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The TECHNICAL MATERIEL CORPORATION and SUBSIDIARIES

ANNUAL

19

69

REPORT



BUSINESS HIGHLIGHTS...

	FISCAL YEAR	
	1969	1968
Net Sales	\$10,908,350	\$17,408,523
Net Loss	(57,998)	(603,107)
Current Assets	10,399,935	12,068,690
Current Liabilities	3,018,394	4,592,574
Working Capital	7,381,541	7,476,116
Current Ratio	3.4 to 1	2.6 to 1
Property, Plant and Equipment Net	3,200,743	4,315,005
Stockholders' Equity	10,377,416	10,446,690
Loss per Share	(0.02)	(0.22)
Book Value per Share	3.79	3.81*
Number of Stockholders	5,623	5,182
Common Stock Outstanding	2,739,531	2,739,531*

*Restated



DIRECTORS



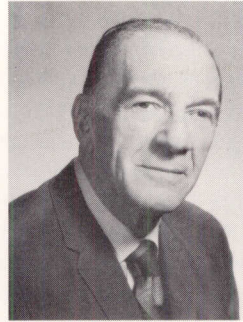
E. A. MATSON, JR.



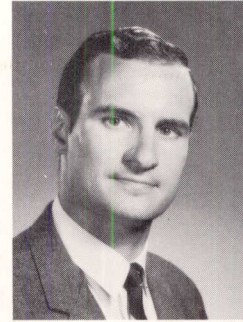
D. V. CARROLL



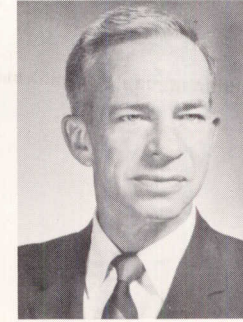
W. L. DEANS



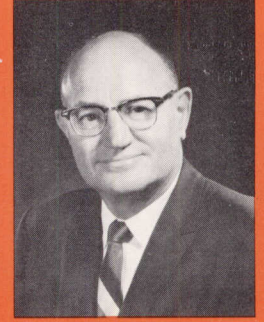
H. L. MORSE



N. H. dePASQUALE



G. W. JENNINGS



R. H. dePASQUALE
CHAIRMAN

OFFICERS

RAY H. dePASQUALE
President

E. A. MATSON, JR.
Exec. Vice Pres. & Treasurer

WILLIAM L. DEANS
Vice President

DAVID A. HILLMANN
Vice President

E. A. TUCKER
Ass't. Vice President

NEIL H. dePASQUALE
Secretary

TODD K. BEAVER
Controller

RUTH S. TAYLOR
Assistant Secretary

DONALD R. ROBINSON
Vice President
TMC SYSTEMS (ARIZONA)

B. D. PRITCHARD
Vice President
TMC SYSTEMS & POWER CORP.

F. O. STRAILMAN III
Vice President
TMC SYSTEMS & POWER CORP.

HARRY HARGREAVES
Managing Director
TMC SYSTEMS AG

D. A. HILLMANN
Vice President
TMC Systems (W.H.) Inc.

D. V. CARROLL
President & Managing Director
TMC (CANADA) LTD.

RAY DREYER
Vice President
TMC (CANADA) LTD.

GORDON MORTENSEN
Assistant Secretary
TMC (CANADA) LTD.

H. J. MORSE
President
TELECOM REALTY CORP.

a message from the president....

The reduction and stretchout in U. S. Government procurement, particularly in non-tactical communications equipment which is a primary market for many of our major products, has continued to create an intensely competitive situation in our industry. During this period, your corporation has been able to transact a considerable amount of volume in its export business and this diversification has provided a broader market for the corporation's products in this difficult period.

In addition to the reduction in costs made in the preceding year, our policy of retrenchment further reduced operating expenses in the fiscal year ended last September 30. Furthermore, we have continued our policy of taking only business which has provided an element of profit in this competitive period. As a consequence, in the past year we reduced our loss despite a lower level of sales and barring unforeseen circumstances, should return to a profitable level of operations in the current fiscal year. We have maintained our engineering and development activities with the result that your corporation continues among the top suppliers of completely integrated radio communications facilities.

Some indication of the scope of our sales activities in the domestic and World markets can be obtained from the photographs in this report. We continue to supply over 300 products in the communications field, including remote controlled sideband transmitters and receivers. Our static and rotatable no-break power units are acknowledged to be among the best in the market.

New machinery and test equipment are contributing to the development of our T.M.C. Systems (Arizona) subsidiary in the manufacture of crystal filters under the direction of Mr. Donald Robinson. This subsidiary operated at a profit.

Other subsidiaries which operated profitably last year included T.M.C. Canada, Ltd. under Mr. Douglas Carroll, T.M.C. Systems AG, Luzern, Switzerland, under Mr. Harry Hargreaves, and T.M.C. Systems (W.H.) Inc. under Mr. David Hillmann.

The T.M.C. Systems and Power Corporation in Springfield, Virginia, has had many problems during the last several years. In the last annual report it was mentioned that discussions were held relative to the sale of the largest portion of the assets of this subsidiary. Shortly after this mention, your corporation terminated the discussions when the negotiations did not proceed satisfactorily.

Operations of this subsidiary have been reorganized and it is now in a position to make a satisfactory return on investment.

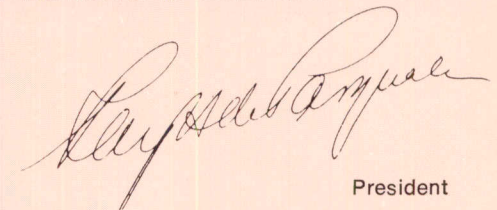
During the past year we introduced the new DU series of diesel generators, but have withheld our smaller diesel from the market because of general industry conditions.

Mr. Neil H. dePasquale was elected a Director succeeding Mr. John E. Galione.

Finances of the corporation continue in good condition with a reduced current debt. The current financial ratio is 3.4 current assets to 1 current liabilities at the year end.

Based on present indications, your management believes that the Fiscal 1969/1970 year should show considerable improvement.

FOR THE BOARD OF DIRECTORS



President

RESEARCH AND DEVELOPMENT

In a high technology environment such as that in which your Corporation is engaged, the impact of research and development can hardly be underestimated. Your Corporation has spent and continues to spend considerable sums in order to improve its products and advance the "state of the art".

Perhaps the greatest single factor has been the refinement of the transistor in its many forms, including the "IC" or integrated circuit. Without these devices and their application, the products shown on this page would not have been possible.

For example, the SBG-4 exciter provides four discrete transmission channels on one sideband transmitter each with individual gain control for data, voice or telegraphy purposes. No "tuning" is required. It is simply necessary to set the output frequency required, and output is instantly available. This device may be remotely controlled from long distances, and in this case is provided with a "memory" and decoder for proper selection and the operator can be provided with complete readback information at the remote point.

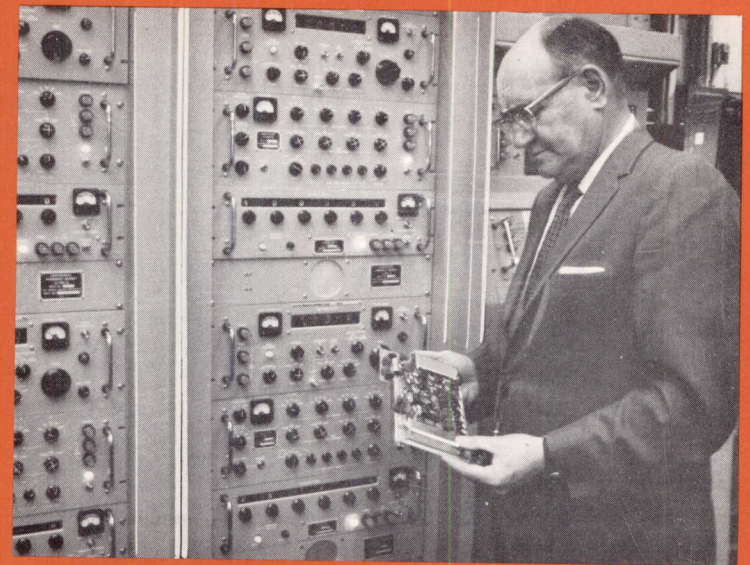
The SBG-4 exciter and its receiving

counterpart are used in our new HFT-10K transmitters and the new DDR-10 receivers. The HFT-10K transmitter will tune to any of 280,000 frequencies in a nominal time of five seconds. Vacuum tubes, except in high power stages, have practically been eliminated.

The true scope of our R & D efforts cannot be adequately described in the small space available in this report. Research will continue in the new year in such fields as parametrically pumped antennae, solid state inverters (as used in our no-break power supplies for computers), underwater signalling apparatus, unattended ship-shore equipment, improved crystal filters and controlled oscillators, and some peripheral computer devices.

A survey of our patent position is being initiated, particularly in connection with our underwater signalling device and our air cooled diesel. Final issuance on patents for modulation of an alternator have been processed, the latter of considerable importance in our opinion to the future of submarine command and control.

Your management will continue to keep the Corporation abreast of new and novel developments in our field.



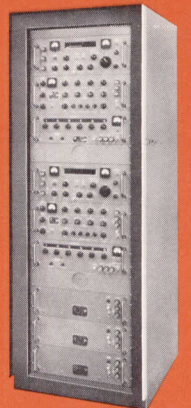
Model AMC-8



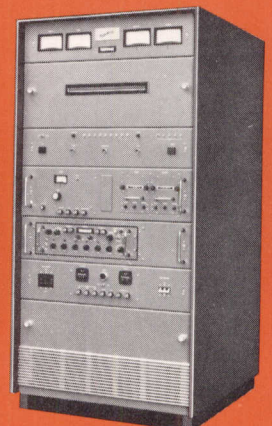
Model STR-5



Model SBG-4



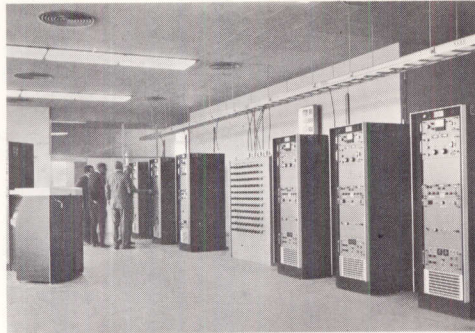
Model DDR-10



Model HFT-10K

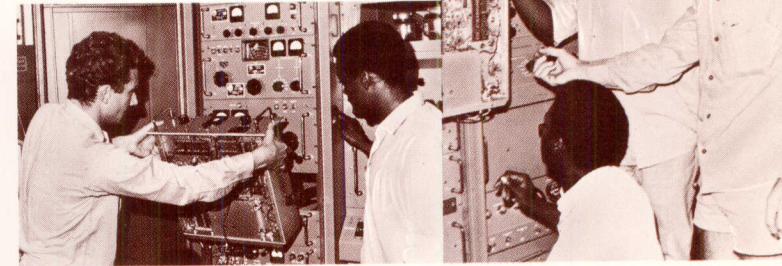
ARGENTINA

Installation of 1 KW TMC transmitters at Buenos Aires, Argentina, for Project TOPVIP, the Provincial Radio Network.



KABINDA, AFRICA

"ITU expert Jules Marquet (Belgium) explaining the installation of a 40 KW broadcasting transmitter to his Congolese colleagues



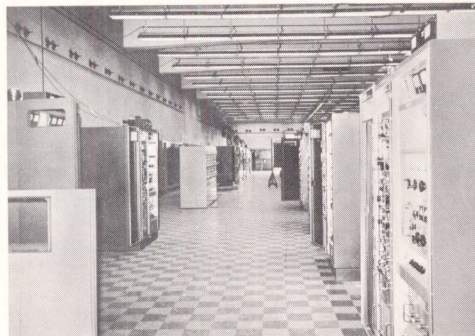
YUGOSLAVIA

Participation by TMC Systems AG at the recent radio show at Belgrade, Yugoslavia.



SPAIN

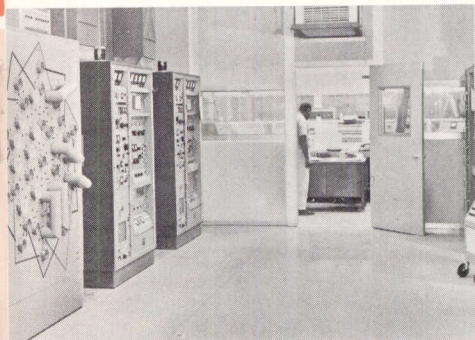
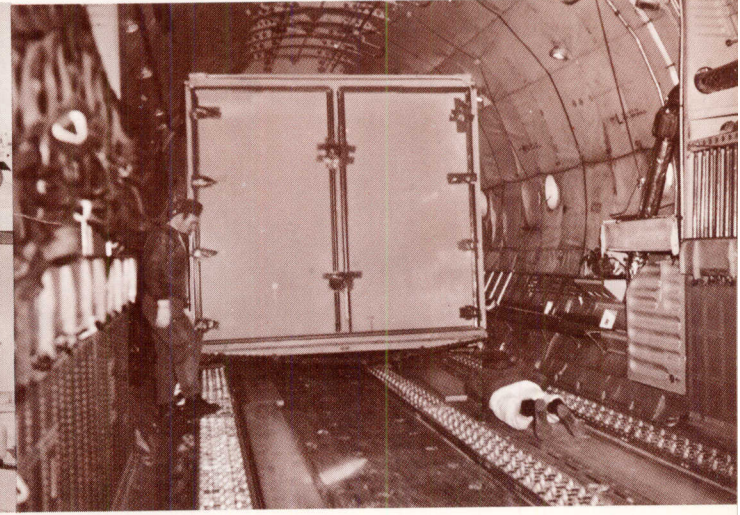
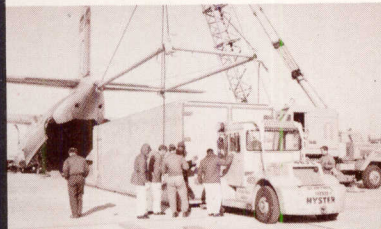
U. S. Navy installation of TMC high power transmitters.



LIBYA Offloading photographs of TMC installation, Benghazi, Libya.

FOREIGN INSTALLATIONS...

The inset map indicates those locations where TMC products are sold. We supply over 300 products including transmitters, receivers, and power equipment. We provide overall systems management, software and training. That is why our trademark reads "World Wide Suppliers."



ETHIOPIA

U. S. Navy installation,
Asmara, Ethiopia.

IRELAND

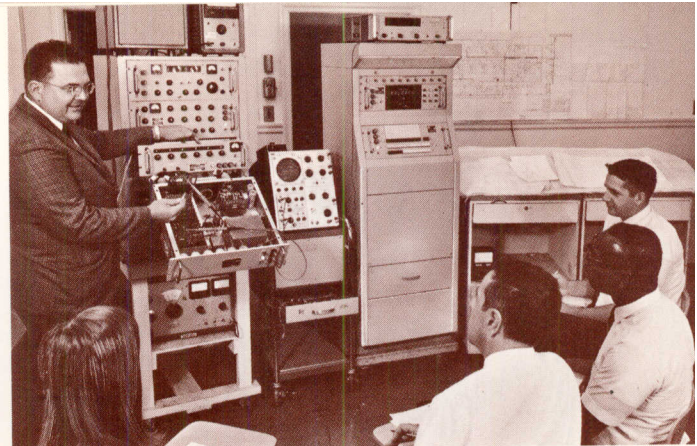
Loading operations for
TMC installation, Londonderry,
Northern Ireland.

DOMESTIC INSTALLATIONS...

In the domestic market we count among our customers practically all the military services, the common carriers such as ITT, ATT, The Voice of America and RCA, and many other users of radio communications and power equipment.

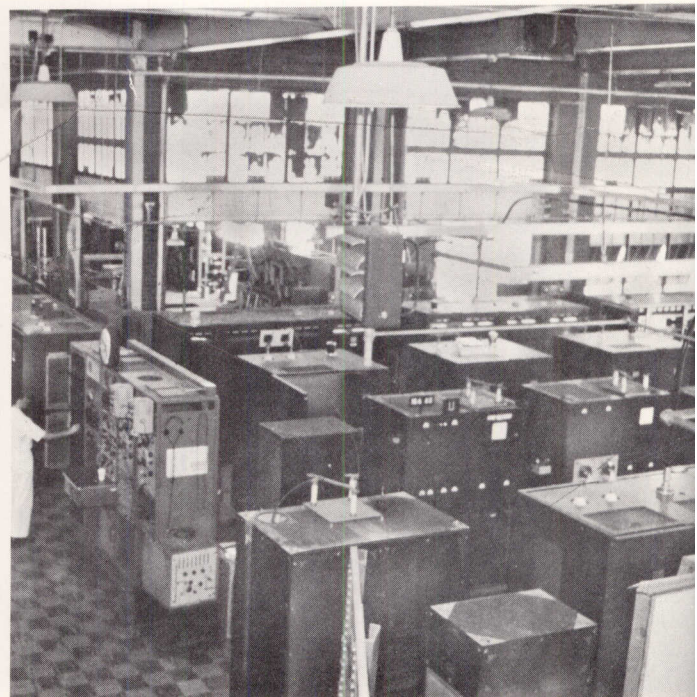
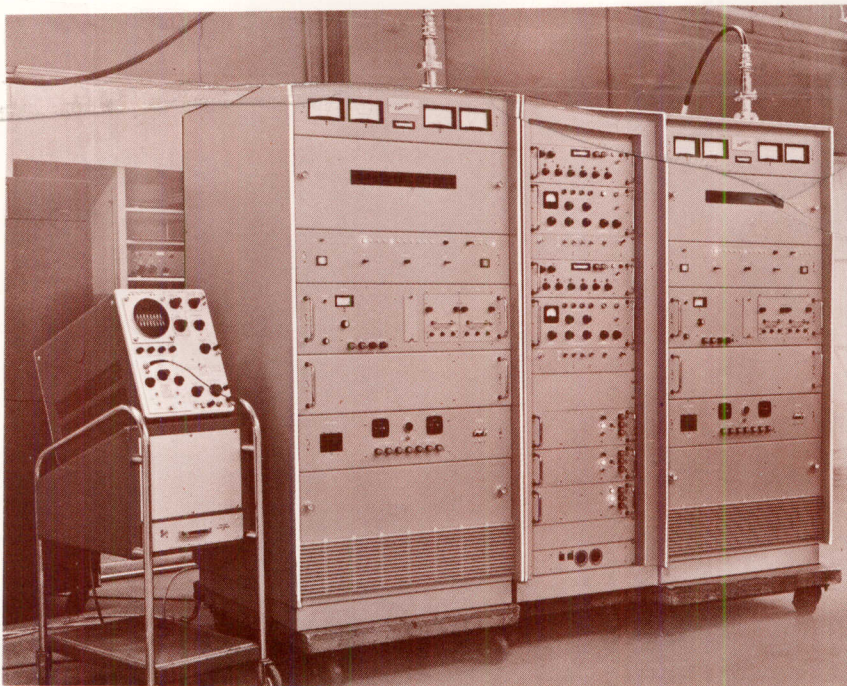
TRAINING CENTER

Mr. Paul Grove conducts a class on the new receivers at our training center.



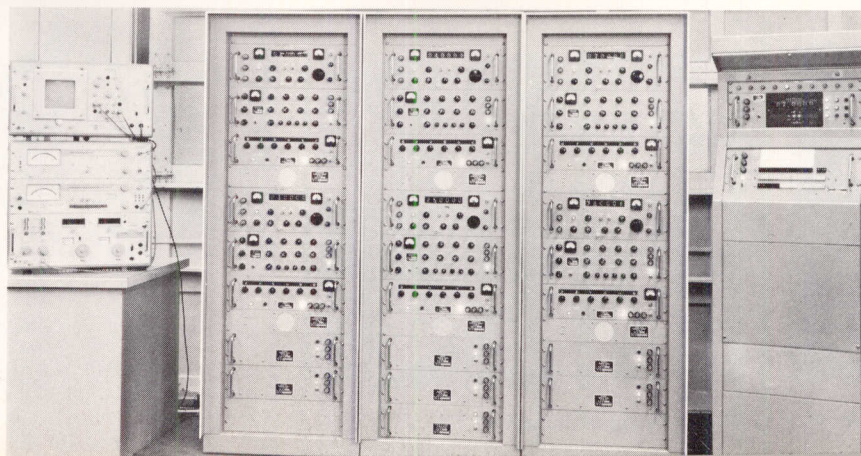
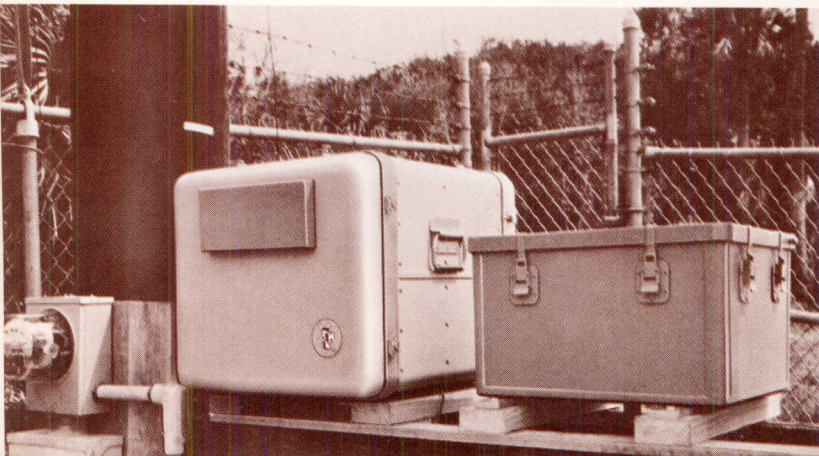
MAYNARD, MASS.

Advanced "state of the art" remote controlled transmitters for the National Communications System II. This system is a high frequency radio back-up for the Office of Civil Defense Mobilization wire services.



JACKSONVILLE, FLA.

Southern Bell Telephone installation at Seminole Beach, Jacksonville, Florida. TMC Model COR-1 is shown secured for unattended operation.



Advanced remote controlled diversity receivers in final test for shipment to the National Communications System II.

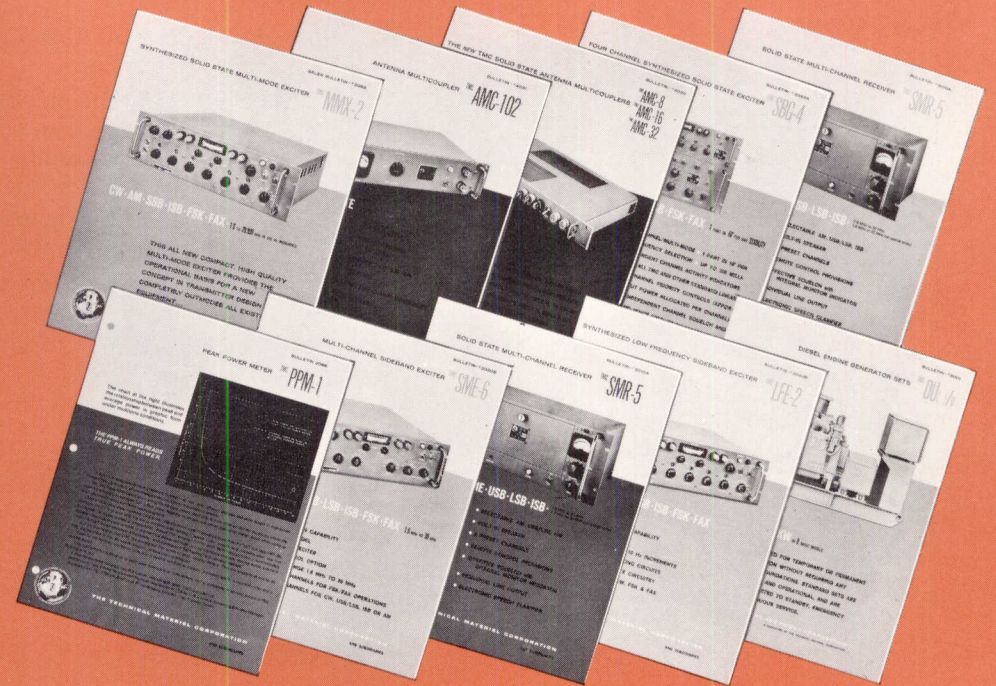
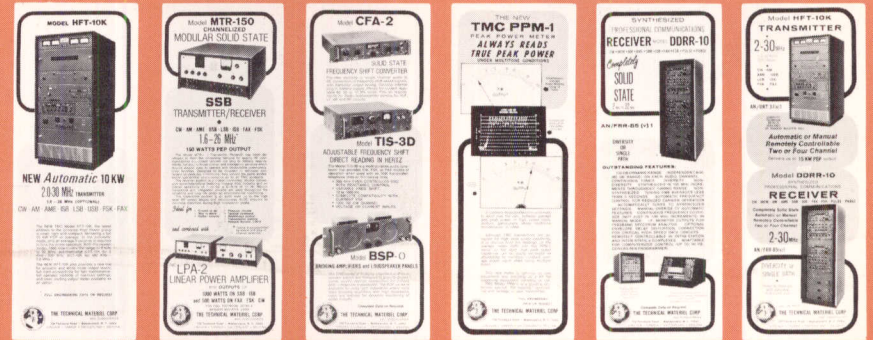
NSS, MARYLAND

U. S. Navy installation at Annapolis, Md. These transmitters have been in continuous service for over ten years in many cases. Thousands of installations like these are backed up with spare parts logistics and services.



SALES SUPPORT PROGRAM

A continuous campaign of sales support with regard to advertising and product bulletins keeps the TMC name before our customers.



RCA, NEW YORK CITY

Battery bank and control console covering no-break installation for RCA at 60 Broad Street, New York City.



THE TECHNICAL MATERIEL CORPORATION *and Subsidiaries*

CONSOLIDATED BALANCE SHEET

September 30, 1969 and 1968

ASSETS

ASSETS	1969	1968
CURRENT ASSETS:		
Cash	\$ 368,373	\$ 701,887
Accounts receivable (\$1,274,105 in 1969 and \$1,247,354 in 1968 from the U.S. and foreign governments) (Note 1)	2,612,953	3,634,838
Income tax refunds receivable	206,515	231,613
Inventories, at the lower of cost or market, less progress payments of \$1,355,849 in 1969 and \$920,963 in 1968 (Note 2):		
Finished goods	1,221,306	1,234,313
Work in process	3,104,003	2,429,641
Raw materials	2,802,921	3,507,160
	<u>7,128,230</u>	<u>7,171,114</u>
Prepaid expenses	83,864	329,238
Total current assets	<u>10,399,935</u>	<u>12,068,690</u>
PROPERTY, PLANT AND EQUIPMENT, AT COST:		
Land	428,855	463,173
Buildings and building equipment	1,806,165	2,838,490
Machinery and equipment	2,360,690	2,251,737
Leasehold improvements	646,607	640,087
	<u>5,242,317</u>	<u>6,193,487</u>
Accumulated depreciation and amortization	<u>(2,041,574)</u>	<u>(1,878,482)</u>
	3,200,743	4,315,005
Deferred new product development costs (Notes 3 and 4)	1,302,176	1,341,699
Property held for sale (Note 5)	1,212,075	322,793
Other assets	110,057	80,264
	<u>\$16,224,986</u>	<u>\$18,128,451</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1

In connection with a \$435,000 account receivable, legal actions are in process against the Company's customer, Lockheed Aircraft Corporation, and one of the Company's subcontractors, Wyle Laboratories. In the opinion of management and legal counsel, the Company should make complete recovery.

Approximately sixty percent of the Company's 1969 business is subject to renegotiation. The Company believes 1969 will be settled without any refund. All years through 1968 have been cleared.

Notes receivable from a foreign government in the amount of \$436,000 have been discounted with recourse at banks in the United

States. Accounts receivable of \$41,625 have been pledged to secure a note payable to a bank. The Company is contingently liable for a \$80,000 mortgage on a plant sold in prior years.

Note 2

Cost of inventories is determined principally on the basis of the average cost method and includes applicable engineering overhead and general and administrative expenses of \$1,077,141 at September 30, 1969 and \$687,000 at September 30, 1968.



**OPERATIONS
AND EARNED SURPLUS**

THE TECHNICAL MATERIEL CORPORATION *and Subsidiaries*

CONSOLIDATED STATEMENT OF OPERATIONS AND EARNED SURPLUS

Years ended September 30, 1969 and 1968

	1969	1968
Net sales	<u>\$10,908,350</u>	<u>\$17,408,523</u>
Cost of sales	<u>7,229,561</u>	<u>12,993,470</u>
Engineering and development expenses (Note 3)	<u>945,842</u>	<u>1,376,805</u>
Selling, general and administrative expenses	<u>2,567,583</u>	<u>3,618,552</u>
Interest expense	<u>355,362</u>	<u>312,803</u>
	<u>11,098,348</u>	<u>18,301,630</u>
Loss before income taxes	<u>(189,998)</u>	<u>(893,107)</u>
Income tax credits (Note 4)	<u>(132,000)</u>	<u>(290,000)</u>
Net loss	<u>(57,998)</u>	<u>(603,107)</u>
Earned surplus at beginning of year	<u>4,372,353</u>	<u>5,817,041</u>
	<u>4,314,355</u>	<u>5,213,934</u>
2% stock dividend:		
Cash paid for fractional shares	<u>11,276</u>	<u>16,813</u>
Earnings transferred to capital	<u>586,576</u>	<u>824,768</u>
	<u>597,852</u>	<u>841,581</u>
Earned surplus at end of year	<u>\$ 3,716,503</u>	<u>\$ 4,372,353</u>
Net loss per share	<u>\$(.02)</u>	<u>\$(.22)</u>

Foreign taxes relate to subsidiaries operating in Canada and Switzerland. For 1969 these subsidiaries had net aggregate sales of \$2,153,068 and net income of \$138,856; net assets at September 30, 1969 were \$1,285,910.

Deferred income taxes at September 30, 1969 include \$692,000 related to deferred new product development costs and \$14,000 related to other deferred costs, both deducted currently for income tax purposes, and \$224,000 related to accelerated tax depreciation, before reduction for available tax loss and investment credit carryforwards of \$279,000.

Note 5

In October 1968, the Company closed its Nyack plant. Property held for sale, shown in the consolidated balance sheet, includes \$890,790 related to the land, buildings and building equipment at Nyack.

Rentals for other plants, under leases expiring chiefly in 1977, aggregate \$242,000 annually.

THE TECHNICAL MATERIEL CORPORATION *and Subsidiaries*

CONSOLIDATED STATEMENT OF SOURCE AND
DISPOSITION OF WORKING CAPITAL

Years ended September 30, 1969 and 1968

	1969	1968
SOURCE:		
Operations:		
Net loss	\$ (57,998)	\$ (603,107)
Depreciation and amortization of property, plant and equipment	372,064	383,070
Amortization and write-offs of deferred new product development	378,560	565,383
Deferred income taxes	(152,000)	(200,000)
Other	(33,988)	11,197
	<u>506,638</u>	<u>156,543</u>
New mortgage and note borrowings	—	583,273
Proceeds from sales of property, plant and equipment	32,315	59,123
Exercise of stock options	—	58,857
	<u>538,953</u>	<u>857,796</u>
DISPOSITION:		
Purchase of Telecom Realty Corp.	—	663,000
Other purchases of property, plant and equipment	175,204	240,725
New product development expenditures	339,037	414,450
Repayment of mortgages and notes payable	108,011	115,581
Cash paid for fractional shares resulting from stock dividends	11,276	16,813
	<u>633,528</u>	<u>1,450,569</u>
Decrease in working capital	<u>\$ (94,575)</u>	<u>\$ (592,773)</u>



**SOURCE AND
DISPOSITION OF
WORKING CAPITAL**

Note 6

At September 30, 1969 there were reserved under the Employee Stock Option Plan, 20,109 shares of common stock against which options to purchase 13,650 shares at a price of \$8.50 were outstanding, none of which were exercisable. The options expire at September 14, 1971. During the year 1969, qualified stock options on 15,100 shares were granted at \$8.50 per share, options on 1,450 shares were cancelled and none were exercised. At September 30, 1968, 20,109 shares were reserved against which there were no options outstanding. The above shares have been adjusted to reflect stock dividends.

Note 7

During the year capital surplus was increased as follows:

	1969	1968
Balance at beginning of year	\$5,738,486	\$4,862,188
Excess of market value over par value of 52,726 shares in 1969 and 51,548 shares in 1968 of common stock issued as stock dividends	579,986	818,324
Excess of option price over par value of 7,069 shares of common stock issued under the Employee Stock Option Plan	—	57,974
Balance at end of year	<u>\$6,318,472</u>	<u>\$5,738,486</u>

AUDITORS' 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, 1969 and the related consolidated statement of operations and earned surplus and the consolidated statement of source and disposition of working capital 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 and foreign governments, 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, 1969 and the consolidated results of their operations and the source and disposition of their consolidated working capital for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

December 19, 1969

Arthur Young & Company

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

THE TECHNICAL MATERIEL CORPORATION *and Subsidiaries*



1969

Net Sales	\$10,908,350
Provision for Taxes on Income	\$ (132,000)
Net Earnings (Loss) for the Year	\$ (57,998)
Per Cent of Earnings to Sales	(0.53%)
Current Assets	\$10,399,935
Current Liabilities	\$ 3,018,394
Current Ratio	3.4 to 1
Working Capital	\$ 7,381,541
Long-Term Liabilities	\$ 2,178,176
Property, Plant and Equipment (net)	\$ 3,200,743
Expenditures for Property, Plant and Equipment	\$ 175,204
Depreciation and Amortization	\$ 372,064
Square Feet of Building Space:	
Owned	168,400
Leased	178,820
Total	347,220
Common Shares Outstanding (1)	2,739,531
Per Share Statistics: (1)	
Earnings (Loss)	\$ (.02)
Book Value	\$ 3.79
Stockholders' Equity	\$10,377,416

10 YEAR COMPARISON

1968	1967	1966	1965	1964	1963	1962	1961	1960
\$17,408,523	\$24,575,859	\$22,119,382	\$18,394,329	\$29,387,053	\$27,705,772	\$20,898,611	\$11,598,068	\$ 6,600,137
\$ (290,000)	\$ 438,000	\$ 308,000	\$ 54,000	\$ 2,206,000	\$ 2,122,994	\$ 1,320,000	\$ 1,000,500	\$ 499,000
\$ (603,107)	\$ 619,706	\$ 376,621	\$ 37,193	\$ 2,243,904	\$ 1,907,680	\$ 1,176,784	\$ 903,340	\$ 463,507
(3.46%)	2.52%	1.70%	0.20%	7.64%	6.89%	5.63%	7.79%	7.02%
\$12,068,690	\$12,887,219	\$13,768,628	\$12,981,993	\$12,034,290	\$11,887,905	\$ 9,223,214	\$ 5,216,707	\$ 3,411,503
\$ 4,592,574	\$ 4,818,330	\$ 6,837,517	\$ 5,119,686	\$ 3,641,030	\$ 4,858,822	\$ 4,841,954	\$ 1,700,069	\$ 1,803,561
2.6 to 1	2.7 to 1	2.0 to 1	2.5 to 1	3.3 to 1	2.4 to 1	1.9 to 1	3.1 to 1	1.9 to 1
\$ 7,476,116	\$ 8,068,889	\$ 6,931,111	\$ 7,862,307	\$ 8,393,260	\$ 7,029,083	\$ 4,381,260	\$ 3,516,638	\$ 1,607,942
\$ 2,286,187	\$ 1,818,495	\$ 1,031,650	\$ 1,110,638	\$ 913,785	\$ 861,270	\$ 153,058	\$ 135,904	\$ 150,495
\$ 4,315,005	\$ 3,905,631	\$ 3,203,425	\$ 3,260,222	\$ 2,876,240	\$ 2,435,280	\$ 1,976,768	\$ 1,111,160	\$ 894,868
\$ 903,725	\$ 1,133,541	\$ 852,955	\$ 632,644	\$ 789,741	\$ 653,840	\$ 975,431	\$ 296,520	\$ 498,672
\$ 383,070	\$ 335,457	\$ 298,427	\$ 244,057	\$ 197,904	\$ 155,450	\$ 106,823	\$ 73,354	\$ 59,747
168,400	130,900	118,600	138,600	133,600	113,600	65,850	40,850	40,850
163,200	215,200	274,450	147,400	131,400	127,400	120,400	107,000	43,000
331,600	346,100	393,050	286,000	265,000	241,000	186,250	147,850	83,850
2,739,531	2,732,292	2,730,085	2,729,972	2,729,972	2,721,256	2,711,714	2,711,714	2,486,936
\$ (0.22)	\$.23	\$.14	\$.01	\$.82	\$.70	\$.43	\$.33	\$.19
\$ 3.81	\$ 4.03	\$ 3.80	\$ 3.67	\$ 3.66	\$ 2.82	\$ 2.08	\$ 1.66	\$.93
\$10,446,690	\$11,007,753	\$10,380,026	\$10,011,866	\$ 9,984,345	\$ 7,676,159	\$ 5,645,344	\$ 4,498,217	\$ 2,321,709

(1) Common shares outstanding and per share book value statistics are as at the close of each fiscal year. Per share earnings statistics are computed on the basis of the average number of common shares outstanding during each period. Both are adjusted for stock splits in 1961 and 1962 and 2% stock dividends in 1964, 1965, 1966, 1967, 1968 and 1969.

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The **TECHNICAL** **MATERIEL**

CORPORATION
AND SUBSIDIARIES

MAIN OFFICES

Fenimore Road
Mamaroneck, New York
10543

TMC Systems (Arizona), Inc.

Tempe, Arizona 85281

The TMC Systems and Power Corp.

Springfield, Virginia 22151

TMC (Canada), Ltd.

Ottawa, Ontario, Canada

TMC Systems AG

Luzern, Switzerland

TMC Systems (W.H.), Inc.

Mamaroneck, N. Y. 10543

Telecom Realty Corp.

Mamaroneck, N. Y. 10543