



COMTECH  
LABORATORIES INC.

**ANNUAL REPORT 1973**

# COMTECH LABORATORIES INC.



## Board of Directors

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

## Officers

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

## 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**

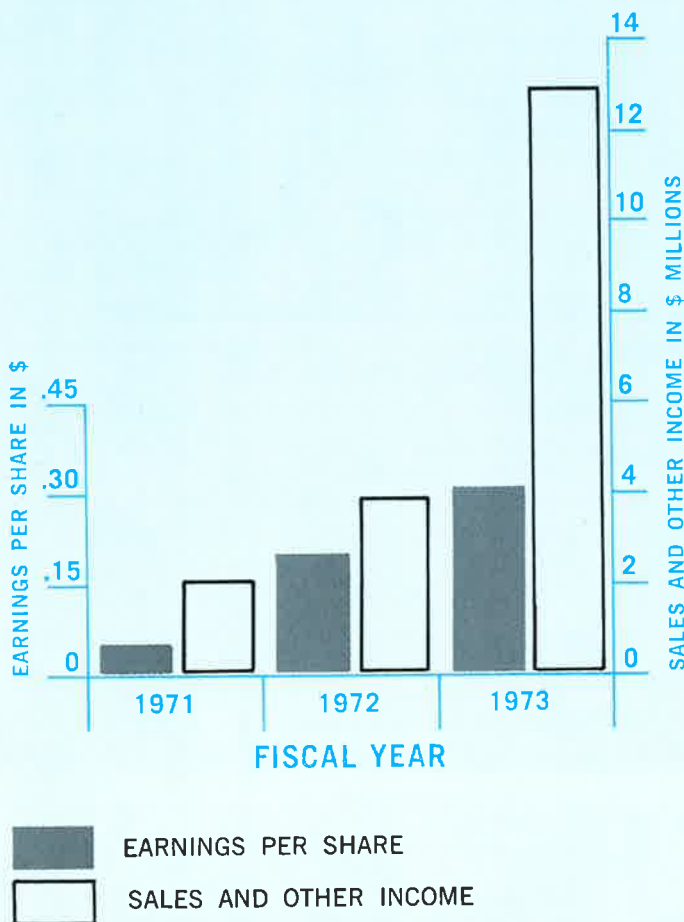
**NASDAQ Symbol — CMTL**

## PRESIDENT'S MESSAGE TO SHAREHOLDERS:

### Operating Results

Operating results achieved during Comtech's sixth fiscal year ended 31 July 1973 showed a continued growth pattern. Compared to the prior fiscal year ended 31 July 1972, sales and other income increased from \$3,971,363 to a record high level of \$12,995,511 and net income increased from \$250,862 to a record high level of \$509,118. Earnings per share, giving consideration to a 26 percent increase in the average number of common shares and common share equivalents outstanding in 1973 as compared to 1972, increased from \$.19 last year to a record high level of \$.31 this year.

Due to delays in the awards of several major contracts, backlog at year end amounted to \$3,359,078 compared to \$8,238,069 last year. As expected, backlog has been rising rapidly since year end and presently amounts to approximately \$8,000,000.



■ EARNINGS PER SHARE  
□ SALES AND OTHER INCOME

### The Market For Satellite Communications

During the past year there has been a continued rapid expansion in the satellite communications market, which is composed of three major segments — the market for satellite communications between the 83 member nations of the International Telecommunications Satellite Consortium (INTELSAT), the market for intra-national (domestic) satellite communications, and the market for military and other government related satellite communications.

During calendar year 1973, approximately 19 new earth stations will be added to the growing INTELSAT network

including earth stations in the People's Republic of China and in the USSR (for use in the new Washington-Moscow "hot line" that will operate via communication satellite). During the next several years, it is anticipated that approximately 10-12 new earth stations will be added to this network each year and that, in addition, the capacity and capability of existing stations will be upgraded to meet increased traffic demands.

The initial Canadian domestic satellite communication system became operational in January 1973 and, as planned, further expansion of this system is continuing. In the United States, the FCC has recently approved, after extended investigations, all outstanding filings related to domestic satellite communication systems. Actual implementation of several initial U. S. domestic systems has been initiated and a substantial expansion in the size and number of such systems is planned during the next several years. Planning of a huge domestic system for Brazil has been completed and it is anticipated that contracts for such a system will be let within the next year. Furthermore, planning activities are now nearing completion for additional domestic systems in Australia, India, the USSR, the European community, and other countries.

Prototype military satellite communication systems that include large stationary earth terminals as well as mobile terminals on ships, aircraft, and ground vehicles have been successfully operated. Initial orders for production quantities of such systems have been released and it is expected that considerably larger quantities will be ordered over the next several years.

In addition to the three above described markets, which are already established and growing rapidly, several major new markets have very recently opened up for satellite communication earth stations and related equipment. These new markets include the possibility of installing small satellite communication terminals aboard several thousand commercial maritime vessels, the possibility of installing large satellite communication networks for the private use of major corporations that need low cost, flexible, high capacity communication service, and the use of high speed digital communication techniques that permit transmission and reception via satellite of data, voice, TV, and other signals consistent with minimum utilization of satellite bandwidth and power.

### Operating Objectives and Progress

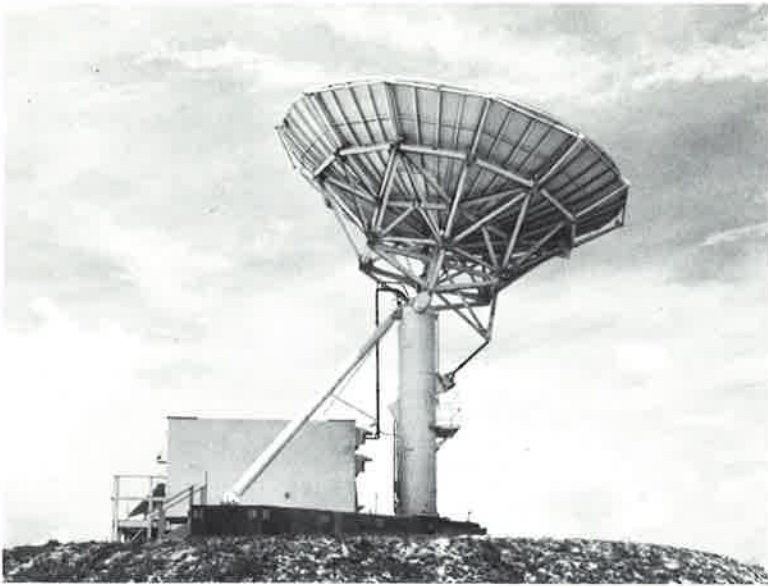
Our growth is a direct consequence of two important factors. First, the continued expansion in the use of satellite communications for both international and domestic purposes. And second, Comtech's ability to broaden and improve its unique product line and its range of services, which now enables us to provide, in production quantities and on a rapid delivery basis, the electronic receiving and transmitting subsystems required in typical satellite communication earth stations as well as complete earth stations installed on a turnkey basis.

Following are some of Comtech's major accomplishments during the past year in our continuing effort to become a leading supplier of satellite communication earth stations and related communication equipment.

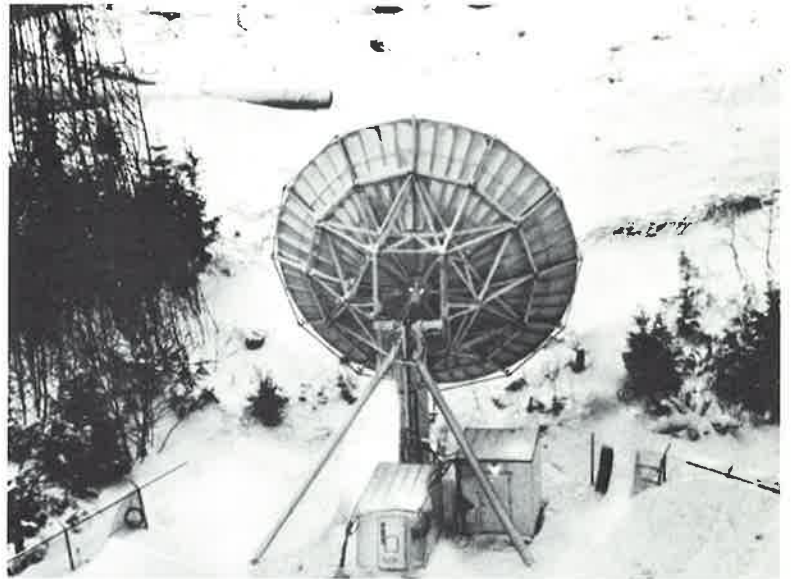
- Kept pace with the growing satellite communications market by increasing our total staff from 180 persons to approximately 360 persons and our plant space from 20,000 square feet to nearly 100,000 square feet. As planned, the most significant part of this expansion has taken place in our production operation, which now includes approximately 150 persons.



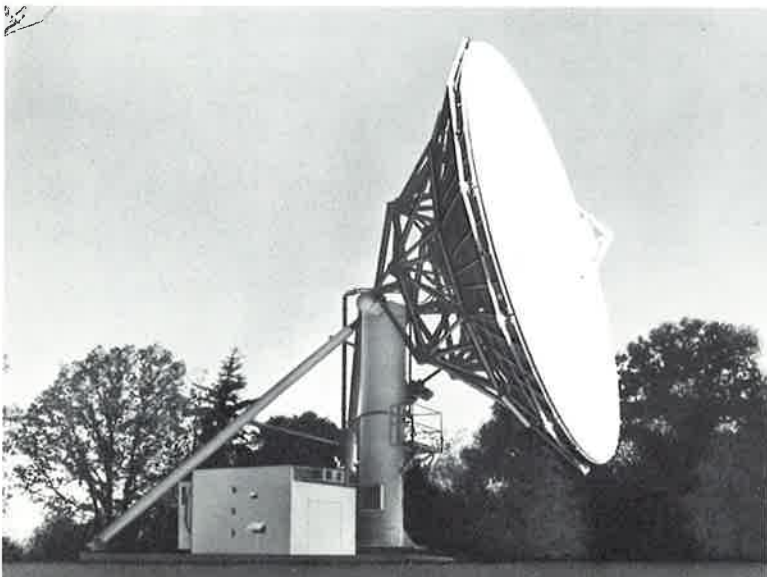
**SATELLITE COMMUNICATION  
EARTH STATIONS  
INSTALLED BY COMTECH**



**KWAJALEIN STATION**



**ALASKA STATION**



**WASHINGTON, D. C. STATION**

- Designed, developed, and installed on a turnkey basis three complete satellite communication earth stations, the first such stations to be implemented by Comtech. Two of these stations, located near Juneau, Alaska, and on Kwajalein Island, operate in the commercial satellite communication band while the third station, located near Washington, D. C., operates in the military satellite communication band. The Juneau station was completed within 110 days from contract award and is capable of transmitting and receiving color TV and 48 voice channels. The Kwajalein station was completed within 75 days from contract award and is capable of transmitting and receiving 24 voice channels. The Washington, D. C. station was completed within the more normal delivery time of about 6 months following contract award and is capable of transmitting and receiving wideband data signals. Comtech placed special emphasis on the electrical and mechanical design aspects of these initial stations since many earth stations to be installed as part of various domestic systems will require similar performance characteristics and, in many instances, rapid delivery as well.
- Delivered and installed complete receiving and transmitting systems and operating consoles for the first two commercial earth stations to be located in the People's Republic of China, and we are presently completing similar equipment for a third such earth station. As a result of these efforts, which were performed on a sub-contract basis, Comtech received an official invitation from the Chinese Government to attend a meeting in Peking to discuss additional communications requirements. This direct contact led to our first prime contract from the Chinese Government for satellite communication equipment.
- Delivered substantial quantities of receiving and transmitting systems to the U. S. Army Satellite Communications Agency for upgrading existing AN/MS-46 military earth stations. Options exercised to date under this ongoing contract have resulted in increasing the original contract amount of \$2.3 million to approximately \$5.3 million. Furthermore, additional equipment of the type developed under this program is now being produced by Comtech under a separate \$900,000 contract from the U. S. Army Satellite Communications Agency for use in the AN/TSC-54 terminals, and it appears that this equipment may also be extensively used in other military earth terminals to be implemented in the near future.
- Under a continuing contract from Comsat, delivered initial production quantities of receiving systems for upgrading the capability of various Comsat earth stations.
- Delivered production quantities of low-noise receivers for INTELSAT earth stations in the U. S., Canada, Taiwan, France, Spain, Nicaragua, Ecuador, Yugoslavia, and other countries. Delivered similar equipment for an earth station in Moscow to be used in the new Washington-Moscow "hot line" system. Also delivered production quantities of low-noise receivers for use in the initial U. S. domestic satellite communication systems and in various military satellite communication systems.
- Delivered to Western Union production quantities of baseband combiner units that permit digital data to be transmitted over conventional point-to-point microwave communication links with a minimum error rate.
- Signed working agreements with Fujitsu Limited of Japan and Nissho-Iwai American Corporation (Fujitsu's U. S. agent) under which Comtech and Fujitsu will work together to sell multi-purpose satellite communication terminals. Comtech will also sell and manufacture where necessary other Fujitsu communication products used

in conjunction with earth terminals, including digital modulators and demodulators, pulse code modulation (PCM) equipment, and time division multiple access (TDMA) equipment.

- Delivered and installed, in cooperation with Fujitsu, earth station equipment for Comsat that permits transmission and reception via satellite of high-speed digital data and digitized voice signals at rates up to 50 kilobits per second with an extremely low error rate and minimum utilization of satellite bandwidth and power. This contract includes an option during the next 3 years for the purchase of additional equipment. Comtech believes this contract to be especially significant because of the increasing trend toward the use of digital communication techniques.
- Started a new Digital Division to provide a full range of capabilities for the planning, design, development, and implementation of complete digital communication systems. To date, Digital Division personnel have been instrumental in the successful operation of the above described high-speed digital communication terminal for Comsat and in planning and developing joint marketing efforts with Fujitsu. They are also presently developing, under Comtech funding, advanced digital equipment for possible use by the major common carriers in commercial communication systems and by various Government agencies in military communication systems.
- As an outgrowth of our interest in precise, low-cost machining of mechanical components, we previously conducted company funded development work on a new microwave technique for precisely controlling the position of a machine tool in all three axes. Using this technique, the tool is positioned on a closed-loop basis, thereby providing a high degree of positional accuracy independent of the backlash present in the mechanical positioning mechanism of every machine. U. S. Patent No. 3,749,999 covering this technique has recently been awarded to Comtech and related patent applications are on file in Germany, Switzerland, Japan, and England. We believe that by using this technique together with a simple digital computer it will be possible to provide numerical controlled machines with greatly improved accuracy and flexibility at a considerably lower cost than is now possible using other existing techniques. Since this type of activity is outside our present areas of interest, Comtech is investigating possible licensing arrangements to exploit the potential of this patent.

#### Performance Versus Projections

In 1973, based on estimates of the rapidly growing and technically changing satellite communications market and on estimates of Comtech's ability to keep pace with the stringent demands of this market, we projected for fiscal year 1973 sizable increases in sales and earnings. During the first half of the year, as described in our last semi-annual report, the operating results achieved appeared on an annualized basis to be consistent with these projections. During the latter half of the year, however, several situations arose that resulted in our actual annual sales being even higher than anticipated while our actual annual earnings were lower. For example, (1) orders received considerably exceeded expectations, (2) the increased plant space required to efficiently produce this additional equipment was not available on a timely basis since the completion of the planned 40,000 square-foot extension of our original 20,000 square-foot building was delayed by several months due to strikes by various construction trade unions, (3) we fully met our greatly increased delivery commitments following completion of the building extension, but in order to accomplish this difficult task we had to



recruit and train a substantial work force in a relatively short time, resulting in reduced production efficiency, (4) as a result of three major new potential markets opening up for satellite communication earth stations and sub-systems, we significantly increased our originally planned marketing and technical proposal efforts, and (5) because of the rapid build-up in demand for digital communication systems, we started a new Digital Division that immediately undertook major marketing and proposal efforts and a product development program.

#### Future

Fiscal year 1973 was a year of substantial growth and accomplishment for Comtech in spite of very difficult challenges. As a consequence of the many significant efforts undertaken during the year, we are now in a greatly improved position to meet the growing demands of the satellite communications market and to sustain our growth rate on a more efficient basis. For example, (1) as a supplement to the 40,000 square-foot extension on our original building, we completed arrangements for the lease of a nearby, newly built 37,500 square-foot facility that will provide expanded quarters for our Systems Division and for our manufacturing activities, (2) we negotiated satisfactory arrangements for allowable bank borrowings of up to \$10,000,000, a very substantial increase that will provide the additional working capital required to finance a

large increase in sales volume, (3) we started a Digital Division to provide a further broadening of our product line and capabilities, thereby enabling us to keep pace with new market demands and technology requirements, and (4) we considerably strengthened our organization by a sizable increase in our production capability and by the addition of competent personnel at every level of activity.

During the coming year we look forward to continuing sizable increases in sales volume and earnings, and we have established the necessary technical, management, marketing, manufacturing, and financial base that is required to support such a level of activity.

Comtech's success to date has been largely due to the above average contributions of its employees and the fine spirit of cooperation that prevails among members of its staff. We wish to thank all employees\* for their strenuous efforts on behalf of Comtech during the past year.

We also wish to thank our growing number of shareholders for the encouragement and support received 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.

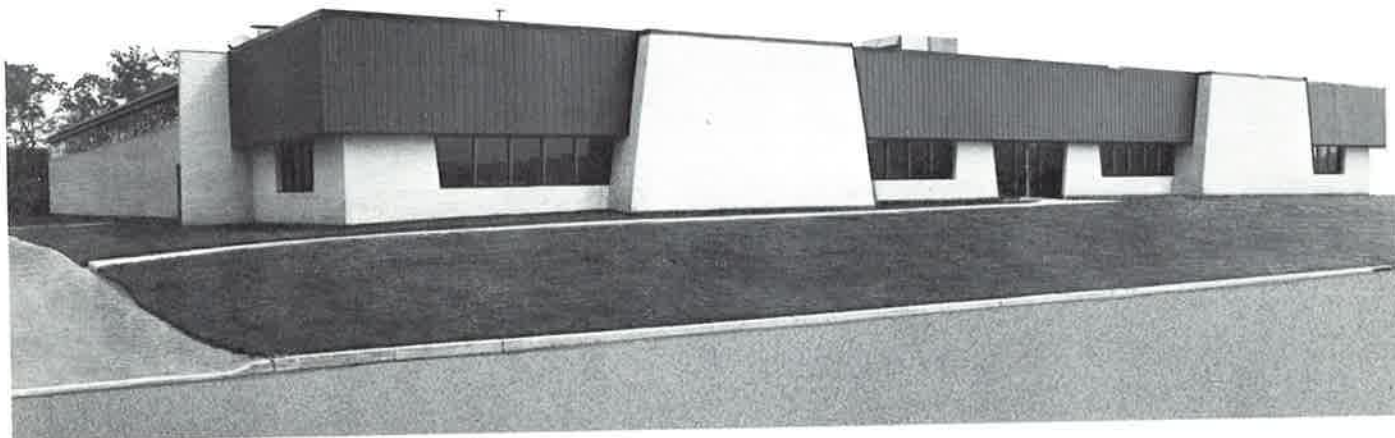


(left to right) **J. C. GREENE** President  
**F. KORNBERG** Executive Vice President  
**G. R. NOCITA** Vice President and Secretary/Treasurer  
**D. R. CAMPBELL** Vice President

## 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
- Communication System Test Equipment

ENGINEERS ROAD PLANT



OSER AVENUE PLANT

Comtech is located in two modern air-conditioned buildings 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. To keep pace with the company's rapid growth, an increase in the size of its original plant on Engineers Road to 60,000 square feet was completed in early 1973 and a new 37,500 square foot plant on nearby Oser Avenue was leased in mid-1973.



# DIVISION AND MARKETING MANAGERS

**G. NAUMANN**  
Telecommunications



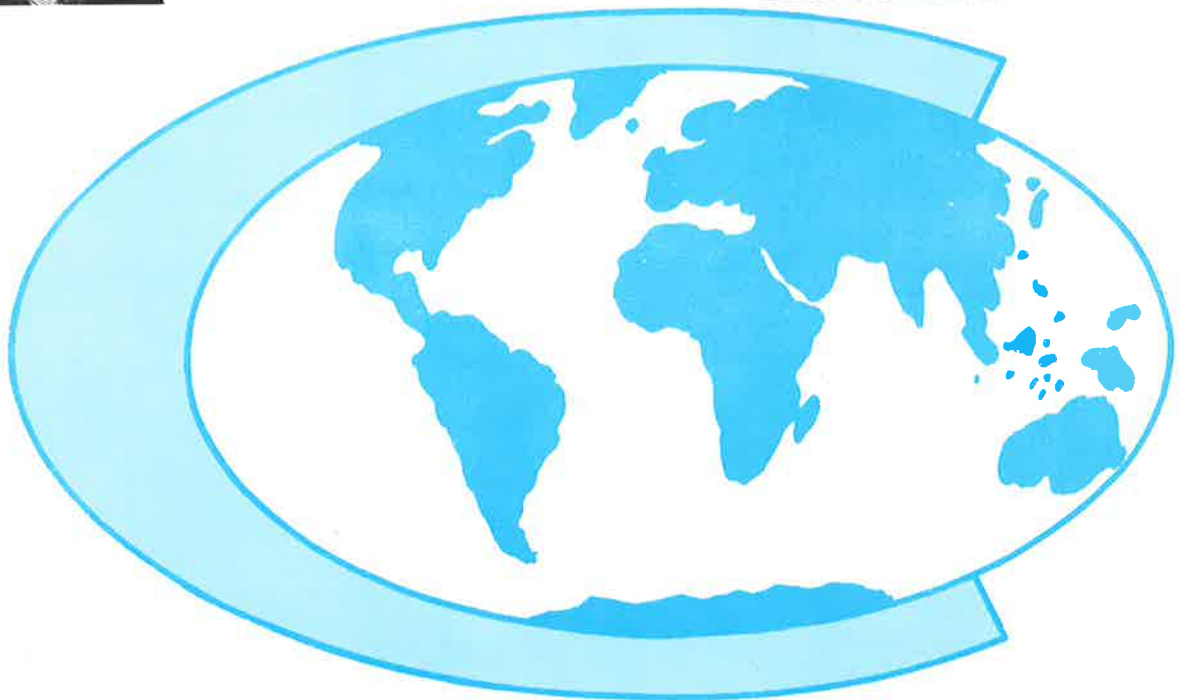
**D. HERSHBERG**  
Systems



**R. LEVIN**  
Microwave



**D. LIU**  
Digital



**J. ROSENBLUM**  
Marketing



**B. WALKER**  
New Business  
Development



**A. SCUDERI**  
Manufacturing

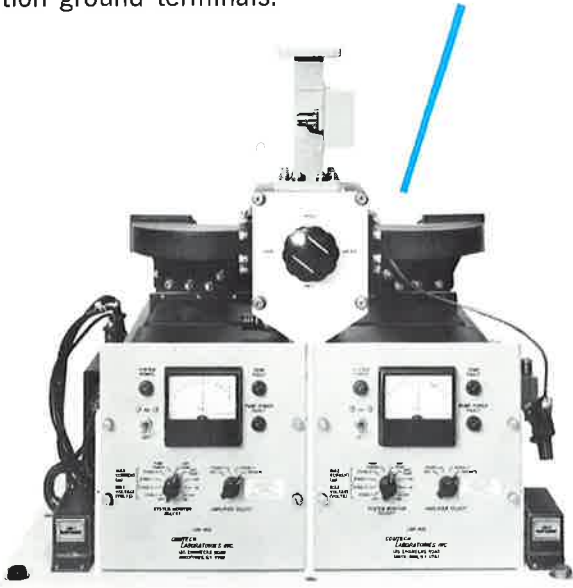


# RECENT PRODUCTS

## LOW-NOISE AMPLIFIERS 55°K - 200°K

- 3.7 - 4.2 GHz    Series LNR-402
- 7.25 - 7.75 GHz    Series LNR-702
- 11.7 - 12.2 GHz    Series LNR-1202

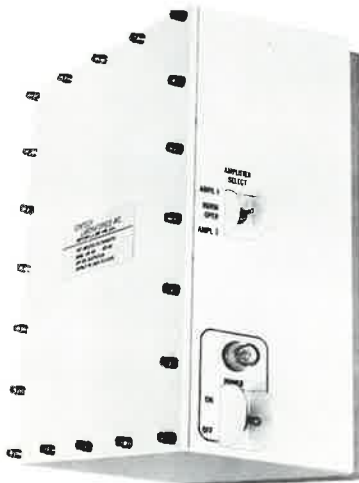
Redundant parametric amplifier configuration for use in satellite and microwave communication ground terminals.



## THRESHOLD EXTENSION DEMODULATOR 70 ± 20 MHz (Message or Video)

### Series TED-700

Ultra-sensitive FM signal demodulator equipped for 6 switchable channel capacities (from 3 to 1872) for use in satellite and troposcatter communication ground terminals.



## LOW-NOISE AMPLIFIERS 60°K - 120°K

- 755 - 985 MHz    Series LNR-103
- 1700 - 2400 MHz    Series LNR-203
- 4400 - 5000 MHz    Series LNR-403

Low-noise wideband parametric amplifiers for use in troposcatter and telemetry communication ground terminals.



## DIVERSITY WIDEBAND COMBINER Baseband, 12 - 1872 Voice Channels

### Model BBC-701

Dual-diversity post-detection maximal ratio combiner for use in large traffic capacity microwave and troposcatter communication ground terminals.

## LOW-NOISE AMPLIFIERS 15°K - 50°K

- 3.7 - 4.2 GHz Series LNR-401
- 5.4 - 5.9 GHz Series LNR-501
- 7.25 - 7.75 GHz Series LNR-701
- 11.7 - 12.2 GHz Series LNR-1201
- 14.4 - 14.9 GHz Series LNR-1501

Cryogenically-cooled parametric amplifier subsystems for use in satellite and microwave communications, radar, and radio astronomy applications.



## FREQUENCY GENERATOR 100 - 111 MHz

Model DSG-701

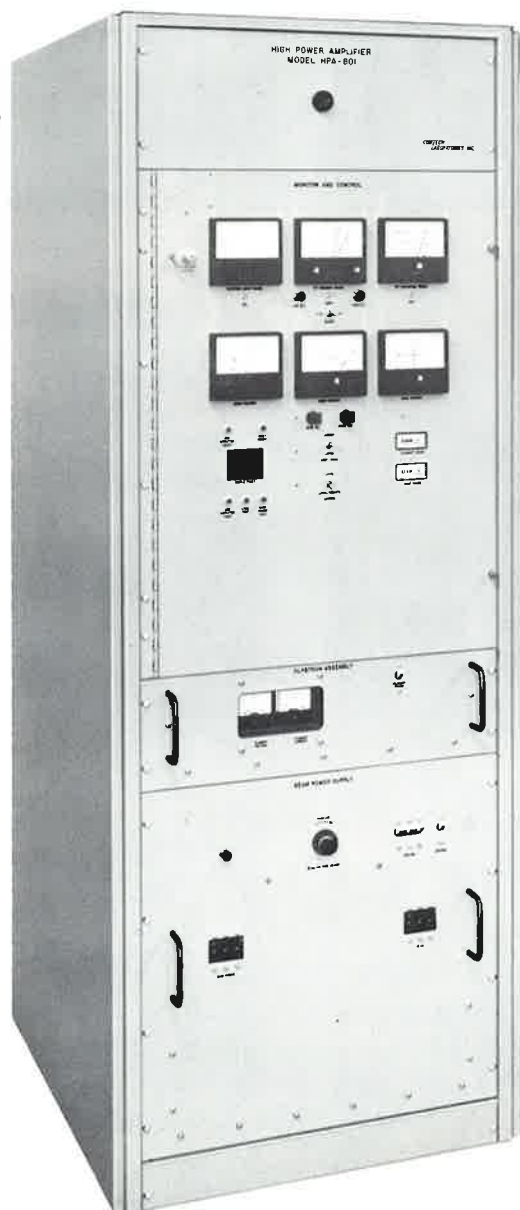
Dual discrete 15-channel frequency generator for use with frequency-agile up-and-down converters in satellite communication ground terminals.



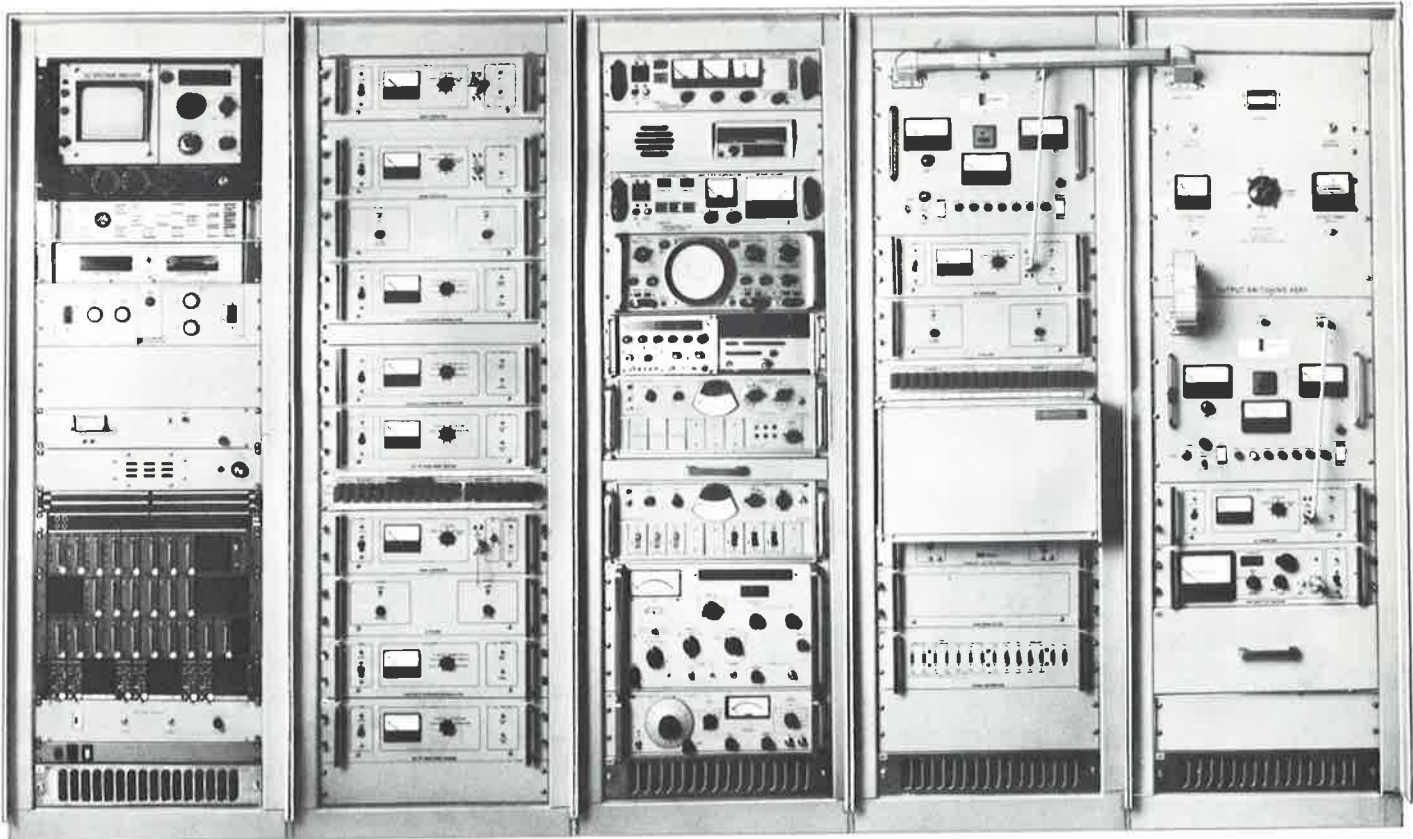
## HIGH-POWER AMPLIFIERS 300 watts - 3 kilowatts

- 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
- 14000 - 14500 MHz Series HPA-1400
- 17987 - 18097 MHz Series HPA-1800

Modular, high-power RF amplifiers for use in satellite and tropo-scatter communication ground terminals.



## RECENT PRODUCTS



### GROUND COMMUNICATIONS SUBSYSTEM

**Transmit 5925 - 6425 MHz**  
**Receive 3700 - 4200 MHz**

Typical ground communications equipment (GCE) subsystem used to provide redundant telephone message or video communications capability in international and domestic satellite communication ground terminals.

### WIDEBAND RECEIVERS Message or Video

**3.7 - 4.2 GHz    Series RCV-400**  
**11.7 - 12.2 GHz    Series RCV-1200**

Cabinet containing four wideband frequency-agile (24-1872 voice channels) receiver subsystems for use in international and domestic satellite and microwave communication ground terminals.







## DUAL WIDEBAND RECEIVERS Message or Video

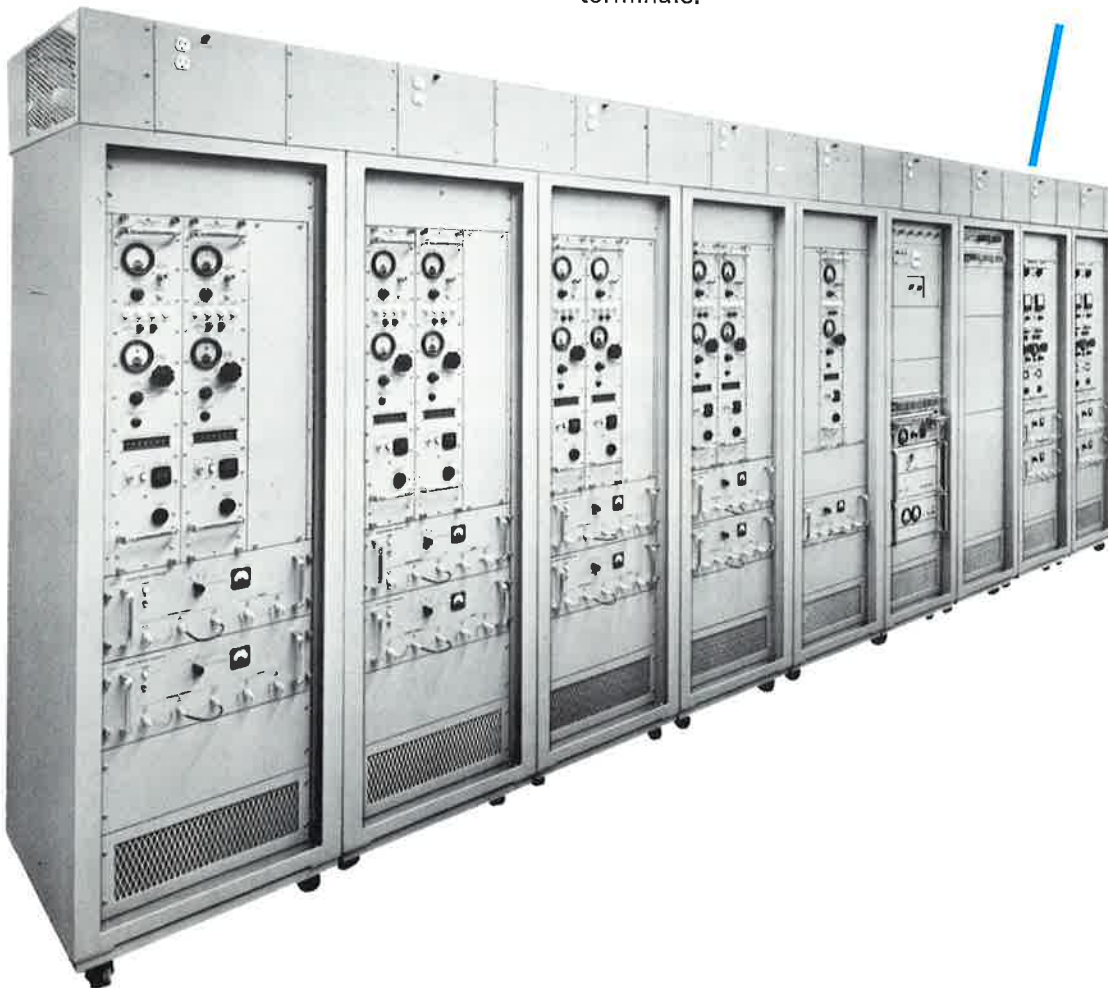
3.7 - 4.2 GHz    Series RCV-400  
11.7 - 12.2 GHz    Series RCV-1200

Dual wideband frequency-agile message (24-1872 voice channels) or video receivers for use in international and domestic satellite and microwave communication ground terminals.

## FREQUENCY CONVERSION SUBSYSTEM

Transmit 7900 - 8400 MHz  
Receive 7250 - 7750 MHz

Dual-conversion frequency-agile up-and-down converter subsystem equipped for up to 6 transmit and 15 receive channels with synthesizers and atomic frequency standard for use in military satellite communication ground terminals.



## FACILITIES

Comtech is located in two modern air-conditioned buildings in Smithtown, New York, with a total floor space of almost 100,000 square feet.

Comtech's manufacturing operation, occupying nearly 45,000 square feet of space, includes machine and sheet metal shops, wiring and assembly areas, painting and plating shops, a facility for manufacturing and automatically soldering printed circuit boards, and a production test facility. The manufacturing operation is structured to efficiently produce small or large quantities of products varying from miniaturized components to large electronic systems that meet the stringent requirements of modern communication equipment.

The machine and sheet metal shops are extensively equipped with 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. These shops have 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.

Engineering and development laboratories that are fully equipped with the latest instrumentation and test equipment

Microcircuit assembly area.

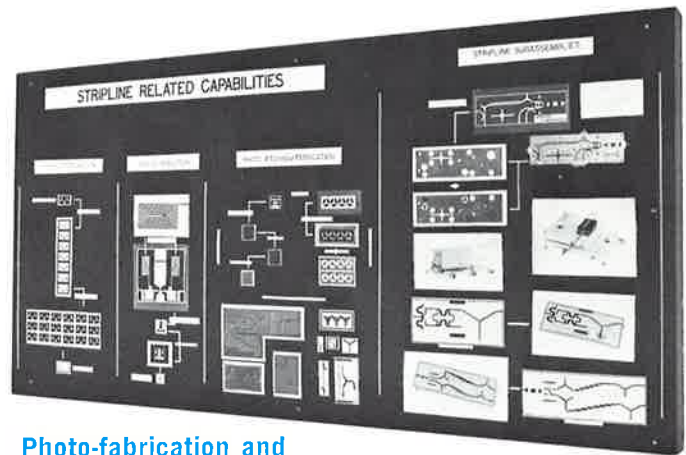
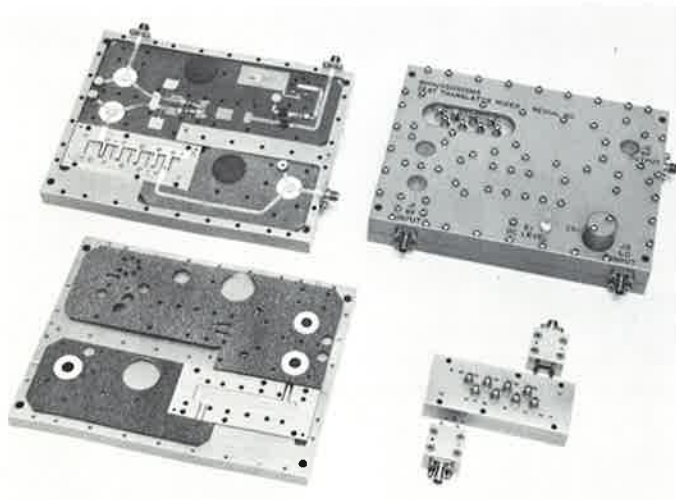
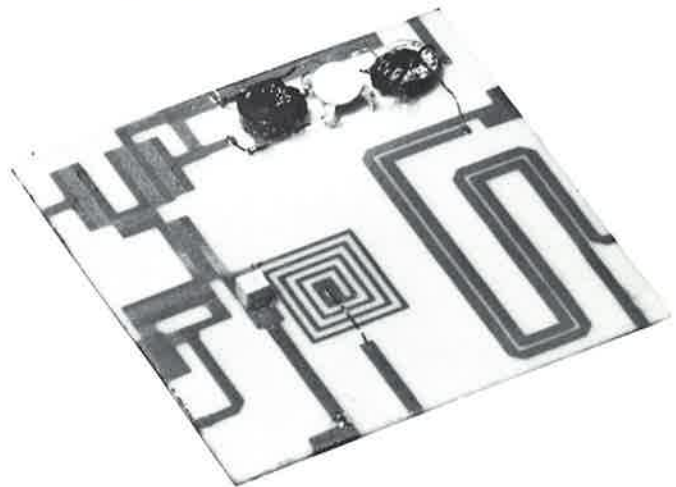


Photo-fabrication and chemical etching capabilities.



Microwave stripline assembly with integrated low-loss filter.



Miniaturized equivalent of IF converter assembly.



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, digital, and DC test equipment is available to perform these functions together with precision noise measuring equipment, vacuum equipment, temperature test chambers, shock and vibration test tables, etc.

Complete microwave stripline fabrication facilities are available to enable engineers to rapidly convert complex paper designs into finished circuit configurations. This capability has recently been expanded to include specialized photo-chemical equipment used to sensitize and etch conductor and resistor patterns onto metallized ceramic substrates, to produce plated-through holes, and to produce precision electroformed components.

Support services are provided by purchasing, design and drafting, publication, and field engineering groups to ensure customer satisfaction with Comtech products from the initial design phase through installation and actual on-site 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.

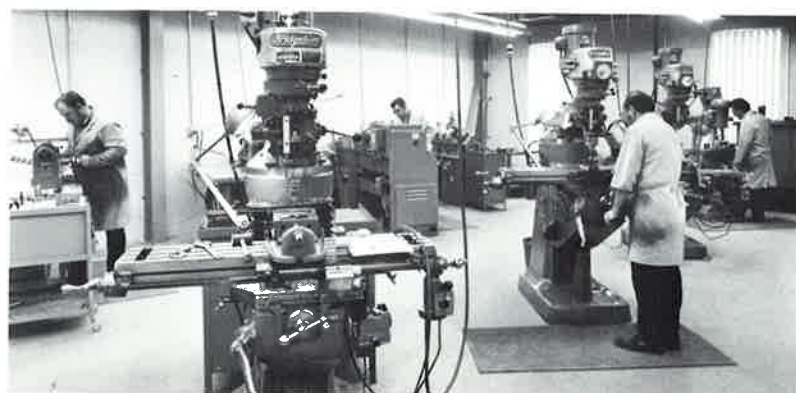
**A portion of Comtech's sheet metal fabrication shop.**



**Wiring and assembly area.**



**Numerically controlled milling machine.**



**A portion of Comtech's precision machine shop.**



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

	<u>July 31,</u>	
<u>ASSETS</u>	<u>1973</u>	<u>1972</u>
<b>Current Assets:</b>		
Cash, including short-term investments at cost of \$495,233 in 1972	\$ 236,324	\$ 531,162
Accounts receivable (Note 1)	2,363,048	955,997
Inventories, less progress billings (Notes 1 and 3)	2,170,072	1,386,163
Other current assets	48,372	20,980
	4,817,816	2,894,302
Property, plant and equipment less accumulated depreciation and amortization (Notes 1, 4 and 5)	2,360,454	1,107,052
Deferred product development costs (Note 1)	52,800	99,600
Other assets	17,200	3,675
	\$7,248,270	\$4,104,629
<b><u>LIABILITIES AND SHAREHOLDERS' EQUITY</u></b>		
<b>Current Liabilities:</b>		
Notes payable to banks (Note 9)	\$ 550,000	
Accounts payable	1,466,551	\$ 636,685
Accrued expenses and taxes withheld	278,306	145,911
Income taxes currently payable (Note 6)	185,092	8,117
Advance contract payments received	491,908	167,400
Current maturities of mortgage notes	44,000	13,081
	3,015,857	971,194
Mortgage notes due after one year (Note 5)	810,916	324,731
Deferred income taxes (Note 6)	205,000	146,000
<b>Shareholders' equity (Notes 7 and 8): —</b>		
Common stock, \$.10 par value:		
Authorized — 3,000,000 shares		
Outstanding — 1973 — 1,542,880	154,288	150,502
1972 — 1,505,020		
Additional paid-in capital	2,181,715	2,140,826
Retained earnings	880,494	371,376
	3,216,497	2,662,704
Commitments and Contingencies (Note 10)		
	\$7,248,270	\$4,104,629

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

	Year ended July 31,	
	<u>1973</u>	<u>1972</u>
Net sales and other income (Note 2)	\$12,995,511	\$ 3,971,363
Costs and expenses:		
Cost of sales	11,341,614	3,130,147
Selling, general and administrative	631,112	375,092
Depreciation and amortization	143,640	66,548
Interest	84,027	34,714
	<hr/> 12,200,393	<hr/> 3,606,501
Income before income taxes	795,118	364,862
Provision for income taxes (Note 6):		
Current	227,000	32,000
Deferred	59,000	82,000
	<hr/> 286,000	<hr/> 114,000
Net income	509,118	250,862
Retained earnings at beginning of year	371,376	120,514
Retained earnings at end of year	<hr/> \$ 880,494	<hr/> \$ 371,376
Earnings per share (Note 1)	<u>\$.31</u>	<u>\$.19</u>
Earnings per share — fully diluted (Note 1)	<u>\$.31</u>	<u>\$.18</u>

**COMTECH LABORATORIES INC.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION**

	<u>Year ended July 31,</u>	
	<u>1973</u>	<u>1972</u>
Financial resources were provided by: —		
From Operations:		
Net income for the year	\$ 509,118	\$ 250,862
Add income charges not affecting working capital in the period:		
Depreciation and amortization	143,640	66,548
Amortization of deferred product development costs	46,800	36,400
Deferred income taxes	59,000	82,000
Total from operations	758,558	435,810
Net proceeds from sale of stock and exercise of stock options	44,675	1,498,876
Proceeds from mortgage notes	542,810	349,600
	1,346,043	2,284,286
Financial resources were used for:		
Purchases of property, plant and equipment, net	1,397,042	843,831
Reduction in long - term debt	56,625	24,869
Deferred product development costs		30,400
Other	13,525	(9,603)
	1,467,192	889,497
Increase (decrease) in working capital	(\$ 121,149)	\$1,394,789
<u>Analysis of changes in working capital</u>		
Increases (decreases) in elements of current assets:		
Cash, including short-term investments	(\$ 294,838)	\$ 432,124
Accounts receivable	1,407,051	414,146
Inventories	783,909	988,429
Other current assets	27,392	13,837
	1,923,514	1,848,536
(Increases) decreases in elements of current liabilities:		
Notes payable to banks	(550,000)	250,000
Accounts payable	(829,866)	(517,642)
Accrued expenses and taxes withheld	(132,395)	(82,033)
Income taxes currently payable	(176,975)	44,681
Advance contract payments received	(324,508)	(135,672)
Current maturities of mortgage notes	(30,919)	(13,081)
	(2,044,663)	(453,747)
Increase (decrease) in working capital	(\$ 121,149)	\$1,394,789



# COMTECH LABORATORIES INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JULY 31, 1973 AND 1972

### NOTE 1 — ACCOUNTING POLICIES:

#### Principles of Consolidation

The accompanying consolidated financial statements 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 upon acceptance and shipment.

#### Inventories

Inventories are valued at the lower of cost or market. Work in process has been valued at total 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: building—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 amortized over production units or five years. Amortization of product development costs amounted to \$46,800 in 1973 and \$36,400 in 1972.

The Company is heavily involved in research and development of new products and technology. A significant portion of this effort is related to specific

contracts and is accounted for as job costs. Other research and development costs are charged to expense as incurred and amounted to \$115,912 in 1973 and \$8,048 in 1972.

#### 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 periods.

Assuming the public offering in March, 1972 had been completed as of the beginning of fiscal year 1972, 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 during the year, earnings per share for the year ended July 31, 1972, 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 and received an initial fee of \$30,000 for certain technical data and consultations. The Company is to receive a 3% royalty on all future multicoupler sales through July, 1977, which will be recorded as received.

### NOTE 3 — INVENTORIES:

	July 31,	
	1973	1972
Raw materials and parts	\$ 739,925	\$ 157,235
Work in process	1,748,628	1,936,463
	2,488,553	2,093,698
<u>Less — progress billings</u>	<u>318,481</u>	<u>707,535</u>
	<u>\$2,170,072</u>	<u>\$1,386,163</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,	
	1973	1972
Land	\$ 180,000	\$ 100,000
Building and improvements	1,164,859	329,925
Construction in progress		174,779
Equipment	1,301,915	645,028
	<u>2,646,774</u>	<u>1,249,732</u>
Less — accumulated depreciation and amortization	286,320	142,680
	<u>\$2,360,454</u>	<u>\$1,107,052</u>

**NOTE 5 — MORTGAGE NOTES:**

	July 31,	
	1973	1972
9.4% First mortgage indebtedness to a bank payable monthly, maturing in 1980	\$511,075	\$214,694
6.5% Second mortgage indebtedness to the New York State Job Development Authority payable monthly, maturing in 1981	343,841	123,118
	<u>854,916</u>	<u>337,812</u>
Less — portion due within one year	44,000	13,081
	<u>\$810,916</u>	<u>\$324,731</u>

At July 31, 1973, the aggregate principal amount

maturing annually during the four years ending July 31, 1978 is approximately \$52,000.

**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 (1973 — \$150,000; 1972 — \$94,000) 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 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 the subsequent fiscal year 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 \$46,000 in 1973 and \$26,000 in 1972 (including \$6,400 carried over from 1971).

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

	No. of shares	Common stock	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, 1973 are as follows:			
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>
Exercise of stock options	37,860	3,786	40,889
Balance, July 31, 1973	<u>1,542,880</u>	<u>\$154,288</u>	<u>\$2,181,715</u>

In accordance with a previous stockholders agreement and the public offering during the fiscal year ended July 31, 1972, 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, as amended, 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, 1973:

	July 31,			
	1973		1972	
	Number of shares	Option price per share	Number of shares	Option price per share
Outstanding, beginning of year	138,680	\$ 1.00-11.38	171,300	\$1.00- 1.25
Granted	21,000	10.75-18.13	112,100	1.25-11.38
Exercised	(37,860)	1.00- 1.25	(81,420)	1.00- 1.25
Cancelled	(100)	1.25	(63,300)	1.00- 1.25
Outstanding, end of year	<u>121,720</u>	1.01-18.13	<u>138,680</u>	1.00-11.38
Exercisable, end of year	<u>23,980</u>	1.00-11.63	<u>37,160</u>	1.00- 1.25

In 1972, at the annual meeting, the shareholders approved a 50,000 share increase in the number of options available for grant.

At July 31, 1973 and 1972, 30,400 and 1,300 shares were available for grant, respectively.

#### NOTE 9 — LINES OF CREDIT:

The Company has been granted lines of credit aggregating \$10,000,000 by two banks with interest at ½% above prime. Under the terms of the credit lines, the Company may borrow up to \$1,500,000 on a short-term unsecured basis, with additional short-term borrowings to be secured by certain assets of the Company. The credit lines expire in December, 1973, however it is Management's opinion that such lines will be renewed.

#### NOTE 10 — COMMITMENTS AND CONTINGENCIES:

The Company is committed under a 10 year lease agreement for average annual rentals of approximately \$78,000 plus property taxes and other costs as specified. The agreement includes an option to purchase the facility for \$760,000 during the fourth to sixth year of the agreement and \$831,500 thereafter to the tenth year.

Certain sales of the Company are subject to the Renegotiation Act of 1951, as amended. Clearance has been received through 1972. In the opinion of Management, no refunds are anticipated for sales subject to renegotiation in 1973.

### REPORT OF INDEPENDENT ACCOUNTANTS

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income and retained earnings and of changes in financial position present fairly the financial position of Comtech Laboratories Inc. and its subsidiary at July 31, 1973 and 1972, 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. Our examinations of these statements 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.

PRICE WATERHOUSE & CO.

Huntington Station, L. I., New York  
October 15, 1973





**Interior view of Kwajalein earth terminal equipment shelter providing a complete redundant communication capability. This terminal was produced and installed by Comtech in 75 days in response to an urgent communication requirement.**



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

135 ENGINEERS ROAD • SMITHTOWN, NEW YORK 11787 • (516) 231-5454