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THE TECHNICAL MATERIEL CORPORATION
1987 ANNUAL REPORT

directors . . .

Ray H. de PASQUALE
Chairman

Neil H. de PASQUALE

Sandra E. MacDONALD

Frank BUDETTI

George W. JENNINGS

officers . . .

Neil H. de PASQUALE
President

Frank BUDETTI
Vice President

Ray H. de PASQUALE
Treasurer

Ruth S. TAYLOR
Secretary

business highlights . . .

	1987	1986	1985
Net Sales	\$1,165,067	\$1,170,414	\$2,271,919
Net Profit (Loss)	67,877	(826,751)	10,719
Current Assets	2,761,070	2,752,067	3,372,406
Current Liabilities	1,055,549	1,052,524	795,455
Working Capital	1,705,521	1,699,543	2,576,951
Current Ratio	2.6-to-1	2.6-to-1	4.2-to-1
Property, Plant and Equipment (Net)	156,447	169,548	193,891
Stockholders' Equity	1,211,968	1,144,091	1,970,842
Net Profit (Loss) per Share	0.02	(0.29)	--
Book Value per Share	0.43	0.40	0.69
Stockholders of Record	5,015	5,057	5,157
Shares of Stock Outstanding	2,847,741	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 president . . .

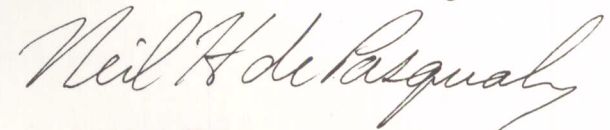
During this past fiscal year 1986/87, TMC made substantial progress in meeting its short-term objectives.

Net income for the full year was up over the previous period by \$362,520 or \$0.13 per share before extraordinary items. Order backlog for manufacturing operations was up 46% over a year ago to \$263,079 and our debt/equity ratio declined over 9%. Shareholder's equity of \$0.43 per share was up 6%, recovering a portion of the loss incurred in 1985/86 when selected slow-moving inventories were written off.

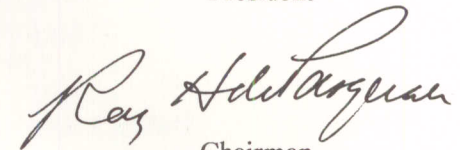
Income from continuing operations was up substantially to \$214,290 due principally to the introduction of a sophisticated computer system. This system now provides TMC with complete management control over its financial and manufacturing operations. Software for the computers was developed by TMC engineers and has attracted the attention of several large computer companies. It will be marketed this year as a TMC product throughout the United States and Canada to small business manufacturers. The revenues derived from this product will be used to fund new product development and to further reduce short-term debt.

TMC faces many challenges in the coming year. Our plans call for significantly higher levels of activity in the marketing of our products, particularly in the domestic commercial and export areas. This effort will be conducted by direct mail and by personal visits with our customers by our combined sales force of field representatives and in-house staff.

Prospects for growth in our business continue to remain good but we are ever mindful of the effects of Government austerity measures and foreign exchange rate fluctuations on the volume of business we do. TMC is in good financial shape, however, and we look forward to a better fiscal 1988.



President



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, 1987, 1986 and 1985

	1987	1986	1985
Net Sales	\$ 1,165,067	\$ 1,170,414	\$ 2,271,919
Cost of Sales	<u>623,665</u>	<u>781,331</u>	<u>1,415,898</u>
Gross Profit	<u>541,402</u>	<u>389,083</u>	<u>856,021</u>
Operating Expenses:			
Engineering and Development	29,697	44,576	156,974
Selling, General and Administrative	<u>297,415</u>	<u>510,836</u>	<u>527,884</u>
	<u>327,112</u>	<u>555,412</u>	<u>684,858</u>
Income (Loss) from Operations	<u>214,290</u>	<u>(166,329)</u>	<u>171,163</u>
Other Income (Expense):			
Interest	(147,451)	(143,876)	(160,343)
Other, Net	<u>5,848</u>	<u>4,544</u>	<u>9,962</u>
	<u>(141,603)</u>	<u>(139,332)</u>	<u>(150,381)</u>
Net Income (Loss) Before Provision for Taxes on Income and Extraordinary Item	72,687	(305,661)	20,782
Provision for Taxes	<u>18,423</u>	<u>2,865</u>	<u>11,186</u>
Net Income (Loss) Before Extraordinary Item	54,264	(308,526)	9,596
Extraordinary Item:			
Utilization of Net Operating Loss Carryforward	13,613	--	1,123
Write-down of Inventory to Market Value	<u>--</u>	<u>518,225</u>	<u>--</u>
Net Income (Loss)	<u>67,877</u>	<u>(826,751)</u>	<u>10,719</u>
Deficit, Beginning of Year	<u>(6,135,914)</u>	<u>(5,309,163)</u>	<u>(5,319,882)</u>
Deficit, End of Year	<u>\$ (6,068,037)</u>	<u>\$ (6,135,914)</u>	<u>\$ (5,309,163)</u>
Net Income (Loss) per Common Share Before Extraordinary Item	\$.0190	\$ (.1083)	\$.0034
Extraordinary Item	<u>.0048</u>	<u>(.1820)</u>	<u>.0004</u>
Net Income (Loss) per Common Share	<u>\$.0238</u>	<u>\$ (.2903)</u>	<u>\$.0038</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, 1987, 1986 and 1985

	1987	1986	1985
FUNDS WERE PROVIDED BY:			
Income Before Extraordinary Item	\$ 54,264	\$ --	\$ 9,596
Items Not Affecting Working Capital: Depreciation	23,040	--	28,208
Extraordinary Item	<u>13,613</u>	<u>--</u>	<u>1,123</u>
	<u>90,917</u>	<u>--</u>	<u>38,927</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 Payable to Officer	75,000	75,000	25,000
Purchase of Property, Plant and Equipment	<u>9,939</u>	<u>1,870</u>	<u>14,489</u>
	<u>84,939</u>	<u>877,408</u>	<u>39,489</u>
Increase (Decrease) in Working Capital	5,978	(877,408)	(562)
WORKING CAPITAL, Beginning of Year	<u>1,699,543</u>	<u>2,576,951</u>	<u>2,577,513</u>
WORKING CAPITAL, End of Year	<u>\$ 1,705,521</u>	<u>\$ 1,699,543</u>	<u>\$ 2,576,951</u>
DETAILS OF CHANGES IN WORKING CAPITAL:			
Increase (Decrease) in Current Assets:			
Cash	\$ (4,419)	\$ (8,301)	\$ (24,541)
Accounts Receivable	(69,698)	(38,098)	(19,213)
Inventories	55,658	(546,027)	(103,985)
Prepaid Expenses	<u>2,462</u>	<u>(27,913)</u>	<u>7,436</u>
	<u>(15,997)</u>	<u>(620,339)</u>	<u>(140,303)</u>
Increase (Decrease) in Current Liabilities:			
Notes Payable to Bank	(200,000)	(150,000)	(100,000)
Current Installments of Mortgage Notes Payable	--	25,000	--
Demand Notes Payable to Officer	190,000	415,000	(20,000)
Accounts Payable, Trade	4,173	(27,541)	(8,524)
Accrued Taxes and Expenses	<u>(16,148)</u>	<u>(5,390)</u>	<u>(11,217)</u>
	<u>(21,975)</u>	<u>257,069</u>	<u>(139,741)</u>
Increase (Decrease) in Working Capital	<u>\$ 5,978</u>	<u>\$ (877,408)</u>	<u>\$ (562)</u>

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

assets . . .

BALANCE SHEET
September 30, 1987, 1986 and 1985

ASSETS

	1987	1986	1985
CURRENT ASSETS:			
Cash	\$ 24,907	\$ 29,326	\$ 37,627
Accounts Receivable:	159,661	229,359	267,457
Inventories, at the Lower of Cost or Market	2,555,215	2,474,557	3,020,584
Prepaid Expenses	<u>21,287</u>	<u>18,825</u>	<u>46,738</u>
TOTAL CURRENT ASSETS	<u>2,761,070</u>	<u>2,752,067</u>	<u>3,372,406</u>
PROPERTY, PLANT AND EQUIPMENT, At Cost:			
Land	71,817	71,817	71,817
Building and Building Equipment	408,400	408,400	408,400
Machinery and Equipment	<u>1,219,847</u>	<u>1,209,908</u>	<u>1,209,187</u>
	1,700,064	1,690,125	1,689,404
Less: Accumulated Depreciation	<u>1,543,617</u>	<u>1,520,577</u>	<u>1,495,513</u>
	<u>156,447</u>	<u>169,548</u>	<u>193,891</u>
	<u>\$ 2,917,517</u>	<u>\$ 2,921,615</u>	<u>\$ 3,566,297</u>

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

BALANCE SHEET
September 30, 1987, 1986 and 1985

LIABILITIES AND STOCKHOLDERS' EQUITY

	1987	1986	1985
CURRENT LIABILITIES:			
Notes Payable to Bank	\$ --	\$ 200,000	\$ 350,000
Current Portion of Mortgage Note Payable	75,000	50,000	25,000
Demand Notes Payable to Officer	955,000	765,000	350,000
Accounts Payable, Trade	19,745	15,572	43,113
Accrued Taxes and Expenses	<u>5,804</u>	<u>21,952</u>	<u>27,342</u>
TOTAL CURRENT LIABILITIES	<u>1,055,549</u>	<u>1,052,524</u>	<u>795,455</u>
 LONG TERM DEBT:			
Mortgage Payable to Officer	<u>650,000</u>	<u>725,000</u>	<u>800,000</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>(6,068,037)</u>	<u>(6,135,914)</u>	<u>(5,309,163)</u>
	<u>1,211,968</u>	<u>1,144,091</u>	<u>1,970,842</u>
	<u>\$ 2,917,517</u>	<u>\$ 2,921,615</u>	<u>\$ 3,566,297</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. Cost of inventories, as summarized below, is determined principally on the basis of the lower of the average cost method or market:

	<u>1987</u>	<u>1986</u>	<u>1985</u>
Finished Goods	\$ 1,104,337	\$ 1,169,026	\$ 1,133,223
Work In Process	22,200	31,153	366,153
Raw Materials	<u>1,428,678</u>	<u>1,274,378</u>	<u>2,101,208</u>
	2,555,215	2,474,557	3,600,584
Less Reserve for Obsolescence	<u>--</u>	<u>--</u>	<u>580,000</u>
	<u>\$ 2,555,215</u>	<u>\$ 2,474,557</u>	<u>\$ 3,020,584</u>

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.

4. 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.

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 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, 1984 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, 1987 and 1985 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 \$1,936,080 are available to offset future years' income, and expire \$364,749 in 1993 and \$164,580 in 1994 and \$1,406,751 in 2001. Unused investment credits aggregating \$8,769 are also available, the bulk of which expire from 1993 to 2001.

9. Sales to the United States Government agencies aggregated \$668,209 for the year ended September 30, 1987; \$459,124 for 1986; and \$1,360,317 for 1985.

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, 1987, 1986 and 1985, 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
October 19, 1987

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 is in the business of communications engineering. Simply stated, we make it possible for people and machines to communicate with one another by planning, creating and combining equipment to provide complete facilities for modern communications. We accomplish this through people, working at various TMC locations worldwide.

Our line of over 400 products range from the basic assemblies used in RF transmission to complex systems used in computer command and control. These products are designed to carry data, facsimile, video and voice throughout the world.

Communication Systems

Tranceivers

Transmitters and Receivers

RF Antenna Couplers

Security/Remote Control Equipment

Computer Hardware and Software

RF and Digital Connectors

Switching Patch Panels

Audio and FSK Products

Tools and Test Equipment

Since 1947 when TMC was first organized as a supplier of electronic equipment to the U.S. Armed Forces, the focus of the company has been on providing customers throughout the world with the type of equipment they need to communicate. Our customers include commercial users, both U.S. and foreign governments, and civil defense agencies. Today, TMC equipment is found in 140 countries on five continents.

Only the finest workmanship goes into the design and manufacture of TMC products. It is so reliable that we still support operating equipment built in TMC plants over 30 years ago. We purposely build in to the assembly process many tests that detect flaws in the product. Our success in achieving near zero-defect quality is measured by the long list of customers who have repeatedly come back to TMC over the decades as new requirements develop. The respect and loyalty TMC has developed assures our future customers that only the best in modern equipment design is supplied for their communication needs.

Our sale does not end with delivery of equipment to a customer. We maintain a competent staff of electronic and mechanical engineers, all with many years of experience, who travel to outlying sites to maintain and install our equipment. They train technicians "on the job" in correct procedures so that equipment is assured a long, trouble-free life. Our overseas representatives are selected on the basis of their technical expertise and provide that local support so vital to a successful marketing and support effort.

In addition, TMC offers a full spectrum of engineering support for the complex and varied products operating in the field. These support services include:

System Engineering

Software Development

Service and Installation

Program Management

Training and Publications

Site Preparation and Design

Spare Parts Support

Network Design and Integration

Customer support, however, goes beyond these services. There are the people at TMC who are the backbone of the corporation. There is the **TMCommunicator** newsletter which keeps users advised of the latest developments in modern equipment design. There is the computer call-in service which allows users to enter inquiries directly into an on-line computer database for a 24-hour response. This facility is also used by our worldwide agent network for current pricing and availability of products. All these services give customers more than they bargained for and provide the finishing touches that makes TMC, as a quality business, stand out from the crowd.

new products . . .

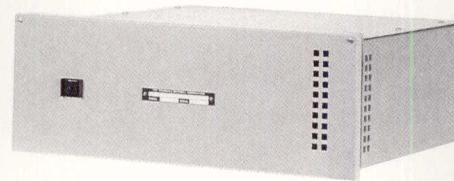
Creating new products to meet changing markets has always been one of TMC's premier corporate goals. During the past year, TMC has used both in-house technical talent and contract engineers to develop up-to-date products that are beginning to generate new sales. These products are directed at both commercial and government users, primarily in the United States and Canada.

On the equipment side, TMC has introduced an active, receiving antenna used by aviation, marine and military organizations. This antenna is designed to improve the reception of extremely faint signals and to detect changes in the strength of signals which may threaten communications. A photograph of the unit (below) shows its rugged construction and small size.

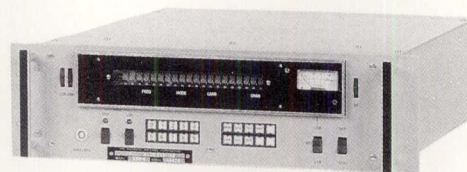


The control head for the MMX-4 synthesized exciter (right) enables large communication stations to remotely monitor and control powerful transmitters used in long-haul communications. Both the exciter and its control unit are totally digital and equipped with microprocessors which can be linked to any size computer.

The TMC master computer system (below) is a microprocessor-based unit designed for unattended operation at any communication station. It provides the necessary data storage and retrieval power to control the operation of many types of equipment. Compatible with modern data communications standards, the computer is equipped to process a large number of messages at virtually the same time.

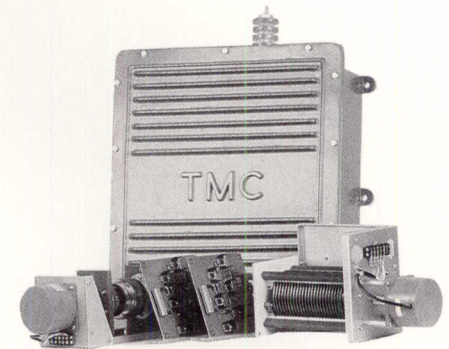


Microprocessor control has been extended to another important product in TMC's line - the antenna tuner. Totally self-contained with its internal microprocessor, the tuner (shown right with internal components removed for display) is used on board ship, in embassies overseas, and with land-mobile stations. It is designed for unattended operation and is fully compatible with any transmitting equipment on the market today.



On the computer software side of our business, TMC continues to market its Small Business Management System that is used by light manufacturers and parts distributors. Both single-user and multi-user packages are available for IBM-PC/XT/AT[®] and higher performance Hewlett Packard[®] or Digital Equipment[®] computers.

The software was first developed by TMC for its internal operations. It was so successful in reducing overhead costs and producing more timely information, that management decided to sell it outside as an adjunct to our communications software product line. In the coming year, TMC plans to expand this product line in the area of security for the remote monitor and control of large installations.



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