

# 1975 ANNUAL REPORT



COMTECH  
LABORATORIES INC.

# COMTECH'S BOARD OF DIRECTORS



**J. C. Greene**  
*Chairman of the Board  
and Chief Executive Officer*



**F. Kornberg**  
*President*



**J. E. Rosenblum**  
*Vice President, Marketing*



**G. R. Nocita**  
*Senior Vice President  
and Secretary/Treasurer*



**D. R. Campbell**  
*Vice President*



**L. Goldmuntz**  
*Chairman of Economics and  
Science Planning, Consultants*



**J. A. Tokar**  
*Corporate Vice President of  
Combustion Equipment Associates, Inc.,  
Supplier of Air Pollution Control and  
Solid Waste Disposal Plants and Equipment*



# 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*  
D. R. Campbell — *Vice President*  
J. P. Windus — *Assistant Treasurer*

## **Bank**

Chemical Bank  
1064 Old Country Road  
Plainview, New York 11803

## **Legal Counsel**

Botein, Hays, Sklar & Herzberg  
200 Park Avenue  
New York, New York 10017

## **Registrar and Transfer Agent**

Chemical Bank  
55 Water Street  
New York, New York 10041

## **Independent Accountants**

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

## **Stock Traded — OTC**

**NASDAQ Symbol — CMTL**

# MESSAGE TO OUR SHAREHOLDERS:

## I. Operating Results

The markets for Comtech's increasingly comprehensive and technically advanced product line of satellite communication earth stations, related subsystems, and digital communication equipment have continued to grow rapidly. As a consequence of these opportunities, of our intensive product development and marketing efforts, and of our ability to respond rapidly to complex customer requirements, operating results achieved during the fiscal year ended 31 July 1975 reached record high levels in every area. Compared with the prior fiscal year ended 31 July 1974, sales increased from \$10,368,282 to \$16,563,517, net earnings increased from \$737,125, or \$.45 per share, to \$1,525,761, or \$.94 per share, and backlog at year end increased from \$20,540,871 to \$23,096,292.

## II. General Description of Markets and Business

Since the early 1800's, world-wide demand for communication capacity has increased at a rate of approximately 20% per year. Moreover, the demand for the unique benefits of communication via satellite, a recent development in communication technology, is increasing at an even higher rate. The markets for satellite communication result primarily from the growing demand, between countries and within countries, for high quality voice, television (TV), and data (digital) communication. Satellites have proven to be a reliable, economical, rapidly implemented means for providing communication links for such purposes in which information is transmitted from one earth station to an orbiting satellite and then back to other earth stations. The satellites in such a communication system are typically located 22,300 miles above the Earth's equator, in which orbit they appear stationary as seen from the Earth below. The earth stations in a communication network utilizing a single such satellite can be separated by any distance up to about 8,000 miles and still communicate with each other via that particular satellite. Three satellites, equally spaced

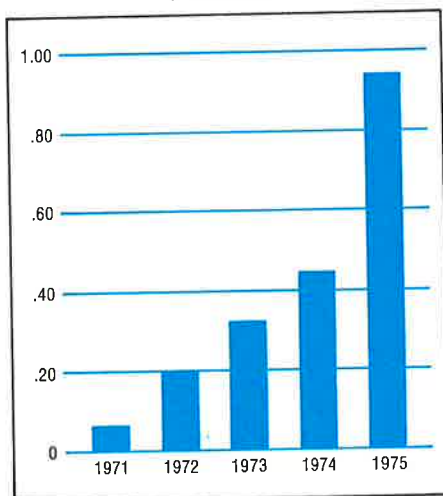
around the equator, together with appropriately placed earth stations, can thus provide complete global communication coverage.

A typical communication satellite in use today has the capacity for approximately 12,000 telephone channels, or 500 megabits per second of data, or 12 color TV channels, or various combinations of voice, data, and TV capacities. Prior to the use of satellites, long distance communications were carried mainly by undersea cable and short-wave radio, which are not technically suitable for the transmission of TV, high-speed data, or even a large number of voice channels.

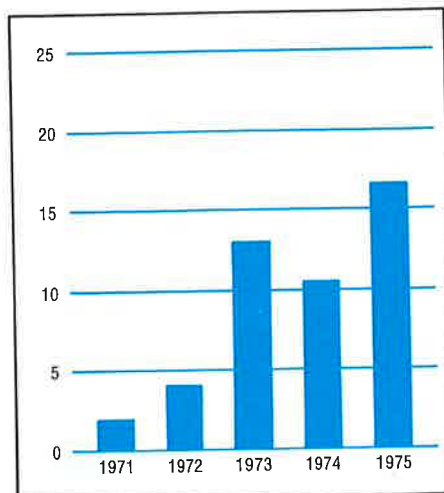
The market for satellite communication earth stations and subsystems is presently composed of four major segments. First, satellite communications among the 83 member nations of the International Telecommunication Satellite Consortium (INTELSAT). Second, intra-national (domestic) satellite communications within countries of large geographical expanse such as the United States, Canada, Brazil, Iran, and Indonesia. Third, military and other government related satellite communications. And fourth, special purpose networks such as those for communication with offshore oil platforms and maritime vessels, for monitoring oil and gas pipe lines, and for providing TV reception in Public Broadcasting, Health, Education and Welfare, and CATV systems.

In a typical satellite communication earth station, a single large antenna is used to collect the weak signals received from the satellite and to transmit signals to the satellite. Specialized receiving equipment is required to amplify the weak signals received and then to demodulate them into the desired voice, TV, or data outputs. Similarly, specialized transmitting equipment is also required to accept the voice, TV, or data input signals that are to be transmitted to the satellite and suitably process and amplify these signals. When furnishing a complete earth station on

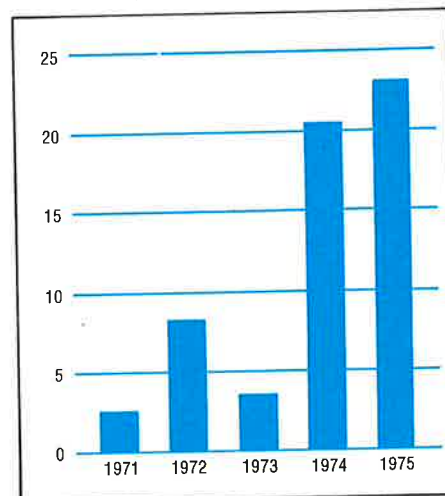
**EARNINGS PER SHARE**  
(in dollars)



**SALES AND OTHER INCOME**  
(in millions of dollars)



**BACKLOG**  
(in millions of dollars)



Fiscal years ended July 31



a turnkey basis, Comtech is responsible for the supply and integration of the receiving and transmitting systems, the station control and monitor consoles, the antenna, the equipment building, and the power generating equipment. Comtech also sells its receiving, transmitting, and control and monitor systems as separate units for use in communication systems supplied by others.

The market for digital communication networks results primarily from the growing demand for computer-to-computer and remote terminal-to-computer data transactions. More than 100,000 data terminals of all types are presently in use and this number is expected to increase substantially during the coming years. To handle the anticipated higher volume of digital data traffic, communication networks operating by means of satellites, microwave links, and telephone lines are expected to undergo significant expansion. Furthermore, a new generation of equipment is expected to be required to provide a suitable interface between the computers and the communication lines, and to provide the communication networks with suitable transmission characteristics.

Comtech's present product line of digital communication equipment includes units designed to send more efficiently large numbers of data signals of various speeds and codes over a common communication channel, to communicate up to 1.544 megabits per second of digital data in the normally unused frequency band that exists above the voice band in present microwave point-to-point links, to provide central office switching, routing, processing, billing, and automatic testing of high-speed data transmission networks, and to communicate via satellite digital data or digitized voice signals on a pre-assigned, single-channel-per-carrier basis.

### III. Business Activity During Fiscal Year 1975

#### A. Marketing and New Product Development

To keep pace with our growing markets, which involve rapid technological change, Comtech expended this past year approximately \$500,000 for proposal preparation, product development and marketing, including retainers of \$48,000 for overseas marketing representatives. As a result, we presently have proposals outstanding for more than \$50,000,000 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:

- **MEDIUM-SIZE, AIR TRANSPORTABLE TERMINAL** — There is a growing demand for medium-size earth stations that are capable of both transmission and reception to the high standards required in international and

domestic satellite communication service, and that can be delivered anywhere in the world complete with antenna and all ancillary equipment via a single commercial cargo aircraft. Such a terminal was developed this past year and the first complete system, including the antenna, integrated equipment shelter, and power generating equipment, was delivered in a cargo aircraft to Oman where it became operational in the INTELSAT network within 120 days after Comtech's receipt of the order. Another similar earth station is now being installed in Nauru in the South Pacific Ocean.

- **SUBSYSTEMS FOR LOW CAPACITY EARTH STATIONS** — A new generation of compact receiving and transmitting subsystems was developed this past year for use in small, low capacity, mass produced earth stations such as those intended for use in TV receive-only applications and in certain domestic networks. Although physically small and economical to produce in large quantities, these units fully meet all of the stringent INTELSAT requirements. Thus, they are also ideally suited for increasing the capacity of larger existing earth stations in which the availability of additional space for the new equipment is often quite limited. Initial orders for substantial quantities of these subsystems have been received for earth stations in Panama, Mexico, the United States, and Indonesia.
- **SUBSYSTEMS FOR MILITARY EARTH STATIONS** — The designs of our military receiving and transmitting subsystems, which are used exclusively in the AN/MSC-46, AN/TSC-54, and AN/MSC-78 military satellite communication earth stations, have been improved so that wideband, high-speed digital data can now be accommodated in addition to normal station traffic. Initial production quantities of the up-graded subsystems are currently being delivered and earlier earth station installations at numerous locations throughout the world are being retrofitted to improve their operational capability.
- **DIGITAL MULTIPLEXER** — Our TDM-700 Multiplexer 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 data transmission. This unit has received considerable interest from both international and domestic common carriers. To further enhance the commercial potential of the TDM-700 and to make it more suitable for military applications, the design has been improved this year so that the unit can now accommodate individual input signal data rates up to 19.2 KBPS while the output data rate can be made to vary as a function of the combined input signal loading.

# MESSAGE (continued)

## B. Accomplishments

Following are some of Comtech's most recent accomplishments.

- Delivered seven more satellite communication earth stations as follows: two telemetry, tracking, and command (TT&C) stations to RCA to support the launch and positioning of new communication satellites for RCA's domestic network; one TT&C station to TRW to support the launch and positioning of a weather satellite for the Japanese National Space Development Agency; one medium-size INTELSAT station to Cable and Wireless to provide numerous voice circuits in Oman; one medium-size station to RCA to provide additional TV, voice, and data circuits for RCA's domestic network; and two highly transportable receive and transmit stations to RCA for emergency global usage.
- Delivered large, complex receiving, transmitting, and control and monitor systems for use in new Comsat earth stations in Etam, West Virginia, and Andover, Maine.
- Delivered additional production quantities of low-noise amplifiers and receiving and transmitting systems to Aeronutronic-Ford and the U.S. Army Satellite Communications Agency for use in the AN/TSC-54, AN/ MSC-46, and AN/ MSC-78 military earth stations.
- Delivered additional production quantities of receiving and transmitting systems for use in earth stations in Panama, Canada, Norway, the People's Republic of China, the United States, and offshore drilling platforms in the North Sea.
- Delivered additional production quantities of low-noise amplifiers for use in earth stations in the United States, Germany, Great Britain, Norway, the Dominican Republic, and Australia. Included were both cryogenically-cooled and non-cooled units operating in the 3.7-4.2 GHz band, the 4.5-5.0 GHz band, the 7.25-7.75 GHz band, and the 14.5-15.0 GHz band. These units will be used in all the U.S. domestic satellite communication earth stations of AT&T, RCA, and Western Union, in all the AN/ MSC-78 military earth stations, in all the AN/ WSC-2 naval shipboard terminals, in various INTELSAT terminals, in an experimental high-frequency terminal, and in various radio astronomy stations.
- Delivered Digital Interface Unit/Processors to Datran for use in a nation-wide, high-speed data network. This equipment provides for central office switching, routing, processing, billing, monitoring, and automatic testing of data networks.
- Delivered Single-Channel-Per-Carrier (SCPC) equipment to the People's Republic of China for use in the transmission and reception, via satellite, of digital data and digitized voice signals.

## IV. Outlook

Fiscal year 1976 is expected to be a period of continued growth in all areas of Comtech's endeavors. Consequently, our present operational methods and facilities have again been modified where necessary to enable us to handle the anticipated significant increase in our level of activity during the coming year.

Looking beyond fiscal year 1976, preliminary arrangements have been concluded for the construction of a new 123,000 square foot manufacturing facility on seven acres of land adjoining our 65,000 square foot Engineers Road plant. The new facility should be completed prior to the start of fiscal year 1977, and at that time we will relinquish our present 37,500 square foot leased plant on Oser Avenue and relocate all activities contained therein to the new building.

## V. Acknowledgement

Comtech's success to date has been greatly dependent upon our ability to attract and retain key personnel and the above average contributions of all our employees\*, now numbering approximately 420. During this year, to further improve Comtech's employee benefit program, we instituted a Profit-Sharing Plan that will provide retirement benefits for all eligible employees. Comtech's contribution to the Plan for fiscal year 1975 was \$150,000. Company contributions to the Plan in future years will depend on, among other things, Comtech's overall performance and profitability.

We wish to thank all employees for their diligent efforts on behalf of Comtech during this past year. We also wish to thank our growing number of shareholders for their continued encouragement and support.



J. C. Greene  
Chairman, Board of Directors



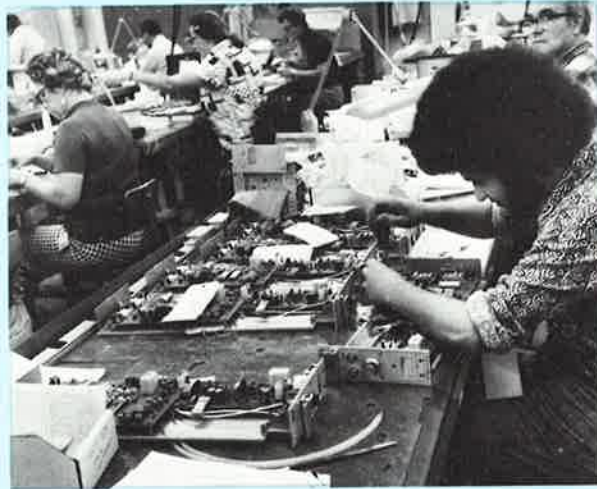
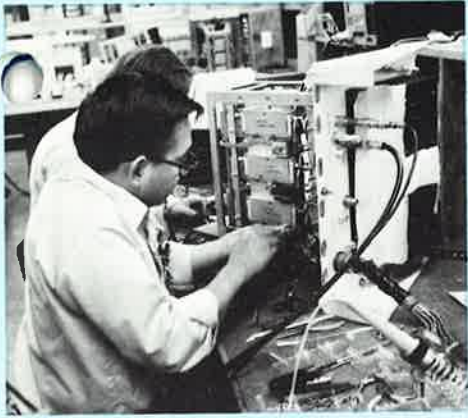
F. Kornberg  
President

October 15, 1975

\*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 insure the implementation of this policy.

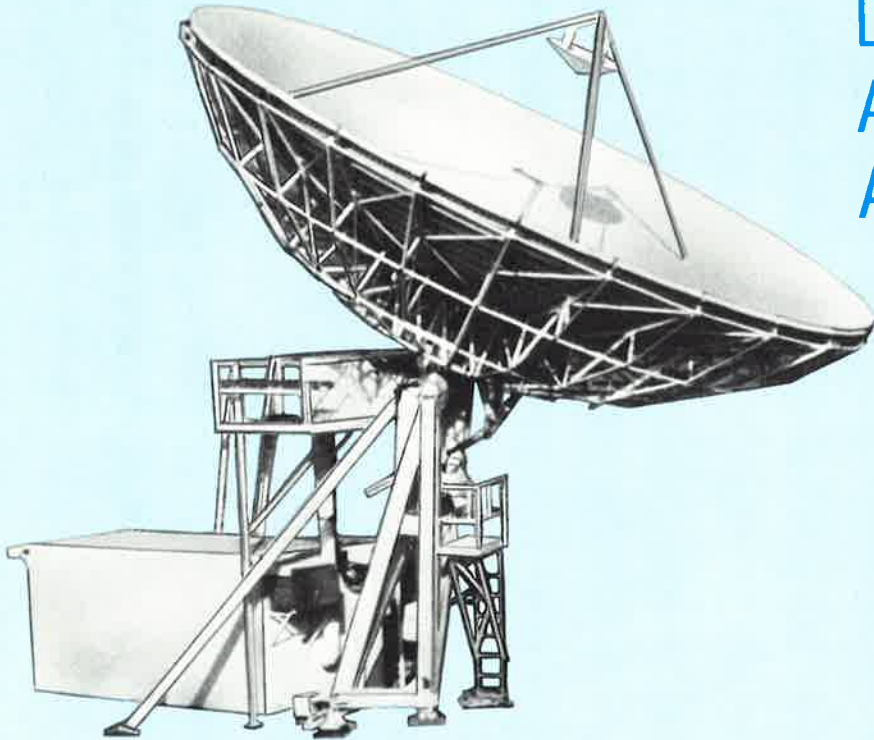


# COMTECH AT WORK

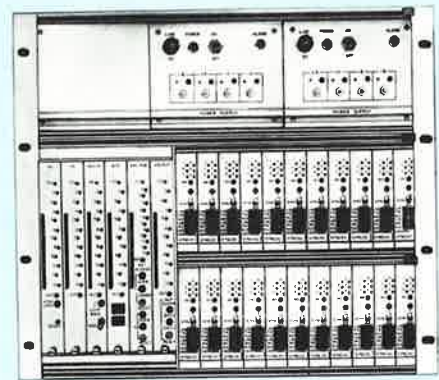




# NEW DEVELOPMENTS AND ACCOMPLISHMENTS



**Medium-Size Earth Station  
Transportable In A Single  
Cargo Aircraft For Intelsat  
And Domestic Networks**



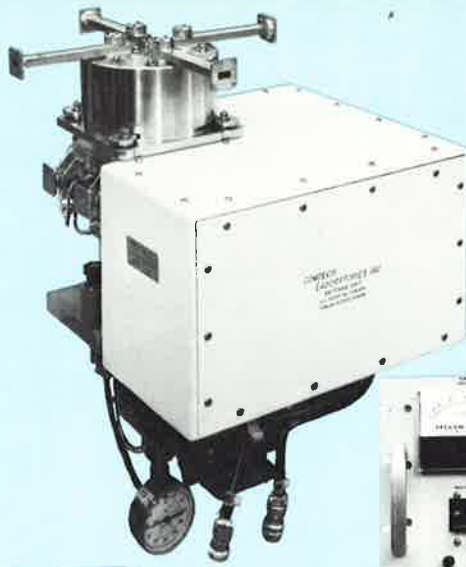
**Digital Multiplexer With Modular  
Adjustability In Input Signal  
Capacity And Variable Output Capacity**



**Major Receiving, Transmitting, And  
Control And Monitor Subsystem For  
Intelsat Earth Stations**



# 1975



**K-Band,  
Cryogenically-Cooled,  
Low-Noise Amplifier**



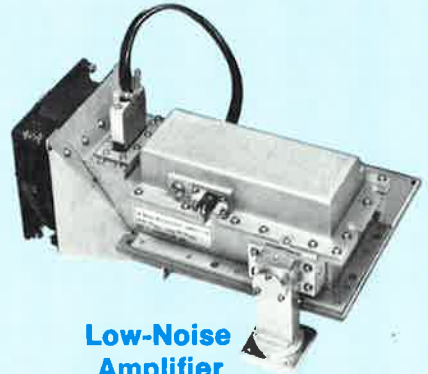
**Receiver**



**Transmitter**



**Power Amplifier**

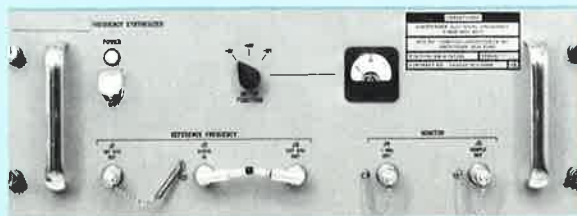
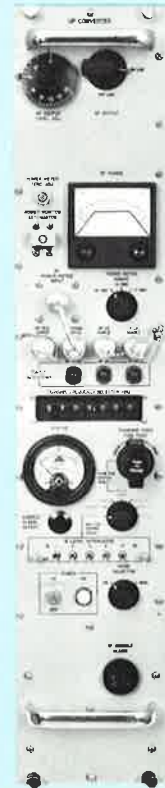


**Low-Noise  
Amplifier**

***Compact Subsystems For Small, Low Capacity Earth Stations***



**Receiving And Transmitting  
Subsystems For Military  
Earth Stations Carrying  
Voice, Teletype, And  
High Speed Data**



# CONSOLIDATED BALANCE SHEETS

	<u>ASSETS</u>	
	<u>1975</u>	<u>July 31,</u> <u>1974</u>
Current Assets:		
Cash .....	\$ 792,999	\$ 573,315
Accounts receivable (Notes 1 and 2) .....	3,196,457	1,713,433
Inventories, less progress payments (Notes 1 and 3) .....	4,228,865	2,818,234
Other current assets .....	79,929	46,965
	<u>8,298,250</u>	<u>5,151,947</u>
Property, plant and equipment less accumulated depreciation and amortization (Notes 1, 4 and 5) .....	2,791,180	2,520,624
Other assets .....	21,492	25,374
	<u>\$11,110,922</u>	<u>\$7,697,945</u>

## LIABILITIES AND SHAREHOLDERS' EQUITY

Current Liabilities:		
Notes payable to bank (Note 9) .....	—	\$ 850,000
Accounts payable .....	\$ 2,849,688	1,085,733
Accrued expenses and taxes withheld .....	637,991	331,001
Income taxes currently payable (Note 6) .....	746,877	365,590
Advance contract payments received .....	245,848	64,490
Current maturities of mortgage notes .....	50,000	47,000
	<u>4,530,404</u>	<u>2,743,814</u>
Mortgage notes due after one year (Note 5) .....	714,144	764,129
Deferred income taxes (Note 6) .....	317,300	237,300
Shareholders' equity (Notes 7, 8 and 10): —		
Common stock, \$.10 par value:		
Authorized — 3,000,000 shares		
Outstanding — 1975 — 1,598,840		
1974 — 1,564,640 .....	159,884	156,464
Additional paid-in capital .....	2,273,210	2,206,019
Retained earnings .....	3,115,980	1,590,219
	<u>5,549,074</u>	<u>3,952,702</u>
Commitments and Contingencies (Note 12)		
	<u>\$11,110,922</u>	<u>\$7,697,945</u>





# CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

	Year ended July 31,	
	1975	1974
Net sales .....	\$16,563,517	\$10,368,282
Cost and expenses:		
Cost of sales .....	12,212,825	7,922,584
Selling, general and administrative .....	979,218	752,158
Depreciation and amortization .....	293,649	213,194
Interest .....	145,064	119,521
	<u>13,630,756</u>	<u>9,007,457</u>
Income before income taxes .....	2,932,761	1,360,825
Provision for income taxes (Note 6):		
Current .....	1,327,000	566,000
Deferred .....	80,000	57,700
	<u>1,407,000</u>	<u>623,700</u>
Net income .....	1,525,761	737,125
Retained earnings at beginning of year:		
As previously reported .....	1,603,919	880,494
Adjustment to reflect retroactive change in accounting method (Note 10) .....	(13,700)	(27,400)
Retained earnings at beginning of year as restated .....	1,590,219	853,094
Retained earnings at end of year .....	<u>\$ 3,115,980</u>	<u>\$ 1,590,219</u>
Earnings per share (Note 1) .....	<u>\$ .94</u>	<u>\$ .45</u>

# CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

	Year ended July 31,	
	1975	1974
Financial resources were provided by: —		
From Operations:		
Net income for the year .....	\$1,525,761	\$ 737,125
Add income charges not affecting working capital in the period:		
Depreciation and amortization .....	293,649	213,194
Deferred income taxes .....	80,000	57,700
Total from operations .....	1,899,410	1,008,019
Net proceeds from exercise of stock options .....	45,100	26,480
Tax benefit from disqualifying disposition of option stock .....	46,000	—
	<u>1,990,510</u>	<u>1,034,499</u>
Financial resources were used for:		
Purchases of equipment — net .....	564,205	373,364
Reduction in long-term debt .....	49,985	46,787
Other .....	16,607	8,174
	<u>630,797</u>	<u>428,325</u>
Increase in working capital .....	<u>\$1,359,713</u>	<u>\$ 606,174</u>

## Analysis of changes in working capital

Increases (decreases) in elements of current assets:		
Cash .....	\$ 219,684	\$ 336,991
Accounts receivable .....	1,483,024	(649,615)
Inventories .....	1,410,631	722,934
Other current assets .....	32,964	(1,407)
	<u>3,146,303</u>	<u>408,903</u>
(Increases) decreases in elements of current liabilities:		
Notes payable to banks .....	850,000	(300,000)
Accounts payable .....	(1,763,955)	380,818
Accrued expenses and taxes withheld .....	(306,990)	(52,695)
Income taxes currently payable .....	(381,287)	(180,498)
Advance contract payments received .....	(181,358)	352,646
Current maturities of mortgage notes .....	(3,000)	(3,000)
	<u>(1,786,590)</u>	<u>197,271</u>
Increase in working capital .....	<u>\$1,359,713</u>	<u>\$ 606,174</u>





# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

July 31, 1975 and 1974

## 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.

### Contract Accounting

Sales are recorded when specific contract terms are fulfilled, usually by delivery or acceptance (the unit of delivery method of accounting). Cost of sales, which is applied to units delivered, is based upon the actual contract costs incurred and, in the case of partial shipments, estimated final contract costs. Contract costs include material, direct labor and manufacturing overhead. All selling, general and administrative expenses are charged to operations as incurred. Under all contracts, when estimates indicate a probable future loss, an immediate provision for the full amount thereof is charged to cost of sales.

### Inventories

Raw materials and components are stated at first-in, first-out cost, which is not in excess of market. Work in process has been valued at the total material, labor and manufacturing overhead incurred under each contract.

### Property, Plant and Equipment

Property, plant and equipment are recorded at cost; 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%; leasehold improvements — over the life of the lease; and equipment — 12½%.

### Product Development Costs

As more fully described in Note 10, the Company expenses product development costs as incurred.

### Earnings Per Share

Earnings per share are based upon the weighted average common shares and common share equivalents outstanding during the year. The effect of full dilution on earnings per share is immaterial.

## NOTE 2 — ACCOUNTS RECEIVABLE:

	July 31,	
	1975	1974
Amounts receivable from the United States Government	\$1,504,037	\$ 360,009
Amounts receivable from others	1,692,420	1,353,424
	<u>\$3,196,457</u>	<u>\$1,713,433</u>

During the fiscal years ended July 31, 1975 and 1974, approximately 62% and 38%, respectively, of the Company's revenues resulted from contracts with government agencies and government contractors.

## NOTE 3 — INVENTORIES:

	July 31,	
	1975	1974
Raw materials and components	\$1,238,829	\$ 809,353
Work in process	5,709,587	3,153,725
	<u>6,948,416</u>	<u>3,963,078</u>
Less—progress payments	2,719,551	1,144,844
	<u>\$4,228,865</u>	<u>\$2,818,234</u>

All work in process relating to contracts is expected to be delivered over a period of less than twelve months. Approximately 90% of the Company's work in process represents work performed pursuant to contracts. The remainder relates to Company inventory items.

Title to work in process is vested in the customer on contracts which provide for progress, partial, or advance payments to the extent of such payments received.

## NOTE 4 — PROPERTY, PLANT AND EQUIPMENT:

	July 31,	
	1975	1974
Land	\$ 180,000	\$ 180,000
Building	1,184,669	1,177,028
Leasehold improvements	81,764	65,069
Equipment	2,123,194	1,594,165
	<u>3,569,627</u>	<u>3,016,262</u>
Less — accumulated depreciation and amortization	778,447	495,638
	<u>\$2,791,180</u>	<u>\$2,520,624</u>

# NOTES (continued)

## NOTE 5 — MORTGAGE NOTES:

	July 31,	
	1975	1974
9.4% First mortgage indebtedness to a bank payable monthly, maturing in 1980	\$493,177	\$502,545
6.5% Second mortgage indebtedness to the New York State Job Development Authority payable monthly, maturing in 1981	270,967	308,584
	<u>764,144</u>	<u>811,129</u>
Less — portion due within one year	50,000	47,000
	<u>\$714,144</u>	<u>\$764,129</u>

The average principal amount maturing annually through July 31, 1979 is approximately \$60,000 and as a consequence of the payment schedule under the bank loan, approximately \$498,000 is due in the fiscal year ending July 31, 1980. These mortgages are secured by the land and buildings referred to in Note 4.

Federal statutory income tax rate
State income taxes, net of federal tax benefit
Tax exempt DISC income
Investment credit
Effective income tax rate
Deferred taxes attributable to timing differences consist of:
Depreciation
Taxable DISC income

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

Changes in the common stock and additional paid-in capital accounts during the years ended July 31, 1975 and 1974 are as follows:

	No. of shares	Common stock	Additional paid-in capital
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	1,564,640	156,464	2,206,019
Exercise of stock options	34,200	3,420	41,680
Tax benefits resulting from disqualifying disposition by employees of stock purchased under stock option plans			46,000
Costs associated with the registration of underwriter stock and stock option plans			(20,489)
Balance July 31, 1975	<u>1,598,840</u>	<u>\$159,884</u>	<u>\$2,273,210</u>

## NOTE 6 — INCOME TAXES:

The Company has a Domestic International Sales Corporation subsidiary (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 (\$560,000) 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, 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 years ended July 31, 1975 and 1974.

	July 31,			
	1975	1974		
	Amount	Percent	Amount	Percent
	\$1,401,000	48%	\$646,700	48%
	132,000	5	58,000	4
	(80,000)	(3)	(63,000)	(5)
	(46,000)	(2)	(18,000)	(1)
	<u>\$1,407,000</u>	<u>48%</u>	<u>\$623,700</u>	<u>46%</u>
	\$ 60,000		\$ 56,000	
	20,000		1,700	
	<u>\$ 80,000</u>		<u>\$ 57,700</u>	





#### 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 years ended July 31, 1975 and 1974.

	July 31,			
	1975	Option price per share	1974	Option price per share
Outstanding, beginning of year	115,160	\$1.25-18.13	121,720	\$1.01-18.13
Granted	16,000	2.25- 7.00	17,000	5.50-13.00
Exercised	(34,200)	1.25- 5.50	(21,760)	1.01- 1.25
Cancelled	(3,800)	1.25-10.75	(1,800)	1.25-10.75
Outstanding, end of year	<u>93,160</u>	1.25-18.13	<u>115,160</u>	1.25-18.13
Exercisable, end of year	<u>50,700</u>	1.25-18.13	<u>53,940</u>	1.25-18.13

At July 31, 1975 and 1974, 53,000 and 15,200 shares were available for grant, respectively.

In November, 1974, at the annual meeting, the shareholders approved a 50,000 share increase in the number of options available for grant.

#### NOTE 9 — 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 ½% above prime, with additional short-term borrowings up to \$6,000,000 to be secured by certain assets of the Company. The maximum amounts borrowed under the agreement during 1975 and 1974 were \$1,175,000 and \$850,000 at average rates of 10.3% and 12.5%, respectively. The approximate average borrowings during 1975 and 1974 were \$743,000 and \$492,000 at average interest rates of 10.6% and 10.3%, respectively.

#### NOTE 10 — CHANGE IN METHOD OF ACCOUNTING FOR PRODUCT DEVELOPMENT COSTS:

In 1975, the Company changed its method of accounting for product development costs. In prior years certain of these costs were deferred and amortized over five years. Under the new accounting method, which was adopted to conform with the Statement of Financial Accounting Standards No. 2, "Accounting for Research and Development Costs", all such costs are charged to expense as incurred. In accordance with this pronouncement, financial statements of prior years have been restated to apply

the new method retroactively. The effect of this accounting change on the results of operations for fiscal 1975 and 1974 is to increase income by approximately \$13,000, or \$.01 per share.

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 \$148,389 in 1975 and \$269,798 in 1974.

#### NOTE 11 — PROFIT SHARING PLAN:

Effective August 1, 1974, the Company adopted a profit sharing plan covering all eligible employees. The plan, which is subject to the approval of the IRS, provides for the Company to contribute such amounts as the Board of Directors determines. During the fourth quarter of fiscal 1975, the Board approved a contribution of \$150,000 which was charged to income.

#### NOTE 12 — 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. In September 1975, preliminary arrangements were concluded to

# NOTES (continued)

construct a new 123,000 square-foot manufacturing facility. It is the Company's intention to purchase the building or enter into a 15 year lease agreement with annual rentals of approximately \$268,000 plus property taxes and other specific costs. The agreement will also include an option to purchase the facility for \$2,275,000 after the first two years of the agreement. Coincident with the completion of the

new facility during the fourth quarter of fiscal 1976, the Oser Avenue lease agreement will be terminated without cost to the Company.

Certain sales of the Company are subject to the Renegotiation Act of 1951, as amended. Clearance has been received through fiscal year 1974. In the opinion of management, no refunds are anticipated for sales subject to renegotiation in 1975.

## REPORT 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. and its subsidiary as of July 31, 1975 and 1974, and the related consolidated statements of income and retained earnings and of 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.

In accordance with Statement of Financial Accounting Standards No. 2, the method of accounting for product development costs was changed in 1975 as described in Note 10 to the financial statements.

In our opinion, the consolidated financial statements examined by us present fairly the financial position of Comtech Laboratories Inc. and its subsidiary at July 31, 1975 and 1974, the results of their operations and the changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis after restatement for the change, with which we concur, referred to in the preceding paragraph.

PRICE WATERHOUSE & CO.

Huntington Station, New York  
October 10, 1975

### Five Year Summary of Operations

	Year Ended 31 July				
	1971 (A)	1972 (A)	1973 (A)	1974 (A)	1975
Net sales and other income .....	\$2,014,253	\$3,971,363	\$12,995,511	\$10,368,282	\$16,563,517
Costs and expenses:					
Cost of sales .....	1,588,534	3,124,147	11,294,814	7,922,584	12,212,825
Selling, general and administrative .....	222,134	375,092	631,112	752,158	979,218
Depreciation and amortization .....	37,109	66,548	143,640	213,194	293,649
Interest .....	5,029	34,714	84,027	119,521	145,064
	1,852,806	3,600,501	12,153,593	9,007,457	13,630,756
Income before income taxes .....	161,447	370,862	841,918	1,360,825	2,932,761
Provision for income taxes .....	77,900	116,400	310,300	623,700	1,407,000
Net Income .....	\$ 83,547	\$ 254,462	\$ 531,618	\$ 737,125	\$ 1,525,761
Earnings per share (B) .....	<u>\$.07</u>	<u>\$.20</u>	<u>\$.33</u>	<u>\$.45</u>	<u>\$.94</u>

(A) Restated as described in Note 10 of the financial statements. The effect of the change was to increase income as follows: 1971-\$27,000, \$.02 per share; 1972-\$3,600, \$.01 per share; 1973-\$22,500, \$.02 per share; 1974-\$13,700, \$.01 per share.

(B) Based upon the weighted average common shares and common share equivalents outstanding during the year.





## Management Discussion and Analysis of Summary of Operations

In fiscal 1975 relative to fiscal 1974, sales increased approximately 60% due to increased demand for the Company's products and systems. In fiscal 1974 compared to fiscal 1973, sales decreased by approximately 20% due to delays in the award of several large contracts until the fourth quarter. Cost of sales in 1975, as a percentage of net sales, decreased compared to 1974 by approximately 3% due to efficiencies associated with higher production volume and an increase in the amount of customer-funded research and development, resulting in decreased Company funding for such purposes. Cost of sales in 1974, as a percentage of net sales, decreased approximately 11% compared to 1973 due to improvements in operating efficiency following the Company's accelerated expansion program in 1973 and the increased contribution to the Company's sales base by products and systems with relatively higher profit margins. Selling, general, and

administrative expenses in 1975 relative to 1974, and in 1974 relative to 1973, increased approximately 30% and 20%, respectively, due to increased levels of employment and higher costs of salaries, employee benefits, and selling and marketing expenses. Depreciation and amortization in 1975 increased over 1974 due to the addition of new equipment and a reduction in the leasehold improvement amortization period. In 1974 relative to 1973, depreciation and amortization increased due to a full year's depreciation being reflected for the Company's mid-1973 expansion and to additional equipment requirements. Interest expense in 1975 increased over 1974 principally due to higher average annual borrowings. Interest expense in 1974 increased over 1973 due to a full year of interest charges on mortgages for expanded plant facilities and increased borrowings.

## Sales By Major Product Area

	Year Ended 31 July				
	1971	1972	1973	1974	1975
The percentage of annual dollar sales for each major class of products sold was as follows:					
Receiving, Transmitting, and Digital Equipment .....	100%	100%	85%	66%	75%
Systems & Major Subsystems .....	—	—	15%	34%	25%

## Stock Prices

The common stock of Comtech Laboratories Inc. is traded in the Over-The-Counter market. The table below sets forth the high and low bid and asked prices for the Company's common stock during each quarter of fiscal years 1975 and 1974. The prices shown are

representative quotations supplied by the National Association of Securities Dealers, Inc. through NASDAQ and do not include retail mark-up, mark-down, or commissions and do not necessarily reflect actual transactions.

Fiscal Year 1975	STOCK PRICES				Fiscal Year 1974	STOCK PRICES			
	Bid Price		Asked Price			Bid Price		Asked Price	
	High	Low	High	Low		High	Low	High	Low
First Quarter .....	4¾	2½	5¾	3½	First Quarter .....	17	12¼	18	13¼
Second Quarter ...	4½	1¾	5½	2¾	Second Quarter ....	11¼	6½	12¼	7½
Third Quarter .....	8	3¾	9	4¾	Third Quarter .....	8½	6½	9½	7½
Fourth Quarter .....	13½	6¼	14½	7¼	Fourth Quarter .....	5¾	3	6¾	4

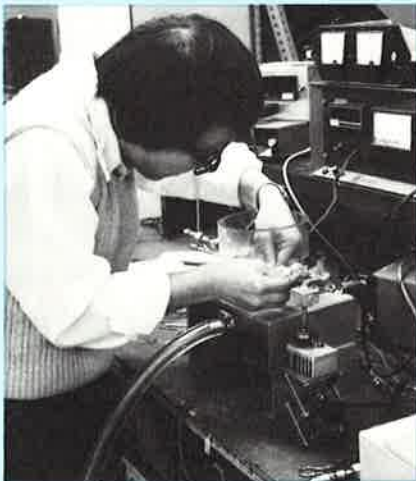
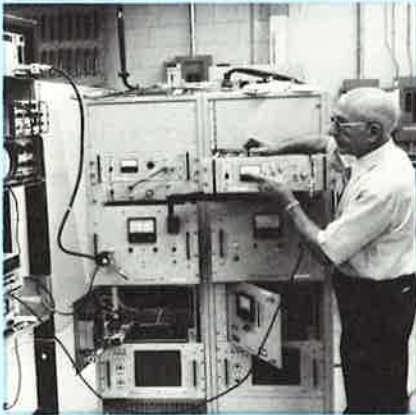
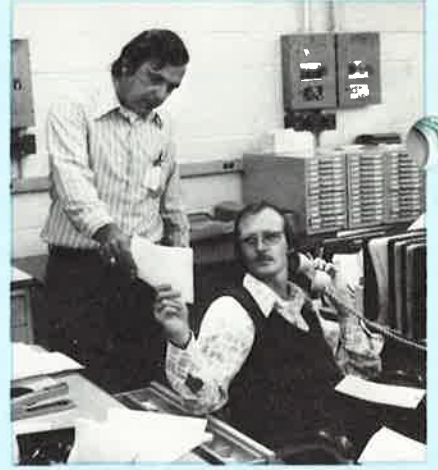
## Dividends

No dividends have been paid on the Company's common stock.

## Form 10-K

A copy of the Company's Annual Report on Form 10-K for fiscal year 1975 as filed with the Securities and Exchange Commission (excluding exhibits) will be furnished, without charge, to any owner of common

stock of the Company entitled to vote at its Annual Meeting, upon written request to G. R. Nocita, Secretary/Treasurer, Comtech Laboratories Inc., 135 Engineers Road, Smithtown, N.Y. 11787.







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