

THE TECHNICAL MATERIEL CORPORATION



1985 ANNUAL REPORT

directors . . .

Ray H. de PASQUALE
Chairman

Eugene J. HOFMANN

Frank BUDETTI

George W. JENNINGS

Douglas C. MacDONALD

officers . . .

Eugene J. HOFMANN
President

Frank BUDETTI
Vice President

Ray H. de PASQUALE
Treasurer

Ruth S. TAYLOR
Secretary

business highlights . . .

	1985	1984	1983
Net Sales	\$2,271,919	\$1,980,924	\$2,900,623
Net Profit	10,719	392,517	578,927
Current Assets	3,372,406	3,512,709	3,576,768
Current Liabilities	795,455	935,196	1,111,764
Working Capital	2,576,951	2,577,513	2,465,004
Current Ratio	4.2-to-1	3.8-to-1	3.2-to-1
Property, Plant and Equipment (Net)	193,891	207,612	521,381
Stockholders' Equity	1,970,842	1,960,123	1,566,458
Net Profit per Share	--	0.14	0.20
Book Value per Share	0.69	0.69	0.55
Stockholders of Record	5,157	5,171	5,268
Shares of Stock Outstanding	2,847,704	2,847,704	2,847,704

The Technical Materiel Corporation's common stock has had a very limited market and the price range for the three preceding years has been 1/8 to 7/8.

message from the president . . .



The fiscal year ended September 30, 1985 showed continuing improvements in operating efficiencies. Income from operations increased 2% to 7.5% of sales, despite increased cost of sales, reflecting reductions in operating expenses. Combined with the increased sales volume of \$291,000, net income improved \$63,000 over the preceding year (without the gain on the sale of property).

The coming year presents new challenges for us. Defense Department budget spending cuts may directly impact our sales of spare parts. For this reason, our efforts will be directed to increased market shares in the non-governmental domestic and foreign sales areas. The Company is evaluating expanding its markets also through expanded product capabilities, i.e. systems design packaging using other manufacturer's equipment to augment our own, enabling us to provide complete communications system installations.

Anticipated sales of our new exciter, the MMX-4, and for our antenna multicoupler and connector products look promising.

The Officers and Directors look to continued improvements for the coming year.

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.

operations . . .

STATEMENT OF INCOME AND DEFICIT For the Years Ended September 30, 1985, 1984 and 1983

	1985	1984	1983
Net Sales	\$ 2,271,919	\$ 1,980,924	\$ 2,900,623
Cost of Sales	<u>1,415,898</u>	<u>1,135,912</u>	<u>1,659,818</u>
Gross Profit	<u>856,021</u>	<u>845,012</u>	<u>1,240,805</u>
Operating Expenses:			
Engineering and Development	156,974	161,843	281,041
Selling, General and Administrative	<u>527,884</u>	<u>575,310</u>	<u>711,124</u>
	<u>684,858</u>	<u>737,153</u>	<u>992,165</u>
Income from Operations	<u>171,163</u>	<u>107,859</u>	<u>248,640</u>
Other Income (Expense):			
Interest	(160,343)	(167,010)	(196,906)
Gain on Sale of Property	--	444,672	441,043
Other, Net	<u>9,962</u>	<u>11,460</u>	<u>90,975</u>
	<u>(150,381)</u>	<u>289,122</u>	<u>335,112</u>
Net Income Before Provision for Taxes on Income and Extraordinary Item	20,782	396,981	583,752
Provision for Taxes on Income	<u>11,186</u>	<u>147,040</u>	<u>208,243</u>
Net Income Before Extraordinary Item	9,596	249,941	375,509
Extraordinary Item:			
Utilization of Net Operating Loss Carryforward	<u>1,123</u>	<u>142,576</u>	<u>203,428</u>
Net Income	10,719	392,517	578,937
Deficit, Beginning of Year	(5,319,882)	(5,712,399)	(6,291,336)
Deficit, End of Year	<u>\$ (5,309,163)</u>	<u>\$ (5,319,882)</u>	<u>\$ (5,712,399)</u>
Net Income per Common Share Before Extraordinary Item	--	\$.09	\$.13
Extraordinary Item	--	<u>.05</u>	<u>.07</u>
Net Income per Common Share	<u>--</u>	<u>\$.14</u>	<u>\$.20</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

financial position . . .

STATEMENT OF CHANGES IN FINANCIAL POSITION For the Years Ended September 30, 1985, 1984 and 1983

FUNDS WERE PROVIDED BY:	1985	1984	1983
Operations:			
Income Before Extraordinary Item	\$ 9,596	\$ 249,941	\$ 375,509
Add: Depreciation of Property, Plant and Equipment as not requiring use of funds	28,208	31,153	30,290
Less: Gain on Sale of Land, Building and Equipment	--	(444,672)	(441,043)
Funds Provided By Operations	37,804	(163,578)	(35,244)
Extraordinary Item	1,123	142,576	203,428
Sale of Land, Buildings and Other Property	--	743,200	1,137,036
	<u>38,927</u>	<u>722,198</u>	<u>1,305,220</u>
 FUNDS WERE APPLIED TO:			
Reduction of Mortgage Notes Payable	--	419,927	199,445
Reduction of Mortgage Payable to Officer	25,000	175,000	200,000
Purchase of Property, Plant and Equipment	14,489	15,910	19,745
Translation Adjustments	--	(1,148)	(3,696)
	<u>39,489</u>	<u>609,689</u>	<u>415,494</u>
Increase (Decrease) in Working Capital	(562)	112,509	889,726
WORKING CAPITAL, Beginning of Year	<u>2,577,513</u>	<u>2,465,004</u>	<u>1,575,278</u>
WORKING CAPITAL, End of Year	\$ <u>2,576,951</u>	\$ <u>2,577,513</u>	\$ <u>2,465,004</u>
 DETAILS OF CHANGES IN WORKING CAPITAL:			
Increase (Decrease) in Current Assets:			
Cash	\$ (24,541)	\$ (11,657)	\$ (5,270)
Accounts Receivable	(19,213)	(86,455)	(74,810)
Inventories	(103,985)	46,299	(259,715)
Prepaid Expenses	7,436	(12,246)	4,266
	<u>(140,303)</u>	<u>(64,059)</u>	<u>(355,529)</u>
Increase (Decrease) in Current Liabilities:			
Notes Payable to Bank	(100,000)	(200,000)	(561,000)
Current Installments of Mortgage Notes Payable	--	(10,440)	(70,324)
Demand Notes Payable to Officer	(20,000)	--	60,000
Accounts Payables	(8,524)	26,935	(428,076)
Accrued Taxes and Expenses	(11,217)	6,937	(225,855)
	<u>(139,741)</u>	<u>(176,568)</u>	<u>(1,225,255)</u>
Increase (Decrease) in Working Capital	\$ <u>(562)</u>	\$ <u>112,509</u>	\$ <u>889,726</u>

assets . . .

BALANCE SHEET September 30, 1985, 1984 and 1983

ASSETS

	1985	1984	1983
CURRENT ASSETS:			
Cash	\$ 37,627	\$ 62,168	\$ 73,825
Accounts Receivable:			
\$ 197,824 in 1985, \$ 229,692 in 1984 and \$ 254,896 in 1983 from the U.S. and foreign governments, net of progress payments of \$ 8,689 in 1984 and \$ 139,970 in 1983.	267,457	286,670	373,125
Inventories, at the Lower of Cost or Market, Net of \$580,000 Reserve for Obsolescence	3,020,584	3,124,569	3,078,270
Prepaid Expenses	<u>46,738</u>	<u>39,302</u>	<u>51,548</u>
TOTAL CURRENT ASSETS	<u>3,372,406</u>	<u>3,512,709</u>	<u>3,576,768</u>
 PROPERTY, PLANT AND EQUIPMENT, At Cost			
Land	71,817	71,817	189,997
Building and Building Equipment	408,400	406,800	793,614
Machinery and Equipment	<u>1,209,187</u>	<u>1,203,283</u>	<u>1,190,573</u>
	1,689,404	1,681,900	2,174,184
Less: Accumulated Depreciation	<u>1,495,513</u>	<u>1,474,290</u>	<u>1,652,803</u>
	<u>193,891</u>	<u>207,610</u>	<u>521,381</u>
	<u>\$ 3,566,297</u>	<u>\$ 3,720,319</u>	<u>\$ 4,098,149</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

liabilities...

BALANCE SHEET September 30, 1985, 1984 and 1983

LIABILITIES AND STOCKHOLDERS' EQUITY

	1985	1984	1983
CURRENT LIABILITIES:			
Notes Payable to Bank	\$ 350,000	\$ 450,000	\$ 650,000
Current Portion of Mortgage Note Payable	25,000	25,000	35,440
Demand Notes Payable to Officer	350,000	370,000	370,000
Accounts Payable, Trade	43,113	51,637	24,702
Accrued Taxes and Expenses	<u>27,342</u>	<u>38,559</u>	<u>31,622</u>
TOTAL CURRENT LIABILITIES	795,455	935,196	1,111,764
LONG TERM DEBT:			
Mortgage Note Payable	--	--	419,927
Mortgage Payable to Officer	<u>800,000</u>	<u>825,000</u>	<u>1,000,000</u>
	<u>800,000</u>	<u>825,000</u>	<u>1,419,927</u>
COMMITMENTS AND CONTINGENCIES	--	--	--
STOCKHOLDERS' EQUITY:			
Common Stock, Par Value \$0.125 per share:			
Authorized: 4,000,000; Issued: 2,847,704 shares	355,963	355,963	355,963
Capital Surplus	6,924,042	6,924,042	6,924,042
Deficit	(5,309,163)	(5,319,882)	(5,712,399)
Translation Adjustment	--	--	(1,148)
	<u>1,970,842</u>	<u>1,960,123</u>	<u>1,566,458</u>
	<u>\$ 3,566,297</u>	<u>\$ 3,720,319</u>	<u>\$ 4,098,149</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

notes...

NOTES TO 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.

2. During the year ended September 30, 1984, a reduction in investments in subsidiaries of \$663,000 was recorded to reflect the dissolution of Telecom Realty Corporation.

3. At September 30, 1985 and September 30, 1984, 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:

	1985	1984	1983
Finished Goods	\$ 1,133,223	\$ 1,157,098	\$ 1,169,866
Work In Process	366,153	416,789	428,337
Raw Materials	<u>2,101,208</u>	<u>2,130,682</u>	<u>2,060,067</u>
	3,600,584	3,704,569	3,704,569
Less Reserve for Obsolescence	<u>580,000</u>	<u>580,000</u>	<u>580,000</u>
	<u>\$ 3,020,584</u>	<u>\$ 3,124,569</u>	<u>\$ 3,078,270</u>

4. 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 2.5% for buildings and building equipment, and 10% to 33.33% for machinery and equipment.

5. During September 1984, the Corporation sold one of its buildings, resulting in a gain of \$444,672. The mortgage remaining on the building was repaid.

Notes payable to officer at September 1983 were reduced \$150,000 by repayment from proceeds of the building sale. The remaining liability of \$850,000 was converted into a mortgage note bearing interest at 9 percent. Semi-annual payments of \$25,000 are required to amortize principal for ten years, after which a payment of \$375,000 is due.

6. 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.

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

8. 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.

Net operating loss carryforwards aggregating \$597,206 are available to offset future years' income, and expire \$432,626 in 1993 and \$164,580 in 1994. In addition, unused investment credits aggregating \$9,610 are available, the bulk of which expire from 1993 to 2000.

9. Sales to the United States Government agencies aggregated \$1,360,317 for the year ended September 30, 1985; \$1,484,861 for 1984 and \$1,993,466 for 1983.

corporate information. . .

accountants' report. . .

Board of Directors
The Technical Materiel Corporation
Mamaroneck, New York

Gentlemen:

The accompanying balance sheet of **THE TECHNICAL MATERIEL CORPORATION** at September 30, 1985, 1984 and 1983, and the related 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
November 26, 1985

PRINCIPAL FINANCIAL CONTACT:

Mr. Ray H. de Pasquale
Chairman of the Board
The Technical Materiel Corporation
700 Fenimore Road
Mamaroneck, New York 10543
914/698-4800

CORPORATE CENTER

700 Fenimore Road
Mamaroneck, New York 10543
Telephone : 914-698-4800
Telex: 137-358

COMMON STOCK

Traded Over-The-Counter

Kidder, Peabody and Company
20 Exchange Place
New York, New York 10005

Price Range:

TMC Common Stock has had a very limited market and the price range for the three preceding years has been 1/8 to 7/8.

TRANSFER AGENTS and REGISTRAR

American Stock Transfer Company
99 Wall Street
New York, New York 10005

FOR FURTHER INFORMATION ABOUT TMC:

Mr. Eugene J. Hofmann, President
The Technical Materiel Corporation
700 Fenimore Road
Mamaroneck, New York 10543
914/698-4800

background . . .

The **Technical Materiel Corporation (TMC)** is a worldwide supplier of electronic communications equipment with Head Office facilities and principal manufacturing plants located in Mamaroneck, New York (USA). The corporation was founded and organized in 1947 as a primary manufacturer of practical, reliable telecommunications products. Four decades of growth measure TMC's success in supplying well-engineered products of the finest workmanship, supported by a wide variety of services. Today, TMC provides over 400 products directly to more than 140 countries.

TMC was founded on the principle that the respect and loyalty of its customers is gained by providing products and services of the greatest possible value. Early to recognize the responsibility of a manufacturer to its customers, TMC developed a competent staff of highly-trained engineers and managers whose primary purpose is to provide uncompromising support to users of TMC products. As a result of this commitment, TMC equipment continues to provide the dependable service it is noted for throughout the world.

The excellence of TMC products and the comparatively large share of the world telecommunications market TMC maintains was achieved by consistently producing high-quality equipment to meet the needs of end users. This achievement was due primarily to TMC's financial stability, technical competence, managerial talent and long track record of providing only proven, field-tested designs to its customers.

TMC develops products to meet the challenge of providing efficient, dependable means for transferring information. This ongoing development resulted in an extensive product line, backed by broad technical expertise in the application of this equipment to modern communication systems. Virtually all elements in the communications chain are furnished by TMC including terminal interface equipment, transmission systems and large-scale network management facilities.

TMC has in-depth expertise in the engineering and financial disciplines that enable large-scale communications systems to be constructed worldwide. These disciplines, when applied to the many sub-systems that comprise a modern telecommunications facility, become the complete fixed and transportable systems that TMC regularly ships from its assembly plant to overseas sites. In fact, TMC equipment operates today in thousands of locations throughout the world, providing dependable service under such punishing conditions as are found in the Arctic, the Antarctic, the desert, underground, in submarines, on floating icebergs, on surface ships, and in aircraft.

The general ruggedness and dependability of TMC equipment - as demanded by such repeat customers as the U.S. Military and Government agencies; over 140 foreign governments; large, multi-national corporations; and many educational/research institutes such as Scripps and Woods Hole - reflects the attention TMC gives to both design and workmanship. By emphasizing quality in the factory, dependability in the field is virtually assured. Worldwide acceptance of TMC and its products attest to this demonstrated performance.

Continuing programs of research and development are carried on by TMC to meet the demands of a modern, dynamic market. Originally specializing in VLF/LF/MF/HF/VHF transmission systems utilizing single-sideband techniques, TMC's product mix and technical capabilities have kept pace with advances in modern communications. Today, TMC equipment processes digital data, analog voice, facsimile, graphics, and low-speed teletype. In addition, TMC products can be remotely controlled by computers through data communications ports linked to a variety of digital networks - thereby providing customers with maximum flexibility in managing their active circuits. Technical services covering engineering, software development, assembly, installation, system integration, and training round out the TMC picture by providing that "extra measure" of customer support so vital to the successful operation of technologically advanced equipment.

background . . .

The list of installations TMC has successfully built are too numerous to list. A partial user list, however, provides an indication of the universal acceptance of TMC products and services by professional communicators worldwide:

Government and PTT Organizations

Spain, Portugal, Italy, Greece, Pakistan, India

Civil Aviation Departments

Belgium, France, Turkey, Saudi Arabia, Surinam

Military and Security Forces

Norway, Germany, Switzerland, United Kingdom, Algeria

NATO Procurement Agencies in Europe

The United Nations

International Corporations

General Electric, Rockwell International, Boeing, Lockheed, RCA, ITT, General Dynamics, Marconi

The many projects completed with each customer demonstrates an added feature of TMC's capability - assisting in all phases of a project from its concept in the planning stage through its installation to its final implementation with TMC-trained communication specialists. This capability developed with the experience TMC gained over the years in planning out and installing message centers, network control facilities, transmitting and receiving stations, antenna farms, traffic monitoring systems, and a variety of related sub-systems that comprise today's modern communications complex. Such expertise in the field of telecommunications gives TMC the competitive advantage and makes its products universally accepted by the professional communicator.



TMC continues to develop new products to meet shifting market demands and provide modern equipment for professional communications worldwide. The latest improvement in our product line is the MMX-4 synthesized exciter shown above. This exciter provides the basic radio frequency signals used to drive high-power transmitters that are manufactured by TMC. Totally compatible with existing TMC equipment operating in the field, the MMX-4 is microprocessor-based. It can be located at remote sites and controlled directly by computers. Such advanced equipment is new to the market and represents your Company's continuing efforts as a leader in the communications field.