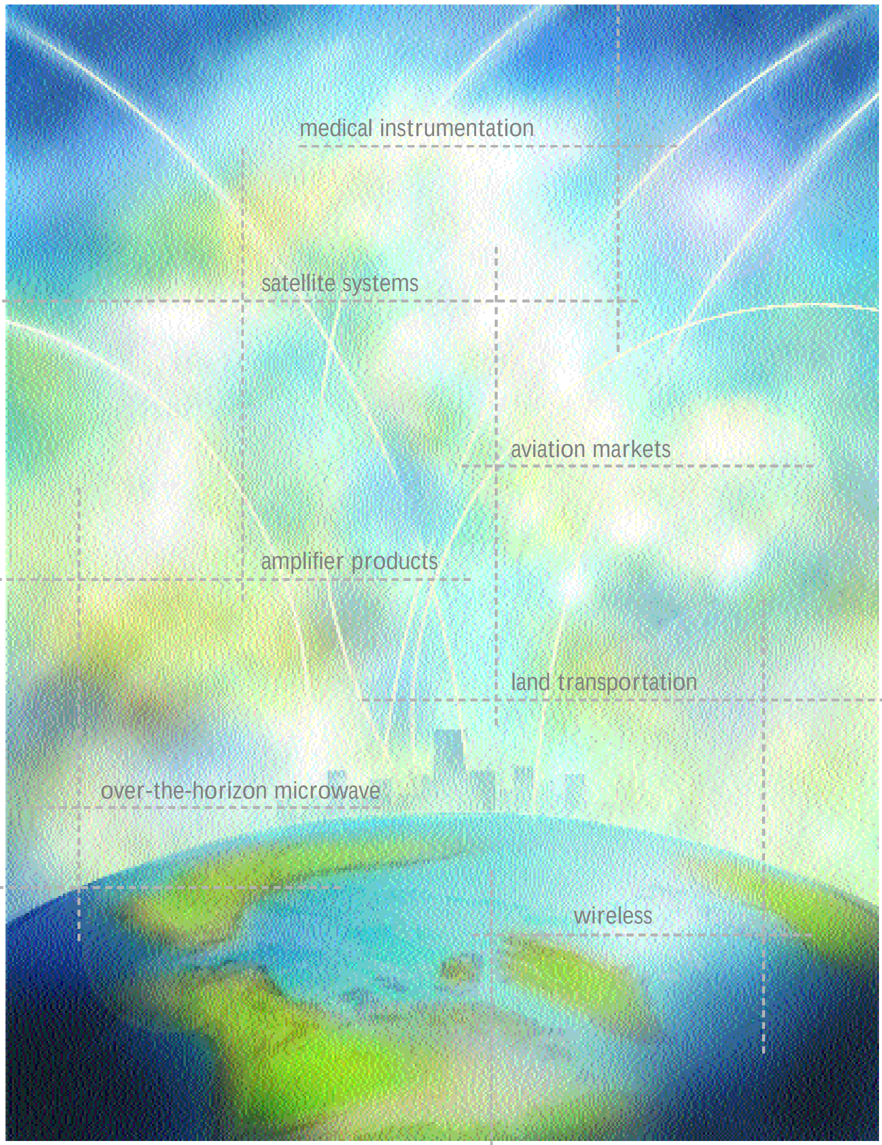
COMTECH TELECOMMUNICATIONS CORP.



annual report 2001

Innovative products and
services for advanced
telecommunications solutions

ABOUT COMTECH

Comtech Telecommunications Corp. (www.comtechtel.com) is an innovative player in the domestic and global high technology markets. Comtech pursues opportunities in three interrelated market segments: telecommunications transmission, RF microwave amplifiers and mobile data communications services. In each of these segments, growth is driven by the increasing demand for telecommunications infrastructure and network and messaging services.

Telecommunications Transmission

Our telecommunications transmission segment provides sophisticated products and systems for information transmission in satellite, over-the-horizon microwave and wireless line-of-sight telecommunications systems. The demand for telecommunications is increasing worldwide as emerging economies seek to modernize their infrastructure and as increasingly information-sensitive markets introduce new telecommunications services. Growth in the telecommunications industry is also being accelerated by both technological advances and deregulation.

Comtech EF Data Corp., located in Tempe, Arizona, designs and manufactures equipment used in commercial and defense satellite communications applications. The equipment includes modems, frequency up converters and down converters, solid state power amplifiers and satellite transceivers. These products comprise a broad range of receiving and transmitting equipment for satellite earth stations offering a variety of state-of-the-art technical capabilities with respect to performance, complexity and value.

Comtech Systems, Inc., located in Orlando, Florida, provides high-quality, reliable telecommunications solutions with products and systems utilizing a variety of technologies, including digital over-the-horizon microwave, digital satellite and wireless line-of-sight microwave for national and international commercial and defense applications.

Comtech Antenna Systems, Inc., located in St. Cloud, Florida, designs, manufactures and markets a wide variety of fiberglass and aluminum antennas for over-the-horizon microwave and satellite communications applications, including distributed network programming, cable and broadcast television and radio, as well as other forms of information and entertainment distribution.

RF Microwave Amplifiers

Comtech PST Corp., located in Melville, New York, is a leading independent supplier of broadband high power, high performance RF microwave amplifiers. PST is one of a limited number of companies designing, developing, manufacturing and marketing high power broadband amplifiers for use in a variety of applications, including cellular and wireless base stations, high power testing systems, defense systems, medical testing systems, electromagnetic compatibility instrumentation and satellite communications.

Mobile Data Communications Services

Comtech Mobile Datacom Corp., located in Germantown, Maryland, is a full-service supplier of satellite-based mobile data communications services for the commercial and government land transportation, remote sensing, utility and aviation markets. These web-enabled services are provided through leased satellite capacity, utilizing our network, mobile transceivers and satellite earth station gateway. This segment is currently providing mobile terminal units and message communications services to the U.S. Army.

Comtech has grown substantially in recent years as evidenced by net sales increasing from $24.7 million in fiscal 1997 to $135.9 million in fiscal 2001, a compound annual growth rate of 53%. This growth has occurred within our internal operations, as well as through acquisitions. During this period of growth, our employee base has increased from approximately 200 to more than 650. More than 275 distinct Comtech products are in service in over 100 countries.

With a leading-edge portfolio of product offerings, a focus on our core businesses, a dedicated and talented employee base and strong financial condition, we believe Comtech is well positioned to be a market leader in the business segments we serve.

2001 FINANCIAL HIGHLIGHTS

Fiscal Year Ended July 31,	2001	2000 (3)	1999 (2)	1998	1997
Net Sales	$ 135,931,000	$ 66,444,000	$ 37,886,000	$ 30,114,000	$ 24,746,000
Operating Income	$ 13,155,000	$ 5,805,000	$ 2,827,000	$ 1,452,000	$ 638,000
EBITDA	$ 19,730,000	$ 7,954,000	$ 4,337,000	$ 2,658,000	$ 1,693,000
Net Income	$ 6,714,000	$ 4,242,000	$ 1,773,000	$ 1,104,000	$ 484,000
EPS - Diluted (1)	$ 0.85	$ 0.68	$ 0.39	$ 0.27	$ 0.12
Stockholders' Equity	$ 65,565,000	$ 57,782,000	$ 18,357,000	$ 12,093,000	$ 10,878,000
Book Value Per Share (1)	$ 8.83	$ 7.95	$ 4.18	$ 3.08	$ 2.79
Backlog	$ 50,094,000	$ 50,538,000	$ 38,637,000	$ 15,452,000	$ 14,724,000
Shares-Diluted (1)	7,910,000	6,280,000	4,573,000	4,166,000	3,906,000
Closing Stock Price	$ 14.55	$ 14.375	$ 11.875	$ 4.333	$ 2.208

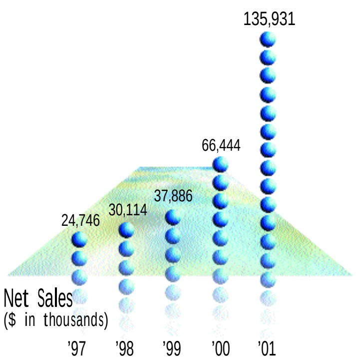
Note:

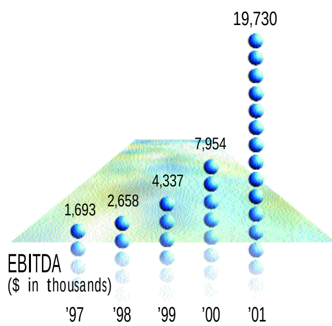
(1) Reflects a three-for-two stock split effective July 30, 1999 and equity offering of 2,645,000 shares on February 17, 2000.

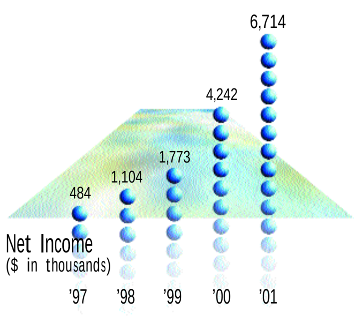
(2) Excludes a non-recurring tax benefit resulting from a reduction in the Company's valuation allowance against deferred tax assets and a loss from discontinued operations. On a pro-forma basis, excluding the non-recurring items, diluted EPS on income before discontinued operations, assuming a normal effective tax rate of approximately 35%, would be $0.39 per share and net income would be $1,773,000.

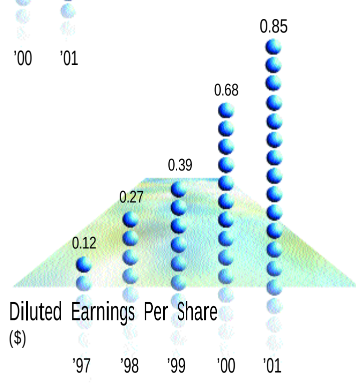
(3) Excludes non-recurring in-process research and development charges, integration costs related to the Company's acquisition of certain assets and liabilities of EF Data Corp. and a loss from discontinued operations. On a pro-forma basis, excluding the non-recurring items, operating income would be $5,805,000 and assuming a normal effective tax rate of approximately 37%, diluted EPS would be $0.68 per share and net income would be $4,242,000.

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.









To Our Shareholders

Fiscal 2001 was yet another record breaking year for Comtech. Our financial performance was outstanding, climbing to record levels by every important measure. We accomplished these results while driving our business forward, integrating our acquisitions, developing new products and maintaining our leadership position in our technologies.

Our accomplishments have been so significant, in fact, that they mark the transformation of Comtech into a very different company from what it was just a year ago.

Nowhere is this more apparent than in our top line growth. Two years ago, when annual revenues amounted to less than $38 million, we established a goal that Comtech would be a $100-million company by fiscal 2002. At the time, that goal may have struck some observers as overly ambitious to say the least. But we didn't merely reach it in fiscal 2001 - a year ahead of schedule - we roared past it. Our revenues for the year, $135.9 million, were more than double the prior year's record total of $66.4 million.

Net income also set a new record: $6.7 million or $0.85 per diluted share, compared with $4.2 million or $0.68 per diluted share, and $1.8 million or $0.39 per diluted share in fiscal years 2000 and 1999, excluding non-recurring items. Operating income and EBITDA (earnings before interest, taxes, depreciation and amortization) were substantially higher than the preceding years.

What's equally important, we begin fiscal 2002 with a healthy balance sheet and a strong position in two of our three core market niches: telecommunications transmission and RF microwave amplifiers. In our third and newest market, mobile data communications services, we are firmly positioned for future growth. The system we have developed for the U.S. Army is slowly but surely being established as the government standard in mobile data location tracking and data messaging technology, and it is rapidly becoming an important competitor in commercial markets.

While most of last year's dramatic increases resulted directly from our July 2000 purchase of the satellite communications business of EF Data, which was accretive to earnings from the outset, our other core businesses also achieved record revenues and did so despite difficulties encountered by many telecommunications companies during last year.

The causes of the recent downturn in the telecommunications market are complex and not entirely clear. Whatever the reasons though, the world's inventory of telecommunications equipment has swelled, and while the process of working through this excess goes on, the industry - Comtech inevitably included - will be affected. Compounding this of course will be the fallout from the tragic events of September.

But as our results for fiscal 2001 indicate, our strong position in the markets we serve helped us to weather the economic downturn that was firmly in place throughout the second half of fiscal 2001. We also believe that such strength will be critical in achieving our goals in fiscal 2002, which promises to be a challenging year for all telecommunications companies.

The Telecommunications Transmission segment of our business was once again a standout performer in fiscal 2001, spearheading our revenue and profitability growth. We believe we are now the principal provider of products and systems in two important parts of this market segment: over-the-horizon microwave communications and satellite ground stations. And with our broad and comprehensive product line we give network and system providers the one-stop-shopping they want and need.

In the second half of fiscal 2001, we strengthened our RF Microwave Amplifier segment by acquiring the commercial satellite, medical and government product lines of Ericsson Corporation's MPD Technologies subsidiary. This acquisition has brought us new customers, new types of amplifier technology and new growth opportunities. In addition to complementing our own strengths in our three principal amplifier product lines (satellite communications, instrumentation and defense), it has positioned us for the first time as a supplier of amplifiers for medical oncology instrumentation and commercial aircraft air-to-ground satellite communications purposes. There are exciting growth opportunities in these areas, and we are pursuing them vigorously.

The newest market segment being served by the company, the Mobile Data Communications Services business made a substantial contribution to our financial results in 2001 with revenues increasing six-fold. Our technology employs satellites, ground stations and the internet to provide users in the public and private sectors with a better, more cost-effective way of locating, monitoring and maintaining two-way communications with mobile assets around the world.

We moved steadily forward with our U.S. Army contract, which has a total potential value of over $400 million, for a global movement tracking system (MTS). The Army to date has placed orders for more than 1,200 MTS units, and late in the fiscal year the Company received a Full Production Decision from the Program Executive Officer for Standard Army Management Systems. This decision permits the Army MTS Project Office to decide to field the MTS throughout the entire Army. We see this as an important expression of confidence in Comtech's performance which, we believe, opens the way to an accelerated deployment of the MTS in the year ahead.

On the commercial front, we received our first non-U.S. mobile data communications order from a value-added reseller in Venezuela for use by commercial trucking operations. This order is just one example of the numerous applications of our technology in emerging commercial markets.

The FCC awarded Comtech a license for the operation of 25,000 mobile earth terminals over the next ten years. The issuance of this license facilitates the possibility of a full rollout of the Comtech MTS system both for the U.S. Army and for commercial customers.

During fiscal 2001 we strengthened our senior management team with the addition of Robert Rouse as chief financial officer and the promotion of former CFO Pres Windus to group vice president overseeing the Comtech PST Corp. and Comtech Mobile Datacom Corp. operating units. Edwin Kantor, former chairman of the investment banking firm Drexel Burnham Lambert, joined our board of directors. He succeeds Dr. John Payne, who made many important contributions during his eight years on the board and found it necessary to resign in order to devote more time to his duties as CEO at Nucomm Corp.

Looking ahead to the new fiscal year, we expect the global economy to experience continuing difficulty. We believe, however, that the opportunities in our markets make this an excellent time to invest in product development and thereby lay the foundation for sustained growth in the years ahead. Accordingly, research and development spending is today a much higher percentage of Comtech's revenue than it has been historically. We regard this as highly worthwhile because it should lead to growth on our top and bottom lines over the long term.

Our balance sheet continues to be an important strategic asset as we move into the future. Among other things, our financial strength gives us the ability to pursue attractive acquisition opportunities. Though we will continue to be prudent in evaluating possible acquisitions, we will also continue to be on the lookout for those that make sense for the company and its shareholders. The right kinds of acquisitions are those that sharpen our competitive edge, enhance our technology portfolio, broaden our ability to offer superior products - and do all these things relatively quickly, not at some vaguely defined future time.

We have, once again, established a goal to combine internal product development with acquisitions to increase our sales above the $300 million mark by fiscal 2004. This will require, on average, sales gains of 30% annually over the next 3 years.

Our strategy to reach this new goal continues to be based on leveraging our technology leadership, winning a bigger share of our increasingly global markets, maintaining our leadership position in all key areas, providing superior customer value, and lowering customers' costs without sacrificing value. In the period ahead, in addition to pursuing the right kinds of acquisitions, our priorities will include the possibility of making strategic alliances aimed at increasing our penetration of the markets we are targeting.

Comtech has a growing reputation as a creator of exciting products and solutions. I am confident that this reputation will continue to grow in the year ahead, and that the actions we are taking today - the investments we are making - will yield important benefits for years to come. We are grateful to our employees, business partners, customers and shareholders for everything they contribute to making our success possible.

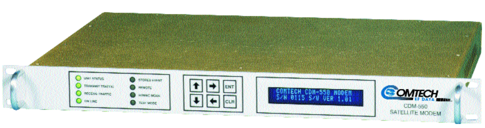
I would also like to say, on behalf of the board of directors and all employees of Comtech, that our thoughts and prayers are with the families who experienced loss in the national tragedy of September 11, 2001.

Fred Kornberg
Chairman, President and CEO
October 16, 2001

Telecommunications Transmission

The telecommunications transmission segment of our business, which has been the primary driver of our growth since the mid-1990's, once again grew at a rapid pace in fiscal 2001. The essentials of our growth strategy have been, and continue to be, the development of new product lines, the ongoing improvement of our current products, and the aggressive protection of our leadership positions in the satellite earth station and over-the-horizon microwave markets. This strategy is being implemented through internal growth, as well as synergistic acquisitions.

Following is a summary of the significant activities within our telecommunications transmission business during the past year:



The most important achievement during fiscal 2001 was the complete and successful integration of EF Data, which was acquired in July 2000, into our telecommunications transmission operations. The acquisition of EF Data has established us as a leader in the design and manufacture of equipment for satellite earth stations, with particular strength in high-speed satellite modems. Comtech has become the only satellite earth station provider who is truly a one-stop shop.

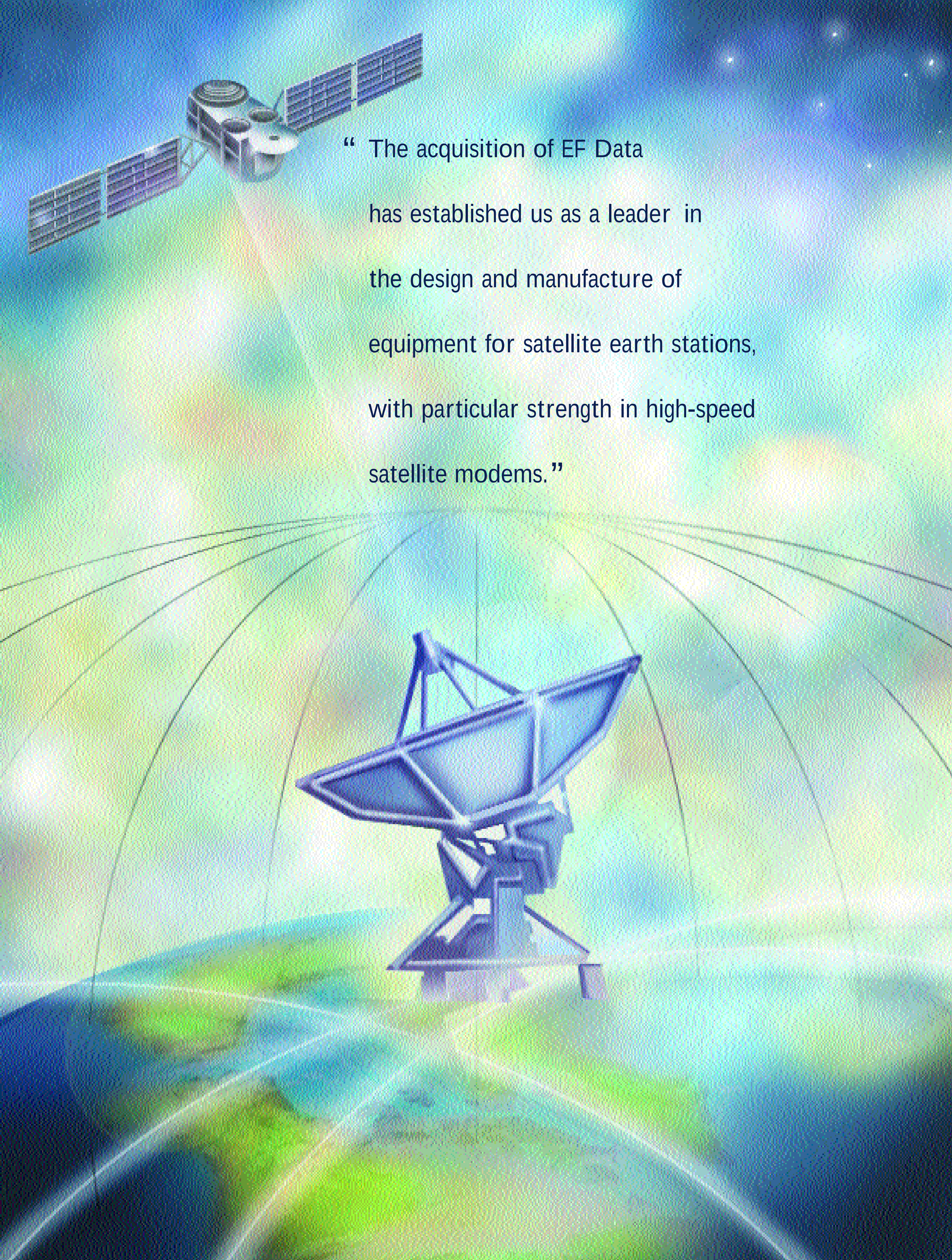
In the first half of fiscal 2001, Comtech EF Data made a number of quality and engineering design improvements to products that were purchased in the acquisition. The second half of the year brought further improvements of this kind, along with several new product introductions. Two new Turbo Codec modems solved a satellite link problem for the U.S. Defense Department, and our new CIM 550T satellite modem has eliminated the need for serial port connections, which can cost up to $2,000 each.

Comtech EF Data is also developing networking solutions for its satellite earth station customers. During fiscal 2001, we completed the hardware installation of a new video conferencing system at two large banks in China. This system utilizes our MIDAS satellite bandwidth on demand system.

Comtech Systems has continued to maintain its position as the world's leading producer of transmission equipment for over-the-horizon microwave communication systems and networks. Our patented adaptive and fade-resistant modems enable us to provide a level of reliability and performance that solidifies our strong position.

In fiscal 2001, we received over-the-horizon orders for an air defense satellite system being installed in Brazil by Alcatel, a tactical system that Nortel Networks is providing to the United Kingdom's Ministry of Defense, and a project with high-density mobile satellite terminals for the Bahamas Telephone Company. These projects have follow-on potential. For example, the U.K. defense project could open the way to contracts with other NATO nations.

We are continuing to pursue commercial customers for our over-the-horizon products, with particular emphasis on the oil and gas industries. Since this technology enables communication over large bodies of water, offshore oil platforms are a key target market for us in this area.



“The acquisition of EF Data has established us as a leader in the design and manufacture of equipment for satellite earth stations, with particular strength in high-speed satellite modems.”

RF Microwave Amplifiers

Long a supplier of radio-frequency and kilowatt-level microwave amplifier products, Comtech greatly expanded its product base in the second half of the 2001 fiscal year with the acquisition of the commercial satellite, government and medical product lines of Ericsson Corp.'s MPD Technologies subsidiary.

This acquisition, which has been integrated into our Comtech PST unit in Melville, New York, has brought Comtech new customers, new types of technology and new growth opportunities in the microwave amplifier market. For example, it has made us a source of amplifiers for medical oncology instrumentation applications and for commercial air-to-ground satellite communications. Because it was completed late in the year, the acquisition had little impact on fiscal 2001 results. However, it is expected to contribute significantly to our revenues in the new year.

Other major events of the past year include:

- Completion of deliveries under a contract from Raytheon to provide amplifiers for a British IFF (identification friend or foe) project, and receipt of a follow-on order valued at $1.9 million.
- The first amplifier delivery under a Thales contract involving a jamming system for the Swiss Army.
- A $1.7 million contract from a new customer, Sonak, S.A., to supply amplifiers for use in a jamming project for the Greek Army.

Over the past several years, we believe there has been essentially no growth in the merchant market for RF microwave amplifiers, and the situation was not helped by the general slowdown in the telecommunications industry that began early in calendar 2001. The long-term outlook remains good, however, with industry analysts forecasting growth at a rate in the neighborhood of 15 percent per year.

Because of the complexity of this technology, and because of the severity of the problems experienced when RF microwave amplifier suppliers fail to perform up to expectations, an unusually high proportion of work in this field is done in-house by prime contractors. Credibility is therefore crucial to any supplier wishing to win major new customers, so that Comtech's reputation as a developer and producer of high-quality, high-performance amplifiers has emerged as an increasingly important competitive advantage. We have already had considerable success in persuading major communications service providers, telephony system producers and defense contractors (Lockheed Martin, Litton, Raytheon and GE, for example) to outsource RF microwave amplifier work to us. The results of our work for such companies, measured in terms of both customer satisfaction and of product performance, provide ample grounds for optimism about the prospects of our continuing expansion of this part of our business.

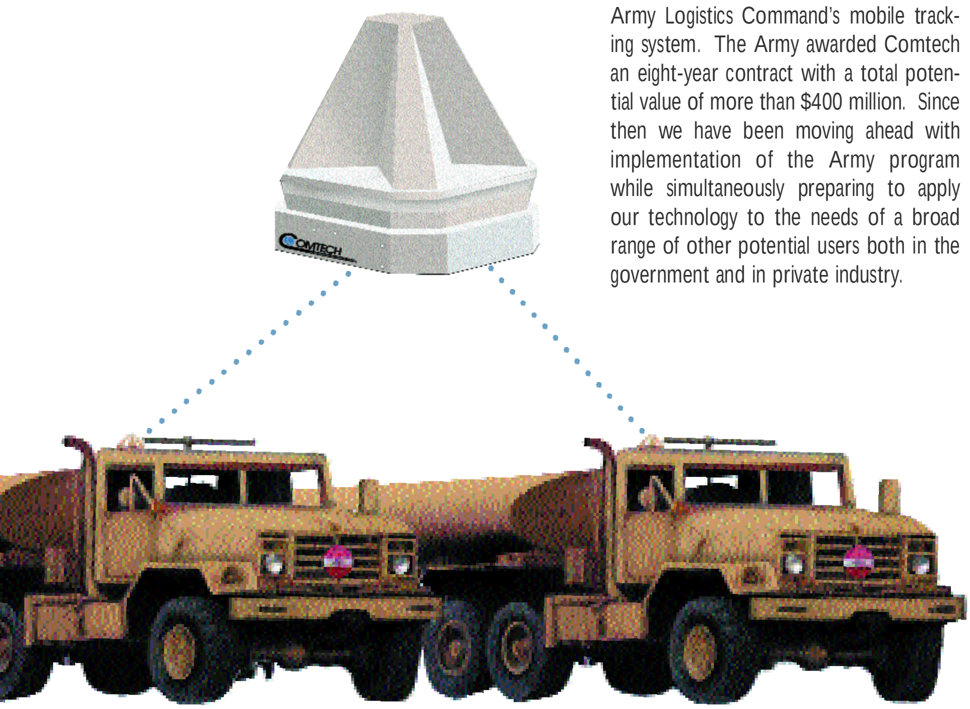
"For example, it has made us a source of amplifiers for medical oncology instrumentation applications and for commercial air-to-ground satellite communications."

Mobile Data
Communications Services

Fiscal 2001 was another year of rapid and significant progress for Comtech's mobile data communications services business, the newest of our three business segments and one that is opening tremendous new opportunities for long-term growth.

The technology developed by Comtech employs satellites and ground stations to provide users in the public and private sectors with a better, more cost-effective way of monitoring and maintaining two-way communications with mobile assets around the world. The Comtech system is now in use with the U.S. Army, and is beginning to penetrate commercial markets both in the U.S. and overseas. It makes possible rapid, secure, real-time communications with trucks, ships and aircraft.

Comtech first emerged as a global leader among providers of mobile data communications systems in 1999, when the company was selected to provide the Army Logistics Command's mobile tracking system. The Army awarded Comtech an eight-year contract with a total potential value of more than $400 million. Since then we have been moving ahead with implementation of the Army program while simultaneously preparing to apply our technology to the needs of a broad range of other potential users both in the government and in private industry.



The following were the most noteworthy events of an eventful fiscal 2001:

FCC license for mobile earth terminals.
The Federal Communications Commission awarded Comtech a license for the operation of 25,000 mobile earth terminals (the devices mounted atop each mobile unit) over the next ten years. The issuance of this license facilitates the possibility of a full rollout of the Comtech system both for the Army and for other customers.

First international order. We received our first non-U.S. mobile data communications order from a value-added reseller in Venezuela, where the system is being introduced for use by commercial trucking operations. More than 1,500 terminals have been ordered, and service has begun. The Venezuela project includes a data control center in Caracas; it will be backed up with Comtech's own gateway facility in Maryland. Possible use of the system by Venezuela's oil and gas exploration and distribution industries is being explored.

"Full Production Decision" by U.S. Army.
In granting a Full Production Decision to the mobile tracking system that Comtech is putting in place for the Logistics Command, the Army has freed the MTS program office from having to receive waivers for each future specific order. This reflects the success of the MTS project thus far and the high priority given to it by the Army, and it is expected to accelerate future deployment of the system. Colonel Stephen Broughall, the Army's MTS Project Manager, said, "this is one of the most streamlined procurement decisions I've ever seen for an Army system. Its speed reflects not only the high priority placed on fielding this system by the Army, but the strong cooperation between Comtech and our project office in successfully completing all the necessary tests and evaluations."

"The Army awarded Comtech an eight-year contract with a total potential value of more than $400 million."

Awards

COMTECH TELECOMMUNICATIONS CORP.

Forbes 200
Best Small Companies

Fast 50 Technology Award

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K

_X_ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended July 31, 2001

__ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number: 0-7928

COMTECH TELECOMMUNICATIONS CORP.
(Exact Name of Registrant as Specified in its Charter)

Delaware	**11-2139466**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**

105 Baylis Road
Melville, New York 11747
(Address of Principal Executive Offices)

Registrant's telephone number, including area code (631) 777-8900

Securities registered pursuant to Section 12(b) of the Act:
None

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, par value $.10 per share
Series A Junior Participating Cumulative Preferred Stock par value $.10 per share
(Title of Class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES: _X_ NO: ___

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. _X_

The aggregate market value of the registrant's voting stock held by non-affiliates of the registrant, computed by reference to the closing sales price as quoted on the Nasdaq National Market on October 12, 2001 was approximately $105,580,000.

DOCUMENTS INCORPORATED BY REFERENCE.

Certain portions of the document listed below have been incorporated by reference into the indicated Part of this Annual Report on Form 10-K:

Proxy Statement for Annual Meeting of Shareholders to be held December 11, 2001	Part III

Note: As used in this Annual Report on Form 10-K, the terms “Comtech,” “we” and “our company” mean Comtech Telecommunications Corp., Comtech’s subsidiaries and Comtech’s predecessor corporation.

All shares and per share information has been adjusted to reflect the three-for-two stock split that occurred in July 1999. See Comtech’s Form 8-K dated July 6, 1999.

PART I

ITEM 1. BUSINESS

Overview

We design, develop, produce and market sophisticated wireless telecommunications transmission products and solid state high-power broadband amplifiers for commercial and government purposes. Our telecommunications products are used in point-to-point and point-to-multipoint telecommunications transmission and reception applications such as satellite communications, over-the-horizon microwave systems, and cable and broadcast television. Our broadband amplifier products are used in communications, cellular and medical instrumentation and defense systems.

We have expanded our business to offer satellite mobile data communications services. In June 1999, this business won a contract from the U.S. Army which, subject to government funding and deployment decisions, provides for the purchase of up to $418.2 million in mobile terminal units and global message communications services over an eight-year period. We believe our mobile data communications products and services will afford the Company important competitive advantages as we endeavor to expand this business with other government agencies and into commercial markets.

Revenue growth over the past five years has been driven by the global expansion of telecommunications services such as satellite systems, cable television, cellular telephone systems, PCS telephony and the Internet. We meet the high performance requirements of our customers by drawing upon proprietary expertise in key microwave amplification and transmission technologies developed over more than 34 years of operations.

A majority of our sales in fiscal 2001 were of products developed by us within the last 5 years, including, for example, linear amplifiers sold to cellular and PCS telephony system manufacturers for testing their systems’ amplifiers, and turbo codec modems sold to satellite systems integrators and service providers for use in voice, data, video and fax transmission over satellite. Our internally funded and customer funded research and development expenses aggregated $11.8 million, $6.9 million and $3.8 million in fiscal 2001, 2000, and 1999 representing 8.7%, 10.4% and 10.0% of our net sales in those fiscal years.

Telecommunications Industry Trends

The demand for telecommunications is increasing worldwide as emerging economies seek to modernize their infrastructure and as increasingly information-intensive markets introduce new telecommunications services. The telecommunications industry has expanded rapidly over the last decade and is forecasted to continue to expand despite the adverse impact in recent months of a soft economy, due to the following major factors:

Deregulation and Privatization. Many developing countries that had previously not committed significant resources to or placed a high priority on developing and upgrading their communications systems are now doing so, primarily through deregulation and privatization. A significant number of these countries do not have the resources, or have large geographic areas or terrain that make it difficult, to install extensive land-based networks on a cost-effective basis. This provides an opportunity for satellite and other wireless communications services systems to meet the requirement for communications services in these countries.

Growing Demand for Data Communications Services. Factors contributing to the growing demand for communications services include worldwide economic development and the increasing globalization of commerce. Businesses have a growing need for higher bandwidth services to communicate with their customers and employees around the world and are increasingly reliant upon Internet and multimedia applications. We expect demand for these kinds of higher bandwidth services to grow in both developed and developing countries.

Increasing Cost-Effectiveness. The relative cost-effectiveness of satellite and other wireless telecommunications services is a major factor driving the growth in areas with rapidly developing telecommunications infrastructures. These developing infrastructures often cover large geographic areas, where population concentrations that are separated by significant distances require a technology whose cost and speed of implementation is relatively insensitive to distance.

Technological Advances. Technological advances continue to increase the capacity of telecommunications networks and reduce the overall cost of the systems and the services they deliver. This increases the number of potential end users for the services and expands the available market. We believe that recent technological developments, such as bandwidth on demand and signal processing methods, will continue to stimulate demand.

Product and Service Segments

We conduct our business through three decentralized but complementary product and service segments: telecommunications transmission, RF microwave amplifiers, and our mobile data communications services business. The segments operate through individual operating units, each of which maintains its own sales, marketing, product development and manufacturing functions. We believe that this organizational structure allows the key personnel of each operating unit to be more responsive to their particular markets and customers. Brief descriptions of our business segments and operating units follow.

> ***Telecommunications transmission* —** modems, frequency up converters and down converters, solid state high-power amplifiers, VSAT transceivers and antennas for satellite ground station applications and adaptive modems and microwave radios for over-the-horizon microwave communications systems. Primary markets include satellite systems integrators and communications service providers, defense contractors and oil companies. Customers include, among others, Globecomm Systems, Hughes Network Systems, IDB Worldcom, DirecTV, ATT Alascom, Northrop Grumman, BP Amoco and Exxon.

> ***RF microwave amplifiers*** — solid state high-power broadband amplifier products in the microwave and radio frequency (RF) spectrums for a wide range of applications, including cellular and wireless instrumentation, medical systems, jamming and identification friend or foe (IFF) and other defense systems. Target markets are communications service providers, cellular and PCS telephony system manufactures and defense contractors. Customers include, among others, Motorola, Ericsson, Nokia Telecommunications, Condor Systems, Siemens Medical Systems, Lucent Technologies, Litton Systems, Raytheon, Lockheed Martin and the U.S. government.

> ***Mobile data communications services*** — secure, real time two-way messaging between mobile platforms, such as land vehicles, rail and aircraft, or remotely placed fixed site sensors and user headquarters through our Germantown, Maryland gateway satellite earth station. The network employs leased satellite capacity to communicate between the mobile platform and user headquarters via satellite, terrestrial and Internet links. Depending upon the end-user's needs, our system can be configured to provide a wide range of data applications, ranging from simple location tracking to messaging, e-mail, broadcasting of information, meter, gauge and other sensor monitoring.

We believe that the global expansion of telecommunications, particularly in developing countries in Asia, South America, the Middle East and Europe, represents a key opportunity for the continued growth of our telecommunications business. Included as international sales are sales made to domestic companies for inclusion in products which are sold to international customers. Sales for use by international customers represented approximately 46.2%, 71.4% and 60.1% of our net sales in fiscal years 2001, 2000 and 1999, respectively.

Our product designs are based on both analog and digital microwave technologies. Digital microwave technology can significantly enhance performance of telecommunications systems. We have invested significant resources in developing our technological expertise, and work closely with customers and potential customers to develop product lines in market niches where we believe our expertise can enable us to become a leading supplier.

Business Strategies

We manage our business with the following principal corporate strategies:

- Operate on a decentralized basis to maximize responsiveness to customers.
- Continue product innovation through investment in research and development.
- Capitalize on synergies among our business segments to secure larger contracts.
- Pursue acquisitions and investments in complementary businesses, technologies, products and services.

Specific operating strategies for our business segments include:

Telecommunications transmission.

- Continue broadening our line of satellite ground station products to better serve our customers with a full line of video, data and voice products.
- Enhance our existing products to serve rapidly developing markets requiring higher speed and greater bandwidth, such as emerging applications for wireless Internet access.
- Maintain our market leadership in over-the-horizon microwave technologies by broadening applications and increasing product performance.

RF microwave amplifiers.

- Continue to incorporate the latest advances in solid state device electronics.
- Maintain our broadband technology in this product sector to encourage system integrators and end users to outsource their requirements rather than pursue this specialized field in-house.
- Broaden our product line to include medical instrumentation.
- Combine high-power amplifiers and solid state switches for advanced communications applications.

Mobile data communications services.

- Maximize the opportunities available to supply the Logistics Command under the U.S. Army contract.
- Pursue identified opportunities to offer our products and services to other government agencies.
- Penetrate the emerging markets for commercial uses, particularly in the land mobile and remote sensing markets.

Important Developments

In June 1999, the U. S. Army awarded us a contract which, subject to government funding and deployment decisions, provides for the purchase of up to $418.2 million in mobile transceiver units and global data messaging communication services over an eight-year period. Through July 31, 2001, we received orders for $15.9 million under this contract, which can be terminated by the U.S. Army at any time for its convenience. We cannot assure you that we will receive any more such orders.

On February 17, 2000, we completed a public offering of our common stock in which we sold 2,300,000 shares at an offering price of $17.50 per share. On February 29, 2000, the underwriter exercised its over-allotment option to purchase an additional 345,000 shares. The net proceeds of the offering and exercise of the over-allotment option was approximately $42.4 million.

In July 2000, we acquired the business of EF Data, the satellite communications division of Adaptive Broadband Corporation for approximately $54.2 million in cash. The acquisition is being accounted for under the "purchase method" of accounting. Accordingly, we allocated the purchase price to the assets purchased and the liabilities assumed based upon the estimated fair values at the date of the acquisition. The excess of the purchase price over the fair values of the net assets acquired was approximately $26.8 million, of which $10.2 million was allocated to in-process research and development and was expensed as of the acquisition date, $7.5 million was valued as purchased technology, $3.6 million was valued as other purchased intangibles and $5.5 million has been recorded as goodwill. Forty million dollars of the purchase price was supplied through institutional secured borrowings bearing interest at 9.25% due in installments through 2005, and the balance from internal company funds. We combined this operation with our existing Arizona satellite communications operations included in our telecommunications transmissions segment.

In April 2001, we acquired certain assets and product lines of MPD Technologies, Inc. for $12.7 million. The acquisition was accounted for under the "purchase method" of accounting. Accordingly, we have recorded the assets purchased and the liabilities assumed based upon the estimated fair values at the date of acquisition. The excess of the purchase price over the fair values of the net assets acquired was approximately $9.7 million, of which $1.8 million has been allocated to customer base, $1.8 million has been allocated to existing technology and $6.1 million has been allocated to goodwill. The purchase price was financed through $10 million of institutional secured borrowings and the balance from internal company funds. The secured borrowing bears an interest rate of 8.5% and requires interest only payments through June 2005 at which time the entire principal is due. We combined this operation with our Comtech PST Corp. operation in our RF microwave amplifiers segment.

Telecommunications Transmission Business Segment

The demand for telecommunications is increasing worldwide as emerging economies seek to modernize their infrastructure and as increasingly information-intensive markets introduce new telecommunications services. The telecommunications industry has expanded rapidly during the last decade due to technological advances and deregulation. Advances in technology have lowered per-unit communications costs, increased product reliability and encouraged a proliferation of new and enhanced communications products and services.

In making procurement decisions, customers for telecommunications transmission equipment must weigh the relative costs and advantages of the six presently available transmission technologies: copper cable, fiber optic cable, high frequency radio systems, wireless microwave systems, over-the-horizon microwave systems and satellite systems. Rarely is a complete communications network or system based solely on one of these technologies. Transmission of information can be routed through a combination of technologies, each employed where most cost-effective. Our products are used in systems employing satellite, over-the-horizon microwave, terrestrial line-of-sight microwave and wireless technologies.

Copper Cable, the traditional transmission medium most familiar to customers, is being replaced and supplemented by the other media, particularly for high-volume broadband and long distance transmissions where it has substantial capacity, cost and reliability limitations.

Fiber Optic Cable is best suited to high-volume broadband, point-to-point, short or long distance links where its advantages–capacity, quality and security–justify the long lead-time and high cost to equip and install a network.

High frequency (HF) radio systems employ long wavelengths which are propagated beyond line-of-sight distances either by surface waves traveling along the earth's perimeter or by skywave reflection of the transmitted waves off different layers of the ionosphere. This mode of transmission is very limited in capacity.

Wireless and line-of-sight microwave communications systems generally used for point-to-point communications, employ signals with extremely short wavelengths which travel only in line-of-sight paths over relatively short distances, generally under 30 miles, can be quickly and easily installed, require relatively low initial capital investment and provide broadband capacity which can be upgraded and expanded over time.

Over-the-horizon microwave communication systems transmit signals over distances from 30 to 600 miles by reflection of the transmitted signals off the troposphere, an atmospheric layer located approximately seven miles above the earth's surface. Such systems offer a high level of reliability and security, are limited in capacity but are used for transmission over unfriendly terrain.

Satellite communications systems have grown and diversified in response to demand for efficient broadband and accurate long distance voice and video communication and digital information exchange. In a satellite communications system, information is relayed to and from microwave transmitting and receiving stations on the ground by means of a low earth orbit (LEO), medium earth orbit (MEO), or geostationary earth orbit (GEO) satellites, which are generally placed in an orbit from 600 to 22,300 miles above the earth's equator. Satellite communications systems are particularly useful where long-range, broadband high capacity and high quality point-to-point or point-to-multipoint communication transmission is desirable. As few as three GEO satellites can provide global communications coverage. These systems, which use microwave technology, are well suited for rapid introduction of long distance service in remote areas or where communication alternatives are unavailable, such as mobile, shipboard or defense applications.

Our Comtech EF Data Corp. operating unit, located in Tempe, Arizona, designs and manufactures equipment used in commercial and defense satellite communications. The equipment includes modems, frequency up converters and down converters, solid state power amplifiers and satellite VSAT transceivers, which combine our frequency converters with solid state, high-power amplifiers. These products comprise a broad range of receiving and transmitting equipment offering a variety of state-of-the-art technical capabilities with respect to performance, complexity and value. Our turbo codec modem product line offers significantly improved performance, power and bandwidth performance over traditional systems. This operating unit is a combination and integration of our Comtech Communications Corp. subsidiary with our newly acquired EF Data product line. The acquisition of EF Data's business expanded Comtech's growing telecommunications capabilities and enhanced Comtech's product offerings, distribution reach and market presence. Additionally, it enabled Comtech to enter the growing satellite networking solution business.

Our Comtech Systems, Inc. operating unit, located in Orlando, Florida, has a product line consisting primarily of equipment for over-the-horizon microwave systems and networks. It has a turnkey capability that ranges from system and network planning through equipment and system training and operation and maintenance programs. It also supplies satellite telecommunications systems by combining its products with equipment manufactured by our other operating units and third parties. Comtech Systems, Inc. markets its products and services to oil and gas companies and other commercial users, foreign defense commands and system prime contractors. We believe that Comtech Systems, Inc.'s products, which employ adaptive modem digital transmission technology, offer high-speed data (8 mbs) benefits over the traditional analog and digital (2 mbs) over-the-horizon microwave products offered by its sole competitor.

Our Comtech Antenna Systems, Inc. operating unit, located in St. Cloud, Florida, designs, manufactures, and markets a wide variety of fiberglass and aluminum antennas for over-the-horizon microwave and satellite communication applications, including distributed network programming, cable and broadcast television and radio as well as other forms of information and entertainment distribution. Comtech Antenna Systems, Inc. designs antennas for specific types of telecommunications systems and, typically, sells standardized products to independent distributors, prime contractors and end-user customers. Comtech Antenna Systems, Inc.'s antenna product line includes fixed and mobile antenna systems and specialized multi-beam satellite antenna systems that are capable of receiving signals simultaneously from many independent satellites located up to 60 degrees apart.

RF Microwave Amplifier Business Segment

Amplifiers reproduce signals with greater power, current or voltage amplitude. Indispensable in the world of signal processing, amplifiers can be as tiny as a microchip for a hearing aid or as massive as a multi-story building for transmitting radio signals to submerged submarines or to outer space.

In telecommunications, solid state high-power amplifiers are used to amplify signals for radiation from transmitting antennas in satellite or other wireless telecommunications systems. They are also used to amplify signals in defense, radar and electronic jamming systems. In the laboratory, solid state, high-power amplifiers are used to test the performance of high power microwave and wireless electronic system components used in cellular and PCS networks.

Solid state, high-power amplifiers are also used in electromagnetic compatibility and susceptibility testing. The proliferation of electronic systems in products such as automobiles, computers, wireless telephones, radios, televisions, medical equipment, aircraft and other products has led to increasingly serious problems with electromagnetic interference. Manufacturers, therefore, test these electronic systems for electromagnetic compatibility and susceptibility using broadband high-power RF microwave amplifiers such as those we manufacture. For example, such testing may be used to determine whether the various electronic systems in a commercial aircraft are likely to be affected by the use of laptop computers, wireless telephones or video games by passengers in flight.

We believe our Comtech PST Corp. operating unit, located in Melville, New York, is one of a small number of companies designing, developing, manufacturing and marketing broadband high-power large signal amplifiers in the microwave and RF spectrums. Our recent acquisition of assets and product lines from MPD Technologies, Inc. discussed above, further expands our product offerings in this segment for applications, including wireless and air-to-ground satellite telecommunications, medical oncology systems, instrumentation and defense systems. Comtech PST Corp. sells its products to domestic and foreign commercial users, government agencies and prime contractors. We believe it is an innovative supplier of these amplifiers and related processing equipment.

Mobile Data Communications Services Business Segment

The demand for mobile data communications services and products has increased dramatically in recent years for both government and commercial applications. This demand has been driven by advances in digital technology coupled with the need to better locate, track, manage, monitor and communicate with mobile and fixed assets. The transmission of information may be done over various systems, i.e., terrestrial, cellular or satellite, depending on the most cost-effective approach to meet the application's requirements.

We are continuing to develop and market a Web-enabled, satellite-based mobile data communications system for the land mobile, remote sensing, utility, aviation and maritime markets. Applications include asset location and tracking, two-way mobile messaging, e-mail and automated reading of sensors, including meters and gauges. Through our satellite earth station gateway in Germantown, Maryland, we can route signals to and from mobile or fixed, remote terminals via leased satellite capacity. Customers can access their messages or data through an Internet or terrestrial connection to their headquarters' Web sites.

While the service is satellite-based, we do not own satellites. Worldwide coverage is available today, and multiple system coverage is available in many regions as well. Satellite capacity, as required, can be leased for our data communications services, which represents a significant advantage in consideration of the increasingly competitive environment for sale or lease of satellite capacity. As a result, we believe that our data services costs will be among the lowest in the industry, and ongoing product development efforts will enable us to maintain this competitive advantage.

In early 1999, Comtech Mobile Datacom Corp. led a multi-company team in competing for the U.S. Army's Movement Tracking System, a system to be deployed by the U.S. Army for global use in tracking its assets and communicating by message in real time with these vehicles from fixed and mobile command centers. The contract was awarded to Comtech Mobile Datacom Corp. in June 1999. The contract allows for purchases of up to $418.2 million of equipment and services over an eight-year period, and is also open to other government agencies to procure their tracking and messaging requirements. While the U.S. Army and other government agency business is expected to become a major source of our growth in the near term, we intend to expand our customer base for mobile data communications services and products into commercial markets. The system, which will be used by the U.S. Army, can be made immediately available for use as a commercial system. Through July 31, 2001, we have received orders for $15.9 million under this contract, which can be terminated by the U.S. Army at any time for its convenience.

Sales, Marketing and Customer Support

Our international sales (including sales to prime contractors' international customers) from all three business segments represented approximately 46.2%, 71.4%, and 60.1% of total net sales in fiscal 2001, 2000 and 1999, respectively. We expect that international sales will remain a substantial portion of our total sales for the foreseeable future.

Domestic commercial sales represented approximately 30.7%, 19.8% and 24.3% of our total net sales in fiscal 2001, 2000 and 1999, respectively. The balance of our sales were to U.S. government departments or agencies and represented 23.1%, 8.8% and 15.6% of our total net sales in fiscal 2001, 2000 and 1999, respectively.

There were no customers in fiscal 2001, which constituted 10% or more of our total net sales. Sales to one customer, a major U.S. aerospace prime contractor, represented 43.1%, and 27.0% of our total net sales for fiscal 2000 and 1999, respectively. A substantial portion of our sales are derived from a relatively small number of large customer contracts.

Each of our operating units conducts its own sales and marketing efforts. In some instances, our operating units may bundle other units' products. Sales and marketing strategies vary with particular markets served and include direct sales through sales, marketing and engineering personnel, sales through independent representatives, value-added resellers or a combination of the foregoing. Our operating units enter into sales distribution agreements for certain products with distributors. Unlike sales representatives, who merely find customers on a commission basis, some of our distributors purchase products from us for resale. We intend to continue to expand domestic and international marketing efforts through independent sales representatives, distributors and value-added resellers.

Our management, technical and marketing personnel establish and maintain relationships with customers. Our strategy includes a commitment to provide ongoing customer support for our systems and equipment. This support involves providing direct access to engineering staff or trained technical representatives to resolve technical or operational problems.

Backlog

Our backlog as of July 31, 2001 and 2000 was approximately $50.1 million and $50.5 million, respectively. We expect that a substantial majority of the backlog as of July 31, 2001 will be recognized as sales during fiscal 2002. We received payments with respect to progress billings and advance payments aggregating approximately $2.1 million as of July 31, 2001 in connection with orders included in the backlog at that date. At July 31, 2001 approximately 23.4% of that backlog consisted of U.S. government contracts, subcontracts and government funded programs, approximately 49.7% consisted of orders for use by foreign customers (including sales to prime contractors' international customers) and approximately 26.9% consisted of orders for use by domestic commercial customers.

Our backlog consists solely of orders believed to be firm. In the case of contracts with departments or agencies of the U.S. government, including our Mobile Datacom contract discussed above, orders are only included in backlog to the extent funding has been obtained for such orders. All of the contracts in our backlog are subject to cancellation at the convenience of the customer or for default in the event that we are unable to perform under the contract.

Variations in backlog from time to time are attributable, in part, to the timing of our preparation and submission of contract proposals, the timing of contract awards and the delivery schedules on specific contracts. As a result, we believe our backlog at any point in the fiscal year is not necessarily indicative of the total sales anticipated for any particular future period. Our Comtech Antenna and Comtech EF Data businesses operate under short lead times and usually generate sales out of inventory, as is also the case for a significant portion of our Comtech PST amplifier business.

Manufacturing and Service

Our manufacturing operations consist principally of the assembly and testing of electronic products we design and build from purchased fabricated parts, printed circuits and electronic components and, in the case of antennas, the casting of fiberglass antennas. We employ formal quality management programs and other training programs, including International Standards Organization's (ISO 9000) quality procedure registration programs. Our Comtech PST Corp., Comtech Systems, Inc. and Comtech EF Data Corp. operating units have been qualified for ISO 9001.

Our ability to deliver products to customers on a timely basis is dependent, in part, upon the availability and timely delivery by subcontractors and suppliers of the components and subsystems that we use in manufacturing our products. Electronic components and raw materials used in our products are generally obtained from independent suppliers. Some components are standard items and are available from a number of suppliers. Others are manufactured to our specifications by subcontractors. We obtain certain components and subsystems from a single source or a limited number of sources. We believe that most components and equipment are available from existing or alternative suppliers and subcontractors. A significant interruption in the delivery of such items could have a material adverse effect on our business and results of operations.

Research and Development

The technology used in our products is subject to rapid development and frequent change. Our business position is in large part contingent upon the continuous refinement of our scientific and engineering expertise and the development, either through research and development or acquisitions, of new or enhanced products and technologies.

A majority of our sales in fiscal 2001 were of products developed by us within the past five years, including, for example, linear amplifiers sold to cellular and PCS telephony system manufacturers for testing their systems' amplifiers and turbo codec modems sold to satellite systems integrators and service providers for use in high performance voice, data, video and fax transmission.

Our aggregate research and development expenditures (internal and customer funded) were 8.7%, 10.4% and 10.0% of total net sales in fiscal 2001, 2000 and 1999 respectively. We reported internal research and development expenses of $10.2 million, $2.6 million and $2.0 million in fiscal 2001, 2000 and 1999 respectively, representing 7.5%, 4.0% and 5.3% of total net sales, respectively, for these periods. A portion of our research and development efforts relates to the adaptation of our basic technology to specialized customer requirements and is recoverable under such contracts, and such expenditures are not included in our research and development expenses for financial reporting purposes. During fiscal 2001, 2000 and 1999, we were reimbursed by customers for such activities in the amounts of $1.7 million, $4.3 million and $1.8 million, respectively.

Patents and Licenses

Although we own or hold licenses for a number of patents, patents and licenses have been of substantially less significance in our business than our scientific and engineering know-how, production techniques, the timely application of our technology and the design, development and marketing capabilities of our personnel. We rely on the laws of unfair competition, restrictions in licensing agreements and confidentiality agreements to protect such knowledge and techniques.

Competition

Our product businesses are highly competitive and characterized by rapid technological change. In addition, the number of potential customers for our products is limited. Our growth and financial condition depend, among other things, on our ability to keep pace with such changes and developments and to respond to the sophisticated requirements of an increasing variety of electronic equipment users. Many of our competitors are substantially larger, have significantly greater financial, marketing, research and development, technological and operating resources and broader product lines than we do. A significant technological breakthrough by others, including smaller competitors or new companies could have a material adverse effect on our business. In addition, certain of our customers have technological capabilities in our product areas and could choose to replace our products with their own.

In the market for mobile data communications services, there are several much larger competitors with existing systems. The most prominent of these competitors is Qualcomm Incorporated. Existing competitors are aggressively pricing their products and services and may continue to do so in the future. We anticipate that new competitors will enter the market in the future. Competitors continue to offer new value-added products and services, which we may be unable to match on a timely or cost-effective basis. Increased competition may impact margins throughout the industry.

We believe that competition in all of our markets is based primarily on product performance, reputation, delivery times, customer support and price. Due to our decentralized organizational structure and proprietary know-how, we believe we have the ability to develop, produce and to deliver equipment on a cost-effective basis faster than many of our competitors.

Key Personnel/Employees

We believe our success is dependent upon the continued contributions of our key management personnel, including the key management at each of our operating units, and depends to a significant extent upon Fred Kornberg, our Chairman, Chief Executive Officer and President. Many of our key personnel, particularly the key engineers, would be difficult to replace, and are not subject to employment or non-competition agreements. The development of our mobile data communications services business is particularly dependent upon Joel R. Alper, the President of Comtech Mobile Datacom Corp. The success of our telecommunications transmissions segment is particularly dependent upon Richard L. Burt, President of our Comtech Systems, Inc. subsidiary and Robert L. McCollum, President of our Comtech EF Data Corp. subsidiary. Our growth and future success will depend in large part upon our ability to attract and retain highly qualified engineering, sales and marketing personnel. Competition for such personnel from other companies, academic institutions, government entities and other organizations is intense. Although we believe we have been successful to date in recruiting and retaining key personnel, we may not be successful in attracting and retaining the personnel we require in order to continue to grow and operate profitably. The management skills that have been appropriate for our business in the past may not continue to be appropriate if our business continues to grow and diversify.

At July 31, 2001, we had 651 employees, 349 of whom were engaged in production and production support, 180 in research and development and other engineering support and 122 in marketing and administrative functions. None of the employees are represented by a labor union. We believe that our employee relations are good.

Compliance with Federal, State and Local Environment Protection Laws

We are subject to a variety of local, state and federal governmental regulations relating to the storage, discharge, handling, emission, generation, manufacture and disposal of toxic or other hazardous substances used to manufacture our products, particularly in connection with the fabrication of fiberglass antennas by Comtech Antenna Systems, Inc. We believe that we are currently in compliance in all material respects with such regulations and that we have obtained all necessary environmental permits to conduct our business. To date, compliance with federal, state or local environment protection laws has not had a material effect on our capital expenditures, earnings or competitive position, and we do not expect that such compliance will have a material effect in the future.

ITEM 2. PROPERTIES

Our corporate offices are located in a portion of the 46,000-square foot facility on more than two acres of land in Melville, New York, which also houses Comtech PST. We lease this facility from a partnership controlled by our Chairman, Chief Executive Officer and President. The lease, as amended, provides for our exclusive use of the premises as they now exist for an initial term of ten years through December 2001. We have the option to extend the term of the lease for an additional ten-year period and a right of first refusal in the event of a sale of the facility. We have exercised our option to extend the lease for an additional ten-year period. The base annual rental under the lease is subject to adjustments.

We lease the 32,000-square foot facility on eight acres of land used by Comtech Antenna Systems, Inc. in St. Cloud, Florida from a Florida land trust which was controlled by the President of Comtech PST. The lease provides for our exclusive use of the premises as they now exist for a term expiring September 2003. We have the option to extend the term of the lease for an additional five-year period. The base annual rental under the lease is subject to adjustments. The President of Comtech PST sold his interest in the facility during fiscal 2001.

We lease a 72,500-square foot facility for Comtech Systems, Inc. in Orlando, Florida from an unrelated third party. The lease provides for the exclusive use of the premises as they now exist through April 2002. The base annual rental is subject to adjustments.

We lease the 32,000-square foot facility on eight acres of land used by Comtech Antenna Systems, Inc. in St. Cloud, Florida from a Florida land trust which was controlled by the President of Comtech PST. The lease provides for our exclusive use of the premises as they now exist for a term expiring September 2003. We have the option to extend the term of the lease for an additional five-year period. The base annual rental under the lease is subject to adjustments. The President of Comtech PST sold his interest in the facility during fiscal 2001.

We lease a 72,500-square foot facility for Comtech Systems, Inc. in Orlando, Florida from an unrelated third party. The lease provides for the exclusive use of the premises as they now exist through April 2002. The base annual rental is subject to adjustments.

We lease a 113,000-square foot facility in Tempe, Arizona for our Comtech EF Data Corp. operating unit from an unrelated third party. The lease provides for the exclusive use of the premises as they now exist through January 2006.

We lease 7,100-square feet of space located in Germantown, Maryland that is used by Comtech Mobile Datacom Corp. from an unrelated third party. This lease provides for the exclusive use of the premises as they now exist through August 2004.

ITEM 3. LEGAL PROCEEDINGS

Two former employees have commenced an action in the United States District Court, District of New Jersey, against the Company and others asserting, among other things, breach of certain restricted stock agreements and seeking unspecified monetary damages, specific performance of the restricted stock agreements, including the issuance of an aggregate 225,000 shares of the Company’s Common Stock for a purchase price of $.10 per share, and other relief. The Company believes it has meritorious defenses to all the claims asserted and intends to vigorously defend the action. It has filed an answer and has asserted certain counterclaims. There is a pending motion of the plaintiffs to dismiss the counterclaims and to strike certain of the affirmative defenses. The Company has opposed the motion and cross-moved to dismiss the claims of one plaintiff.

We are subject to certain legal actions, which arise, in the normal course of business. We believe that the outcome of these actions will not have a material effect on our consolidated financial position or results of operations.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to our stockholders during the fourth quarter of the fiscal year ended July 31, 2001.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our common stock trades on the Nasdaq National Market under the symbol "CMTL." The following table shows the quarterly range of the high and low sale prices for our common stock as reported by the Nasdaq National Market. Such prices do not include retail markups, markdowns, or commissions.

	Common Stock	
	High	Low
Fiscal Year Ended 7-31-00		
First Quarter	$ 14.56	8.00
Second Quarter	29.50	14.13
Third Quarter	26.25	10.38
Fourth Quarter	17.13	8.63
Fiscal Year Ended 7-31-01		
First Quarter	$ 19.88	12.00
Second Quarter	19.50	9.00
Third Quarter	19.00	11.00
Fourth Quarter	17.99	11.45

Dividends

We have never paid cash dividends on our common stock and we intend to continue this policy for the foreseeable future. We expect to use earnings to finance the development and expansion of our business. Our Board of Directors reviews our dividend policy periodically. The payment of dividends in the future will depend upon our earnings, capital requirements, financial condition and other factors considered relevant by our Board of Directors.

Approximate Number of Equity Security Holders

As of October 12, 2001, there were approximately 743 holders of the Company's common stock. Such number of record owners was determined from the Company shareholders' records and does not include beneficial owners of the Company's common stock held in the names of various security holders, dealers and clearing agencies.

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The following table shows selected historical consolidated financial data for Comtech. Detailed historical financial information is included in the audited consolidated financial statements for fiscal years 2001 and 2000.

	Year Ended July 31, (In thousands, except per share amounts)				
	2001	2000	1999	1998	1997
Consolidated Statement of Operations Data:					
Net Sales	$135,931	66,444	37,886	30,114	24,746
Cost of sales	87,327	45,942	26,405	21,330	17,670
Gross profit	48,604	20,502	11,481	8,784	7,076
Expenses:					
Selling, general and administrative	22,707	12,058	6,554	6,013	5,415
Research and development	10,190	2,644	2,022	1,319	1,023
In-process research and development	-	10,218	-	-	-
Amortization of intangibles	2,552	230	78	-	-
	35,449	25,150	8,654	7,332	6,438
Operating income (loss)	13,155	(4,648)	2,827	1,452	638
Other expenses (income):					
Interest expense	4,015	381	204	234	284
Interest income	(2,303)	(1,511)	(65)	(36)	(33)
Other (income) expense, net	841	201	(39)	(30)	(151)
Income (loss) from continuing operations before income taxes	10,602	(3,719)	2,727	1,284	538
Provision (benefit) for income taxes	3,888	85	(3,754)	180	54
Income (loss) from continuing operations	6,714	(3,804)	6,481	1,104	484
Discontinued operations:					
Loss from operations of discontinued segment (less applicable income tax benefit of $79 in 2000 and $320 in 1999)	-	(137)	(622)	-	-
Loss on disposal of discontinued segment, including provision of $430 for operating losses during phase out period (net of income tax benefit of $306)	-	-	(594)	-	-
Net income (loss)	$ 6,714	(3,941)	5,265	1,104	484
Basic income (loss) per share:					
Income (loss) from continuing operations	$ 0.91	(0.67)	1.56	0.28	0.13
Loss from discontinued operations	-	(0.02)	(0.29)	-	-
Basic income (loss)	$ 0.91	(0.69)	1.27	0.28	0.13
Diluted income (loss) per share:					
Income (loss) from continuing operations	$ 0.85	(0.67)	1.42	0.27	0.12
Loss from discontinued operations	-	(0.02)	(0.27)	-	-
Diluted income (loss)	$ 0.85	(0.69)	1.15	0.27	0.12
Weighted average number of common shares outstanding-					
Basic	7,348	5,663	4,143	3,902	3,873
Potential dilutive common shares	562	-	430	264	33
Weighted average number of common and common equivalent shares outstanding assuming dilution-					
Diluted	7,910	5,663	4,573	4,166	3,906

Other Consolidated Operating Data:					
Backlog at period-end	$50,094	50,538	38,637	15,452	14,724
New orders	135,487	78,345	61,071	30,842	29,770
Research and development-internal and customer funded	11,846	6,916	3,801	1,675	1,459
EBITDA (1)	19,730	7,954	4,337	2,658	1,693

(1) Earnings from continuing operations before interest, taxes, depreciation and amortization and non-recurring items.

	As of July 31, (In thousands)				
	2001	2000	1999	1998	1997
Consolidated Balance Sheet Data:					
Total assets	$ 146,988	126,031	29,847	19,710	17,960
Working capital	67,089	65,267	10,192	8,917	7,930
Long-term debt	42,000	37,900	-	-	-
Long-term capital lease obligations	2,157	908	959	1,445	1,310
Other long-term liabilities	259	367	-	-	-
Stockholders' equity	65,565	57,782	18,357	12,093	10,878

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

We design, develop, produce and market sophisticated wireless telecommunications transmission products and systems and solid state high-power broadband amplifiers for commercial and government purposes. Our products are used in point-to-point and point-to-multipoint telecommunication applications such as satellite communications, over-the-horizon microwave systems, telephone systems and cable and broadcast television. Our broadband amplifier products are also used in cellular and PCS instrumentation testing and certain defense systems.

Our business consists of three segments: mobile data communications services, telecommunications transmission, and RF microwave amplifiers. We began reporting financial results on a segment basis in fiscal 1999. Our sales of mobile data communications services may increase substantially if, when and as orders are received under our contract with the U.S. Army and we penetrate other government and commercial markets for these services.

Our sales are made to domestic and international customers, both commercial and governmental. International sales (including sales to prime contractors for end use by international customers) are expected to remain a substantial portion of our total sales for the foreseeable future due to the growing worldwide demand for wireless and satellite telecommunication products and services and our expanded line of RF microwave amplifier product offerings to meet these demands.

At times, a substantial portion of our sales may be derived from a limited number of relatively large customer contracts, the timing of which cannot be predicted. Quarterly sales and operating results may be significantly affected by one or more of such contracts. Accordingly, we can experience significant fluctuations in sales and operating results from quarter to quarter.

Sales consist of stand-alone products and systems. For the past five years we have endeavored to achieve greater product sales as a percentage of total sales, because product sales generally have higher gross profit margins than systems sales. In the future, as our installed base of mobile data communications terminals is established, we expect an increasing amount of our sales will be attributable to the recurring service revenue component of our mobile data communications services segment.

We generally recognize income under contracts only when the products are shipped. However, when the performance of a contract will extend beyond a 12-month period, income is recognized on the percentage-of-completion method. Profits expected to be realized on contracts are based on total sales value as related to estimated costs at completion. These estimates are reviewed and revised periodically throughout the lives of the contracts, and adjustments to profits resulting from such revisions are made cumulative to the date of the change. Estimated losses on long-term contract-in-progress are recorded in the period in which such losses become known.

Our gross profit is affected by a variety of factors, including the mix of products, systems and services sold, production efficiency, price competition and general economic conditions.

Selling, general and administrative expenses consist primarily of salaries and benefits for marketing, sales and administrative employees, advertising and trade show costs, professional fees and amortization of deferred compensation.

Our research and development expenses relate to both existing product enhancement and new product development. A portion of our research and development efforts is related to specific contracts and is recoverable under those contracts because they are funded by the customers. Such customer-funded expenditures are not included in research and development expenses for financial reporting purposes but are reflected in cost of sales.

In the first quarter of fiscal 1999, we acquired the assets and assumed certain liabilities of two businesses through newly formed, wholly-owned subsidiaries: Comtech Mobile Datacom Corp., our mobile data communications services business; and Comtech Wireless, Inc., our wireless local loop business. Both acquisitions were accounted for using the purchase method of accounting. In June 1999, the U.S. Army awarded Comtech Mobile Datacom Corp. a contract which, subject to, among other things, government funding and deployment decisions, provides for the purchase of up to $418.2 million in mobile terminal units and global data communications services over an eight-year period. Sales will be dependent upon annual government funding and deployment decisions.

Comtech Wireless, Inc. designed and manufactured wireless local loop systems for the rural and remote telephony market. Due to disappointing results and uncertain prospects, effective July 31, 1999, we adopted a plan to liquidate Comtech Wireless, Inc. on or about January 31, 2000. The results of operations for the segment have been shown as a discontinued operation in the consolidated financial statements. Comtech Wireless, Inc. did not have any sales in fiscal 1999, 2000 and 2001.

In January 2000, we acquired certain assets and assumed certain liabilities of Hill Engineering Inc. ("Hill") in exchange for 50,000 shares of the Company's common stock. The acquisition was accounted for under the "purchase method of accounting". The purchase price amounted to approximately $371,000, which principally represents the fair value of the initial 30,000 shares of common stock to be issued to Hill. The remaining 20,000 shares were placed in escrow and will only be released to the sellers if certain profit goals, as defined in the agreement are met and will be recorded at fair value on the date when the profit goals are met. This business is part of the RF microwave amplifiers segment. The excess of the purchase price over the net assets acquired of approximately $606,000, net of amortization, is included in goodwill in the accompanying consolidated balance sheet.

In July 2000, we acquired the business of EF Data, the satellite communications division of Adaptive Broadband Corporation for cash. The acquisition was accounted for under the "purchase method" of accounting. Accordingly, we allocated the purchase price to the assets purchased and the liabilities assumed based upon the estimated fair values at the date of the acquisition. The excess of the purchase price over the fair values of the net assets acquired was approximately $26.8 million, of which $10.2 million was allocated to in-process research and development and was expensed as of the acquisition date, $7.5 million was valued as purchased technology, $3.6 million was valued as other purchased intangibles and $5.5 million has been recorded as goodwill. Forty million dollars of the purchase price was supplied through institutional secured borrowings bearing interest at 9.25% due in installments through 2005, and the balance from internal company funds.

In April 2001, we acquired certain assets and product lines of MPD Technologies, Inc. for cash. The acquisition was accounted for under the "purchase method" of accounting. Accordingly, we have recorded the assets purchased and the liabilities assumed based upon the estimated fair values at the date of acquisition. The excess of the purchase price over the fair values of the net assets acquired was approximately $9.7 million, of which $1.8 million has been allocated to customer base, $1.8 million has been allocated to existing technology and $6.1 million has been allocated to goodwill. The purchase price was financed through $10 million of institutional secured borrowings and the balance from internal company funds. The secured borrowing bears interest at a rate of 8.5% and requires interest only payments through June 2005 at which time the entire principal is due. We combined this operation with our Comtech PST Corp. operation in our RF microwave amplifiers segment.

Results of Operations

The following table sets forth, for the periods indicated, certain income and expense items expressed as a percentage of our net sales:

	Year Ended July 31,		
	2001	2000	1999
Net sales	100%	100%	100%
Gross margin	35.8	30.9	30.3
Selling, general and administrative expenses	16.7	18.1	17.3
Research and development expenses	7.5	4.0	5.3
Amortization of intangibles	1.9	0.4	0.2
Operating income (loss) from continuing operations	9.7	(7.0)	7.5
Interest expense (income), net	1.3	(1.7)	0.4
Income (loss) before income taxes	7.8	(5.6)	7.2
Net income (loss)	4.9	(5.9)	13.9

Comparison of Fiscal 2001 and 2000

Net Sales Consolidated net sales were $135.9 million and $66.4 million for fiscal 2001 and 2000, respectively, representing an increase of $69.5 million or 104.6%. This increase was primarily due to the acquisition in July 2000 of EF Data. This business, which is included in our telecommunications transmission segment, increased our product offerings and broadened our customer base for satellite earth station equipment. Sales from our telecommunications transmission segment were $106.3 million or 78.2% of our total net sales in fiscal 2001 as compared to $53.3 million or 80.2% of our total net sales in fiscal 2000. Substantially all of the increase in the telecommunications transmission segment was the result of the EF Data acquisition. In fiscal 2001, sales from our RF microwave amplifier segment were $16.4 million as compared to $11.0 million in fiscal 2000. Approximately $2.7 million of this $5.4 million increase was due to the acquisition we completed in April 2001 of certain assets and product lines of MPD Technologies, Inc. This acquisition has increased our product offerings and our customer base in our RF microwave amplifier segment. The RF microwave amplifier segment was 12.1% of our total net sales in fiscal 2001 as compared to 16.5% in fiscal 2000. Sales from our mobile data communications services segment were $13.2 million or 9.7% of our total net sales in fiscal 2001 as compared to $2.2 million or 3.3% in fiscal 2000. This increase of approximately $11.0 million was primarily due to increased sales of our Movement Tracking System to the U.S. Army. International sales represented 46.2% of total net sales in fiscal 2001 as compared to 71.4% in fiscal 2000. The decrease in the percentage of international sales reflects the absence in fiscal 2001 of significant revenues from one customer for over-the-horizon microwave equipment which occurred in fiscal 2000. Domestic sales represented 30.7% of total net sales in fiscal 2001 as compared to 19.8% in fiscal 2000. U.S. government sales represented 23.1% of total net sales in fiscal 2001 as compared to 8.8% in fiscal 2000. There were no customers in fiscal 2001 that represented 10% or more of our total sales. In fiscal 2000, sales to one customer, a major U.S. prime contractor for ultimate sale to an international end user, represented 43.1% of total sales. Sales during the second half of fiscal 2001 were adversely impacted by the weakening economy. Particular softness was experienced in our telecommunications transmission segment as a result of the significant downturn in the telecommunications market. We believe sales will continue to be adversely impacted until such economic conditions improve. Despite the difficult operating environment, the Company was profitable in all four quarters of fiscal 2001.

Gross Profit Gross profit was $48.6 million and $20.5 million for fiscal 2001 and 2000, respectively, representing an increase of $28.1 million or 137.1%. This increase was primarily due to the increase in sales volume. Gross margin, as a percentage of net sales, was 35.8% and 30.9% in fiscal 2001 and 2000, respectively. The higher gross margin in fiscal 2001 was largely due to the increase in the sale of satellite earth station equipment products by our telecommunications transmission segment as a result of the EF Data acquisition. Those products generally have a lower per unit cost and yield a higher gross margin than most other products and systems we sell.

Selling, General and Administrative Selling, general and administrative expenses were $22.7 million and $12.1 million in fiscal 2001 and 2000, respectively, representing an increase of $10.6 million or 88.3%. This increase was the result of additional expenses, including additional personnel, sales and marketing expenses and other administrative expenses, required to support the higher sales volume. As a percentage of sales, these expenses were 16.7% and 18.1% of total net sales for fiscal 2001 and 2000, respectively.

Research and Development Research and development expenses were $10.2 million and $2.6 million in fiscal 2001 and 2000, respectively, representing an increase of approximately $7.6 million or 285.4%. The increase in fiscal 2001 was principally due to the continuation of research and development for the projects that were underway at the time of our acquisition of EF Data in July 2000, as well as for expenses related to new product development and product announcements for all of our businesses. As an investment for the future we are continually enhancing and developing new products and technologies. Whenever possible, we seek customer funding for research and development to adapt our products to specialized customer requirements. During fiscal 2001 and 2000, customers reimbursed us $1.7 million and $4.3 million, respectively, which amounts are not reflected in the reported research and development expenses.

Amortization of Intangibles Amortization of intangibles was $2.6 million and $230,000 for fiscal 2001 and 2000, respectively. The increase in fiscal 2001 was primarily due to the full year of amortization expense relating to goodwill and other identified intangibles associated with our acquisition of EF Data in July 2000. The increase also reflects the amortization of intangibles resulting from our April 2001 acquisition of MPD Technologies. See discussion below regarding recent accounting pronouncements affecting the future amortization of goodwill and other intangibles.

In-Process Research and Development There was no in-process research and development expense in fiscal 2001. In fiscal 2000, in connection with the acquisition of EF Data, $10.2 million of the purchase price was allocated to in-process research and development. Our financial statements for fiscal 2000 include a one-time charge of $10.2 million for the write-off of this amount in accordance with generally accepted accounting principles.

Operating Income (Loss) As a result of the foregoing factors, we had operating income from continuing operations of $13.2 million in fiscal 2001 as compared to an operating loss from continuing operations in fiscal 2000 of $4.6 million. Excluding the impact of the in-process research and development charge in fiscal 2000, operating income was $5.6 million.

Interest Expense Interest expense was $4.0 million and $381,000 for fiscal 2001 and 2000, respectively, representing an increase of approximately $3.6 million. The increase was primarily due to the interest on the long term debt we incurred in connection with the acquisition of EF Data in July 2000. The original amount of the loan was $40.0 million payable over five years. In connection with our acquisition of certain assets and product lines from MPD Technologies, Inc. in April 2001, we borrowed an additional $10.0 million.

Interest Income Interest income was $2.3 million and $1.5 million for fiscal 2001 and 2000, respectively, representing an increase of $792,000. This increase in fiscal 2001 was primarily due to the increase in the amount of cash available in excess of working capital requirements, principally as result of the proceeds received from a follow-on stock offering completed in the third quarter of fiscal 2000.

Other Expense, Net Other expense, net was $841,000 and $201,000 for fiscal 2001 and 2000, respectively. The amount in fiscal 2001 related to a loss of $990,000 realized upon the sale in March 2001 of a short-term investment classified as available-for-sale, offset by royalty and other income of $149,000. The amount in fiscal 2000 primarily related to the loss realized upon the sale of a short-term investment classified as available-for-sale.

Provision for Income Taxes The provision for income taxes in fiscal 2001 reflects an effective tax rate of 36.7%. The fiscal 2000 provision for income taxes was effected by a change in the valuation allowance. (See note 9 to the consolidated financial statements for further information regarding the provision for income taxes.)

Comparison of Fiscal 2000 and 1999

Net Sales Consolidated net sales were $66.4 million and $37.9 million for fiscal 2000 and 1999, respectively, representing an increase of $28.5 million or approximately 75.4%. This increase was primarily due to increased sales by our telecommunications transmission segment, principally to one customer, a major U.S. prime contractor, of over-the-horizon microwave equipment. Sales to this customer were $28.6 million and $10.2 million for fiscal 2000 and 1999, respectively, representing 43.1% and 27.0% of consolidated net sales for fiscal 2000 and 1999, respectively. The total order received from this customer in fiscal 1999 was approximately $43.6 million. The balance of $4.8 million is expected to be recognized as revenue during fiscal 2001. There were no other customers in fiscal 2000 or 1999 that represented 10% or more of consolidated net sales. Included in the telecommunications transmission segment are products for satellite earth stations. Sales of these products increased 162.5% due to additional product offerings which were partly the result of our acquisition of EF Data in July 2000. Sales from our RF microwave amplifier segment declined by approximately 24.0% compared to fiscal 1999, due to the timing of the receipt of expected follow-on orders. Sales from our mobile data communications services segment increased from nominal sales, less than 1%, in fiscal 1999 to 3.3% of consolidated net sales in fiscal 2000. International sales increased by approximately $24.7 million or 107.9%, representing 71.4% and 60.1%, of total net sales for fiscal 2000 and 1999, respectively. Domestic sales increased by $4.0 million or 43.5%, representing 19.8% and 24.3% of total net sales for fiscal 2000 and 1999, respectively. U.S. government sales decreased by $65,000 or 1.1%, representing 8.8% and 15.6% of total net sales for fiscal 2000 and 1999, respectively.

Gross Profit Gross profit was $20.5 million and $11.5 million for fiscal 2000 and 1999, respectively, representing an increase of $9.0 million or approximately 78.6%. The increase was primarily due to the increase in sales volume in fiscal 2000 compared to fiscal 1999. Gross margin as a percentage of net sales was 30.9% and 30.3% in fiscal 2000 and 1999, respectively, due primarily to the increase in sales of products with lower per unit costs, which yield higher gross margins.

Selling, General and Administrative Selling, general and administrative expenses were $12.1 million and $6.6 million in fiscal 2000 and 1999, respectively, representing an increase of $5.5 million or approximately 84.0%. This was primarily due to the increase in costs associated with supporting increased sales such as administrative, selling and marketing salaries and benefits, sales commissions, travel and other related expenses. We also incurred additional expenses related to our acquisition of EF Data including the integration of the facilities and workforce.

Research and Development Research and development expenses were $2.6 million and $2.0 million in fiscal 2000 and 1999, respectively, representing an increase of $600,000 or approximately 30.8%. As an investment for the future we are continually enhancing and developing new products and technologies. In fiscal 2000, the increase is primarily due to expenses incurred by our recently acquired business, for the continuation of research and development for the projects that were underway at the time of the acquisition. Whenever possible, we seek customer funding for research and development to adapt our products to specialized customer requirements. During fiscal 2000 and 1999, customers reimbursed us $4.3 million and $1.8 million, respectively, which amounts are not reflected in the reported research and development expenses.

In-Process Research and Development In connection with the purchase of EF Data, $10.2 million of the purchase price was allocated to in-process research and development. This allocation was part of the overall purchase price allocation performed by an independent third party engaged by us. The value of in-process research and development is based upon new product development projects that were underway at the time of the acquisition and are expected to eventually lead to new products but had not yet established technological feasibility and for which no future alternative use was identified. Our financial statements for fiscal 2000 include a one-time charge of $10.2 million for the write-off of this amount in accordance with generally accepted accounting principles.

Operating Income (Loss) As a result of the foregoing factors, we had an operating loss from continuing operations of $4.6 million for fiscal 2000 as compared to operating income of $2.8 million for fiscal 1999, representing a decrease of $7.4 million.

Interest Expense Interest expense was $381,000 and $204,000 for fiscal 2000 and 1999, respectively, representing an increase of $177,000 or 86.8%. The increase in fiscal 2000 was primarily due to the interest on $40.0 million of long-term debt that we incurred during July 2000 that was used to partially finance the EF Data acquisition. The balance of interest expense in fiscal 2000 and all of the interest expense in fiscal 1999 was interest associated with our capital lease obligations.

Interest Income Interest income was $1.5 million and $65,000 for fiscal 2000 and 1999, respectively, representing an increase of $1.4 million. This increase was due to the increase in the amount of cash available to invest during this period primarily as a result of the proceeds received from a follow-on stock offering completed in the third quarter of fiscal 2000. Interest income was primarily derived from the short term investments of the cash on hand in excess of working capital requirements.

Provision (Benefit) for Income Taxes On income from continuing operations we had an income tax provision of $85,000 in fiscal 2000 as compared to an income tax benefit in fiscal 1999 of $3.8 million. Our income tax provision is calculated according to the provisions of SFAS No. 109, “Accounting for Income Taxes”. In applying the provisions of SFAS No. 109, temporary differences due to the timing of the deductibility of items for income tax purposes as compared to the timing of deductibility for financial reporting purposes, are recorded as deferred tax assets and liabilities. (See note 9 to the consolidated financial statements for further information regarding the provision for income taxes.)

Liquidity and Capital Resources

Our cash and cash equivalents position increased to $36.2 million at July 31, 2001 from $12.6 million at July 31, 2000. The increase of $23.6 million was largely the result of the sale in fiscal 2001 of the Company’s marketable investment securities, which were $18.6 million as of July 31, 2000.

Net cash provided by operating activities was $4.8 million in fiscal 2001. Such amount reflects net income for fiscal 2001 of $6.7 million, plus the impact of non-cash items such as depreciation and amortization aggregating approximately $7.5 million, which was substantially offset by increases in accounts receivable and inventory. These increases are driven by the expansion of our businesses during the past year. In addition, some of our product lines, including our mobile data communications business, require long lead times for materials. Some of our customers require a level of “off-the-shelf” inventory availability.

Net cash provided by investing activities was $10.9 million in fiscal 2001. Net proceeds from the sale of marketable securities of $17.9 million were offset by capital expenditures and the purchase of a technology license aggregating $3.3 million. Cash of $12.7 million was used to purchase certain assets and product lines from MPD Technologies, Inc. which is discussed above under the caption ”Overview”. We received $9.0 million during fiscal 2001 in connection with final adjustments to the purchase price of EF Data, which is discussed above under the caption “Overview”.

Net cash provided by financing activities was $7.9 million in fiscal 2001. In connection with the acquisition of certain assets and product lines from MPD Technologies, Inc. in April 2001, we borrowed an additional $10.0 million from an institutional lender. The $10 million bears interest at 8.5% and requires interest only payments until June 2005 at which time the entire principal amount is due. We also repaid $2.1 million in fiscal 2001 on the $40 million of debt borrowed from the same institutional lender in connection with the EF Data acquisition. The $40 million bears interest at 9.25% and is payable semi-annually, with interest, over a five-year period. Principal payments on capital lease obligations amounted to $.7 million during fiscal 2001. Proceeds from the sale of stock and exercise of options and warrants aggregated $.8 million.

We entered into new capital leases during fiscal 2001 in the amount of $2,456,000 for the purchase of capital equipment and a technology license.

In August 2001, we prepaid $19.2 million of principal on the $40 million of debt incurred in connection with the EF Data acquisition. After the prepayment, the aggregate remaining amount of principal outstanding relating to the $50 million of borrowings associated with the EF Data and MPD Technologies acquisitions was $28.7 million. There was no prepayment penalty as a result of the pay down, which was funded by available cash balances.

We believe that our cash and cash equivalents will be sufficient to meet our operating cash requirements for at least the next year. In the event that we identify a significant acquisition that requires additional cash, we would seek to borrow additional funds or raise additional equity capital.

Recent Accounting Pronouncements

In July 2001, the FASB issued Statement of Financial Accounting Standards No. 141, *Business Combinations*, and Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*. Statement 141 requires that the purchase method of accounting be used for all business combinations. Statement 141 also specifies criteria that intangible assets acquired in a purchase method business combination must meet to be recognized and reported separately from goodwill. Statement 142 will require that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually in accordance with the provisions of Statement 142. Statement 142 will also require that intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with Statement of Financial Accounting Standards No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed of.*

The Company adopted the provisions of Statement 141 effective July 1, 2001. The adoption of Statement 141 had no effect on the financial position or results of operations of the Company. Statement 142 is effective for the Company beginning August 1, 2001. At that time, any goodwill and intangible assets determined to have an indefinite useful life that were acquired in a purchase business combination will not be amortized, but will be evaluated for impairment in accordance with the provisions of Statement 142.

Statement 141 requires, upon adoption of Statement 142, that the Company evaluate its existing intangible assets and goodwill that were acquired in a prior purchase business combination, and to make any necessary reclassifications in order to conform with the new criteria in Statement 141 for recognition apart from goodwill. Upon adoption of Statement 142, the Company will be required to reassess the useful lives and residual values of all intangible assets acquired in purchase business combinations, and make any necessary amortization period adjustments by the end of the first interim period after adoption. In addition, to the extent an intangible asset is identified as having an indefinite useful life, the Company will be required to test the intangible asset for impairment in accordance with the provisions of Statement 142 within the first interim period. Any impairment loss will be measured as of the date of adoption and recognized as the cumulative effect of a change in accounting principle in the first interim period.

As of August 1, 2001, the Company had unamortized goodwill and other intangible assets with indefinite useful lives of $17.7 million. Such assets will no longer be amortized under Statement 142. The Company does not believe that the goodwill and other intangible assets with indefinite useful lives were impaired as of August 1, 2001. Amortization expense relating to such assets in fiscal 2002 would be $1.7 million if Statement 142 was not adopted.

Forward-Looking Statements and Risk Factors

Many statements in this Form 10-K constitute “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements include:

- Statements of goals, intentions and expectations;
- Estimates of risks and of future costs and benefits; and
- Statements of the ability to achieve financial and other goals.

These forward-looking statements are subject to significant uncertainties because they are based upon or are affected by:

- Management’s estimates and projections of U.S. and international economic and business conditions;
- Future laws and regulations; and
- A variety of other matters, including those described below.

Because of these uncertainties, actual future results may be materially different from the results indicated by these forward-looking statements, which are inherently predictive and speculative. The following are some of the risks that could cause actual results to differ significantly from those expressed or implied by such statements.

All of our businesses are subject to rapid technological change; we must keep pace with changes to compete successfully.

We are engaged in businesses characterized by rapid technological change, evolving industry standards, frequent new product announcements and enhancements, and changing customer demands. The introduction of products and services embodying new technologies and the emergence of new industry standards could render our products and services obsolete or non-competitive. The technology used in our products and services evolves rapidly, and our business position depends, in large part, on the continuous refinement of our scientific and engineering expertise and the development, either through internal research and development or acquisitions, of new or enhanced products and technologies. We may not have the economic or technological resources to be successful in such efforts and we may not be able to identify and respond to technological improvements made by our competitors in a timely or cost-effective fashion. A significant technological breakthrough by others, including smaller competitors or new firms, could have a material adverse impact on our business.

A slowing economy and continued reduction in telecommunications equipment and systems spending may negatively affect our revenues and profitability.

During the second half of fiscal 2001, our revenues were negatively affected by the increasingly uncertain economic environment both in the overall market, and more specifically in the telecommunications sector. If the economy continues to slow, some of our customers may reduce their budgets for spending on telecommunications equipment and systems. As a consequence, our current customers and other prospective customers may postpone, reduce or even forego the purchase of our products and systems, which could adversely affect our revenues and profitability.

Our mobile data communications services business is subject to risk.

Our mobile data communications services business has a limited operating history and to date has generated modest sales. It is subject to all of the risks inherent in the operation of a new business enterprise. Moreover, our business experience has been in producing products, not in providing services. We may not be able to implement and operate our mobile data communications services business successfully. In addition to the other risk factors described in this section, the risk factors applicable to our mobile data communications services business include the following:

- Although the U.S. Army contract obligates us to provide up to 56,000 mobile terminals and worldwide satellite services over an eight year period as and when ordered by the U.S. Army and at the fixed prices and other terms set forth in this contract, the U.S. Army is not obligated to purchase any terminals or services under this contract and may terminate this contract at its convenience. Sales under the U.S. Army contract will be subject to unpredictable funding and deployment decisions. Through July 31, 2001 we have received orders for $15.9 million under this contract.

- Certain components that we need have purchasing lead-time of four months or longer, and the U.S. Army contract requires us to provide mobile terminals within 30 days after we receive an order.

- Our success in commercial markets will depend on, among other things, our ability to access the best distribution channels, the development of applications which create real value for the customer and our ability to attract and retain qualified personnel. Delays in delivering terminals could also adversely affect our ability to obtain and retain commercial customers.

- In general, as we seek to grow our mobile data communications services business, we anticipate that we will need to maintain a substantial inventory in order to provide terminals to our customers on a timely basis. If forecasted orders are not received, we might be left with large inventories of slow moving or unusable parts or terminals. This could result in an adverse effect on our business, results of operations, liquidity and financial position.

- We will lease the satellite capacity necessary to operate our system from third party satellite networks. We currently have a long-term lease with a satellite network operator (TMI) for satellite coverage in North America, Central America and the northern rim of South America. While several vendors have announced plans for new satellite systems, only one provider, INMARSAT, presently offers the global coverage that will be required under the U.S. Army contract. We cannot assure you that we will be able to obtain sufficient satellite capacity or geographical coverage from any vendor to operate our mobile data communications services system on acceptable terms or on a timely basis.

- There are several existing competitors in the mobile data communications market that have established systems with sizable customer bases and much greater financial resources than us. The largest of these competitors is Qualcomm Incorporated. Existing competitors, including terrestrial service providers, are also aggressively pricing their products and services and may continue to do so in the future. Competitors continue to offer new value added products and services, which we may be unable to match on a timely or cost effective basis. Increased competition may impact margins throughout the industry. We anticipate that new competitors will enter the mobile data communications market in the future.

- All satellite communications are subject to the risk that a satellite or ground station failure or a natural disaster may interrupt service. Interruptions in service could have a material adverse effect on our results of operations. With respect to U.S. satellite service, satellite network providers have arranged to provide back-up satellite and ground station service for each other in the event of catastrophic failure.

- Our mobile terminals will be manufactured by subcontractors, the first of which is SCI Systems, Inc. of Huntsville, Alabama, a large electronics contract manufacturer. While we have successfully produced limited quantities of terminals, we have not yet produced significant quantities of terminals or complete assemblies (which include computers and palm top input/output devices for user-customized applications) and we cannot assure you that we will be able to obtain them on a timely or cost-effective basis.

- We believe that we own or have licensed all intellectual property rights necessary for the operation of our mobile data communications services business as currently contemplated. If our terminals or services are found to infringe on protected technology, we could be required to redesign our terminals, license the protected technology, and/or pay damages or other compensation to the infringed party. If we are unable to license protected technology used in our terminals or if we were required to redesign our terminals, we could be prohibited from making and selling our terminals or providing mobile data communications services.

Due to many factors, including the amount of business represented by large contracts, our operating results are difficult to forecast and may be volatile.

We have experienced, and will experience in the future, significant fluctuations in sales and operating results from quarter to quarter. One reason for this is that a significant portion of our business - primarily the over-the-horizon microwave systems and other products of our telecommunications transmission business segment and a portion of our RF microwave amplifier business segment - is derived from a limited number of relatively large customer contracts, the timing of which cannot be predicted. While we generally recognize income under contracts when the products are shipped, income is recognized on the percentage-of-completion method when the performance of a contract will extend beyond a 12-month period. Our net sales and operating results also may vary significantly from period to period because of the following factors: product mix sold; fluctuating market demand; price competition; new product introductions by our competitors; fluctuations in foreign currency exchange rates; unexpected changes in delivery of components or subsystems; political instability; regulatory developments; and general economic conditions. Accordingly, you should not rely on period-to-period comparisons as indications of our future performance because these comparisons may not be meaningful.

Our dependence on international sales may adversely affect us.

Sales for use by international customers (including sales to prime contractors' international customers) represented approximately 46.2%, 71.4% and 60.1%, and of our total net sales for the fiscal years ended July 31, 2001, 2000, and 1999, respectively. Approximately 49.7% of our backlog at July 31, 2001 consisted of orders for use by foreign customers. We expect that international sales will continue to be a substantial portion of our total sales. These sales expose us to certain risks, including barriers to trade, fluctuations in foreign currency exchange rates (which may make our products less price competitive), political and economic instability, availability of suitable export financing, tariff regulations, and other U.S. and foreign regulations that may apply to the export of our products and the generally greater difficulties of doing business abroad. We attempt to reduce the risk of doing business in foreign countries by seeking subcontracts with large system suppliers, contracts denominated in U.S. dollars, advance payments and irrevocable letters of credit in our favor.

Foreign defense contracts generally contain provisions relating to termination at the convenience of the government. In addition, certain of our products and systems may require licenses from U.S. government agencies for export from the United States, and some of our products are not permitted to be exported. We cannot be sure of our ability to gain any licenses that may be required to export our products, and failure to receive required licenses could materially reduce our ability to sell our products outside the United States.

Our dependence on component availability, subcontractor availability and performance and key suppliers may adversely affect us.

We do not generally maintain a substantial inventory of components and subsystems. We obtain certain components and subsystems from a single source or a limited number of sources, but believe that most components and subsystems are available from alternative suppliers and subcontractors. A significant interruption in the delivery of such items, however, could have a material effect on our business and results of operations.

Our backlog is subject to customer cancellation or modification.

We currently have a backlog of orders, mostly under contracts that the customer may modify or terminate. We cannot assure you that our backlog will result in net sales.

Our sales to the U.S. government are subject to funding and other risks.

We sell our products and services to agencies of the U.S. government or to contractors or subcontractors under contracts with U.S. agencies. These sales accounted for approximately 23.1%, 8.8% and 15.6% of our total net sales in fiscal 2001, 2000 and 1999, respectively. As a result of our contract with the U.S.Army, we expect sales to agencies of the U.S. government to increase significantly in the future. As is customary for government sales, these sales are subject to various risks. These risks include the ability of the U.S. government to:

- change government policy which could reduce our business;
- terminate existing contracts for its convenience; and
- audit our contract-related costs and fees, including allocated indirect costs.

A reduction in government agency budgets could cause us to experience declining net sales, increased pressure on operating margins and, in certain cases, net losses. The loss or significant cutback of a large program in which we participate could also materially adversely affect our future results of operations.

All of our U.S. government contracts can be terminated by the U.S. government for its convenience. Termination for convenience provisions provide only for our recovery of costs incurred or committed, settlement expenses and profit on work completed prior to termination. In addition to the right of the U.S. government to terminate, U.S. government contracts are conditioned upon the continuing approval by Congress of the necessary spending. Congress usually appropriates funds for a given program on a fiscal-year basis even though contract performance may take more than one year. Consequently, at the beginning of a major program, the contract is usually not fully funded, and additional monies are normally committed to the contract only if, as and when appropriations are made by Congress for future fiscal years.

The U.S. government may review our costs and performance on their contracts, as well as our accounting and general business practices. Based on the results of such audits, the U.S. government may adjust our contract-related costs and fees, including certain financing costs, goodwill, portions of research and development costs, and certain marketing expenses, may not be reimbursable under U.S. government contracts.

We obtain U.S. government contracts through a competitive bidding process. We cannot assure you that we will continue to win competitively awarded contracts or that awarded contracts will generate sufficient net sales to result in profitability.

Acquisitions and strategic investments may divert our resources and management attention; results may fall short of expectations.

We intend to continue pursuing selected acquisitions of and investments in businesses, technologies and product lines as a key component of our growth strategy. Any future acquisition or investment may result in the use of significant amounts of cash, potentially dilutive issuances of equity securities, incurrence of debt and amortization expenses related to goodwill and other intangible assets. Acquisitions involve numerous risks, including:

- difficulties in the integration and assimilation of the operations, technologies, products and personnel of an acquired business;
- diversion of management's attention from other business concerns; and
- potential loss of key employees or customers of any acquired business.

Our fixed price contracts subject us to risk.

Almost all of our products and services are sold under fixed price contracts. This means that we bear the risk of unanticipated technological, manufacturing, supply or other problems, price increases or increases in the cost of performance.

Our markets are highly competitive.

The markets for our products are highly competitive. We cannot assure you that we will be able to successfully compete or that our competitors will not develop new technologies and products that are more commercially effective than our own. We expect the Department of Defense's increased use of commercial off-the-shelf products and components in military equipment will encourage new competitors to enter the market. Also, although the implementation of advanced telecommunications services is in its early stages in many developing countries, we believe competition may intensify as businesses and foreign governments realize the market potential of telecommunications services. Many of our competitors have financial, technical, marketing, sales and distribution resources greater than ours.

The loss of key technical or management personnel could adversely affect our business.

Our success depends on the continued contributions of key technical management personnel, including the key management at each of our subsidiaries. Many of our key personnel, particularly the key engineers of our subsidiaries, would be difficult to replace, and are not subject to employment or noncompetition agreements. The development of our mobile data communications services business is particularly dependent upon Joel R. Alper, the President of our Comtech Mobile Datacom Corp. subsidiary. The success of our telecommunications transmission segment is particularly dependent upon Richard L. Burt, President of our Comtech Systems, Inc. subsidiary, and Robert L. McCollum, President of our Comtech EF Data Corp. subsidiary. Our growth and future success will depend in large part upon our ability to attract and retain highly qualified engineering, sales and marketing personnel. Competition for such personnel from other companies, academic institutions, government entities and other organizations is intense. Although we believe that we have been successful to date in recruiting and keeping key personnel, we may not be successful in attracting and retaining the personnel we will need to continue to grow and operate profitably. Also, the management skills that have been appropriate for us in the past may not continue to be appropriate if we continue to grow and diversify.

Our success also depends to a significant extent upon our President and Chief Executive Officer, Fred Kornberg. The loss of the services of Mr. Kornberg could have a material adverse effect on us. We have entered into an employment contract with Mr. Kornberg. We have also purchased key man insurance in the amount of $1.0 million on each of Fred Kornberg, Joel R. Alper, Richard L. Burt and Robert L. McCollum.

Protection of our intellectual property is limited; we are subject to the risk of third party claims of infringement.

Our businesses rely in large part upon our proprietary scientific and engineering "know-how" and production techniques. Historically, patents have not been an important part of our protection of our intellectual property rights.

We rely upon the laws of unfair competition, restrictions in licensing agreements and confidentiality agreements to protect our intellectual property. We limit access to and distribution of our proprietary information. These efforts allow us to rely upon the knowledge and experience of our management and technical personnel to market our existing products and to develop new products. The departure of any of our key management and technical personnel, the breach of their confidentiality and non-disclosure obligations to us or the failure to achieve our intellectual property objectives may have a material adverse effect on our business, financial condition and results of operations.

Our ability to compete successfully and achieve future revenue growth will depend, in part, on our ability to protect our proprietary technology and operate without infringing upon the rights of others. We may fail to do so. In addition, the laws of certain countries in which our products are or may be sold may not protect our products and intellectual property rights to the same extent as the laws of the United States.

Our operations are subject to environmental regulation.

We are subject to a variety of local, state and federal governmental regulations relating to the storage, discharge, handling, emission, generation, manufacture and disposal of toxic or other hazardous substances used to manufacture our products, particularly in the fabrication of fiberglass antennas by our Comtech Antenna Systems, Inc. subsidiary. We believe that we are currently in compliance in all material respects with such regulations and that we have obtained all necessary environmental permits to conduct our business. Nevertheless, the failure to comply with current or future regulations could result in the imposition of substantial fines, suspension or production, alteration of our manufacturing processes or cessation of operations that could materially adversely affect our business, financial condition and results of operations.

Our stock price is volatile.

The stock market in general, and the stock prices of technology-based companies in particular, have experienced extreme volatility that often has been unrelated to the operating performance of any specific public companies. The market price of our common stock has fluctuated significantly in the past and is likely to fluctuate significantly in the future as well. Factors that may have significant impact on the market price of our stock include:

- future announcements concerning us or our competitors;
- receipt or non-receipt of substantial orders for products and services;
- results of technological innovations;
- new commercial products;
- changes in recommendations of securities analysts;
- government regulations;
- proprietary rights or product or patent litigation;
- changes in market conditions generally, particularly in the market for small cap stocks; and
- limited public float.

Shortfalls in our revenues or earnings in any given period relative to the levels expected by securities analysts could immediately, significantly and adversely affect the trading price of our common stock.

We have never declared or paid dividends.

We have never declared or paid a cash dividend and do not intend to declare any cash dividends on our common stock in the foreseeable future.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's earnings and cash flows are subject to fluctuations due to changes in interest rates primarily from its investment of available cash balances in money market funds. Under its current policies, the Company does not use interest rate derivative instruments to manage exposure to interest rate changes.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Independent Auditors' Report, Consolidated Financial Statements, Notes to Consolidated Financial Statements and related financial schedule are listed in the index to Consolidated Financial Statements and Schedule annexed hereto.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF REGISTRANT

Certain information concerning the directors and officers of the Company is incorporated by reference to the Proxy Statement of the Company for the Annual Meeting of Stockholders to be held December 11, 2001 (the "Proxy Statement") which will be filed with the Securities and Exchange Commission no more than 120 days after the close of its fiscal year.

ITEM 11. EXECUTIVE COMPENSATION

Information regarding executive compensation is incorporated by reference to the Proxy Statement, which will be filed with the Securities and Exchange Commission no more than 120 days after the close of its fiscal year.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information regarding security ownership of certain beneficial owners and management is incorporated by reference to the Proxy Statement, which will be filed with the Securities and Exchange Commission no more than 120 days after the close of its fiscal year.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information regarding certain relationships and related transactions is incorporated by reference to the Company's Proxy Statement, which will be filed with the Securities and Exchange Commission no more than 120 days after the close of its fiscal year.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULE AND REPORTS ON FORM 8-K

(a) Documents filed as part of this report:

1. and 2. Financial Statements and Financial Statement Schedule

The Financial Statements filed as part of this report are listed in the accompanying Index to Consolidated Financial Statements and Schedule.

(b) In May 2001, and as amended in July 2001, the Company filed a report on Form 8-K with respect to the acquisition of certain assets and products lines of MPD Technologies, Inc.

(c) Exhibit index

Exhibit Number	Description of Exhibit	Incorporated By Reference to Exhibit
3(a)	Certificate of Incorporation of the Registrant	Exhibit 3(a) of the Registrant's 1987 Form 10-K
3(b)	Amendment of the Certificate of Incorporation effecting the 5 to 1 reverse stock split	Exhibit 3(b) to the Registrant's 1991 Form 10-K
3(c)	Amended and restated By-Laws of the Registrant	Exhibit 3(c) of Registrant's 1998 Form 10-K
3(d)	Amendment to the Certificate of Incorporation increasing authorized shares to 12 million	Exhibit 3(d) to the Registrant's 1994 Form 10-K
3(e)	Amendment to the Certificate of Incorporation increasing the authorized shares to 17 million	Exhibit 3(e) to Registrant's 1998 Form 10-K
3(f)	Form of Certificate of Designation of the Series A Junior Participating Preferred Stock	Exhibit 4(1) to the Registrant's Form 8-A/A dated December 23, 1998
3(g)	Amendment to the Certificate of Incorporation increasing the authorized shares to 32 million	Exhibit 3(g) to Registrant's 2000 Form 10-K
4(a)	Rights Agreement dated as of December 15, 1998 between the Registrant and American Stock Transfer and Trust Company, as Rights Agent	Exhibit 4(1) to the Registrant's Form 8-A/A dated December 23, 1998
10(a)	Amended and restated Employment Agreement dated October 9, 2001 between the Registrant and Fred Kornberg	
10(b)	Lease and amendment thereto on the Melville Facility	Exhibit 10(k) to the Registrant's 1992 Form 10-K
10(c)	Amended and restated 1993 Incentive Stock Option Plan	Appendix A to the Registrant's Proxy Statement dated November 3, 1997
10(d)	Time Accelerated Restricted Stock Purchase Agreements between Registrant and Principals of Comtech Mobile Datacom Corp. operating unit	Exhibit 10(f) to the Registrant's 1999 Form 10-K
10(e)	Movement Tracking System Contract between Comtech Mobile Datacom Corp. and U.S. Army's CECOM Acquisition Center dated June 24, 1999 (certain portions of this agreement have been omitted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment)	Exhibit 10(g) to the Registrant's 1999 Form 10-K
10(f)	License Agreement between Vistar Telecommunications Inc. and Comtech Mobile Datacom Corp. dated August 31, 1999 (certain portions of this agreement have been omitted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment)	Exhibit 10(h) to the Registrant's 1999 Form 10-K
10(g)(1)	2000 Stock Incentive Plan	Appendix A to the Registrant's Proxy Statement dated November 8, 1999
10(g)(2)	Amendment to the 2000 Stock Incentive Plan	Appendix A to the Registrant's Proxy Statement dated November 6, 2000
10(h)	Amended and Restated Asset Purchase Agreement between the Registrant and Adaptive Broadband Corporation dated as of July 10, 2000	Exhibit 2.1 to the Registrant's Form 8-K dated July 10, 2000
10(i)(1)	Loan and Security Agreement between the Registrant and The Teachers' Retirement System of Alabama, The Employees' Retirement System of Alabama, The Alabama Heritage Trust Fund, PEIRAF-Deferred Compensation Plan and State Employees' Health Insurance Fund, dated July 7, 2000	Exhibit 10(k) to the Registrant's 2000 Form 10-K

Exhibit Number	Description of Exhibit	Incorporated By Reference to Exhibit
10(i)(2)	Amendment to the Loan and Security Agreement between the Registrant and The Teachers' Retirement System of Alabama, The Employees' Retirement System of Alabama, The Alabama Heritage Trust Fund, PEIRAF-Deferred Compensation Plan and State Employees' Health Insurance Fund, dated April 30, 2001	
10(j)	Asset Purchase Agreement between the Registrant and MPD Technologies, Inc., dated March 2, 2001	Exhibit 2.1 to the Registrant's Form 8-K dated April 30, 2001
10(k)	2001 Employee Stock Purchase Plan	Appendix B to the Registrant's Proxy Statement dated November 6, 2000
21	Subsidiaries of the Registrant	
23	Consent of KPMG LLP	

Exhibits to this Annual Report on Form 10-K are available from the Company upon request and payment to the Company for the cost of reproduction.

SIGNATURE

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

COMTECH TELECOMMUNICATIONS CORP.

October 19, 2001 (Date)	By: s/ Fred Kornberg Fred Kornberg, Chairman of the Board and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

	Signature	Title
October 19, 2001 (Date)	s/ Fred Kornberg Fred Kornberg	Chairman of the Board Chief Executive Officer and President (Principal Executive Officer)
October 19, 2001 (Date)	s/ Robert G. Rouse Robert G. Rouse	Senior Vice President and Chief Financial Officer
October 19, 2001 (Date)	s/ George Bugliarello George Bugliarello	Director
October 19, 2001 (Date)	s/ Richard L. Goldberg Richard L. Goldberg	Director
October 19, 2001 (Date)	s/ Edwin Kantor Edwin Kantor	Director
October 19, 2001 (Date)	s/ Gerard R. Nocita Gerard R. Nocita	Director
October 19, 2001 (Date)	s/ Sol S. Weiner Sol S. Weiner	Director

SUBSIDIARIES

The following is a list of the subsidiaries of the Company as of October 19, 2001:

Subsidiary	State of Incorporation
Telecommunications Transmission Business Segment	
CASI – Comtech Antenna Systems, Inc.	Delaware
CEFD – Comtech EF Data Corp.	Delaware
CSI – Comtech Systems, Inc.	Delaware
RF Microwave Amplifier Business Segment	
CPST – Comtech PST Corp.	New York
Mobile Data Communications Services Business Segment	
CMDC – Comtech Mobile Datacom Corp.	Delaware

COMTECH TELECOMMUNICATIONS CORP. AND SUBSIDIARIES

Index to Consolidated Financial Statements and Schedule

Schedules not listed above have been omitted because they are either not applicable or the required information has been given elsewhere in the consolidated financial statements or notes thereto.

Independent Auditors' Report

The Board of Directors and Stockholders
Comtech Telecommunications Corp.:

We have audited the consolidated financial statements of Comtech Telecommunications Corp. and subsidiaries as listed in the accompanying index. In connection with our audits of the consolidated financial statements, we also audited the financial statement schedule II as listed in the accompanying index. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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, 2001 and 2000, and the results of their operations and their cash flows for each of the years in the three-year period ended July 31, 2001 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the related financial statement schedule II, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

KPMG LLP

Melville, New York
October 9, 2001

COMTECH TELECOMMUNICATIONS CORP.
AND SUBSIDIARIES
Consolidated Balance Sheets
July 31, 2001 and 2000

Assets	2001	2000
Current assets:		
Cash and cash equivalents	$ 36,205,000	12,587,000
Marketable investment securities	-	18,634,000
Accounts receivable, less allowance for doubtful accounts of $845,000 in 2001 and $806,000 in 2000	27,374,000	24,204,000
Other receivables	-	9,038,000
Inventories, net	36,732,000	26,170,000
Prepaid expenses and other current assets	1,151,000	583,000
Deferred tax asset – current	2,634,000	3,125,000
Total current assets	104,096,000	94,341,000
Property, plant and equipment, net	11,778,000	10,738,000
Goodwill and other intangibles with indefinite lives, net of accumulated amortization of $1,648,000 in 2001 and $246,000 in 2000	17,657,000	10,223,000
Other intangibles with definite lives, net of accumulated amortization of $1,212,000 in 2001 and $62,000 in 2000	10,162,000	7,446,000
Other assets, net	569,000	468,000
Deferred tax asset – non current	2,726,000	2,815,000
Total assets	$ 146,988,000	126,031,000
Liabilities and Stockholders' Equity		
Current liabilities:		
Current installments of long-term debt	$ 5,900,000	2,100,000
Current installments of capital lease obligations (including payable to related party of $155,000 in 2001 and $347,000 in 2000)	1,097,000	608,000
Accounts payable	11,014,000	11,260,000
Accrued expenses and other current liabilities	13,615,000	13,657,000
Deferred service revenue	2,073,000	-
Income tax payable	3,308,000	1,449,000
Total current liabilities	37,007,000	29,074,000
Long-term debt, less current installments	42,000,000	37,900,000
Capital lease obligations, less current installments (including payable to related party of $154,000 in 2000)	2,157,000	908,000
Other long-term liabilities	259,000	367,000
Total liabilities	81,423,000	68,249,000
Stockholders' equity:		
Preferred stock, par value $.10 per share; shares authorized and unissued 2,000,000	-	-
Common stock, par value $.10 per share; authorized 30,000,000 shares, issued 7,511,105 shares in 2001 and 7,349,176 shares in 2000	751,000	735,000
Additional paid-in capital	67,490,000	66,740,000
Accumulated other comprehensive income (loss)	-	(113,000)
Accumulated deficit	(1,973,000)	(8,687,000)
	66,268,000	58,675,000
Less:		
Treasury stock (82,500 shares)	(184,000)	(184,000)
Deferred compensation	(519,000)	(709,000)
Total stockholders' equity	65,565,000	57,782,000
Total liabilities and stockholders' equity	$ 146,988,000	126,031,000
Commitments and contingencies		

See accompanying notes to consolidated financial statements.

COMTECH TELECOMMUNICATIONS CORP.
AND SUBSIDIARIES
Consolidated Statements of Operations
Years ended July 31, 2001, 2000 and 1999

	2001	2000	1999
Net sales	$135,931,000	66,444,000	37,886,000
Cost of sales	87,327,000	45,942,000	26,405,000
Gross profit	48,604,000	20,502,000	11,481,000
Expenses:			
Selling, general and administrative	22,707,000	12,058,000	6,554,000
Research and development	10,190,000	2,644,000	2,022,000
In-process research and development	-	10,218,000	-
Amortization of intangibles	2,552,000	230,000	78,000
	35,449,000	25,150,000	8,654,000
Operating income (loss) from continuing operations	13,155,000	(4,648,000)	2,827,000
Other expenses (income):			
Interest expense	4,015,000	381,000	204,000
Interest income	(2,303,000)	(1,511,000)	(65,000)
Other, net	841,000	201,000	(39,000)
Income (loss) from continuing operations before income taxes	10,602,000	(3,719,000)	2,727,000
Provision (benefit) for income taxes	3,888,000	85,000	(3,754,000)
Income (loss) from continuing operations	6,714,000	(3,804,000)	6,481,000
Discontinued operations (Note 13):			
Loss from operations of discontinued segment (net of applicable income tax benefit of $79,000 in 2000 and $320,000 in 1999)	-	(137,000)	(622,000)
Loss on disposal of segment, including provision in 1999 of $430,000 for operating losses during phase-out period (net of applicable income tax benefit of $306,000)	-	-	(594,000)
Net income (loss)	$ 6,714,000	(3,941,000)	5,265,000
Basic income (loss) per share:			
Income (loss) from continuing operations	$ 0.91	(0.67)	1.56
Loss from discontinued operations	-	(0.02)	(0.29)
Basic income (loss) per share	$ 0.91	(0.69)	1.27
Diluted income (loss) per share:			
Income (loss) from continuing operations	$ 0.85	(0.67)	1.42
Loss from discontinued operations	-	(0.02)	(0.27)
Diluted income (loss) per share	$ 0.85	(0.69)	1.15
Weighted average number of common shares outstanding- Basic	7,348,000	5,663,000	4,143,000
Potential dilutive common shares	562,000	-	430,000
Weighted average number of common and common equivalent shares outstanding assuming dilution – Diluted	7,910,000	5,663,000	4,573,000

See accompanying notes to consolidated financial statements.

COMTECH TELECOMMUNICATIONS CORP.
AND SUBSIDIARIES
Consolidated Statements of Stockholders' Equity
Years ended July 31, 2001, 2000 and 1999

	Common Stock					Treasury Stock				
	Shares	Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Shares	Amount	Deferred Compensation	Stockholders' Equity	Comprehensive Income
Balance July 31, 1998	4,008,006	$401,000	$22,055,000	$ -	$(10,011,000)	82,500	$(184,000)	$(168,000)	$12,093,000	$ 1,104,000
Amortization of deferred compensation	-	-	-	-	-	-	-	248,000	248,000	-
Stock issued in acquisition of Mobile Datacom	150,000	15,000	513,000	-	-	-	-	-	528,000	-
Restricted shares issued pursuant to employment stock award agreement	225,000	22,000	1,034,000	-	-	-	-	(1,041,000)	15,000	-
Stock options exercised	88,362	9,000	199,000	-	-	-	-	-	208,000	-
Net income	-	-	-	-	5,265,000	-	-	-	5,265,000	5,265,000
Balance July 31, 1999	4,471,368	447,000	23,801,000	-	(4,746,000)	82,500	(184,000)	(961,000)	18,357,000	5,265,000
Amortization of deferred compensation	-	-	-	-	-	-	-	252,000	252,000	-
Stock issued in acquisition of Hill Engineering	30,000	3,000	368,000	-	-	-	-	-	371,000	-
Stock options exercised	188,117	18,000	404,000	-	-	-	-	-	422,000	-
Unrealized loss on securities net of reclassification adjustment	-	-	-	(113,000)	-	-	-	-	(113,000)	(113,000)
Warrants exercised	14,691	1,000	(1,000)	-	-	-	-	-	-	-
Shares issued in connection with public offering	2,645,000	266,000	42,168,000	-	-	-	-	-	42,434,000	-
Net loss	-	-	-	-	(3,941,000)	-	-	-	(3,941,000)	(3,941,000)
Balance July 31, 2000	7,349,176	735,000	66,740,000	(113,000)	(8,687,000)	82,500	(184,000)	(709,000)	57,782,000	(4,054,000)
Amortization of deferred compensation	-	-	-	-	-	-	-	190,000	190,000	-
Unrealized loss on securities net of reclassification adjustment	-	-	-	113,000	-	-	-	-	113,000	113,000
Stock options exercised	97,146	10,000	265,000	-	-	-	-	-	275,000	-
Employee stock purchase plan shares purchased	14,112	1,000	157,000	-	-	-	-	-	158,000	-
Warrants exercised	50,671	5,000	328,000	-	-	-	-	-	333,000	-
Net income	-	-	-	-	6,714,000	-	-	-	6,714,000	6,714,000
Balance July 31, 2001	7,511,105	$ 751,000	$67,490,000	$ -	$(1,973,000)	82,500	$(184,000)	$(519,000)	$ 65,565,000	$ 6,827,000

See accompanying notes to consolidated financial statements

COMTECH TELECOMMUNICATIONS CORP.
AND SUBSIDIARIES

Consolidated Statements of Cash Flows
Years ended July 31, 2001, 2000, and 1999

	2001	2000	1999
Cash flows from operating activities:			
Net income (loss)	$ 6,714,000	(3,941,000)	5,265,000
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Loss from discontinued operations	-	137,000	1,216,000
Loss on sale of marketable investment securities	990,000	88,000	-
Depreciation and amortization	6,575,000	2,149,000	1,510,000
Write-off of in-process research and development	-	10,218,000	-
Increase (decrease) in bad debt allowance	39,000	-	(25,000)
Provision for inventory reserves	264,000	244,000	341,000
Deferred income tax expense (benefit)	580,000	(1,298,000)	(4,575,000)
Changes in assets and liabilities, net of effects of acquisitions:			
Restricted cash securing letter of credit obligations	-	-	22,000
Accounts receivable	(3,059,000)	(2,111,000)	1,006,000
Inventories	(8,132,000)	(4,580,000)	(1,724,000)
Prepaid expenses and other current assets	(568,000)	(412,000)	138,000
Other assets	(335,000)	(293,000)	9,000
Accounts payable	(246,000)	3,048,000	372,000
Accrued expenses and other current liabilities	227,000	3,059,000	2,181,000
Income tax payable	1,859,000	1,449,000	195,000
Other liabilities	(108,000)	367,000	-
Net cash provided by continuing operations	4,800,000	8,124,000	5,931,000
Net cash used by discontinued operations	-	(151,000)	(988,000)
Net cash provided by operating activities	4,800,000	7,973,000	4,943,000
Cash flows from investing activities:			
Purchases of marketable investment securities	(1,330,000)	(37,015,000)	-
Proceeds from sale of marketable securities	19,221,000	18,000,000	-
Purchases of property, plant and equipment	(2,776,000)	(1,185,000)	(1,000,000)
Purchase of technology license	(563,000)	-	-
Payment for business acquisitions, net of cash received	(3,682,000)	(63,138,000)	(173,000)
Net cash provided by (used in) investing activities	10,870,000	(83,338,000)	(1,173,000)
Cash flows from financing activities:			
Borrowings under line of credit facility	-	1,000,000	850,000
Repayments of borrowings under line of credit facility	-	(1,000,000)	(850,000)
Borrowings under loan agreement	10,000,000	40,000,000	-
Repayment of borrowings under loan agreement	(2,100,000)	-	-
Principal payments on capital lease obligations	(718,000)	(800,000)	(821,000)
Proceeds from issuance of common stock, net	158,000	42,434,000	-
Proceeds from exercises of stock options and warrants	608,000	422,000	208,000
Restricted stock issuances	-	-	15,000
Net cash provided by (used in) financing activities	7,948,000	82,056,000	(598,000)

(continued)

COMTECH TELECOMMUNICATIONS CORP.
AND SUBSIDIARIES

Consolidated Statements of Cash Flows, Continued

	2001	2000	1999
Net increase in cash and cash equivalents	$ 23,618,000	-6,691,000	3,172,000
Cash and cash equivalents at beginning of period	12,587,000	5,896,000	2,724,000
Cash and cash equivalents at end of period	$ 36,205,000	12,587,000	5,896,000
Supplemental cash flow disclosure			
Cash paid during the period for:			
Interest	$ 3,898,000	134,000	204,000
Income taxes	$ 1,425,000	500,000	169,000
Non cash investing and financing activities:			
Acquisition of property, equipment and technology license through capital leases	$ 2,456,000	567,000	136,000
Capital stock issued in connection with business acquisition	-	371,000	-

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 in consolidation.

(b) Nature of Business

We design, develop, produce and market sophisticated products and systems that are used by telecommunications and defense systems and service providers in a broad range of applications.

The Company's business is highly competitive and characterized by rapid technological change. In addition, the number of potential customers for the Company's products is limited. The Company's growth and financial position depends, among other things, on its ability to keep pace with such changes and developments and to respond to the sophisticated requirements of an increasing variety of electronic equipment users. Many of the Company's competitors are substantially larger, have significantly greater financial, marketing and operating resources and broader product lines than does the Company. A significant technological breakthrough by others, including smaller competitors or new companies, could have a material adverse effect on the Company's business. In addition, certain of the Company's customers have technological capabilities in the Company's product areas and could choose to replace the Company's products with their own.

International sales expose the Company to certain risks, including barriers to trade, fluctuations in foreign currency exchange rates (which may make the Company's products less price competitive), political and economic instability, availability of suitable export financing, export license requirements, tariff regulations, and other United States and foreign regulations that may apply to the export of the Company's products, as well as the generally greater difficulties of doing business abroad. The Company attempts to reduce the risk of doing business in foreign countries by seeking contracts denominated in U.S. dollars, advance payments and irrevocable letters of credit in its favor.

(c) Revenue Recognition

Revenues on long-term, fixed price contracts are generally recorded based on the relationship of total costs incurred to date to total projected final costs or, alternatively, as deliveries are made.

Revenues on other contract orders are recognized under the units of delivery method. Under this method, revenues 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.

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

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

(Continued)

(d) Cash and Cash Equivalents

Cash equivalents consist of highly liquid money market funds with a maturity at acquisition of three months or less. Cash equivalents at July 31, 2001 and 2000 amounted to $27,412,000 and $4,779,000, respectively. These investments are carried at cost plus accrued interest, which approximates market.

(e) Statement of Cash Flows

The Company acquired equipment and a technology license financed by capital leases in the amounts of $2,456,000, $567,000 and $136,000 in 2001, 2000 and 1999, respectively.

(f) Marketable Investment Securities

Marketable investment securities at July 31, 2000 consisted of a mutual fund investment classified as available-for-sale and recorded at fair value. Such investment securities were sold in fiscal 2001. Unrealized holding gains and losses, net of the related tax effect on these available-for-sale securities, are excluded from earnings and are reported as a component of accumulated other comprehensive income until realized. Realized gains and losses from the sale of available-for-sale securities are determined on a specific identification basis.

(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 are stated at the lower of cost or market, computed on the first-in, first-out (FIFO) method.

(h) Long-Lived Assets

The Company's plant and equipment, which are 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. Intangible assets, consisting of goodwill and other intangible assets resulting from acquisitions, are being amortized over their respective lives. See note 15 for information regarding the impact of recent accounting pronouncements on the amortization of intangibles in future periods. The Company reviews its long-lived assets for impairment whenever events or circumstances indicate that the carrying amount of an asset may not be recoverable. If the sum of the expected cash flows undiscounted and without interest, is less than the carrying amount of the asset, an impairment loss is recognized as the amount by which the carrying amount of the asset exceeds its fair value.

(i) Other Assets

Included in other assets at July 31, 2001 and 2000 is approximately $350,000, less accumulated amortization, which relates to an intellectual property rights agreement being amortized over the eight-year term of the agreement. At July 31, 2001 and 2000, accumulated amortization related to this purchased technology was approximately $321,000 and $277,000 respectively.

(j) 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. In fiscal 2001, 2000 and 1999, the Company was reimbursed by customers for such activities in the amount of $1,656,000, $4,272,000 and $1,779,000 respectively.

(k) Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(l) Earnings Per Share

The Company calculates earnings per share ("EPS") in accordance with Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings per Share". Basic EPS is computed based on the weighted average number of shares outstanding. Diluted EPS reflects the dilution from potential common stock issuable pursuant to the exercise of stock options and warrants, if dilutive, outstanding during each period. All share and per share amounts have been restated to reflect a three-for-two stock split effective July 30, 1999 (Note 10(f)).

(m) Financial Instruments

Management of the Company believes that the book value of its monetary assets and liabilities approximates fair value as a result of the short-term nature of such assets and liabilities. Management further believes that the fair market value of its long-term debt and capital lease obligations does not differ materially from its carrying value.

(n) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results may differ from those estimates.

(o) Reclassifications

Certain reclassifications have been made to the fiscal 2000 consolidated financial statements to conform to the 2001 presentation.

(p) Accounting for Stock-Based Compensation

The Company records compensation expense for employee stock options only if the current market price of the underlying stock exceeds the exercise price on the date of the grant. The Company has elected not to implement the fair value based accounting method for employee stock options of SFAS No. 123, "Accounting for Stock-Based Compensation", but has elected to disclose the pro forma net income per share for employee stock option grants made beginning in fiscal 1996 as if such method had been used to account for stock-based compensation cost as described in SFAS No. 123.

(q) Comprehensive Income

The Company has adopted SFAS No. 130, "Reporting Comprehensive Income," which requires companies to report all changes in equity during a period, except those resulting from investment by owners and distribution to owners, for the period in which they are recognized. Comprehensive income is the total of net income and all other non-owner changes in equity (or other comprehensive income) such as unrealized gains/losses on securities classified as available-for-sale, foreign currency translation adjustments and minimum pension liability adjustments.

(2) Acquisitions

In the first quarter of fiscal 1999, the Company formed two subsidiaries, Comtech Mobile Datacom Corp. ("CMDC") and Comtech Wireless, Inc. ("CWI") to acquire the assets and assume certain liabilities of two businesses. The purchase price of the business acquired by CMDC amounted to $628,000 consisting of cash of $100,000, 150,000 shares of restricted common stock, valued at $528,000, and warrants to purchase 150,000 shares of common stock at an exercise price of $6.57 per share. The purchase price of the business acquired by CWI amounted to $350,000 consisting of $100,000 of cash and a non-recourse note payable of $250,000. The assets acquired were inventories and equipment. Both acquisitions were accounted for as purchases whereby the assets and liabilities of the businesses acquired were consolidated with those of the Company from their respective acquisition dates. The excess of the purchase price over the fair value of the net assets of the business acquired by CMDC approximated $1,701,000 and is being amortized over a 20-year period. This amount, net of amortization, is included in goodwill and other intangibles with indefinite lives in the accompanying consolidated balance sheets. Effective July 31, 1999, the operations of the business acquired by CWI were discontinued (see Note 13). The pro forma effect of the acquisition of CMDC was not material to the results of operations for the year ended July 31, 1999.

In January 2000, the Company acquired certain assets and assumed certain liabilities of Hill Engineering Inc. ("Hill") in exchange for 50,000 shares of the Company's common stock. Such shares were issued and placed in escrow and will be released to the sellers as follows: (i) 30,000 shares on January 21, 2001 assuming the resolution of certain pending claims; (ii) 10,000 shares on January 31, 2001 assuming Hill meets certain profit goals; and (iii) 10,000 shares on January 31, 2002 also assuming Hill meets certain profit goals. To the extent that Hill does not meet cumulative profit goals by January 31, 2005, the 20,000 escrow shares will be returned to the Company. The acquisition has been accounted for as a purchase. The purchase price amounted to approximately $371,000, which principally represents the fair value of the initial 30,000 shares of common stock to be issued to Hill. The remaining 20,000 shares will be recorded at fair value on the date when the profit goals are met. This business operates in the RF microwave amplifiers segment. The accompanying consolidated financial statements reflect this acquisition at the fair value of the assets acquired ($652,000) and liabilities assumed ($871,000) and include the operations of Hill from the date of acquisition through July 31, 2000. The excess of the purchase price over the net assets acquired of approximately $606,000 is included in goodwill and other intangibles with indefinite lives in the accompanying consolidated balance sheet and is being amortized over a 15 year period. The operations of Hill are not material to the operations of the Company. Pro forma results of operations were not provided as their effect on the consolidated operations was not material.

In July 2000, the Company acquired the business of EF Data, the satellite communications division of Adaptive Broadband Corporation, at an adjusted cost of $54,158,000. The preliminary cash purchase price of $61,500,000 was partially financed with $40 million supplied through institutional secured borrowings. Direct acquisition costs amounted to $1,696,000. Based upon the acquisition agreement, an adjustment to the purchase price in the amount of $9,038,000 was due the Company, which is included in the consolidated balance sheet in other receivables as of July 31, 2000 (this amount was received by the Company in September 2000). The acquisition was accounted for under the purchase method of accounting. The cost of the acquisition has been allocated to the assets and the liabilities assumed based on their estimated fair values at the date of the acquisition. The purchase price allocation reflects $930,000 of adjustments for pre-acquisition contingencies recorded in fiscal 2001. The excess of the cost over the fair value of the net assets acquired amounted to approximately $26,818,000, of which $10,218,000 was allocated to in-process research and development and was expensed as of the acquisition date, $7,508,000 was recorded as purchased technology which is being amortized over seven years, $3,577,000 was recorded as other purchased intangibles which are being amortized over five to seven years and $5,515,000 has been recorded as goodwill, which is being amortized over ten years. The in-process research and development charge is included in the accompanying consolidated statement of operations for the year ended July 31, 2000. The acquisition cost was allocated as follows (in thousands):

Historical book value of net assets acquired	$ 27,340
Adjustments to record assets and liabilities at fair value:	
Fair value of in-process research and development costs	10,218
Fair value of existing technology	7,508
Fair value of assembled workforce	2,835
Fair value of customer base	742
Excess of the purchase price over the fair value of net assets	5,515
	$ 54,158

An independent third-party appraiser was used to assess and value the purchased in-process research and development, existing technology, assembled workforce and customer base from the acquisition. The valuation of existing technology and in-process research and development was determined for products under development, based upon the estimated future revenues to be earned upon commercialization of the products. The percentage of the cash flows allocated to the purchased in-process research and development was derived from the estimated percentage complete for each of the projects. These cash flows were discounted back to their net present value. The resulting projected net cash flows from such projects reflects management's estimates of revenues and operating profits related to such projects. The workforce and customer base valuation was based upon replacement cost.

The operating results of EF Data have been included in the consolidated statements of operations from the acquisition date (July 10, 2000). The Company's unaudited pro forma results for fiscal years 1999 and 2000 assuming the merger occurred on August 1, 1998 and August 1, 1999 are as follows:

	(in thousands, except per share amounts)	
	1999	2000
Net revenues	$ 120,258	153,479
Net income (loss)	(8,941)	187
Basic income (loss) per share	(2.16)	0.03
Diluted income (loss) per share	(2.16)	0.03
Weighted average shares	4,143	5,663
Weighted average shares assuming dilution	4,143	6,280

These unaudited pro forma results have been prepared for comparative purposes only and do not purport to be indicative of the results of operations that actually would have resulted had the merger been in effect August 1, 1998 and August 1, 1999, or the future results of operations.

In April 2001, we acquired certain assets and product lines of MPD Technologies, Inc. for $12.7 million, including transaction costs of $.8 million. The acquisition was accounted for under the purchase method of accounting. Accordingly, we have recorded the assets purchased and the liabilities assumed based upon the estimated fair values at the date of acquisition. The excess of the purchase price over the fair values of the net assets acquired was approximately $9.7 million of which $1.8 million has been allocated to customer base which is being amortized over eight years, $1.8 million has been allocated to existing technology which is being amortized over six years and $6.1 million has been allocated to goodwill which is being amortized over 20 years. The purchase price of $12.7 million was financed through $10 million of institutional secured borrowings and the balance from internal company funds. The acquisition cost was allocated as follows (in thousands):

Historical book value of net assets acquired	$	2,927
Adjustments to record assets and liabilities at fair value		
Fair value of existing technology		1,800
Fair value of customer base		1,800
Excess of the purchase price over the fair value of net assets		6,124
	$	12,651

An independent third-party appraiser was used to assess and value the existing technology and customer base from the acquisition. The valuation of existing technology was determined for products acquired, based upon the estimated future revenues to be earned from the products. The customer base valuation was based upon replacement cost.

The operating results of MPD Technologies have been included in the consolidated statements of operations from the acquisition date (April 30, 2001) through July 31, 2001. The Company's unaudited pro forma results for fiscal years 2000 and 2001 assuming the merger occurred on August 1, 1999 and August 1, 2000 are as follows:

	(in thousands, except per share amounts)	
	2000	2001
Net revenues	$ 88,848	153,485
Net income (loss)	(6,117)	7,104
Basic income (loss) per share	(1.08)	0.97
Diluted income (loss) per share	(1.08)	0.90
Weighted average shares	5,663	7,348
Weighted average shares assuming dilution	5,663	7,910

These unaudited pro forma results have been prepared for comparative purposes only and do not purport to be indicative of the results of operations that actually would have resulted had the merger been in effect August 1, 1999 and August 1, 2000, or the future results of operations.

See note 15 for information regarding the impact of recent accounting pronouncements on the amortization of intangibles in future periods.

(3) Accounts Receivable

Accounts receivable consist of the following at July 31, 2001 and 2000:

	2001	2000
Accounts receivable from commercial customers	$ 18,336,000	19,841,000
Unbilled receivables (including retainages) on contracts-in-progress	5,939,000	2,602,000
Amounts receivable from the United States government and its agencies	3,944,000	2,567,000
	28,219,000	25,010,000
Less allowance for doubtful accounts	845,000	806,000
Accounts receivable, net	$ 27,374,000	24,204,000

In the opinion of management, substantially all of the unbilled balances will be billed and collected during fiscal 2002.

(4) Inventories

Inventories consist of the following at July 31, 2001 and 2000:

	2001	2000
Raw materials and components	$ 18,718,000	14,814,000
Work-in-process and finished goods	20,294,000	14,265,000
	39,012,000	29,079,000
Less:		
Progress payments	-	380,000
Reserve for anticipated losses on contracts and inventory reserves	2,280,000	2,529,000
Inventories, net	$ 36,732,000	26,170,000

(5) Property, Plant and Equipment

Property, plant and equipment consists of the following at July 31, 2001 and 2000:

	2001	2000
Equipment	$ 22,681,000	18,958,000
Leasehold improvements	1,964,000	1,674,000
Facilities financed by capital lease	2,450,000	3,365,000
Equipment financed by capital lease	2,146,000	1,569,000
	29,241,000	25,566,000
Less accumulated depreciation and amortization	17,463,000	14,828,000
	$ 11,778,000	10,738,000

Depreciation and amortization expense on property, plant and equipment amounted to approximately $3,711,000, $1,562,000, and $1,152,000, for the years ended July 31, 2001, 2000, and 1999 respectively.

(6) Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consist of the following at July 31, 2001 and 2000:

	2001	2000
Customer advances and deposits	$ 2,089,000	1,346,000
Accrued wages and benefits	3,663,000	3,970,000
Accrued commissions	1,021,000	3,992,000
Accrued warranty	4,336,000	2,314,000
Other	2,506,000	2,035,000
	$ 13,615,000	13,657,000

(7) Capital Lease Obligations

Capital lease obligations consist of the following at July 31, 2001 and 2000:

	2001	2000
Obligations under capital leases	$ 3,254,000	1,516,000
Less current installments	1,097,000	608,000
	$ 2,157,000	908,000

The obligations under capital leases relate to the Melville, New York facilities, as well as certain equipment, the net carrying value of which was $3,789,000, and $2,106,000 at July 31,2001 and 2000, respectively.

Future minimum lease payments under capital leases as of July 31, 2001 are:

Years ending July 31,	
2002	$ 1,322,000
2003	1,133,000
2004	916,000
2005	207,000
2006	112,000
Thereafter	6,000
Total minimum lease payments	3,696,000
Less amounts representing interest (at rates varying from 6.55% to 9.0%)	442,000
	3,254,000
Less current installments	1,097,000
Obligations under capital leases, net of current installments	$ 2,157,000

In December 1991, the Company and a partnership controlled by the Company's Chairman, Chief Executive Officer and President 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 $468,000 for fiscal 2001, 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, 2001 and 2000 approximated $155,000 and $501,000, respectively. The Company exercised its option to extend the lease for an additional ten-year period during fiscal 2001.

(8) Long-term Debt

In July of 2000, in connection with the acquisition of EF Data, the Company entered into a secured loan agreement with The Teachers' Retirement System of Alabama, The Employees' Retirement System of Alabama, the Alabama Heritage Trust Fund, PEIRAF-Deferred Compensation Plan, and State Employees' Health Insurance Fund which provided a term loan in the amount of $40,000,000, expiring on June 30, 2005. Costs incurred to obtain the financing amounted to $289,000 and are included in other assets net of amortization in the accompanying consolidated balance sheet. Borrowings under the term loan are evidenced by promissory notes and are secured by all of the Company's assets. The principal amount of the loan outstanding bears interest at the per annum rate of 9.25%. The loan agreement contains restrictive covenants, which, among other things, requires the Company to maintain certain financial ratios. At July 31, 2001, the Company was in compliance with such covenants. In August 2001, the Company made a partial principal prepayment of $19.2 million against the loans.

In April 2001, in connection with the acquisition of MPD Technologies, the Company borrowed an additional $10,000,000 from The Teachers' Retirement System of Alabama, The Employees' Retirement Systems of Alabama and PEIRAF-Deferred Compensation Plan. Costs incurred to obtain the financing amounted to $164,000 and are included in other assets net of amortization in the accompanying consolidated balance sheet. The loan which is evidenced by promissory notes and is secured by all of the Company's assets, bears interest on the principal amount outstanding at the per annum rate of 8.50%. The loan requires interest only payments through June 2005 at which time the entire principal is due.

Future minimum debt payments as of July 31, 2001 are:

Years ended July 31,	
2002	$ 5,900,000
2003	9,550,000
2004	13,600,000
2005	18,850,000
Total minimum debt payments	47,900,000
Less current installments	5,900,000
Long-term debt, less current installments	$ 42,000,000

(9) Income Taxes

The provision (benefit) for income taxes on continuing operations included in the accompanying consolidated statements of operations consists of the following:

	Year ended July 31, 2001	2000	1999
Federal – current	$ 2,834,000	1,004,000	60,000
Federal – deferred	503,000	(1,204,000)	(3,949,000)
State and local – current	474,000	446,000	135,000
State and local-deferred	77,000	(161,000)	-
	$ 3,888,000	85,000	(3,754,000)

The provision (benefit) for income taxes on income from continuing operations was $3,888,000, $85,000, and ($3,754,000) for fiscal 2001, 2000 and 1999, respectively, and differed from the amounts computed by applying the U.S. Federal income tax rate of 34% as a result of the following:

	2001 Amount	2001 Rate	2000 Amount	2000 Rate	1999 Amount	1999 Rate
Computed "expected" tax expense	$ 3,605,000	34.0%	(1,338,000)	(34.0)%	927,000	34.0%
Increase (reduction) in income taxes Resulting from:						
Change in the beginning of the year valuation allowance for deferred tax assets	(300,000)	(2.8)	1,623,000	41.2	(4,544,000)	(166.6)
Utilization of tax benefit carryforward	-	-	-	-	(223,000)	(8.2)
State and local income tax, net of federal benefit	363,000	3.4	188,000	4.8	86,000	3.2
Other	220,000	2.1	(388,000)	(9.8)	-	-
	$ 3,888,000	36.7%	85,000	2.2%	(3,754,000)	(137.6)%

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities at July 31, 2001 and 2000 are presented below.

	2001	2000
Deferred tax assets:		
Allowance for doubtful accounts receivable	$ 98,000	94,000
Intangibles	4,796,000	4,351,000
Inventory and warranty reserves	1,303,000	1,136,000
Plant and equipment, principally due to capitalized leases and differences in depreciation	481,000	628,000
Compensation and commissions, principally due to accrual for financial reporting purposes	423,000	1,895,000
Deferred compensation	116,000	236,000
Other	243,000	-
Total gross deferred tax assets	7,460,000	8,340,000
Less valuation allowance	(2,100,000)	(2,400,000)
Net deferred tax assets	$ 5,360,000	$ 5,940,000

The Company provides for income taxes under the provisions of SFAS No. 109, "Accounting for Income Taxes". SFAS 109 requires an asset and liability based approach in accounting for income taxes. In assessing the realizability of deferred tax assets and liabilities, management considers whether it is more likely than not that some portion or all of them will not be realized. During fiscal 1999, the Company concluded that a full valuation allowance was no longer necessary given its estimates of future earnings. Accordingly, the Company reduced the valuation allowance by $4,544,000 during fiscal 1999. As of July 31, 2000 and 2001, the Company's gross deferred tax asset has been offset by a valuation allowance related to the extended write off period of in-process research and development from the acquisition of EF Data. The Company must generate approximately $19,500,000 of taxable income to fully utilize its deferred tax assets. Management believes it is more likely than not that the results of future operations will generate sufficient taxable income to realize the net deferred tax assets.

(10) Stockholders' Equity

(a) Common Stock Offering

In February and March 2000, the Company sold an aggregate of 2,645,000 shares of its common stock in a public offering resulting in net proceeds to the Company of approximately $42.4 million.

(b) Stock Option, Stock Purchase and Warrant Agreements

The Company has stock option and stock purchase plans and warrant agreements as follows:

1993 Incentive Stock Option Plan - The 1993 Incentive Stock Option Plan, as amended, provides for the granting to key employees and officers of incentive and non-qualified stock options to purchase up to 1,042,500 shares of the Company's common stock at prices generally not less than the fair market value at the date of grant with the exception of anyone who, prior to the grant, owns more than 10% of the voting power, the exercise price cannot be less than 110% of the fair market value. In addition, it provided formula grants to non-employee members of the

Board of Directors. The term of the options may be no more than ten years. However, 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, the option term may be no more than five years. As of July 31, 2001, the Company had granted incentive stock options representing the right to purchase an aggregate of 1,086,515 shares at prices ranging between $1.50 - $11.94 per share, of which 115,268 options were canceled and 627,328 are outstanding at July 31, 2001. To date, 343,919 shares have been exercised. Outstanding awards have been transferred to the 2000 Stock Incentive Plan. The terms applicable to these awards prior to the transfer continue to apply. The plan was terminated by the Board of Directors in December 1999 due to the approval by the shareholders of the 2000 Stock Incentive Plan.

2000 Stock Incentive Plan- The 2000 Stock Incentive Plan, as amended, provides for the granting to all employees and consultants of the Company (including prospective employees and consultants) non-qualified stock options, stock appreciation rights, restricted stock, performance shares, performance units and other stock-based awards. In addition, employees of the Company are eligible to be granted incentive stock options. Non-employee directors of the Company are eligible to receive non-discretionary grants of nonqualified stock options subject to certain limitations. The aggregate number of shares of common stock which may be issued may not exceed 850,000 plus the shares that were transferred to the Plan relating to outstanding awards that were previously granted under the 1982 Incentive Stock Option Plan and the 1993 Incentive Stock Option Plan. The Stock Option Committee of the Board of Directors, consistent with the terms of the Plan, will determine the types of awards to be granted, the terms and conditions of each award and the number of shares of common stock to be covered by each award. Grants of incentive and non-qualified stock options may not have a term exceeding ten years or no more than five years in the case of an incentive stock option granted to a stockholder who owns stock representing more than 10% of the voting power. As of July 31, 2001, the Company had granted incentive stock options representing the right to purchase an aggregate of 486,700 shares at prices ranging between $11.25 - $17.84 of which 16,000 options were canceled and 470,700 are outstanding at July 31, 2001. There have been no exercises. All options granted have been incentive stock options at prices equal to the fair market value of the stock on the date of grant.

Warrants Issued Pursuant to Acquisition of CMDC - As part of the asset purchase agreement for the acquisition of CMDC (see Note 2), the Company issued warrants to the owners and creditors to purchase 150,000 shares of the Company's common stock at an exercise price of $6.57. The warrants, which contain transferability restrictions, are exercisable for a period of five years commencing September 24, 1998, and shares purchased through the exercise of these warrants contain voting restrictions. Through fiscal 2001, warrants to purchase 80,671 shares were exercised.

Employee Stock Purchase Plan – The Comtech Telecommunications Corp. 2001 Employee Stock Purchase Plan ("The Purchase Plan") was approved by the shareholders on December 12, 2000. Pursuant to the Purchase Plan, 300,000 shares of the Company's common stock will be reserved for issuance. The Purchase Plan is intended to provide eligible employees of the Company the opportunity to acquire common stock in the Company at 85% of fair market value at date of issuance through participation in the payroll-deduction based employee stock purchase plan. During the year end July 31, 2001, the Company issued 14,112 shares of its common stock to participating employees in connection with the Purchase Plan.

c) Option Activity

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

	Number of shares	Weighted average exercise price
Outstanding at July 31, 1998	858,195	$ 2.65
Granted	140,250	6.08
Expired/canceled	(5,688)	5.90
Exercised	(88,362)	2.43
Outstanding at July 31, 1999	904,395	3.40
Granted	109,500	12.02
Expired/canceled	(40,268)	5.69
Exercised	(189,949)	2.71
Outstanding at July 31, 2000	783,678	4.65
Granted	434,700	12.62
Expired/canceled	(21,400)	9.05
Exercised	(98,950)	3.13
Outstanding at July 31, 2001	1,098,028	$ 7.86
Options exercisable July 31, 2001	354,948	$ 4.07
Options available for grant at July 31, 2001	442,910	

The options outstanding as of July 31, 2001 are summarized in ranges as follows:

Range of exercise price	Weighted average Exercise price	Number of Options outstanding	Weighted average remaining life
$ 1.50-3.99	$ 2.96	466,578	6 years
4.00-7.50	6.44	117,750	7 years
7.51-12.00	11.22	292,700	9 years
12.01-17.84	14.50	221,000	9 years

(d) Stock-Based Compensation Plans

The Company accounts for its stock option plans under APB Opinion No. 25, under which no compensation cost has been recognized. Had compensation cost for these plans been determined consistent with SFAS No. 123, the Company's net income (loss) and income (loss) per share would have been reduced to the following pro forma amounts:

			2001	2000	1999
Net income (loss)	As reported		$ 6,714,000	(3,941,000)	5,265,000
	Pro forma		$ 5,818,000	(4,617,000)	4,836,000
Net income (loss) per share	As reported	Basic	$ 0.91	(0.69)	1.27
		Diluted	$ 0.85	(0.69)	1.15
	Pro forma	Basic	$ 0.79	(0.82)	1.17
		Diluted	$ 0.74	(0.82)	1.06

The per share weighted-average fair value of stock options granted during 2001, 2000 and 1999 was $9.07, $9.14 and $3.19, respectively, on the date of grant using the Black Scholes option-pricing model with the following weighted-average assumptions:

2001 – expected dividend yield of 0%, risk-free interest rate of 5.16%, expected volatility of 72.94% and an expected option life of 10 years.

2000 – expected dividend yield of 0%, risk-free interest rate of 6.04%, expected volatility of 82.74% and an expected option life of 10 years.

1999 - expected dividend yield of 0%, risk-free interest rate of 5.86%, expected volatility of 69.5% and an expected option life of 10 years.

(e) Restricted Common Stock

In February 1994, a total of 180,000 (after effect of three-for-two stock split - see Note 10 (f)) restricted shares of the Company's common stock were granted by the Board of Directors to the principal officers of one of the Company's operating units, Comtech Communications Corp, ("CCC"), at a cost of $.10 per share. The award relates to services to be provided over future years and, as a result, the stock awards are subject to certain restrictions which may be removed earlier upon CCC attaining certain business plan milestones, as provided in the agreement, but no later than ten years from the date of the award. The excess of market value over cost of the shares awarded of $633,000 was recorded as deferred compensation and is being amortized to expense over a ten-year period subject to the aforementioned accelerated provisions, if appropriate, as evaluated on an annual basis. The deferred compensation was reflected as a reduction of stockholders' equity in the accompanying consolidated balance sheet. In July 2000, the Company combined the operations of CCC with Comtech EF Data Corp. and the principal officers of CCC were made principal officers of the combined companies. The remaining unamortized balance of $136,000 of deferred compensation was expensed in fiscal 2000.

In October 1998, a total of 225,000 (after effect of three-for-two stock split - see Note 10(f)) restricted shares of the Companys' common stock were granted by the Board of Directors to the principal officers and employees of the Companys' new subsidiary, Comtech Mobile Datacom Corp. ("CMDC"), at a cost of $.10 per share. The award relates to services to be provided over future years and, as a result, the stock awards are subject to certain restrictions which may be removed earlier upon CMDC attaining certain business plan milestones, as provided in the agreement, but no later than ten years from the date of the award. These awards also automatically vest upon the employees' retirement or termination of employment by the Company without cause. The excess of market value over cost of the shares awarded of $1,041,000 was recorded as deferred compensation and is being amortized to expense over a ten-year period subject to the aforementioned accelerated provisions, if appropriate, as evaluated on an annual basis. The deferred compensation is reflected as a reduction of stockholders' equity in the accompanying consolidated balance sheets.

(f) Stock Split

On July 6, 1999, the Company's Board of Directors authorized a three-for-two stock split effected in the form of a 50% stock dividend payable July 30, 1999 to stockholders of record on July 16, 1999. All share and per share amounts in the accompanying consolidated financial statements have been restated to reflect the stock split.

(11) Segment and Principal Customer Information

Effective July 31, 1999, the Company adopted SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." Reportable operating segments are determined based on the Company's management approach. The management approach, as defined by SFAS No. 131, is based on the way that the chief operating decision-maker organizes the segments within an enterprise for making operating decisions and assessing performance. While the Company's results of operations are primarily reviewed on a consolidated basis, the chief operating decision-maker also manages the enterprise in three segments:
(i) Telecommunications Transmission, (ii) RF Microwave Amplifiers and (iii) Mobile Data Communications Services. Telecommunications Transmission products include modems, frequency converters, satellite VSAT transceivers and antennas and over-the-horizon microwave communications products and systems. RF Microwave Amplifier products include high-power amplifier products that use the microwave and radio frequency spectrums. Mobile Data Communications Services include two-way messaging links between mobile platforms or remote sites and user headquarters using satellite, terrestrial microwave or Internet links. Unallocated assets consist principally of cash, deferred tax assets and intercompany receivables. Unallocated losses result from such corporate expenses as legal, accounting and executive. Sales between segments were negligible.

(in thousands)

Fiscal 2001	Telecommunications Transmission	RF Microwave Amplifiers	Mobile Data Communications Services	Un-Allocated	Total
Net sales	$ 106,348	16,385	13,198	-	135,931
Operating income (loss)	17,051	(470)	(191)	(3,235)	13,155
Interest income	211	8	4	2,080	2,303
Interest expense	3,728	287	-	-	4,015
Depreciation and amortization	4,995	1,159	229	192	6,575
Expenditure for long-lived assets, including intangibles	4,506	11,895	142	128	16,671
Total assets	64,116	25,067	16,596	41,209	146,988

Fiscal 2000	Telecommunications Transmission	RF Microwave Amplifiers	Mobile Data Communications Services	Un-Allocated	Total
Net sales	$ 53,311	10,968	2,165	-	66,444
Operating income (loss)	254	52	(2,350)	(2,604)	(4,648)
Interest income	-	-	-	1,511	1,511
Interest expense	282	99	-	-	381
Depreciation and amortization	974	763	159	253	2,149

Continued

Fiscal 2000	Telecommunications Transmission	RF Microwave Amplifiers	Mobile Data Communications Services	Un-Allocated	Total
Expenditure for long-lived assets, including intangibles	27,166	1,356	286	5	28,813
Total assets	68,018	9,693	4,286	44,034	126,031

Fiscal 1999	Telecommunications Transmission	RF Microwave Amplifiers	Mobile Data Communications Services	Un-Allocated	Total
Net sales	$ 23,045	14,523	318	-	37,886
Operating income (loss)	2,296	2,503	(309)	(1,663)	2,827
Interest income	10	-	-	55	65
Interest expense	38	152	11	3	204
Depreciation and amortization	461	714	87	248	1,510
Expenditure for long-lived assets	791	326	1,734	3	2,854
Total assets	16,907	8,409	2,691	1,840	29,847

Sales to one customer in fiscal 2000 and 1999 represented 43.1% and 27.0%, respectively, of total net sales. Such sales were made from the telecommunications transmission business segment. No customer represented more than 10% of sales in fiscal 2001. During fiscal 2001, 2000 and 1999, approximately 23.1%, 8.8% and 15.6%, respectively, of the Company's net sales resulted from contracts with the United States government and its agencies. Export sales comprised 46.2%, 71.4% and 60.1% of net sales in fiscal 2001, 2000 and 1999, respectively. Export sales include sales to domestic companies for inclusion in products, which will be sold to international customers.

(12) Commitments and Contingencies

(a) Operating Leases

The Company is obligated under noncancellable operating lease agreements. At July 31, 2001, the future minimum lease payments under operating leases are as follows:

2002	$ 3,083,000
2003	3,276,000
2004	3,182,000
2005	2,884,000
2006	1,498,000
Thereafter	2,997,000
Total	$ 16,920,000

Lease expense charged to operations was $2,236,000, $474,000 and $301,000 in fiscal 2001, 2000 and 1999, 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 position or results of operations.

(c) Litigation

Two former employees have commenced an action in the United States District Court, District of New Jersey, against the Company and others asserting, among other things, breach of certain restricted stock agreements and seeking unspecified monetary damages, specific performance of the restricted stock agreements, including the issuance of an aggregate 225,000 shares of the Company's Common Stock for a purchase price of $.10 per share, and other relief. The Company believes it has meritorious defenses to all the claims asserted and intends to vigorously defend the action. It has filed an answer and has asserted certain counterclaims. There is a pending motion of the plaintiffs to dismiss the counterclaims and to strike certain of the affirmative defenses. The Company has opposed the motion and cross-moved to dismiss the claims of one plaintiff.

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 or results of operations.

(d) Employment Contract

Mr. Kornberg, the Company's Chairman of the Board of Directors, Chief Executive Officer and President is employed pursuant to an agreement, which was amended and restated in October 2001, which provides, among other things, for his employment until 2003 at a current base compensation of $385,000 per annum and incentive compensation equal to 3.5% of the Company's pre-tax income plus such additional amounts, if any, as the Board of Directors may from time to time determine.

(13) Discontinued Operations

Based upon CWI's disappointing fiscal 1999 results of operations and its uncertain future prospects, effective July 31, 1999, the Board of Directors approved a plan to liquidate CWI by January 31, 2000. Costs and expenses, and cash flows associated with CWI have been excluded from the respective captions in the accompanying statements of operations and statements of cash flows.

During fiscal 2000, the Company liquidated the operations of CWI and recorded a loss of $137,000 net of applicable income taxes.

(14) Stockholder Rights Plan

On December 15, 1998, the Company's Board of Directors approved the adoption of a stockholder rights plan in which one stock purchase right ("Right") was distributed as a dividend on each outstanding share of the Company's common stock to stockholders of record at the close of business on January 4, 1999. Under the plan, the Rights will be exercisable only if triggered by a person or group's acquisition of 15% or more of the Company's common stock. If triggered, each Right, other than Rights held by the acquiring person or group, would entitle its holder to purchase a specified number of the Company's common shares for 50% of their market value at that time. Unless a 15% acquisition has occurred, the Rights may be redeemed by the Company at any time prior to the termination date of the plan.

This Right to purchase common stock at a discount will not be triggered by a person's or group's acquisition of 15% or more of the common stock pursuant to a tender or exchange offer which is for all outstanding shares at a price and on terms that Comtech's Board of Directors determines (prior to acquisition) to be adequate and in the best interest of the Company an its stockholders. The Rights will expire on December 15, 2008.

(15) Impact of Recent Accounting Pronouncements

In July 2001, the FASB issued Statement of Financial Accounting Standards No. 141, *Business Combinations*, and Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*. Statement 141 requires that the purchase method of accounting be used for all business combinations. Statement 141 also specifies criteria that intangible assets acquired in a purchase method business combination must meet to be recognized and reported separately from goodwill. Statement 142 will require that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually in accordance with the provisions of Statement 142. Statement 142 will also require that intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with Statement of Financial Accounting Standards No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed of.*

The Company adopted the provisions of Statement 141 effective July 1, 2001. The adoption of Statement 141 had no effect on the financial position or results of operations of the Company. Statement 142 is effective for the Company beginning August 1, 2001. At that time, any goodwill and intangible assets determined to have an indefinite useful life that were acquired in a purchase business combination will not be amortized, but will be evaluated for impairment in accordance with the provisions of Statement 142.

Statement 141 requires, upon adoption of Statement 142, that the Company evaluate its existing intangible assets and goodwill that were acquired in a prior purchase business combination, and to make any necessary reclassifications in order to conform with the new criteria in Statement 141 for recognition apart from goodwill. Upon adoption of Statement 142, the Company will be required to reassess the useful lives and residual values of all intangible assets acquired in purchase business combinations, and make any necessary amortization period adjustments by the end of the first interim period after adoption. In addition, to the extent an intangible asset is identified as having an indefinite useful life, the Company will be required to test the intangible asset for impairment in accordance with the provisions of Statement 142 within the first interim period. Any impairment loss will be measured as of the date of adoption and recognized as the cumulative effect of a change in accounting principle in the first interim period.

As of August 1, 2001, the Company had unamortized goodwill and other intangible assets with indefinite useful lives of $17.7 million. Such assets will no longer be amortized under Statement 142. The Company does not believe that the goodwill and other intangible assets with indefinite useful lives were impaired as of August 1, 2001. Amortization expense relating to such assets in fiscal 2002 would be $1.7 million if Statement 142 was not adopted.

(16) Unaudited Quarterly Financial Data

The following is a summary of unaudited quarterly operating results (amount in thousands, except per share data):

Fiscal 2001

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Net sales	$ 39,846	33,111	32,322	30,652	135,931
Gross profit	13,108	12,656	12,343	10,497	48,604
Net income	2,007	1,872	1,527	1,308	6,714
Diluted income per share	$ 0.25	0.24	0.19	0.16	0.85*

Fiscal 2000

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Net sales	$ 11,747	13,717	15,485	25,495	66,444
Gross profit	3,341	4,141	4,387	8,633	20,502
Income (loss) from continuing operations	535	662	971	(5,972)	(3,804)
Net income (loss)	535	662	971	(6,109)	(3,941)
Diluted income (loss) per share from continuing operations	$ 0.11	0.13	0.13	(0.82)	(0.67)*
Diluted income (loss) per share	$ 0.11	0.13	0.13	(0.84)	(0.69)*

* Income per share information for the full fiscal year may not equal the total of the quarters within the year as a result of (i) a loss in a quarter or the full year, and (ii) rounding.

Schedule II

COMTECH TELECOMMUNICATIONS CORP.
AND SUBSIDIARIES

Valuation and Qualifying Accounts and Reserves

Years ended July 31, 2001, 2000 and 1999

Column A	Column B	Column C		Column D	Column E
		Additions			
		(1)	(2)		
Description	Balance at beginning of period	Charged to cost and expenses	Charged to other accounts - describe	Transfers (deductions) describe	Balance at end of period
Allowance for doubtful accounts - accounts receivable:					
Year ended July 31,:					
2001	$ 806,000		39,000(C)	-	- 845,0
2000	145,000		-	-	661,000 (E
1999	170,000	-		(25,000) (D)	145,000
Inventory reserves:					
Year ended July 31,:					
2001	$ 2,529,000	264,000(A)	-	(513,000)(B)	2,280,000
2000	1,170,000	244,000(A)	-	1,115,000 (E)	2,529,000
1999	829,000	341,000(A)	-	-	1,170,000

(A) Increase in reserves for obsolete and slow moving inventory and losses on contracts.
(B) Write-off of inventory.
(C) Increase in allowance for doubtful accounts.
(D) Write-off of uncollectible receivables.
(E) Acquired in acquisition of EF Data.

CORPORATE DIRECTORY

COMTECH TELECOMMUNICATIONS CORP.
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Melville, New York 11747
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Web Site: www.comtechtel.com
Email: info@comtechtel.com

BOARD OF DIRECTORS

Fred Kornberg (1)
Chairman, Chief Executive Officer &
President of the Corporation

Dr. George Bugliarello (3) (4)
Chancellor, Polytechnic University

Richard L. Goldberg (1) (4)
Partner, Proskauer Rose LLP

Edwin Kantor (1) (2)
Co-Chief Executive Officer,
TPB Financial Services

Gerard R. Nocita (2) (3) (4)
Private Investor

Sol S. Weiner (2) (3)
President, Weiner Investments Inc.

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

CORPORATE OFFICERS & SUBSIDIARY PRINCIPALS

Fred Kornberg
President and Chief Executive Officer

Robert G. Rouse
Senior Vice President and
Chief Financial Officer

Gail Segui
Secretary and Treasurer

Richard L. Burt
Senior Vice President
President of Comtech Systems, Inc. (CSI)

Robert L. Mc Collum
Senior Vice President
President of Comtech EF Data Corp. (CEFD)

J. Preston Windus, Jr.
Group Vice President, President of Comtech PST Corp. (CPST)

Joel Alper
President of Comtech Mobile Datacom Corp. (CMDC)

Thomas C. Christy
President of Comtech Antenna Systems, Inc. (CASI)

STOCKHOLDER INFORMATION

MARKET FOR REGISTRANT'S COMMON STOCK
Comtech Telecommunications Corp.
Common Stock is traded on the NASDAQ
National Market System®. The Symbol is CMTL

ANNUAL MEETING
Tuesday, December 11, 2001 @ 10.00 a.m.
Melville Marriott Hotel
1350 Walt Whitman Road
Melville, New York 11747

REGISTRAR & TRANSFER AGENT
American Stock Transfer and Trust Co.
59 Maiden Lane
New York, New York 10007
www.amstock.com

INDEPENDENT AUDITORS
KPMG LLP
1305 Walt Whitman Road
Melville, New York 11747
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LEGAL COUNSEL
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1585 Broadway
New York, New York 10036
www.proskauer.com

SHAREHOLDER INFORMATION
For information on the Company please visit us on
the Internet at www.comtechtel.com
or call Investor Relations at (631) 777-8900,
or write to:
Comtech Telecommunications Corp.
Investor Relations
105 Baylis Road
Melville, New York 11747

10-K REPORT
A copy of the Form 10-K Annual Report filed with the Securities and Exchange Commission and Exhibits for the year ended July 31, 2001, and other interim reports are available to shareholders for a processing fee of $25. Requests in writing for this report should be sent to:
Comtech Telecommunications Corp.
Secretary
105 Baylis Road
Melville, NY 11747

COMMON STOCK PRICE RANGE

Quarter Ended	High	Low
October 31, 2000	$19.88	$12.00
January 31, 2001	$19.50	$ 9.00
April 30, 2001	$19.00	$11.00
July 31, 2001	$17.99	$11.45

At July 31, 2001 there were 7,428,605 shares outstanding. The Company paid no dividends. Currently the Company does not anticipate paying any cash dividends in the future.

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