1979 ANNUAL REPORT

COMTECH
Telecommunications Corp.

As part of an ongoing program to supply AN/GSC-39 Medium Terminals for the U.S. Department of Defense Satellite Communications Network, Comtech has completed construction of a test site at the Company's facilities in Smithtown, New York. The site consists of a 3000 square-foot building, flanked by foundations for two government furnished antennas which are scheduled for delivery to Comtech in November of 1979. The ground communication equipment, in various stages of manufacture, is being installed as completed. When all elements are in-place, the test site will accommodate the communication equipment for two complete fixed-site terminals and two transportable terminals.

Financial Highlights*

	Fiscal Year Ended July 31, 1979	1978
Sales	$32,465,184	$27,788,367
Income From Continuing Operations	940,656	1,356,275
Earnings Per Share:		
Continuing Operations	.52	.76
Discontinued Operation	—	(.12)
Net Earnings Per Share	.52	.64
Book Value Per Share	6.77	6.18
Backlog	28,050,000	34,650,000

* Refer to the financial statements and accompanying notes for complete information.
Book value is based on outstanding shares as of July 31, 1979 and 1978.

Cover

The photograph used for the cover of this year's annual report depicts a troposcatter installation typical of those delivered by Comtech during fiscal 1979. Troposcatter systems are ideally suited for establishing communication links over short and intermediate distances, particularly where terrain makes it impractical or impossible to use terrestrial systems. To overcome physical obstacles or those created by national boundaries, communication is established between points by "bouncing" the transmitted signal off the underwall of the troposphere. For programs of this type, Comtech offers a full-range capability from design concept through implementation – including signal path profiles, equipment manufacture and interface, site installation, and customer training.

COMTECH Telecommunications Corp.

135 ENGINEERS ROAD • SMITHTOWN, NEW YORK 11787 • (516) 231-5454 • TWX: 510 227-6235

TO OUR SHAREHOLDERS AND EMPLOYEES:

Fiscal 1979's sales reached a record $32.4 million. Earnings were $940,656 or $.52 a share, and year-end backlog $28 million. The prior year's sales were $27.7 million; earnings net of a loss from discontinued operations were $1,144,891 or $.64 a share, and year-end backlog a record $34.6 million.

There was more to fiscal 1979's operating results than the bare numbers. Earnings were affected in part by higher than anticipated costs relating to a major contract which was substantially completed by fiscal year-end, and by Comtech's discontinuance, for financial reporting purposes, of deferrals of taxes on DISC income.

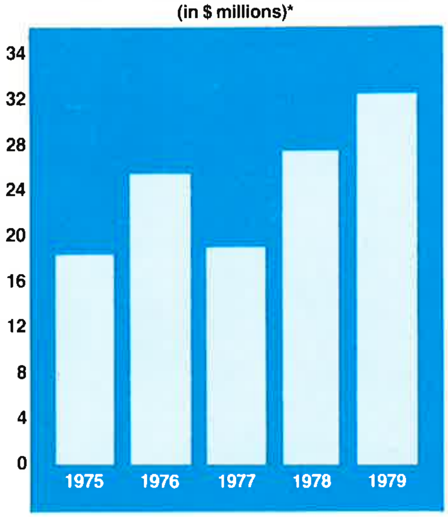
The impact of our willingness to spend for the future was also felt in 1979. Comtech's digital communications subsidiary in Arizona and our antenna subsidiary in Florida sustained losses for the year – reflecting in part, product development, facilities expansion, and reorganization activities. Additionally, our principal unit, Comtech Laboratories, incurred expenses for an ongoing major computerization program which is not expected to produce any measurable benefits until some time later next year. We intend to continue to build upon the complement of software programming for use in material and production control, status reporting, and other administration and management activities.

Fully cognizant of the pressure the cost of anticipated future benefits put on current earnings, our business plan continues to be directed not solely to immediate profits, but rather to a combination of sustained and responsible earnings growth and the long-term expansion of business activity. An important element of our programs is Comtech's intensified effort to expand its product line and increase significantly the number of relatively "smaller" orders possible through product and subsystem sales.

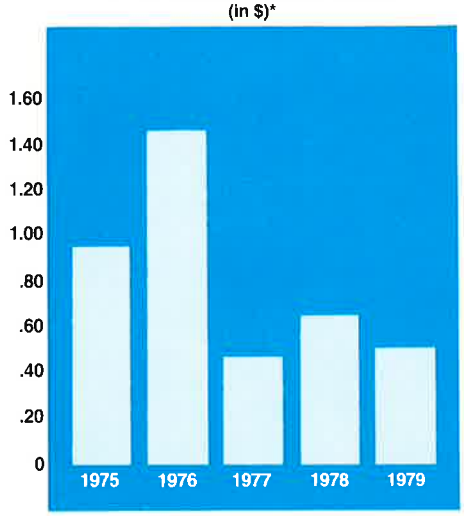
Without question, Comtech will continue to pursue aggressively, and give heavy emphasis to winning major projects of the magnitude of the $46 million multi-year prime defense contract awarded us in March 1978 by the U.S. Army. Apart from their independent significance, such contracts often provide, among other things, opportunities for add-ons and related projects which sometimes approach or even exceed the value of the original contract award. Shooting for big game, however, requires a massive pre-award effort and an awareness that the award dates of major contracts, in both the government and private sector, are frequently subject to delays and deferrals. And, as we learned from the recent loss of a major subcontract, no company hits the target all of the time.

For many reasons then, we have brought into principal focus the broadening of Comtech's product base, diversifying in order to smooth out the peaks and valleys that inevitably mark the winning – or losing – of contracts for large projects. To this end we are emphasizing the importance of our own and acquired expertise in meeting the more even demand for additional products of the kind Comtech should be producing.

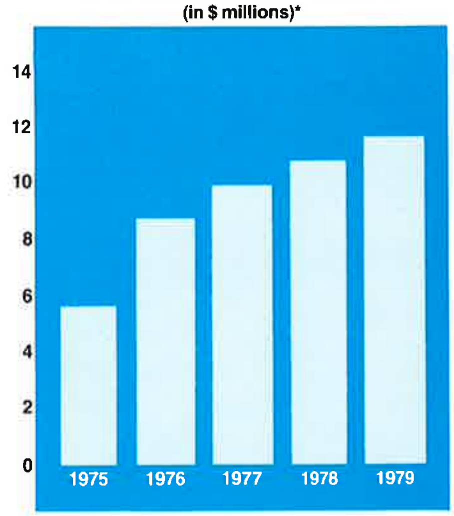
SALES AND OTHER INCOME
(in $ millions)*



EARNINGS PER SHARE
(in $)*



SHAREHOLDERS' EQUITY
(in $ millions)*



* Restated to reflect the acquisition of Comtech Antenna Corp. (formerly R.F. Systems, Inc.) for the years 1975 and 1976.

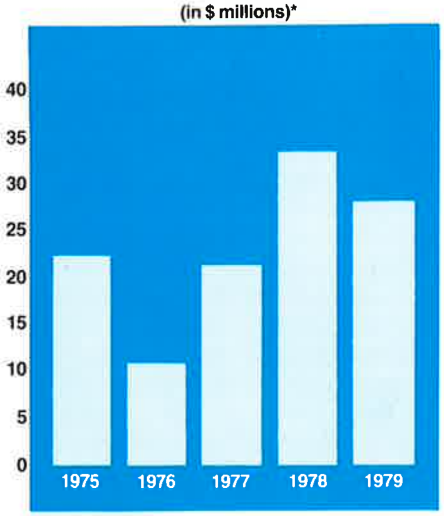
COMTECH TODAY

Comtech's business is presently being conducted by three units; Comtech Laboratories, Comtech Antenna Corp. (formerly R.F. Systems, Inc.), and Comtech Data Corporation. Each is engaged in the design and manufacture of discrete high-technology products marketed both independently and as integral parts of Comtech communication systems.

Comtech Laboratories concentrates its activities on the design, manufacture and installation of unified communication systems and equipment. Providing the main thrust for the Company, this division is charged with the development of microwave products directed toward the high-reliability, high-performance requirements of international and domestic carriers as well as the U.S. and foreign defense markets.

To support these markets, and address new potentials, Comtech Laboratories balances its Company and customer funded development programs between product improvement and the introduction of new products. During fiscal 1979, design improvement programs were implemented across all product areas including analog and digital receiving and transmitting equipment, low-noise amplifiers, and high power amplifiers. In the new product area, this division has designed ground communications equipment and low noise parametric amplifiers to operate at the higher frequencies planned for future satellites; low-noise parametric amplifiers and high power amplifiers for use in the military frequency bands; and a new generation of modulation and multiplexing equipment used for satellite distribution of high-quality stereo programming for the radio broadcast industry.

BACKLOG
(in $ millions)*



Comtech Antenna Corp. specializes in the design and manufacture of antenna systems, reflectors, subreflectors, feed systems, mounts and related products for communication and radar applications. During this fiscal year, Comtech Antenna Corp. introduced capabilities to design, develop and fabricate a new line of fiberglass antennas in the 3, 5, and 7 meter category, as well as protective radomes for both antennas and antenna feeds. As part of a value engineering program, this subsidiary redesigned the mounts used with its 10, 11.8, and 13 meter antennas, and developed a new line of orthomode transducers and feeds for use with both fiberglass and metal antennas.

Comtech Data Corporation designs and manufactures systems and equipment having application in digital communications, particularly equipment providing signal processing and conditioning at intermediate and baseband frequencies. This subsidiary also markets receive-only earth stations and video equipment of the type used in cable and pay TV industries.

In a heavy concentration of product development during fiscal 1979, Comtech Data Corporation designed a complete earth station with digital electronics in anticipation of increased demand for business systems handling data, facsimile, and teleconferencing. In another area, this subsidiary developed a scrambling system designed to introduce privacy to signals transmitted via satellite. This system has particular application in pay TV and teleconferencing, and will permit only authorized earth stations to receive a usable signal. Also related to the pay TV market, the Company has expanded its line of low cost video receivers to include both fixed frequency and video agile configurations, and added video and low noise amplifier switching units for use with redundant systems.

Comtech Data Corporation also has an ongoing program for the development of digital single-channel-per-carrier equipment for the international earth terminal market. Initiated during fiscal 1979, this effort is expected to be complete by the end of the calendar year. Used with the line of receiving and transmitting equipment supplied by Comtech Laboratories, and antennas supplied by Comtech Antenna Corp., this equipment should enhance our ability to compete effectively for future Intelsat Standard B and Standard C stations.

THE SATELLITE MARKETS

The anticipated growth rates of the markets in which we sell are varied. The overall demand for satellite communications earth terminals and equipment is expected to grow at an annual compound growth rate of 15% from approximately $400 million in 1979, to approximately $650 million in 1982.

In the United States, domestic satellite communications are used primarily for transmission of two-way voice/data, radio, newswire, and TV signals. The principal growth areas will likely be 56 kilobit voice/data terminals, video and radio broadcasting, and the expansion of the present sophisticated transmit/receive common carrier systems. We consider business communications an important emerging market segment in the domestic arena. Although the demand is still relatively low for digital services, the potential is strong and we should see substantial growth through the early and mid 1980's.

On the international scene, the rate of growth of the Intelsat global network has understandably slowed as the rate of new entry member nations has declined. Renewed growth is expected in the early to mid 1980's encouraged by the launch of the higher capacity Intelsat V satellite. Key to this growth will be an anticipated expansion of existing Standard A and B stations, the introduction of the new Standard C stations, and an increased use of digital transmission.

The overseas domestic and regional satellite market is less predictable and more difficult to operate in. It does however, offer some of the greatest potential sales gains. Although this market failed to produce any major new business opportunities during fiscal 1979, the ultimate need for these systems is evidenced by the number in operation, and those in the planning stages such as in China, India, the Arab nations, South America, Africa and Europe.

THE DEFENSE MARKETS

The U.S. Defense market should grow steadily at about a 15% annual compound growth rate from approximately $150 million in 1979 to approximately $250 million in 1982, primarily as a result of expanded use of satellite communications for fixed and mobile land applications and for ships at sea. The Department of Defense is planning to expand its global satellite communications network with the development of a series of medium-traffic, limited mobility terminals and low traffic, transportable earth stations. As you may be aware, we are currently engaged in a program to supply fifteen fixed-site, and six transportable medium terminals for this network.

THE TROPOSCATTER MARKETS

The market for troposcatter systems and equipment is less definable, both in growth rate and in dollar volume. This is due in part to the fact that the demand for these systems is not universal, but rather concentrated in areas where the specific characteristics of troposcatter communication links offer distinct advantages. These systems provide a relatively high level of security for defense applications, and are ideal for installations where the earth's physical terrain makes the use of line-of-sight microwave and other forms of terrestrial communications impractical or impossible.

During the 1970's we have seen troposcatter move from a virtual standstill to a multimillion dollar market. We expect overall demand for troposcatter systems and equipment to maintain levels well above $50 million a year, with major markets concentrated in the Mideast, Africa, South America, and the Pacific; as well as in the U.S. Military, certain NATO nations, and commercial applications such as oil companies and railroads.

FISCAL 1979 EVENTS

During fiscal 1979 Comtech delivered 8 troposcatter terminals; 2 for installation in New Guinea, and 6 to be added to the 12-terminal network previously installed in Libya. For each of these systems, Comtech Laboratories carried the responsibility for systems integration as well as the design and production of the communication equipment; Comtech Antenna Corp. supplied the antennas.

On the satellite side emphasis has been applied to the manufacture of equipment and subsystems for the Department of Defense Medium Terminal program previously mentioned. Along with a system integration responsibility, this program calls for production quantities from all product areas of Comtech Laboratories, including high power amplifiers, frequency conversion subsystems, low noise parametric amplifiers, system control, monitoring, and interface equipment. Also used on the program are performance monitoring units being manufactured by Comtech Data Corporation.

This year brought further evidence of an emergence of the market for commercial digital earth stations and equipment. During fiscal 1979, Comtech initiated work on the first of four turnkey digital earth stations on order from Western Union. These stations are particularily significant because the system integration and ground communication equipment is supplied by Comtech Laboratories, digital modems by Comtech Data Corporation, and antenna systems by Comtech Antenna Corp.

Also during fiscal 1979, Comtech Laboratories began work on a project calling for ground communication equipment for a Communications Satellite Corporation (COMSAT) earth station in Etam, West Virginia. This station will serve as a forerunner to the new generation Ku-band smaller Intelsat stations, the Standard C, which is planned for use with the new high-capacity Intelsat V communications satellites.

Part of Comtech's strength in the turnkey system marketplace has been our vertical integration capability. That is, our ability to develop and manufacture as well as integrate most of the equipment comprising the complete system. We feel that this capability, and perhaps more importantly, the quality and scope of our product line, are key elements in carrying out the business objectives outlined earlier. Consistent with this is the current and future cultivation of equipment and subsystem markets. During 1979 Comtech supplied ground communication equipment to provide capacity expansion and other system upgrading for existing U.S. domestic satellite sites; low noise, intermediate, and high power amplifier subsystems for domestic and international satellite systems; digital modems for both operational and experimental purposes; and antenna systems, feed horns, and radomes for a variety of applications. Product manufacturing initiated during 1979 and currently in progress includes production quantities of low noise thermoelectrically-cooled parametric amplifiers for use in the NATO Phase III satellite network, and production quantities of frequency conversion subsystems for the U.S. Army.

OTHER DEVELOPMENTS

During 1979, the Company continued to address present and future business needs through our ongoing expansion of capabilities and facilities. In Smithtown, a 22,000 square foot building was leased to provide additional manufacturing space for the Medium Terminal program, bringing the total number of square feet in the Smithtown complex to 210,000, excluding the Medium Terminal test site facility. Similarly, Comtech Data Corporation relocated from Scottsdale to Tempe Arizona, where larger facilities of 14,000 square feet were leased to support manufacturing as well as expanding product development programs. In Florida, Comtech Antenna Corp. intensified efforts to upgrade both manufacturing facilities and equipment. This included the addition of new machinery and tools to provide a greater level of in-house precision machining and sheet metal fabrication.

During the third quarter of fiscal 1979, Comtech Laboratories received FCC approval for the construction of a developmental earth station. The station has been installed on the rooftop of the Company's Engineers Road building in Smithtown and will be used to demonstrate Comtech's product lines, test new products, and evaluate new techniques in satellite communications.

In September 1979, the Company's unsecured line of credit was increased to a total of $30 million with three leading banks. Of this amount, a maximum of $24 million is available for working capital, and a minimum of $6 million available for letter of credit financing. During fiscal 1979, the peak borrowing under these lines was $6.4 million.

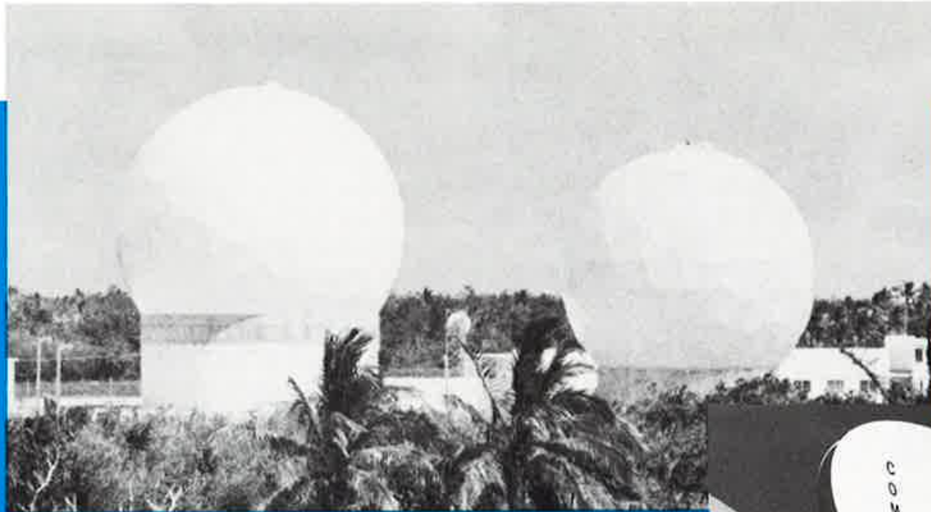
We acknowledge with sincere appreciation the continued support of our shareholders, suppliers and customers. We each take great pride in our growing family of effective men and women dedicated to making Comtech work. Together we look to the future with heightened and confident expectations.

Chairman of the Board
and President

October 30, 1979

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.

PRODUCT DEVELOPMENT

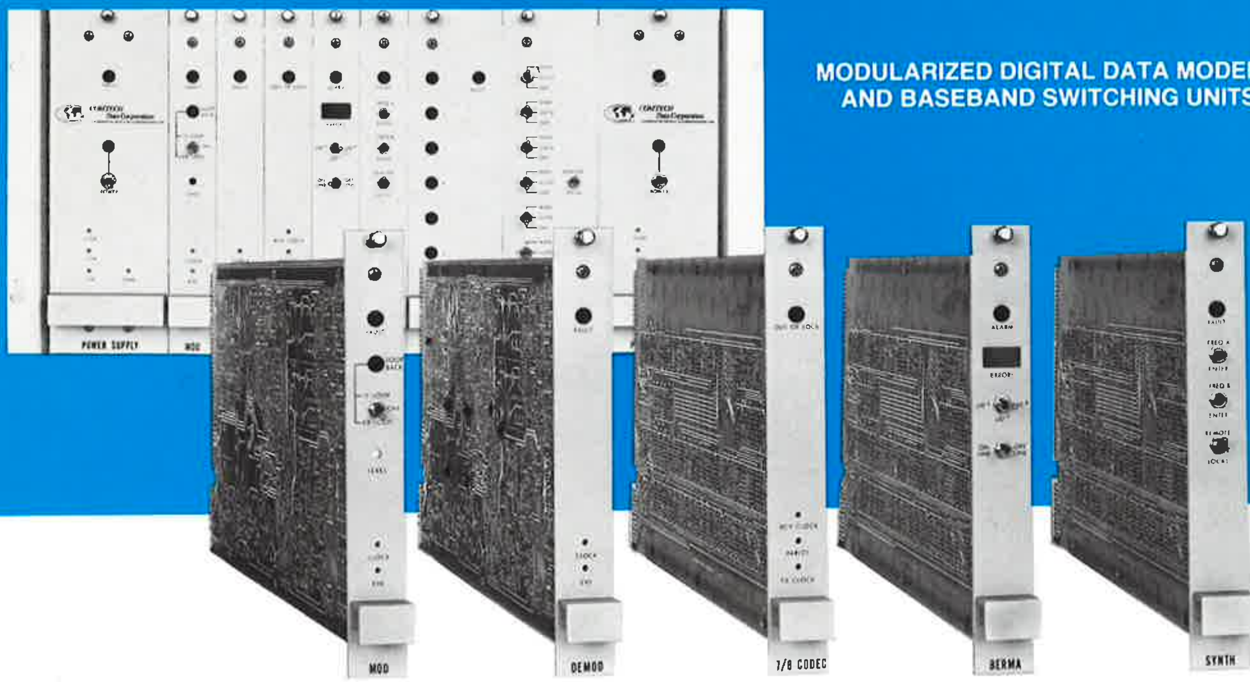


FIBERGLASS ANTENNAS AND PROTECTIVE RADOMES

VIDEO RECEIVE-ONLY SATELLITE EQUIPMENT

SATELLITE VIDEO SCRAMBLING SYSTEMS

MODULARIZED DIGITAL DATA MODEMS AND BASEBAND SWITCHING UNITS



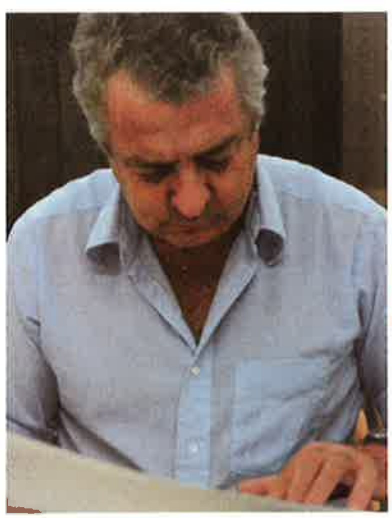
GROUND COMMUNICATION EQUIPMENT FOR 14/12 GHz FREQUENCY BANDS

EQUIPMENT FOR THE TRANSMISSION AND RECEPTION OF DIGITIZED STEROPHONIC AUDIO

A company's capabilities are a direct reflection of the caliber and experience of its people. From the birth of an idea, through the design, development, manufacture and marketing of a product – there exists an intricate interplay of diverse disciplines applying their skills to a common objective. The success of a product, and in a broader sense, the success of a company, is dependent upon the diligence of each of these individuals as he or she addresses the tasks at hand. Comtech's employees exemplify the word "team." They are a team of individuals dedicated to the levels of technical excellence and productivity that form the architecture of Comtech's future.

COMTECH
Antenna Corp.

COMTECH
Data Corporation



Consolidated Balance Sheets

ASSETS

	July 31, 1979	July 31, 1978
Current assets:		
Cash (Note 10)	$ 230,349	$ 351,146
Certificates of deposit (Note 13)	—	1,900,000
Accounts receivable (Notes 1 and 3)	10,357,880	5,481,836
Income taxes receivable (Note 7)	1,821,000	1,949,335
Inventories (Notes 1 and 4)	6,621,653	3,274,657
Other current assets	257,670	123,920
	19,288,552	13,080,894
Property, plant and equipment less accumulated depreciation and amortization (Notes, 1, 5, 6 and 13)	7,793,743	6,798,410
Non-current receivables (Notes 1 and 3)	3,223,038	265,415
Other assets	52,153	40,283
	$30,357,486	$20,185,002

LIABILITIES AND SHAREHOLDERS' EQUITY

	1979	1978
Current liabilities:		
Notes payable (Note 10)	$ 6,150,000	$ 1,704,000
Accounts payable	2,157,005	1,117,830
Accrued expenses and taxes withheld	1,590,218	1,112,189
Deferred income taxes	129,000	383,000
Advance contract payments received	1,251,691	193,091
Current maturities of mortgage notes	523,000	86,000
	11,800,914	4,596,110
Mortgage notes due after one year (Note 6)	2,283,985	2,803,225
Deferred income taxes (Notes 1 and 7)	4,502,064	2,085,300
Shareholders' equity (Notes 2, 8 and 9):		
Common stock, $.10 par value:		
Authorized – 5,000,000 shares		
Outstanding – 1979 – 1,739,373		
1978 – 1,730,373	173,937	173,037
Additional paid-in capital	2,981,633	2,853,033
Retained earnings	8,614,953	7,674,297
	11,770,523	10,700,367
Commitments and contingencies (Note 13)		
	$30,357,486	$20,185,002

The accompanying Notes to Financial Statements are an integral part of these statements.

Consolidated Statements of Income and Retained Earnings

	Year ended July 31,	
	1979	1978
Net sales	$32,465,184	$27,788,367
Costs and expenses:		
Cost of sales (Note 14)	26,413,927	21,961,682
Selling, general and administrative	3,265,899	2,983,985
Depreciation and amortization	653,565	510,557
Interest	491,137	170,868
	30,824,528	25,627,092
Income from continuing operations before income taxes	1,640,656	2,161,275
Provision for income taxes (Note 7)	700,000	805,000
Income from continuing operations	940,656	1,356,275
Loss from operation of discontinued subsidiary, net of income tax benefit of $200,000 (Note 12)	—	(211,384)
Net Income	940,656	1,144,891
Retained earnings at beginning of year	7,674,297	6,529,406
Retained earnings at end of year	$ 8,614,953	$ 7,674,297
Earnings (loss) per share (Note 1):		
Continuing operations	$ .52	$ .76
Discontined operation	—	(.12)
Net earnings per share	$ .52	$ .64

The accompanying Notes to Financial Statements are an integral part of these statements.

Consolidated Statements of Changes in Financial Position

	Year ended July 31, 1979	1978
Financial resources were provided by:		
Continuing Operations:		
Net income from continuing operations	$ 940,656	$1,356,275
Add income charges not affecting working capital:		
Depreciation and amortization	653,565	510,557
Deferred income taxes	700,000	805,000
Total from continuing operations	2,294,221	2,671,832
Discontinued operations:		
Loss from discontinued operation	—	(411,384)
Depreciation	—	13,515
Total from operations	2,294,221	2,273,963
Increase in deferred income taxes (Note 7)	1,716,764	1,172,000
Net proceeds from exercise of stock options and warrants	64,688	28,995
Stock issued (repurchased) in connection with the organization of a subsidiary	(5,626)	25,575
Stock cancelled upon dissolution of subsidiary	—	(31,081)
Retirement of fixed assets, net	7,311	71,834
Increase in long-term debt	—	2,291,648
Other	70,438	26,714
	4,147,796	5,859,648
Financial resources were used for:		
Purchase of building and equipment	1,656,209	3,689,647
Reduction in long-term debt	519,240	90,022
Increase in non-current receivables	2,957,623	265,415
Other	11,870	(28,642)
	5,144,942	4,016,442
Increase (decrease) in working capital	($ 997,146)	$1,843,206

The accompanying Notes to Financial Statements are an integral part of these statements.

Analysis of changes in working capital

	Year ended July 31, 1979	1978
Increases (decreases) in current assets:		
Cash	($ 120,797)	($ 33,058)
U.S. treasury bills	—	(395,167)
Certificates of deposit	(1,900,000)	900,000
Accounts receivable	4,876,044	196,545
Income taxes receivable	(128,335)	1,824,232
Inventories	3,346,996	(249,892)
Other current assets	133,750	40,232
	6,207,658	2,282,892
(Increases) decreases in current liabilities:		
Notes payable	(4,446,000)	(1,704,000)
Accounts payable	(1,039,175)	1,357,750
Accrued expenses and taxes withheld	(478,029)	(80,368)
Deferred income taxes	254,000	(383,000)
Advance contract payments received	(1,058,600)	397,932
Current maturities of mortgage notes	(437,000)	(28,000)
	(7,204,804)	(439,686)
Increase (decrease) in working capital	($ 997,146)	$1,843,206

The accompanying Notes to Financial Statements are an integral part of these statements.

Notes to Consolidated Financial Statements

NOTE 1 – ACCOUNTING POLICIES:

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany transactions have been eliminated.

Contract Accounting

Sales Recognition

Sales are generally recorded under the unit of delivery method of accounting except for a large multi-year funded military program which utilizes the percentage of completion method of accounting. Progress payment retainage and estimated earnings are reflected as unbilled receivables.

Costs and Expenses

Cost of sales 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, manufacturing overhead and certain selling and finance costs associated with contracts. All other selling, general and administrative expenses are charged to operations as incurred. Since contracts can extend over one or more years, revisions in costs and earnings estimates during the course of the work are reflected during the accounting period in which the facts which require the revision become known. 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 is valued at the total material, direct labor, manufacturing overhead and other costs incurred under each contract, less estimated cost of sales.

Property, Plant and Equipment

Property, plant and equipment (including major renewals and betterments) are recorded at cost; expenditures for maintenance and repairs are charged to operations as incurred. At the time property is retired or otherwise disposed of, the cost and accumulated depreciation or amortization of such property is eliminated and the gain or loss on disposition is reflected in operations. Annual depreciation is provided utilizing the straight-line method over the estimated useful life of the asset.

Research and Development Costs

The Company charges research and product development costs to operations as incurred except where such costs are reimbursable under customer-funded contracts. Research and development costs not relating to customer-funded contracts amounted to $519,591 in 1979 and $296,992 in 1978.

Income Taxes

The Company provides deferred income taxes for transactions reported in different periods for financial and income tax reporting purposes. The principal differences result from the utilization of the completed contract method, accelerated depreciation and benefits associated with income of the Company's DISC subsidiary. Investment tax credits are accounted for as a reduction of income taxes in the year the related asset is placed in service.

Income taxes have not been provided on the undistributed earnings through July 31, 1978 (cumulatively $1,479,000) of the Company's Domestic International Sales Corporation (DISC) subsidiary since the Company intends to permanently reinvest these earnings in export related activities. The Company has evaluated the appropriateness of the continuance of the deferral of taxes on the current year's DISC income and we have decided to discontinue further deferrals at this time.

Earnings Per Share

Earnings per share is based upon the weighted average common shares and common share equivalents outstanding during the year. The number of common shares and common share equivalents used in computing earnings per share were 1,802,407 and 1,781,042 in 1979 and 1978, respectively. The effect of full dilution is immaterial.

NOTE 2 – COMTECH DATA CORPORATION:

In March 1978, the Company entered into agreements with a group of individuals and established Comtech Data Corporation, a digital communications subsidiary. Under the agreements, the Company sold to these individuals 5,000 shares of common stock at par value ($.10 per share). Upon the resignation of one of the individuals, 1,100 shares of common stock were repurchased. Under the agreements, the Company will sell to these individuals up to 74,100 shares of common stock at par value upon the achievement of earnings levels defined in the agreements.

The greater of the excess of market value over the proceeds for such shares on the date of the agreement or upon the achievement of the earnings milestone will be charged to compensation expense over the estimated period of earnings achievement. This expense was approximately $65,000 in 1979 and $52,000 in 1978.

NOTE 3 – ACCOUNTS RECEIVABLE:

	July 31, 1979	July 31, 1978
Amounts receivable from the United States Government	$ 415,611	$1,486,404
Unbilled costs and accrued profits on government contracts in progress	5,443,450	183,203
Amounts receivable from others	7,721,857	4,077,644
	13,580,918	5,747,251
Less: Unbilled costs and other amounts receivable in excess of one year	3,223,038	265,415
	$10,357,880	$5,481,836

At July 31, 1979 and 1978, $2,029,000 and $99,000, respectively, represented retainages under a large contract with the U.S. Government of which $1,422,000 and $58,000, respectively, are expected to be collected in excess of one year. Unbilled accounts receivable are billable upon completion of performance tests and acceptance by the customer.

NOTE 4 – INVENTORIES:

	July 31, 1979	July 31, 1978
Raw materials and components	$1,452,016	$1,159,758
Work in process	6,220,900	2,876,312
	7,672,916	4,036,070
Less – progress payments	1,051,263	761,413
	$6,621,653	$3,274,657

Work in process relating to contracts is expected to be delivered over a period of less than twelve months. Approximately 71% in 1979 and 72% in 1978 of the Company's work in process represents work performed pursuant to contracts. The remainder represents parts and components being manufactured for stock.

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 5 – PROPERTY, PLANT AND EQUIPMENT:

	Estimated Useful Lives	July 31, 1979	July 31, 1978
Land	—	$1,030,982	$ 840,728
Buildings and improvements	40 years	4,268,469	3,818,475
Leasehold Improvements	Lease Term	24,081	286,339
Equipment	3-8 years	5,273,518	4,048,394
		10,597,050	8,993,936
Less–accumulated depreciation and amortization		2,803,307	2,195,526
		$7,793,743	$6,798,410

NOTE 6 – MORTGAGE NOTES:

	July 31, 1979	July 31, 1978
9.4% First mortgage indebtedness to a bank payable monthly, maturing in 1980	$ 445,288	$ 458,912
6.5% Second mortgage indebtedness to the New York State Job Development Authority payable monthly, maturing in 1981	93,559	142,313
9% First mortgage indebtedness to a bank payable monthly, maturing in 1983	353,691	360,852
9.5% First mortgage indebtedness to an insurance company payable monthly, maturing in 1992 (Note 13)	1,914,447	1,927,148
	2,806,985	2,889,225
Less – portion due within one year	523,000	86,000
	$2,283,985	$2,803,225

The 9% First Mortgage agreement contains an option to refinance the balance, approximately $321,000 at the completion of the initial term, for three successive five year periods at the initial interest rate.

At July 31, 1979 the aggregate principal amount maturing annually during each of the the four fiscal years ending July 1984 is as follows: 1981 – $67,000; 1982 – $35,000; 1983 – $352,000; and 1984 – $27,000. These mortgages are secured by the land and buildings referred to in Note 5.

NOTE 7 – INCOME TAXES:

The Company received permission in November, 1978 from the Internal Revenue Service to change its method of income recognition for tax reporting purposes to the "Completed Contract Method" effective with the Company's taxable year ended July 31, 1978. Upon filing the Company's tax return for 1978, the Company was due refunds of $1,814,000 and estimates a $1,646,000 tax refund for 1979. It is anticipated that these refunds of taxes paid in prior years will be repaid in future periods as the Company's long term contracts are completed. For comparative purposes the accompanying balance sheet and statement of changes in financial position for 1978 have been restated to give retroactive effect to this change in accounting for tax purposes.

The provision for income taxes for the years ended July 31, 1979 – $700,000 and 1978 – $605,000 (net of tax benefits on the discontinued operation of $200,000) are deferred for financial statement reporting purposes and result primarily from the completed contract method of accounting for tax purposes.

The following tabulation sets forth the difference between the statutory and effective income tax rates for the years ended July 31, 1979 and 1978.

	July 31, 1979	July 31, 1978
Federal statutory income tax rate	47%	48%
State income taxes, net of federal tax benefit	5	5
Tax exempt DISC income	—	(15)
Investment credit	(6)	(3)
New jobs credit	(3)	—
Effective income tax rate	43%	35%

NOTE 8 – SHAREHOLDERS' EQUITY:

Changes in Shareholders' Equity during the years ended July 31, 1979 and 1978 are as follows:

	No. of Shares	Common Stock	Additional Paid-in Capital	Retained Earnings
Balance July 31, 1977	1,728,703	$ 172,870	$ 2,802,997	$ 6,529,406
Exercise of stock options and warrants	4,720	472	28,523	—
Net income for the period	—	—	—	1,144,891
Shares issued in connection with the organization of a subsidiary	5,000	500	25,075	—
Shares repurchased and retired in connection with the dissolution of Comtech Advanced Systems, Inc.	(8,050)	(805)	(30,276)	—
Excess of market value over proceeds on shares issuable in connection with the organization of Comtech Data Corp.	—	—	26,714	—
Balance July 31, 1978	1,730,373	173,037	2,853,033	7,674,297
Exercise of stock options and warrants	10,100	1,010	63,678	—
Net income for the period	—	—	—	940,656
Shares repurchased and retired in connection with the resignation of a Comtech Data Corporation employee	(1,100)	(110)	(5,516)	—
Excess of market value over proceeds on shares issuable in connection with the organization of Comtech Data Corp.	—	—	70,438	—
Balance July 31, 1979	1,739,373	$ 173,937	$ 2,981,633	$ 8,614,953

On December 15, 1978, the shareholders approved an increase in the Company's authorized common shares from 3,000,000 to 5,000,000 shares.

NOTE 9 – STOCK OPTION PLANS:

Options to purchase common stock of the Company have been granted under various plans to officers and other key employees. Options granted under the Company's 1970 qualified option plan are at prices equal to the fair market value of such stock on the date of grant and are exercisable over a period of not more than five years. Options granted under the Company's 1976 Incentive Stock Option Plan are at prices which may not be less than 85% of the fair market value of such stock on the date of grant and are exercisable over a period determined by the Board of Directors at the time of grant.

In December 1977, the shareholders approved the Company's Incentive Warrant Plan for directors of the Company who are neither officers nor employees of the Company or its subsidiaries. Under the plan, a maximum of 25,000 shares of common stock were available for grant under provisions to be established at the discretion of a committee of the Board of Directors. Warrants which have been granted under the Plan become exercisable over a period of ten years and are limited to a maximum of 3,750 shares for each qualified director.

At July 31, 1979 and 1978, 182,550 and 62,050 shares, respectively, were available for grant under the plans.

In connection with options issued under the 1976 Incentive Stock Option Plan, the difference between the option price and the fair market value on the date of grant is compensation expense and is charged to operations over the period during which the options become exercisable. The amount charged to expense in 1979 was $10,803. There was no compensation expense in 1978.

In December 1978 the shareholders approved an amendment to the Company's 1976 Incentive Stock Option Plan. The amendment increased the number of shares available for future grants under the Plan by 150,000 and authorized the grant of stock appreciation rights ("SAR's") which will be related to options previously or subsequently granted under the Plan. The SAR's, in general, would entitle the optionee to receive, upon exercise, cash, shares of Common Stock of the Company or a combination of both (as determined by the Committee administering the Plan) equal to the difference between the exercise price of the related option and the market price of the Company's stock on the date of exercise of the SAR. Upon exercise of the SAR's, the related options must be surrendered.

NOTE 9 – STOCK OPTION PLANS (con't):

The following tabulations set forth the activity in stock options and warrants for the years ended July 31, 1979 and 1978.

	July 31,			
	1979		1978	
	Number of Shares	Option Price Per Share	Number of Shares	Option Price Per Share
Qualified Stock Options:				
Outstanding, beginning of the year	65,300	$5.50-12.63	36,050	$4.25-18.13
Granted	—	—	52,000	6.50-12.63
Exercised	(7,500)	5.50- 7.50	(3,300)	4.25- 7.50
Cancelled	(22,000)	6.50-12.63	(19,450)	4.25-18.13
Outstanding, end of year	35,800	6.50-12.63	65,300	5.50-12.63
Incentive stock options:				
Outstanding, beginning of the year	103,530	5.53-11.38	108,600	5.53
Granted	54,500	7.33-10.74	5,000	11.38
Exercised	(2,600)	5.53- 7.33	(1,170)	5.53
Cancelled	(3,000)	7.33- 7.76	(8,900)	5.53
Outstanding, end of the year	152,430	5.53-10.74	103,530	5.53-11.38
Incentive Warrants:				
Outstanding, beginning of the year	14,750	6.50- 7.75	7,500	6.50
Granted	—	—	7,500	6.50- 7.75
Exercised	—	—	(250)	6.50
Outstanding, end of the year	14,750	6.50- 7.75	14,750	6.50- 7.75
Total options and warrants outstanding, end of the year	202,980	$5.50-12.63	183,580	$5.53-12.63
Exercisable, end of the year	105,640	$5.53-12.63	93,220	$5.53- 9.25

NOTE 10 – LINES OF CREDIT:

The Company has agreements with three banks which provide credit lines for working capital and letters of credit of $30,000,000. Of this amount, a maximum of $24,000,000 is available for working capital and a minimum of $6,000,000 is available for letter of credit financing. The interest rate to be charged varies according to each banking agreement, and ranges from the prevailing prime rate to 1/4% over such rate depending upon the individual bank and cumulative bank debt. One bank requires average compensating balances of $300,000 plus 10% of any outstanding borrowings.

Borrowing under these arrangements averaged $2,154,000 during 1979 at an average interest rate of 11%. During 1978, bank borrowing under these arrangements averaged $1,236,000 at an average interest rate of 8.4%. The maximum amounts borrowed under the agreements in 1979 and 1978 were $6,400,000 and $3,500,000 at interest rates of 12.25% and 9.5%, respectively.

NOTE 11 – PROFIT SHARING AND INCENTIVE COMPENSATION PLANS:

The Company has a profit sharing plan covering all eligible employees. The plan, which has been approved by the IRS, provides for the Company to contribute such amounts as the Board of Directors determines. During the years ended July 31, 1979 and 1978, the Board approved contributions of $100,000 which were charged to income.

The Company has an incentive compensation plan for officers and other key employees. Under the plan, an amount equal to 5% of income before income taxes without taking into consideration extraordinary items and before amounts allocated thereunder is payable to selected key employees of the Company. A provision of $87,000 and $87,500 was charged against income in fiscal 1979 and 1978, respectively.

NOTE 12 – DISCONTINUED OPERATION:

In April 1978, the Company discontinued operations of its wholly-owned subsidiary, Comtech Advanced Systems, Inc. and terminated agreements with a group of individuals. The subsidiary had sales in fiscal 1978 of $53,000 and losses from operations, net of applicable income taxes, of approximately $211,000.

NOTE 13 – COMMITMENTS AND CONTINGENCIES:

The Company and its subsidiaries have entered into leasing agreements for manufacturing facilities for a period ranging from 3 to 5 years. The annual rentals under these agreements aggregate approximately $235,000. In addition, the company has entered into equipment leases for periods not exceeding 5 years at an average annual rental of $170,884.

During July, 1978, The Board of Directors approved the purchase of a new manufacturing facility which, prior to such approval, had been leased under a 20 year agreement with annual rentals of approximately $277,000 per annum. Title to the facility was conveyed to the company on September 29, 1978 and has been reflected on the financial statements as of July 31, 1978.

In connection with a contract, as amended, for $26,700,000, the Company was required to establish customary standby letters of credit for 20% of the contract value (which represents an amount equal to the down payment received under the contract). Under the terms of the contract, the letter of credit for the advance payment is reduced as shipments are made against the contract. As of July 31, 1979 and 1978, such reductions amounted to approximately $3,170,000. In addition, the Company is required to establish performance guarantees of approximately $3,400,000.

At July 31, 1978, the Company was required to secure the initial performance guarantee of $1,900,000 with Certificates of Deposit of equal amount. In August, 1978, the Company was released from all requirements under the agreement.

NOTE 14 – QUARTERLY DATA (UNAUDITED):

Quarter	Net Sales	Gross Profit	Net Income (Loss)	Earnings (Loss) Per Share
Fiscal 1979				
First	$ 4,227,178	$ 597,976	($121,955)	($.07)
Second ..	6,533,051	1,115,123	103,953	.06
Third	8,707,154	1,897,793	330,997	.19
Fourth ...	12,997,801	2,440,365	627,661	.34
Fiscal 1978				
First	$ 4,494,743	$1,127,421	$ 41,082	$.02
Second ..	10,662,954	2,042,018	530,800	.30
Third	5,725,410	1,199,118	205,609	.12
Fourth ...	6,905,260	1,458,128	367,400	.20

The Fourth Quarter and the twelve months ended July 31, 1979 reflect the cumulative effect of higher than anticipated costs related to a major contract which was substantially completed by fiscal year end. The cumulative effect of these higher costs was to decrease net income by approximately $690,000 or $.38 per share.

NOTE 15 – SEGMENT INFORMATION:

For the purpose of segment reporting, management considers the Company to operate in one industry, the Communications Equipment industry.

During the Fiscal years ended July 31, 1979 and 1978, approximately 54% and 16% respectively of the Company's revenues resulted from contracts with U.S. Government agencies and prime contractors and approximately 31% and 57%, respectively, resulted from export sales. Sales to Libya accounted for approximately 24% in 1979 and 48% in 1978 of the Company's revenues.

Report of Independent Accountants

To the Board of Directors and Shareholders of
Comtech Telecommunications Corp.

We have examined the consolidated balance sheets of Comtech Telecommunications Corp. (a New York Corporation) and subsidiaries as of July 31, 1979, and July 31, 1978, and the related consolidated statements of income and retained earnings and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of Comtech Telecommunications Corp. and subsidiaries as of July 31, 1979, and July 31, 1978, and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

ARTHUR ANDERSEN & CO.

Huntington, N.Y.
October 17, 1979

Five-Year Summary of Operations

	Year Ended July 31,				
	1975 (A)	1976 (A)	1977	1978	1979
Net sales and other income	$18,399,784	$25,492,915	$19,042,473	$27,788,367	$32,465,184
Costs and expenses:					
Cost of sales	13,722,678	18,095,121	14,328,056	21,961,682	26,413,927
Selling, general and administrative	1,169,838	1,983,210	2,564,604	2,983,985	3,265,899
Depreciation and amortization	314,350	403,509	435,210	510,557	653,565
Interest	158,385	92,027	80,737	170,868	491,137
	15,365,251	20,573,867	17,408,607	25,627,092	30,824,528
Income from continuing operations before income taxes	3,034,533	4,919,048	1,633,866	2,161,275	1,640,656
Provision for income taxes (B)	1,439,075	2,426,500	790,000	805,000	700,000
Income from continuing operations	1,595,458	2,492,548	843,866	1,356,275	940,656
Loss from operation of discontinued subsidiary, net of income taxes of $200,000 in 1978; $70,000 in 1977 (C)	—	—	(63,829)	(211,384)	—
Net income	$ 1,595,458	$ 2,492,548	$ 780,037	$ 1,144,891	$ 940,656
Earnings (loss) per share (D):					
Continuing Operations	$ .95	$1.45	$ .49	$ .76	$ .52
Discontinued Operation	—	—	(.04)	(.12)	—
Net Earnings Per Share	$ .95	$1.45	$ .45	$ .64	$ .52
Average common shares and common share equivalents	1,680,323	1,714,712	1,740,635	1,781,042	1,802,407

(A) Restated to reflect the acquisition of Comtech Antenna Corp. (formerly R.F. Systems, Inc.) which has been accounted for as a pooling of interests.
(B) See Note 7 of the Notes to Consolidated Financial Statements.
(C) See Note 12 of the Notes to Consolidated Financial Statements.
(D) Earnings per share is based upon the weighted average common shares and common share equivalents outstanding during the year. Retroactive effect has been given to the shares issued in connection with the acquisition of Comtech Antenna Corp. (formerly R.F. Systems, Inc.). The effect of full dilution is immaterial.

Management Discussion and Analysis of Summary of Operations

Sales

During the fiscal year 1979 as compared to 1978, sales increased by approximately 17%. This increase is principally due to a higher level of sales under a large contract with the U.S. Government. Sales for the fiscal year 1978 as compared to 1977 increased by approximately 46%. This increase was principally due to a higher level of deliveries on a major contract with the Posts and Telecommunications Corp. of Libya.

Costs and Expenses

Cost of sales as a percentage of sales for fiscal 1979 compared to 1978 increased by approximately 2%. This increase principally reflects the cumulative effect of higher than anticipated costs related to a major contract which was substantially completed by fiscal year end and changes in the mix of sales which generated lower profit margins. Cost of sales for fiscal 1978 compared to 1977 increased by approximately 4%. This increase was due principally to changes in the mix of sales which generated lower profit margins.

Selling, general and administrative expenses in fiscal 1979 compared to 1978, and in 1978 compared to 1977, increased by approximately 9% and 16%, respectively. The increase in 1979 reflects a complete year of expenses associated with the Company's Arizona subsidiary as compared to a portion of the year (four months) during fiscal 1978. The increase in 1978 as compared to 1977 is attributable to higher marketing expenses, increased salaries and related fringe benefits.

Depreciation and amortization in fiscal 1979 as compared to 1978, and 1978 compared to 1977 increased by 28% and 17%, respectively due to the addition of new facilities and equipment.

Interest expense in fiscal 1979 as compared to 1978, and in 1978 as compared to 1977, increased by 187% and 112%, respectively. These increases reflect higher levels of borrowing and higher prevailing interest rates.

The effective income tax rate for fiscal 1979 was 43% as compared to 35% in fiscal 1978. This increase principally reflects the decision during 1979 to provide income taxes on the current year's undistributed earnings of the Company's Domestic International Sales Corporation (DISC) subsidiary which was partially offset by a higher level of tax credit.

Stock Prices

The common stock of Comtech Telecommunications Corp. is traded in the Over-The-Counter market. 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 1979		Fiscal Year 1978	
Quarter	Bid, Low-High	Asked, Low-High	Bid, Low-High	Asked, Low-High
First	7¼-15¾	8-16½	6-8¼	7-9¼
Second	7¼-10¼	8-11	6-8½	7-9¼
Third	8¾-11¾	9½-12½	8½-12½	9¼-13¼
Fourth	9¾-11¾	10½-12½	10½-14	11¼-14¾

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 1979 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 J. Preston Windus, Jr., Secretary-Treasurer, Comtech Telecommunications Corp., 135 Engineers Rd., Smithtown, NY 11787.

Board of Directors

F. Kornberg – Chairman
B. Adler – Business and Engineering Consultant
G. Bugliarello – President, Polytechnic Institute of New York
G. R. Nocita – Consultant to the Company
J. E. Rosenblum
J. A. Tokar – Vice President, Combustion Equipment Associates, Inc.

Officers

F. Kornberg – President and Chief Executive Officer
M. L. Deever – Vice President
J. E. Rosenblum – Vice President
J. P. Windus, Jr. – Secretary/Treasurer

Banks

Chemical Bank
125 Jericho Turnpike
Jericho, N.Y. 11753

The Chase Manhattan Bank, N.A.
1 Chase Manhattan Plaza
New York, N.Y. 10015

Manufacturers Hanover Trust Company
7600 Jericho Turnpike
Woodbury, N.Y. 11797

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

Arthur Andersen & Co.
1 Huntington Quadrangle
Huntington, Long Island, New York 11746

Stock Traded – OTC **NASDAQ Symbol – CMTL**

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Telecommunications Corp.
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COMTECH LABORATORIES
Smithtown, New York

COMTECH DATA CORPORATION
Tempe, Arizona

COMTECH ANTENNA CORP.
St. Cloud, Florida

COMTECH
Telecommunications Corp.

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