1983 ANNUAL REPORT

COMTECH

TELECOMMUNICATIONS CORP.

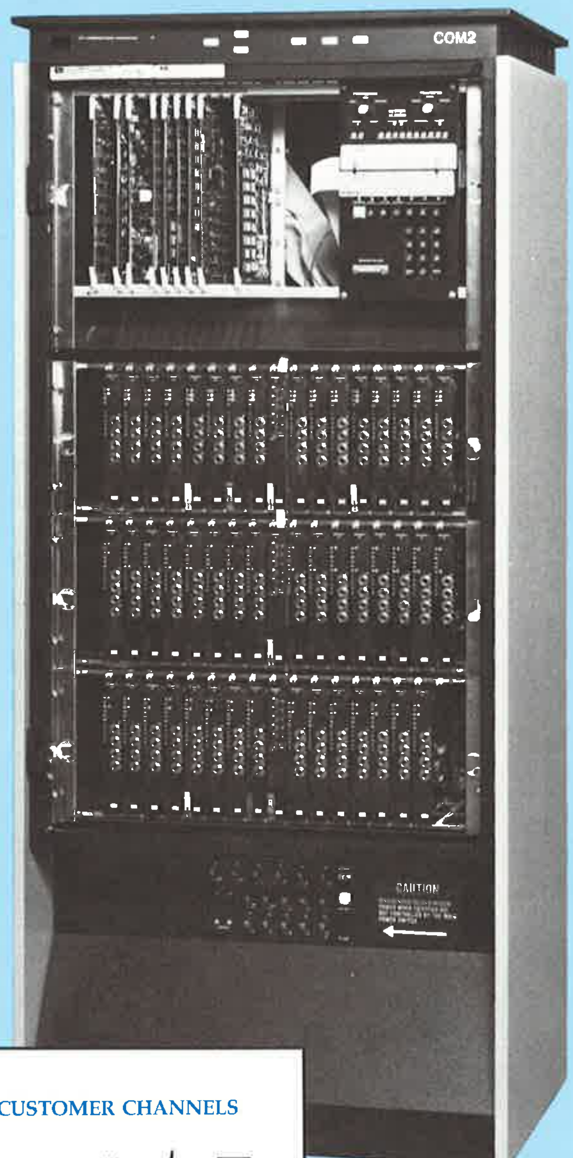
Comtech Communications Corp.

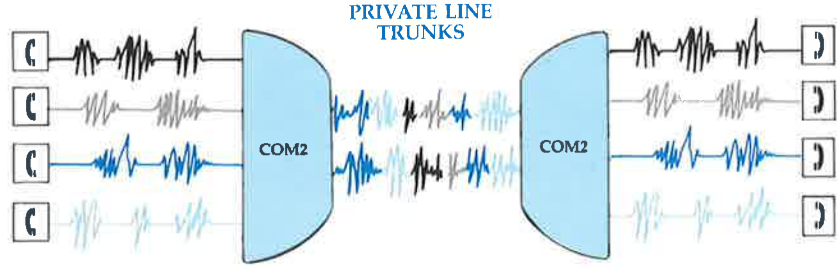
One of the highlights of this past year was the acquisition of the COM2 product line from STC Communications Corp. through the Company's newly formed Comtech Communications Corp. subsidiary. The COM2 product line consists of microprocessor-controlled telephone voice concentrating/multiplexing and related equipment which increases the signal traffic capacity on existing dedicated telephone lines by an approximate two-to-one ratio.

In line with our corporate strategy, Comtech Communications Corp. provides entry into the end user/subscriber segment of the telecommunications market, and a potential significant expansion of the Company's communications equipment business. The technology acquired has broad application in the rapidly growing digital signal processing market.

By means of a time assignment speech interpolation (TASI) interleaving technique (depicted below), COM2 digitally "packs" or concentrates additional telephone conversations into the pauses that occur during normal conversation. In a typical two-way telephone conversation, speech takes up less than half the time. The balance consists of periods of silence as the party on one end listens to the party at the other end. This interleaving process literally fills the periods of silence with speech from other conversations, making it possible to achieve close to 100% simultaneous utilization of a dedicated telephone line, or groups of dedicated telephone lines.

In addition to the economies offered by increasing existing line capacity, the COM2 features an automatic diagnostic and malfunction alarm system, and a management reporting system that provides the user with information on telephone line usage (traffic by channel, by hour), call characteristics (voice, data or facsimile), and the history and results of the system's diagnostic activities.





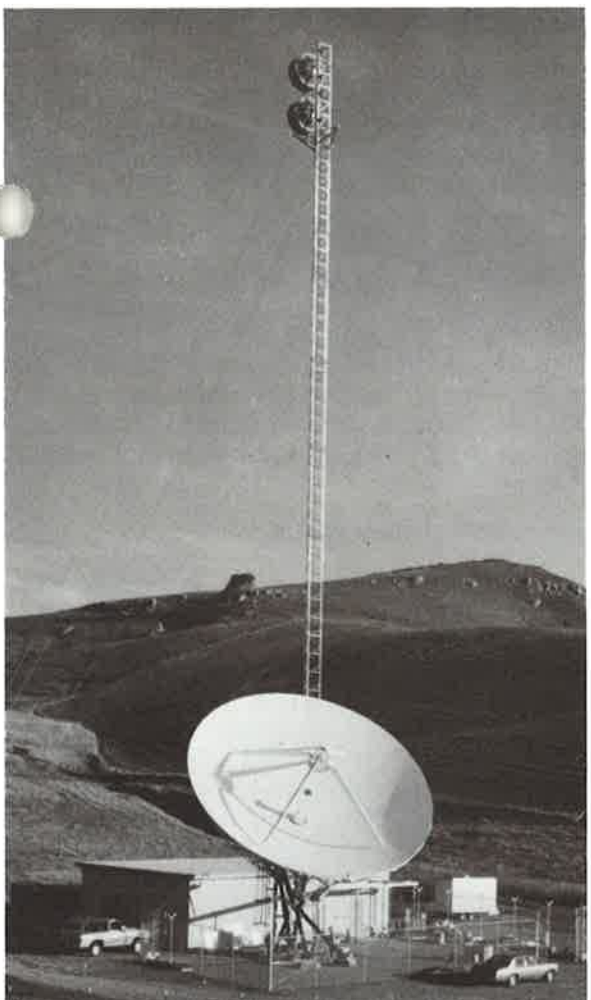
THE COM2 MULTIPLEXES UP TO 62 SIMULTANEOUS TELEPHONE CONVERSATIONS ON 32 LEASED TRUNK LINES

FINANCIAL HIGHLIGHTS

	Year ended July 31, 1983	1982	1981
Net Sales	**$36,589,000**	$33,487,000	$31,669,000
Income From Continuing Operations	**$ 1,366,000**	$ 1,499,000	$ 1,188,000
Income From Continuing Operations Per Common Share	**$ .35**	$ .40	$ .32
Working Capital	**$18,159,000**	$ 5,620,000	$ 7,260,000
Shareholders' Equity	**$10,042,000**	$ 5,625,000	$ 2,854,000

This Selected Financial Data should be read in conjunction with the Notes to Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations.

ABOUT THE COMPANY



Comtech Telecommunications Corp. designs, develops, manufactures, and markets a wide range of products and systems serving the telecommunications industry. Through its principal operating units, the Company provides products and services to the End User/Subscriber and Transmission segments of the overall telecommunications marketplace.

The Company manufactures component level products, functional equipment, and complete systems used by domestic and international common carriers, specialized service common carriers, private business and industry communication networks, defense contractors, and the United States and foreign governments. The product line includes satellite, troposcatter, and line-of-sight microwave systems; analog and digital transmission equipment; digital subsystems for satellite, cable, and wire communications; fiberglass antennas; special application antennas and antenna feeds; derived voice channel systems; and a wide complement of standard and specialized microwave components. Due to the diversity of product line, the Company markets the majority of its functional equipment on an individual basis as well as an inherent part of Comtech supplied systems.

TO OUR SHAREHOLDERS AND EMPLOYEES:

COMTECH TODAY IS

- a financially-strengthened enterprise
- managed by an aggressively entrepreneurial team
- leading more than 700 motivated men and women
- operating 6 principal subsidiaries and divisions
- in more than 300,000 square feet of plant space located in 4 states
- manufacturing and supplying state of the art communications products including — satellite earth stations — tropospheric scatter networks — line-of-sight microwave systems — digital and analog products for telephone, facsimile and video transmission — microwave components for radar, missile, communications, telemetry and submarine systems — microprocessor controlled voice concentrating/multiplexing devices permitting expanded use of telephone lines
- to common carriers and countries around the world and a long list of Fortune 500 companies

In short, we believe that **Comtech Today Is** a balanced combination of human and financial resources brought together in a technologically diversified corporate environment.

We are pleased to report that what **Comtech Today Is** reflects, to a significant degree, strategic moves vigorously implemented during this past year. Specifically, key forward-looking actions were taken in the areas, among others, of acquisitions, financings and banking and management team enhancements. Here are some of the highlights:

Acquisitions

- In January, Comtech completed the acquisition of Premier Microwave Corporation for approximately $3.9 million in cash. Premier is an established company making quality microwave components for the telecommunications and defense markets. The acquisition provides Comtech with substantial penetration into new markets and good opportunities to include Premier's state-of-the-art components in other systems and products of the Comtech group of companies.
- In July, through Comtech Communications Corp., we acquired operating assets and technology relating to the COM2 product line of STC Communications Corporation, a subsidiary of Storage Technology Corporation, for an aggregate purchase price of approximately $8.6 million in cash and notes plus a five-year warrant to purchase 450,000 shares of Comtech common stock at $12 per share. COM2, which digitally concentrates several conversations into the pauses and spaces of normal telephone conversations, places us solidly, and for the first time, in the digital signal processing end user/subscriber segment of the telecommunications market. There are currently more then 1500 COM2 systems installed in 18 countries around the world.
- In October, through Comtech Communications Corp., we purchased the Linatel TS-120 Subscriber Loop Switching product line of Allied Informations Systems, an Allied Corporation company. The TS-120 Subscriber Loop Switching System is an extremely flexible computer-controlled device that offers customers the ability to use, at remote locations, the powerful features of their main PBX. With the addition of the TS-120 product line, Comtech Communications Corp. has significantly expanded its ability to address the diverse requirements of the rapidly growing digital signal processing market.

Financings And Banking

- In January, Comtech entered into banking relationships with National Westminster Bank USA (formerly National Bank of North America), Marine Midland Bank and Barclays Bank of New York, establishing the availability of a $6 million revolving line of credit convertible into a term loan, and a $6 million letter of credit line relating to bid and performance bonds.
- In February, Comtech sold to the public through Drexel Burnham Lambert Incorporated $10 million principal amount of 13% Subordinated Notes due February 1, 1991 and 800,000 warrants each entitling the holder to purchase one share of the Company's common stock at $11.
- In August, Comtech completed through Drexel a public offering of 750,000 shares of its common stock at $8.50 per share.

Management Team Enhancement

- During the last several months we have been making important additions to our management team. Richard H. Miller joined us as President of Comtech's Government Systems Division, after having been Vice President and General Manager of the Florida Tactical Satellite Terminal Operations of Harris Corporation. Leonard Kardon continued as President of Premier Microwave Corporation, a position he held for more than 35 years before Premier joined the Comtech family. William R. McEwen, Jr. was selected as President of Comtech Communications Corp., our new Colorado-based COM2 operation. He had been General Manager, U.S. Operations, of Modular Computer Systems, Inc. since 1981. Walter J. Gordon became President of Comtech Microwave Corp. after being Director - Operations and Engineering of T-Cas, Inc.

* * *

During the fiscal year Comtech expended more than $1.6 million of its own funds on research and development, the largest amount it has ever spent for such purposes. This is in addition to the cost of research and development efforts related to specific contracts which are recoverable under those contacts.

Additionally, Comtech has been continuing to implement computerized information systems designed to provide sophisticated assistance in the management of our increasingly diverse and complex enterprise.

* * *

While last year included a number of major accomplishments, we still have our work cut out for us. In this connection, we would like to note two specific areas —

We are enthusiastic about the acquisition of the COM2 product line, the technology involved, the markets served, the quality of the product, the potential of other products under development, and the people charged with the responsibility of building Comtech Communications Corp. We view this as a superb opportunity with significant possibilities. However, while we have high long-term expectations, we recognize that our people are in the process of creating a new company, and with this comes attendant start-up costs and uncertain-[illegible]

Continued attention is being given to the Government Systems Division so that it may again become an important contributor to Comtech. We have no doubt that the market is there, and we confidently expect that with time, this will be accomplished.

* * *

Elsewhere in this Annual Report we provide summary and detailed financial data, a discussion and analysis of financial information, and descriptions and detail about Comtech's operations. We urge you to give this material your close attention because **Comtech Today Is,** in many respects, dramatically different from Comtech Yesterday.

Beyond that, many of the achievements of Comtech Tomorrow which we believe possible will flow from the activities described throughout this Report.

Both internal and external developments and growth have allowed us to present to you a company of much greater diversification than ever before — reflecting not simply a plan designed for balance and safety, but a strategic approach toward establishing and maintaining a presence in some of the most exciting markets of today and tomorrow. We are determined to continue this process.

Fred Kornberg,
Chairman of the Board & Chief Executive Officer

George A. Reed
President & Chief Operating Officer

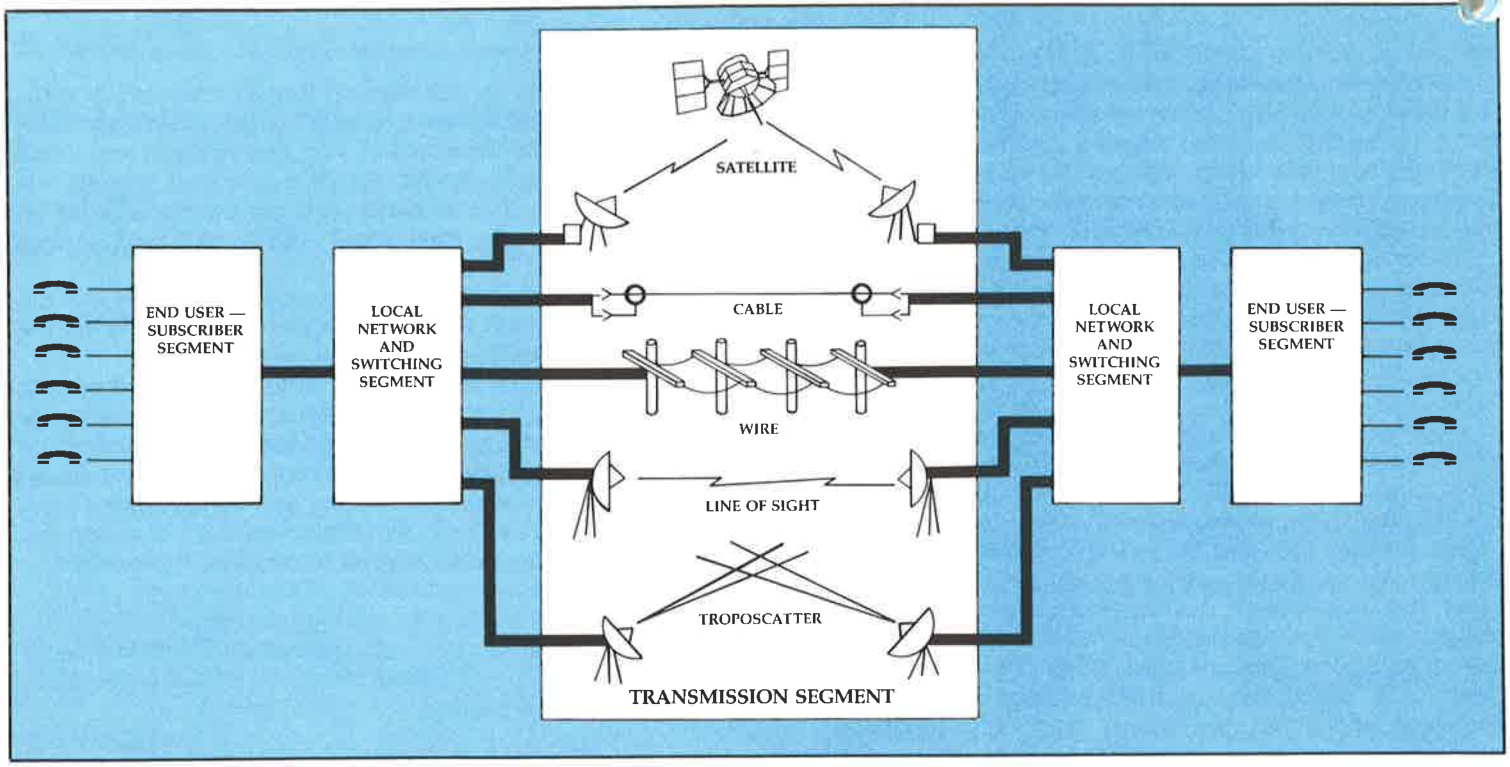
October 4, 1983

George A. Reed

Fred Kornberg

COMTECH TODAY

THE OVERALL TELECOMMUNICATIONS MARKETPLACE



Today's telecommunications markets are undergoing significant change, creating exciting opportunities for companies capable of applying innovative engineering and creative technology to communications needs. Comtech has developed, and continues to develop, the resources necessary to meet the challenges of the markets we serve.

As a company we are very active in the commercial, business, and government defense communications areas. The overall telecommunications market can be segmented into three broad categories:

- End user or subscriber on-premise equipment
- Local network and switching
- Long distance intercity transmission

Over the years, Comtech has derived a significant portion of its business in the long distance intercity transmission segment of the market. This market segment provides information exchange from point-to-point, or broadcast point-to-multipoint distribution, regardless of the type of information processed, i.e. video, telephony or business data.

Initially a single product supplier, the Company concentrated on developing the products and capabilities necessary to address the demand for total communication systems; namely satellite, troposcatter and line-of-sight microwave. In addition to developing the technology necessary to supply the majority of key electronics comprising these systems, a new line of digital products was developed to address the growing demand for data and other forms of digital communications. Today, Comtech's objectives are to complement these capabilities with new products and services in areas that serve as a logical extension of our business as well as offer substantial opportunities for the future.

In line with our corporate strategy, Comtech Communications Corp., Comtech's new Colorado-based subsidiary, provides us with a market entry into the end user/subscriber segment of the telecommunications market. Their product line makes an important contribution to our technology base with voice concentrators which offer substantial economies to customers with heavy telephone traffic. We see a number of areas where this subsidiary, coupled with Comtech Data Corporation will be able to supply products and networks to this market segment. Similarly, the acquisition of Premier Microwave Corporation firmly establishes Comtech as a component supplier to original equipment manufacturers, systems suppliers, and the U.S. Government. Premier's products essentially provide a third tier of technology — adding component level products to Comtech's well-established equipment and systems capabilities.

PRINCIPAL MARKETS

Crossing the lines of the overall telecommunications marketplace, Comtech operates in a wide spectrum of specific market segments with a fully diversified product line. As a whole these segments are enjoying a comparatively high rate of growth. Industry sources have estimated these segments as having a compound annual growth rate of approximately 15%, ranging from a total of $3.5 billion dollars in 1983 to an anticipated $6 billion dollars by 1987.

Principal Markets

- Satellite Communications
- Troposcatter Communications
- Microwave Line-of-Sight Communications
- Digital Communications
- Cable and Wire Communications
- Defense Communications
- Microwave Products and Components
- Derived Voice Channel Products

CUSTOMER BASE

The diversity of products Comtech provides in these markets has helped establish a broad domestic and international customer base, ranging from private industry and common carrier through government. Products and systems bearing the Comtech logo are currently in operation in over 120 countries throughout the world. The addition of the Premier Microwave and Comtech Communications subsidiaries to our Comtech family adds a long list of additional customers, including various agencies of the U.S. Government and Fortune 500 companies.

Customer Base

- Common and Specialized Carriers
- AT&T Long Lines and Bell Operating Companies
- Independent Telephone Companies
- International Government Telephone Agencies
- Business, Commerce and Industry
- Public Service Networks
- Entertainment Networks
- Intelsat/Comsat
- U.S., NATO, and Free World Governments
- U.S. and Foreign Prime Contractors

OPERATIONS

Comtech, as a broad based supplier of telecommunications products and systems, is organizationally decentralized along market lines. The Company is currently divided into six principal operations, each self-reliant and spearheaded by entrepreneurial executive leadership. Although the highest levels of autonomy are maintained, the various subsidiaries comprising the Company function in a cooperative environment, drawing upon the technical resources and products inherent to each. Through a pooling of the variety of diverse, but complementary areas of concentration, each subsidiary realizes an extension of technology and product base ultimately beneficial to both Comtech and our customers.

Operations

- Comtech Data Corporation
- Comtech Communications Corp.
- Comtech Government Systems
- Premier Microwave Corporation
- Comtech Microwave Corp.
- Comtech Antenna Corp.

COMTECH DATA CORPORATION

Now charged with addressing totally the commercial satellite communications market for the Company, Data continued to expand its presence in the rapidly growing market for digital technology. Its principal markets include domestic and international common carriers, and satellite, telephone and cable networks serving business, state governments and local area networks — providing distribution of voice, data, radio and television programming.

Development highlights this year included a complete line of products used for radio network satellite distribution. The first such network installed was the analog Arkansas Radio Network of 85 affiliates. In addition a digital transmission DART-384 high fidelity radio terminal, to be used by ABC, NBC, RKO and CBS affiliates, was successfully demonstrated and initial orders received.

Products and Systems
For Commercial Satellite, LOS Microwave, Cable, Local Area Network, and Telephone Communications

- Digital and Analog Satellite Earth Stations and Equipment
- Radio and Video Broadcast Satellite Distribution Networks
- Microwave Data Distribution
- Local Area Broadband Computer Distribution
- Telephone Bypass Networks
- Modems For High Speed Digital Satellite, Troposcatter, Cable and Telephone Transmission
- Digital Forward Error Correction Encoders and Decoders

COMTECH GOVERNMENT SYSTEMS

Comtech Government Systems designs and manufactures communication systems and equipment primarily for government/defense applications. The Division also has a turnkey capability that ranges from system and network planning through equipment and system design, system integration and installation, personnel training and operation and maintenance programs. Its products and services are marketed to agencies of the U.S. Department of Defense, NATO, free-world defense commands, industrial users and other prime contractors.

On-going programs include the U.S. Army AN/GSC-39 satellite terminals and the AN/GRC-144 digital microwave radio. The customer base was expanded this year with the addition of a development program from RADC and the award from Conoco for a system utilizing our new digital troposcatter radio for offshore oil platform communications.

Systems and Products For
Defense and Government Communications

- Satellite Earth Stations and Equipment
- Troposcatter Systems and Equipment
- Digital Line-of-Sight Microwave Systems and Equipment
- Digital C^3I Signal Processing and Acquisition Systems

COMTECH COMMUNICATIONS CORP.

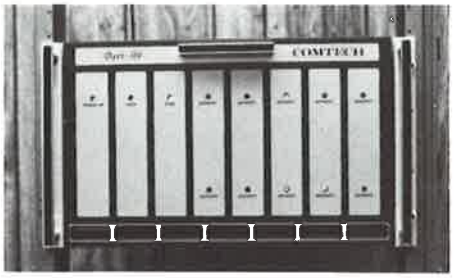
Comtech Communications Corp. specializes in the design and manufacture of microprocessor-controlled derived voice channel products which permit the user to essentially double signal traffic on existing leased telephone lines. This principal product line, the COM2, is available in several configurations to accommodate various levels of signal traffic and line capacity.

The marketplace for the COM2 product line includes both end users and common carriers, domestic as well as international. There are currently more than 1500 COM2 systems in 18 countries throughout the world, installed at a variety of public entities, private businesses, institutions and organizations which seek economic benefit by optimizing voice line capacity.

The Company is now developing products to meet the new digital services soon to be offered by AT&T and the independent operating companies.

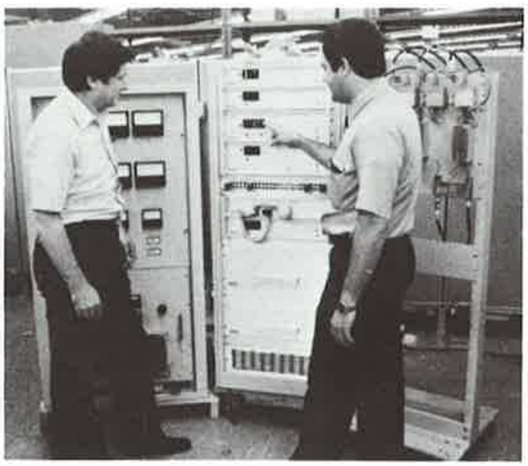
Digital and Analog Signal Processing
and Derived Voice Channel Products

- TASI Voice Line Multipliers
  (COM2 Microprocessor-Controlled Voice Concentrators/Multiplexors)
- Digital TASI Voice Line Multipliers with T1 Interface
- ADPCM Digital Transmission Transcoder/Multipliers
- Echo Cancellers
- Subscriber Loop Switching Systems



Dart Terminal

Comsat Switching System



Digital Troposcatter System

AN/GRC-144 Digital Radio

COM2/Echo Cancellor Demonstration

Advanced Software Programming

PREMIER MICROWAVE CORPORATION

Since joining the Comtech family, Premier's business has continued to consist principally of the design and manufacture of waveguide, coaxial and stripline microwave components, and the supply of its products and services to the U.S. Government, prime contractors and subcontractors doing business with the U.S. Government, and original equipment manufacturers for systems employing microwave technology.

An important part of Premier's business continues to be for components of on-going systems in which the Company has developed a recognized capability, such as antennas for "Sparrow" missiles, millimeter components for periscope radars, high power rotary joints for shipboard radar, microwave packages for airborne navigation radar, and filters for "Lamps" helicopter radar.

Microwave Products For Communications, Radar, Missile, Telemetry and Submarine Applications

- Signal Combining Devices — Mixers, Duplexers, Diplexers
- Signal Coupling Devices — Directional Couplers, Rotary Joints, Switches
- Signal Selective Devices — Filters, Discriminators, Preselectors
- Signal Conditioning Devices — Attenuators, Isolators, Phase Shifters
- Antenna and Antenna Feeds

COMTECH MICROWAVE CORP.

The principal product line of Comtech Microwave, low noise amplifiers, has been an important part of the Company's product line since its formation in 1967. These amplifiers are in use in more than 120 countries in satellite stations carrying millions of telephone, television, and data circuits. The markets for Microwave's products include satellite and troposcatter communication systems for commercial and defense applications, earth stations monitoring telemetry data from deep space probing vehicles, electronic intelligence systems, radio astronomy and similar demanding applications where uncompromized high performance is required.

On-going programs include X-Band low noise amplifiers for U.S. Army and NATO strategic satellite communications. Newly developed products include a Ku-Band low noise amplifier and X-Band microprocessor-controlled Up and Down Frequency Converters.

Low-Noise and Power Amplifier Products and Systems For Satellite, LOS Microwave, Troposcatter Communications

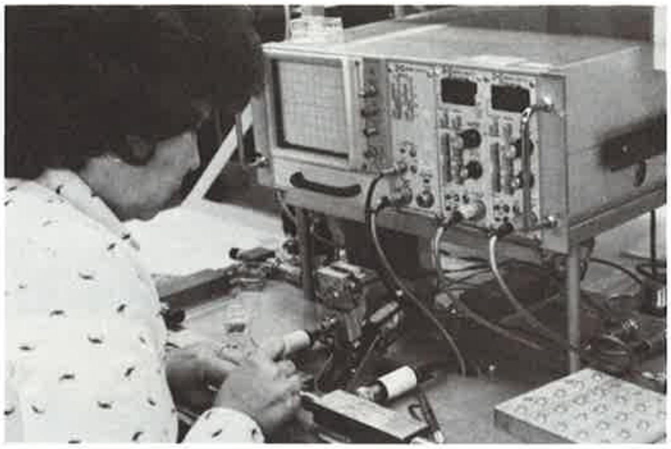
- Cryogenically Cooled Parametric Amplifier Systems
- Thermoelectrically Cooled GaAs Fet and Parametric Amplifiers
- GaAs Fet Power Amplifiers
- Microprocessor-controlled Frequency Converters
- Satellite Earth Station Test Instrumentation

COMTECH ANTENNA CORP.

Comtech Antenna Corp. designs and manufactures antennas, antenna feeds and related components for application in receive-only and receive-transmit satellite communications earth stations. This subsidiary's three- to seven-meter fiberglass antennas are used in systems manufactured by Comtech Data Corporation, and are also sold directly to other prime contractors serving the satellite communications market. Recent additions to the antenna product line include fully transportable 3.8 and 5-meter fiberglass antennas, complete with trailer; a multi-feed antenna system capable of receiving signals simultaneously from up to three independent satellites spaced 8 degrees apart; and a 7.3 meter antenna with a special mount enabling coverage of orbiting satellites from any location in the United States.

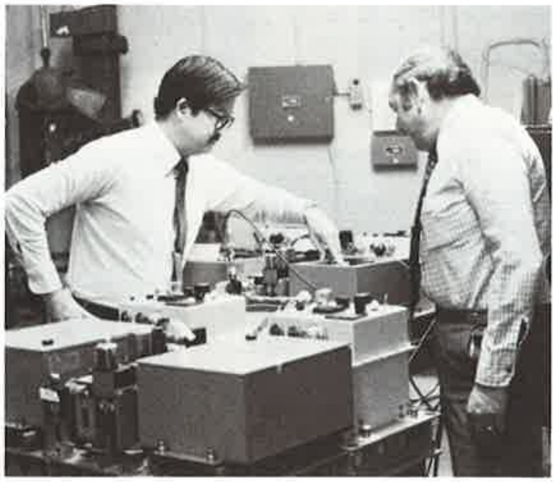
Antenna Products and Systems For Satellite Earth Stations For Cable Video, Home and Hotel Video, and Radio Broadcast Networks

- Multiple Beam Antenna Systems For 2 and 3 Satellite Access
- High Surface Tolerance Reflectors
- Antenna Feeds
- Transportable Antenna Systems
- Programmable Antenna Orientation Devices
- Fiberglass Radomes and Sheds



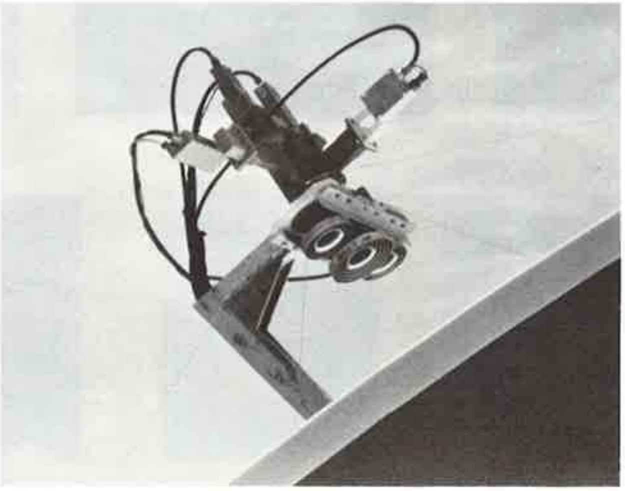
Isolators Under Test

Filter Tuning

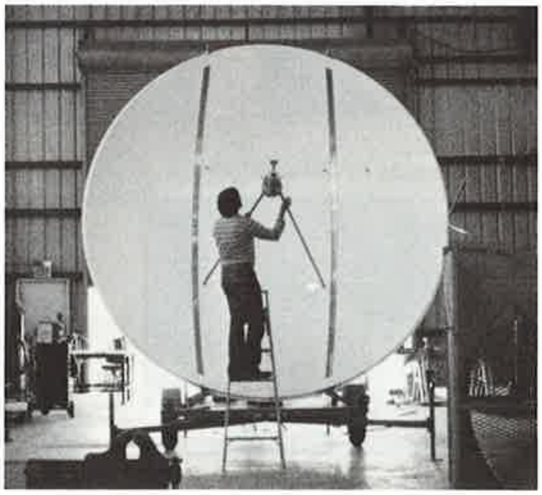


Low Noise Amplifiers

Frequency Converter Software Programming



Antenna Mounted Triple Feed



3.8 Meter Transportable Antenna

















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Annual Meeting

Shareholders are cordially invited to attend and participate in the Annual Meeting of Shareholders scheduled for Monday, December 12, 1983 at 10:00 a.m. at:

North Shore Atrium II
6900 Jericho Turnpike
Syosset, NY 11791

Availability of Form 10-K

Shareholders may obtain a copy of Form 10-K, exclusive of exhibits free of charge by writing to:

Secretary
Comtech Telecommunications Corp.
North Shore Atrium II
6900 Jericho Turnpike
Syosset, NY 11791

The company also will furnish exhibits to the Form 10-K to shareholders who request same upon payment to the company of a $10 fee.

CONSOLIDATED BALANCE SHEETS

July 31, 1983 and 1982 COMTECH TELECOMMUNICATIONS CORP. AND SUBSIDIARIES

Assets	**1983 PRO FORMA (Note 14) (Unaudited)**	1983 HISTORICAL	19[illegible]
Current assets:			
Cash and short-term investments (Note 10)	**$ 6,205,000**	$ 2,780,000	$ 4,316,000
Accounts receivable — net (Notes 1, 3 and 13)	**11,666,000**	11,666,000	5,662,000
Inventories — net (Notes 1, 4 and 13)	**14,760,000**	14,760,000	3,516,000
Other	**673,000**	825,000	213,000
Total current assets	**33,304,000**	30,031,000	13,707,000
Property, plant and equipment — net (Notes 1 and 5)	**10,394,000**	10,394,000	5,278,000
Other assets (Notes 1, 2 and 11)	**1,738,000**	1,738,000	694,000
Total	**$45,436,000**	$42,163,000	$19,679,000
Liabilities and Shareholders' Equity			
Current liabilities:			
Current maturities of long-term debt (Note 6)	**$ 1,285,000**	$ 1,285,000	$ 356,000
Accounts payable	**2,570,000**	2,570,000	1,233,000
Accrued expenses	**5,596,000**	5,506,000	3,291,000
Allowance for estimated loss on contracts (Notes 1, 10 and 13)	**2,307,000**	2,307,000	2,517,000
Advance contract payments received	**204,000**	204,000	690,000
Total current liabilities	**11,962,000**	11,872,000	8,087,000
Long-term debt (Note 6)	**17,187,000**	19,687,000	5,967,000
Deferred income taxes payable (Note 7)	**562,000**	562,000	—
Commitments and contingencies (Note 10)			
Shareholders' equity (Notes 6, 8 and 9):			
Preferred stock, $.10 par value:			
Authorized — 2,000,000 shares;			
Issued — none			
Common stock, $.10 par value:			
Authorized — 10,000,000 shares;			
Outstanding — 1983 (pro forma) 4,594,465 shares, (historical) 3,844,465 shares; 1982 — 3,735,232 shares	**460,000**	385,000	374,000
Additional paid-in capital	**12,337,000**	6,729,000	3,732,000
Retained earnings	**2,928,000**	2,928,000	1,519,000
Total shareholders' equity	**15,725,000**	10,042,000	5,625,000
Total	**$45,436,000**	$42,163,000	$19,679,000

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

CONSOLIDATED STATEMENTS OF INCOME

For the Years Ended July 31, 1983, 1982 and 1981 COMTECH TELECOMMUNICATIONS CORP. AND SUBSIDIARIES

	1983	1982	1981
Net sales (Notes 1, 9 and 12)	$36,589,000	$33,487,000	$31,669,000
Costs and expenses:			
Cost of sales (Note 1)	24,658,000	23,232,000	22,793,000
Selling, general and administrative	7,125,000	5,270,000	3,983,000
Research and development (Note 1)	1,638,000	1,258,000	505,000
Interest — net	1,122,000	1,312,000	2,054,000
	34,543,000	31,072,000	29,335,000
Income from continuing operations before gain on sale of assets and income taxes	2,046,000	2,415,000	2,334,000
Gain on sale of assets — net (Note 5)	—	248,000	—
Income from continuing operations before income taxes	2,046,000	2,663,000	2,334,000
Provision for income taxes (Notes 1 and 7)	680,000	1,164,000	1,146,000
Income from continuing operations	1,366,000	1,499,000	1,188,000
Discontinued operations (Note 11):			
Loss from discontinued operations, net of tax benefit of $267,000	—	—	(313,000)
Estimated gain (loss) on disposal of discontinued operations, including provision for operating losses during phase-out period, net of tax benefits (expense) of $(36,000) in 1983, $122,000 in 1982 and $227,000 in 1981	43,000	(143,000)	(266,000)
Income before extraordinary credit	1,409,000	1,356,000	609,000
Extraordinary credit-Reduction of income taxes resulting from the utilization of net operating loss carryforwards (Note 7)	—	1,024,000	585,000
Net income	$ 1,409,000	$ 2,380,000	$ 1,194,000
Earnings (loss) per share (Notes 1 and 14):			
Continuing operations	$.35	$.40	$.32
Discontinued operations	—	—	(.08)
Disposal of discontinued operations	.01	(.04)	(.07)
Income before extraordinary credit	.36	.36	.17
Extraordinary credit	—	.28	.16
Earnings per share	$.36	$.64	$.33
Weighted average number of common and common equivalent shares outstanding	3,967,110	3,712,703	3,673,316

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

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

For the Years Ended July 31, 1983, 1982 and 1981 COMTECH TELECOMMUNICATIONS CORP. AND SUBSIDIARIES

	1983	1982	1981
Financial Resources Were Provided (Used) By:			
Continuing operations:			
Income from continuing operations	$ 1,366,000	$ 1,499,000	$ 1,188,000
Charges not affecting working capital:			
Depreciation and amortization of property, plant and equipment	937,000	693,000	656,000
Deferred income taxes	552,000	—	—
Interest not currently payable	419,000	—	—
Charge equivalent to the utilization of income tax loss carryforwards	—	1,146,000	1,079,000
Other	116,000	—	—
Funds provided from continuing operations	3,390,000	3,338,000	2,923,000
Discontinued operations:			
Loss from discontinued operations	—	—	(313,000)
Depreciation and amortization of property, plant and equipment	—	—	72,000
Estimated gain (loss) on disposal of discontinued operations	43,000	(143,000)	(266,000)
Deferred income taxes	36,000	—	—
Credit equivalent to tax benefits	—	(122,000)	(494,000)
Funds provided from (used by) discontinued operations	79,000	(265,000)	(1,001,000)
Total from operations*	3,469,000	3,073,000	1,922,000
Increase in long-term debt	17,603,000	—	—
Issuance of stock purchase warrants	2,386,000	—	—
Issuance of shares in connection with stock option, warrant and employment agreements	622,000	391,000	419,000
Disposal of fixed assets — net	158,000	63,000	113,000
Reclassification of fixed assets of discontinued operations — net	—	—	839,000
Reclassification of land and building held for sale — net	—	(48,000)	1,767,000
Total	24,238,000	3,479,000	5,060,000
Financial Resources Were Used For:			
Purchase of businesses, less working capital acquired	4,625,000	—	—
Purchase of property, plant and equipment	1,701,000	749,000	576,000
Reduction in long-term debt	4,302,000	4,157,000	1,937,000
Increase (decrease) in other assets — net	1,071,000	213,000	(1,094,000)
Total	11,699,000	5,119,000	1,419,000
Increase (decrease) in working capital	$12,539,000**	$(1,640,000)	$ 3,641,000
Changes In The Components Of Working Capital:			
Increase (decrease) in current assets:			
Cash and short-term investments	$(1,536,000)	$ 2,765,000	$ (295,000)
Accounts receivable — net	6,004,000	(4,169,000)	911,000
Inventories — net	11,244,000	(1,884,000)	311,000
Land and building held for sale	—	(1,767,000)	1,767,000
Other	612,000	(363,000)	(961,000)
	16,324,000	(5,418,000)	1,733,000
(Increase) decrease in current liabilities:			
Current maturities of long-term debt	(929,000)	1,696,000	(978,000)
Accounts payable	(1,337,000)	898,000	2,066,000
Accrued expenses	(2,215,000)	(1,726,000)	398,000
Allowance for estimated loss on contracts	210,000	1,133,000	1,917,000
Advance contract payments received	486,000	1,777,000	(1,495,000)
	(3,785,000)	3,778,000	1,908,000
Increase (decrease) in working capital	$12,539,000**	$(1,640,000)	$ 3,641,000

*The extraordinary credits had no impact on working capital in 1982 and 1981.
**Includes $9,182,000 of working capital relating to businesses acquired (see Note 2).

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

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For The Years Ended July 31, 1983, 1982 and 1981 COMTECH TELECOMMUNICATIONS CORP. AND SUBSIDIARIES

	Common Stock		Additional Paid-In Capital	Retained Earnings (Deficit)	Total
	Shares	Amount			
Balance August 1, 1980	3,492,946	$349,000	$2,947,000	$(2,055,000)	$ 1,241,000
Net income				1,194,000	1,194,000
Shares issued in connection with stock option, warrant and employment agreements (Note 8)	64,120	7,000	412,000	—	419,000
Balance July 31, 1981	3,557,066	356,000	3,359,000	(861,000)	2,854,000
Net income				2,380,000	2,380,000
Shares issued in connection with stock option, warrant and employment agreements (Note 8)	178,166	18,000	373,000	—	391,000
Balance July 31, 1982	3,735,232	374,000	3,732,000	1,519,000	5,625,000
Net income				1,409,000	1,409,000
Shares issued in connection with stock option, warrant and employment agreements (Note 8)	109,233	11,000	611,000	—	622,000
Proceeds from stock purchase warrants (Note 8)	—	—	2,386,000	—	2,386,000
Balance July 31, 1983	**3,844,465**	**$385,000**	**$6,729,000**	**$ 2,928,000**	**$10,042,000**

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Summary of Significant Accounting and Reporting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Comtech Telecommunications Corp. and its subsidiaries (the Company), all of which are wholly-owned. All significant intercompany transactions have been eliminated.

Sales Recognition

Sales are generally recognized under the unit-of-delivery method of accounting except for large multi-year funded programs which utilize the percentage-of-completion method of accounting. Progress payment retainages and estimated earnings on such multi-year programs are reflected as unbilled receivables.

Revenues derived from the sale or lease of the COM2 Product Line (see Note 2) are generally recorded at the time of shipment and in no event prior to 90 days before end-user customer acceptance. Service revenues are recognized as such revenues become due.

Costs and Expenses

Cost of sales is based on 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 other direct costs. Since contracts may 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. When estimates indicate a future loss on a contract is probable, 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 the allowance for estimated loss on contracts.

Inventories

Raw materials and components are stated at the lower of first-in, first-out (FIFO) cost or market. Work-in-process is valued at the total material, direct labor, manufacturing overhead and other direct costs incurred under each contract, less amounts charged to cost of sales pursuant to the application of the unit-of-delivery method of accounting.

Property, Plant and Equipment

Property, plant and equipment (including major renewals and betterments) are recorded at cost. At the time property is retired or otherwise disposed of, the cost and accumulated depreciation or amortization of such property are eliminated from the accounts, and the gain or loss on disposition is reflected in operations. Annual depreciation is provided utilizing the straight-line method over the estimated useful lives of the related assets (buildings and improvements — 40 years, equipment — 3 to 8 years). Leasehold improvements are amortized over the remaining term of the lease or the useful lives of the improvements, whichever is less.

Intangibles

The unamortized excess of cost over the purchase value of assets acquired, which amounts to $571,000 at July 31, 1983, is included in "Other Assets" and is being amortized on a straight-line basis over 40 years (see Note 2).

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.

Income Taxes

Where appropriate, the Company provides deferred income taxes for transactions reported in different periods for financial and income tax reporting purposes (see Note 7). Research and development and investment tax credits are accounted for as a reduction of income taxes in the year in which the research expenses are incurred or the related asset is placed in service.

Earnings Per Share

Earnings per share are based on the weighted average common and common equivalent shares outstanding during the year. Fully diluted earnings per share are not presented because the impact of assumed full dilution was immaterial or antidilutive in all years presented.

Reclassifications

Certain data relating to fiscal 1982 and 1981 have been reclassified to conform to the fiscal 1983 presentation.

Note 2: Acquisitions

During fiscal 1983 the Company made two acquisitions that are accounted for under the purchase method of accounting. The operations of the acquired businesses, which are described below, are included in the accompanying consolidated financial statements from the dates of their respective acquisitions.

On January 28, 1983, the Company acquired the outstanding common stock of Premier Microwave Corporation (Premier) for an aggregate consideration, including expenses, of $3,873,000. Premier designs and manufactures a broad line of microwave components for various radar, missile, communications, telemetry and submarine systems. The total purchase price exceeded the net purchase value of Premier by $578,000, which amount has been recorded as cost in excess of net assets acquired (see Note 1).

Note 2 Continued:

On July 1, 1983, the Company acquired the operating assets relating to the COM2 Product Line from a subsidiary of Storage Technology Corporation for an aggregate consideration, including expenses of $250,000, of $9,933,000, comprised of $5,311,000 in cash, $3,314,000 in notes (see Note 6), and a five-year warrant to acquire 450,000 shares of the Company's common stock which, for accounting purposes, was valued at $1,058,000 (see Note 8). Through this new business, the Company will be engaged in the manufacture and marketing of microprocessor-controlled telephone voice multiplexors and concentrators. The total purchase price was considered equivalent to the net purchase value of the assets acquired.

See Note 14 for certain unaudited pro forma consolidated results of operations which have been prepared for the years ended July 31, 1983 and 1982, giving effect to the acquisitions of Premier and the COM2 Product Line as if they had occurred at the beginning of the period.

Note 3: Accounts Receivable

Accounts receivable consist of the following:

	July 31, 1983	July 31, 1982
Amount receivable from the United States Government	**$1,243,000**	$ 648,000
Unbilled receivables (including retainages) on contracts in progress relating to contracts accounted for by the percentage-of-completion method	**5,874,000**	2,624,000
Amounts receivable from others	**4,857,000**	2,498,000
	11,974,000	5,770,000
Less — Allowance for doubtful accounts (Note 13)	**(308,000)**	(108,000)
Accounts receivable — net	**$11,666,000**	$5,662,000

Unbilled receivables are billable upon completion of performance tests and acceptance by the customer.

Note 4: Inventories

Inventories consist of the following:

	July 31, 1983	July 31, 1982
Raw materials and components	**$ 3,350,000**	$ 1,611,000
Work-in-process	**11,783,000**	6,513,000
Finished goods	**4,009,000**	—
	19,142,000	8,124,000
Less:		
Progress payments not in excess of costs included in work-in-process	**(896,000)**	(3,368,000)
Inventory reserves (Note 13)	**(3,486,000)**	(1,240,000)
Inventories — net	**$14,760,000**	$ 3,516,000

Note 5: Property, Plant and Equipment

Changes in property, plant and equipment were as follows:

	Balance at Beginning of Year	Additions at Cost	Transfers, Retirements or Sales	Balance at End of Year
Year ended July 31, 1983:				
Land	**$ 698,000**	**$ —**	**$ 10,000**[b]	**$ 708,000**
Buildings and improvements	**2,905,000**	**288,000**	**249,000**[b]	**3,442,000**
Leasehold improvements	**86,000**	**205,000**[a]	**279,000**	**570,000**
Equipment	**5,685,000**	**5,119,000**[a]	**(54,000)**[b]	**10,750,000**
Total	**$ 9,374,000**	**$5,612,000**	**$ 484,000**	**$15,470,000**
Year ended July 31, 1982:				
Land	$ 650,000	$ —	$ 48,000[e]	$ 698,000
Buildings and improvements	2,286,000	300,000	319,000[c]	2,905,000
Leasehold improvements	54,000	91,000	(59,000)	86,000
Equipment	5,398,000	358,000	(71,000)	5,685,000
Total	$ 8,388,000	$ 749,000	$ 237,000	$ 9,374,000
Year ended July 31, 1981:				
Land	$ 1,178,000	$ —	$ (528,000)	$ 650,000
Buildings and improvements	4,433,000	66,000	(2,213,000)	2,286,000
Leasehold improvements	54,000	6,000	(6,000)	54,000
Equipment	5,592,000	504,000	(698,000)	5,398,000
Total	$11,257,000	$ 576,000	$(3,445,000)[d]	$ 8,388,000

(a) Includes assets of $3,911,000 acquired as part of the business acquisitions described in Note 2.
(b) Includes reclassification from "Net Assets of Discontinued Operations" aggregating $724,000 (see Note 11), comprised of Land ($10,000), Building ($549,000) and Equipment ($165,000).
(c) Reclassification from "Other Assets."
(d) Includes assets transferred to "Land and Building Held for Sale" and "Net Assets of Discontinued Operations" (see Note 11).
(e) Reclassified from "Land and Building Held for Sale."

Changes in accumulated depreciation of property, plant and equipment were as follows:

	Balance at Beginning of Year	Charged to Profit and Loss	Transfers, Retirements, Renewals or Replacements	Balance at End of Year
Year ended July 31, 1983:				
Buildings and improvements	**$ 239,000**	**$105,000**	**$ 71,000**[a]	**$ 415,000**
Leasehold improvements	**32,000**	**67,000**	**(19,000)**	**80,000**
Equipment	**3,825,000**	**765,000**	**(9,000)**[a]	**4,581,000**
Total	**$4,096,000**	**$937,000**	**$ 43,000**	**$5,076,000**
Year ended July 31, 1982:				
Buildings and improvements	$ 162,000	$ 77,000	$ —	$ 239,000
Leasehold improvements	25,000	32,000	(25,000)	32,000
Equipment	3,283,000	584,000	(42,000)	3,825,000
Total	$3,470,000	$693,000	$ (67,000)	$4,096,000
Year ended July 31, 1981:				
Buildings and improvements	$ 414,000	$ 81,000	$(333,000)	$ 162,000
Leasehold improvements	20,000	12,000	(7,000)	25,000
Equipment	3,034,000	635,000	(386,000)	3,283,000
Total	$3,468,000	$728,000	$(726,000)[b]	$3,470,000

(a) Includes accumulated depreciation of assets transferred from "Net Assets of Discontinued Operations" (see Note 11) aggregating $125,000, comprised of Building ($69,000) and Equipment ($56,000).
(b) Includes accumulated depreciation of assets transferred to "Land and Building Held for Sale" and "Net Assets of Discontinued Operations" (see Note 11).

A building formerly utilized for operations and two undeveloped tracts of land, having an aggregate carrying value of $1,719,000 at their time of sale, were sold for cash during fiscal 1982. The related gain of $248,000, net of expenses, is included in the accompanying Consolidated Statements of Income.

Note 6: Long-Term Debt

Long-term debt consists of the following:

	July 31, 1983	July 31, 1982
Revolving credit agreement with three banks[a]	$ 2,500,000	$ —
13% Subordinated Notes due 1991 (net of an unamortized discount of $1,245,000) [b]	8,755,000	—
Purchase note payable[c]	3,314,000	—
Loan payable to the United States Government, including accrued interest of $433,000[d]	4,573,000	—
Term Loan[d] [e]	—	4,465,000
Mortgage[f]	1,830,000	1,858,000
Total	20,972,000	6,323,000
Less amount due within one year	(1,285,000)	(356,000)
Long-term debt	$19,687,000	$5,967,000

Such debt matures as follows:

Year Ending July 31,	Amount
1984	$ 1,285,000
1985	2,299,000
1986	2,552,000
1987	1,450,000
1988	1,454,000
Thereafter	11,932,000
Total	$20,972,000

Note 6 Continued:

(a) In January 1983, the Company entered into a loan agreement with three banks providing the Company with a revolving line of credit of $6,000,000. Borrowings under this line are payable on January 1, 1985 with interest payable quarterly at a rate of ½% above prime (such prime rate being 10.5% at July 31, 1983). In January 1985, the Company, at its option, may convert up to the entire $6,000,000 available under the revolving line of credit into a five-year term loan with interest at a rate of 1% above prime. The loan agreement contains certain affirmative and negative covenants and requires the Company to maintain certain compensating balances or pay a fee in lieu thereof, as well as a ½% commitment fee on any unused portion of the line. Pursuant to the loan agreement, the Company has granted to the banks a security interest in all deposits, including compensating balances, if any, and other property of the Company that may be held by the banks from time to time. The agreement also limits the Company's ability, among other things, to pay dividends, make capital expenditures and enter into lease agreements. The entire amount outstanding under this line at July 31, 1983 ($2,500,000) was repaid in August 1983 from a portion of the proceeds of a public offering of the Company's common stock (see Note 14).

(b) In February 1983, in a public offering, the Company sold $10,000,000 principal amount of 13% Subordinated Notes due February 1, 1991 and 800,000 warrants (see Note 8). The net proceeds of the offering of approximately $9,300,000 were used, in part, to repay indebtedness incurred and to replenish working capital expended to acquire Premier (see Note 2), with the remainder used for general corporate purposes. The Company is required to redeem $2,500,000 principal amount of the notes on each of February 1, 1989 and 1990 and the remaining $5,000,000 on February 1, 1991. Interest is payable semiannually on February 1 and August 1.

(c) The purchase note, which was issued to Storage Technology Corporation as partial consideration for the purchase of the COM2 Product Line (see Note 2), is payable in three equal annual installments, commencing July 1, 1984. Interest is payable on a quarterly basis at the prime lending rate.

(d) In September 1982, the Company and the Office of the Comptroller of the Department of the Army executed a $4,140,000 loan agreement (the Army Loan) pursuant to an award of the Army Contract Adjustment Board (see Note 9), the proceeds from which were applied in October 1982 to repay the entire outstanding balance of a former term loan. The Army Loan, which is secured by a second mortgage on the Company's Hauppauge, New York manufacturing facility, is repayable in sixty equal monthly installments commencing June 1, 1984, together with interest at a rate set, effective prospectively every six months, by the Secretary of Treasury pursuant to the Contracts Dispute Act of 1978. Such rate is 11.5% for the period July 1 to December 31, 1983. Interest accrued, on an uncompounded basis, through June 1, 1984 will be paid, without further interest, in equal monthly installments during such sixty-month period.

(e) The term loan was outstanding pursuant to a Term Loan and Security Agreement dated December 1980 with three banks which expired in December 1982. The loan was repaid in October 1982 from the proceeds of the Army Loan described above.

(f) The mortgage bears interest at the rate of 9.5% and is payable in monthly installments through 1992. It is secured by the Company's land and building in Hauppauge, New York.

Note 7: Income Taxes

The Company expects that its Federal income tax return for the year ended July 31, 1983 will include a net operating loss carryforward of approximately $15,700,000 expiring principally in the period 1995 to 1998, as well as investment, foreign and research and development tax credit carryforwards of approximately $500,000.

For financial reporting purposes, the Company utilized, in fiscal 1982, the last remaining portion of the $15,600,000 operating loss (prior to reclassification of discontinued operations) incurred in fiscal 1980. Federal taxes on income for the year ended July 31, 1983, which would normally be currently payable, have been accounted for as restoration of net deferred tax credits previously eliminated or not previously recorded (because of the existence of the net operating loss carryforwards for financial reporting purposes). Taxes on income reported in future periods will be accounted for in the same manner to the extent of the carryforward for income tax purposes described above.

The following table reconciles the Company's effective tax rate for continuing operations to the Federal statutory rate:

	Year Ended July 31,		
	1983	1982	1981
Federal statutory income tax rate	**46%**	46%	46%
State income taxes, net of federal tax benefit	**3**	1	3
Investment tax credits	**(6)**	(3)	(3)
Research and development credits	**(10)**	—	—
Foreign tax credits	**(3)**	—	—
Other — net	**3**	—	3
Effective rate	**33%**	44%	49%

The principal causes for timing differences are (1) the accounting for all contracts on the completed contract method for tax purposes and (2) charges for certain reserves and allowances being deductible in different periods for financial and tax reporting purposes.

The provision for income taxes pertaining to continuing operations consists of the following:

	Year Ended July 31,		
	1983	1982	1981
Federal:			
Deferred	**$552,000**	$ —	$ —
Charge equivalent to the utilization of Federal income tax loss carryforwards	**—**	1,146,000	1,079,000
Total	**552,000**	1,146,000	1,079,000
State, principally current	**128,000**	18,000	67,000
Total	**$680,000**	$1,164,000	$1,146,000

The extraordinary credits included in the accompanying Consolidated Statements of Income for 1982 and 1981 consist of the "charge equivalent" set forth above less the tax benefits relating to discontinued operations.

Note 8: Shareholders' Equity

Options and Warrants — The Company has several option and warrant plans:

In December 1982, the shareholders approved the 1982 Incentive Stock Option and Appreciation Plan which provides for the granting to key employees and officers of incentive stock options to purchase 250,000 shares of the Company's common stock at prices not less than the fair market value of such shares on the date the option is granted. The plan also provides for the granting of Stock Appreciation Rights (SARs) in conjunction with the options. The SARs entitle the holder to receive payment, in exchange for the surrender in whole or in part of the related option, of an amount equal to the excess of the fair market value at the time of surrender over the aggregate option price of such shares. Such payment may be made in shares of common stock of the Company, in cash, or a combination thereof, as determined by the committee administering the Plan.

No additional options or SARs will be granted under the Company's 1976 Incentive Stock Option Plan. Under the 1976 Plan, the Company had granted options to officers and key employees at prices which were not less than 85% of the fair market value of such shares on the date of grant and are exercisable over a period determined by the Board of Directors at the time of grant.

The difference between the option price and the fair market value on the date of grant for all options issued under the 1976 Incentive Option Plan was considered compensation expense. The amount charged (credited) to expense in fiscal 1982 and 1981 was $24,000 and $(38,000), respectively. The credit in 1981 resulted from the termination of options for which compensation expense had been previously recorded. All options granted subsequent to January 1,1982 have been at an option price equivalent to 100% of the fair market value of the Company's common stock at the date of grant and, therefore, no compensation has been recorded for such options.

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 are 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.

In February 1983, the Company sold 800,000 warrants in connection with the issuance of the 13% Subordinated Notes (see Note 6). Each warrant entitles the holder to purchase one share of the Company's common stock at a price of $11, subject to adjustment, until January 31, 1988. For accounting purposes these warrants were valued at $1,328,000. As of July 31, 1983, none of these warrants had been exercised.

In July 1983, the Company issued a warrant, as partial consideration for the acquisition of the COM2 Product Line (see Note 2), to purchase 450,000 shares of the Company's common stock at $12 per share, subject to adjustment, until July 1, 1988. For accounting purposes this warrant was valued at $1,058,000. As of July 31, 1983, no portion of this warrant had been exercised.

The following table sets forth summarized information concerning the Company's stock options and warrants:

	1983		1982	
	Number	Exercise Price Range	Number	Exercise Price Range
Options/warrants outstanding at the beginning of the year	**446,050**	**$ 2.07-$ 5.37**	455,200	$2.77-$6.32
Granted	**270,000**	**4.56- 13.69**	108,150	2.07- 4.07
Warrants sold as part of public offering	**800,000**	**11.00**	—	—
Warrants issued — acquisition of the COM2 Product Line	**450,000**	**12.00**	—	—
Exercised	**(71,150)**	**2.07- 5.37**	(3,400)	3.24- 3.98
Expired/cancelled	**(76,900)**	**2.07- 4.63**	(113,900)	2.07- 6.32
Options/warrants outstanding at the end of the year	**1,818,000**	**2.07- 13.69**	446,050	2.07- 5.37
Options/warrants exercisable at the end of the year	**1,424,780**	**2.07- 12.00**	222,400	2.77- 5.37
Options/warrants available for grant at the end of the year	**107,600**		130,990	

Note 8 Continued:

Employee Stock Purchase Plan — In December 1981, the shareholders approved the 1981 Employee Stock Purchase Plan under which a maximum of 300,000 shares of the Company's authorized and unissued common stock are reserved for offering to employees of the Company and its subsidiaries, other than officers and directors, who have been employed for at least one year and meet other minimum eligibility requirements. Under the terms of the plan, at the beginning of each six-month period, commencing with the first business day of January 1982, participants are granted the right to purchase up to 100 shares of the Company's common stock at a price equal to 85% of the fair market value of such stock at either the beginning or the end of the period, whichever is lower. Employees electing to participate in the plan may purchase stock by executing a subscription agreement and authorizing payroll deductions. During the years ended July 31, 1983 and 1982, employees purchased 16,083 and 9,566 shares, respectively. At July 31, 1983, rights to purchase 19,900 shares remain outstanding and 274,351 shares are still reserved for future issuances.

Employment Agreements— Three employees of one of the Company's subsidiaries have contracts under which such employees may earn the right to purchase up to 200,000 shares of the Company's common stock at a price of $.10 per share if the subsidiary achieves certain specified earnings milestones (166,000 shares were so earned as of July 31, 1983). The difference between the fair market value of the Company's common stock on the date each milestone (or portion thereof) is achieved and the purchase price is accounted for as compensation expense. Such compensation charged to operations amounted to $297,000 in 1983, $420,000 in 1982 and $107,000 in 1981.

In June and September 1982, the Company entered into agreements with two officers under which they received, or were entitled to receive, subject to certain restrictions, an aggregate of 175,000 shares of the Company's common stock at a price of $.10 per share or a total consideration of $17,500. The differences between the fair market value of the Company's common stock as of the date of the respective agreements and the purchase price are treated as compensation expense over the term of the respective officers' employment contracts. Such compensation expense charged to operations amounted to $137,000 in 1983.

Note 9: United States Army Satellite Communications Terminal Contract

In February 1982, the Company was granted a significant price adjustment to its largest contract by the Army Contract Adjustment Board in response to the Company's petition for extraordinary relief under the provisions of Public Law 85-804. The terms of the award and developments related thereto include, among other things, (i) an increase in the maximum contract price from $52,128,000 to $69,703,000 and (ii) the granting of the loan described in Note 6. The award also contains certain restrictions which include prohibiting the Company from paying cash dividends and limiting the Company's ability to increase certain officer and executive compensation levels.

Note 10: Commitments and Contingencies

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. In previous years, the Company had entered into various contracts with the Government of Libya. Such contracts generally required the Company to provide letters of credit in favor of the Libyan government or a Libyan bank. As of July 31, 1980, as a result of a contractual dispute and the deterioration in the political relations between the United States and Libya, the Company fully provided $4,976,000 for the outstanding letters of credit relating to the disputed contract. During the subsequent fiscal years, the Company continued to seek a negotiated settlement and was succcessful to the extent that the letters of credit currently in force were substantially reduced. Consequently, during fiscal years 1981 and 1983, the Company reversed $2,551,000 and $210,000 of the reserve as no longer necessary.

During fiscal 1983, the Company was required to provide cash collateral of $2,431,000, in the form of certificates of deposit, to secure the remaining open letters of credit of $2,307,000 pertaining to the Libyan contracts. Such letters of credit, the exposure for which is fully reserved, expire in June 1984.

As of July 31, 1983 the Company is committed under additional open letters of credit in favor of other customers of $796,000.

Government Contracts — Certain of the Company's contracts are subject to audit by the Defense Contract Audit Agency and/or the Government Accounting Office. Until such Government audits are completed, the ultimate profit on these contracts cannot be determined; however, in the opinion of Management, the final contract settlements will not have a material adverse effect on the Company's financial condition.

Litigation — The Company has been named as a defendant in various suits and claims. Management believes that any ultimate liability to the Company in these matters would not be material.

Leases — The Company and its subsidiaries have entered into leasing agreements for manufacturing and office facilities for initial periods ranging from 3 to 10 years. The rentals under these agreements aggregate approximately $5,968,000, of which approximately $395,000, $693,000, $673,000, $678,000 and $629,000, respectively, will be paid during each respective fiscal year during the period ending July 31, 1988. In addition, the Company has entered into equipment leases for periods not exceeding five years at an average annual rental of $368,000. Rent expense was $808,000 in 1983 and $563,000 in 1982.

Note 11: Discontinued Operations

During fiscal 1982, the Company discontinued its large antenna business following the completion of its obligations under contracts executed prior to its decision to discontinue the business. Accordingly, the accompanying consolidated financial statements reflect the large antenna business as a discontinued operation. Net sales of discontinued operations were $45,000 in 1983, $129,000 in 1982 and $808,000 in 1981.

During fiscal 1983, all of the assets of the large antenna business were either sold, scrapped or transferred for use to the Company's small antenna business (see Note 5). At July 31, 1982, the net assets of the large antenna business, which amounted to $248,000, were carried at the lower of their cost or estimated net realizable values and included in the caption "Other Assets" on the accompanying consolidated balance sheets. Such carrying value is net of an allowance for loss on disposal of $300,000. The activity in such allowance is summarized as follows:

	Year ended July 31,	
	1983	1982
Balance, beginning of year	**$ 300,000**	$ 494,000
Losses from disposal of assets	**(221,000)**	(140,000)
Reversed as no longer necessary	**(79,000)**	—
Other reductions — net	**—**	(54,000)
Balance, end of year	**$ —**	$300,000

Note 12: Segment and Principal Customer Information

For the purposes of segment reporting, Management considers the Company to operate primarily in one industry, the communications equipment industry.

During the fiscal years ended July 31, 1983, 1982 and 1981 approximately 56%, 53% and 59%, respectively, of the Company's net sales resulted from contracts with United States Government agencies and prime contractors of such agencies. The only other customer which constituted more than 10% of the Company's consolidated net sales during any year in the period presented was the Government of Libya which comprised 11% of net sales in 1982. Approximately 15%, 19% and 14% of net sales, respectively, resulted from export sales, including sales to the Government of Libya.

Note 13: Valuation Allowances and Reserves

The following is a summary of the activity in the Company's valuation accounts according to respective fiscal years:

	Balance at Beginning of Year	Charged to Costs and Expenses	Charged to Other Accounts	Deductions	Balance at End of Year
Allowance for doubtful accounts:					
1983	**$ 108,000**	**$ 284,000**	**$ 4,000**	**$ 88,000**	**$ 308,000**
1982	1,031,000	136,000	—	1,059,000[a]	108,000
1981	1,069,000	115,000	—	153,000	1,031,000
Allowance for estimated loss on contracts:					
1983	**$2,517,000**	**$ —**	**$ —**	**$210,000**	**$2,307,000**
1982	3,650,000	—	772,000	1,905,000	2,517,000
1981	5,566,000	819,000	1,032,000	3,767,000	3,650,000
Inventory reserves:					
1983	**$1,240,000**	**$180,000**	**$2,338,000[b]**	**$272,000**	**$3,486,000**
1982	190,000	1,050,000	—	—	1,240,000
1981	—	190,000	—	—	190,000

(a) At July 31, 1981, the balance in the allowance for doubtful accounts primarily was intended to cover the uncertainty of collection of a receivable of $944,000 arising from a contract with a foreign customer. In fiscal 1982, the Company charged such receivable to the allowance.

(b) Represents the allowances for obsolescence and used product refurbishment ascribed to the COM2 Product Line at the time of acquisition (see Note 2).

Note 14: Subsequent Events and Pro Forma Information

Sale of Common Stock — In August 1983, the Company sold 750,000 shares of its Common Stock, the net proceeds from which ($5,925,000) were used to retire $2,500,000 of indebtedness under the revolving credit agreement with three banks (see Note 6) and the balance was used to replenish partially working capital expended to acquire the COM2 Product Line.

The "Pro Forma" column on the accompanying consolidated balance sheets has been prepared assuming that the sale had taken place on July 31, 1983 and the portion of the net proceeds in excess of those used to retire debt were temporarily invested in short-term investments.

The pro forma data presented below for fiscal 1983 and 1982 are unaudited and were prepared assuming that the acquisitions of Premier and the COM2 Product Line described in Note 2 occurred at the beginning of the period. Such pro forma data combines the twelve month operating results of Premier and the COM2 Product Line which most closely correspond with the Company's fiscal 1983 and 1982 year-ends. In both the 1983 and 1982 pro forma calculations, the effect of the interest cost related to (i) $3,900,000 principal amount of 13% Subordinated Notes utilized to finance partially the acquisition of Premier, (ii) amortization of the debt expense and discount related to the Subordinated Notes, and (iii) $3,314,000 purchase note used to finance partially the acquisition of the COM2 Product Line (see Note 6) has been determined as if such debt had been issued at the beginning of the period. These results are not necessarily indicative of what would have occurred had the acquisitions actually been consummated at the beginning of the period.

	Year Ended July 31,	
	1983	1982
Net sales	**$52,663,000**	$56,188,000
Income from continuing operations	**$ 1,166,000**	$ 2,009,000
Net income	**$ 1,209,000**	$ 2,890,000
Earnings per share[a]	**$.29**	$.74

(a) Calculated using the Company's actual weighted average number of common and common equivalent shares outstanding as set forth in the accompanying consolidated statements of income, adjusted, as appropriate, to give effect to the issuance of the warrant covering 450,000 shares of the Company's common stock relating to the acquisition of the COM2 Product Line and 316,456 shares of the Company's common stock sold as part of the August 1983 public offering described above (such number of shares being the number necessary to provide sufficient net proceeds to the Company to repay the $2,500,000 indebtedness relating to the acquisition of the COM2 Product Line) as if such issuances had occurred at the beginning of the period.

Acquisition of TS-120 Product Line — Subsequent to July 31, 1983, the Company purchased the Linatel TS-120 concentrator product line of Allied Information Systems, an operating unit of Allied Corporation, for an aggregate consideration of approximately $285,000.

The TS-120 Subscriber Loop Switching System is a flexible computer controlled device that offers customers the ability to make better use of their main PBX at remote locations. It provides a wide range of subscriber line-to-trunk ratios and permits uneven traffic distribution, thus optimizing plant facilities and capital.

Sales (unaudited) of the Linatel TS-120 Product Line for the year ended December 31, 1982 approximated $1,360,000.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

Deloitte
Haskins+Sells

100 Crossways Park West
Woodbury, Long Island, New York 11797

To The Board of Directors and Shareholders of
Comtech Telecommunications Corp.:

We have examined the consolidated balance sheets of Comtech Telecommunications Corp. and subsidiaries as of July 31, 1983 and 1982 and the related consolidated statements of income, changes in shareholders' equity 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. The financial statements of Comtech Telecommunications Corp. and subsidiaries for the year ended July 31, 1981 were examined by other auditors whose report thereon dated September 22, 1981 (except with respect to matters discussed in Note 9 as to which the date is February 2, 1982) expressed an unqualified opinion on those statements.

In our opinion, the 1983 and 1982 consolidated financial statements referred to above present fairly the financial position of Comtech Telecommunications Corp. and subsidiaries at July 31, 1983 and 1982 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.

Deloitte Haskins & Sells

September 30, 1983

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

Liquidity and Capital Resources

In August 1983, the Company sold 750,000 shares of its Common Stock in a public offering. The net proceeds of $5,925,000 were used to retire indebtedness of $3,200,000 ($2,500,000 of which was outstanding at July 31, 1983). The balance was used to pay expenses related to the offering and to replenish partially working capital expended to acquire the COM2 Product Line.

In February 1983, the Company sold $10,000,000 principal amount of 13% Subordinated Notes due February 1, 1991 and 800,000 warrants. Each warrant entitles the holder to purchase, until January 31, 1988, one share of the Company's Common Stock at a price of $11, subject to adjustment. The net proceeds of approximately $9,300,000 were used, in part, to repay indebtedness incurred and to replenish working capital expended to acquire Premier Microwave Corporation with the remainder used for general corporate purposes.

In January 1983, the Company entered into a Loan Agreement with three banks providing the Company with a revolving line of credit of $6,000,000. Borrowings under this line are payable on January 1, 1985 with interest payable quarterly at a rate of ½% above prime. In January 1985, the Company, at its option, may convert up to the entire $6,000,000 available under the revolving line of credit into a five-year term loan with interest at a rate of 1% above prime. The Loan Agreement contains certain affirmative and negative covenants and requires the Company to maintain compensating balances or pay a fee in lieu thereof, as well as a ½% commitment fee on any unused portion of the line. Pursuant to the Loan Agreement, the Company has granted to the banks a security interest in all deposits, including compensating balances, if any, and other property of the Company that may be held by the banks from time to time. Upon the occurrence of an event of default, the Company's obligations under the Loan Agreement will be secured, at the option of the banks, by all of the Company's personal property and fixtures. The entire amount outstanding under this line at July 31, 1983 was repaid in August 1983. The banks have also extended to the Company a $6,000,000 letter of credit line relating to bid and performance bonds, of which an aggregate of $632,000 was utilized at July 31, 1983. Additional requests under the line require bank approval.

In September 1982, the Company and the Office of the Comptroller of the Department of the Army executed a $4,140,000 Loan Agreement pursuant to an award of the Army Contract Adjustment Board. These funds were applied in October 1982 to repay the entire outstanding balance of a former term loan. The Army loan, which is secured by a second mortgage on the Company's Hauppauge, New York manufacturing facility, is repayable monthly in equal installments over sixty months commencing June 1, 1984, together with interest at a rate set, effective prospectively every six months, by the Secretary of Treasury pursuant to the Contracts Dispute Act of 1978, which rate is 11.5% for the period July 1 to December 31, 1983. Interest accrued, on an uncompounded basis, through June 1, 1984 will be paid, without further interest, in equal monthly installments during such sixty month period.

In addition to the letters of credit and bonds outstanding under the Company's bank line, as of July 31, 1983 the Company had outstanding letters of credit with other banks in the aggregate amount of $2,307,000 in connection with the Company's Libyan Contract (see Note 10 of Notes to the Consolidated Financial Statements), which are secured by certificates of deposit. The Company, in addition, had outstanding a $164,000 letter of credit relating to another contract.

For the fiscal year ended July 31, 1983 the Company has available for Federal income tax purposes a net operating loss carryforward of approximately $15,700,000 (which arose principally from the Company's election for tax purposes of the completed contract method of accounting) expiring principally in 1995 to 1998, as well as investment, foreign, and research and development tax credit carryforwards of approximately $500,000. For financial reporting purposes, in fiscal 1982 the Company fully utilized all available operating loss carryforwards.

The Company typically has substantial commitments for purchases of materials and components required for performance of customer orders. Funds for these purposes, with the exception of certain specific contract limitations, are generally provided from progress payments which the Company collects under the terms of these orders.

Results of Operations

Fiscal Year 1983 Compared to Fiscal Year 1982:

For the fiscal year 1983, sales increased to $36,589,000 from $33,487,000 in the prior year. The increase in the 1983 period results principally from the inclusion of the sales of Premier Microwave Corporation and Comtech Communications Corp. from the dates of their respective acquisitions (see Note 2 the Consolidated Financial Statements). For fiscal year 1983, income from continuing operations before income taxes was $2,046,000 as compared to $2,663,000 the prior year (which included $248,000 relating to gain on sale of assets).

The net earnings of $1,409,000 in the current year includes a $43,000 gain (net of taxes) on discontinued operations while the prior year net earnings of $2,380,000 reflected, among other things, a loss on discontinued operations (net of taxes) of $143,000. The net earnings of the prior year also reflect an extraordinary credit of $1,024,000 representing a reduction of income taxes resulting from the utilization of net operating loss carryforwards.

Net interest expense in 1983 declined as a result of lower debt levels and rates of interest as well as increased amounts of interest income. This was offset by increased selling, general and administrative expenses. This increase is attributable to increased sales volume, expenses associated with the termination of a former term loan and normal general and administrative expenses of Premier Microwave Corporation and Comtech Communications Corp.

Research and development expense in the 1983 period increased as the resources needed for this purpose became more readily available. As the technology involved in the design and manufacture of the Company's products is complex and subject to frequent change, continuing research and development activities are essential.

Fiscal Year 1982 Compared to Fiscal Year 1981:

Sales for the 1982 fiscal year increased from the prior year primarily due to an upward price adjustment granted by the Army Contract Adjustment Board pursuant to Public Law 85-804 to offset increased costs incurred or to be incurred by the Company in connection with the Army MT Contract. The award augmented the contact value which in turn increased the revenue recognized under the percentage-of-completion method of accounting. As a result of this award, a previously established reserve for estimated loss on this contract was no longer deemed necessary and was credited to cost of sales. However, this credit was more than offset by year-end inventory reserves and write-offs recorded to cover anticipated losses on certain fixed price contracts.

Selling, general and administrative expenses increased 32%. Inflationary cost increases and rising marketing and salary expenditures commensurate with the level of overall Company activity, including a net increase of $380,000 of compensation expense related to employment agreements, contributed to the fiscal 1982 increase from fiscal 1981.

Research and development expense also increased over the prior year as the resources needed for this purpose became more available.

Because the overall provisions of the price adjustment granted by the Army Contract Adjustment Board in connection with the Army MT Contract resulted in substantially increased cash flow, the Company was able to reduce debt and increase short-term investments. Accordingly, net interest expense declined significantly from fiscal 1981.

The loss from disposal of discontinued operations recorded in fiscal 1982 represents a write-off in connection with a single contract for a large antenna. Such contract is now completed and no further losses are anticipated.

No federal income taxes have been currently payable since fiscal 1979 because of the application of net operating loss carryforwards against taxable income. For financial reporting purposes, in fiscal 1982 the Company fully utilized all available operating loss carryforwards.

Financial Results by Quarter (Unaudited)
(Dollars in Thousands Except Per Share Amounts)

	Quarters Ended			
	October 31	January 31	April 30	July 31
Year Ended July 31, 1983:				
Net sales	$6,633	$9,541	$9,387	$11,028
Gross profit	$2,529	$2,846	$3,200	$ 3,356
Net income	$ 301	$ 442	$ 481	$ 185
Earnings per share	$ .08	$ .11	$ .11	$ .06
Year Ended July 31, 1982:				
Net sales	$6,238	$8,998	$9,078	$ 9,173
Gross profit	$1,959	$5,256	$2,121	$ 919
Income (loss) before extraordinary credit	$ 207	$1,772	$ 119	$ (742)
Net income (loss)	$ 307	$2,585	$ 119	$ (631)
Earnings (loss) per share	$ .08	$ .71	$ .03	$ (.18)

The results of operations for the quarters ended April 30, 1983 and subsequent reflect the acquisition of Premier Microwave Corporation and the quarter ended July 31, 1983 reflects the operations of the newly formed Comtech Communications Corp. as discussed in Note 2 to the Consolidated Financial Statements. The fourth quarters of each year contain, among other things, certain changes in estimates for which allocation to prior quarters are not practicable.

SUMMARY OF SELECTED FINANCIAL DATA

(000's Omitted Except For Per Share Amounts) COMTECH TELECOMMUNICATIONS CORP.

Year Ended July 31,	1983	1982	1981	1980	1979
Net sales	$36,589	$33,487	$31,669	$ 25,221	$30,496
Income (loss) from continuing operations	$ 1,366	$ 1,499	$ 1,188	$ (9,883)	$ 992
Net income (loss)	$ 1,409	$ 2,380	$ 1,194	$(10,670)	$ 941
Earnings (loss) per share:					
Income (loss) from continuing operations	$ .35	$ .40	$ .32	$ (2.83)	$ .27(1)
Net earnings (loss)	$ .36	$ .64	$ .33	$ (3.06)	$ .26(1)
Total assets	$42,163	$19,679	$24,843	$ 27,075	$30,357
Long-term debt, including current maturities	$20,972	$ 6,323	$12,176	$ 13,134	$ 2,807
Shareholders' equity	$10,042	$ 5,625	$ 2,854	$ 1,241	$11,771

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

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

This Selected Financial Data should be read in conjunction with the Notes to Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations.

QUARTERLY STOCK AND WARRANT PRICES AND DIVIDEND DATA 1982-1983

	Warrants(1)		Common Stock	
	High Bid	Low Bid	High Bid	Low Bid
Fiscal Year ended July 31, 1982				
First Quarter	—	—	5⅛	2½
Second Quarter	—	—	4⅛	2¼
Third Quarter	—	—	4⅝	3⅝
Fourth Quarter	—	—	4⅞	3¾
Fiscal Year ended July 31, 1983				
First Quarter	—	—	5¼	3⅜
Second Quarter	—	—	8¼	5⅛
Third Quarter	3⅝	3¼	9¼	7½
Fourth Quarter	6⅜	3¼	14	8⅛

No dividends were declared during the Company's 1982 and 1983 fiscal years.
(1)Trading commenced March 22, 1983.

The common stock and warrants of Comtech Telecommunications Corp. are 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. On August 9, 1983, the Company's stock was entered into the NASDAQ National Market System. Accordingly, the Company's stock is now subject to Last Sale Reporting, wherein the prices quoted will be reflective of actual closing prices on the applicable dates to be reported.

Board of Directors

Fred Kornberg[1]
Chairman and Chief
Executive Officer

Benjamin Adler[2] [3]
Business and Engineering
Consultant

George Bugliarello[3]
President,
Polytechnic Institute of
New York

Milton L. Deever
Vice President

George A. Reed
President and Chief
Operating Officer

Jacob M. Schein[1] [2] [3]
Chairman and Chief
Executive Officer,
Henry Schein, Inc.

Sol S. Weiner[1] [2]
Managing Director,
Stenhouse, Weiner,
Sherman, Ltd.
Management Consultants

(1) Executive Committee
(2) Audit Committee
(3) Compensation Committee

Officers

Fred Kornberg
Chairman and Chief Executive
Officer

George A. Reed
President and Chief Operating
Officer

Milton L. Deever
Vice President and President of
Comtech Data Corporation

Leonard Kardon
Vice President and President of
Premier Microwave Corporation

William R. McEwen, Jr.
Vice President and President of
Comtech Communications Corp.

Richard H. Miller
Vice President and President of
Comtech Government Systems
Division

Joseph P. Sherer
Vice President, General Counsel and
Secretary

Michael H. Taber
Corporate Controller and Treasurer

Legal Counsel

Botein, Hays, Sklar & Herzberg
200 Park Avenue
New York, NY 10166

Banks

National Westminster Bank USA
600 Broad Hollow Road
Melville, NY 11747

Marine Midland Bank, N.A.
534 Broad Hollow Road
Melville, NY 11747

Barclays Bank of New York
180 Oser Avenue
Hauppauge, NY 11788

Independent Public Accountants

Deloitte Haskins & Sells
100 Crossways Park West
Woodbury, NY 11797

Registrar & Transfer Agent

American Transfer Company
44 Beaver Street
New York, NY 10004

Stock Traded — OTC

NASDAQ Symbol — CMTL

COMTECH
TELECOMMUNICATIONS CORP.

Premier Microwave Corporation

Premier Microwave Corporation, acquired by Comtech in January of 1983, designs and manufactures a broad range of waveguide, coaxial and stripline microwave components for communications, radar, missile, telemetry, and submarine applications. The Company's product line includes special application antennas and antenna feeds; signal combining devices such as frequency duplexers, diplexers and mixers; signal coupling devices such as directional couplers, rotary joints and switches; signal selective devices such as filters, discriminators and preselectors; and signal conditioning devices such as attenuators, isolators and ferrite and diode phase shifters having application in the rapidly growing phased array antenna market.

With over 40 years of experience in microwave component manufacture, Premier has established a reputation as a supplier of high-reliability products and services to the U.S. Government, prime contractors and subcontractors doing business with the Government and original equipment manufacturers serving the telecommunications, avionics, radar and other systems employing microwave technology. In addition to its standard product line, the Company offers its customers research, development and manufacturing services for special application components and functional assemblies used in systems employing both traditional and experimental frequency ranges.

Corporate Headquarters

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(516) 496-7040

Operating Units

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Comtech Communications Corp.
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COMTECH
TELECOMMUNICATIONS CORP.