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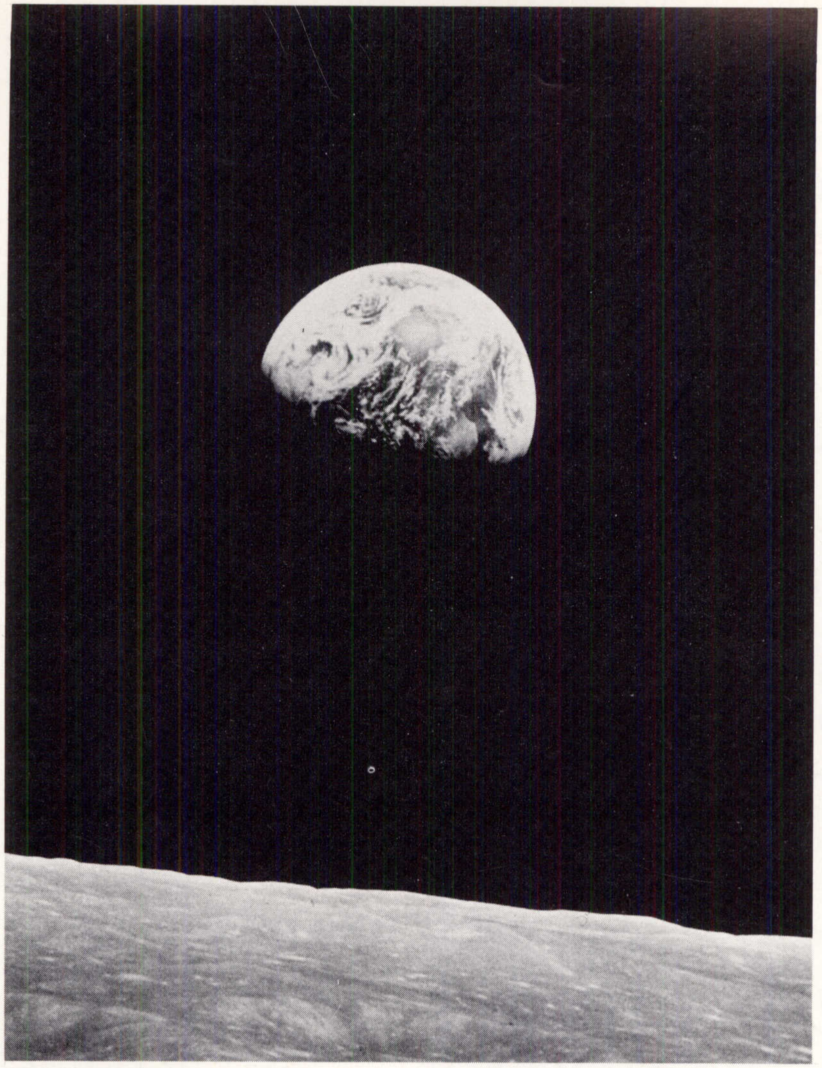

ANNUAL REPORT 1973

THE TECHNICAL MATERIEL CORPORATION

AND SUBSIDIARIES

WORLD WIDE SUPPLIERS OF ELECTRONIC COMMUNICATIONS EQUIPMENT

DIRECTORS

R. H. dePASQUALE
CHAIRMAN

H. HARGREAVES

N. H. dePASQUALE

W. L. DEANS

G. W. JENNINGS

OFFICERS

RAY H. dePASQUALE
President

NEIL H. dePASQUALE
Executive Vice President
& Secretary

WILLIAM DEANS
Vice President

CHARLES A. BROWN
Controller

DONALD ROBINSON
President
TMC SYSTEMS (ARIZONA)

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

E. J. HOFMANN
President
TELECOM REALTY CORP.

RUTH TAYLOR
Assistant Secretary

BUSINESS HIGHLIGHTS...

	FISCAL YEAR	
	1973	**1972**
Net Sales	$3,865,233	$5,516,143
Net Loss	$(2,496,029)	$(1,543,314)
Current Assets	$3,629,377	$4,714,002
Current Liabilities	$1,536,782	$1,551,433
Working Capital	$2,092,595	$3,162,569
Current Ratio	2.4 to 1	3.0 to 1
Property, Plant and Equipment Net	$1,844,168	$2,446,552
Stockholders' Equity	$3,535,698	$6,031,727
Net loss per Share	$(.88)	$(.54)
Book Value per Share	$1.24	$2.12
Number of Stockholders	6,199	6,252
Common Stock Outstanding	2,847,704	2,847,704

message from the president...

At the close of the 1973 fiscal year, management determined to remove from the balance sheet those items that would militate against the recovery of the Corporation.

The losses reported in this statement should be viewed taking into consideration the following factors:

	Amount
(1) Deferred New Product Development Costs: During the year, the Company deferred costs of $305,744 but amortized and wrote off $898,978 for a net reduction of $593,234.	$ 593,234
(2) Inventories During the year the Company increased its reserve for slow moving merchandise by $166,800.	166,800
(3) TMC Systems and Power Building Costs The Virginia plant incurred $307,595 of building operation expenses while receiving $152,763 in rentals income. The resulting net expense of $154,832 was not completely attributable to our manufacturing operations. Arrangements have been made to terminate the lease on these premises and, accordingly, the $443,876 unamortized balance of leasehold improvements was expensed at September 30, 1973, being of no future economic value to the Company.	598,708
(4) Anticipated Losses on Generator Contract The TMC Systems and Power Corporation expects to complete contracted delivery of generators to the United States Government in January 1974. Accumulated costs as of September 30, 1973 and projected costs to completion exceed the contract prices by approximately $510,000. This anticipated loss was charged to cost of sales in the 1973 fiscal year.	510,000
	$1,868,742

While these losses are large, it must be noted that carry-forward operating losses totaling $5,430,000 will protect the Company's income from United States income taxes if earned before the losses expire: $1,410,000 in 1975, $1,620,000 in 1976, $1,040,000 in 1977 and $1,360,000 in 1978.

The R & D expenses written off still remain an intangible asset to the Corporation, and the balance of deferred costs remaining represents the Corporation effort on current devices, on many of which substantial orders have been received.

As this report is written, a final parcel of land is under contract of sale in Virginia, which will result in a small capital gain, the elimination of a mortgage and a cash return of approximately $100,000 to the Corporation. At long last it appears that our claim against the U.S. Navy will be settled with a further return of approximately $50,000.

Considerable progress has been made in concentrating manufacturing operations in our Mamaroneck plants, where costs are more easily controllable. All export sales have also been consolidated in Mamaroneck, and management has been strengthened by the appointment of Mr. Robert Brummer as Manager of the International Division. Mr. Brummer was employed for many years by the Collins Radio Company, lately as Manager of the New York office International Division of that Company.

Management has been further strengthened by the appointment of Mr. Charles Brown as Controller. Mr. Brown is a Certified Public Accountant and has been associated with many important companies including Price Waterhouse & Co.

The Board of Directors has passed a resolution enabling the Corporation to buy some of its own stock out of capital surplus. This should make it possible to assist holders of small numbers of shares to sell their stock and at the same time reduce the cost of record keeping to the Corporation.

The Technical Materiel Corporation was selected to supply the bulk of the high frequency communications for the United Nations peace keeping force in the Near East. The backlog of orders on hand continues at the highest level in several years. At this writing, it appears that deliveries to customers in the first quarter will show at least 100% improvement over last year. Cash reserves are adequate, and if the present trend continues, fiscal 1973/1974 could be profitable.

FOR THE BOARD OF DIRECTORS

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

THE TECHNICAL MATERIEL CORPORATION *and Subsidiaries*

CONSOLIDATED BALANCE SHEET

September 30, 1973 and 1972

ASSETS	1973	1972
CURRENT ASSETS:		
Cash	$ 194,727	$ 139,922
Accounts receivable ($246,184 in 1973 and $711,756 in 1972 from the U.S. and foreign governments) (Note 8)	497,127	1,137,180
Income tax refunds receivable	—	67,633
Inventories, at the lower of cost or market, less progress payments of $628,121 in 1973 and $53,234 in 1972 (Note 2):	2,837,566	3,233,395
Prepaid expenses	99,957	135,872
Total current assets	3,629,377	4,714,002
PROPERTY, PLANT AND EQUIPMENT, AT COST (NOTE 3):		
Land	428,855	428,855
Buildings and building equipment	1,823,803	1,822,602
Machinery and equipment	2,125,496	2,090,542
Leasehold improvements	—	660,631
	4,378,154	5,002,630
Accumulated depreciation and amortization	(2,533,986)	(2,556,078)
Net property, plant and equipment	1,844,168	2,446,552
Deferred new product development costs (Note 4)	499,130	1,092,364
Property leased to others (Note 7)	—	812,670
Property held for sale	135,211	211,487
Long-term note receivable	118,936	—
Other assets	28,711	58,642
	$ 6,255,533	$ 9,335,717

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 — The consolidated financial statements include the accounts of the Company and all its subsidiaries. Foreign currency items have been translated at appropriate rates of exchange. Intercompany balances and transactions have been eliminated in consolidation.

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, 1973 over $1,900,000 and at September 30, 1972 over $1,700,000 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 $1,900,000, adequate provisions have been made.

Cost of inventories, as summarized below, is determined principally on the basis of the average cost method and includes applicable engineering overhead and general and administrative expenses:

	1973	1972
Finished goods	$ 1,060,220	$ 840,072
Work in process	402,441	828,469
Raw materials	1,374,905	1,564,854
	$ 2,837,566	$ 3,233,395

At September 30,1973 approximately $200,000 ($250,000 at September 30, 1972) of engineering and general and administrative expenses are included in the cost of certain inventories which have sufficient profit margins to allow for their recoverability. Approximately $90,000 of engineering and general and administrative expenses applicable to other September 30, 1973 inventories with lower profit margins were charged to operations as was $210,000 in 1972.

THE TECHNICAL MATERIEL CORPORATION *and Subsidiaries*

CONSOLIDATED BALANCE SHEET

September 30, 1973, and 1972

LIABILITIES AND STOCKHOLDERS' EQUITY	1973	1972
CURRENT LIABILITIES:		
Notes payable to banks (Note 8)	$ 165,457	$ 548,957
Demand notes payable to officers—prime rate	585,000	423,750
Accounts payable	552,432	256,877
Accrued income taxes	17,648	42,268
Other accrued taxes and expenses	108,249	146,927
Current installments of mortgages and notes payable	107,996	132,654
Total current liabilities	1,536,782	1,551,433
Mortgages and notes payable—6% to 7½% and due 1974 - 1992 (less installments due within one year) (Note 6)	1,183,053	1,712,557
Deferred income taxes	—	40,000
Commitments and contingencies (Notes 7 and 8)	—	—
STOCKHOLDERS' EQUITY:		
Common stock, par value 12½¢ per share (Note 9): Authorized—4,000,000 shares Outstanding—2,847,704 shares in in 1973 and 1972	355,963	355,963
Capital surplus	6,884,796	6,884,796
Earned surplus (deficit)	(3,705,061)	(1,209,032)
	3,535,698	6,031,727
	$ 6,255,533	$ 9,335,717

Inventories at September 30, 1973 include gross contract costs of $864,333 which were reduced by a $510,000 charge to costs of sales to reduce them to selling prices less costs to complete, and by $628,121 of progress payments.

Inventories at September 30, 1972 included $30,000 relating to contracts on which shipments had commenced, which had been written down from cost to selling prices less estimated costs to complete.

NOTE 3 — Depreciation has been provided on the basis of the estimated useful lives of the depreciable assests using generally the straight-line method and rates of 2½% for buildings and building equipment, and 10% - 33⅓% for machinery and equipment. Leasehold improvements are amortized over the terms of the respective leases. The lease for the Virginia plant was due to expire in 1977, but arrangements have been made for cancellation of the lease. Accordingly, the unamortized balance of the applicable leasehold improvements ($443,875) was expensed at September 30, 1973.

Maintenance, repairs and minor renewals of fixed assets are charged to income; 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.

Note 4 — Sales of new products were not sufficient to recover deferred new product development costs amortized during 1973 and 1972. The Company has deferred a net amount of $499,130 at September 30, 1973 and $1.092,364 at September 30, 1972 of these costs, of which $195,017 in 1973 and $262,073 in 1972 represent the costs of incomplete projects. Development costs incurred aggregated $305,744 in 1973 and $279,417 in 1972. 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 sale of the related products will not allow for the recovery of the development cost. The ultimate value 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.

• WORLD WIDE SUPPLIERS • OF ELECTRONIC COMMUNICATIONS EQUIPMENT

LIABILITIES

AND STOCKHOLDERS' EQUITY

WORLD WIDE SUPPLIERS OF ELECTRONIC COMMUNICATIONS EQUIPMENT

OPERATIONS

AND EARNED SURPLUS (DEFICIT)

THE TECHNICAL MATERIEL CORPORATION *and Subsidiaries*

CONSOLIDATED STATEMENT OF OPERATIONS AND EARNED SURPLUS (DEFICIT)

Years ended September 30, 1973 and 1972

	1973	1972
Net Sales	$ 3,865,233	$ 5,516,143
Cost of sales (Note 2)	3,580,445	4,358,431
Engineering and development expenses (Notes 2 and 4)	984,084	708,963
Selling, general and administrative expenses (Note 2)	1,505,557	1,948,219
Interest expense	141,540	137,126
Other—net (Note 7)	198,636	46,718
	6,410,262	7,199,457
Loss before income taxes	(2,545,029)	(1,683,314)
Income tax provision (credit)	(49,000)	(140,000)
Net loss	(2,496,029)	(1,543,314)
Earned surplus (deficit) at beginning of year	(1,209,032)	334,282
Earned surplus (deficit) at end of year	(3,705,061)	(1,209,032)
Net loss per share (Note 9)	$(.88)	$(.54)

NOTE 5 — Under the Company's Employees' Savings Trust Plan, the benefits of which are paid on retirement (or earlier in certain events), the Company matches participating employees' contributions to a maximum of 5% of the employee's salary. The Company's contributions aggregated $19,343 for 1973 and $21,079 for 1972. The plan is at all times fully funded.

NOTE 6 — Mortgage and note payments due during the four years subsequent to the 1974 fiscal year aggregate $93,127 for 1975; $77,368 for 1976; $58,226 for 1977; $48,782 for 1978.

NOTE 7 — 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 $257,275 at September 30, 1972 at Nyack are included in property leased to others.

On July 5, 1973, the Nyack plant was sold for $1,020,000. The net book value was then $793,046; sales expenses totaled $43,600; and deferred expenses related to the property amounted to $24,139. The resultant gain of $159,215 is included on the income statement under "Other - net". The purchaser took the property subject to the existing mortgage in the amount of $429,407.

Rent expense for plants, under leases expiring chiefly in 1977, aggregates $228,000 annually. However, the cancellation mentioned in Note 3 will reduce rent expense to approximately $20,000 per year.

NOTE 8 — Approximately 45 per cent of the Company's 1973 business is subject to renegotiation. The Company believes 1973 will be settled withour any refund. All years through 1972 have been cleared.

Notes receivable from a foreign government in the amount of $74,000 at September 30, 1973 and $424,000 at September 30, 1972 have been discounted with recourse at banks in the United States. Accounts receivable have been pledged to secure $165,000 at September 30, 1973 and $448,957 at September 30, 1972 of notes payable to banks. The Company is contingently liable for $55,000 on an open letter of credit and for the mortgage of $421,468 on the Nyack plant (see Note 7).

NOTE 9 — Computations of per share amounts are based on the weighted average number of shares of common stock outstanding during each period.

WORLD WIDE SUPPLIERS OF ELECTRONIC COMMUNICATIONS EQUIPMENT

CHANGES IN
FINANCIAL POSITION

THE TECHNICAL MATERIEL CORPORATION *and Subsidiaries*

CONSOLIDATED STATEMENT OF
CHANGES IN FINANCIAL POSITION
Years ended September 30, 1973 and 1972

	1973	1972
Applications of working capital:		
Operations:		
Loss	$ 2,496,029	$ 1,543,314
Depreciation and amortization of property, plant and equipment (Note 3)	(245,668)	(272,395)
Amortization and write-offs of deferred new product development (Note 4)	(898,978)	(426,185)
Abandonment of leasehold improvements (Note3)	(443,875)	—
Deferred income taxes	40,000	100,000
	947,508	944,734
New product development expenditures (Note 4)	305,744	279,417
Reduction of mortgages and notes payable (Note 6)	529,504	132,753
	1,782,756	1,356,904
Sources of working capital:		
Sales of property, plant and equipment net of purchases (Note 7)	702,737	(12,052)
Other	10,045	(3,160)
	712,782	(15,212)
Decrease in working capital	$ 1,069,974	$ 1,372,116
Change in working capital consists of:		
Increase (decrease) in current assets:		
Cash	$ 54,805	$ (38,845)
Accounts receivable	(640,053)	(390,573)
Inventories	(395,829)	(913,629)
Other	(103,548)	(6,266)
	(1,084,625)	(1,349,313)
Increase (decrease) in current liabilities:		
Notes payable	(222,250)	332,026
Accounts payable and accrued liabilities	232,257	(184,732)
Current installments of mortgages and notes payable	(24,658)	(124,491)
	(14,651)	22,803
Decrease in working capital	$ 1,069,974	$ 1,372,116

AUDITOR'S REPORT

The Board of Directors and Stockholders
The Technical Materiel Corporation

We have examined the accompanying consolidated balance sheets of The Technical Materiel Corporation and subsidiaries at September 30, 1973 and 1972 and the related consolidated statements of operations and earned surplus (deficit) and of changes in financial position for the years 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.

In our opinion, the aforementioned financial statements present fairly the consolidated financial position of The Technical Materiel Corporation and subsidiaries at September 30, 1973 and 1972, the consolidated results of their operations and the consolidated changes in financial position for the years 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 10, 1973

• 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

Telecom Realty Corp.
Mamaroneck, N. Y. 10543