



ANNUAL REPORT

1980

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	
	1980	1979
Net Sales	\$2,925,379	\$1,743,090
Net Profit (loss)	223,263	(272,372)
Current Assets	3,477,773	3,301,942
Current Liabilities	3,329,530	3,366,934
Working Capital	148,243	(64,992)
Current Ratio	1.0 to 1	(1.0) to 1
Property, Plant and Equipment		
Net	728,171	763,593
Rental Property	607,880	617,439
Stockholders' Equity	741,591	518,328
Net Profit (loss) per Share08	(.10)
Book Value per Share26	.18
Stockholders	5726	5671
Number of Shares of Stock		
Outstanding	2,847,704	2,847,704

Technical Materiel 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.



message from the president . . .

Operations of your Corporation for the fiscal year ended September 30, 1980 resulted in a profit of \$223,263 on sales of \$2,925,379. This profit was achieved due to several factors: a 68% increase in sales, settlement of a three-year Union contract (which has resulted in increased productivity with less personnel), and a continuing program of intensive value engineering and product re-design contributing to reduced manufacturing costs.

It is particularly interesting to note that this improvement was accomplished despite the increase in cost of practically everything this Corporation uses including light, heat, power, telephone and inflated vendor prices. We were also able to overcome the common complaint of higher taxes and tight and expensive borrowing.

Our future continues to look better with the increased interest in the high frequency field. Our equipment is still sold throughout the world and we are presently engaged in a rehab program for the U.S. Navy in the upgrading of the 10 and 40 Kilowatt transmitters purchased some 20 years ago.

The market for HF equipment is large and increasing. We are making determined efforts to increase our share of this market and to increase our profitability during fiscal year 1981.

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, 1980 and 1979

	1980	1979
CURRENT ASSETS:		
Cash	\$ 96,132	\$ 6,438
Accounts receivable — \$371,793 in 1980 and \$157,231 in 1979 from the U.S. and foreign governments (Note 7)	404,626	259,231
Notes receivable, current portion	—	23,625
Inventories, at the lower of cost or market, net of \$580,000 reserve for obsolescence (Note 4)	2,922,179	2,945,418
Prepaid expenses	54,836	67,230
Total current assets	<u>3,477,773</u>	<u>3,301,942</u>
PROPERTY, PLANT AND EQUIPMENT, at cost (Note 5):		
Land	197,071	197,071
Building and building equipment	1,158,931	1,158,931
Machinery and equipment	1,265,496	1,263,933
	<u>2,621,498</u>	<u>2,619,935</u>
Less accumulated depreciation and amortization	1,893,327	1,856,342
	<u>728,171</u>	<u>763,593</u>
OTHER ASSETS:		
Rental property (net of depreciation of: 1980-\$338,632 and 1979-\$328,473)	607,880	617,439
	<u>\$4,813,824</u>	<u>\$4,682,974</u>

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, 1980 and 1979

	1980	1979
CURRENT LIABILITIES:		
Notes payable to banks (Note 6)	\$1,019,000	\$ 975,000
Indebtedness to bank (Note 7)	97,000	39,107
Demand notes payable to officers at various interest rates	1,510,000	1,440,000
Accounts payable	430,900	625,008
Accrued income taxes	5,321	12,250
Other accrued taxes and expenses	208,627	219,064
Current portion of mortgages and notes payable	58,682	56,505
Total current liabilities	<u>3,329,530</u>	<u>3,366,934</u>
 LONG-TERM DEBT:		
Mortgages and notes payable — 6% to 7½ % due 1980-1992 (less current portion above)(Note 6)	742,703	797,712
 COMMITMENTS AND CONTINGENCIES (Note 7)		
	---	---
 STOCKHOLDERS' EQUITY:		
Common stock, par value 12½¢ per share:		
Authorized — 4,000,000; issued — 2,847,704 shares	355,963	355,963
Capital surplus	6,924,042	6,924,042
Deficit	(6,538,414)	(6,761,677)
	<u>741,591</u>	<u>518,328</u>
	<u>\$4,813,824</u>	<u>\$4,682,974</u>

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



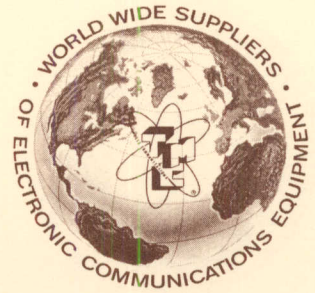
OPERATIONS AND EARNED SURPLUS (Deficit)

CONSOLIDATED STATEMENT OF INCOME AND DEFICIT

For the Years Ended September 30, 1980 and 1979

	1980	1979
Net Sales (Note 10)	\$2,925,379	\$1,743,090
Cost of sales (Note 10)	1,368,846	735,684
Engineering and development expenses	247,334	276,759
Selling, general and administrative expenses	865,545	840,296
Interest expense	238,875	192,697
Other — net	<u>(18,484)</u>	<u>(29,974)</u>
	<u>2,702,116</u>	<u>2,015,462</u>
Net income (loss)	223,263	(272,372)
Deficit at beginning of year	<u>(6,761,677)</u>	<u>(6,489,305)</u>
Deficit at end of year	<u><u>\$(6,538,414)</u></u>	<u><u>\$(6,761,677)</u></u>
Net income (loss) per common share (Note 8)	<u><u>\$.08</u></u>	<u><u>\$(.10)</u></u>

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, 1980 and 1979

	1980	1979
SOURCES OF WORKING CAPITAL:		
Operations:		
Net income (loss)	\$223,263	\$(272,372)
Depreciation and amortization of property, plant and equipment	46,544	55,396
	269,807	(216,976)
Reduction of long-term notes receivable	—	23,625
	269,807	(193,351)
 APPLICATIONS OF WORKING CAPITAL:		
Reduction of mortgages and notes payable	55,009	55,895
Purchase of property, plant and equipment, net of sales	1,563	41,069
	56,572	96,964
Increase (decrease) in working capital	\$213,235	\$(290,315)
 DETAILS OF CHANGES IN WORKING CAPITAL:		
Increase (decrease) in current assets:		
Cash	89,694	(56,894)
Accounts receivable	145,395	(136,548)
Notes receivable, current portion	(23,625)	—
Inventories	(23,239)	171,914
Prepaid expenses	(12,394)	8,965
	175,831	(12,563)
 Increase (decrease) in current liabilities:		
Notes payable to bank	44,000	125,000
Indebtedness to bank	57,893	19,107
Demand notes payable to officers	70,000	225,000
Accounts payable and accrued liabilities	(204,545)	(105,721)
Accrued income taxes	(6,929)	12,250
Current installments of mortgages and notes payable	2,177	2,116
	(37,404)	277,752
Increase (decrease) in working capital	\$213,235	\$(290,315)

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



NOTES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 ten years. Reduced United States government business and other market conditions 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, 1980, such financing aggregated \$2,510,000 representing direct loans of \$1,510,000 and a \$1,000,000 bank line of credit guaranteed by the stockholder personally.

2. The consolidated financial statements include the accounts of the Company and all its subsidiaries. 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 \$2,623,209 at September 30, 1980 and by \$2,500,525 at September 30, 1979. In consolidation, deficits and undistributed earnings of subsidiaries since dates of formation or acquisition has been charged or credited (respectively) to deficit in the amounts of \$2,241,518 at September 30, 1980 and \$2,118,834 at September 30, 1979. 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, 1980 and 1979 (net of depreciation) has been charged to property held for rental.

3. 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, 1980 and September 30, 1979, over \$2,000,000 of the Company's inventories, a significant portion of which is held against these requirements, represented 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.



NOTES

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

	1980	1979
Finished goods	\$ 889,180	\$ 763,936
Work in process	495,790	840,534
Raw materials	<u>2,117,209</u>	<u>1,920,948</u>
	3,502,179	3,525,418
Less reserve for obsolescence	<u>580,000</u>	<u>580,000</u>
	<u>\$2,922,179</u>	<u>\$2,945,418</u>

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, 10% — 33⅓% for machinery and equipment.

At September 30, 1980, the Company and its subsidiaries' real estate holdings with a net book value of \$910,000 had a replacement value assigned by an outside appraiser of approximately \$4,700,000.

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 1981 fiscal year aggregate \$62,669 for 1982, \$66,937 for 1983, \$71,496 for 1984 and \$76,365 for 1985.

The notes payable to banks are secured by collateral pledged by the Corporation's chairman, a majority stockholder. Also the Company pledged a \$72,000 account receivable at September 30, 1980.

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 \$97,000 of land, building and accounts receivable were pledged as collateral against an indebtedness of a subsidiary to its bank.

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 \$1,138,188 for the year ended September 30, 1980 and \$919,739 for 1979.

10. Management attributes the continuing high gross profit percentage (from 28 per cent in 1978 to 58 per cent in 1979 and 53 per cent in 1980) 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.



NOTES

- B. Intensive value engineering and product redesign materially contributed to reduced manufacturing costs in both years.
 - 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. The Company was able to bill for some field services (\$56,000 approximately and \$85,000 in 1979), 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. This emphasis on spare part sales continued in 1980 with increased overall sales.
11. At September 30, 1980, outstanding judgements and claims against the Company amounted to less than \$825,000, and most were without merit, in management's opinion. Counsel informed management that the largest of the claims should be settled for less than \$200,000.

Board of Directors
The Technical Materiel Corporation
Mamaroneck, New York

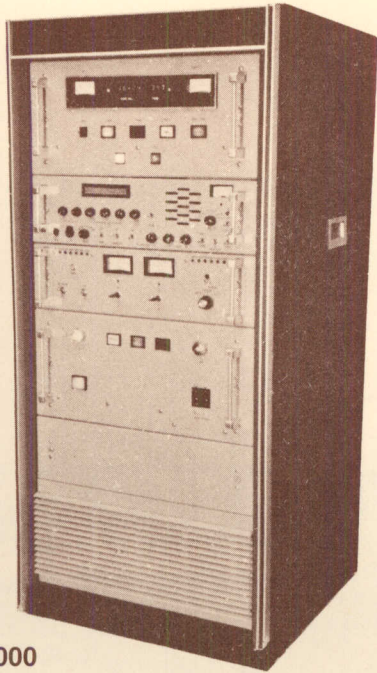
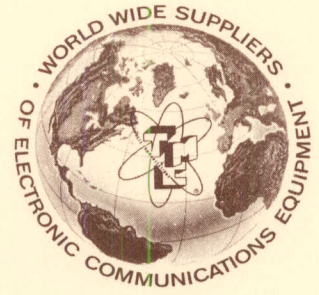
We present the comparative consolidated balance sheets of THE TECHNICAL MATERIEL CORPORATION and subsidiaries as at September 30, 1980 and 1979, and the related consolidated statements of income and deficit and changes in financial position for the years then ended.

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 (up to the current year) operating losses, the company's ability to continue as a going concern is dependent upon the attainment and maintenance of profitable operations and arrangement of satisfactory financing.

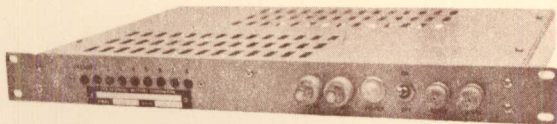
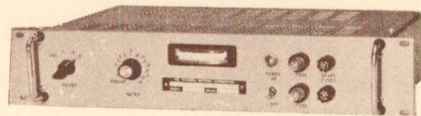
We are not independent with regard to The Technical Materiel Corporation and the above-mentioned financial statements were not audited by us and, accordingly, we do not express an opinion on them.

MARSHALL GRANGER & COMPANY
Mamaroneck, New York
March 3, 1981

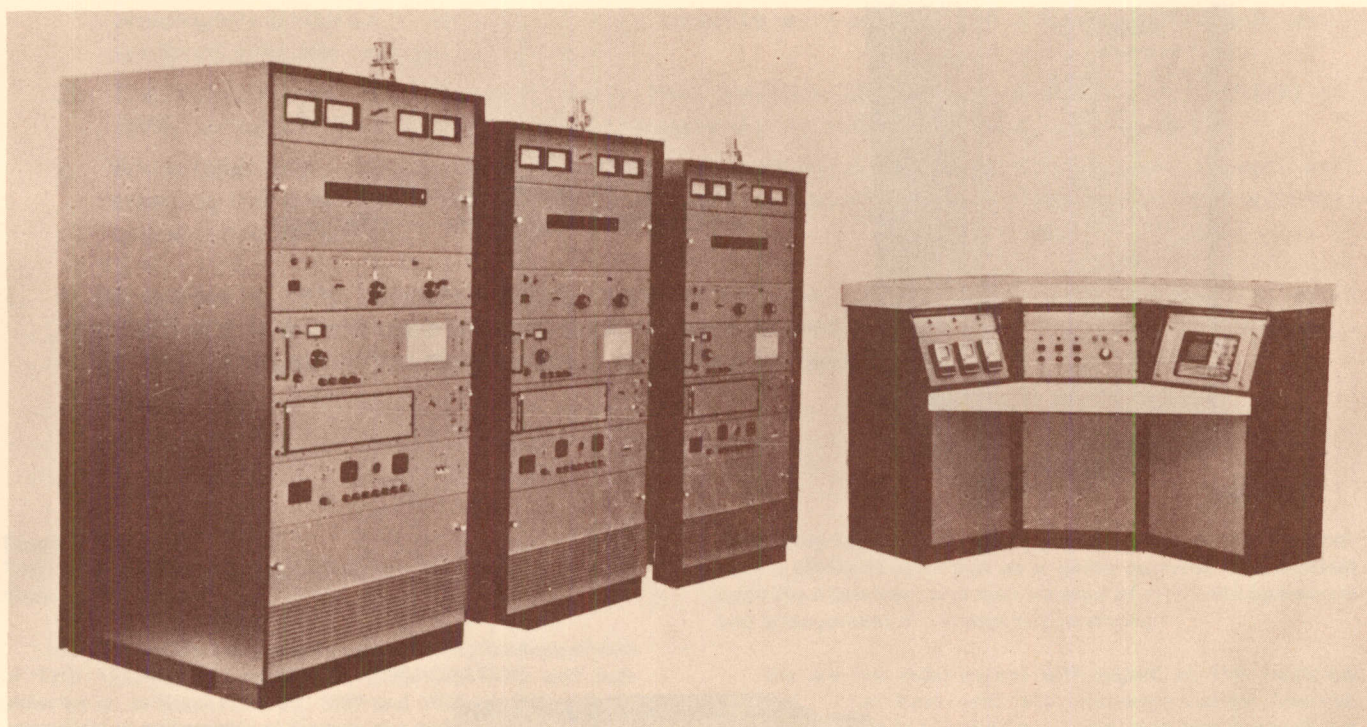


TTR-1000

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Our new line of antenna multicouplers with front panel monitoring of critical circuits.



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THE TECHNICAL MATERIEL CORPORATION

CABLE: TEPEI

700 FENIMORE ROAD, MAMARONECK, NY 10543 U.S.A.

TLX: 137-358

TEL: 914-698-4800

TWX: 710-566-1100