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ANNUAL REPORT 1974



THE TECHNICAL MATERIEL CORPORATION
AND SUBSIDIARIES



BUSINESS HIGHLIGHTS...

DIRECTORS

R.H. dePASQUALE
CHAIRMAN

H. HARGREAVES

W.L. DEANS

N.H. dePASQUALE

G.W. JENNINGS

OFFICERS

RAY H. dePASQUALE
President

DONALD R. ROBINSON
President
TMC SYSTEMS (ARIZONA)

NEIL H. dePASQUALE
Executive Vice President & Treasurer

E.J. HOFMANN
President
TELECOM REALTY CORP.

RUTH S. TAYLOR
Secretary

	FISCAL YEAR	
	1974	1973
Net Sales	\$6,051,219	\$3,865,233
Net Loss	(190,641)	(1,896,295)
Current Assets	4,346,233	3,629,377
Current Liabilities	2,173,088	1,536,782
Working Capital	2,173,145	2,092,595
Current Ratio	2.0 to 1	2.4 to 1
Property, Plant and Equipment Net	1,016,124	1,844,168
Property Held for Sale	628,353	135,211
Stockholders' Equity	2,845,927	3,036,568
Net Loss per Share	(.07)	(.67)
Book Value per Share ...	1.00	1.07
Number of Stockholders	6,152	6,199
Common Stock Outstanding .	2,847,704	2,847,704

FRONT COVER: Dots represent areas in the world where TMC equipment is used.

message from the president...

Fiscal year 1974 was a period characterized by numerous factors affecting the profits of a manufacturing operation. Among others, these included scarcity and increased cost of components, increased cost of fuel, power, telephone and other essentials. Labor costs also increased, interest rates were at a new high level, and in general the money supply was extremely tight.

Notwithstanding these difficulties, the Corporation was able to materially cut losses by diligent internal supervision and consolidation, including the elimination of marginal activities. Actually, the parent company in Mamaroneck produced a profit of over \$200,000 during the year. The overall loss is attributable to the costs referred to above, particularly those incurred in closing down those operations not contributing to profit.

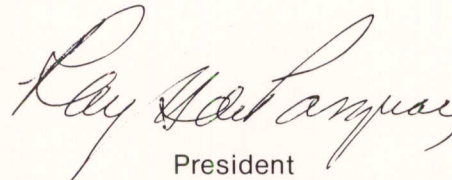
Sales for the year increased 57% and incoming new business was the best since fiscal 1969 at the Mamaroneck plants. The backlog for 1975 is very satisfactory and should continue throughout the year.

Negotiations for takeover of our lease in Virginia did not materialize, but the property is now well rented and does not present a significant burden. You will note in the financial statements a large amount of property offered for sale. Such a sale, if consummated, should result in a considerable capital gain for the Corporation.

Mr. Hunter Meighan of the firm of Meighan and Necarsulmer has been retained as Corporate Counsel. Mr. Charles Brown resigned as Controller at the end of the fiscal year and Mr. Joseph Cacciola has been appointed Chief Accountant.

In view of general conditions, our progress toward profitability is encouraging. Management believes fiscal 1975 will show further improvement.

FOR THE BOARD OF DIRECTORS


President

CONSOLIDATED BALANCE SHEET

September 30, 1974 and 1973



ASSETS

ASSETS	1974	1973
CURRENT ASSETS:		
Cash	\$ 145,359	\$ 194,727
Accounts receivable — \$319,210 in 1974 and \$246,184 in 1973 from the U.S. and foreign governments (Note 8)	757,916	497,127
Inventories, at the lower of cost or market, less progress payments of \$16,775 in 1974 and \$628,121 in 1973 (Note 2)	3,368,321	2,837,566
Prepaid expenses	74,637	99,957
Total current assets	<u>4,346,233</u>	<u>3,629,377</u>
PROPERTY, PLANT AND EQUIPMENT, AT COST (NOTE 3)		
Land	197,071	428,855
Buildings and building equipment	1,120,326	1,823,803
Machinery and equipment	1,664,180	2,125,496
	<u>2,981,577</u>	<u>4,378,154</u>
Less accumulated depreciation	1,965,453	2,533,986
	<u>1,016,124</u>	<u>1,844,168</u>
OTHER ASSETS:		
Deferred new product development costs (Note 4)	—	—
Property held for sale	628,353	135,211
Long-term note receivable	118,125	118,936
Other assets	—	28,711
	<u>746,478</u>	<u>282,858</u>
	<u>\$6,108,835</u>	<u>\$5,756,403</u>

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, 1974 over \$1,700,000 and at September 30, 1973 over \$1,900,000 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.

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:

	1974	1973
Finished goods	\$ 454,985	\$1,060,220
Work in process	1,301,513	402,441
Raw materials	1,611,823	1,374,905
	<u>\$3,368,321</u>	<u>\$2,837,566</u>

THE TECHNICAL MATERIEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

September 30, 1974 and 1973

LIABILITIES AND STOCKHOLDERS' EQUITY	1974	1973
CURRENT LIABILITIES:		
Notes payable to banks (Note 8)	\$ 680,537	\$ 165,457
Demand notes payable to officers at prime rate	650,000	585,000
Accounts payable	655,314	552,432
Accrued income taxes	5,726	17,648
Other accrued taxes and expenses	107,833	108,249
Current installments of mortgages and notes payable ..	73,678	107,996
Total current liabilities	<u>2,173,088</u>	<u>1,536,782</u>
LONG-TERM DEBT:		
Mortgages and notes payable — 6% to 7½%, due 1976-1992 (less current installments, above) (Note 6) ..	<u>1,089,820</u>	<u>1,183,053</u>
COMMITMENTS AND CONTINGENCIES (NOTES 7 and 8)		
—		
STOCKHOLDERS' EQUITY:		
Common stock, par value 12½¢ per share (Note 9):		
Authorized — 4,000,000 shares		
Issued — 2,847,704 shares in 1974 and 1973	355,963	355,963
Capital surplus	6,924,042	6,924,042
Earned surplus (deficit)	(4,434,078)	(4,243,437)
	<u>2,845,927</u>	<u>3,036,568</u>
	<u>\$6,108,835</u>	<u>\$5,756,403</u>



LIABILITIES
AND STOCKHOLDERS' EQUITY

Note 3: 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, and 10% — 33½% for machinery and equipment. Leasehold improvements are amortized over the terms of the respective leases. The lease for the Virginia plant expires in 1977. During 1973, the arrangements, which ultimately did not materialize, were 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: The Company's accounting policy for new product development costs has been changed in accordance with the requirements of the Financial Accounting Standards Board's statement on accounting for Research and Development Costs. Previously, the Company capitalized such costs and amortized them over a five year period beginning with the first sale of the related product, or wrote them off when the anticipated profit on the sale of the related products would not allow for the recovery of the development costs. The current policy is to expense such costs in the year incurred. Prior years' financial statements have been restated to reflect this policy change retroactively.

The effect of this change of policy was:

	<u>Increase/(Decrease)</u>	
	1974	1973
Engineering and development expenses	\$ (107,265)	\$ (593,234)
Income tax provision (credit)	—	(6,500)
Net (loss)	107,265	599,734
(Deficit) at beginning of year	(499,130)	(1,098,864)
(Deficit) at end of year	<u>\$ (391,865)</u>	<u>\$ (499,130)</u>
Net (loss) per share	<u>\$.04</u>	<u>\$.21</u>

THE TECHNICAL MATERIEL CORPORATION AND SUBSIDIARIES
 CONSOLIDATED STATEMENT OF OPERATIONS AND DEFICIT
 For the Years Ended September 30, 1974 and 1973



OPERATIONS
 AND EARNED SURPLUS (DEFICIT)

	<u>1974</u>	<u>1973</u> as adjusted (Note 4)
Net sales	\$6,051,219	\$3,865,233
Cost of sales (Note 2)	<u>4,231,239</u>	<u>3,580,445</u>
Engineering and development expenses (Notes 2 and 4)	307,745	390,850
Selling, general and administrative expenses (Note 2) ...	1,433,805	1,505,557
Interest expense	192,271	141,540
Other — net (Note 7)	<u>73,444</u>	<u>198,636</u>
	<u>6,238,504</u>	<u>5,817,028</u>
Loss before income taxes	(187,285)	(1,951,795)
Income tax provision (credit)	<u>3,356</u>	<u>(55,500)</u>
Net loss	(190,641)	(1,896,295)
Deficit at beginning of year	(4,243,437)	(2,347,142)
Deficit at end of year	<u>\$(4,434,078)</u>	<u>\$(4,243,437)</u>
Net loss per share (Note 9)	<u>\$ (.07)</u>	<u>\$ (.67)</u>

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 \$22,757 for 1974 and \$19,343 for 1973. The plan is at all times fully funded.

Note 6: Mortgage and note payments due during the four years subsequent to the 1975 fiscal year aggregate \$77,368 for 1976; \$58,226 for 1977; \$48,782 for 1978; \$52,104 for 1979.

Note 7: On July 5, 1973, the Company's 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.

At September 30, 1974, land and buildings aggregating \$945,912, net of accumulated depreciation of \$317,559, were reclassified to "Property held for sale". Rent expense for plants, under leases expiring chiefly in 1977, aggregates \$233,000 annually.

Note 8: Approximately 38 per cent of the Company's 1974 business is subject to renegotiation. The Company believes 1974 will be settled without any refund. All years through 1973 have been settled.

Notes receivable from a foreign government in the amount of \$74,000 at September 30, 1973 were discounted with recourse at banks in the United States. Accounts receivable have been pledged to secure \$169,000 at September 30, 1974 and \$165,000 at September 30, 1973 of notes payable to banks. The Company is contingently liable for \$28,000 on an open letter of credit and for the mortgage of \$388,503 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.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
For the Years Ended September 30, 1974 and 1973

	1974	1973
APPLICATIONS OF WORKING CAPITAL:		
Operations:		
Loss	\$ 190,641	\$1,896,295
Depreciation and amortization of property, plant and equipment (Note 3)	(142,761)	(245,668)
Abandonment of leasehold improvement (Note 3) ...	—	(443,875)
Deferred income taxes	—	46,500
	<u>47,880</u>	<u>1,253,252</u>
New product development expenditures (Note 4)	—	—
Reduction of mortgage and notes payable (Note 6)	93,232	529,504
	<u>141,112</u>	<u>1,782,756</u>
SOURCES OF WORKING CAPITAL:		
Sales of property, plant and equipment net of purchases (Note 7)	192,140	702,737
Other	29,522	10,045
	<u>221,662</u>	<u>712,782</u>
Increase (decrease) in working capital	<u>\$ 80,550</u>	<u>\$(1,069,974)</u>
DETAILS OF CHANGES IN WORKING CAPITAL:		
Increase (decrease) in current assets:		
Cash	\$ (49,368)	\$ 54,805
Accounts receivable	260,789	(640,053)
Inventories	530,755	(395,829)
Prepaid expenses	(25,320)	(103,548)
	<u>716,856</u>	<u>(1,084,625)</u>
Increase (decrease) in current liabilities:		
Notes payable	580,080	(222,250)
Accounts payable and accrued liabilities	90,544	232,257
Current installments of mortgages and notes payable	(34,318)	(24,658)
	<u>636,306</u>	<u>(14,651)</u>
Increase (decrease) in working capital	<u>\$ 80,550</u>	<u>\$(1,069,974)</u>



CHANGES IN
FINANCIAL
POSITION

The Board of Directors and Stockholders
The Technical Materiel Corporation
Mamaroneck, New York

We have examined the accompanying consolidated balance sheet of THE TECHNICAL MATERIEL CORPORATION and subsidiaries at September 30, 1974 and 1973 and the related consolidated statements of operations and 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, 1974 and 1973, the consolidated results of their opera-

tions 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, except with respect to the change in accounting principle described in Note 4, a change of which we approve.

Marshall Shaffer & Company

Mamaroneck, New York
December 9, 1974

AUDITORS'
REPORT



ELECTRO



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, New York 10543