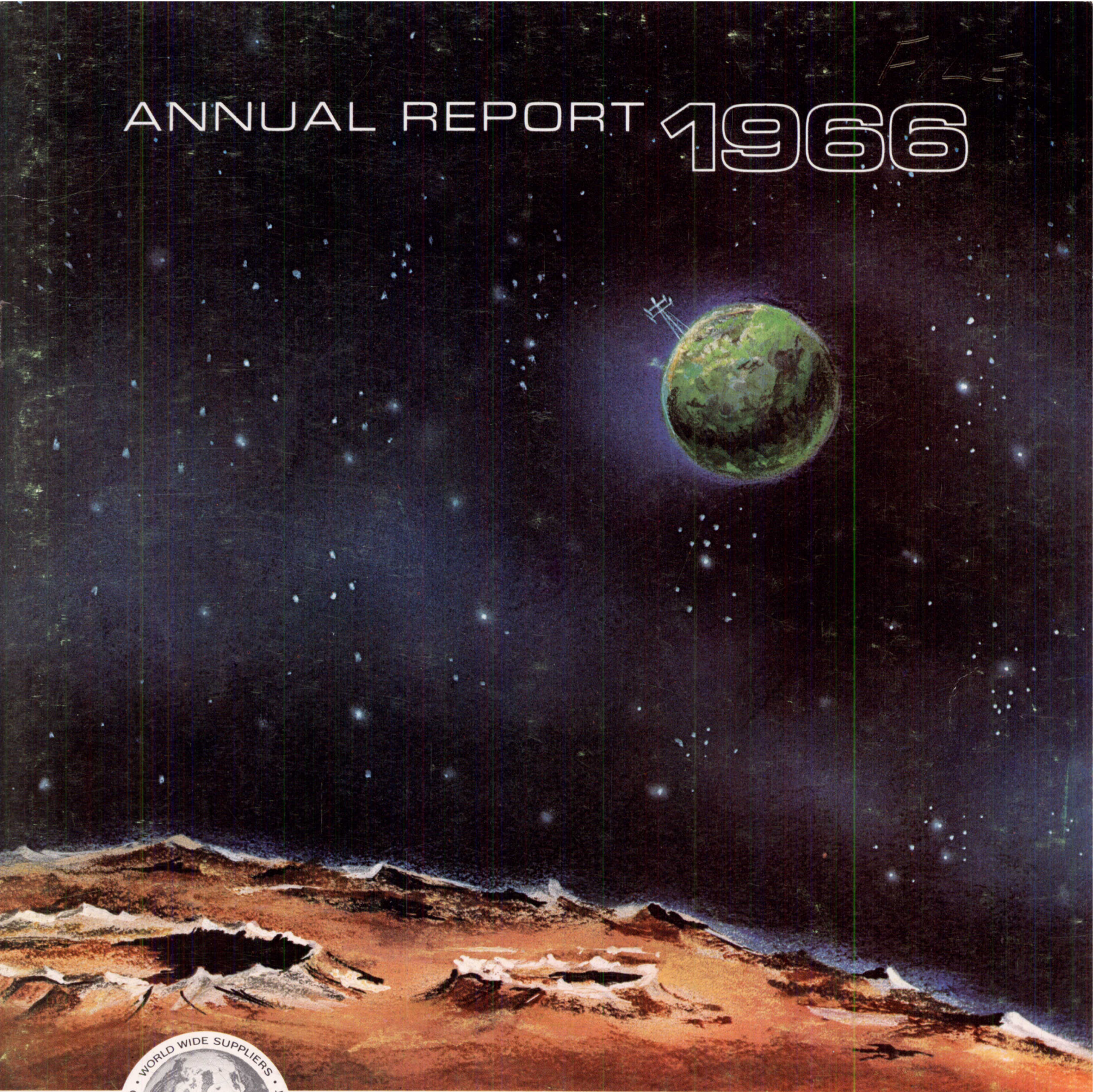


ANNUAL REPORT 1966

FILE



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THE TECHNICAL MATERIEL CORPORATION

business highlights

	FISCAL YEAR	
	1966	1965
Net Sales	22,119,382	18,394,329
Net Income	376,621	37,193
Current Assets	13,749,283	12,981,993
Current Liabilities	6,856,172	5,163,686
Working Capital	6,893,111	7,818,307
Current Ratio	2.0 to 1	2.5 to 1
Property, Plant and Equipment Net	3,203,425	3,260,222
Stockholders' Equity	10,380,026	10,011,866*
Earnings per Share	0.15	0.01
Book Value per Share	4.03	3.89
Number of Stockholders	3,782	3,737
Common Shares Outstanding	2,575,451	2,575,347*

* Restated

management

directors

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

R. H. dePasquale, President
 G. C. Dixon, Executive
 Vice President
 J. E. Galione, Secretary and
 Vice President, Operations
 E. A. Matson, Jr., Vice
 President, Administration
 W. L. Deans, Vice President
 D. A. Hillmann, Vice President
 and Director, International
 Marketing
 H. J. Geist, Vice President
 D. B. Whittemore, Vice
 President
 C. F. Gebhardt, Vice President,
 Special Projects

R. G. DeBease, Treasurer
 R. L. Morris, Controller
 R. S. Taylor, Assistant
 Secretary
 H. J. Morse, General Counsel
 and Director, Industrial
 Relations
 D. V. Carroll, President, TMC
 (Canada) Ltd.
 J. C. Adair, Vice President,
 TMC (Canada) Ltd.
 A. Lennox, Jr., Managing
 Director, TMC Systems AG
 W. C. Shalag, Executive Vice
 President, TMC Power
 Distribution, Inc.

D. R. Bloch, Vice President,
 TMC Systems, Inc.
 B. A. Katz, Vice President,
 TMC Systems, Inc., TMC
 Power Distribution, Inc.
 B. D. Pritchard, Vice President
 and Director of Engineering,
 TMC Systems, Inc.
 J. L. Saunders, President and
 Chief Engineer, TMC
 Systems (Arizona) Inc.
 R. T. Hogan, Vice President,
 TMC Systems (Arizona) Inc.
 R. D. Phillips, Vice President,
 General Manager, TMC
 Systems (W.H.) Inc.

a message from the president....

Fiscal year 1965/6 was a year characterized by intense competition in our industry. Many firms decided to enter the field for the first time; some met with success, others with failure. In spite of the increased competition, your Company successfully maintained and improved its position in the industry. The year was further complicated by the shortage of labor, in some measure due to our Country's involvement in Vietnam. Labor costs also have risen, affecting not only our costs, but those of our component suppliers as well.

Your management believes it has taken the necessary steps to cope with conditions. Bank debt has been substantially reduced. We have reduced our inventory and placed the control thereof on our computer to aid in maintaining optimum levels of inventory investment.

We have further strengthened our accounting and cost controls. We are also in the process of consolidating certain of our subsidiaries to reduce overhead. We have formed a Western Hemisphere corporation for our Florida operations, affording significant tax advantage. Our operations in California are in the process of being concluded, including the sale in fiscal 1966 of our plant there at a capital gain. These activities are being consolidated in Tempe, Arizona, where the technical climate is more favorable to our business.

Some management changes have been made. Mr. W. J. Galione retired during the year as Executive Vice-President and his position has been filled by Captain George C. Dixon, U.S.N. (Ret.). Captain Dixon has been associated with many multi-million dollar communication enterprises. Major General H. L. Scofield, U.S.A. (Ret.) also decided to retire and his position has been filled by our Vice-President for Operations, Mr. John E. Galione. Mr. Robert DeBease has been appointed Treasurer and Mr. Robert L. Morris, Controller.

Greater facilities than ever before have been provided to produce more of our products with the same number of employees. Our new building in Springfield, Virginia, has 3½ acres under one roof for the production of our systems and engine generator products, eliminating expensive traffic flow between plants.

Our Engineering Department has been active during the year. We have designed various products during the last year that we regard as a break-through in the industry. We have also been selected competitively by the U.S. Navy to produce what is hoped to be the finest receiver of its type in the world. We are deeply involved in the use of the relatively new "integrated circuits", which point to a new way of life in the electronic industry. We now produce some of the most sophisticated crystal products available in the world today. We are also involved in a substantial way in special products of a classified nature which could have a considerable impact commercially in the future.

Our new Airborne Division has projected us into an entirely new field, encompassing the application of T.V. to aircraft and satellites along with other types of broadcast. A significant part of our volume is expected to be in this area in the upcoming year.

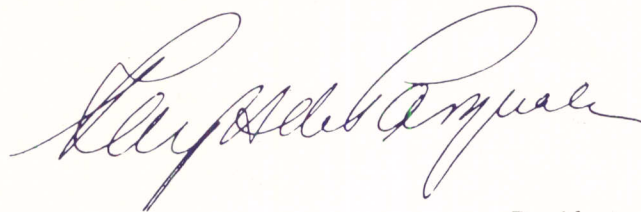
Finally, concerning the matter of profit margin, commercial activities usually afford a better profit margin than Government (or renegotiable) business. To this end we are making strenuous efforts in the commercial area. We are starting to see results. Forty-five per cent (45%) of our present backlog is non-renegotiable. Our export sales in particular continue to rise so that our product acceptance more than ever is world-wide.

As noted in this annual report, we have concluded renegotiation proceedings for the year 1963. We are confident that there will be no recovery for 1964, 1965 or 1966.

As to the future, our backlog at this writing is substantially in excess of \$20,000,000. This backlog, coupled with shipments already made in the new fiscal year, points toward a new record in sales. Your management intends to make these sales profitable. On behalf of the Board of Directors and others responsible in management, we expect to make the 1966/1967 year one of the best in our history.

For The Board of Directors

December 19, 1966



President

assets

THE TECHNICAL MATERIEL CORPORATION *and Subsidiaries*

CONSOLIDATED BALANCE SHEET September 30, 1966 and 1965

ASSETS	1966	1965
CURRENT ASSETS:		
Cash	\$ 1,055,642	\$ 452,099
Accounts receivable — (\$1,150,188 in 1966 and \$1,676,630 in 1965 from the U.S. Government) . . .	2,736,618	2,318,292
Income tax refunds receivable (Note 4)	44,613	359,235
Inventories, at the lower of cost or market, less \$584,189 progress payments in 1966 (Note 2):		
Finished goods	1,108,058	1,482,520
Work in process	4,089,547	3,992,458
Raw materials	3,539,882	4,166,226
	<u>8,737,487</u>	<u>9,641,204</u>
Prepaid commissions and expenses	1,174,923	211,163
Total current assets	<u>13,749,283</u>	<u>12,981,993</u>
PROPERTY, PLANT AND EQUIPMENT, AT COST:		
Land	56,392	415,587
Buildings and building equipment	1,815,551	2,039,486
Machinery and equipment	2,046,763	1,488,926
Leasehold improvements	451,306	262,834
	<u>4,370,012</u>	<u>4,206,833</u>
Less accumulated depreciation and amortization	1,166,587	946,611
	<u>3,203,425</u>	<u>3,260,222</u>
OTHER ASSETS:		
Deferred new product development costs (Notes 3 and 4)	1,699,366	1,445,441
Property held for sale, etc.	449,774	—
	<u>2,149,140</u>	<u>1,445,441</u>
	<u>\$19,101,848</u>	<u>\$17,687,656</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 1966

Note 1:

In 1965 the Company made a net renegotiation refund for 1962 of \$140,378 (net of \$189,922 federal income and state taxes). On December 16, 1966, an agreement was concluded with the Renegotiation Board with respect to 1963 proceedings under which the Company agreed to make a net refund of \$728,466 (after giving consideration to \$848,709 federal income and state tax credits and \$14,236 expenses). This net refund includes \$419,697 which arises as a result of an adjustment of 1962 renegotiable profit made in conjunction with the 1963 renegotiation proceedings. The renegotiation agreement has been reflected in the financial statements at September 30, 1966. A major portion of the Company's business for 1964 and subsequent years is subject to renegotiation, but the Company believes that those years will be settled without any refund.

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 \$970,000 at September 30, 1966 and \$846,000 at September 30, 1965.

Note 3:

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 \$292,584 in 1966 and \$185,373 in 1965.

liabilities

AND STOCKHOLDERS' EQUITY

THE TECHNICAL MATERIEL CORPORATION *and Subsidiaries*

CONSOLIDATED BALANCE SHEET September 30, 1966 and 1965

LIABILITIES AND STOCKHOLDERS' EQUITY	1966	1965
CURRENT LIABILITIES:		
Notes payable to banks	\$ 938,125	\$ 3,380,000
Note payable to officer	—	40,000
Advance payments from customers	2,983,809	—
Accounts payable	1,483,394	1,243,810
Net renegotiation refund to the U.S. Government (Note 1)	750,210	—
Accrued U.S. and foreign income taxes	199,195	47,388
Other accrued taxes and expenses	424,275	383,621
Current installments of mortgages and note payable	77,164	68,867
Total current liabilities	6,856,172	5,163,686
 Mortgages and note payable — 5¾% to 7½% and due 1967-1983 (less installments due within one year)	1,031,650	1,110,638
 Deferred income taxes (Note 4)	834,000	673,000
 STOCKHOLDERS' EQUITY:		
Common stock, par value 12½¢ per share (Note 5):		
Authorized — 4,000,000 shares		
Outstanding — 1966 — 2,575,451 shares		
1965 — 2,525,635 shares	321,931	315,704
Capital surplus (Note 6)	4,268,342	3,683,127
Earned surplus (Note 1)	5,789,753	6,741,501
	10,380,026	10,740,332
	\$19,101,848	\$17,687,656

Note 4:

The provision for income taxes consists of the following:

	1966	1965
Current federal income tax refund	\$(33,000)	\$(91,000)
Current foreign income taxes (principally Canadian)	128,000	(17,000)
Deferred income taxes	161,000	117,000
	\$256,000	\$ 9,000

The 1966 provision was reduced by \$31,245 of investment credits.

The amount shown in the balance sheet at September 30, 1966 as income tax refunds receivable results from net tax loss and investment credit carry-backs and includes tax installments previously paid. The amount shown as deferred income taxes at

September 30, 1966 includes \$797,000 related to deferred new product development costs and \$12,000 related to engineering costs included in inventory, both deducted currently for income tax purposes, and \$190,000 related to accelerated tax depreciation, all before reduction for available tax loss and investment credit carry-forwards of subsidiaries of \$165,000.

Note 5:

At September 30, 1966, there were reserved under the Employee Stock Option Plan, 27,855 shares of common stock against which options to purchase 20,724 shares at prices ranging from \$8.63 to \$10.46 were outstanding; stock options on 2,887 shares were then exercisable. The options expire at various dates from March 23, 1967 to September 6, 1968. During the year 1966, qualified stock options on 14,950 shares were

income

AND EARNED SURPLUS

THE TECHNICAL MATERIEL CORPORATION *and Subsidiaries*

CONSOLIDATED STATEMENT OF INCOME AND EARNED SURPLUS

Years Ended September 30, 1966 and 1965

	1966	1965
Net sales	\$22,119,382	\$18,394,329
Cost of sales	16,566,436	14,199,395
Engineering expenses (Note 3)	1,418,765	896,170
General and administrative expenses	3,324,614	3,077,456
Interest expense	199,603	175,115
Other income	(22,657)	—
	<u>21,486,761</u>	<u>18,348,136</u>
Income before income taxes	632,621	46,193
Provision for income taxes (Note 4)	<u>256,000</u>	<u>9,000</u>
Net income (15¢ per share in 1966 and 1¢ per share in 1965)	376,621	37,193
Earned surplus at beginning of year	6,741,501	7,439,177
Prior year renegotiation refunds (Note 1)	<u>(728,466)</u>	<u>(140,378)</u>
	6,389,656	7,335,992
2% stock dividend:		
Cash paid for fractional shares	9,549	9,672
Earnings transferred to capital	<u>590,354</u>	<u>584,819</u>
	599,903	594,491
Earned surplus at end of year (Note 1)	<u>\$ 5,789,753</u>	<u>\$ 6,741,501</u>

Depreciation and amortization included above for 1966 is \$298,427 and for 1965 is \$244,057.

granted at \$8.63 per share, options on 2,653 shares were cancelled or expired and options on 104 shares were exercised at \$10.46 per share. At September 30, 1965, 27,959 shares were reserved against which options to purchase 8,531 shares at prices ranging from \$10.46 to \$16.35 were outstanding. The above shares and share prices have been adjusted to reflect stock dividends.

Note 6:

During the year capital surplus was increased as follows:

Balance at beginning of year	\$3,683,127
Excess of market value over par value of 49,714 shares of common stock issued as a stock dividend on March 1, 1966	584,140

Excess of option price over par value of 102 shares of common stock issued under the Employee Stock Option Plan	1,075
Balance at end of year	<u>\$4,268,342</u>

Note 7:

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

The minimum annual rental under a long-term lease with an unrelated lessor is \$201,000. This lease, covering the new plant for the Virginia subsidiaries, expires in 1977.

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, 1966 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, the statements mentioned above present fairly the consolidated financial position of The Technical Materiel Corporation and Subsidiaries at September 30, 1966 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.

Arthur Young & Company

December 19, 1966

TRANSFER AGENT

Bankers Trust Company
485 Lexington Avenue
New York, N. Y. 10017

REGISTRAR

Irving Trust Co.
New York, N. Y.

CORPORATION COUNSEL

Harold J. Morse

	1966	1965	1964
Net Sales (2)	\$22,119,382	\$18,394,329	\$29,387,053
Provision for Federal and Foreign Income Taxes (2)	\$ 256,000	\$ 9,000	\$ 1,998,000
Net Earnings for the Year (2)	\$ 376,621	\$ 37,193	\$ 2,243,904
Per Cent of Earnings to Sales (2)	1.70%	0.20%	7.64%
Current Assets	\$13,749,283	\$12,981,993	\$12,034,290
Current Liabilities	\$ 6,856,172	\$ 5,163,686	\$ 3,673,030
Current Ratio	2.0 to 1	2.5 to 1	3.3 to 1
Working Capital	\$ 6,893,111	\$ 7,818,307	\$ 8,361,260
Long-Term Liabilities	\$ 1,031,650	\$ 1,110,638	\$ 913,785
Property, Plant and Equipment (net)	\$ 3,203,425	\$ 3,260,222	\$ 2,876,240
Expenditures for Property, Plant and Equipment	\$ 852,955	\$ 632,644	\$ 789,741
Depreciation and Amortization	\$ 298,427	\$ 244,057	\$ 197,904
Square Feet of Building Space:			
Owned	118,600	138,600	133,600
Leased	274,450	147,400	131,400
Total	393,050	286,000	265,000
Common Shares Outstanding (1)	2,575,451	2,575,347	2,575,347
Per Share Statistics: (1) (2)			
Earnings	\$.15	\$.01	\$.87
Cash Flow (net plus depreciation)	\$.26	\$.11	\$.95
Book Value	\$ 4.03	\$ 3.89	\$ 3.88
Stockholders' Equity (2)	\$10,380,026	\$10,011,866	\$ 9,984,345

10 year comparison

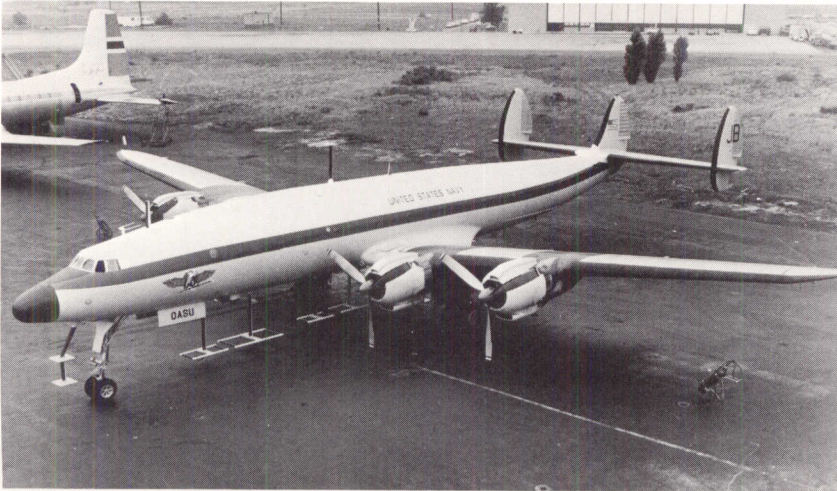
1963	1962	1961	1960	1959	1958	1957
\$27,705,772	\$20,898,611	\$11,598,068	\$ 6,600,137	\$ 5,028,453	\$ 3,212,468	\$ 2,754,201
\$ 1,957,059	\$ 1,137,012	\$ 917,343	\$ 458,814	\$ 335,787	\$ 183,106	\$ 110,053
\$ 1,907,680	\$ 1,176,784	\$ 903,340	\$ 463,507	\$ 336,867	\$ 200,178	\$ 121,225
6.89%	5.63%	7.79%	7.02%	6.70%	6.23%	4.40%
\$11,887,905	\$ 9,223,214	\$ 5,216,707	\$ 3,411,503	\$ 2,452,459	\$ 802,290	\$ 524,976
\$ 4,861,822	\$ 4,841,954	\$ 1,700,069	\$ 1,803,561	\$ 935,558	\$ 484,989	\$ 381,399
2.4 to 1	1.9 to 1	3.1 to 1	1.9 to 1	2.6 to 1	1.7 to 1	1.4 to 1
\$ 7,026,083	\$ 4,381,260	\$ 3,516,638	\$ 1,607,942	\$ 1,516,901	\$ 317,301	\$ 143,577
\$ 861,270	\$ 153,058	\$ 135,904	\$ 150,495	\$ 124,667	\$ 201,669	\$ 60,015
\$ 2,435,280	\$ 1,976,768	\$ 1,111,160	\$ 894,868	\$ 461,014	\$ 507,853	\$ 352,929
\$ 653,840	\$ 975,431	\$ 296,520	\$ 498,672	\$ 64,735	\$ 200,714	\$ 153,109
\$ 155,450	\$ 106,823	\$ 73,354	\$ 59,747	\$ 38,439	\$ 33,659	\$ 36,995
113,600	65,850	40,850	40,850	40,850	47,100	35,100
127,400	120,400	107,000	43,000	4,000	8,500	8,500
241,000	186,250	147,850	83,850	44,850	55,600	43,600
2,569,494	2,560,483	2,560,483	2,348,241	2,313,433	1,973,847	1,973,847
\$.74	\$.46	\$.36	\$.20	\$.17	\$.10	\$.06
\$.80	\$.50	\$.38	\$.22	\$.19	\$.12	\$.08
\$ 2.99	\$ 2.21	\$ 1.77	\$.99	\$.91	\$.33	\$.21
\$ 7,676,159	\$ 5,645,344	\$ 4,498,217	\$ 2,321,709	\$ 1,789,231	\$ 645,741	\$ 421,767

(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, 1965 and 1966.

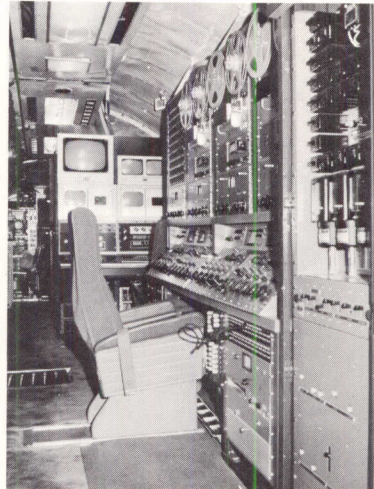
(2) Net sales, provision for Federal and foreign income taxes, net earnings for the year and stockholders' equity, together with the related percentage of earnings to sales and per share have been adjusted for renegotiation refunds applicable to 1962 and 1963. See note 1 to the Consolidated Financial Statements.

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.

new developments in 1966



A product of our new air-borne division, a converted Lockheed Super Constellation providing wideband television transmission, FM and AM broadcasts with long range high frequency capability. This aircraft is now flying in Viet Nam.



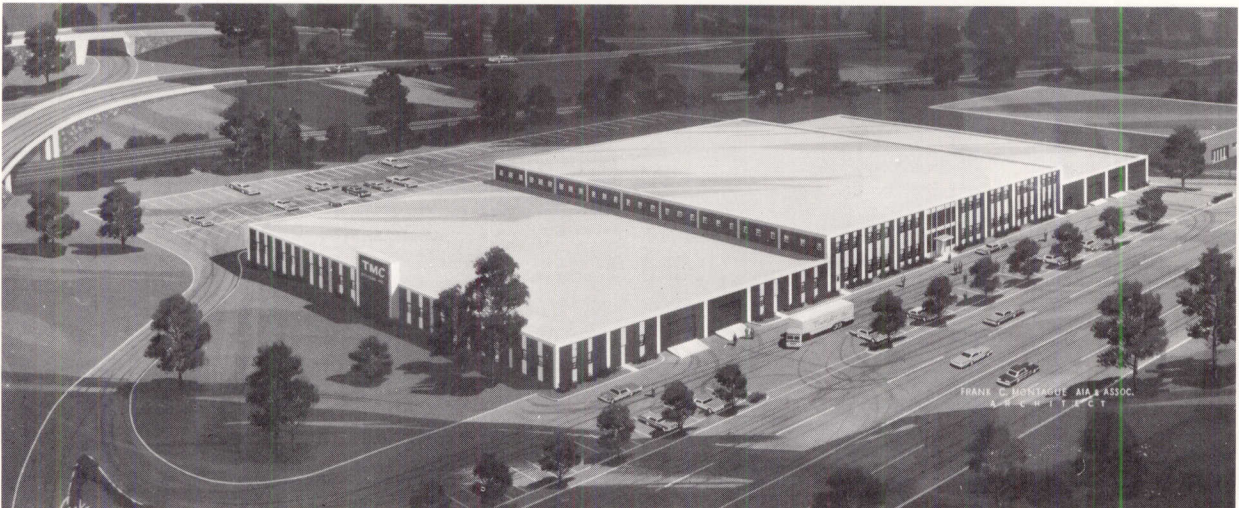
An interior view of the plane shown to the left showing some of the TV and broadcast monitoring and control equipment.



Station WWV, The National Bureau of Standard's Frequency and Time Standards Station in Ft. Collins, Colorado was inaugurated on 1 December 1966. This worldwide service is accomplished by TMC 10 and 40 kW transmitters providing 24 hour service.

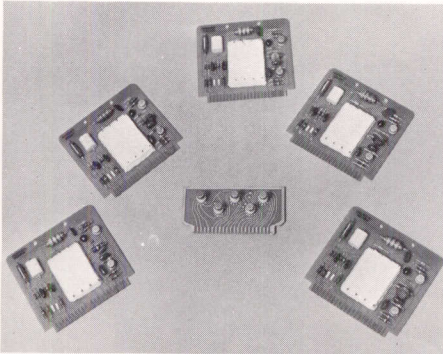


Interior view of radio station WWV showing some of the station personnel adjusting one of the transmitters.

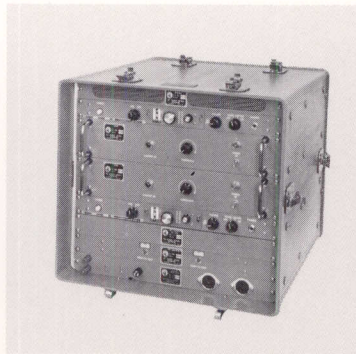


Artist's conception of our new 146,000 sq. ft. building in Springfield, Virginia. TMC Systems is currently occupying the building and TMC Power Distribution will move into this facility as soon as practicable.

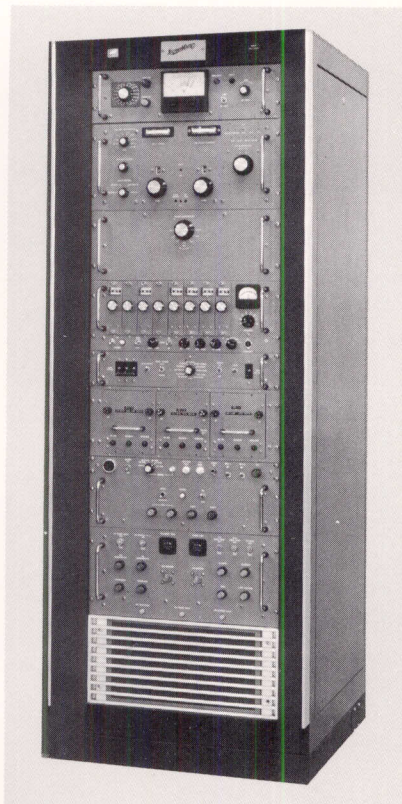
new developments in 1966



OUR MINIATURIZATION PROGRAM. The integrated circuit board shown in the center replaces the 5 boards shown around it.



This is a 2 channel solid state receiver with "Codan" that is used by many of the telephone companies for unattended ship to shore telephone operations.



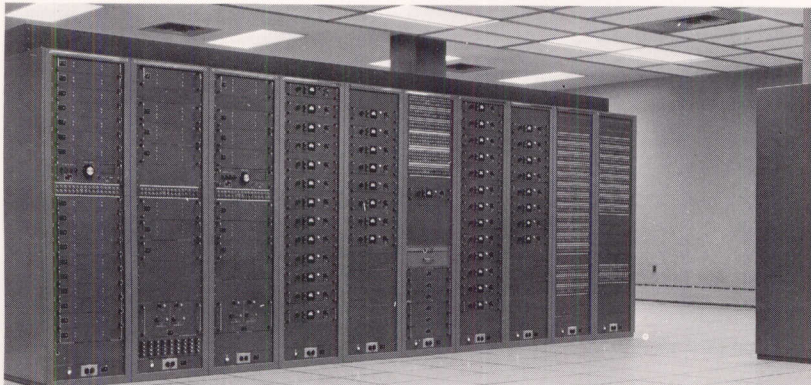
One of our new family of 2500 watt automatically tuned sideband transmitters.



Our new miniaturized solid state variable frequency oscillator, stable up to 1 part in 100,000,000; and tunable in 1 Hz steps.



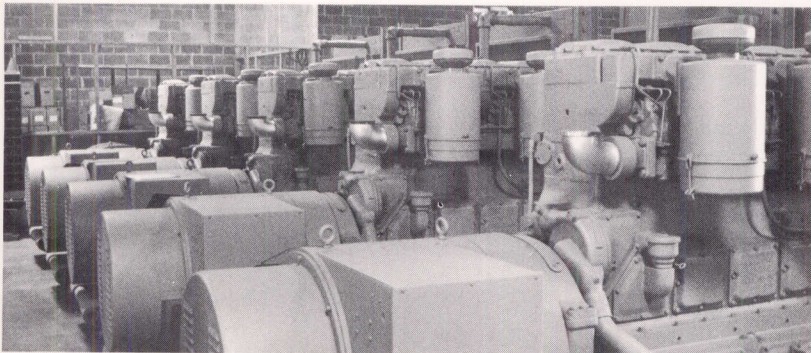
This new miniaturized solid state exciter provides all the communication modes necessary for today's modern communications.



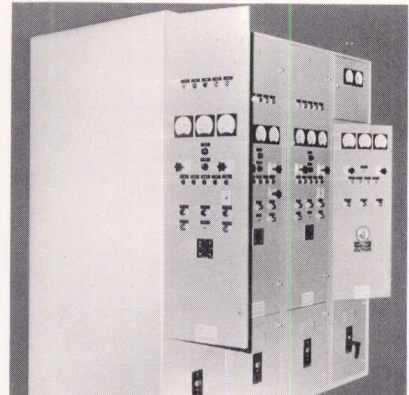
A radio frequency antenna distribution system completely engineered and assembled by TMC Canada, and using our new solid state antenna multicouplers and RF patching facilities. This system provides complete distribution capabilities for one of the largest Canadian military receiving installations.



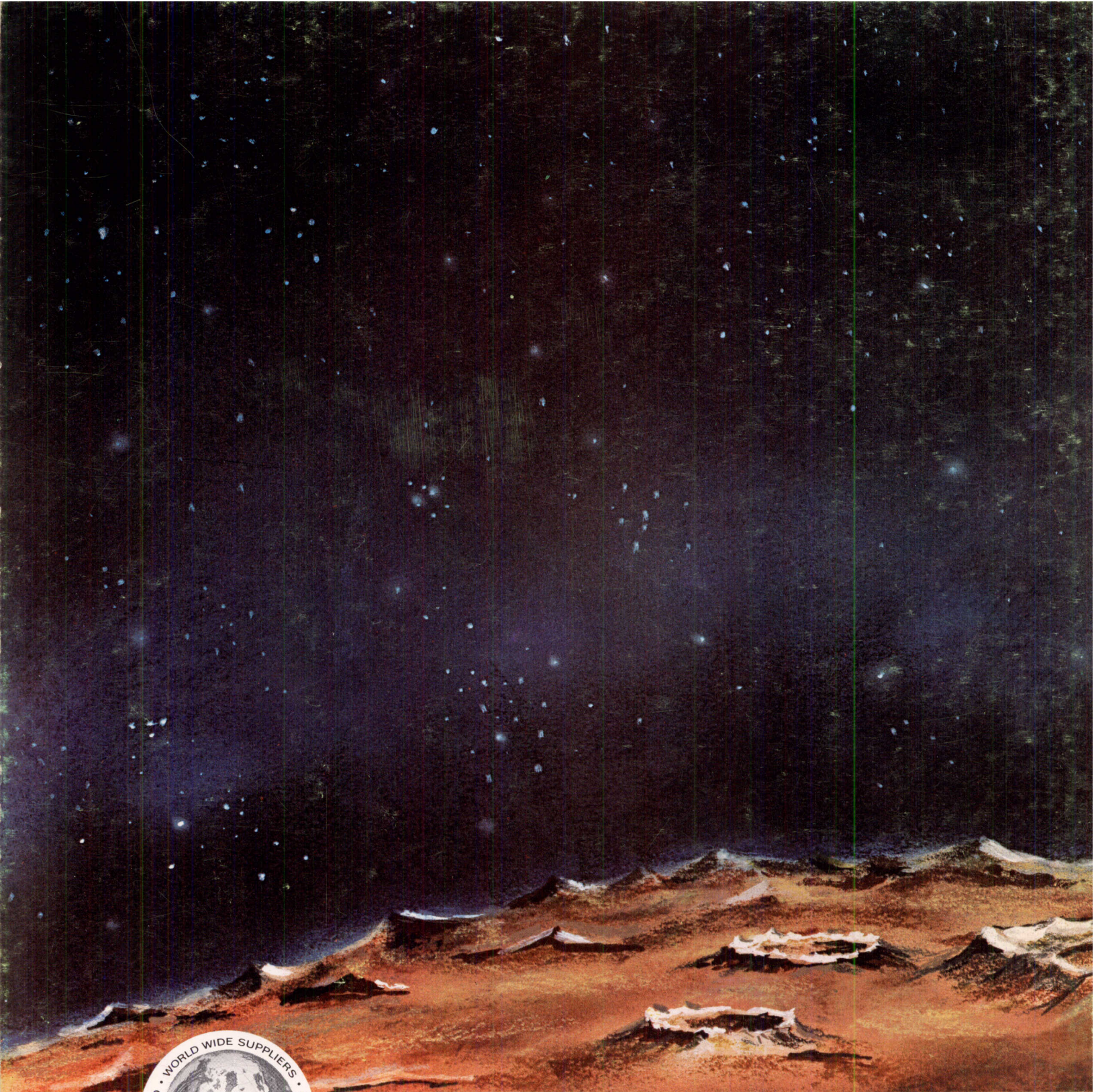
Our new miniaturized solid state dual channel radio teletypewriter terminal.



The units shown above, a product of TMC Power Distribution, are part of a massive power complex to be installed in the Middle East. Some of the generators in this complex provide as much as 750,000 watts of power each.



The operating consoles shown above provide automatic control and distribution of the generators shown to the left.



THE TECHNICAL MATERIEL CORPORATION
MAMARONECK, NEW YORK

SUBSIDIARIES

TMC Systems, Inc.
Springfield, Virginia

TMC Power Distribution, Inc.
Alexander, Virginia

TMC Systems (W.H.), Inc.
Pompano Beach, Florida

TMC Systems (Arizona), Inc.
Tempe, Arizona

TMC (Canada), Ltd.
Ontario, Canada

TMC Systems AG
Luzern, Switzerland