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WORLD WIDE SUPPLIERS OF ELECTRONIC COMMUNICATIONS EQUIPMENT

ANNUAL REPORT

1979

THE TECHNICAL MATERIEL CORPORATION
AND SUBSIDIARIES

DIRECTORS

R.H. dePASQUALE
Chairman

E.J. HOFMANN

F. BUDETTI

G.W. JENNINGS

D.C. MacDONALD

OFFICERS

E.J. HOFMANN
President

FRANK BUDETTI
Vice President

RAY H. dePASQUALE
Treasurer

RUTH S. TAYLOR
Secretary

TELECOM REALTY CORP
E.J Hofmann
President

BUSINESS HIGHLIGHTS . . .

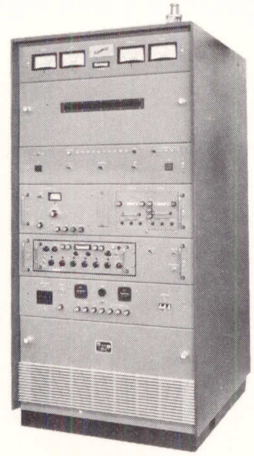
	FISCAL YEAR 1979	FISCAL YEAR 1978
Net Sales	$1,743,090	$2,347,274
Net Profit (loss)	(272,372)	(651,145)
Current Assets	3,301,942	3,314,505
Current Liabilities	3,366,934	3,089,182
Working Capital	(64,992)	225,323
Current Ratio	(1.0) to 1	1.1 to 1
Property, Plant and Equipment Net	763,593	772,667
Property held for Rental	617,439	622,692
Stockholders' Equity	518,328	790,700
Net Profit (loss) per Share	(.10)	(.23)
Book Value per Share	.18	.27
Stockholders	5671	5835
Number of Shares of Stock Outstanding	2,847,704	2,847,704

Technical Material Corporation common stock has had a very limited market and the price range for the two preceding years has been 1/8 to 7/8.

FOR ALL YOUR COMMUNICATIONS NEEDS:

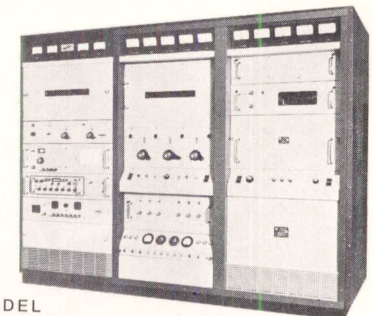
34 YEARS OF SERVICE

WORLD WIDE SUPPLIERS OF ELECTRONIC COMMUNICATIONS EQUIPMENT



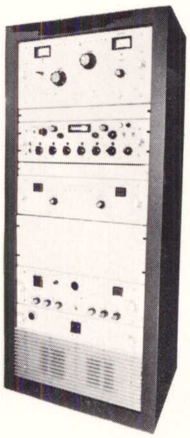
HIGH FREQUENCY
10,000 WATT
TRANSMITTER

MODEL
HFT-10K
AN/URT-37(V)



MODEL
HFTM-40KJ
AN/FRT-40

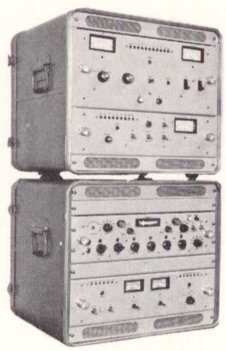
HIGH FREQUENCY
40,000 WATT
TRANSMITTER



MODEL
HFT-1K

HIGH FREQUENCY
1000 WATT
TRANSMITTER

- # FREQUENCY RANGE 1.6 TO 30 MHZ
- # CW, AM, AME, USB, LSB, ISB, FSK, FAX
- # SYNTHESIZED OR MULTI-CHANNEL
- # AUTO TUNING WITH MAN OVERRIDE
- # COMPLETE INTERLOCK PROTECTION
- # SOLID-STATE EXCITER AND P/S
- # RUGGED, MODULAR CONSTRUCTION
- # NO ROLLING CONTACTS
- # REMOTE CONTROL CAPABILITY

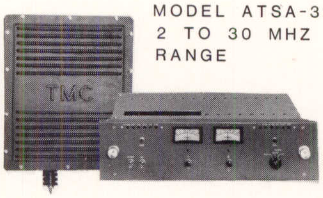


GENERAL PURPOSE
1000 WATT HF
TRANSMITTER

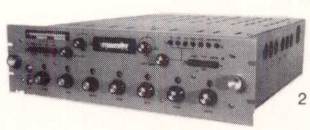
PORTABLE OR
CONSOLE AVAILABLE

MODEL
GPT-1K

ANTENNA TUNING SYSTEM
MODEL ATSA-3
2 TO 30 MHZ
RANGE



THE FINEST !!!

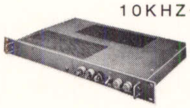


SYNTHESIZED
MULTI-MODE
EXCITER

250MW 1.6-30MHZ

MODEL MMX-2 SERIES
0-1706/TSC-25
MD-846/UR
GSA CONTRACT
GS-00S-86443

MODEL LMC/AMC/VMC SERIES
ANTENNA MULTICOUPLERS
10KHZ-150MHZ



MODEL SBG-4
FOUR CHANNEL
SYNTHESIZED EXCITER
100 MW,2-30 MHZ

MODEL BSP/LSP SERIES
LOUDSPEAKER PANELS

- # AMPLIFIERS, R-F
- # AMPLIFIERS, SSB
- # ANTENNAS, PHASED
- # ANTENNAS, RHOMBIC
- # COMM. SYSTEMS, SSB
- # CONNECTORS, R-F
- # CONVERTERS, SSB
- # COUPLERS, ANTENNA
- # COUPLERS, DIRECTIONAL
- # DIGITAL COUNTERS
- # FILTERS, LOW-PASS
- # PANELS, JACK
- # RECEIVERS
  - FIXED FREQUENCY
  - FREQUENCY SHIFT
  - SSB
- # TRANSMITTERS
  - FIXED FREQUENCY
  - FIXED STATION
  - SSB
- # REMOTE CONTROL SYSTEMS

WORLD WIDE SUPPLIERS OF ELECTRONIC COMMUNICATIONS EQUIPMENT

TECHNICAL MATERIEL CORPORATION

SERIES
120-001

700 FENIMORE ROAD • MAMARONECK, N.Y. 10543
PHONE (914)-698-4800 • TELEX 137-358 • TWX 710-566 1100 • CABLE TEPEI •

Dear Stockholder:

As noted, the Company was profitable in the first six months of fiscal 1979/80. Although the figures are unaudited, we are making progress and look forward to continued profits in the coming months.

Eugene J. Hofmann
PRESIDENT

WORLD WIDE SUPPLIERS OF ELECTRONIC COMMUNICATIONS EQUIPMENT

THE TECHNICAL MATERIEL CORPORATION

FISCAL 1980
6 MONTHS COMPARISON

	6 Months Ended March 31	
	1980	**1979**
Net Sales	$1,403,284	$745,491
Net Profit or (Loss)	104,470	(156,553)
Net Profit or (Loss) (2,847,704 shares)	$.04	($.05)

The figures shown are unaudited and subject to year end adjustments.

Dear Stockholder:

The attached six months report shows a favorable trend in the earnings of the Corporation. In the meantime, a suit has been lodged against TMC (Canada) Ltd. and the parent Corporation for a substantial sum. Although management feels it has a defense to this claim, it is too early to tell what the outcome will be.

The Management

message from the president . . .

It is a pleasure to report on my election to the office of President of The Technical Materiel Corporation.

With my history of twenty-seven years of service in all phases of operation for the Company, and the skills and loyalty of other long-term employees, shareholders can be assured that the affairs of TMC are in capable and experienced hands.

Fortunately, the Company was able to materially reduce its losses in fiscal year 78/79. We now have an energetic well-knit team, which includes our newly elected Vice President and Chief Engineer, Mr. Frank Budetti; and we look forward to a profitable future for TMC.

Eugene J. Hofmann

President

The Technical Materiel Corporation hereby declares itself an Equal Opportunity Employer. The Company realizes that all individuals, regardless of race, color, creed, religion, sex or national origin should be afforded the opportunity of seeking employment with the Company and should not be discriminated against during their employment with the Company.

ASSETS

CONSOLIDATED BALANCE SHEET
September 30, 1979 and 1978

	1979	1978
CURRENT ASSETS:		
Cash	$ 6,438	$ 63,332
Accounts receivable — $157,231 in 1979 and $51,874 in 1978 from the U.S. and foreign governments (Note 7)	259,231	395,779
Notes receivable, current portion	23,625	23,625
Inventories, at the lower of cost or market (Note 4)	2,945,418	2,773,504
Prepaid expenses	67,230	58,265
Total current assets	3,301,942	3,314,505
PROPERTY, PLANT AND EQUIPMENT, at cost (Note 5):		
Land	197,071	197,071
Building and building equipment	1,158,931	1,149,786
Machinery and equipment	1,263,933	1,277,816
	2,619,935	2,624,673
Less accumulated depreciation and amortization	1,856,342	1,852,006
	763,593	772,667
OTHER ASSETS:		
Property held for rental	617,439	622,692
Long-term note receivable, less current portion above	—	23,625
	617,439	646,317
	$4,682,974	$4,733,489

The accompanying report letter and notes to consolidated financial statements are integral parts of this statement.

LIABILITIES AND STOCKHOLDERS' EQUITY

CONSOLIDATED BALANCE SHEET

September 30, 1979 and 1978

	1979	1978
CURRENT LIABILITIES:		
Notes payable to banks (Note 6)	$ 975,000	$ 850,000
Indebtedness to bank (Note 7)	39,107	20,000
Demand notes payable to officers at various interest rates	1,440,000	1,215,000
Accounts payable	625,008	723,422
Accrued income taxes	12,250	—
Other accrued taxes and expenses	219,064	226,371
Current installments of mortgages and notes payable	56,505	54,389
Total current liabilities	3,366,934	3,089,182
LONG-TERM DEBT:		
Mortgages and notes payable — 6% to 7½% due 1980-1992 (less current installments, above) (Note 6)	797,712	853,607
COMMITMENTS AND CONTINGENCIES (Note 7)	—	—
STOCKHOLDERS' EQUITY:		
Common stock, par value 12½¢ per share: Authorized — 4,000,000; issued — 2,847,704 shares in 1979 and 1978	355,963	355,963
Capital surplus	6,924,042	6,924,042
Earned surplus (deficit)	(6,761,677)	(6,489,305)
	518,328	790,700
	$ 4,682,974	$ 4,733,489

The accompanying report letter and notes to consolidated financial statements are integral parts of this statement.

OPERATIONS

AND EARNED SURPLUS (Deficit)

CONSOLIDATED STATEMENT OF INCOME AND DEFICIT

For the Years Ended September 30, 1979 and 1978

	1979	**1978**
Net Sales (Note 10)	$ 1,743,090	$ 2,347,274
Cost of sales (Note 10)	735,684	1,691,312
Engineering and development expenses	276,759	225,501
Selling, general and administrative expenses	840,296	958,251
Interest expense	192,697	153,902
Other — net	(29,974)	(30,547)
	2,015,462	2,998,419
Net loss	(272,372)	(651,145)
Deficit at beginning of year	(6,489,305)	(5,838,160)
Deficit at end of year	$(6,761,677)	$(6,489,305)
Net loss per common share (Note 8)	$(.10)	$(.23)

The accompanying report letter and notes to consolidated financial statements are integral parts of this statement.

CHANGES IN

FINANCIAL POSITION

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

For the Years Ended September 30, 1979 and 1978

	1979	1978
SOURCES OF WORKING CAPITAL:		
Reduction of long-term note receivable	$ 23,625	$ 23,625
APPLICATIONS OF WORKING CAPITAL:		
Operations:		
Net loss	272,372	651,145
Depreciation and amortization of property, plant and equipment	(55,396)	(52,065)
	216,976	599,080
Reduction of mortage and notes payable	55,894	52,605
Purchase of property, plant and equipment, net of sales	41,069	18,005
	313,940	669,690
Increase (decrease) in working capital	$(290,315)	$(646,065)
DETAILS OF CHANGES IN WORKING CAPITAL:		
Increase (decrease) in current assets:		
Cash	(56,894)	(27,556)
Accounts receivable	(136,548)	89,168
Inventories	171,914	37,874
Prepaid expenses	8,965	(27,976)
	(12,563)	71,510
Increase (decrease) in current liabilities:		
Demand notes payable to officers	225,000	215,000
Indebtedness to bank	19,107	(31,575)
Note payable to bank	125,000	—
Accounts payable and accrued liabilities	(105,721)	529,872
Accrued income taxes	12,250	—
Current installments of mortgages and notes payable	2,116	4,278
	277,752	717,575
Increase (decrease) in working capital	$(290,315)	$(646,065)

The accompanying report letter and notes to consolidated financial statements are integral parts of this statement.

NOTES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 1979 and 1978

1. The Company is predominantly engaged in the engineering and manufacture of single sideband radio communications equipment, including field installation, servicing and maintenance. Products are distributed worldwide through the Company's own sales personnel and authorized outside representatives.

   The Company and its subsidiaries sustained material losses during the preceding nine years. Reduced United States government business and other market conditions have had adverse effects on the company's operations and on its abilities to sustain such losses.

   The financial statements have been prepared on the basis of accounting principles applicable to a going concern. This basis presumes that cash will be available to finance future operations and that the realization of assets and settlement of liabilities will occur in the ordinary course of business, rather than through a process of liquidation. In the latter case the net realizable value of assets such as inventory and fixed assets could be significantly higher or lower than as shown in these financial statements.

   The Company's continued operations are dependent upon its majority stockholder's willingness and ability to continue financing corporate operations. At September 30, 1979, such financing aggregated $2,440,000 representing direct loans of $1,440,000 and a $1,000,000 bank line of credit guaranteed by the stockholder personally, of which $975,000 had been utilized.

2. The consolidated financial statements include the accounts of the Company and all its subsidiaries. Foreign currency items have been translated at appropriate rates of exchange. Inter-company balances and transactions have been eliminated in consolidation.

   Net assets shown by the books of the consolidated subsidiaries was less than the amount by which the Company's investment therein is carried on its books by $2,500,525 at September 30, 1979 and by $2,361,932 at September 30, 1978. In consolidation, deficits and undistributed earnings (respectively) of subsidiaries since dates of formation or acquisition has been charged or credited to earned surplus in the amounts of $2,118,834 at September 30, 1979 and $1,980,241 at September 30, 1978. The excess of cost over the book value of net assets of a subsidiary acquired in prior years in the amount of $381,691 at September 30, 1979 and 1978 (net of depreciation) has been charged to property held for rental.

3. In August 1976, the Company sold the net assets of its subsidiary, TMC Systems (Arizona), Inc. The subsidiary has not been formally dissolved.

   In September 1977, the Company decided to cease operations of its subsidiary in Switzerland. The subsidiary had net assets of $85,400 at March 31, 1978, including $95,860 due from its parent company.

4. Reduced U.S. government business and other market conditions have resulted in limited usage of inventory stocks which are held as replacement parts under the requirements of government contracts completed in prior years. At September 30, 1979 and September 30, 1978, over $2,000,000 of the Company's inventories, a significant portion of which is held against these requirements, represented

WORLD WIDE SUPPLIERS • OF ELECTRONIC COMMUNICATIONS EQUIPMENT •

NOTES

items which were purchased or manufactured in prior fiscal years. For 1979, inventories include $275,000 of raw materials purchased for customers' orders cancelled prior to the start of production. In the opinion of the management, inventory quantities are not excessive in relation to the Company's requirements for anticipated future production and spare parts shipments, and with respect to the slow-moving inventories, adequate provisions have been made.

Cost of inventories, as summaried below, is determined principally on the basis of the average cost method:

	1979	1978
Finished goods	$ 763,936	$ 944,813
Work in process	840,534	776,152
Raw materials	1,340,948	1,052,539
	$2,945,418	$2,773,504

5. Depreciation has been provided on the basis of the estimated useful lives of the depreciable assets using generally the straight-line method and rates of 2½% for buildings and building equipment, and 10% — 33⅓% for machinery and equipment. Leasehold improvements are amortized over the terms of the respective leases. The lease for the Virginia plant expired in 1977. At September 30, 1974 land and building aggregating $945,912 net of accumulated depreciation of $317,559 were reclassified to "Property held for rental."

   Maintenance, repairs and minor renewals of fixed assets are charged to expense: major renewals and betterments are capitalized. Upon sale or retirement of property, plant and equipment, cost and accumulated depreciation are removed from the accounts and the profit or loss is charged to income.

6. Mortgage and note payments due during the four years subsequent to the 1980 fiscal year aggregate $58,682 for 1981, $64,397 for 1982, $67,157 for 1983, and $74,094 for 1984.

   The notes payable to banks are secured by collateral pledged by the Corporation's chairman, a majority stockholder.

7. No allowance for doubtful accounts has been established because historically, accounts which become uncollectible are relatively immaterial and are charged directly to expense.

   Approximately $39,000 of accounts receivable were pledged as collateral against an indebtness of a subsidiary to its bank.

   Subsequent to the balance sheet date the subsidiary company obtained additional bank financing of $100,000 against which it has pledged as security its land and building with a net book value of $153,522.

   The Company has no minimum lease commitments under non-cancellable leases.

8. Computations of per share amounts are based on the weighted average number of shares of common stock outstanding during each period.

9. Sales to United States Government agencies aggregated $919,739 for the year ended September 30, 1979.

NOTES

10. Management attributes the significant increase in the gross profit percentage (from 28 per cent in 1978 to 58 per cent in 1979) to a combination of factors:

    A. At the end of 1979, the inventory was taken by an outside firm specializing in that function and special care was taken to price the inventory accurately. This scrupulous care may have resulted in restoring inventory values lost over the last few years by less meticulous inventory counts and pricing.

    B. Intensive value engineering and product redesign materially contributed to reduced manufacturing costs.

    C. During the 1979 fiscal year, the Company's union employees were on strike for four months, during which time production was maintained by engineering and supervisory personnel. Approximately $100,000 in payroll and fringe benefits were saved and increased productivity was achieved with the new union contract.

    D. During 1979, the Company was able to bill for some field services ($85,000 approximately), for which the costs are included in engineering and development expenses.

    E. While total sales decreased in 1979, sales of spare parts increased considerably, thereby increasing the gross profit margin.

Board of Directors
The Technical Materiel Corporation
Mamaroneck, New York

We present the comparative consolidated balance sheets of THE TECHNICAL MATERIEL CORPORATION and subsidiaries as at September 30, 1979 and 1978, and the related consolidated statements of income and deficit and changes in financial position for the years then ended.

The aforementioned financial statements have been prepared on a going concern basis which contemplates continuity and realization of assets and liquidation of liabilities in the ordinary course of business. Because of significant and continuing operating losses, the company's ability to continue as a going concern is dependent upon the attainment of profitable operations and arrangements of satisfactory financing.

We are not independent with regard to The Technical Materiel Corporation and the above-mentioned financial statements were not audited by us and, accordingly, we do not express an opinion on them.

MARSHALL GRANGER & COMPANY
Mamaroneck, New York
April 17, 1980

THE TECHNICAL MATERIEL CORPORATION

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