



**COMTECH**  
**LABORATORIES INC.**



## **Annual Report**

**July 31, 1971**

# COMTECH LABORATORIES INC.



## Board of Directors

J. C. Greene	Chairman
J. Kliphuis	
F. Kornberg	
G. R. Nocita	
P. Podd	
A. J. Weinberg	(Vice President/Legal, Oppenheimer & Co.)

## Officers

J. C. Greene	President
J. Kliphuis	Vice President
F. Kornberg	Vice President
G. R. Nocita	Treasurer
P. Podd	Secretary

Smithtown, New York

October 18, 1971

## Banks

Chemical Bank  
1064 Old Country Road  
Plainview, New York 11803

Franklin National Bank  
330 Vanderbilt Motor Parkway  
Hauppauge, New York 11787

## Legal Counsel

Busby Rivkin Sherman & Levy  
750 Third Avenue  
New York, New York 10017

## TO ALL SHAREHOLDERS:

### Operating Results

As a result of continued product development and increasing customer acceptance of Comtech's expanding product line, total sales and other income during our fourth fiscal year reached a record level of \$2,014,253 compared with \$1,491,029 last year. However, because of additional expenses associated with relocation to our new facilities, costs associated with product development that were deferred in prior years and partially amortized this year, excess costs incurred on R&D contracts undertaken during the year for new state-of-the-art products associated with parametric amplifier technology, and costs associated with starting a new Telecommunications Division, net income after taxes amounted to only \$56,547 compared with \$128,596 last year. Backlog at year end reached a record level of \$2,559,108 compared with \$1,211,813 last year. A detailed financial statement audited by Price Waterhouse & Co. is appended.

### Business Activity

Based upon previous and current product development efforts, Comtech has become a leading supplier of the specialized low-noise receiving equipment required in all international and domestic satellite communication receiving terminals. In addition, this equipment is also finding wider application in terrestrial microwave, ECM, radar, data transmission, and telemetry systems.

To date, we have delivered 45 Model LNR-401 cryogenically cooled receivers for use in large international satellite communication ground stations located throughout the world, and we are now building 10 more. As a result of our development of the Model LNR-402, an uncooled receiver for use in domestic satellite communication ground stations, we have delivered a unit to Comsat that has been successfully used in an experimental terminal with a 16-foot antenna to receive high-quality TV signals directly from an Intelsat IV satellite. Furthermore, we have recently received contracts to produce 50 additional Model LNR-402 units for use in all the initial ground stations now being built for TELESAT (Canada) under the Canadian Domestic Satellite Communication program. Approximately 25 of our Model LNR-900 compact, all-solid-state, low-noise receivers have been delivered for use in airborne radar systems. Based on our development of the Model LNR-702, an uncooled receiver for use in military satellite communication systems, we have been awarded contracts to build several units for use in airborne and shipboard satellite communication systems. Of further significance, our patent application covering the unique features of the LNR-401, LNR-402, and LNR-702 was recently granted. In coming years, we expect considerable additional sales of the LNR-401, LNR-402, LNR-702, LNR-900, and related units for use in various commercial and military communication, ECM, and radar systems.

During this year we started a new Telecommunications Division. The products being developed and sold by this group, when combined with our low-noise receivers, will enable Comtech to supply virtually all of the receiving and transmitting equipment required in satellite communication, troposcatter, microwave point-to-point, telemetry, and other communications systems. These products include complete TV and message receivers (Series RCV-400), threshold extension demodulators (Series TED-700), up-

converters (Series UDC-700), high-power transmitters, delay equalizing networks, communication test sets, etc. To date, contracts totaling approximately \$450,000 have been received for this equipment, including a virtually complete receiving and transmitting satellite communication ground station from the U. S. Department of Commerce for use in communicating with weather satellites. In coming years, the Telecommunications Division is expected to expand very significantly.

#### Public Stock Offering

Following continued discussions with Philips, Appel & Walden, Inc., members of the New York Stock Exchange, a revised letter of intent was received for our proposed public stock offering. Upon receipt of approval from certain shareholders of this letter of intent and of some related changes required in our present shareholders agreement, we expect to proceed with a public stock offering.

#### Facilities

As a result of a low-interest second mortgage loan made available to us by the New York State Job Development Authority, Comtech exercised its option to purchase our present facilities. This transaction involved a cash down payment of \$22,150. Total monthly mortgage payments will be somewhat higher than our previous monthly rental payments.

#### Future Sales

During the coming year, we look forward to a further increase in sales volume and in earnings. Our success to date has been greatly dependent upon the above-average abilities and contributions of our employees, now numbering approximately 90, and we wish to thank every employee\* for his or her efforts on behalf of Comtech.

J. C. Greene  
President



\* It is the policy of Comtech to provide equal opportunity to all employees and applicants for employment without regard to race, sex, religion, color, or national origin and affirmative action is taken to ensure the implementation of this policy.



**UNIQUE PRODUCTS FOR  
SATELLITE AND TERRESTRIAL  
MICROWAVE COMMUNICATIONS  
AND ECM, RADAR,  
DATA TRANSMISSION,  
AND TELEMETRY APPLICATIONS**

## **TV and MESSAGE RECEIVER**

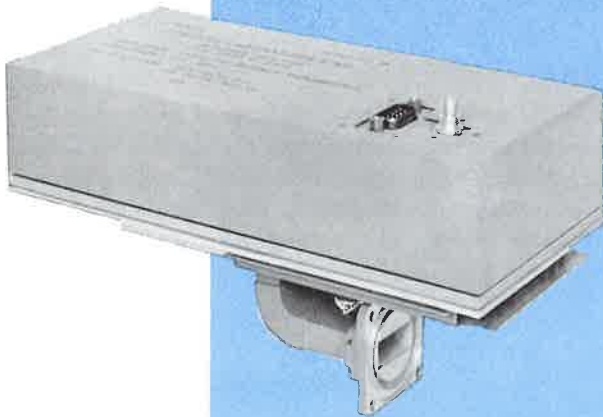
**3700-4200 MHz  
SERIES RCV-400**



RECEIVER FOR USE IN INTERNATIONAL AND DOMESTIC SATELLITE COMMUNICATION GROUND STATIONS

## **COMPACT LOW-NOISE RECEIVER**

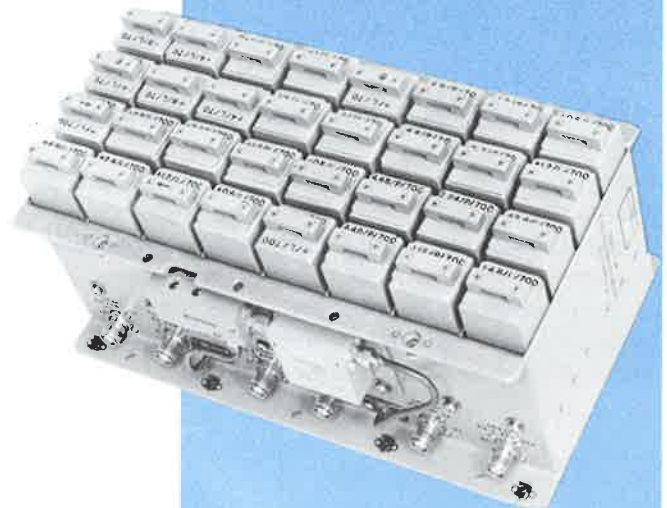
**8500-10900 MHz  
SERIES LNR-900**



RECEIVER FOR USE IN RADAR, TROPOSCATTER, AND ECM SYSTEMS

## **DELAY EQUALIZER**

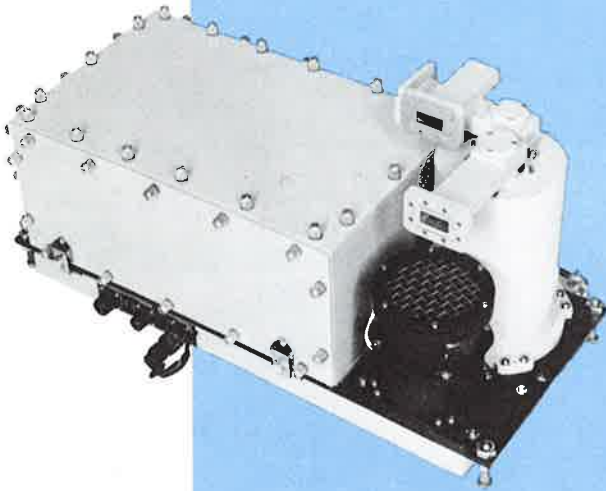
**MODEL GDE-703**



SELECTABLE 70- AND 700-MHz DELAY EQUALIZING NETWORKS FOR USE IN VARIOUS COMMUNICATION SYSTEMS

## LOW-NOISE RECEIVER

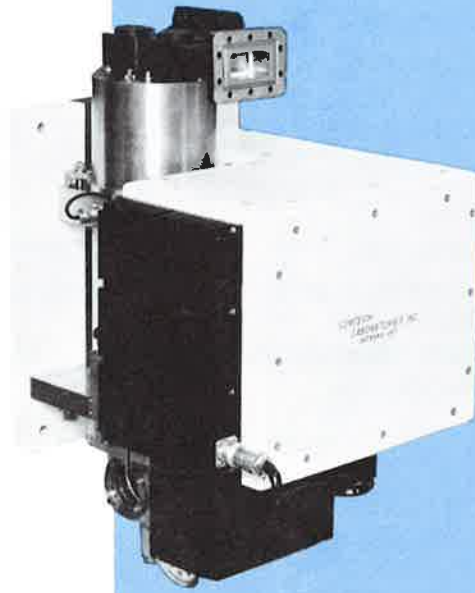
7250-7750 MHz  
MODEL LNR-702



RECEIVER FOR USE IN MILITARY SATELLITE COMMUNICATION TERMINALS

## LOW-NOISE RECEIVER

3700-4200 MHz  
MODEL LNR-401



CRYOGENICALLY COOLED RECEIVER FOR USE IN INTERNATIONAL SATELLITE COMMUNICATION GROUND STATIONS

## DUAL CONVERSION UP-CONVERTER

5925-6425 MHz  
SERIES UDC-700



UP-CONVERTER FOR USE IN TRANSMITTING SIGNALS FROM SATELLITE COMMUNICATION GROUND STATIONS

## THRESHOLD EXTENSION DEMODULATOR

70 MHz  
SERIES TED-700



ULTRA-SENSITIVE FM SIGNAL DEMODULATOR FOR SATELLITE COMMUNICATION, TROPOSCATTER, AND TELEMETRY SYSTEMS



**COMTECH LABORATORIES INC.**

**BALANCE SHEETS**

	ASSETS	
	1971	July 31, 1970
<b>CURRENT ASSETS:</b>		
Cash, including, in 1970, \$125,000 certificate of deposit	\$ 99,038	\$ 204,964
Accounts receivable	541,851	425,050
Inventories, less progress billings (Note 2)	397,734	331,785
Other current assets	7,143	10,739
Total current assets	<u>1,045,766</u>	<u>972,538</u>
<b>EQUIPMENT AND LEASEHOLD IMPROVEMENTS,</b> at cost, less accumulated depreciation and amortization (Note 3)	329,769	169,410
<b>DEFERRED PRODUCT DEVELOPMENT COSTS</b> (Note 4)	105,600	166,500
<b>OTHER ASSETS</b>	<u>13,278</u>	<u>20,977</u>
	<u>\$1,494,413</u>	<u>\$1,329,425</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
6% notes payable to bank (Note 7)	\$ 250,000	
Accounts payable	119,043	\$ 246,898
Accrued expenses and taxes withheld	63,878	54,072
Income taxes currently payable	52,798	
Advance contract payments received	31,728	98,736
Total current liabilities	<u>517,447</u>	<u>399,706</u>
<b>DEFERRED INCOME TAXES</b> (Notes 4 and 6)	<u>64,000</u>	<u>74,000</u>
<b>SHAREHOLDERS' EQUITY</b> (Notes 1 and 5):		
Common stock, \$.10 par value:		
Authorized - 3,000,000 shares		
Outstanding - 1,073,600 in 1971, 1,073,000 in 1970	107,360	107,300
Additional paid-in capital	685,092	684,452
Retained earnings	<u>120,514</u>	<u>63,967</u>
	912,966	855,719
<b>COMMITMENTS</b> (Note 8)		
	<u>\$1,494,413</u>	<u>\$1,329,425</u>

The accompanying notes are an integral part of this statement.

COMTECH LABORATORIES INC.

STATEMENTS OF INCOME

	Year ended July 31,	
	1971	1970
Net sales	\$2,009,868	\$1,471,449
Interest income	<u>4,385</u>	<u>19,580</u>
	<u>2,014,253</u>	<u>1,491,029</u>
Costs and expenses:		
Cost of sales, including amortization of deferred product development costs	1,699,851	1,116,597
General and administrative	171,717	146,618
Depreciation and amortization	37,109	25,218
Interest	<u>5,029</u>	<u>          </u>
	<u>1,913,706</u>	<u>1,288,433</u>
Income before income taxes and extraordinary item	<u>100,547</u>	<u>202,596</u>
Provision for income taxes (Note 6):		
Current	54,000	
Deferred	(10,000)	74,000
Charge equivalent to reduction in income taxes arising from utilization of operating loss carry-forward		<u>27,250</u>
	<u>44,000</u>	<u>101,250</u>
Income before extraordinary item	56,547	101,346
Extraordinary credit-reduction in income taxes from utilization of operating loss carry-forward		<u>27,250</u>
Net income	<u>\$ 56,547</u>	<u>\$ 128,596</u>
Per share of common stock:*		
Income before extraordinary item	\$ .05	\$ .09
Extraordinary item	<u>          </u>	<u>.03</u>
Net income	<u>\$ .05</u>	<u>\$ .12</u>

\* Based upon the average common shares and common share equivalents outstanding during each year after giving effect to the recapitalization discussed in Note 1 of the notes to financial statements.



**COMTECH LABORATORIES INC.**  
**STATEMENTS OF SHAREHOLDERS' EQUITY**  
**FOR THE TWO YEARS ENDED JULY 31, 1971**

	Number of shares	Common stock	Additional paid-in capital	Retained earnings (deficit)
Balance at July 31, 1969, after giving effect to recapitalization (Note 1)	1,041,200	\$104,120	\$682,832	(\$ 64,629)
Exercise of stock options	1,800	180	1,620	
Sale of common stock (Note 1)	30,000	3,000		
Net income for the year				<u>128,596</u>
<b>Balance at July 31, 1970</b>	1,073,000	107,300	684,452	63,967
Exercise of stock options	600	60	640	
Net income for the year				<u>56,547</u>
<b>Balance at July 31, 1971</b>	<u>1,073,600</u>	<u>\$107,360</u>	<u>\$685,092</u>	<u>\$120,514</u>



COMTECH LABORATORIES INC.

STATEMENTS OF CHANGES IN FINANCIAL POSITION

	Year ended July 31,	
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<b>Source of funds:-</b>		
From operations:		
Net income	\$ 56,547	\$128,596
Depreciation and amortization	37,109	25,218
Amortization of deferred product development costs	60,900	25,500
Deferred income taxes	<u>(10,000)</u>	<u>74,000</u>
Total from operations	144,556	253,314
Proceeds from sale of stock	<u>700</u>	<u>4,800</u>
	<u>145,256</u>	<u>258,114</u>
<b>Application of funds:</b>		
Purchase of equipment and leasehold improvements, net of retirements	197,468	60,352
Deferred product development costs		132,000
Other	<u>(7,699)</u>	<u>14,548</u>
	<u>189,769</u>	<u>206,900</u>
Increase (decrease) in working capital	<u>(\$ 44,513)</u>	<u>\$ 51,214</u>
<b>Increases (decreases) in elements of current assets:</b>		
Cash	(\$105,926)	\$152,285
U.S. Treasury bills, at cost		(303,197)
Accounts receivable	116,801	372,584
Inventories	65,949	15,614
Other current assets	<u>(3,596)</u>	<u>5,755</u>
<b>(Increases) decreases in elements of current liabilities:</b>		
6% notes payable to bank	(250,000)	
Accounts payable	127,855	(136,577)
Accrued expenses and taxes withheld	(9,806)	(27,014)
Income taxes currently payable	(52,798)	
Advance contract payments received	<u>67,008</u>	<u>(28,236)</u>
Increase (decrease) in working capital	<u>(\$ 44,513)</u>	<u>\$ 51,214</u>



# NOTES TO FINANCIAL STATEMENTS

July 31, 1971

## NOTE 1 — RECAPITALIZATION AND SHAREHOLDERS' AGREEMENT:

On February 11, 1970, the company's shareholders approved a recapitalization whereby each share of the then existing Class A, Class B and Class C shares were exchanged for two shares of common stock \$.10 par value. This recapitalization has been given effect to in the financial statements as of July 31, 1969.

In addition, the company is a party to an agreement among former Class A, Class B and Class C shareholders which requires the company, under certain conditions, to provide for the public offering of the shares of these shareholders and allows the former Class B shareholders to designate one member of the Board of Directors for a maximum of two years from the effective date of a proposed registration statement for the sale of 300,000 shares of authorized and unissued common stock. The agreement contains restrictions on the company in selling or redeeming its shares prior to completion of the aforementioned public offering. In the event the public offering price of the common stock is less than a base price per common share, the former Class C shareholders shall receive additional common shares equivalent to such reduction, presently estimated to be 20,000 shares. The company does not expect this proposed public offering to become effective by September 30, 1971 and, therefore, under the terms of the shareholders' agreement, the recapitalization discussed above may be rescinded. However, the company anticipates that the parties to the shareholders' agreement will extend the termination date through September, 1972.

In connection with the proposed public offering referred to in the preceding paragraph, the company has sold 30,000 shares of unissued common stock to the underwriter and another party for \$3,000, the par value. Should the offering not become effective as discussed above, the parties have agreed that the company will repurchase these shares at par value.

## NOTE 2 — INVENTORIES:

July 31,

	1971	1970
Raw materials and parts	\$ 89,353	\$105,799
Work in process	<u>814,332</u>	<u>238,244</u>
	903,685	344,043
Less — Progress billings	<u>505,951</u>	<u>12,258</u>
	<u>\$397,734</u>	<u>\$331,785</u>

Work in process has been valued at the total direct material, labor and applicable overhead accumulated under each job, which is lower than market. Raw materials and parts are stated at the lower of current cost or market.

## NOTE 3 — EQUIPMENT AND LEASEHOLD IMPROVEMENTS:

July 31,

	1971	1970
Laboratory and shop equipment	\$330,819	\$204,046
Office and other equipment	19,026	6,307
Leasehold improvements	<u>60,164</u>	<u>7,478</u>
	410,009	217,831
Less — Accumulated depreciation and amortization	<u>80,240</u>	<u>48,421</u>
	<u>\$329,769</u>	<u>\$169,410</u>

Depreciation is provided over the useful life of equipment, generally eight years, on the straight-line method. Leasehold improvements are amortized over the life of the related lease.

Expenditures for maintenance and repairs are charged to operations as incurred, and renewals and betterments, which extend the useful life of the assets, are capitalized.

At the time property is retired or otherwise disposed of, the cost of the asset and the accumulated depreciation or amortization is removed from the accounts and the gain or loss on disposition is taken into income.

## NOTE 4 — DEFERRED PRODUCT DEVELOPMENT COSTS:

Deferred product development costs represent costs incurred for prototype systems and components less amounts received from the sale of the prototypes. These costs are being amortized over production units based on management's estimate of anticipated future orders, with an amortization period not to exceed five years. Amortization of product development costs amounted to \$60,900 in 1971 and \$25,500 in 1970.

## NOTE 5 — QUALIFIED STOCK OPTION PLANS:

Under the company's qualified stock option plans adopted by the shareholders in 1968 and 1970, options may be granted to officers and key employees holding less than 5% of the company's common stock for the purchase of common stock of the company at not less than 100% of the fair market value of the stock on the date of the grant. Options become exercisable over a period of not more than five years from the date granted.

The activity in stock options during the two years ended July 31, 1971, after giving effect to the recapitalization discussed in Note 1, is summarized below.

	1971		July 31, 1970	
	Number of shares	Option price per share	Number of shares	Option price per share
Outstanding, beginning of year	70,700	\$1.00-\$1.25	35,700	\$1.00-\$1.01
Granted	106,000	1.25	38,300	1.25
Exercised	600	1.00- 1.25	1,800	1.00
Cancelled or expired	<u>5,800</u>	1.00- 1.25	<u>1,500</u>	1.25
Outstanding, end of year	<u>170,300</u>	\$1.00-\$1.25	<u>70,700</u>	\$1.00-\$1.25
Exercisable, end of year	<u>58,480</u>	\$1.00-\$1.25	<u>15,640</u>	\$1.00-\$1.25

At July 31, 1971 options for 51,100 shares (26,300 at July 31, 1970) were available for grant.

**NOTE 6 - INCOME TAXES:**

As permitted by the Internal Revenue Code, product development costs are deducted as incurred for income tax return purposes but are amortized over a period of years for financial accounting purposes (Note 4). In addition, commencing in 1971, certain depreciation expenses are recognized in different periods for financial accounting and income tax purposes.

The provisions for income taxes are based upon financial accounting income and the deferred portion reflects the difference in the years in which deductions for product development costs and depreciation are recognized for financial accounting and for tax purposes.

At July 31, 1971 the company had investment tax credit carryovers of \$6,400 (\$8,600 at July 31, 1970) expiring in 1979.

**NOTE 7 - LINE OF CREDIT:**

The company maintains an unsecured line of credit with a bank of

\$250,000 with interest at 1/2% above prime. This line of credit expires on November 19, 1971. As of July 31, 1971, the company had borrowed the \$250,000 of which \$100,000 was repaid in August, 1971 with the balance being due in September, 1971. Management anticipates renewing these notes in the near future.

**NOTE 8 - COMMITMENTS:**

The company pays annual net rentals and real estate taxes of approximately \$48,000 under its building lease commencing August 1, 1970 and expiring in 1990. On June 30, 1971, the company exercised its option to purchase the facilities for \$371,750 and expects title to be conveyed to them on or about September 27, 1971. It is intended that such purchase will be financed by assumption from the seller of a \$218,500 mortgage note payable presently secured by the building with interest at 10% per annum and a ten-year note in the amount of \$131,100 bearing interest at the rate of 6.5% per annum and secured by a second mortgage on the building.

PRICE WATERHOUSE & CO.

To the Board of Directors  
and Shareholders of  
Comtech Laboratories, Inc.

We have examined the balance sheets of Comtech Laboratories, Inc. as of July 31, 1971 and 1970 and the related statements of income and shareholders' equity and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The recovery of \$105,600 of deferred product development costs at July 31, 1971 (\$132,000 at July 31, 1970), discussed in Note 4 of the notes to financial statements, is dependent upon the company attaining sufficiently profitable future sales of related products, and consequently is not determinable at this time.

In our opinion, subject to the recovery of deferred product development costs referred to in the preceding paragraph, the accompanying financial statements examined by us present fairly the financial position of Comtech Laboratories, Inc. at July 31, 1971 and 1970 and the results of its operations and the changes in financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied.

*Price Waterhouse & Co.*

Mineola, New York  
September 15, 1971



**135 ENGINEERS ROAD / SMITHTOWN, NEW YORK / (516) 231 - 5454**