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ANNUAL REPORT 1971

THE TECHNICAL MATERIEL CORPORATION
AND SUBSIDIARIES



DIRECTORS

R. H. dePASQUALE
CHAIRMAN

D. V. CARROLL

H. J. MORSE

N. H. dePASQUALE

G. W. JENNINGS

OFFICERS

RAY H. dePASQUALE
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NEIL H. dePASQUALE
Executive Vice President
& Secretary

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Managing Director
of TMC Systems AG

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Vice President

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Ass't. Vice President

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RUTH S. TAYLOR
Assistant Secretary

DONALD R. ROBINSON
Vice President
TMC SYSTEMS (ARIZONA)

B. D. PRITCHARD
Vice President
TMC SYSTEMS & POWER CORP.

D. V. CARROLL
President & Managing Director
TMC (CANADA) LTD.

RAY DREYER
Vice President
TMC (CANADA) LTD.

GORDON MORTENSEN
Assistant Secretary
TMC (CANADA) LTD.

H. J. MORSE
President
TELECOM REALTY CORP.

BUSINESS HIGHLIGHTS...

	FISCAL YEAR	
	1971	1970
Net Sales	\$ 9,345,712	\$ 7,851,065
Net Loss	\$(1,240,044)	\$(1,549,237)
Current Assets	\$ 6,063,315	\$ 7,575,222
Current Liabilities	\$ 1,528,630	\$ 2,040,058
Working Capital	\$ 4,534,685	\$ 5,535,164
Current Ratio	4.0 to 1	3.7 to 1
Property, Plant and Equipment Net	\$ 2,677,832	\$ 3,003,510
Stockholders' Equity	\$ 7,575,041	\$ 8,819,909
Net loss per Share	\$ (.44)	\$ (.54)*
Book Value per Share	\$ 2.66	\$ 3.10*
Number of Stockholders	6,406	6,141
Common Stock Outstanding	2,847,704	2,847,704*

* Restated

message from the president...

For the fiscal year ended September 30, 1971, the Corporation showed a net loss of \$1,240,044 as against a loss of \$1,549,237 for the year previous.

During the past year we reduced our gross inventories by 44% from last year, and adequate inventory provisions have been made. Our overheads have been materially reduced and deferred new product development costs are lower than in previous years.

Considerable effort was expended during the year in the settlement of disputes stemming largely from the depressed economic conditions. As a result, we were obliged to absorb a loss of \$252,000 due to the settlement of our suit against the Lockheed Aircraft Corporation. We also settled a suit against the Wyle Laboratories without prejudice.

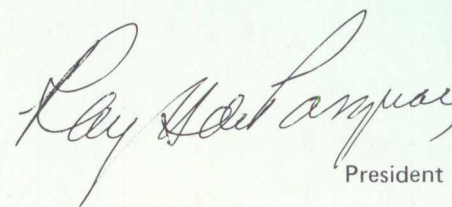
On the brighter side, we were able to realize a capital gain on the sale of a portion of our real property located in Virginia. Our current debt at the present time is at the lowest point in years, and perhaps best of all, incoming new business for the first three months of the new fiscal year has been the best in several years.

It is regrettable that we were unable to comply with the minimum requirements of the New York Stock Exchange leading to subsequent

delisting. However, the Corporation came through an extremely difficult year in good financial condition. A market is being maintained in the "over-the-counter" market and application for daily listing of the market prices will be made as soon as possible.

The difficulties faced by your Corporation and many others in the industry during the past year have, of course, been reported continuously. Rising costs, general economic depression, unstable monetary conditions and other unfavorable factors have taken toll. We believe we have adjusted to present conditions and look forward to a profitable year in fiscal 1972.

FOR THE BOARD OF DIRECTORS



Ray H. Langley
President

THE TECHNICAL MATERIEL CORPORATION and Subsidiaries

CONSOLIDATED BALANCE SHEET

September 30, 1971 and 1970



ASSETS

ASSETS	1971	1970
CURRENT ASSETS:		
Cash	\$ 178,767	\$ 272,836
Accounts receivable (\$952,555 in 1971 and \$760,673 in 1970 from the U.S. and foreign governments) (Note 1)	1,527,753	1,510,511
Income tax refunds receivable	34,597	118,225
Inventories, at the lower of cost or market, less progress payments of \$400,605 in 1971 and \$2,512,160 in 1970 (Note 2):		
Finished goods	944,137	1,339,185
Work in process	1,300,785	1,681,260
Raw materials	1,902,102	2,552,286
	<u>4,147,024</u>	<u>5,572,731</u>
Prepaid expenses	175,174	100,919
Total current assets	<u>6,063,315</u>	<u>7,575,222</u>
PROPERTY, PLANT AND EQUIPMENT, AT COST:		
Land	428,855	428,855
Buildings and building equipment	1,815,456	1,813,987
Machinery and equipment	2,241,419	2,427,397
Leasehold improvements	660,631	657,756
	<u>5,146,361</u>	<u>5,327,995</u>
Accumulated depreciation and amortization ..	(2,468,529)	(2,324,485)
	<u>2,677,832</u>	<u>3,003,510</u>
Deferred new product development costs (Notes 3 and 4)	1,239,132	1,263,884
Property leased to others (Note 5)	838,837	865,004
Property held for sale	211,487	279,623
Other assets	58,378	74,553
	<u>\$ 11,088,981</u>	<u>\$ 13,061,796</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 During 1971 management of the Company decided to settle its legal actions against the Company's customer, Lockheed Aircraft Corporation and one of the Company's sub-contractors, Wyle Laboratories. These actions related to an account receivable of \$435,000. As a result of the decision to settle a loss of \$252,000 was incurred, which amount was charged to operations in 1971. Approximately sixty percent of the Company's 1971 business is subject to renegotiation. The Company believes 1971 will be settled without any refund. All years through 1970 have been cleared.

Notes receivable from a foreign government in the amount of \$226,000 have been discounted with recourse at banks in the United States. Accounts receivable have been pledged to secure \$335,681 of notes payable to banks. The Company is contingently liable for a \$65,000 mortgage on a plant sold in prior years.

Note 2 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 both September 30, 1971 and 1970 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. In the opinion of 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 of over \$2,000,000, adequate inventory provisions have been made.

Cost of inventories is determined principally on the basis of the average cost method and includes applicable engineering overhead and general and administrative expenses of \$599,456 at September 30, 1971 and \$1,004,820 at September 30, 1970. Inventories also include approximately \$400,000 (\$35,000 net of progress payments) at September 30, 1971, relating to contracts on which shipments have commenced, which have been written down from cost to selling prices less estimated costs to complete.

THE TECHNICAL MATERIEL CORPORATION *and Subsidiaries*

CONSOLIDATED BALANCE SHEET

September 30, 1971 and 1970



LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:

	1971	1970
Notes payable to banks	\$ 335,681	\$ 468,941
Demand notes payable to officer — prime rate	305,000	495,000
Accounts payable	406,126	687,172
Accrued income taxes	58,274	53,582
Other accrued taxes and expenses	166,404	224,562
Current installments of mortgages and notes payable	<u>257,145</u>	<u>110,801</u>
Total current liabilities	<u>1,528,630</u>	<u>2,040,058</u>

Mortgages and notes payable — 6% to 7½% and due 1972-1992 (less installments due within one year)	1,845,310	2,048,829
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Deferred income taxes (Note 4)	140,000	153,000
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STOCKHOLDERS' EQUITY:

Common stock, par value 12½¢ per share (Note 6):		
Authorized — 4,000,000 shares		
Outstanding — 1971—2,847,704 shares		
1970—2,793,165 shares	355,963	349,146
Capital surplus (Note 7)	6,884,796	6,693,910
Earned surplus	<u>334,282</u>	<u>1,776,853</u>
	<u>7,575,041</u>	<u>8,819,909</u>
	<u>\$11,088,981</u>	<u>\$13,061,796</u>

LIABILITIES
AND STOCKHOLDERS' EQUITY

Note 3 Sales of new products were not sufficient to recover deferred new product development costs amortized during the year. As of September 30, 1971 the Company has deferred a net amount of \$1,239,132 of these costs, of which \$259,949 represents the costs of incomplete projects. The Company has adopted the policy of amortizing the costs of each project by charges to earnings over the five years beginning with the first sale of the related product or writing them off when the anticipated profit on the sales of the related products will not allow for the recovery of the development cost. The ultimate realization of these costs is dependent upon successful completion of the projects and sufficient, future profitable sales of the products being developed. In the opinion of management, these costs are fully recoverable.

Note 4 Income tax provisions and credits consist of the following:

	1971	1970
Current income taxes (credits):		
Federal	\$ —	\$(133,860)
Foreign	39,000	3,860
State	—	—
	<u>\$ 39,000</u>	<u>\$(130,000)</u>
Deferred income tax credits	(13,000)	(498,000)
	<u>\$ 26,000</u>	<u>\$(628,000)</u>

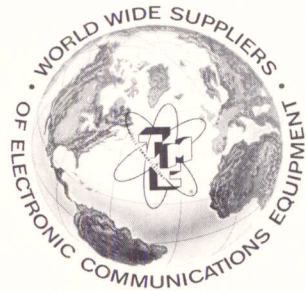
The Company has net operating tax loss carryforwards aggregating approximately \$3,110,000 which expire \$1,410,000 in 1975 and \$1,700,000 in 1976. To the extent deferred tax credits would be amortized during the carryforward period (\$679,000), the net operating loss carryforwards have been applied to reduce deferred income taxes, which otherwise would have included \$646,000 related to new product development costs deducted currently for income tax purposes and \$173,000 related to accelerated tax depreciation.

Foreign income taxes (including \$15,000 deferred) relate to subsidiaries operating in Canada and Switzerland. For 1971 these wholly-owned subsidiaries had net aggregate sales of \$1,793,668 and net income of \$102,368; net assets at September 30, 1971 were \$1,466,692.

THE TECHNICAL MATERIEL CORPORATION *and Subsidiaries*

CONSOLIDATED STATEMENT OF OPERATIONS AND EARNED SURPLUS

Years ended September 30, 1971 and 1970



OPERATIONS
AND EARNED SURPLUS

	1971	1970
Net Sales	<u>\$ 9,345,712</u>	<u>\$ 7,851,065</u>
Cost of sales	7,301,649	6,668,472
Engineering and development expenses (Note 3)	843,500	938,428
Selling, general and administrative expenses (Note 1)	2,398,510	2,308,992
Interest expense	166,788	214,843
Other income net (Note 5)	<u>(73,243)</u>	<u>(102,433)</u>
	10,637,204	10,028,302
Loss before income taxes and extraordinary item	(1,291,492)	(2,177,237)
Income tax provision (credit) (Note 4)	<u>26,000</u>	<u>(628,000)</u>
Loss before extraordinary item	(1,317,492)	(1,549,237)
Gain on sale of property	<u>77,448</u>	<u>—</u>
Net loss	(1,240,044)	(1,549,237)
Earned surplus at beginning of year	<u>1,776,853</u>	<u>3,716,503</u>
	536,809	2,167,266
2% stock dividend:		
Cash paid for fractional shares	4,824	8,270
Earnings transferred to capital	<u>197,703</u>	<u>382,143</u>
	202,527	390,413
Earned surplus at end of year	<u>\$ 334,282</u>	<u>\$ 1,776,853</u>
Net loss per share:		
Loss per share before extraordinary item	\$(.46)	\$(.54)
Gain on sale of property	<u>.02</u>	<u>—</u>
Net loss per share	<u>\$(.44)</u>	<u>\$(.54)</u>

Note 5

In March 1970 the Company leased its Nyack plant for a period of five years, granting options to renew for three and two year periods. The lease provides for an annual rental of \$177,100 with an escalation clause for increases in real estate taxes. The income and expenses associated with the plant are included in other income and the costs of the land, buildings and building equipment less accumulated depreciation of \$231,108 at Nyack are included in property leased to others. Rent expense for plants, under leases expiring chiefly in 1977, aggregate \$220,000 annually.

Note 6

At September 30, 1971 there were reserved under the Employee Stock Option Plan 15,800 shares of common stock against which options to purchase 15,800 shares at a price of \$4.125 were outstanding, none of which were exercisable. The options on 11,000 shares expire on June 29, 1973 and on 4,800 shares expire on August 10, 1973. During the year 1971, options on 17,900 shares were granted at a price of \$4.125, options on 12,088 shares were cancelled, terminated or expired and no options were exercised. At September 30, 1970, 20,921 shares were reserved against which there were outstanding options to purchase 9,988 shares at a price of \$8.17. On June 28, 1971 the Plan expired, except as to options then outstanding under the Plan. The above shares have been adjusted to reflect stock dividends.

Note 7

During the years capital surplus was increased as follows:

	1971	1970
Balance at beginning of year	\$6,693,910	\$6,318,472
Excess of market value over par value of 54,530 shares in 1971 and 53,634 shares in 1970 of	190,886	375,438
common stock issued as stock dividends	<u>\$6,884,796</u>	<u>\$6,693,910</u>
Balance at end of year		

THE TECHNICAL MATERIEL CORPORATION and Subsidiaries

CONSOLIDATED STATEMENT OF
CHANGES IN FINANCIAL POSITION
Years ended September 30, 1971 and 1970



Applications of working capital:		
Operations:		
Loss before extraordinary item	\$ 1,317,492	\$ 1,549,237
Depreciation and amortization of property, plant and equipment	(305,487)	(363,448)
Amortization and write-offs of deferred new product development	(378,431)	(574,977)
Deferred income taxes	13,000	498,000
Other	14,689	(13,555)
	<u>661,263</u>	<u>1,095,257</u>
Purchases of property, plant and equipment	44,022	205,759
New product development expenditures	353,679	536,685
Reduction of mortgages and notes payable	203,519	129,347
Cash paid for fractional shares resulting from stock dividends	4,824	8,270
	<u>1,267,307</u>	<u>1,975,318</u>
Sources of working capital:		
Extraordinary item—proceeds on sale of property	145,585	—
Proceeds from sales of machinery and equipment	121,243	128,941
	<u>266,828</u>	<u>128,941</u>
Decrease in working capital	\$ 1,000,479	\$ 1,846,377
Change in working capital consists of:		
Increase (decrease) in current assets:		
Cash	\$ (94,069)	\$ (95,537)
Accounts receivable	17,242	(1,102,442)
Inventories	(1,425,707)	(1,555,499)
Other	(9,373)	(71,235)
	<u>(1,511,907)</u>	<u>(2,824,713)</u>
Increase (decrease) in current liabilities:		
Notes payable	(323,260)	(245,959)
Accounts payable and accrued liabilities	(334,512)	(735,026)
Current installments of mortgages and notes payable	146,344	2,649
	<u>(511,428)</u>	<u>(978,336)</u>
Decrease in working capital	\$ 1,000,479	\$ 1,846,337

CHANGES IN
FINANCIAL POSITION

The Board of Directors and Stockholders
The Technical Materiel Corporation

We have examined the accompanying consolidated balance sheet of The Technical Materiel Corporation and subsidiaries at September 30, 1971 and the related consolidated statements of operations and earned surplus and of changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As described in Notes 2 and 3, there are uncertainties as to the recoverability of inventories purchased or manufactured in prior fiscal years, and deferred new product development costs, the aggregate amount of which (approximately \$3,240,000) is

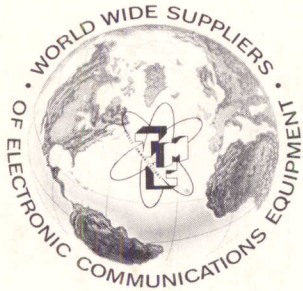
material to the Company's financial position and results of operations.

In our opinion, subject to the recoverability of the items referred to in the preceding paragraph, the statements mentioned above present fairly the consolidated financial position of The Technical Materiel Corporation and subsidiaries at September 30, 1971, the consolidated results of their operations and the consolidated changes in financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Arthur Young & Company

STAMFORD, CONNECTICUT
December 27, 1971

AUDITOR'S REPORT



THE TECHNICAL MATERIEL

CORPORATION
AND SUBSIDIARIES

MAIN OFFICES

Fenimore Road
Mamaroneck, New York
10543

TMC Systems (Arizona), Inc.
Tempe, Arizona 85281

The TMC Systems and Power Corp.
Springfield, Virginia 22151

TMC (Canada), Ltd.
Ottawa, Ontario, Canada

TMC Systems AG
Luzern, Switzerland

TMC Systems (W.H.), Inc.
Mamaroneck, N. Y. 10543

Telecom Realty Corp.
Mamaroneck, N. Y. 10543

THE TECHNICAL MATERIEL CORPORATION

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Telex: 013-446

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Telex: 137-358

SWITZERLAND

T.M.C. Systems AG
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Telephone: 227-335
Telex: 845-78144

T.M.C. Distributors and Representatives are located in 90 countries and 50 (U.S.) states.



What Is The Technical Materiel Corporation And What Does It Do?



The Technical Materiel Corporation consists of a parent corporation and six wholly owned subsidiaries keyed to a high technology growth industry - Communications!

Over 300 products have been designed and are distributed all over the free world. These products include automatic high power radio sideband transmitters, highly sophisticated remotely controlled radio receivers and power equipment, including one of the most advanced "No Break" systems, invaluable where computers are involved. Our main products are supplemented by many other items which give the Corporation the ability to manufacture, install and service the most complicated communications systems.

Many systems designed and manufactured by the Corporation are currently in daily operation, some of them for many years. It is significant that a considerable percentage of the long haul radio traffic carried by the U. S. Navy is accomplished by T.M.C. receivers and transmitters. There are few countries in the free world where some T.M.C. gear is not located.

During the last year we delivered the latest and most advanced HF receiver ever designed for our Navy and trained two cadres of operators on the equipment in our school. We are in the process of completing a large NATO project in Europe as well as the "Topvip" system for Argentina, enabling prompt communication to all of the provincial capitals of that country. We have recently installed several large "No Break" power systems. We are doing a considerable and increasing volume with the various telephone companies, particularly in the "ship-to-shore" field. We are rapidly expanding our penetration of the shipboard market.

We are often asked the relative functions of the parent and the various subsidiaries. Briefly, the duties are as follows:

The Technical Materiel Corporation in Mamaroneck, New York, fulfills the "headquarters" function, and manufactures and designs the bulk of the products and systems.

T.M.C. (Canada) Ltd., Ottawa, Canada, manufactures for the Canadian market as well as for certain "sterling" countries.

T.M.C. Systems & Power, Springfield, Virginia, designs and manufactures power systems including "No Break" devices.

T.M.C. Systems (Arizona), Tempe, Arizona, manufactures high quality crystal filters, a vital component in the industry and supplies not only the parent but many other users in the field.

T.M.C. Systems A.G., Luzern, Switzerland, handles engineering and sales in Europe.

T.M.C. Systems (W.H.) covers engineering and sales in the Western Hemisphere.

Telecom Realty Corporation is the depository of the bulk of the real estate properties of the Corporation.

The Technical Materiel Corporation was incorporated in New York State on September 29, 1947, although its predecessor was a private company established in 1934. We, consequently, in 1972 will be approaching our 25th Anniversary.

In recent years conditions affecting the company have changed rapidly, occasioning large outlays in research and planning. We believe we have adjusted to this changing climate, and we enter this year, our "Silver" Anniversary, with high hopes for the future.