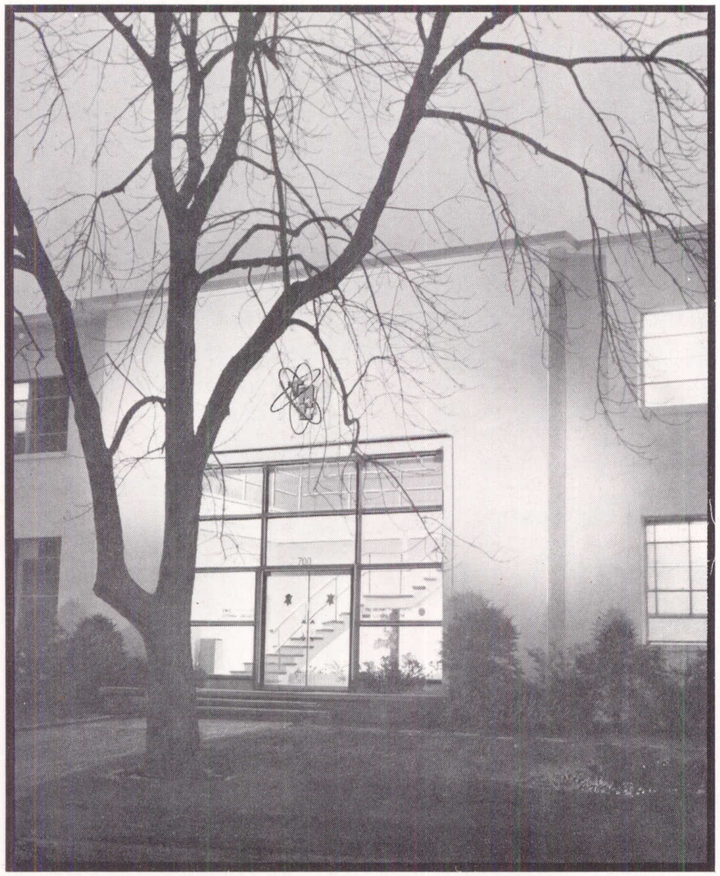
ANNUAL REPORT 1975



WORLD WIDE SUPPLIERS OF ELECTRONIC COMMUNICATIONS EQUIPMENT

THE TECHNICAL MATERIEL CORPORATION
AND SUBSIDIARIES

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

BUSINESS HIGHLIGHTS...

	FISCAL YEAR	
	1975	**1974**
Net Sales	$5,419,546	$6,051,219
Net Profit (Loss)	76,238	(190,641)
Current Assets	4,478,826	4,346,233
Current Liabilities	2,260,906	2,173,088
Working Capital	2,217,920	2,173,145
Current Ratio	2.0 to 1	2.0 to 1
Property, Plant and Equipment, Net	1,002,871	1,016,124
Property Held For Sale	619,211	628,353
Stockholders' Equity	2,922,165	2,845,927
Net Profit (Loss) Per Share	.03	(.07)
Book Value Per Share	1.03	1.00
Number of Stockholders	6,092	6,152
Shares of Stock Outstanding	2,847,704	2,847,704

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.

message from the president...

Operations of your corporation for the fiscal year ended September 30, 1975 resulted in a profit of $76,238 on sales of $5,419,546. This profit was achieved despite a ten percent sales decline for the year. During the past year, our results were reduced by factors which have become all too familiar. Profitability was affected by rising costs for taxes, fuel, interest, and telephone; by special tooling and setup charges for purchased material; and by the effects of a strike at our main plant. This strike was resolved by an increase in wages and benefits, and resulted in a new two-year contract which expires in March 1977. Our situation has not been helped by the change in accounting rules requiring the expensing of development costs. However, adjustments are being made to compensate for these costs.

We recognize that the full year profit was less than that recorded for the nine months ended June 30, 1975. The difference was primarily due to a year end inventory adjustment.

Consolidations in Canada and Switzerland materially reduced losses and provided increased concentration at our main plant. Our lease on the Virginia building expires in 1977 and at the present the property is sublet to others. An additional bright spot in our efforts was the outstanding performance of our high technology unit, TMC Systems (Arizona), during the past year. Under the competent direction of Mr. Don Robinson, this subsidiary has excellent promise for the future.

We are communications engineers, specializing in the high frequency field. Our equipment is sold throughout the world and a significant portion of our sales are to foreign governments. The market for our products is large and increasing. We will make determined efforts to increase our share of this market and to increase our profitability during fiscal year 1976.

FOR THE BOARD OF DIRECTORS

President

WORLD WIDE SUPPLIERS OF ELECTRONIC COMMUNICATIONS EQUIPMENT

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

A copy of the Company's Form 10-K Annual Report to the Securities and Exchange Commission may be obtained by any stockholder without charge on written request to the Secretary of the Company.

ASSETS

CONSOLIDATED BALANCE SHEET

September 30, 1975 and 1974

ASSETS	1975	1974
CURRENT ASSETS:		
Cash	$ 218,278	$ 145,359
Accounts receivable — $436,120 in 1975 and $319,210 in 1974 from the U.S. and foreign governments (Note 8)	821,597	757,916
Note receivable, current portion	23,625	—
Inventories, at the lower of cost or market, less progress payments of $16,775 in 1974 (Note 2)	3,339,095	3,368,321
Prepaid expenses	76,231	74,637
Total current assets	4,478,826	4,346,233
PROPERTY, PLANT AND EQUIPMENT, at cost (Note 3):		
Land	197,071	197,071
Buildings and building equipment	1,146,847	1,120,326
Machinery and equipment	1,581,622	1,664,180
Leasehold improvements	11,562	—
	2,937,102	2,981,577
Less accumulated depreciation and amortization	1,934,231	1,965,453
	1,002,871	1,016,124
OTHER ASSETS:		
Property held for sale or rental	619,211	628,353
Long-term note receivable, less current portion above	94,500	118,125
	713,711	746,478
	$6,195,408	$6,108,835

SALES AND EARNINGS FOR THE LAST FIVE YEARS

Year Ended Sept. 30	Sales	Net Earnings(Loss)	Earnings (Loss) Per Share
1975	$5,419,546	$ 76,238	$ .03
1974	$6,051,219	$ (190,641)	$(.07)
1973	$3,865,233	$(1,896,295)	$(.67)
1972	$5,516,143	$(1,453,046)	$(.51)
1971	$9,345,712	$(1,200,627)	$(.42)

Management's discussion and analysis of the summary of operations:

A summary of the variances between 1973 and 1974, and between 1974 and 1975 is presented below.

	Increase/(Decrease) 1973/1974	Increase/(Decrease) 1974/1975
Net sales	$ 2,185,986	$ (631,673)
Cost of sales	650,794	(1,035,624)
Engineering and development expenses	(83,105)	(72,106)
Selling, general and administrative expenses	(71,752)	143,502
Interest expense	50,731	25,569
Other — net	(125,192)	43,463
	421,476	(895,196)
Income/(loss) before income taxes	(1,764,510)	263,523
Provision (credit) for income taxes	(58,856)	(3,356)
Net income (loss)	$(1,705,654)	$ 266,879

The fluctuation in sales is primarily related to changes in political, as well as economic, conditions worldwide. For the year ended September 30, 1974, new incoming business was at the highest level since 1969 at the Mamaroneck plants. The Company is continuing its endeavors to find new markets for its products worldwide.

In fiscal 1973, an anticipated loss of $510,000 on Government contracts (on which projected costs to complete exceeded contract prices) was charged to cost of sales. Had it not been for that charge for this anticipated loss in 1973, the increase in cost of sales for fiscal 1974 would have been $1,160,794 or 38 percent compared to the 57 percent increase in sales. The remaining divergence from the sharp sales increse represents economies achieved by centralizing production in Mamaroneck, which had greater impact in 1975 when centralization was applicable for the entire year.

In 1975, the costs of sales enjoyed a marked reduction chiefly as a result of this centralization of production. A significant portion of the Company's inventories were required to be maintained as replacement parts, and the Company is implementing measures to use these items in current products.

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Engineering and development expenses decreased in both fiscal 1974 and 1975, representing a curtailment of new product development expenses in the Company's Canadian and Virginia subsidiaries, the elimination of projects promising only marginal returns, and the concentration and consolidation of operations at the Mamaroneck plant, where costs were more easily controllable.

Selling, general and administrative expenses have been successfully reduced in both years as a result of diligent internal supervision and consolidation. The increase in 1975 over 1974 of $143,502 is net of an increase in commission expense during 1975 of $337,514, necessitated by a marked increase in the Company's foreign sales, which are subject to commissions. Thus the change in this expense category was actually a decrease of $194,012.

The increase in interest expense of $50,731 for the fiscal year ended 1974 is primarily a result of increased interest rates and increased borrowings to meet current operating needs, such cash being required, in part, to finance increases in accounts receivable ($260,789) and inventories ($530,755).

In 1975, borrowings subject to interest charges increased $179,463; interest rates reached an all-time high during the year ended September 30, 1975. The funds were utilized primarily for the reduction of trade payables and amortization of long-term debt.

The fluctuations in Other expenses resulted from certain non-recurring transactions listed hereafter:

	1973/1974	1974/1975
Abandonment of leasehold improvements in Virginia	$(443,876)	$ —
Gain on sale of Nyack plant	159,215	—
Rental income from Nyack plant	65,308	—
Non-operating building expense, net	91,054	29,488
Other ordinary increases	3,107	13,975
	$(125,192)	$ 43,463

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. Inter-company 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, 1975 over $2,200,000 and at September 30, 1974 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, adequate provisions have been made.

During the fiscal year, cost of sales was determined on the basis of a percentage of sales instead of precise charges against inventory. At September 30, 1975, the book value of inventories was adjusted by approximately $125,000 to correspond to inventories physically present. Management believes this was largely the result of the conversion from a manual and outside computer service bureau system to a complete in-house computer system effective October 1, 1975.

Cost of inventories, as summarized below, is determined principally on the basis of the average cost method:

	1975	1974
Finished goods	$ 668,610	$ 454,985
Work in process	1,095,525	1,301,513
Raw materials	1,574,960	1,611,823
	$3,339,095	$3,368,321

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% — 33⅓% for machinery and equipment. Leasehold improvements are amortized over the terms of the respective leases. The lease for the Virginia plant expires in 1977.

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

Note 4: During the year ended September 30, 1974, the Company's accounting policy for new product development costs was 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 were restated to reflect this policy change retro-actively.

WORLD WIDE SUPPLIERS OF ELECTRONIC COMMUNICATIONS EQUIPMENT

NOTES

NOTES

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 $23,173 for 1975 and $22,757 for 1974. The plan is at all times fully funded.

The plan was in the process of being terminated as of September 30, 1975. Upon dissolution, the accumulated contributions in the plan will be available for withdrawal by the participants in the plan.

Note 6: Mortgage and note payments due during the four years subsequent to the 1976 fiscal year aggregate $58,226 for 1977, $48,782 for 1978, $52,104 for 1979 and $55,651 for 1980. The notes payable to banks are secured by collateral pledged by the Corporation president, a majority stockholder.

Note 7: Minimum rental commitments under existing leases aggregate $236,000 for 1976, $127,000 for 1977, $16,000 for 1978 and $12,000 for 1979. At September 30, 1974, land and buildings aggregating $945,912 net of accumulated depreciation of $317,559 were reclassified to "Property held for sale or rental."

Note 8: No allowance for doubtful accounts has been established because historically, accounts which become uncollectible are relatively immaterial and are charged directly to expense.

Approximately 27 percent of the Company's 1975 business is subject to renegotiation. The Company believes 1975 will be settled without any refund. All years through 1974 have been settled.

The Company is contingently liable for $27,000 on an open letter of credit and for $353,516 on a mortgage relating to a sale of the Company's former Nyack plant, which the purchaser bought subject to the mortgage, and on which the Company remains liable.

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

AUDITORS' REPORT

Marshall Granger & Company
Certified Public Accountants

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, 1975 and 1974 and the related consolidated statements of income 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, 1975 and 1974, 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

Mamaroneck, New York
December 12, 1975

THE TECHNICAL MATERIEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

September 30, 1975 and 1974

WORLD WIDE SUPPLIERS OF ELECTRONIC COMMUNICATIONS EQUIPMENT

LIABILITIES
AND STOCKHOLDERS' EQUITY

LIABILITIES AND STOCKHOLDERS' EQUITY	1975	1974
CURRENT LIABILITIES:		
Notes payable to banks (Note 6)	$ 650,000	$ 680,537
Demand notes payable to officers at 7% interest	860,000	650,000
Accounts payable	441,025	655,314
Accrued income taxes	5,490	5,726
Other accrued taxes and expenses	225,239	107,833
Current installments of mortgages and notes payable	79,152	73,678
Total current liabilities	2,260,906	2,173,088
LONG-TERM DEBT:		
Mortgages and notes payable — 6% to 7½% due 1976-1992 (less current installments, above) (Note 6)	1,012,337	1,089,820
COMMITMENTS AND CONTINGENCIES (Notes 7 and 8)	—	—
STOCKHOLDERS' EQUITY:		
Common stock, par value 12½¢ per share; Authorized — 4,000,000 shares issued — 2,847,704 shares in 1975 and 1974	355,963	355,963
Capital surplus	6,924,042	6,924,042
Earned surplus (deficit)	(4,357,840)	(4,434,078)
	2,922,165	2,845,927
	$6,195,408	$6,108,835

WORLD WIDE SUPPLIERS • OF ELECTRONIC COMMUNICATIONS EQUIPMENT •

OPERATIONS
AND EARNED SURPLUS (DEFICIT)

CONSOLIDATED STATEMENT OF INCOME AND DEFICIT
For the Years Ended September 30, 1975 and 1974

	1975	1974
Net sales	$ 5,419,546	$ 6,051,219
Cost of sales (Note 2)	3,195,615	4,231,239
Engineering and development expenses (Notes 2 and 4)	235,639	307,745
Selling, general and administrative expenses (Note 2)	1,577,307	1,433,805
Interest expense	217,840	192,271
Other — net (Note 7)	116,907	73,444
	5,343,308	6,238,504
Income/ (loss) before income taxes	76,238	(187,285)
Income tax provision	—	3,356
Net income/ (loss)	76,238	(190,641)
Deficit at beginning of year	(4,434,078)	(4,243,437)
Deficit at end of year	$(4,357,840)	$(4,434,078)
Net income/ (loss) per share (Note 9)	$ .03	$ (.07)

THE TECHNICAL MATERIEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

For the Years Ended September 30, 1975 and 1974

	1975	1974
SOURCES OF WORKING CAPITAL:		
Operations:		
Net income/(loss)	$ 76,238	$(190,641)
Depreciation and amortization of property, plant and equipment (Note 3)	117,084	142,761
	193,322	(47,880)
Other	23,625	29,522
	216,947	(18,358)
APPLICATIONS OF WORKING CAPITAL:		
Purchase of property, plant and equipment net of sales (Note 7)	94,689	(192,140)
Reduction of mortgage and notes payable (Note 6)	77,483	93,232
	172,172	(98,908)
Increase (decrease) in working capital	$ 44,775	$ 80,550
DETAILS OF CHANGES IN WORKING CAPITAL:		
Increase (decrease) in current assets:		
Cash	$ 72,919	$ (49.368)
Accounts receivable	63,681	260,789
Notes receivable	23,625	—
Inventories	(29,226)	530,755
Prepaid expenses	1,594	(25,320)
	132,593	716,856
Increase (decrease) in current liabilities:		
Notes payable	179,463	580,080
Accounts payable and accrued liabilities	(97,119)	90,544
Current installments of mortgages and and notes payable	5,474	(34,318)
	87,818	636,306
Increase (decrease) in working capital	$ 44,775	$ 80,550

CHANGES IN

FINANCIAL POSITION

WORLD WIDE SUPPLIERS • OF ELECTRONIC COMMUNICATIONS EQUIPMENT •

Radio Transmitters, Radio Receivers and Antennas for UHF, VHF, HF, MF, LF, VLF and ELF

Antenna accessories

Mobile installations

Single and independent sideband exciters and terminals

Frequency shift terminal and transmitting equipment

Plugs and connectors

Integrated circuits

Crystal filters

Compensated oscillators

Real time measuring equipment

Synthesizers

Radio frequency transformers

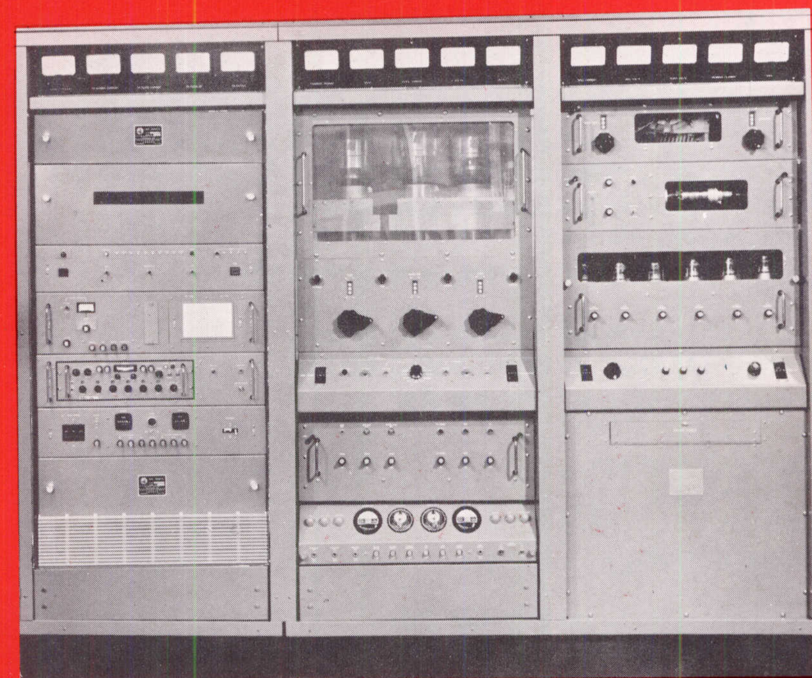
Transmitter test equipment

Field engineering

Training for radio operators

Aeronautical installation and service

New Transportable 1KW Transmitter



New 40KW Transmitter

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