FORM 10KSB

Annual and transition reports of small business issuers [Section 13 or 15(d), not S-B Item 405]

Filing Date: **1996-12-30** | Period of Report: **1996-09-30**
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FILER

TM CENTURY INC

CIK:**754590**| IRS No.: **731220394** | State of Incorp.:**DE** | Fiscal Year End: **0930**
Type: **10KSB** | Act: **34** | File No.: **000-13167** | Film No.: **96687385**
SIC: **7900** Amusement & recreation services

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DALLAS TX 75234

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U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-KSB

ANNUAL REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended: September 30, 1996
Commission file No. 0-13167

TM CENTURY, INC.
(Name of small business issuer in its charter)

Delaware	73-1220394
(State of incorporation)	(IRS Employer Identification No.)

2002 Academy, Dallas, Texas	75234
(Address of principal executive offices)	(zip code)

Issuer's telephone number: (972)247-8850

Securities registered pursuant to Section 12(b) of the Exchange Act: None

Securities registered pursuant to Section 12(g) of the Exchange Act: Common Stock, $.01 Par Value

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No___

Check if disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB

X

The issuer's revenue for its most recent fiscal year was $6.969,219.

The aggregate market value of the voting stock held by non-affiliates of the issuer on December 18, 1996, based upon the average bid and asked prices of such stock on that date was $510,000. The number of issuer's shares of Common Stock outstanding as of December 18, 1996 was 2,537,193.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information contained in the Company's 1997 Information Statement is incorporated by reference in Part III.

Transitional Small Business Disclosure Format (check one): Yes___ No X

PART I

ITEM 1. DESCRIPTION OF BUSINESS

General

TM Century, Inc. (the _Company_) is engaged primarily in the creation, production, marketing, and worldwide distribution of compact disc music libraries, production libraries, station identification jingles, computer software used in music scheduling, specialized computer equipment and software, and compact disc players for radio stations.

The Company (formerly TM Communications, Inc.) was incorporated as a Delaware corporation on May 2, 1984. In October 1990, the Company changed its name from TM Communications, Inc. to TM Century, Inc. following an August 1990 business combination transaction with Century 21 Programming, Inc. The Company's principal offices are located at 2002 Academy, Dallas, Texas 75234, and its telephone number is (972) 247-8850..

Products

The Company creates, produces, markets, and distributes goods and services for radio stations worldwide. Products include special compilations of popular music on compact discs, instrumental backgrounds for commercials and sound effects (collectively, _music libraries_), station identification jingles, computer software used in music scheduling, specialized computer equipment and software, and compact disc players for radio stations.

Music libraries are sold on compact disc and include original recordings of background music and sound effects written and produced by the Company as sources of production material for radio stations (_production libraries_). Production libraries are available in a variety of musical styles and are used by radio stations as background music for contests, promotions and commercials. Music libraries also include compilations of copyrighted music of original artists sold in eight different music formats ("compact disc libraries"): Adult Contemporary, Easy Listening, Classic Hits, Country, Classic Rock, Contemporary Hit Radio, Urban, and Seventies Rock. The Company also provides a weekly service of new record releases on compact disc.

All products on compact disc are mastered by the Company on compact disc or PCM-1630 digital audio tape and replicated by several available suppliers of compact discs. The Company presently purchases compact discs and replication services from one significant supplier, Sony Disc Corporation, which the Company believes provides high quality discs. Management believes that the loss of this source of supply would not cause any significant interruption of the Company's operations, as there are several alternative sources of compact discs and replication services available.

Due to the wide variety of music services in multiple formats offered by the Company on compact disc, a significant number of compact discs are maintained on the premises. The level of disc inventory is required to satisfy the shipping requirements of current sales.

Radio jingles provide short identity songs for radio stations that promote name recognition for the station. These are written and produced in the Company's studios and are provided to customers on analog or digital audio tape or compact disc.

Computer software is sold by the Company for use by customers in programming music play sequences and for automated music playback systems consisting of specialized software, computer equipment and compact disc players sold by the Company. Management believes these systems improve the quality and consistency of the customers' programming and enable customers to operate more efficiently by reducing the number of personnel required to operate a radio station. Certain compact disc equipment is purchased by the Company under dealer arrangements from outside manufacturers and modified for use with software programs marketed by the Company. During January 1996, the Company's agreement with its previous supplier of computer software used by customers in programming music play sequences and for automated music playback systems was terminated and a new agreement was negotiated with another supplier. Management does not believe that the loss of any of its sources of supply of computer hardware, software or compact disc equipment would cause a significant interruption in the Company's ability to make timely delivery of products to its customers or cause a significant interruption of the Company's operations, as there are several alternative sources available for each of these items.

In May 1995, the Company discontinued production and marketing of radio station commercials for television broadcast. This product had been operating at a net loss for the previous three fiscal years.

Set forth in the following tables are the Company's gross revenues (in thousands) by significant product category for the years ended September 30, 1996, 1995 and 1994.

<TABLE>
<CAPTION>

(Dollar Amounts in Thousands)	Period Ended 1996	1995	1994
<S>	<C>	<C>	<C>
Broadcast Services Music Libraries	$4,673	$5,453	$6,159
Radio Jingles	1,092	968	1,067
Software and Compact Disc Equipment	744	1,836	1,768
Other (a)	460	405	466
Total	$6,969	$8,662	$9,460

</TABLE>

(a) Includes, for 1994 and a portion of 1995, commercials for television broadcast.

Marketing and Distribution

The Company currently sells and supplies its products and services to customers in the United States and Canada through its own sales staff in Dallas, Texas. Domestic sales are made through telephone solicitation, advertising in trade magazines, and trade convention displays. The Company also sells its products through distribution arrangements with independent sales agents in the United Kingdom, Europe, Australia, Japan, the Commonwealth of Independent States (C.I.S.), Canada and elsewhere. Other than fees paid to independent sales agents, no other significant costs are incurred by the Company in conjunction with it's international sales activities. Products are shipped from the Company's headquarters or from the Company's supplier of compact disc replication services via mail and express delivery services.

Sales of music libraries are made primarily on an individual order basis or under contractual agreements for the sale of production libraries. Such agreements generally call for equal monthly payments by the customer over terms of up to 48 months. Weekly music services are sold under contracts of one month to three-year terms. The Company's other products are generally sold pursuant to individual orders.

Customers

The Company's business is primarily dependent upon the radio broadcasting industry. The Company's revenues are generated from sales to customers in the United States and Canada, and from sales through agents of the Company in the United Kingdom, Europe, Australia, Japan, the C.I.S. and elsewhere. According to industry publications, approximately 12,000 radio stations were licensed by the Federal Communications Commission (FCC) for public broadcasting in the United States. Management believes that approximately 9,000 stations in the U.S. may require products and services of the type provided by the Company and that more than half of such stations have purchased the Company's product in recent years. No single customer has accounted for more than 10% of the Company's revenues in any of the past three years. Gross revenues from foreign sales totaled $2,300,000, $2,700,000, and $3,100,000 for the years ended 1996, 1995 and 1994, respectively.

Competition

The Company competes with several other music syndicators that provide either music libraries or radio jingle packages to the broadcast industry, and certain companies which provide music scheduling software or specialized computer software and equipment and compact disc players for radio stations, however, management believes the Company offers a broader array of broadcast products and services than any of its competitors. Competing radio program syndicators generally provide either jingles, production libraries, or music on tape, records, compact disc, or via satellite. Management believes the Company is one of the leading suppliers of radio music services and the largest supplier of radio music services on compact disc. The Company competes with several hundred jingle producers; however, management believes only a few specialize in radio station identification materials. Management believes the Company is the largest supplier of radio station identification jingles in the industry. Several dozen providers of production libraries compete with the Company, but most provide song-length instrumentals and only a few specialize in commercial length music. Management believes it is one of two major suppliers of production libraries to the radio industry. The Company's specialized computer equipment and software competes with numerous companies which offer similar products. While certain competing products may be considered to be equal in price or technical performance, management believes the Company also competes effectively on the basis of quality and creativity within each product line.

Seasonality

The Company is not subject to strong seasonal fluctuations. However, quarterly results are affected by the introduction of new products and timing of customer orders. Because profit margins on the Company's many products vary, the results for any quarter are not necessarily indicative of the results that may be achieved for a full fiscal year.

Trademarks and Copyrights

The Company markets products under various names and trademarks which management believes provide the Company's products with international industry recognition. The Company holds numerous registered copyrights on sound recordings of original music and radio station jingles. Management believes its copyrights have significant value, as the Company derives a significant portion of its income from the licensed use of its sound recordings.

Employees

As of December 1, 1996, the Company had approximately 50 full-time employees. The Company also contracts with other personnel and subcontractors who provide creative talent for various projects on an as-needed basis.

ITEM 2. DESCRIPTION OF PROPERTY

The Company's principal operations are conducted from a leased 46,645 square foot office and production facility located at 2002 Academy, Dallas, Texas. The facility is comprised of sales and administrative offices and recording studios. The facility is leased from unaffiliated third parties under a lease that expires on July 15, 2003. The lease may be extended at the Company's option for two additional five-year terms, subject to rental adjustments based on a formula related to fair market rental. Management believes that its existing facility and additional space currently under lease are sufficient for its existing activities and potential growth for the foreseeable future.

ITEM 3. LEGAL PROCEEDINGS

The Company is not involved in any pending legal proceedings that in management's opinion could result in a material adverse effect on the Company's financial position or results of operations.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to a vote of the Company's security holders during the fourth quarter of the fiscal year ended September 30, 1996.

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company's common stock is thinly traded in the over-the-counter market under the symbol _TMCI_. The following table sets forth, for the periods shown, the range of the high and low bid quotations for the Company's common stock in the over-the-counter market as reported by NASDAQ. Quotations are inter-dealer quotations, without retail markups, markdowns or commissions, and do not necessarily represent actual transactions.

<TABLE>
<CAPTION>

		Common Stock Bid High	Low
<S>		<C>	<C>
Fiscal 1996:	1st Quarter	$1.63	$.69
	2nd Quarter	1.22	.56
	3rd Quarter	1.22	1.16
	4th Quarter	1.22	.72
Fiscal 1995:	1st Quarter	$ 1.88	$ 1.13
	2nd Quarter	1.75	1.00
	3rd Quarter	1.38	.63
	4th Quarter	1.38	.88

</TABLE>

As of December 15, 1996 the Company had approximately 250 record owners and 700 beneficial owners of its common stock. The Company has not paid dividends on the common stock and does not anticipate paying dividends in the foreseeable future.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS

Forward-Looking Statements

This Annual Report contains forward-looking statements about the business, financial condition and prospects of the Company that reflect assumptions made by management and management's beliefs based on information currently available to it. The Company can give no assurance that the expectations indicated by such forward-looking statements will be realized. If any of management's assumptions should prove incorrect, or if any of the risks and uncertainties underlying such expectations should materialize, the Company's actual results may differ materially from those indicated by the forward-looking statements.

The key factors that are not within the Company's control and that may have a direct bearing on operating results include, but are not limited to, the Company's ability to develop new products cost-effectively; continued maturation of the domestic and international markets for compact disc technology; acceptance by the customers of the Company's existing and any new products and formats; the development by competitors of products using improved or alternative technologies and the potential obsolescence of technologies used by the Company; the continued availability of software, hardware and other products obtained by the Company from third parties; dependence on distributors, particularly in the international market, and on third parties engaged to replicate the Company's products on compact discs; the retention of employees; the success of the Company's current and future efforts to reduce operating expenses; the effectiveness of new marketing strategies; and general economic conditions. There may be other risks and uncertainties that management is not able to predict.

When used in this Annual Report, words such as _believes,_ _expects,_, _intends,_ _plans,_ _anticipates,_ _estimates_ and similar expressions are intended to identify forward-looking statements, although there may be certain forward-looking statements not accompanied by such expressions.

Liquidity and Capital Resources

The Company relies upon current sales of music libraries, jingles, and specialized computer equipment and software on terms of cash upon delivery for operating liquidity. Liquidity is also provided by cash receipts from customers under contracts for production libraries and weekly music service contracts having terms of one month to four-year terms. The Company is obligated to provide music updates throughout the contract terms for both production library and weekly music service contracts. Sales of music libraries, jingles, and specialized computer equipment and software and the payments under production library and weekly music service contracts will provide, in the opinion of management, adequate liquidity to meet operating requirements at least through the end of fiscal 1997.

During fiscal 1996, the Company made $73,000 in capital expenditures for the purchase of property and equipment which compares to capital expenditures of $247,000 in 1995 and $285,000 in 1994. Capital expenditures in 1996 were primarily associated with upgrades of office equipment. Product development costs of $146,000 were incurred during fiscal 1996 for software development, new music libraries, and music library updates, which compares to product development expenditures of $288,000 in 1995 and $234,000 in 1994. Funds for operating needs, new product development, and capital expenditures for the year ended September 30, 1996 were provided from cash reserves. The Company's expenditures for property, equipment, and development of new products are discretionary. Product development expenditures are expected to be approximately $100,000 in fiscal 1997. In May 1996 the Company entered into a lease agreement for the financing of an upgrade of its computer hardware and software systems, which is anticipated to be completed by the end of fiscal year 1997. The cost of the project is estimated at $550,000, of which approximately $400,000 has been financed as of September 30, 1996. The Company is required to repay the amount financed in equal monthly payments of principal and interest during the term of the lease. Monthly payments on the lease commenced in June 1996 in the amount of approximately $13,000. The required monthly payments will increase with the amount financed. The term of the lease is three years and the lease is backed by a letter of credit in the amount of $200,000. The letter of credit reduces the availability under the Company's revolving Line of Credit from $300,000 to $100,000. Management anticipates that cash flow from operations and cash reserves will be sufficient to meet these capital requirements. The Company has no other significant commitments for capital expenditures in fiscal 1997.

The Company's revolving Line of Credit with a bank provides a negative pledge on all accounts receivable, contract rights, and inventory of the Company. Borrowings under the Line of Credit bear a fluctuating interest rate of prime plus 1.5%, payable monthly. The Line of Credit, which bears a commitment fee of 0.5% per annum, is renewable annually, subject to the consent of both parties. The Line of Credit was renewed effective February 28, 1996. No borrowings were drawn under the Line of Credit during the fiscal 1996 and no long-term borrowing is anticipated in the foreseeable future at the current levels of business operation.

During fiscal 1996, the Company received the approximately $130,000 that was recorded as federal income taxes receivable as of September 30, 1995.

Current customer deposits decreased to $72,000 as of September 30, 1996, from $152,000 as of September 30, 1995 for deposits received from customers on products ordered. The balance in customer deposits is dependent upon the timing of customer orders for jingles and specialized computer equipment.

The Company has net operating loss carryforwards of $800,000 available to offset future taxable income expiring in 2008 through 2009. A valuation allowance of $216,000 has been provided to reduce the total deferred tax asset to approximately $172,000. In order to fully realize the recorded tax asset of $172,000, the Company will need to generate approximately $360,000 in taxable income prior to expiration of the loss carryforwards. Although realization is not assured, management has taken certain steps intended to achieve a return to profitable operations in future periods. These steps include certain corporate restructuring and cost reduction measures which have reduced expenses to manageable levels, the discontinuation of unprofitable product lines during the last fiscal year, new approaches to marketing our current products, and the introduction of new products. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced.

On December 19, 1996, the Board of Directors by resolution authorized the Company to purchase up to 50,000 shares of its common stock on the open market or through privately negotiated transactions, from time to time, dependent upon market conditions, through December 31, 1997. Such purchases are expected to be funded by cash reserves of the Company.

Results of Continuing Operations

Fiscal 1996 Compared to Fiscal 1995

Revenues decreased approximately 20% to $7.0 million in 1996 from $8.7 million in 1995. This overall decline was due primarily to a decrease in music library sales prices and volume and a decrease in specialized computer equipment and software sales. The decline in music library sales of approximately $780,000, or 14%, resulted primarily from a decrease in sales of compact disc libraries and production libraries, partially offset by an increase in weekly music service revenues. Revenues from specialized computer equipment and software sales decreased approximately $1,090,000, or 59%, over the prior year. Revenues from radio jingles remained consistent. Jingles revenue increased approximately $124,000, or 13%, due primarily to increases in publishers royalties received from the broadcast of the Company's jingles.

As the compact disc music library market matures, sales of compact discs are generated primarily from changes in music formats rather than from conversions to compact disc music delivery technology. Management believes that the decline in compact disc music library revenues may continue as the compact disc music library market has reached a substantial level of maturity in the United States, which is the market from which the Company derives most of its music library revenues. A decline in revenues from music library sales may result in a proportionately greater decline in operating income because music libraries provide higher margins than the Company's other products. International markets have not reached maturity for compact disc technology. Sales of weekly music services increased approximately $66,000, or 4%, in international markets during fiscal 1996, partially offsetting the decrease in music library revenues. Management believes that revenues from weekly music services will continue to grow with the introduction of new music formats. Sales growth is subject to customer acceptance of the new products.

Music library revenues may also be adversely affected as radio stations convert to new music delivery systems technology offered by competitors, such as computer hard drives which store music in a digital compression form. While digital compression does not provide the same quality of music as compact disc technology, an increasing number of radio stations are converting to or adding systems using digital compression technology. Although music libraries on compact disc can be transferred to hard drive systems, some of the Company's competitors are offering hard drives with pre-loaded music libraries. The Company expects to begin providing music libraries on hard drive to both equipment manufacturers and directly to end customers in fiscal 1997.

In 1995 the Company began recording libraries in a hard drive format that can be easily converted into the most popular compression schemes.

The decrease in production library revenue resulted primarily from the expiration of three-year contracts entered into by the Company with customers in prior years. The decrease in revenues resulted from a reduced demand for new contracts and the nonrenewal of expired contracts in the United States. Although production library revenues may continue to decline as additional three-year contracts expire, management believes that production libraries will continue to generate a significant portion of overall revenues from sales of new products as well as existing products. Renewals and new sales growth are subject to customer acceptance of the new products.

On February 9, 1996 the Company entered into a five year marketing agreement with Electronic Data Systems Corporation (_EDS_), which provides the Company with the exclusive right to distribute and sublicense the EDS CoSTAR_ hard disk audio storage and retrieval system to radio stations within the United States and its territories. The CoSTAR_ system is a collection of integrated software applications that allows a broadcaster to digitally record and edit material for distribution within a facility on a local area network (LAN) or to remote sites via a wide area network (WAN). The growing trend to multi-station facilities and the expansion of broadcast groups allow broadcasters to take advantage of the cost savings of consolidation and the marketing opportunities of multimedia technologies. The agreement provides exclusive distribution rights to the Company through December 31, 2000, subject to meeting certain annual performance goals. Progress on development needs and support systems necessary to market the product in the U.S. has been delayed. The CoSTAR_ system is not expected to impact revenues in the foreseeable future.

Revenues from specialized computer equipment sales decreased approximately $780,000 due primarily to revisions in software necessary to satisfy market requirements, the restructuring of the marketing staff in the first fiscal quarter 1996, and training time devoted by the marketing staff to the CoSTAR_ audio storage and retrieval system. The Company has completed the necessary revisions in software, and is now re-directing its efforts to its core specialized computer equipment and rebuilding the marketing staff. Software sales decreased approximately $400,000. The decline in software sales was due the termination of the Company's agreement with it's supplier of computer software in January, 1996. The Company expects that it will be able to rebuild its customer base for its software used in programming music sequences and for automated music playback systems over the next five years.

Commissions as a percentage of revenue increased from approximately 19% of revenue in 1995 to approximately 21% of revenue in 1996. Increases were primarily due to increases in new contracts for weekly music services.

Production, programming and technical costs decreased approximately 27% to approximately $2.9 million, or 42% of revenue in 1996 from $4.0 million, or 46% of revenue in 1995. This decrease is due to the restructuring and cost reduction measures which were initiated in the second quarter of fiscal 1995 and the discontinuation of unprofitable products.

General and administrative costs decreased approximately $275,000, or 10%, as a result of the restructuring and cost reduction measures mentioned above, decreased compensation, legal and other professional fees associated with the resignation of a director and officer of the Company in November, 1994, of approximately $100,000 . The decrease was partially offset by a settlement of approximately $60,000 with a long distance carrier relating to long distance calls fraudulently charged to the Company's toll free numbers. The Company has discontinued its toll free telephone numbers and has experienced no significant disruption in operations.

Selling costs declined approximately $196,000, or 35%, due primarily to decreases in advertising and promotion expenditures.

Depreciation expense increased approximately $40,000, or 20%, as a result of computer equipment and software acquired under a capital lease during fiscal 1996.

During the fourth quarter of 1996, the Company recorded a provision of approximately $230,000 to reduce the carrying value of its production libraries to the lower of cost or market. The amount retained in inventory was reduced to amounts supported by current sales levels.

Fiscal 1995 Compared to Fiscal 1994

Revenues decreased approximately 9% to $8.7 million in 1995 from $9.5 million in 1994. This overall decline was due primarily to a decrease in music library sales volume. The decline in music library sales of approximately $700,000, or 11%, resulted primarily from a decrease in sales of production libraries and compact disc libraries, partially offset by an increase in weekly music service revenues. Revenues from specialized computer equipment and software sales increased approximately $68,000, or 4%, over the prior year. Revenues from radio jingles remained consistent.

The decrease in production library revenue resulted primarily from the expiration of three-year contracts entered into by the Company with customers in prior years. The decrease in revenues resulted from a reduced demand for new contracts and the nonrenewal of expired contracts in the United States.

Revenues from specialized computer equipment and software sales increased due to the introduction of new versions of the Company's automated playback equipment system in fiscal 1995. Revenues in this category were depressed in fiscal 1994 as the introduction of the new playback system was postponed due to delays in receipt of components from manufacturers and the development of certain enhancements to the system.

Production, programming and technical costs increased approximately $88,000, or 2%, due to (1) an increase in production costs related to the newest version of the Company's automated music playback system, (2) an increase in technical salaries costs for support of automated music playback systems, and, (3) costs related to new weekly compact disc music services for international markets which was introduced in July, 1994 as well as increased volume for all weekly music services.

General and administrative costs increased approximately $288,000, or 12%, as a result of (1) increased occupancy and facilities costs, of approximately $80,000 (2) increased compensation, legal and other professional fees of approximately $100,000 associated with the resignation of a director and officer of the Company in November, 1994, and, (3) relocation costs for executive and sales employees.

Selling costs declined approximately $216,000, or 28%, due primarily to decreases in advertising and promotion expenditures.

In May 1995, the Company discontinued production and marketing of radio station commercials for television broadcast. This product had been operating a loss for the previous three fiscal years. Operating losses for this product were $86,000, $143,000, and $123,000 on net revenues of $54,000, $233,000, and $104,000 in 1995, 1994, 1993, respectively. Other income (expense) includes a loss of approximately $26,000 on the sale of certain television production equipment.

During the fourth quarter 1995, the Company recorded a provision of approximately $360,000 to write-off substantially all product development costs associated with its audio visual production library. This production library, targeted to non radio customers, had been operating at a loss for the past three fiscal years. Operating losses for this product were $30,000, $48,000, and $112,000 on net revenues of $55,000, $37,000, and $0 in 1995, 1994, and 1993, respectively.

Accounting Matters

The Financial Accounting Standards Board (_FASB_) periodically issues accounting standards which may affect the financial accounting or disclosures of the Company. There are no accounting standards that have been issued, but not yet adopted by the Company, which would have a material effect on the financial position or results of operations of the Company.

ITEM 7. FINANCIAL STATEMENTS

The financial statements and notes thereto, together with the report thereon of Deloitte & Touche LLP dated December 11, 1996, included elsewhere in this report are incorporated by reference in answer to this Item 7.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT.

The information required by this item is contained under the heading "Information Concerning the Directors and Executive Officers" in the Company's 1997 Information Statement and is incorporated herein by reference pursuant to General Instruction E(3).

ITEM 10. EXECUTIVE COMPENSATION

The information required by this item is contained under the heading "Executive Compensation" in the Company's 1997 Information Statement and is incorporated herein by reference pursuant to General Instruction E(3).

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this item is contained under the heading "Voting Securities and Principal Stockholders" in the Company's 1997 Information Statement and is incorporated herein by reference pursuant to General Instruction E(3).

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this item is contained under the heading "Executive Compensation" in the Company's 1997 Information Statement and is incorporated herein by reference pursuant to General Instruction E(3).

ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

3 (a) Certificate of Incorporation and By-Laws (1)
(b) Certificate of Merger: Video Image Inc. and TM Communications, Inc. (1)
(c) Certificate of Merger: TM Communications, Inc. and Century 21 Programming, Inc. (Exhibit 3(c)) (2)
(d) Certificate of Amendment of Certificate of Incorporation of TM Century, Inc. effective March 27, 1992. (Exhibit 1) (3) (March 31, 1992)

10 Material Contracts:

(a) Loan and Security Agreement and Term Note among Merrill Lynch Business Financial Services and TM Communications,Inc. and subsidiaries dated August 31, 1990 (Exhibit 10(q)) (2)
(b) Agreement for Sale of Stock, Secured Note, Security Agreement, Pledge Agreement, and Guaranty dated January 1, 1991, from TF Productions to TM Century, Inc. (Exhibits 1-3) (3) (December 30, 1990)

(c) *Long Term Performance Incentive Plan of TM Century, Inc. dated December 3, 1991. (Exhibit 10(bb))(4)
(d) Amendment No. 1 to Term Note and Amendment No. 2 to Loan and Security Agreement dated February 26, 1992 among Merrill Lynch Business Financial Services Inc. and TM Century, Inc. and subsidiaries. (Exhibit 2) (3) (March 31, 1992)
(e) WCMA Line of Credit Extension Letter Agreement by and between Merrill Lynch Business Financial Services Inc. and TM Century Inc. dated April 21, 1994. (Exhibit 2) (3) (March 31, 1994)
(f) WMCA Line of Credit Extension Letter Agreement by and between Merrill Lynch Business Financial Services Inc. and TM Century,Inc. dated January 16, 1995. (Exhibit 10(f)) (8)
(g) Agreement dated November 30, 1994 between TM Century, Inc. and P. Craig Turner regarding Mr. Turner's resignation as President and Chief Executive Officer and director of the Registrant. (Exhibit 10.1) (6)
(h) *TM Century, Inc. Bonus Plan for Executive Management dated October 1, 1992 (Exhibit 10(j)) (5)
(i) Lease Agreement, dated as of April 23, 1993 by and between NationsBank of Texas, N.A., Trustee and TM Century, Inc. (Exhibit 1) (3) (March 31, 1993)
(j) Purchase and Sale Agreement by and between Merriman Patrick Turner Productions, Inc. and TM Century, Inc. dated March 29, 1994. (Exhibit 1) (3) (March 31, 1994)
(k) First Amendment of Lease, dated as of August 22, 1994 by and between NationsBank of Texas, N.A., Trustee and TM Century, Inc. (Exhibit 10(m)) (7)
(l) *Consulting Agreement between TM Century, Inc. and Carol M. Peek dated January 27, 1995. (Exhibit 1) (3) (December 31, 1994)
(m) *Employment Agreement between TM Century, Inc. and Neil W. Sargent dated March 22, 1995. (Exhibit 1) (3) (March 31, 1995)
(n) Distribution agreement between TM Century, Inc. and Radio

Express, Inc. dated November 1, 1992. (Exhibit (o)) (8)

(o) Software Remarketing Agreement between Electronic Data Systems Corporation and TM Century, Inc. dated February 9, 1996. (Exhibit 1) (3) (December 31, 1995)

(p) WMCA Line of Credit Extension Letter Agreement by and between Merrill Lynch Business Financial Services Inc. and TM Century, Inc. dated March 18, 1996. (Exhibit 1) (3) (March 31, 1996)

(q) Letter Amendment Agreement and Letter of Credit Supplement Agreement to Loan and Security Agreement and Term Note by and between Merrill Lynch Business Financial Services Inc. and TM Century, Inc. dated April 22, 1996 and April 18, 1996; and a Letter of Credit Agreement by and between Merrill Lynch Business Financial Services Inc., The Northern Trust Company, and TM Century, Inc. dated April 30, 1996. (Exhibit 10(a)) (3)(June 30, 1996)

(r) Master Lease Agreement by and between USL Capital Corporation and TM Century, Inc. dated May 2, 1996. (Exhibit 10(b)) (3)(June 30, 1996)

(s) *Employment Agreement between TM Century, Inc. and R. David Graupner dated May 6, 1996. (Exhibit 10(c)) (3) (June 30, 1996)

(t) *Consulting Agreement between TM Century, Inc. and Marjorie L. McIntyre dated July 5, 1996.

Notes to Exhibits:

(1) Incorporated by reference to the similarly-numbered exhibit to the Registration Statement on Form S-18 (No. 2-93588-FW), filed October 2, 1984, as amended.

(2) Incorporated by reference to the indicated exhibit to the Annual Report on Form 10-K for the fiscal year ended September 30, 1990, as amended.

(3) Incorporated by reference to the indicated exhibit to the Quarterly Report on Form 10-Q for the indicated period, of the Registrant.

(4) Incorporated by reference to the indicated exhibit to the Annual Report on Form 10-K for the fiscal year ended September 30, 1991.

(5) Incorporated by reference to the indicated exhibit to the Current Report on Form 10-K for the fiscal year ended September 30, 1992, of the Registrant.

(6) Incorporated by reference to the indicated exhibit to the Current Report on Form 8-K dated November 30, 1994, of the Registrant.

(7) Incorporated by reference to the indicated exhibit to the Annual Report on Form 10-KSB for the fiscal year ended September 30, 1994.

(8) Incorporated by reference to the indicated exhibit to the Annual Report on Form 10-KSB for the fiscal year ended September 30, 1995.

* The documents filed or incorporated by reference as Exhibits 10(c), (h), (l), (m) (s) and (t) hereto constitute management contracts or compensatory plans or arrangements.

(b) Reports on Form 8-K

No reports on Form 8-K were filed during the fourth quarter of the fiscal year ended September 30, 1996.

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: December 27, 1996

TM CENTURY, INC.

BY:/s/Janette Williams
Janette Williams
Chief Accounting Officer

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

DATE:

/s/Janette Williams December 27, 1996
JANETTE WILLIAMS, Chief Accounting Officer
(Principal financial and accounting officer)

/s/Neil W. Sargent December 27, 1996
NEIL W. SARGENT, President and Chief Executive Officer
(Principal executive officer)

/s/Marjorie L. McIntyre December 27, 1996
MARJORIE L. MCINTYRE, Chairman of the Board of Directors

/s/Ann Armstrong Bellows December 27, 1996
ANN ARMSTRONG BELLOWS, Director

/s/Donald E. Latin December 27, 1996
DONALD E. LATIN, Director

TM CENTURY, INC.
INDEX TO FINANCIAL STATEMENTS

Financial Statements:

INDEPENDENT AUDITORS' REPORT

To the Stockholders and Board of Directors of TM Century, Inc.:

We have audited the balance sheets of TM Century, Inc. (the _Company_), as of September 30, 1996 and 1995, and the related statements of operations, stockholders' equity and cash flows for each of the three years in the period ended September 30, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Company at September 30, 1996 and 1995, and the results of its operations and its cash flows for each of the three years in the period ended September 30, 1996, in conformity with generally accepted accounting principles.

DELOITTE & TOUCHE LLP
Dallas, Texas

December 11, 1996

<TABLE>
<CAPTION>

TM CENTURY, INC.
Balance Sheets
September 30, 1996, and 1995

ASSETS	1996	1995
<S>	<C>	<C>
CURRENT ASSETS		
Cash	$ 377,855	$ 245,812
Accounts and notes receivable less allowances of $144,000 and $112,000, respectively	829,848	915,798
Inventories, net	1,220,454	1,654,197
Federal income taxes receivable	-	132,220
Deferred federal income taxes	171,877	166,063
Prepaid expenses	51,573	22,976
TOTAL CURRENT ASSETS	2,651,607	3,137,066
PROPERTY AND EQUIPMENT	2,298,086	1,878,452
Less accumulated depreciation	(1,224,005)	(1,016,452)
NET PROPERTY AND EQUIPMENT	1,074,081	862,000
INVENTORIES - NONCURRENT, net	351,016	587,217
OTHER ASSETS	15,388	16,388
TOTAL	$4,092,092	$4,602,671
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$225,260	$205,082
Accrued expenses	123,619	201,456
Current portion of obligation under capital lease	121,303	-
Deferred revenue	24,298	-
Customer deposits	71,568	151,502
TOTAL CURRENT LIABILITIES	566,048	558,040
OBLIGATION UNDER CAPITAL LEASE	246,555	-
CUSTOMER DEPOSITS	159,531	204,093
DEFERRED FEDERAL INCOME TAXES	43,747	75,510
TOTAL LIABILITIES	1,015,881	837,643
STOCKHOLDERS' EQUITY		
Common stock, $.01 par value; authorized 7,500,000 shares; 2,970,481 shares issued	29,705	29,705
Paid-in capital	2,275,272	2,275,272
Treasury stock - at cost, 433,288 shares	(1,250,316)	(1,250,316)
Retained earnings	2,021,550	2,710,367
TOTAL STOCKHOLDERS' EQUITY	3,076,211	3,765,028
TOTAL	$4,092,092	$4,602,671

</TABLE>

<TABLE>
<CAPTION>

TM CENTURY, INC.
Statements of Operations
For the Years Ended September 30, 1996, 1995, and 1994

	1996	1995	1994
<S>	<C>	<C>	<C>
REVENUES	$6,969,219	$8,662,271	$9,460,212
Less commissions	1,446,394	1,637,452	1,895,788
NET REVENUES	5,522,825	7,024,819	7,564,424
COSTS AND EXPENSES			
Production, programming and technical costs	2,948,599	4,022,727	3,934,759
General and	2,430,300	2,705,739	2,417,874

administrative			
Selling	360,256	556,411	772,339
Depreciation	244,823	203,293	200,339
Reduction in carrying value of inventories	229,580	360,000	-
TOTAL	6,213,558	7,848,170	7,325,311
OPERATING INCOME (LOSS)	(690,733)	(823,351)	239,113
OTHER INCOME (EXPENSE)			
Interest income	12,856	14,857	15,649
Interest expense	(8,138)	-	(720)
Other	(37,115)	(34,590)	8,266
TOTAL	(32,397)	(19,733)	23,195
INCOME (LOSS) BEFORE INCOME TAXES	(723,130)	(843,084)	262,308
PROVISION (BENEFIT) FOR INCOME TAXES			
Current	-	(134,220)	53,738
Deferred	(34,313)	(121,686)	39,276
TOTAL	(34,313)	(255,906)	93,014
NET INCOME (LOSS)	($688,817)	($587,178)	$ 169,294
NET INCOME (LOSS) PER COMMON SHARE	($0.27)	($0.23)	$0.07
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	2,537,193	2,537,193	2,537,193

</TABLE>

<TABLE>
<CAPTION>

TM CENTURY, INC.
Statements of Stockholders' Equity
For the Years Ended September 30, 1996, 1995 and 1994

<S>	Number of Shares <C>	Amount <C>	Additional Paid-In Capital <C>	Treasury Stock <C>	Retained Earnings <C>
Balance September 30, 1993	2,970,483	$29,705	$2,275,276	($1,250,316)	$3,128,251
Payment for Fractional Shares	(2)		(3)		
Net Income					169,294
Balance September 30, 1994	2,970,481	29,705	2,275,273	(1,250,316)	3,297,545
Payment for Fractional Shares			(1)		
Net Loss					(587,178)
Balance September 30, 1995	2,970,481	29,705	2,275,272	(1,250,316)	2,710,367
Net Loss					(688,817)
Balance September 30, 1996	2,970,481	29,705	2,275,272	(1,250,316)	2,021,550

</TABLE>

<TABLE>
<CAPTION>

TM CENTURY, INC.

Statements of Cash Flows
For the Years Ended September 30, 1996, 1995, and 1994

<S>	1996 <C>	1995 <C>	1994 <C>
OPERATING ACTIVITIES:			

Net Income (loss)	($688,817)	($587,178)	$169,294
Adjustments to reconcile net income to net cash provided by operations:			
Depreciation	244,823	203,293	200,339
Amortization	391,519	502,682	457,338
Deferred income taxes	(37,577)	(116,920)	39,276
Provision for doubtful accounts	80,000	79,000	95,930
Gain on sale of U.S. Treasuries	-	(7,639)	-
Loss (gain) on disposition of property and equipment	37,115	25,668	(8,266)
Reduction in carrying value of inventories	229,580	360,000	
Accretion of discounts	-	(215)	(4,038)
Payments received on installment receivables	-	12,874	58,065
Changes in operating assets and liabilities:			
Accounts receivable	1,527	(367,632)	47,336
Inventories	48,844	(503,471)	(305,485)
Prepaid expenses	(28,597)	31,973	(22,793)
Accounts payable and accrued expenses	(57,659)	126,146	(221,472)
Federal income taxes receivable/payable	132,220	(32,626)	122,926
Deferred revenue	24,298	(39,219)	(29,704)
Customer deposits	(124,496)	923	70,591
NET CASH PROVIDED BY OPERATING ACTIVITIES	252,780	(312,341)	669,337
INVESTING ACTIVITIES:			
(Decrease) increase in long-term liabilities	-	-	(9,337)
Decrease (increase) in other assets	1,000	(61)	10,160
Purchases of property and equipment	(72,949)	(247,035)	(285,166)
Purchase of U.S. Treasuries	-	(292,361)	-
Proceeds from sale of U.S. Treasuries	-	300,000	-
Principal payments received on notes receivable	4,423	20,699	16,271
Principal payments received from lease of property and equipment	-	-	12,046
Proceeds from sale of net assets under lease	-	-	150,000
Proceeds from sale of property and equipment	5,080	30,000	31,857
NET CASH USED IN INVESTING ACTIVITIES	(62,446)	(188,758)	(74,169)
FINANCING ACTIVITIES:			
Fractional shares paid to stockholders	-	(1)	(3)
Principal payments on long-term debt and capital lease obligations	(58,291)		(50,000)
NET CASH USED IN FINANCING ACTIVITIES	(58,291)	(1)	(50,003)
INCREASE (DECREASE) IN CASH	132,043	(501,100)	545,165
CASH AT BEGINNING OF PERIOD	245,812	746,912	201,747
CASH AT END OF PERIOD	$377,855	$245,812	$746,912

See Note 3 to financial statements for supplemental disclosures of cash flow information.
</TABLE>

TM CENTURY, INC.
NOTES TO FINANCIAL STATEMENTS

1. THE COMPANY

TM Century, Inc. (the _Company_) is primarily engaged in the creation, production, marketing, and distribution of goods and services for radio stations worldwide. Products include special compilations of popular music on compact discs, sound effects, station identification jingles, computer software used in music scheduling, specialized computer equipment and software, and compact disc players for radio stations.

Previous amounts have been restated to conform to the current year presentation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

Inventories

Inventories created by the Company or purchased for resale are carried at the lower of cost or market, as follows:

Music libraries - The Company produces music compilations and background music libraries which are provided to radio stations under one to four year lease contracts or under buyout arrangements. The costs to develop the libraries are amortized on a straight-line basis over the lesser of three to five years or the economic life of the product. Current music update services are charged to expense in the period in which incurred. The portion of libraries expected to be amortized within one year is included in current assets.

Identification Jingles - Jingles provide short identity songs to radio stations in order to promote name recognition. The costs to produce custom jingles are expensed upon delivery of the product.

Software - The Company markets specialized computer equipment to radio stations for automated music playback systems. The capitalized software development costs associated with this equipment are amortized on a straight-line basis over three years.

Compact Disc Equipment - Equipment inventory purchased by the Company under dealer arrangements is charged to cost of sales under the specific identification method.

Revenue Recognition

Revenues are recognized as follows:

Library Lease Contracts - Monthly upon delivery of the product in accordance with the terms of the lease contracts.

Library Buyouts - Upon delivery of the product.

Identification Jingles - Upon delivery of the product.

Music Scheduling Software - Monthly in accordance with the terms of the lease contracts.

Compact Disc Equipment - Upon delivery of the product.

Property and Equipment

Expenditures for additions, renewals, and betterments are recorded at cost. Expenditures for maintenance and repairs are charged to expense as incurred. Property leased under capital leases is included in property and equipment and amortized over the life of the lease. Depreciation and amortization are computed on the straight-line method based upon the estimated useful lives of the assets or the applicable minimum lease term if shorter, as follows:

Office furniture and equipment	5 to 7 years
Production equipment	7 to 10 years
Leasehold improvements	5 to 10 years

Statement of Financial Accounting Standards (_SFAS_) No. 121, _Accounting for the Impairment of Long-Lived Assets and for Long-lived Assets to be Disposed Of _, which is effective for fiscal years beginning after December 15, 1995, requires that long-lived assets and certain identifiable intangibles to be held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. SFAS No. 121 also requires that long-lived assets and certain identifiable intangibles to be disposed of be reported at the lower of carrying amount or fair value less cost to sell. The Company will adopt SFAS No. 121 effective October 1, 1996, and the impact of such adoption is expected to be insignificant to its financial condition and results of operations.

Income Taxes

Deferred income taxes are provided, when applicable, on temporary differences between the recognition of income and expense for tax and for financial accounting purposes in accordance with Statement of Financial Accounting Standards No. 109. Deferred income taxes are provided, when applicable, for all significant temporary differences by the liability method, whereby deferred tax assets and liabilities are determined by the tax laws and statutory rates in effect at the balance sheet date.

Net Income (Loss) Per Share

Net income (loss) per common share is based on the weighted average number of common shares outstanding and common stock equivalents, if dilutive, outstanding during the periods.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of certain assets, liabilities, revenues, and expenses. Actual results may differ from such estimates.

3. SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Supplemental disclosures as of September 30, 1996:

Cash paid for interest	$ 8,138
Noncash investing and financing activities:	
Capital lease obligation incurred	$426,149

4. INVENTORIES

Inventories consisted of the following at September 30, 1996 and 1995:

<TABLE>
<CAPTION>

	1996		1995	
	Current	Long-Term	Current	Long-Term
S>	<C>	<C>	<C>	<C>
Music libraries	$ 97,574	$2,709,907	$ 303,168	$ 2,567,844
Compact discs	831,409	-	946,536	
Software	43,512	348,315	47,014	424,724
Compact disc equipment	247,959	-	357,479	
Total cost	1,220,454	3,058,222	1,654,197	2,992,568
Accumulated amortization		(2,707,206)		(2,405,351)
Inventories,net	$1,220,454	$351,016	$1,654,197	$ 587,217

</TABLE>

Amounts charged to expense for capitalized software costs were $51,975, $52,345, $41,077 in 1996, 1995 and 1994, respectively.

During the fourth quarter of 1996, the Company recorded a provision of $230,000 to reduce the carrying value of its music and compact disc libraries to the lower of cost or market.The amount retained in inventory was reduced to amounts supported by current sales levels.

During the fourth quarter 1995, the Company recorded a provision of $360,000 to write-down substantially all product development costs associated with its audio visual music library. This library, targeted to non radio customers, had been operating at a loss for the past three fiscal years. Operating losses for this product were $30,000, $48,000, and $112,000 on net revenues of $55,000, $37,000, and $0 in 1995, 1994, and 1993, respectively.

5. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at September 30, 1996 and 1995:

<TABLE>
<CAPTION>

	1996	1995
<S>	<C>	<C>
Office furniture and equipment	$1,048,313	$ 666,388
Production equipment	885,335	867,448
Leasehold improvements	364,438	344,666
Total	$2,298,086	$1,878,452

</TABLE>

Property and equipment includes $426,000 in computer software and equipment acquired under capital leases in fiscal 1996. Amortization of the lease of approximately $47,000 is included in depreciation expense for the year ended September 30, 1996.

6. LONG-TERM DEBT AND LEASE OBLIGATIONS

Effective February 28, 1996, the Company renewed its $300,000 revolving line of credit (the _Line of Credit_) for a one-year term. Borrowings under the Line of Credit bear a fluctuating interest rate of prime plus 1.5%, payable monthly and the Company provides a negative pledge on all accounts receivable, contract rights, and inventory of the Company. The Line of Credit, which bears a commitment fee of .5% per annum, is renewable annually, subject to the consent of both parties. No borrowings were drawn under the Line of Credit during the fiscal year ended September 30, 1996. In conjunction with the Company's leasing arrangement discussed below, the availability under the Line of Credit was reduced to from $300,000 to $100,000.

In May 1996, the Company entered into a capital lease agreement for the financing of the upgrade of its computer hardware and software systems. The total cost of the project is estimated at $550,000 and is anticipated to be completed by the end of the next fiscal year. Costs financed on the project were approximately $400,000 as of September 30, 1996. The lease is backed by a $200,000 letter of credit which must be renewed annually subject to the renewal of the Company's Line of Credit. The requirement of the letter of credit will be reviewed on an annual basis. The lease has a term of three years and contains an option to purchase the equipment at its fair market value or renew the lease at its fair market rental value at the end of the initial term. Based on borrowing rates currently available to the Company on similar arrangements, the fair value of the lease agreement approximates the carrying value.

Future minimum lease payments under the lease as of September 30, 1996 are as follows:

<TABLE>
<CAPTION>

<S>	<C>
1997	$ 155,204
1998	155,204
1999	90,536
Total minimum lease payments	400,944

Less amount representing interest	(33,086)
Net present value of minimum lease payments	$ 367,858

</TABLE>

The Company paid $8,138, $720 and $19,435 of interest on notes payable and long-term debt during 1996, 1995, and 1994, respectively.

On November 1, 1990, the Company executed a financing lease agreement for the sale of certain property and equipment to a company owned by three former officers and directors of the Company (the group). The lease was payable in eighty-four monthly installments of $6,435 including interest at 11%, and granted the group an option to purchase such property and equipment at the fair market value at the end of the lease.

On March 29, 1994, the Company executed a Purchase and Sale Agreement for the sale of the property and equipment previously leased under the financing lease agreement. The financing lease agreement was terminated by all parties upon payment to the Company of $150,000 by the group on March 29, 1994. A loss on the sale of $6,800 is included in the financial statements for the fiscal year ended September 30, 1994.

7. COMMITMENTS AND CONTINGENCIES

Leases

Future minimum lease payments under operating leases with initial lease terms in excess of one year are as follows:

<TABLE>
<CAPTION>

<S>	<C>
1997	$ 279,876
1998	279,876
1999	291,534
2000	326,508
2001	326,508
Thereafter	598,598
Future minimum lease payments	$2,102,900

</TABLE>

The Company leases its facilities under a ten-year lease which began July 15, 1993. The lease may be renewed at the Company's option for two additional five-year periods at an amount approximating fair market value.

Rent expense under operating leases was $245,470, $226,851, and $184,258 for 1996, 1995, and 1994, respectively.

Employment Agreements

Effective April 1995, the Company entered into a three-year employment contract with an executive officer and director of the Company which provides for a base annual salary of $180,000 and eligibility to participate in the Company's Bonus Plan.

In September 1992, the Company entered into a three-year employment contract effective July 7, 1992 with an executive officer and director of the Company which provided for a base annual salary (modified to $200,000 in October, 1993), compensation reviews, and eligibility to participate in the Company's Bonus Plan. In November 1994, the officer resigned as President, Chief Executive Officer, and Director of the Company. In connection with his resignation the Company paid this former officer $60,000 on December 1, 1994 and $25,000 on December 1, 1995 in consideration for his one-year limited non-compete agreement and general release.

The Company has consulting agreements with certain members a former member of the Board of Directors. The compensation expensed was $180,000, $160,000 and $120,000 in 1996, 1995 and 1994, respectively. Aggregate commitments for future salaries under these employment agreements is $405,000.

9. INCOME TAXES

Differences between the statutory federal income tax rate and the effective rate for the years ended September 30, 1996 1995 and 1994 are as follows:

<TABLE>
<CAPTION>

	1996	1995	1994	
<S>	<C>	<C>	<C>	
Income tax provision at	(35.0%)	(35.0%)	35.0%	) 35.0
Effect of graduated tax rates	1.0	1.0	(1.0)	
Effect of carryback of net operating losses		5.3		
Operating losses with no current tax benefit	27.8			
Other	1.5	(1.7)	1.5	
	(4.7%)	(30.4%)	35.5%	

</TABLE>

The Company has net operating loss carryforwards of $800,000 available to offset future taxable income expiring in 2008 through 2009. A valuation allowance of $216,000 has been provided to reduce the total deferred tax asset to $172,000 because it is likely that a portion of the tax asset will not be realized. Realization is dependent on generating sufficient taxable income prior to expiration of the loss carryforwards. Management believes it is more likely than not that the non-reserved portion of the deferred tax asset will be realized. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced. Certain provisions of the tax law may limit the net operating loss, capital loss and credit carryforwards available for use in any given tax year in the event of a significant change in ownership interest.

Additionally, in conjunction with the Alternative Minimum Tax (_AMT_) rules, the Company has available AMT carryforwards for tax purposes of approximately $23,000, which may be used indefinitely to reduce regular federal income taxes.

The components of the net deferred income tax asset at September 30, 1996 and 1995 is as follows:

<TABLE>
<CAPTION>

	1996	1995
<S>	<C>	<C>
Bad debt	$48,870	$34,560
Depreciable assets	(42,250)	(73,500)
Inventory valuation allowance	66,300	-
Net operating loss carryforwards	272,970	123,000
Other	(1,490)	6,493
Total deferred tax asset	344,400	90,553
Valuation allowance	216,270	-
Net deferred tax asset	$128,130	$90,553

</TABLE>

The Company made no income tax payments during fiscal 1996, 1995, and 1994. Due to the Company's net operating loss position, no income tax payments were necessary in fiscal 1996 and 1995. In fiscal 1994, overpayments of tax from fiscal year 1993 were applied to the period. The Company received $129,000, $10,000 and $73,000 of income tax refunds during 1996, 1995 and 1994, respectively.

10. ROYALTY AND SALES REPRESENTATION AGREEMENTS

In 1990, the Company acquired rights to sell a radio programming software product for which royalties of 50-65% are payable by the Company on sales as collected. Royalties under this agreement totaled $72,132, $313,210, and $308,429 in 1996, 1995 and 1994, respectively. This agreement was terminated in January, 1996.

The Company has an agreement with a production company whereby the production company is entitled to a 50% royalty on sales of a production library which it developed for the Company. Royalties under this agreement totaled $26,000, $51,026, and $131,117 in 1996, 1995, and 1994, respectively.

The Company has certain distribution arrangements with independent sales agents in the United Kingdom, Europe, Australia, Japan, the Commonwealth of Independent States (C.I.S.), Canada and elsewhere. Fees included in commission expense under these arrangements were $989,000, $1,034,000 and $1,299,000 in 1996, 1995, and 1994, respectively.

11. STOCKHOLDERS' EQUITY

Stock Options

On December 3, 1991, the Board of Directors approved a Long Term Incentive Plan (the _Plan_) which provides for grants of Incentive Stock Options to selected employees and for grants of Nonqualified Stock Options to any persons who in the opinion of the Board of Directors perform significant services on behalf of the Company. Each member of the Compensation Committee who is not an employee or full-time consultant of the Company is automatically granted in December of each year, commencing in 1991, for five years (but only for so long as he or she remains a member of the Compensation Committee), a Nonqualified Stock Option for 2,500 shares. The maximum number of shares which may be issued pursuant to the exercise of options under the Plan was 187,500 shares. Effective October 28, 1993, the Board of Directors approved an amendment to the Plan which increased the total number of shares which may be issued to 250,000 shares of common stock.

The option price of Incentive Stock Options is not less than the fair market value of the common stock at the date of grant. All outstanding Incentive Stock Options vest over a period of five years from the date of grant.

The option price of outstanding Nonqualified Stock Options is $1.20 per share. All outstanding Nonqualified Stock Options are 20% vested upon grant, 50% vested after year one, and 100% vested after two years.

SFAS No. 123, _Accounting for Stock-Based Compensation_, which is effective for fiscal years beginning after December 15, 1995, requires that an employer's financial statements include certain disclosures about stock-based employee compensation arrangements regardless of the method used to account for them. Management expects to continue to measure compensation costs using APB Opinion No. 25, _Accounting for Stock Issued to Employees_, and will therefore include pro forma disclosures in the notes to the financial statements for all awards granted after December 31, 1994. The Company will disclose the proforma net income and pro forma earnings per share as if the fair value based accounting method in SFAS No. 123 had been used to account for stock-based compensation cost in future financial statement presentations.

Option information for the fiscal year ended September 30, 1996:

<TABLE>
<CAPTION>

	Option Price per share	Number of Shares 1996	1995
<S>	<C>	<C>	<C>

Options outstanding:			
Incentive	$1.0625 - $2.50	210,000	190,000
Nonqualified	$1.20	25,000	20,000
Options exercisable:			
Incentive	$1.0625 - $2.50	84,375	65,000
Nonqualified	$1.20	18,500	13,500

Options granted during the year	55,000	125,000
Options exercised during the year	-	-

</TABLE>

CONSULTING AGREEMENT

AGREEMENT made this 5th day of July, 1996, between TM Century, Inc., a Delaware corporation (_TM Century_), and Marjorie L. McIntyre (_Consultant_).

Preliminary Statement

Consultant has, for some years, been a consultant and general advisor to TM Century, and

TM Century desires to retain Consultant's experience, abilities in the business of TM Century, and TM Century has offered to engage Consultant to render consultative and advisory services in respect of TM Century, and

Consultant desires to accept such engagement, upon the terms and conditions set forth below.

In consideration of the premises and the mutual covenants herein contained, TM Century and Consultant hereby agree as follows:

1. Term and Duties. TM Century hereby employs Consultant for a period of thirty-six (36) months, beginning the date hereof, as a general advisor and consultant to management in all matters pertaining to the business of TM Century and to render all of the services relevant thereto, and such advertising, promotional and administrative services as TM Century may reasonable request. Consultant shall serve as a member of the Board of Directors, if elected, including service as Chairman of the Board of Directors, if elected. Consultant shall report to and be responsible only to the Board of Directors of TM Century and its executive officers. Consultant shall render such services as are requested of her by TM Century but shall not be obligated to spend more than 20 hours in any one week for such services or more than 60 hours in any one month for such services. Such services shall be rendered in Dallas, Dallas County, Texas, unless agreed on otherwise.

2. Compensation. For her consulting services to be rendered by Consultant to TM Century under this Agreement, Consultant shall be compensated by TM Century during the term of this Agreement by the payment of (1) the sum of $10,000 per month to be payable in twenty-four (24) equal installments, in accordance with the Company's customary payroll procedures. (2) by TM Century providing consultant with an automobile allowance of $335 per month, and reimbursing her gasoline expenses and insurance for same. (3) reimbursement of reasonable expenses incurred by consultant in the performance of her duties, and (4) by TM Century

providing consultant with health insurance equivalent to health insurance provided to employees of TM Century.

3. Conflict of Interest. During the term of this Agreement, Consultant shall not have any other corporate affiliation without the approval of the Board of Directors of TM Century and shall not, directly or indirectly, engage in the production, manufacture, or distribution of any product similar to that produced, manufactured, or sold by TM Century or any of its subsidiaries, neither for her own account or for any person, firm, or corporation whatsoever other than TM Century or its subsidiaries, or otherwise compete with the company or its subsidiaries.

4. Trade Secrets. Consultant acknowledges that prior to her association with TM Century, she had no knowledge of the formulas, trade secrets, processes, or method of production or manufacture utilized by TM Century and that such information is of a confidential and secret character and of great value to TM Century. Consultant agrees not to divulge to anyone other than the proper officers of TM Century, either during or after termination of her employment hereunder, any information acquired by her concerning such processes, formulas, or methods of manufacturing or production or other trade secrets of TM Century.

5. Covenant Not To Compete. During the term of this Contract, Consultant shall not, directly or indirectly, own, manage, operate, join, control or participate in or be connected with any business (either as owner, principal, shareholder, agent, employee, servant, or otherwise) which shall (i) compete with any business conducted by TM Century of the type and nature as shall be conducted by TM Century during the term hereof as described herein and (ii) be conducted within the State of Texas (_Covenant Not to Compete_). For purposes of the Covenant Not to Compete, the term _TM Century_ shall include any subsidiary or affiliate of TM Century. Consultant understands and agrees that a breach or threatened breach of the Covenant Not to Compete cannot be reasonably or adequately compensated in damages and that such breach will cause TM Century irreparable loss or damage. Nothing herein shall prevent TM Century from pursuing any remedies available at law or in equity for such breach or threatened breach. This Covenant Not to Compete as well as the obligations of Consultant hereunder are not depended upon, but are mutually independent from any other covenant or obligation herein. Consultant shall be paid the sum of $10,000 per month to be payable on or about the last day of each month during the term of this Agreement including the extended period.

6. Waiver , Modification, or Cancellation. Any waiver, alternation or modification of any of the provisions of this Agreement, or its cancellation or replacement, shall not be valid

unless in writing and signed by the parties.

7. Assignment. The rights and obligations of TM Century under this Agreement shall inure to the benefit of and shall be binding upon the successors and assigns of TM Century if the company shall transfer all or substantially all of its assets, property, and business to another corporation.

8. Construction. The validity of this Agreement shall be governed by the laws of the State of Texas, and this Agreement shall be construed and enforced in accordance with the laws of the State of Texas.

9. Entire Agreement. This Agreement supersedes all agreements previously made between the parties relating to is subject matter. There are no other understandings or agreements.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the day and year first above written.

TM CENTURY, INC.

____

____

NEIL W. SARGENT PRESIDENT/CEO

MARJORIE L. McINTYRE

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE
BALANCE SHEET AND STATEMENTS OF OPERATIONS ON THE COMPANY'S FORM 10-KSB
FOR THE YEAR ENDING SEPTEMBER 30, 1996.
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