COMTECH
Telecommunications Corp.

ANNUAL REPORT '81

Description of Business

Comtech Telecommunications Corp. is engaged principally in the design, development, manufacture, and installation of satellite communication earth stations, related receiving and transmitting subsystems, digital communications equipment, tropospheric scatter and terrestrial, line-of-sight microwave communication stations.

The Company's products are marketed primarily to organizations engaged in satellite, tropospheric scatter, terrestrial, line-of-sight microwave and digital communications, including domestic and international common carriers, domestic and foreign governments and contractors for the foregoing.

Quarterly Stock Price and Dividend Data 1980-1981

Period	High Bid	Low Bid	High Asked	Low Asked	Dividends Per Share
Fiscal Year ended July 31, 1980*					
First Quarter	5¾	3⅜	6⅛	3¾	
Second Quarter	6	3⅜	6⅜	3¾	
Third Quarter	5¼	3	5⅝	3⅜	
Fourth Quarter	4	2⅞	4½	3⅜	
Total for year					None
Fiscal Year ended July 31, 1981					
First Quarter	6	3¾	6⅛	3⅞	
Second Quarter	5⅝	4⅜	5⅞	4½	
Third Quarter	6¾	3⅛	6⅞	3¼	
Fourth Quarter	7⅛	4⅛	7⅜	4¼	
Total for year					None

The common stock of Comtech Telecommunications Corp. is traded on 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 markup, markdown or commissions and do not necessarily reflect actual transactions.

* Stock prices for first, second and third quarters of fiscal 1980 adjusted to reflect 100% stock distribution effective April 15, 1980.

Annual Meeting

The Annual Meeting of Shareholders will be held at 10:00 A.M. Eastern Standard Time, on Thursday, December 10, 1981 at the Holiday Inn, 1740 Express Drive South, Hauppauge, New York.

Form 10-K

A copy of the Company's Annual Report on Form 10-K for fiscal year 1981 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 Secretary, Comtech Telecommunications Corp., 45 Oser Ave., Hauppauge, N.Y. 11788.

TO OUR SHAREHOLDERS AND EMPLOYEES:

During fiscal 1981, we made significant progress in our efforts to be a strong, effective communications equipment and systems supplier. With the perspective gained from the difficulties encountered in fiscal 1980, we have been moving aggressively and decisively to improve Comtech's future and enhance its potential.

For the twelve months ended July 31, 1981, Comtech reported net income of $1,193,898 or $.33 per share on sales of $31,540,096. For the year earlier, a net loss of $10,669,546 or $3.06 per share was reported on sales of $25,284,809.

Results for fiscal 1981 reflect, among other things, the restoration to pre-tax income of $2,551,000 resulting from the expiration or reduction of two letters of credit to a Libyan customer which had been charged against fiscal 1980 operations. Among other things, high interest rates and professional and consulting fees, and a loss from discontinued operations referred to below, had an adverse impact.

Our Comtech Antenna Corp. subsidiary had another loss year and in July, 1981, a decision was made to discontinue its operations. Provision was made for the estimated loss on disposal of these operations, and fiscal years 1981, 1980 and 1979 operating results were reclassified to separately reflect the results from discontinued operations.

Comtech Data Corporation, our relatively young Arizona subsidiary, continued to expand its presence in the marketplace with record sales and, as anticipated, it achieved first time profitability in fiscal 1981. Comtech Data now employs over 100 people, and in the next few months expects to increase significantly its leased operating facility to 46,000 square feet. This digital satellite communications operation represents our most important new business investment over the past few years, and our expectations are beginning to be fulfilled.

Company backlog at the close of fiscal 1981 was $28,127,000 as compared to $40,850,000 at the close of 1980. The decline reflects, in part, a decision to shift Comtech's emphasis away from turnkey systems and toward a "product" orientation.

Keenly aware of a continuing need to effect cost efficiencies, we were able to reduce our Comtech Laboratories work force to approximately 400 people and consolidate its operations in a single facility on Long Island. We are evaluating and acting upon additional measures intended to reduce expenditures and improve cash flow and liquidity—objectives of particular importance at this time.

With liquidity and other considerations very much in mind, the Company recently filed a request for a significant price adjustment of its major U.S. Army Satellite Communications Terminal contract under Governmental procedures (Public Law No. 85-804) relating to extraordinary relief in situations in which a defense contract loss will impair the productive ability of a contractor whose continued performance of the contract is essential to the national defense or in which a contractor suffers a loss on a defense contract as a result of Government action. There can be no assurance as to whether or when any adjustment will be granted.

The major U.S. Army prime contract, awarded in 1978, called for the manufacture and delivery over a period of years of 21 satellite communications terminals for use in the Department of

Defense Satellite Communications Network. This contract served to establish Comtech as an important supplier of satellite earth stations to the U.S. Government. Although it created significant problems with which we have been wrestling for some time, the fixed terminal first article acceptance testing is now behind us and we have delivered four of the systems during fiscal 1981. The remaining terminals are scheduled for delivery over a thirty month period.

Basically, we are continuing along the lines charted earlier, and in doing so have reinforced our ability to compete and produce. Emphasis has been and will continue to be placed on maintaining pace in communications technology, on enhancing our production capabilities as appropriate, and on broadening the scope of our overall business activity within the areas of our expertise.

We have been focusing on the growth expected in satellite and digital data communications during this decade and hope to benefit from our technological position—particularly in transmission of data and television.

For example, Comtech Data has achieved acceptance by satellite common carriers, including American Satellite Company and RCA American Communications; wideband cable data communication users, such as Grumman Aerospace Corp. and Los Alamos Scientific Laboratory, and various telephone companies and private users of microwave data modulation equipment. In the satellite Television Receive Only (TVRO) market, we have become well known to a broad base of consumers, dealers and distributors and we are now in volume production of TVRO receivers. Additionally, we won two significant programs of note. The first was for a complete digital satellite network for emergency voice communications by the State of Arizona. As a result of our efforts, all county seats in Arizona can now communicate with each other via satellite. The other program was for the complete digital subsystem for a potentially large high speed facsimile satellite transmission network for Fairchild Industries. The recent introduction of our lines of Video Receivers and Group Band Modems have also received a very enthusiastic reception in the marketplace. Cable and home TV continue to be fast growing communications markets, and we are taking steps to assure that Comtech plays an increasingly larger role in that market.

We see opportunities for the telecommunications industry and challenges for Comtech within the markets we serve. We see ongoing, open ended opportunities in both commercial and defense communications and expect to continue to supply both these markets.

An important factor in this industry growth is the availability of communication satellites and their in-orbit information capacity. In the U.S. alone, this capacity has grown from approximately 100,000 message channels or 50 television channels in 1975 to over 300,000 message channels or 150 television channels in 1981. About 20 new domestic communication satellites are scheduled to be launched by 1985, increasing the capacity of communication by satellite in the U.S. to over 1 million message channels or 500 simultaneous television channels. This does not include the direct broadcast satellites expected to become operational after 1985. The overall demand for satellite communication earth terminals is projected to grow at a rate of 15% annually, to a level of more than $1 billion in 1985.

Also, the U.S. Defense satellite earth station market is expected to grow steadily at about a 15% annual rate to over $400 million in 1985, primarily as a result of expanded use by the Department of Defense of satellite communications for fixed and mobile land applications and for ships at sea.

During the past few years, we have seen the microwave troposcatter communications market move from a virtual standstill to a multli-million dollar market. We continue to experience strong demand for troposcatter communications systems and equipment for use in major markets in the Mideast, Africa, Asia and South America, as well as by the U.S. Government and NATO. These systems provide a relatively high level of security for defense applications.

In less than ten months our bank borrowings under the Company's secured term loan, the final installment of which is due in December 1982, have been reduced by approximately $1.7 million to $8.7 million and our contingent letter of credit obligations approximately $3.4 million to $2.3 million. While no specific plans have been formulated, the Company recognizes the importance of raising additional capital and is continuing to seek and evaluate opportunities to do so.

In July, 1981, Eugene Trelewicz joined the Company as President of its Comtech Laboratories Division, and as a Vice President of Comtech Telecommunications Corp. Mr. Trelewicz brings to the Company over 20 years of experience in the electronics field. His most recent experience was with Norden Systems, a subsidiary of United Technologies, where he was in charge of the anti-submarine warfare product line.

In December, 1980, we were fortunate to have added Sol S. Weiner to our Board of Directors. Mr. Weiner's background, a career spanning over 38 years, covers a wide range of business endeavors. He is currently a member of the Boards of Directors of Devon Bank and Anthony Industries, Inc.

In May, 1981, we were pleased to elect Milton L. Deever to the Board of Directors of Comtech, increasing its membership to six. Mr. Deever is a Vice President of the Company and President of our Arizona subsidiary, Comtech Data Corporation.

In March, 1981 we reported merger negotiations with Aeroflex Laboratories, Inc. Subsequently Comtech concluded that in connection with these discussions it would be useful to have some indication of the Government's response to Comtech's request for a significant price adjustment of its major U. S. Army Satellite Communications Terminal contract. For this and other reasons we expect that any discussions looking toward a combination of the two companies will be delayed.

This year will once again test Comtech, and while we still see some serious problems ahead, we expect to confront and deal with them to the best of our abilities. We have the people, the products, and the facilities—and are making changes and additions as appropriate. Together we look forward to the opportunities and challenges that lie ahead.

All of us here acknowledge with sincere appreciation the dedicated efforts of our employees and the continued support of our bankers, our suppliers and customers, and our shareholders.

October 26, 1981

Fred Kornberg

Chairman of the Board
and President

Consolidated Balance Sheets

ASSETS

	July 31, 1981	July 31, 1980
Current assets:		
Cash and short term investments (Notes 7 and 10)	$ 1,541,401	$ 1,846,616
Accounts receivable net of allowance for doubtful accounts of $1,011,050 in 1981 and $1,068,637 in 1980 (Notes 1, 3 and 7)	9,769,876	8,919,939
Income taxes receivable (Note 8)	298,840	1,110,191
Inventories (Notes 1 and 4)	5,297,430	5,088,863
Land and building held for sale (Note 6)	1,766,788	—
Other current assets	273,616	426,712
Total current assets	18,947,951	17,392,321
Net assets of discontinued operations (Note 2)	414,208	—
Property, plant and equipment less accumulated depreciation and amortization (Notes 1, 2, 5, and 7)	4,768,802	7,789,297
Non-current receivables (Notes 1, 3 and 7)	188,000	1,487,783
Other assets	380,503	405,323
	$24,699,464	$27,074,724

LIABILITIES AND SHAREHOLDERS' EQUITY

	1981	1980
Current liabilities:		
Notes payable (Note 10)	—	$ 30,000
Accounts payable	$ 2,035,046	4,167,219
Accrued expenses and taxes withheld	1,450,780	1,963,643
Income taxes payable (Note 8)	67,000	—
Advance contract payments received	2,467,164	972,432
Allowance for estimated loss on contracts (Note 1)	3,649,473	5,566,000
Current maturities of long term debt (Note 7)	2,052,378	1,074,360
Total current liabilities	11,721,841	13,773,654
Long term debt (Note 7)	10,123,504	12,059,419
Commitments and contingencies (Note 12)		
Shareholders' equity (Note 9):		
Preferred stock, $.10 par value: Authorized—2,000,000 shares; Issued-none		
Common stock, $.10 par value: Authorized—10,000,000 shares Outstanding—1981—3,557,066; 1980—3,492,946	355,707	349,295
Additional paid-in capital	3,359,107	2,946,949
Retained earnings (deficit)	(860,695)	(2,054,593)
	2,854,119	1,241,651
	$24,699,464	$27,074,724

The accompanying Notes to Consolidated Financial Statements are an integral part of these balance sheets.

Consolidated Statements of Income (Loss)

	Year ended July 31, 1981	1980	1979
Net sales	$31,540,096	$ 25,284,809	$ 30,588,105
Costs and expenses:			
Cost of sales (Note 14)	22,393,801	32,977,830	25,022,266
Selling, general and administrative	3,762,930	4,948,688	2,796,856
Depreciation and amortization	620,742	680,903	579,746
Interest	2,317,345	1,491,085	453,251
	29,094,818	40,098,506	28,852,119
Income (loss) from continuing operations before income taxes	2,445,278	(14,813,697)	1,735,986
Provision (credit) for income taxes (Note 8)	1,197,000	(4,931,064)	744,000
Income (loss) from continuing operations	1,248,278	(9,882,633)	991,986
Discontinued operations (Note 2):			
Loss from discontinued operations, net of tax benefit of $317,600 in 1981, $-0- in 1980 and $44,000 in 1979	(372,780)	(786,913)	(51,330)
Estimated loss on disposal of discontinued operations, including provision of $161,000 for operating losses during phase-out period, net of tax benefit of $227,200	(266,800)	—	—
Income (loss) before extraordinary credit	608,698	(10,669,546)	940,656
Extraordinary credit — reduction of income taxes resulting from tax benefit of net operating loss carryforward (Note 8)	585,200	—	—
Net income (loss)	$ 1,193,898	$(10,669,546)	$ 940,656
Earnings (loss) per share (Note 1):			
Continuing operations	$ .34	$ (2.83)	$ .27
Discontinued operations	(.10)	(.23)	(.01)
Disposal of discontinued operations	(.07)	—	—
Income (loss) before extraordinary credit	.17	(3.06)	.26
Extraordinary credit	.16	—	—
Net earnings (loss) per share (Note 1)	$ .33	$ (3.06)	$ .26

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

Consolidated Statements of Changes in Financial Position (Note 13)

	Year ended July 31, 1981	1980	1979
Financial resources were provided (used) by:			
Continuing operations:			
Net income (loss) from continuing operations	$1,248,278	$(9,882,633)	$ 991,986
Charges (credits) not affecting working capital:			
Depreciation and amortization	620,742	680,903	579,746
Deferred income taxes	—	(4,502,064)	700,000
Total from continuing operations	1,869,020	(13,703,794)	2,271,732
Discontinued operations:			
Loss from discontinued operations	(372,780)	(786,913)	(51,330)
Depreciation and amortization	108,001	97,708	73,819
Estimated loss on disposal of discontinued operations	(266,800)	—	—
Total from operations	1,337,441	(14,392,999)	2,294,221
Extraordinary credit—tax benefit of net operating loss carryforward	585,200	—	—
Increase in long term debt	—	9,870,000	—
Increase in deferred income taxes	—	—	1,716,764
Net proceeds from exercise of stock options and warrants	207,491	46,601	64,688
Retirement of fixed assets, net	113,632	295,918	7,311
Reduction of non-current receivables	1,299,783	1,735,255	—
Increase in additional paid-in capital related to shares issuable under stock purchase agreement	107,378	94,073	70,438
Reclassification of fixed assets of discontinued operations (net)	987,394	—	—
Reclassification of land and building held for sale (net)	1,766,788	—	—
Increase in additional paid-in capital related to shares issuable under stock option agreements	103,701	—	—
Decrease in other assets	24,820	—	—
	6,533,628	(2,351,152)	4,153,422
Financial resources were used for:			
Net assets of discontinued operations	414,208	—	—
Purchase of building and equipment	576,062	1,070,083	1,656,209
Reduction in long term debt	1,935,915	94,566	519,240
Increase in non-current receivables	—	—	2,957,623
Stock repurchases in connection with the organization of a subsidiary	—	—	5,626
Increase in other assets	—	353,170	11,870
	2,926,185	1,517,819	5,150,568
Increase (decrease) in working capital	$3,607,443	$(3,868,971)	$ (997,146)

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

Consolidated Statements of Changes in Shareholders' Equity

	No. of Shares	Common Stock	Additional Paid-in Capital	Retained Earnings (Deficit)
Balance July 31, 1978	1,730,373	$173,037	$2,853,033	$ 7,674,297
Net income for the period	—	—	—	940,656
Exercise of stock options and warrants	10,100	1,010	63,678	—
Shares repurchased and retired in connection with the resignation of a Comtech Data Corp. employee	(1,100)	(110)	(5,516)	—
Excess of market value over exercise price 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
Net loss for the period	—	—	—	(10,669,546)
Shares issued in connection with a 100% stock distribution	1,739,373	173,937	(173,937)	—
Exercise of stock options	14,200	1,421	45,180	—
Excess of market value over exercise price on shares issuable in connection with the organization of Comtech Data Corp.	—	—	94,073	—
Balance July 31, 1980	3,492,946	349,295	2,946,949	(2,054,593)
Net income for the period	—	—	—	1,193,898
Exercise of stock options	64,120	6,412	201,079	—
Excess of market value over exercise price on shares issuable in connection with the organization of Comtech Data Corp.	—	—	107,378	—
Excess of market value over exercise price on options exercisable by employees	—	—	103,701	—
Balance July 31, 1981	3,557,066	$355,707	$3,359,107	$ (860,695)

The accompanying Notes to Consolidated 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. 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, including applicable selling, general and administrative expenses, an immediate provision for the full amount thereof is charged to operations. To the extent the charge exceeds the related inventory balance, the excess is credited to allowance for estimated loss on contracts.

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 approximately $494,000, $680,000 and $520,000 in 1981, 1980 and 1979, respectively.

Income Taxes

The Company provides deferred income taxes for transactions reported in different periods for financial and income tax reporting purposes. Investment tax credits are accounted for as a reduction of income taxes in the year the related asset is placed in service.

Earnings Per Share

Earnings per share are based upon the weighted average common shares and common share equivalents outstanding during the year after giving retroactive effect to a 100% stock distribution declared March 4, 1980. The number of common shares and common share equivalents used in computing earnings per share were 3,673,316, 3,487,131 and 3,604,814 in 1981, 1980 and 1979, respectively. In 1980, the outstanding stock options and warrants were not included since the effect would be anti-dilutive. In 1981 and 1979, the effect of full dilution was immaterial.

Note 2—Net Assets of Discontinued Operations

At July 31, 1981, a plan to restructure the Company's operations was implemented. As part of this plan, a decision was made to discontinue the operations of the Company's subsidiary, Comtech Antenna Corporation. Operations of the large antenna portion of the subsidiary's activity will cease upon completion of its obligations under a current contract. This is estimated to be accomplished by November, 1981. The small antenna operations of the subsidiary will be discontinued upon sale or liquidation of this portion of its business.

All business of the subsidiary noted above has been treated as discontinued operations by the Company at July 31, 1981. Accordingly, the consolidated income statements have been restated to reflect continuing operations for all years presented. The net operating results of discontinued operations and the estimated loss from the disposal of these operations are included in the consolidated statements of income under the caption "Discontinued Operations". Net assets of discontinued operations are presented in the Consolidated Balance Sheets at estimated net realizable value at July 31, 1981. The 1980 Balance Sheet and 1980 and 1979 Statement of Changes in Financial Position have not been restated to reflect the reclassification of the net assets of discontinued operations.

Net sales of discontinued operations for the years 1981, 1980 and 1979 were $1,205,000, $636,000 and $1,877,000, respectively.

The net assets of the discontinued operations at July 31, 1981 consisted of the following:

Current assets	$ 405,734
Current liabilities	154,679
Working capital	251,055
Property, plant and equipment (net)	987,394
	1,238,449
Less:	
Long term debt (mortgage note)	(330,241)
Allowance for loss on disposal	(494,000)
	$ 414,208

Note 3—Accounts Receivable

	July 31, 1981	July 31, 1980
Amount receivable from the United States Government	$ 4,226,924	$ 3,246,248
Unbilled costs and accrued profits on contracts in progress	3,949,647	4,986,453
Amounts receivable from others	2,792,355	3,243,658
	10,968,926	11,476,359
Less:		
Unbilled costs and other amounts receivable in excess of one year	188,000	1,487,783
Allowance for doubtful accounts	1,011,050	1,068,637
	$ 9,769,876	$ 8,919,939

At July 31, 1981 and 1980, $2,725,000 and $4,440,000, respectively, represented retainages, included in unbilled costs and accrued profits, under a large contract with the U.S. Government of which approximately $188,000 and $1,393,000, 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. At July 31, 1981 and 1980, Accounts Receivable did not include any significant amounts of unamortized tooling, learning curve and other deferred costs or claims or other similar items subject to uncertainty concerning their realization. The allowance for doubtful accounts primarily reflects the uncertainty of collection of approximately $944,000 in 1981 and $995,000 in 1980 under a contract with a major foreign customer.

Note 4—Inventories

	July 31, 1981	July 31, 1980
Raw materials and components	$2,588,245	$1,440,670
Work in process	6,495,549	7,921,880
	9,083,794	9,362,550
Less—progress payments	3,786,364	4,273,687
	$5,297,430	$5,088,863

Work in process relating to contracts is expected to be completed over a period of less than twelve months. Raw materials and components inventory in 1981 is net of an allowance for obsolescence of $190,000. At July 31, 1981 and 1980, inventoried costs did not include any significant amounts of unamortized tooling, learning curve and other deferred costs, or claims or other similar items subject to uncertainty concerning their realization.

Approximately 84% in 1981 and 79% in 1980 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

Changes in property, plant and equipment during the years ended July 31, 1981, 1980 and 1979, were as follows:

	Balance at beginning of period	Additions at cost	Transfers, retirements or sales	Balance at end of period
Year ended July 31, 1981				
Land	$ 1,177,806	—	$ (527,806)	$ 650,000
Buildings and improvements	4,433,511	$ 65,208	(2,212,227)	2,286,492
Leasehold improvements	54,239	6,368	(6,524)	54,083
Equipment	5,591,804	504,486	(905,286)	5,191,004
	$11,257,360	$ 576,062	$(3,651,843)(1)	$ 8,181,579
Year ended July 31, 1980				
Land	$ 1,030,982	$ 146,824	—	$ 1,177,806
Buildings and improvements	4,268,469	165,042	—	4,433,511
Leasehold improvements	24,081	30,158	—	54,239
Equipment	5,273,518	728,059	$ (409,773)	5,591,804
	$10,597,050	$ 1,070,083	$ (409,773)	$11,257,360
Year ended July 31, 1979				
Land	$ 840,728	$ 190,254	—	$ 1,030,982
Buildings and improvements	3,818,475	135,087	$ 314,907	4,268,469
Leasehold improvements	286,339	27,521	(289,779)	24,081
Equipment	4,048,394	1,303,347	(78,223)	5,273,518
	$ 8,993,936	$ 1,656,209	$ (53,095)	$10,597,050

(1) Includes assets transferred to "Land and Buildings Held for Sale" (Note 6) and "Net Assets of Discontinued Operations" (Note 2).

Changes in accumulated depreciation of property, plant and equipment during the years ended July 31, 1981, 1980 and 1979 were as follows:

	Balance at beginning of period	Charged to profit and loss	Transfers, retirements, renewals or replacements	Balance at end of period
Year ended July 31, 1981				
Buildings and improvements	$ 413,720	$ 81,048	$(332,609)	$ 162,159
Leasehold improvements	20,253	12,114	(6,524)	25,843
Equipment	3,034,090	527,580	(336,895)	3,224,775
	$3,468,063	$620,742	$(676,028)(1)	$ 3,412,777
Year ended July 31, 1980				
Buildings and improvements	$ 386,101	$ 27,619	—	$ 413,720
Leasehold improvements	7,160	13,093	—	20,253
Equipment	2,410,046	737,899	$(113,855)	3,034,090
	$2,803,307	$778,611	$(113,855)	$ 3,468,063
Year ended July 31, 1979				
Buildings and improvements	$ 190,594	$ 87,237	$ 108,270	$ 386,101
Leasehold improvements	141,795	10,210	(144,845)	7,160
Equipment	1,863,137	556,118	(9,209)	2,410,046
	$2,195,526	$653,565	$ (45,784)	$ 2,803,307

(1) Includes accumulated depreciation of assets transferred to "Land and Building Held for Sale" (Note 6) and "Net Assets of Discontinued Operations" (Note 2).

The lives generally used in calculating depreciation and amortization were:

Buildings and improvements	40 years
Leasehold improvements	Lease Term
Equipment	3-8 years

Note 6—Land and Building Held for Sale

During 1981, a decision was made to dispose of certain assets not essential to operations. Operations in Hauppauge, New York have been consolidated. A building formerly utilized for operations, adjacent undeveloped land, as well as an undeveloped tract of land are being held for sale.

The undeveloped land in Hauppauge, New York was sold on September 9, 1981, and a contract has been executed for the sale of the Hauppauge building. A summary of assets reclassified from property, plant and equipment accounts at July 31, 1981 follows:

Land—Hauppauge, New York	$ 140,000
Land—Tempe, Arizona	190,254
Land, building and improvements—Hauppauge, New York	1,724,727
Gross assets held for sale	2,054,981
Accumulated depreciation on building and improvements	288,193
Book value of land and building held for sale at depreciated cost which is less than estimated realizable value	$1,766,788

Note 7—Long Term Debt

	July 31, 1981	July 31, 1980
Term loan maturing in 1982	$ 9,870,000	$10,420,000
First mortgage, secured by building offered for sale during 1981	420,175	430,328
6.5% Second mortgage indebtedness to the New York State Development Authority payable monthly, maturing in 1981	2,807	41,456
9% First mortgage indebtedness to a bank payable monthly, maturing in 1983	—	345,948
9.5% First mortgage indebtedness to an insurance company payable monthly, maturing in 1992	1,875,821	1,896,047
Other	7,079	—
	12,175,882	13,133,779
Less—portion due within one year	2,052,378	1,074,360
	$10,123,504	$12,059,419

On December 4, 1980, the Company borrowed $10,420,000 pursuant to a Term Loan and Security Agreement with three banks. The proceeds were used to repay demand debt of that same amount due to those banks. The agreement provided the Company with a facility of approximately $5,700,000, equal to the amount of then outstanding letters of credit opened by those banks for the account of the Company. This facility may be used solely for the purpose of financing those letters of credit, in the event they are drawn. Borrowing under this facility will increase the principal amount of the term loan. In addition, the agreement provided for a $1,800,000 credit line for future contract guaranty letters of credit, subject to certain conditions.

The agreement provided for interest on the loan principal outstanding at the rate of two and one-half percent above the prime rate, payable monthly. The Company has pledged substantially all assets, except inventory, as collateral for the loan. The agreement required, among other things, that the Company maintain certain minimum levels of working capital and net worth, prohibited the payment of dividends and placed certain restrictions on purchases of capital equipment, and use of net proceeds from the sale of certain assets (Note 6) and sale of securities. The agreement also required minimum principal repayment of $550,000 at March 31, 1981, $800,000 each at August 1, 1981, March 31, 1982 and August 1, 1982, and $7,470,000 at December 4, 1982.

The August 1, 1981 principal repayment was met. The $5,700,000 of letters of credit were reduced to $2,542,000 at July 31, 1981, and there were no draw-downs of the facility. The $1,800,000 credit line was unused at July 31, 1981.

During fiscal 1981, the mortgagor of a building offered for sale (Note 6) agreed to a month-to-month extension from the original July 7, 1980 due date. The interest rate was renegotiated from 9.4% to 15.5% during the extension period. It is anticipated that proceeds from the sale will be used to repay the mortgage.

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. Since the mortgage applies to the building of a discontinued operation, the liability has been included in "Net Assets of Discontinued Operations" on the 1981 balance sheet.

At July 31, 1981, the aggregate principal amount of mortgages and term debt maturing annually during each of the four fiscal years ending July, 1986 is as follows: 1983—$8,294,000, 1984—$27,000, 1985—$30,000 and 1986—$32,000. Mortgages are secured by land and buildings referred to in Note 5.

Note 8—Income Taxes

Of the $15,600,000 operating loss (prior to the reclassification for discontinued operations) incurred in fiscal 1980, approximately $4,239,000 was carried back to prior years, approximately $7,853,000 was applied to deferred income taxes, and the remaining $3,508,000 was a net operating loss carryforward for financial statement purposes as of July 31, 1980. During 1980, the Company decided to provide for taxes on previously untaxed DISC earnings of $1,479,000.

The income tax provision for the fiscal year ended July 31, 1981 of $652,200 ($1,197,000 less $544,800 tax benefits reflected in Discontinued Operations) represents a charge in lieu of federal and state income taxes, representing taxes which would have been required to be paid in the absence of operating loss carryforwards from fiscal 1980. The income tax benefit resulting from the partial utilization of the net operating loss carryforwards in 1981 is presented as an extraordinary credit totaling $585,200. The balance, $67,000, represents state income taxes currently payable. The net operating loss carryforward for financial statement purposes is approximately $2,400,000 as of July 31, 1981.

Primarily as a result of utilizing the completed contract method of accounting for long term contracts, at July 31, 1981 the Company had available federal income tax loss carryforwards of approximately $8,400,000, expiring in 1995 and 1996, and investment tax credit carryforwards of approximately $100,000 expiring in 1995 and 1996.

The following tabulation sets forth the difference between the statutory and effective income tax rates for the years ended July 31, 1981, 1980 and 1979:

	July 31,		
	1981	1980	1979
Federal statutory income tax (credit) rate	46%	(46)%	47%
State income taxes, net of federal tax benefit	9	—	5
Tax provided on undistributed DISC earnings	—	5	—
Net operating loss carryforward	—	9	—
Investment credit	(3)	—	(6)
New jobs credit	—	—	(3)
Net before extraordinary credit	52%	(32)%	43%
Benefit resulting from utilization of loss carryforwards:			
Federal	(42)		
State	(5)		
Effective income tax (credit) rate	5%	(32)%	43%

Note 9—Shareholders' Equity

CAPITAL STOCK

In 1981, shareholders approved amendments to the Company's Certificate of Incorporation authorizing the issuance of 2,000,000 shares of Preferred Stock of the Company and an increase in the authorized shares of Common Stock from 5,000,000 to 10,000,000 shares.

COMMON 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. The 1970 Qualified Stock Option Plan expired in November of 1980 and no further options may be granted under the plan. 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 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 or (credited) to operations when the options become exercisable. The amount charged (credited) to expense in 1981, 1980 and 1979 was ($38,452), $52,000 and $10,803, respectively. The credit in 1981 arose from the termination of options for which compensation expense had been previously recorded.

In December, 1978, the shareholders approved an amendment to the Company's 1976 Incentive Stock Option Plan. The amendment, after giving effect to the stock distribution in April, 1980, increased the number of shares available for future grants under the Plan by 300,000 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. As of July 31, 1981, no SAR's had been issued.

Under the Company's Incentive Warrant Plan for Directors of the Company who are neither officers nor employees of the Company or its subsidiaries, a maximum of 50,000 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.

The following tabulations set forth the activity in stock options and warrants for the years ended July 31, 1981, 1980 and 1979. All information set forth below has been adjusted to reflect a 100% stock distribution on April 15, 1980:

	July 31,		
	1981	1980	1979
Qualified stock options:			
Shares under option, beginning of year	25,600	71,600	130,600
Options granted (none granted during the past three years)	—	—	—
Options exercised (at an exercise price of $3.25 in 1981 and 1980, and $2.25-$3.75 in 1979)	(12,000)	(4,800)	(15,000)
Options expired/cancelled	(8,800)	(41,200)	(44,000)
Shares under option, end of year	4,800	25,600	71,600
Incentive stock options:			
Shares under option, beginning of year	445,660	304,860	207,060
Options granted (at an exercise price of $3.24-$4.41 in 1981, $2.71-$4.41 in 1980 and $3.67-$5.37 in 1979)	216,500	254,000	109,000
Options exercised (at an exercise price of $2.77-$3.28 in 1981, $2.77-$3.67 in 1980 and 1979)	(30,120)	(9,400)	(5,200)
Options expired/cancelled	(206,140)	(103,800)	(6,000)
Shares under option, end of year	425,900	445,660	304,860
Incentive warrants:			
Shares under warrant, beginning of year	38,500	29,500	29,500
Warrants granted (at an exercise price of $4.69 in 1981, $3.82 in 1980, none issued in 1979)	10,000	10,000	—
Warrants exercised (at an exercise price of $3.25-$3.82 in 1981)	(22,000)		
Warrants expired/cancelled	(2,000)	(1,000)	—
Shares under warrant, end of year	24,500	38,500	29,500
Total warrants and options outstanding	455,200	509,760	405,960
Exercise price of warrants and options outstanding	$2.77-$6.32	$2.71-$6.32	$2.77-$6.32
Total warrants and options exercisable	230,620	185,645	131,357
Exercise price of options and warrants exercisable	$2.77-$6.32	$2.77-$6.32	$2.77-$6.32
Options and warrants available for grant at end of year	130,040	247,200	365,100

With regard to total options and warrants outstanding on July 31, 1981 the following information is provided:

	Number of Shares Subject to Option	Average Option Price Per Share	Range of Option Prices	Expiration Dates of Options
1977 Plan	24,500	$4.03	$3.25-$4.69	10/4/87-1/30/91
1976 Plan	425,900	$3.49	$2.77-$4.84	5/31/87-7/21/91
1970 Plan	4,800	$5.81	$3.25-$6.32	10/4/82-7/25/83
Total	455,200			

As of July 31, 1981 there were 3 employees participating in the 1970 plan, 47 employees participating in the 1976 plan and 4 directors participating in the 1977 plan.

The plans are not subject to any provisions of the Employee Retirement Income Security Act of 1974.

Under an agreement related to the establishment of a subsidiary, 192,200 shares of common stock are reserved for sale at par value to certain individuals upon the achievement by that subsidiary of certain earnings levels defined in the agreement. As of July 31, 1981, such earnings levels have been partially met and approximately 56,200 shares will be issued.

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 milestones has been charged to compensation expense over the estimated period of earnings achievement.

Note 10—Lines of Credit/Notes Payable

During 1980, the Company had agreements with three banks which provided $30,000,000 of credit lines for working capital and letters of credit. The weighted average interest rates for such debt were 17.1% for the four months ended 11/30/80 and 11.5% and 12.25% for the years ended July 31, 1980 and 1979, respectively.

Borrowing under these arrangements averaged $10,428,000 during the four months ended November 30, 1980, $8,235,000 during 1980 and $2,154,000 during 1979. The maximum amounts borrowed under the agreements in 1981, 1980 and 1979 were $10,450,000, $10,450,000 and $6,400,000.

Borrowing at July 31, 1980 and 1979 amounted to $10,450,000 and $6,150,000 at interest rates of 11% and 12¼%, respectively. Subsequent to July 31, 1980, $30,000 was paid out of operations and $10,420,000 was paid from the proceeds of the refinancing described in Note 7. The interest rate on $10,420,000 outstanding at November 30, 1980 was 20%.

Note 11—Profit Sharing and Incentive Compensation Plans

The Company has a profit sharing/retirement plan covering all eligible employees of the Company excluding its Comtech Data subsidiary. 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 year ended July 31, 1979, the Board approved contributions of $100,000 which were charged to income. There were no contributions for the years ended July 31,1980 and July 31, 1981.

The Company has an incentive compensation plan for officers and other key employees. Under the plan, an amount equal to 5% of income as defined in the plan is payable to selected key employees of the Company. There was no provision for the years ended July 31, 1980 and 1981. In 1979, $87,000 was charged to income.

Note 12—Commitments and Contingencies

LEASES

The Company and its subsidiaries have entered into leasing agreements for manufacturing facilities for initial periods ranging from 3 to 5 years. The annual rentals under these agreements aggregate approximately $123,000, of which approximately $70,000, $40,000 and $13,000 will be paid during 1982, 1983 and 1984, respectively. In addition, the Company has entered into equipment leases for periods not exceeding 5 years at an average annual rental of $277,000.

LETTERS OF CREDIT

In connection with the performance of work under certain contracts, the Company is required to establish letters of credit and/or performance guarantees. As of July 31, 1981 and 1980 the Company had outstanding letters of credit and performance guarantees of $2,542,000 and approximately $5,700,000, respectively.

U.S. ARMY SATELLITE COMMUNICATION TERMINAL CONTRACT

The Company has filed a request for a significant price adjustment of this major U.S. Army contract under governmental procedures relating to extraordinary relief in situations in which a defense contract loss will impair the productive ability of a contractor whose continued performance of the contract is essential to the national defense or in which a contractor suffers a loss on a defense contract as a result of government action. There is no assurance whether, or when, an adjustment will be granted.

MERGER NEGOTIATIONS

On March 26, 1981, Comtech reported merger negotiations with Aeroflex Laboratories, Inc. Subsequently, Comtech concluded that in connection with these discussions, it would be useful to have some indication of the Government's response to Comtech's request for the adjustment referred to in the preceding paragraph. For this and other reasons, it is presently anticipated by both companies that any discussions looking toward a combination of the two Companies will be delayed.

Note 13—Working Capital

Changes in the components of working capital were as follows:

	Year Ended July 31, 1981	1980	1979
Increases (decreases) in current assets:			
Cash and short term investments	$ (305,215)	$ 1,616,267	$(2,020,797)
Accounts receivable	849,937	(1,437,941)	4,876,044
Income taxes receivable	(811,351)	(710,809)	(128,335)
Inventories (net)	208,567	(1,532,790)	3,346,996
Land and building held for sale	1,766,788	—	—
Other current assets	(153,096)	169,042	133,750
	1,555,630	(1,896,231)	6,207,658
(Increases) decreases in current liabilities:			
Notes payable	30,000	6,120,000	(4,446,000)
Accounts payable	2,132,173	(2,010,214)	(1,039,175)
Accrued expenses and taxes withheld	512,863	(373,425)	(478,029)
Income taxes payable	(67,000)	—	—
Deferred income taxes	—	129,000	254,000
Advance contract payments received	(1,494,732)	279,259	(1,058,600)
Allowance for estimated loss on contracts	1,916,527	(5,566,000)	—
Current maturity of long term debt	(978,018)	(551,360)	(437,000)
	2,051,813	(1,972,740	(7,204,804)
Increase (decrease) in working capital	$ 3,607,443	$(3,868,971)	$ (997,146)

Note 14—Cost of Sales

At July 31, 1980 the Company had three outstanding letters of credit, totaling $4,976,000, issued in connection wth a contract with the Government of Libya. Due to a contractual dispute with the customer and deteriorating political circumstances between our governments, the Company fully reserved for the $4,976,000 and charged this amount to cost of sales.

During fiscal 1981 the Company negotiated a reduction of one of the Libyan letters of credit, and another expired. Consequently, $2,551,000 was restored to income during 1981 as a credit to cost of sales.

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, 1981, 1980 and 1979, approximately 59%, 62% and 57%, respectively, of the Company's revenues resulted from contracts with U.S. Government agencies and prime contractors of government agencies and approximately 14%, 14% and 32%, respectively, resulted from export sales. In 1979, sales to the Government of Libya accounted for approximately 24% of the Company's revenues.

Note 16—Supplementary Profit and Loss Information

Material amounts charged to expense for legal, professional and consulting fees for the three years ended July 31, 1981, 1980 and 1979 were $1,268,965, $1,015,467 and $630,910, respectively.

Note 17—Reserves

Following is a summary of the activity in reserve and valuation accounts for the years ended July 31, 1981, 1980 and 1979:

	Balance At Beginning Of Period	Charged To Costs and Expenses	Charged To Other Accounts	Deductions	Balance At End of Period
Allowance for doubtful accounts:					
July 31, 1981	$1,068,637	$ 95,104	—	$ 152,691	$1,011,050
July 31, 1980	—	1,068,637	—	—	1,068,637
July 31, 1979	—	—	—	—	—
Allowance for estimated loss on contracts:					
July 31, 1981	$5,566,000	$ 819,352	$1,032,000	$3,767,879	$3,649,473
July 31, 1980	—	5,566,000	—	—	5,566,000
July 31, 1979	—	—	—	—	—
Allowance for inventory obsolesence:					
July 31, 1981	—	$ 190,000	—	—	$ 190,000
July 31, 1980	—	—	—	—	—
July 31, 1979	—	—	—	—	—

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, 1981 and 1980, and the related consolidated statements of income (loss), changes in shareholders' equity and changes in financial position for each of the three years in the period ended July 31, 1981. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The Company incurred a loss from continuing operations before income taxes of $14,813,697 in 1980 and reflected income from continuing operations before income taxes of $2,445,278 in 1981. As more fully described in Note 14, 1981 included a credit of $2,551,000 representing the reversal of reserves established in 1980 that were no longer required. Realization of the amounts at which the assets included in the accompanying balance sheets are carried is subject to the success of future operations.

In our opinion, subject to the realization of the amount at which assets are carried as discussed in the preceding paragraph, the consolidated financial statements referred to above present fairly the financial position of Comtech Telecommunications Corp. and subsidiaries as of July 31, 1981 and 1980, and the results of their operations and the changes in their financial position for each of the three years in the period ended July 31, 1981, all in conformity with generally accepted accounting principles applied on a consistent basis.

We have also examined the consolidated balance sheets as of July 31, 1979, 1978 and 1977, and the consolidated statements of income, shareholders' equity and changes in financial position for the years ended July 31, 1978 and 1977 (none of which are presented herein), and we expressed an unqualified opinion on those financial statements. The selected financial data for each of the five years in the period ended July 31, 1981, appearing on page 20, have been derived from the financial statements that we have examined.

ARTHUR ANDERSEN & CO.

Huntington, NY
September 22, 1981.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Liquidity and Capital Resources

In fiscal 1979, funds required to meet the Company's operating and capital needs were provided mainly by cash generated from operations. In fiscal 1980, the Company sustained substantial operating losses which were funded primarily under the bank credit facilities then available to the Company.

On December 4, 1980, the Company borrowed $10,420,000 from three banks pursuant to a Term Loan and Security Agreement (Note 7 to the Consolidated Financial Statements), the proceeds of which were used to repay demand debt owed to these banks. As collateral for the loan, the Company pledged substantially all of its assets except inventory. Among other things, the Agreement requires that fifty percent of the net proceeds of any sale of securities as well as fifty percent of the net proceeds from the disposition of certain assets will be applied to repay the term loan. The Agreement also requires minimum principal repayments of $550,000 at March 31, 1981, $800,000 each at August 1, 1981, March 31, 1982 and August 1, 1982, and $7,470,000 at December 4, 1982. Interest at 2½ percent over prime is payable monthly.

The Agreement also provides for a facility which may be used solely for the purpose of refinancing payments under outstanding letters of credit which, as of July 31, 1981, amounted to $2,542,000. Any borrowings under this facility will increase the principal amount of the term loan. In addition, the Agreement provides for a $1,800,000 credit line for future contract guaranty letters of credit, subject to certain conditions.

During 1981, the Company used funds provided from operations to meet operating and capital needs, interest payments and the March 31 and August 1, 1981 debt repayments. During 1981, the Company reduced its staff by approximately 15%, instituted cost reductions and made decisions to discontinue unprofitable operations and dispose of certain assets not essential to operations (Notes 2 and 6, respectively, to the Consolidated Financial Statements). These latter two decisions are expected to generate net proceeds of approximately $1,700,000, which will be used to meet the $800,000 March, 1982 loan repayment and provide approximately $900,000 for working capital purposes. A portion of such funds may later be used for the $800,000 August, 1982 loan payment.

On May 15, 1981, the Company filed a request for 100% progress payments (currently at 85%) under its U.S. Army Satellite Communication Terminal contract, and on October 2, 1981, the Company filed a request for a significant price adjustment of this contract (Note 12 to the Consolidated Financial Statements). During September, 1981, the Company received informal notification of approval of its request for 100% progress payments. The increased cash flow from these increased progress payments is expected to improve short-term liquidity. An upward price adjustment of the U.S. Army contract would beneficially impact future operations and future cash flow. However, there is no assurance whether or when any adjustment will be granted.

The Company presently has major commitments for purchases of materials and components under customer orders. Funds for these purposes are to be provided from progress payments due the Company under these orders.

Management believes that successful completion of the cost reduction and asset disposition steps described above and the generation of funds from continuing operations should enable the Company to finance its operating needs and debt repayment in fiscal 1982. A significant upward price adjustment of the Company's U.S. Army contract should also enable the Company to repay the balance of its Term Loan in fiscal 1983. In the event the Company is unable to obtain sufficient funds from the sources described, it will seek to refinance its term obligations and pursue new sources of funds. The Company expects that it will continue to evaluate opportunities to raise additional capital.

Results of Operations
1981 Compared to 1980:

Sales increased 25% due mainly to strong growth of video receiver sales, and completion of two major contracts for earth station installations.

Cost of sales decreased 32% primarily because fiscal 1980 reflects the impact of realizing higher than anticipated costs on several fixed price contracts and reserves taken for letters of credit, whereas fiscal 1981 reflects a credit for the restoration to income of certain of these letters of credit which subsequently expired or were reduced. Net of these items, cost of sales ratio approximates historical ratios.

Selling, general and administrative expenses decreased 24% principally because fiscal 1980 included the impact of a major provision for bad debts on Accounts Receivable.

Depreciation and amortization expense declined 9% due to reductions in purchases of capital equipment and retirement of assets held for sale.

Interest expense increased 55% due mainly to significantly higher interest rates.

Fiscal 1981 reflects a provision for income taxes compared to a credit for fiscal 1980, because fiscal 1981 reflects a profit compared to a 1980 loss. The tax credit reported in 1980 represented the maximum benefit available for that period.

The fiscal 1981 loss from discontinued operations and loss from disposal of discontinued operations results from a decision to discontinue the operations of Comtech Antenna Corp.

1980 Compared to 1979:

Sales decreased 17% principally due to delivery delays. Cost of sales increased 32% primarily due to the cumulative impact of realizing higher than anticipated costs on several fixed price contracts and reserves taken for letters of credit.

Selling, general and administrative expenses increased 77% due mainly to the impact of a major provision for bad debt on Accounts Receivable, and significant increases in charges for professional and consulting fees.

Depreciation and amortization expense increased 18% due to the purchase of new facilities and equipment.

Interest expense increased 229% due to significantly higher levels of debt and increasing rates of interest.

Selected Financial Data
Year ended July 31,

	1981	1980	1979	1978	1977
Net sales	$31,540,096	$25,284,809	$30,588,105	$24,214,043	$16,677,256
Income (loss) from continuing operations	$ 1,248,278	$(9,882,633)	$ 991,986	$ 1,450,559	$ 782,223
Income (loss) from continuing operations per common share	$.34	$(2.83)	$.27(1)	$.41(1)	$.22(1)
Total assets	$24,699,464	$27,074,724	$30,357,486	$18,235,667	$14,446,493
Long term debt	$10,123,504	$12,059,419	$ 2,283,985	$ 2,803,225	$ 601,599

There have been no cash dividends declared on the Company's Common Stock.

(1) After giving effect to a 100% stock distribution declared March 4, 1980.

Board of Directors

F. Kornberg—Chairman of the Board
B. Adler—Business and Engineering Consultant
G. Bugliarello—President, Polytechnic Institute of New York
M. L. Deever—Vice President, Comtech Telecommunications Corp.
F. Marx—Telecommunications Consultant
S. S. Weiner—Management Consultant

Officers

F. Kornberg—President and Chief Executive Officer
M. L. Deever—Vice President
E. Trelewicz—Vice President
B. A. Nathan—Secretary

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

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200 Park Avenue
New York, New York 10166

Independent Accountants

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

Registrar and Transfer Agent

Chemical Bank
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New York, New York 10041

Stock Traded—OTC **NASDAQ Symbol—CMTL**

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