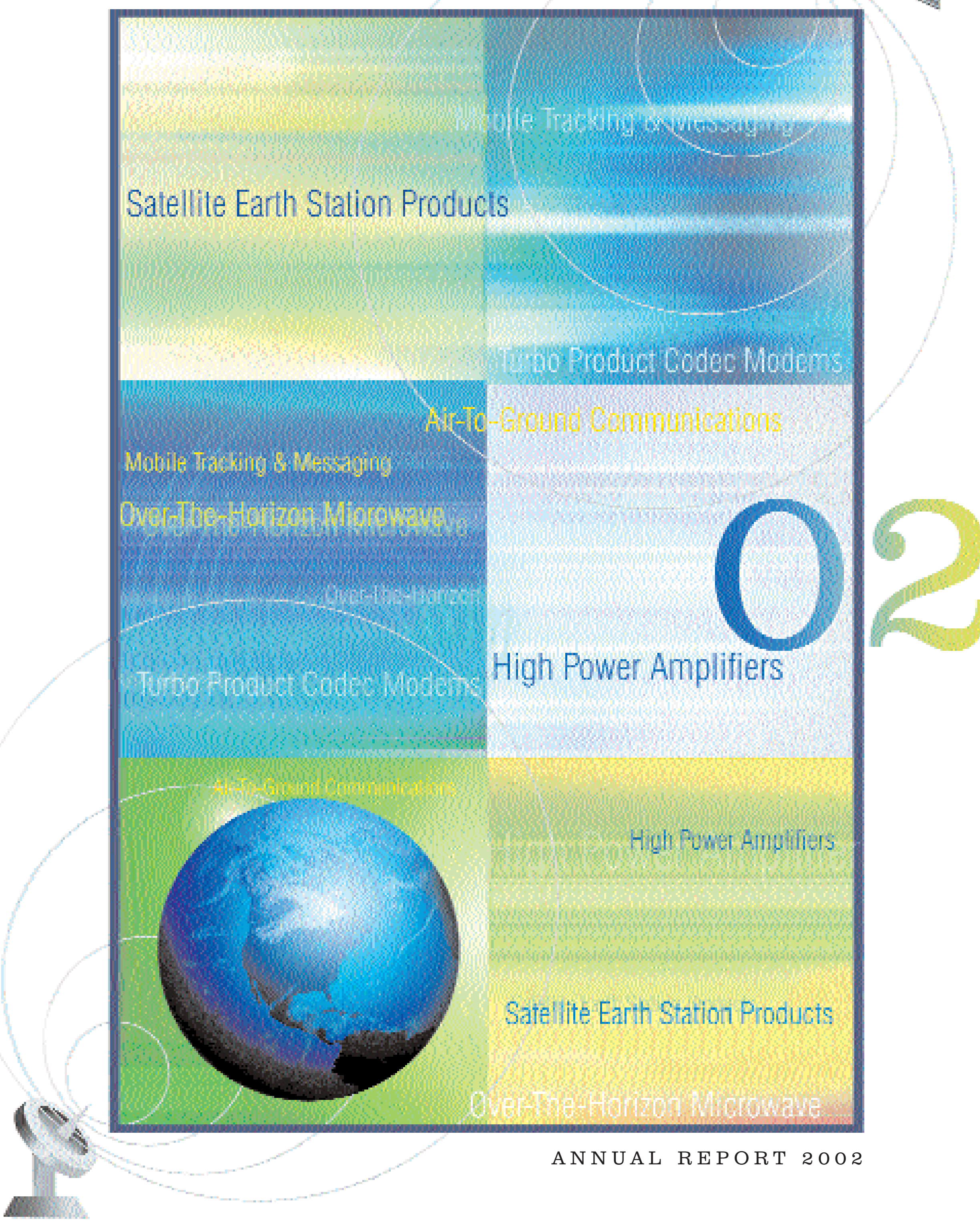
COMTECH

TELECOMMUNICATIONS CORP.



ANNUAL REPORT 2002

2002 FINANCIAL HIGHLIGHTS

Fiscal Year Ended July 31,	2002 (d)	2001	2000 (c)	1999 (b)	1998
Net Sales	$ 119,357,000	$ 135,931,000	$ 66,444,000	$ 37,886,000	$ 30,114,000
Operating Income	$ 5,553,000	$ 13,155,000	$ 5,805,000	$ 2,827,000	$ 1,452,000
EBITDA (e)	$ 10,783,000	$ 19,730,000	$ 7,954,000	$ 4,337,000	$ 2,658,000
Net Income	$ 1,991,000	$ 6,714,000	$ 4,242,000	$ 1,773,000	$ 1,104,000
EPS - Diluted (a)	$ 0.25	$ 0.85	$ 0.68	$ 0.39	$ 0.27
Stockholders' Equity	$ 67,288,000	$ 65,565,000	$ 57,782,000	$ 18,357,000	$ 12,093,000
Book Value Per Share (a)	$ 8.96	$ 8.83	$ 7.95	$ 4.18	$ 3.08
Backlog	$ 44,121,000	$ 50,094,000	$ 50,538,000	$ 38,637,000	$ 15,452,000
Shares-Diluted (a)	7,805,000	7,910,000	6,280,000	4,573,000	4,166,000
Closing Stock Price	$ 9.33	$ 14.55	$ 14.375	$ 11.875	$ 4.333

Notes:

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

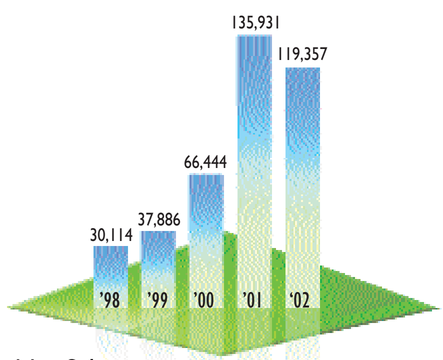
(b) Excludes a non-recurring tax benefit resulting from a reduction in the Company's valuation allowance against deferred tax assets and a loss from discontinued operations. Including such items, net income was $5,265,000, or $1.15 per share.

(c) Excludes non-recurring in-process research and development charge, integration costs related to the Company's acquisition of certain assets and liabilities of EF Data Corp. and a loss from discontinued operations. Including such items, the Company had an operating loss of $4,648,000 and a net loss of $3,941,000, or $.69 per share.

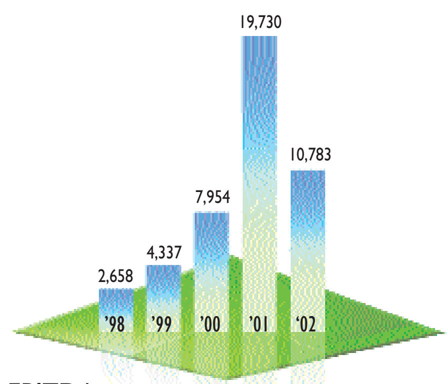
(d) Excludes non-recurring in-process research and development charge related to the Company's acquisition of certain assets and liabilities of Advanced Hardware Architectures, Inc. and a tax benefit relating to research and experimentation credits. Including such items, the Company had operating income of $3,361,000 and net income of $1,148,000, or $.15 per share.

(e) Represents earnings before interest, income taxes, depreciation and amortization, and non-recurring items (primarily in-process research and development charges).

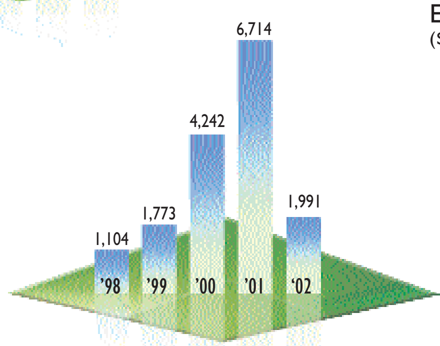
These financial highlights should be read in conjunction with the Notes to Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations.



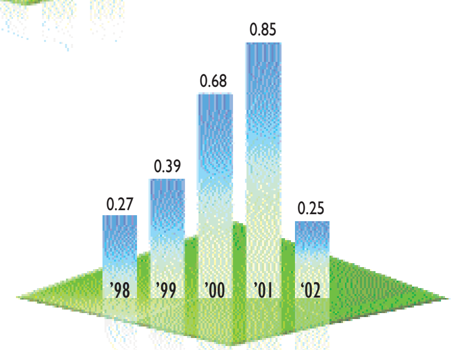
Net Sales
($ in thousands)



EBITDA
($ in thousands)



Net Income
($ in thousands)



Diluted Earnings Per Share
($)

ABOUT COMTECH

Comtech Telecommunications Corp. designs, develops, produces and markets innovative products and services for advanced telecommunications solutions. We conduct our business through three decentralized but complementary segments: Telecommunications Transmission, RF Microwave Amplifiers and Mobile Data Communications Services.

These segments operate through individual operating units, each of which maintains its own sales, marketing, product development and manufacturing functions.

Comtech has grown substantially in recent years as evidenced by net sales increasing from $30.1 million in fiscal 1998 to $119.4 million in fiscal 2002. 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 625. 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.

Telecommunications Transmission

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 AHA Corporation, located in Pullman, Washington, designs develops and markets forward error correction integrated circuits and data coding technology solutions. These products include the latest generation forward error correction technology, called Turbo Product Codec (TPC). These patented TPC chips are an important enabling technology in bandwidth efficient modems.

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 high power testing systems, medical testing systems, electromagnetic compatibility instrumentation, satellite communications and various defense applications.

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 government and commercial land transportation, remote sensing, and aviation markets. These web-enabled services are provided through leased satellite capacity, utilizing our network, mobile transceivers and satellite earth station gateway for messaging and location tracking applications. This segment is currently providing mobile terminal units and message communications services to the U.S. Army.

TO OUR SHAREHOLDERS

It has been a tough year for all technology companies, particularly in the telecommunications sector. Comtech was not immune, but in many ways emerged stronger and more competitive than ever.

We believe that our performance in fiscal 2002 was noteworthy in light of the economic environment. In a climate where companies continue to struggle to remain liquid and viable, we have been able to focus on the fundamentals of our businesses and further solidify our leadership positions in the markets we serve.

All segments of our business were profitable and our telecommunications transmission segment outperformed its competition and increased its market share. But in the final analysis, the telecommunications industry was battered, and as a result, our numbers clearly suffered.

Revenues for fiscal 2002 decreased to $119.4 million compared to $135.9 million in the prior year. The decrease was entirely in our telecommunications transmission segment. In fact, revenues in our RF microwave amplifier and mobile data communications services segments increased in fiscal 2002. Net income fell to $1.1 million (after a $2.2 million in-process research and development charge in connection with the acquisition of certain assets of Advanced Hardware Architectures, Inc.) versus $6.7 million in fiscal 2001.

Throughout the year, we devoted a great deal of focus and effort to enhance Comtech's competitive edge and to build future value as economic conditions improve:

- We generated strong operating cash flow and continued to strengthen our balance sheet. We prepaid $19.2 million of long-term debt in August 2001.
- Despite the short-term impact on earnings, we increased our research and development spending to $11.0 million. We believe our continuing investment in product enhancements and new product development will give us significant competitive advantages.
- Our research and development efforts provided us with a next generation satellite earth station turbo product codec modem which offers data speeds up to 20 mbs and can increase data throughput or reduce transponder costs by up to 60%.
- We ensured ourselves exclusive ownership of the key enabling technology for our satellite earth station modems by acquiring, from Advanced Hardware Architectures, Inc., the patents for the turbo product codec chips incorporated into our modems.

Within our Telecommunications Transmission segment, we believe that we are the leading provider of over-the-horizon microwave equipment and satellite earth station modems. With our customers' needs and desires in mind, we provide one-stop shopping for satellite earth station equipment – a powerful concept that has worked well for us.

During fiscal 2002, we have witnessed a resurgence in bid activity in our over-the-horizon microwave product line. The reliability, security and ability of this equipment to communicate over unfriendly terrain make it ideal for various defense applications. In addition, since this technology enables communication over large bodies of water, offshore oil platforms are a key target market for us. Our patented, adaptive 8 mbs digital modem provides customers with significant benefits compared to the traditional 2 mbs over-the-horizon microwave modems offered by our competition. Subsequent to July 31, 2002, we received a new contract for $42 million which will significantly increase sales in this product line over the next three to four years.

Sales of satellite earth station products this year were clearly impacted by the significant decrease in telecom spending. On the commercial side, we expect this softness to continue until economic conditions improve. However, we have seen an increase in activity on the defense side. Many observers believe that the government will experience a satellite bandwidth crunch during the next five years. Upgrading the government's satellite communications infrastructure is an important part of addressing this issue.

In recent years, a great deal of our research and development spending has been for satellite earth station modems. Two years ago, we were the first company to introduce a satellite modem using turbo product codec technology. The CDM-550 modem offered speeds up to 2 mbs. Our current turbo product codec modem, the CDM 600, offers speeds up to 20 mbs and can increase data throughput or reduce transponder lease costs by up to 60%. Accordingly, our customers, including the U.S. government, can significantly increase the efficiency of their satellite networks.

We further solidified our leadership position in the satellite earth station modem area by acquiring certain assets of Advanced Hardware Architectures, Inc. (AHA) on July 31, 2002. AHA owns the patents for the turbo product codec chips incorporated into our satellite modems, as well as a portfolio of forward error correction and data compression chips. This acquisition ensures that we will own the key enabling technology in our satellite earth station modems. In addition, we will be exploring additional applications for turbo product codec chips in other wireless applications.

Our RF Microwave Amplifier segment experienced an increase in sales during fiscal 2002 primarily as a result of our acquisition of certain assets of MPD Technologies from Ericsson Corporation in April 2001. We now have an expanded line of high-power, broadband amplifier products. As with telecommunications, we anticipate that the commercial side of our business will continue to be soft in light of current economic conditions and the continuing impact of September 11, 2001. For example, sales of aviation air-to-ground satellite communications products have been impacted by the state of the aviation industry. On the other hand, we expect that increases in defense spending will result in increased orders for our defense products. The question is when and where the defense dollars will be spent.

In our newest segment, Mobile Data Communications Services, fiscal 2002 was a year of much activity. We continue to move forward with the Movement Tracking System (MTS) contract with the U.S. Army Logistics Command. Funding, although below our expectations, has steadily increased on this contract since its inception. Funding for the program is expected to be approximately $42.8 million in the government's fiscal year ending September 30, 2003. We are in active discussions with the Army to increase the level of funding for the remainder of the contract. In fact, the Army has agreed to extend the hardware buy period in the contract from 5 years to 7 years.

In recent months, we have also received interest in the MTS system from other commands within the U.S. Army and other Armed Forces. Such interest has largely been the result of the military's response to current world events, including the Gulf Digitization Initiative, which will utilize L-band satellite capability which is the only frequency band that allows helicopters to communicate via satellite. Since the MTS system operates in L-band, we are optimistic that this interest will lead to new contracts in fiscal 2003.

During fiscal 2002, we made some key management changes. We promoted Larry Konopelko to President of Comtech PST Corp. Larry was previously the general manager of the Government Division of MPD when it was owned by Ericsson. Pres Windus, who was previously president of Comtech PST, was named President of Comtech Mobile Datacom Corp. In addition, Mike Porcelain joined the Company as Vice President of Finance and Internal Audit.

We were also pleased to welcome two new directors to our Board: Edwin Kantor, former vice chairman of Drexel Burnham Lambert, and Ira Kaplan, former president of EDO Corporation.

We believe fiscal 2003 will be a challenging year for all telecommunications companies — Comtech being no exception. However, we have proven that we can operate profitably in a tough environment. Our strong balance sheet and cash generated from operations have enabled us to continue our significant investment in research and development. We believe our commitment to innovation will provide us with a significant competitive advantage over many of our competitors that have been forced to reduce new product development spending.

The resurgence of over-the-horizon microwave technology, the predicted government satellite bandwidth crunch and the possibility of accelerated and additional future funding on the MTS contract provide growth opportunities that are not dependent on increased capital spending in the overall telecommunications sector. In addition, all of our segments include product applications for defense and homeland security. In fact, in fiscal 2002 approximately 34% of our sales were to the U.S. government, as compared to 23% in the previous year.

The goal we previously outlined of reaching $300 million in sales by fiscal 2004 has obviously been impacted by the current environment. However, we will not arbitrarily grow the top line to meet this goal at the expense of the bottom line. We believe that our $300 million profitable sales goal is still attainable, but with an extra year, by fiscal 2005.

Our strategy to reach our goals remains the same - maintain our market leadership positions in key technologies, win a bigger share of such markets, identify and participate in emerging technologies which complement our product portfolio and work closely with our customers in ensuring that we satisfy and exceed their expectations. To the extent acquisitions may help us achieve our goals, we will selectively evaluate them.

In fiscal 2002, Comtech proved that it can deal with the challenges of an unprecedented downturn, just as we displayed our ability to thrive in a robust economic environment prior to fiscal 2002.

We look forward to seizing the opportunities of fiscal 2003 and beyond as we further solidify Comtech's reputation as an innovative, dynamic leader in the markets we serve.

As always, we are grateful to our employees, customers, business partners and shareholders for their continued support.

Fred Kornberg
Chairman, President and CEO
October 16, 2002

TELECOMMUNICATIONS TRANSMISSION

Our telecommunications transmission segment provides sophisticated products and systems for voice, video and data transmission in satellite, over-the-horizon microwave and wireless line-of-sight telecommunication systems.

Although this segment was impacted by the significant downturn in capital spending in the telecommunications sector during fiscal 2002, we believe that our telecommunications transmission segment is poised for long-term growth as emerging economies seek to modernize their infrastructures and increasingly information-intensive markets introduce new telecommunications services.

Our continuing investment in product enhancements and new product development have put us in a position to further solidify our market leadership positions. In particular, we have #1 market positions in three product areas within this segment — satellite earth station modems, forward error correction technology and over-the-horizon microwave systems. In these product lines, our key enabling technologies are protected by patents, as well as solid reputations for performance and quality.

Our areas of focus in 2003 and beyond include:

- Satellite Earth Station Products
- Forward Error Correction Technology
- Over-The-Horizon Microwave Systems

"OUR PRODUCTS AND TECHNOLOGY CAN REDUCE CUSTOMER SATELLITE TRANSPONDER COSTS OR INCREASE DATA THROUGHPUT BY UP TO 60%."

Satellite Earth Station Products

Our Comtech EF Data Corp. subsidiary is a one-stop source for communications equipment used in commercial and defense satellite communications applications. Such equipment includes modems, frequency up converters and down converters, solid-state power amplifiers and satellite transceivers.

We believe we have a #1 market position in digital satellite earth station modems. Our modems incorporate cutting edge technology such as Turbo Product Codec (TPC), an advanced form of forward error correction. We were the first company in the world to begin full-scale deployment of TPC in satellite earth station modems, which can reduce satellite transponder lease costs or increase satellite earth station modem data throughput by up to 60%.

Our commitment to investing in research and development continues to pay off. Our highly advanced CDM-600 satellite modem provides the user the ability to scale the modem to the exact requirements of the communications application. The CDM-600 operates with data rates up to 20 mbs and includes advanced modulation techniques, as well as the new TPC technology.

Although sales of satellite modems for commercial applications have been soft in light of current economic conditions, we believe that we are taking market share from our competitors based on the superior performance and capabilities of our product line.

On the government side, many observers believe that the government will experience a satellite bandwidth crunch during the next five years. Upgrading the government's satellite communications infrastructure with more efficient technology should be an important part of addressing this issue.

Forward Error Correction Technology

On July 31, 2002, our new subsidiary, Comtech AHA Corporation, acquired certain assets and liabilities of Advanced Hardware Architectures, Inc. (AHA). Comtech AHA will be focused on developing and distributing integrated circuits that utilize forward error correction technology, including TPC. This acquisition ensures that we will own the key enabling technology in our satellite earth station modems. This technology is critical given the continued growth of new data and communications services that require data transfer and storage - the faster and smaller the better.

The acquisition of AHA further established us as experts in helping our customers achieve higher data rates, increase bandwidth and reduce system costs.

Over-The-Horizon Microwave Systems

Using our patented state-of-the-art 8 mbs adaptive digital modem, our field-proven over-the-horizon microwave systems transmit signals over unfriendly terrain at distances from 30 to 600 miles by reflecting the transmitted signals off of the troposphere, an atmospheric layer located approximately seven miles above the earth's surface. Comtech Systems, Inc. has a firmly established reputation as being the world leader in this area.

Over-the-horizon microwave communication systems are very cost competitive with satellite systems since they do not carry the additional cost of a satellite transponder which is often the most significant cost for a satellite communications service provider.

In recent years, major oil companies have become a key target market for this technology. These companies use our equipment to transmit both voice and data traffic up to 8 mbs between the mainland and offshore oil platforms. As these platforms move further out to sea, the need for our technology should increase.

"During fiscal 2002, particularly in the latter half of the year, we have witnessed a resurgence in our over-the-horizon microwave product line. The reliability, security and ability of this equipment to communicate over unfriendly terrain make it ideal for various defense applications."

TELECOMMUNICATIONS TRANSMISSION

In light of current world events, we are experiencing a resurgence in this technology based on its high level of reliability, security, and ability to communicate over unfriendly terrain. These features make over-the-horizon microwave systems ideal for defense applications.

In October 2002, we received a $42 million contract from a large U.S. prime contractor for mobile digital over-the-horizon microwave troposcatter and line-of-sight microwave communications equipment.

In addition to our fully synthesized over-the-horizon microwave radios, we will supply our automatic power control system, which reduces interference problems with other communication systems. Comtech Antenna Systems Inc. will supply the mobile antennas and deliveries are expected to occur over a 48 month period. This award should significantly increase our backlog and sales during the next three to four years.

This contract award further strengthens our leadership position in the over-the-horizon microwave communications area and bodes well for the future. Our #1 market position should benefit us as we continue to see increased bid activity in this area.

RF MICROWAVE AMPLIFIERS

We believe our RF Microwave Amplifiers segment is a leading independent supplier of broadband, high-power, high performance RF microwave amplifiers.

Our recent acquisition of certain assets and product lines from MPD Technologies has further expanded our product offerings. Our amplifiers are used in sophisticated applications, including aircraft air-to-ground satellite communications, medical oncology systems, instrumentation and a variety of defense applications.

Although we continue to be impacted by reduced capital spending and the lingering impact that September 11, 2001 has had on the commercial aviation industry, we are optimistic about our prospects for growing this segment of our business in 2003 and beyond due to:

Our In-House Capabilities

Our solid-state high-power amplifiers are extremely complex and critical to the performance of the systems that they are incorporated into. Because of their technological complexity and importance to the performance of the larger system, most companies prefer to manufacture these products in-house.

Our strategy is to further establish Comtech PST Corp. as an independent outsourcing alternative for these types of amplifiers. Our in-house engineering capabilities in this area are second to none. In addition, Comtech PST is now able to produce in larger quantities with the assistance of its sister company, Comtech EF Data Corp., which has contract manufacturing capability. Customers, among others, who currently outsource RF microwave amplifier work to us include Rockwell Collins, Raytheon, Thales, Lockheed Martin, Northrop Grumman and Siemens Medical Systems.

Our growing reputation as a developer and producer of high-quality, high-performance amplifiers is an increasingly important competitive advantage. We continue to focus on serving our existing customers and finding new ones.

Defense Applications

Current world events are resulting in increased interest in defense and electronic warfare products. Our amplifiers are used in a variety of radar jamming and other defense applications. We believe the performance and quality of our amplifier products will provide us with growth opportunities as defense spending increases.

Growth from New Markets and New Applications

We continue to work closely with existing customers to develop new products and applications. Our relationship with Rockwell Collins, a world leader in the design and production of aircraft satellite communications systems, is a good example. We developed the "Aero H High Speed Data High Power Amplifier", which is used in their high-speed data SATCOM product. This system will provide passengers with e-mail, internet access, and video conferencing. Shipments to our customer began in August 2002 and we expect demand to grow as the airline industry recovers.

Our Mobile Data Communications Services segment is a full-service supplier of satellite-based mobile data communication services for the government and commercial markets. We are optimistic about the long-term growth opportunities within this business due to:

The Army Logistics Command Movement Tracking System

Comtech first emerged as a leader among providers of mobile data communications system in 1999, when the Company was selected to provide the Army Logistics Command's Movement Tracking System (MTS).

Our technology used in the MTS system provides the Army Logistics Command with a better, more cost-effective way of monitoring and maintaining two-way communications with mobile military assets around the world. It makes possible rapid, secure, real-time communications with vehicles, ships and aircraft. This two way communication can be between headquarters, a temporary location or between vehicles using satellite, terrestrial or internet-based communication methods.

Although funding to date has been below our expectations, we continue to move forward with the Army's MTS System. Total funding for this program is expected to be approximately $42.8 million in the government's fiscal year ending September 30, 2003, and we are in continuing discussions with the Army to increase the level of funding for the remainder of the contract. In fact, the Army has agreed to extend the buy period of the contract by two years.

Growth from New Markets and New Applications

Due to the decline in capital spending, commercial sales in this segment have and are expected to be modest in fiscal year 2003. However, in the latter part of fiscal 2002, we have received interest in the MTS system from other military commands. This interest has largely been the result of the military's response to current world events and the advantages of using L-band satellite capability, including helicopter applications where other frequencies are not able to fully penetrate the rotary blade. L-band satellite capability is the best global communications solution for the military's needs. Since our technology operates in L-band, we are optimistic that this interest will lead to new contracts in fiscal 2003.

“The #1 Small Electronics Company”

Cahners Electronic Business

“One of the Hottest Up and Comers”

Forbes Magazine

“One of America’s Fastest Growing Small Companies”

Fortune Small Business Magazine

Certain information in this annual report contains statements and assumptions that are forward-looking in nature and involve certain significant risks and uncertainties. Actual results could differ materially from such forward-looking information. The Company's Securities and Exchange Commission filings identify many such risks and uncertainties. Any forward-looking information in this annual report is qualified in its entirety by the risks and uncertainties described in such Securities and Exchange Commission filings.

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

(Mark One)

_X_ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended July 31, 2002

__ 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 11, 2002 was approximately $46,547,000.

The number of shares of the registrant's common stock outstanding on October 11, 2002 was 7,509,821.

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 10, 2002	Part III

INDEX

PART I

PART II

PART III

PART IV

Note: As used in this Annual Report on Form 10-K, the terms "Comtech," "we" and "our company" mean Comtech Telecommunications Corp. and Comtech's subsidiaries.

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 also offer satellite mobile data communications services. Our products meet the high performance requirements of our customers by drawing upon proprietary expertise in key microwave amplification and transmission technologies developed over more than 35 years of operations.

Demand for our products over the past five years has been driven by the global commercial and domestic government expansion of telecommunications services such as satellite systems, broadcast, cellular telephone systems, over-the-horizon microwave systems and the Internet. However, fiscal 2002 was adversely impacted by the significant downturn in capital spending in the telecommunications sector.

Telecommunications Industry Trends

The demand for telecommunications is largely tied to emerging economies seeking to modernize their infrastructure and increasingly information-intensive markets introducing new telecommunications services. The telecommunications industry has expanded rapidly over the last decade. Such rapid expansion has resulted in excess capacity which has reduced capital spending in fiscal 2002. Long-term, the industry, particularly in the wireless area, is poised for growth due to the following:

Deregulation and Privatization. Many developing countries that had previously not committed significant resources to or place 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*** – Products in this segment include 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, DirecTV, ATT Alascom, Northrop Grumman, BP Amoco, Exxon Mobil and the U.S. government.
>
> ***RF microwave amplifiers*** – This segment provides 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 manufacturers and defense contractors. Customers include, among others, Motorola, Ericsson, Nokia Telecommunications, Condor Systems, Siemens Medical Systems, Lucent Technologies, Northrop Grumman, Raytheon, Lockheed Martin and the U.S. government.
>
> ***Mobile data communications services*** – This segment provides secure, real time two-way location of and messaging between mobile platforms, such as land vehicles, rail and aircraft, or remotely placed fixed site sensors and 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 and various other sensor monitoring.

See note 11 to the Consolidated Financial Statements for more information regarding segment net sales, operating income (loss) and total assets as of and for the fiscal years ended July 31, 2002, 2001 and 2000.

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 growth in 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 41.2%, 46.2% and 71.4% of our total net sales in fiscal years 2002, 2001 and 2000, respectively. Sales to the U.S. government represented 33.8%, 23.1% and 8.8% of our total net sales in fiscal 2002, 2001 and 2000, 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 earth 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 to broaden our product line bandwidth and high-power capabilities.
- Encourage system integrators and end users to outsource their requirements to the Company rather than pursue this specialized field in-house.
- 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 July 2000, we acquired the business of EF Data, the satellite communications division of Adaptive Broadband Corporation, for approximately $54.2 million in cash. 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 prepaid $19.2 million of this debt in August 2001. We combined this operation with our existing Arizona Comtech Communications Corp. satellite 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 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 New York Comtech PST Corp. operation in our RF microwave amplifiers segment.

On July 31, 2002, we acquired certain assets and assumed certain liabilities of Advanced Hardware Architectures, Inc. for $7.0 million in cash. The purchase price was financed from internal Company funds. This operation is included in our telecommunications transmission segment.

Telecommunications Transmission Business Segment

The demand for telecommunications is largely tied to emerging economies seeking to modernize their infrastructure and increasingly information-intensive markets introducing new telecommunications services. Advances in technology have lowered per-unit communications costs, increased product reliability and encouraged a proliferation of new enhanced communications products and services.

In making procurement decisions, customers for telecommunications transmission equipment must weigh the relative cost 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 distance 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 reliable 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 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, develops, manufactures and markets 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 the 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 satellite networking solution business.

Our Comtech AHA Corporation operating unit, located in Pullman, Washington, designs, develops and markets forward error correction integrated circuits and data coding technology solutions for telecommunications systems customers. This new subsidiary was formed as a result of our acquisition on July 31, 2002 of certain assets and liabilities of Advanced Hardware Architectures, Inc. Comtech AHA Corporation's products include the latest generation forward error correction technology, called Turbo Product Codec (TPC). These patented TPC chips are an important enabling technology included in Comtech EF Data Corp.'s bandwidth efficient modems. Comtech AHA Corporation has also developed chips used in other telecommunication applications, as well as data compression for copiers and tape storage.

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 our patented 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 competition.

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 independent 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 aircraft 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. 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.

In early 1999, Comtech Mobile Datacom Corp. led a multi-company team in competing for the U.S. Army's Movement Tracking System (MTS), a system being 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. Through July 31, 2002, we have received orders for $34.5 million under this contract, which can be terminated by the U.S. Army at any time. We are working with the U.S. Army to increase the future level of funding for this program in light of the lower than anticipated level of funding to date.

Sales, Marketing and Customer Support

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 issues.

Our international sales (including sales to prime contractors' international customers) from all three business segments represented approximately 41.2%, 46.2% and 71.4% of total net sales in fiscal 2002, 2001 and 2000, respectively. We expect that international sales will remain a substantial portion of our total sales for the foreseeable future.

Domestic commercial sales represented approximately 25.0%, 30.7% and 19.8% of our total net sales in fiscal 2002, 2001 and 2000, respectively. The balance of our sales were to U.S. government departments or agencies and represented 33.8%, 23.1% and 8.8% of our total net sales in fiscal 2002, 2001 and 2000, respectively.

In fiscal 2002, sales to the U.S. Army for the Movement Tracking System represented 13.2% of our total net sales. 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% of our total net sales for fiscal 2000. A substantial portion of our sales may be derived from a relatively small number of large customer contracts.

Backlog

Our backlog as of July 31, 2002 and 2001 was approximately $44.1 million and $50.1 million, respectively. We expect that a substantial majority of the backlog as of July 31, 2002 will be recognized as sales during fiscal 2003. We received advance payments aggregating approximately $2.2 million as of July 31, 2002 in connection with orders included in the backlog at that date. At July 31, 2002, approximately 40.9% of that backlog consisted of U.S. government contracts, subcontracts and government funded programs, approximately 33.7% consisted of orders for use by foreign customers (including sales to prime contractors' international customers) and approximately 25.4% 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 MTS 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 2002 were of products developed by us or acquired through acquisitions within the past five years.

Our aggregate research and development expenditures (internal and customer funded) were 11.0%, 8.7% and 10.4% of total net sales in fiscal 2002, 2001 and 2000, respectively. We reported internal research and development expenses of $11.0 million, $10.2 million and $2.6 million in fiscal 2002, 2001 and 2000, respectively, representing 9.3%, 7.5% and 4.0% 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 2002, 2001 and 2000, we were reimbursed by customers for such activities in the amounts of $2.0 million, $1.7 million and $4.3 million, respectively.

Patents and Licenses

Although we own or hold licenses for a number of patents, licenses and patents 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. Generally, we rely on the laws of unfair competition, restrictions in licensing agreements and confidentiality agreements to protect such knowledge and techniques. However, Comtech AHA's TPC chips are protected by patents which are significant in protecting this proprietary technology. In addition, Comtech Systems' 8mbs adaptive modem for over-the-horizon microwave applications is protected by patents and is the only modem in the world capable of 8mbs of transmission over a troposcatter channel.

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. 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, 2002, we had 626 employees, 316 of whom were engaged in production and production support, 178 in research and development and other engineering support and 132 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 use of the premises as they now exist for a term of ten years through December 2011. We have a right of first refusal in the event of a sale of the facility. 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 an unrelated third party. 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.

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 2007. 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 February 2006. We have the option to extend the term of the lease for an additional five-year period.

We lease 10,500-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.

We lease 6,000-square feet of space located in Pullman, Washington that is used by Comtech AHA Corporation from an unrelated third party. This lease provides for the exclusive use of the premises as they now exist through July 2005.

ITEM 3. LEGAL PROCEEDINGS

In or about December 2000, two former employees, Shiv Verma and Robert Levin, 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 asserted defenses against the claims and interposed certain counterclaims and third-party claims against NJL, Inc., a company then controlled by Mr. Verma.

In April 2002, Mr. Levin dismissed his claims against the Company, and the Company in return dismissed its counterclaims against him, without payment of any monies by either party, with both the Company and Mr. Levin executing general releases. On July 22, 2002, the District Judge dismissed Verma's complaint with prejudice and the Company's counterclaims against Verma without prejudice. On August 8, 2002, the Company voluntarily dismissed its third-party claims against defendant NJL, Inc., without prejudice. As a result, there are no claims or counterclaims pending by or against any party to the action, and the case has been closed on the Court's docket.

We are subject to certain other 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, 2002.

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 7-31-01		
First Quarter	$ 19.88	12.00
Second Quarter	19.50	9.00
Third Quarter	19.00	11.00
Fourth Quarter	17.99	11.45
Fiscal Year Ended 7-31-02		
First Quarter	$ 16.45	12.50
Second Quarter	13.83	11.15
Third Quarter	12.90	8.25
Fourth Quarter	10.72	6.31

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 businesses. 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 11, 2002 there were approximately 705 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 name of various security holders, dealers and clearing agencies.

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The following table shows selected historical consolidated financial data for the Company. Detailed historical financial information is included in the audited consolidated financial statements for fiscal years 2002 and 2001.

	Years Ended July 31, (In thousands, except per share amounts)				
	2002	2001	2000	1999	1998
Consolidated Statement of Operations Data:					
Net sales	$ 119,357	135,931	66,444	37,886	30,114
Cost of sales	78,780	87,327	45,942	26,405	21,330
Gross profit	40,577	48,604	20,502	11,481	8,784
Expenses:					
Selling, general and administrative	22,512	22,707	12,058	6,554	6,013
Research and development	11,041	10,190	2,644	2,022	1,319
In-process research and development	2,192	-	10,218	-	-
Amortization of intangibles	1,471	2,552	230	78	-
	37,216	35,449	25,150	8,654	7,332
Operating income (loss)	3,361	13,155	(4,648)	2,827	1,452
Other expenses (income):					
Interest expense	3,061	4,015	381	204	234
Interest income	(452)	(2,303)	(1,511)	(65)	(36)
Other (income) expense, net	(28)	841	201	(39)	(30)
Income (loss) from continuing operations before income taxes	780	10,602	(3,719)	2,727	1,284
Provision (benefit) for income taxes	(368)	3,888	85	(3,754)	180
Income (loss) from continuing operations	1,148	6,714	(3,804)	6,481	1,104
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)	$ 1,148	6,714	(3,941)	5,265	1,104
Basic income (loss) per share:					
Income (loss) from continuing operations	$ 0.15	0.91	(0.67)	1.56	0.28
Loss from discontinued operations	-	-	(0.02)	(0.29)	-
Basic income (loss)	$ 0.15	0.91	(0.69)	1.27	0.28
Diluted income (loss) per share:					
Income (loss) from continuing operations	$ 0.15	0.85	(0.67)	1.42	0.27
Loss from discontinued operations	-	-	(0.02)	(0.27)	-
Diluted income (loss)	$ 0.15	0.85	(0.69)	1.15	0.27
Weighted average number of common shares outstanding - Basic	7,461	7,348	5,663	4,143	3,902
Potential dilutive common shares	344	562	-	430	264
Weighted average number of common and common equivalent shares outstanding assuming dilution - Diluted	7,805	7,910	5,663	4,573	4,166

(Continued)

Other Consolidated Operating Data:					
Backlog at period-end	$ 44,121	50,094	50,538	38,637	15,452
New orders	113,384	135,487	78,345	61,071	30,842
Research and development-internal and customer funded	13,070	11,846	6,916	3,801	1,675
EBITDA (1)	10,783	19,730	7,954	4,337	2,658

(1) Earnings from continuing operations before interest, taxes, depreciation and amortization and non-recurring items (primarily in-process research and development charges).

	As of July 31, (In thousands)				
	2002	2001	2000	1999	1998
Consolidated Balance Sheet Data:					
Total assets	$126,586	146,988	126,031	29,847	19,710
Working capital	51,577	67,089	65,267	10,192	8,917
Long-term debt	28,683	42,000	37,900	-	-
Long-term capital lease obligations	1,294	2,157	908	959	1,445
Other long-term liabilities	58	259	367	-	-
Stockholders' equity	67,288	65,565	57,782	18,357	12,093

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, medical instrumentation and certain defense systems. Our business consists of three segments: telecommunications transmission, RF microwave amplifiers and mobile data communications 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 worldwide demand for wireless and satellite telecommunication products and services.

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 several 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, an increasing amount of our sales may be attributable to the recurring service revenue component of our mobile data communications services segment.

We generally recognize income on 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 estimated 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 contracts-in-progress are recorded in the period in which such losses become known.

Since our contract with the U.S. Army for the Movement Tracking System is for an eight-year period, revenue recognition is based on the percentage-of-completion method. The gross margin is based on the estimated sales and expenses for the entire eight-year contract. The amount of revenue recognized has been limited to the amount of funded orders received from the U.S. Army. The portion of such orders representing service time revenue is being deferred until the service time is used by the customer. Significant changes in the estimates used to derive the gross profit margin can materially impact our operating results and financial condition in future periods (see Critical Accounting Policies below for more information).

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.

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.

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 $0.4 million, 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 $0.6 million, 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 expensed as of the acquisition date. 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 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 $9.8 million. 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.

On July 31, 2002, we acquired certain assets and assumed certain liabilities of Advanced Hardware Architectures, Inc. 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 acquisition. The excess of the purchase price over the fair values of the net assets acquired was approximately $6.3 million, of which $2.2 million was allocated to in-process research and development and expensed as of the acquisition date.

Critical Accounting Policies

The Company considers certain accounting policies to be critical due to the estimation process involved in each.

Revenue Recognition on Long-Term Contracts

As discussed above, when the performance of a contract will extend beyond a 12-month period, revenue and related costs are recognized on the percentage-of-completion method of accounting. Profits expected to be realized on such contracts are based on total estimated sales for the contract compared to total estimated costs at completion of the contract. 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 contracts are recorded in the period in which the losses become known.

Some of the Company's largest contracts, including its contract with the U.S. Army for the Movement Tracking System, are accounted for using the percentage-of-completion method. If the Company does not accurately estimate the total sales and related costs on such contracts, the estimated gross margins may be significantly impacted or losses may need to be recognized in future periods. Any such resulting reductions in margins or contract losses could be material to the Company's results of operations and financial position.

The cumulative orders to-date under the Movement Tracking System contract have been far below the Army's initial requirements. The Company is currently in active discussions with the Army to address the funding shortfalls experienced to date on this program. The ultimate resolution of these discussions could result in, among other things, material changes to the estimates used in applying the percentage-of-completion method of accounting.

Impairment of Intangible Assets

As of July 31, 2002, the Company's intangible assets, including goodwill, aggregated $30.6 million. In assessing the recoverability of the Company's goodwill and other intangibles, the Company must make various assumptions regarding estimated future cash flows and other factors in determining the fair values of the respective assets. If these estimates or their related assumptions change in the future, the Company may be required to record impairment charges for these assets in future periods. Any such resulting impairment charges could be material to the Company's results of operations.

Provisions for Excess and Obsolete Inventory

We regularly review inventory quantities on hand and record a provision for excess and obsolete inventory based on historical and future usage trends. The review of excess and obsolete inventory primarily relates to our telecommunications transmission and RF microwave amplifier segments. Several factors may influence the sale and use of our inventories, including our decisions to exit a product line, technological change and new product development. These factors could result in a change in the amount of excess and obsolete inventory on hand. Additionally, our estimates of future product demand may prove to be inaccurate, in which case we may have understated or overstated the provision required for excess and obsolete inventory. In the future, if we determine that our inventory was overvalued, we would be required to recognize such costs in the Company's financial statements at the time of such determination. Any such charges could be material to the Company's results of operations and financial position.

Allowance for Doubtful Accounts

We perform ongoing credit evaluations of our customers and adjust credit limits based upon customer payment history and current creditworthiness, as determined by our review of our customers' current credit information. Generally, we will require cash in advance or payment secured by irrevocable letters of credit before an order is accepted from an international customer that we do not do business with regularly. In addition, we have obtained credit insurance for certain international customers that we have determined could be a credit risk. We continuously monitor collections and payments from our customers and maintain an allowance for doubtful accounts based upon our historical experience and any specific customer collection issues that we have identified. While such credit losses have historically been within our expectations and the allowances established, we cannot guarantee that we will continue to experience the same credit loss rates that we have in the past. Measurement of such losses requires consideration of historical loss experience, including the need to adjust for current conditions, and judgments about the probable effects of relevant observable data, including present economic conditions such as delinquency rates and financial health of specific customers. Changes to the estimated allowance for doubtful accounts could be material to the Company's results of operations and financial position.

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,		
	2002	2001	2000
Net sales	100.0%	100.0%	100.0%
Gross margin	34.0	35.8	30.9
Selling, general and administrative expenses	18.9	16.7	18.1
Research and development expenses	9.3	7.5	4.0
Amortization of intangibles	1.2	1.9	0.4
Operating income (loss) from continuing operations	2.8	9.7	(7.0)
Interest expense (income), net	2.2	1.3	(1.7)
Income (loss) before income taxes	0.7	7.8	(5.6)
Net income (loss)	1.0	4.9	(5.9)

Comparison of Fiscal 2002 and 2001

Net Sales Consolidated net sales were \$119.4 million and \$135.9 million for fiscal 2002 and 2001, respectively, representing a decrease of \$16.5 million or 12.1%. The decrease was primarily due to the weak economic environment, particularly in our telecommunications transmission segment. Sales from our telecommunications transmission segment were \$78.6 million in fiscal 2002, as compared to sales of \$106.3 million in fiscal 2001, a decrease of \$27.7 million or 26.1%. We believe sales in this segment will continue to be adversely impacted until conditions in the telecommunications industry improve. Our telecommunications transmission segment represented 65.9% of total net sales in fiscal 2002 as compared to 78.2% in fiscal 2001. In fiscal 2002, sales from our RF microwave amplifier segment were \$22.8 million as compared to \$16.4 million in fiscal 2001. This increase of \$6.4 million or 39.0% was principally the result of the acquisition in April 2001 of certain assets and product lines of MPD Technologies, Inc. Our RF microwave amplifier segment represented 19.1% of total net sales in fiscal 2002 as compared to 12.1% in fiscal 2001. Sales from our mobile data communications segment were \$18.0 million in fiscal 2002 as compared to \$13.2 million in fiscal 2001, an increase of \$4.8 million or 36.4%. This increase was due to increased sales of our Movement Tracking System to the U.S. Army. Sales from this segment represented 15.0% and 9.7% of total net sales in fiscal 2002 and 2001, respectively. In fiscal 2002, our sales to the U.S. Army for the Movement Tracking System represented 13.2% of our total net sales. There were no customers in fiscal 2001 which constituted 10% or more of our total net sales. International sales represented 41.2% of total net sales in fiscal 2002 as compared to 46.2% in fiscal 2001. Domestic commercial sales represented 25.0% of total net sales as compared to 30.7% in fiscal 2001 and sales to the U.S. government and its agencies represented 33.8% and 23.1% in fiscal 2002 and 2001, respectively.

Gross Profit Gross profit was \$40.6 million and \$48.6 million for fiscal 2002 and 2001, respectively, representing a decrease of \$8.0 million or 16.5%. This decrease was primarily due to the reduced total level of sales discussed above. Gross margin, as a percentage of net sales, decreased to 34.0% in fiscal 2002 compared to 35.8% in fiscal 2001. The decrease in the gross margin percentage was driven by the significant decrease in telecommunications transmission segment sales which generally carry higher margins than sales from the other two segments.

Selling, General and Administrative Selling, general and administrative expenses were \$22.5 million and \$22.7 million in fiscal 2002 and 2001, respectively, representing a decrease of \$0.2 million. The decrease is related to the reduction in sales during fiscal 2002.

Research and Development Research and development expenses were \$11.0 million and \$10.2 million in fiscal 2002 and 2001, respectively. Despite the softness in sales discussed above, we are continuing to invest in the future by enhancing our existing products 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 2002 and 2001, customers reimbursed us \$2.0 million and \$1.7 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 certain assets and liabilities of Advanced Hardware Architectures, Inc., $2.2 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. 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. In accordance with generally accepted accounting principles ("GAAP"), we recorded a one-time charge of $2.2 million for the write-off of this amount. There was no in-process research and development expense in fiscal 2001.

Amortization of Intangibles Amortization of intangibles was $1.5 million and $2.6 million for fiscal 2002 and 2001, respectively, representing a decrease of $1.1 million. In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets." Under SFAS No. 142, goodwill and indefinite lived intangible assets are no longer amortized but are reviewed at least annually for impairment. Separate intangible assets that are not deemed to have an indefinite life continue to be amortized over their useful lives. We applied the new rules on accounting for goodwill and other intangible assets beginning in the first quarter of fiscal 2002. If SFAS No. 142 had been effective August 1, 2000, approximately $1.4 million of amortization expense would not have been expensed in fiscal 2001.

Operating Income As a result of the foregoing factors, we had operating income from continuing operations of $3.4 million and $13.2 million in fiscal 2002 and 2001, respectively. Excluding the impact of the in-process research and development charge in fiscal 2002, operating income was $5.6 million.

Interest Expense Interest expense was $3.1 million and $4.0 million in fiscal 2002 and 2001, respectively. Additional interest on borrowings in connection with the acquisition of MPD Technologies, Inc. in April 2001 were more than offset by interest savings from the prepayment of $19.2 million of debt in August 2001.

Interest Income Interest income was $0.5 million and $2.3 million for fiscal 2002 and 2001, respectively. The decrease was the result of a lower level of investable funds during fiscal 2002, as well as lower interest rates.

Other, Net Our other income for fiscal 2002 was $28,000 as compared to other expense of $0.8 million for fiscal 2001. The amount in fiscal 2001 primarily related to the loss realized upon the sale in March 2001 of a short-term investment classified as available-for-sale, offset by royalty and other income received of $0.1 million.

Provision (Benefit) for Income Taxes During fiscal 2002, the Company conducted an independent study and identified certain research and experimentation tax credits, relating to the current and prior years, which can be used to offset regular income taxes. See note 9 to the consolidated financial statements. The total amount of these credits more than offset the provision for income taxes. The net effect was a benefit of $0.4 million for fiscal 2002.

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 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.

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.

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.)

Liquidity and Capital Resources

Our cash and cash equivalents position decreased to $15.5 million at July 31, 2002 from $36.2 million at July 31, 2001. During fiscal 2002, we prepaid $19.2 million of long-term debt and paid approximately $7.0 million, including expenses, for the acquisition of certain assets and liabilities of Advanced Hardware Architectures, Inc.

Net cash provided by operating activities was $9.4 million in fiscal 2002. Such amount reflects (i) net income of $1.1 million, plus the impact of non-cash items such as depreciation and amortization aggregating $5.2 million, and the write-off of in-process research and development of $2.2 million; and (ii) the changes in working capital balances.

Net cash used in investing activities in fiscal 2002 was $10.2 million. Cash of $3.2 million was used for capital expenditures and $7.0 million was used for the acquisition of Advanced Hardware Architectures, Inc.

Net cash used in financing activities in fiscal 2002 was $19.9 million. We prepaid $19.2 million of long-term debt. Principal payments on capital lease obligations amounted to $1.1 million. These uses of cash were offset by proceeds from the sale of stock and exercise of stock options aggregating approximately $0.5 million.

In the normal course of business, we routinely enter into binding and non-binding purchase obligations primarily covering anticipated purchases of inventory and equipment. We do not expect that these commitments as of July 31, 2002 will materially adversely affect our liquidity.

At July 31, 2002 we had contractual cash obligations to repay debt (including capital lease obligations) and to make payments under operating leases. Payments due under these long-term obligations are as follows:

	Obligations due by fiscal year (in thousands)				
	Total	2003	2004 and 2005	2006 and 2007	After 2007
Long-term debt	$ 28,683	-	28,683	-	-
Capital lease obligations	2,356	1,062	1,114	180	-
Operating lease commitments	14,359	3,484	6,132	2,334	2,409
Total contractual cash obligations	$ 45,398	4,546	35,929	2,514	2,409

We have entered into standby letter of credit agreements with financial institutions relating to the guarantee of future performance on certain contracts. At July 31, 2002, the balance of these agreements was $0.5 million.

We believe that our cash and cash equivalents will be sufficient to meet our operating cash requirements for the foreseeable future. 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 August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. The Company adopted SFAS No. 144 on August 1, 2002. The adoption did not have a material impact on the Company's consolidated financial statements.

In April 2002, the FASB issued SFAS No. 145, “Recission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections.” The Company adopted SFAS No. 145 on August 1, 2002. The adoption did not have a material impact on the Company’s consolidated financial statements.

In July 2002, the FASB issued SFAS No. 146, “Accounting for Costs Associated with Exit or Disposal Activities,” which is effective for exit or disposal activities that are initiated after December 31, 2002. The Company does not expect adoption of SFAS No. 146 will have a material impact on the Company’s consolidated financial statements.

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 and all of fiscal 2002, 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 further 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. 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. Sales under the U.S. Army contract will be subject to unpredictable funding and deployment decisions. Through July 31, 2002, we have received orders for $34.5 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 90 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 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 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.

- 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 on 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 41.2%, 46.2% and 71.4%, of our total net sales for the fiscal years ended July 31, 2002, 2001 and 2000, respectively. Approximately 33.9% of our backlog at July 31, 2002 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 systems 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 33.8%, 23.1% and 8.8% of our total net sales in fiscal 2002, 2001 and 2000, respectively. 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, such as the mobile data communications services U.S. Army contract, 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, which 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 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. 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.

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. However, patents are important to protecting our intellectual property rights in Comtech AHA's TPC chips and Comtech Systems' 8mbs adaptive modem. 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 of 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 a 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 cash 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 and short-term U.S. treasury securities. 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 10, 2002 (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 AND RELATED STOCKHOLDER MATTERS

Information regarding securities authorized for issuance under equity compensation plans and certain 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.

ITEM 14. CONTROLS AND PROCEDURES

Not applicable.

PART IV

ITEM 15. 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) No reports on Form 8-K have been filed during the fourth quarter of the fiscal year ended July 31, 2002.

(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	Exhibit 10(a) to the Registrant's 2001 Form 10-K
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

Exhibit Number	Description of Exhibit	Incorporated By Reference to Exhibit
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(g)(3)	Amendment to the 2000 Stock Incentive Plan	
10(h)	Asset Purchase Agreement between the Registrant, Comtech/AHA Acquisition Corp. and Advanced Hardware Architectures, Inc.	
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
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	Exhibit 10(i)(2) to the Registrant's 2001 Form 10-K
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	
99.1	Certifications of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Sections 302 and 906 of the Sarbanes-Oxley Act of 2002	
99.2	Certifications of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Sections 302 and 906 of the Sarbanes-Oxley Act of 2002	

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 and 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 16, 2002 (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 16, 2002 (Date)	s/Fred Kornberg Fred Kornberg	Chairman of the Board Chief Executive Officer and President (Principal Executive Officer)
October 16, 2002 (Date)	s/Robert G. Rouse Robert G. Rouse	Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)
October 16, 2002 (Date)	s/George Bugliarello George Bugliarello	Director
October 16, 2002 (Date)	s/Richard L. Goldberg Richard L. Goldberg	Director
October 16, 2002 (Date)	s/Edwin Kantor Edwin Kantor	Director
October 16, 2002 (Date)	s/Ira Kaplan Ira Kaplan	Director
October 16, 2002 (Date)	s/Gerard R. Nocita Gerard R. Nocita	Director

Exhibit 99.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350

I, Fred Kornberg, certify that:

1. I have reviewed this Annual Report on Form 10-K of Comtech Telecommunications Corp. ("Registrant");

2. Based on my knowledge, this Annual Report does not contain any untrue statements of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Annual Report;

3. Based on my knowledge, the financial statements, and other financial information included in this Annual Report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this Annual Report.

Date: October 16, 2002

s/Fred Kornberg
Fred Kornberg
Chief Executive Officer and President

EXPLANATORY NOTE REGARDING CERTIFICATION: Representations 4, 5 and 6 consistent with the Transition Provisions of SEC Exchange Act Release No. 34-46427 have been omitted from this Certification for the Annual Report on Form 10-K since this Annual Report on Form 10-K covers a period ending before the Effective Date of such Release.

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350

In connection with the accompanying Annual Report on Form 10-K of Comtech Telecommunications Corp. (the "Company") for the fiscal year ended July 31, 2002 (the "Annual Report"), I, Fred Kornberg, Chief Executive Officer and President of the Company, hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in the Annual Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: October 16, 2002

s/Fred Kornberg
Fred Kornberg
Chief Executive Officer and President

Exhibit 99.2

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350

I, Robert G. Rouse, certify that:

1. I have reviewed this Annual Report on Form 10-K of Comtech Telecommunications Corp. ("Registrant");

2. Based on my knowledge, this Annual Report does not contain any untrue statements of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Annual Report;

3. Based on my knowledge, the financial statements, and other financial information included in this Annual Report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this Annual Report.

Date: October 16, 2002

s/Robert G. Rouse
Robert G. Rouse
Senior Vice President and Chief Financial Officer

EXPLANATORY NOTE REGARDING CERTIFICATION: Representations 4, 5 and 6 consistent with the Transition Provisions of SEC Exchange Act Release No. 34-46427 have been omitted from this Certification for the Annual Report on Form 10-K since this Annual Report on Form 10-K covers a period ending before the Effective Date of such Release.

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350

In connection with the accompanying Annual Report on Form 10-K of Comtech Telecommunications Corp. (the "Company") for the fiscal year ended July 31, 2002 (the "Annual Report"), I, Robert G. Rouse, Senior Vice President and Chief Financial Officer of the Company, hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in the Annual Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: October 16, 2002

s/Robert G. Rouse
Robert G. Rouse
Senior Vice President and Chief Financial Officer

Exhibit 21

SUBSIDIARIES

The following is a list of the subsidiaries of the Company as of October 11, 2002:

Subsidiary	State of Incorporation
Telecommunications Transmission Business Segment	
Comtech Antenna Systems, Inc.	Delaware
Comtech EF Data Corp.	Delaware
Comtech Systems, Inc.	Delaware
Comtech AHA Corporation	Delaware
RF Microwave Amplifier Business Segment	
Comtech PST Corp.	New York
Mobile Data Communications Services Business Segment	
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 provided elsewhere in the consolidated financial statements or notes thereto.

KPMG

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 consolidated financial statement schedule 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, 2002 and 2001, and the results of their operations and their cash flows for each of the years in the three-year period ended July 31, 2002 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the related financial statement schedule, 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.

Melville, New York
October 15, 2002

COMTECH TELECOMMUNICATIONS CORP.
AND SUBSIDIARIES
Consolidated Balance Sheets
July 31, 2002 and 2001

Assets	2002	2001
Current assets:		
Cash and cash equivalents	$ 15,510,000	36,205,000
Accounts receivable, less allowance for doubtful accounts of $795,000 in 2002 and $845,000 in 2001	27,435,000	27,374,000
Inventories, net	33,996,000	36,732,000
Prepaid expenses and other current assets	1,407,000	1,151,000
Deferred tax asset - current	2,492,000	2,634,000
Total current assets	80,840,000	104,096,000
Property, plant and equipment, net	11,889,000	11,778,000
Goodwill and other intangibles with indefinite lives, net of accumulated amortization of $1,648,000	17,726,000	17,657,000
Intangibles with definite lives, net of accumulated amortization of $2,681,000 in 2002 and $1,210,000 in 2001	12,902,000	10,162,000
Other assets, net	661,000	569,000
Deferred tax asset – non-current	2,568,000	2,726,000
Total assets	$ 126,586,000	146,988,000
Liabilities and Stockholders' Equity		
Current liabilities:		
Current installments of long-term debt	$ -	5,900,000
Current installments of capital lease obligations (including payable to related party of $155,000 in 2001)	1,062,000	1,097,000
Accounts payable	9,529,000	11,014,000
Accrued expenses and other current liabilities	11,859,000	13,615,000
Deferred service revenue	4,343,000	2,073,000
Income taxes payable	2,470,000	3,308,000
Total current liabilities	29,263,000	37,007,000
Long-term debt, less current installments	28,683,000	42,000,000
Capital lease obligations, less current installments	1,294,000	2,157,000
Other long-term liabilities	58,000	259,000
Total liabilities	59,298,000	81,423,000
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 7,602,921 shares in 2002 and 7,511,105 shares in 2001	760,000	751,000
Additional paid-in capital	67,883,000	67,490,000
Accumulated deficit	(825,000)	(1,973,000)
	67,818,000	66,268,000
Less:		
Treasury stock (93,750 shares in 2002 and 82,500 shares in 2001)	(185,000)	(184,000)
Deferred compensation	(345,000)	(519,000)
Total stockholders' equity	67,288,000	65,565,000
Total liabilities and stockholders' equity	$ 126,586,000	146,988,000
Commitments and contingencies		

See accompanying notes to consolidated financial statements.

COMTECH TELECOMMUNICATIONS CORP.
AND SUBSIDIARIES
Consolidated Statements of Operations
Years ended July 31, 2002, 2001 and 2000

	2002	2001	2000
Net sales	$119,357,000	135,931,000	66,444,000
Cost of sales	78,780,000	87,327,000	45,942,000
Gross profit	40,577,000	48,604,000	20,502,000
Expenses:			
Selling, general and administrative	22,512,000	22,707,000	12,058,000
Research and development	11,041,000	10,190,000	2,644,000
In-process research and development	2,192,000	-	10,218,000
Amortization of intangibles	1,471,000	2,552,000	230,000
	37,216,000	35,449,000	25,150,000
Operating income (loss) from continuing operations	3,361,000	13,155,000	(4,648,000)
Other expenses (income):			
Interest expense	3,061,000	4,015,000	381,000
Interest income	(452,000)	(2,303,000)	(1,511,000)
Other, net	(28,000)	841,000	201,000
Income (loss) from continuing operations before income taxes	780,000	10,602,000	(3,719,000)
Provision (benefit) for income taxes	(368,000)	3,888,000	85,000
Income (loss) from continuing operations	1,148,000	6,714,000	(3,804,000)
Discontinued operations (Note 13):			
Loss from operations of discontinued segment (net of applicable income tax benefit of $79,000)	-	-	(137,000)
Net income (loss)	$ 1,148,000	6,714,000	(3,941,000)
Basic income (loss) per share:			
Income (loss) from continuing operations	$ 0.15	0.91	(0.67)
Loss from discontinued operations	-	-	(0.02)
Basic income (loss)	$ 0.15	0.91	(0.69)
Diluted income (loss) per share:			
Income (loss) from continuing operations	$ 0.15	0.85	(0.67)
Loss from discontinued operations	-	-	(0.02)
Diluted income (loss)	$ 0.15	0.85	(0.69)
Weighted average number of common shares outstanding - Basic	7,461,000	7,348,000	5,663,000
Potential dilutive common shares	344,000	562,000	-
Weighted average number of common and common equivalent shares outstanding assuming dilution - Diluted	7,805,000	7,910,000	5,663,000

See accompanying notes to consolidated financial statements.

COMTECH TELECOMMUNICATIONS CORP.
AND SUBSIDIARIES
Consolidated Statements of Stockholders' Equity
Years ended July 31, 2002, 2001 and 2000

	Common Stock		Additional Paid-in	Accumulated Other Comprehensive	Accumulated	Treasury Stock		Deferred	Stockholders'	Comprehensive
	Shares	Amount	Capital	Income	Deficit	Shares	Amount	Compensation	Equity	Income
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
Amortization of deferred compensation	-	-	-	-	-	-	-	122,000	122,000	-
Termination of unvested restricted shares issued pursuant to employee stock award agreement	-	-	(52,000)	-	-	11,250	(1,000)	52,000	(1,000)	-
Stock options exercised	59,048	6,000	167,000	-	-	-	-	-	173,000	-
Employee stock purchase plan shares purchased	26,419	2,000	237,000	-	-	-	-	-	239,000	-
Warrants exercised	6,349	1,000	41,000	-	-	-	-	-	42,000	-
Net income	-	-	-	-	1,148,000	-	-	-	1,148,000	1,148,000
Balance July 31, 2002	7,602,921	$ 760,000	$ 67,883,000	$ -	$ (825,000)	93,750	$ (185,000)	$ (345,000)	$ 67,288,000	$ 1,148,000

See accompanying notes to consolidated financial statements.

COMTECH TELECOMMUNICATIONS CORP.
AND SUBSIDIARIES
Consolidated Statements of Cash Flows
Years ended July 31, 2002, 2001 and 2000

	2002	2001	2000
Cash flows from operating activities:			
Net income (loss)	$ 1,148,000	6,714,000	(3,941,000)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Loss from discontinued operations	-	-	137,000
Loss on sale of marketable investment securities	-	990,000	88,000
Depreciation and amortization	5,230,000	6,575,000	2,149,000
Write-off of in-process research and development	2,192,000	-	10,218,000
Provision for bad debt allowance	269,000	39,000	-
Provision for inventory reserves	1,698,000	264,000	244,000
Deferred income tax expense (benefit)	300,000	580,000	(1,298,000)
Changes in assets and liabilities, net of effects of acquisitions:			
Accounts receivable	300,000	(3,059,000)	(2,111,000)
Inventories	1,199,000	(8,132,000)	(4,580,000)
Prepaid expenses and other current assets	451,000	(568,000)	(412,000)
Other assets	140,000	(335,000)	(293,000)
Accounts payable	(2,030,000)	(246,000)	3,048,000
Accrued expenses and other current liabilities	(2,736,000)	(1,846,000)	3,059,000
Deferred service revenue	2,270,000	2,073,000	-
Income taxes payable	(838,000)	1,859,000	1,449,000
Other liabilities	(201,000)	(108,000)	367,000
Net cash provided by continuing operations	9,392,000	4,800,000	8,124,000
Net cash used by discontinued operations	-	-	(151,000)
Net cash provided by operating activities	9,392,000	4,800,000	7,973,000
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	(3,081,000)	(2,776,000)	(1,185,000)
Purchase of technology license	(91,000)	(563,000)	-
Payment for business acquisitions, net of cash received	(7,055,000)	(3,682,000)	(63,138,000)
Net cash provided by (used in) investing activities	(10,227,000)	10,870,000	(83,338,000)
Cash flows from financing activities:			
Borrowings under line of credit facility	-	-	1,000,000
Repayments of borrowings under line of credit facility	-	-	(1,000,000)
Borrowings under loan agreement	-	10,000,000	40,000,000
Repayment of borrowings under loan agreement	(19,217,000)	(2,100,000)	-
Principal payments on capital lease obligations	(1,097,000)	(718,000)	(800,000)
Proceeds from issuance of common stock, net	239,000	158,000	42,434,000
Proceeds from exercises of stock options and warrants	215,000	608,000	422,000
Net cash provided by (used in) financing activities	(19,860,000)	7,948,000	82,056,000

(Continued)

COMTECH TELECOMMUNICATIONS CORP.
AND SUBSIDIARIES
Consolidated Statements of Cash Flows
Years ended July 31, 2002, 2001 and 2000

	2002	2001	2000
Net increase (decrease) in cash and cash equivalents	$(20,695,000)	23,618,000	6,691,000
Cash and cash equivalents at beginning of period	36,205,000	12,587,000	5,896,000
Cash and cash equivalents at end of period	$ 15,510,000	36,205,000	12,587,000
Supplemental cash flow disclosure			
Cash paid during the period for:			
Interest	$ 3,099,000	3,898,000	134,000
Income taxes	$ 237,000	1,425,000	500,000
Non cash investing and financing activities:			
Acquisition of property, equipment and technology license through capital leases	$ 199,000	2,456,000	567,000
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 companies 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

Revenue 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.

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

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

(d) Cash and Cash Equivalents

Cash equivalents are temporary cash investments with a maturity of three months or less when purchased. Cash equivalents at July 31, 2002 and 2001 amounted to $8,990,000 and $27,412,000, respectively. These investments are carried at cost, which approximates market.

(e) Statement of Cash Flows

The Company acquired equipment and a technology license financed by capital leases in the amounts of $199,000, $2,456,000, and $567,000 in 2002, 2001 and 2000, 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-sales securities are determined on a specific identification basis.

(g) Inventories

Work-in-progress 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.

Goodwill represents the excess cost of a business acquisition over the fair value of the net assets acquired. In accordance with Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets", goodwill is no longer amortized. See Note 15 for further discussion regarding amortization of goodwill. The Company periodically reviews goodwill, considering factors such as projected cash flows and revenue and earnings multiples, to determine whether the carrying value of the goodwill is impaired. If the goodwill is deemed to be impaired, the difference between the carrying amount reflected in the financial statements and the estimated fair value is recognized as an expense in the period in which the impairment occurs. The Company defines its reporting units to be the same as its business segments.

The Company assesses the recoverability of the carrying value of its other long-lived assets, including identifiable intangible assets with finite useful lives, whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. The Company evaluates the recoverability of such assets based upon the expectations of undiscounted cash flows from such assets. If the sum of the expected future undiscounted cash flows were less than the carrying amount of the asset, a loss would be recognized for the difference between the fair value and the carrying amount.

(i) Research and Development Costs

The Company charges research and development costs to operations as incurred, except in those cases in which such costs are reimbursable under customer-funded contracts. In fiscal 2002, 2001 and 2000, the Company was reimbursed by customers for such activities in the amount of $2,029,000, $1,656,000 and $4,272,000 respectively.

(j) 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.

(k) Earnings Per Share

The Company calculates earnings per share ("EPS") in accordance with 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 exercises of stock options and warrants, if dilutive, outstanding during each period.

(l) Financial Instruments

The Company believes that the book value of its current monetary assets and liabilities approximates fair value as a result of the short-term nature of such assets and liabilities. The Company further believes that the fair market value of its capital lease obligations does not differ materially from the carrying value. As a result of the higher interest rate on the Company's long-term debt as compared to current interest rates on similar debt, management believes the fair market value of its long-term debt is approximately $1.2 million higher than its carrying value.

(m) 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.

(n) Reclassifications

Certain reclassifications have been made to previously reported consolidated financial statements to conform to the 2002 presentation.

(o) 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.

(p) 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 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; (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. Since neither of such profit goals were met, if 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 issued to Hill. The remaining 20,000 shares will be recorded at fair value on the date if and 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. 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. See Note 15 for discussion regarding the Company's adoption of SFAS No. 142, including the amortization of goodwill. 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. 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 were being amortized over five to seven years and $5,515,000 was recorded as goodwill. See Note 15 for discussion regarding the Company's adoption of SFAS No. 142, including the amortization of goodwill. 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	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 year 2000 assuming the merger occurred on August 1, 1999 is as follows:

	(in thousands, except per share amounts) 2000
Net revenues	$153,479
Net income	187
Basic income per share	0.03
Diluted income per share	0.03
Weighted average shares	5,663
Weighted average shares assuming dilution	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, 1999, or the future results of operations.

In April 2001, the Company acquired certain assets and product lines of MPD Technologies, Inc. for $12,718,000 including transaction costs of $764,000. The acquisition was accounted for under the purchase method of accounting. Accordingly, the Company has 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 $9,791,000 of which $1,800,000 was allocated to customer base which was being amortized over eight years, $1,800,000 was allocated to existing technology which is being amortized over six years and $6,191,000 was allocated to goodwill. See Note 15 for discussion regarding the Company's adoption of SFAS No. 142, including the amortization of goodwill. The purchase price of $12,718,000 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	6,191
	$ 12,718

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). 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.

On July 31, 2002, the Company acquired certain assets and assumed certain liabilities of Advanced Hardware Architectures, Inc. ("AHA") for $6,985,000, including transaction costs of $185,000. The purchase price is subject to adjustment based on AHA's net tangible assets as of July 31, 2002. The acquisition was accounted for under the purchase method of accounting. Accordingly, the Company has 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 $6,312,000 of which $2,192,000 was allocated to in-process research and development and was expensed as of the acquisition date, $4,032,000 was allocated to existing and core technology and trade name and is being amortized over nine years and $88,000 was allocated to order backlog and is being amortized over six months. The in-process research and development charge is included in the accompanying consolidated statement of operations for the year ended July 31, 2002. The acquisition cost was allocated as follows (in thousands):

Historical book value of net assets acquired	$ 673
Adjustments to record assets and liabilities at fair value:	
Fair value of in-process research and development	2,192
Fair value of existing and core technology and trade name	4,032
Fair value of order backlog	88
	$6,985

An independent third-party appraiser was used to assess and value the in-process research and development, existing technology, core technology, trade name and order backlog. The valuation of the in-process research and development and existing technology was based on the value of the cash flows that the asset can be expected to generate in the future. The valuation of the core technology and trade name was based on the capitalization of the royalties saved because the Company owns the asset. The valuation of the order backlog was based on the replacement cost approach.

Sales and income for fiscal 2002 and 2001 relating to the AHA assets acquired would not have been material to the Company's results of operations for those periods.

(3) Accounts Receivable

Accounts receivable consists of the following at July 31, 2002 and 2001:

	2002	2001
Accounts receivable from commercial customers	$15,424,000	18,336,000
Unbilled receivables (including retainages) on contracts-in-progress	9,304,000	5,939,000
Amounts receivable from the United States government and its agencies	3,502,000	3,944,000
	28,230,000	28,219,000
Less allowance for doubtful accounts	795,000	845,000
Accounts receivable, net	$27,435,000	27,374,000

In the opinion of management, substantially all of the unbilled balances will be billed and collected during fiscal 2003.

(4) Inventories

Inventories consist of the following at July 31, 2002 and 2001:

	2002	2001
Raw materials and components	$15,920,000	18,718,000
Work-in-process and finished goods	21,365,000	20,294,000
	37,285,000	39,012,000
Less:		
Reserve for anticipated losses on contracts and inventory reserves	3,289,000	2,280,000
Inventories, net	$33,996,000	36,732,000

(5) Property, Plant and Equipment

Property, plant and equipment consists of the following at July 31, 2002 and 2001:

	2002	2001
Equipment	$24,481,000	22,681,000
Leasehold improvements	2,030,000	1,964,000
Facilities financed by capital lease	-	2,450,000
Equipment financed by capital lease	2,345,000	2,146,000
	28,856,000	29,241,000
Less accumulated depreciation and amortization	16,967,000	17,463,000
	$11,889,000	11,778,000

Depreciation and amortization expense on property, plant and equipment amounted to approximately $3,527,000, $3,711,000, and $1,562,000, for the years ended July 31, 2002, 2001 and 2000, respectively.

(6) Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consist of the following at July 31, 2002 and 2001:

	2002	2001
Customer advances and deposits	$ 2,173,000	2,089,000
Accrued wages and benefits	2,918,000	3,663,000
Accrued commissions	1,125,000	1,021,000
Accrued warranty	2,975,000	4,336,000
Other	2,668,000	2,506,000
	$11,859,000	13,615,000

(7) Capital Lease Obligations

Capital lease obligations consist of the following at July 31, 2002 and 2001:

	2002	2001
Obligations under capital leases	$ 2,356,000	3,254,000
Less current installments	1,062,000	1,097,000
	$ 1,294,000	2,157,000

The obligations under capital leases which related to the Melville, New York facility were included in fiscal 2001 only. The balance of the capital lease obligations in both years related to certain equipment and a technology license. The net carrying value of assets under capital lease was $3,207,000 and $3,789,000 at July 31, 2002 and 2001, respectively.

Future minimum lease payments under capital leases as of July 31, 2002 are:

Years ending July 31,	
2003	$1,214,000
2004	946,000
2005	254,000
2006	159,000
2007	30,000
Total minimum lease payments	2,603,000
Less amounts representing interest (at rates varying from 6.55% to 9.5%)	247,000
	2,356,000
Less current installments	1,062,000
Obligations under capital leases, net of current installments	$ 1,294,000

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 was for an initial term of ten years. For financial reporting purposes, the Company capitalized the lease at inception in the amount of $2,450,000, net of deferred interest of $1,345,000. In December 2001, the Company exercised its option for an additional ten-year period. For financial reporting purposes, the lease for the extension period is an operating lease. The annual rentals, of approximately $482,000 for fiscal 2002, are subject to annual adjustments equal to the lesser of 5% or the change in the Consumer Price Index.

(8) Long-term Debt

In July 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, 2002, the Company was in compliance with such covenants. In August 2001, the Company made a partial principal prepayment of $19,217,000 against the loans, in addition to scheduled principal payments in fiscal 2001 aggregating $2,100,000.

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 System 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 and is subject to the same restrictive covenants discussed above.

Future minimum debt payments as of July 31, 2002 are:

Years ended July 31,	
2003	$ -
2004	9,833,000
2005	18,850,000
Total minimum debt payments	28,683,000
Less current installments	-
Long-term debt, less current installments	$ 28,683,000

(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,		
	2002	2001	2000
Federal – current	$ (706,000)	2,834,000	1,004,000
Federal – deferred	306,000	503,000	(1,204,000)
State and local – current	38,000	474,000	446,000
State and local – deferred	(6,000)	77,000	(161,000)
	$ (368,000)	3,888,000	85,000

The provision (benefit) for income taxes on income from continuing operations differed from the amounts computed by applying the U.S. Federal income tax rate of 34% as a result of the following:

	2002		2001		2000	
	Amount	Rate	Amount	Rate	Amount	Rate
Computed "expected" tax expense	$ 265,000	34.0%	3,605,000	34.0%	(1,338,000)	(34.0%)
Increase (reduction) in income taxes resulting from:						
Change in the beginning of the year valuation allowance for deferred tax assets	100,000	12.8	(300,000)	(2.8)	1,623,000	41.2
Generation of research and experimentation credits:						
Current year	(400,000)	(51.3)	-	-	-	-
Prior years	(416,000)	(53.4)	-	-	-	-
State and local income taxes, net of Federal benefit	21,000	2.7	363,000	3.4	188,000	4.8
Other	62,000	8.0	220,000	2.1	(388,000)	(9.8)
	$ (368,000)	(47.2%)	3,888,000	36.7%	85,000	2.2%

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities at July 31, 2002 and 2001 are presented below.

	2002	2001
Deferred tax assets:		
Allowance for doubtful accounts receivable	$ 95,000	98,000
Intangibles	4,673,000	4,796,000
Inventory and warranty reserves	1,226,000	1,303,000
Plant and equipment, principally due to capitalized leases and differences in depreciation	-	481,000
Compensation and commissions, principally due to accrual for financial reporting purposes	736,000	423,000
Deferred compensation	211,000	116,000
Other	226,000	243,000
Alternative minimum tax credit carryforward	209,000	-
Less valuation allowance	(2,200,000)	(2,100,000)
Total deferred tax assets	5,176,000	5,360,000
Deferred tax liabilities:		
Plant and equipment, principally due to capitalized leases and differences in depreciation	(116,000)	-
Net deferred tax assets	$ 5,060,000	5,360,000

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. As of July 31, 2002 and 2001, the Company's 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 acquisitions of EF Data and AHA. The Company must generate approximately $19,600,000 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 $42,434,000.

(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, 2002, 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 140,468 options were canceled and 544,540 are outstanding at July 31, 2002. To date, 401,507 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 1,100,000 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, 2002, the Company had granted incentive stock options representing the right to purchase an aggregate of 669,700 shares at prices ranging between \$9.35 - \$17.84 of which 50,500 options were canceled and 619,200 are outstanding at July 31, 2002. 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 – In connection with an acquisition in fiscal 1999, the Company issued warrants to the acquiree's 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 2002, warrants to purchase 87,020 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. Through fiscal 2002, the Company issued 40,531 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, 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
Granted	183,000	13.79
Expired/canceled	(59,700)	9.38
Exercised	(57,588)	2.98
Outstanding at July 31, 2002	1,163,740	$ 8.95
Options exercisable at July 31, 2002	433,380	$ 6.33
Options available for grant at July 31, 2002	571,710	

The options outstanding as of July 31, 2002 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	$ 2.97	391,140	5 years
4.00 – 7.50	6.48	113,100	6 years
7.51 – 12.00	11.19	297,000	8 years
12.01 – 17.84	14.34	362,500	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:

			2002	2001	2000
Net income (loss)	As reported		$ 1,148,000	6,714,000	(3,941,000)
	Pro forma		$ 628,000	5,818,000	(4,617,000)
Net income (loss) per share	As reported	Basic	$ 0.15	0.91	(0.69)
		Diluted	$ 0.15	0.85	(0.69)
	Pro forma	Basic	$ 0.08	0.79	(0.82)
		Diluted	$ 0.08	0.74	(0.82)

The per share weighted-average fair value of stock options granted during 2002, 2001 and 2000 was $6.48, $9.07 and $9.14, respectively, on the date of grant using the Black Scholes option-pricing model with the following weighted-average assumptions:

2002 – expected dividend yield of 0%, risk-free interest rate of 4.29%, expected volatility of 54.10% and an expected option life of 5 years.

2001 – expected dividend yield of 0%, risk-free interest rate of 5.16%, expected volatility of 72.94% and an expected option life of 5 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 5 years.

(e) Restricted Common Stock

In February 1994, a total of 180,000 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 related to services to be provided over future years and, as a result, the stock awards were subject to certain restriction which could 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 was 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 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 restricted shares of the Company's common stock were granted by the Board of Directors to the principal officers and employees of the Company's 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.

(11) Segment and Principal Customer 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. Intersegment sales in fiscal 2002 by the telecommunications transmission segment to the RF microwave amplifiers segment were $3,250,000 at approximately break-even. Intersegment sales in fiscal 2000 and 2001 were not material. Fiscal 2002 and 2000 operating income in the telecommunications transmission segment includes in-process research and development charges of $2,192,000 and $10,218,000, respectively.

(in thousands)

Fiscal 2002	Telecommunications Transmission	RF Microwave Amplifiers	Mobile Data Communications Services	Un-Allocated	Total
Net sales	$ 78,613	22,822	17,922	-	119,357
Operating income (loss)	5,250	1,209	207	(3,305)	3,361
Interest income	99	3	5	345	452
Interest expense	2,157	904	-	-	3,061
Depreciation and amortization	3,718	1,188	194	130	5,230
Expenditure for long-lived assets, including intangibles	8,640	930	510	14	10,094
Total assets	62,738	25,564	19,308	18,976	126,586

(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

(in thousands)

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
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

In fiscal 2002, sales to the U.S. Army by our mobile data communications segment represented 13.2% of total net sales. Sales to one customer in fiscal 2000 represented 43.1% 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 2002, 2001 and 2000, approximately 33.8%, 23.1% and 8.8%, respectively, of the Company’s net sales resulted from contracts with the United States government and its agencies. Export sales comprised 41.2%, 46.2% and 71.4% of net sales in fiscal 2002, 2001 and 2000, 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, 2002, the future minimum lease payments under operating leases are as follows:

2003	$ 3,484,000
2004	3,175,000
2005	2,957,000
2006	1,514,000
2007	820,000
Thereafter	2,409,000
Total	$ 14,359,000

Lease expense charged to operations was $3,318,000, $2,236,000 and $474,000 in fiscal 2002, 2001 and 2000, 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

In or about December 2000, two former employees, Shiv Verma and Robert Levin, 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 asserted defenses against the claims and interposed certain counterclaims and third-party claims against NJL, Inc., a company then controlled by Mr. Verma.

In April 2002, Mr. Levin dismissed his claims against the Company, and the Company in return dismissed its counterclaims against him, without payment of any monies by either party, with both the Company and Mr. Levin executing general releases. On July 22, 2002, the District Judge dismissed Verma's complaint with prejudice and the Company's counterclaims against Verma without prejudice. On August 8, 2002, the Company voluntarily dismissed its third-party claims against defendant NJL, Inc., without prejudice. As a result, there are no claims or counterclaims pending by or against any party to the action, and the case has been closed on the Court's docket.

We are subject to certain other 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.

(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 $395,000 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. The employment period is automatically extended for successive two year periods unless either party gives notice of non-extension at least six months in advance of the scheduled termination date. The agreement also provides for payment to Mr. Kornberg in the event of a change in control of the Company.

(13) Discontinued Operations

In early fiscal 1999, the Company acquired the assets and assumed certain liabilities of Comtech Wireless, Inc. ("CWI"). 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 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 and its stockholders. The Rights will expire on December 15, 2008.

(15) Accounting for Business Combinations, Goodwill and Other Intangible Assets

In July 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 141, "Business Combinations", and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 specifies the criteria that intangible assets acquired in a business combination must meet to be recognized and reported apart from goodwill. SFAS No. 142 requires 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 SFAS No. 142. This pronouncement also requires that intangible assets with estimable useful lives be amortized over their respective estimated useful lives and reviewed for impairment in accordance with SFAS 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 SFAS No. 141 effective July 1, 2001 and SFAS No. 142 effective August 1, 2001. As of July 31, 2001, $4,609,000 of intangibles, net of accumulated amortization of $768,000, were reclassified as intangibles with indefinite lives.

In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets", we discontinued the amortization of goodwill and intangible assets with indefinite lives as of the beginning of fiscal 2002. A reconciliation of previously reported net income and earnings per share to the amounts adjusted for the exclusion of amortization of goodwill and intangible assets with indefinite lives, net of the related income tax effect, follows:

(in thousands, except per share amounts)

	2001	2000
Reported net income (loss)	$6,714	(3,941)
Exclude amortization of goodwill and intangible assets with indefinite lives, net of income taxes	889	168
Adjusted proforma net income (loss)	$7,603	(3,773)
Basic earnings (loss) per share:		
As reported	$ 0.91	(0.69)
Adjusted proforma	$ 1.03	(0.67)
Diluted earnings (loss) per share:		
As reported	$ 0.85	(0.69)
Adjusted proforma	$ 0.96	(0.67)

Intangibles with definite lives arising from acquisitions as of July 31, 2002 are as follows:

	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Existing technology	$ 11,851,000	2,582,000	9,269,000
Core Technology	1,315,000	-	1,315,000
Technology license	2,154,000	99,000	2,055,000
Trade name	175,000	-	175,000
Order backlog	88,000	-	88,000
Total	$ 15,583,000	2,681,000	12,902,000

Amortization expense for the twelve months ended July 31, 2002, 2001 and 2000 was $1,471,000, $2,552,000 and $230,000, respectively. The estimated amortization expense for the fiscal years ending July 31, 2003, 2004, 2005, 2006 and 2007 is $2,016,000, $1,928,000, $1,928,000, $1,928,000 and $1,792,000, respectively.

Intangibles with indefinite lives by reporting unit as of July 31, 2002 are as follows:

Telecommunications transmission	$ 7,870,000
RF microwave amplifiers	8,422,000
Mobile data communications services	1,434,000
	$17,726,000

(16) Unaudited Quarterly Financial Data

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

Fiscal 2002	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Net sales	$ 31,045	30,525	29,262	28,525	119,357
Gross profit	10,805	9,119	9,898	10,755	40,577
Net income	902	148	409	(311)**	1,148**
Diluted income per share	$ 0.11	0.02	0.05	(0.04)	0.15*

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*

*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.

**Includes pre-tax in-process research and development charge in the fourth quarter of fiscal 2002 of $2,192,000.

COMTECH TELECOMMUNICATIONS CORP.
AND SUBSIDIARIES

Valuation and Qualifying Accounts and Reserves

Years ended July 31, 2002, 2001 and 2000

Column A	Column B	Column C Additions		Column D	Column E
		(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,					
2002	$ 845,000	269,000 (C)	-	(319,000)(D)	$ 795,000
2001	806,000	39,000 (C)	-	-	845,000
2000	145,000	-	-	661,000 (E)	806,000
Inventory reserves:					
Year ended July 31,					
2002	$ 2,280,000	1,698,000 (A)	-	(689,000) (B)	$ 3,289,000
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

(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 acquisitions.

CORPORATE INFORMATION

BOARD OF DIRECTORS

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

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

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

Edwin Kantor (1) (2)
Chairman, BK Financial Services LLC

Ira Kaplan
Retired (2)

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

INDEPENDENT AUDITORS

KPMG LLP
Melville, New York

LEGAL COUNSEL

Proskauer Rose LLP
New York, New York

MARKET FOR REGISTRANT'S COMMON STOCK

Common Stock is traded on the NASDAQ
National Market System®. The Symbol is CMTL

ANNUAL MEETING

Tuesday, December 10, 2002 @ 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

INVESTORS RELATIONS AND SHAREHOLDER INFORMATION

Visit www.comtechtel.com or call (631) 777-8900. A copy of the Form 10-K Annual Report, exhibits and other interim reports, as filed with the Securities and Exchange Commission, are available to shareholders for a processing fee of $25. Requests in writing should be made to:

Comtech Telecommunications Corp. – Secretary
105 Baylis Road, Melville, NY 11747

COMMON STOCK PRICE RANGE

Quarter Ended	High	Low
October 31, 2001	$16.45	$12.50
January 31, 2002	$13.83	$11.15
April 30, 2002	$12.90	$ 8.25
July 31, 2002	$10.72	$ 6.31

At July 31, 2002 there were 7,509,171 shares outstanding. The Company paid no dividends. Currently the Company does not anticipate paying any cash dividends in the future.

CORPORATE OFFICERS & SUBSIDIARY PRINCIPALS

Fred Kornberg
President and Chief
Executive Officer

Robert G. Rouse
Senior Vice President and
Chief Financial Officer

Michael D. Porcelain
Vice President of Finance
and Internal Audit

Gail Segui
Secretary and Treasurer

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

Robert L. McCollum
Senior Vice President
President of Comtech
EF Data Corp.

J. Preston Windus, Jr.
Senior Vice President
President of Comtech
Mobile Datacom Corp.

Joel Alper
Chief Executive Officer of
Comtech Mobile Datacom Corp.

Thomas C. Christy
President of Comtech
Antenna Systems, Inc.

Larry Konopelko
President of Comtech
PST Corp.

William H. Thomson
President of Comtech
AHA Corporation

DESIGN: GRECO & EMMI, INC.

105 Baylis Road
Melville, New York 11747
Tel: (631) 777-8900 • Fax: (631) 777-8877
www.comtechtel.com
email: info@comtechtel.com