carrying value exceeded its fair value; however, any loss recognized should not exceed the total amount of goodwill allocated to that reporting unit.

On August 1, 2020 (the first day of our fiscal 2021), we performed our annual quantitative assessment and estimated the fair value of each of our reporting units using a combination of the income and market approaches, and taking into consideration both the potential short-term and long-term effects of the COVID-19 pandemic. Based on our quantitative evaluation, we determined that our Commercial Solutions and Government Solutions reporting units had estimated fair values in excess of their carrying values of at least 8.4% and 78.0%, respectively, and concluded that our goodwill was not impaired and that neither of our two reporting units was at risk of failing the quantitative assessment.

However, it is possible that, during fiscal 2021 or beyond, business conditions (both in the U.S. and internationally) could deteriorate from the current state, our current or prospective customers could materially postpone, reduce or even forgo purchases of our products and services to a greater extent than we currently anticipate, or our common stock price could decline further. Such deterioration could be caused by uncertainty about the severity and length of the COVID-19 pandemic, and its impact on global business activity.

A significant decline in our customers' spending that is greater than we anticipate or a shift in funding priorities may also have a negative effect on future orders, sales, income and cash flows and we might be required to perform a quantitative assessment during fiscal 2021 or beyond. If assumed net sales and cash flow projections are not achieved in future periods or our common stock price significantly declines from current levels, our Commercial Solutions or Government Solutions reporting units could be at risk of failing the quantitative assessment and goodwill and intangibles assigned to the respective reporting units could be impaired.

In any event, we are required to perform the next annual goodwill impairment analysis on August 1, 2021 (the start of our fiscal 2022). If our assumptions and related estimates change in the future, or if we change our reporting unit structure or other events and circumstances change (e.g., a sustained decrease in the price of our common stock (considered on both absolute terms and relative to peers)), we may be required to record impairment charges when we perform these tests, or in other future periods. In addition to our impairment analysis of goodwill, we also review net intangibles with finite lives when an event occurs indicating the potential for impairment. We believe that the carrying values of our net intangibles were recoverable as of July 31, 2020. Any impairment charges that we may record in the future could be material to our results of operations and financial condition.

**We could be negatively impacted by a system failure, lack of or failure of redundant system components, security breach through cyber-attack, cyber intrusion or otherwise, by other significant disruption of our IT networks or those we operate for certain customers, or third-party data center facilities, servers and related systems. If such occurs, in some cases, we may have to reimburse our customers for damages that they may have incurred, pay contract penalties, or provide refunds.**

Similar to all companies in our industry, we are under constant cyber-attack and are subject to an ongoing risk of security breaches and disruptions of our IT networks and related systems, including third-party data center facilities, whether through actual breaches, cyber-attacks or cyber intrusions via the Internet, malware, computer viruses, attachments to e-mails, persons inside our organization or persons with access to systems inside our organization. Actual security breaches or disruption, particularly through cyber-attack or cyber intrusion, including by computer hackers, foreign governments and cyber terrorists, have increased in recent years and have become more complex. Our IT networks and systems, as well as third-party data center facilities, have been and, we believe, continue to be under constant attack. We face an added risk of a security breach or other significant disruption to certain of our equipment used on some of our customers' IT networks and related systems which may involve managing and protecting information relating to public safety agencies, wireless carriers as well as national security and other sensitive government functions. Many of our systems have, or are required to have, system redundancies and back-up; in some cases, we may not have sufficient redundancy and/or redundancy and/or back-ups may fail. We may incur significant costs to prevent and respond to system failures, failure of redundant system components, actual breaches, cyber-attacks and other systems disruptions.

As a communications company, and particularly as a government contractor and a provider of public safety and location technologies (including 911 hosted systems), we face a heightened risk of a security breach or disruption from actual breaches, cyber-attacks and other threats to gain unauthorized access to our and our customers' proprietary or classified information on our IT networks, third-party data center facilities and related systems and to certain of our equipment used on some of our customers' IT networks and related systems. These types of information, IT networks and related systems are critical to the operation of our business and essential to our ability to perform day-to-day operations, and, in some cases, are critical to the operations of certain of our customers. Although we make significant efforts to maintain the security and integrity of these types of information, IT networks and related systems, and we have implemented various measures to manage the risk of a security breach or disruption, there can be no assurance that our security efforts and measures will be effective or that actual security breaches or disruptions will not be successful or damaging. Even the most well protected information, networks, data centers, systems and facilities remain potentially vulnerable because security breaches, particularly cyber-attacks and intrusions, and disruptions have occurred and will occur again in the future. Techniques used in such breaches and cyber-attacks are constantly evolving and generally are not recognized until launched against a target, and in some cases are designed not to be detected and, in fact, may not be detected. In some cases, the resources of foreign governments may be behind such attacks. Accordingly, we may be unable to anticipate these techniques or to implement adequate security barriers or other preventative measures, and thus it is virtually impossible for us to entirely mitigate this risk.

A security breach or other significant disruption (including as a result of a lack of redundancy and/or failure of such redundancy) involving these types of information, IT networks and related systems could:

- Disrupt the proper functionality of these networks, data center facilities and systems and therefore our operations and/or those of certain of our customers;
- Result in the unauthorized access to, and destruction, loss, theft, misappropriation or release of proprietary, confidential, sensitive or otherwise valuable information of ours or our customers, including trade secrets, which others could use to compete against us or for disruptive, destructive or otherwise harmful purposes and outcomes;
- Compromise national security and other sensitive government functions;

- Require significant management attention and resources to remedy the damage that results;
- Make payments to our customers to reimburse them for damages, pay them penalties or provide refunds; and
- Damage our reputation with our customers (particularly agencies of the U.S. government) and the public generally.

In addition, the cost of continually defending against cyber-attacks and actual breaches has increased in recent years and future costs and any or all of the foregoing could have a material adverse effect on our business, results of operations and financial condition.

**The measures we have implemented to secure information we collect and store or enable access to may be breached, which could cause us to breach agreements with our partners and expose us to potential investigation and penalties by authorities and potential claims for contract breach, product liability damages, credits, penalties or termination by persons whose information was disclosed.**

We take reasonable steps to protect the security, integrity and confidentiality of the information we collect and store and to prevent unauthorized access to third-party data to which we enable access through our products, but there is no guarantee that inadvertent or unauthorized disclosure will not occur or that third parties will not gain unauthorized access despite our efforts. If such unauthorized disclosure or access does occur, we may be required to notify persons whose information was disclosed or accessed under existing and proposed laws. Because the techniques used to obtain unauthorized access, disable or degrade service, or sabotage systems change frequently and are often not recognized until launched against a target, we may be unable to anticipate these techniques or implement adequate preventative measures. In the event of such disclosure, we also may be subject to claims of breach of contract, investigation and penalties by regulatory authorities and potential claims by persons whose information was disclosed. If there is a security breach or if there is an inappropriate disclosure of any of these types of information, we could be exposed to investigations, litigation, fines and penalties. Remediation of and liability for loss or misappropriation of end user or employee personal information could have a material adverse effect on our business, results of operations and financial condition. Even if we were not held liable for such event, a security breach or inappropriate disclosure of personal, private or confidential information could harm our reputation and our relationships with current and potential customers and end users. Even the perception of a security risk could inhibit market acceptance of our products and services. We may be required to invest additional resources to protect against damage caused by any actual or perceived disruptions of our services. We may also be required to provide information about the location of an end user's mobile device to government authorities, which could result in public perception that we are providing the government with intelligence information and deter some end users from using our services. Any of these developments could have a material adverse effect on our business, results of operations and financial condition.

**Our U.S. federal, state and foreign tax returns are subject to audit and a resulting tax assessment or settlement could have a material adverse effect on our business, results of operations and financial condition. Significant judgment is required in determining the provision for income taxes.**

The final determination of tax examinations and any related litigation could be materially different than what is reflected in historical income tax provisions and accruals.

Our federal income tax returns for fiscal 2017 through 2019 are subject to potential future Internal Revenue Service ("IRS") audit. None of our state income tax returns prior to fiscal 2016 are subject to audit. None of TCS' state income tax returns prior to calendar year 2015 are subject to audit. In addition to income tax audits, TCS is subject to ongoing state excise tax audits by the Washington State Department of Revenue. Although adjustments relating to past audits of our federal income tax returns were immaterial, a resulting tax assessment or settlement for other periods or other jurisdictions that may be selected for future audit could have a material adverse effect on our business, consolidated results of operations and financial condition.

**We have significant operations in Arizona, Florida, California, Washington State, Maryland, New York and other locations which could be materially and adversely impacted in the event of a terrorist attack and government responses thereto or significant disruptions (including natural disasters) to our business.**

Terrorist attacks, the U.S. and other governments' responses thereto, and threats of war could materially adversely impact our business, results of operations and financial condition. For example, our 911 hosted location-based services and satellite teleport services operations depend on our ability to maintain our computer and equipment and systems in effective working order, and to protect our systems against damage from fire, natural disaster, power loss, telecommunications failure, sabotage, unauthorized access to our system or similar events.

Although many of our mission-critical systems and equipment are designed with built-in redundancy and security, any unanticipated interruption or delay in our operations or breach of security could have a material adverse effect on our business, results of operations and financial condition. Our property and business interruption insurance may not be adequate to compensate us for any losses that may occur in the event of a terrorist attack, threat, system failure or a breach of security. Insurance may not be available to us at all or, if available, may not be available to us on commercially reasonable terms.

We currently, and intend to continue to, operate a high-volume technology manufacturing center located in Arizona. The COVID-19 pandemic, a terrorist attack or similar future event may disrupt our operations or those of our customers or suppliers and may affect the availability of materials needed to manufacture our products or the means to transport those materials to manufacturing facilities and finished products to customers. If a natural disaster or other business interruption occurred with respect to our high-volume technology manufacturing center, we do not have immediate access to other manufacturing facilities and, as a result, our business, results of operations and financial condition would be materially adversely affected. To support our long-term business goals for our satellite earth station product line, in September 2020, we signed a 15-year lease for a 146,000 square foot facility in Chandler, Arizona. This facility is located less than 10 miles from our existing facility located in Tempe, Arizona, and we anticipate that that we will fully relocated by February 2021. If we are unable to have a smooth transition to our new facility, production and deliveries of our products may be impacted and may incur unexpected costs.

We design and manufacture our over-the-horizon microwave equipment and systems in Florida, where major hurricanes have occurred in the past, and amplifiers in Santa Clara, California, an area close to major earthquake fault lines, and also manufacture amplifiers in Melville, New York, an area subject to hurricanes. Additionally, certain of our Commercial Solutions segment activities are conducted in Washington State which is also near a fault line. We maintain operations in Maryland near a U.S. Navy facility which is more prone to a terrorist attack. Our operations in these and other locations (such as in our high-volume technology manufacturing center located in Tempe, Arizona and our antenna production facility in the United Kingdom), could be subject to natural disasters or other significant disruptions, including hurricanes, tornadoes, typhoons, tsunamis, floods, earthquakes, fires, water shortages, other extreme weather conditions, medical epidemics, acts of terrorism, power shortages and blackouts, telecommunications failures, and other natural and man-made disasters or disruptions.

We cannot be sure that our systems will operate appropriately if we experience hardware or software failure, intentional disruptions of service by third parties, an act of God or an act of war. A failure in our systems could cause delays in transmitting data, and as a result we may lose customers or face litigation that could involve material costs and distract management from operating our business.

In the event of any such disaster or other disruption, we could experience disruptions or interruptions to our operations or the operations of our suppliers, distributors, resellers or customers; destruction of facilities; and/or loss of life, all of which could materially increase our costs and expenses and materially adversely affect our business, results of operations and financial condition.

In addition, the ongoing COVID-19 pandemic has resulted in travel restrictions and business shutdowns both domestically and globally, including in locations in which we have significant operations. These or any further political, governmental or other actions to contain the spread or treat the impact of COVID-19, and the resulting developments, are highly uncertain and unpredictable and could result in social, economic and labor instability. These uncertainties could have a material adverse effect on the continuity of our business and our financial condition, the results of operations and cash flows.

**We may be subject to environmental liabilities.**

We engage in manufacturing and are subject to a variety of local, state and federal laws and regulations relating to the storage, discharge, handling, emission, generation, manufacture and disposal of toxic or other hazardous substances used to manufacture our products. We are also subject to the Restriction of Hazardous Substance ("RoHS") directive which restricts the use of lead, mercury and other substances in electrical and electronic products. The failure to comply with current or future environmental requirements could result in the imposition of substantial fines, suspension of production, alteration of our manufacturing processes or cessation of operations that could have a material adverse effect on our business, results of operations and financial condition. In addition, the handling, treatment or disposal of hazardous substances by us or our predecessors may have resulted, or could in the future result, in contamination requiring investigation or remediation, or lead to other liabilities, any of which could have a material adverse effect on our business, results of operations and financial condition.

**The success of our business is dependent on compliance with FCC rules and regulations and similar foreign laws and regulations.**

Many of our products are incorporated into wireless communications systems that must comply with various U.S. government regulations, including those of the FCC, as well as similar international laws and regulations. As a result, our business faces increased risks including the following:

- We must obtain various licenses from the FCC - We operate FCC licensed teleports that are subject to the Communications Act of 1934, as amended, or the FCC Act, and the rules and regulations of the FCC. We cannot guarantee that the FCC will grant renewals when our existing licenses expire, nor are we assured that the FCC will not adopt new or modified technical requirements that will require us to incur expenditures to modify or upgrade our equipment as a condition of retaining our licenses. We may, in the future, be required to seek FCC or other government approval if foreign ownership of our stock exceeds certain specified criteria. Failure to comply with these policies could result in an order to divest the offending foreign ownership, fines, denial of license renewal and/or license revocation proceedings against the licensee by the FCC, or denial of certain contracts from other U.S. government agencies.
- We are dependent on the allocation and availability of frequency spectrum - Adverse regulatory changes related to the allocation and availability of frequency spectrum and in the military standards and specifications that define the current satellite networking environment, could materially harm our business by: (i) restricting development efforts by us and our customers, (ii) making our current products less attractive or obsolete, or (iii) increasing the opportunity for additional competition. The increasing demand for wireless communications has exerted pressure on regulatory bodies worldwide to adopt new standards and reassign bandwidth for these products and services. The reduced number of available frequencies for other products and services and the time delays inherent in the government approval process of new products and services have caused, and may continue to cause, our customers to cancel, postpone or reschedule their installation of communications systems including their satellite, over-the-horizon microwave, or terrestrial line-of-sight microwave communication systems. This, in turn, could have a material adverse effect on our sales of products to our customers. Changes in, or our failure to comply with, applicable laws and regulations could materially adversely harm our business, results of operations, and financial condition.
- Our future growth is dependent, in part, on developing NG-911 compliant products - The FCC requires that certain location information be provided to network operators for public safety answering points when a subscriber makes a 911 call. Technical failures, greater regulation by federal, state or foreign governments or regulatory authorities, time delays or the significant costs associated with developing or installing improved location technology could slow down or stop the deployment of our mobile location products. If deployment of improved location technology is delayed, stopped or never occurs, market acceptance of our products and services may be materially adversely affected. Because we rely on some third-party location technology instead of developing all of the technology ourselves, we have little or no influence over its improvement. The technology employed with NG-911 services generally anticipates a migration to internet-protocol ("IP") based communication. Since many companies are proficient in IP-based communication protocols, the barriers to entry to providing NG-911 products and services are lower than exist for the traditional switch-based protocols. If we are unable to develop unique and proprietary solutions that are superior to and/or more cost effective than other market offers, our 911 business could get replaced by new market entrants, resulting in a material adverse effect on our business, results of operations and financial condition.
- Under the FCC's mandate, our 911 business is dependent on state and local governments - Under the FCC's mandate, wireless carriers are required to provide 911 services only if state and local governments request the service. As part of a state or local government's decision to request 911, they have the authority to develop cost recovery mechanisms. However, cost recovery is no longer a condition to wireless carriers' obligation to deploy the service. If state and local governments do not widely request that 911 services be provided or we become subject to significant pressures from wireless carriers with respect to pricing of 911 services, our 911 business would be harmed and future growth of our business would be reduced.

**Regulation of the mobile communications industry and VoIP is evolving, and unfavorable changes or our failure to comply with existing and potential new legislation or regulations could harm our business and operating results.**

As the mobile communications industry continues to evolve, we believe greater regulation by federal, state or foreign governments or regulatory authorities is likely and we face certain risks including:

- We must adhere to existing and potentially new privacy rules - We believe increased regulation is likely in the area of data privacy, and laws and regulations applying to the solicitation, collection, processing or use of personal or consumer information could affect our customers' ability to use and share data, potentially reducing our ability to utilize this information in the resale of certain of our products. In order for mobile location products and services to function properly, wireless carriers must locate their subscribers and store information on each subscriber's location. Although data regarding the location of the wireless user resides only on the wireless carrier's systems, users may not feel comfortable with the idea that the wireless carrier knows and can track their location. Carriers will need to obtain subscribers' permission to gather and use the subscribers' personal information, or they may not be able to provide customized mobile location services which those subscribers might otherwise desire. If subscribers view mobile location services as an annoyance or a threat to their privacy, that could reduce demand for our products and services and have a material adverse effect on our business, results of operations and financial condition.

Recently, there has been a number of laws and regulations enacted that affect companies conducting business on the Internet, including the European General Data Protection Regulation ("GDPR"). The GDPR imposes certain privacy related requirements on companies that receive or process personal data of residents of the European Union that are currently different than those in the United States and include significant penalties for non-compliance. Similarly, there are a number of legislative proposals in the United States, at both the federal and state level, that could impose new obligations in areas affecting our business, such as liability for personal data protection. In addition, some countries are considering or have passed legislation implementing data protection requirements or requiring local storage and processing of data or similar requirements that could increase the cost and complexity of delivering our services. Our costs to comply with the GDPR as well any other similar laws and regulations that emerge may negatively impact our business.

- We may face increased compliance costs in connection with health and safety requirements for mobile devices - If wireless handsets pose health and safety risks, we may be subject to new regulations and demand for our products and services may decrease. Media reports have suggested that certain radio frequency emissions from wireless handsets may be linked to various health concerns, including cancer, and may interfere with various electronic medical devices, including hearing aids and pacemakers. Concerns over radio frequency emissions may have the effect of discouraging the use of wireless handsets, which would decrease demand for our services. In recent years, the FCC and foreign regulatory agencies have updated the guidelines and methods they use for evaluating radio frequency emissions from radio equipment, including wireless handsets. In addition, interest groups have requested that the FCC investigate claims that wireless technologies pose health concerns and cause interference with airbags, hearing aids and other medical devices. There also are some safety risks associated with the use of wireless handsets while driving. Concerns over these safety risks and the effect of any legislation that may be adopted in response to these risks could limit our ability to market and sell our products and services.
- The regulatory environment for VoIP services is developing - The FCC has determined that VoIP services are not subject to the same regulatory scheme as traditional wireline and wireless telephone services. If the regulatory environment for VoIP services evolves in a manner other than the way we anticipate, our 911 business would be significantly harmed and future growth of our business would be significantly reduced. For example, the regulatory scheme for wireless and wireline service providers requires those carriers to allow service providers such as us to have access to certain databases that make the delivery of a 911 call possible. No such requirements exist for VoIP service providers, so carriers could prevent us from continuing to provide VoIP 911 service by denying us access to the required databases.

**All of our business activities are subject to rapid technological change, new entrants, the introduction of other distribution models and long development and testing periods each of which may harm our competitive position, render our product or service offerings obsolete and require us to continuously develop technology and/or obtain licensed technology in order to compete successfully.**

We are engaged in business activities characterized by rapid technological change, evolving industry standards, frequent new product announcements and enhancements, and changing customer demands. The introduction of products and services or future industry standards embodying new technologies, such as multi-frequency time-division multiple access ("MF-TDMA") based technologies could render any of our products and services obsolete or non-competitive. The successful execution of our business strategy is contingent upon wireless network operators launching and maintaining mobile location services, our ability to maintain a technically skilled development and engineering team, our ability to create new network software products and adapt our existing products to rapidly changing technologies, industry standards and customer needs. As a result of the complexities inherent in our product offerings, new technologies may require long development and testing periods. Additionally, new products may not achieve market acceptance or our competitors could develop alternative technologies that gain broader market acceptance than our products. If we are unable to develop and introduce technologically advanced products that respond to evolving industry standards and customer needs, or if we are unable to complete the development and introduction of these products on a timely and cost effective basis, it could have a material adverse effect on our business, results of operations and financial condition or could result in our technology becoming obsolete.

New entrants seeking to gain market share by introducing new technology and new products may make it more difficult for us to sell our products and services and could create increased pricing pressure, reduced profit margins, increased sales and marketing expenses, or the loss of market share or expected market share, any of which could have a material adverse effect on our business, results of operations and financial condition. For example, many companies are developing new technologies and the shift towards open standards such as IP-based satellite networks will likely result in increased competition and some of our products may become commoditized.

Our Commercial Solutions segment provides various technologies that are utilized on mobile phones. Applications from competitors for location-based or text-based messaging platforms may be preloaded on mobile devices by original equipment manufacturers, or OEMs, or offered by OEMs directly. Increased competition from providers of location-based services which do not rely on a wireless carrier may result in fewer wireless carrier subscribers electing to purchase their wireless carrier's branded location-based services, which could harm our business and revenue. In addition, these location-based or text-based services may be offered for free or on a one-time fee basis, which could force us to reduce monthly subscription fees or migrate to a one-time fee model to remain competitive. We may also lose end users or face erosion in our average revenue per user if these competitors deliver their products without charge to the consumer by generating revenue from advertising or as part of other applications or services.

Our expected growth and our financial position depends on, among other things, our ability to keep pace with such changes and developments and to respond to the increasing variety of electronic equipment users and transmission technologies. We may not have the financial or technological resources to keep pace with such changes and developments or be successful in our research and development and we may not be able to identify and respond to technological improvements made by our competitors in a timely or cost-effective fashion. Any delays could result in increased costs of development or redirect resources from other projects. In addition, we cannot provide assurances that the markets for our products, systems, services or technologies will develop as we currently anticipate. The failure of our products, systems, services or technologies to gain market acceptance could significantly reduce our net sales and harm our business.

**Our business is highly competitive, we are reliant upon the success of our partners, and some of our competitors have significantly greater resources than we do, which could result in a loss of customers, market share and/or market acceptance.**

Our business is highly competitive. We will continue to invest in research and development for the introduction of new and enhanced products and services designed to improve capacity, data processing rates and features. We must also continue to develop new features and to improve functionality of our software. Research and development in our industry is complex, expensive and uncertain. We believe that we must continue to dedicate a significant amount of resources to research and development efforts to maintain our competitive position. If we continue to expend a significant amount of resources on research and development, but our efforts do not lead to the successful introduction of product and service enhancements that are competitive in the marketplace, our business, results of operations and financial condition could be materially adversely affected.



Several of our potential competitors are substantially larger than we are and have greater financial, technical and marketing resources than we do. In particular, larger competitors have certain advantages over us which could cause us to lose customers and impede our ability to attract new customers, including: larger bases of financial, technical, marketing, personnel and other resources; more established relationships with wireless carriers and government customers; more funds to deploy products and services; and the ability to lower prices (or not charge any price) of competitive products and services because they are selling larger volumes. Furthermore, we cannot be sure that our competitors will not develop competing products, systems, services or technologies that gain market acceptance in advance of our products, systems, services or technologies, or that our competitors will not develop new products, systems, services or technologies that cause our existing products, systems, services or technologies to become non-competitive or obsolete, which could adversely affect our results of operations.

Our Commercial Solutions segment provides public safety and location technologies to various state and local municipalities and to a large extent, we are reliant on the success of our wireless partners and distributors to meet our growth objectives. In some cases, our wireless partners may have different objectives, or our distributors may not be successful. We also began an evaluation and repositioning of certain of our location technology solutions within our Commercial Solutions segment in order to focus on providing higher margin solution offerings and increase our penetration into the public safety space. To date, we have ceased offering certain location technology solutions, have worked with customers to wind-down certain legacy contracts and have not renewed certain contracts. Going forward, we intend to continue to work with our partners and expand our direct and indirect sales and distribution channels in this area. If we are not successful in doing so, we may not be able to achieve our long-term business goals.

**Contract cost growth on our firm fixed-price contracts, including most of our government contracts, cost reimbursable type contracts and other contracts that cannot be justified as an increase in contract value due from customers exposes us to reduced profitability and the potential loss of future business and other risks.**

A substantial portion of our products and services are sold under firm fixed-price contracts. Firm fixed-price contracts inherently have more risk than flexibly priced contracts. This means that we bear the risk of unanticipated technological, manufacturing, supply or other problems, price increases or other increases in the cost of performance. Future events could result in either upward or downward adjustments to those estimates which could negatively impact our profitability. Operating margin is materially adversely affected when contract costs that cannot be billed to the customer are incurred. This cost growth can occur if initial estimates used for calculating the contract price were incorrect, or if estimates to complete increase. To a lesser extent, we provide products and services under cost reimbursable type contracts which carry the entire burden of costs exceeding a negotiated contract ceiling price.

The cost estimation process requires significant judgment and expertise. Reasons for cost growth may include unavailability and productivity of labor, the nature and complexity of the work to be performed, the effect of change orders, the availability of materials, the effect of any delays in performance, availability and timing of funding from the customer, natural disasters, and the inability to recover any claims included in the estimates to complete. A significant change in an estimate on one or more programs could have a material adverse effect on our business, results of operations and financial condition.

**Ongoing compliance with the provisions of securities laws, related regulations and financial reporting standards could unexpectedly materially increase our costs and compliance related expenses.**

Because we are a publicly traded company, we are required to comply with provisions of securities laws, related regulations and financial reporting standards. Because securities laws, related regulations and financial reporting standards pertaining to our business are relatively complex, our business faces increased risks including the following:

- If we identify a material weakness in the future, our costs may unexpectedly increase - Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 and related SEC rules, we are required to furnish a report of management's assessment of the effectiveness of our internal controls as part of our Annual Report on Form 10-K. Our independent registered public accountants are required to attest to and provide a separate opinion. To issue our report, we document our internal control design and the testing processes that support our evaluation and conclusion, and then we test and evaluate the results. There can be no assurance, however, that we will be able to remediate material weaknesses, if any, that may be identified in future periods, or maintain all of the controls necessary for continued compliance. There likewise can be no assurance that we will be able to retain sufficient skilled finance and accounting personnel, especially in light of the increased demand for such personnel among publicly traded companies.

- Stock-based compensation accounting standards could negatively impact our stock - Since our inception, we have used stock-based awards as a fundamental component of our employee compensation packages. We believe that stock-based awards directly motivate our employees to maximize long-term stockholder value and, through the use of long-term vesting, encourage employees to remain with us. We apply the provisions of ASC 718, "*Compensation - Stock Compensation*," which requires us to record compensation expense in our statement of operations for employee and director stock-based awards using a fair value method. In the first quarter of fiscal 2018, we adopted FASB ASU No. 2016-09 which modified certain aspects of ASC 718, including the requirement to recognize excess tax benefits and shortfalls in the income statement. The ongoing application of this standard will have a significant effect on our reported earnings, and could adversely impact our ability to provide accurate guidance on our future reported financial results due to the variability of the factors used to estimate the value of stock-based awards (including long-term performance shares which are subject to the achievement of three-year goals which are based on several performance metrics). The ongoing application of this standard could impact the future value of our common stock and may result in greater stock price volatility. To the extent that this accounting standard makes it less attractive to grant stock-based awards to employees, we may incur increased compensation costs, change our equity compensation strategy or find it difficult to attract, retain and motivate employees, each of which could have a material adverse effect on our business, results of operations and financial condition.

Also, the accounting rules and regulations that we must comply with are complex. Accounting rules and regulations are continually changing in ways that could materially impact our financial statements. As further discussed in "*Notes to Consolidated Financial Statements - Note (1) - Summary of Significant Accounting and Reporting Policies*" included in "*Part II - Item 8. - Financial Statements and Supplementary Data*," included in this Annual Report on Form 10-K, we note the following:

- We must maintain compliance with new complex revenue recognition rules - On August 1, 2018 (our first quarter of fiscal 2019), we adopted ASU No. 2014-09 "Revenue from Contracts with Customers (Topic 606)," which replaces numerous requirements in U.S. GAAP, including industry specific requirements, and provides a single revenue recognition model for contracts with customers. The ASU applies to all open contracts existing as of August 1, 2018. We adopted this ASU using the modified retrospective method and there was no material impact on our business, results of operations and financial condition.
- We must maintain compliance with new complex lease accounting rules - In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)," to revise existing lease accounting guidance. The update requires most leases to be recorded on the balance sheet as a lease liability, with a corresponding right-of-use asset. We adopted Topic 842 on August 1, 2019, the beginning of our first quarter of fiscal 2020. Except for recording a total right-of-use asset and corresponding lease liability on our Consolidated Balance Sheet, which amount approximates 4.0% of our total consolidated assets at July 31, 2019, our adoption of Topic 842 did not have a material impact to our statements of operations or cash flows.

We must comply with these new rules on a go-forward basis. Because of the uncertainties of the estimates, judgments and assumptions associated with these new accounting standards, as well as with any future guidance or interpretations related to them, we may incur additional costs and cannot provide any assurances that we will be able to comply with such complex rules.

Our costs to comply with the aforementioned and other regulations continue to increase and we may have to add additional accounting staff, engage consultants or change our internal practices, standards and policies which could significantly increase our costs to comply with ongoing or future requirements. In addition, the NASDAQ Stock Market LLC ("NASDAQ") routinely changes its requirements for companies, such as us, that are listed on NASDAQ. These changes (and potential future changes) have increased and may increase our legal and financial compliance costs, including making it more difficult and more expensive for us to obtain director and officer liability insurance or maintain our current liability coverage. We believe that these new and proposed laws and regulations could make it more difficult for us to attract and retain qualified members of our Board of Directors, particularly to serve on our Audit Committee, and qualified executive officers.

**We face a number of risks relating to the expected long-term growth of our business. Our business and operating results may be negatively impacted if we are unable to manage this growth.**

These risks include:

- The loss of key technical and/or management personnel could adversely affect our business - Our future success depends on the continued contributions of key technical and management personnel. Many of our key and technical management personnel would be difficult to replace and are not subject to employment or non-competition agreements. We currently have research and development employees in areas that are located a great distance away from our U.S. headquarters and some work out of their respective homes. Managing remote product development operations is difficult and we may not be able to manage the employees in these remote centers successfully. Our expected growth and future success will depend, in large part, upon our ability to attract and retain highly qualified engineering, sales and marketing personnel. Competition for such personnel from other companies, academic institutions, government entities and other organizations is intense. Although we believe that we have been successful to-date in recruiting and retaining key personnel, we may not be successful in attracting and retaining the personnel we will need to grow and operate profitably. Also, the management skills that have been appropriate for us in the past may not continue to be appropriate if we grow and diversify.
- We may not be able to improve our processes and systems to keep pace with anticipated growth - The future growth of our business may place significant demands on our managerial, operational and financial resources. In order to manage that growth, we must be prepared to improve and expand our management, operational and financial systems and controls. We also need to continue to recruit and retain personnel and train and manage our employee base. We must carefully manage research and development capabilities and production and inventory levels to meet product demand, new product introductions and product and technology transitions. If we are not able to timely and effectively manage our growth and maintain the quality standards required by our existing and potential customers, it could have a material adverse effect on our business, results of operations and financial condition.
- Our markets are highly competitive and there can be no assurance that we can continue to compete effectively - The markets for our products are highly competitive. There can be no assurance that we will be able to continue to compete successfully on price or other terms, or that our competitors will not develop new technologies and products that are more effective than our own. We expect the Department of Defense's increased use of commercial off-the-shelf products and components in military equipment will encourage new competitors to enter the market. Also, although the implementation of advanced telecommunications services is in its early stages in many developing countries, we believe competition will continue to intensify as businesses and foreign governments realize the market potential of telecommunications services. Many of our competitors have financial, technical, marketing, sales and distribution resources greater than ours. Recently, we have seen increased requests for proposals from large wireless carriers for sole-source solutions and have responded to several such requests. In order to induce retention of existing customer contracts and obtain business on a sole-source basis, we may ultimately agree to adjust pricing on a retroactive basis. If our sole-source proposals are rejected in favor of a competitor's proposal, it could result in the termination of existing contracts, which could have a material adverse effect on our business, results of operations and financial condition.
- We may not be able to obtain sufficient components to meet expected demand - Our dependence on component availability, government furnished equipment, subcontractors and key suppliers, including the core manufacturing expertise of our high-volume technology manufacturing center located in Tempe, Arizona, exposes us to risk. Although we obtain certain components and subsystems from a single source or a limited number of sources, we believe that most components and subsystems are available from alternative suppliers and subcontractors. During the past year or so, and as a result of overall increased industry-wide demand, lead times for many components have increased. In addition, threats of or actual tariffs could limit our ability to obtain certain parts on a cost-effective basis, or at all. A significant interruption in the delivery of such items could have a material adverse effect on our business, results of operations and financial condition. In addition, if our high-volume technology manufacturing center located in Tempe, Arizona is unable to produce sufficient product or maintain quality, it could have a material adverse effect on our business, results of operations and financial condition.

- Our ability to maintain affordable credit insurance may become more difficult - In the normal course of our business, we purchase credit insurance to mitigate some of our domestic and international credit risk. Although credit insurance remains generally available, upon renewal, it may become more expensive to obtain or may not be available for existing or new customers in certain international markets and it might require higher deductibles than in the past. If we acquire a company with a different customer base, we may not be able to obtain credit insurance for those sales. As such, there can be no assurance that, in the future, we will be able to obtain credit insurance on a basis consistent with our past practices.

**We rely upon various third-party companies and their technology to provide services to our customers and if we are unable to obtain such services at reasonable prices, or at all, our gross margins and our ability to provide the services of our wireless applications business could be materially adversely affected.**

Risks from our reliance with these third parties include:

- The loss of mapping and third-party content - The wireless data services provided to our customers are dependent on real-time, continuous feeds from map data, points of interest data, traffic information, gas prices, theater, event and weather information from vendors and others. Any disruption of this third-party content from our satellite feeds or backup landline feeds or other disruption could result in delays in our subscribers' ability to receive information. We obtain this data that we sell to our customers from companies owned by current and potential competitors, who may act in a manner that is not in our best interest. If our suppliers of this data or content were to enter into exclusive relationships with other providers of location-based services or were to discontinue providing such information and we were unable to replace them cost effectively, or at all, our ability to provide the services of our wireless applications business would be materially adversely affected. Our gross margins may also be materially adversely affected if the cost of third-party data and content increases substantially.
- Third-party data centers or third-party networks may fail - Many products and services of our advanced communication solutions, in particular our public safety and location technology solutions, are provided through a combination of our servers, which are hosted at third-party data centers, and on the networks, as well as within the data centers of our wireless carrier partners. The third-party facilities are in Irvine, California, San Francisco, California, Dallas, Texas and Raleigh, North Carolina, and we may use others as required. We also use third-party data center facilities in the Phoenix, Arizona area to provide for disaster recovery. Additionally, certain non-911 products, technologies, and solutions are currently hosted in cloud-based applications operated by third parties such as Amazon Web Services and Microsoft. As such, our business relies to a significant degree on the efficient and uninterrupted operation of the third-party data centers, customer data centers, and cloud providers we use. Network failures, disruptions or capacity constraints in our third-party data center facilities or in our servers maintained at their location could affect the performance of the products and services of our wireless applications and 911 business and harm our reputation and our revenue. The ability of our subscribers to receive critical location and business information requires timely and uninterrupted connections with our wireless network carriers. Any disruption from our satellite feeds or backup landline feeds could also result in delays in our subscribers' ability to receive information.
- We must integrate our technologies and routinely upgrade them - We may not be able to upgrade our location services platform to support certain advanced features and functionality without obtaining technology licenses from third parties. Obtaining these licenses may be costly and may delay the introduction of such features and functionality, and these licenses may not be available on commercially favorable terms, or at all. Problems and delays in development or delivery as a result of issues with respect to design, technology, licensing and patent rights, labor, learning curve assumptions, or materials and components could prevent us from achieving contractual obligations. In addition, our products cannot be tested and proven in all situations and are otherwise subject to unforeseen problems. The inability to offer advanced features or functionality, or a delay in our ability to upgrade our location-based services platform, may materially adversely affect demand for our products and services and, consequently, have a material adverse effect on our business, results of operations and financial condition.
- We rely upon "open-source" software - We have incorporated some types of open-source software into our products, allowing us to enhance certain solutions without incurring substantial additional research and development costs. Thus far, we have encountered no unanticipated material problems arising from our use of open-source software. However, as the use of open-source software becomes more widespread, certain open-source technology could become competitive with our proprietary technology, which could cause sales of our products to decline or force us to reduce the fees we charge for our products, which could have a material adverse effect on our business, results of operations and financial condition.

**Indemnification provisions in our contracts could have a material adverse effect on our consolidated results of operations, financial position, or cash flows.**

In the ordinary course of business, we include indemnification provisions in certain of our customer contracts. Pursuant to these agreements, we have agreed to indemnify, hold harmless and reimburse the indemnified party for losses suffered or incurred by the indemnified party, including but not limited to losses related to third-party intellectual property claims. Some customers seek indemnification under their contractual arrangements with the Company for claims and other costs associated with defending lawsuits alleging infringement of patents through their use of our products and services, and the use of our products and services in combination with products and services of other vendors.

In some cases, we have agreed to assume the defense of the case. In others, the Company will negotiate with these customers in good faith because the Company believes its technology does not infringe the cited patents or due to specific clauses within the customer contractual arrangements that may or may not give rise to an indemnification obligation. It is not possible to determine the maximum potential amount the Company may spend under these agreements due to the unique facts and circumstances involved in each particular agreement.

The Company's assessments related to indemnification provisions are based on estimates and assumptions that have been deemed reasonable by management, but that may prove to be incomplete or inaccurate, and unanticipated events and circumstances may occur that might cause the Company to change those estimates and assumptions. Therefore, it is possible that an unfavorable resolution of one or more of these matters could have a material adverse effect on the Company's consolidated financial statements in a future fiscal period.

**We are, from time to time, and could become a party to additional litigation or subject to claims, including product liability claims, employee claims, government investigations and other proceedings that could cause us to incur unanticipated expenses and otherwise have a material adverse effect on our business, results of operations and financial condition.**

We are, from time to time, involved in commercial disputes and civil litigation relating to our businesses. For example, in March 2019, we initiated litigation against a former employee and her new employer arising from such former employee's violation of her obligation to TCS of confidentiality, non-competition and non-solicitation of customers and employees. The former employee has responded with her own lawsuit against us.

Our agreements with customers may require us to indemnify such customers. Direct claims against us or claims against our customers may relate to defects in or non-conformance of our products, or our own acts of negligence and non-performance. Occasionally, we are called upon also to provide information in connection with litigation involving other parties or government investigations. Product liability and other forms of insurance are expensive and may not be available in the future.

We cannot be sure that we will be able to maintain or obtain insurance coverage at acceptable costs or in sufficient amounts or that our insurer will not disclaim coverage as to a future claim. In many cases, we are unable to obtain insurance and are self-insured. Any such claim could have a material adverse effect on our business, results of operations and financial condition.

For additional information related to these lawsuits, see "*Notes to Consolidated Financial Statements - Note (13)(a) - Commitments and Contingencies - Legal Proceedings and Other Matters*" included in "*Part II - Item 8.- Financial Statements and Supplementary Data,*" included in this Annual Report on Form 10-K.

**Because our software may contain defects or errors, and our hardware products may incorporate defective components, our sales could decrease if these defects or errors adversely affect our reputation or delay shipments of our products.**

Products as complex as ours are likely to contain undetected errors or defects, especially when first introduced or when new versions are released. Software products, such as our 911 call handling software solutions, must meet stringent customer technical requirements and we must satisfy our warranty obligations to our customers. Our hardware products are also subject to warranty obligations and integrate a wide variety of components from different vendors.

Our products including software may not be error or defect free after delivery to customers, which could damage our reputation, cause revenue losses, result in the rejection of our products or services, divert development resources and increase service and warranty costs, each of which could have a material adverse effect on our business, results of operations and financial condition.

**Protection of our intellectual property is limited and pursuing infringers of our patents and other intellectual property rights can be costly.**

Our businesses rely, in large part, upon our proprietary scientific and engineering know-how and production techniques. We rely on a combination of patent, copyright, trademark, service mark, trade secret and unfair competition laws, restrictions in licensing agreements, confidentiality provisions and various other contractual provisions to protect our intellectual property and related proprietary rights, but these legal means provide only limited protection. Although a number of patents have been issued to us and we have obtained a number of other patents as a result of our acquisitions, we cannot assure you that our issued patents will be upheld if challenged by another party. Additionally, with respect to any patent applications which we have filed, we cannot assure you that any patents will be issued as a result of these applications.

The departure of any of our key management and technical personnel, the breach of their confidentiality and non-disclosure obligations to us or the failure to achieve our intellectual property objectives could have a material adverse effect on our business, results of operations and financial condition. Our ability to compete successfully and achieve future revenue growth will depend, in part, on our ability to protect our proprietary technology and operate without infringing upon the rights of others. We may fail to do so. In addition, the laws of certain countries in which our products are or may be sold may not protect our products or intellectual property rights to the same extent as the laws of the U.S.

Our ability to protect our intellectual property rights is also subject to the terms of future government contracts. We cannot assure you that the federal government will not demand greater intellectual property rights or restrict our ability to disseminate intellectual property. We are also a member of standards-setting organizations and have agreed to license some of our intellectual property to other members on fair and reasonable terms to the extent that the license is required to develop non-infringing products.

Pursuing infringers of our proprietary rights could result in significant litigation costs, and any failure to pursue infringers could result in our competitors utilizing our technology and offering similar products, potentially resulting in loss of a competitive advantage and decreased revenues. Despite our efforts to protect our proprietary rights, existing patent, copyright, trademark and trade secret laws afford only limited protection. In addition, the laws of some foreign countries do not protect our proprietary rights to the same extent as do the laws of the U.S. Protecting our know-how is difficult especially after our employees or those of our third-party contract service providers end their employment or engagement. Attempts may be made to copy or reverse-engineer aspects of our products or to obtain and use information that we regard as proprietary. Accordingly, we may not be able to prevent the misappropriation of our technology or prevent others from developing similar technology. Furthermore, policing the unauthorized use of our products is difficult and expensive. Litigation may be necessary in the future to enforce our intellectual property rights or to determine the validity and scope of the proprietary rights of others. The costs and diversion of resources could significantly harm our business. If we fail to protect our intellectual property, we may not receive any return on the resources expended to create the intellectual property or generate any competitive advantage based on it.

**Third parties may claim we are infringing their intellectual property rights and we could be prevented from selling our products, or suffer significant litigation expense, even if these claims have no merit.**

Our competitive position is driven in part by our intellectual property and other proprietary rights. Third parties, however, may claim that we, our products, operations or any products or technology we obtain from other parties are infringing their intellectual property rights, and we may be unaware of intellectual property rights of others that may impact some of our assets, technology and products. From time to time we receive letters from third parties who allege we are infringing their intellectual property and ask us to license such intellectual property. We review the merits of each such letter and respond as we deem appropriate.

From time to time our customers are parties to allegations of intellectual property infringement claims based on our customers' incorporation and use of our products and services, which may lead to demands from our customers for us to indemnify them for costs in defending those allegations. Any litigation regarding patents, trademarks, copyrights or intellectual property rights, even those without merit, and the related indemnification demands of our customers, can be costly and time consuming, and divert our management and key personnel from operating our business. The complexity of the technology involved, and inherent uncertainty and cost of intellectual property litigation increases our risks. If any third party has a meritorious or successful claim that we are infringing its intellectual property rights, we may be forced to change our products or enter into licensing arrangements with third parties, which may be costly or impractical. This also may require us to stop selling our products as currently engineered, which could harm our competitive position. We also may be subject to significant damages or injunctions that prevent the further development and sale of certain of our products or services and may result in a material loss of revenue.

From time to time, there have been claims challenging the ownership of open source software against companies that incorporate open source software into their products. As a result, we could be subject to suits by parties claiming ownership of what we believe to be open source software. Some open source licenses contain requirements that we make available source code for modifications or derivative works under the terms of a particular open source license or other license granting third parties certain rights of further use. If we combine our proprietary software products with open source software in a certain manner, we could under certain of the open source licenses, be required to release our proprietary source code. Open source license terms may be ambiguous and many of the risks associated with usage of open source software cannot be eliminated, and could if not properly addressed, negatively affect our business. If we were found to have inappropriately used open source software, we may be required to release our proprietary source code, re-engineer our products and client applications, discontinue the sale of our products or services in the event re-engineering cannot be accomplished on a timely basis or take other remedial action that may divert resources away from our development efforts, any of which could materially adversely affect our business, results of operations, and financial condition.

**A change in our relationship with our large wireless carrier customers could have a material adverse effect.**

Although we have a long history of providing services to many of our wireless carrier partners, a change in purchasing or procurement strategies by a wireless carrier partner could result in the loss of business from that partner. Additionally, from time to time, we routinely perform services without a multi-period contract while we negotiate new and extended contract terms and pricing. These negotiations are complex and may take long periods of time. Even when we successfully negotiate a multi-period contract, our wireless carrier contracts, such as the ones with Verizon which accounted for 8.8% of our sales in fiscal 2020, provide for terminations with notice and provide a mechanism for the wireless carrier to renegotiate lower fees and/or change services. Fee pressure from these carriers are constant and ongoing. Thus, even when we obtain a multi-period contract term, our revenues could be suddenly and materially reduced.

Competitors offer technology that has functionality similar to ours for free, under different business models. Competition from such free offerings may reduce our revenue and harm our business. If our wireless carrier partners can offer such technology to their subscribers for free, they may elect to cease their relationships with us, alter or reduce the manner or extent to which they market or offer our services or require us to substantially reduce our subscription fees or pursue other business strategies that may not prove successful for us and could have a material adverse effect on our business, results of operations and financial condition.

**If our wireless carrier partners change the pricing and other terms by which they offer our products to their end-customers or do not continue to provide our services at all or renegotiate lower fees with us, our business, results of operations, and financial condition could be suddenly and materially adversely affected.**

We generate a significant portion of our revenue from customers that are wireless carriers, such as Verizon which accounted for 8.8% of our revenues in fiscal 2020. In addition, a portion of our revenue is derived from subscription fees that we receive from our wireless carrier partners for end-users who subscribe to our service on a standalone basis or in a bundle with other services. Future revenue will depend on the pricing and quality of those services and subscriber demand for those services, which may vary by market, and the level of subscriber turnover experienced by our wireless carrier partners. If subscriber turnover increases more than we anticipate, our financial results could be materially adversely affected.

Poor performance in or disruptions of the services included in our advanced communication solutions could harm our reputation, delay market acceptance of our services and subject us to liabilities (including breach of contract claims brought by our customers and third-party damages claims brought by end-users). Our wireless carrier agreements and certain customers require us to meet specific requirements including operational uptime requirements or be subject to penalties.

If we are unable to meet contractual requirements with our wireless carrier partners, such as Verizon, they could terminate our agreements or we may be required to refund a portion of monthly subscriptions fees they have paid us.

### **Risks Related to our Common Stock**

#### **Our stock price is volatile.**

The stock market in general and the stock prices of technology-based companies, in particular, experience extreme volatility that often is unrelated to the operating performance of any specific public company. The market price of our common stock has fluctuated significantly in the past and is likely to fluctuate significantly in the future as well. Factors that could have a significant impact on the market price of our stock include, among others:

- strategic transactions, such as acquisitions and divestures;
- our ability to successfully integrate and manage recent acquisitions;
- issuance of potentially dilutive equity or equity-type securities;
- issuance of debt;
- future announcements concerning us or our competitors;
- receipt or non-receipt of substantial orders for products and services;
- quality deficiencies in services or products;
- results of technological innovations;
- new commercial products;
- changes in recommendations of securities analysts;
- government regulations;
- changes in the status or outcome of government audits;
- proprietary rights or product or patent litigation;
- changes in U.S. government policies;
- changes in economic conditions generally, particularly in the telecommunications sector;
- changes in securities market conditions, generally;
- changes in the status of litigation and legal matters (including changes in the status of export matters);
- cyber attacks;
- energy blackouts;
- acts of terrorism or war;
- inflation or deflation; and
- rumors or allegations regarding our financial disclosures or practices.

Shortfalls in our sales or earnings in any given period relative to the levels expected by securities analysts could immediately, significantly and adversely affect the trading price of our common stock.

#### **Future issuances of our shares of common stock could dilute a stockholder's ownership interest in Comtech and reduce the market price of our shares of common stock.**

In addition to potential issuances of our shares of common stock associated with the pending acquisitions of Gilat and UHP, in the future, we may issue additional securities to raise capital. We may also acquire interests in other companies by using a combination of cash and our common stock or just our common stock. We may also issue securities convertible into our common stock. Any of these events may dilute a stockholder's ownership interest in Comtech and have an adverse impact on the price of our common stock.

#### **Provisions in our corporate documents and Delaware law could delay or prevent a change in control of Comtech.**

We have taken a number of actions that could have the effect of discouraging, delaying or preventing a merger or acquisition involving Comtech that our stockholders may consider favorable.

For example, we have a classified board and the employment contract with our President and CEO, and agreements with other of our executive officers, provide for substantial payments in certain circumstances or in the event of a change of control of Comtech. In the future, we may adopt a stockholder rights plan which could cause substantial dilution to a stockholder, and substantially increase the cost paid by a stockholder who attempts to acquire us on terms not approved by our Board of Directors.



In addition, we are subject to the provisions of Section 203 of the Delaware General Corporation Law, an anti-takeover law. In general, this statute provides that, except in certain limited circumstances, a corporation shall not engage in any "business combination" with an "interested stockholder" for a period of three years after the date of the transaction in which the person became an interested stockholder, unless the business combination is approved in a prescribed manner.

A "business combination" includes mergers, asset sales and other transactions resulting in a financial benefit to the interested stockholder. Subject to certain exceptions, for purposes of Section 203 of the Delaware General Corporation Law, an "interested stockholder" is a person who, together with affiliates, owns, or within three years did own, 15% or more of the corporation's voting stock. This provision could have the effect of delaying or preventing a change in control of Comtech.

**A disruption in our Common Stock dividend program could negatively impact our stock price.**

We have paid quarterly common stock dividends every quarter since September 2010.

Our ability to continue to pay quarterly dividends with respect to our Common Stock will depend on our ability to generate sufficient cash flows from operations in the future and maintain compliance with our Credit Facility or potentially the Gilat Acquisition Related Credit Facility. This ability may be subject to certain economic, financial, competitive and other factors that are beyond our control. Future Common Stock dividends remain subject to compliance with financial covenants under our Credit Facility, as well as Board approval. Our Board of Directors may, at its discretion, decrease the targeted annual dividend amount or entirely discontinue the payment of dividends at any time.

Additionally, our ability to declare and pay common stock dividends and make other distributions with respect to our capital stock may also be restricted by the terms of our Credit Facility, and may be restricted by the terms of financing arrangements that we enter into in the future.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

## ITEM 2. PROPERTIES

Historically, we have not owned any material properties or facilities and have relied upon a strategy of leasing. The following table lists our primary leased facilities at July 31, 2020:

Location	Property Type	Square Footage	Lease Expiration
<b>Commercial Solutions Segment</b>			
Tempe, Arizona	A Manufacturing and Engineering	152,000	February 2021
Seattle, Washington	B Network Operations, R&D, Engineering and Sales	57,000	December 2022
Santa Clara, California	C Manufacturing and Engineering	47,000	April 2026
Stoughton, Massachusetts	D Network Operations	26,000	March 2025
Various facilities	E Engineering and General Office	23,000	Various
Lake Forest, California	F R&D and Engineering	18,000	July 2023
Gatineau, Canada	G Network Operations, R&D, Engineering, Sales and General Office	15,000	April 2023
Moscow, Idaho	H Support, Engineering and Sales	13,000	February 2025
Annapolis, Maryland	F Support, Engineering and Sales	11,000	July 2026
Germantown, Maryland	I Engineering and General Office	6,000	May 2025
		368,000	
<b>Government Solutions Segment</b>			
Orlando, Florida	J Manufacturing and Engineering	99,000	April 2026
Melville, New York	K Manufacturing and Engineering	45,000	December 2021
Hampshire, UK	L Manufacturing and Engineering	41,000	Various
Cypress, California	F Support, Engineering and Sales	28,000	July 2025
Germantown, Maryland	I Engineering and General Office	26,000	May 2025
Plano, Texas	F R&D and Engineering	12,000	August 2025
Various facilities	M Support, Engineering and Sales	12,000	Various
Annapolis, Maryland	F Support, Engineering and Sales	6,000	July 2026
		269,000	
<b>Corporate</b>			
Annapolis, Maryland	F General Office and Common Areas	2,000	July 2026
Melville, New York	N Corporate Headquarters and General Office	9,600	August 2027
		11,600	
<b>Total Square Footage</b>		<b>648,600</b>	

- A. Although primarily used for our satellite earth station product lines, which are part of the Commercial Solutions segment, both of our business segments utilize, from time to time, our high-volume technology manufacturing facilities located in Tempe, Arizona. These manufacturing facilities utilize state-of-the-art design and production techniques, including analog, digital and RF microwave production, hardware assembly and full service engineering. Our leases for these facilities expire through fiscal 2021.

To support our anticipated growth and long-term business goals for our satellite earth station product line, in September 2020, we signed a 15-year lease for a 146,000 square foot facility in Chandler, Arizona. We anticipate that all existing Tempe, Arizona locations will be fully relocated to this new facility by February 2021.

- B. Our office in Seattle, Washington is used primarily for servicing and hosting our VoIP and VoWiFi E911 and NG-911 services, and related emerging technologies.
- C. Our Commercial Solutions segment manufactures certain amplifiers in a leased manufacturing facility located in Santa Clara, California. Our Commercial Solutions segment also operates a small office in the United Kingdom with a lease that expires in October 2021.

- D. Our Commercial Solutions segment maintains office space in Stoughton, Massachusetts used primarily for servicing certain of our state and local municipality NG-911 customers.
- E. Our Commercial Solutions segment also leases an additional nine facilities, one of which is located in the U.S. The 4,000 square foot U.S. facility is primarily utilized for general office use. Our Commercial Solutions segment also operates eight small offices in Brazil, Canada, China, India, Singapore, Australia and the United Kingdom, all of which aggregate 19,000 square feet and are primarily utilized for customer support, engineering and sales.
- F. We have leases for facilities in Annapolis, Maryland and Lake Forest, California used primarily for the design and development of our software-based systems and applications and network operations. Major manufacturing and engineering facilities for our Government Solutions segment include Orlando, Florida, Cypress, California and Plano, Texas.
- G. Our Commercial Solutions segment maintains office space in Gatineau, Canada that is utilized for network operations, R&D, engineering and sales of our public safety and location technology solutions.
- H. Our office in Moscow, Idaho is primarily used for research and development, engineering and sales of our satellite earth station products.
- I. Our Government Solutions segment leases a 32,000 square foot facility located in Germantown, Maryland, which is primarily used to support the U.S. Army's BFT-1 sustainment activities and certain cyber training activities. Our Government Solutions segment occupies 26,000 square feet of the facility with the remainder utilized by our Commercial Solutions segment.
- J. Our Government Solutions segment engineers and manufactures our over-the-horizon microwave systems and mission-critical satellite equipment in a leased facility in Orlando, Florida. This segment also leases a small office in North Africa.
- K. Our Government Solutions segment manufactures certain of our solid-state, high-power amplifiers in a 45,000 square foot engineering and manufacturing facility on more than two acres of land in Melville, New York and an 8,000 square foot facility in Topsfield, Massachusetts. We lease the New York facility from a partnership controlled by our CEO and Chairman of the Board of Directors. The lease provides for our use of the premises as they exist through December 2021 with an option to renew for an additional ten-year period. We have a right of first refusal in the event of a sale of the facility. Our Massachusetts lease is currently on a month-to-month basis and is therefore excluded from the table above.
- L. Our Government Solutions segment currently leases three manufacturing facilities in Hampshire, United Kingdom, which were assumed in connection with our acquisition of CGC in fiscal 2020.
- M. Our Government Solutions segment also leases additional four facilities located in the U.S. that are primarily used for engineering, sales and software development.
- N. Our corporate headquarters are located in an office building complex in Melville, New York. The lease provides for our use of the premises through August 2027.

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

### ITEM 3. LEGAL PROCEEDINGS

Information regarding legal proceedings is incorporated herein by reference to the "Notes to Consolidated Financial Statements – Note (13)(a) - Commitments and Contingencies – Legal Proceedings and Other Matters" included in "Part II - Item 8.- Financial Statements and Supplementary Data," included in this Annual Report on Form 10-K.

### ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

### PART II

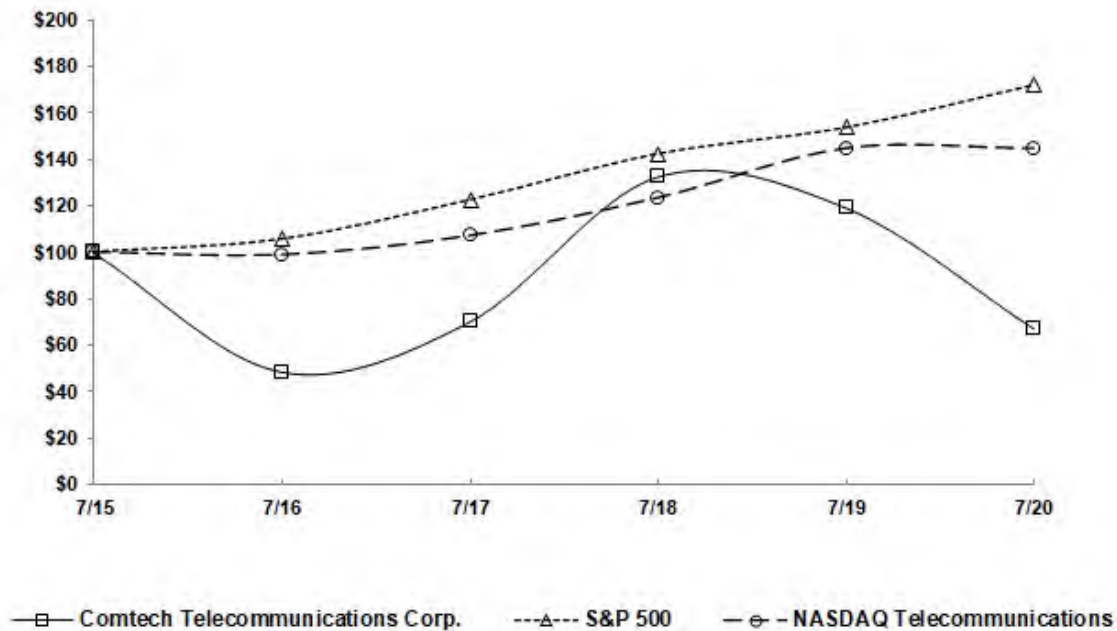
### ITEM 5. MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

#### Stock Performance Graph and Cumulative Total Return

The graph below compares the cumulative total stockholder return on our common stock with the cumulative total return on the S&P’s 500 Index and the NASDAQ Telecommunications Index for each of the last five fiscal years ended July 31, assuming an investment of \$100 at the beginning of such period and the reinvestment of any dividends. The comparisons in the graphs below are based upon historical data and are not indicative of, nor intended to forecast, future performance of our common stock.

#### COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN\*

Among Comtech Telecommunications Corp., the S&P 500 Index and the NASDAQ Telecommunications Index



\*\$100 invested on 7/31/15 in stock or index, including reinvestment of dividends. Fiscal year ending July 31.

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Our common stock trades on the NASDAQ Stock Market LLC ("NASDAQ") under the symbol "CMTL."

## **Dividends**

Since September 2010, we have paid quarterly dividends. On September 24, 2019, December 4, 2019, March 4, 2020 and June 3, 2020, our Board of Directors declared a dividend of \$0.10 per common share, which were paid on November 15, 2019, February 14, 2020, May 15, 2020 and August 14, 2020, respectively.

On September 29, 2020, our Board of Directors declared a dividend of \$0.10 per common share, payable on October 27, 2020 to stockholders of record at the close of business on October 14, 2020.

The Board of Directors is currently targeting fiscal 2021 quarterly dividend payments of \$0.10 per common share.

Future Common Stock dividends remain subject to compliance with financial covenants under our Credit Facility, as well as Board approval.

## **Recent Sales of Unregistered Securities**

None.

## **Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

We did not repurchase any of our equity securities during the fiscal year ended July 31, 2020. As of July 31, 2020, we were authorized to repurchase up to an additional \$8.7 million of our common stock, pursuant to a \$100.0 million stock repurchase program that was previously authorized by our Board of Directors. On September 29, 2020, our Board of Directors authorized a new \$100.0 million stock repurchase program, which replaced our prior program. The new \$100.0 million stock repurchase program has no time restrictions and repurchases may be made from time to time in open-market or privately negotiated transactions, or by other means in accordance with federal securities laws. We had approximately 24.9 million of Common Stock outstanding as of July 31, 2020.

## **Approximate Number of Equity Security Holders**

As of September 25, 2020, there were approximately 833 holders of our common stock. Such number of record owners was determined from our stockholder records and does not include beneficial owners whose shares of our common stock are held in the name of various security holders, dealers and clearing agencies.

## **ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA**

The following table shows selected historical consolidated financial data for our Company.

Detailed historical financial information is included in the audited consolidated financial statements for fiscal 2020, 2019 and 2018.

	<b>Fiscal Years Ended July 31, (In thousands, except per share amounts)</b>				
	2020	2019	2018	2017	2016
<b>Consolidated Statement of Operations Data:</b>					
Net sales	\$ 616,715	671,797	570,589	550,368	411,004
Cost of sales	389,882	424,357	346,648	332,183	239,767
Gross profit	226,833	247,440	223,941	218,185	171,237
Expenses:					
Selling, general and administrative	117,130	128,639	113,922	116,080	94,932
Research and development	52,180	56,407	53,869	54,260	42,190
Amortization of intangibles	21,595	18,320	21,075	22,823	13,415
Settlement of intellectual property litigation	—	(3,204)	—	(12,020)	—
Acquisition plan expenses	20,754	5,871	—	—	21,276
	211,659	206,033	188,866	181,143	171,813
Operating income (loss)	15,174	41,407	35,075	37,042	(576)
Other expenses (income):					
Interest expense	6,054	9,245	10,195	11,629	7,750
Write-off of deferred financing costs	—	3,217	—	—	—
Interest (income) and other	(190)	35	254	(68)	(134)
Income (loss) before provision for (benefit from) income taxes	9,310	28,910	24,626	25,481	(8,192)
Provision for (benefit from) income taxes	2,290	3,869	(5,143)	9,654	(454)
Net income (loss)	\$ 7,020	25,041	29,769	15,827	(7,738)
Net income (loss) per share:					
Basic	\$ 0.28	1.04	1.25	0.68	(0.46)
Diluted	\$ 0.28	1.03	1.24	0.67	(0.46)
Weighted average number of common shares outstanding – basic	24,798	24,124	23,825	23,433	16,972
Weighted average number of common and common equivalent shares outstanding – diluted	24,899	24,302	24,040	23,489	16,972
	<b>Fiscal Years Ended July 31, (In thousands)</b>				
	2020	2019	2018	2017	2016
<b>Other Consolidated Operating Data:</b>					
Backlog at period-end	\$ 620,912	682,954	630,695	446,230	484,005
New orders	584,448	724,056	755,054	512,593	451,278
Research and development expenditures - internal and customer funded	64,103	71,086	70,793	81,310	59,622
Adjusted EBITDA	77,803	93,472	78,374	70,705	48,062

	<b>As of July 31, (In thousands)</b>				
	2020	2019	2018	2017	2016
<b>Consolidated Balance Sheet Data:</b>					
Total assets	\$ 929,647	887,711	845,157	832,063	921,196
Working capital	117,385	134,967	114,477	96,833	119,493
Debt, including finance leases and other obligations	149,557	165,757	167,899	195,802	258,649
Other liabilities	17,831	18,822	4,117	2,655	4,105
Stockholders' equity	549,299	535,082	505,684	480,150	470,401

### Non-GAAP Financial Data

This Annual Report on Form 10-K contains a Non-GAAP financial metric for the Company titled Adjusted EBITDA, which represents earnings (loss) before income taxes, interest (income) and other expense, write-off of deferred financing costs, interest expense, amortization of stock-based compensation, amortization of intangibles, depreciation expense, estimated contract settlement costs, settlement of intellectual property litigation, acquisition plan expenses, facility exit costs and strategic alternatives analysis expenses and other. In future periods, we expect to incur expenses similar to the aforementioned items and investors should not infer from our presentation of Adjusted EBITDA that these costs are unusual, infrequent or non-recurring. These items, while periodically affecting our results, may vary significantly from period to period and may have a disproportionate effect in a given period, thereby affecting the comparability of results.

Adjusted EBITDA is a Non-GAAP financial measure used by management in assessing Comtech's operating results. Although closely aligned, Comtech's definition of Adjusted EBITDA is different than the Consolidated EBITDA (as such term is defined in our Credit Facility) utilized for financial covenant calculations and also may differ from the definition of EBITDA or Adjusted EBITDA used by other companies and therefore, may not be comparable to similarly titled measures used by other companies. Our Adjusted EBITDA is also a measure frequently requested by Comtech's investors and analysts. We believe that investors and analysts may use Adjusted EBITDA, along with other information contained in our SEC filings, in assessing our performance and comparability of our results with other companies.

Non-GAAP financial measures have limitations as an analytical tool as they exclude the financial impact of transactions necessary to conduct our business, such as the granting of equity compensation awards, and are not intended to be an alternative to financial measures prepared in accordance with GAAP. Non-GAAP financial measures should be considered in addition to, and not as a substitute for or superior to, financial measures determined in accordance with GAAP. Investors are advised to carefully review the GAAP financial results that are disclosed in our SEC filings.

The following is a reconciliation of net income (loss), the most comparable GAAP measure, to Adjusted EBITDA:

	<b>Fiscal Years Ended July 31,</b>				
	<b>(In thousands)</b>				
	2020	2019	2018	2017	2016
<b>Adjusted EBITDA:</b>					
Net income (loss)	\$ 7,020	25,041	29,769	15,827	(7,738)
Provision for (benefit from) income taxes	2,290	3,869	(5,143)	9,654	(454)
Interest (income) and other	(190)	35	254	(68)	(134)
Write-off of deferred financing costs	—	3,217	—	—	—
Interest expense	6,054	9,245	10,195	11,629	7,750
Amortization of stock-based compensation	9,275	11,427	8,569	8,506	4,117
Amortization of intangibles	21,595	18,320	21,075	22,823	13,415
Depreciation	10,561	11,927	13,655	14,354	9,830
Estimated contract settlement costs	444	6,351	—	—	—
Settlement of intellectual property litigation	—	(3,204)	—	(12,020)	—
Acquisition plan expenses	20,754	5,871	—	—	21,276
Facility exit costs	—	1,373	—	—	—
Adjusted EBITDA	<u>\$ 77,803</u>	<u>93,472</u>	<u>78,374</u>	<u>70,705</u>	<u>48,062</u>

## **ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

### **Overview**

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 and other scenarios where performance is crucial.

We manage our business through two reportable operating segments:

- **Commercial Solutions** - offers satellite ground station technologies (such as modems and amplifiers), public safety and location technologies (such as 911 call routing and mapping solutions) to commercial customers and smaller government customers, such as state and local governments. This segment also serves certain large government customers (including the U.S. government) that have requirements for off-the-shelf commercial equipment.
- **Government Solutions** - provides mission-critical technologies (such as tactical satellite-based networks and ongoing support for complicated communication networks) and high-performance transmission technologies (such as troposcatter systems and solid-state, high-power amplifiers) to large government end-users (including those of foreign countries), large international customers and domestic prime contractors.



### *Our Quarterly Financial Information*

Quarterly and period-to-period sales and operating results may be significantly affected by either short-term or long-term contracts with our customers. In addition, our gross profit is affected by a variety of factors, including the mix of products, systems and services sold, production efficiencies, estimates of warranty expense, price competition and general economic conditions. Our gross profit may also be affected by the impact of any cumulative adjustments to contracts that are accounted for over time.

Our contracts with the U.S. government can be terminated for convenience by it at any time and orders are subject to unpredictable funding, deployment and technology decisions by the U.S. government. Some of these contracts are indefinite delivery/indefinite quantity ("IDIQ") contracts and, as such, the U.S. government is not obligated to purchase any equipment or services under these contracts. We have, in the past, experienced and we continue to expect significant fluctuations in sales and operating results from quarter-to-quarter and period-to-period. As such, comparisons between periods and our current results may not be indicative of a trend or future performance.

### **Critical Accounting Policies**

We consider certain accounting policies to be critical due to the estimation process involved in each.

#### ***Revenue Recognition.***

In accordance with FASB ASC 606 - Revenue from Contracts with Customers ("ASC 606"), we record revenue in an amount that reflects the consideration to which we expect to be entitled in exchange for goods or services promised to customers. Under ASC 606, we follow a five-step model to: (1) identify the contract with our customer; (2) identify our performance obligations in our contract; (3) determine the transaction price for our contract; (4) allocate the transaction price to our performance obligations; and (5) recognize revenue using one of the following two methods:

- Over time - We recognize revenue using the over time method when there is a continuous transfer of control to the customer over the contractual period of performance. This generally occurs when we enter into a long-term contract relating to the design, development or manufacture of complex equipment or technology platforms to a buyer's specification (or to provide services related to the performance of such contracts). Continuous transfer of control is typically supported by contract clauses which allow our customers to unilaterally terminate a contract for convenience, pay for costs incurred plus a reasonable profit and take control of work-in-process. Revenue recognized over time is generally based on the extent of progress toward completion of the related performance obligations. The selection of the method to measure progress requires judgment and is based on the nature of the products or services provided. In certain instances, typically for firm fixed-price contracts, we use the cost-to-cost measure because it best depicts the transfer of control to the customer which occurs as we incur costs on our contracts. Under the cost-to-cost measure, the extent of progress toward completion is measured based on the ratio of costs incurred to date to the total estimated costs at completion, including warranty costs. Revenues, including estimated fees or profits, are recorded proportionally as costs are incurred. Costs to fulfill generally include direct labor, materials, subcontractor costs, other direct costs and an allocation of indirect costs. When these contracts are modified, the additional goods or services are generally not distinct from those already provided. As a result, these modifications form part of an existing contract and we must update the transaction price and our measure of progress for the single performance obligation and recognize a cumulative catch-up to revenue and gross profits.

For over time contracts using a cost-to-cost measure of progress, we have an estimate at completion ("EAC") process in which management reviews the progress and execution of our performance obligations. This EAC process requires management judgment relative to assessing risks, estimating contract revenue and costs, and making assumptions for schedule and technical issues. Since certain contracts extend over a long period of time, the impact of revisions in revenue and or cost estimates during the progress of work may impact current period earnings through a cumulative adjustment. Additionally, if the EAC process indicates a loss, a provision is made for the total anticipated loss in the period that it becomes evident. Contract revenue and cost estimates for significant contracts are generally reviewed and reassessed at least quarterly.

The cost-to-cost method is principally used to account for contracts in our mission-critical technologies and high-performance transmission technologies product lines and, to a lesser extent, certain location-based and messaging infrastructure contracts in our public safety and location technologies product line. For service-based contracts in our public safety and location technologies product line, we recognize revenue over time. These services are typically recognized as a series of services performed over the contract term using the straight-line method, or based on our customers' actual usage of the networks and platforms which we provide.

- *Point in time* - When a performance obligation is not satisfied over time, we must record revenue using the point in time accounting method which generally results in revenue being recognized upon shipment or delivery of a promised good or service to a customer. This generally occurs when we enter into short term contracts or purchase orders where items are provided to customers with relatively quick turn-around times. Modifications to such contracts and or purchase orders, which typically provide for additional quantities or services, are accounted for as a new contract because the pricing for these additional quantities or services are based on standalone selling prices.

Point in time accounting is principally applied to contracts in our satellite ground station technologies product line (which includes satellite modems, solid-state and traveling wave tube amplifiers) and certain contracts for our solid-state, high-power amplifiers in our high-performance transmission technologies product line. Point in time accounting is also applied to certain contracts in our mission-critical technologies product line. The contracts related to these product lines do not meet the requirements for over time revenue recognition because our customers cannot utilize the equipment for its intended purpose during any phase of our manufacturing process; customers do not simultaneously receive and or consume the benefits provided by our performance; customers do not control the asset (i.e., prior to delivery, customers cannot direct the use of the asset, sell or exchange the equipment, etc.); and, although many of our contracts have termination for convenience clauses and or an enforceable right to payment for performance completed to date, our performance creates an asset with an alternative use through the point of delivery.

In determining that our equipment has alternative use, we considered the underlying manufacturing process for our products. In the early phases of manufacturing, raw materials and work in process (including subassemblies) consist of common parts that are highly fungible among many different types of products and customer applications. Finished products are either configured to our standard configuration or based on our customers' specifications. Finished products, whether built to our standard specification or to a customers' specification, can be sold to a variety of customers and across many different end use applications with minimal rework, if needed, and without incurring a significant economic loss.

When identifying a contract with our customer, we consider when it has approval and commitment from both parties, if the rights of the parties are identified, if the payment terms are identified, if it has commercial substance and if collectability is probable.

When identifying performance obligations, we consider whether there are multiple promises and how to account for them. In our contracts, multiple promises are separated if they are distinct, both individually and in the context of the contract. If multiple promises in a contract are highly interrelated or comprise a series of distinct services performed over time, they are combined into a single performance obligation. In some cases, we may also provide the customer with an additional service-type warranty, which we recognize as a separate performance obligation. Service-type warranties do not represent a significant portion of our consolidated net sales. When service-type warranties represent a separate performance obligation, the revenue is deferred and recognized ratably over the extended warranty period. Our contracts, from time-to-time, may also include options for additional goods and services. To date, these options have not represented material rights to the customer as the pricing for them reflects standalone selling prices. As a result, we do not consider options we offer to be performance obligations for which we must allocate a portion of the transaction price. In many cases, we provide assurance-type warranty coverage for some of our products for a period of at least one year from the date of delivery.

When identifying the transaction price, we typically utilize the contract's stated price as a starting point. The transaction price in certain arrangements may include estimated amounts of variable consideration, including award fees, incentive fees or other provisions that can either increase or decrease the transaction price. We estimate variable consideration as the amount to which we expect to be entitled, and we include estimated amounts in the transaction price to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur when the estimation uncertainty is resolved. The estimation of this variable consideration and determination of whether to include estimated amounts in the transaction price are based largely on an assessment of our anticipated performance and all information (e.g., historical, current and forecasted) that is reasonably available to us.

When allocating the contract's transaction price, we consider each distinct performance obligation. For contracts with multiple performance obligations, we allocate the contract's transaction price to each performance obligation using our best estimate of the standalone selling price of each distinct good or service in the contract. We determine standalone selling price based on the price at which the performance obligation is sold separately. If the standalone selling price is not observable through past transactions, we estimate the standalone selling price taking into account available information such as market conditions, including geographic or regional specific factors, competitive positioning, internal costs, profit objectives and internally approved pricing guidelines related to the performance obligations.

Almost all of our contracts with customers are denominated in U.S. dollars and typically are either firm fixed-price or cost reimbursable type contracts (including fixed-fee, incentive-fee and time-and-material type contracts). In almost all of our contracts with customers, we are the principal in the arrangement and report revenue on a gross basis. Transaction prices for contracts with U.S. domestic and international customers are usually based on specific negotiations with each customer and in the case of the U.S. government, sometimes based on estimated or actual costs of providing the goods or services in accordance with applicable regulations.

The timing of revenue recognition, billings and collections results in receivables, unbilled receivables and contract liabilities on our Consolidated Balance Sheet. Under typical payment terms for our contracts accounted for over time, amounts are billed as work progresses in accordance with agreed-upon contractual terms, either at periodic intervals (e.g., monthly) or upon achievement of contractual milestones. For certain contracts with provisions that are intended to protect customers in the event we do not satisfy our performance obligations, billings occur subsequent to revenue recognition, resulting in unbilled receivables. Under ASC 606, unbilled receivables constitute contract assets. On large long term contracts, and for contracts with international customers that do not do business with us regularly, payment terms typically require advanced payments and deposits. Under ASC 606, payments received from customers in excess of revenue recognized to date results in a contract liability. These contract liabilities are not considered to represent a significant financing component of the contract because we believe these cash advances and deposits are generally used to meet working capital demands which can be higher in the earlier stages of a contract. Also, advanced payments and deposits provide us with some measure of assurance that the customer will perform on its obligations under the contract. Under the typical payment terms for our contracts accounted for at a point in time, costs are accumulated in inventory until the time of billing, which generally coincides with revenue recognition.

We recognize the incremental costs to obtain or fulfill a contract as an expense when incurred if the amortization period of the asset is one year or less. Incremental costs to obtain or fulfill contracts with an amortization period greater than one year were not material.

As commissions payable to our internal sales and marketing employees or contractors are contingent upon multiple factors, such commissions are not considered direct costs to obtain or fulfill a contract with a customer and are expensed as incurred in selling, general and administrative expenses on our Consolidated Statements of Operations. As for commissions payable to our third-party sales representatives related to large long-term contracts, we do consider these types of commissions both direct and incremental costs to obtain and fulfill such contracts. Therefore, such types of commissions are included in total estimated costs at completion for such contracts and expensed over time through cost of sales on our Consolidated Statements of Operations.

Remaining performance obligations represent the transaction price of firm orders for which work has not been performed as of the end of a fiscal period. Remaining performance obligations, which we refer to as backlog, exclude unexercised contract options and potential orders under indefinite delivery / indefinite quantity ("IDIQ") contracts.

***Impairment of Goodwill and Other Intangible Assets.*** As of July 31, 2020, total goodwill recorded on our Consolidated Balance Sheet aggregated \$330.5 million (of which \$255.4 million relates to our Commercial Solutions segment and \$75.1 million relates to our Government Solutions segment). Additionally, as of July 31, 2020, net intangibles recorded on our Consolidated Balance Sheet aggregated \$258.0 million (of which \$208.1 million relates to our Commercial Solutions segment and \$49.9 million relates to our Government Solutions segment). Each of our two operating segments constitutes a reporting unit and we must make various assumptions in determining their estimated fair values.

In accordance with FASB ASC 350, we perform a goodwill impairment analysis at least annually (in the first quarter of each fiscal year), unless indicators of impairment exist in interim periods. If we fail the quantitative assessment of goodwill impairment ("quantitative assessment"), we would be required to recognize an impairment loss equal to the amount that a reporting unit's carrying value exceeded its fair value; however, any loss recognized should not exceed the total amount of goodwill allocated to that reporting unit.

On August 1, 2020 (the first day of our fiscal 2021), we performed our annual quantitative assessment using market participant assumptions to determine if the fair value of each of our reporting units with goodwill exceeded its carrying value. In making this assessment, we considered, among other things, expectations of projected net sales and cash flows, assumptions impacting the weighted average cost of capital, trends in trading multiples of comparable companies, changes in our stock price and changes in the carrying values of our reporting units with goodwill. We also considered overall business conditions, including both the potential short-term and long-term effects of the COVID-19 pandemic.

In performing the quantitative assessment, we estimated the fair value of each of our reporting units using a combination of the income and market approaches. The income approach, also known as the discounted cash flow ("DCF") method, utilizes the present value of cash flows to estimate fair value. The future cash flows for our reporting units were projected based on our estimates, at that time, of future revenues, operating income and other factors (such as working capital and capital expenditures). For purposes of conducting our impairment analysis, we assumed revenue growth rates and cash flow projections that are below our actual long-term expectations. The discount rates used in our DCF method were based on a weighted-average cost of capital ("WACC") determined from relevant market comparisons, adjusted upward for specific reporting unit risks (primarily the uncertainty of achieving projected operating cash flows). A terminal value growth rate was applied to the final year of the projected period, which reflects our estimate of stable, perpetual growth. We then calculated a present value of the respective cash flows for each reporting unit to arrive at an estimate of fair value under the income approach. Under the market approach, we estimated a fair value based on comparable companies' market multiples of revenues and earnings before interest, taxes, depreciation and amortization and factored in a control premium. Finally, we compared our estimates of fair values to our August 1, 2020 total public market capitalization and assessed implied control premiums based on our common stock price of \$16.42 as of August 1, 2020.

Based on our quantitative evaluation, we determined that our Commercial Solutions and Government Solutions reporting units had estimated fair values in excess of their carrying values of at least 8.4% and 78.0%, respectively, and concluded that our goodwill was not impaired and that neither of our two reporting units was at risk of failing the quantitative assessment.

It is possible that, during fiscal 2021 or beyond, business conditions (both in the U.S. and internationally) could deteriorate from the current state, our current or prospective customers could materially postpone, reduce or even forgo purchases of our products and services to a greater extent than we currently anticipate, or our common stock price could decline further. Such deterioration could be caused by uncertainty about the severity and length of the COVID-19 pandemic, and its impact on global business activity.

A significant decline in our customers' spending that is greater than we anticipate or a shift in funding priorities may also have a negative effect on future orders, sales, income and cash flows and we might be required to perform a quantitative assessment during fiscal 2021 or beyond. If assumed net sales and cash flow projections are not achieved in future periods or our common stock price significantly declines from current levels, our Commercial Solutions and Government Solutions reporting units could be at risk of failing the quantitative assessment and goodwill and intangibles assigned to the respective reporting units could be impaired.

In any event, we are required to perform the next annual goodwill impairment analysis on August 1, 2021 (the start of our fiscal 2022). If our assumptions and related estimates change in the future, or if we change our reporting unit structure or other events and circumstances change (e.g., a sustained decrease in the price of our common stock (considered on both absolute terms and relative to peers)), we may be required to record impairment charges when we perform these tests, or in other future periods. In addition to our impairment analysis of goodwill, we also review net intangible assets with finite lives when an event occurs indicating the potential for impairment. We believe that the carrying values of our net intangible assets were recoverable as of July 31, 2020. Any impairment charges that we may record in the future could be material to our results of operations and financial condition.

***Provision for Warranty Obligations.*** We provide warranty coverage for most of our products, including products under long-term contracts, for a period of at least one year from the date of shipment. We record a liability for estimated warranty expense based on historical claims, product failure rates and other factors. Costs associated with some of our warranties that are provided under long-term contracts are incorporated into our estimates of total contract costs. There exist inherent risks and uncertainties in estimating warranty expenses, particularly on larger or longer-term contracts. If we do not accurately estimate our warranty costs, any changes to our original estimates could be material to our results of operations and financial condition.

**Accounting for Income Taxes.** Our deferred tax assets and liabilities are determined based on temporary differences between financial reporting and tax bases of assets and liabilities and applying enacted tax rates expected to be in effect for the year in which we expect the differences to reverse. Our provision for income taxes is based on domestic (including federal and state) and international statutory income tax rates in the tax jurisdictions where we operate, permanent differences between financial reporting and tax reporting and available credits and incentives. We recognize potential interest and penalties related to uncertain tax positions in income tax expense. The U.S. federal government is our most significant income tax jurisdiction.

Significant judgment is required in determining income tax provisions and tax positions. We may be challenged upon review by the applicable taxing authority and positions taken by us may not be sustained. We recognize all or a portion of the benefit of income tax positions only when we have made a determination that it is more likely than not that the tax position will be sustained upon examination, based upon the technical merits of the position and other factors. For tax positions that are determined as more likely than not to be sustained upon examination, the tax benefit recognized is the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement. The development of valuation allowances for deferred tax assets and reserves for income tax positions requires consideration of timing and judgments about future taxable income, tax issues and potential outcomes, and are subjective critical estimates. A portion of our deferred tax assets consist of federal research and experimentation tax credit carryforwards, most of which was acquired in connection with our acquisition of TCS. No valuation allowance has been established on these deferred tax assets based on our evaluation that our ability to realize such assets has met the criteria of "more likely than not." We continuously evaluate additional facts representing positive and negative evidence in determining our ability to realize these deferred tax assets. In certain circumstances, the ultimate outcome of exposures and risks involves significant uncertainties. If actual outcomes differ materially from these estimates, they could have a material impact on our results of operations and financial condition.

Our federal income tax returns for fiscal 2017 through 2019 are subject to potential future Internal Revenue Service ("IRS") audit. None of our state income tax returns prior to fiscal 2016 are subject to audit. None of TCS' state income tax returns prior to calendar year 2015 are subject to audit. Future tax assessments or settlements could have a material adverse effect on our consolidated results of operations and financial condition.

**Research and Development Costs.** We generally expense all research and development costs. Research and development expenses include payroll, employee benefits, stock-based compensation expense, and other personnel-related expenses associated with product development. Research and development expenses also include third-party development and programming costs. Costs incurred internally in researching and developing software to be sold are charged to expense until technological feasibility has been established for the software. Judgment is required in determining when technological feasibility of a product is established. Technological feasibility for our advanced communication software solutions is generally reached after all high-risk development issues have been resolved through coding and testing. Generally, this occurs shortly before the products are released to customers and when we are able to validate the marketability of such product. Once technological feasibility is established, all software costs are capitalized until the product is available for general release to customers. To date, capitalized internally developed software costs were not material.

**Provisions for Excess and Obsolete Inventory.** We record a provision for excess and obsolete inventory based on historical and projected usage trends. Other factors may also influence our provision, including decisions to exit a product line, technological change and new product development. These factors could result in a change in the amount of excess and obsolete inventory on hand. Additionally, our estimates of future product demand may prove to be inaccurate, in which case we may have understated or overstated the provision required for excess and obsolete inventory. In the future, if we determine that our inventory was overvalued, we would be required to recognize such costs in our financial statements at the time of such determination. Any such charge could be material to our results of operations and financial condition.

**Allowance for Doubtful Accounts.** We perform credit evaluations of our customers and adjust credit limits based upon customer payment history and current creditworthiness, as determined by our review of our customers' current credit information. Generally, we will require cash in advance or payment secured by irrevocable letters of credit before an order is accepted from an international customer that we do not do business with regularly. In addition, we seek to obtain insurance for certain domestic and international customers.

We monitor collections and payments from our customers and maintain an allowance for doubtful accounts based upon our historical experience and any specific customer collection issues that we have identified. In light of ongoing tight credit market conditions, we continue to see requests from our customers for higher credit limits and longer payment terms. Because of our strong cash position and the nominal amount of interest we are earning on our cash and cash equivalents, we have, on a limited basis, approved certain customer requests. We continue to monitor our accounts receivable credit portfolio. To-date, there has been no material changes in our credit portfolio as a result of the COVID-19 pandemic and related worldwide restrictions on business activities.

Although our overall credit losses have historically been within the allowances we established, we cannot accurately predict our future credit loss experience, given the current poor business environment. Measurement of credit losses requires consideration of historical loss experience, including the need to adjust for changing business conditions, and judgments about the probable effects of relevant observable data, including present economic conditions such as delinquency rates and the financial health of specific customers. Future changes to the estimated allowance for doubtful accounts could be material to our results of operations and financial condition.

## Results of Operations

The following table sets forth, for the periods indicated, certain income and expense items expressed as a percentage of our consolidated net sales:

	<b>Fiscal Years Ended July 31,</b>		
	2020	2019	2018
Gross margin	36.8 %	36.8 %	39.2 %
Selling, general and administrative expenses	19.0 %	19.1 %	20.0 %
Research and development expenses	8.5 %	8.4 %	9.4 %
Settlement of intellectual property litigation	— %	(0.5)%	— %
Acquisition plan expenses	3.4 %	0.9 %	— %
Amortization of intangibles	3.5 %	2.7 %	3.7 %
Operating income	2.5 %	6.2 %	6.2 %
Interest expense (income) and other	1.0 %	1.4 %	1.8 %
Write-off of deferred financing costs	— %	0.5 %	— %
Income before provision for income taxes	1.5 %	4.3 %	4.3 %
Net income	1.1 %	3.7 %	5.2 %
Adjusted EBITDA (a Non-GAAP measure)	12.6 %	13.9 %	13.7 %

For a definition and explanation of Adjusted EBITDA, see "Item 6. Selected Consolidated Financial Data - Non-GAAP Financial Data" and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Comparison of Fiscal 2020 and 2019 - Adjusted EBITDA."

## Impact of COVID-19 and Business Outlook for Fiscal 2021

Fiscal 2020 was a challenging year. Although we got off to a good start, during our second half of fiscal 2020, the outbreak of the coronavirus disease 2019 (“COVID-19”) was declared a pandemic by the World Health Organization and a national emergency by the U.S. government. Attempts to contain the COVID-19 pandemic resulted in worldwide restrictions on many business activities, which in turn caused global economic conditions to rapidly deteriorate, resulting for us in lower net sales and Adjusted EBITDA as compared to our original business outlook for fiscal 2020. For the fiscal year, we generated consolidated:

- Net sales of \$616.7 million;
- GAAP operating income of \$15.2 million, or Non-GAAP operating income of \$36.4 million, excluding \$20.8 million of acquisition plan expenses and a \$0.4 million charge related to estimated contract settlement costs;
- GAAP net income of \$7.0 million, or Non-GAAP net income of \$19.2 million, excluding acquisition plan expenses of \$13.1 million (net of tax), a \$0.3 million charge related to estimated contract settlement costs (net of tax) and a net discrete tax benefit of \$1.2 million;
- Cash flows from operating activities of \$52.8 million; and
- Adjusted EBITDA (a Non-GAAP financial measure discussed below) of \$77.8 million.

We achieved a fiscal 2020 consolidated book-to-bill ratio (a measure defined as bookings divided by net sales) of 0.95 and ended the year with consolidated backlog of \$620.9 million. Our backlog (sometimes referred to herein as orders or bookings) are more fully defined in “*Part I - Item 1. Business*” included in this Annual Report on Form 10-K and the total value of multi-year contracts that we have received is substantially higher than our reported backlog.

As of July 31, 2020, our cash and cash equivalents were \$47.9 million and our total debt outstanding (including finance lease and other obligations) was \$149.6 million, which represents a \$16.2 million reduction from our total debt outstanding as of July 31, 2019.

Since March 2020, we have conducted most of our non-production related operations using remote working arrangements, curtailed most business travel, and have established social distancing safeguards. These precautions and business practices will remain in effect as long as government advisories recommend. Additionally, we have experienced minor supply chain disruptions, a lower level of factory utilization and higher logistics and operational costs. Although the COVID-19 pandemic is by no means over and a second wave of COVID-19 could again alter the business landscape, we believe that the pandemic’s worst impact on our business is largely behind us. Our long-term fundamentals remain strong as we continue to believe we are well-positioned for growth as business conditions meaningfully improve.

As we enter fiscal 2021, we believe our business is slowly rebounding, customers appear to be adjusting to new ways of doing business and our pipeline of opportunities looks like it is growing. Despite the ongoing impact of COVID-19, our diverse business is expected to support net sales and Adjusted EBITDA growth in fiscal 2021 as compared to the amounts we achieved in fiscal 2020.

Our ability to achieve improved results in fiscal 2021 will depend, in large part, on improvement in the global economy, no worsening of the ongoing COVID-19 pandemic, and the timely receipt of, and our performance on, new orders from our customers. During fiscal 2021, we expect to relocate production of our satellite earth station product line to a new 146,000 square foot facility in Chandler, Arizona. This new facility is located less than 10 miles from our existing facility, and we anticipate that we will be fully relocated by February 2021. Our Business Outlook for Fiscal 2021 does not consider the financial impact of the pending Gilat or UHP acquisitions or other expenses related to future actions we may take in order to achieve our strategic objectives. The UHP and Gilat acquisitions are discussed in the below section entitled “*Acquisition Plan Update*”.

On September 29, 2020, our Board of Directors declared a dividend of \$0.10 per common share, payable on October 27, 2020 to stockholders of record at the close of business on October 14, 2020. Future Common Stock dividends remain subject to compliance with financial covenants under our Credit Facility, as well as Board approval.

Additional information related to our Business Outlook for Fiscal 2021 and a definition and explanation of Adjusted EBITDA is included in the below section *"Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Comparison of Fiscal 2020 and 2019."*

## Acquisition Plan Update

**The UHP Acquisition.** On November 21, 2019, we announced that we entered into an agreement to acquire UHP Networks Inc. and its sister company (together, "UHP"), a leading provider of innovative and disruptive satellite ground station technology solutions. UHP is based in Canada and has developed revolutionary technology that we believe is transforming the Very Small Aperture Terminal ("VSAT") market. With end-markets for high-speed satellite-based networks significantly growing, our acquisition of UHP, if consummated, will allow us to enhance our solution offerings with low cost time division multiple access ("TDMA") satellite modems which we do not currently offer. In June 2020, we agreed with UHP to amend the terms of our purchase agreement which resulted in the total aggregate purchase price being reduced by approximately 24% from \$50.0 million to \$38.0 million (of which \$5.0 million will be paid in cash, with the remainder in shares of our common stock, cash, or a combination of both, as we may elect at the time of closing). The transaction is subject to customary closing conditions, including regulatory approval to allow us to purchase UHP's sister company which is headquartered in Moscow. In August 2020, at the request of the Federal Antimonopoly Service ("FAS") of the Russian Federation we submitted an application for regulatory approval to the FAS and the Commission for Supervising Foreign Investments in the Russian Federation (the "Russian Commission") pursuant to Russia's Foreign Investment Law ("FIL"). In order to purchase UHP's sister company, which is based in Moscow, approval by the Russian Commission and the FAS is required. If we do not receive approval by December 31, 2020, either we or UHP may terminate the purchase agreement.

**The Gilat Acquisition.** On January 29, 2020, we entered into a highly strategic agreement to acquire Gilat Satellite Networks Ltd. ("Gilat"). Gilat is a worldwide leader in satellite networking technology, solutions and services, with market leading positions in the satellite ground station and in-flight connectivity solutions markets and deep expertise in operating large network infrastructures. The acquisition, if consummated, would provide several strategic benefits to us including:

- i. strengthening our position as a leading supplier of advanced communications solutions, uniquely capable of servicing the expanding need for ground infrastructure to support both existing and emerging satellite networks;
- ii. expanding our product portfolio with highly complementary technologies including Gilat's high-performance TDMA-based satellite modems and its next generation amplifiers;
- iii. facilitating adoption of our satellite technologies into the 4G and 5G cellular backhaul ecosystems;
- iv. bolstering our world-class research and development capabilities, enabling us to offer customers more complete end-to-end technology solutions; and
- v. enhancing our ability to accelerate shareholder value creation by contributing to our ongoing strategy to move toward higher margin solutions and by increasing customer diversification geographically and by market.

Pursuant to the agreement, each Gilat ordinary share would be converted into the right to receive consideration of (i) \$7.18 in cash, without interest, plus (ii) 0.08425 of a share of Comtech common stock (worth approximately \$1.12 per Gilat ordinary share as of September 24, 2020), with cash payable in lieu of fractional shares. Based on the terms agreed to on January 29, 2020 and the September 24, 2020 closing price of Comtech Common Stock of \$13.32, the total amount payable to Gilat shareholders would have been approximately \$465.8 million (consisting of approximately \$402.9 million in cash with the remainder in Comtech Common Stock) or \$8.30 per Gilat ordinary share.

Our intention would be to fund the \$402.9 million cash portion of the amount payable by redeploying a large portion of both our and Gilat's unrestricted cash and cash equivalents, with the remaining funds provided by a new Gilat Acquisition Related Credit Facility that would replace our existing Credit Facility, allow us to refinance our existing debt of approximately \$149.5 million as of July 31, 2020 and fund the \$5.0 million minimum cash portion of the purchase price for UHP. Our acquisition of Gilat remains subject to certain conditions to closing, including regulatory approval in Russia required to purchase Gilat's Russian subsidiary.



In July 2020, we commenced litigation in the Delaware Court of Chancery (the “Delaware Court”) seeking certain declaratory judgments, including a declaratory judgment that Gilat has suffered a Material Adverse Effect (as defined in the Merger Agreement) and that, as a result, we are not obligated to complete the acquisition of Gilat. The amended complaint also seeks a declaratory judgment that certain actions, if taken by Gilat, relating to Comtech’s application for Russian regulatory approval, would breach Gilat’s obligations under the Merger Agreement. Gilat subsequently sued in the Delaware Court for declaratory judgments, including that it has not suffered a Material Adverse Effect and that Comtech has not used reasonable best efforts to obtain Russian regulatory approval for the transaction. To-date, we incurred significant amounts of legal expenses and professional fees in connection with the litigation and a trial is scheduled for October 5, 2020. The Delaware Court has indicated that it intends to render a judgment prior to October 29, 2020, the date that we or Gilat may terminate the Merger Agreement. If we are required to close the Gilat acquisition, total net debt of the combined companies would be expected to approximate \$525.0 million. Litigation related to these matters is further discussed in *Notes to Consolidated Financial Statements - Note (13)(a) - Commitments and Contingencies - Legal Proceedings and Other Matters* included in *Part II - Item 8.- Financial Statements and Supplementary Data,* included in this Annual Report on Form 10-K.

### **Comparison of Fiscal 2020 and 2019**

**Net Sales.** Consolidated net sales were \$616.7 million and \$671.8 million for fiscal 2020 and 2019, respectively, representing a decrease of \$55.1 million, or 8.2%. The period-over-period decrease in net sales reflects lower net sales in both our Government Solutions and Commercial Solutions segments. Net sales by operating segment are discussed below.

#### Commercial Solutions

Net sales in our Commercial Solutions segment were \$353.7 million for fiscal 2020, as compared to \$357.3 million for fiscal 2019, a decrease of \$3.6 million, or 1.0%. Our Commercial Solutions segment represented 57.4% of consolidated net sales for fiscal 2020 as compared to 53.2% for fiscal 2019. Our book-to-bill ratio (a measure defined as bookings divided by net sales) for this segment was 0.91. Period-to-period fluctuations in bookings is normal for this segment. As further discussed below, long-term demand for our Commercial Solutions products and technologies appears strong and we believe fiscal 2021 net sales for this segment will be slightly higher than the amount we achieved in fiscal 2020.

Although the business impact of COVID-19 resulted in significantly lower net sales of our satellite ground station technologies during fiscal 2020 as compared to fiscal 2019, bookings began to rebound in the fourth quarter of our fiscal 2020. We were awarded a number of important orders including: (i) contracts valued at more than \$2.2 million for Ka-band high-power traveling wave tube amplifiers (“TWTAs”) for trailer-based satellite communications terminals; (ii) a contract valued at more than \$1.5 million for 500W Ka-band TWTAs for a tracking, telemetry and command application to be deployed globally by a major satellite service provider; (iii) \$1.3 million in orders for advanced satellite modems, WAN optimization and redundancy switches to support cellular LTE backhaul for a service provider in the Middle East; and (iv) a \$1.1 million order for satellite ground station equipment from a South East Asia Ministry of Defense for a network upgrade, which could expand to more than 2,000 units. In addition, we received additional orders on our contract valued at \$4.7 million to support a critical U.S. Air Force and U.S. Army Anti-jam Modem (“A3M”) program which is intended to provide the U.S. Air Force and U.S. Army with a secure, wideband, anti-jam satellite communications terminal modem for tactical satellite communication operations.

Despite the ongoing impact of the COVID-19 pandemic, based on the anticipated increase in the number of high-throughput satellites and low earth orbit and medium earth orbit satellites expected to be launched, and the migration of networks from 3G to 4G and ultimately 5G technologies in emerging countries, we believe that we are in the early stages of a multi-year period of growing demand for satellite ground station technologies which are used to backhaul cellular traffic. Also, we continue to focus efforts on expanding sales of our Heights™ solutions and believe the pipeline for this product line is growing.

Net sales of our public safety and location technology solutions were higher in fiscal 2020 as compared to fiscal 2019. Sales in fiscal 2020 of these products included an insignificant amount of sales from our February 2020 acquisition of NG-911. To-date, the business impact of COVID-19 on our public safety and location technology solutions has been relatively muted and demand for our products appears strong. For example, we were awarded and began work on close to \$30.0 million of multi-year contracts from two U.S. tier-one mobile network operators for 5G virtual mobile location-based technology solutions, including public safety applications. Also, we secured several multi-year contracts valued at more than \$15.0 million to deploy new call-handling solutions in the Midwest region of the United States.

Although COVID-19 has resulted in the cancellation of several key public safety trade shows and some states and municipalities have announced budget constraints, other existing and potential customers are increasing their funding for next-generation 911 solutions, recognizing the critical importance of upgrading their 911 systems. For example, during the fourth quarter of fiscal 2020, we were awarded a contract valued at up to \$54.0 million to design, deploy, and operate next generation 911 services for the State of South Carolina. Additionally, we are working with two other states for multi-million dollar contracts to upgrade certain components of their 911 networks. Although public safety and location technology solutions have long sales cycles and are subject to difficult-to-predict changes in the overall procurement strategies of wireless carrier customers, we believe we are well positioned for long-term growth in this market.

Bookings, sales and profitability in our Commercial Solutions segment can fluctuate from period-to-period due to many factors, including changes in the general business environment. As such, period-to-period comparisons of our results may not be indicative of a trend or future performance.

### Government Solutions

Net sales in our Government Solutions segment were \$263.0 million for fiscal 2020 as compared to \$314.5 million for fiscal 2019, a decrease of \$51.5 million or 16.4%. Our Government Solutions segment represented 42.6% of consolidated net sales for fiscal 2020 as compared to 46.8% for fiscal 2019. Our book-to-bill ratio (a measure defined as bookings divided by net sales) in this segment for fiscal 2020 was 1.0. Period-to-period fluctuations in bookings is normal for this segment. As further discussed below, despite the year-over-year decline in net sales, long-term demand for our Government Solutions products and technologies remains strong. Looking forward, and despite the lingering impact of COVID-19, we believe fiscal 2021 net sales for this segment will be slightly higher than the amount we achieved in fiscal 2020.

Net sales of our mission-critical technologies during fiscal 2020 were significantly lower as compared to fiscal 2019, due primarily to the timing of and performance on orders related to our \$98.6 million U.S. Army global field support contract and lower sales for high reliability Electrical, Electronic and Electromechanical (“EEE”) satellite based space components. While fiscal 2020 benefited from a nominal amount of sales related to our new X/Y satellite tracking antenna product line acquired in connection with our January 2020 acquisition of CGC, it also reflected the absence of sales of our next generation MT-2025 mobile satellite transceivers. In fiscal 2019, we sold \$11.7 million of such transceivers.

Although we believe that COVID-19 did cause fielding and order delays for our customers which also impacted the timing and receipt of awards in fiscal 2020 for our mission-critical technologies, it was a solid year for bookings. Receipt of new orders in fiscal 2020 include: (i) over \$37.1 million of orders to supply Manpack Satellite Terminals, networking equipment and other advanced VSAT products to the U.S. Army (which were booked pursuant to our \$223.4 million Global Tactical Advanced Communication Systems (“GTACS”) contract with the U.S. Army’s PM Tactical Network, which has a remaining unfunded contract value of \$8.4 million as of July 31, 2020); (ii) \$28.2 million of orders to provide ongoing sustainment services to the U.S. Army for the AN/TSC-198A SNAP (Secret Internet Protocol Router (“SIPR”) and Non-classified Internet Protocol Router (“NIPR”) Access Point), Very Small Aperture Terminals (“VSATs”); (iii) \$10.7 million of additional orders from the U.S. government for our Joint Cyber Analysis Course (“JCAC”) training solutions; (iv) over \$7.7 million of additional funding related to sustaining the U.S. Army’s Project Manager Mission Command (“PM MC”) Blue Force Tracking (“BFT-1”) program; and (v) \$6.3 million of initial funding on a \$12.6 million contract from a major U.S. subcontractor for the supply of high reliability EEE space components to be utilized on NASA’s Artemis missions.

Net sales of our high-performance transmission technologies in fiscal 2020 were slightly lower as compared to fiscal 2019 with increased sales of solid-state, high-power amplifiers and related switching technologies being offset by lower sales of our over-the-horizon microwave system technologies.

Bookings for our high-performance transmission technologies were lower in fiscal 2020 as compared to fiscal 2019 as the business impact of COVID-19 resulted in some of our international customers delaying awards for certain large over-the-horizon microwave system technology projects. However, demand from the U.S. military for these products remains strong. In fiscal 2020, we were awarded several contracts for our recently introduced Comtech COMET terminals to be used by a U.S. Army Special Operations Command and received \$13.4 million of initial funding related to a 10-year, \$211.0 million IDIQ contract awarded to us by a prime contractor to provide next generation troposcatter systems in support of the U.S. Marine Corps. We believe this multi-year opportunity validates Comtech’s market leading troposcatter technologies and expertise.

Bookings, sales and profitability in our Government Solutions segment can fluctuate dramatically from period-to-period due to many factors, including unpredictable funding, deployment and technology decisions by our U.S. and international government customers. As such, period-to-period comparisons of our results may not be indicative of a trend or future performance.

### Geography and Customer Type

Sales by geography and customer type, as a percentage of related sales, for the fiscal years ended July 31, 2020 and 2019 are as follows:

			Fiscal Years Ended July 31,			
	2020	2019	2020	2019	2020	2019
	Commercial Solutions		Government Solutions		Consolidated	
U.S. government	14.8 %	19.2 %	65.0 %	63.8 %	36.2 %	40.1 %
Domestic	58.9 %	53.9 %	15.2 %	12.5 %	40.3 %	34.5 %
Total U.S.	73.7 %	73.1 %	80.2 %	76.3 %	76.5 %	74.6 %
International	26.3 %	26.9 %	19.8 %	23.7 %	23.5 %	25.4 %
Total	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %

Sales to U.S. government customers include sales to the U.S. Department of Defense ("DoD"), intelligence and civilian agencies, as well as sales directly to or through prime contractors.

Domestic sales include sales to commercial customers, as well as to U.S. state and local governments. Except for the U.S. government, there were no customers that represented more than 10.0% of consolidated net sales for fiscal 2020 and 2019.

International sales for fiscal 2020 and 2019 (which include sales to U.S. domestic companies for inclusion in products that are sold to international customers) were \$145.1 million and \$170.6 million, respectively. Except for the U.S., no individual country (including sales to U.S. domestic companies for inclusion in products that are sold to a foreign country) represented more than 10% of consolidated net sales for fiscal 2020 and 2019.

**Gross Profit.** Gross profit was \$226.8 million and \$247.4 million for fiscal 2020 and 2019, respectively. The decrease of \$20.6 million primarily reflects the decline in consolidated net sales, as discussed above.

Gross profit, as a percentage of consolidated net sales, for both fiscal 2020 and fiscal 2019 was 36.8%. Although fiscal 2020 reflects a higher percentage of consolidated net sales in our Commercial Solutions segment, which historically achieves higher gross margins than our Government Solutions segment, this benefit was offset by overall company-wide product mix changes. Our gross profit in fiscal 2020 reflects minor increases in costs due to a lower level of factory utilization and higher logistics and operational costs resulting from COVID-19. Gross profit, as a percentage of related segment net sales, is further discussed below.

Our Commercial Solutions segment's gross profit, as a percentage of related segment net sales, for fiscal 2020 decreased in comparison to fiscal 2019. The decrease in gross profit percentage in fiscal 2020 primarily reflects changes in products and services mix, primarily lower net sales of our satellite ground station technologies.

Our Government Solutions segment's gross profit, as a percentage of related segment net sales, for fiscal 2020 increased slightly in comparison to fiscal 2019. The slight increase in gross profit percentage primarily reflects a more favorable mix of mission-critical technology solutions, despite lower fiscal 2020 sales of such solutions.

Included in consolidated cost of sales for fiscal 2020 and 2019 are provisions for excess and obsolete inventory of \$1.6 million and \$6.0 million, respectively. As discussed in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies - Provisions for Excess and Obsolete Inventory," we regularly review our inventory and record a provision for excess and obsolete inventory based on historical and projected usage trends.

Our consolidated gross profit, as a percentage of consolidated net sales, depends on the volume of sales, sales mix and related gross profit for each segment, and therefore is inherently difficult to forecast.

**Selling, General and Administrative Expenses.** Selling, general and administrative expenses were \$117.1 million and \$128.6 million for fiscal 2020 and 2019, respectively, representing a decrease of \$11.5 million, or 8.9%. As a percentage of consolidated net sales, selling, general and administrative expenses were 19.0% and 19.1% for fiscal 2020 and 2019, respectively.

Our selling, general and administrative expenses in fiscal 2020 reflect certain cost reduction actions taken in response to lower levels of business activity resulting from COVID-19. These cost savings measures included reducing global headcount, temporarily reducing salaries, suspending merit increases and eliminating certain discretionary expenses. Severance costs related to these actions were not material. Additionally, during most of the second half of fiscal 2020, we have conducted most of our non-production related operations through remote working arrangements, curtailed most business travel, and have established social distancing safeguards. These precautions and business practices will remain in effect as long as government advisories recommend. Although we have incurred lower travel expenses in fiscal 2020 than we did in fiscal 2019, there has been a corresponding increase in information technology cost and COVID-19 safety related expenses.

In fiscal 2020, we incurred estimated contract settlement costs of \$0.4 million related to the repositioning of our location technologies solutions offerings in our Commercial Solutions segment. In fiscal 2019, we incurred \$6.4 million of such costs and also incurred \$1.4 million of facility exit costs in our Government Solutions segment. Excluding all of these costs in both periods, our selling, general and administrative expenses would have been \$116.7 million, or 18.9% of consolidated net sales for fiscal 2020 and \$120.8 million, or 18.0% of consolidated net sales for fiscal 2019.

Amortization of stock-based compensation expenses recorded as selling, general and administrative expenses was \$7.5 million in fiscal 2020 as compared to \$9.3 million in fiscal 2019. This year-over-year decrease largely occurred due to the temporary suspension of stock-based awards for certain employees to reduce expenses as a response to COVID-19. Stock-based awards for these employees are expected to resume in fiscal 2021.

Amortization of stock-based compensation is not allocated to our two reportable operating segments.

**Research and Development Expenses.** Research and development expenses were \$52.2 million and \$56.4 million for fiscal 2020 and 2019, respectively, representing a decrease of \$4.2 million, or 7.4%. As a percentage of consolidated net sales, research and development expenses were 8.5% and 8.4% for fiscal 2020 and 2019, respectively.

For fiscal 2020 and 2019, research and development expenses of \$45.2 million and \$48.2 million, respectively, related to our Commercial Solutions segment, and \$6.1 million and \$7.2 million, respectively, related to our Government Solutions segment. The remaining research and development expenses of \$0.9 million and \$1.0 million in fiscal 2020 and 2019, respectively, related to the amortization of stock-based compensation expense.

Whenever possible, we seek customer funding for research and development to adapt our products to specialized customer requirements. During fiscal 2020 and 2019, customers reimbursed us \$11.9 million and \$14.7 million, respectively, which is not reflected in the reported research and development expenses but is included in net sales with the related costs included in cost of sales.

**Amortization of Intangibles.** Amortization relating to intangible assets with finite lives was \$21.6 million (of which \$17.3 million was for the Commercial Solutions segment and \$4.3 million was for the Government Solutions segment) for fiscal 2020 and \$18.3 million (of which \$14.9 million was for the Commercial Solutions segment and \$3.4 million was for the Government Solutions segment) for fiscal 2019. The increase of \$3.3 million was primarily due to our 2019 acquisitions of Solacom and the GD NG-911 business and our 2020 acquisition of CGC.

Excluding the impact of any increased amortization from our pending acquisitions of Gilat and UHP, our Business Outlook for Fiscal 2021 assumes total annual amortization of intangible assets of approximately \$21.3 million.

**Settlement of Intellectual Property Litigation.** In fiscal 2019, we recorded a \$3.2 million benefit in our Unallocated segment as a result of a favorable ruling issued by the U.S. Court of Appeals for the Federal Circuit related to a legacy TCS intellectual property matter. There was no comparable adjustment in fiscal 2020.

**Acquisition Plan Expenses.** During fiscal 2020, we incurred acquisition plan expenses of \$20.8 million, primarily related to our pending acquisitions of Gilat (including significant litigation expenses) and UHP. Fiscal 2020 acquisition plan expenses also include costs associated with our completed acquisitions of CGC and NG-911. In fiscal 2019, our acquisition plan expenses of \$5.9 million primarily related to our acquisitions of Solacom and the GD NG-911 business. Except for \$0.8 million of fiscal 2020 costs which are reflected in our Commercial Solutions segment, all of these expenses are primarily recorded in our Unallocated segment.

We expect to incur a significant amount of acquisition plan expenses (including a large amount of litigation expenses) in fiscal 2021. Acquisition related litigation expenses incurred so far during our first quarter of fiscal 2021 approximate \$14.2 million and will increase during the trial period. If we are required to close the Gilat acquisition, we expect to incur additional acquisition plan expenses of approximately \$38.0 million related to additional litigation expenses, debt commitment and issuance costs, advisory fees and other expenses.

**Operating Income.** Operating income for fiscal 2020 was \$15.2 million as compared \$41.4 million for fiscal 2019. Operating income by reportable segment is shown in the table below:

(\$ in millions)	Fiscal Years Ended July 31,							
	2020	2019	2020	2019	2020	2019	2020	2019
	Commercial Solutions		Government Solutions		Unallocated		Consolidated	
Operating income (loss)	\$ 34.8	\$ 36.1	\$ 20.0	\$ 29.0	\$ (39.6)	\$ (23.6)	\$ 15.2	\$ 41.4
Percentage of related net sales	9.8 %	10.1 %	7.6 %	9.2 %	NA	NA	2.5 %	6.2 %

The Commercial Solutions segment's operating income for fiscal 2020 and fiscal 2019 reflects \$0.4 million and \$6.4 million of estimated contract settlement costs, as discussed above. The segment's operating income for fiscal 2020 also reflects \$0.8 million of the total acquisition plan expenses, as discussed above. Excluding such charges, operating income in our Commercial Solutions segment would have been \$36.0 million, or 10.2% of related segment net sales for fiscal 2020, and \$42.5 million, or 11.9% of related segment net sales for fiscal 2019. The decrease in operating income, both in dollars and as a percentage of related segment net sales, was driven primarily by lower net sales and a lower gross profit percentage and increased amortization of intangibles, as discussed above.

The Government Solutions segment's operating income for fiscal 2019 included \$1.4 million of facility exit costs, as discussed above. Excluding such facility exit costs, operating income in our Government Solutions segment for fiscal 2019 would have been \$30.4 million, or 9.7% of related segment net sales as compared to fiscal 2020 operating income of \$20.0 million, or 7.6% of related segment net sales. The decrease in our Government Solutions segment's operating income, both in dollars and as a percentage of related segment net sales, in fiscal 2020 was driven primarily by lower net sales and increased amortization of intangibles, as discussed above.

The increase in unallocated expenses in fiscal 2020 as compared to fiscal 2019 is primarily due to higher acquisition plan expenses and the absence of the \$3.2 million benefit related to the fiscal 2019 favorable ruling issued by the U.S. Court of Appeals for the Federal Circuit for a legacy TCS intellectual property matter, as discussed above. Amortization of stock-based compensation was \$9.3 million and \$11.4 million, respectively, for fiscal 2020 and 2019.

Excluding the \$20.8 million of acquisition plan expenses and \$0.4 million of estimated contract settlement costs, consolidated operating income for fiscal 2020 would have been \$36.4 million, or 5.9% of consolidated net sales. Excluding net costs of \$10.5 million, consisting of \$6.4 million of estimated contract settlement costs, \$1.4 million of facility exit costs, \$5.9 million of acquisition plan expenses and a \$3.2 million benefit related to a legacy TCS intellectual property matter (all of which are discussed above), consolidated operating income for fiscal 2019 would have been \$51.8 million, or 7.7% of consolidated net sales. The decrease in dollars, and as a percentage of consolidated net sales, was due primarily to lower consolidated net sales and increased amortization of intangibles, as discussed above.

Unallocated expenses in fiscal 2021 will be impacted by ongoing acquisition plan expenses, discussed above.

**Interest Expense and Other.** Interest expense was \$6.1 million and \$9.2 million for fiscal 2020 and 2019, respectively. The decrease is attributable to lower interest rates and lower outstanding indebtedness under our existing Credit Facility. Our effective interest rate (including amortization of deferred financing costs) in fiscal 2020 was approximately 3.9%. Our current cash borrowing rate (which excludes the amortization of deferred financing costs) under our existing Credit Facility approximates 2.0%. Excluding the impact of our pending acquisitions, interest expense in fiscal 2021, is expected to approximate \$5.9 million.

**Write-off of Deferred Financing Costs.** In connection with the establishment of a new Credit Facility in fiscal 2019, we wrote-off \$3.2 million of deferred financing costs which primarily related to the term loan portion of our prior credit facility. See "Notes to Consolidated Financial Statements - Note (8) - Credit Facility" included in "Part II - Item 8. - Financial Statements and Supplementary Data," included in this Annual Report on Form 10-K, for further information. There was no comparable charge in fiscal 2020.

**Interest (Income) and Other.** Interest (income) and other for both fiscal 2020 and 2019 was nominal. All of our available cash and cash equivalents are currently invested in bank deposits and money market deposit accounts which, at this time, are currently yielding an immaterial interest rate.

**Provision for Income Taxes.** The provision for income taxes for fiscal 2020 and 2019 was \$2.3 million and \$3.9 million, respectively. Our effective tax rate (excluding discrete tax items) for fiscal 2020 and 2019 was 37.0% and 23.25%, respectively. The increase from 23.25% to 37.0% is primarily due to the decrease in fiscal 2020 consolidated net sales.

During fiscal 2020, we recorded a net discrete tax benefit of \$1.2 million, primarily related to the finalization of certain tax accounts in connection with the filing of our fiscal 2019 federal and state income tax returns. These benefits were offset, in part, by (i) the remeasurement of certain foreign deferred taxes resulting from the passage of legislation that increased the statutory tax rate in the United Kingdom from 17.0% to 19.0% and (ii) the settlement of certain stock-based awards during fiscal 2020.

During fiscal 2019, we recorded a net discrete tax benefit of \$2.9 million, primarily related to: (i) the favorable resolution of the IRS' audit of our fiscal 2016 federal income tax return; (ii) discrete tax benefits for stock-based awards that were settled during fiscal 2019; and (iii) the reversal of tax contingencies no longer required due to the expiration of applicable statutes of limitation.

Our federal income tax returns for fiscal 2017 through 2019 are subject to potential future IRS audit. None of our state income tax returns prior to fiscal 2016 are subject to audit. None of TCS' state income tax returns prior to calendar year 2015 are subject to audit. Future tax assessments or settlements could have a material adverse effect on our consolidated results of operations and financial condition.

**Net Income.** During fiscal 2020, consolidated net income was \$7.0 million as compared to \$25.0 million during fiscal 2019.

**Adjusted EBITDA.** Adjusted EBITDA (both in dollars and as a percentage of related net sales) for both fiscal 2020 and 2019 are shown in the table below (numbers in the table may not foot due to rounding):

(\$ in millions)	Fiscal Years Ended July 31,							
	2020	2019	2020	2019	2020	2019	2020	2019
	Commercial Solutions		Government Solutions		Unallocated		Consolidated	
Net income (loss)	\$ 34.4	35.9	20.2	29.0	(47.6)	(39.9)	\$ 7.0	25.0
Provision for (benefit from) income taxes	0.4	—	(0.1)	—	2.0	3.9	2.3	3.9
Interest (income) and other	—	0.1	(0.2)	—	—	—	(0.2)	—
Write-off of deferred financing costs	—	—	—	—	—	3.2	—	3.2
Interest expense	—	0.1	—	—	6.0	9.2	6.1	9.2
Amortization of stock-based compensation	—	—	—	—	9.3	11.4	9.3	11.4
Amortization of intangibles	17.3	14.9	4.3	3.4	—	—	21.6	18.3
Depreciation	8.3	9.3	1.4	1.9	0.8	0.8	10.6	11.9
Estimated contract settlement costs	0.4	6.4	—	—	—	—	0.4	6.4
Settlement of intellectual property litigation	—	—	—	—	—	(3.2)	—	(3.2)
Acquisition plan expenses	0.8	—	—	—	20.0	5.9	20.8	5.9
Facility exit costs	—	—	—	1.4	—	—	—	1.4
Adjusted EBITDA	\$ 61.7	66.6	25.7	35.6	(9.6)	(8.8)	\$ 77.8	93.5
Percentage of related net sales	17.4 %	18.6 %	9.8 %	11.3 %	NA	NA	12.6 %	13.9 %

The decrease in consolidated Adjusted EBITDA, both in dollars and as a percentage of consolidated net sales, for fiscal 2020 as compared to fiscal 2019 is primarily attributable to lower consolidated net sales, as discussed above.

The decrease in our Commercial Solutions segment's Adjusted EBITDA, both in dollars and as a percentage of related segment net sales, is due to lower net sales and a lower gross profit percentage, as discussed above.

The decrease in our Government Solutions segment's Adjusted EBITDA, both in dollars and as a percentage of related segment net sales, was primarily driven by lower net sales, as discussed above.

Because our consolidated Adjusted EBITDA, as a percentage of consolidated net sales, depends on the volume of sales, sales mix and related gross profit for each individual segment as well as unallocated spending, it is inherently difficult to forecast.

Reconciliations of our GAAP consolidated operating income, net income and net income per diluted share for fiscal 2020 and 2019 to the corresponding non-GAAP measures are shown in the tables below (numbers and per share amounts in the table may not foot due to rounding):

	Fiscal 2020		
	Operating Income	Net Income	Net Income per Diluted Share
(\$ in millions, except for per share amount)			
<b>Reconciliation of GAAP to Non-GAAP Earnings:</b>			
GAAP measures, as reported	\$ 15.2	\$ 7.0	\$ 0.28
Estimated contract settlement costs	0.4	0.3	0.01
Acquisition plan expenses	20.8	13.1	0.53
Net discrete tax benefit	—	(1.2)	(0.05)
Non-GAAP measures	<u>\$ 36.4</u>	<u>\$ 19.2</u>	<u>\$ 0.77</u>
	Fiscal 2019		
	Operating Income	Net Income	Net Income per Diluted Share
(\$ in millions, except for per share amount)			
<b>Reconciliation of GAAP to Non-GAAP Earnings:</b>			
GAAP measures, as reported	\$ 41.4	\$ 25.0	\$ 1.03
Estimated contract settlement costs	6.4	4.9	0.20
Settlement of intellectual property litigation	(3.2)	(2.5)	(0.10)
Facility exit costs	1.4	1.1	0.04
Acquisition plan expenses	5.9	4.5	0.19
Write-off of deferred financing costs	—	2.5	0.10
Net discrete tax benefit	—	(2.9)	(0.12)
Non-GAAP measures	<u>\$ 51.8</u>	<u>\$ 32.6</u>	<u>\$ 1.34</u>

Our Adjusted EBITDA is a Non-GAAP measure that represents earnings (loss) before income taxes, interest (income) and other, write-off of deferred financing costs, interest expense, amortization of stock-based compensation, amortization of intangibles, depreciation expense, estimated contract settlement costs, settlement of intellectual property litigation, acquisition plan expenses, facility exit costs and strategic alternatives analysis expenses and other. Our definition of Adjusted EBITDA may differ from the definition of EBITDA or Adjusted EBITDA used by other companies and therefore may not be comparable to similarly titled measures used by other companies. Adjusted EBITDA is also a measure frequently requested by our investors and analysts. We believe that investors and analysts may use Adjusted EBITDA, along with other information contained in our SEC filings, in assessing our performance and comparability of our results with other companies. Our Non-GAAP measures for consolidated operating income, net income and net income per diluted share reflect the GAAP measures as reported, adjusted for certain items as described. These Non-GAAP financial measures have limitations as an analytical tool as they exclude the financial impact of transactions necessary to conduct our business, such as the granting of equity compensation awards, and are not intended to be an alternative to financial measures prepared in accordance with GAAP. These measures are adjusted as described in the reconciliation of GAAP to Non-GAAP in the above tables, but these adjustments should not be construed as an inference that all of these adjustments or costs are unusual, infrequent or non-recurring. Non-GAAP financial measures should be considered in addition to, and not as a substitute for or superior to, financial measures determined in accordance with GAAP. Investors are advised to carefully review the GAAP financial results that are disclosed in our SEC filings.

### Comparison of Fiscal 2019 and 2018

**Net Sales.** Consolidated net sales were \$671.8 million and \$570.6 million for fiscal 2019 and 2018, respectively, representing a significant increase of \$101.2 million, or 17.7%. The significant period-over-period increase in net sales reflects higher net sales in both our Commercial and Government Solutions segments. Net sales by operating segment are discussed below.



### Commercial Solutions

Net sales in our Commercial Solutions segment were \$357.3 million for fiscal 2019, as compared to \$345.1 million for fiscal 2018, an increase of \$12.2 million, or 3.5%. Our Commercial Solutions segment represented 53.2% of consolidated net sales for fiscal 2019 as compared to 60.5% for fiscal 2018.

Our book-to-bill ratio (a measure defined as bookings divided by net sales) for this segment for fiscal 2019 was 1.25. Period-to-period fluctuations in bookings is normal for this segment.

Net sales of our satellite ground station technologies during fiscal 2019 were slightly lower than fiscal 2018. In fiscal 2019, we experienced significant growth in sales to international customers as well as incremental demand from U.S. government customers. This strength was offset by order delays and lower sales for inflight communication amplifiers sold primarily to a U.S. domestic customer. Our Heights™ solutions bookings and sales were significantly higher than the amounts achieved in fiscal 2018.

Net sales for fiscal 2019 of our public safety and location technology solutions were significantly higher as compared to the net sales we achieved in fiscal 2018. During fiscal 2019, we benefited from incremental sales to key wireless customers for 911 call routing and incremental sales to state and local agencies for our next-generation 911 products. The impact of the February 28, 2019 acquisition of Solacom on fiscal 2019 sales was nominal. Sales of our location technology solutions were significantly lower in fiscal 2019 as we repositioned this product line to focus on providing higher margin solutions offerings to our customers, ceased offering certain solutions and have not renewed certain contracts.

Bookings, sales and profitability in our Commercial Solutions segment can fluctuate from period-to-period due to many factors, including changes in the general business environment. As such, period-to-period comparisons of our results may not be indicative of a trend or future performance.

### Government Solutions

Net sales in our Government Solutions segment were \$314.5 million for fiscal 2019 as compared to \$225.5 million for fiscal 2018, a significant increase of \$89.0 million or 39.5%. Our Government Solutions segment represented 46.8% of consolidated net sales for fiscal 2019, as compared to 39.5% for fiscal 2018.

Our book-to-bill ratio (a measure defined as bookings divided by net sales) in this segment for fiscal 2019 was 0.88. Period-to-period fluctuations in bookings is normal for this segment.

Net sales of our mission-critical technologies during fiscal 2019 were significantly higher as compared to fiscal 2018.

Net sales of our high-performance transmission technologies in fiscal 2019 were significantly higher than fiscal 2018 driven by increased deliveries in fiscal 2019 of troposcatter technologies (including our Modular Transportable Transmission System ("MTTS") troposcatter terminals to two foreign militaries) and an increase in both orders and sales of solid-state, high-power amplifiers and related switching technologies.

Bookings, sales and profitability in our Government Solutions segment can fluctuate dramatically from period-to-period due to many factors, including unpredictable funding, deployment and technology decisions by our U.S. and international government customers. As such, period-to-period comparisons of our results may not be indicative of a trend or future performance.

### Geography and Customer Type

Sales by geography and customer type, as a percentage of related sales, for the fiscal years ended July 31, 2019 and 2018 are as follows:

	Commercial Solutions		Government Solutions		Consolidated	
	2019	2018	2019	2018	2019	2018
U.S. government	19.2 %	18.1 %	63.8 %	62.2 %	40.1 %	35.5 %
Domestic	53.9 %	54.6 %	12.5 %	14.9 %	34.5 %	38.9 %
Total U.S.	73.1 %	72.7 %	76.3 %	77.1 %	74.6 %	74.4 %
International	26.9 %	27.3 %	23.7 %	22.9 %	25.4 %	25.6 %
Total	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %

Sales to U.S. government customers include sales to the U.S. Department of Defense ("DoD"), intelligence and civilian agencies, as well as sales directly to or through prime contractors.

Domestic sales include sales to commercial customers, as well as to U.S. state and local governments. Included in domestic sales, are sales to Verizon Communications Inc. ("Verizon"). Sales to Verizon were 10.0% of consolidated net sales for fiscal 2018.

International sales for fiscal 2019 and 2018 (which include sales to U.S. domestic companies for inclusion in products that are sold to international customers) were \$170.6 million and \$145.8 million, respectively. Except for the U.S., no individual country (including sales to U.S. domestic companies for inclusion in products that are sold to a foreign country) represented more than 10% of consolidated net sales for fiscal 2019 and 2018.

**Gross Profit.** Gross profit was \$247.4 million and \$223.9 million for fiscal 2019 and 2018, respectively. The increase of \$23.5 million reflects higher sales in both of our segments, as discussed above.

Gross profit, as a percentage of consolidated net sales, for fiscal 2019 was 36.8% as compared to 39.2% for fiscal 2018. This decrease was almost entirely driven by product mix changes as a result of the significant year-to-year increase in net sales in our Government Solutions segment. This segment historically achieves lower gross margins than our Commercial Solutions segment. Gross profit in fiscal 2018 also reflects a benefit from a \$0.7 million favorable warranty settlement and a \$1.0 million favorable sales and use tax settlement, both of which are reflected in our unallocated segment. Gross profit, as a percentage of related segment net sales, is further discussed below.

Our Commercial Solutions segment's gross profit, as a percentage of related segment net sales, for fiscal 2019 declined in comparison to fiscal 2018. The decrease in gross profit percentage in fiscal 2019 primarily reflects changes in products and services mix, including a significant increase in fiscal 2019 net sales of our Heights™ solutions which had lower gross margins than our traditional satellite ground station technologies.

Our Government Solutions segment's gross profit, as a percentage of related segment net sales, for fiscal 2019 declined slightly in comparison to fiscal 2018. In fiscal 2019, we completed shipments of relatively lower margin MT-2025 satellite transceivers to the U.S. Army.

Included in consolidated cost of sales for fiscal 2019 and 2018 are provisions for excess and obsolete inventory of \$6.0 million and \$5.6 million, respectively. As discussed in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies - Provisions for Excess and Obsolete Inventory," we regularly review our inventory and record a provision for excess and obsolete inventory based on historical and projected usage trends.

**Selling, General and Administrative Expenses.** Selling, general and administrative expenses were \$128.6 million and \$113.9 million for fiscal 2019 and 2018, respectively, representing an increase of \$14.7 million, or 12.9%. As a percentage of consolidated net sales, selling, general and administrative expenses were 19.1% and 20.0% for fiscal 2019 and 2018, respectively. The decrease, as a percentage of consolidated net sales, is primarily attributable to the significant increase in our consolidated net sales.

In fiscal 2019, we began a repositioning in our Commercial Solutions segment of certain of our location technology solutions to increase our penetration into the public safety space. In connection with this repositioning, we ceased offering certain solutions, have worked with customers to wind-down certain legacy contracts and have not renewed certain contracts; and in doing so, we incurred \$6.4 million of estimated contract settlement costs that were recorded as selling, general and administrative expenses. Additionally, we took steps to reduce our facility footprint and incurred \$1.4 million of facility exit costs in our Government Solutions segment. Excluding such costs, our selling, general and administrative expenses for fiscal 2019 would have been \$120.8 million, or 18.0% of consolidated net sales.

Amortization of stock-based compensation expense recorded as selling, general and administrative expenses was \$9.3 million in fiscal 2019 as compared to \$6.9 million in fiscal 2018. Amortization in fiscal 2018 includes the benefit of a \$0.4 million reversal of stock-based compensation expense related to certain performance shares previously expected to be earned. Amortization of stock-based compensation is not allocated to our two reportable operating segments.

**Research and Development Expenses.** Research and development expenses were \$56.4 million and \$53.9 million for fiscal 2019 and 2018, respectively, representing an increase of \$2.5 million, or 4.6%. As a percentage of consolidated net sales, research and development expenses were 8.4% and 9.4% for fiscal 2019 and 2018, respectively.

For fiscal 2019 and 2018, research and development expenses of \$48.2 million and \$46.0 million, respectively, related to our Commercial Solutions segment, and \$7.2 million and \$7.0 million, respectively, related to our Government Solutions segment. The remaining research and development expenses of \$1.0 million and \$0.9 million in fiscal 2019 and 2018, respectively, related to the amortization of stock-based compensation expense.

Whenever possible, we seek customer funding for research and development to adapt our products to specialized customer requirements. During fiscal 2019 and 2018, customers reimbursed us \$14.7 million and \$16.9 million, respectively, which is not reflected in the reported research and development expenses but is included in net sales with the related costs included in cost of sales.

**Amortization of Intangibles.** Amortization relating to intangible assets with finite lives was \$18.3 million (of which \$14.9 million was for the Commercial Solutions segment and \$3.4 million was for the Government Solutions segment) for fiscal 2019 and \$21.1 million (of which \$17.7 million was for the Commercial Solutions segment and \$3.4 million was for the Government Solutions segment) for fiscal 2018. The decrease from \$21.1 million to \$18.3 million was largely the result of certain intangible assets in our Commercial Solutions segment that became fully amortized in fiscal 2018.

**Settlement of Intellectual Property Litigation.** In fiscal 2019, we recorded a \$3.2 million benefit in our Unallocated segment as a result of a favorable ruling issued by the U.S. Court of Appeals for the Federal Circuit related to a legacy TCS intellectual property matter. There was no comparable adjustment in fiscal 2018.

**Acquisition Plan Expenses.** During fiscal 2019, we incurred \$5.9 million of total acquisition plan expenses. These expenses are recorded in our Unallocated segment and primarily related to our fiscal 2019 acquisitions of Solacom and the GD NG-911 business, as discussed above.

**Operating Income.** Operating income for fiscal 2019 was \$41.4 million as compared \$35.1 million for fiscal 2018. Operating income by reportable segment is shown in the table below:

(\$ in millions)	Fiscal Years Ended July 31,							
	2019	2018	2019	2018	2019	2018	2019	2018
	Commercial Solutions		Government Solutions		Unallocated		Consolidated	
Operating income (loss)	\$ 36.1	\$ 40.8	\$ 29.0	\$ 11.0	\$ (23.6)	\$ (16.7)	\$ 41.4	\$ 35.1
Percentage of related net sales	10.1 %	11.8 %	9.2 %	4.9 %	NA	NA	6.2 %	6.2 %

The decrease in our Commercial Solutions segment's operating income for fiscal 2019, both in dollars and as a percentage of related segment net sales, was driven by the \$6.4 million of estimated contract settlement costs, as discussed above. Excluding such charge, operating income in our Commercial Solutions segment for fiscal 2019 would have been \$42.5 million, or 11.9% of related segment net sales which was slightly higher than the amount we achieved in fiscal 2018.

The significant increase in our Government Solutions segment's operating income for fiscal 2019, both in dollars and as a percentage of related segment net sales, was primarily due to significantly higher net sales in this segment, offset in part by \$1.4 million of facility exit costs, as discussed above. Excluding such costs, operating income in our Government Solutions segment for fiscal 2019 would have been \$30.4 million, or 9.7% of related segment net sales, which was significantly higher than the amount we achieved in fiscal 2018.

The increase in unallocated expenses in fiscal 2019 as compared to fiscal 2018 is primarily due to increased business and sales activity, acquisition plan expenses and an increase in amortization of stock-based compensation, offset in part by the benefit related to a legacy TCS intellectual property matter, as discussed above. In addition, unallocated operating expenses for fiscal 2018 include the benefit of the warranty settlement and the sales and use tax settlement, as discussed above. Amortization of stock-based compensation was \$11.4 million and \$8.6 million, respectively, for fiscal 2019 and 2018. Amortization of stock-based compensation for fiscal 2018 reflects a reversal of \$0.4 million of stock-based compensation expense related to certain performance shares that were previously expected to be earned.

Excluding net costs of \$10.5 million, consisting of \$6.4 million of estimated contract settlement costs, \$1.4 million of facility exit costs, \$5.9 million of acquisition plan expenses and a \$3.2 million benefit related to a legacy TCS intellectual property matter (all of which are discussed above), consolidated operating income for fiscal 2019 would have been \$51.8 million, or 7.7% of consolidated net sales. Excluding the aforementioned \$1.7 million of favorable adjustments in fiscal 2018, consolidated operating income for fiscal 2018 would have been \$33.4 million, or 5.9% of consolidated net sales. The increase from 5.9% to 7.7% reflects the benefit of incremental sales growth and changes in overall spending, as discussed above.

**Interest Expense and Other.** Interest expense was \$9.2 million and \$10.2 million for fiscal 2019 and 2018, respectively. Our effective interest rate (including amortization of deferred financing costs) in fiscal 2019 was approximately 5.3%.

**Write-off of Deferred Financing Costs.** In connection with the establishment of our new Credit Facility in fiscal 2019, we wrote-off \$3.2 million of deferred financing costs which primarily related to the term loan portion of our prior credit facility. There was no comparable charge in fiscal 2018.

**Interest (Income) and Other.** Interest (income) and other for both fiscal 2019 and 2018 was nominal.

**Provision for (Benefit from) Income Taxes.** The provision for income taxes was \$3.9 million for fiscal 2019 as compared to a benefit of \$5.1 million for fiscal 2018. Our effective tax rate (excluding discrete tax items) for fiscal 2019 was 23.25% and for 2018 was 27.0%.

During fiscal 2019, we recorded a net discrete tax benefit of \$2.9 million, primarily related to: (i) the favorable resolution of the IRS' audit of our fiscal 2016 federal income tax return; (ii) discrete tax benefits for stock-based awards that were settled during fiscal 2019; and (iii) the reversal of tax contingencies no longer required due to the expiration of applicable statutes of limitation. During fiscal 2018, we recorded a net discrete tax benefit of \$11.8 million which, as a result of Tax Reform, primarily related to the remeasurement of deferred tax liabilities associated with non-deductible amortization related to intangible assets and discrete tax benefits associated with stock-based awards that were settled in fiscal 2018. These benefits were offset, in part, by the finalization of certain tax deductions in connection with the filing of our federal and state tax returns for fiscal 2017. The decrease from 27.0% to 23.25% is principally attributable to the passage of Tax Reform which reduced the statutory income tax rate from 35.0% to 21.0%. Such decrease was partially offset by non-deductible transaction costs related to the acquisition of Solacom and lower tax deductions for certain executive compensation expenses as a result of Tax Reform.

**Net Income.** During fiscal 2019, consolidated net income was \$25.0 million as compared to \$29.8 million during fiscal 2018.

**Adjusted EBITDA.** Adjusted EBITDA (both in dollars and as a percentage of related net sales) for both fiscal 2019 and 2018 are shown in the table below (numbers in the table may not foot due to rounding):

(\$ in millions)	Fiscal Years Ended July 31,							
	2019	2018	2019	2018	2019	2018	2019	2018
	Commercial Solutions		Government Solutions		Unallocated		Consolidated	
Net income (loss)	\$ 35.9	40.3	29.0	10.8	(39.9)	(21.4)	\$ 25.0	29.8
Provision for (benefit from) income taxes	—	0.3	—	—	3.9	(5.4)	3.9	(5.1)
Interest (income) and other	0.1	0.2	—	0.1	—	—	—	0.3
Write-off of deferred financing costs	—	—	—	—	3.2	—	3.2	—
Interest expense	0.1	0.1	—	—	9.2	10.1	9.2	10.2
Amortization of stock-based compensation	—	—	—	—	11.4	8.6	11.4	8.6
Amortization of intangibles	14.9	17.7	3.4	3.4	—	—	18.3	21.1
Depreciation	9.3	9.5	1.9	3.1	0.8	1.1	11.9	13.7
Estimated contract settlement costs	6.4	—	—	—	—	—	6.4	—
Settlement of intellectual property litigation	—	—	—	—	(3.2)	—	(3.2)	—
Acquisition plan expenses	—	—	—	—	5.9	—	5.9	—
Facility exit costs	—	—	1.4	—	—	—	1.4	—
Adjusted EBITDA	\$ 66.6	68.0	35.6	17.4	(8.8)	(7.1)	\$ 93.5	78.4
Percentage of related net sales	18.6 %	19.7 %	11.3 %	7.7 %	NA	NA	13.9 %	13.7 %

The increase in consolidated Adjusted EBITDA, both in dollars and as a percentage of consolidated net sales, during fiscal 2019 as compared to fiscal 2018 is primarily attributable to higher consolidated net sales and operating income, as discussed above.

The decrease in our Commercial Solutions segment's Adjusted EBITDA, both in dollars and as a percentage of related segment net sales, primarily reflects the lower gross profit percentage we achieved in fiscal 2019 and higher research and development expenses, as discussed above.

The significant increase in our Government Solutions segment's Adjusted EBITDA, both in dollars and as a percentage of related segment net sales, was primarily driven by significantly higher net sales, as discussed above.

Reconciliations of our GAAP consolidated operating income, net income and net income per diluted share for fiscal 2019 and 2018 to the corresponding non-GAAP measures are shown in the tables below (numbers and per share amounts in the table may not foot due to rounding):

	Fiscal 2019		
(\$ in millions, except for per share amount)	Operating Income	Net Income	Net Income per Diluted Share
<b>Reconciliation of GAAP to Non-GAAP Earnings:</b>			
GAAP measures, as reported	\$ 41.4	\$ 25.0	\$ 1.03
Estimated contract settlement costs	6.4	4.9	0.20
Settlement of intellectual property litigation	(3.2)	(2.5)	(0.10)
Facility exit costs	1.4	1.1	0.04
Acquisition plan expenses	5.9	4.5	0.19
Write-off of deferred financing costs	—	2.5	0.10
Net discrete tax benefit	—	(2.9)	(0.12)
Non-GAAP measures	<u>\$ 51.8</u>	<u>\$ 32.6</u>	<u>\$ 1.34</u>
	Fiscal 2018		
(\$ in millions, except for per share amount)	Operating Income	Net Income	Net Income per Diluted Share
<b>Reconciliation of GAAP to Non-GAAP Earnings:</b>			
GAAP measures, as reported	\$ 35.1	\$ 29.8	\$ 1.24
Net discrete tax benefit	—	(11.8)	(0.49)
Non-GAAP measures	<u>\$ 35.1</u>	<u>\$ 18.0</u>	<u>\$ 0.75</u>

Our Adjusted EBITDA is a Non-GAAP measure that represents earnings (loss) before income taxes, interest (income) and other, write-off of deferred financing costs, interest expense, amortization of stock-based compensation, amortization of intangibles, depreciation expense, estimated contract settlement costs, settlement of intellectual property litigation, acquisition plan expenses and facility exit costs and strategic alternative analysis expenses and other. Our definition of Adjusted EBITDA may differ from the definition of EBITDA or Adjusted EBITDA used by other companies and therefore may not be comparable to similarly titled measures used by other companies. Adjusted EBITDA is also a measure frequently requested by our investors and analysts. We believe that investors and analysts may use Adjusted EBITDA, along with other information contained in our SEC filings, in assessing our performance and comparability of our results with other companies. Our Non-GAAP measures for consolidated operating income, net income and net income per diluted share reflect the GAAP measures as reported, adjusted for certain items as described. These Non-GAAP financial measures have limitations as an analytical tool as they exclude the financial impact of transactions necessary to conduct our business, such as the granting of equity compensation awards, and are not intended to be an alternative to financial measures prepared in accordance with GAAP. These measures are adjusted as described in the reconciliation of GAAP to Non-GAAP in the above tables, but these adjustments should not be construed as an inference that all of these adjustments or costs are unusual, infrequent or non-recurring. Non-GAAP financial measures should be considered in addition to, and not as a substitute for or superior to, financial measures determined in accordance with GAAP. Investors are advised to carefully review the GAAP financial results that are disclosed in our SEC filings.

## Liquidity and Capital Resources

Our cash and cash equivalents were \$47.9 million at July 31, 2020 as compared to \$45.6 million at July 31, 2019, an increase of \$2.3 million. The increase in cash and cash equivalents during fiscal 2020 was driven by the following:

- Net cash provided by operating activities was \$52.8 million and \$68.0 million for fiscal 2020 and 2019, respectively. The period-over-period decrease in cash flow from operating activities reflects lower net sales and overall changes in net working capital requirements, principally the timing of shipments, billings and payments. Cash flow from operating activities in fiscal 2020 reflects higher outflows for acquisition plan expenses.
- Net cash used in investing activities for fiscal 2020 was \$20.2 million as compared to \$44.7 million for fiscal 2019. During fiscal 2020, we paid \$13.0 million of cash primarily related to our acquisitions of CGC and NG-911, net of cash acquired. In fiscal 2019, we paid \$35.9 million of cash in connection with our acquisitions of Solacom and the GD NG-911 business, net of cash acquired. The remaining portion of net cash used in both periods primarily relates to expenditures for property, plant and equipment upgrades and enhancements.
- Net cash used in financing activities was \$30.3 million and \$21.3 million, respectively, for fiscal 2020 and 2019. During fiscal 2019, we entered into a Credit Facility and repaid in full the outstanding borrowings under our Prior Credit Facility. During fiscal 2020, we made net payments under our Credit Facility of \$15.5 million. During fiscal 2020 and 2019, we paid \$10.0 million and \$9.8 million, respectively, in cash dividends to our stockholders. We also made \$5.3 million and \$5.0 million of payments to remit employees' statutory tax withholding requirements related to the net settlement of stock-based awards during fiscal 2020 and 2019, respectively.

The Credit Facility is discussed below and in *"Notes to Consolidated Financial Statements - Note (8) - Credit Facility"* included in *"Part II - Item 8. - Financial Statements and Supplementary Data"* included in this Annual Report on Form 10-K.

Our investment policy relating to our cash and cash equivalents is intended to minimize principal loss while at the same time maximize the income we receive without significantly increasing risk. To minimize risk, we generally invest our cash and cash equivalents in money market mutual funds (both government and commercial), certificates of deposit, bank deposits, and U.S. Treasury securities. Many of our money market mutual funds invest in direct obligations of the U.S. government, bank securities guaranteed by the Federal Deposit Insurance Corporation, certificates of deposit and commercial paper and other securities issued by other companies. While we cannot predict future market conditions or market liquidity, we believe our investment policies are appropriate in the current environment. Ultimately, the availability of our cash and cash equivalents is dependent on a well-functioning liquid market.

As of July 31, 2020, our material short-term cash requirements primarily consist of: (i) interest payments under our Credit Facility; (ii) payments related to lease commitments; (iii) our ongoing working capital needs, including income tax payments; and (iv) payment of accrued quarterly dividends. As discussed further below, we have other material short-term cash requirements related to our pending acquisitions of Gilat and UHP.

In December 2018, we filed a \$400.0 million shelf registration statement with the SEC for the sale of various types of securities, including debt. The shelf registration statement was declared effective by the SEC as of December 14, 2018.

As of July 31, 2020, we were authorized to repurchase up to an additional \$8.7 million of our common stock, pursuant to a \$100.0 million stock repurchase program. On September 29, 2020, our Board of Directors authorized a new \$100.0 million stock repurchase program, which replaced our prior program. The new \$100.0 million stock repurchase program has no time restrictions and repurchases may be made from time to time in open-market or privately negotiated transactions, or by other means in accordance with federal securities laws. There were no repurchases of our common stock during fiscal 2020 and 2019.

On September 24, 2019, December 4, 2019, March 4, 2020 and June 3, 2020, our Board of Directors declared a dividend of \$0.10 per common share, which was paid on November 15, 2019, February 14, 2020, May 15, 2020 and August 14, 2020, respectively.

On September 29, 2020, our Board of Directors declared a dividend of \$0.10 per common share, payable on October 27, 2020 to stockholders of record at the close of business on October 14, 2020. Future Common Stock dividends remain subject to compliance with financial covenants under our Credit Facility, as well as Board approval.

Our material long-term cash requirements primarily consist of mandatory interest payments pursuant to our Credit Facility and lease commitments.

We have historically met both our short-term and long-term cash requirements with funds provided by a combination of cash and cash equivalent balances, cash generated from operating activities and cash generated from financing transactions. Based on our anticipated level of future sales and operating income, we believe that our existing cash and cash equivalent balances, our cash generated from operating activities and amounts potentially available under our Credit Facility will be sufficient to meet both our currently anticipated short-term and long-term operating cash requirements.

Although it is difficult to predict the terms and conditions of financing that may be available in the future, should our short-term or long-term cash requirements increase beyond our current expectations, we believe that we would have sufficient access to credit from financial institutions and/or financing from public and private debt and equity markets.

#### Impact of Pending Acquisitions of Gilat and UHP on our Liquidity

As discussed throughout this Annual Report on Form 10-K, we may have short-term cash requirements of approximately \$402.9 million and \$5.0 million, respectively, related to our pending acquisitions of Gilat and UHP. If we are required to complete these acquisitions, we anticipate funding these acquisitions by redeploying a portion of the combined companies existing unrestricted cash and cash equivalents, and by drawing on a new Gilat Acquisition Related Credit Facility to be provided by Citibank, N.A., Manufacturers and Traders Trust Company ("M&T Bank"), Santander Bank, N.A., BMO Harris Bank, N.A. ("Bank of Montreal"), Regions Bank, Israel Discount Bank of New York and Goldman Sachs Bank USA. This new facility would replace our existing Credit Facility (which is discussed below) and allow us to refinance our existing debt of approximately \$149.5 million as of July 31, 2020. The exact terms of this facility are expected to be finalized upon completion of the Gilat acquisition, if it occurs. If we are required to close the Gilat acquisition, total net debt of the combined companies would be expected to approximate \$525.0 million as compared to Comtech's net debt of \$101.7 million as of July 31, 2020.

We believe that Gilat's business has been materially impacted by COVID-19 and in August 2020 Gilat publicly reported a net loss of \$16.0 million and negative Adjusted EBITDA (as Gilat defines it) of \$4.9 million for the six-months ended June 30, 2020. If the pending acquisition of Gilat is completed and Gilat continues to experience net losses and negative Adjusted EBITDA we may be unable to meet future debt service obligations.

#### Credit Facility

On October 31, 2018, we entered into a First Amended and Restated Credit Agreement (the "Credit Facility") with a syndicate of lenders, replacing our prior Credit Agreement dated as of February 23, 2016 (as amended by that certain First Amendment, dated as of June 6, 2017 (the "Prior Credit Facility")).

The Credit Facility provides a senior secured loan facility of up to \$550.0 million consisting of: (i) a revolving loan facility ("Revolving Loan Facility") with a borrowing limit of \$300.0 million; (ii) an accordion feature allowing us to borrow up to an additional \$250.0 million; (iii) a \$35.0 million letter of credit sublimit; and (iv) a swingline loan credit sublimit of \$25.0 million.

The Credit Facility matures on October 31, 2023 (the "Revolving Maturity Date"). If we issue new unsecured debt in excess of \$5.0 million with a maturity date that is less than 91 days from October 31, 2023, the Revolving Maturity Date would automatically accelerate so that it would be 91 days earlier than the maturity date of the new unsecured debt.

The proceeds of the Credit Facility were used, in part, to repay in full the outstanding borrowings under the Prior Credit Facility, and additional proceeds of the Credit Facility are expected to be used by us for working capital and other general corporate purposes. As of July 31, 2020, the amount outstanding under our Credit Facility was \$149.5 million, which is reflected in the non-current portion of long-term debt on our Consolidated Balance Sheet. At July 31, 2020, we had \$3.1 million of standby letters of credit outstanding under our Credit Facility related to our guarantees of future performance on certain customer contracts and no outstanding commercial letters of credit. During fiscal 2020, we had outstanding balances under the Credit Facility ranging from \$125.0 million to \$174.0 million.



Borrowings under the Credit Facility shall be either: (i) Alternate Base Rate borrowings, which bear interest from the applicable borrowing date at a rate per annum equal to (x) the greatest of (a) the Prime Rate (as defined) in effect on such day, (b) the Federal Funds Effective Rate (as defined) in effect on such day plus 1/2 of 1.00% per annum and (c) the Adjusted LIBO Rate (as defined) on such day (or, if such day is not a business day, the immediately preceding business day) plus 1.00% per annum, plus (y) the Applicable Rate (as defined), 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 plus (y) the Applicable Rate. Determination of the Applicable Rate is based on a pricing grid that is dependent upon our Secured Leverage Ratio (as defined) as of the end of each fiscal quarter for which consolidated financial statements have been most recently delivered.

The Credit Facility contains customary representations, warranties and affirmative covenants. The Credit Facility also contains customary negative covenants, subject to negotiated exceptions, including but not limited to: (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 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. In addition, under certain circumstances, we may be required to enter into amendments to the Credit Facility in connection with any further syndication of the Credit Facility.

The Credit Facility provides for, among other things: (i) no scheduled payments of principal until maturity; (ii) a maximum Secured Leverage Ratio of 3.75x trailing twelve months ("TTM") Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization ("Adjusted EBITDA") and a Maximum Total Leverage Ratio of 4.50x TTM Adjusted EBITDA, each with no step downs; and (iii) a Minimum Interest Expense Coverage Ratio of 3.25x TTM Adjusted EBITDA.

As of July 31, 2020, our Secured Leverage Ratio was 1.99x TTM Adjusted EBITDA compared to the maximum allowable Secured Leverage Ratio of 3.75x TTM Adjusted EBITDA. Our Interest Expense Coverage Ratio as of July 31, 2020 was 14.40x TTM Adjusted EBITDA compared to the Minimum Interest Expense Coverage Ratio of 3.25x TTM Adjusted EBITDA.

The obligations under the Credit Facility are guaranteed by certain of our domestic subsidiaries (the "Guarantors"). As collateral security under the Credit Facility and the guarantees thereof, we and the Guarantors have granted to the 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.

On December 6, 2018, we entered into the first amendment to the Credit Facility. The purpose of the amendment is to provide for a mechanism to replace the LIBO Rate for Eurodollar borrowings with an alternative benchmark interest rate, should the LIBO Rate generally become unavailable in the future on an other-than-temporary basis.

Capitalized terms used but not defined herein have the meanings set forth for such terms in the Credit Facility and the Prior Credit Facility, which have been documented and filed with the SEC.

#### Off-Balance Sheet Arrangements

As of July 31, 2020, we did not have any off-balance sheet arrangements as defined in Item 303(a)(4) of Regulation S-K.

### Commitments

In the normal course of business, other than as discussed below, we routinely enter into binding and non-binding purchase obligations primarily covering anticipated purchases of inventory and equipment. We do not expect that these commitments, as of July 31, 2020, will materially adversely affect our liquidity.

At July 31, 2020, cash payments due under long-term obligations (including estimated interest expense on our Credit Facility), excluding purchase orders that we entered into in our normal course of business, are as follows:

	<b>Obligations Due by Fiscal Years or Maturity Date (in thousands)</b>				
	Total	2021	2022 and 2023	2024 and 2025	After 2025
Credit Facility - principal payments	\$ 149,500	—	—	149,500	—
Credit Facility - interest payments	12,368	3,809	7,619	940	—
Operating lease liabilities, finance lease and other obligations	35,507	9,433	14,180	9,096	2,798
Contractual cash obligations	<u>\$ 197,375</u>	<u>13,242</u>	<u>21,799</u>	<u>159,536</u>	<u>2,798</u>

As discussed further in "Notes to Consolidated Financial Statements - Note (8) - Credit Facility" included in "Part II - Item 8. - Financial Statements and Supplementary Data," included in this Annual Report on Form 10-K, our Credit Facility provides a senior secured loan facility of up to \$550.0 million consisting of: (i) a revolving loan facility ("Revolving Loan Facility") with a borrowing limit of \$300.0 million; (ii) an accordion feature allowing us to borrow up to an additional \$250.0 million; (iii) a \$35.0 million letter of credit sublimit; and (iv) a swingline loan credit sublimit of \$25.0 million. The Credit Facility matures on October 31, 2023 (the "Revolving Maturity Date"). In addition, if we issue new unsecured debt in excess of \$5.0 million with a maturity date that is less than 91 days from October 31, 2023, the Revolving Maturity Date would automatically accelerate so that it would be 91 days earlier than the maturity date of the new unsecured debt.

As discussed further in "Notes to Consolidated Financial Statements - Note (9) - Leases" included in "Part II - Item 8. - Financial Statements and Supplementary Data," included in this Annual Report on Form 10-K, in September 2020, we signed a 15-year lease commencing in December 2020 for a facility in Chandler, Arizona to support our anticipated growth and long-term business goals for our satellite earth station product line. We anticipate that all existing Tempe, Arizona locations will be fully relocated to this new facility by February 2021. Such amounts are not included in the above table.

As discussed further in "Notes to Consolidated Financial Statements - Note (16) - Stockholders' Equity" included in "Part II - Item 8. - Financial Statements and Supplementary Data," included in this Annual Report on Form 10-K, on September 29, 2020, our Board of Directors declared a dividend of \$0.10 per common share, payable on October 27, 2020 to stockholders of record at the close of business on October 14, 2020. Future Common Stock dividends remain subject to compliance with financial covenants under our Credit Facility, as well as Board approval.

At July 31, 2020, we have approximately \$3.1 million of standby letters of credit outstanding under our Credit Facility related to our guarantees of future performance on certain customer contracts. Such amounts are not included in the above table.

As discussed further in the above section entitled "Impact of Pending Acquisitions of Gilat and UHP on our Liquidity," we have short-term cash commitments of \$402.9 million and \$5.0 million, respectively to fund the acquisitions of Gilat and UHP. These cash commitments and related transaction expenses are not included in the above table.

In the ordinary course of business, we include indemnification provisions in certain of our customer contracts. Pursuant to these agreements, we have agreed to indemnify, hold harmless and reimburse the indemnified party for certain losses suffered or incurred by the indemnified party, including but not limited to losses related to third-party intellectual property claims. It is not possible to determine the maximum potential amount under these agreements due to a history of nominal claims in the Comtech legacy business and the unique facts and circumstances involved in each particular agreement.

As discussed further in "Notes to Consolidated Financial Statements - Note (13) - Commitments and Contingencies," included in "Part II - Item 8.- Financial Statements and Supplementary Data," included in this Annual Report on Form 10-K, TCS is subject to a number of indemnification demands and we are incurring ongoing legal expenses in connection with these matters. Our insurance policies may not cover the cost of defending indemnification claims or providing indemnification. As a result, pending or future claims asserted against us by a party that we have agreed to indemnify could result in legal costs and damages that could have a material adverse effect on our consolidated results of operations and financial condition.

We have change in control agreements, severance agreements and indemnification agreements with certain of our executive officers and certain key employees. All of these agreements may require payments by us, in certain circumstances, including, but not limited to, a change in control of our Company or an involuntary termination of employment without cause.

Our Consolidated Balance Sheet at July 31, 2020 includes total liabilities of \$8.3 million for uncertain tax positions, including interest, any or all of which may result in a cash payment. The future payments related to uncertain tax positions have not been presented in the table above due to the uncertainty of the amounts and timing of any potential cash settlement with the taxing authorities.

### **Recent Accounting Pronouncements**

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

As further discussed in "*Notes to Consolidated Financial Statements – Note (1)(o) - Adoption of Accounting Standards and Updates*" included in "*Part II - Item 8. - Financial Statements and Supplementary Data*," included in this Annual Report on Form 10-K, during fiscal 2020, we adopted:

- FASB ASU No. 2016-02 Leases (Topic 842). See "*Notes to Consolidated Financial Statements – Note (9) - Leases*" included in "*Part II - Item 8. - Financial Statements and Supplementary Data*," included in this Annual Report on Form 10-K for further information.
- FASB ASU No. 2017-11, which provides guidance on the accounting for certain financial instruments with embedded features that result in the strike price of the instrument or embedded conversion option being reduced on the basis of the pricing of future equity offerings (commonly referred to as "down round" features). On August 1, 2019, we adopted this ASU. Our adoption did not have any impact on our consolidated financial statements and disclosures, as we did not have any financial instruments with such "down round" features.
- FASB ASU No. 2017-12, which expands and refines hedge accounting for both non-financial and financial risk components and simplifies and aligns the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. On August 1, 2019, we adopted this ASU. Our adoption did not have any impact on our consolidated financial statements and disclosures, as we are not a party to any such hedging transactions.
- FASB ASU No. 2018-07, which expands the scope of ASC 718 to include certain share-based payment transactions for acquiring goods and services from nonemployees. On August 1, 2019, we adopted this ASU. Our adoption did not have any impact on our consolidated financial statements and disclosures, as we did not have any outstanding share-based awards with nonemployees that required remeasurement.
- FASB ASU No. 2018-16, which expands the list of eligible U.S. benchmark interest rates permitted in the application of hedge accounting due to broad concerns about the long-term sustainability of the LIBO Rate. This ASU adds the Overnight Index Swap ("OIS") rate, based on the Secured Overnight Financing Rate ("SOFR"), as an eligible U.S. benchmark interest rate. On August 1, 2019, we adopted this ASU. Our adoption did not have any impact on our consolidated financial statements and disclosures, as we are not a party to any such hedging transactions.

In addition, the following FASB ASUs have been issued and incorporated into the FASB ASC and have not yet been adopted by us as of July 31, 2020:

- FASB ASU No. 2016-13 issued in June 2016 and ASU No. 2018-19 issued in November 2018, which require the measurement of expected credit losses for financial assets held at the reporting date to be based on historical experience, current conditions and reasonable and supportable forecasts. In April 2019, FASB ASU No. 2019-04 was issued to provide clarification guidance in the following areas: (i) accrued interest; (ii) recoveries; (iii) projections of the interest rate environment; (iv) consideration of prepayments; and (v) other topics. In May 2019, FASB ASU No. 2019-05 was issued to provide entities with an option to irrevocably elect the fair value option applied on an instrument by instrument basis for eligible instruments. In November 2019, FASB ASU No. 2019-11 was issued to provide clarification guidance in the following areas: (i) expected recoveries for purchased financial assets with credit deterioration; (ii) transition relief for troubled debt restructurings; (iii) disclosures related to accrued interest receivables; (iv) financial assets secured by collateral maintenance provisions; and (v) conforming amendment to subtopic 805-20. In February 2020, FASB ASU No. 2020-02 was issued to address questions primarily regarding documentation and company policies. In March 2020, FASB ASU No. 2020-03 was issued to provide clarification guidance in the following areas: (i) the contractual term of a net investment in a lease should be the contractual term used to measure expected credit losses; and (ii) when an entity regains control of financial assets sold, an allowance for credit losses should be recorded. On August 1, 2020, we adopted these ASUs on a modified-retrospective basis. Such adoption did not have a material impact on our consolidated financial statements or disclosures.
- FASB ASU No. 2018-13, issued in August 2018, which modifies the disclosure requirements for fair value measurements in Topic 820. On August 1, 2020, we adopted this ASU. Our adoption of this ASU did not have any impact on our consolidated financial statements or disclosures.
- FASB ASU No. 2018-15, issued in August 2018, which aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal use software (and hosting arrangements that include an internal use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by the amendments in this ASU. On August 1, 2020, we adopted this ASU. Our adoption of this ASU did not have any impact on our consolidated financial statements or disclosures.
- FASB ASU No. 2018-17, issued in October 2018, which requires entities to consider indirect interests held through related parties under common control on a proportional basis, rather than as the equivalent of a direct interest in its entirety when determining whether a decision-making fee is a variable interest. On August 1, 2020, we adopted this ASU. Our adoption of this ASU did not have any impact on our consolidated financial statements or disclosures.
- FASB ASU No. 2018-18, issued in November 2018, which clarifies when certain transactions between collaborative arrangement participants should be accounted for under ASC 606 and incorporates unit-of-account guidance consistent with ASC 606 to aid in this determination. The ASU also precludes entities from presenting consideration from transactions with a collaborator that is not a customer together with revenue recognized from contracts with customers. On August 1, 2020, we adopted this ASU. Our adoption of this ASU did not have any impact on our consolidated financial statements or disclosures.
- FASB ASU No. 2019-08, issued in November 2019, which requires that an entity measure and classify share-based payment awards granted to a customer by applying the guidance in Topic 718. The amount recorded as a reduction of the transaction price is required to be measured on the basis of the grant-date fair value of the share-based payment award. On August 1, 2020, we adopted this ASU. Our adoption of this ASU did not have any impact on our consolidated financial statements or disclosures.
- FASB ASU No. 2019-12, issued in December 2019 is intended to simplify various aspects related to accounting for income taxes. ASU 2019-12 removes certain exceptions to the general principles in Topic 740 and also clarifies and amends existing guidance to improve consistent application. This ASU is effective for fiscal years beginning after December 15, 2020 (our fiscal year beginning on August 1, 2021) and interim periods therein, with early adoption permitted. We are evaluating the impact of this ASU on our consolidated financial statements and disclosures.

- FASB ASU No. 2020-01, issued in January 2020, clarifies the interactions between Topics 321, 323 and 815. This ASU clarifies that an entity should consider observable transactions that require it to either apply or discontinue the equity method of accounting for the purposes of applying the measurement alternative in accordance with Topic 321 immediately before applying or upon discontinuing the equity method. In addition, the amendments clarify the accounting for certain forward contracts and purchased options accounted for under Topic 815. This ASU is effective for fiscal years beginning after December 15, 2020 (our fiscal year beginning on August 1, 2021) and interim periods therein. We are evaluating the impact of this ASU on our consolidated financial statements and disclosures; however, we do not expect the adoption to have any effect given that we have not historically had equity method investments or purchased options and forward contracts to acquire investments.

#### **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Our earnings and cash flows are subject to fluctuations due to changes in interest rates primarily from borrowings under our Credit Facility. Based on the amount of outstanding debt under our Credit Facility, a hypothetical change in interest rates by 10% would change interest expense by approximately \$0.3 million over a one-year period. Although we do not currently use interest rate derivative instruments to manage exposure to interest rate changes, we may choose to do so in the future in connection with our Credit Facility.

Our earnings and cash flows are also subject to fluctuations due to changes in interest rates on our investment of available cash balances. As of July 31, 2020, we had cash and cash equivalents of \$47.9 million, which consisted of cash and highly-liquid money market deposit accounts. Many of these investments are subject to fluctuations in interest rates, which could impact our results. Based on our investment portfolio balance as of July 31, 2020, a hypothetical change in interest rates of 10% would have a nominal impact on interest income over a one-year period. Ultimately, the availability of our cash and cash equivalents is dependent on a well-functioning liquid market.

#### **ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

Reports of Independent Registered Public Accounting Firm, Consolidated Financial Statements, Notes to Consolidated Financial Statements and Related Financial Schedule are listed in the Index to Consolidated Financial Statements and Schedule annexed hereto.

#### **ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

## ITEM 9A. CONTROLS AND PROCEDURES

### *Evaluation of Disclosure Controls and Procedures*

As of the end of the period covered by this Annual Report on Form 10-K, an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures was carried out by us under the supervision and with the participation of our management, including our Chief Executive Officer and Chairman and Chief Financial Officer. Based on that evaluation, our Chief Executive Officer and Chairman and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by the report to provide reasonable assurance that the information required to be disclosed by us in reports filed under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms and is accumulated and communicated to management, as appropriate, to allow timely decisions regarding required disclosure. A system of controls, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the system of controls are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

### *Management's Report on Internal Control Over Financial Reporting*

Management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of our internal control over financial reporting as of July 31, 2020. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in *Internal Control – Integrated Framework (2013)*. Based on our assessment, we determined that, as of July 31, 2020, our internal control over financial reporting was effective based on those criteria.

Deloitte and Touche LLP, our independent registered public accounting firm, has performed an audit of our internal control over financial reporting as of July 31, 2020 based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the COSO. This audit is required to be performed in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our independent auditors were given unrestricted access to all financial records and related data. Deloitte's audit reports appear on pages F-2 and F-3 of this annual report.

### *Changes In Internal Control Over Financial Reporting*

There have been no changes in our internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act that occurred during our fiscal quarter ended July 31, 2020, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## ITEM 9B. OTHER INFORMATION

Not applicable.

### **PART III**

#### **ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

Certain information concerning directors and officers is incorporated by reference to our Proxy Statement for the Annual Meeting of Stockholders (the "Proxy Statement") which will be filed with the Securities and Exchange Commission no more than 120 days after the close of our fiscal year.

#### **ITEM 11. EXECUTIVE COMPENSATION**

Information regarding executive compensation is incorporated by reference to the Proxy Statement, which will be filed with the Securities and Exchange Commission no more than 120 days after the close of our fiscal year.

#### **ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

Information regarding securities authorized for issuance under equity compensation plans and certain information regarding security ownership of certain beneficial owners and management is incorporated by reference to the Proxy Statement, which will be filed with the Securities and Exchange Commission no more than 120 days after the close of our fiscal year.

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

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

#### **ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

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

## PART IV

### ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

- (a) (1) The Registrant's financial statements together with a separate index are annexed hereto.  
 (2) The Financial Statement Schedule listed in a separate index is annexed hereto.  
 (3) Exhibits required by Item 601 of Regulation S-K are listed below.

<b>Exhibit Number</b>	<b>Description of Exhibit</b>	<b>Incorporated By Reference to Exhibit</b>
<a href="#"><u>2(a)</u></a>	<a href="#"><u>Agreement and Plan of Merger, dated as of January 29, 2020, among Comtech Telecommunications Corp., Gilat Satellite Networks Ltd. and Convoy Ltd.</u></a>	Exhibit 2.1 to the Registrant's Form 8-K, filed January 29, 2020
<a href="#"><u>3(a)(i)</u></a>	<a href="#"><u>Restated Certificate of Incorporation of the Registrant</u></a>	Exhibit 3(a)(i) to the Registrant's 2006 Form 10-K
<a href="#"><u>3(a)(ii)</u></a>	<a href="#"><u>Third Amended and Restated By-Laws of the Registrant, as of September 26, 2017</u></a>	Exhibit 3(a)(ii) to the Registrant's 2017 Form 10-K
<a href="#"><u>4(a)</u></a>	<a href="#"><u>Description of Comtech Telecommunication Corp.'s Securities Registered Pursuant to Section 12 of the Exchange Act</u></a>	
<a href="#"><u>10(a)(1)*</u></a>	<a href="#"><u>Seventh Amended and Restated Employment Agreement, dated March 4, 2020, between the Registrant and Fred Kornberg</u></a>	Exhibit 10.1 to the Registrant's Form 8-K, filed March 4, 2020
<a href="#"><u>10(a)(2)*</u></a>	<a href="#"><u>Lease agreement, dated September 23, 2011, on the Melville, New York Facility</u></a>	Exhibit 10(s) to the Registrant's 2011 Form 10-K
<a href="#"><u>10(b)*</u></a>	<a href="#"><u>Second Amended and Restated 2001 Employee Stock Purchase Plan</u></a>	Exhibit A to the Registrant's Proxy Statement, filed November 16, 2018
<a href="#"><u>10(c)*</u></a>	<a href="#"><u>2000 Stock Incentive Plan, Amended and Restated, Effective November 15, 2019, as amended effective August 4, 2020</u></a>	
<a href="#"><u>10(d)(1)*</u></a>	<a href="#"><u>Form of Stock Option Agreement pursuant to the 2000 Stock Incentive Plan</u></a>	Exhibit 10(f)(7) to the Registrant's 2005 Form 10-K
<a href="#"><u>10(d)(2)*</u></a>	<a href="#"><u>Form of Stock Option Agreement for Non-employee Directors pursuant to the 2000 Stock Incentive Plan</u></a>	Exhibit 10(f)(8) to the Registrant's 2006 Form 10-K
<a href="#"><u>10(d)(3)*</u></a>	<a href="#"><u>Form of Stock Option Agreement for Non-employee Directors pursuant to the 2000 Stock Incentive Plan - 2020</u></a>	
<a href="#"><u>10(e)*</u></a>	<a href="#"><u>Form of Performance Share Agreement pursuant to the 2000 Stock Incentive Plan</u></a>	Exhibit 10(s) to the Registrant's 2012 Form 10-K
<a href="#"><u>10(f)(1)*</u></a>	<a href="#"><u>Form of Long-Term Performance Share Award Agreement pursuant to the 2000 Stock Incentive Plan - 2017</u></a>	Exhibit 10.8 to the Registrant's Form 8-K, filed June 7, 2017
<a href="#"><u>10(f)(2)*</u></a>	<a href="#"><u>Form of Long-Term Performance Share Award Agreement pursuant to the 2000 Stock Incentive Plan - 2018</u></a>	Exhibit 10(f)(2) to the Registrant's 2019 Form 10-K
<a href="#"><u>10(g)(1)*</u></a>	<a href="#"><u>Form of Restricted Stock Agreement for Employees pursuant to the 2000 Stock Incentive Plan</u></a>	Exhibit 10(y) to the Registrant's 2016 Form 10-K
<a href="#"><u>10(g)(2)*</u></a>	<a href="#"><u>Form of Restricted Stock Agreement for Non-employee Directors pursuant to the 2000 Stock Incentive Plan</u></a>	Exhibit 10(ab) to the Registrant's 2016 Form 10-K



<b>Exhibit Number</b>	<b>Description of Exhibit</b>	<b>Incorporated By Reference to Exhibit</b>
<a href="#"><u>10(g)(3)*</u></a>	<a href="#"><u>Form of Restricted Stock Agreement (eligible for dividend equivalents) for Non-employee Directors pursuant to the 2000 Stock Incentive Plan - 2019</u></a>	Exhibit 10(g)(3) to the Registrant's 2019 Form 10-K
<a href="#"><u>10(h)(1)*</u></a>	<a href="#"><u>Form of Restricted Stock Unit Agreement for Employees pursuant to the 2000 Stock Incentive Plan - 2017</u></a>	Exhibit 10(h)(1) to the Registrant's 2017 Form 10-K
<a href="#"><u>10(h)(2)*</u></a>	<a href="#"><u>Form of Restricted Stock Unit Agreement for Employees pursuant to the 2000 Stock Incentive Plan - 2016</u></a>	Exhibit 10(z) to the Registrant's 2016 Form 10-K
<a href="#"><u>10(h)(3)*</u></a>	<a href="#"><u>Form of Restricted Stock Unit Agreement for Employees pursuant to the 2000 Stock Incentive Plan - 2013</u></a>	Exhibit 10(w) to the Registrant's 2013 Form 10-K
<a href="#"><u>10(h)(4)*</u></a>	<a href="#"><u>Form of Restricted Stock Unit Agreement for Non-employee Directors pursuant to the 2000 Stock Incentive Plan</u></a>	Exhibit 10.2 to the Registrant's Form 10-Q, filed June 7, 2012
<a href="#"><u>10(h)(5)*</u></a>	<a href="#"><u>Form of Restricted Stock Unit Agreement (eligible for dividend equivalents) for Non-employee Directors pursuant to the 2000 Stock Incentive Plan</u></a>	Exhibit 10(aa) to the Registrant's 2016 Form 10-K
<a href="#"><u>10(h)(6)*</u></a>	<a href="#"><u>Form of Restricted Stock Unit Agreement (eligible for dividend equivalents) for Non-employee Directors pursuant to the 2000 Stock Incentive Plan - 2013</u></a>	Exhibit 10(x) to the Registrant's 2013 Form 10-K
<a href="#"><u>10(h)(7)*</u></a>	<a href="#"><u>Form of Restricted Stock Unit Agreement (eligible for dividend equivalents) for Non-employee Directors pursuant to the 2000 Stock Incentive Plan - 2020</u></a>	Exhibit 10.1 to the Registrant's Form 10-Q, filed June 3, 2020
<a href="#"><u>10(i)(1)*</u></a>	<a href="#"><u>Form of Stock Unit Agreement for Non-employee Directors pursuant to the 2000 Stock Incentive Plan</u></a>	Exhibit 10.1 to the Registrant's Form 10-Q, filed June 7, 2012
<a href="#"><u>10(i)(2)*</u></a>	<a href="#"><u>Form of Stock Unit Agreement (eligible for dividend equivalents) for Non-employee Directors pursuant to the 2000 Stock Incentive Plan</u></a>	Exhibit 10(v) to the Registrant's 2013 Form 10-K
<a href="#"><u>10(j)(1)*</u></a>	<a href="#"><u>Form of Share Unit Agreement (eligible for dividend equivalents) for Employees pursuant to the 2000 Stock Incentive Plan</u></a>	Exhibit 10.2 to the Registrant's Form 10-Q, filed December 9, 2013
<a href="#"><u>10(j)(2)*</u></a>	<a href="#"><u>Form of Share Unit Agreement (eligible for dividend equivalents) for Employees pursuant to the 2000 Stock Incentive Plan - 2018</u></a>	Exhibit 10(j)(2) to the Registrant's 2018 Form 10-K
<a href="#"><u>10(k)*</u></a>	<a href="#"><u>Form of Indemnification Agreement between the Registrant and the Named Executive Officers and Certain Other Executive Officers</u></a>	Exhibit 10.1 to Registrant's Form 8-K, filed on March 8, 2007
<a href="#"><u>10(l)(1)*</u></a>	<a href="#"><u>Form of Change in Control Agreement (Tier 1)</u></a>	Exhibit 10.2 to the Registrant's Form 8-K, filed March 4, 2020
<a href="#"><u>10(l)(2)*</u></a>	<a href="#"><u>Form of Change-in-Control Agreement (Tier 2) between the Registrant and Certain Named Executive Officers (other than the CEO) and Certain Other Executive Officers</u></a>	Exhibit 10.2 to the Registrant's Form 8-K, filed June 7, 2017
<a href="#"><u>10(l)(3)*</u></a>	<a href="#"><u>Form of Change-in-Control Agreement (Tier 2) between the Registrant and Certain Named Executive Officers (other than the CEO) and Certain Other Executive Officers (California Employees)</u></a>	Exhibit 10.3 to the Registrant's Form 8-K, filed June 7, 2017
<a href="#"><u>10(l)(4)*</u></a>	<a href="#"><u>Form of Change-in-Control Agreement (Tier 2) between the Registrant and Certain Named Executive Officers (other than the CEO) and Certain Other Executive Officers (Divisional/ Subsidiary Presidents)</u></a>	Exhibit 10.4 to the Registrant's Form 8-K, filed June 7, 2017

<b>Exhibit Number</b>	<b>Description of Exhibit</b>	<b>Incorporated By Reference to Exhibit</b>
<a href="#"><u>10(l)(5)*</u></a>	<a href="#"><u>Form of Change-in-Control Agreement (Tier 2) between the Registrant and Certain Named Executive Officers (other than the CEO) and Certain Other Executive Officers (California Divisional/Subsidiary Presidents)</u></a>	Exhibit 10.5 to the Registrant's Form 8-K, filed June 7, 2017
<a href="#"><u>10(l)(6)*</u></a>	<a href="#"><u>Form of Change-in-Control Agreement (Tier 3) between the Registrant and Certain Non-Executive Officers</u></a>	Exhibit 10.6 to the Registrant's Form 8-K, filed June 7, 2017
<a href="#"><u>10(m)*</u></a>	<a href="#"><u>Retirement and Transition Agreement</u></a>	Exhibit 10.1 to the Registrant's Form 10-Q, filed December 4, 2019
<a href="#"><u>10(n)*</u></a>	<a href="#"><u>Consulting Agreement</u></a>	Exhibit 10.2 to the Registrant's Form 10-Q, filed December 4, 2019
<a href="#"><u>10(o)</u></a>	<a href="#"><u>Agreement and Plan of Merger, dated as of November 22, 2015, among Comtech Telecommunications Corp., Typhoon Acquisition Corp. and TeleCommunication Systems, Inc.</u></a>	Exhibit 2.1 to the Registrant's Form 8-K, filed November 23, 2015
<a href="#"><u>10(p)</u></a>	<a href="#"><u>First Amended and Restated Credit Agreement, dated as of October 31, 2018, among Comtech Telecommunications Corp., the lenders party thereto and Citibank N.A., as administrative agent, issuing bank and swingline lender.</u></a>	Exhibit 10.1 to the Registrant's Form 8-K, filed November 5, 2018
<a href="#"><u>10(q)</u></a>	<a href="#"><u>Commitment Letter, dated as of January 29, 2020, among Comtech Telecommunications Corp., Citibank, N.A. and the other commitment parties party thereto.</u></a>	Exhibit 10.1 to the Registrant's Form 8-K, filed January 29, 2020
<a href="#"><u>21</u></a>	<a href="#"><u>Subsidiaries of the Registrant</u></a>	
<a href="#"><u>23.1</u></a>	<a href="#"><u>Consent of Independent Registered Public Accounting Firm</u></a>	
<a href="#"><u>31.1</u></a>	<a href="#"><u>Certification of CEO and Chairman pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u></a>	
<a href="#"><u>31.2</u></a>	<a href="#"><u>Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u></a>	
<a href="#"><u>32.1</u></a>	<a href="#"><u>Certification of CEO and Chairman pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u></a>	
<a href="#"><u>32.2</u></a>	<a href="#"><u>Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u></a>	
101.INS	The following financial statements from the Company's Annual Report on Form 10-K for the fiscal year ended July 31, 2020, formatted in inline XBRL: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations, (iii) Consolidated Statements of Stockholders' Equity, (iv) Consolidated Statement of Cash Flows, and (v) Notes to Consolidated Financial Statements	
101.SCH	Inline XBRL Taxonomy Extension Schema Document	
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document	
101.LAB	Inline XBRL Taxonomy Extension Labels Linkbase Document	
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document	

<b><u>Exhibit Number</u></b>	<b><u>Description of Exhibit</u></b>	<b><u>Incorporated By Reference to Exhibit</u></b>
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document	
104	Cover Page Interactive Data File (embedded within the Inline XBRL document and contained in Exhibit 101)	

\* Management contract or compensatory plan or arrangement.

#### **ITEM 16. FORM 10-K SUMMARY**

None.

**SIGNATURES**

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

COMTECH TELECOMMUNICATIONS CORP.

September 29, 2020  
(Date)

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

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

	<u>Signature</u>	<u>Title</u>
<u>September 29, 2020</u> (Date)	<u>/s/Fred Kornberg</u> Fred Kornberg	Chairman of the Board Chief Executive Officer (Principal Executive Officer)
<u>September 29, 2020</u> (Date)	<u>/s/Michael A. Bondi</u> Michael A. Bondi	Chief Financial Officer (Principal Financial and Accounting Officer)
<u>September 29, 2020</u> (Date)	<u>/s/Edwin Kantor</u> Edwin Kantor	Director
<u>September 29, 2020</u> (Date)	<u>/s/Ira S. Kaplan</u> Ira S. Kaplan	Director
<u>September 29, 2020</u> (Date)	<u>/s/Lisa Lesavoy</u> Lisa Lesavoy	Director
<u>September 29, 2020</u> (Date)	<u>/s/Robert G. Paul</u> Robert G. Paul	Director
<u>September 29, 2020</u> (Date)	<u>/s/Dr. Yacov A. Shamash</u> Dr. Yacov A. Shamash	Director
<u>September 29, 2020</u> (Date)	<u>/s/Lawrence J. Waldman</u> Lawrence J. Waldman	Director

# COMTECH TELECOMMUNICATIONS CORP. AND SUBSIDIARIES

## Index to Consolidated Financial Statements and Schedule

	Page
<a href="#"><u>Reports of Independent Registered Public Accounting Firms</u></a>	<a href="#"><u>F-2</u></a>
Consolidated Financial Statements:	
<a href="#"><u>Balance Sheets as of July 31, 2020 and 2019</u></a>	<a href="#"><u>F-5</u></a>
<a href="#"><u>Statements of Operations for each of the years in the three-year period ended July 31, 2020</u></a>	<a href="#"><u>F-6</u></a>
<a href="#"><u>Statements of Stockholders' Equity for each of the years in the three-year period ended July 31, 2020</u></a>	<a href="#"><u>F-7</u></a>
<a href="#"><u>Statements of Cash Flows for each of the years in the three-year period ended July 31, 2020</u></a>	<a href="#"><u>F-8</u></a>
<a href="#"><u>Notes to Consolidated Financial Statements</u></a>	<a href="#"><u>F-10</u></a>
Additional Financial Information Pursuant to the Requirements of Form 10-K:	
<a href="#"><u>Schedule II – Valuation and Qualifying Accounts and Reserves</u></a>	<a href="#"><u>S-1</u></a>

Schedules not listed above have been omitted because they are either not applicable or the required information has been provided elsewhere in the consolidated financial statements or notes thereto.



## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the stockholders and the Board of Directors of  
Comtech Telecommunications Corp.  
Melville, New York

### Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Comtech Telecommunications Corp. and subsidiaries (the "Company") as of July 31, 2020 and 2019, the related consolidated statements of operations, stockholders' equity, and cash flows, for each of the three years in the period ended July 31, 2020, and the related notes and the schedule listed in the Index at Item 15 (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of July 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended July 31, 2020, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of July 31, 2020, based on criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated September 29, 2020, expressed an unqualified opinion on the Company's internal control over financial reporting.

### Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

### Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current-period audit of the financial statements that was communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

***Net Sales – Over Time Accounting Using the Cost-to-Cost Measure for Specific Identified Material Contracts — Refer to Note 1 to the financial statements.***

#### *Critical Audit Matter Description*

The Company's determination of revenue recognition for specific identified material contracts accounted for over time involves estimating the total costs needed to complete the specific identified contracts and updating those estimates throughout the life of those specific identified contracts. This requires management to make significant estimates related to forecasts of future costs for the identified specific contracts. Changes in these estimates for the identified specific contracts could have a significant impact on either the timing or amount of revenue recognition for the year or both.

Given the significant judgment and estimates used in management's projections, auditing the Company's estimates at completion and estimates to completion involved especially subjective judgment.

*How the Critical Audit Matter Was Addressed in the Audit*

Our audit procedures related to the Company's determination of revenue recognition for specific identified material contracts accounted for over time included the following, among others:

- We tested the design and operating effectiveness of the controls over the development of the initial contract cost to complete estimate and monitoring of estimates at completion and estimates to completion.
- For each specific identified material contract selected, we performed the following:
  - Evaluated whether the contract was properly included in management's calculation of overtime revenue based on the terms and conditions of each contract, including whether continuous transfer of control to the customer occurred as progress was made toward fulfilling the performance obligation.
  - Compared the transaction prices to the consideration expected to be received based on current rights and obligations under the contracts and any modifications that were agreed upon with the customers.
  - Tested management's identification of distinct performance obligations by evaluating whether the underlying goods, services, or both were highly interdependent and interrelated.
  - Evaluated the estimates of total cost and profit for the
    - Performing a retrospective review by comparing the estimated margins at contract inception to the actual margins as of year-end in order to assess management's ability to accurately estimate costs.
    - Inquiring and corroborating the estimates to complete and the estimates at completion with the Project Manager (i.e., someone outside of Finance/Accounting) to understand significant variances in costs and completeness of the estimates at completion and estimates to completion.
    - Testing the estimates to complete through a combination of tests of details, in which we selected individual costs within the estimate to complete and obtained supporting documentation, and where we developed an expectation of the estimate to complete and compared it to the recorded balance.
  - Tested the accuracy and completeness of costs incurred during the current fiscal year. This testing included agreeing labor costs to employee timesheets and agreeing the labor rate to either rates agreed upon with the customer in the contract or rates from the Company's payroll records.
  - Tested the mathematical accuracy of management's calculation of revenue for the performance obligation.

/s/ DELOITTE & TOUCHE LLP

Jericho, New York  
September 29, 2020

We have served as the Company's auditor since 2015.



## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the stockholders and the Board of Directors of  
Comtech Telecommunications Corp.  
Melville, New York

### Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Comtech Telecommunications Corp. and subsidiaries (the "Company") as of July 31, 2020, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of July 31, 2020, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements and financial statement schedule as of and for the year ended July 31, 2020, of the Company and our report dated September 29, 2020, expressed an unqualified opinion on those financial statements and financial statement schedule.

### Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

### Definition and Limitations of Internal Control over Financial Reporting

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

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

/s/ DELOITTE & TOUCHE LLP

Jericho, New York  
September 29, 2020



COMTECH TELECOMMUNICATIONS CORP.  
AND SUBSIDIARIES  
Consolidated Balance Sheets  
As of July 31, 2020 and 2019

Assets	2020	2019
Current assets:		
Cash and cash equivalents	\$ 47,878,000	45,576,000
Accounts receivable, net	126,816,000	145,032,000
Inventories, net	82,302,000	74,839,000
Prepaid expenses and other current assets	20,101,000	14,867,000
Total current assets	<u>277,097,000</u>	<u>280,314,000</u>
Property, plant and equipment, net	27,037,000	28,026,000
Operating lease right-of-use assets, net	30,033,000	—
Goodwill	330,519,000	310,489,000
Intangibles with finite lives, net	258,019,000	261,890,000
Deferred financing costs, net	2,391,000	3,128,000
Other assets, net	4,551,000	3,864,000
Total assets	<u>\$ 929,647,000</u>	<u>887,711,000</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 23,423,000	24,330,000
Accrued expenses and other current liabilities	85,104,000	78,584,000
Operating lease liabilities, current	8,247,000	—
Finance lease and other obligations, current	57,000	757,000
Dividends payable	2,468,000	2,406,000
Contract liabilities	40,250,000	38,682,000
Interest payable	163,000	588,000
Total current liabilities	<u>159,712,000</u>	<u>145,347,000</u>
Non-current portion of long-term debt, net	149,500,000	165,000,000
Operating lease liabilities, non-current	24,109,000	—
Income taxes payable	1,963,000	325,000
Deferred tax liability, net	17,637,000	12,481,000
Long-term contract liabilities	9,596,000	10,654,000
Other liabilities	17,831,000	18,822,000
Total liabilities	<u>380,348,000</u>	<u>352,629,000</u>
Commitments and contingencies (See Note 13)		
Stockholders' equity:		
Preferred stock, par value \$0.10 per share; shares authorized and unissued 2,000,000	—	—
Common stock, par value \$0.10 per share; authorized 100,000,000 shares; issued 39,924,439 shares and 39,276,161 shares at July 31, 2020 and 2019, respectively	3,992,000	3,928,000
Additional paid-in capital	569,891,000	552,670,000
Retained earnings	417,265,000	420,333,000
	<u>991,148,000</u>	<u>976,931,000</u>
Less:		
Treasury stock, at cost (15,033,317 shares at July 31, 2020 and 2019)	<u>(441,849,000)</u>	<u>(441,849,000)</u>
Total stockholders' equity	<u>549,299,000</u>	<u>535,082,000</u>
Total liabilities and stockholders' equity	<u>\$ 929,647,000</u>	<u>887,711,000</u>

See accompanying notes to consolidated financial statements.

COMTECH TELECOMMUNICATIONS CORP.  
AND SUBSIDIARIES  
Consolidated Statements of Operations  
Fiscal Years Ended July 31, 2020, 2019 and 2018

	2020	2019	2018
Net sales	\$ 616,715,000	671,797,000	570,589,000
Cost of sales	389,882,000	424,357,000	346,648,000
Gross profit	<u>226,833,000</u>	<u>247,440,000</u>	<u>223,941,000</u>
Expenses:			
Selling, general and administrative	117,130,000	128,639,000	113,922,000
Research and development	52,180,000	56,407,000	53,869,000
Amortization of intangibles	21,595,000	18,320,000	21,075,000
Settlement of intellectual property litigation	—	(3,204,000)	—
Acquisition plan expenses	20,754,000	5,871,000	—
	<u>211,659,000</u>	<u>206,033,000</u>	<u>188,866,000</u>
Operating income	15,174,000	41,407,000	35,075,000
Other expenses (income):			
Interest expense	6,054,000	9,245,000	10,195,000
Write-off of deferred financing costs	—	3,217,000	—
Interest (income) and other	(190,000)	35,000	254,000
	<u>9,310,000</u>	<u>28,910,000</u>	<u>24,626,000</u>
Income before provision for (benefit from) income taxes	9,310,000	28,910,000	24,626,000
Provision for (benefit from) income taxes	<u>2,290,000</u>	<u>3,869,000</u>	<u>(5,143,000)</u>
Net income	<u>\$ 7,020,000</u>	<u>25,041,000</u>	<u>29,769,000</u>
Net income per share:			
Basic	<u>\$ 0.28</u>	<u>1.04</u>	<u>1.25</u>
Diluted	<u>\$ 0.28</u>	<u>1.03</u>	<u>1.24</u>
Weighted average number of common shares outstanding – basic			
	<u>24,798,000</u>	<u>24,124,000</u>	<u>23,825,000</u>
Weighted average number of common and common equivalent shares outstanding – diluted			
	<u>24,899,000</u>	<u>24,302,000</u>	<u>24,040,000</u>

See accompanying notes to consolidated financial statements.

COMTECH TELECOMMUNICATIONS CORP.  
AND SUBSIDIARIES

Consolidated Statements of Stockholders' Equity  
Fiscal Years Ended July 31, 2020, 2019 and 2018

	Common Stock		Additional Paid-in Capital	Retained Earnings	Treasury Stock		Stockholders' Equity
	Shares	Amount			Shares	Amount	
<b>Balance as of July 31, 2017</b>	38,619,467	\$ 3,862,000	\$ 533,001,000	\$ 385,136,000	15,033,317	\$ (441,849,000)	\$ 480,150,000
Equity-classified stock award compensation	—	—	8,605,000	—	—	—	8,605,000
Proceeds from exercises of stock options	13,100	1,000	325,000	—	—	—	326,000
Proceeds from issuance of employee stock purchase plan shares	44,996	5,000	850,000	—	—	—	855,000
Forfeiture of restricted stock	(10,254)	(1,000)	1,000	—	—	—	—
Net settlement of stock-based awards	193,262	19,000	(4,329,000)	—	—	—	(4,310,000)
Cash dividends declared (\$0.40 per share)	—	—	—	(9,411,000)	—	—	(9,411,000)
Accrual of dividend equivalents, net of reversal (\$0.40 per share)	—	—	—	(300,000)	—	—	(300,000)
Net income	—	—	—	29,769,000	—	—	29,769,000
<b>Balance as of July 31, 2018</b>	38,860,571	3,886,000	538,453,000	405,194,000	15,033,317	(441,849,000)	505,684,000
Equity-classified stock award compensation	—	—	11,427,000	—	—	—	11,427,000
Proceeds from exercises of stock options	8,100	1,000	215,000	—	—	—	216,000
Proceeds from issuance of employee stock purchase plan shares	43,316	4,000	922,000	—	—	—	926,000
Issuance of restricted stock	10,386	1,000	(1,000)	—	—	—	—
Net settlement of stock-based awards	145,119	15,000	(3,931,000)	—	—	—	(3,916,000)
Common stock issued for acquisition of Solacom Technologies, Inc. ("Solacom")	208,669	21,000	5,585,000	—	—	—	5,606,000
Cash dividends declared, net (\$0.40 per share)	—	—	—	(9,575,000)	—	—	(9,575,000)
Accrual of dividend equivalents, net of reversal (\$0.40 per share)	—	—	—	(327,000)	—	—	(327,000)
Net income	—	—	—	25,041,000	—	—	25,041,000
<b>Balance as of July 31, 2019</b>	39,276,161	3,928,000	552,670,000	420,333,000	15,033,317	(441,849,000)	535,082,000
Equity-classified stock award compensation	—	—	9,275,000	—	—	—	9,275,000
Proceeds from exercises of stock options	16,700	2,000	466,000	—	—	—	468,000
Proceeds from issuance of employee stock purchase plan shares	52,958	5,000	850,000	—	—	—	855,000
Issuance of restricted stock	3,319	—	—	—	—	—	—
Net settlement of stock-based awards	251,797	25,000	(4,913,000)	—	—	—	(4,888,000)
Common stock issued for acquisition of CGC Technology Limited ("CGC")	323,504	32,000	11,543,000	—	—	—	11,575,000
Cash dividends declared, net (\$0.40 per share)	—	—	—	(9,794,000)	—	—	(9,794,000)
Accrual of dividend equivalents, net of reversal (\$0.40 per share)	—	—	—	(294,000)	—	—	(294,000)
Net income	—	—	—	7,020,000	—	—	7,020,000
<b>Balance as of July 31, 2020</b>	39,924,439	\$ 3,992,000	\$ 569,891,000	\$ 417,265,000	15,033,317	\$ (441,849,000)	\$ 549,299,000

See accompanying notes to consolidated financial statements.

COMTECH TELECOMMUNICATIONS CORP.  
AND SUBSIDIARIES  
Consolidated Statements of Cash Flows  
Fiscal Years Ended July 31, 2020, 2019 and 2018

	2020	2019	2018
<b>Cash flows from operating activities:</b>			
Net income	\$ 7,020,000	25,041,000	29,769,000
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization of property, plant and equipment	10,561,000	11,927,000	13,655,000
Amortization of intangible assets with finite lives	21,595,000	18,320,000	21,075,000
Amortization of stock-based compensation	9,275,000	11,427,000	8,569,000
Amortization of deferred financing costs	737,000	1,099,000	2,196,000
Estimated contract settlement costs	444,000	6,351,000	—
Write-off of deferred financing costs	—	3,217,000	—
Settlement of intellectual property litigation	—	(3,204,000)	—
Changes in other liabilities	(4,133,000)	(1,056,000)	—
Loss on disposal of property, plant and equipment	—	144,000	79,000
(Benefit from) provision for allowance for doubtful accounts	(431,000)	1,136,000	573,000
Provision for excess and obsolete inventory	1,647,000	6,015,000	5,628,000
Deferred income tax expense (benefit)	860,000	4,283,000	(6,379,000)
Changes in assets and liabilities, net of effects of business acquisitions:			
Accounts receivable	20,929,000	6,315,000	(24,578,000)
Inventories	(9,132,000)	(3,787,000)	(20,065,000)
Prepaid expenses and other current assets	(2,261,000)	915,000	787,000
Other assets	(719,000)	102,000	(140,000)
Accounts payable	(2,206,000)	(21,290,000)	13,728,000
Accrued expenses and other current liabilities	4,292,000	3,554,000	(3,374,000)
Contract liabilities	(6,312,000)	(127,000)	9,143,000
Other liabilities, non-current	2,422,000	(84,000)	(682,000)
Interest payable	(397,000)	151,000	234,000
Income taxes payable	(1,427,000)	(2,418,000)	126,000
Net cash provided by operating activities	<u>52,764,000</u>	<u>68,031,000</u>	<u>50,344,000</u>
<b>Cash flows from investing activities:</b>			
Payment for acquisition of CGC, net of cash acquired	(11,165,000)	—	—
Payment for acquisition of Solacom, net of cash acquired	—	(25,883,000)	—
Payment for acquisition of the GD NG-911 business	(1,013,000)	(10,000,000)	—
Payment for acquisition of NG-911 Inc.	(781,000)	—	—
Purchases of property, plant and equipment	(7,225,000)	(8,785,000)	(8,642,000)
Net cash used in investing activities	<u>(20,184,000)</u>	<u>(44,668,000)</u>	<u>(8,642,000)</u>
<b>Cash flows from financing activities:</b>			
Net (payments) borrowings of long-term debt under Credit Facility	(15,500,000)	165,000,000	—
Net payments under Revolving Loan portion of Prior Credit Facility	—	(48,603,000)	(8,800,000)
Repayment of debt under Term Loan portion of Prior Credit Facility	—	(120,121,000)	(18,960,000)
Remittance of employees' statutory tax withholdings for stock awards	(5,276,000)	(5,042,000)	(1,143,000)
Cash dividends paid	(10,020,000)	(9,789,000)	(9,538,000)
Repayment of principal amounts under finance lease and other obligations	(805,000)	(1,906,000)	(2,802,000)
Payment of deferred financing costs	—	(1,813,000)	—
Proceeds from issuance of employee stock purchase plan shares	855,000	935,000	855,000
Proceeds from exercises of stock options	468,000	216,000	326,000
Payment of shelf registration costs	—	(148,000)	—
Net cash used in financing activities	<u>(30,278,000)</u>	<u>(21,271,000)</u>	<u>(40,062,000)</u>

(Continued)

COMTECH TELECOMMUNICATIONS CORP.  
AND SUBSIDIARIES  
Consolidated Statements of Cash Flows (continued)  
Fiscal Years Ended July 31, 2020, 2019 and 2018

	2020	2019	2018
Net increase in cash and cash equivalents	\$ 2,302,000	2,092,000	1,640,000
Cash and cash equivalents at beginning of year	45,576,000	43,484,000	41,844,000
Cash and cash equivalents at end of year	<u>\$ 47,878,000</u>	<u>45,576,000</u>	<u>43,484,000</u>
<u>Supplemental cash flow disclosure</u>			
Cash paid (received) during the year for:			
Interest	\$ 5,549,000	7,669,000	7,291,000
Income taxes, net	\$ 2,875,000	2,005,000	1,112,000
Non-cash investing and financing activities:			
Reclass of finance lease right-of-use assets to property, plant and equipment	\$ 698,000	—	—
Accrued remittance of employees' statutory tax withholdings for fully-vested share units	\$ 1,399,000	1,787,000	2,963,000
Cash dividends declared but unpaid (including accrual of dividend equivalents)	\$ 2,762,000	2,733,000	2,656,000
Finance lease and other obligations incurred	\$ —	—	1,306,000
Accrued additions to property, plant and equipment	\$ 1,408,000	902,000	719,000
Issuance (forfeiture) of restricted stock	\$ —	1,000	(1,000)
Common stock issued for acquisitions	\$ 11,575,000	5,606,000	—
Accruals related to acquisitions	\$ 1,157,000	—	—

See accompanying notes to consolidated financial statements.

(1) Summary of Significant Accounting and Reporting Policies

(a) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Comtech Telecommunications Corp. and its subsidiaries ("Comtech," "we," "us," or "our"), all of which are wholly-owned. All significant intercompany balances and transactions have been eliminated in consolidation.

(b) Nature of Business

We design, develop, produce and market innovative products, systems and services for advanced communications solutions. We conduct our business through two reportable operating segments: Commercial Solutions and Government Solutions.

Our business is highly competitive and characterized by rapid technological change. Our growth and financial position depends on our ability to keep pace with such changes and developments and to respond to the sophisticated requirements of an increasing variety of secure wireless communications technology users, among other things. Many of our competitors are substantially larger, and have significantly greater financial, marketing and operating resources and broader product lines than our own. A significant technological or sales breakthrough by others, including smaller competitors or new companies, could have a material adverse effect on our business. In addition, certain of our customers have technological capabilities in our product areas and could choose to replace our products with their own.

International sales expose us to certain risks, including barriers to trade, fluctuations in foreign currency exchange rates (which may make our products less price competitive), political and economic instability, availability of suitable export financing, export license requirements, tariff regulations, and other United States ("U.S.") and foreign regulations that may apply to the export of our products, as well as the generally greater difficulties of doing business abroad. We attempt to reduce the risk of doing business in foreign countries by seeking contracts denominated in U.S. dollars, advance or milestone payments, credit insurance and irrevocable letters of credit in our favor.

## Notes to Consolidated Financial Statements, Continued

(c) Revenue Recognition

In accordance with FASB ASC 606 - Revenue from Contracts with Customers ("ASC 606"), we record revenue in an amount that reflects the consideration to which we expect to be entitled in exchange for goods or services promised to customers. Under ASC 606, we follow a five-step model to: (1) identify the contract with our customer; (2) identify our performance obligations in our contract; (3) determine the transaction price for our contract; (4) allocate the transaction price to our performance obligations; and (5) recognize revenue using one of the following two methods:

- Over time - We recognize revenue using the over time method when there is a continuous transfer of control to the customer over the contractual period of performance. This generally occurs when we enter into a long-term contract relating to the design, development or manufacture of complex equipment or technology platforms to a buyer's specification (or to provide services related to the performance of such contracts). Continuous transfer of control is typically supported by contract clauses which allow our customers to unilaterally terminate a contract for convenience, pay for costs incurred plus a reasonable profit and take control of work-in-process. Revenue recognized over time is generally based on the extent of progress toward completion of the related performance obligations. The selection of the method to measure progress requires judgment and is based on the nature of the products or services provided. In certain instances, typically for firm fixed-price contracts, we use the cost-to-cost measure because it best depicts the transfer of control to the customer which occurs as we incur costs on our contracts. Under the cost-to-cost measure, the extent of progress toward completion is measured based on the ratio of costs incurred to date to the total estimated costs at completion, including warranty costs. Revenues, including estimated fees or profits, are recorded proportionally as costs are incurred. Costs to fulfill generally include direct labor, materials, subcontractor costs, other direct costs and an allocation of indirect costs. When these contracts are modified, the additional goods or services are generally not distinct from those already provided. As a result, these modifications form part of an existing contract and we must update the transaction price and our measure of progress for the single performance obligation and recognize a cumulative catch-up to revenue and gross profits.

For over time contracts using a cost-to-cost measure of progress, we have an estimate at completion ("EAC") process in which management reviews the progress and execution of our performance obligations. This EAC process requires management judgment relative to assessing risks, estimating contract revenue and costs, and making assumptions for schedule and technical issues. Since certain contracts extend over a long period of time, the impact of revisions in revenue and or cost estimates during the progress of work may impact current period earnings through a cumulative adjustment. Additionally, if the EAC process indicates a loss, a provision is made for the total anticipated loss in the period that it becomes evident. Contract revenue and cost estimates for significant contracts are generally reviewed and reassessed at least quarterly.

The cost-to-cost method is principally used to account for contracts in our mission-critical technologies and high-performance transmission technologies product lines and, to a lesser extent, certain location-based and messaging infrastructure contracts in our public safety and location technologies product line. For service-based contracts in our public safety and location technologies product line, we recognize revenue over time. These services are typically recognized as a series of services performed over the contract term using the straight-line method, or based on our customers' actual usage of the networks and platforms which we provide.

- Point in time - When a performance obligation is not satisfied over time, we must record revenue using the point in time accounting method which generally results in revenue being recognized upon shipment or delivery of a promised good or service to a customer. This generally occurs when we enter into short term contracts or purchase orders where items are provided to customers with relatively quick turn-around times. Modifications to such contracts and or purchase orders, which typically provide for additional quantities or services, are accounted for as a new contract because the pricing for these additional quantities or services are based on standalone selling prices.

## Notes to Consolidated Financial Statements, Continued

Point in time accounting is principally applied to contracts in our satellite ground station technologies product line (which includes satellite modems, solid-state and traveling wave tube amplifiers) and certain contracts for our solid-state, high-power amplifiers in our high-performance transmission technologies product line. Point in time accounting is also applied to certain contracts in our mission-critical technologies product line. The contracts related to these product lines do not meet the requirements for over time revenue recognition because our customers cannot utilize the equipment for its intended purpose during any phase of our manufacturing process; customers do not simultaneously receive and or consume the benefits provided by our performance; customers do not control the asset (i.e., prior to delivery, customers cannot direct the use of the asset, sell or exchange the equipment, etc.); and, although many of our contracts have termination for convenience clauses and or an enforceable right to payment for performance completed to date, our performance creates an asset with an alternative use through the point of delivery.

In determining that our equipment has alternative use, we considered the underlying manufacturing process for our products. In the early phases of manufacturing, raw materials and work in process (including subassemblies) consist of common parts that are highly fungible among many different types of products and customer applications. Finished products are either configured to our standard configuration or based on our customers' specifications. Finished products, whether built to our standard specification or to a customers' specification, can be sold to a variety of customers and across many different end use applications with minimal rework, if needed, and without incurring a significant economic loss.

When identifying a contract with our customer, we consider when it has approval and commitment from both parties, if the rights of the parties are identified, if the payment terms are identified, if it has commercial substance and if collectability is probable.

When identifying performance obligations, we consider whether there are multiple promises and how to account for them. In our contracts, multiple promises are separated if they are distinct, both individually and in the context of the contract. If multiple promises in a contract are highly interrelated or comprise a series of distinct services performed over time, they are combined into a single performance obligation. In some cases, we may also provide the customer with an additional service-type warranty, which we recognize as a separate performance obligation. Service-type warranties do not represent a significant portion of our consolidated net sales. When service-type warranties represent a separate performance obligation, the revenue is deferred and recognized ratably over the extended warranty period. Our contracts, from time-to-time, may also include options for additional goods and services. To-date, these options have not represented material rights to the customer as the pricing for them reflects standalone selling prices. As a result, we do not consider options we offer to be performance obligations for which we must allocate a portion of the transaction price. In many cases, we provide assurance-type warranty coverage for some of our products for a period of at least one year from the date of delivery.

When identifying the transaction price, we typically utilize the contract's stated price as a starting point. The transaction price in certain arrangements may include estimated amounts of variable consideration, including award fees, incentive fees or other provisions that can either increase or decrease the transaction price. We estimate variable consideration as the amount to which we expect to be entitled, and we include estimated amounts in the transaction price to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur when the estimation uncertainty is resolved. The estimation of this variable consideration and determination of whether to include estimated amounts in the transaction price are based largely on an assessment of our anticipated performance and all information (e.g., historical, current and forecasted) that is reasonably available to us.

When allocating the contract's transaction price, we consider each distinct performance obligation. For contracts with multiple performance obligations, we allocate the contract's transaction price to each performance obligation using our best estimate of the standalone selling price of each distinct good or service in the contract. We determine standalone selling price based on the price at which the performance obligation is sold separately. If the standalone selling price is not observable through past transactions, we estimate the standalone selling price taking into account available information such as market conditions, including geographic or regional specific factors, competitive positioning, internal costs, profit objectives and internally approved pricing guidelines related to the performance obligations.



COMTECH TELECOMMUNICATIONS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

Almost all of our contracts with customers are denominated in U.S. dollars and typically are either firm fixed-price or cost reimbursable type contracts (including fixed-fee, incentive-fee and time-and-material type contracts). In almost all of our contracts with customers, we are the principal in the arrangement and report revenue on a gross basis. Transaction prices for contracts with U.S. domestic and international customers are usually based on specific negotiations with each customer and in the case of the U.S. government, sometimes based on estimated or actual costs of providing the goods or services in accordance with applicable regulations. Sales by geography and customer type, as a percentage of consolidated net sales, are as follows:

	Fiscal Years Ended July 31,		
	2020	2019	2018
<u>United States</u>			
U.S. government	36.2 %	40.1 %	35.5 %
Domestic	40.3 %	34.5 %	38.9 %
Total United States	76.5 %	74.6 %	74.4 %
International	23.5 %	25.4 %	25.6 %
Total	100.0 %	100.0 %	100.0 %

Sales to U.S. government customers include sales to the U.S. Department of Defense ("DoD"), intelligence and civilian agencies, as well as sales directly to or through prime contractors. Domestic sales include sales to commercial customers, as well as to U.S. state and local governments. Included in domestic sales are sales to Verizon Communications Inc. ("Verizon"). Sales to Verizon were 10.0% of consolidated net sales for fiscal 2018. Except for the U.S. government, there were no customers that represented more than 10.0% of consolidated net sales during fiscal 2020 and 2019. International sales for fiscal 2020, 2019 and 2018 (which include sales to U.S. domestic companies for inclusion in products that are sold to international customers) were \$145,107,000, \$170,607,000 and \$145,784,000, respectively. Except for the U.S., no individual country (including sales to U.S. domestic companies for inclusion in products that are sold to a foreign country) represented more than 10.0% of consolidated net sales for fiscal 2020, 2019 and 2018.

The following tables summarize our disaggregation of revenue consistent with information reviewed by our chief operating decision-maker ("CODM") for the fiscal years ended July 31, 2020 and 2019. We believe these categories best depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors which impact our business:

	Fiscal Year Ended July 31, 2020		
	Commercial Solutions	Government Solutions	Total
<u>Geographical region and customer type</u>			
U.S. government	\$ 52,327,000	171,036,000	\$ 223,363,000
Domestic	208,284,000	39,961,000	248,245,000
Total United States	260,611,000	210,997,000	471,608,000
International	93,119,000	51,988,000	145,107,000
Total	\$ 353,730,000	262,985,000	\$ 616,715,000
<u>Contract type</u>			
Firm fixed-price	\$ 349,855,000	178,237,000	\$ 528,092,000
Cost reimbursable	3,875,000	84,748,000	88,623,000
Total	\$ 353,730,000	262,985,000	\$ 616,715,000
<u>Transfer of control</u>			
Point in time	\$ 142,448,000	136,518,000	\$ 278,966,000
Over time	211,282,000	126,467,000	337,749,000
Total	\$ 353,730,000	262,985,000	\$ 616,715,000

## COMTECH TELECOMMUNICATIONS CORP. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements, Continued

	Fiscal Year Ended July 31, 2019		
	Commercial Solutions	Government Solutions	Total
<u>Geographical region and customer type</u>			
U.S. government	\$ 68,534,000	200,708,000	\$ 269,242,000
Domestic	192,516,000	39,432,000	231,948,000
Total United States	261,050,000	240,140,000	501,190,000
International	96,243,000	74,364,000	170,607,000
Total	\$ 357,293,000	314,504,000	\$ 671,797,000
<u>Contract type</u>			
Firm fixed-price	\$ 350,850,000	231,400,000	\$ 582,250,000
Cost reimbursable	6,443,000	83,104,000	89,547,000
Total	\$ 357,293,000	314,504,000	\$ 671,797,000
<u>Transfer of control</u>			
Point in time	\$ 177,090,000	176,067,000	\$ 353,157,000
Over time	180,203,000	138,437,000	318,640,000
Total	\$ 357,293,000	314,504,000	\$ 671,797,000

The timing of revenue recognition, billings and collections results in receivables, unbilled receivables and contract liabilities on our Consolidated Balance Sheet. Under typical payment terms for our contracts accounted for over time, amounts are billed as work progresses in accordance with agreed-upon contractual terms, either at periodic intervals (e.g., monthly) or upon achievement of contractual milestones. For certain contracts with provisions that are intended to protect customers in the event we do not satisfy our performance obligations, billings occur subsequent to revenue recognition, resulting in unbilled receivables. In fiscal 2020, contract assets increased \$417,000 due to business combinations discussed in *Note (2) - "Acquisitions."* Under ASC 606, unbilled receivables constitute contract assets. There were no material impairment losses recognized on contract assets during the fiscal years ended 2020 and 2019, respectively. On large long-term contracts, and for contracts with international customers that do not do business with us regularly, payment terms typically require advanced payments and deposits. Under ASC 606, payments received from customers in excess of revenue recognized to-date results in a contract liability. These contract liabilities are not considered to represent a significant financing component of the contract because we believe these cash advances and deposits are generally used to meet working capital demands which can be higher in the earlier stages of a contract. Also, advanced payments and deposits provide us with some measure of assurance that the customer will perform on its obligations under the contract. Under the typical payment terms for our contracts accounted for at a point in time, costs are accumulated in inventory until the time of billing, which generally coincides with revenue recognition. In fiscal 2020, contract liabilities increased \$6,890,000 due to business combinations discussed in *Note (2) - "Acquisitions."* Of the contract liability balance at July 31, 2019 and August 1, 2018, \$34,225,000 and \$33,139,000 was recognized as revenue during fiscal years 2020 and 2019, respectively.

We recognize the incremental costs to obtain or fulfill a contract as an expense when incurred if the amortization period of the asset is one year or less. Incremental costs to obtain or fulfill contracts with an amortization period greater than one year were not material.

As commissions payable to our internal sales and marketing employees or contractors are contingent upon multiple factors, such commissions are not considered direct costs to obtain or fulfill a contract with a customer and are expensed as incurred in selling, general and administrative expenses on our Consolidated Statements of Operations. As for commissions payable to our third-party sales representatives related to large long-term contracts, we do consider these types of commissions both direct and incremental costs to obtain and fulfill such contracts. Therefore, such commissions are included in total estimated costs at completion for such contracts and expensed over time through cost of sales on our Consolidated Statements of Operations.

## Notes to Consolidated Financial Statements, Continued

Remaining performance obligations represent the transaction price of firm orders for which work has not been performed as of the end of a fiscal period. Remaining performance obligations, which we refer to as backlog, exclude unexercised contract options and potential orders under indefinite delivery / indefinite quantity ("IDIQ") contracts. As of July 31, 2020, the aggregate amount of the transaction price allocated to remaining performance obligations was \$620,912,000 (which represents the amount of our consolidated backlog). We estimate that a substantial portion of our remaining performance obligations at July 31, 2020 will be completed and recognized as revenue during the next twenty-four month period, with the rest thereafter. During fiscal 2020, revenue recognized from performance obligations satisfied, or partially satisfied, in previous periods (for example due to changes in the transaction price) was not material.

(d) Cash and Cash Equivalents

Our cash equivalents are short-term, highly liquid investments that are both readily convertible to known amounts of cash and have insignificant risk of change in value as a result of changes in interest rates. Our cash and cash equivalents, as of July 31, 2020 and 2019, amounted to \$47,878,000 and \$45,576,000, respectively, and primarily consist of bank deposits and money market deposit accounts insured by the Federal Deposit Insurance Corporation. Cash equivalents are carried at cost, which approximates fair value.

(e) Inventories

Our inventories are stated 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 inventories are reduced to their estimated net realizable value by a charge to cost of sales in the period such excess costs are determined. Our inventories are principally recorded using either average or standard costing methods.

Work-in-process (including our contracts-in-progress) and finished goods inventory reflect all accumulated production costs, which are comprised of direct production costs and overhead, and is reduced by amounts recorded in cost of sales as the related revenue is recognized. Indirect costs relating to long-term contracts, which include expenses such as general and administrative, are charged to expense as incurred and are not included in our cost of sales or work-in-process (including our contracts-in-progress) and finished goods inventory.

(f) Long-Lived Assets

Our machinery and equipment, which are recorded at cost, are depreciated or amortized over their estimated useful lives (three to eight years) under the straight-line method. Capitalized values of properties and leasehold improvements under leases are amortized over the life of the lease or the estimated life of the asset, whichever is less.

Goodwill represents the excess cost of a business acquisition over the fair value of the net assets acquired. In accordance with FASB ASC 350 "*Intangibles - Goodwill and Other*" goodwill is not amortized. We periodically, at least on an annual basis in the first quarter of each fiscal year, review goodwill, considering factors such as projected cash flows and revenue and earnings multiples, to determine whether the carrying value of the goodwill is impaired. If we fail the quantitative assessment of goodwill impairment ("quantitative assessment"), we would be required to recognize an impairment loss equal to the amount that a reporting unit's carrying value exceeded its fair value; however, any loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. We define our reporting units to be the same as our operating segments.

We performed our annual goodwill impairment assessment for fiscal 2021 on August 1, 2020 (the first day of our fiscal 2021). See *Note (14) - "Goodwill"* for more information. Unless there are future indicators that the fair value of a reporting unit is more likely than not less than its carrying value, such as a significant adverse change in our future financial performance, our next impairment assessment for goodwill will be performed and completed in the first quarter of fiscal 2022. Any impairment charges that we may record in the future could be material to our results of operations and financial condition.

## Notes to Consolidated Financial Statements, Continued

We assess the recoverability of the carrying value of our other long-lived assets, including identifiable intangible assets with finite useful lives, whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. We evaluate the recoverability of such assets based upon the expectations of undiscounted cash flows from such assets. If the sum of the expected future undiscounted cash flows were less than the carrying amount of the asset, a loss would be recognized for the difference between the fair value and the carrying amount.

(g) Research and Development Costs

We charge research and development costs to operations as incurred, except in those cases in which such costs are reimbursable under customer funded contracts. In fiscal 2020, 2019 and 2018, we were reimbursed by customers for such activities in the amount of \$11,923,000, \$14,679,000 and \$16,924,000, respectively. These amounts are not reflected in the reported research and development expenses in each of the respective periods but are included in net sales with the related costs included in cost of sales in each of the respective periods.

(h) Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

We determine the uncertain tax positions taken or expected to be taken in income tax returns in accordance with the provisions of FASB ASC 740-10-25 "*Income Taxes*," which prescribes a two-step evaluation process for tax positions. The first step is recognition based on a determination of whether it is more-likely-than-not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The second step is to measure a tax position that meets the more-likely-than-not threshold. The tax position is measured as the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement. If a tax position does not meet the more-likely-than-not recognition threshold, the benefit of that position is not recognized in the financial statements. Our policy is to recognize potential interest and penalties related to uncertain tax positions in income tax expense.

(i) 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 the amount an employee must pay upon assumed exercise of stock-based awards and the amount of stock-based compensation cost attributed to future services and not yet recognized.

There were no repurchases of our common stock during the fiscal years ended July 31, 2020, 2019 and 2018. See *Note (16) - "Stockholders' Equity"* for more information.

Weighted average stock options, RSUs and restricted stock outstanding of 1,348,000, 1,347,000 and 1,739,000 shares for fiscal 2020, 2019 and 2018, respectively, were not included in our diluted EPS calculation because their effect would have been anti-dilutive.

Our EPS calculations exclude 201,000, 243,000 and 258,000 weighted average performance shares outstanding for fiscal 2020, 2019 and 2018, respectively, as the performance conditions have not yet been satisfied. However, net income (the numerator) for EPS calculations for each respective period, is reduced by the compensation expense related to these awards.

COMTECH TELECOMMUNICATIONS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

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

	Fiscal Years Ended July 31,		
	2020	2019	2018
<b>Numerator:</b>			
Net income for basic calculation	\$ 7,020,000	25,041,000	29,769,000
Numerator for diluted calculation	\$ 7,020,000	25,041,000	29,769,000
<b>Denominator:</b>			
Denominator for basic calculation	24,798,000	24,124,000	23,825,000
<b>Effect of dilutive securities:</b>			
Stock-based awards	101,000	178,000	215,000
Denominator for diluted calculation	24,899,000	24,302,000	24,040,000

(j) Fair Value Measurements and Financial Instruments

Using the fair value hierarchy described in FASB ASC 820 "*Fair Value Measurements and Disclosures*," 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 (such as accounts receivable) and other current liabilities (including accounts payable and accrued expenses) approximate their fair values due to their short-term maturities.

The fair value of our Credit Facility that we entered into on October 31, 2018 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.

As of July 31, 2020 and 2019, other than the financial instruments discussed above, we had no other significant assets or liabilities included in our Consolidated Balance Sheets recorded at fair value, as such term is defined by FASB ASC 820.

(k) Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management 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. We make significant estimates in many areas of our accounting, including but not limited to the following: long-term contracts, stock-based compensation, intangible assets and liabilities including goodwill, provision for excess and obsolete inventory, allowance for doubtful accounts, warranty obligations and income taxes. Actual results may differ from those estimates.

(l) Comprehensive Income

In accordance with FASB ASC 220 "*Comprehensive Income*," we report all changes in equity during a period, except those resulting from investment by owners and distribution to owners, for the period in which they are recognized. Comprehensive income is the total of net income and all other non-owner changes in equity (or other comprehensive income) such as unrealized gains/losses on securities classified as available-for-sale, foreign currency translation adjustments and minimum pension liability adjustments. Comprehensive income was the same as our net income in fiscal 2020, 2019 and 2018.

## Notes to Consolidated Financial Statements, Continued

(m) Reclassifications

Certain reclassifications have been made to previously reported consolidated financial statements to conform to the fiscal 2020 presentation.

(n) Adoption of Accounting Standards and Updates

We are required to prepare our consolidated financial statements in accordance with the Financial Accounting Standards 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 fiscal 2020, we adopted:

- FASB ASU No. 2016-02 Leases (Topic 842). See Note (9) - "Leases" for further information.
- FASB ASU No. 2017-11, which provides guidance on the accounting for certain financial instruments with embedded features that result in the strike price of the instrument or embedded conversion option being reduced on the basis of the pricing of future equity offerings (commonly referred to as "down round" features). On August 1, 2019, we adopted this ASU. Our adoption did not have any impact on our consolidated financial statements and disclosures, as we did not have any financial instruments with such "down round" features.
- FASB ASU No. 2017-12, which expands and refines hedge accounting for both non-financial and financial risk components and simplifies and aligns the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. On August 1, 2019, we adopted this ASU. Our adoption did not have any impact on our consolidated financial statements and disclosures, as we are not a party to any such hedging transactions.
- FASB ASU No. 2018-07, which expands the scope of ASC 718 to include certain share-based payment transactions for acquiring goods and services from nonemployees. On August 1, 2019, we adopted this ASU. Our adoption did not have any impact on our consolidated financial statements and disclosures, as we did not have any outstanding share-based awards with nonemployees that required remeasurement.
- FASB ASU No. 2018-16, which expands the list of eligible U.S. benchmark interest rates permitted in the application of hedge accounting due to broad concerns about the long-term sustainability of the LIBO Rate. This ASU adds the Overnight Index Swap ("OIS") rate, based on the Secured Overnight Financing Rate ("SOFR"), as an eligible U.S. benchmark interest rate. On August 1, 2019, we adopted this ASU. Our adoption did not have any impact on our consolidated financial statements and disclosures, as we are not a party to any such hedging transactions.

(2) Acquisitions*Solacom Technologies Inc.*

On February 28, 2019, we completed our acquisition of Solacom Technologies Inc. ("Solacom"), pursuant to the Arrangement Agreement, dated as of January 7, 2019, by and among Solacom, Comtech and Solar Acquisition Corp., a Canadian corporation and a direct, wholly-owned subsidiary of Comtech. Solacom is a leading provider of Next Generation 911 ("NG-911") solutions for public safety agencies. The acquisition of Solacom was a significant step in our strategy of enhancing our public safety and location technologies.

## Notes to Consolidated Financial Statements, Continued

The acquisition had an aggregate purchase price for accounting purposes of \$32,934,000, of which \$27,328,000 was settled in cash and \$5,606,000 was settled with the issuance of 208,669 shares of Comtech's common stock. The fair value of consideration transferred in connection with this acquisition was \$31,489,000, which was net of \$1,445,000 of cash acquired. The cash portion of the purchase price was funded principally through borrowings under our Credit Facility. We accounted for the acquisition of Solacom under the acquisition method of accounting in accordance with FASB ASC 805, "Business Combinations" ("ASC 805"). The purchase price was allocated to the assets acquired and liabilities assumed, based on their fair value as of February 28, 2019, pursuant to the business combination accounting rules and was finalized as of January 31, 2020. Acquisition plan expenses were not included as a component of consideration transferred and were expensed in the period incurred. Pro forma financial information was not disclosed, as the acquisition was not material.

*GD NG-911 Business*

On April 29, 2019, we completed the acquisition of a state and local government NG-911 business pursuant to the Asset Purchase Agreement, dated as of April 29, 2019, by and among General Dynamics Information Technology, Inc., Comtech and Comtech NextGen LLC, a Delaware limited liability company and indirect, wholly-owned subsidiary of Comtech. The acquisition of this NG-911 business (the "GD NG-911 business") had a final cash purchase price of \$11,013,000. In connection with this acquisition, we also announced an award of a five-year contract to develop, implement and operate a NG-911 emergency communications system for a Northeastern state. Immediately after our announcement of this acquisition, we hired approximately sixty GD NG-911 employees and completed the integration of this business into our Commercial Solutions segment's public safety and location technologies product line. The acquisition, contract award and hiring of talented employees are expected to strengthen Comtech's position in the growing NG-911 solutions market. We accounted for the acquisition of this business under the acquisition method of accounting in accordance with FASB ASC 805. The purchase price was allocated to the assets acquired and liabilities assumed, based on their fair value as of April 29, 2019, pursuant to the business combination accounting rules and was finalized as of April 29, 2020. Acquisition plan expenses were not included as a component of consideration transferred and were expensed in the period incurred. Pro forma financial information is not disclosed, as the acquisition was not material.

*CGC Technology Limited*

On January 27, 2020, we completed the acquisition of CGC Technology Limited ("CGC"), a privately held company located in the United Kingdom, pursuant to the Share Purchase Agreement, dated as of January 27, 2020. CGC is a leading provider of high precision full motion fixed and mobile X/Y satellite tracking antennas, reflectors, radomes and other ground station equipment around the world. The acquisition of CGC brought established relationships with several top-tier European aerospace companies and other government entities, and we expect CGC to participate in the anticipated growth in the number of low Earth orbit ("LEO") and medium Earth orbit ("MEO") satellite constellations.

The acquisition has a preliminary purchase price for accounting purposes of \$23,650,000, of which \$12,075,000 was payable in cash and \$11,575,000 was payable by the issuance of 323,504 shares of Comtech's common stock at a volume weighted average stock price of \$35.78. The fair value of consideration transferred in connection with this acquisition was \$22,740,000, which was net of \$160,000 of cash acquired and \$750,000 payable by us upon the first anniversary of the closing of the transaction, subject to certain conditions. The preliminary purchase price for accounting purposes is subject to finalization.

We are accounting for the acquisition of CGC under the acquisition method of accounting in accordance with FASB ASC 805. The purchase price was allocated to the assets acquired and liabilities assumed, based on their preliminary fair value as of January 27, 2020, pursuant to the business combination accounting rules. Acquisition plan expenses were not included as a component of consideration transferred and were expensed in the period incurred. Our consolidated statement of operations for the fiscal year ended July 31, 2020 includes a nominal amount of revenue contribution from CGC. Pro forma financial information is not disclosed, as the acquisition was not material.

COMTECH TELECOMMUNICATIONS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

The following table summarizes the preliminary fair value of the assets acquired and liabilities assumed in connection with the CGC acquisition:

	Purchase Price Allocation <sup>(1)</sup>	Measurement Period Adjustments	Purchase Price Allocation (as adjusted)	
Payable in cash	\$ 12,075,000	—	\$ 12,075,000	
Payable in common stock issued by Comtech	11,575,000	—	11,575,000	
Preliminary purchase price at fair value	<u>\$ 23,650,000</u>	<u>—</u>	<u>\$ 23,650,000</u>	
<u>Preliminary allocation of aggregate purchase price:</u>				
Cash and cash equivalents	\$ 160,000	—	\$ 160,000	
Current assets	4,390,000	514,000	4,904,000	
Property, plant and equipment	1,457,000	(760,000)	697,000	
Operating lease assets	924,000	—	924,000	
Deferred tax assets, non-current	1,075,000	(605,000)	470,000	
Non-current assets	—	89,000	89,000	
Contract liabilities	(6,890,000)	—	(6,890,000)	
Accrued warranty obligations	(1,000,000)	—	(1,000,000)	
Other current liabilities	(6,198,000)	3,094,000	(3,104,000)	
Non-current liabilities	(1,329,000)	2,000	(1,327,000)	
Net tangible liabilities at preliminary fair value	\$ (7,411,000)	2,334,000	\$ (5,077,000)	
<u>Identifiable intangibles, deferred taxes and goodwill:</u>				
				<u>Estimated Useful Lives</u>
Technology	\$ 5,000,000	1,700,000	\$ 6,700,000	20 years
Customer relationships	6,500,000	1,600,000	8,100,000	17 years
Trade name	800,000	200,000	1,000,000	5 years
Deferred tax liabilities	(2,091,000)	(876,000)	(2,967,000)	
Goodwill	20,852,000	(4,958,000)	15,894,000	Indefinite
Preliminary allocation of aggregate purchase price	<u>\$ 23,650,000</u>	<u>—</u>	<u>\$ 23,650,000</u>	

<sup>(1)</sup> As reported in the Company's Quarterly Report on Form 10-Q for the nine months ended April 30, 2020.

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 preliminary fair value of customer relationships (which include acquired 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. The preliminary fair value of technology and trade name was based on the discounted capitalization of royalty expense saved because we now own the assets. Among the factors contributing to the recognition of goodwill, as a component of the preliminary 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 segment based on specific identification and is generally not deductible for income tax purposes.

The allocation of the preliminary purchase price shown in the above table was based upon a preliminary valuation and estimates and assumptions that are subject to change within the purchase price allocation period, generally one year from the acquisition date. The primary areas of the purchase price allocation not yet finalized include the purchase price (due to potential indemnification obligations of the seller under the Share Purchase Agreement), a final assessment of assets acquired and liabilities assumed, income taxes and residual goodwill.



## Notes to Consolidated Financial Statements, Continued

*UHP Networks Inc.*

In November 2019, we entered into an agreement to acquire UHP Networks, Inc. and its sister company (together, "UHP"), a leading provider of innovative and disruptive satellite ground station technology solutions. UHP is based in Canada and has developed revolutionary technology that is transforming the Very Small Aperture Terminal ("VSAT") market. With end-markets for high-speed satellite-based networks significantly growing, our acquisition of UHP, if consummated, will allow us to enhance our solution offerings with low cost time division multiple access ("TDMA") satellite modems, which we do not currently offer. In June 2020, we agreed with UHP to amend the terms of our purchase agreement, which resulted in the total aggregate purchase price being reduced by approximately 24% from \$50,000,000 to \$38,000,000 (of which \$5,000,000 will be paid in cash, with the remainder in shares of our common stock, cash, or a combination of both, as we may elect at the time of closing). The transaction is subject to customary closing conditions, including regulatory approval to allow us to purchase UHP's sister company which is headquartered in Moscow. In August 2020, at the request of the Federal Antimonopoly Service ("FAS") of the Russian Federation we submitted an application for regulatory approval to the FAS and the Commission for Supervising Foreign Investments in the Russian Federation (the "Russian Commission") pursuant to Russia's Foreign Investment Law ("FIL"). In order to purchase UHP's sister company, which is based in Moscow, approval by the Russian Commission and the FAS is required. If we do not receive approval by December 31, 2020, either we or UHP may terminate the purchase agreement.

*Gilat Satellite Networks Ltd.*

On January 29, 2020, we entered into an Agreement and Plan of Merger (the "Merger Agreement") with Gilat Satellite Networks Ltd. ("Gilat"), a worldwide leader in satellite networking technology, solutions and services with market leading positions in the satellite ground station and in-flight connectivity solutions markets and deep expertise in operating large network infrastructures. The acquisition, if consummated, would provide several strategic benefits to us including:

- strengthening our position as a leading supplier of advanced communications solutions, uniquely capable of servicing the expanding need for ground infrastructure to support both existing and emerging satellite networks;
- expanding our product portfolio with highly complementary technologies including Gilat's high-performance TDMA-based satellite modems and its next generation amplifiers;
- facilitating adoption of our satellite technologies into the 4G and 5G cellular backhaul ecosystems;
- bolstering our world-class research and development capabilities, enabling us to offer customers more complete end-to-end technology solutions; and
- enhancing our ability to accelerate shareholder value creation by contributing to our ongoing strategy to move toward higher margin solutions and by increasing customer diversification geographically and by market.

Under the terms of the Merger Agreement, Comtech would acquire Gilat by way of a merger of Comtech's newly formed subsidiary with and into Gilat, with Gilat surviving the merger as a wholly-owned subsidiary of Comtech. Pursuant to the Merger Agreement, each Gilat ordinary share will be converted into the right to receive consideration of (i) \$7.18 in cash, without interest, plus (ii) 0.08425 of a share of Comtech common stock (worth approximately \$1.12 per Gilat ordinary share as of September 24, 2020), with cash payable in lieu of fractional shares. Based on the terms agreed to on January 29, 2020 and the September 24, 2020 closing price of Comtech Common Stock of \$13.32, the total amount payable to Gilat shareholders would have been approximately \$465,800,000 (consisting of \$402,900,000 in cash with the remainder in Comtech Common Stock) or \$8.30 per Gilat ordinary share. We expect to fund the cash portion of the amount payable by redeploying a large portion of both our and Gilat's unrestricted cash and cash equivalents, with the remaining funds provided by a new secured credit facility (the "Gilat Acquisition Related Credit Facility") that would replace our existing Credit Facility, which is discussed further in *Note (11) - "Credit Facility."*

During the six months ended June 30, 2020, Gilat publicly reported revenue of \$85,988,000, a GAAP operating loss of \$14,219,000 and negative Adjusted EBITDA (as Gilat defines it) of \$4,895,000. As of June 30, 2020, Gilat had approximately \$59,601,000 of unrestricted cash and cash equivalents and debt of approximately \$4,000,000.

## Notes to Consolidated Financial Statements, Continued

See Note (13)(a) - "Commitments and Contingencies - Legal Proceedings and Other Matters" for further discussion of the Gilat acquisition and related litigation.

*NG-911, Inc.*

On February 21, 2020, we completed our acquisition of NG-911, Inc. ("NG-911"), a privately-held company based in Iowa, Illinois and Missouri, pursuant to a stock purchase agreement dated December 27, 2019. NG-911 is a pioneer in providing next generation 911 solutions, including those designed by Comtech Solacom Technologies, Inc., to public safety agencies in the Midwest. Of the \$1,188,000 total purchase price, \$781,000 was paid in cash at closing, with the remaining \$407,000 subject to an earn-out payable over a five-year period, subject to customary post-closing adjustments. The acquisition allows us to cost-effectively expand sales of our industry leading Solacom Guardian call management solutions for public safety. Pro forma financial information is not disclosed, as the acquisition was not material.

(3) Accounts Receivable

Accounts receivable consist of the following at July 31, 2020 and 2019:

	2020	2019
Receivables from commercial and international customers	\$ 67,109,000	85,556,000
Unbilled receivables from commercial and international customers	21,588,000	20,469,000
Receivables from the U.S. government and its agencies	32,870,000	38,856,000
Unbilled receivables from the U.S. government and its agencies	7,018,000	2,018,000
Total accounts receivable	128,585,000	146,899,000
Less allowance for doubtful accounts	1,769,000	1,867,000
Accounts receivable, net	<u>\$ 126,816,000</u>	<u>145,032,000</u>

Unbilled receivables as of July 31, 2020 relate to contracts-in-progress for which revenue has been recognized, but for which we have not yet earned the right to bill the customer for work performed to-date. Under ASC 606, unbilled receivables constitute contract assets. Management estimates that substantially all amounts not yet billed at July 31, 2020 will be billed and collected within one year.

Except for the U.S. government and its agencies, which represented 31.0% and 27.8%, respectively, there were no other customers which accounted for greater than 10.0% of total accounts receivable as of July 31, 2020 and July 31, 2019.

(4) Inventories

Inventories consist of the following at July 31, 2020 and 2019:

	2020	2019
Raw materials and components	\$ 59,175,000	53,959,000
Work-in-process and finished goods	42,203,000	40,576,000
Total inventories	101,378,000	94,535,000
Less reserve for excess and obsolete inventories	19,076,000	19,696,000
Inventories, net	<u>\$ 82,302,000</u>	<u>74,839,000</u>

As of July 31, 2020 and 2019, the amount of inventory directly related to long-term contracts (including contracts-in-progress) was \$7,215,000 and \$4,053,000, respectively, and the amount of inventory related to contracts from third-party commercial customers who outsource their manufacturing to us was \$1,387,000 and \$1,513,000, respectively.

## Notes to Consolidated Financial Statements, Continued

(5) Property, Plant and Equipment

Property, plant and equipment consist of the following at July 31, 2020 and 2019:

	2020	2019
Machinery and equipment	\$ 156,314,000	159,882,000
Leasehold improvements	15,596,000	14,265,000
	<u>171,910,000</u>	<u>174,147,000</u>
Less accumulated depreciation and amortization	144,873,000	146,121,000
Property, plant and equipment, net	<u>\$ 27,037,000</u>	<u>28,026,000</u>

Depreciation and amortization expense on property, plant and equipment amounted to \$10,386,000, \$11,927,000 and \$13,655,000 for the fiscal years ended July 31, 2020, 2019 and 2018, respectively.

(6) Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consist of the following at July 31, 2020 and 2019:

	2020	2019
Accrued wages and benefits	\$ 20,857,000	23,295,000
Accrued contract costs	15,306,000	15,007,000
Accrued warranty obligations	15,200,000	15,968,000
Accrued legal costs	2,539,000	2,835,000
Accrued commissions and royalties	4,621,000	5,114,000
Other	26,581,000	16,365,000
Accrued expenses and other current liabilities	<u>\$ 85,104,000</u>	<u>78,584,000</u>

As discussed further in Note (9) - "Leases," on August 1, 2019, we adopted Topic 842 and, as required by the new standard, reclassified \$2,934,000 of accrued expenses and other current liabilities as follows: (i) \$2,366,000 of short-term deferred rent liabilities related to operating leases were offset against the respective operating lease right-of-use assets; and (ii) the remaining \$568,000 of estimated facility exit costs were reclassified to the current portion of operating lease liabilities.

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 as of July 31, 2020 relate to estimated liabilities for assurance type 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, consideration of contractual obligations, future costs to resolve software issues 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.

COMTECH TELECOMMUNICATIONS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

Changes in our accrued warranty obligations during the fiscal years ended July 31, 2020 and 2019 were as follows:

	2020	2019
Balance at beginning of year	\$ 15,968,000	11,738,000
Reclass to contract liabilities (see below)	—	(1,679,000)
Provision for warranty obligations	2,277,000	3,902,000
Additions (in connection with acquisitions)	1,000,000	6,431,000
Charges incurred	(4,347,000)	(6,151,000)
Warranty settlement and reclass (see below)	302,000	1,727,000
Balance at end of year	<u>\$ 15,200,000</u>	<u>15,968,000</u>

On August 1, 2018, in connection with our adoption of ASC 606, \$1,679,000 of accrued warranty obligations presented in the above table were reclassified to contract liabilities, as they represented deferred revenue related to service-type warranty performance obligations.

Our current accrued warranty obligations at July 31, 2020 and 2019 include \$2,158,000 and \$3,999,000, respectively, of warranty obligations for a small product line that we refer to as the TCS 911 call handling software solution. This solution was licensed to customers prior to our acquisition of TeleCommunication Systems, Inc. ("TCS").

In connection with our acquisitions of Solacom, the GD NG-911 business and CGC, during the fiscal year ended July 31, 2020 and 2019, we assumed warranty obligations related to certain contracts acquired. See *Note (2) - "Acquisitions"* for further information pertaining to these acquisitions.

(7) Prior Period Cost Reduction Actions

During the first quarter of fiscal 2019, we took steps to improve our future operating results and successfully consolidated our Government Solutions segment's manufacturing facility located in Tampa, Florida with another facility that we maintain in Orlando, Florida. In doing so, during fiscal 2019, we recorded \$1,373,000 of facility exit costs in selling, general and administrative expenses in our Consolidated Statements of Operations. As discussed further in Note (9) - "Leases," on August 1, 2019, we adopted Topic 842 and, as required by the new standard, reclassified \$568,000 of estimated facility exit costs to the current portion of operating lease liabilities.

During the second quarter of fiscal 2019, we began an evaluation and repositioning of our public safety and location technologies solutions in order to focus on providing higher margin solution offerings. To-date, we have ceased offering certain solutions, have worked with customers to wind-down certain legacy contracts and have not renewed certain contracts. In connection with this evaluation and repositioning, we recorded estimated contract settlement costs of \$444,000 and \$6,351,000 for the fiscal years ended July 31, 2020 and 2019, respectively.

(8) Credit Facility

On October 31, 2018, we entered into a First Amended and Restated Credit Agreement (the "Credit Facility") with a syndicate of lenders, replacing our prior Credit Agreement dated as of February 23, 2016 (as amended by that certain First Amendment, dated as of June 6, 2017 (the "Prior Credit Facility")). In connection with the establishment of our Credit Facility, during the three months ended October 31, 2018, we wrote-off \$3,217,000 of deferred financing costs primarily related to the Term Loan Facility portion of our Prior Credit Facility and capitalized deferred financing costs of \$1,813,000 related to the Credit Facility.

The Credit Facility provides a senior secured loan facility of up to \$550,000,000 consisting of: (i) a revolving loan facility ("Revolving Loan Facility") with a borrowing limit of \$300,000,000; (ii) an accordion feature allowing us to borrow up to an additional \$250,000,000; (iii) a \$35,000,000 letter of credit sublimit; and (iv) a swingline loan credit sublimit of \$25,000,000.

## Notes to Consolidated Financial Statements, Continued

The Credit Facility matures on October 31, 2023 (the "Revolving Maturity Date"). If we issue new unsecured debt in excess of \$5,000,000 with a maturity date that is less than 91 days from October 31, 2023, the Revolving Maturity Date would automatically accelerate so that it would be 91 days earlier than the maturity date of the new unsecured debt.

The proceeds of the Credit Facility were used, in part, to repay in full the outstanding borrowings under the Prior Credit Facility, and additional proceeds of the Credit Facility are expected to be used by us for working capital and other general corporate purposes. As of July 31, 2020, the amount outstanding under our Credit Facility was \$149,500,000 which is reflected in the non-current portion of long-term debt on our Consolidated Balance Sheet. At July 31, 2020, we had \$3,067,000 of standby letters of credit outstanding under our Credit Facility related to guarantees of future performance on certain customer contracts and no outstanding commercial letters of credit. During the fiscal year ended July 31, 2020, we had outstanding balances under the Credit Facility ranging from \$125,000,000 to \$174,000,000.

As of July 31, 2020, total net deferred financing costs related to the Credit Facility were \$2,391,000 and are being amortized over the term of our Credit Facility through October 31, 2023.

Interest expense related to our Credit Facility, including amortization of deferred financing costs, recorded during the fiscal years ended July 31, 2020, 2019 and 2018 was \$5,905,000, \$8,859,000 and \$9,614,000, respectively. The amount for the fiscal year ended July 31, 2019 relates to both our Prior Credit Facility and our existing Credit Facility. Our blended interest rate approximated 3.87%, 5.25% and 5.40%, respectively, for fiscal 2020, 2019 and 2018.

Borrowings under the Credit Facility shall be either: (i) Alternate Base Rate borrowings, which bear interest from the applicable borrowing date at a rate per annum equal to (x) the greatest of (a) the Prime Rate (as defined) in effect on such day, (b) the Federal Funds Effective Rate (as defined) in effect on such day plus 1/2 of 1.00% per annum and (c) the Adjusted LIBO Rate (as defined) on such day (or, if such day is not a business day, the immediately preceding business day) plus 1.00% per annum, plus (y) the Applicable Rate (as defined), 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 plus (y) the Applicable Rate. Determination of the Applicable Rate is based on a pricing grid that is dependent upon our Secured Leverage Ratio (as defined) as of the end of each fiscal quarter for which consolidated financial statements have been most recently delivered.

The Credit Facility contains customary representations, warranties and affirmative covenants. The Credit Facility also contains customary negative covenants, subject to negotiated exceptions, including but not limited to: (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 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. In addition, under certain circumstances, we may be required to enter into amendments to the Credit Facility in connection with any further syndication of the Credit Facility.

The Credit Facility provides for, among other things: (i) no scheduled payments of principal until maturity; (ii) a maximum Secured Leverage Ratio of 3.75x trailing twelve months ("TTM") Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization ("Adjusted EBITDA") and a Maximum Total Leverage Ratio of 4.50x TTM Adjusted EBITDA, each with no step downs; and (iii) a Minimum Interest Expense Coverage Ratio of 3.25x TTM Adjusted EBITDA.

As of July 31, 2020, our Secured Leverage Ratio was 1.99x TTM Adjusted EBITDA compared to the maximum allowable Secured Leverage Ratio of 3.75x TTM Adjusted EBITDA. Our Interest Expense Coverage Ratio as of July 31, 2020 was 14.40x TTM Adjusted EBITDA compared to the Minimum Interest Expense Coverage Ratio of 3.25x TTM Adjusted EBITDA. Given our expected future business performance, we anticipate maintaining compliance with the terms and financial covenants in our Credit Facility for the foreseeable future.

## Notes to Consolidated Financial Statements, Continued

The obligations under the Credit Facility are guaranteed by certain of our domestic subsidiaries (the "Guarantors"). As collateral security under the Credit Facility and the guarantees thereof, we and the Guarantors have granted to the 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.

On December 6, 2018, we entered into the first amendment to the Credit Facility. The purpose of the amendment was to provide for a mechanism to replace the LIBO Rate for Eurodollar borrowings with an alternative benchmark interest rate, should the LIBO Rate generally become unavailable in the future on an other-than-temporary basis.

Capitalized terms used but not defined herein have the meanings set forth for such terms in the Credit Facility and the Prior Credit Facility, which have been documented and filed with the SEC.

As discussed in *Note (2) - "Acquisitions,"* in connection with the Merger Agreement with Gilat, we entered into the Gilat Acquisition Related Credit Facility, the exact terms of which are expected to be finalized upon completion of the Gilat acquisition, if it occurs. The Gilat Acquisition Related Credit Facility would replace our existing Credit Facility.

(9) Leases

On August 1, 2019, we adopted ASU No. 2016-02 - Leases (Topic 842), which requires the recognition of lease rights and obligations as assets and liabilities on the balance sheet. Previously, operating leases were not recognized on the balance sheet. As we elected the modified retrospective adoption method, prior-period information was not restated. We also elected the transition package of practical expedients available in the standard, which permits us to not reassess under the new standard our prior conclusions about lease identification, classification and initial direct costs. As part of our adoption, however, we did not elect to use the hindsight or land easements practical expedients.

On August 1, 2019, in connection with our adoption of Topic 842, we recognized \$35,825,000 of operating lease right-of-use ("ROU") assets (net of a \$3,023,000 deferred rent liability that existed as of August 1, 2019 under prior applicable GAAP) and \$38,848,000 of related liabilities. Except for the recording of the ROU assets and lease liabilities on our Consolidated Balance Sheet, and the expanded disclosures about our leasing activities, our adoption did not have a material impact on our consolidated financial statements. Our adoption also did not result in any cumulative-effect adjustment to opening retained earnings.

Our leases historically relate to the leasing of facilities and equipment. We determine at inception whether an arrangement is, or contains, a lease and whether the lease should be classified as an operating or a financing lease. At lease commencement, we recognize an ROU asset and lease liability based on the present value of the future lease payments over the estimated lease term. We have elected to not recognize an ROU asset or lease liability for any leases with terms of twelve months or less. Instead, for such short-term leases, we recognize lease expense on a straight-line basis over the lease term. Certain of our leases include options to extend the term of the lease or to terminate the lease early. When it is reasonably certain that we will exercise a renewal option or will not exercise a termination option, we include the impact of exercising or not exercising such option, respectively, in the estimate of the lease term. As our lease agreements do not explicitly state the discount rate implicit in the lease, we use our incremental borrowing rate ("IBR") on the commencement date to calculate the present value of future lease payments. Such IBR represents our estimated rate of interest to borrow on a collateralized basis over a term commensurate with the expected lease term.

Some of our leases include payments that are based on the Consumer Price Index ("CPI") or other similar indices. These variable lease payments are included in the calculation of the ROU asset and lease liability using the index as of the lease commencement date. Other variable lease payments, such as common area maintenance, property taxes, and usage-based amounts, are required by Topic 842 to be excluded from the ROU asset and lease liability and expensed as incurred. In addition to the present value of the future lease payments, the calculation of the ROU asset would also consider, to the extent applicable, any deferred rent upon adoption, lease pre-payments or initial direct costs of obtaining the lease (e.g., such as commissions).

For all classes of leased assets, we elected the practical expedient to not separate lease components (i.e., the actual item being leased, such as the facility or piece of equipment) from non-lease components (i.e., the distinct elements of a contract not related to securing the use of the leased asset, such as common area maintenance and consumable supplies).

## COMTECH TELECOMMUNICATIONS CORP. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements, Continued

Certain of our facility lease agreements (which are classified as operating leases) contain rent holidays or rent escalation clauses. For rent holidays and rent escalation clauses during the lease term, we record rental expense on a straight-line basis over the term of the lease. As of July 31, 2020, none of our leases contained a residual value guarantee and covenants included in our lease agreements are customary for the types of facilities and equipment being leased.

The components of lease expense are as follows:

	<u>Fiscal Year Ended July 31, 2020</u>
Finance lease expense:	
Amortization of ROU assets	\$ 175,000
Interest on lease liabilities	4,000
Operating lease expense	10,728,000
Short-term lease expense	3,045,000
Variable lease expense	4,033,000
Sublease income	(22,000)
Total lease expense	<u>\$ 17,963,000</u>

Additional information related to leases is as follows:

	<u>Fiscal Year Ended July 31, 2020</u>
Cash paid for amounts included in the measurement of lease liabilities:	
Operating leases - Operating cash outflows	\$ 11,437,000
Finance leases - Operating cash outflows	4,000
Finance leases - Financing cash outflows	322,000
ROU assets obtained in the exchange for lease liabilities (non-cash):	
Operating leases	\$ 3,561,000

COMTECH TELECOMMUNICATIONS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

The following table is a reconciliation of future cash flows relating to operating and financing lease liabilities presented on our Consolidated Balance Sheet as of July 31, 2020:

	Operating	Finance	Total
Fiscal 2021	\$ 9,373,000	\$ 60,000	\$ 9,433,000
Fiscal 2022	7,929,000	—	7,929,000
Fiscal 2023	6,251,000	—	6,251,000
Fiscal 2024	4,881,000	—	4,881,000
Fiscal 2025	4,215,000	—	4,215,000
Thereafter	2,798,000	—	2,798,000
Total future undiscounted cash flows	35,447,000	60,000	35,507,000
Less: Present value discount	3,091,000	3,000	3,094,000
Lease liabilities	\$ 32,356,000	\$ 57,000	\$ 32,413,000
Weighted-average remaining lease terms (in years)	4.53	1.83	
Weighted-average discount rate	4.04 %	6.37 %	

We lease our Melville, New York production facility from a partnership controlled by our CEO and Chairman. Lease payments made during the fiscal year ended July 31, 2020 were \$649,000. The current lease provides for our use of the premises as they exist through December 2021 with an option for an additional ten years. The annual rent of the facility for calendar year 2021 is \$665,000 and is subject to customary adjustments. We have a right of first refusal in the event of a sale of the facility.

As of July 31, 2020, we do not have any rental commitments that have not commenced.

As we have not restated prior year information given our method of adopting the new standard, the following represents our future minimum lease payments for operating leases and capital leases as of July 31, 2019 under ASC Topic 840 and as reported in our Form 10-K filed with the SEC on September 24, 2019:

	Operating	Capital	Total
Fiscal 2020	\$ 11,812,000	\$ 789,000	\$ 12,601,000
Fiscal 2021	8,723,000	—	8,723,000
Fiscal 2022	7,343,000	—	7,343,000
Fiscal 2023	5,776,000	—	5,776,000
Fiscal 2024	3,430,000	—	3,430,000
Thereafter	7,130,000	—	7,130,000
Total	\$ 44,214,000	\$ 789,000	\$ 45,003,000
Less amount representing interest	*	32,000	32,000
Present value of net minimum lease payments	*	\$ 757,000	\$ 44,971,000

\* Not applicable for operating leases

In September 2020, we signed a 15-year lease commencing in December 2020 for a facility in Chandler, Arizona to support our anticipated growth and long-term business goals for our satellite earth station product line. We anticipate that all existing Tempe, Arizona locations will be fully relocated to this new facility by February 2021.



## Notes to Consolidated Financial Statements, Continued

(10) Income Taxes

In December 2017, H.R.1, also known as the Tax Cuts and Jobs Act ("Tax Reform"), was enacted in the U.S. Tax Reform significantly lowered the amount of our current and future income tax expense primarily due to the reduction in the U.S. statutory income tax rate from 35.0% to 21.0%. This provision went into effect on January 1, 2018 and required us to remeasure our deferred tax assets and liabilities. In connection with Tax Reform, during fiscal 2018, we recorded a net discrete tax benefit of \$11,792,000, primarily related to the remeasurement of deferred tax liabilities associated with non-deductible amortization related to intangible assets. This remeasurement was recorded pursuant to ASC 740 "Income Taxes" ("ASC 740") and SEC Staff Accounting Bulletin ("SAB") 118, using estimates based on reasonable and supportable assumptions and available information as of such reporting date. In the event the Internal Revenue Service ("IRS") issues clarifying or interpretive guidance related to Tax Reform, it may result in a change to our estimated income tax. Beginning in fiscal 2019, Tax Reform resulted in the loss of our ability to take the domestic production activities deduction, which has been repealed, and also resulted in lower tax deductions for certain executive compensation expenses.

For fiscal 2020 and 2019, we were subject to a U.S. statutory income tax rate of 21.0%. For fiscal 2018, we were subject to a 35.0% statutory income tax rate with respect to the period August 1, 2017 through December 31, 2017 and a 21.0% statutory income tax rate with respect to the period January 1, 2018 through July 31, 2018, or a blended U.S. statutory income tax rate for fiscal 2018 of approximately 27.0%. As such, our effective tax rate for accounting purposes in fiscal 2018, excluding discrete items, was 27.0%.

Income before provision for (benefit from) income taxes consists of the following:

	Fiscal Years Ended July 31,		
	2020	2019	2018
U.S.	\$ 7,226,000	28,813,000	22,243,000
Foreign	2,084,000	97,000	2,383,000
	<u>\$ 9,310,000</u>	<u>28,910,000</u>	<u>24,626,000</u>

The provision for (benefit from) income taxes included in the accompanying Consolidated Statements of Operations consists of the following:

	Fiscal Years Ended July 31,		
	2020	2019	2018
Federal – current	\$ 1,053,000	(2,190,000)	367,000
Federal – deferred	721,000	4,782,000	(7,499,000)
State and local – current	1,137,000	1,715,000	440,000
State and local – deferred	(1,312,000)	(321,000)	1,115,000
Foreign – current	298,000	62,000	429,000
Foreign – deferred	393,000	(179,000)	5,000
Provision for (benefit from) income taxes	<u>\$ 2,290,000</u>	<u>3,869,000</u>	<u>(5,143,000)</u>

COMTECH TELECOMMUNICATIONS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

The provision for (benefit from) income taxes differed from the amounts computed by applying the U.S. Federal income tax rate as a result of the following:

	Fiscal Years Ended July 31,					
	2020		2019		2018	
	Amount	Rate	Amount	Rate	Amount	Rate
Computed "expected" tax expense	\$ 1,955,000	21.0 %	6,071,000	21.0 %	6,615,000	27.0 %
Increase (reduction) in income taxes resulting from:						
State and local income taxes, net of federal benefit	(278,000)	(3.0)	967,000	3.3	1,193,000	4.8
Stock-based compensation	308,000	3.3	(44,000)	(0.1)	(1,112,000)	(4.5)
Research and experimentation credits	(1,210,000)	(13.0)	(1,129,000)	(3.9)	(678,000)	(2.8)
Foreign-derived intangible income deduction	(162,000)	(1.7)	(632,000)	(2.2)	—	—
Nondeductible transaction costs	301,000	3.2	394,000	1.4	—	—
Nondeductible executive compensation	595,000	6.4	330,000	1.1	(22,000)	(0.1)
Fines and penalties	189,000	2.0	2,000	—	1,000	—
Audit settlements	1,000	—	(2,081,000)	(7.2)	—	—
Remeasurement of deferred taxes	(135,000)	(1.5)	—	—	(11,317,000)	(46.0)
Foreign income taxes	453,000	4.9	5,000	—	(221,000)	(0.9)
Other, net	273,000	3.0	(14,000)	—	398,000	1.5
Provision for (benefit from) income taxes	<u>\$ 2,290,000</u>	<u>24.6 %</u>	<u>3,869,000</u>	<u>13.4 %</u>	<u>(5,143,000)</u>	<u>(21.0)%</u>

## COMTECH TELECOMMUNICATIONS CORP. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements, Continued

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities at July 31, 2020 and 2019 are presented below:

	2020	2019
Deferred tax assets:		
Inventory and warranty reserves	\$ 5,786,000	7,318,000
Compensation and commissions	3,210,000	3,548,000
Contract liabilities	—	5,331,000
Federal, state and foreign research and experimentation credits	19,656,000	18,183,000
Stock-based compensation	4,955,000	5,817,000
Foreign scientific research and experimental development expenditures	1,765,000	1,689,000
Federal, state and foreign net operating losses	3,942,000	6,248,000
Lease liabilities	7,335,000	—
Other	6,600,000	9,012,000
Less: valuation allowance	<u>(11,471,000)</u>	<u>(12,568,000)</u>
Total deferred tax assets	41,778,000	44,578,000
Deferred tax liabilities:		
Plant and equipment	(801,000)	(1,362,000)
Lease right-of-use assets	(7,080,000)	—
Intangibles	(50,368,000)	(54,612,000)
Total deferred tax liabilities	<u>(58,249,000)</u>	<u>(55,974,000)</u>
Net deferred tax liabilities	<u>\$ (16,471,000)</u>	<u>(11,396,000)</u>

At July 31, 2020, our net deferred tax liability of \$16,471,000 includes \$1,166,000 of foreign net deferred tax assets that were recorded as other assets, net in our Consolidated Balance Sheets. At July 31, 2019, our net deferred tax liability of \$11,396,000 includes \$1,085,000 of foreign net deferred tax assets that were recorded as other assets, net in our Consolidated Balance Sheets.

We provide for income taxes under the provisions of ASC 740 which requires an asset and liability based approach in accounting for income taxes. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of them will not be realized. If management determines that it is more likely than not that some or all of its deferred tax assets will not be realized, a valuation allowance will be recorded against such deferred tax assets.

At July 31, 2020, we had federal alternative minimum tax credit carryforwards of \$506,000, which are available to offset future federal income taxes. We have federal research and experimentation credits of \$9,566,000 that will begin to expire in 2028. The timing and manner in which we may utilize tax credits in future tax years will be limited by the amounts and timing of future taxable income and by the application of the ownership change rules under Section 383 of the Internal Revenue Code.

We have state net operating loss carryforwards available of \$2,451,000 which expire through 2039, utilization of which will be limited by the amounts and timing of future taxable income and by the application of the ownership change rules under Section 382 of the Internal Revenue Code. We believe that it is more likely than not that the benefit from certain state net operating loss carryforwards will not be realized. In recognition of this risk, we have provided a valuation allowance of \$2,409,000 on the deferred tax assets relating to these state net operating loss carryforwards. We have state research and experimentation credit carryforwards of \$7,620,000 expiring through 2039. We believe that it is more likely than not that the benefit from certain state research and experimentation credits will not be realized. In recognition of this risk, we have provided a valuation allowance of \$7,140,000 on the deferred tax assets relating to these state credits.

COMTECH TELECOMMUNICATIONS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

At July 31, 2020, we had foreign deferred tax assets relating to net operating loss carryforwards of \$1,491,000. These losses were generated by Solacom prior to being acquired by Comtech and will begin to expire in 2024. We believe that it is more likely than not that a portion of these net operating loss carryforwards may not be realized. In recognition of this risk, we have provided a valuation allowance of \$656,000 on the deferred tax assets relating to these net operating loss carryforwards. We have foreign deferred tax assets relating to research and experimentation credits of \$2,471,000 that will begin to expire in 2020. We believe that it is more likely than not that the benefit from certain foreign research and experimentation credits may not be realized. In recognition of this risk, we have provided a valuation allowance of \$586,000 on the deferred tax assets relating to foreign research and experimentation credits. Our foreign earnings and profits are insignificant and, as such, we have not recorded any deferred tax liability on unremitted foreign earnings.

We must generate \$174,900,000 of taxable income in the future to fully utilize our net deferred tax assets as of July 31, 2020. Management believes it is more likely than not that the results of future operations will generate sufficient taxable income to realize the net deferred tax assets.

At July 31, 2020 and 2019, total unrecognized tax benefits were \$8,345,000 and \$7,215,000, respectively, including interest of \$75,000 and \$12,000, respectively. At July 31, 2020 and 2019, \$1,963,000 and 325,000, respectively, of our unrecognized tax benefits were recorded as non-current income taxes payable on our Consolidated Balance Sheets. The remaining unrecognized tax benefits of \$6,382,000 and \$6,890,000 at July 31, 2020 and 2019, respectively, were presented as an offset to the associated non-current deferred tax assets on our Consolidated Balance Sheets. Of the total unrecognized tax benefits, \$7,700,000 and \$6,670,000 at July 31, 2020 and 2019, respectively, net of the reversal of the federal benefit recognized as a deferred tax asset relating to state reserves, would favorably 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 consolidated financial statements. We do not expect that there will be any significant changes to our total unrecognized tax benefits within the next twelve months.

Our policy is to recognize potential interest and penalties relating to uncertain tax positions in income tax expense. The following table summarizes the activity related to our unrecognized tax benefits for fiscal years 2020, 2019 and 2018 (excluding interest):

	2020	2019	2018
Balance at beginning of period	\$ 7,203,000	9,137,000	8,586,000
Increase related to current period	684,000	893,000	645,000
Increase related to prior periods	464,000	17,000	49,000
Expiration of statute of limitations	(73,000)	(394,000)	(81,000)
Decrease related to prior periods	(8,000)	(2,450,000)	(62,000)
Balance at end of period	<u>\$ 8,270,000</u>	<u>7,203,000</u>	<u>9,137,000</u>

Our federal income tax returns for fiscal 2017 through 2019 are subject to potential future IRS audit. None of our state income tax returns prior to fiscal 2016 are subject to audit. None of TCS' state income tax returns prior to calendar year 2015 are subject to audit. Future tax assessments or settlements could have a material adverse effect on our consolidated results of operations and financial condition.

## Notes to Consolidated Financial Statements, Continued

(11) 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 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.

As of July 31, 2020, the aggregate number of shares of common stock which may be issued, pursuant to the Plan, may not exceed 10,962,500. 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 employee purchases under the ESPP with the issuance of new shares of our common stock.

As of July 31, 2020, we had granted stock-based awards pursuant to the Plan representing the right to purchase and/or acquire an aggregate of 9,174,926 shares (net of 4,248,147 expired and canceled awards), of which an aggregate of 6,753,327 have been exercised or settled.

As of July 31, 2020, the following stock-based awards, by award type, were outstanding:

	July 31, 2020
Stock options	1,422,025
Performance shares	206,482
RSUs and restricted stock	450,407
Share units	342,685
<b>Total</b>	<b>2,421,599</b>

Our ESPP provides for the issuance of up to 1,050,000 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 July 31, 2020, we have cumulatively issued 840,009 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 Consolidated Statements of Operations:

	Fiscal Years Ended July 31,		
	2020	2019	2018
Cost of sales	\$ 823,000	1,047,000	758,000
Selling, general and administrative expenses	7,527,000	9,336,000	6,866,000
Research and development expenses	925,000	1,044,000	945,000
Stock-based compensation expense before income tax benefit	9,275,000	11,427,000	8,569,000
Estimated income tax benefit	(2,042,000)	(2,553,000)	(2,005,000)
<b>Net stock-based compensation expense</b>	<b>\$ 7,233,000</b>	<b>8,874,000</b>	<b>6,564,000</b>

COMTECH TELECOMMUNICATIONS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

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 July 31, 2020, unrecognized stock-based compensation of \$9,677,000, net of estimated forfeitures of \$883,000, is expected to be recognized over a weighted average period of 3.2 years. Total stock-based compensation capitalized and included in ending inventory at both July 31, 2020 and 2019 was \$48,000. There are no liability-classified stock-based awards outstanding as of July 31, 2020 or 2019.

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

	Fiscal Years Ended July 31,		
	2020	2019	2018
Stock options	\$ 442,000	739,000	1,089,000
Performance shares	1,491,000	1,554,000	1,013,000
RSUs and restricted stock	2,543,000	2,149,000	1,458,000
ESPP	222,000	215,000	205,000
Share units	4,577,000	6,770,000	4,804,000
Stock-based compensation expense before income tax benefit	9,275,000	11,427,000	8,569,000
Estimated income tax benefit	(2,042,000)	(2,553,000)	(2,005,000)
Net stock-based compensation expense	\$ 7,233,000	8,874,000	6,564,000

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

During the fiscal years ended July 31, 2020, 2019 and 2018 we recorded benefits of \$310,000, \$130,000 and \$62,000 respectively, which primarily represents the recoupment of certain share units.

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 on our Consolidated Balance Sheet as of July 31, 2020 and 2019. 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.

## Notes to Consolidated Financial Statements, Continued

*Stock Options*

The following table summarizes the Plan's activity:

	Awards (in Shares)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at July 31, 2017	1,855,875	\$ 28.60		
Expired/canceled	(72,190)	27.58		
Exercised	(114,710)	27.44		
Outstanding at July 31, 2018	1,668,975	28.72		
Expired/canceled	(32,490)	30.11		
Exercised	(80,930)	28.18		
Outstanding at July 31, 2019	1,555,555	28.72		
Granted	327,100	17.88		
Expired/canceled	(174,840)	29.06		
Exercised	(285,790)	28.82		
Outstanding at July 31, 2020	<u>1,422,025</u>	<u>\$ 26.17</u>	<u>4.51</u>	<u>\$ —</u>
Exercisable at July 31, 2020	<u>1,036,435</u>	<u>\$ 28.73</u>	<u>2.80</u>	<u>\$ —</u>
Vested and expected to vest at July 31, 2020	<u>1,404,387</u>	<u>\$ 26.25</u>	<u>4.46</u>	<u>\$ —</u>

Stock options outstanding as of July 31, 2020 have exercise prices ranging from \$17.88 - \$33.94, representing the fair market value of our common stock on the date of grant, a contractual term of five or ten years and a vesting period of three or five years. The total intrinsic value relating to stock options exercised during the fiscal years ended July 31, 2020, 2019 and 2018 was \$1,869,000, \$576,000 and \$469,000, respectively.

During fiscal 2020, 2019 and 2018, at the election of certain holders of vested stock options, 269,090, 72,830 and 101,610, respectively, of stock options were net settled upon exercise. As a result, 27,994, 9,345 and 8,706 shares of our common stock were issued during the fiscal years ended July 31, 2020, 2019 and 2018, respectively, net of shares retained to satisfy the exercise price and minimum statutory tax withholding requirements.

There were no stock options granted during fiscal 2019 and 2018. The estimated per-share weighted average grant-date fair value of stock options granted during fiscal 2020 was \$5.52, which was determined using the Black-Scholes option pricing model, and included weighted average assumptions as follows: (i) expected dividend yield of 2.24%, (ii) expected volatility of 40.03%, (iii) risk-free interest rate of 0.54%, and (iv) expected life of 6.5 years.

Expected dividend yield is the expected annual dividend as a percentage of the fair market value of our common stock on the date of grant, based on our Board's annual dividend target at the time of grant. We estimate expected volatility by considering the historical volatility of our stock and the implied volatility of publicly-traded call options on our stock. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant for an instrument which closely approximates the expected term. The expected term is the number of years we estimate that awards will be outstanding prior to exercise and is determined by employee groups with sufficiently distinct behavior patterns. Assumptions used in computing the fair value of stock-based awards reflect our best estimates, but involve uncertainties relating to market and other conditions, many of which are outside of our control. Estimates of fair value are not intended to predict actual future events or the value ultimately realized by recipients of stock-based awards.

COMTECH TELECOMMUNICATIONS CORP. AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

*Performance Shares, RSUs, Restricted Stock and Share Unit Awards*

The following table summarizes the Plan's activity relating to performance shares, RSUs, restricted stock and share units:

	Awards (in Shares)	Weighted Average Grant Date Fair Value	Aggregate Intrinsic Value
Outstanding at July 31, 2017	830,197	\$ 16.95	
Granted	473,005	22.45	
Settled	(354,822)	17.66	
Canceled/Forfeited	(129,942)	17.26	
Outstanding at July 31, 2018	818,438	19.78	
Granted	442,363	29.76	
Settled	(275,619)	26.05	
Canceled/Forfeited	(30,506)	25.52	
Outstanding at July 31, 2019	954,676	22.40	
Granted	560,361	19.93	
Settled	(431,581)	22.02	
Canceled/Forfeited	(83,882)	22.84	
Outstanding at July 31, 2020	<u>999,574</u>	<u>\$ 21.15</u>	<u>\$ 16,413,000</u>
Vested at July 31, 2020	<u>429,191</u>	<u>\$ 16.22</u>	<u>\$ 7,047,000</u>
Vested and expected to vest at July 31, 2020	<u>964,807</u>	<u>\$ 21.10</u>	<u>\$ 15,842,000</u>

The total intrinsic value relating to fully-vested awards settled during the fiscal years ended July 31, 2020, 2019 and 2018 was \$9,635,000, \$8,772,000 and \$10,473,000 respectively.

The performance shares granted to employees since fiscal 2014 principally vest over a three-year performance period, if pre-established performance goals are attained, or as specified pursuant to the Plan and related agreements. As of July 31, 2020, the number of outstanding performance shares included in the above table, and the related compensation expense prior to consideration of estimated pre-vesting forfeitures, assume achievement of the pre-established goals at a target level.

RSUs and restricted stock granted to non-employee directors prior to July 31, 2019 have a vesting period of three years and are convertible into shares of our common stock generally at the time of termination, on a one-for-one basis for no cash consideration, or earlier under certain circumstances. RSUs and restricted stock granted to non-employee directors after July 31, 2019 have a vesting period of five years. RSUs granted to employees have a vesting period of five years and are convertible into shares of our common stock generally at the time of vesting, on a one-for-one basis for no cash consideration.

Share units granted prior to July 31, 2017 were vested when issued and are convertible into shares of our common stock, generally at the time of termination, on a one-for-one basis for no cash consideration, or earlier under certain circumstances. Share units granted on or after July 31, 2017 were granted to certain employees in lieu of non-equity incentive compensation and are convertible into shares of our common stock on the one-year anniversary of the respective grant date.

On July 31, 2020, 330,696 fully vested share units were granted to certain employees in lieu of fiscal 2020 non-equity incentive compensation. Also, on July 31, 2020, 223,739 fully vested share units (previously granted in lieu of fiscal 2019 non-equity incentive compensation) were settled by delivery of 81,507 shares of our common stock after reduction of share units retained to satisfy employees' statutory tax withholding requirements. Cumulatively, through July 31, 2020, 658,583 share units granted have been settled.



## Notes to Consolidated Financial Statements, Continued

The fair value of performance shares, RSUs, restricted stock and share units is determined using the closing market price of our common stock on the date of grant, less the present value of any estimated future dividend equivalents such awards are not entitled to receive and an applicable estimated discount for any post-vesting transfer restrictions. RSUs, performance shares and restricted stock granted since fiscal 2013 are entitled to dividend equivalents unless forfeited before vesting occurs. Share units granted since fiscal 2014 are entitled to dividend equivalents while the underlying shares are unissued.

Dividend equivalents are subject to forfeiture, similar to the terms of the underlying stock-based awards, and are payable in cash generally at the time of settlement of the underlying award. During fiscal 2020, 2019 and 2018, we accrued \$294,000, \$327,000 and \$300,000, respectively, of dividend equivalents (net of forfeitures) and paid out \$288,000, \$263,000 and \$141,000, respectively. Accrued dividend equivalents were recorded as a reduction to retained earnings. As of July 31, 2020 and 2019, accrued dividend equivalents were \$783,000 and \$777,000, respectively.

With respect to the actual settlement of stock-based awards for income tax reporting, during the fiscal year ended July 31, 2020, we recorded an income tax expense of \$224,000, and during the fiscal years ended July 31, 2019 and 2018 we recorded income tax benefits of \$479,000 and \$1,193,000 respectively. Such income tax expense generally relates to the reversal of deferred tax assets associated with expired and unexercised stock-based awards and any net income tax shortfalls upon settlement. Such income tax benefit generally relates to any net excess income tax benefits upon settlement.

Subsequent Events

In the first quarter of fiscal 2021, our Board of Directors authorized the issuance of stock-based awards with a total unrecognized compensation expense, net of estimated forfeitures, of approximately \$6,140,000.

(12) Segment Information

Reportable operating segments are determined based on Comtech's management approach. The management approach, as defined by FASB ASC 280 "*Segment Reporting*" is based on the way that the CODM organizes the segments within an enterprise for making decisions about resources to be allocated and assessing their performance. Our CODM, for purposes of FASB ASC 280, is our Chief Executive Officer.

Our Commercial Solutions segment offers satellite ground station technologies (such as modems and amplifiers) and public safety and location technologies (such as 911 call routing and mapping solutions) to commercial customers and smaller government customers, such as state and local governments. This segment also serves certain large government customers (including the U.S. government) that have requirements for off-the-shelf commercial equipment.

Our Government Solutions segment provides mission-critical technologies (such as tactical satellite-based networks and ongoing support for complicated communications networks) and high-performance transmission technologies (such as troposcatter systems and solid-state, high-power amplifiers) to large government end-users (including those of foreign countries), large international customers and domestic prime contractors.

## COMTECH TELECOMMUNICATIONS CORP. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements, Continued

Our CODM primarily uses a metric that we refer to as Adjusted EBITDA to measure an operating segment's performance and to make decisions about resources to be allocated. Our Adjusted EBITDA metric for the Commercial Solutions and Government Solutions segments do not consider any allocation of indirect expense, or any of the following: income taxes, interest (income) and other, write-off of deferred financing costs, interest expense, amortization of stock-based compensation, amortization of intangible assets, depreciation expense, estimated contract settlement costs, settlement of intellectual property litigation, acquisition plan expenses or facility exit costs that relate to our Unallocated segment. These items, while periodically affecting our results, may vary significantly from period to period and may have a disproportionate effect in a given period, thereby affecting the comparability of results. Any amounts shown in the Adjusted EBITDA calculation for our Commercial Solutions and Government Solutions segments are directly attributable to those segments. Our Adjusted EBITDA is also used by our management in assessing the Company's operating results. Although closely aligned, the Company's definition of Adjusted EBITDA is different than the Consolidated EBITDA (as such term is defined in our Credit Facility) utilized for financial covenant calculations and also may differ from the definition of EBITDA or Adjusted EBITDA used by other companies and, therefore, may not be comparable to similarly titled measures used by other companies.

Operating segment information, along with a reconciliation of segment net income (loss) and consolidated net income to Adjusted EBITDA is presented in the tables below:

	Fiscal Year Ended July 31, 2020			
	Commercial Solutions	Government Solutions	Unallocated	Total
Net sales	\$ 353,730,000	262,985,000	—	\$ 616,715,000
Operating income (loss)	\$ 34,820,000	19,988,000	(39,634,000)	\$ 15,174,000
Net income (loss)	\$ 34,414,000	20,232,000	(47,626,000)	\$ 7,020,000
Provision for (benefit from) income taxes	410,000	(100,000)	1,980,000	2,290,000
Interest (income) and other	(31,000)	(169,000)	10,000	(190,000)
Interest expense	27,000	25,000	6,002,000	6,054,000
Amortization of stock-based compensation	—	—	9,275,000	9,275,000
Amortization of intangibles	17,325,000	4,270,000	—	21,595,000
Depreciation	8,347,000	1,446,000	768,000	10,561,000
Estimated contract settlement costs	444,000	—	—	444,000
Acquisition plan expenses	751,000	—	20,003,000	20,754,000
Adjusted EBITDA	<u>\$ 61,687,000</u>	<u>25,704,000</u>	<u>(9,588,000)</u>	<u>\$ 77,803,000</u>
Purchases of property, plant and equipment	\$ 5,281,000	1,617,000	327,000	\$ 7,225,000
Long-lived assets acquired in connection with acquisitions	\$ 6,060,000	32,391,000	—	\$ 38,451,000
Total assets at July 31, 2020	\$ 647,964,000	232,052,000	49,631,000	\$ 929,647,000

## COMTECH TELECOMMUNICATIONS CORP. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements, Continued

	Fiscal Year Ended July 31, 2019			
	Commercial Solutions	Government Solutions	Unallocated	Total
Net sales	\$ 357,293,000	314,504,000	—	\$ 671,797,000
Operating income (loss)	\$ 36,053,000	28,997,000	(23,643,000)	\$ 41,407,000
Net income (loss)	\$ 35,888,000	29,029,000	(39,876,000)	\$ 25,041,000
Provision for income taxes	19,000	—	3,850,000	3,869,000
Interest (income) and other	75,000	(41,000)	1,000	35,000
Write-off of deferred financing costs	—	—	3,217,000	3,217,000
Interest expense	71,000	9,000	9,165,000	9,245,000
Amortization of stock-based compensation	—	—	11,427,000	11,427,000
Amortization of intangibles	14,944,000	3,376,000	—	18,320,000
Depreciation	9,265,000	1,891,000	771,000	11,927,000
Estimated contract settlement costs	6,351,000	—	—	6,351,000
Settlement of intellectual property litigation	—	—	(3,204,000)	(3,204,000)
Acquisition plan expenses	—	—	5,871,000	5,871,000
Facility exit costs	—	1,373,000	—	1,373,000
Adjusted EBITDA	<u>\$ 66,613,000</u>	<u>\$ 35,637,000</u>	<u>\$ (8,778,000)</u>	<u>\$ 93,472,000</u>
Purchases of property, plant and equipment	\$ 6,293,000	1,902,000	590,000	\$ 8,785,000
Long-lived assets acquired in connection with acquisitions	\$ 60,693,000	—	—	\$ 60,693,000
Total assets at July 31, 2019	\$ 662,580,000	186,438,000	38,693,000	\$ 887,711,000
	Fiscal Year Ended July 31, 2018			
	Commercial Solutions	Government Solutions	Unallocated	Total
Net sales	\$ 345,076,000	225,513,000	—	\$ 570,589,000
Operating income (loss)	\$ 40,837,000	10,950,000	(16,712,000)	\$ 35,075,000
Net income (loss)	\$ 40,297,000	10,835,000	(21,363,000)	\$ 29,769,000
Provision for (benefit from) income taxes	270,000	—	(5,413,000)	(5,143,000)
Interest (income) and other	151,000	112,000	(9,000)	254,000
Interest expense	119,000	3,000	10,073,000	10,195,000
Amortization of stock-based compensation	—	—	8,569,000	8,569,000
Amortization of intangibles	17,699,000	3,376,000	—	21,075,000
Depreciation	9,479,000	3,088,000	1,088,000	13,655,000
Adjusted EBITDA	<u>\$ 68,015,000</u>	<u>17,414,000</u>	<u>(7,055,000)</u>	<u>\$ 78,374,000</u>
Purchases of property, plant and equipment	\$ 7,151,000	901,000	590,000	\$ 8,642,000
Total assets at July 31, 2018	\$ 610,166,000	195,924,000	39,067,000	\$ 845,157,000

## Notes to Consolidated Financial Statements, Continued

Unallocated expenses result from corporate expenses such as executive compensation, accounting, legal and other regulatory compliance related costs and also includes all of our amortization of stock-based compensation. During fiscal 2020 and 2019, we recorded \$20,754,000 and \$5,871,000 of acquisition plan expenses, respectively. These expenses were recorded primarily in our unallocated expenses. See *Note (2) - "Acquisitions"* for further information. In addition, offsetting unallocated expenses in fiscal 2019 is a \$3,204,000 benefit as a result of a favorable ruling issued by the U.S. Court of Appeals for the Federal Circuit related to a legacy TCS intellectual property matter.

Interest expense in the tables above relate to our Prior Credit Facility and Credit Facility, and includes the amortization of deferred financing costs. In addition, during fiscal 2019, we recorded a \$3,217,000 loss from the write-off of deferred financing costs primarily related to the Term Loan Facility portion of our Prior Credit Facility. See *Note (8) - "Credit Facility"* for further discussion.

Intersegment sales in fiscal 2020, 2019 and 2018 by the Commercial Solutions segment to the Government Solutions segment were \$9,837,000, \$17,371,000 and \$9,630,000, respectively. There were nominal sales by the Government Solutions segment to the Commercial Solutions segment for these fiscal periods. All intersegment sales are eliminated in consolidation and are excluded from the tables above.

Unallocated assets at July 31, 2020 consist principally of cash and cash equivalents, income taxes receivable, corporate property, plant and equipment and deferred financing costs. Substantially all of our long-lived assets are located in the U.S.

### (13) Commitments and Contingencies

#### (a) Legal Proceedings and Other Matters

##### *Gilat Litigation Matter*

In July 2020, we commenced litigation in the Delaware Court of Chancery (the "Delaware Court") seeking certain declaratory judgments, including a declaratory judgment that Gilat has suffered a Material Adverse Effect (as defined in the Merger Agreement) and that, as a result, we are not obligated to complete the acquisition of Gilat. The amended complaint also seeks a declaratory judgment that certain actions, if taken by Gilat, relating to Comtech's application for Russian regulatory approval, would breach Gilat's obligations under the Merger Agreement. Gilat subsequently sued in the Delaware Court for declaratory judgments, including that it has not suffered a Material Adverse Effect and that Comtech has not used reasonable best efforts to obtain Russian regulatory approval for the transaction. To-date, we incurred significant amounts of legal expenses and professional fees in connection with the litigation and a trial is scheduled for October 5, 2020. The Delaware Court has indicated that it intends to render a judgment prior to the October 29, 2020, the date that we or Gilat may terminate the Merger Agreement.

##### *Lawsuit Against Competitor and Counter-Claims From A Former Employee*

In March 2019, we filed a lawsuit against a former employee and her new employer arising from such former employee's violation of her obligation to TCS of confidentiality, non-competition and non-solicitation of customers. The former employee has responded with her own lawsuit against us. The ultimate resolution of this lawsuit is not expected to have any material negative impact on our consolidated results of operations or financial position.

##### *Other Matters*

On September 17, 2020 we reported that we reached an agreement with OFAC resolving a previously disclosed investigation pending since 2014. In October 2014, as previously disclosed in our SEC filings, we reported to OFAC following a self-assessment of our export transactions and the collection of further information that a shipment of modems sent to a Canadian customer by Comtech's subsidiary, Comtech EF Data Corp., was incorporated into a communication system, the ultimate end user of which was the Sudan Civil Aviation Authority. The sales value of our equipment was approximately \$288,000. At the time of shipment, OFAC regulations prohibited U.S. persons from doing business directly or indirectly with Sudan. Most of the U.S. sanctions related to Sudan were removed in 2017. After we reported the matter to OFAC, we responded to administrative subpoenas and OFAC initiated an investigation into the matter. Pursuant to the agreement, we will make a payment to OFAC of \$894,000 and implement additional internal compliance commitments, a number of which were already in process. Additionally, we committed to creating a new position of Chief Trade Compliance Officer.

## Notes to Consolidated Financial Statements, Continued

In May 2018, we were informed by the Office of Export Enforcement ("OEE") of the Department of Commerce ("DoC") that it was forwarding to the OEE's Office of Chief Counsel, the results of its audit of international shipments by Comtech Xicom Technology, Inc. for further review and possible determination of an administrative penalty. We fully cooperated with the OEE in their audit and, based on our self-assessment of the approximately 7,800 individual transactions audited, have determined that six (6) transactions may not have been fully in compliance with the Export Administration Regulations ("EAR"). These six (6) items, for which export licenses were not obtained, were either spares or repaired power amplifier subassembly components valued at less than \$100,000 (in aggregate) and were shipped to Brazil, Italy, Russia, Thailand and the United Arab Emirates. The EAR provides an exception to the requirement to obtain an export license for the replacement of a defective or damaged component. During our self-assessment, we determined that we inadvertently did not obtain export licenses for the spares or evidence of the return or destruction of the defective or damaged components necessary to authorize our use of the export license exception for the replacements. Since discovering this issue, we have implemented additional controls and procedures and have increased awareness of these specific export requirements throughout the Company to help avoid similar occurrences in the future. Administrative penalties under the EAR can range from a warning letter to a denial of export privileges. A civil monetary penalty not to exceed the amount set forth in the Export Administration Act ("EAA") may be imposed for each violation, and in the event that any provision of the EAR is continued by any other authority, the maximum monetary civil penalty for each violation shall be that provided by such other authority. Administrative penalties under the EAR are currently determined pursuant to the International Emergency Economic Powers Act ("IEEPA"), which can reach the greater of twice the amount of the transaction that is the basis of the violation or approximately \$300,000 per violation. We continue to work cooperatively with the OEE and have entered a Tolling Agreement with DoC, which extended the statute of limitations in this matter through February 1, 2021.

In the ordinary course of business, we include indemnification provisions in certain of our customer contracts to indemnify, hold harmless and reimburse such customers for certain losses, including but not limited to losses related to third-party claims of intellectual property infringement arising from the customer's use of our products or services. We may also, from time to time, receive indemnification requests from customers related to third-party claims that 911 calls were improperly routed during an emergency. We evaluate such claims as and when they arise. We do not always agree with customers that they are entitled to indemnification and in such cases reject their claims. Despite maintaining that we have properly carried out our duties, we may seek coverage under our various insurance policies; however, we cannot be sure that we will be able to maintain or obtain insurance coverage at acceptable costs or in sufficient amounts or that our insurer will not disclaim coverage as to such claims. Accordingly, pending or future claims asserted against us by a party that we agree to indemnify could result in legal costs and damages that could have a material adverse effect on our consolidated results of operations and financial condition.

There are certain other pending and threatened legal actions which arise in the normal course of business. Although the ultimate outcome of litigation is difficult to accurately predict, we believe that the outcome of these other pending and threatened actions will not have a material adverse effect on our consolidated financial condition or results of operations.

(b) Employment Change of Control and Indemnification Agreements

We have an employment agreement with our CEO and Chairman. The employment agreement generally provides for an annual salary and bonus award. We have also entered into change of control agreements with certain of our executive officers and certain key employees. All of these agreements may require payments by us, in certain circumstances, including, but not limited to, a change in control of our Company or termination of the employee.

## COMTECH TELECOMMUNICATIONS CORP. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements, Continued

(14) Goodwill

The following table represents goodwill by reportable operating segment, including the changes in the net carrying value of goodwill during the fiscal year ended July 31, 2020:

	Commercial Solutions	Government Solutions	Total
Balance as of July 31, 2019	\$ 251,296,000	59,193,000	\$ 310,489,000
Change related to Solacom acquisition	(420,000)	—	(420,000)
Change related to GD NG-911 acquisition	4,556,000	—	4,556,000
Change related to CGC acquisition	—	15,894,000	15,894,000
Balance as of July 31, 2020	<u>\$ 255,432,000</u>	<u>75,087,000</u>	<u>\$ 330,519,000</u>

As discussed further in *Note (2) - "Acquisitions,"* the goodwill resulting from the acquisition of CGC was based upon a valuation and estimates and assumptions that are subject to change within the purchase price allocation period (generally one year from the acquisition date).

In accordance with FASB ASC 350, we perform a goodwill impairment analysis at least annually (in the first quarter of each fiscal year), unless indicators of impairment exist in interim periods. If we fail the quantitative assessment of goodwill impairment ("quantitative assessment"), we would be required to recognize an impairment loss equal to the amount that a reporting unit's carrying value exceeded its fair value; however, any loss recognized should not exceed the total amount of goodwill allocated to that reporting unit.

On August 1, 2020 (the first day of our fiscal 2021), we performed our annual quantitative assessment using market participant assumptions to determine if the fair value of each of our reporting units with goodwill exceeded its carrying value. In making this assessment, we considered, among other things, expectations of projected net sales and cash flows, assumptions impacting the weighted average cost of capital, trends in trading multiples of comparable companies, changes in our stock price and changes in the carrying values of our reporting units with goodwill. We also considered overall business conditions.

In performing the quantitative assessment, we estimated the fair value of each of our reporting units using a combination of the income and market approaches. The income approach, also known as the discounted cash flow ("DCF") method, utilizes the present value of cash flows to estimate fair value. The future cash flows for our reporting units were projected based on our estimates, at that time, of future revenues, operating income and other factors (such as working capital and capital expenditures). For purposes of conducting our impairment analysis, we assumed revenue growth rates and cash flow projections that are below our actual long-term expectations. The discount rates used in our DCF method were based on a weighted-average cost of capital ("WACC") determined from relevant market comparisons, adjusted upward for specific reporting unit risks (primarily the uncertainty of achieving projected operating cash flows). A terminal value growth rate was applied to the final year of the projected period, which reflects our estimate of stable, perpetual growth. We then calculated a present value of the respective cash flows for each reporting unit to arrive at an estimate of fair value under the income approach. Under the market approach, we estimated a fair value based on comparable companies' market multiples of revenues and earnings before interest, taxes, depreciation and amortization and factored in a control premium. Finally, we compared our estimates of fair values to our August 1, 2020 total public market capitalization and assessed implied control premiums based on our common stock price of \$16.42 as of August 1, 2020.

Based on our quantitative evaluation, we determined that our Commercial Solutions and Government Solutions reporting units had estimated fair values in excess of their carrying values of at least 8.4% and 78.0%, respectively, and concluded that our goodwill was not impaired and that neither of our two reporting units was at risk of failing the quantitative assessment.

## Notes to Consolidated Financial Statements, Continued

It is possible that, during fiscal 2021 or beyond, business conditions (both in the U.S. and internationally) could deteriorate from the current state, our current or prospective customers could materially postpone, reduce or even forgo purchases of our products and services to a greater extent than we currently anticipate, or our common stock price could decline further. Such deterioration could be caused by uncertainty about the severity and length of the COVID-19 pandemic, and its impact on global business activity.

A significant decline in our customers' spending that is greater than we anticipate or a shift in funding priorities may also have a negative effect on future orders, sales, income and cash flows and we might be required to perform a quantitative assessment during fiscal 2021 or beyond. If assumed net sales and cash flow projections are not achieved in future periods or our common stock price significantly declines from current levels, our Commercial Solutions and Government Solutions reporting units could be at risk of failing the quantitative assessment and goodwill assigned to the respective reporting units could be impaired.

In any event, we are required to perform the next annual goodwill impairment analysis on August 1, 2021 (the start of our fiscal 2022). If our assumptions and related estimates change in the future, or if we change our reporting unit structure or other events and circumstances change (e.g., a sustained decrease in the price of our common stock (considered on both absolute terms and relative to peers)), we may be required to record impairment charges when we perform these tests, or in other future periods. Any impairment charges that we may record in the future could be material to our results of operations and financial condition.

(15) Intangible Assets

Intangible assets with finite lives as of July 31, 2020 and 2019 are as follows:

July 31, 2020				
	Weighted Average Amortization Period	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships	20.4	\$ 286,058,000	79,534,000	\$ 206,524,000
Technologies	14.0	99,349,000	65,398,000	33,951,000
Trademarks and other	16.6	32,826,000	15,282,000	17,544,000
Total		<u>\$ 418,233,000</u>	<u>160,214,000</u>	<u>\$ 258,019,000</u>

July 31, 2019				
	Weighted Average Amortization Period	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships	20.5	\$ 276,834,000	66,484,000	\$ 210,350,000
Technologies	12.7	92,649,000	59,522,000	33,127,000
Trademarks and other	16.7	31,026,000	12,613,000	18,413,000
Total		<u>\$ 400,509,000</u>	<u>138,619,000</u>	<u>\$ 261,890,000</u>

The weighted average amortization period in the above table excludes fully amortized intangible assets.

Amortization expense for the fiscal years ended July 31, 2020, 2019 and 2018 was \$21,595,000, \$18,320,000 and \$21,075,000, respectively.

The estimated amortization expense consists of the following for the fiscal years ending July 31:

2021	\$ 21,276,000
2022	19,648,000
2023	19,648,000
2024	19,021,000
2025	18,918,000

## Notes to Consolidated Financial Statements, Continued

We review net intangible assets with finite lives for impairment when an event occurs indicating the potential for impairment. In light of the COVID-19 pandemic, during the fiscal year ended July 31, 2020, we evaluated whether our long-lived assets, including intangibles with finite lives, were impaired. Based on our assessment, we believe that the carrying values of our net intangible assets were recoverable as of July 31, 2020. However, if current poor business conditions further deteriorate, we may be required to record impairment losses, and or increase the amortization of intangibles in the future. Any impairment charges that we may record in the future could be material to our results of operations and financial condition.

(16) Stockholders' Equity

Sale of Common Stock

In December 2018, we filed a \$400,000,000 shelf registration statement with the SEC for the sale of various types of securities, including debt. The shelf registration was declared effective by the SEC as of December 14, 2018. To-date, we have not issued any securities pursuant to our \$400,000,000 shelf registration statement.

Stock Repurchase Program

As of July 31, 2020, we were authorized to repurchase up to an additional \$8,664,000 of our common stock, pursuant to a \$100,000,000 stock repurchase program. On September 29, 2020, our Board of Directors authorized a new \$100,000,000 stock repurchase program, which replaced our prior program. The new \$100,000,000 stock repurchase program has no time restrictions and repurchases may be made from time to time in open-market or privately negotiated transactions, or by other means in accordance with federal securities laws. There were no repurchases made during the fiscal years ended July 31, 2020 or 2019.

Dividends

Since September 2010, we have paid quarterly dividends pursuant to an annual targeted dividend amount that was established by our Board of Directors. On September 24, 2019, December 4, 2019, March 4, 2020 and June 3, 2020, our Board of Directors declared a dividend of \$0.10 per common share, which were paid on November 15, 2019, February 14, 2020, May 15, 2020 and August 14, 2020, respectively.

On September 29, 2020, our Board of Directors declared a dividend of \$0.10 per common share, payable on October 27, 2020 to stockholders of record at the close of business on October 14, 2020.

Future Common Stock dividends remain subject to compliance with financial covenants under our Credit Facility, as well as Board approval.



## COMTECH TELECOMMUNICATIONS CORP. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements, Continued

(17) Unaudited Quarterly Financial Data

The following is a summary of unaudited quarterly operating results:

<u>Fiscal 2020</u>	<u>First Quarter</u>	<u>Second Quarter</u>	<u>Third Quarter</u>	<u>Fourth Quarter</u>	<u>Total</u>
Net sales	\$ 170,267,000	161,654,000	135,121,000	149,673,000	\$ 616,715,000
Gross profit	63,567,000	60,602,000	53,001,000	49,663,000	226,833,000
Net income (loss)	6,388,000	3,495,000	(3,989,000)	1,126,000	7,020,000
Diluted income (loss) per share	0.26	0.14	(0.16)	0.04	0.28 *
<u>Fiscal 2019</u>	<u>First Quarter</u>	<u>Second Quarter</u>	<u>Third Quarter</u>	<u>Fourth Quarter</u>	<u>Total</u>
Net sales	\$ 160,844,000	164,133,000	170,448,000	176,372,000	\$ 671,797,000
Gross profit	57,769,000	61,245,000	64,416,000	64,010,000	247,440,000
Net income	3,468,000	7,826,000	7,612,000	6,135,000	25,041,000
Diluted income per share	0.14	0.32	0.31	0.25	1.03 *
<u>Fiscal 2018</u>	<u>First Quarter</u>	<u>Second Quarter</u>	<u>Third Quarter</u>	<u>Fourth Quarter</u>	<u>Total</u>
Net sales	\$ 121,569,000	133,731,000	147,854,000	167,435,000	\$ 570,589,000
Gross profit	47,716,000	50,801,000	62,436,000	62,988,000	223,941,000
Net (loss) income	(1,660,000)	15,761,000	8,210,000	7,458,000	29,769,000
Diluted (loss) income per share	(0.07)	0.66	0.34	0.31	1.24 *

\* The per share information is computed independently for each quarter and the full year based on the respective weighted average number of common shares outstanding. Therefore, income per share information for the full fiscal year may not equal the total of the quarters within the year.

Schedule II

COMTECH TELECOMMUNICATIONS CORP.  
AND SUBSIDIARIES

Valuation and Qualifying Accounts and Reserves

Fiscal Years Ended July 31, 2020, 2019 and 2018

Column A	Column B	Column C Additions		Column D	Column E
Description	Balance at beginning of period	Charged to cost and expenses	Charged to other accounts - describe	Transfers (deductions) - describe	Balance at end of period
<b>Allowance for doubtful accounts receivable:</b>					
Year ended July 31,					
2020	\$ 1,867,000	45,000 (A)	—	(143,000) (B)	\$ 1,769,000
2019	1,761,000	1,136,000 (A)	—	(1,030,000) (B)	1,867,000
2018	1,300,000	573,000 (A)	—	(112,000) (B)	1,761,000
<b>Inventory reserves:</b>					
Year ended July 31,					
2020	\$ 19,696,000	1,647,000 (C)	—	(2,267,000) (D)	\$ 19,076,000
2019	17,427,000	6,015,000 (C)	—	(3,746,000) (D)	19,696,000
2018	16,019,000	5,628,000 (C)	—	(4,220,000) (D)	17,427,000
<b>Valuation allowance for deferred tax assets:</b>					
Year ended July 31,					
2020	\$ 12,568,000	750,000 (E)	—	(1,847,000) (E)	\$ 11,471,000
2019	11,854,000	58,000 (E)	656,000 (F)	—	12,568,000
2018	8,633,000	3,221,000 (E)	—	—	11,854,000

- (A) Provision for doubtful accounts. The amount recorded in the fiscal year ended July 31, 2020 includes \$476,000 of estimated contract settlement costs in connection with evaluation and repositioning of certain legacy customer contracts.
- (B) Write-off of uncollectible receivables.
- (C) Provision for excess and obsolete inventory.
- (D) Write-off of inventory.
- (E) Change in valuation allowance.
- (F) Acquisition related valuation allowance charged to goodwill.

# C O R P O R A T E I N F O R M A T I O N

## BOARD OF DIRECTORS

Fred Kornberg (1) (5)  
Chairman of the Board and  
Chief Executive Officer

Edwin Kantor (1) (3) (4)  
Lead Independent Director  
Executive Director of S2K  
Financial LLC

Ira Kaplan (3) (4) (5)  
Private Investor

Lisa Lesavoy (2) (3)  
Owner, Lesavoy Financial  
Perspectives, Inc.

Robert G. Paul (2) (4)  
Private Investor

Dr. Yacov A. Shamash (2) (5)  
Professor of Electrical and Computer  
Engineering at Stony Brook University

Lawrence J. Waldman (1) (2) (3)  
Senior Advisor  
First Long Island Investors, LLC

- (1) Executive Committee
- (2) Audit Committee
- (3) Executive Compensation Committee
- (4) Nominating and Governance Committee
- (5) Science and Technology Committee

## INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS

Deloitte & Touche LLP  
Jericho, New York 11753

## REGISTRAR AND TRANSFER AGENT

American Stock Transfer and Trust Co.  
6201 15th Avenue  
Brooklyn, New York 11219

## COMMON STOCK PRICE RANGE

	High	Low
<b>Fiscal Year Ended July 31, 2020</b>		
First Quarter	\$ 36.61	\$ 26.27
Second Quarter	38.00	28.50
Third Quarter	35.35	11.48
Fourth Quarter	21.16	14.70

## INVESTOR RELATIONS AND SHAREHOLDER INFORMATION

Visit us at [www.comtechtel.com](http://www.comtechtel.com) or call (631) 962-7000. A copy of the Form 10-K Annual Report, exhibits and other reports as filed with the Securities and Exchange Commission are available to shareholders. Requests for information should be made by submitting an email to [info@comtechtel.com](mailto:info@comtechtel.com) or by writing to us at Comtech Telecommunications Corp., Attention: Corporate Secretary, 68 South Service Road, Suite 230, Melville, NY 11747.

## CORPORATE MANAGEMENT

Fred Kornberg  
Chief Executive Officer

Michael D. Porcelain  
President and Chief Operating Officer

Michael A. Bondi  
Chief Financial Officer

## COMMERCIAL SOLUTIONS SEGMENT

Jeffrey Harig  
President of the Government Group of  
Comtech EF Data Corp.

Kent Hellebust  
President of Safety and Security Technologies

Pierre Plangger  
President of Comtech Solacom Technologies

Mark Schmeichel  
President of Comtech Xicom Technology, Inc.

Mark Toppenberg  
President of the Commercial Group of  
Comtech EF Data Corp.

Jay F. Whitehurst  
President of Location Technologies

## GOVERNMENT SOLUTIONS SEGMENT

Michael Atcheson  
President of Mission-Critical Technologies

Michael Hrybenko  
President of Comtech PST Corp.

Lajuana Johnson  
Senior Vice President of Product and Strategy

Rich Luhrs  
President of Comtech Systems, Inc.

Michael Scott  
President of Space and Component Technology

Roger Seaton  
President of Tactical Communications

## MARKET FOR COMMON STOCK

Common Stock is traded on the  
NASDAQ Stock Market LLC under the  
stock symbol CMTL



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