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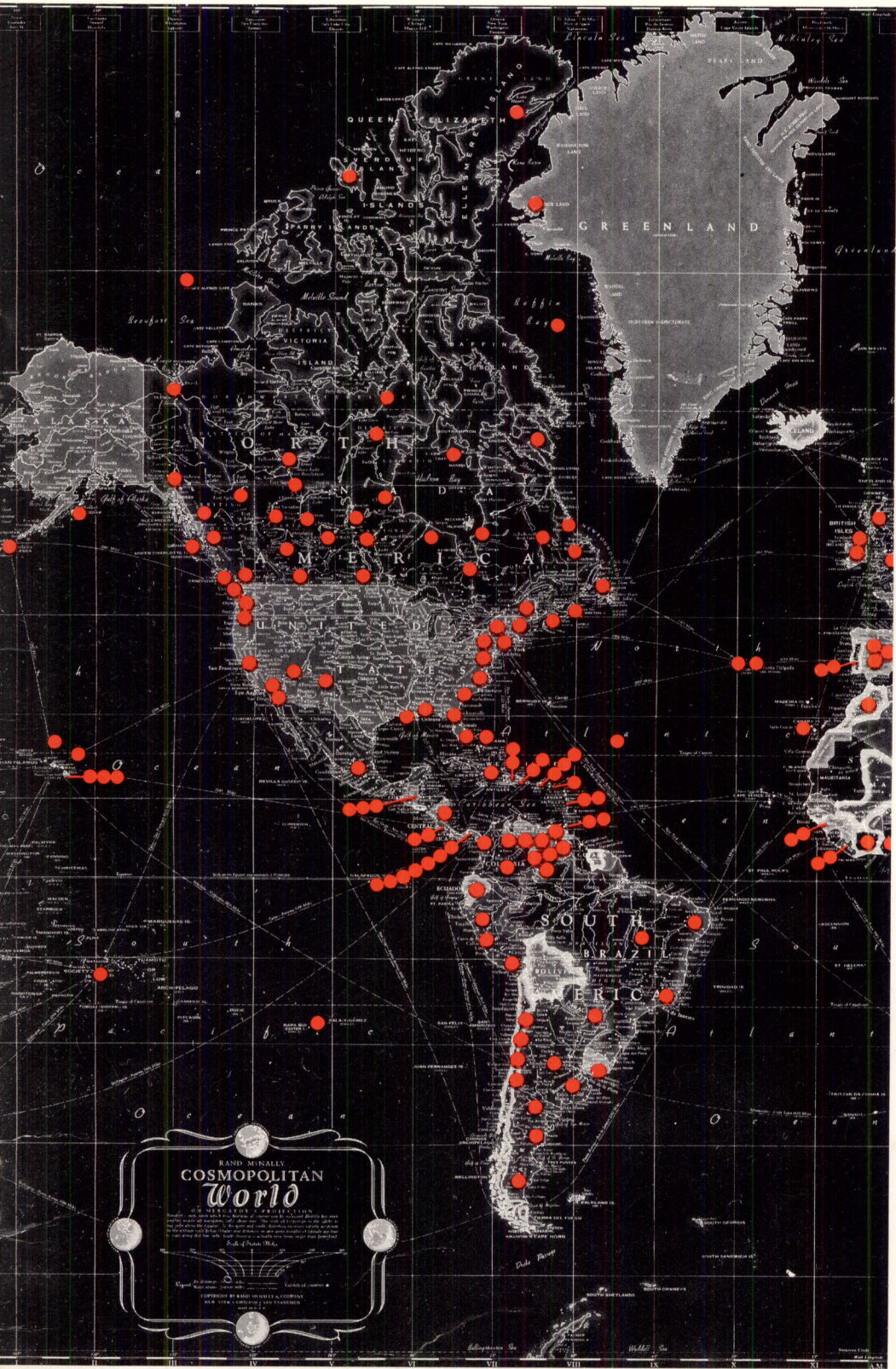
**ANNUAL
REPORT**

19



65

The
**TECHNICAL
MATERIEL
CORPORATION**
and Subsidiaries



business highlights

	FISCAL YEAR	
	1965	1964
Net Sales	18,394,329	29,387,053
Net Income	37,193	2,243,904
Current Assets	12,981,993	12,034,290
Current Liabilities	5,163,686	3,673,030
Working Capital	7,818,307	8,361,260
Current Ratio	2.5 to 1	3.3 to 1
Property, Plant and Equipment Net	3,260,222	2,876,240
Stockholders' Equity	10,740,332	10,712,811
Earnings per Share	0.01	0.89
Book Value per Share	4.25	4.24
Number of Stockholders	3,737	3,253
Common Shares Outstanding	2,525,635	2,525,635

management

directors

R. H. dePASQUALE
W. J. GALIONE
M. M. dePASQUALE
J. E. GALIONE
E. A. MATSON, Jr.
A. J. MOCCIA,
Vice President and
Treasurer,
American Airlines, Inc.
G. W. JENNINGS
Kidder, Peabody
& Company

R. H. dePasquale, President
W. J. Galione, Executive Vice
President and Treasurer
J. E. Galione, Secretary and
Vice President, Operations
E. A. Matson, Jr., Vice Pres.,
Administration
W. L. Deans, Vice President
B. D. Pritchard, Vice President
and Director, Engineering
F. O. Strailman, III, Assistant
Vice President
D. W. Carter, Assistant Vice
President and Director,
Engineering Services
D. A. Hillmann, Assistant Vice
President and Director,
International Marketing
R. G. DeBease, Controller

R. L. Morris, Assistant
Controller
H. J. Morse, General Counsel
and Director, Industrial
Relations
D. V. Carroll, President,
TMC (Canada) Ltd.
C. F. Gebhardt, President
TMC Industrial Corp.
A. Lennox, Jr.,
Managing Director
TMC Systems AG
H. L. Scofield, President,
TMC Systems, Inc.
TMC Power Distribution, Inc.
B. A. Katz, Administrative Vice
President, TMC Systems, Inc.
TMC Power Distribution, Inc.
D. R. Bloch, Vice President
TMC Systems, Inc.

W. C. Shalag, Executive Vice
President, TMC Power
Distribution, Inc.
R. M. Barrington, Vice President,
General Manager
TMC Systems (Texas) Inc.
J. K. Palmer, Vice President,
General Manager
TMC Research, Inc.
H. M. Winters, Vice President,
General Manager, Systems Div.
TMC Systems (Calif.) Inc.
J. L. Saunders, President
and Chief Engineer
TMC Systems (Calif.) Inc.
D. Robinson, Vice President,
General Manager, Components Div.
TMC Systems (Calif.) Inc.
R. D. Phillips, Vice President,
General Manager
TMC Systems (Florida) Inc.

a message from the president....

Operations in fiscal year 1964/65 were not up to our usual standard. The decline in sales and profits cannot be charged to any one factor but rather to a combination of unforeseen circumstances. Although the primary cause was probably the lack of profitable Government business, keen competition for what business there was, plus losses on Government contracts, particularly in our Power Distribution subsidiary, made the year unsatisfactory. The problems overcome during the period were many and varied.

At mid-year when it appeared that new contracts would be delayed, we instituted a vigorous campaign of cost cutting and tight control. This has resulted in considerable savings, so that we enter the new year better prepared for a renewed growth cycle. Additional steps will be taken in the coming year to streamline our operations and strengthen our managerial staff. We have already placed our Power Distribution facility under new and stronger management, and as a part of our cost reduction program we have suspended operations in Texas. We have also postponed the capital expenditure for a new plant in Alexandria until the coming year.

We have been highly gratified with the amount and quality of business which has come our way recently. Our backlog as this is written is fifty percent higher than at the same time last year, and orders in the house insure a better year in 1965/66.

The question of renegotiation always appears in connection with the statement of any company doing a volume business with the U. S. Government. We believe that note (1) to the financial statements fairly represents the Company's position. Similarly note (3) on deferred new product development costs, clearly defines our policy on these items.

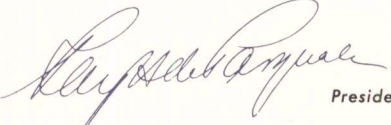
It would appear that the most of our problems are now behind us.

All divisions of the Company should operate profitably in the coming year, not only the parent, but particularly in Canada and Virginia where recent large new orders have been received. Our financial condition remains strong with no long term debt other than that secured by real property, and with a current ratio of 2.5 to 1. Our borrowing capacity exceeds our needs and no additional financing should be required in the foreseeable future.

We remain on the alert for possible acquisitions to increase our scope, but only where such acquisitions would result in increased profits.

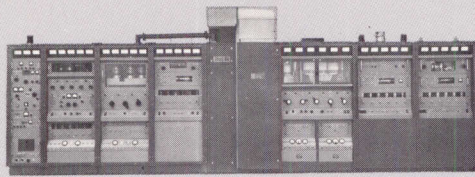
Your Company is in an expanding field. The investment in new products appears to be paying off. The new year should unquestionably show an improvement in both sales and profits.

For the Board of Directors


President

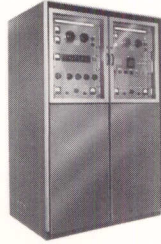
December 3, 1965

TRANSMITTERS



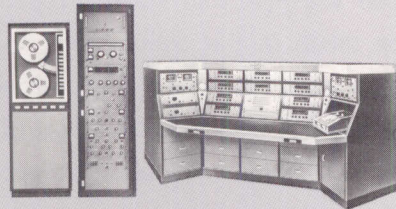
Our completely automatic and manual high power transmitters continue in production. Our production line has not stopped since 1959.

RECEIVERS



We continue to produce our completely automated and manual receivers. These are among the most sophisticated equipments available.

REMOTE SYSTEMS



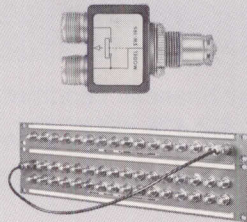
Remote systems continue in production. These include hard wire, tone and teletype systems for round the world operation.

PLASTICS



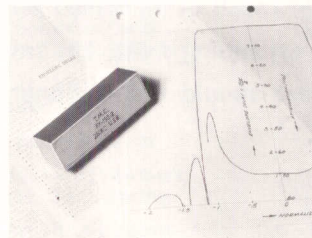
Plastic operations in fibreglass have been expanded so that practically all weather-proof units are made in house.

CONNECTOR PRODUCTS



We have entered the multi-million dollar connector products field with high quality components plated in rhodium and gold.

CRYSTALS



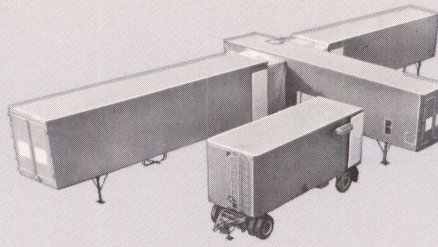
Our new components division manufactures high grade crystal filters — a very important component in sideband transmitters and receivers.

RESEARCH



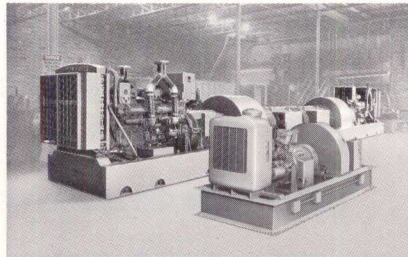
Our research subsidiary continues to participate in undersea and missile activities, particularly where the state of the art is unknown.

Mobile systems occupy a major part of our business—complete transmitting and receiving stations for world wide communications.



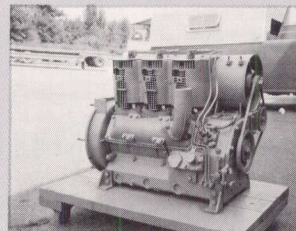
MOBILE SYSTEMS

We supply no-break and conventional power units up to 1,000,000 watts capacity.



POWER SYSTEMS

Our new Diesel engines in the coming year should be responsible for a considerable increase in sales and profits.



DIESEL ENGINES

Export sales show a steady increase particularly in the Near East and South America.



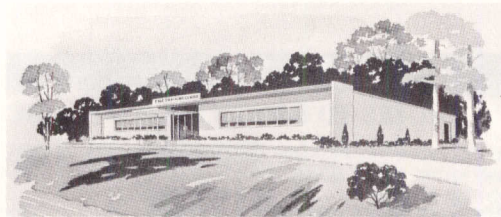
EXPORT

Pictured is the new loud speaking football helmet — a new commercial item.



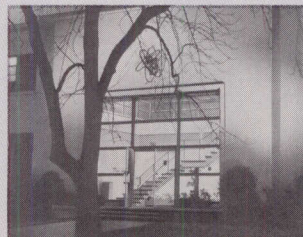
COMMERCIAL

Our school, in full operation in a new building is continually expanding and training communicators from all over the World.



SCHOOL

Financially we remain in excellent condition with a current ratio of 2.5 to 1.



FINANCIAL REVIEW

assets

THE TECHNICAL MATERIEL CORPORATION
and Subsidiaries

CONSOLIDATED BALANCE SHEET

September 30, 1965 and 1964

ASSETS	1965	1964
Current assets:		
Cash	\$ 452,099	\$ 488,904
Accounts receivable — (\$1,676,630 in 1965 and \$2,243,000 in 1964 from the U. S. Government)	2,318,292	2,981,050
Income tax refunds receivable (Note 4)	359,235	—
Inventories, at the lower of cost or market (Note 2):		
Finished goods	1,482,520	1,556,555
Work in process	3,992,458	2,528,139
Raw materials	4,166,226	4,389,425
	9,641,204	8,474,119
Prepaid expenses	211,163	90,217
Total current assets	12,981,993	12,034,290
Property, plant and equipment, at cost:		
Land	415,587	141,198
Buildings and building equipment	2,039,486	1,959,533
Machinery and equipment	1,488,926	1,228,753
Leasehold improvements	262,834	265,440
	4,206,833	3,594,924
Less accumulated depreciation and amortization	946,611	718,684
	3,260,222	2,876,240
Other assets:		
Deferred new product development costs (Notes 3 and 4)	1,445,441	937,115
Long-term receivables, etc.	—	148,359
	1,445,441	1,085,474
	\$17,687,656	\$15,996,004

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 1965

Note 1:

A major portion of the Company's business is subject to renegotiation by the U. S. Government. Years through 1961 have been cleared without significant refunds.

In fiscal year 1965 the Company paid a renegotiation refund for 1962 of \$140,378 (net of applicable income taxes), which amount has been reflected as a charge to earned surplus. The amount for 1962 was determined by the Renegotiation Board based on a renegotiable profit determined by the Board which was substantially less than the profit reflected in the 1962 financial statements. In November 1965 the Board's Division of Accounting submitted a report to serve as a basis for renegotiation proceedings for 1963 which shows a renegotiable profit substantially in excess of

the profit reflected in the 1963 financial statements. However, the Company believes because of changes in the business in 1963, including the type of contracts performed, that no excessive profits were earned in 1963. The Company is unable to determine the ultimate effect of renegotiation proceedings with respect to 1963 but believes that it should be possible to settle for an amount which is not material in relation to stockholders' equity and intends to oppose the imposition of any material refund.

The Company believes that 1964 and 1965 should be settled without any refund. No provision has been made in the financial statements for renegotiation refunds.

liabilities

AND STOCKHOLDERS' EQUITY

THE TECHNICAL MATERIEL CORPORATION and Subsidiaries

CONSOLIDATED BALANCE SHEET

September 30, 1965 and 1964

LIABILITIES AND STOCKHOLDERS' EQUITY	1965	1964
Current liabilities:		
Notes payable to banks	\$ 3,380,000	\$ 1,425,000
Note payable to officer	40,000	—
Accounts payable	1,243,810	1,108,380
Accrued income taxes	47,388	595,811
Other accrued taxes and expenses	383,621	494,524
Current installments of mortgages payable	68,867	49,315
Total current liabilities	<u>5,163,686</u>	<u>3,673,030</u>
Mortgages payable — 5½% to 7½% and due 1966-1983 (less installments due within one year)	1,110,638	913,785
Deferred income taxes (Note 4)	673,000	556,000
Stockholders' equity:		
Common stock, par value 12½¢ per share (Note 5):		
Authorized — 4,000,000 shares		
Issued — 1965 — 2,525,635 shares; 1964 — 2,476,900 shares	315,704	309,613
Capital surplus (Note 6)	3,683,127	3,104,399
Earned surplus (Note 1)	6,741,501	7,439,177
	<u>10,740,332</u>	<u>10,853,189</u>
	<u>\$17,687,656</u>	<u>\$15,996,004</u>

Note 2:

Cost of inventories is determined principally on the basis of the average cost method and includes applicable engineering, general and administrative expenses of approximately \$846,000 at September 30, 1965 and \$630,000 at September 30, 1964.

Note 3:

In 1964 and 1965 the Company expanded its new product development program, and deferred in the balance sheet the engineering and related costs required to develop new products. This accounting policy was adopted in 1964 in recognition of the fact that more was then being spent on development than ever before, and the Company expected to recover the costs of such development work from sales of new products in the future. Deferred new product development costs are being amortized in the statement of income on the

basis of the anticipated sales of related products, with a maximum period for amortization of five years. Amortization and write-offs of deferred development costs aggregated \$185,373 in 1965.

Note 4:

The provision for income taxes in the statement of income includes deferred taxes of \$117,000 for 1965 and \$519,000 for 1964. The amount shown in the balance sheet at September 30, 1965 as income tax refunds receivable results from a net tax loss carry back and includes 1965 tax installments previously paid. The amount shown as deferred income taxes at September 30, 1965 includes \$679,000 related to deferred new product development costs deducted currently for income tax purposes and \$126,000 related to accelerated tax depreciation, in both cases before reduction for available tax loss carry forward of a subsidiary of \$132,000.

income

AND EARNED SURPLUS

THE TECHNICAL MATERIEL CORPORATION and Subsidiaries

CONSOLIDATED STATEMENT OF INCOME AND EARNED SURPLUS Years ended September 30, 1965 and 1964

	1965	1964
Net sales	\$18,394,329	\$29,387,053
Cost of sales	14,199,395	20,638,374
Engineering expenses (Note 3)	896,170	1,090,353
General and administrative expenses	3,077,456	3,424,778
Interest expense	175,115	137,259
Other income	—	(145,615)
	<u>18,348,136</u>	<u>25,145,149</u>
Income before income taxes	46,193	4,241,904
Provision for income taxes (Note 4)	9,000	1,998,000
Net income	37,193	2,243,904
Earned surplus at beginning of year	7,439,177	6,038,469
Renegotiation refund for 1962, net of \$189,922 federal income and state taxes (Note 1)	(140,378)	—
	<u>7,335,992</u>	<u>8,282,373</u>
2% stock dividend:		
Cash paid for fractional shares	9,672	12,566
Earnings transferred to capital	584,819	830,630
	<u>594,491</u>	<u>843,196</u>
Earned surplus at end of year (Note 1)	<u>\$ 6,741,501</u>	<u>\$ 7,439,177</u>

Depreciation and amortization included above for 1965 is \$244,057 and for 1964 is \$197,904.

194,450
37,193
157,257 LOSS

Note 5:

At September 30, 1965, there were reserved under the Employee Stock Option Plan, 27,411 shares of common stock against which options to purchase 8,364 shares at prices ranging from \$10.66 to \$16.67 were outstanding; stock options on 1,097 shares were then exercisable. The options expire at various dates from July 29, 1966 to March 23, 1967. During the year 1965, qualified stock options on 7,497 shares were granted at \$10.66 per share, options on 6,731 shares were cancelled or expired and no options were exercised. At September 30, 1964, 27,411 shares were reserved against which options to purchase 7,598 shares at prices ranging from \$16.67 to \$22.81 were

outstanding. The above shares and share prices have been adjusted to reflect stock dividends.

Note 6:

During the year capital surplus was increased by \$578,728, the excess of market price over par value of 48,735 shares issued as a stock dividend on March 1, 1965.

Note 7:

The Company leases property from a corporation owned by the families of certain of the Company's officers. The lease expires in 1974 and the base annual rental is \$60,000 per year.

auditor's report

ARTHUR YOUNG & COMPANY

277 PARK AVENUE
NEW YORK, N. Y. 10017

The Board of Directors and Stockholders
The Technical Materiel Corporation

We have examined the accompanying consolidated balance sheet of The Technical Materiel Corporation and Subsidiaries at September 30, 1965 and the related consolidated statement of income and earned surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. It was not practicable to confirm amounts due from the United States Government, as to which we satisfied ourselves by means of other auditing procedures.

In our opinion, subject to any adjustments which may result from renegotiation (see Note 1), the statements mentioned above present fairly the consolidated financial position of The Technical Materiel Corporation and Subsidiaries at September 30, 1965 and the consolidated results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

December 3, 1965

Arthur Young & Company

TRANSFER AGENT:
Bankers Trust Company
485 Lexington Ave.
New York City 17, N. Y.

REGISTRAR:
Irving Trust Co.
New York, N. Y.

CORPORATION COUNSEL:
Harold J. Morse

	1965	1964	1963
Net Sales	\$18,394,329	\$29,387,053	\$28,373,671
Provision for Federal and Foreign Income Taxes	\$ 9,000	\$ 1,998,000	\$ 2,322,000
Net Earnings for the Year	\$ 37,193	\$ 2,243,904	\$ 2,216,449
Per Cent of Earnings to Sales (2)	0.20%	7.64%	7.81%
Current Assets	\$12,981,993	\$12,034,290	\$11,887,905
Current Liabilities	\$ 5,163,686	\$ 3,673,030	\$ 4,861,822
Current Ratio	2.5 to 1	3.3 to 1	2.4 to 1
Working Capital	\$ 7,818,307	\$ 8,361,260	\$ 7,026,083
Long-Term Liabilities	\$ 1,110,638	\$ 913,785	\$ 861,270
Property, Plant and Equipment (net)	\$ 3,260,222	\$ 2,876,240	\$ 2,435,280
Expenditures for Property, Plant and Equipment	\$ 632,644	\$ 789,741	\$ 653,840
Depreciation and Amortization	\$ 244,057	\$ 197,904	\$ 155,450
Square Feet of Building Space:			
Owned	138,600	133,600	113,600
Leased	147,400	131,400	127,400
Total	286,000	265,000	241,000
Common Shares Outstanding (1)	2,525,635	2,525,635	2,519,112
Per Share Statistics: (1)			
Earnings	\$.01	\$.89	\$.88
Cash Flow (net plus depreciation)	\$.11	\$.97	\$.94
Book Value	\$ 4.25	\$ 4.24	\$ 3.34
Stockholders' Equity (2)	\$10,740,332	\$10,712,811	\$ 8,404,625

10 year comparison

1962	1961	1960	1959	1958	1957	1956
\$22,123,951	\$11,598,068	\$ 6,600,137	\$ 5,028,453	\$ 3,212,468	\$ 2,754,201	\$ 2,043,776
\$ 1,806,538	\$ 917,343	\$ 458,814	\$ 335,787	\$ 183,106	\$ 110,053	\$ 66,627
\$ 1,596,481	\$ 903,340	\$ 463,507	\$ 336,867	\$ 200,178	\$ 121,225	\$ 84,014
7.21%	7.79%	7.02%	6.70%	6.23%	4.40%	4.11%
\$ 9,223,214	\$ 5,216,707	\$ 3,411,503	\$ 2,452,459	\$ 802,290	\$ 524,976	\$ 385,314
\$ 4,841,954	\$ 1,700,069	\$ 1,803,561	\$ 935,558	\$ 484,989	\$ 381,399	\$ 319,067
1.9 to 1	3.1 to 1	1.9 to 1	2.6 to 1	1.7 to 1	1.4 to 1	1.2 to 1
\$ 4,381,260	\$ 3,516,638	\$ 1,607,942	\$ 1,516,901	\$ 317,301	\$ 143,577	\$ 66,247
\$ 153,058	\$ 135,904	\$ 150,495	\$ 124,667	\$ 201,669	\$ 60,015	\$ 101,857
\$ 1,976,768	\$ 1,111,160	\$ 894,868	\$ 461,014	\$ 507,853	\$ 352,929	\$ 331,225
\$ 975,431	\$ 296,520	\$ 498,672	\$ 64,735	\$ 200,714	\$ 153,109	\$ 95,202
\$ 106,823	\$ 73,354	\$ 59,747	\$ 38,439	\$ 33,659	\$ 36,995	\$ 26,082
65,850	40,850	40,850	40,850	47,100	35,100	35,100
120,400	107,000	43,000	4,000	8,500	8,500	8,500
186,250	147,850	83,850	44,850	55,600	43,600	43,600
2,510,277	2,510,277	2,302,197	2,268,072	1,935,144	1,935,144	1,935,144
\$.64	\$.36	\$.20	\$.17	\$.10	\$.06	\$.04
\$.68	\$.39	\$.23	\$.19	\$.12	\$.08	\$.05
\$ 2.42	\$ 1.80	\$ 1.01	\$.92	\$.33	\$.22	\$.18
\$ 6,065,041	\$ 4,498,217	\$ 2,321,709	\$ 1,789,231	\$ 645,741	\$ 421,767	\$ 339,713

(1) Common shares outstanding are as at the close of each fiscal year. Per share statistics are computed on the basis of the average number of common shares outstanding during each period. Both are adjusted for stock splits in 1959, 1961 and 1962 and a 2% stock dividend in 1964 and 1965.

This report has been prepared and is distributed solely for the purpose of furnishing financial and statistical information about the Corporation and its Subsidiaries and its products to present stockholders and employees. It is not a representation, prospectus, communication or circular in connection with any present or future sale or purchase, or offer to sell or purchase any stock or other security of The Technical Materiel Corporation and its Subsidiaries.

(2) Net earnings for the year 1962 and stockholders' equity for 1962 and subsequent years have been reduced by a \$140,378 net renegotiation refund.



The TECHNICAL MATERIEL CORPORATION

Main Office
FENIMORE ROAD
MAMARONECK
NEW YORK



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TMC SYSTEMS, INC.
 ALEXANDRIA, VIRGINIA

TMC SYSTEMS (TEXAS), INC.
 GARLAND, TEXAS

TMC SYSTEMS AG
 LUZERN, SWITZERLAND

TMC (CANADA), LTD.
 ONTARIO, CANADA

TMC RESEARCH, INC.
 SAN LUIS OBISPO, CALIFORNIA

TMC POWER DISTRIBUTION, INC.
 ALEXANDRIA, VIRGINIA

TMC SYSTEMS (FLORIDA), INC.
 POMPANO BEACH, FLORIDA

TMC INDUSTRIAL CORPORATION
 MAMARONECK, NEW YORK

TMC SYSTEMS (CALIF.), INC.
 SAN LUIS OBISPO, CALIFORNIA