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# ANNUAL REPORT 1978

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	
	1978	1977
Net Sales . . . . .	\$2,347,274	\$2,168,803
Net Profit (loss) . . . . .	(651,145)	(784,004)
Current Assets . . . . .	3,314,505	3,242,995
Current Liabilities . . . . .	3,089,182	2,371,607
Working Capital . . . . .	225,323	871,388
Current Ratio . . . . .	1.1 to 1	1.3 to 1
Property, Plant and Equipment		
Net . . . . .	772,667	797,519
Property held for Rental . . . . .	622,692	631,900
Stockholders' Equity . . . . .	790,700	1,441,845
Net Profit (loss) per Share . . . . .	(.23)	(.28)
Book Value per Share . . . . .	.27	.50
Stockholders . . . . .	5835	5906
Number of 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.



message from the president . . .

This statement has been delayed due to a strike which lasted four months and seriously interfered with our ability to collect the necessary data. We are currently working on the report for fiscal 1978/79.

The company continues to survive despite unfavorable conditions which are all too familiar.

While the effect of the strike will be felt in the first part of the fiscal 78/79, indications are that the final six months will have shown a favorable trend.

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, 1978 and 1977

### ASSETS

	1978	1977
Cash .....	\$ 63,332.	\$ 90,888.
Account receivable — \$51,847. in 1978, \$177,929 in 1977 from the United States and Foreign Governments (Note 8) .....	395,779.	306,611.
Notes receivable, current portion .....	\$23,625.	23,625.
Inventories, at the lower of cost or market (Note 4) .....	2,773,504.	2,735,630.
Prepaid expenses .....	58,265.	86,241.
 Total current assets .....	 <u>3,314,505.</u>	 <u>3,242,995.</u>
 PROPERTY, PLANT and EQUIPMENT, at cost (Note 5):		
Land .....	197,071.	197,071.
Buildings and building equipment .....	1,149,786.	1,149,786.
Machinery and equipment .....	1,277,816.	1,263,743.
	 <u>2,624,673.</u>	 <u>2,610,600.</u>
 Less accumulated depreciation and amortization .....	 1,852,006.	 1,813,081.
	 <u>772,667.</u>	 <u>797,519.</u>
 OTHER ASSETS:		
Property held for sale or rental .....	622,692.	631,900.
Long-term note receivable, less current portion above .....	23,625.	47,250.
	 <u>646,317.</u>	 <u>679,150.</u>
	 <u>\$4,733,489.</u>	 <u>\$4,719,664.</u>

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



# LIABILITIES

## AND STOCKHOLDERS' EQUITY

CONSOLIDATED BALANCE SHEET  
September 30, 1978 and 1977

### LIABILITIES and STOCKHOLDERS' EQUITY

	1978	1977
<b>CURRENT LIABILITIES:</b>		
Notes payable to banks (Note 7) . . . . .	\$ 850,000	\$ 850,000.
Indebtedness to bank (Note 8) . . . . .	20,000.	51,575.
Demand notes payable to officers . . . . .	1,215,000.	1,000,000.
Accounts payable . . . . .	723,422.	293,515.
Accrued income taxes . . . . .	—	1,850.
Other accrued taxes and expenses . . . . .	226,371.	124,556.
Current installments of mortgages and notes payable . . . . .	54,389.	50,111.
	<u>3,089,182.</u>	<u>2,371,607.</u>
<b>LONG-TERM DEBT:</b>		
Mortgages and notes payable — 6% to 7½% due 1978-1992 (less current installments, above) (Note 7) . . . . .	853,607.	906,212.
COMMITMENTS and CONTINGENCIES (Note 8) . . . . .	—	—
<b>STOCKHOLDERS' EQUITY:</b>		
Common stock, par value 12½¢ per share:		
Authorizes — 4,000,000 shares:		
Issued — 2,847,704 shares in 1978 and 1977 . . . . .	355,963.	355,963.
Capital surplus . . . . .	6,924,042.	6,924,042.
Earned surplus (deficit) . . . . .	(6,489,305.)	(5,838,160.)
	<u>790,700.</u>	<u>1,441,845.</u>
	<u>\$4,733,489.</u>	<u>\$4,719,664.</u>

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



# OPERATIONS

AND EARNED SURPLUS (Deficit)

## CONSOLIDATED STATEMENT OF INCOME AND DEFICIT

For the Years Ended September 30, 1978 and 1977

	1978	1977
Net sales.....	<u>\$2,347,274</u>	<u>\$2,168,803</u>
Cost of sales.....	1,691,312	1,582,411
Engineering and development expenses.....	225,501	274,248
Selling, general and administrative expenses.....	958,251	982,140
Interest expense.....	153,902	177,282
Other — net.....	<u>(30,547)</u>	<u>(63,274)</u>
	<u>2,998,419</u>	<u>2,952,807</u>
Net loss.....	(651,145)	(784,004)
Deficit at beginning of year.....	<u>(5,838,160)</u>	<u>(5,054,156)</u>
Deficit at end of year.....	<u><u>\$(6,489,305)</u></u>	<u><u>\$(5,838,160)</u></u>
Net income (loss) per share (Note 9).....	<u>\$ (.23)</u>	<u>\$ (.28)</u>

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



## CHANGES IN FINANCIAL POSITION

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION  
For the Year Ended September 30, 1978 and 1977

	1978	1977
<b>SOURCES OF WORKING CAPITAL:</b>		
Reduction of long-term note receivable . . . . .	\$ 23,625.	\$ 23,625.
<b>APPLICATIONS OF WORKING CAPITAL:</b>		
Operations:		
Net loss . . . . .	651,145.	784,004.
Depreciation and amortization of property, plant and equipment . . . . .	(52,065.)	(54,712.)
	599,080.	729,292.
Reduction of mortgage and notes payable . . . . .	52,605.	48,154.
Purchase of property, plant and equipment, net of sales . . . . .	18,005.	44,121.
	669,690.	821,567.
Increase (decrease) in working capital . . . . .	\$(646,065.)	\$(797,942.)
<b>DETAILS OF CHANGES IN WORKING CAPITAL:</b>		
Increase (decrease) in current assets:		
Cash . . . . .	\$ (27,556.)	\$(124,343.)
Accounts receivable . . . . .	89,168.	(230,029.)
Notes receivable . . . . .	—	(296,187.)
Inventories . . . . .	37,874.	(128,529.)
Prepaid expenses . . . . .	(27,976.)	14,535.
Increase (decrease) in current liabilities:		
Demand notes payable to officers . . . . .	215,000.	40,000.
Indebtedness to bank . . . . .	(31,575.)	51,575.
Accounts payable and accrued liabilities . . . . .	529,872.	(61,106.)
Current installments of mortgages and notes payable . . . . .	4,278.	2,920.
	717,575.	(33,389.)
Increase (decrease) in working capital . . . . .	\$(646,065.)	\$(797,942.)

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



# NOTES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 1978 and 1977

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 representatives.

The Company and its subsidiaries sustained material losses during the preceding eight 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, 1978, such financing aggregated \$2,185,000, representing direct loans of \$1,185,000, and a \$1,000,000 bank line of credit guaranteed by the stockholders personally, of which \$850,000 has been utilized.

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 \$2,361,932, at September 30, 1978 and by \$2,223,761, at September 30, 1977. 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 \$1,980,241, at September 30, 1978 and \$1,852,070, at September 30, 1977. The excess of \$381,691, at September 30, 1978 and 1977 (net depreciation) has been charged to property held for rental.

3. In August 1976, the Company sold the net assets of its subsidiary, TMC Systems (Arizona), Inc. The subsidiary has not been formally dissolved.

In September 1977, the Company decided to cease operations of its subsidiary in Switzerland. The subsidiary had net assets of \$85,400, at March 31, 1978, including \$95,860, due from its parents company.





## NOTES

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, 1978 and September 30, 1977, over \$2,000,000. of the Company's inventories, 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 provision have been made.

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

	1978	1977
Finished goods	\$ 944,813	\$ 646,250
Work in process	776,152	477,386
Raw materials	<u>1,052,539</u>	<u>1,611,994</u>
	\$2,773,504	\$2,735,630

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%-33½% 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 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.

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.
7. Mortgages and note payments due during the four years subsequent to the 1979 fiscal year aggregate \$55,135. for 1980, \$58,682. for 1981, \$64,397. for 1982 and \$67,157. for 1983.

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

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 \$20,000. of accounts receivable were pledged as collateral against an indebtedness of a subsidiary to its bank.



## NOTES

Approximately 29 per cent of the Company's 1978 business is subject to renegotiation. The Company believes 1978 will be settled without any refund. All years through 1977 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.

9. Computations of per share amounts are based on the weighted average number of shares of common stock outstanding during each period.
10. Sales to United States Government agencies aggregated \$595,000. for the year ended September 30, 1978.

Board of Directors  
The Technical Materiel Corporation  
Mamaroneck, New York

We present the comparative consolidated balance sheets of THE TECHNICAL MATERIEL CORPORATION and subsidiaries as at September 30, 1978 (March 31, 1978 with respect to TMC, AG) and 1977, and the related consolidated statements of income and deficit and changes in financial position for the years (six months with respect to TMC, AG) then ended.

The aforementioned financial statements have been prepared on a going concern basis which contemplates continuity and realization of

assets and liquidation of liabilities in the ordinary course of business. Because of significant and continuing operating losses, the company's ability to continue as a going concern is dependent upon the attainment of profitable operations and arrangement of satisfactory financing.

We are not independent with regard to Technical Materiel Corporation. We have not audited the books and records of the Corporation and, accordingly, are unable to express an opinion regarding the above-mentioned financial statements.

MARSHALL GRANGER & COMPANY  
Mamaroneck, New York  
July 20, 1979

# **THE TECHNICAL MATERIEL CORPORATION**

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