

1974 ANNUAL REPORT



COMTECH
LABORATORIES INC.

COMTECH RECEIVES NATIONAL AWARD



U.S. GOVERNMENT
SMALL BUSINESS ADMINISTRATION
WASHINGTON, D.C. 20416

OFFICE OF THE ADMINISTRATION

January 29, 1974

Mr. J. C. Greene, President
Comtech Laboratories, Inc.
135 Engineers Road
Smithtown, New York 11787

Dear Mr. Greene:

It gives me great pleasure to inform you that your firm has been selected as the Small Business Administration's National Small Business Prime Contractor of the Year.

Your firm's performance in the design, development, and production of military and commercial satellite communications ground stations has been truly outstanding. When one considers that your equipment made it possible to bring the first live television to Juneau, Alaska, and assisted in providing live television coverage of President Nixon's trip to China, then you and your employees can be rightfully proud of your accomplishments. You have clearly demonstrated that the small firms of our Nation are capable of providing high quality products and services for the benefit of all our citizens.

Please accept my congratulations in recognition of your outstanding accomplishments.

Sincerely,

Thomas S. Kleppe

Thomas S. Kleppe
Administrator

Chairman of the Board of Directors, J. C. Greene, accepts Contractor of The Year Award from M. J. Parker, National Associate Administrator of the U.S. Small Business Administration (SBA). Among the dignitaries attending the award ceremony were Congressman Otis Pike, Smithtown Supervisor P. Fitzpatrick, SBA Regional Director W. B. Priem, and Defense Contract Administration Services representatives Brigadier General N. C. Manitas and Commander J. V. Mullen.



COMTECH LABORATORIES INC.



Board of Directors

J. C. Greene — *Chairman*
F. Kornberg
G. R. Nocita
J. E. Rosenblum
D. R. Campbell
J. A. Tokar
L. Goldmuntz

Officers

J. C. Greene — *Chief Executive Officer*
F. Kornberg — *President*
G. R. Nocita — *Senior Vice President and
Secretary/Treasurer*
J. E. Rosenblum — *Vice President, Marketing*
D. R. Campbell — *Vice President*

Bank

Chemical Bank
1064 Old Country Road
Plainview, New York 11803

Legal Counsel

Busby Rivkin Sherman Levy and Rehm
750 Third Avenue
New York, New York 10017

Transfer Agent

Chemical Bank
770 Broadway
New York, New York 10003

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

MESSAGE TO OUR SHAREHOLDERS:

Operating Results

For the fiscal year ended 31 July 1974, net earnings were increased to a record high level of \$723,425, or \$.44 per share, compared to \$509,118, or \$.31 per share, for the prior fiscal year. Backlog at year end reached a record high level of \$20,540,871 compared to \$3,359,078 last year. Because of delays in the placement of several large contracts, however, shipments made during the second half of fiscal year 1974 were below expectations, resulting in sales for the full fiscal year of \$10,368,282 compared to \$12,995,511 last year.

The substantial increase in our earnings this year in spite of reduced sales is a direct consequence of both an improvement in overall operating efficiency following the completion of our accelerated expansion program last year and the increasing contribution to our sales base of our advanced line of communication products and systems.

Business Activity

Many large markets have begun to develop in the past few years for satellite and digital communication systems, and the growth of these markets is expected to accelerate in the next few years as the planning of new international, domestic, military, and specialized communication networks leads to system implementation.

To keep pace with the developing satellite communication markets, Comtech initiated a planned, rapid progression from a component supplier to a subsystem supplier to a complete earth station supplier. Our comprehensive and technically advanced product line is finding increasing world-wide acceptance in all types of earth stations, and our Systems Division has achieved considerable success to date in implementing a total of 9 complete earth stations.

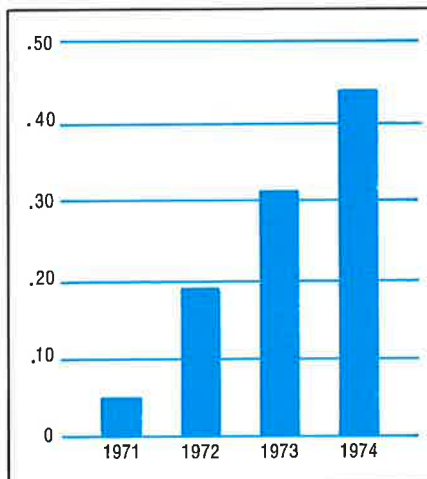
The primary impetus for the growth of the digital communications market is the increasing demand for computer-to-computer data transactions. It is estimated that by 1980 as many as several million data terminals will be in use. To provide the increased communication capability necessary to handle this data traffic, communication networks operating via satellite, microwave links, and

telephone lines will have to be significantly expanded. Furthermore, a new generation of equipment will be required to provide suitable interfaces between the computers and the communications lines, and to provide the communications networks with suitable transmission characteristics. Thus, a large potential market exists for computer peripheral equipment, digital modulators and demodulators, digital time-division multiplexers, and digital switching and processing equipment. To participate in this growing market, Comtech started a Digital Division last year that has achieved considerable success to date in the development of several unique products and in the sale of these products for use in data communications networks.

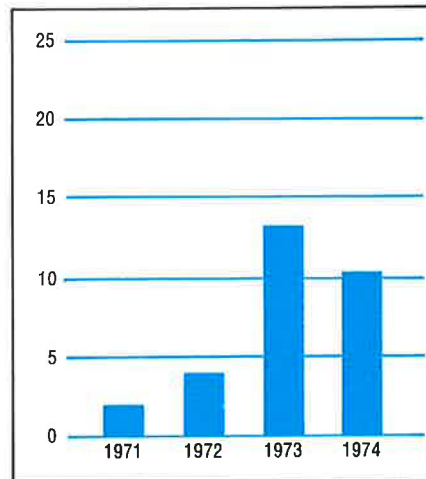
This year, to exploit these growing and technologically changing markets, Comtech expended for marketing, proposal preparation, research, and new product development an amount equivalent to \$.14 per share in net earnings compared to \$.09 last year. As a result, we presently have proposals outstanding for approximately \$40,000,000 worth of satellite communication earth stations, related subsystems, and advanced digital communication equipment, and we have completed the following significant developments for our growing line of communication products and systems:

- **HIGHLY TRANSPORTABLE SATELLITE COMMUNICATION EARTH STATION**—A new generation of unusually small and compact earth stations has been developed that can be transported by air to any site in the world where a global communication capability must be quickly established. The system antenna is collapsible and all receiving and transmitting equipment is permanently housed in standard Federal Aviation Agency approved air cargo containers, thereby permitting rapid air shipment of the entire earth station via a Boeing 707, DC-8, or other similar commercial or military aircraft. The cargo containers serve as shelters for the receiving and transmitting equipment when the terminal is deployed at the desired site.

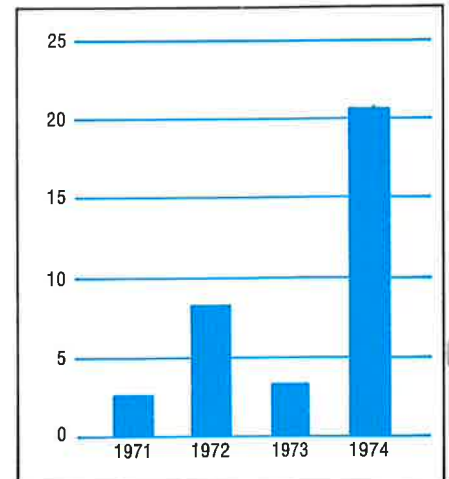
EARNINGS PER SHARE
(in dollars)



SALES AND OTHER INCOME
(in millions of dollars)



BACKLOG
(in millions of dollars)



Fiscal years ended July 31

(left to right)

D. R. Campbell, Vice President; J. C. Greene, Chairman, Board of Directors; J. E. Rosenblum, Vice President, Marketing; F. Kornberg, President; G. R. Nocita, Senior Vice President and Secretary/Treasurer.



- **LOW-NOISE RECEIVER, MODEL LNR-402(X)**—This unit represents the latest state of the art in non-cryogenically cooled receivers for satellite communication earth stations. The effective internally generated noise level of only 50°K without the need for expensive cryogenic cooling now makes small, economical earth stations feasible for those applications requiring only a limited communication capability.
- **WIDEBAND POWER AMPLIFIERS**—To complement our existing product line of 1- to 3-kilowatt, high-power Klystron amplifiers, we developed a line of 100- to 600-watt, Traveling-Wave Tube amplifiers. These relatively small units have wide operating bandwidths, thereby eliminating the requirements for mechanical retuning of the amplifier when changing transmit frequency. This equipment is expected to have wide application in small ground stations.
- **DATA-OVER-VOICE TERMINAL**—This unique equipment was developed for sale to common carriers as a means of adding a relatively inexpensive data transmission capability to existing microwave voice links by inserting digitally modulated signals into the previously unused portion of the allocated frequency band.
- **DIGITAL INTERFACE UNIT/PROCESSOR**—This equipment provides for central office switching, routing, processing, billing, monitoring, and automatic testing of data carried over terrestrial microwave links. The unique test capability of this device eliminates nearly all the manual testing and patching operations now required in most communications networks. Furthermore, it is expected that this equipment will play a major role in future computer-to-computer switched communications networks.
- **TRANSPARENT DIGITAL MULTIPLEXER**—Utilizing the principle of time-division multiplexing, this unit processes as many as 204 different low-speed digital signals originating from teleprinters or data sets for transmission as a group over a single digital message channel, thereby simultaneously improving the efficiency and reducing the cost of transmission.

Organization Development and Outlook

We will continue our effort to become a major supplier of integrated communication systems and have established significant growth targets for fiscal year 1975. These efforts will involve technological innovation, new product development, the establishment from time to time of new divisions that will enhance our overall capability, and increased emphasis on marketing and new business development. To implement these plans and simultaneously manage our growing activities, we have instituted some organizational changes this year as part of a planned evolution of management responsibility at Comtech.

Since the founding of Comtech, the positions of Chairman of the Board of Directors and of President have been held by the same person. As the company grew,

it became increasingly clear that each of these positions would ultimately demand a strenuous full-time effort and that the Chairman should be primarily responsible for the continued expansion of our business while the President should be primarily responsible for the efficient management of Comtech's daily progress. Accordingly, in June of this year, this division of responsibility was instituted with J. C. Greene devoting full-time effort to the position of Chairman and F. Kornberg, formerly Executive Vice President and Operations Manager, being promoted to President.

Furthermore, Comtech's marketing operations have become increasingly important as the company has grown and as our product line has increased in breadth and complexity. In keeping with the planned role for these operations and to further enhance their effectiveness, J. E. Rosenblum, formerly Marketing Manager, was promoted in May of this year to Vice President, Marketing, and was also appointed a Director of the company.

Acknowledgment

We wish to thank all of our employees* for their vigorous efforts on behalf of Comtech during this past year. Our future growth will undoubtedly benefit from the proven ability of our employees to perform difficult and complex assignments in an exemplary manner.

We also wish to thank our shareholders for the continuing encouragement and support received during the past year.

J. C. Greene
Chairman, Board of Directors

F. Kornberg
President

October 30, 1974

* 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.

NEW DEVELOPMENTS AND ACCOMPLISHMENTS



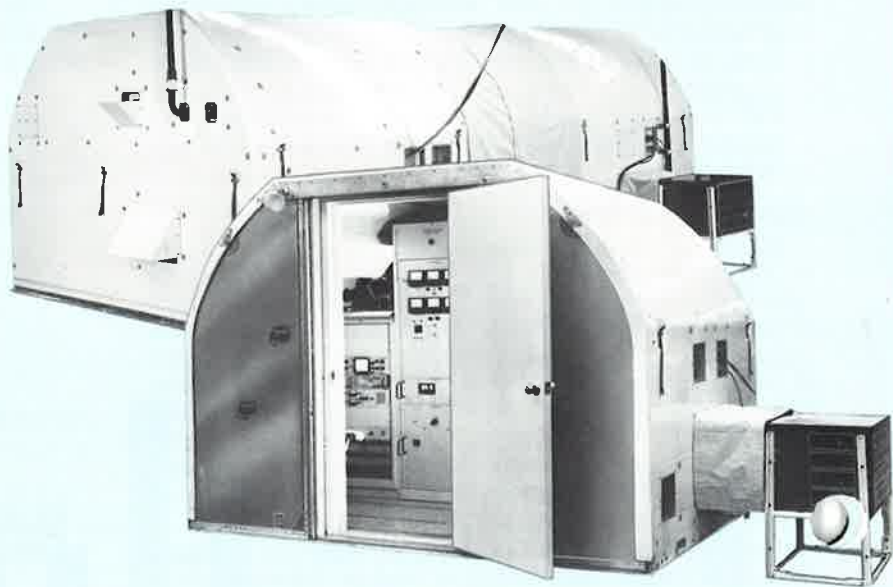
**Earth Station For Domestic
Satellite Communications System**



**Transparent Digital
Multiplexer**

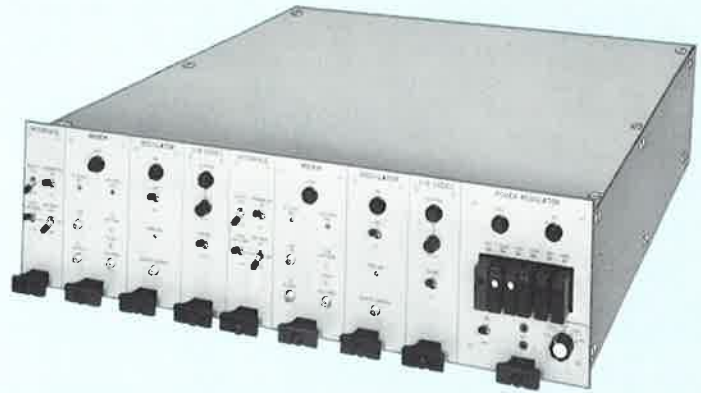


**Wideband Power
Amplifier**

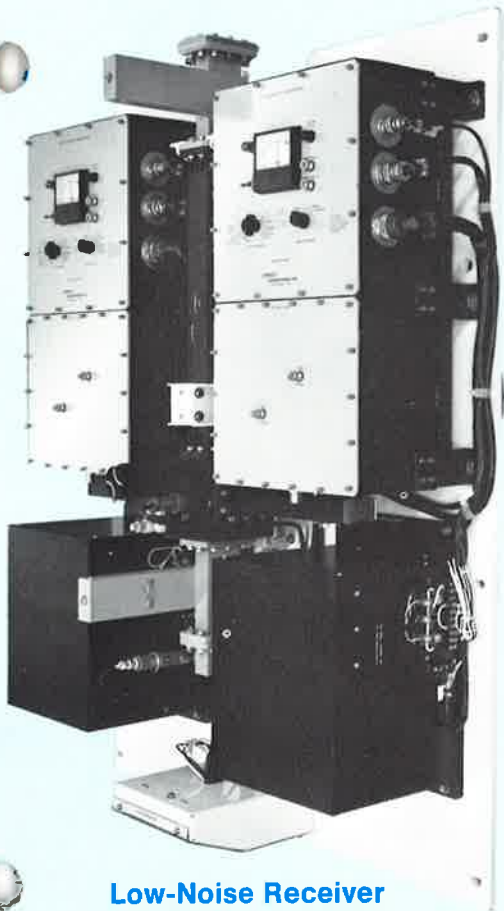


**Highly Transportable
Satellite Communications Earth Station**

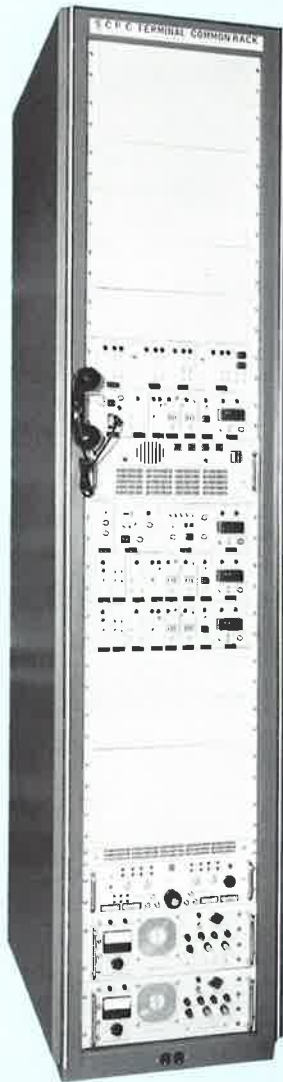
1974



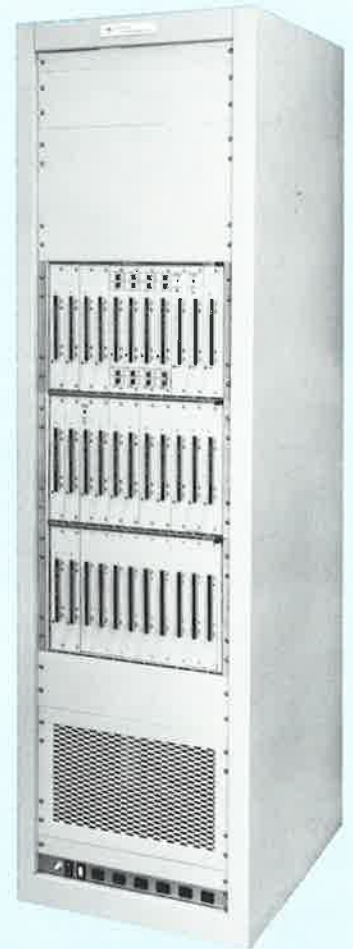
Data-Over-Voice Terminal



**Low-Noise Receiver
Model LNR-402(X)**



**Single-Channel-
Per-Carrier Terminal**



**Digital Interface
Unit/Processor**

CONSOLIDATED BALANCE SHEETS

<u>ASSETS</u>	<u>1974</u>	<u>July 31,</u> <u>1973*</u>
Current Assets:		
Cash	\$ 573,315	\$ 236,324
Accounts receivable (Note 1)	1,713,433	2,363,048
Inventories, less progress billings (Notes 1 and 2)	2,818,234	2,095,300
Other current assets	46,965	48,372
	<u>5,151,947</u>	<u>4,743,044</u>
Property, plant and equipment less accumulated depreciation and amortization (Notes 1, 3 and 4)	2,520,624	2,360,454
Deferred product development costs (Note 1)	26,400	52,800
Other assets	25,374	17,200
	<u>\$7,724,345</u>	<u>\$7,173,498</u>
 <u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>		
Current Liabilities:		
Notes payable to banks (Note 8)	\$ 850,000	\$ 550,000
Accounts payable	1,085,733	1,466,551
Accrued expenses and taxes withheld	331,001	278,306
Income taxes currently payable (Note 5)	365,590	185,092
Advance contract payments received	64,490	417,136
Current maturities of mortgage notes	47,000	44,000
	<u>2,743,814</u>	<u>2,941,085</u>
Mortgage notes due after one year (Note 4)	764,129	810,916
Deferred income taxes (Note 5)	250,000	205,000
Shareholders' equity (Notes 6 and 7)		
Common stock, \$.10 par value:		
Authorized — 3,000,000 shares		
Outstanding — 1974 — 1,564,640		
1973 — 1,542,880	156,464	154,288
Additional paid-in capital	2,206,019	2,181,715
Retained earnings	1,603,919	880,494
	<u>3,966,402</u>	<u>3,216,497</u>
Commitments and Contingencies (Note 9)		
	<u>\$7,724,345</u>	<u>\$7,173,498</u>

* Reclassified in part, for comparative purposes.



CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

	Year ended July 31,	
	1974	1973
Net sales	\$10,368,282	\$12,995,511
Cost and expenses:		
Cost of sales	7,948,984	11,341,614
Selling, general and administrative	752,158	631,112
Depreciation and amortization	213,194	143,640
Interest	119,521	84,027
	<u>9,033,857</u>	<u>12,200,393</u>
Income before income taxes	1,334,425	795,118
Provision for income taxes (Note 5):		
Current	566,000	227,000
Deferred	45,000	59,000
	<u>611,000</u>	<u>286,000</u>
Net income	723,425	509,118
Retained earnings at beginning of year	880,494	371,376
Retained earnings at end of year	<u>\$ 1,603,919</u>	<u>\$ 880,494</u>
Earnings per share (Note 1)	<u>\$.44</u>	<u>\$.31</u>

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

	Year ended July 31,	
	<u>1974</u>	<u>1973*</u>
Financial resources were provided by: —		
From Operations:		
Net income for the year	\$ 723,425	\$ 509,118
Add income charges not affecting working capital in the period:		
Depreciation and amortization	213,194	143,640
Amortization of deferred product development costs	26,400	46,800
Deferred income taxes	45,000	59,000
Total from operations	1,008,019	758,558
Net proceeds from exercise of stock options	26,480	44,675
Proceeds from mortgage notes		542,810
	<u>1,034,499</u>	<u>1,346,043</u>
Financial resources were used for:		
Purchases of property, plant and equipment, net	373,364	1,397,042
Reduction in long-term debt	46,787	56,625
Other	8,174	13,525
	<u>428,325</u>	<u>1,467,192</u>
Increase (decrease) in working capital	<u>\$ 606,174</u>	<u>(\$ 121,149)</u>

Analysis of changes in working capital

Increases (decreases) in elements of current assets:		
Cash	\$ 336,991	(\$ 294,838)
Accounts receivable	(649,615)	1,407,051
Inventories	722,934	709,137
Other current assets	(1,407)	27,392
	<u>408,903</u>	<u>1,848,742</u>
(Increases) decreases in elements of current liabilities:		
Notes payable to banks	(300,000)	(550,000)
Accounts payable	380,818	(829,866)
Accrued expenses and taxes withheld	(52,695)	(132,395)
Income taxes currently payable	(180,498)	(176,975)
Advance contract payments received	352,646	(249,736)
Current maturities of mortgage notes	(3,000)	(30,919)
	<u>197,271</u>	<u>(1,969,891)</u>
Increase (decrease) in working capital	<u>\$ 606,174</u>	<u>(\$ 121,149)</u>

* Reclassified in part, for comparative purposes.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

July 31, 1974 and 1973

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. All significant intercompany transactions have been eliminated.

Accounts Receivable and Sales

Sales are recorded when performance is rendered in accordance with contract terms.

Inventories

Raw materials and parts are stated at first-in, first-out cost, which is not in excess of 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. Anticipated losses on contracts are charged to cost of sales.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost and expenditures for maintenance and repairs are charged to operations as incurred. 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%; leasehold improvements over the lease term and equipment — 12½%.

Deferred Product Development Costs

Deferred product development costs represent costs incurred in prior years for prototype systems and components less amounts received from the sale of prototypes. These costs are being amortized over five years. Amortization of product development costs amounted to \$26,400 in 1974 and \$46,800 in 1973.

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 cost of sales as incurred and amounted to \$269,798 in 1974 and \$115,912 in 1973.

Earnings Per Share

Earnings per share are based upon the weighted average common shares and common share equivalents outstanding during the year.

NOTE 2 — INVENTORIES:

	July 31,	
	1974	1973
Raw materials and parts	\$ 809,353	\$ 739,925
Work in process	3,153,725	1,748,628
	<u>3,963,078</u>	<u>2,488,553</u>
Less — progress billings	1,144,844	393,253
	<u>\$2,818,234</u>	<u>\$2,095,300</u>

Title to work in process is vested in the customer on contracts which provide for progress or advance payments.

NOTE 3 — PROPERTY, PLANT AND EQUIPMENT:

	July 31,	
	1974	1973
Land	\$ 180,000	\$ 180,000
Building	1,177,028	1,156,703
Leasehold improvements	65,069	8,156
Equipment	1,594,165	1,301,915
	<u>3,016,262</u>	<u>2,646,774</u>
Less — accumulated depreciation and amortization	495,638	286,320
	<u>\$2,520,624</u>	<u>\$2,360,454</u>

NOTE 4 — MORTGAGE NOTES:

	July 31,	
	1974	1973
9.4% First mortgage indebtedness to a bank payable monthly, maturing in 1980	\$502,545	\$511,075
6.5% Second mortgage indebtedness to the New York State Job Development Authority payable monthly, maturing in 1981	308,584	343,841
	<u>811,129</u>	<u>854,916</u>
Less — portion due within one year	47,000	44,000
	<u>\$764,129</u>	<u>\$810,916</u>

The average principal amount maturing annually through July 31, 1979 is approximately \$54,000. These mortgages are secured by the land and building referred to in Note 3.

NOTES (continued)

NOTE 5 — INCOME TAXES:

The Company organized, in 1972, a Domestic International Sales Corporation (DISC) which acts as a sales agent for the Company's international sales. As a DISC, 50% of the income on export sales is considered earned by the DISC and one-half of this amount (\$393,000) 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, deferred product development costs were 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 following tabulation sets forth the difference between the statutory and effective income tax rates for the two years ended July 31, 1974.

	July 31,			
	1974		1973	
	Amount	Percent	Amount	Percent
Federal statutory income tax rate	\$634,000	48%	\$376,000	48%
State income taxes net of federal tax benefit	58,000	4	32,000	4
Tax exempt DISC income	(63,000)	(5)	(76,000)	(10)
Investment credit	(18,000)	(1)	(46,000)	(6)
Effective income tax	\$611,000	46%	\$286,000	36%
Deferred taxes attributable to timing differences consist of:				
Depreciation	\$56,000		\$50,000	
Taxable DISC income	2,000		33,000	
Deferred product development	(13,000)		(24,000)	
	<u>\$45,000</u>		<u>\$59,000</u>	

NOTE 6 — COMMON STOCK AND ADDITIONAL PAID-IN CAPITAL:

	No. of shares	Common stock	Additional paid-in capital
Changes in the common stock and additional paid-in capital accounts during the two years ended July 31, 1974 are as follows:			
Balance July 31, 1972	1,505,020	\$150,502	\$2,140,826
Exercise of stock options	37,860	3,786	40,889
Balance July 31, 1973	1,542,880	154,288	2,181,715
Exercise of stock options	21,760	2,176	24,304
Balance July 31, 1974	<u>1,564,640</u>	<u>\$156,464</u>	<u>\$2,206,019</u>

NOTE 7 — 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, 1974:



July 31,

	1974		1973	
	Number of shares	Option price per share	Number of shares	Option price per share
Outstanding, beginning of year	121,720	\$1.01-18.13	138,680	\$1.00-11.38
Granted	17,000	5.50-13.00	21,000	10.75-18.13
Exercised	(21,760)	1.01- 1.25	(37,860)	1.00- 1.25
Cancelled	(1,800)	1.25-10.75	(100)	1.25
Outstanding, end of year	<u>115,160</u>	1.25-18.13	<u>121,720</u>	1.01-18.13
Exercisable, end of year	<u>53,940</u>	1.25-18.13	<u>45,380</u>	1.01-18.13

At July 31, 1974 and 1973, 15,200 and 30,400 shares were available for grant, respectively.

NOTE 8 — LINE OF CREDIT:

The Company has a line of credit for \$10,000,000 from the Chemical Bank of New York. Under the terms of the credit line, the Company may borrow up to \$4,000,000 on a short-term unsecured basis, at an interest rate of 1/2 % above prime, with additional short-term borrowings up to \$6,000,000 to be secured by certain assets of the Company. The maximum amount borrowed under the agreement during the year, and at July 31, 1974, was \$850,000 at an interest rate of 12 1/2 %. The approximate average borrowings during 1974 were \$492,000 at an average interest rate of 10.3%.

NOTE 9 — COMMITMENTS AND CONTINGENCIES:

In 1973, the Company entered into a 10 year lease agreement for its Oser Avenue facility with average annual rentals of approximately \$78,000 plus property taxes and other specific costs. 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 1973. In the opinion of management, no refunds are anticipated for sales subject to renegotiation in 1974.

REPORT OF INDEPENDENT ACCOUNTANTS

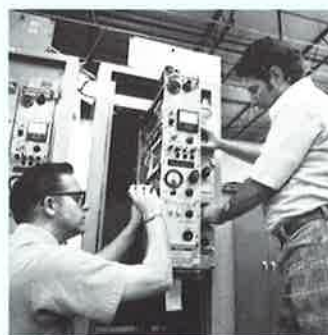
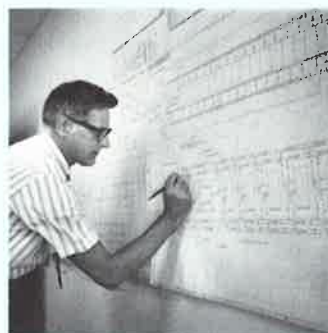
To the Board of Directors
and Shareholders of
Comtech Laboratories Inc.

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, 1974 and 1973, 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 4, 1974

COMTECH AT WORK





KWAJALEIN STATION



ALASKA STATION



WASHINGTON, D.C. STATION



1902
Marconi's Wireless



1923
Commercial Radio



1876
The First Telephone



1946
Commercial Television



1866
The Atlantic Cable



1974
First U.S. Domestic Satellite
Communications Network Uses
Comtech Supplied Earth Stations



1965
First Commercial
Communication Satellite



1837
Morse Patents Telegraph



1969
First Military
Communication Satellite



COMTECH
LABORATORIES INC.

135 ENGINEERS ROAD

SMITHTOWN, NEW YORK 11787

(516) 231-5454