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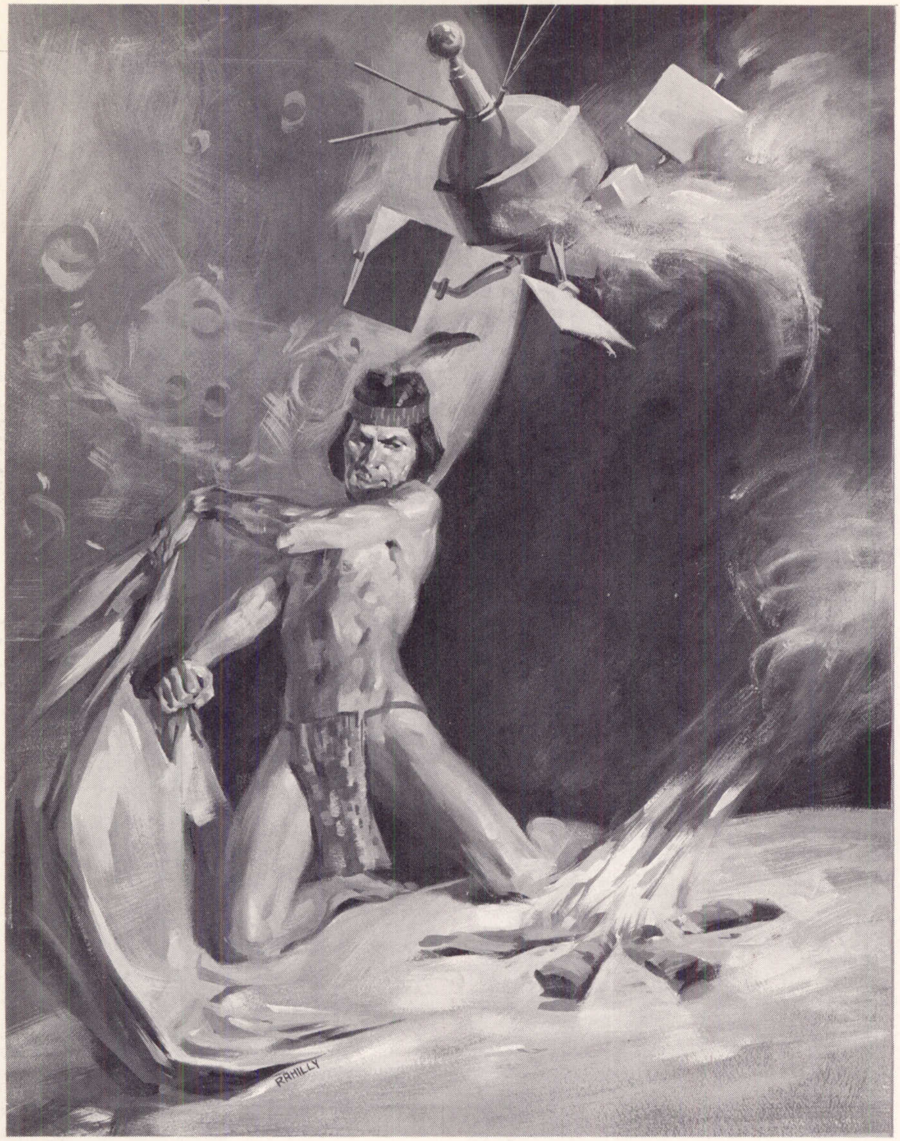

ANNUAL REPORT 1972

THE TECHNICAL MATERIEL CORPORATION

AND SUBSIDIARIES

WORLD WIDE SUPPLIERS • OF ELECTRONIC COMMUNICATIONS EQUIPMENT •

DIRECTORS

R. H. dePASQUALE
CHAIRMAN

H. HARGREAVES

N. H. dePASQUALE

H. J. MORSE

G. W. JENNINGS

OFFICERS

RAY H dePASQUALE
President

NEIL H. dePASQUALE
Executive Vice President
& Secretary

WILLIAM DEANS
Vice President

TODD K. BEAVER
Controller

RUTH TAYLOR
Assistant Secretary

DONALD ROBINSON
Vice President
TMC SYSTEMS (ARIZONA)

HARRY HARGREAVES
President & Managing Director
TMC CANADA, LTD.
Managing Director
TMC SYSTEMS AG

GORDON MORTENSEN
Assistant Secretary
TMC CANADA, LTD.

H. J. MORSE
President
TELECOM REALTY CORP.

BUSINESS HIGHLIGHTS...

	FISCAL YEAR	
	1972	1971
Net Sales	$ 5,516,143	$ 9,345,712
Net Loss	$(1,543,314)	$(1,240,044)
Current Assets	$ 4,714,002	$ 6,063,315
Current Liabilities	$ 1,551,433	$ 1,528,630
Working Capital	$ 3,162,569	$ 4,534,685
Current Ratio	3.0 to 1	4.0 to 1
Property, Plant and Equipment Net	$ 2,446,552	$ 2,677,832
Stockholders' Equity	$ 6,031,727	$ 7,575,041
Net loss per Share	$ (.54)	$ (.44)
Book Value per Share	$ 2.12	$ 2.66
Number of Stockholders	6,252	6,406
Common Stock Outstanding	2,847,704	2,847,704

message from the president...

Fiscal 1972 can best be described as another year spent in adjusting to and solving problems for the future success of the Corporation.

Of the reported loss of $1,543,314 for the fiscal year ended September 30, 1972, approximately $997,000 is attributable to the following items:

	Amount
(1) Deferred New Product Development Costs During the year, the Company deferred new projects in the amount of $279,000, amortized $313,000 and wrote off $113,000, for a net reduction in deferred Research and Development of $147,000.	$147,000
(2) Inventories During the year, the Company made provisions of approximately $500,000 for slow moving parts and equipment.	500,000
(3) Engineering and General and Administrative Overheads in Inventory. Approximately $210,000 of engineering and general and administrative expenses were charged to operations rather than to inventories as detailed in Note 2.	210,000
(4) Systems and Power Building Costs Our plant at Springfield, Virginia, cost us $240,000 to operate and we received $100,000 of rental income, which resulted in a net loss of $140,000.	140,000
Net Loss Generated by the Above	$997,000

During the year, as previously reported, a favorable decision was handed down by the U.S. Navy Appeals Board on a claim pending for almost four years. We are now in the process of negotiating the amount due the Corporation. At the same time we settled a suit brought against the Company by the Bogue Electric Co., which emanated from the same claim against the U.S. Navy.

The Corporation was saddened by the untimely passing of our friend and colleague, D.V. Carroll, O.B.E., Managing Director of TMC (Canada) Limited, and a Director of the parent company. His wise counsel will be missed. Mr. Carroll's responsibilities have been assumed by Mr. Harry Hargreaves, who will also retain his post of Managing Director of TMC Systems AG.

TMC Systems (Arizona), under the direction of Mr. Don Robinson, provided a satisfactory profit in the past year. TMC Systems AG and Telecom Realty Corp. were also profitable. TMC Systems and Power is currently working on a million dollar contract for engine generators, but the problem of renting excess capacity at this plant still persists. Prospects for new business are better than for some time past.

As this report is written we have sold a portion of our land in Virginia at a capital gain. The last parcel of this valuable land is being offered for sale.

It is interesting to note that incoming new business in fiscal 1972 was up 30% over the previous year, and at the present time our backlog is approximately 15% over last year and shows definite signs of further recovery. Our Waverly Plant will repair, at Government expense, a large amount of gear destroyed as a result of Hurricane "Agnes".

The Corporation has a large tax carryforward and approximately $4,000,000 in net income can be realized by the United States companies without suffering a reduction for income taxes, a potential savings of approximately $2,000,000. (Of course, no savings will be realized unless the income is generated before the carryforwards expire in 1975, 1976 and 1977).

We believe we have taken a conservative posture in our accounting picture and while all losses may not be behind us, our efforts should finally be successful.

FOR THE BOARD OF DIRECTORS

President

WORLD WIDE SUPPLIERS OF ELECTRONIC COMMUNICATIONS EQUIPMENT

ASSETS

THE TECHNICAL MATERIEL CORPORATION *and Subsidiaries*

CONSOLIDATED BALANCE SHEET

September 30, 1972 and 1971

ASSETS	1972	1971
CURRENT ASSETS:		
Cash	$ 139,922	$ 178,767
Accounts receivable ($711,756 in 1972 and $952,555 in 1971 from the U.S. and foreign governments) (Note 1)	1,137,180	1,527,753
Income tax refunds receivable	67,633	34,597
Inventories, at the lower of cost or market, less progress payments of $53,234 in 1972 and $400,605 in 1971 (Note 2):		
Finished goods	840,072	944,137
Work in process	828,469	1,300,785
Raw materials	1,564,854	1,902,102
	3,233,395	4,147,024
Prepaid expenses	135,872	175,174
Total current assets	4,714,002	6,063,315
PROPERTY, PLANT AND EQUIPMENT, AT COST:		
Land	428,855	428,855
Buildings and building equipment	1,822,602	1,815,456
Machinery and equipment	2,090,542	2,241,419
Leasehold improvements	660,631	660,631
	5,002,630	5,146,361
Accumulated depreciation and amortization	(2,556,078)	(2,468,529)
Net Property, Plant and Equipment	2,446,552	2,677,832
Deferred new product development costs (Notes 3 and 4)	1,092,364	1,239,132
Property leased to others (Note 5)	812,670	838,837
Property held for sale	211,487	211,487
Other assets	58,642	58,378
	$ 9,335,717	$ 11,088,981

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 forty percent of the Company's 1972 business is subject to renegotiation. The Company believes 1972 will be settled without any refund. All years through 1971 have been cleared.

Notes receivable from a foreign government in the amount of $424,000 have been discounted with recourse at banks in the United States. Accounts receivable have been pledged to secure $448,957 of notes payable to banks. The Company is contigently liable for a $56,000 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 September 30, 1972 over $1,700,000 and at September 30, 1971 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 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 of over $1,700,000 adequate provisions have been made.

The cost of Inventories is determined principally on the basis of the average cost method and includes applicable engineering overhead and general and administrative expenses. At September 30, 1972 approximately $250,000 ($600,000 at September 30, 1971) of engineering overhead and general and administrative expenses are included in the cost of certain inventories which have sufficient profit margins to allow for their recoverability. Approximately $210,000 of engineering overhead and general and administrative expenses applicable to other September 30, 1972 inventories with lower profit margins were charged to operations.

THE TECHNICAL MATERIEL CORPORATION *and Subsidiaries*

CONSOLIDATED BALANCE SHEET

September 30, 1972 and 1971

LIABILITIES AND STOCKHOLDERS' EQUITY	1972	1971
CURRENT LIABILITIES:		
Notes payable to banks	$ 548,957	$ 335,681
Demand notes payable to officers — prime rate	423,750	305,000
Accounts payable	256,877	406,126
Accrued income taxes	42,268	58,274
Other accrued taxes and expenses	146,927	166,404
Current installments of mortgages and notes payable	132,654	257,145
Total current liabilities	1,551,433	1,528,630
Mortgages and notes payable — 6% to 7½% and due 1973 - 1992 (less installments due within one year)	1,712,557	1,845,310
Deferred income taxes (Note 4)	40,000	140,000
STOCKHOLDERS' EQUITY:		
Common stock, par value 12½¢ per share (Note 6):		
Authorized — 4,000,000 shares		
Outstanding — 1972 — 2,847,704 shares		
1971 — 2,847,704 shares	355,963	355,963
Capital surplus (Note 7)	6,884,796	6,884,796
Earned surplus (deficit)	(1,209,032)	334,282
	6,031,727	7,575,041
	$ 9,335,717	$11,088,981

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LIABILITIES

AND STOCKHOLDERS' EQUITY

Inventories also include approximately $30,000 at September 30, 1972 and $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.

NOTE 3 — Sales of new products were not sufficient to recover deferred new product development costs amortized during the year. At September 30, 1972 the Company has deferred a net amount of $1,092,364 of these costs, of which $262,073 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:

	1972	1971
Current income taxes (credits)		
Federal	$ —	$ —
Foreign	(40,000)	39,000
State	—	—
	(40,000)	39,000
Deferred income tax credits	(100,000)	(13,000)
	$(140,000)	$ 26,000

The Company has net operating tax loss carryforwards aggregating approximately $4,070,000 which expire $1,410,000 in 1975, $1,620,000 in 1976 and $1,040,000 in 1977. To the extent deferred tax credits would be amortized during the carryforward period ($478,000) the net operating loss

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OPERATIONS

AND EARNED SURPLUS

THE TECHNICAL MATERIEL CORPORATION *and Subsidiaries*

CONSOLIDATED STATEMENT OF OPERATIONS AND EARNED SURPLUS

Years ended September 30, 1972 and 1971

	1972	1971
Net Sales	$ 5,516,143	$ 9.345,712
Cost of sales	4,358,431	7,301,649
Engineering and development expenses (Notes 2 and 3)	708,963	843,500
Selling, general and administrative expenses (Notes 1 and 2)	1,948,219	2,398,510
Interest expense	137,126	166,788
Other — net (Note 5)	46,718	(73,243)
	7,199,457	10,637,204
Loss before income taxes and extraordinary item	(1,683,314)	(1,291,492)
Income tax provision (credit) (Note 4)	(140,000)	26,000
Loss before extraordinary item	(1,543,314)	(1,317,492)
Gain on sale of property	–	77,448
Net loss	(1,543,314)	(1,240,044)
Earned surplus at beginning of year	334,282	1,776,853
	(1,209,032)	536,809
2% stock dividend:		
Cash paid for fractional shares	–	4,824
Earnings transferred to capital	–	197,703
	–	202,527
Earned surplus (deficit) at end of year	$(1,209,032)	$ 334,282
Net loss per share:		
Loss per share before extraordinary item	$(.54)	$(.46)
Gain on sale of property	–	.02
Net loss per share	$(.54)	$(.44)

carryforwards have been applied to reduce deferred income taxes, which otherwise would have included $467,000 related to new product development costs deducted currently for income tax purposes and $51,000 related to accelerated tax depreciation.

Foreign income taxes (including $60,000 deferred credit) relate to subsidiaries operating in Canada and Switzerland. For 1972 these wholly-owned subsidiaries had net aggregate sales of $1,320,000 and net losses of $83,000; net assets at September 30, 1972 were $1,352,000.

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-net and costs of the land, buildings and building equipment less accumulated depreciation of $257,275 at Nyack are included in property leased to others.

Rent expense for plants, under leases expiring chiefly in 1977, aggregate $228,000 annually.

NOTE 6 — At September 30, 1972, there were reserved under the Employee Stock Option Plan 11,450 shares of common stock against which options to purchase 11,450 shares at a price of $4.125 were outstanding, 5,725 of which were exercisable. The options on 8,350 shares expire on June 29, 1973 and on 3,100 shares expire on August 10, 1973. During the year 1972, no options were granted, options on 4,350 shares were cancelled, terminated or expired and no options were exercised. At September 30, 1971, there were 15,800 shares reserved against which there were outstanding options to purchase 15,800 shares at a price of $4,125 and none were exercisable. On June 28, 1971 the plan expired, except as to options then outstanding under the Plan.

NOTE 7 — During the years capital surplus was increased as follows:

	1972	1971
Balance at beginning of year	$6,884,796	$6,693,910
Excess of market value over par value of 54,530 shares in 1971 of common stock issued as stock dividends	–	190,886
Balance at end of year	$6,884,796	$6,884,796

THE TECHNICAL MATERIEL CORPORATION *and Subsidiaries*

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Years ended September 30, 1972 and 1971

	1972	1971
Applications of working capital:		
Operations:		
Loss before extraordinary item	$ 1,543,314	$ 1,317,492
Depreciation and amortization of property, plant and equipment	(272,395)	(305,487)
Amortization and write-offs of deferred new product development	(426,185)	(378,431)
Deferred income taxes	100,000	13,000
Other	3,160	14,689
	947,894	661,263
Purchases of property, plant and equipment	82,776	44,022
New product development expenditures	279,417	353,679
Reduction of mortgages and notes payable	132,753	203,519
Cash paid for fractional shares resulting from stock dividend	–	4,824
	1,442,840	1,267,307
Sources of working capital:		
Extraordinary item–proceeds on sale of property	–	145,585
Proceeds from sales of machinery and equipment	70,724	121,243
	70,724	266,828
Decrease in working capital	$ 1,372,116	$ 1,000,479
Change in working capital consists of:		
Increase (decrease) in current assets:		
Cash	$(38,845)	$(94,069)
Accounts receivable	(390,573)	17,242
Inventories	(913,629)	(1,425,707)
Other	(6,266)	(9,373)
	(1,349,313)	(1,511,907)
Increase (decrease) in current liabilities:		
Notes payable	332,026	(323,260)
Accounts payable and accrued liabilities	(184,732)	(334,512)
Current installments of mortgages and notes payable	(124,491)	146,344
	22,803	(511,428)
Decrease in working capital	$ 1,372,116	$ 1,000,479

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, 1972 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 $2,800,000) 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, 1972, 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.

Marshall Granger & Company

New York, New York
December 13, 1972

AUDITOR'S REPORT

• WORLD WIDE SUPPLIERS • OF ELECTRONIC COMMUNICATIONS EQUIPMENT

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