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The TECHNICAL MATERIEL CORPORATION

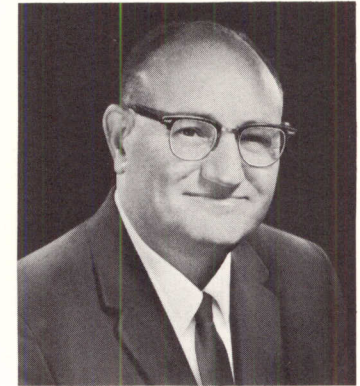
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**ANNUAL
REPORT**

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

business highlights

	FISCAL YEAR	
	1964	1963
Net Sales	\$29,387,053	\$28,373,671
Net Income	2,243,904	2,216,449
Current Assets	12,034,290	11,887,905
Current Liabilities	3,673,030	4,861,822
Working Capital	8,361,260	7,026,083
Current Ratio	3.3 to 1	2.4 to 1
Property, Plant and Equipment Net	2,876,240	2,435,280
Stockholders' Equity	10,853,189	8,545,003
Earnings per Share	0.91	0.90
Book Value per Share	4.38	3.46
Number of Stockholders	3,253	2,845
Common Shares Outstanding	2,476,900	2,469,718



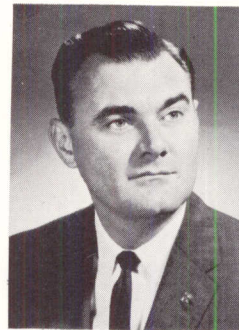
M. M. dePasquale



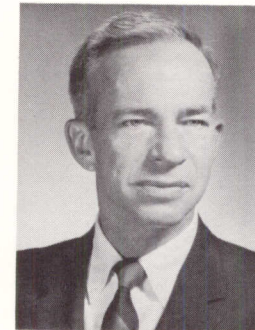
W. J. Galione



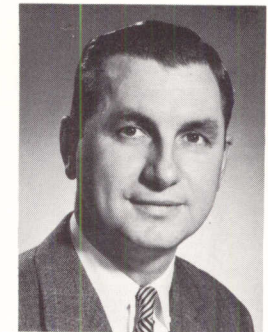
J. E. Galione



E. A. Matson, Jr.



G. W. Jennings



A. J. Moccia

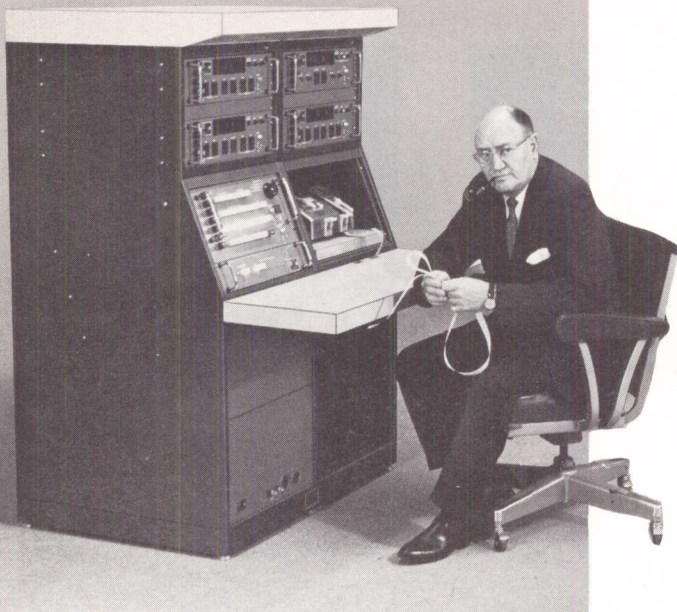
management....

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
 P. C. Munroe, Vice President
 B. D. Pritchard, Vice President and Director, Engineering
 E. W. Faucher, Assistant Vice President
 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.
 H. C. Ashdown, Vice 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.
 W. C. Shalag, Executive Vice President, TMC Systems, Inc.
 B. A. Katz, Administrative Vice President, Assistant Secretary, TMC Systems, Inc.
 R. M. Barrington, Vice President, General Manager, TMC Systems (Texas) Inc.
 F. F. Duncan, President, General Manager, TMC Power Distribution, Inc.

G. Stepp, Vice President, TMC Power Distribution, Inc.
 J. K. Palmer, Vice President, General Manager, TMC Research, Inc.
 H. M. Winters, Vice President, General Manager, Systems Division, TMC Systems (Calif.) Inc.
 J. L. Saunders, Vice President, General Manager Components Division, TMC Systems (Calif.) Inc.
 R. D. Phillips, Vice President, General Manager, TMC Systems (Florida) Inc.



**a
message
from the
president....**

As pointed out in one of our interim reports, fiscal 1963/4 was a typical "election" year characterized by a wait-and-see attitude. This was particularly true in the procurement areas.

Notwithstanding this difficulty, however, sales were up in excess of a million dollars over 1962/3 and earnings were posted at 91¢ per share compared with 90¢ for the previous year. Both sales and earnings per share were at record highs. This by no means tells the whole story. Our current ratio improved from 2.4 to 1 to 3.3 to 1, working capital increased 19%, plant and equipment increased 18% and net worth increased 27%. The cash flow per share (net income plus depreciation) amounted to \$0.99 in 1963/64 compared with \$0.96 for the previous year. This comparison is indicative of the cash generating ability of your corporation. Stockholders' investment (net worth) was \$10,853,189, up from \$8,545,003 at 9/30/63. This is equivalent to \$4.38 per share compared to \$3.46 per share in the previous year. We found ourselves at year end in excellent financial condition with a large number of new products, profits for which should appear in the coming years, and a wide and diversified sales potential before us. Present forecasts indicate that we will not require additional financing. We have no long term debt other than that secured by real property. Your corporation has adequate borrowing capacity in the event it is required for expansion and/or acquisitions.

We are often questioned about the impact of the current federal government spending program on our business. Except for possible increased stringency on the part of the Renegotiation Board, we do not believe there should be any significant effect because of the fact that we deal with all branches of our government and many foreign governments as well. Also, many of our contracts are of high priority.

With respect to renegotiation, we are assured of clearance through 1962. Management does not feel there will be any material recapture for the years 1963 and 1964. We expect that in the future renegotiation will have less and less impact inasmuch as the company is placing greater emphasis on commercial sales. Our efforts in this area are already producing results.

A large increase of some 400% was evidenced in our commercial and direct export business this past year, materially improving our ratio of government to commercial sales. It is expected that this improvement will continue particularly in view of the fact that two completely new commercial ventures came into profitable operation in the past year, namely our Components Division at San Luis Obispo, California and our Connector Products Division at the home location. Two other commercial units will appear in the coming year. In addition, our new air-cooled diesel engine will come into final production this coming year, and it is expected that sales of this item will be largely commercial.

The last year pointed up the fact that the industry is requiring increased emphasis on more and more complex equipment, requiring in turn much more research and development expense than ever before. Our corporation met these demands by almost doubling the amount spent on research and development last year. The major part of this expense was capitalized to protect our development and insure a level continuity of earnings in succeeding years. This expenditure enabled us to place not less than eleven new products in production this coming year, all of which we believe have great potential.

Some of the new products referred to appear on the facing page. We regard our TechniMatic system of remote control to be a breakthrough in technique in this area, permitting transmitters and receivers to be operated at distances of thousands of miles, with full automatic readback. Our new broadband low frequency transmitter uses no tuning controls whatsoever. The new VLFC system will measure one part in 100 billion. Our new general purpose receiver Model GPR-92 we regard as the best search receiver in the field.

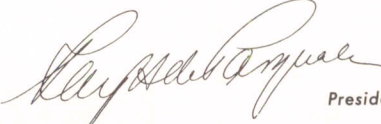
Our training school, which has been operating in makeshift quarters for some time, will now be housed in a new building at our West Nyack location and will present a greatly enlarged curriculum for the coming years in our chosen field of communications. A new and authoritative textbook in our field has been written and is being printed to supplement our training activities. Our training program has developed into a profit center and this business should increase over 30% this coming year. Our new auditorium in the new building will be available to local groups to enhance our neighborhood relations.

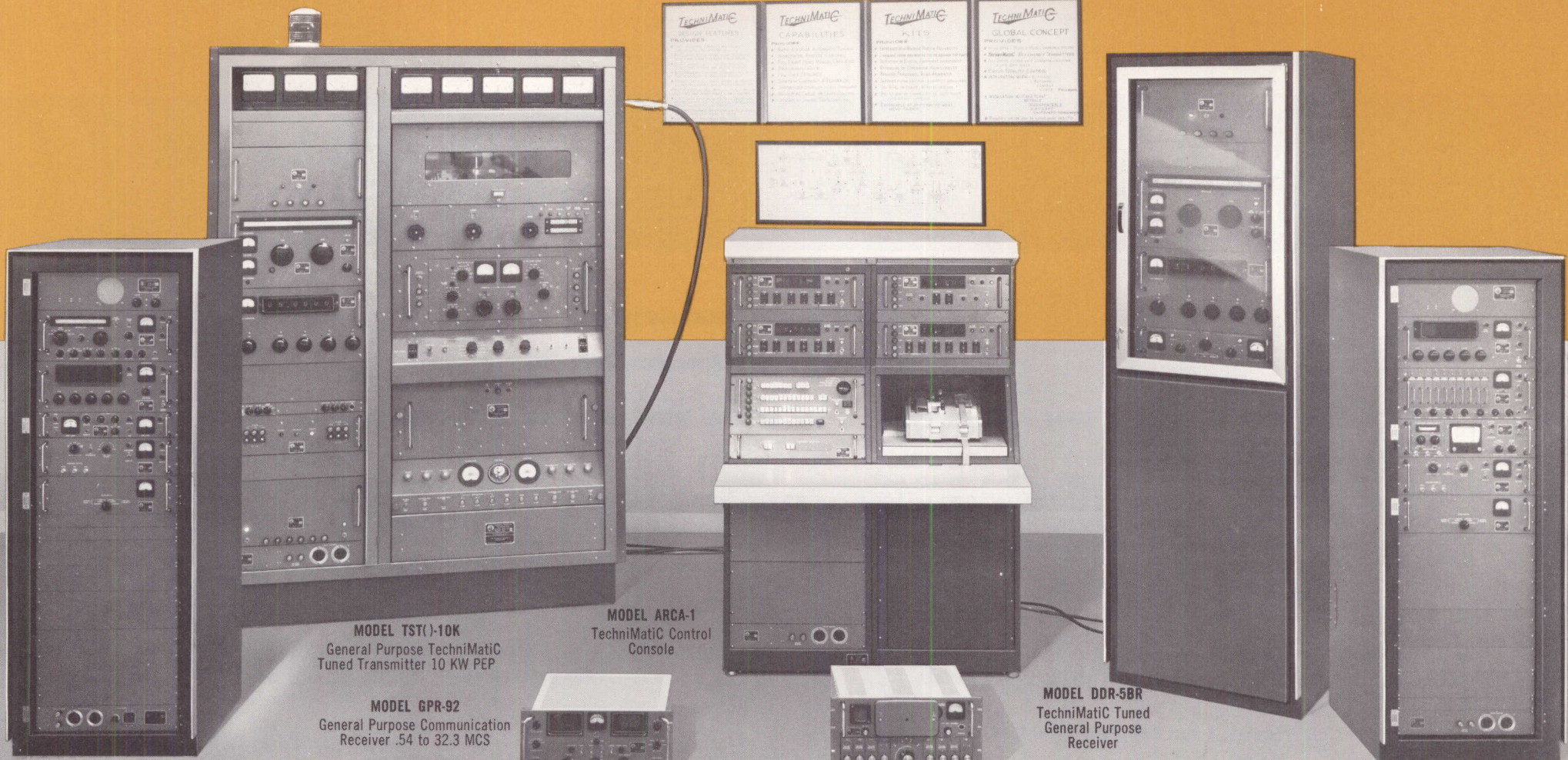
TMC Power Distribution Inc., will start early next year on a new million dollar plant to be located at Fairfax, Virginia on ten acres of prime industrial land. This new plant will provide increased production facilities for our "no break" power systems, our new aluminum containers, and of course our new line of diesel engines.

TMC products are now well known throughout the World. From Viet Nam to the Congo, from Ethiopia to Alaska, from Taiwan to Australia, we are known for top quality and top service. TMC equipment is bought because of its operational dependability. We shall continue to make it so.

Elsewhere in this report will appear a ten year record of the growth of this corporation. We submit the record speaks for itself. The dedicated people who made this record possible continue to work for the company. Their experience and maturity are valuable intangible assets. They and the undersigned look forward to a much improved 1964/65 year.

For the Board of Directors


President

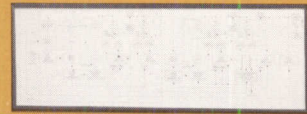


TECHNIMATIC
 US OF FEATURES
 ADVANCED

TECHNIMATIC
 CAPABILITIES

TECHNIMATIC
 PLTS

TECHNIMATIC
 GLOBAL CONCEPT
 PROS



MODEL LRA-1
 30-600 KC Synthesized
 SSB Receiving System

MODEL TST(-)10K
 General Purpose TechniMatic
 Tuned Transmitter 10 KW PEP

MODEL ARCA-1
 TechniMatic Control
 Console

MODEL GPR-92
 General Purpose Communication
 Receiver .54 to 32.3 MCS

MODEL DDR-58R
 TechniMatic Tuned
 General Purpose
 Receiver

MODEL VLFC-1
 Solid State VLF
 Frequency Comparison
 System

MODEL SME-1
 Solid State Multichannel
 SSB Exciter

MODEL TTR-10
 Solid State
 4 Channel 100 Watt SSB
 Transmitter/Receiver

MODEL SMR-1
 Solid State
 Multichannel SSB
 Receiver

MODEL STE-1
 Solid State "Strip"
 SSB Exciter

MODEL TRX-1
 Stabilized Crystal
 Oscillator

MODEL STR-1
 Solid State
 "Strip" SSB Receiver

assets

THE TECHNICAL MATERIEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

September 30, 1964 and 1963

ASSETS	1964	1963
Current assets:		
Cash	\$ 488,904	\$ 707,308
Accounts receivable — (\$2,243,000 in 1964 and \$2,500,000 in 1963 from the U. S. government)	2,981,050	3,146,537
Inventories, at the lower of cost or market (Note 2):		
Finished goods	1,556,555	1,214,190
Work in process	2,528,139	2,947,970
Raw materials	4,389,425	3,811,790
	<u>8,474,119</u>	<u>7,973,950</u>
Prepaid expenses	90,217	60,110
Total current assets	<u>12,034,290</u>	<u>11,887,905</u>
Property, plant and equipment, at cost:		
Land	141,198	206,282
Buildings and building equipment	1,959,533	1,780,914
Machinery and equipment	1,228,753	736,855
Leasehold improvements	265,440	254,393
	<u>3,594,924</u>	<u>2,978,444</u>
Less accumulated depreciation and amortization	718,684	543,164
	<u>2,876,240</u>	<u>2,435,280</u>
Other assets:		
Deferred new product development costs (Notes 3 and 4)	487,115	—
Long-term receivables, etc.	148,359	—
	<u>635,474</u>	<u>—</u>
	<u>\$15,546,004</u>	<u>\$14,323,185</u>

See accompanying notes.

**THE TECHNICAL MATERIEL CORPORATION
AND SUBSIDIARIES**

liabilities
AND STOCKHOLDERS' EQUITY

CONSOLIDATED BALANCE SHEET

September 30, 1964 and 1963

LIABILITIES AND STOCKHOLDERS' EQUITY	1964	1963
Current liabilities:		
Notes payable to banks	\$ 1,425,000	\$ 1,140,000
Accounts payable	1,108,380	1,656,743
Accrued income taxes	595,811	1,387,839
Other accrued taxes and expenses	494,524	632,345
Current installments of mortgages payable	49,315	44,895
Total current liabilities	3,673,030	4,861,822
 Mortgages payable — 5½% to 7½% and due 1965-1981 (less installments due within one year)	913,785	861,270
 Deferred income taxes (Note 4)	106,000	37,000
 Minority interest in subsidiary company	—	18,090
 Stockholders' equity:		
Common stock, par value 12½¢ per share (Note 5):		
Authorized — 4,000,000 shares		
Issued — 1964 — 2,476,900 shares; 1963 — 2,421,292 shares	309,613	302,662
Capital surplus (Note 6)	3,104,399	2,203,872
Earned surplus (Note 1)	7,439,177	6,038,469
	10,853,189	8,545,003
	\$15,546,004	\$14,323,185

See accompanying notes.

income

AND EARNED SURPLUS

THE TECHNICAL MATERIEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME AND EARNED SURPLUS

Years ended September 30, 1964 and 1963

	1964	1963
Net sales (Note 1)	\$29,387,053	\$28,373,671
Cost of sales	20,638,374	19,614,865
Engineering expenses (Note 3)	1,090,353	1,032,438
General and administrative expenses	3,424,778	3,103,487
Interest expense	137,259	84,432
Other income	(145,615)	—
	<u>25,145,149</u>	<u>23,835,222</u>
Income before income taxes	4,241,904	4,538,449
Provision for income taxes (Note 4)	1,998,000	2,322,000
Net income (Notes 1 and 3)	<u>2,243,904</u>	<u>2,216,449</u>
Earned surplus at beginning of year	<u>6,038,469</u>	<u>3,822,020</u>
	8,282,373	6,038,469
2% stock dividend:		
Cash paid for fractional shares	12,566	—
Earnings transferred to capital	830,630	—
	<u>843,196</u>	—
Earned surplus at end of year (Note 1)	<u>\$ 7,439,177</u>	<u>\$ 6,038,469</u>

Depreciation and amortization included above for
1964 is \$197,904 and for 1963 is \$155,450.

See accompanying notes.

**THE TECHNICAL MATERIEL CORPORATION
AND SUBSIDIARIES**

notes

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 1964**

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 refund. The Company has agreed to a renegotiation refund for 1962 of approximately \$134,000 (net of applicable income taxes). No charge to earned surplus has been made pending receipt of final clearance from the Renegotiation Board. Because of changes in the Company's business, the Company is unable to determine the effect of renegotiation for 1963 or 1964. However, the Company intends to oppose the imposition of any material refund. No provision for renegotiation refunds has been made against income reported for 1963 or 1964.

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 \$630,000 at September 30, 1964 and \$520,000 at September 30, 1963.

Note 3:

In 1964, the Company substantially expanded its new product development program and has deferred applicable engineering expenses to future periods

when it is anticipated that the profits from this program will be realized. Had the Company followed its prior practice of expensing all engineering costs reported net income would have been reduced by approximately \$402,000.

Note 4:

Provision for income taxes in the statement of income includes \$519,000 deferred for 1964 and \$37,000 deferred for 1963. Deferred new product development costs at September 30, 1964 are stated net of \$450,000 applicable deferred income taxes. The balance of deferred income taxes is shown as a liability and relates to accelerated depreciation and income reported on an installment basis for tax purposes.

Note 5:

At September 30, 1964, there were reserved under the Employee Stock Option Plan, 26,873 shares of common stock against which options to purchase 7,449 shares at prices ranging from \$17.00 to \$23.27 were outstanding; stock options on 4,590 shares were then exercisable. The options expire at various dates from December 9, 1964 to July 29, 1966. During the year 1964, qualified stock options on 2,400 shares were granted at \$17.00 per share, 5,265 shares were issued on exercise of options at

\$14.21 per share and options on 429 shares were cancelled. At September 30, 1963, 32,138 shares were reserved against which options to purchase 10,743 shares at prices ranging from \$14.21 to \$23.27 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	\$2,203,872
Excess of market price over par value of 47,806 shares issued as a stock dividend (distributed February 28, 1964)	824,654
Excess of option price over par value of 5,162 shares issued under Employee Stock Option Plan	74,203
Adjustment resulting from issuance of 2,640 shares for minority interest in subsidiary	1,670
Balance at end of year	<u>\$3,104,399</u>

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
CERTIFIED PUBLIC ACCOUNTANTS

165 BROADWAY
NEW YORK, N. Y. 10006

U. S. A., CANADA, MEXICO, SOUTH AMERICA
GREAT BRITAIN, CONTINENTAL EUROPE
MIDDLE EAST, SOUTH AFRICA, AUSTRALIA

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, 1964 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, 1964 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, except for a change in accounting for engineering expenses related to new product development (see Note 3).

Arthur Young & Company

November 18, 1964

1964

Net Sales	\$29,387,053
Provision for Federal and Foreign Income Taxes	\$ 1,998,000
Net Earnings for the Year	\$ 2,243,904
Per Cent of Earnings to Sales	7.64%
Current Assets	\$12,034,290
Current Liabilities	\$ 3,673,030
Current Ratio	3.3 to 1
Working Capital	\$ 8,361,260
Long-term Liabilities	\$ 913,785
Property, Plant and Equipment (net)	\$ 2,876,240
Expenditures for Property, Plant and Equipment	\$ 789,741
Depreciation and Amortization	\$ 197,904
Square Feet of Building Space:	
Owned	133,600
Leased	131,400
Total	265,000
Common Shares Outstanding (1)	2,476,900
Per Share Statistics: (1)	
Earnings	\$.91
Cash Flow (net plus depreciation)	\$.99
Book Value	\$ 4.38
Net Worth	\$10,853,189

(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.

1963	1962	1961	1960	1959	1958	1957	1956	1955
\$28,373,671	\$22,123,951	\$11,598,068	\$ 6,600,137	\$ 5,028,453	\$ 3,212,468	\$ 2,754,201	\$ 2,043,776	\$ 1,419,141
\$ 2,322,000	\$ 1,806,538	\$ 917,343	\$ 458,814	\$ 335,787	\$ 183,106	\$ 110,053	\$ 66,627	\$ 31,706
\$ 2,216,449	\$ 1,736,859	\$ 903,340	\$ 463,507	\$ 336,867	\$ 200,178	\$ 121,225	\$ 84,014	\$ 47,943
7.81%	7.85%	7.79%	7.02%	6.70%	6.23%	4.40%	4.11%	3.38%
\$11,887,905	\$ 9,223,214	\$ 5,216,707	\$ 3,411,503	\$ 2,452,459	\$ 802,290	\$ 524,976	\$ 385,314	\$ 246,359
\$ 4,861,822	\$ 4,841,954	\$ 1,700,069	\$ 1,803,561	\$ 935,558	\$ 484,989	\$ 381,399	\$ 319,067	\$ 170,210
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	1.2 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	\$ 66,247	\$ 76,149
\$ 861,270	\$ 153,058	\$ 135,904	\$ 150,495	\$ 124,667	\$ 201,669	\$ 60,015	\$ 101,857	\$ 136,285
\$ 2,435,280	\$ 1,976,768	\$ 1,111,160	\$ 894,868	\$ 461,014	\$ 507,853	\$ 352,929	\$ 331,225	\$ 266,841
\$ 653,840	\$ 975,431	\$ 296,520	\$ 498,672	\$ 64,735	\$ 200,714	\$ 153,109	\$ 95,202	\$ 72,605
\$ 155,450	\$ 106,823	\$ 73,354	\$ 59,747	\$ 38,439	\$ 33,659	\$ 36,995	\$ 26,082	\$ 24,999
113,600	65,850	40,850	40,850	40,850	47,100	35,100	35,100	28,850
127,400	120,400	107,000	43,000	4,000	8,500	8,500	8,500	—
241,000	186,250	147,850	83,850	44,850	55,600	43,600	43,600	28,850
2,469,718	2,461,056	2,461,056	2,257,056	2,223,600	1,897,200	1,897,200	1,897,200	1,897,200
\$.90	\$.71	\$.37	\$.21	\$.18	\$.11	\$.06	\$.04	\$.03
\$.96	\$.75	\$.40	\$.23	\$.20	\$.12	\$.08	\$.06	\$.04
\$ 3.46	\$ 2.52	\$ 1.83	\$ 1.03	\$.94	\$.34	\$.22	\$.18	\$.14
\$ 8,545,003	\$ 6,205,419	\$ 4,498,217	\$ 2,321,709	\$ 1,789,231	\$ 645,741	\$ 421,767	\$ 339,713	\$ 258,183

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