



THE TECHNICAL MATERIEL CORPORATION
1986 ANNUAL REPORT

directors . . .

Ray H. de PASQUALE
Chairman

Neil H. de PASQUALE

Frank BUDETTI

George W. JENNINGS

Sandra E. MacDONALD

officers . . .

Eugene J. HOFMANN
President

Frank BUDETTI
Vice President

Ray H. de PASQUALE
Treasurer

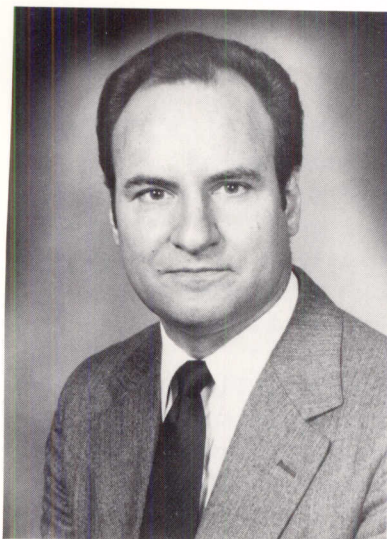
Ruth S. TAYLOR
Secretary

business highlights . . .

	1986	1985	1984
Net Sales	\$1,170,414	\$2,271,919	\$1,980,924
Net Profit (Loss)	(826,751)	10,719	392,517
Current Assets	2,752,067	3,372,406	3,512,709
Current Liabilities	1,052,524	795,455	935,196
Working Capital	1,699,543	2,576,951	2,577,513
Current Ratio	2.6-to-1	4.2-to-1	3.8-to-1
Property, Plant and Equipment (Net)	169,548	193,891	207,612
Stockholders' Equity	1,144,091	1,970,842	1,960,123
Net Profit (Loss) per Share	(0.29)	--	0.14
Book Value per Share	0.40	0.69	0.69
Stockholders of Record	5,057	5,157	5,171
Shares of Stock Outstanding	2,847,704	2,847,704	2,847,704

The Technical Materiel Corporation's common stock has had a very limited market and the price range for the three preceding years has been 1/8 to 3/4.

message from the chairman . . .



Neil H. de Pasquale
President

Prior to assuming his present position in October, 1986, Mr. de Pasquale served as Vice President, Marketing for TMC. In addition to his work in international sales, he has held senior engineering positions with GTE Satellite Corporation in the area of communication satellite systems and fiber optics, and with MCI International Corporation in the areas of microwave radio and remote computer control of large-scale networks. Mr. de Pasquale holds a Bachelor of Electrical Engineering degree from Cornell University and a Master of Business Administration degree in Finance from New York University.

TMC had a difficult year in fiscal 1985/86. Results for the period were affected by many factors beyond our control. Export business was affected by the fluctuation of the American dollar versus the currency of other countries and military business was in turn affected by U.S. Government economy measures.

We have maintained a large supply of spare parts for various Government services. These items have been "slow moving", and in view of the slowdown in military procurement, it was felt that many of these items should be removed from the inventory.

At a time when "re-structuring" seems to have become a byword, we have materially reduced our overheads, our long-term debt, and our short-term debt. This will place the company in a much better position to compete.

Our President, Mr. Gene Hofmann, resigned his position for personal reasons and has been superseded by Mr. Neil de Pasquale, who is well qualified to lead the company to better times.

In the new year, we are beginning a new and comprehensive direct mail campaign to widen our field of customers, particularly in areas where our new computer-control remote control systems find application. Despite our difficulties, we remain in good financial shape and are looking forward to a better year in fiscal 1987.


Chairman

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.

operations . . .

STATEMENT OF INCOME AND DEFICIT For the Years Ended September 30, 1986, 1985 and 1984

	1986	1985	1984
Net Sales	\$ 1,170,414	\$ 2,271,919	\$ 1,980,924
Cost of Sales	<u>781,331</u>	<u>1,415,898</u>	<u>1,135,912</u>
Gross Profit	<u>389,083</u>	<u>856,021</u>	<u>845,012</u>
Operating Expenses:			
Engineering and Development	44,576	156,974	161,843
Selling, General and Administrative	<u>510,836</u>	<u>527,884</u>	<u>575,310</u>
	<u>555,412</u>	<u>684,858</u>	<u>737,153</u>
Income (Loss) from Operations	<u>(166,329)</u>	<u>171,163</u>	<u>107,859</u>
Other Income (Expense):			
Interest	(143,876)	(160,343)	(167,010)
Gain on Sale of Assets	--	--	444,672
Other, Net	<u>4,544</u>	<u>9,962</u>	<u>11,460</u>
	<u>(139,332)</u>	<u>(150,381)</u>	<u>289,122</u>
Net Income (Loss) Before Provision for Taxes on Income and Extraordinary Item	(305,661)	20,782	396,981
Provision for Taxes	<u>2,865</u>	<u>11,186</u>	<u>147,040</u>
Net Income (Loss) Before Extraordinary Item	<u>(308,526)</u>	<u>9,596</u>	<u>249,941</u>
Extraordinary Item:			
Utilization of Net Operating Loss Carryforward	--	1,123	142,576
Write-down of Inventory to Market Value	<u>518,225</u>	<u>--</u>	<u>--</u>
Net Income (Loss)	<u>(826,751)</u>	<u>10,719</u>	<u>392,517</u>
Deficit, Beginning of Year	<u>(5,309,163)</u>	<u>(5,319,882)</u>	<u>(5,712,399)</u>
Deficit, End of Year	<u>(6,135,914)</u>	<u>(5,309,163)</u>	<u>(5,319,882)</u>
Net Income (Loss) per Common Share Before Extraordinary Item	\$ (.1083)	\$.0034	\$.0878
Extraordinary Item	<u>(.1820)</u>	<u>.0004</u>	<u>.0501</u>
Net Income (Loss) per Common Share	<u>\$ (.2903)</u>	<u>\$.0038</u>	<u>\$.1379</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

financial position . . .

STATEMENT OF CHANGES IN FINANCIAL POSITION For the Years Ended September 30, 1986, 1985 and 1984

FUNDS WERE PROVIDED BY:	1986	1985	1984
Income Before Extraordinary Item	\$ --	\$ 9,596	\$ 249,941
Items Not Affecting Working Capital:			
Depreciation	--	28,208	31,153
Gain on Sale of Land, Building and Equipment	--	--	(444,672)
Extraordinary Item	--	1,123	142,576
Sale of Land, Buildings and Other Property	--	--	743,200
	<u>--</u>	<u>38,927</u>	<u>722,198</u>
FUNDS WERE APPLIED TO:			
Loss Before Extraordinary Item	308,526	--	--
Items Not Affecting Working Capital: Depreciation	(26,213)	--	--
Extraordinary Item	518,225	--	--
Reduction of Mortgage Notes Payable	--	--	419,927
Reduction of Mortgage Payable to Officer	75,000	25,000	175,000
Purchase of Property, Plant and Equipment	1,870	14,489	15,910
Translation Adjustments	--	--	(1,148)
	<u>877,408</u>	<u>39,489</u>	<u>609,689</u>
Increase (Decrease) in Working Capital	(877,408)	(562)	112,509
WORKING CAPITAL:			
Beginning of Year	<u>2,576,951</u>	<u>2,577,513</u>	<u>2,465,004</u>
End of Year	\$ <u>1,699,543</u>	\$ <u>2,576,951</u>	\$ <u>2,577,513</u>
DETAILS OF CHANGES IN WORKING CAPITAL:			
Increase (Decrease) in Current Assets:			
Cash	\$ (8,301)	\$ (24,541)	\$ (11,657)
Accounts Receivable	(38,098)	(19,213)	(86,455)
Inventories	(546,027)	(103,985)	46,299
Prepaid Expenses	(27,913)	7,436	(12,246)
	<u>(620,339)</u>	<u>(140,303)</u>	<u>(64,059)</u>
Increase (Decrease) in Current Liabilities:			
Notes Payable to Bank	(150,000)	(100,000)	(200,000)
Current Installments of Mortgage Notes Payable	25,000	--	(10,440)
Demand Notes Payable to Officer	415,000	(20,000)	--
Accounts Payables	(27,541)	(8,524)	26,935
Accrued Taxes and Expenses	(5,390)	(11,217)	6,937
	<u>(257,069)</u>	<u>(139,741)</u>	<u>(176,568)</u>
Increase (Decrease) in Working Capital	\$ <u>(877,408)</u>	\$ <u>(562)</u>	\$ <u>112,509</u>

assets . . .

BALANCE SHEET September 30, 1986, 1985 and 1984

ASSETS

	1986	1985	1984
CURRENT ASSETS:			
Cash	\$ 29,326	\$ 37,627	\$ 62,168
Accounts Receivable:	229,359	267,457	286,670
Inventories, at the Lower of Cost or Market, Net of \$580,000 Reserve for Obsolescence in 1985,1984	2,474,557	3,020,584	3,124,569
Prepaid Expenses	<u>18,825</u>	<u>46,738</u>	<u>39,302</u>
TOTAL CURRENT ASSETS	<u>2,752,067</u>	<u>3,372,406</u>	<u>3,512,709</u>
 PROPERTY, PLANT AND EQUIPMENT, At Cost			
Land	71,817	71,817	71,817
Building and Building Equipment	408,400	408,400	406,800
Machinery and Equipment	<u>1,209,908</u>	<u>1,209,187</u>	<u>1,203,283</u>
	1,690,125	1,689,404	1,681,900
Less: Accumulated Depreciation	<u>1,520,577</u>	<u>1,495,513</u>	<u>1,474,290</u>
	<u>169,548</u>	<u>193,891</u>	<u>207,610</u>
	<u>\$ 2,921,615</u>	<u>\$ 3,566,297</u>	<u>\$ 3,720,319</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

liabilities...

BALANCE SHEET
September 30, 1986, 1985 and 1984

LIABILITIES AND STOCKHOLDERS' EQUITY

	1986	1985	1984
CURRENT LIABILITIES:			
Notes Payable to Bank	\$ 200,000	\$ 350,000	\$ 450,000
Current Portion of Mortgage Note Payable	50,000	25,000	25,000
Demand Notes Payable to Officer	765,000	350,000	370,000
Accounts Payable, Trade	15,572	43,113	51,637
Accrued Taxes and Expenses	<u>21,952</u>	<u>27,342</u>	<u>38,559</u>
TOTAL CURRENT LIABILITIES	1,052,524	795,455	935,196
 LONG TERM DEBT:			
Mortgage Payable to Officer	<u>725,000</u>	<u>800,000</u>	<u>825,000</u>
 COMMITMENTS AND CONTINGENCIES	 --	 --	 --
 STOCKHOLDERS' EQUITY:			
Common Stock, Par Value \$0.125 per share:			
Authorized: 4,000,000; Issued: 2,847,704 shares	355,963	355,963	355,963
Capital Surplus	6,924,042	6,924,042	6,924,042
Deficit	<u>(6,135,914)</u>	<u>(5,309,163)</u>	<u>(5,319,882)</u>
	<u>1,144,091</u>	<u>1,970,842</u>	<u>1,960,123</u>
	\$ <u>2,921,615</u>	\$ <u>3,566,297</u>	\$ <u>3,720,319</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

notes. . .

NOTES TO FINANCIAL STATEMENTS

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.

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

3. During the year ended September 30, 1986, inventories were written down to current market values. The inventory reserve for obsolescence set up in prior years was eliminated, resulting in an extraordinary item of \$518,225 composed of inventory write-downs of \$1,098,225 net of \$580,000 from writing off the reserve for obsolescence.

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.

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

	1986	1985	1984
Finished Goods	\$ 1,169,026	\$ 1,133,223	\$ 1,157,098
Work In Process	31,153	366,153	416,789
Raw Materials	<u>1,274,378</u>	<u>2,101,208</u>	<u>2,130,682</u>
	2,474,557	3,600,584	3,704,569
Less Reserve for Obsolescence	<u>--</u>	<u>580,000</u>	<u>580,000</u>
	<u>\$ 2,474,557</u>	<u>\$ 3,020,584</u>	<u>\$ 3,124,569</u>

4. 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 2.5% for buildings and building equipment, and 10% to 33.33% for machinery and equipment.

5. Notes payable to bank and officer are payable on demand and bear interest at one-half per cent over prime.

6. Notes payable to officer at September 1983 of \$850,000 was converted into a mortgage note bearing interest at 9 percent. Semi-annual payments of \$25,000 are required to amortize principal for ten years, after which a payment of \$375,000 is due.

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

The corporation's federal income tax returns for the years ended September 30, 1983 and subsequent are subject to review by the United States Treasury Department.

There were no other known contingent liabilities of material amount at the balance sheet date.

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

Income tax expense at September 30, 1985 and 1984 contain a charge in lieu of Federal and New York State franchise taxes that would have been required to be paid had the company not been able to utilize its net operating loss carryforward. The tax benefits of such utilization are shown as an extraordinary item.

Net operating loss carryforwards aggregating \$2,003,957 are available to offset future years' income, and expire \$432,626 in 1993 and \$164,580 in 1994 and \$1,406,751 in 2001. Unused investment credits aggregating \$9,906 are also available, the bulk of which expire from 1993 to 2001.

9. Sales to the United States Government agencies aggregated \$459,124 for the year ended September 30, 1986 and \$1,360,317 for 1985.

corporate information. . .

accountants' report. . .

Board of Directors
The Technical Materiel Corporation
Mamaroneck, New York

Gentlemen:

The accompanying balance sheet of **THE TECHNICAL MATERIEL CORPORATION** at September 30, 1986, 1985 and 1984, and the related statements of income and deficit and changes in financial position for the years then ended were not audited by us and, accordingly, we do not express an opinion on them.

MARSHALL GRANGER & COMPANY

Mamaroneck, New York
November 26, 1986

PRINCIPAL FINANCIAL CONTACT:

Mr. Ray H. de Pasquale
Chairman of the Board
The Technical Materiel Corporation
700 Fenimore Road
Mamaroneck, New York 10543
914/698-4800

CORPORATE CENTER

700 Fenimore Road
Mamaroneck, New York 10543
Telephone : 914-698-4800
Telex: 137-358

COMMON STOCK

Traded Over-The-Counter

Kidder, Peabody and Company
20 Exchange Place
New York, New York 10005

Price Range:

TMC Common Stock has had a very limited market and the price range for the three preceding years has been 1/8 to 7/8.

TRANSFER AGENTS and REGISTRAR

American Stock Transfer Company
99 Wall Street
New York, New York 10005

FOR FURTHER INFORMATION ABOUT TMC:

Mr. Neil H. de Pasquale, President
The Technical Materiel Corporation
700 Fenimore Road
Mamaroneck, New York 10543
914/698-4800

background . . .

The Technical Materiel Corporation (TMC) is a worldwide supplier of electronic communications equipment with its Headquarters facilities and principal manufacturing plant located in Mamaroneck, New York (USA). The corporation was founded and organized in 1947 as a primary supplier of practical, reliable telecommunications products. Four decades of growth measure TMC's success in providing well-engineered products of the finest workmanship, supported by a wide variety of technical services and a competent staff of trained professionals. Today, TMC provides over 400 products directly to more than 140 countries.

The excellence of TMC products and the comparatively large share of the world telecommunications market TMC maintains was achieved by consistently producing high-quality equipment to meet the needs of end users. This achievement is due primarily to TMC's financial stability, managerial talent and technical competence. A 40-year track record of successfully supplying proven, field-tested designs to end users is clear evidence that the respect and loyalty of TMC customers was gained by providing only products and services of the greatest possible value.

TMC develops products that enable people to communicate more efficiently and dependably. By concentrating on the means for transferring information, TMC's ongoing development has created an extensive product line, backed by broad technical expertise in the application of electronic equipment to modern communication systems. Virtually all elements in the communications chain are furnished by TMC including terminal interface equipment, transmission systems and large-scale network management facilities.

TMC has in-depth expertise in the engineering and financial disciplines that enable large-scale communications systems to be constructed worldwide. These disciplines, when applied to the many sub-systems that comprise a modern telecommunications facility, become the complete fixed and transportable systems that TMC regularly ships from its assembly plant to overseas sites. In fact, TMC equipment operates today in thousands of locations throughout the world, providing dependable service under such punishing conditions as are found in the Arctic, the Antarctic, the desert, underground, in submarines, on floating icebergs, on surface ships, and in aircraft.

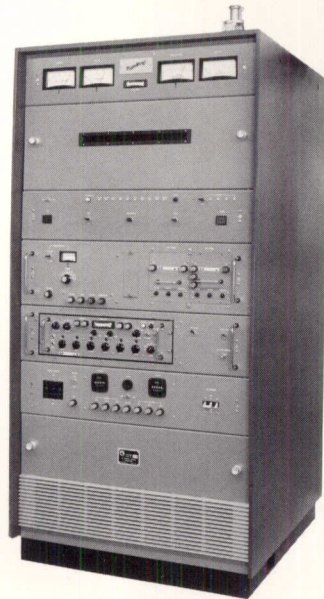
The ruggedness and dependability of equipment that is demanded by such repeat TMC customers as the U.S. Military and government agencies; over 140 foreign countries; multi-national corporations; and many educational/research institutes, reflects the attention TMC gives to both design and workmanship. By TMC emphasizing quality in the factory, dependability in the field is virtually assured. Worldwide acceptance of TMC and its products attest to this demonstrated performance.

Continuing programs of research and development are carried on by TMC to meet the demands of a modern, dynamic market. Originally specializing in single sideband transmission systems, TMC's product mix and technical capabilities have kept pace with advances in modern communications. Today, TMC equipment can be remotely controlled via digital networks and are designed to process digital data, analog voice, facsimile, graphics, and low-speed teletype. Technical services covering engineering, software development, assembly, installation, training and system integration round out the TMC picture by providing complete customer support so vital to the successful operation of technologically advanced equipment.

new products . . .

TMC continues to develop new products that not only meet changing market demands but are compatible with existing systems operating in the field. By consistently offering new and modern equipment to professional communicators worldwide, TMC maintains vital links with its many customers - a key element in establishing on-going relationships.

Among the many products TMC has developed and improved upon is the ten kilowatt HFT-10K transmitter - a mainstay of the TMC product line. The most efficient and cost-effective unit on the market today, this product is designed for long-haul communications and can be remotely controlled by computer command.



The RMC-10 micro-computer system is used for the remote monitor and control of communication installations. The software for this system was developed by TMC and consists of over 25 discrete modules which can be mixed and matched to the specific requirements of an entire group of stations. The software is structured to allow the transport of this product to other, more powerful computers with virtually no additional development cost.



Applying advanced techniques to communications is not a new concept to TMC engineers. The ATS-4 antenna tuning system to be launched in the spring of 1987, represents the next logical step in computer control. The unit is totally self-contained with a microprocessor that is programmed to read and interpret the RF energy in the circuit. This enables the tuner to work with any transmitter, whether or not it was designed by TMC.

ATS-4 >>



The MMX-4 exciter (above) provides the basic radio frequency signals used to drive any make transmitter. It is totally compatible with existing equipment operating in the field and is capable of processing many types of signals including digital data, voice, teletype and facsimile. The exciter is controlled remotely by the RMC-10 computer system.

