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ANNUAL REPORT 1977

THE TECHNICAL MATERIEL CORPORATION
AND SUBSIDIARIES

DIRECTORS

R.H. dePASQUALE
Chairman

N.H. dePASQUALE

E.J. HOFMANN

G.W. JENNINGS

D.C. MacDONALD

OFFICERS

RAY H. dePASQUALE
President

NEIL H. dePASQUALE
Executive Vice President & Treasurer

E.J. HOFMANN
Vice President
TELECOM REALTY CORP.
President

RUTH S. TAYLOR
Secretary

BUSINESS HIGHLIGHTS . . .

FISCAL YEAR

	1977	1976
Net Sales	$2,168,803	$2,928,039
Net Profit (Loss)	(784,004)	(696,316)
Current Assets	3,242,995	4,007,548
Current Liabilities	2,371,607	2,338,218
Working Capital	871,388	1,669,330
Current Ratio	1.3 to 1	1.7 to 1
Property, Plant and Equipment, Net	797,519	818,319
Property Held For Rental	631,900	621,691
Stockholders' Equity	1,441,845	2,225,849
Net Profit (Loss) Per Share	(.28)	(.24)
Book Value Per Share	.50	.79
Number of Stockholders	5906	5,974
Shares of Stock Outstanding	2,847,704	2,847,704

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.

message from the president . . .

WORLD WIDE SUPPLIERS OF ELECTRONIC COMMUNICATIONS EQUIPMENT

In view of the financial circumstances of the Corporation, management decided not to undergo the expense of obtaining the opinion of independent auditors for its 1977 statements. Accordingly, this year's statements are unaudited.

Vigorous efforts on the part of management were expended during fiscal 1976/1977 in an attempt to produce a profit. The difficulties referred to last year persisted, however, continuing to hurt the Corporation. Rising costs for taxes labor, fuel and electricity as well as for materials from suppliers tended to reduce profit margins and make products uncompetitive. Moreover, the Corporation does business in over 100 countries, as well as with the U.S. Government, and as a consequence worldwide disturbed conditions made it difficult to obtain prompt payment, particularly in those countries which lack stable currencies. This in turn places a burden on inventory and cash flow.

Domestic and foreign economic difficulties continued during this year and the Corporation was adversely affected.

The Company has adopted an austere budget for fiscal 1977/78 to reduce overhead and increase efficiency. As a consequence, it was decided that the Company would forego the very substantial expense of the usual annual audit and utilize such funds for other required operating expenses. The financial statements for the fiscal year ended September 30, 1977 are comparable to those issued in prior years, except they were not audited by independent accountants.

Notwithstanding the difficulties mentioned above, at this writing the Corporation has maintained a substantial backlog. Although we continue to manufacture and have finished goods ready for delivery, 25% of this backlog is awaiting letters of credit.

It is the desire of management to portray as clearly as possible the exact status of the affairs of the Corporation and to assure all shareholders of the determined effort to conserve assets and eventually to produce a profit.

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

CONSOLIDATED BALANCE SHEET

September 30, 1977 and 1976

ASSETS	1977	1976
CURRENT ASSETS:		
Cash	$ 90,888	$ 215,231
Accounts receivable — $177,929 in 1977 and $206,799 in 1976 from the U.S. and foreign governments (Note 8)	306,611	536,640
Notes receivable, current portion	23,625	319,812
Inventories, at the lower of cost or market (Note 4)	2,735,630	2,864,159
Prepaid expenses	86,241	71,706
Total current assets	3,242,995	4,007,548
PROPERTY, PLANT AND EQUIPMENT, at cost (Note 5):		
Land	197,071	197,071
Buildings and building equipment	1,149,736	1,146,847
Machinery and equipment	1,263,743	1,264,315
Leasehold improvements	—	—
	2,610,600	2,608,233
Less accumulated depreciation and amortization	1,813,081	1,789,914
	797,519	818,319
OTHER ASSETS:		
Property held for sale or rental	631,900	621,691
Long-term note receivable, less current portion above	47,250	70,875
	679,150	692,566
	$4,719,664	$5,518,433

The accompanying notes to consolidated financial statements are an integral part of this statement.

CONSOLIDATED BALANCE SHEET

September 30, 1977 and 1976

LIABILITIES AND STOCKHOLDERS' EQUITY	1977	1976
CURRENT LIABILITIES:		
Notes payable to banks (Note 7)	$ 850,000	$ 980,000
Indebtedness to bank (Note 8)	51,575	—
Demand notes payable to officers at 7% interest	1,000,000	830,000
Accounts payable	293,515	339,011
Accrued income taxes	1,850	5,000
Other accrued taxes and expenses	124,556	137,016
Current installments of mortgages and notes payable	50,111	47,191
Total current liabilities	2,371,607	2,338,218
LONG-TERM DEBT:		
Mortgages and notes payable — 6% to 7½% due 1977-1992 (less current installments, above) (Note 7)	906,212	954,366
COMMITMENTS AND CONTINGENCIES (Note 8)	—	—
STOCKHOLDERS' EQUITY:		
Common stock, par value 12½¢ per share: Authorized — 4,000,000 shares; issued — 2,847,704 shares in 1977 and 1976)	355,963	355,963
Capital surplus	6,924,042	6,924,042
Earned surplus (deficit)	(5,838,160)	(5,054,156)
	1,441,845	2,225,849
	$4,719,664	$5,518,433

The accompanying notes to consolidated financial statements are an integral part of this statement.

• WORLD WIDE SUPPLIERS • OF ELECTRONIC COMMUNICATIONS EQUIPMENT

LIABILITIES

AND STOCKHOLDERS' EQUITY

WORLD WIDE SUPPLIERS • OF ELECTRONIC COMMUNICATIONS EQUIPMENT •

OPERATIONS

AND EARNED SURPLUS (Deficit)

CONSOLIDATED STATEMENT OF INCOME AND DEFICIT

For the Years Ended September 30, 1977 and 1976

	1977	1976
Net sales	$2,168,803	$2,928,039
Cost of sales (Note 3 & 4)	1,582,411	2,178,691
Engineering and development expenses (Note 3)	274,248	255,190
Selling, general and administrative expenses (Note 3)	982,140	1,062,949
Interest expense	177,282	181,317
Other — net	(63,274)	(22,201)
	2,952,807	3,655,946
Loss from continuing operations	(784,004)	(727,907)
Income from discontinued operations (Note 3)	—	31,591
Net income (loss)	(784,004)	(696,316)
Deficit at beginning of year	(5,054,156)	(4,357,840)
Deficit at end of year	$(5,838,160)	$(5,054,156)
Net income (loss) per share (Note 9)	$ (.28)	$ (.24)

The accompanying notes to consolidated financial statements are an integral part of this statement.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

For the Years Ended September 30, 1977 and 1976

	1977	1976
SOURCES OF WORKING CAPITAL:		
Reduction of long-term note receivable	$ 23,625	$ 23,625
APPLICATIONS OF WORKING CAPITAL:		
Operations:		
Net loss (income)	784,004	696,316
Depreciation and amortization of property, plant and equipment	(54,712)	(95,459)
	729,292	600,857
Reduction of mortgage and notes payable	48,154	57,971
Purchase of property, plant and equipment, net of sales	44,121	(86,613)
	821,567	572,215
Increase (decrease) in working capital	(797,942)	$(548,590)
DETAILS OF CHANGES IN WORKING CAPITAL:		
Increase (decrease) in current assets:		
Cash	(124,343)	$(3,047)
Accounts receivable	(230,029)	(284,957)
Notes receivable	(296,187)	296,187
Inventories	(128,529)	(474,936)
Prepaid expenses	14,535	(4,525)
	(764,553)	(471,278)
Increase (decrease) in current liabilities:		
Notes payable	40,000	300,000
Indebtedness to Bank	51,575	—
Accounts payable and accrued liabilities	(61,106)	(190,727)
Current installments of mortgages and notes payable	2,920	(31,961)
	(33,389)	77,312
Increase (decrease) in working capital	$(797,942)	$(548,590)

The accompanying notes to consolidated financial statements are an integral part of this statement.

NOTES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 1977 and 1976

NOTE 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.

The Company and its subsidiaries sustained material losses during the preceding seven years. Reduced United States government business and other market conditions have had adverse effects on the company's operations and on its abilities to sustain such losses.

The financial statements have been prepared on the basis of accounting principles applicable to a going concern. This basis presumes that cash will be available to finance future operations and that the realization of assets and settlement of liabilities will occur in the ordinary course of business, rather than through a process of liquidation. In the latter case the net realizable value of assets such as inventory and fixed assets could be significantly higher or lower than as shown in these financial statements.

The Company's continued operations are dependent upon its majority stockholder's willingness and ability to continue financing corporate operations. At September 30, 1977, such financing aggregated $1,970,000 representing direct loans of $970,000 and a $1,000,000 bank line of credit guaranteed by the stockholder personally, of which $850,000 has been utilized.

NOTE 2: 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.

Net assets shown by the books of the consolidated subsidiaries was less than the amount by which the Company's investment therein is carried on its books by $2,223,761 at September 30, 1977 and by $2,156,593 at September 30, 1976. In consolidation, deficits and undistributed earnings (respectively) of subsidiaries since dates of formation or acquisition has been charged or credited to earned surplus in the amounts of $1,852,070 at September 30, 1977 and $1,774,902 at September 30, 1976. The excess of cost over the book value of net assets of a subsidiary acquired in prior years in the amount of $381,691 at September 30, 1977 and 1976 (net of depreciation) has been charged to property, plant and equipment.

NOTE 3: In August 1976, the Company sold the net assets of its subsidiary, TMC Systems (Arizona), Inc. The subsidiary's gross sales of $759,000 and the related cost and expense items have been deleted as line items and the net income for the period, and the corporation's gain on sale, are reflected below net income from operations, as net income from discontinued operations. Prior year income statements were restated to maintain comparability of continuing operations. The subsidiary was formally dissolved in November 1977.

In September 1977, the Company decided to cease operations of its subsidiary in Switzerland. The subsidiary had net assets of $92,300 at September 30, 1977, including $102,000 due from its parent company.

NOTE 4: 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, 1977 and September 30, 1976, 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, adequate provisions have been made.

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

	1977	1976
Finished goods	$ 646,250	$ 561,020
Work in process.........	477,386	826,219
Raw materials...........	1,611,994	1,476,920
	$2,735,630	$2,864,159

NOTE 5: 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 expired in 1977. At September 30, 1974 land and building aggregating $945,912 net of accumulated depreciation of $317,559 were reclassified to "Property held for sale or rental."

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

NOTE 6: The Company's Employees' Savings Trust Plan was terminated as of September, 1975. The accumulated contributions in the plan were distributed to the participants in the plan during the year ended September 30, 1976.

NOTE 7: Mortgage and note payments due during the four years subsequent to the 1978 fiscal year aggregate $51,620 for 1979; $55,135 for 1980; $58,682 for 1981; and $64,397 for 1982.

The notes payable to banks are secured by collateral pledged by the Corporation's president, a majority stockholder.

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 $39,000 of accounts receivable were pledged as collateral against an indebtedness of a subsidiary to its bank.

Approximately 29 per cent of the Company's 1977 business is subject to renegotiation. The Company believes 1977 will be settled without any refund. All years through 1976 have been settled.

The Company is contingently liable for $1,350 on an open letter of credit, and on a mortgage relating to a sale of the Company's former Nyack plant, which the purchaser bought subject to the mortgage, on which the Company remains liable.

The Company has no minimum lease commitments under non-cancellable leases.

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

NOTE 10: Sales to United States Government agencies aggregated $605,000 for the year ended September 30, 1977.

Board of Directors
The Technical Materiel Corporation
Mamaroneck, New York

We present the accompanying consolidated balance sheets of THE TECHNICAL MATERIEL CORPORATION and subsidiaries at September 30, 1977 and 1976, and the related consolidated statements of income and deficit and changes in financial position for the years then ended.

The aforementioned financial statements at and for the year ended September 30, 1976 are provided for comparative purposes and are the subject of our auditors' report dated December 9, 1976.

The financial statements at and for the year ended September 30, 1977 were prepared without audit from the books and records of the corporation. Accordingly, we can express no opinion of them.

MARSHALL GRANGER & COMPANY
Mamaroneck, New York
February 10, 1978

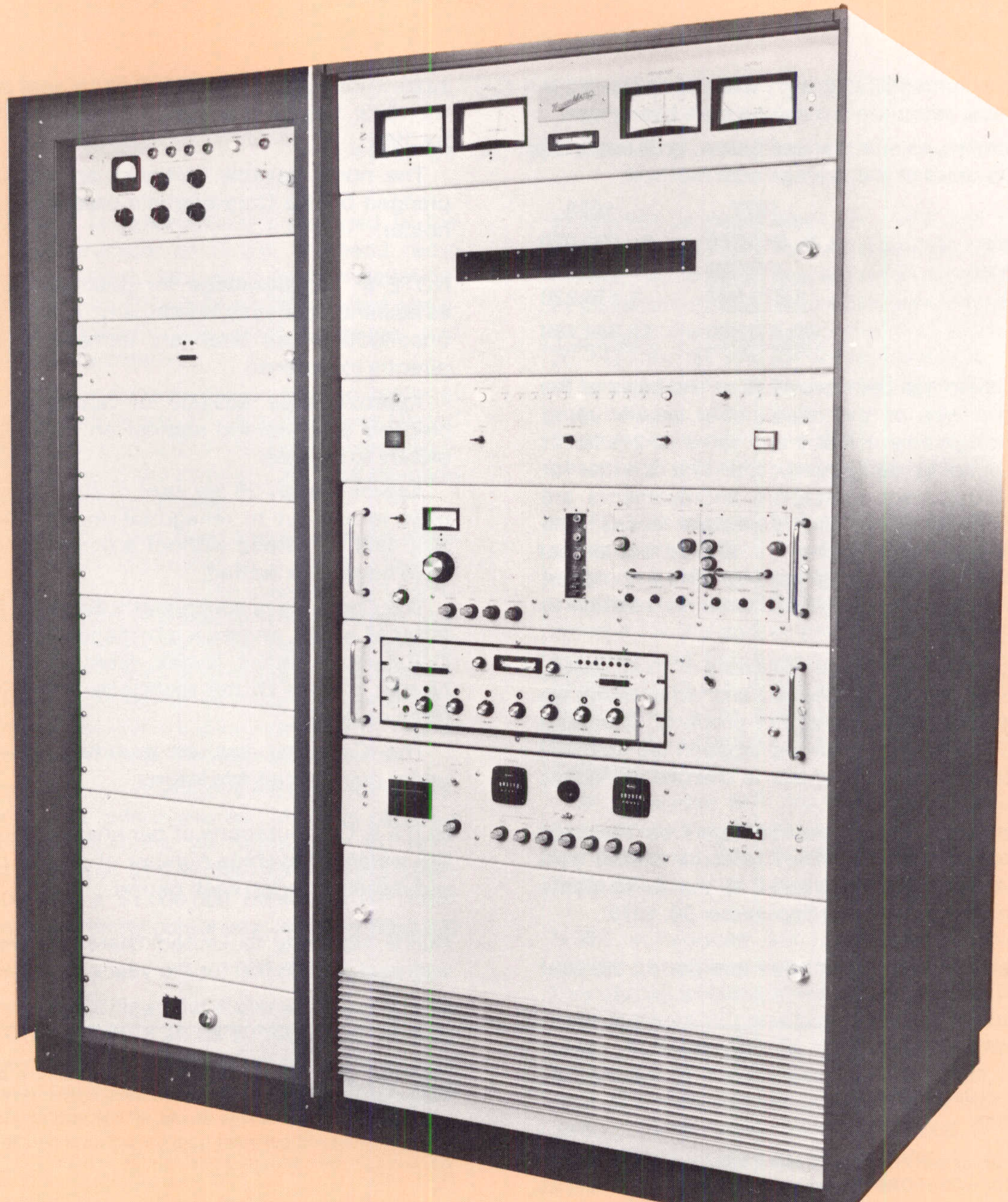
NOTES

AUDITORS' REPORT

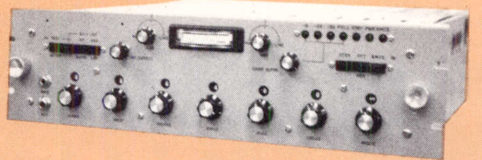
Marshall Granger & Company
Certified Public Accountants

WORLD WIDE SUPPLIERS OF ELECTRONIC COMMUNICATIONS EQUIPMENT

NEW PRODUCTS

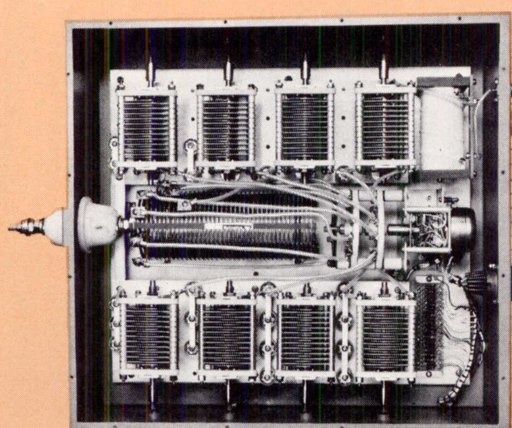


This high power transmitter, completely automatic and remote controlled, was recently shipped to the Mediterranean area. In our opinion it represents the latest in the "state of the art".



The MMX-2B above developed in the last year, is a complete "solid state" synthesized exciter, probably the best in our field.

This remote unit using controlled tones permits full operation of communication equipment from a separate operating site.



The ATU-1K8, a 1,000 watt channelized antenna tuner, provides maximum utility for lower power transmitters.

• WORLD WIDE SUPPLIERS • OF ELECTRONIC COMMUNICATIONS EQUIPMENT

NEW PRODUCTS

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

TMC Display at 1977 Armed Forces Communications Show, Washington, D.C.

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