Comtech Telecommunications Corp.

1993 Annual Report

Comtech Telecommunications Corp. is a global player in the growing market for sophisticated high technology microwave and telecommunications products and systems. Its products are used worldwide in satellite, tropospheric scatter and wireless communications systems. Its solid state, high power amplifiers are also used to test electronic systems for electromagnetic compatibility and susceptibility (EMC/EMS); for defense systems and for high power testing of electronic components and systems.

Comtech's over 200 products are targeted to meet the specific needs of a broad base of customers that include domestic and foreign common carriers and telephone companies, defense contractors, medical and automotive suppliers, oil companies, private and wireless networks, broadcasters, utilities and government entities. Its five independent operating subsidiaries effectively address market niches while creating synergies between them.

The demand for improved telecommunications is increasing worldwide as emerging economies seek to modernize and as the communications needs in developed countries continues to expand. Comtech's established reputation for high quality engineering and manufacturing, and its diversified product and customer base, enabled it to achieve its fourth consecutive year of improved performance.

Subsidiary	Location	Service/Products
Comtech Antenna Systems, Inc. (CASI)	St. Cloud, FL	Designs and manufactures fiberglass and aluminum antennas. Including fixed and mobile antenna systems, specialized multi-beam antenna systems, fold-up quick erect INMARSAT antenna systems, Fly-Away C-band and Ku-band systems, and inclined orbit tracking antennas.
Comtech Microwave Corp. (CMC)	Melville, NY	Designs and manufactures up-link and down-link equipment for satellite earth stations. Including X-band and S-band frequency converters, C-band and S-band high power klystron tube amplifiers, and related control, monitoring and alarm components.
Comtech Systems, Inc. (CSI)	St. Cloud, FL	Designs, manufactures and installs communications systems and equipment. Including digital modems, frequency converters, high power klystron tube amplifiers, predetection combiners, analog modulators and demodulators and control, monitoring and alarm components.
Power Systems Technology, Inc. (PST)	Melville, NY	Designs, develops and manufactures solid state high power amplifiers and synthesized frequency converters. Including a line of broadband frequency amplifiers, with output power levels of 1W to 10KW for high power test applications, amplifiers for testing of cellular and wireless systems and low phase noise microwave frequency converters operating in L-, C- and Ku-band for satellite communication applications.
Scientific Power Systems, Inc. (SPS)	Melville, NY	Designs, develops and manufactures state-of-the-art automated instrumentation. Incorporates PST's solid state high power amplifiers with SPS's automated system and custom software.

Markets	Customers
Satellite and trophospheric scatter communications. Video conferencing, broadcast T.V., satellite teleports, corporate and university private satellite networks and information and entertainment suppliers and subscribers.	Cable and broadcast T.V., radio and other information and entertainment organizations. Domestic and foreign prime contractors serving the satellite and tropospheric scatter markets.
Satellite communications. Weather monitoring and defense communication satellite earth stations.	Agencies of the U.S. and foreign governments and prime contractors serving the U.S. government, NATO and other world governments' telecomminications needs.
Satellite, tropospheric scatter and line-of-sight microwave systems and networks. Telephone, telegraph and telecommunications; oil and natural gas producer communications; U.S. defense and foreign defense telecommunications.	Oil and gas companies and domestic and foreign prime contractors serving domestic and foreign telecommunications and government needs.
Satellite communications–INTELSAT, INMARSAT and DOMSAT; defense and intelligence; and electromagnetic compatibility instrumentation systems. Wireless and cellular communications, physics research, and high power test services.	Domestic and foreign commercial users, government agencies and prime contractors serving the satellite, electromagnetic compatibility, and high power test markets.
Electromagnetic compatibility instrumentation. Commercial and consumer electronic product testing, automotive, medical, aircraft and electronics testing and defense related product testing.	Domestic and foreign commercial companies, government agencies and prime contractors serving the electromagnetic compatibility markets.

Sales

Net sales have increased 1[illegible] in fiscal 1993 and since 1989 have risen at a compound rate of 20%. During this time, the composition of our sales base has moved increasingly toward commercial rather than defense markets.

Operating Earnings

Operating earnings grew 11% in fiscal 1993. Operating earnings have grown at a compound annual rate of 20% from a loss in 1989.

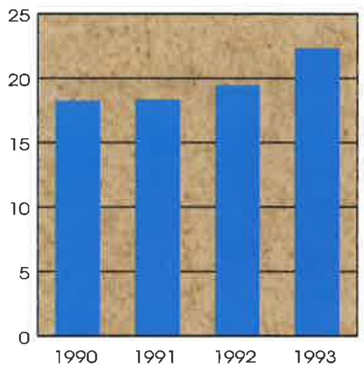
Stockholders' Equity

Stockholders' equity jumped 120% in fiscal 1993, largely due to the effect of our 1,000,000 share offering, with book value per share rising to $5.77 from $4.85 last year. Shareholders' equity has increased five-fold since 1989.

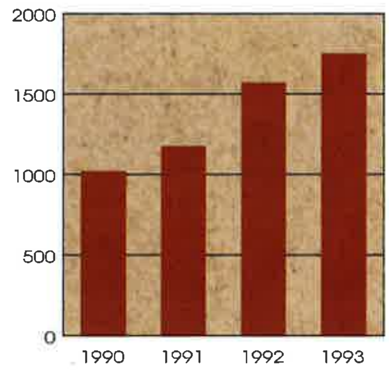
Earnings Per Share

Fiscal 1993 marked Comtech's fourth consecutive year of profitability. Earnings per share in 1993 rose 4%, and reflect a 7% increase in the number of weighted average shares outstanding as a result of our successful common stock offering and an increase in common share equivalents.

Sales
(in millions)



Operating Earnings
(in thousands)



FINANCIAL HIGHLIGHTS

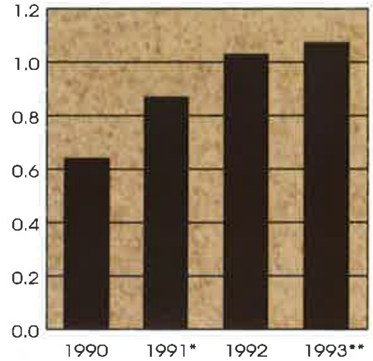
	Year Ended July 31,					
	1993	1992	1991	1990	1989	1988
Net Sales	**$22,265,000**	$19,434,000	$18,333,000	$18,215,000	$10,593,000	$15,770,000
Operating Earnings	**1,753,000**	1,572,000	1,177,000	1,022,000	(1,018,000)	761,000
Net Income	**1,434,000**	1,293,000	2,518,000	784,000	(612,000)	2,296,000
EPS (1) (2)	**1.07**(2)	1.03	.87(1)	.64	(.50)	.50
Working Capital	**11,988,000**	4,935,000	4,091,000	1,282,000	1,081,000	1,171,000
Long Term Debt - Capital Leases	**2,760,000**	2,832,000	697,000	720,000	772,000	13,000
Long Term Debt - Other	—	—	—	—	903,000	895,000
Stockholders' Equity	**13,214,000**	5,999,000	4,705,000	2,185,000	1,400,000	2,008,000
Book Value Per Share	**5.77**	4.85	3.81	1.77	1.13	1.63
Backlog	**9,858,000**	13,393,000	11,800,000	11,400,000	16,800,000	10,000,000
Orders Booked	**18,730,000**	21,027,000	18,733,000	12,815,000	17,393,000	7,600,000

(1) Excludes non-recurring and extraordinary items.

(2) EPS impacted by $.07 per share reflecting a higher number of weighted average shares outstanding resulting from the July 1993 common stock offering and an increase in common share equivalents.

These Financial Highlights 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.

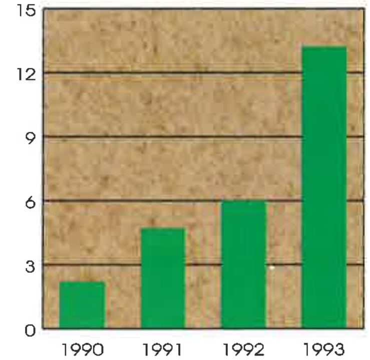
Earnings Per Share



* *Excluding non-recurring and extraordinary items.*

***EPS impacted by $.07 per share reflecting a higher number of weighted average shares outstanding resulting from the July 1993 common stock offering and an increase in common share equivalents.*

Stockholders' Equity
(in millions)



I am pleased to report that 1993 marked the fourth consecutive year of double-digit sales and operating earnings increases for Comtech.

Revenues for the year grew to $22,265,000, a 14.6% increase over 1992 revenues of $19,434,000. Net income for the year was $1,434,000, or $1.07 per share, compared to last year's $1,293,000, or $1.03 per share. Earnings per share for fiscal 1993 were impacted by $.07 per share reflecting a higher number of weighted average shares outstanding resulting from our July 1993 common stock offering and an increase in common share equivalents.

Backlog at July 31, 1993 was $9,858,000 compared to $13,393,000 at July 31, 1992, reflecting booking delays at our Power Systems Technology subsidiary and continuing deferrals in the award of several major projects being pursued at our Comtech Systems subsidiary.

Last year we reported to you that Comtech had four principal internal mandates; to continue to emphasize our global capabilities, to increase the level of cross-marketing, and product and service inclusion by our several operations, to heighten our customer satisfaction responses and to invest our resources in a focused manner. This year we have added a fifth; to intensify further our marketing efforts. Let me update you on our results thus far:

Emphasizing Our Global Capabilities — Comtech currently has over 200 products which it markets in over 100 countries, including, among others, Australia, China, Italy, France, England, Germany, Turkey, Israel, Brazil and Venezuela. Fiscal 1993 afforded us opportunities for further penetration into Pacific Rim countries such as Malaysia, Taiwan, Indonesia and Thailand, as well as South American countries like Peru, Chile and Ecuador.

Of special note are the following contracts awarded to and/or filled by Comtech during this time:

- **Comtech Antenna Systems, Inc.** (CASI) booked and shipped an order for 22 satellite antenna systems for operation with the Geostationary Operational Environmental Satellite (GOES) in Canada, and received new orders for 340 of our 35" quick-erect fold-up type INMARSAT antennas.

- **Comtech Microwave Corp.** (CMC) shipped a line of satellite transmitter systems for use with the GOES satellite operated by the National Oceanic and Atmospheric Administration (NOAA).

- **Comtech Systems, Inc.** (CSI) filled an order for the Peoples Republic of China for 20 sets of tropospheric scatter communication systems, shipped 4 tropospheric scatter terminals for use by the Brazilian Air Defense and received an order for 8 tropospheric scatter communication systems for Taiwan.

- **Power Systems Technology, Inc.** (PST) made its entry into the growing area of wireless communications with a contract for ultra-linear feed forward type high power solid state amplifiers and received an order for a computer-controlled solid state linear feed forward VHF 1KW amplifier for use in a multi-channel satellite communication system.

- **Scientific Power Systems, Inc.** (SPS), our newest subsidiary, received one of its first contracts from the U.S. Army, Aberdeen Proving Grounds, for an automated computer controlled Immunity and Emission Test System.

Our global reach should be strengthened by our successful equity offering in July, 1993, through which we raised approximately $6.5 million of additional capital for the Company. The proceeds will enhance our ability to bid on more and larger contracts, invest in new products or acquisitions, and to further build our infrastructure and increase our sales force.

Increasing Joint Efforts By Our Combined Businesses — Since Comtech is really five companies under one umbrella, we have an opportunity and responsibility to have each contribute resources for the ultimate benefit of the entire company. This is illustrated by the current interrelationship between PST and SPS.

Due to the high levels of electrical interference emitted by computers, cellular phones, radios, automobiles and aircraft (to name a few), a significant market exists for the testing of electromagnetic compatibility (EMC). SPS's products, which test for EMC, incorporate PST's solid state high power amplifiers, resulting in systems and instrumentation that can test nearly any electronic product, at a wide range of radio frequencies and power levels. We search out and press for these opportunities.

Satisfying Customer Needs — Our customers' needs are becoming increasingly more complex at the same time as competition, both domestic and international, intensifies. Working under these pressures, Comtech's dedicated teams seek to meet and exceed our customers' expectations - striving where possible to be the first to market new or updated versions of our products that directly respond to customer needs.

For example, our CASI subsidiary was recently awarded a contract for tropospheric scatter antenna systems capable of functioning under extreme environmental conditions. CASI also developed and refined a line of C- and Ku-band Fly-Away antenna systems, to allow broadcast and other media to transmit information and cover late-breaking or spot news. At PST, we developed our new generation of thin-line computer-controlled frequency up and down converters for use in INTELSAT and DOMSAT type satellite communication systems operating at C-band and Ku-band frequencies.

This year, Comtech moved further along toward obtaining an ISO 9000 Quality Certification by implementing a program of quality management and quality assurance standards based on the guidelines issued by the International Organization for Standardization. To qualify, a company must have a standardized set of procedures and documentation that can be verified and audited. The time and effort being expended to achieve this public recognition for our total quality management will, we believe, be well-rewarded, particularly in our international activities.

Investing Our Resources — One of the things we do best is targeting opportunities, and acting upon them. With limited resources, we have learned to invest them in a particularly focused manner. For example, a little over a year ago we created a new subsidiary, SPS, to address a potential demand for systems and equipment that test for EMC. While we recognize that this new company will incur start-up and research and development costs which are likely to continue to impact earnings until at least the second half of fiscal 1994, we have high expectations for SPS and believe that entry into this growing sector was important to Comtech's future.

Intensifying Our Marketing Efforts — During fiscal 1993 we placed increased emphasis on marketing and intend to continue to do so. Plans for a major expansion of both international and domestic sales representation are under way. With more than half our sales derived internationally, and with new markets opening up, one factor in our success will be increasing our distributors and sales staff. Our priority will be to strategically locate representatives around the globe to serve our existing and potential customers with respect to our company-wide array of products and services.

In August 1993, we were pleased to announce the appointment of J. Preston Windus, Jr. to the position of Vice President and Chief Financial Officer. "Pres" first came to Comtech in 1972 and rejoined us after spending 4 years as President of Fairchild Data Corp.. He succeeds recently retired Gerard R. Nocita, who contributed his skill and expertise to Comtech for 26 years. We thank Jerry for his many dedicated years of important service to Comtech. Comtech will continue to benefit from Jerry's wise counsel as a result of his recent election to the Board of Directors. Jerry fills the vacancy created by the resignation of Joe E. Davis, whose financial expertise, intuitiveness and quickness of mind, benefitted Comtech over the last several years.

Additionally, I am pleased to announce that the Board of Directors was enhanced by the addition of Dr. John B. Payne III. John is the President, CEO and founder of Nucomm Inc., which produces products for Satellite News Gathering Services. We welcome his insight and experience.

Overall, while 1993 was a year of progress - and successes - on many fronts, the challenges are there. Management will be judged in part on how it responds to, among other things, the decline in government defense spending, lower year-end backlog levels and continuing booking delays.

But Comtech's management team, as you know, has been severely tested over the years in these and other areas, and on balance, we are excited by the long-term opportunities we see. Our focus is clear and our energy level to do the job is high.

As always, we appreciate and thank you for your ongoing support and encouragement.

Fred Kornberg

Fred Kornberg
Chairman of the Board
November 2, 1993

Glenn Higgins
President
CASI

As the satellite communications industry expands, CASI's established position as a designer and manufacturer of fiberglass and aluminum antennas is growing. Our customers include a variety of cable, broadcast t.v., radio and other information and entertainment organizations.

Our broad range of over 50 products include fixed and mobile antenna systems and specialized multi-beam satellite antenna systems, capable of receiving signals simultaneously from several different satellites. The bulk of our products are sold to distributors, prime contractors and end users, and are often customized to fit specific requirements.

Our growth opportunities will come from continued demand for our fold-up, quick erect antenna system, used to communicate with International Maritime Satellites (INMARSAT) and our lightweight, "Fly-Away" C-band and Ku-band antenna systems that connect users via Domestic (DOMSAT) and International (INTELSAT) satellites. Our Fly-Away antenna can be carried by commercial airlines anywhere and used for breaking or major on-the-spot news coverage and a variety of temporary installations. Our inclined orbit tracking antennas, introduced last year, will also be an important area of growth for CASI, as they track satellites which are allowed to wander in orbit, thereby conserving fuel and extending the useful life of the satellites.

CASI CASE STUDY

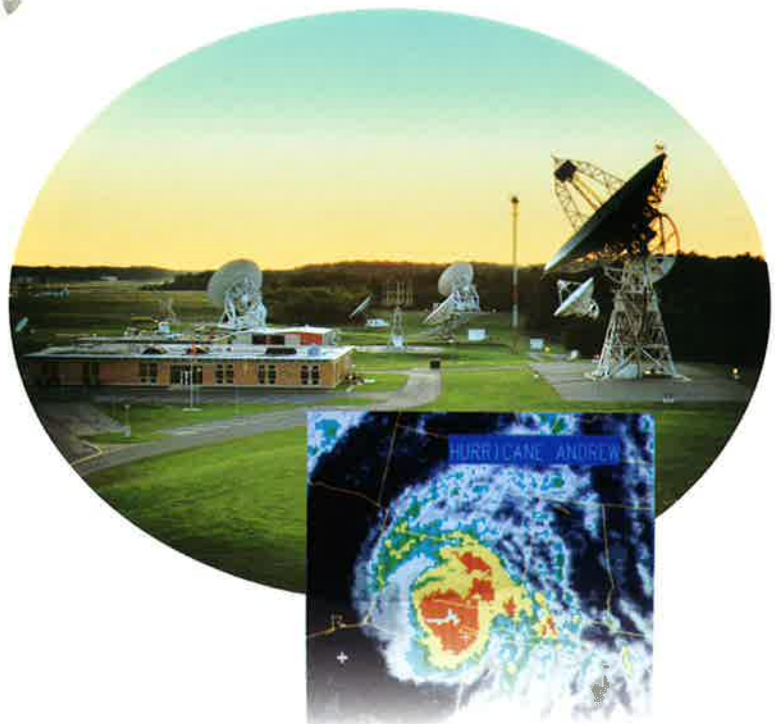
INMARSAT (International Maritime Satellite) network of satellites virtually provides coverage around the entire world for voice, fax, data and telex communications among vehicles moving on sea, land and in the air, plus stationary temporary remote-area installations.

CASI is a major player in this worldwide network with its 35-inch diameter, collapsible antenna being supplied to, among others, Magnavox Nav-Com, Inc. for use with their MAGNAPhone™ portable satellite earth terminal.

CASI has delivered over 700 of their antennas with expectations of many more as the INMARSAT network expands.

As stated in Magnavox Nav-Com, Inc. advertisement, "When Steven Seagal was under siege, he called on the MAGNAPhone™"

Photo courtesy of Magnavox Nav-Com, Inc.



CMC CASE STUDY

Weather satellites, such as GOES and TIROS, have kept a watchful eye on weather around the world for over 30 years. These satellites scan the earth's surface, gathering weather data and transmitting this data to NOAA's processing center near Washington, D.C., where it is computer enhanced and formatted and then retransmitted via Comtech's S-Band Transmitter Uplink system to users/subscribers.

Weather satellite derived data has helped save hundreds of thousands of lives and properties from natural disasters and severe weather, has contributed insights into the earth's environmental balance, made major contributions toward international search and rescue operations, and has helped improve the efficiency of many sectors of our national economy by predicting severe storms, excessive ice conditions and other climatological conditions that disrupt industrial productivity, consumer spending and property investment.

Michael D. Javits
President
CMC

Comtech Microwave's (CMC) satellite products are sold chiefly to agencies of the United States Government for defense applications. Our primary function is to design and manufacture telecommunication equipment for satellite earth stations.

Our products include the growing area of frequency up and down converters, high power klystron tube amplifiers, as well as computerized monitoring and control systems, all of which are marketed to U.S. government agencies and other prime contractors for end use by the U.S. government.

During fiscal 1993, CMC installed S-Band Transmitter Systems for the National Oceanic and Atmospheric Administration (NOAA) of the U.S. Department of Commerce.

These systems will provide improved satellite up-link capability between U.S. facilities and weather satellites located in equatorial (GOES) and polar (TIROS) orbits. The systems will also be used with weather satellites scheduled for future deployment and with foreign satellites such as the European Meteosat.

Richard L. Burt
President
CSI

As Comtech's systems entity, CSI designs and integrates telecommunication systems and equipment, manufactured by it and other Comtech subsidiaries. The systems, many of which are highly customized, are then marketed to domestic and international customers, including commercial users, foreign defense commands and system prime contractors.

Our products include equipment for satellite, tropospheric scatter and terrestrial line-of-sight microwave systems and networks. Some of our recent sales have been to the oil and gas producing companies, a large number of which are operating in the North Sea and South China Sea.

Our tropospheric scatter products, which use analog and digital transmission technology, offer a wide range of choices from high speed data to traditional analog transmission. This ability to tailor systems to specific needs, in conjunction with our extensive turnkey systems experience, ongoing oil and gas projects and development of satellite systems for developing nations, represent major opportunities for CSI.

CSI Case Study

Most oil and gas companies face the same problem — how to effectively communicate with off-shore facilities, given the separation of land and ocean.

During 1993, CSI, under a contract from one of the world's largest oil and gas companies, designed and installed the first ever Digital Troposcatter Backbone Telecommunications system network in the North Sea.

The system is comprised of long haul over-the-horizon communication links connecting two offshore gas production platforms with a shore-based network managed by a United Kingdom authority.

In an environment where safety is a major concern, many oil and gas operators rely more on unattended operation of the platform. Digital remote control links handling voice and data channels, using the latest adaptive tropospheric scatter modem technology, provide automatic RF power control and computer-based remote status and fault alarm monitoring.

PST CASE STUDY

The development of wireless communications products continues to explode. In March of 1993, PST successfully entered this billion dollar market with the award of a contract for high power solid state amplifiers from Interdigital Communications Corporation (IDC).

Under the contract, PST will deliver broadband amplifiers for use in IDC's U.S. and foreign wireless telephone communications networks. The PST amplifier will be part of a system consisting of advanced digital radios and individual subscriber stations.

We intend to become a major player in this exciting arena.

William Liebman
President
PST

Amplifiers, which can be as tiny as a microchip in a hearing aid, or as large as a multi-story building for transmission of signals into space, are indispensable in the world of analog and digital signal processing. Their job is to amplify and faithfully reproduce signals to greater power levels.

PST is a designer, developer and manufacturer of solid state high power amplifiers for applications in wireless communication, high power component testing, electronic defense, communications and intelligence and electromagnetic compatibility systems. Our products are sold to domestic and foreign commercial users, government agencies and prime contractors. Roughly half our products are off-the-shelf, and the other half are customized.

During 1993, PST expanded its satellite communication product line with its new slim-line ultra low phase noise up and down frequency converters, operating in the C- and Ku-band frequencies.

We see our growth coming from the replacement of conventional tube amplifiers with solid state amplifiers, the expanding commercial applications of solid state amplifier technology to higher frequencies, the growing electromagnetic compatibility market, and our new low phase noise microwave frequency up and down converters directed at the growing INTELSAT and DOMSAT satellite earth station markets.

Timothy A. D'Arcangelis
President
SPS

SPS was born out of the growing need for systems that test for Electromagnetic Compatibility (EMC), or interference between electronic devices. Such testing assures that electronic devices and systems will operate in harmony with each other and neither be an unreasonable source of electromagnetic interference nor be unreasonably susceptible when operated in an expected electromagnetic environment.

Our mission is to develop and manufacture state-of-the-art, automated, EMC test systems for commercial and defense applications. To this end, SPS combines its own unique software and special controllers with PST power amplifiers to produce comprehensive and reliable systems.

Driven by new international standards for quality and performance, manufacturers of even the simplest electronic devices will have to demonstrate EMC compliance. These regulations, coupled with the expansion and proliferation of wireless communications and digital electronics, in virtually every imaginable commercial and consumer product, such as computers, cellular telephones, radios, t.v.'s, medical products, aircraft, automobiles and more, assures the need for SPS systems and expertise well into the twenty first century. The potential for SPS is exciting and we look forward to the realization of our potential in this growing market.

SPS CASE STUDY

One of our first contracts was awarded this past September, from the U.S. Army, Aberdeen Proving Grounds, and establishes SPS as a recognized source of EMC systems.

The contract calls for SPS to deliver a complete EMC radiated and conducted Immunity Test System, including software, power amplifiers and support equipment. Our system will be integrated with existing customer equipment and will be used to test and evaluate various systems such as, sophisticated radar, fire control, digital and advanced communications equipments. With the goal of mission success and the potential for life threatening consequences, the importance of such testing for susceptibility to high fields of varying frequencies and power levels is unquestioned.

Results of Operations

Comparison of the Fiscal Years 1993 and 1992

Net Sales. Net Sales were $22,265,000 and $19,434,000 for the fiscal years ended July 31, 1993 and 1992, respectively, representing an increase of $2,831,000, or 14.6%. This increase was principally attributable to a $3,554,000, or 35.2%, increase in international sales partially offset by a $713,000, or 13.7%, decrease in domestic commercial sales. International sales represented approximately 62% and 52% of total net sales for fiscal 1993 and 1992, respectively. Sales to agencies of the United States Government or to end users by such agencies (Government Sales) represented approximately 18% and 21% of the total net sales during such respective periods. Increased net sales were primarily the result of increases in the amount of equipment and systems sold rather than increased unit prices.

The Company attributes the decline in Government Sales and orders principally to reduced United States defense spending. The Company anticipates that United States defense spending will remain at reduced levels for the forseeable future. The Company expects that international sales will remain a substantial proportion of its total sales.

Gross Margin. Gross profit was $6,487,000 and $6,257,000 in the fiscal years ended July 31, 1993 and 1992, respectively, representing an increase of $230,000, or 3.7%. Gross margins decreased from 32.2% in fiscal 1992 to 29.1% in fiscal 1993. The net decrease in gross margin was primarily attributable to lower gross margins on Government Sales, changes in product mix and lower margins on our solid state amplifier products, partially offset by reductions in the provision for contract adjustments which were no longer required. Gross margins in other product areas remained relatively stable.

In general, gross margins are higher for sales of equipment and subsystems than those for tropospheric scatter and satellite systems sales. Systems sales include a relatively high percentage of subcontracted equipment and subsystems to which the Company adds less value and upon which customers allow minimal markup. The Company's strategy includes increasing the proportion of its total sales represented by equipment and subsystems.

Selling, General and Administrative. Selling, general and administrative expenses were $4,420,000 and $4,262,000 in fiscal 1993 and 1992, respectively, representing an increase of $158,000, or 3.7%. The increase was mainly attributable to a full year of expenses associated with our new subsidiary, Scientific Power Systems, Inc. and increased marketing and bid and proposal activity. Selling, general and administrative expenses as a percentage of net sales were 19.8% and 21.9% for fiscal 1993 and 1992, respectively.

In general, equipment sales require relatively higher selling, general and administrative expenses than system sales. The Company anticipates that selling, general and administrative expenses will increase if equipment sales come to represent a higher percentage of the Company's sales.

Research and Development. Research and development expenses were $314,000 and $423,000 in the fiscal years ended July 31, 1993 and 1992, respectively, representing a decrease of $109,000, or 25.8%. Research and development expenses as a percentage of net sales were 1.4% and 2.2% in fiscal 1993 and 1992, respectively. The decrease in expenditures was primarily due to a higher level of customer-funded research and development, the cost of which is recoverable under the contracts to which such expenses relate and is not included in research and development expenses for financial reporting purposes.

Whenever possible, the Company seeks customer-funding for research and development to adapt the Company's products to specialized customer requirements. During the fiscal years ended July 31, 1993 and 1992, the Company was reimbursed $364,000, and $139,000, respectively, by customers for such activities, representing 1.6% and 0.7% of total sales, respectively. In general, research and development expenses in tropospheric scatter and satellite systems and solid state high power amplifier products are customer-funded and are included in cost of products sold. The Company anticipates that research and development expenses will generally increase if equipment and subsystem sales increase.

Operating Earnings. As a result of the foregoing factors, operating earnings increased to $1,753,000 in fiscal 1993 from $1,572,000 in fiscal 1992, an increase of $181,000, or 11.5%. Operating earnings as a percentage of net sales decreased to 7.9% in fiscal 1993 from 8.1% in fiscal 1992.

Interest Expense. Interest expense was $321,000 and $233,000 in the fiscal years ended July 31, 1993 and 1992, respectively. The increase of $88,000, or 37.8%, was the result of a full-year of lease expense in fiscal 1993 versus seven months in fiscal 1992 for the Company's headquarters and production facility in Melville, New York. The lease is being accounted for as a capitalized lease, which, stated generally, requires the allocation of the lease payments to interest and depreciation expenses. The lease was entered into in December 1991.

Interest Income. Interest income for the fiscal year ended July 31, 1993 was $47,000 compared with interest income of $77,000 for the fiscal year ended July 31, 1992. This decrease was primarily due to lower average cash balances throughout fiscal 1993.

Provision for Income Taxes. The provision for income taxes was $45,000 in fiscal 1993, compared to $123,000 in fiscal 1992. The Company's effective tax rate of 3.0% and 8.7% in fiscal 1993 and 1992, respectively, principally relates to state income taxes and a Federal provision for alternative minimum taxes. In 1992 and 1993, the Company was able to use its net operating loss carryforwards (NOL Carryforwards) for United States Federal income tax purposes.

At July 31, 1993, for financial and tax purposes, the Company has NOL Carryforwards of approximately $8,418,000 and $8,657,000, respectively, which expire during the period 1999 to 2004. The difference between these two carryforward amounts is principally a result of certain provisions established for financial reporting purposes which are not currently deductible for income tax purposes. The Company also has general business tax credit carryforwards of approximately $440,000 at July 31, 1993 which expire through 2002.

In accordance with Section 382 of the Internal Revenue Code of 1986, as amended (the Code), as it applies to the NOL Carryforwards and Section 383 of the Code (as it applies to the general business tax credit carryforwards), a change in more than 50% in the beneficial ownership of the Company within a three-year period (an Ownership Change) will place an annual limitation on the Company's ability to utilize its existing NOL Carryforwards and general business tax carryforwards (together, the Carryforwards) to offset United States Federal taxable income in the current and future years. Generally, such limitation would be equal to the value of the Company as of the date of the Ownership Change multiplied by the Federal long-term tax exempt interest rate, as published by the Internal Revenue Service. The United States Treasury Department issued Proposed Regulations in November 1992 and Final Regulations in October 1993 which supersede previously issued Temporary Regulations interpreting Section 382 and 383 and certain Proposed Regulations issued in November 1992 have not yet been adopted as Final Regulations. The Company does not believe that an Ownership Change has occurred due to changes in the beneficial ownership of the Company's Common Stock in the current three-year testing period immediately prior to the completion in July 1993 of the Company's Common Stock Offering (the Offering) pursuant to either the Final, Temporary or Proposed Regulations. Additionally, the Company does not believe that the Offering resulted in an Ownership Change pursuant to either the Final, Temporary or Proposed Regulations. However, the Offering increases the likelihood that future changes in stock ownership (including changes resulting from the exercise of outstanding options and warrants) may result in limitations on the Company's ability to use the Carryforwards in the future. In the event the Offering caused an Ownership Change, the Company believes that the maximum annual amount of taxable income that could be reduced by the Carryforwards would be approximately $450,000, in addition to any built-in gains, NOLs and credits generated subsequent to the Ownership Change.

At present, the Company accounts for income taxes under SFAS 96 "Accounting for Income Taxes." In February 1992, the FASB issued Statement 109, also titled "Accounting for Income Taxes." SFAS 109 is effective for years beginning after December 15, 1992 and earlier adoption is permitted. SFAS 109 can be adopted by retroactively restating financial statements for any number of consecutive years before the effective date. In the earliest year restated, or in the year of adoption if no years are restated, the effect of initially applying this new pronouncement is reported as the cumulative effect of a change in accounting principle in the results of operations.

Upon adoption in fiscal 1994, the Company plans to apply the provisions of the statement without restating prior years' financial statements. It is anticipated that adoption of Statement 109 will not have a material impact on the results of operations, as the deferred tax asset resulting from the effect of the NOL Carryforward would be subject to a 100% valuation allowance, as a result of the potential limitation of their utilization under Section 382 and 383 of the Internal Revenue Code.

During fiscal 1991, the Company received an income tax refund from the Internal Revenue Service of approximately $817,000 relating to certain tax adjustments made for one of the Company's previously owned subsidiaries. Accordingly, the Company recorded the income tax refund as a reduction of income tax expense of $351,000 and approximately $466,000 as interest income.

Comparison of Fiscal Years 1992 and 1991

Net Sales. Net sales were $19,434,000 and $18,333,000 for the fiscal years ended July 31, 1992 and 1991, respectively, representing an increase of $1,101,000, or 6.0%. This increase was principally attributable to a $1,990,000, or 24.4% increase in international sales and a $151,000, or 3.9%, increase in sales to agencies of the United States Government or to contractors or subcontractors with such agencies (Government Sales). This increase was partially offset by a $1,040,000, or 16.6%, reduction in domestic commercial sales. International sales represented approximately 52% and 45% of total net sales for fiscal 1992 and 1991, respectively. Government Sales represented approximately 21% of the total net sales in both fiscal 1992 and 1991. Increased net sales were primarily the result of increases in the volume of equipment and systems sold rather than increased unit prices.

Gross Margin. Gross profit was $6,257,000 and $5,766,000 in the fiscal years ended July 31, 1992 and 1991, respectively, representing an 8.5% increase. The increase in gross profit was due to an increase in both total net sales and in gross margins. Gross margins increased from 31.5% in fiscal 1991 to 32.2% in fiscal 1992. The increase in gross margin was due to both a change in product mix (a greater proportion of higher margin satellite communication equipment sales) and increased margins on specific product lines. While gross margins declined on sales of tropospheric scatter systems, satellite communications equipment margins improved. Gross margins on the sales of the solid state high power amplifier product line in fiscal 1992 were relatively consistent with fiscal 1991.

Selling, General and Administrative. Selling, general and administrative expenses were $4,262,000 and $4,365,000 in fiscal 1992 and 1991, respectively, representing a decrease of $103,000, or 2.4%. Selling, general and administrative expenses as a percentage of net sales were 21.9% and 23.8% for fiscal 1992 and 1991, respectively. This decrease was mainly attributable to a reduction in product sales subject to sales commissions, which were primarily sales of solid state high power amplifier products.

Research and Development. Research and development expenses were $423,000 and $224,000 in the fiscal years ended July 31, 1992 and 1991, respectively, representing an increase of 88.8%. Research and development expenses as a percentage of net sales were 2.2% and 1.2% in fiscal 1992 and 1991, respectively. The increase in research and development expenditures was due primarily to development of light-weight "Fly Away" C-band and Ku-band satellite antenna systems that communicate with DOMSAT and INTELSAT satellites used for breaking or major news coverage, low phase noise microwave frequency synthesizers for use in satellite frequency up and down converters, and a feasibility development study of a digital adaptive modem for troposcatter communications applications.

Operating Income. As a result of the foregoing factors, operating income increased to $1,572,000 in fiscal 1992 from $1,177,000 in fiscal 1991, an increase of $395,000, or 33.6%, and operating income as a percentage of net sales increased to 8.1% in fiscal 1992 from 6.4% for fiscal 1991.

Interest Expense. Interest expense was $233,000 and $137,000 in the fiscal years ended July 31, 1992 and 1991, respectively. The increase of $96,000, or 70.1%, was the result of accounting for the lease for the Company's new corporate headquarters and production facility in Melville, New York as a capitalized lease which, stated generally, requires the allocation of the lease payments to interest and depreciation expenses. The lease was entered into in December 1991.

Interest Income. Interest income for fiscal years ended July 31, 1992 was $77,000 compared with interest income of $597,000 for the fiscal year ended July 31, 1991. This decrease of $520,000, or 87.1%, was principally the result of $466,000 in interest received in fiscal 1991 from an income tax refund from the Internal Revenue Service relating to certain tax adjustments made for a previously owned subsidiary.

Provision for Income Taxes. The provision for income taxes was $123,000 in fiscal 1992, compared to a net tax benefit of $241,000 in fiscal 1991. The fiscal 1991 tax benefit resulted from the income tax refund received from the Internal Revenue Service noted above, which resulted in a $351,000 reduction of the provision for income taxes. The Company's effective tax rate of 8.7% in fiscal 1992 principally relates to state income taxes, as the Company was able to use its net operating loss carryforwards (NOL Carryforwards) for United States Federal income tax purposes. At July 31, 1992, the NOL Carryforwards available for financial reporting and Federal income tax purposes were $9,897,000 and $9,437,000, respectively.

Liquidity and Capital Resources

For the fiscal year ended July 31, 1993, the Company's cash position increased by $7,893,000, from $398,000 at July 31, 1992 to $8,291,000 at July 31, 1993. Operating activities provided $2,888,000 in cash, as a result of net earnings, as adjusted for depreciation and other non-cash charges, the release of restricted cash securing letter of credit obligations and a reduction in accounts receivable, which were partially offset by reductions in accounts payable and accrued expenses. For the fiscal year ended July 31, 1993, the release of restricted cash securing letter of credit obligations resulted in a $1,036,000 increase in cash.

Accounts receivable were $4,694,000 at July 31, 1993 as compared to $7,806,000 at July 31, 1992 net of an allowance for doubtful accounts of $136,000 and $152,000, respectively. Of these amounts, $2,386,000 and $3,181,000, respectively, represented amounts due from customers for products and services rendered as of July 31, 1993 and July 31, 1992, and the balances of $2,308,000 and $4,625,000, respectively, represented unbilled amounts for sales recorded on a percentage-of-completion basis as of such dates. Of the $3,112,000 decrease in accounts receivable, $795,000 represented a net reduction in billed accounts receivable, and the remainder of $2,317,000 represented a net reduction in unbilled accounts receivable. These reductions were primarily attributable to the completion of several major contracts in fiscal year 1993, which contracts had resulted in significant billed and unbilled accounts receivable balances outstanding at July 31, 1992. The portion of accounts receivable represented by unbilled accounts receivable will vary at any time as a function of the volume of contracts being performed by the Company that are accounted for on a percentage-of-completion basis. The Company believes that its allowance for doubtful accounts is sufficient based on past experience and the Company's credit standards. Additionally, the Company generally requires international customers to secure their obligations by letters of credit.

Inventory levels of materials and components and work-in-process were relatively constant, with balances of $3,261,000 and $3,522,000, at July 31, 1993 and July 31, 1992, respectively. The Company generally operates on a job-order cost basis; that is, costs are incurred as work-in-process inventory for specific contracts or "jobs" and, accordingly, will vary as a function of the Company's order backlog. The only general inventory that the Company maintains is for basic components which are common for most of its products. The value of this general inventory was $421,000 and $321,000 at July 31, 1993 and July 31, 1992, respectively.

Accrued expenses and other current liabilities were $1,671,000 at July 31, 1993 and $4,341,000 at July 31, 1992, representing a reduction of $2,670,000. Accounts payable were $2,337,000 at July 31, 1993 and $3,249,000 at July 31, 1992, representing a net decrease of $912,000. The primary reason for the decrease in accrued expenses and other current liabilities was a reduction in the customer advances account of $2,235,000 due to the shipment of the equipment and services for which the advances had been received. The balance of $435,000 results primarily from reductions in previously provided provisions for contract adjustments which were no longer required. The entire $912,000 net decrease in accounts payable, resulted from the application of the funds provided by collection of accounts receivable.

Investing activities generated $5,351,000 of cash, principally resulting from the Company's offering of common stock in which it sold 1,000,000 shares, generating net proceeds of $5,657,000 net of underwriter's commissions and other expenses.

All of the Company's cash is invested in instruments maturing in 90 days or less. At July 31, 1992, $1,036,000 of cash was restricted. Of this amount, $866,000 was being used to secure a letter of credit established to secure a down payment the Company received on one of its contracts. These funds, which are usually proportionally released as shipments are made, were fully released during fiscal 1993. The balance of the restricted cash of $170,000 was used to secure a letter of credit which collateralized a performance bond required under another contract. This performance bond expired in April 1993.

From time to time the Company utilizes short-term bank financing to fund its working capital requirements. During the fiscal year ended July 31, 1993, the Company increased its credit facility with its bank. The $4,500,000 facility will remain in effect until November 30, 1993 and is secured by liens on all corporate personal property, as defined in the credit facility agreement. The Company expects to renew or replace the facility prior to its expiration; however, there can be no assurance that the Company will be able to renew or replace such facility on terms acceptable to the Company or at all. The current facility is comprised of two components: a $3,000,000 working capital line and $1,500,000 for standby letters of credit. The interest rate for this facility is at 1% above the alternate base rate which is defined as a rate per annum equal to the higher of the prime rate in effect on such day or the Federal Funds rate in effect on such day plus 1/2%. The Company is required to pay a facility fee equal to 1/4% per annum of the unused portion of the working capital line. In addition, the Company is required to pay a fee of 1-3/4% per annum of the aggregate outstanding balance of any standby letters of credit. The facility contains a covenant requiring the maintenance of a minimum debt/equity ratio. Any advances in excess of $1,000,000 under the working capital line must be approved by the bank and be used exclusively to fund specific contracts. At July 31, 1993, the interest rate for the facility was 7% and there were no direct borrowings or letters of credit outstanding.

The Company believes that its current cash position, funds generated from operations and funds available from its existing credit facility, collectively, would be adequate to meet the Company's requirements for working capital and capital expenditures at current operating levels at least through the end of the 1994 fiscal year. The Company intends to use the net proceeds from its recent sale of common stock, principally for working capital purposes, including the general expansion of its business, the development of new products, the acquisition of additional product lines and/or companies in allied or synergistic businesses and other general business purposes.

Selected Consolidated Financial Data

	Year Ended July 31, (in thousands except per share amounts)				
	1993	1992	1991	1990	1989
Net sales	**$ 22,265**	$ 19,434	$ 18,333	$ 18,215	$ 10,593
Operating earnings (loss)	**1,753**	1,572	1,177	1,022	(1,018)
Earnings (loss) before extraordinary gain and provision or benefit for income taxes	**1,479**	1,416	1,637	809	(612)
Net income (loss)	**1,434**	1,293	2,518	784	(612)
Earnings (loss) per share (1)					
Earnings (loss) before extraordinary gain	**1.07**	1.03	1.54	.64	(.50)
Extraordinary gain	**—**	—	.52	—	—
Net income (loss)	**1.07**	1.03	2.06	.64	(.50)
Total assets	**20,397**	16,761	8,506	13,562	8,804
Working capital	**11,988**	4,935	4,091	1,282	1,081
Long-term debt, excluding current installments	**2,760**	2,832	697	720	1,675
Stockholders' equity	**13,214**	5,999	4,705	2,185	1,400

No cash dividends have been declared on the Company's Common Stock during any period presented.

(1) Earnings per share data presented has been adjusted retroactively for the Company's 1 for 5 share reverse stock split on January 8, 1991.

CONSOLIDATED BALANCE SHEETS

	July 31,	
	1993	1992
Assets		
Current assets:		
Cash and cash equivalents	**$ 8,291,000**	$ 398,000
Restricted cash securing letter of credit obligations	**—**	1,036,000
Accounts receivable, less allowance for doubtful accounts of $136,000 in 1993 and $152,000 in 1992	**4,694,000**	7,806,000
Inventories, net	**3,261,000**	3,522,000
Prepaid expenses and other current assets	**165,000**	103,000
Total current assets	**16,411,000**	12,865,000
Property, plant and equipment, net	**3,913,000**	3,809,000
Other assets	**73,000**	87,000
Total assets	**$20,397,000**	$16,761,000
Liabilities and Stockholders' Equity		
Current liabilities:		
Current installments of long-term debt (including payable to related party of $263,000 in 1993 and $239,000 in 1992)	**$ 415,000**	$ 340,000
Accounts payable	**2,337,000**	3,249,000
Accrued expenses and other current liabilities	**1,671,000**	4,341,000
Total current liabilities	**4,423,000**	7,930,000
Long-term debt, less current installments (including payable to related party of $2,471,000 in 1993 and $2,734,000 in 1992)	**2,760,000**	2,832,000
Commitments and contingencies (note 12)		
Stockholders' equity:		
Preferred stock, par value $.10 per share; shares authorized and unissued 2,000,000	**—**	—
Common stock, par value $.10 per share; authorized 4,000,000 shares; issued and outstanding 2,292,144 shares in 1993 and 1,235,844 shares in 1992	**229,000**	124,000
Additional paid-in capital	**20,617,000**	14,788,000
Accumulated deficit	**(7,299,000)**	(8,733,000)
	13,547,000	6,179,000
Less:		
Treasury stock (15,000 shares in 1993 and 1992)	**(180,000)**	(180,000)
Deferred compensation expense	**(153,000)**	—
	13,214,000	5,999,000
Total liabilities and stockholders' equity	**$20,397,000**	$16,761,000

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Years ended July 31,		
	1993	1992	1991
Net sales	**$22,265,000**	$19,434,000	$18,333,000
Costs and expenses:			
Cost of sales	**15,778,000**	13,177,000	12,567,000
Selling, general and administrative	**4,420,000**	4,262,000	4,365,000
Research and development	**314,000**	423,000	224,000
	20,512,000	17,862,000	17,156,000
Operating earnings	**1,753,000**	1,572,000	1,177,000
Other expenses (income):			
Interest expense	**321,000**	233,000	137,000
Interest income	**(47,000)**	(77,000)	(597,000)
Earnings before extraordinary gain and provision (benefit) for income taxes	**1,479,000**	1,416,000	1,637,000
Provision (benefit) for income taxes	**45,000**	123,000	(241,000)
Earnings before extraordinary gain	**1,434,000**	1,293,000	1,878,000
Extraordinary gain, net of income taxes	**—**	—	640,000
Net income	**$ 1,434,000**	$ 1,293,000	$ 2,518,000
Earnings per share:			
Earnings before extraordinary gain	**1.07**	1.03	1.54
Extraordinary gain	**—**	—	.52
Net earnings per share	**$ 1.07**	$ 1.03	$ 2.06
Weighted average number of common and common equivalent shares outstanding	**1,346,000**	1,256,000	1,220,000

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years ended July 31,		
	1993	1992	1991
Cash flows from operating activities:			
Net income	**$ 1,434,000**	$ 1,293,000	$ 2,518,000
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	**591,000**	411,000	328,000
Provision for (recovery of) bad debts	**(16,000)**	12,000	24,000
Provision for (reduction of) reserve for inventory obsolescence	**(40,000)**	53,000	—
Amortization of deferred compensation	**34,000**	—	—
Issuance of warrants in connection with settlement of Premier litigation	**50,000**	—	—
Gain on extinguishment of debt	**—**	—	(686,000)
Changes in assets and liabilities:			
Restricted cash securing letter of credit obligations	**1,036,000**	(817,000)	1,093,000
Accounts receivable	**3,128,000**	(4,244,000)	(743,000)
Inventories	**301,000**	(1,335,000)	23,000
Advances to subcontractors	**—**	—	1,104,000
Prepaid expenses and other current assets	**(62,000)**	13,000	28,000
Other assets	**14,000**	(7,000)	268,000
Accounts payable	**(912,000)**	2,455,000	(1,670,000)
Accrued expenses and other current liabilities	**(2,670,000)**	2,220,000	(2,279,000)
Other liabilities	**—**	(63,000)	(65,000)
Net cash provided by (used in) operating activities	**2,888,000**	(9,000)	(57,000)
Cash flows from investing activities:			
Purchases of property, plant and equipment	**(346,000)**	(343,000)	(95,000)
Purchases of short-term investments	**—**	—	(778,000)
Proceeds from maturity of short-term investments	**—**	778,000	—
Net cash (used in) provided by investing activities	**(346,000)**	435,000	(873,000)
Cash flows from financing activities:			
Borrowings under line of credit facility	**1,700,000**	—	—
Repayments of borrowings under line of credit facility	**(1,700,000)**	—	—
Principal payments on long-term debt	**(346,000)**	(234,000)	(800,000)
Principal payments on short-term borrowings	**—**	—	(1,200,000)
Proceeds from issuance of common stock:			
Public offering	**5,657,000**	—	—
Stock options	**15,000**	1,000	2,000
Restricted stock	**25,000**	—	—
Net cash provided by (used in) financing activities	**5,351,000**	(233,000)	(1,998,000)
Net increase (decrease) in cash and cash equivalents	**7,893,000**	193,000	(2,928,000)
Cash and cash equivalents at beginning of period	**398,000**	205,000	3,133,000
Cash and cash equivalents at end of period	**$ 8,291,000**	$ 398,000	$ 205,000
Supplemental cash flow disclosure			
Cash paid during the period for:			
Interest	**$ 321,000**	$ 233,000	$ 137,000
Income taxes	**$ 125,000**	$ 88,000	$ 131,000

See accompanying notes to consolidated financial statements.

Consolidated Statements of Stockholders' Equity

Years ended July 31, 1993, 1992 and 1991

	Common stock		Additional paid-in capital	Accumulated deficit	Treasury stock		Deferred compen-sation	Stock-holders' equity
	Shares	Amount			Shares	Amount		
Balance July 31, 1990	6,174,221	$ 617,000	$14,292,000	$(12,544,000)	75,000	$ (180,000)	$ —	$ 2,185,000
Shares issued in connection with stock option agreement	600	—	2,000	—	—	—	—	2,000
One for five reverse stock split, January 8, 1991	(4,939,377)	(493,000)	493,000	—	(60,000)	—	—	—
Net income	—	—	—	2,518,000	—	—	—	2,518,000
Balance July 31, 1991	1,235,444	124,000	14,787,000	(10,026,000)	15,000	(180,000)	—	4,705,000
Shares issued in connection with stock option agreement	400	—	1,000	—	—	—	—	1,000
Net income	—	—	—	1,293,000	—	—	—	1,293,000
Balance July 31, 1992	1,235,844	124,000	14,788,000	(8,733,000)	15,000	(180,000)	—	5,999,000
Shares issued in connection with public offering of common stock	1,000,000	100,000	5,557,000	—	—	—	—	5,657,000
Warrants issued in connection with settlement of Premier litigation	—	—	50,000	—	—	—	—	50,000
Restricted shares issued pursuant to employment agreement	50,000	5,000	207,000	—	—	—	(187,000)	25,000
Amortization of deferred compensation	—	—	—	—	—	—	34,000	34,000
Shares issued in connection with stock option agreements	6,300	—	15,000	—	—	—	—	15,000
Net income	—	—	—	1,434,000	—	—	—	1,434,000
Balance July 31, 1993	2,292,144	$ 229,000	$20,617,000	$ (7,299,000)	15,000	$ (180,000)	$(153,000)	$13,214,000

See accompanying notes to consolidated financial statements.

(1) Summary of Significant Accounting and Reporting Policies

(a) 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 balances and transactions have been eliminated.

(b) Nature of Business

The Company is engaged in the design, development, manufacture and installation, for commercial and government applications, of high technology communications and radio frequency amplifier equipment.

(c) Revenue Recognition

Sales on long-term, fixed price contracts, including prorata profits, are generally recorded based on the relationship of total costs incurred to date to total projected final costs or, alternatively, as progress billings or deliveries are made. Sales under cost reimbursement contracts are recorded as costs are incurred.

Sales on other contract orders are recognized under the units of delivery method. Under this method, sales are recorded as units are delivered with the related cost of sales recognized on each shipment based upon a percentage of estimated final contract costs. Contract costs include material, direct labor, manufacturing overhead and other direct costs. Retainages and estimated earnings in excess of amounts billed on certain multi-year programs are reported as unbilled receivables.

Sales not associated with long-term contracts are generally recognized when the earnings process is complete, generally upon shipment or customer acceptance.

Provision for estimated losses on uncompleted contracts are made in the period in which such losses are determined.

(d) Cash Equivalents

Cash equivalents consist of highly liquid direct obligations of the United States government with a maturity at acquisition of three months or less. These investments are carried at cost plus accrued interest, which approximates market.

(e) Statement of Cash Flows

In December 1991, the Company entered into a ten-year lease agreement for its corporate headquarters and Melville production facility. For financial reporting purposes, the Company has capitalized this lease at inception in the amount of $2,450,000, net of deferred interest of $1,345,000. Additionally, the Company acquired equipment financed by capital leases in the amounts of $349,000, $133,000 and $124,000 in 1993, 1992 and 1991, respectively. In July 1993, the Company issued a warrant to purchase up to 100,000 shares of common stock in connection with the settlement of the Premier Microwave litigation (note 12(c)).

(f) Restricted Cash Securing Letter of Credit Obligations

At July 31, 1992, the Company was contingently liable under outstanding letters of credit, which were required under the terms of certain contracts. In 1993, upon contract completion, the letters of credit were released.

(g) Inventories

Work in process inventory reflects all accumulated production costs, which are comprised of direct production costs and overhead, reduced by amounts attributable to units delivered. These inventories are reduced to their estimated net realizable value by a charge to cost of sales in the period such excess costs are determined.

Raw materials and components and work-in-process inventory associated with short-term contracts and purchase orders are stated at the lower of cost or market, computed on the first-in, first-out (FIFO) method.

(h) Depreciation and Amortization

The Company's plant and equipment, recorded at cost, are depreciated or amortized over their estimated useful lives (building and improvements - 40 years, equipment - three to eight years) under the straight line method. Capitalized values of properties under leases are amortized over the life of the lease or the estimated life of the asset, whichever is less.

(i) Research and Development Costs

The Company charges research and development costs to operations as incurred, except in those cases in which such costs are reimbursable under customer-funded contracts.

(j) Income Taxes

The Company has adopted Statement of Financial Accounting Standards No. 96 "Accounting for Income Taxes" for financial reporting purposes. Where appropriate, the Company provides deferred income taxes for the tax effects of transactions which are reported in different periods for financial reporting purposes than for income tax purposes. At July 31, 1993 and 1992, no deferred taxes are recorded because of the existence of net operating loss carryforwards. Benefit for such carryforwards is recorded when utilized and is accounted for as a reduction of the provision for income taxes.

(k) Earnings Per Share

Earnings per share are based on the weighted average number of common and common equivalent shares (if dilutive) outstanding during each year. The assumed exercise of warrants and options was not reflected in the computation for the year ended July 31, 1991 because the impact of such assumed exercise would have been immaterial. Fully diluted per share information has been omitted because it does not differ materially from primary earnings per share.

(l) Reclassifications

Certain reclassifications have been made to the prior period financial statements to conform to the 1993 presentation.

(2) Accounts Receivable

Accounts receivable consist of the following at July 31, 1993 and 1992:

	1993	1992
Accounts receivable from commercial customers	**$1,921,000**	$3,080,000
Unbilled receivables (including retainages) on contracts-in-progress	**2,308,000**	4,625,000
Amounts receivable from the United States Government and its agencies	**601,000**	253,000
	4,830,000	7,958,000
Less allowance for doubtful accounts	**136,000**	152,000
Accounts receivable, net	**$4,694,000**	$7,806,000

Substantially all of the unbilled balances will be billed and collected during fiscal 1994.

(3) Inventories

Inventories consist of the following at July 31, 1993 and 1992:

	1993	1992
Raw materials and components	**$ 421,000**	$ 321,000
Work-in-process	**3,568,000**	3,301,000
	3,989,000	3,622,000
Less:		
Progress payments	**668,000**	—
Inventory reserves	**60,000**	100,000
Inventories, net	**$3,261,000**	$3,522,000

(4) Property, Plant and Equipment

Property, plant and equipment consists of the following:

	1993	1992
Land	**$ 40,000**	$ 40,000
Buildings and improvements	**320,000**	320,000
Equipment	**6,380,000**	6,124,000
Leasehold improvements	**217,000**	481,000
Facilities financed by capital leases	**3,365,000**	3,365,000
Equipment financed by capital leases	**1,652,000**	1,303,000
	11,974,000	11,633,000
Less accumulated depreciation and amortization	**8,061,000**	7,824,000
	$ 3,913,000	$ 3,809,000

Depreciation and amortization expense on property, plant and equipment amounted to approximately $591,000, $411,000 and $328,000 for the years ended July 31, 1993, 1992 and 1991, respectively.

(5) Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consist of the following at July 31, 1993 and 1992:

	1993	1992
Customer advances and deposits	**$ 115,000**	$2,350,000
Accrued wages and benefits	**795,000**	663,000
Provision for contract adjustments	**50,000**	520,000
Other	**711,000**	808,000
	$1,671,000	$4,341,000

(6) Line of Credit Facility

The Company has a $4.5 million credit facility with a financial institution which expires on November 30, 1993. The facility is comprised of two components: a $3,000,000 working capital line and $1,500,000 for standby letters of credit. The working capital line is secured by all corporate personal property, as defined in the facility agreement and the outstanding balance of standby letters of credit must be fully secured by cash deposits held in accounts domiciled in the financial institution. The interest rate for this facility is at 1% above the alternate base rate, which is a rate per annum equal to the higher of the prime rate in effect on such day or the Federal Funds rate in effect on such day plus ½%. The Company is required to pay a facility fee equal to ¼% per annum of the unused portion of the working capital line. In addition, the Company is required to pay a fee of 1¾% per annum on the aggregate outstanding balance of any standby letters of credit. The facility contains a covenant requiring the maintenance of a minimum debt/equity ratio. Any advances in excess of $1,000,000 under the working capital line must be approved by the financial institution and be used exclusively to fund specific contracts. At July 31, 1993, the interest rate for the facility was 7% and there were no direct borrowings or letters of credit outstanding.

(7) Long-Term Debt

Long-term debt consists of the following at July 31, 1993 and 1992:

	1993	1992
Obligations under capital leases	**$3,175,000**	$3,172,000
Less current installments	**415,000**	340,000
	$2,760,000	$2,832,000

The obligations under capital leases relate to the St. Cloud, Florida and Melville, New York facilities, as well as certain equipment, the net carrying value of which was $3,118,000 at July 31, 1993.

Future minimum lease payments under capital leases as of July 31, 1993 are:

Years ending July 31,:	
1994	$ 693,000
1995	651,000
1996	620,000
1997	564,000
1998	534,000
Thereafter	1,319,000
Total minimum lease payments	4,381,000
Less amounts representing interest (at rates varying from 6.8 to 13.4%)	1,206,000
	3,175,000
Less current installments	415,000
Obligations under capital leases, net of current installments	$2,760,000

In September 1988, the Company sold and simultaneously leased back its St. Cloud, Florida facility for $600,000, comprised of $450,000 in cash and a $150,000 interest-bearing note payable. The buyer/lessor is a partnership in which one of the Company's officers is a general partner. The $150,000 note provided for a five-year term with semi-annual installments of principal and interest, which was satisfied at July 31, 1993. The lease is for a ten-year period and provides for annual rentals of approximately $167,000 for fiscal 1993, subject to annual adjustment. For financial reporting purposes, the Company has capitalized this lease at inception in the amount of $840,000, net of deferred interest of $492,000. The outstanding balance at July 31, 1993 and 1992 approximated $536,000 and $611,000, respectively.

In December 1991, the Company and a partnership controlled by the Company's Chairman and Chief Executive Officer entered into an agreement in which the Company leases from the partnership its corporate headquarters and Melville production facility. The lease is for a ten-year period and provides for annual rentals of approximately $387,000 for fiscal 1993 subject to annual adjustments equal to the lesser of 5% or the change in the Consumer Price Index. For financial reporting purposes, the Company has capitalized this lease at inception in the amount of $2,450,000, net of deferred interest of $1,345,000. The outstanding balance at July 31, 1993 and 1992 approximated $2,198,000 and $2,362,000, respectively.

(8) Income Taxes

The provision (benefit) for income taxes consists of the following:

	Years ended July 31,		
	1993	1992	1991
Federal	**$ 8,000**	$ 45,000	$ 35,000
State and local	**37,000**	78,000	75,000
Refund of Federal income taxes	**—**	—	(351,000)
	$ 45,000	$123,000	$(241,000)

The difference between the Company's statutory tax rate and effective tax rate is as follows:

	1993		1992		1991	
	Amount	Rate	Amount	Rate	Amount	Rate
Statutory tax rate	**$ 503,000**	**34.0%**	$ 481,000	34.0%	$ 557,000	34.0%
State and local income tax, net of Federal benefit	**24,000**	**1.6**	51,000	3.6	50,000	3.1
Tax benefit carry-forward	**(482,000)**	**(32.6)**	(409,000)	(28.9)	(497,000)	(30.4)
Refund of prior year taxes	**—**	**—**	—	—	(351,000)	(21.4)
Effective tax rate (benefit)	**$ 45,000**	**3.0%**	$ 123,000	8.7%	$(241,000)	(14.7)%

At July 31, 1993, for financial and tax purposes, the Company has net operating loss carryforwards of approximately $8,418,000 and $8,657,000, respectively, which expire during the period 1999 to 2004. The difference between these two carryforward amounts is principally a result of certain provisions established for financial reporting purposes which are not currently deductible for income tax purposes. The Company also has general business tax credit carryforwards of approximately $440,000 at July 31, 1993 which expire through 2002.

In accordance with Section 382 of the Internal Revenue Code of 1986, as amended (the Code), as it applies to the NOL Carryforwards and Section 383 of the Code (as it applies to the general business tax credit carryforwards), a change in more than 50% in the beneficial ownership of the Company within a three-year period (an Ownership Change) will place an annual limitation on the Company's ability to utilize its existing NOL Carryforwards and general business tax credit carryforwards (together, the Carryforwards) to offset United States Federal taxable income in the current and future years. Generally, such limitation would be equal to the value of the Company as of the date of the Ownership Change multiplied by the Federal long-term exempt interest rate, as published by the Internal Revenue Service. The United States Treasury Department issued Proposed Regulations in November 1992 and Final Regulations in October 1993 which supersede previously issued Temporary Regulations interpreting Section 382 and 383 and certain Proposed Regulations issued in November 1992 have not yet been adopted as Final Regulations. The Company does not believe that an Ownership Change has occurred due to changes in the beneficial ownership of the Company's common stock in the current three-year testing period immediately prior to the completion in July 1993 of the Company's common stock offering (the Offering) pursuant to either the Final, Temporary or Proposed Regulations. Additionally, the Company does not believe that the Offering resulted in an Ownership Change pursuant to either the Final, Temporary or Proposed Regulations. However, the Offering increases the likelihood that future changes in stock ownership (including changes resulting from the exercise of outstanding options and warrants) may result in limitations on the Company's ability to use the Carryforwards in the future. In the event the Offering caused an Ownership Change, the Company believes that the maximum annual amount of taxable income that could be reduced by the Carryforwards would be approximately $450,000, in addition to any built-in gains, NOLs and credits generated subsequent to the Ownership Change.

At present, the Company accounts for income taxes under SFAS 96 "Accounting for Income Taxes". In February 1992, the FASB issued Statement 109, also titled "Accounting for Income Taxes". SFAS 109 is effective for years beginning after December 15, 1992 and earlier adoption is permitted. SFAS 109 can be adopted by retroactively restating financial statements for any number of consecutive years before the effective date. In the earliest year restated, or in the year of adoption if no years are restated, the effect of initially applying this new pronouncement is reported as the cumulative effect of a change in accounting principle in the results of operations.

Upon adoption in fiscal 1994, the Company plans to apply the provisions of the statement without restating prior years' financial statements. It is anticipated that adoption of Statement 109 will not have a material impact on the results of operations, as the deferred tax asset resulting from the effect of the net operating loss carryforward would be subject to a 100% valuation allowance, as a result of the potential limitation of their utilization under Section 382 and 383 of the Internal Revenue Code.

During fiscal 1991, the Company received an income tax refund from the Internal Revenue Service of approximately $817,000 relating to certain tax adjustments made for one of the Company's previously owned subsidiaries. Accordingly, the Company recorded the income tax refund as a reduction of income tax expense of $351,000 and approximately $466,000 as interest income.

(9) Stockholders' Equity

(a) Reverse Stock Split

On January 8, 1991, an amendment to the Company's Certificate of Incorporation was approved and adopted to effect a 1 for 5 reverse stock split which provided that (i) each five outstanding shares of the Company's common stock was combined into one share and (ii) authorized shares of common stock was reduced to 4,000,000 shares from 20,000,000. The number of shares outstanding at January 8, 1991 of 6,174,221 was reduced to approximately 1,234,844 subject to adjustment for fractional shares. All references in the accompanying financial statements and notes thereto, relating to 1991 per share and share data have been adjusted retroactively to reflect the stock split.

(b) Option and Warrant Plans and Agreements

The Company has several option and warrant plans and agreements.

1982 Incentive Stock Option Plan - The 1982 Incentive Stock Option and Appreciation Plan provided for the granting to key employees and officers of incentive stock options to purchase up to 160,000 shares of the Company's common stock through September 29, 1992 at prices not less than the fair market value of such shares on the date the option is granted.

The Plan also provided that Stock Appreciation Rights (SARs) may be issued 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. For financial reporting purposes, a difference between the aggregate market value and exercise price of outstanding SARs is considered compensation expense to the Company.

No compensation expense relating to the SARs was incurred during any of the years in the three-year period ended July 31, 1993.

1993 Incentive Stock Option Plan - On January 20, 1993, the stockholders of the Company ratified the adoption of the 1993 Incentive Stock Option Plan ("the Plan"). The Plan is intended to replace the 1982 Incentive Stock Option Plan which expired on September 29, 1992, but options granted under this plan to purchase an aggregate of approximately 148,000 shares of common stock remain outstanding. Up to 125,000 shares of common stock have been reserved for issuance under the Plan. Both incentive and non-qualified stock options may be granted under the Plan. The term of the options may be no more than ten years except for incentive stock options granted to any employee who, prior to the granting of the option, owns stock representing more than 10% of the voting power, for whom the option term may be no more than five years. The exercise price for incentive stock options can generally be no less than the fair market value at the date of grant, with the exception of any employee who, prior to the granting of the option, owns stock representing more than 10% of the voting power, as to whom the exercise price cannot be less than 110% of the fair market value of the Company's common stock at the date of grant. The Plan expires in 2002, unless terminated earlier by the Board of Directors under conditions specified in the Plan. As of July 31, 1993, no options granted under the Plan have been exercised.

As of July 31, 1993, the Company had granted incentive stock options representing the right to purchase an aggregate of 28,700 shares at prices ranging between $4.25-$7.13 per share, of which 17,400 options were canceled and 11,300 are outstanding. The options are exercisable ratably over a five-year period commencing one year from the dates of grant.

Directors' Option Plan - The 1987 Directors' Stock Options Plan provides for the granting of options to purchase up to 2,000 shares to each of the Company's four outside directors at an option price of not less than the fair market price per share at the date of grant. Options become exercisable at the rate of 20 percent per year commencing one year from the date of grant. At July 31, 1993, options to purchase 8,000 shares of the Company's common stock are outstanding.

Public Warrants - In February 1983, the Company sold 160,000 warrants in connection with the issuance of the 13% subordinated notes, which were redeemed in November 1987. Each warrant entitles the holder to purchase one share of the Company's common stock at a price of $55, subject to adjustment, until January 31, 1992. The warrants expired unexercised effective January 31, 1992.

Warrant Held by Storage Technology Corp. (STC) - STC held a warrant, pursuant to a debt agreement, to purchase 90,000 shares of the Company's common stock at an exercise price of $10.00 per share through March 8, 1990. No portion of this warrant was exercised. In September 1990, STC agreed to accept a cash payment of $708,000, including accrued interest of $22,000, in full satisfaction of the outstanding principal balance of approximately $1,372,000. As part of the settlement, the Company agreed to reissue a warrant which provides for the purchase of up to 90,000 shares of the Company's common stock for $7.50 per share. The warrant expires on September 26, 1995 and shares purchased through the exercise of this warrant contain restrictions in voting and transferability. For financial reporting purposes, no value was ascribed to this warrant. In fiscal 1991, the Company recognized an extraordinary gain on this settlement in the amount of $640,000, net of applicable income taxes of $46,000.

Warrant Sold to the Purchaser of Premier Microwave Division (Premier) - As part of the sale of Premier's net assets, Comtech issued a warrant to purchase 100,000 shares of the Company's common stock at a price of $10.00 per share exercisable through July 1992. For financial reporting purposes, this warrant was valued at $50,000. The warrant expired unexercised on July 31, 1992.

Pursuant to a settlement of the litigation arising from the sale of the Company's former Premier Microwave Division, the Company issued to PMCC Acquisition Corporation a warrant to purchase 100,000 shares of the Company's common stock at an exercise price of $8.40. The warrant is exercisable for a period of five years, commencing August 1, 1993 and shares purchased through the exercise of this warrant contain both voting and transferability restrictions.

Underwriter Warrants - Pursuant to the Company's common stock offering completed on July 14, 1993 (note 9(e)), the Underwriter received warrants to purchase 100,000 shares of common stock at a price of 140% of the offering price, or $9.80, for a term of four years beginning on July 14, 1994.

(c) Option and Warrant Activity

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

	Number of shares	Option price range per share
Outstanding at July 31, 1990	456,580	$2.50-55.00
Granted	163,800	2.20-4.00
Expired/canceled	(130,100)	2.50-7.95
Exercised	(600)	2.50
Outstanding at July 31, 1991	489,680	2.20-55.00
Granted	16,940	4.25-5.19
Expired/canceled	(260,000)	10.00-55.00
Exercised	(400)	2.50-3.15
Outstanding at July 31, 1992	246,220	2.20-7.95
Granted	236,680	4.13-9.80
Expired/canceled	(19,060)	3.15-4.25
Exercised	(6,300)	2.35-4.70
Outstanding at July 31, 1993	457,540	2.20-9.80
Options/warrants exercisable at July 31, 1993	94,940	2.20-7.95
Options/warrants available for grant at July 31, 1993	113,700	

(d) Restricted Common Stock

As part of an amended and restated employment agreement dated August 20, 1992, the Company sold 50,000 shares of its common stock, par value $.10 per share, to its president and chief executive officer at a purchase price of $.50 per share, which was ratified by the stockholders. The market value of the Company's common stock at the date of grant was $4.25 per share. The employment agreement requires the forfeiture of these shares, if the recipient leaves the employ of the Company, as defined in the agreement, prior to August 31, 1997.

(e) Common Stock Offering

On July 14, 1993, the Company completed a public offering of its common stock in which it sold 1,000,000 shares at an offering price of $7.00 per share. The net proceeds from the offering, after deducting Underwriter's commissions and other expenses of approximately $1,343,000, were $5,657,000.

On August 5, 1993, the Underwriter exercised its overallotment option to purchase an additional 150,000 shares of common stock at the offering price, resulting in additional proceeds to the Company, net of Underwriter's commissions and other expenses, of $913,500.

(10) Segment and Principal Customer Information

For the purposes of segment reporting, management considers Comtech to operate in one industry, the communications equipment industry.

During fiscal 1993, sales to two foreign customers amounted to $4,035,000 and $2,520,000 or 18% and 11% of consolidated net sales, respectively. During fiscal 1992, sales to another foreign customer amounted to $5,065,000 or 26% of consolidated net sales. During the fiscal years ended July 31, 1993, 1992 and 1991, approximately 18%, 21% and 21%, respectively, of the Company's net sales resulted from contracts with the United States government and its agencies. Export sales comprised 62%, 52%, and 45% of net sales in fiscal 1993, 1992 and 1991.

(11) Postretirement Benefits Other Than Pensions

Statement of Financial Accounting Standards No. 106 "Employers Accounting for Postretirement Benefits Other Than Pensions" (SFAS 106) is effective for fiscal years beginning after December 15, 1992. Under SFAS 106, the cost of postretirement benefits other than pensions must be recognized on accrual basis as employees perform services to earn benefits. Management believes the implementation of SFAS 106 will not have a material impact on the Company.

(12) Commitments and Contingencies

(a) Operating Leases

The Company is obligated under noncancellable operating lease agreements for equipment. At July 31, 1993, the future minimum lease payments under operating leases are as follows:

1994	$ 43,000
1995	35,000
1996	30,000
Thereafter	18,000
	$126,000

Lease expense charged to operations was $40,000, $130,000 and $147,000 in fiscal 1993, 1992 and 1991, respectively.

(b) United States Government Contracts

Certain of the Company's contracts are subject to audit by applicable governmental agencies. Until such audits are completed, the ultimate profit on these contracts cannot be determined; however, it is management's belief that the final contract settlements will not have a material adverse effect on the Company's consolidated financial condition.

(c) Litigation

The Company is subject to certain legal actions which arise out of the normal course of business. It is management's belief that the outcome of these actions will not have a material adverse effect on the Company's consolidated financial position.

On July 9, 1993, the Company, its Chairman, Chief Executive Officer and President, and former auditors settled a litigation arising from the sale of the Company's former Premier Microwave Division (Premier). The plaintiffs had alleged, among other charges, fraud, misrepresentation and breach of contract relating to the acquisition of Premier and sought compensatory and punitive damages in excess of $10,000,000. Pursuant to the settlement agreement, among other things, the parties exchanged releases and the Company paid $51,000 to PMCC Acquisition Corporation (PMCC), canceled PMCC's promissory note to the Company in the principal amount of $1,000,000, plus accrued interest of $418,000 (which amounts had been fully reserved by the Company), and issued to PMCC a warrant to purchase up to 100,000 shares of Common Stock (note 9(b)). For financial reporting purposes, this warrant was valued at $50,000.

Notes to Consolidated Financial Statements

In November 1990, the Company entered into a settlement agreement relating to a contract dispute. The Company's obligation was fully satisfied in exchange for a $200,000 cash payment. As a result, the Company recognized a gain of approximately $348,000, which has been recorded as a reduction of cost of sales in the accompanying statement of earnings for the year ended July 31, 1991.

(13) Quarterly Financial Data (Unaudited)

Summarized quarterly financial data for the fiscal years ended July 31, 1993 and 1992 is as follows:

Year ended July 31,	Quarter				
	First	Second	Third	Fourth	Total
	(In thousands except per share data)				
1993:					
Net sales	$4,873	$6,272	$4,845	$6,275	$22,265
Gross profit	1,515	1,681	1,733	1,558	6,487
Net earnings	232	396	454	352	1,434
Earnings per share	$ .18	$ .30	$ .34	$ .25	$ 1.07
1992:					
Net sales	$3,668	$4,255	$4,674	$6,837	$19,434
Gross profit	1,267	1,220	1,637	2,133	6,257
Net earnings	138	249	353	553	1,293
Earnings per share	$ .11	$ .21	$ .29	$ .42	$ 1.03

Price Range of Common Stock

The Company's common stock has traded on the NASDAQ National Market System since Febuary 18, 1992 under the symbol "CMTL", and prior thereto was quoted on NASDAQ's small capital markets.

The following table sets forth the range of high and low closing bid prices for the Common Stock for the period August 1, 1991 through Febuary 17, 1992 and thereafter the high and low closing sales prices for the Common Stock, in each case as reported by NASDAQ. Such prices do not include retail markups, markdowns, or commissions, and with respect to the period August 1, 1991 through Febuary 17, 1992, do not necessarily reflect actual transactions.

	Common Stock	
	High	Low
Fiscal Year Ending 7-31-92		
First Quarter	5 7/8	2 3/4
Second Quarter	5 1/4	3 7/8
Third Quarter	7 1/2	5
Fourth Quarter	6 1/8	4
Fiscal Year Ending 7-31-93		
First Quarter	5 3/4	4
Second Quarter	7	5 1/8
Third Quarter	7 1/4	5
Fourth Quarter	8 1/4	5 5/8
Fiscal Year Ending 7-31-94		
First Quarter (through October 19, 1993)	13 1/2	7 1/4

As of October 19, 1993, the closing sale quotation of the Common Stock was $10.00 per share. There were 1,500 holders of the Company's Common Stock. Such number of record owners was determined from the Company shareholder's records and does not include beneficial owners of the Company's Common Stock, which are held in the names of various security holders, dealers and clearing agencies.

Management's Responsibility for the Consolidated Financial Statements

The management of Comtech Telecommunications Corp. is responsible for the preparation and integrity of the Consolidated Financial Statements and all other information whether audited or unaudited, in this annual report. The financial statements have been prepared in accordance with generally accepted accounting principles and, where necessary, are based on management's best estimates and judgements. The financial information contained elsewhere in this annual report is consistent with that in the Consolidated Financial Statements.

Comtech Telecommunications Corp.'s independent auditors have been engaged to perform an audit of the Consolidated Financial Statements in accordance with generally accepted auditing standards and the auditors' report expresses their opinion as to the fair presentation of the Consolidated Financial Statements and conformity with generally accepted accounting principles.

Comtech Telecommunications Corp. maintains systems of internal controls that provide reasonable assurance that its accounting, administrative procedures and reporting practices are of the highest quality and integrity. Further, these systems provide reasonable assurance that assets are safeguarded and reliable financial records are maintained for preparing financial statements.

The Board of Directors' Audit Committee, which is composed entirely of directors who are not employees of Comtech Telecommunications Corp. periodically meets with the independent auditors and with management to discuss audit, internal accounting controls and financial reporting matters.

Fred Kornberg
Chairman of the Board
and President

J. Preston Windus, Jr.
Vice President, Chief Financial Officer
and Secretary

Independent Auditors' Report

KPMG Peat Marwick
Certified Public Accountants

The Board of Directors and Stockholders
Comtech Telecommunications Corp.:

We have audited the consolidated balance sheets of Comtech Telecommunications Corp. and subsidiaries as of July 31, 1993 and 1992 and the related consolidated statements of earnings, stockholders' equity and cash flows for each of the years in the three-year period ended July 31, 1993. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Comtech Telecommunications Corp. and subsidiaries as of July 31, 1993 and 1992, and the results of their operations and their cash flows for each of the years in the three-year period ended July 31, 1993 in conformity with generally accepted accounting principles.

Jericho, New York
October 19, 1993

KPMG Peat Marwick

Corporate Data

Board of Directors

Fred Kornberg (1) (4)
Chairman

Dr. George Bugliarello (2) (3)
President, Polytechnic University

Richard L. Goldberg (1) (4)
Partner, Proskauer Rose Goetz & Mendelsohn

Gerard R. Nocita (1) (2)
Treasurer, Village of Patchogue

Dr. John B. Payne, III (3)
President, Nucomm, Inc.

Sol S. Weiner (2) (3)
Managing Director,
Stenhouse, Weiner, Sherman, Ltd

(1) Executive Committee
(2) Audit Committee
(3) Compensation Committee
(4) Directors' Stock Option Plan Committee

Officers

Fred Kornberg
Chief Executive Officer and President

J. Preston Windus, Jr.
Vice President, Chief Financial Officer and Secretary

Richard L. Burt
Vice President;
President of Comtech Systems, Inc.

Glenn Higgins
Vice President;
President of Comtech Antenna Systems, Inc.

Michael D. Javits
Vice President;
President of Comtech Microwave Corp.

Annual Meeting

Stockholders are cordially invited to attend and participate in the Annual Meeting of Stockholders scheduled for Tuesday, January 18, 1994 at 10:00 a.m. at:
Huntington Hilton
598 Broad Hollow Road (Route 110)
Melville, New York 11747
(516) 845-1000

Legal Counsel

Proskauer Rose Goetz & Mendelsohn
1585 Broadway
New York, New York 10036

Independent Auditors

KPMG Peat Marwick
One Jericho Plaza
Jericho, New York 11753

It is the policy of Comtech to support and practice the principle of Equal Opportunity Employment and not to discriminate against any employee or applicant for employment because of race, creed, color, religion, sex, national origin, ancestry, age, handicap, or because he or she is a disabled veteran.

Registrar & Transfer Agent

American Stock Transfer and Trust Company
40 Wall Street
New York, New York 10005

Stock Traded – OTC (NASDAQ Symbol – CMTL)

Corporate Headquarters

Comtech Telecommunications Corp.
105 Baylis Road
Melville, New York 11747
(516) 777-8900

Operating Units

Comtech Antenna Systems, Inc.
3100 Communications Road
St. Cloud, Florida 34769
(407) 892-6111

Comtech Microwave Corp.
105 Baylis Road
Melville, New York 11747
(516) 777-8900

Comtech Systems, Inc.
3100 Communications Road
St. Cloud, Florida 34769
(407) 892-6111

Comtech Systems International, Inc.
3100 Communications Road
St. Cloud, Florida 34769
(407) 892-6111

Power Systems Technology, Inc.
105 Baylis Road
Melville, New York 11747
(516) 777-8900

Scientific Power Systems, Inc.
105 Baylis Road
Melville, New York 11747
(516) 777-8900

Availability of Form 10-K

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

Secretary
Comtech Telecommunications Corp.
105 Baylis Road
Melville, New York 11747
(516) 777-8900

The Company also will furnish exhibits to the Form 10-K to stockholders who request same upon payment to the Company of a $25 fee.

Designed by Cullen & Connors, Inc.

Comtech Telecommunications Corp.
105 Baylis Road
Melville, New York 11747
TEL: (516) 777-8900 • FAX: (516) 777-8877