the technical materiel corporation

1983

annual report

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

business highlights . . .

	FISCAL YEAR		
	1983	**1982**	**1981**
Net Sales	$2,900,623	$3,448,288	$2,344,376
Net Profit	578,927	154,729	92,349
Current Assets	3,576,768	3,912,297	3,456,278
Current Liabilities	1,111,764	2,337,019	2,014,369
Working Capital	2,465,004	1,575,278	1,441,909
Current Ratio	3.2 to 1	1.7 to 1	1.7 to 1
Property, Plant and Equipment, Net	521,381	638,366	669,716
Rental Property	——	589,553	598,321
Stockholders' Equity	1,566,458	983,825	830,082
Net Profit per Share	.20	.05	.03
Book Value per Share	.55	.35	.29
Stockholders	5,268	5,494	5,546
Number of Shares of Stock Outstanding	2,847,704	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 . . .

This past fiscal year reflects the culmination of four years of consolidation and comprehensive cost-cutting efforts, and the Company's resolve to continue to strive for quality and excellence.

Our net profit for the year of $578,937 includes the gain resulting from the disposition of the assets of Telecom Realty Corp. and TMC Canada, Ltd., aggregating $441,043. The remaining operating profit of $137,894 reflects continued improvement in the net income percentage of sales: 4.8% in 1983, 4.5% in 1982, 3.9% in 1981. The gains from disposing of the subsidiaries' assets and the reduction of inventory levels enabled us to increase our working capital significantly, reducing our bank borrowings and thereby our interest costs, and take advantage of other opportunities to further trim costs.

The electronic communications industry has become increasingly highly competitive and complex, and maintaining and improving our market share in such an environment presents us with the challenge for upcoming years.

Eugene J. Hofmann

President

CONSOLIDATED STATEMENT OF INCOME AND DEFICIT

For the Years Ended September 30, 1983 and 1982

	1983	1982
Net Sales (Note 10)	$ 2,900,623	$ 3,448,288
Cost of sales	1,659,818	1,747,317
Gross profit	1,240,805	1,700,971
Operating Expenses:		
Engineering and development	281,041	250,236
Selling, general and administrative	711,124	1,036,900
	992,165	1,287,136
Income from operations	248,640	413,835
Other Income/(Expenses):		
Interest	(196,906)	(299,584)
Gain on sale of property	441,043	—
Other, net	90,975	48,204
	335,112	(251,380)
Net income before provision for taxes on income and extraordinary item	583,752	162,455
Provision for taxes on income	208,243	116,793
Net income before extraordinary item	375,509	45,662
Extraordinary item:		
Utilization of net operating loss carryforward	203,428	109,067
Net income	578,937	154,729
Deficit, beginning of year	(6,291,336)	(6,446,065)
Deficit, end of year	$(5,712,399)	$(6,291,336)
Net income per common share before extraordinary item	$.13	$.02
Extraordinary item	.07	.03
Net income per common share	$.20	$.05

The accompanying notes to consolidated financial statements are an integral part of this statement.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

For the Years Ended September 30, 1983 and 1982

	1983	1982
SOURCES OF WORKING CAPITAL:		
Operations:		
Income before extraordinary item	$ 375,509	$ 45,662
Add: depreciation of property, plant, and equipment as not requiring use of funds	30,290	40,863
Less: gain on sale of land, building and equipment	(441,043)	—
	(35,244)	86,525
Extraordinary item	203,428	109,067
Working capital provided by operations	168,184	195,592
Sale of land, buildings, and other property	1,137,036	—
	1,305,220	195,592
APPLICATIONS OF WORKING CAPITAL:		
Reduction of mortgage notes payable	199,445	60,492
Reduction of note payable to officer	200,000	—
Purchase of property, plant and equipment	19,745	4,212
Translation adjustments	(3,696)	(2,481)
	415,494	62,223
Increase in working capital	889,726	133,369
Working capital, beginning of year	1,575,278	1,441,909
Working capital, end of year	$2,465,004	$1,575,278
DETAILS OF CHANGES IN WORKING CAPITAL:		
Increase (decrease) in current assets:		
Cash	$ (5,270)	$ 26,610
Accounts receivable	(74,810)	42,058
Inventories	(259,715)	412,080
Prepaid expenses	4,266	(24,729)
	(335,529)	456,019
Increase (decrease) in current liabilities:		
Notes payable to bank	(561,000)	91,000
Current installments of mortgage notes payable	(70,324)	(36,700)
Demand notes payable to officers	60,000	(40,000)
Accounts payable	(428,076)	193,471
Accrued franchise taxes	—	(2,295)
Accrued taxes and expenses	(225,855)	117,174
	(1,225,255)	322,650
Increase in working capital	$ 889,726	$ 133,369

The accompanying notes to consolidated financial statements are an integral part of this statement.

assets . . .

CONSOLIDATED BALANCE SHEET

September 30, 1983 and 1982

	1983	1982
CURRENT ASSETS:		
Cash	$ 73,825	$ 79,095
Accounts receivable — $254,896 in 1983 and $377,117 in 1982 from the U.S. and foreign governments, net of progress payments of $139,970 in 1983 and $316,645 in 1982	373,125	447,935
Inventories, at the lower of cost or market net of $580,000 reserve for obsolescence (Note 4)	3,078,270	3,337,985
Prepaid expenses	51,548	47,282
Total current assets	3,576,768	3,912,297
PROPERTY, PLANT AND EQUIPMENT, at cost (Note 5):		
Land	189,997	195,967
Building and building equipment	793,614	1,088,872
Machinery and equipment	1,190,573	1,199,552
	2,174,184	2,484,391
Less accumulated depreciation	1,652,803	1,846,025
	521,381	638,366
OTHER ASSETS:		
Rental property	—	589,553
	$4,098,149	$5,140,216

The accompanying notes to consolidated financial statements are an integral part of this statement.

CONSOLIDATED BALANCE SHEET

September 30, 1983 and 1982

	1983	1982
CURRENT LIABILITIES:		
Notes payable to banks (Note 6)	$ 650,000	$ 1,211,000
Current portion of mortgage notes payable	35,440	105,764
Demand notes payable to officer (Note 1)	370,000	310,000
Accounts payable	24,702	452,778
Accrued taxes and expense	31,622	257,477
Total current liabilities	1,111,764	2,337,019
LONG-TERM DEBT:		
Mortgage notes payable — 6.5% due 1983-1992, net of current portion above (Note 6)	419,927	619,372
Notes payable to officer (Note 1)	1,000,000	1,200,000
	1,419,927	1,819,372
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	(5,712,399)	(6,291,336)
Translation adjustment (Note 2)	(1,148)	(4,844)
	1,566,458	983,825
	$ 4,098,149	$ 5,140,216

The accompanying notes to consolidated financial statements are an integral part of this statement.

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's continued operations are dependent upon its majority stockholder's willingness and ability to continue financing corporation operations. At September 30, 1983, such financing was composed of direct loans of $1,370,000, and a $650,000 bank loan guaranteed by the stockholder personally. The $1,370,000 is comprised of demand notes aggregating $370,000 which bear interest at 1/2% above prime, and $1,000,000 which bears interest at 1% per annum. The latter is reflected as long-term debt inasmuch as the obligation is not repayable in the current fiscal year, and is expected to be refinanced.

2. The consolidated financial statements include the accounts of the Company and both its subsidiaries, TMC (Canada) Limited and Telecom Realty Corp. Intercompany balances and transactions have been eliminated in consolidation.

   The financial statements of TMC (Canada) Limited are translated according to the Financial Accounting Standards Board Statement 52, whereby all assets and liabilities are converted at the September 30, 1983 exchange rate, and the income statement at the average rate of exchange in effect during the year. The resulting translation difference is reflected in the equity section as "Translation adjustment."

3. During the year ended September 30, 1983 a reduction in investments in subsidiaries of $663,000 was recorded to reflect the dissolution of Telecom Realty Corp. The remaining investment, in the Company's Canadian subsidiary, will be eliminated during the 1983-1984 fiscal year, pursuant to a resolution of the Board of Directors to discontinue the operations of TMC (Canada) Limited.

4. At September 30, 1983 and September 30, 1982, approximately $2,000,000 of the Company's inventories represented items which were purchased or manufactured in prior fiscal years as replacement parts for government contracts and are currently being used for increased government business.

   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 slow-moving inventories, adequate provisions have been made.

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

	1983	1982
Finished goods....	$1,169,866	$1,067,996
Work in process....	428,337	745,698
Raw materials.....	2,060,067	2,104,291
	3,658,270	3,917,985
Less reserve for obsolescence...	580,000	580,000
	$3,078,270	$3,337,985

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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% to 33⅓% for machinery and equipment.

6. Mortgage note payments due during the five years subsequent to the 1983 fiscal year aggregate $64,000 per year, including interest at 6.5% per annum.

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

   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. Income tax expense contains a charge in lieu of federal and New York State franchise taxes that would have been required to be paid had the Company not been able to utilize its net operating loss carryforward. The tax benefits of such utilization are shown as an extraordinary item.

   Consolidated net operating loss carryforwards aggregating $1,000,418 are available to offset future years' income, and expire $295,612 in 1992, $540,226 in 1993, and $164,580 in 1994. In addition, unused investment credits aggregating $7,249 are available, the bulk of which expire 1993 to 1998.

10. Sales to United States Government agencies aggregated $1,993,466 for the year ended September 30, 1983 and $1,794,362 for 1982.

accountant's report . . .

Board of Directors
The Technical Materiel Corporation
Mamaroneck, New York

The accompanying consolidated balance sheets of THE TECHNICAL MATERIEL CORPORATION and its wholly-owned subsidiaries at September 30, 1983 and 1982, and the related consolidated statements of income and deficit and changes in financial position for the years then ended were not audited by us and, accordingly, we do not express an opinion on them.

MARSHALL GRANGER & COMPANY
Mamaroneck, New York
December 14, 1983

history . . .

THE TECHNICAL MATERIEL CORPORATION

The Technical Materiel Corporation is a world-wide supplier of electronic communications equipment designed to meet the stringent requirements of professional communicators in a wide variety of military services, government agencies, the United Nations, and commercial communications companies around the world. As an example, the WWV Time and Frequency Standard Transmission from the U.S. National Bureau of Standards Radio Station at Fort Collins, Colorado, is entirely from TMC-Transmitters, as are those from the Time and Frequency Standards Radio Station CHU in Canada.

Our equipment can now be found in each of the five continents and in over 140 countries. TMC equipments are today used as important strategic links of the NATO, SEATO networks, as the major missile ranges, NASA installations and the Early Warning Radar Sites.

In the United States, the equipment has been purchased by such large and well-known users as General Electric, Rockwell International, Pan American Airlines, American Telephone and Telegraph, Aeroneutronic-Ford, Boeing, Lockheed, General Dynamics, Radio Corporation of America, International Telephone and Telegraph, Marconi, Western Electric, Raytheon Corporation, United Nations, etc. Research laboratories are using TMC equipment, including Bell Labs, Columbia Smithsonian Institute, etc. Private commercial operating companies using TMC equipment in the communications business include Mobile Marine Company, RCA Communications, Radio Free Europe, and T.R.T. Telecommunications Corporation.

In the European and Middle East area, the following is a partial listing of our customers using equipment manufactured by The Technical Materiel Corporation:

1. Military forces in the countries of:
   Norway, Denmark, Holland, Germany, Belgium, France, Switzerland, Italy, Spain, Portugal, Greece, Turkey, Great Britain, Morocco, Algeria, Nigeria, Pakistan.
2. NATO Procurement agencies of the following countries:
   Norway, Holland, Belgium, Germany, France, Italy, Greece, Turkey.
3. Government PTT departments of the following countries:
   Switzerland, Spain, Portugal, Italy, Greece, Turkey, Morocco, Saudi Arabia, Pakistan, Bangladesh.
4. Government Civil Aviation and other Departments of the following countries: Belgium, France, Spain, Greece, Turkey, Italy, Pakistan, Algeria, Saudi Arabia, Suriname.

TMC equipment has been operated in the Arctic, the Antarctic, the desert, underground, in submarines, on surface ships and on floating icebergs. For the U.S. Mercury and Apollo Projects, TMC provided equipment to assure constant communications between the tracking stations throughout the world.

TMC has made a specialty of the design and manufacture of equipment providing voice, radio, tele-type, data and other forms of transmission. We specialize in complete communications systems, and are able to provide individual items or whole

THE TECHNICAL MATERIEL CORPORATION

stations completely designed to suit a particular application. We are especially proud of our line of transmitters, which range from 100 watts to 200,000 watts PEP output, and can provide AM, CW, MCW, FAX, FSK, ISB, DSB, and SSB facilities to a high degree of carrier stability in synthesized versions with optional computer control. We are currently producing automated and removable systems in products which include diversity systems and multiplex tone terminal equipment. For the specialized field of VLF, we have developed some of the most sophisticated transmitting and receiving equipment available.

Almost all TMC equipments are manufactured with components meeting Joint Army-Navy Specifications (JAN/MIL), and corresponding military nomenclature designations for TMC products are indicated in our specifications.

Further, TMC's research and development program, including projects contracted through universities and private research groups, has significantly contributed to the development of new equipment for single sideband operation. Indisputably, existing high-frequency systems are converting today to sideband for reasons of spectrum conservation and/or multi-channel capability, effective increase in transmitted power, greater communications reliability available in SSB products for both transmission and reception, etc. We proudly offer a diversified equipment line to meet virtually all needs of high frequency stations, including standard AM or SSB emission.

The TMC Field Engineering Department provides installation supervision and field engineering, and has had considerable experience in the design, layout and installation of large communications systems. This group is thoroughly familiar with all phases of communications, including receiving-transmitting stations, the design and operation of message centers, antenna fields, traffic control and planning, and other related items.

We regularly assist in the planning and/or implementation of existing or new communication systems and feel our experience and background should be helpful in providing modern, up-to-date radio facilities.

In the space of thirty years TMC has created a tradition of quality and a reputation for service in the world of professional communications, where the search for efficiency and reliability within the most forward state of the art is constantly pursued.

The whole resources of The Technical Materiel Corporation are at the disposal of its customers.

TELE COMMUNICATIONS ®