



COMTECH  
LABORATORIES INC.

**ANNUAL REPORT 1972**

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## COVER—

*Shown on Comtech's LOGO are the INTELSAT global satellite communications network, which uses a number of satellites in equatorial orbit, and the locations where Comtech satellite communication equipments are now operating including:*

- Andover, Maine
- Bahrein
- Barbados
- Belgium
- Canada
- Canary Islands
- Congo (Zaire)
- Ecuador
- England
- Greece
- Guam
- Hong Kong
- India
- Jamaica
- Kenya
- Kwajalein
- Morocco
- Nicaragua
- Panama
- Paumalu, Hawaii
- Pakistan
- Seychelles
- Shanghai, China
- Spain
- Trinidad
- Wallops Island, Virginia
- Yugoslavia

# COMTECH LABORATORIES INC.



## **Board of Directors**

J. C. Greene *Chairman*  
J. Kliphuis  
F. Kornberg  
G. R. Nocita  
J. A. Tokar  
A. J. Weinberg

## **Officers**

J. C. Greene *President*  
J. Kliphuis *Vice President*  
F. Kornberg *Vice President*  
G. R. Nocita *Vice President and Secretary/Treasurer*

## **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 and Rehm  
750 Third Avenue  
New York, New York 10017

## **Transfer Agent**

Franklin National Bank  
95 Wall Street  
New York, New York 10015

## **Registrar**

Chemical Bank  
20 Pine Street  
New York, New York 10015

## **Independent Accountants**

Price Waterhouse & Co.  
One Huntington Quadrangle  
Huntington Station, New York 11746

**Stock Traded — OTC**

**NASDAQ Symbol — CMTL**

## Operating Results

Operating results for Comtech's fifth fiscal year reached record high levels in all areas. For the year ended 31 July 1972, sales and other income increased to \$3,971,363 compared to \$2,014,253 last year, net income amounted to \$250,862, or \$.19 per share, compared to \$56,547, or \$.05 per share last year, and backlog at year end reached \$8,238,069 compared to \$2,559,108 last year.

Our rapid growth is a direct consequence of two important factors. First, the dynamic expansion in the use of satellite communications for both international and domestic purposes. Second, Comtech's ability to expand both its unique product line and its range of services so that we now offer virtually all of the electronic receiving and transmitting equipment required in typical earth stations as well as complete earth stations installed on a "turnkey" basis.

## Satellite Communications

The continuous world-wide increase in demand for high-quality voice, television, and data communication circuits has clearly indicated the importance of satellites as unique communication links. In this type of communication link, information is transmitted from an earth station up to an orbiting satellite and then back down to another earth station. The satellite is typically located in an equatorial orbit approximately 22,300 miles above the Earth's equator. In such an orbit, the period of rotation of the satellite around the Earth is the same as the period of rotation of the Earth about its spin axis. Thus, to an observer on the Earth below, the satellite appears to remain stationary in the sky.

The earth stations in a link operating from a single satellite can be separated by a distance of up to about 8,000 miles on the Earth's surface and still "see" the same satellite. By using at least 3 equally spaced satellites and appropriately placed earth stations, complete global communication coverage can be provided.

A typical satellite communication link in use today has the capacity for approximately 20,000 telephone voice channels or 12 color television channels. Prior to the use of satellites, long distance communications were carried mainly by undersea cable and short-wave radio. A typical undersea cable can carry only about 1,000 voice channels or, at most, one low-quality television channel. Short-wave radio cannot carry television signals and the approximate 1,000 voice channels that can be carried are subject to severe fading.

## The Market for Satellite Communications

In addition to the continuing expansion taking place in international satellite communication networks, a domestic (intra-national) network is now being implemented to carry television and other communication traffic wholly within Canada. Similar systems are planned for use within the United States, pending final FCC approval, and within Brazil, India, the European community, etc. Such domestic satellite communication systems are especially effective in countries having large land areas and population spreads.

Another developing commercial satellite communication market involves the use of small inexpensive terminals for use in communicating data to a central location, such as might be used in an oil pipeline system, aboard maritime vessels, in private industrial communications networks, and in numerous other applications.

The use of satellite communications for military purposes is also increasing rapidly. Here, the high reliability and the relatively error free reception of messages that are typical of satellite communication systems are of critical importance. Various prototype links have already been successfully implemented that include terminals on Naval vessels, aircraft, and ground vehicles. Production quantities of such systems are planned for the near future.

## Operating Objectives and Progress

Comtech's major goals at present are to become a leading supplier of satellite communication earth stations and individual subsystems and components that are used in such stations; and to become a leading supplier of other communication equipment used in conjunction with satellite communication earth stations, such as microwave point-to-point links, multiplex equipment, and data modems. Following are some of Comtech's more important accomplishments to date in reaching these goals.

- Continued expansion of Comtech's product line of low-noise receivers that amplify the weak signals received from a satellite without adding any substantial noise that could mask the signals. The cryogenically-cooled Model LNR-401 has to date been installed in over 30 INTELSAT earth stations. The Model LNR-402 is being installed in all the initial earth stations of the Canadian Domestic Satellite Communication system. The Models LNR-701 and LNR-702 have been installed in various military shipboard, airborne, and ground-based satellite communication systems.
- Continued expansion of Comtech's unique product line of receiving and transmitting systems for satellite communication terminals. Included are dual-conversion frequency converters using low cost integrated stripline construction, modulators, group delay equalizers, medium- and high-power amplifiers, a phase-locked threshold extension demodulator capable of handling from 12 to 1872 voice channels or video, and associated test and monitoring equipment.
- Completed installation and integration of our receiving and transmitting systems in a U. S. Department of Commerce earth station that is used to communicate with weather satellites.
- Established a Systems Division to provide a full range of capabilities for the planning, design, implementation, and testing of fully integrated satellite communication terminals. To date, the Systems Division has received contracts to supply a complete earth station for commercial service in Alaska, another complete earth station for military use in the U.S.A., complete receiving and transmitting systems for use in earth stations in Shanghai and Peking, and receiving equipment for use in up-grading various Comsat earth stations and the Moroccan earth station.

- Formed a wholly owned domestic international sales corporation, Comtech International Inc., in response to Federal legislation recently enacted to encourage exports by means of tax incentives. Since a considerable portion of our sales have generally been made outside the United States, this has already proven to be beneficial to Comtech and should continue to be so in the future.
- Signed preliminary working agreements with Fujitsu Limited, a Japanese Company, and Nissho-Iwai American Corporation, Fujitsu's U.S. representative. Fujitsu is a leading world supplier of computers, microwave point-to-point communication equipment, modems, multiplex equipment, and telephone switching equipment. Fujitsu has also developed what is believed to be the most advanced equipment to date for modulating and demodulating digital satellite communication signals. Upon joint approval of the final agreements, Comtech and Fujitsu will work together on an exclusive basis to sell small multi-purpose digital satellite communication terminals throughout the world. In the United States, Comtech will sell other Fujitsu communications products used in conjunction with satellite communication earth stations and, where necessary, manufacture these products or critical portions thereof.

#### Public Stock Offering

In March, Phillips, Appel & Walden Inc., members of the New York Stock Exchange, concluded a public stock offering for Comtech involving the sale of 330,000 shares of common stock. Comtech stock is quoted on the NASDAQ system (symbol CMTL) and is included in the daily over-the-counter market quotations published in the New York Times.

#### Future

During the coming year we look forward to a continuing sizable increase in sales volume and in earnings. Comtech's success to date has been greatly dependent upon our ability to attract and retain key personnel and also upon the above average abilities and contributions of our employees, now numbering approximately 200. We wish to thank all employees\* for their efforts on behalf of Comtech during the past year.

*J. C. Greene*

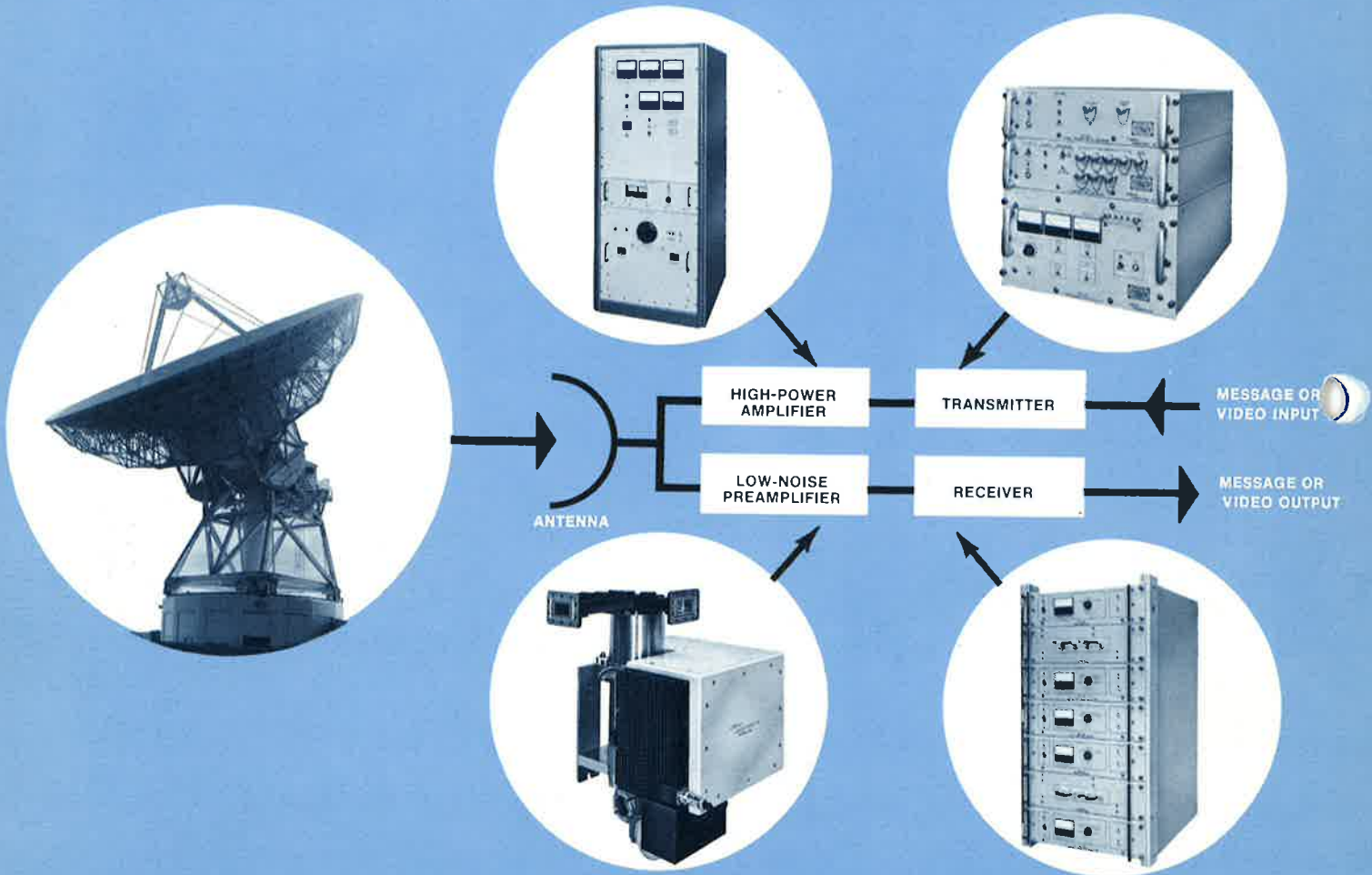
J. C. Greene, President

*\*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.*



(left to right)

**J. KLIPHUIS** Vice President and Manager, Microwave Division  
**J. C. GREENE** President  
**F. KORNBURG** Vice President and Manager, Telecommunications Division  
**G. R. NOCITA** Vice President and Secretary/Treasurer



BASIC SATELLITE COMMUNICATION EARTH TERMINAL

## THIS IS COMTECH

- Planning, Design, Implementation, and Testing of Fully Integrated Communication Terminals
- Receiving and Transmitting Systems for Satellite Communication Earth Stations
- Receiving and Transmitting Systems for Microwave Communications Using FM, Video, Voice, and Digital Data Signals
- Low-Noise Amplifiers for Communication, Radar, and ECM Applications
- Specialized Communication System Test Equipment

Comtech is located in a modern air-conditioned building in the Vanderbilt Industrial Park, Smithtown, New York. Located just north of exit 55 on the Long Island Expressway, Comtech is accessible to the LaGuardia, John F. Kennedy, and MacArthur airports. In 1972, the company's rapid growth made it necessary to increase plant size to 60,000 square feet.



# ORGANIZATION

(left to right)

- G. NAUMANN** Chief Engineer, Telecommunications Division
- J. ROSENBLUM** Manager, Marketing
- B. WALKER** Manager, New Business Development
- R. LEVIN** Chief Engineer, Microwave Division
- D. HERSHBERG** Chief Engineer, Systems Division
- D. CAMPBELL** Manager, Systems Division

## SYSTEMS DIVISION

The Systems Division provides a full range of capabilities for the planning, design, implementation, and testing of fully integrated communication terminals. These terminals are used in international and domestic satellite communication systems, terrestrial microwave links, and tropospheric scatter systems. The Systems Division normally uses field-proven equipments manufactured by Comtech. Where suitable Comtech equipment does not exist, other equipments purchased from reliable subcontractors are used.

Systems Division personnel have extensive experience in the design, management, and implementation of 23 separate earth stations for both military and commercial applications, including the responsibility for site surveys, civil works, and installation. In addition, these personnel have participated in implementing other communication systems involving fixed site, mobile, transportable, and shipboard terminals.





## TELECOMMUNICATIONS DIVISION

Telecommunications Division personnel have extensive experience in the design and manufacture of microwave receiving and transmitting systems dating back to the earliest days of satellite and troposcatter communications. Their familiarity with the performance requirements for these equipments has enabled Comtech to develop a complete new product line of improved, reliable, low-cost communication system building blocks, including dual-conversion frequency converters, modulators, group delay equalizers, medium- and high-power amplifiers, and associated monitoring and test equipment. Typical of the improvements incorporated in these units are integrated stripline construction techniques in the dual-conversion converters, and a phase-locked threshold extension demodulator capable of handling from 12 to 1872 channels, or video, simply by changing a plug-in loop filter.

## MICROWAVE DIVISION

Comtech's Microwave Division has pioneered the development of low-noise, wideband, highly stable parametric amplifiers for use in commercial and military satellite communication systems and in radar, ECM, and telemetry systems. Comtech's Model LNR-401 cryogenically-cooled, 4-GHz amplifier system is now operational in more than 30 international satellite communication earth stations located throughout the world. Fifty thermoelectrically cooled Model LNR-402 amplifier systems are being installed in all the earth stations comprising the initial Canadian Domestic Satellite Communication Network. Comtech's Model LNR-701 and LNR-702 7-GHz amplifier systems are in operation in military satellite communications terminals, including transportable, airborne, and shipboard terminals. More than 40 compact, low-cost Model LNR-900 amplifier units have been installed in X-band airborne side-looking radar sets. In addition, Comtech parametric amplifier systems have been delivered for use in the AWACS S-band airborne radar, the AEGIS S-band shipboard radar, 2-GHz telemetry reception and tracking systems, and ARIS C-band shipboard tracking radar sets.

## NEW BUSINESS DEVELOPMENT AND MARKETING DEPARTMENTS

New Business Development involves continually looking towards the future to insure Comtech's continued and rapid growth through a well-planned program of new product developments, acquisitions, diversifications and joint ventures. This department has the responsibility for developing such long-range programs and, in doing so, maintains close contact with all of our present and potential customers to determine both their present and future product needs. During the past year a number of promising new business areas have been under evaluation including high-frequency microwave data links for the new specialized common carriers, multi-channel radio relays for expanding CATV applications, and various digital multiplexer and concentrator equipments for data transmission. A preliminary agreement was signed with Fujitsu Ltd. of Japan providing for joint production and worldwide marketing of a small, new low-cost multi-purpose satellite

ground terminal. Also begun this past year was a program for opening up new markets for our products through expanded overseas sales representation.

Marketing has the responsibility for developing near-term sales with particular emphasis on programs involving, or leading to, production orders. The programs sought encompass markets for the entire range of Comtech's commercial and military products, including those new products currently under development. In line with our expanded sales efforts, Comtech has retained a number of well-qualified sales representatives in certain key locations in the United States. Our greatly expanded sales during the past fiscal year is evidence of the increased emphasis and importance that marketing activities are now receiving at Comtech.

# PRODUCTS

## S-BAND TRANSMITTER SUBSYSTEM

2030 MHz Center Frequency (Nominal)  
Series XMT-200



Multiple access, highly stable, ultra-linear S-band transmitter for telemetry and satellite earth station applications.

## THRESHOLD EXTENSION DEMODULATOR

70 MHz  
Series TED-700



Ultra-sensitive 1872 channel or video FM signal demodulator for satellite communication, troposcatter, and telemetry systems.

## DELAY EQUALIZER

70 and 700 MHz  
Model GDE-703



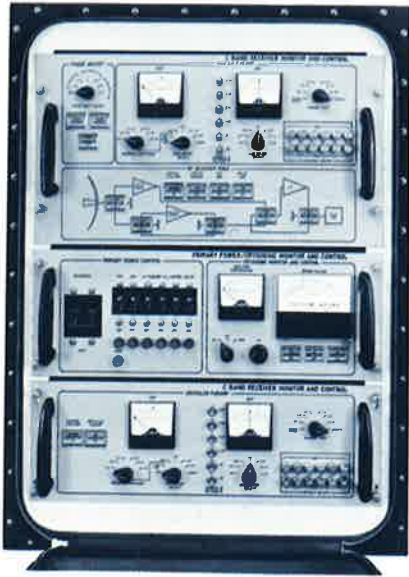
Selectable 70 — and 700 — MHz delay equalizing networks for use in various communication systems.



PRODUCTS FOR SATELLITE  
AND TERRESTRIAL MICROWAVE  
COMMUNICATIONS, RADAR,  
AND TELEMETRY APPLICATIONS

**LOW-NOISE RECEIVER**

5400 — 5900 MHz  
Model LNR-501



3-channel remotely controlled receivers for ground-based  
airborne radar terminals.

**LOW-NOISE RECEIVER**

3700 — 4200 MHz  
Model LNR-401



Cryogenically cooled receiver for use in international  
satellite communication ground stations.

**COMPACT LOW-NOISE RECEIVER**

8500 — 10900 MHz  
Series LNR-900



Receiver for use in radar and troposcatter systems.

**LOW-NOISE RECEIVER**

3700 — 4200 MHz  
Model LNR-402



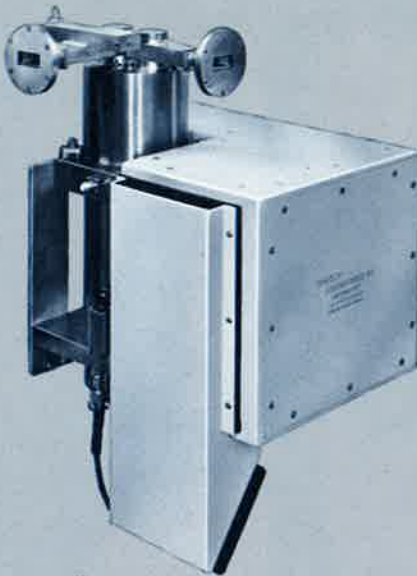
Uncooled receiver for use in domestic satellite  
communication ground stations.

# PRODUCTS



**LOW-NOISE RECEIVER**  
7.25 — 7.75 GHz  
Model LNR-701M

Cryogenically cooled receiver for use in military satellite communication terminals with large traffic capacity.



**LOW-NOISE RECEIVER**  
7.25 — 7.75 GHz  
Model LNR-702



**HIGH POWER AMPLIFIERS**  
300 watts — 3 kilowatts CW

755 — 985 MHz	Series HPA-100
1700 — 2700 MHz	Series HPA-200
4400 — 5000 MHz	Series HPA-400
5925 — 6425 MHz	Series HPA-600
7900 — 8400 MHz	Series HPA-800

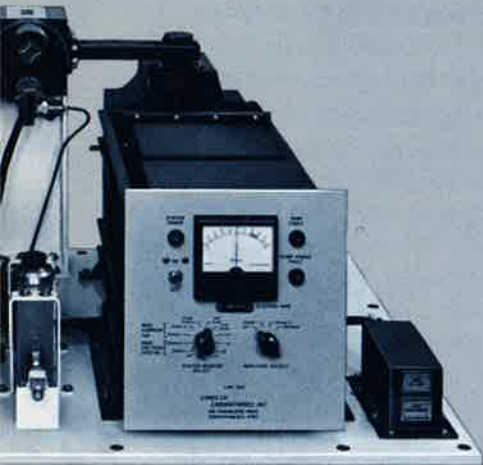
Modular, high-power RF amplifiers for use in satellite communication and troposcatter terminals.

**UP-CONVERTER**  
7900 — 8400 MHz  
Model UDC-703

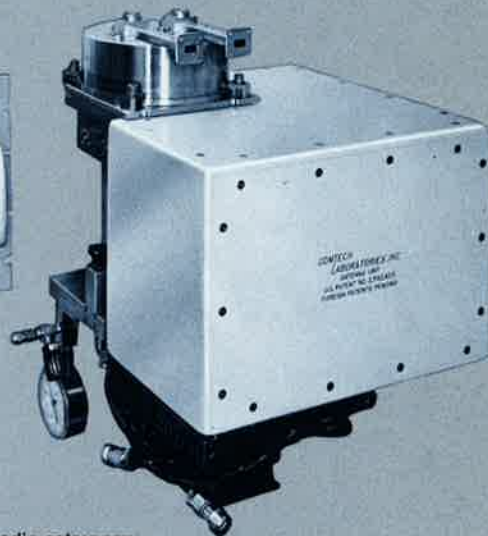
Dual-conversion frequency-agile up-converter with 70 and 700 MHz inputs for use in military satellite communication terminals.



redundant receiver configuration for use in tactical military satellite communication terminals.



**LOW-NOISE RECEIVER**  
14.4 – 14.9 GHz  
Model LNR-1501



Cryogenically cooled receiver for use in radio astronomy observations and microwave communications.



**DOWN-CONVERTER**  
7250 – 7750 MHz  
Model DDC-703

Dual-conversion frequency-agile down-converter with 70 and 700 MHz outputs for use in military satellite communication terminals.

**DUAL WIDEBAND RECEIVER**  
3700 – 4200 MHz  
Series RCY-400

Dual wideband message or TV receiver for use in international and domestic satellite communication ground stations.



## FACILITIES

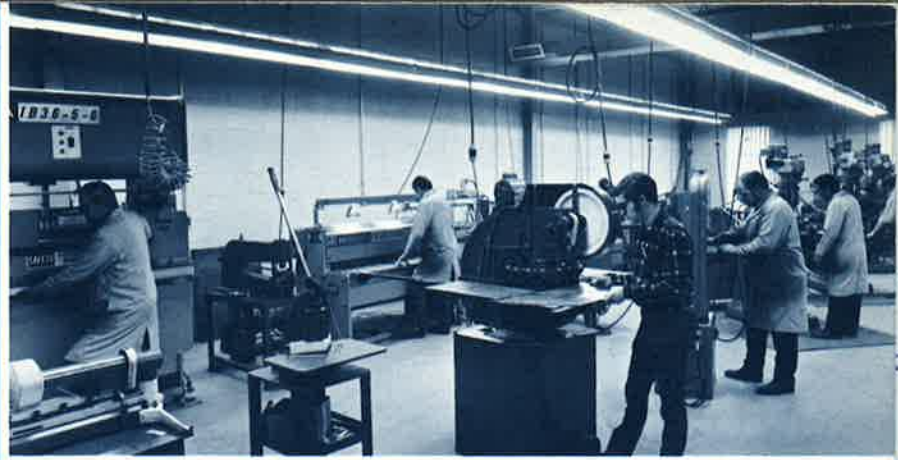
Comtech's facilities have been structured to satisfy the rigid requirements that must be met in the design, development, and production of modern electronic communication equipment.

Comtech's machine and sheet metal shop is equipped with a number of close-tolerance milling machines (including numerically controlled machines), high-precision lathes, various machines for forming, cutting, punching, and bending sheet metal, welding equipment, drilling and grinding equipment, etc. The shop has the necessary capacity as well as the jigs, calibration standards, and measuring devices required to efficiently produce high-quality components in both small and large quantities.

Extensive engineering and development laboratories that are fully equipped with the latest instrumentation and test equipment enable Comtech's engineers and technicians to design and test various types of electronic and microwave systems and components. A large variety of microwave, IF, video, and DC test equipment is available to perform these functions together with precision noise measuring equipment, vacuum equipment, temperature test chambers, etc.

Complete microwave stripline fabrication facilities are available to enable engineers to rapidly convert complex paper designs into a precise flat rubyolith pattern from which photographic negatives are made. These negatives are used to optically expose copper-clad dielectric boards prior to chemical etching that removes the unwanted copper material, thereby leaving only the desired circuit configuration. Comtech has pioneered in the use of stripline to economically produce large quantities of highly precise, complex communication circuits.

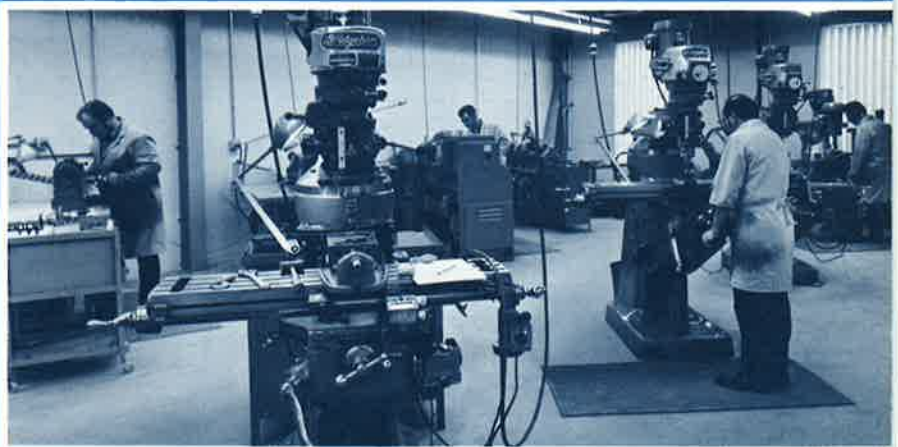
Support services are provided by purchasing, design and drafting, publications, and field engineering departments to ensure customer satisfaction with Comtech products from the initial design phase through installation and actual operation. The quality assurance department is involved in all aspects of Comtech's operation, including incoming and in-process inspection, reliability and maintainability studies and demonstration tests, environmental, shock, and vibration testing, final inspection, and packing.



A portion of Comtech's sheet metal fabrication shop.



Wiring and assembly area



Comtech precision machine shop



Frame used in the exposure of printed-circuit cards before chemical etching.



A portion of Comtech's engineering and development laboratory.

**COMTECH LABORATORIES INC.**  
**CONSOLIDATED BALANCE SHEETS**

<u>ASSETS</u>	<u>July 31,</u>	
	<u>1972</u>	<u>1971</u>
<b>Current assets:</b>		
Cash, including short-term investments at cost of \$495,233 in 1972	\$ 531,162	\$ 99,038
Accounts receivable (Note 1)	955,997	541,851
Inventories, less progress billings (Notes 1 and 3)	1,386,163	397,734
Other current assets	20,980	7,143
	<hr/> 2,894,302	<hr/> 1,045,766
Property, plant and equipment, less accumulated depreciation and amortization (Notes 1, 4 and 5)	1,107,052	329,769
Deferred product development costs (Note 1)	99,600	105,600
Other assets	3,675	13,278
	<hr/> \$4,104,629	<hr/> \$1,494,413
	<hr/> <hr/>	<hr/> <hr/>
<b><u>LIABILITIES AND SHAREHOLDERS' EQUITY</u></b>		
<b>Current liabilities:</b>		
Notes payable to bank		\$ 250,000
Accounts payable	\$ 636,685	119,043
Accrued expenses and taxes withheld	145,911	63,878
Income taxes currently payable (Note 6)	8,117	52,798
Advance contract payments received	167,400	31,728
Current maturities of mortgage notes	13,081	
	<hr/> 971,194	<hr/> 517,447
Mortgage notes due after one year (Note 5)	<hr/> 324,731	
Deferred income taxes (Note 6)	<hr/> 146,000	<hr/> 64,000
<b>Shareholders' equity (Notes 7 and 8): —</b>		
Common stock, \$.10 par value:		
Authorized — 3,000,000 shares		
Outstanding — 1972 — 1,505,020		
1971 — 1,073,600	150,502	107,360
Additional paid-in capital	2,140,826	685,092
Retained earnings	371,376	120,514
	<hr/> 2,662,704	<hr/> 912,966
Commitments and Contingencies (Note 10)		
	<hr/> \$4,104,629	<hr/> \$1,494,413
	<hr/> <hr/>	<hr/> <hr/>



**COMTECH LABORATORIES INC.**  
**CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS**

	Year ended July 31,	
	<u>1972</u>	<u>1971*</u>
Net sales and other income (Note 2)	\$3,971,363	\$2,014,253
Costs and expenses:		
Cost of sales, including amortization of deferred product development costs	3,130,147	1,649,434
General and administrative	375,092	222,134
Depreciation and amortization	66,548	37,109
Interest	34,714	5,029
	<u>3,606,501</u>	<u>1,913,706</u>
Income before income taxes	364,862	100,547
Provision for income taxes (Note 6):		
Current	32,000	54,000
Deferred	82,000	(10,000)
	<u>114,000</u>	<u>44,000</u>
Net income	250,862	56,547
Retained earnings at beginning of year	120,514	63,967
Retained earnings at end of year	<u>\$ 371,376</u>	<u>\$ 120,514</u>
Earnings per share (Note 1)	<u>\$.19</u>	<u>\$.05</u>
Earnings per share — fully diluted (Note 1)	<u>\$.18</u>	

\*Reclassified in part, for comparative purposes.

COMTECH LABORATORIES INC.

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

	Year ended July 31,	
	1972	1971
Financial resources were provided by:		
From Operations:		
Net income for the year	\$ 250,862	\$ 56,547
Add (deduct) income charges (credits) not affecting working capital in the period:		
Depreciation and amortization	66,548	37,109
Amortization of deferred product development costs	36,400	60,900
Deferred income taxes	82,000	(10,000)
Total from operations	435,810	144,556
Net proceeds from sale of stock	1,498,876	700
Proceeds from mortgage notes	349,600	
	<u>2,284,286</u>	<u>145,256</u>
Financial resources were used for:		
Purchases of property, plant and equipment, net	843,831	197,468
Reduction in long term debt	24,869	
Deferred product development costs	30,400	
Other	(9,603)	(7,699)
	<u>889,497</u>	<u>189,769</u>
Increase (decrease) in working capital	<u>\$1,394,789</u>	<u>(\$ 44,513)</u>
	<u>Analysis of changes in working capital</u>	
Increases (decreases) in elements of current assets:		
Cash, including short term investments	\$ 432,124	(\$ 105,926)
Accounts receivable	414,146	116,801
Inventories	988,429	65,949
Other current assets	13,837	(3,596)
	<u>1,848,536</u>	<u>73,228</u>
(Increases) decreases in elements of current liabilities:		
Notes payable to bank	250,000	(250,000)
Accounts payable	(517,642)	127,855
Accrued expenses and taxes withheld	(82,033)	(9,806)
Income taxes currently payable	44,681	(52,798)
Advance contract payments received	(135,672)	67,008
Current maturities of mortgage notes	(13,081)	
	<u>(453,747)</u>	<u>(117,741)</u>
Increase (decrease) in working capital	<u>\$1,394,789</u>	<u>(\$ 44,513)</u>

COMTECH LABORATORIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JULY 31, 1972

**NOTE 1 – ACCOUNTING POLICIES:**

**Principles of Consolidation**

The consolidated financial statements for the year ended July 31, 1972 include the accounts of the company and its wholly-owned subsidiary, Comtech International, Inc., which commenced operations January 24, 1972. All significant intercompany transactions have been eliminated.

**Accounts Receivable and Sales**

Sales are recorded when performance is rendered in accordance with contract terms, generally upon acceptance and shipment.

**Inventories**

Inventories are valued at the lower of cost or market. Work in process has been valued at total direct material, labor and applicable overhead accumulated under each job, less the estimated costs of shipments made. Raw materials and parts are stated at current cost.

**Property, Plant and Equipment**

Property, plant and equipment are recorded at cost and 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 account and the gain or loss on disposition is taken into income. Annual depreciation is provided utilizing the straight-line method as follows; buildings – 2½% and equipment – 12½%.

**Deferred Product Development Costs**

Deferred product development costs represent costs incurred for prototype systems and components less amounts received from the sale of 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 \$36,400 in 1972 and \$60,900 in 1971.

The recovery of the deferred product development costs at July 31, 1971 and 1972 is dependent upon the company attaining sufficiently profitable future sales of related products and consequently is not determinable at this time.

Research and development costs are charged to expense as incurred. These costs amounted to \$8,048 in 1972 and \$43,266 in 1971.

**Earnings Per Share**

Earnings per share is based upon the weighted average common shares and common share equivalents outstanding during the year. Fully diluted earnings per share is based upon the weighted average common shares and common share equivalents outstanding during the year, assuming exercise of the common share equivalents at the closing market price at the end of the period.

Assuming the public offering had been completed as of the beginning of the year, all other common shares and common share equivalents outstanding at July 31, 1972 had been outstanding for the entire year and the year end traded market price of common stock had been in effect for the entire year, earnings per share would have been \$.15.

**NOTE 2 – LICENSE AGREEMENT:**

In July, 1972, the company entered into an agreement to license the manufacture and use of its multicoupler product line. Under the agreement, the company received an initial fee of \$30,000 for certain technical data and consultations and a 3% royalty on all future multicoupler sales through July, 1977.

At July 31, 1972, the company has included the initial fee in other income in the consolidated statements of income and retained earnings. Future royalty income will be recorded as received.

**NOTE 3 – INVENTORIES:**

	July 31,	
	1972	1971
Raw materials and parts	\$ 157,235	\$ 89,353
Work in process	1,936,463	814,332
	<u>2,093,698</u>	<u>903,685</u>
Less – progress billings	707,535	505,951
	<u>\$1,386,163</u>	<u>\$397,734</u>

Title to work in process related to U. S. Government contracts with progress payments is vested in the U. S. Government.

**NOTE 4 – PROPERTY, PLANT  
AND EQUIPMENT:**

	July 31,	
	1972	1971
Land	\$ 100,000	
Building and improvements	329,925	\$ 60,164
Construction in progress	174,779	
Equipment	645,028	349,845
	<u>1,249,732</u>	<u>410,009</u>
Less – accumulated depreciation and amortization	142,680	80,240
	<u>\$1,107,052</u>	<u>\$329,769</u>

**NOTE 5 – MORTGAGE NOTES:**

In September 1971, the company purchased its present facilities for \$371,750. The purchase was financed by assumption from the seller of a \$218,500 ten-year mortgage note 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 with the New York State Job Development Authority. The average principal amount maturing in each of the four years ending July 31, 1977 is approximately \$17,000.

**NOTE 6 – INCOME TAXES:**

In accordance with the Revenue Act of 1971, the company organized, in January 1972, a Domestic International Sales Corporation (DISC) which acts as a sales agent for the company's international sales. Under the Revenue Act, 50% of the income on export sales is considered earned by the DISC and one-half of this amount (\$93,909) is exempt from current federal taxation as long as the DISC complies with certain requirements and retains its tax status. It is the intention of management to reinvest all undistributed earnings of the DISC, as defined under the Act, and accordingly no provision has been made on the portion not subject to current taxation. In addition, since the DISC has a fiscal year ending August 31, the income taxes on the taxable portion of the undistributed earnings of the DISC will not be payable until fiscal year 1974 and therefore, have been included in the deferred tax provision.

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. In addition, certain depreciation expenses are recognized in different periods for financial accounting and income tax purposes.

The provision for income taxes has been reduced by investment tax credits of approximately \$26,000 in 1972 (including \$6,400 carried over from 1971) and \$2,200 in 1971.

**NOTE 7 – COMMON STOCK AND ADDITIONAL PAID-IN CAPITAL:**

On March 17, 1972, the company sold through a public offering 330,000 shares of common stock at \$5.00 per share.

Changes in the common stock and additional paid-in capital accounts resulting from the above and other transactions during the two years ended July 31, 1972 are as follows:

	No. of Shares	Common Stock	Additional Paid-in Capital
Balance, July 31, 1970	1,073,000	\$ 107,300	\$ 684,452
Exercise of stock options	600	60	640
Balance, July 31, 1971	1,073,600	107,360	685,092
Net proceeds from public sale of common stock	330,000	33,000	1,366,251
Shares sold to former Class C shareholder	20,000	2,000	
Exercise of stock options	81,420	8,142	89,483
Balance, July 31, 1972	<u>1,505,020</u>	<u>\$ 150,502</u>	<u>\$2,140,826</u>

In accordance with a previous stockholders agreement and the public offering, the former Class C shareholder purchased 20,000 shares of common stock at par.

#### **NOTE 8 – 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 personnel 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 following tabulation sets forth the activity in stock options for the two years ended July 31, 1972:

	July 31,			
	1972		1971	
	Number of shares	Option price per share	Number of shares	Option price per share
Outstanding, beginning of year	171,300	\$1.00- 1.25	71,700	\$1.00-1.25
Granted	112,100	1.25-11.38	106,000	1.25
Exercised	(81,420)	1.00- 1.25	(600)	1.00-1.25
Cancelled	(63,300)	1.00- 1.25	(5,800)	1.00-1.25
Outstanding, end of year	138,680	1.00-11.38	171,300	1.00-1.25
Exercisable, end of year	37,160	1.00- 1.25	58,480	1.00-1.25

At July 31, 1972 and 1971, 1,300 and 51,000 shares were available for grant, respectively.

#### **NOTE 9 – LINE OF CREDIT:**

The company maintains a \$1,000,000 unsecured line of credit with a bank with interest at 1/2% above prime.

#### **NOTE 10 – COMMITMENTS AND CONTINGENCIES:**

In July, 1972 the company entered into a contract to construct an addition to its present facilities for approximately \$727,000. At July 31, 1972 the com-

pany had made advances to the contractor of \$170,000. It is anticipated that the addition will be completed in November, 1972, with approximately \$540,000 of the costs to be financed by two eight-year mortgages.

Commencing in 1972, certain sales of the company are subject to the Renegotiation Act of 1951, as amended. In the opinion of management no refunds are anticipated.

### **OPINION OF INDEPENDENT ACCOUNTANTS**

To the Board of Directors  
and Shareholders of

Comtech Laboratories Inc.

We have examined the consolidated balance sheets of Comtech Laboratories Inc. as of July 31, 1972 and 1971 and the related consolidated statements of income and retained earnings 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 \$99,600 of deferred product development costs at July 31, 1972 (\$105,600 at July 31, 1971), discussed in Note 1 of the notes to consolidated 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 consolidated financial statements examined by us present fairly the consolidated financial position of Comtech Laboratories Inc. and its subsidiary at July 31, 1972 and 1971 and the results of their operations and the changes in financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied.

Huntington Station, New York  
October 17, 1972

PRICE WATERHOUSE & CO.

Comtech was responsible for the design, development, integration, installation and test of a substantial portion of the U.S. Department of Commerce's satellite earth station at Wallops Island, Virginia, including radio receivers, exciters, and high-power amplifiers.





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

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