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ANNUAL REPORT **1970**

THE TECHNICAL MATERIEL CORPORATION
AND SUBSIDIARIES



DIRECTORS

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CHAIRMAN

E. A. MATSON, JR. **D. V. CARROLL** **W. L. DEANS**
H. J. MORSE **N. H. dePASQUALE** **G. W. JENNINGS**

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Exec. Vice Pres. & Treasurer

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Vice President

DAVID A. HILLMANN
Vice President

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Ass't. Vice President

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Controller

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Assistant Secretary

DONALD R. ROBINSON
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TMC SYSTEMS (ARIZONA)

B. D. PRITCHARD
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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.

BUSINESS HIGHLIGHTS...

	FISCAL YEAR	
	1970	1969
Net Sales	\$ 7,851,065	\$10,908,350
Net Loss	\$(1,549,237)	\$ (57,998)
Current Assets	\$ 7,575,222	\$10,399,935
Current Liabilities	\$ 2,040,058	\$ 3,018,394
Working Capital	\$ 5,535,164	\$ 7,381,541
Current Ratio	3.7 to 1	3.4 to 1
Property, Plant and Equipment Net	\$ 3,003,510	\$ 3,200,743
Stockholders' Equity	\$ 8,819,909	\$10,377,416
Loss per Share	\$ (.55)	\$ (.02)*
Book Value per Share	\$ 3.16	\$ 3.71*
Number of Stockholders	6,141	5,623
Common Stock Outstanding	2,793,165	2,793,165*

* Restated

message from the president...

For the fiscal year ended September 30, 1970, your Corporation had sales of \$7,851,065 and a net loss after taxes of \$1,549,237. These results compare with sales of \$10,908,350 and a net loss of \$57,998 in the preceding year. The last fiscal year was a difficult one for your Corporation, primarily due to rising costs, and almost complete cessation of U. S. Government business and stringent market conditions. These factors adversely affected many companies in the electronic industry and created a highly competitive market for the reduced volume of business available.

Fortunately, in spite of the unfavorable conditions in the industry, your Corporation has maintained a good current financial position due to reduction of inventory and close control of costs.

Our export business has held up well and at the present time it presents the brightest prospect for sales in the new fiscal year. An aggressive marketing effort to broaden the corporation's participation in the commercial field is being made and your Corporation has developed new products which it will introduce in the current year in this field.

Deliveries on the new U. S. Navy receiver began in November and shipments of this receiver will continue well into the new fiscal year.

Deferred new product development costs have been reduced moderately in the last three years, but perhaps more important is the fact that these costs, which represent the design of our latest products, have been brought to complete parity with the most modern equipment in our field. Moreover,

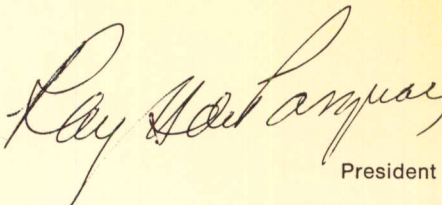
your management feels that much intrinsic value remains in those items development of which has been completely amortized.

Adequate provisions have been made for slow moving inventory and for contracts in process which place our inventory valuation on a sound, conservative basis for entering the coming years. Sales in the first quarter fiscal 1971 will increase at least 50% over the same quarter last year.

Your management has resolved many of the problems, particularly with respect to subsidiaries, created by the depressed industry conditions, and accordingly has adjusted costs downward to the lower volume of business.

Your Corporation remains favorably known throughout the World. Our products are consonant with the latest "state of the art", and any return to more normal industry conditions should result in an improvement in operations.

FOR THE BOARD OF DIRECTORS



Ray H. Langley
President

ARGENTINA
 BAHAMAS
 BRAZIL
 CHILE
 CONGO
 COSTA RICA
 CYPRUS
 DENMARK
 DOMINICAN REPUBLIC
 ENGLAND
 ETHIOPIA
 GERMANY
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 IRAN
 ISRAEL
 ITALY
 KENYA
 KOREA
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 LUXEMBOURG
 MEXICO
 MOZAMBIQUE
 NAURU
 NETHERLANDS
 NICARAGUA
 NORWAY
 PAKISTAN
 PANAMA
 PERU
 PHILIPPINES
 PORTUGAL
 SAIPAN
 SAUDI ARABIA
 SOUTH AFRICA
 SPAIN
 SURINAM
 SWEDEN
 SWITZERLAND
 TAIWAN
 THAILAND
 TURKEY
 URUGUAY
 VENEZUELA
 VIET NAM



PRODUCTS and APPLICATIONS

On these pages are shown some of the products which have been shipped or developed during the fiscal year. Although U. S. Government purchases have been drastically curtailed, the market for our products continues world-wide. Some idea of the scope of this market can be gained from deliveries made (domestic excluded) to the countries indicated on this page.

DEVELOPMENT and RESEARCH

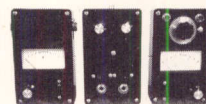
We have spent a considerable sum in perfecting our non-interruptable solid state power supplies for use particularly with computers, and we presently have a considerable backlog in this field. This is definitely a growth area, and we believe our efforts will be well rewarded in the future.

Reflecting the trend to lower cost, broader based equipment, our R & D efforts will place on the market in the coming year items which should sell in higher volume, and at a better profit margin than that available from Government business.

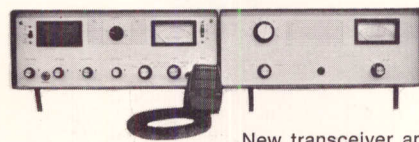
Some of our products such as our lightweight diesel, although fully developed, have been withheld from the market due to the lack of long term financing during the past year.



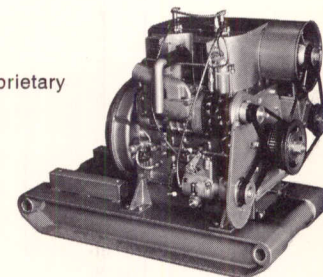
Official Ministry of Transport photograph of S.S. Louis S. St. Laurent during her 1970 voyage to the Arctic with the S.S. Manhattan.



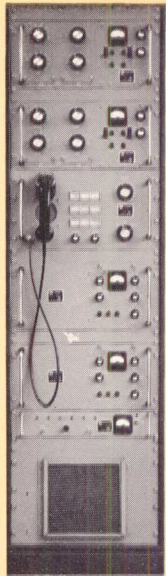
New low cost instruments for the commercial market, keyed to mobile and marine installations.



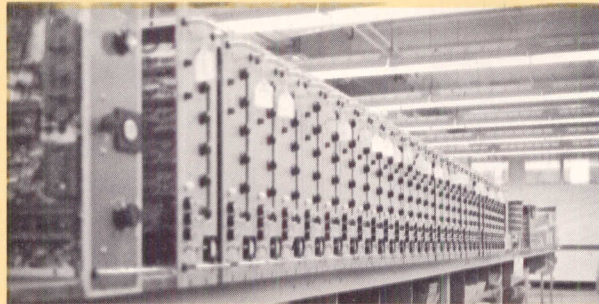
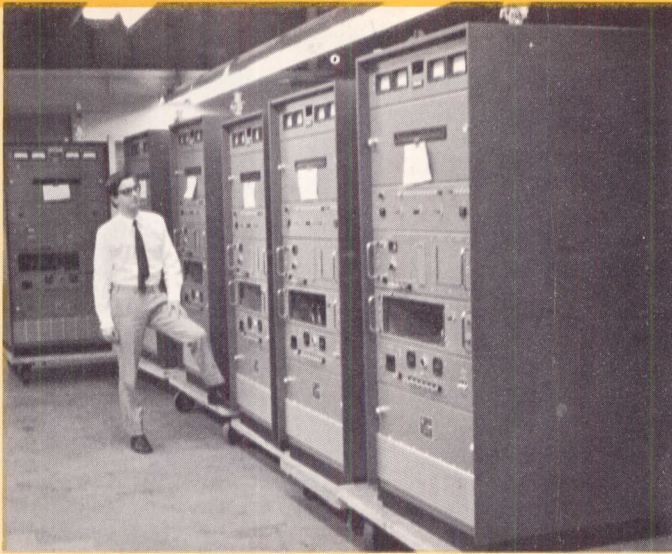
New transceiver and linear for mobile, marine or base stations.



Lightweight, proprietary diesel engine.

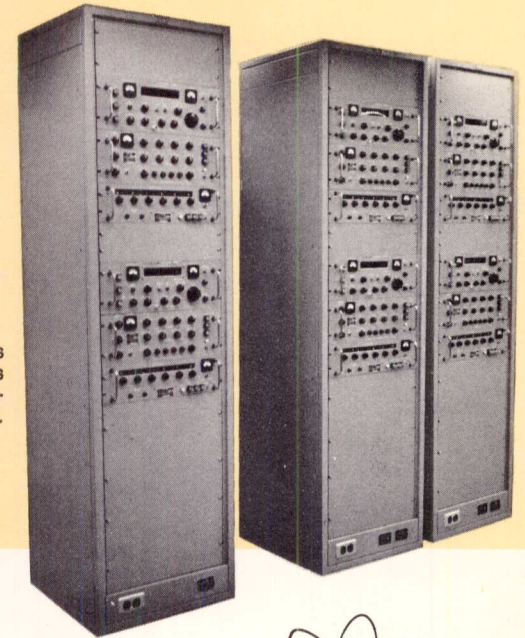


BRTR-16 ship-to-shore sideband equipment for the St. Laurent built and installed by T.M.C. (Canada) Ltd.

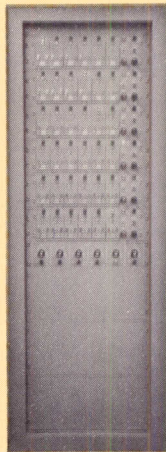


10 kilowatt transmitters tested and ready for shipment abroad.

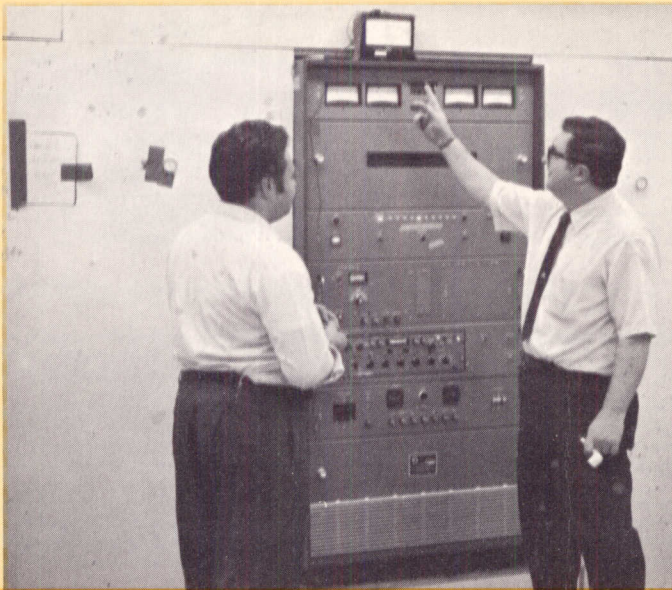
Navy receivers passed by inspectors and ready for shipment to the U.S. Navy.



Finished components of Navy receiver ready for overall installation.

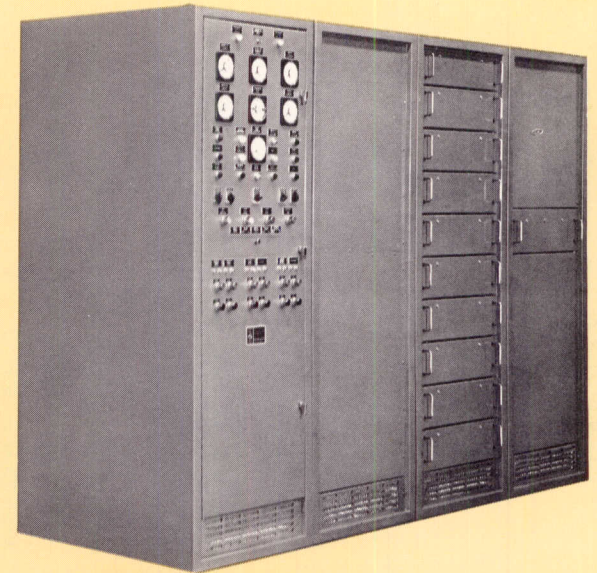


This specialized remote input filter prevents the overloading of sensitive receivers when collocated with powerful transmitters. Built by T.M.C. for National Communications System II.



Solid state uninterruptible power supply for shipment to Eglin Air Force Base.

New 10 kilowatt transmitter on elevated heat run.



THE TECHNICAL MATERIEL CORPORATION and Subsidiaries

CONSOLIDATED BALANCE SHEET

September 30, 1970 and 1969



ASSETS

	1970	1969
CURRENT ASSETS:		
Cash	\$ 272,836	\$ 368,373
Accounts receivable (\$760,673 in 1970 and \$1,274,105 in 1969 from the U.S. and foreign governments) (Note 1)	1,510,511	2,612,953
Income tax refunds receivable	118,225	206,515
Inventories, at the lower of cost or market, less progress payments of \$2,512,160 in 1970 and \$1,355,849 in 1969 (Note 2):		
Finished goods	1,339,185	1,221,306
Work in process	1,681,260	3,104,003
Raw materials	2,552,286	2,802,921
	<u>5,572,731</u>	<u>7,128,230</u>
Prepaid expenses	100,919	83,864
Total current assets	<u>7,575,222</u>	<u>10,399,935</u>
PROPERTY, PLANT AND EQUIPMENT, AT COST:		
Land	428,855	428,855
Buildings and building equipment	1,813,987	1,806,165
Machinery and equipment	2,427,397	2,360,690
Leasehold improvements	657,756	646,607
	<u>5,327,995</u>	<u>5,242,317</u>
Accumulated depreciation and amortization	<u>(2,324,485)</u>	<u>(2,041,574)</u>
	<u>3,003,510</u>	<u>3,200,743</u>
Deferred new product development costs (Notes 3 and 4)	1,263,884	1,302,176
Property leased to others (Note 5)	865,004	—
Property held for sale	279,623	1,212,075
Other assets	74,553	110,057
	<u>\$13,061,796</u>	<u>\$16,224,986</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 1970 business is subject to renegotiation. The Company believes 1970 will be settled without any refund. All years through 1969 have been cleared.

Notes receivable from a foreign government in the amount of \$330,000 have been discounted with recourse at banks in the United States. Accounts receivable have been pledged to secure \$298,941 of notes payable to banks. The Company is contingently liable for a \$72,000 mortgage on a plant sold in prior years.

Note 2

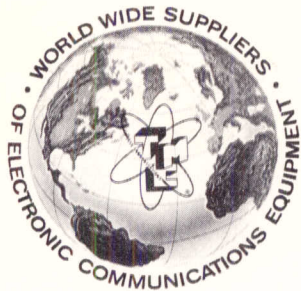
During 1970 orders for communications equipment using items in the Company's existing stocks were lower than in preceding years because of reduced U.S. government business and other market conditions. As a result, at year end, over \$2,000,000 of the Company's inventories represented items which were purchased or manufactured prior to September 30, 1969. In the opinion of management, these inventory quantities are not excessive in relation to the Company's requirements for anticipated future production and spare parts shipments.

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 \$1,004,820 at September 30, 1970 and \$1,077,141 at September 30, 1969. Inventories also include

THE TECHNICAL MATERIEL CORPORATION *and Subsidiaries*

CONSOLIDATED STATEMENT OF OPERATIONS AND EARNED SURPLUS

Years ended September 30, 1970 and 1969



OPERATIONS
AND EARNED SURPLUS

	1970	1969
Net sales	<u>\$ 7,851,065</u>	<u>\$10,908,350</u>
Cost of sales	<u>6,668,472</u>	<u>7,229,561</u>
Engineering and development expenses (Note 3)	<u>938,428</u>	<u>945,842</u>
Selling, general and administrative expenses	<u>2,308,992</u>	<u>2,567,583</u>
Interest expense	<u>214,843</u>	<u>355,362</u>
Other income net (Note 5)	<u>(102,433)</u>	<u>—</u>
	<u>10,028,302</u>	<u>11,098,348</u>
Loss before income taxes	<u>(2,177,237)</u>	<u>(189,998)</u>
Income tax credits (Note 4)	<u>(628,000)</u>	<u>(132,000)</u>
Net loss	<u>(1,549,237)</u>	<u>(57,998)</u>
Earned surplus at beginning of year	<u>3,716,503</u>	<u>4,372,353</u>
	<u>2,167,266</u>	<u>4,314,355</u>
2% stock dividend:		
Cash paid for fractional shares	<u>8,270</u>	<u>11,276</u>
Earnings transferred to capital	<u>382,143</u>	<u>586,576</u>
	<u>390,413</u>	<u>597,852</u>
Earned surplus at end of year	<u>\$ 1,776,853</u>	<u>\$ 3,716,503</u>
Net loss per share	<u>\$(.55)</u>	<u>\$(.02)</u>

The Company has net operating loss carryforwards aggregating approximately \$2,465,000 which expire \$74,000 in 1973, \$318,000 in 1974 and \$2,073,000 in 1975. To the extent deferred tax credits would be amortized during the carryforward period (\$707,000), the net operating loss carryforwards have been applied to reduce deferred income taxes, which otherwise would have included \$666,000 related to new product development costs deducted currently for income tax purposes and \$194,000 related to accelerated tax depreciation.

Foreign income taxes (including \$35,000 deferred) relate to subsidiaries operating in Canada and Switzerland. For 1970 these subsidiaries had net aggregate sales of \$1,547,807 and net income of \$78,414; net assets at September 30, 1970 were \$1,364,324. Other income includes an immaterial gain resulting from recognition of an increase in the exchange rate of the Canadian dollar to \$.965.

Note 5

In March 1970 the Company leased its Nyack Plant for a period of five years, granting options to renew for three and two year periods. The lease provides for an annual rental of \$177,100 with an escalation clause for increases in real estate taxes. The income and expenses associated with the plant are included in other income and the costs of the land, buildings and building equipment less accumulated depreciation of \$204,942 at Nyack are included in property leased to others.

Rent expense for plants, under leases expiring chiefly in 1977, aggregates \$220,000 annually.

THE TECHNICAL MATERIEL CORPORATION and Subsidiaries

CONSOLIDATED STATEMENT OF SOURCE AND
DISPOSITION OF WORKING CAPITAL

Years ended September 30, 1970 and 1969



SOURCE AND
DISPOSITION OF
WORKING CAPITAL

	<u>1970</u>	<u>1969</u>
Source:		
Proceeds from sales of property, plant and equipment	<u>\$ 128,941</u>	<u>\$ 32,315</u>
	<u>128,941</u>	<u>32,315</u>
Disposition:		
Operations:		
Net loss	1,549,237	57,998
Depreciation and amortization of property, plant and equipment	(363,448)	(372,064)
Amortization and write-offs of deferred new product development	(574,977)	(378,560)
Deferred income taxes	498,000	152,000
Other	(13,555)	33,988
	<u>1,095,257</u>	<u>(506,638)</u>
Other purchases of property, plant and equipment	205,759	175,204
New product development expenditures	536,685	339,037
Reduction of mortgage and notes payable	129,347	108,011
Cash paid for fractional shares resulting from stock dividends	8,270	11,276
	<u>1,975,318</u>	<u>126,890</u>
Decrease in working capital	<u>\$ (1,846,377)</u>	<u>\$ (94,575)</u>

Note 6

At September 30, 1970 there were reserved under the Employee Stock Option Plan, 20,511 shares of common stock against which options to purchase 9,792 shares at a price of \$8.33 were outstanding, 4,896 of which were exercisable. The options expire at September 14, 1971. During the year 1970, no qualified stock options were granted, options on 4,131 shares were cancelled and none were exercised. At September 30, 1969, 20,511 shares were reserved against which there were outstanding options to purchase 13,923 shares at a price of \$8.33. The above shares have been adjusted to reflect stock dividends.

Note 7

During the year capital surplus was increased as follows:

	<u>1970</u>	<u>1969</u>
Balance at beginning of year	\$6,318,472	\$5,738,486
Excess of market value over par value of 53,634 shares in 1970 and 52,726 shares in 1969 of common stock issued as stock dividends	375,438	579,986
Balance at end of year	<u>\$6,693,910</u>	<u>\$6,318,472</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, 1970 and the related consolidated statements of operations and earned surplus and 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.

As described in Notes 1, 2 and 3, there are uncertainties as to the recoverability of an account receivable in litigation, inventories purchased or manufactured in prior fiscal years, and deferred new product development costs, the aggregate amount of which (approximately \$3,700,000) is material to the Company's financial position and results of operations.

In our opinion, subject to the recoverability of the items referred to in the preceding paragraph, the statements mentioned above present fairly the consolidated financial position of The Technical Materiel Corporation and subsidiaries at September 30, 1970 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 21, 1970

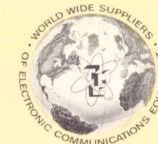
Arthur Young & Company

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*



	1970
Net Sales	\$ 7,851,065
Provision for Taxes on Income	\$ (628,000)
Net Earnings (Loss) for the Year	\$ (1,549,237)
Per Cent of Earnings to Sales	(19.73%)
Current Assets	\$ 7,575,222
Current Liabilities	\$ 2,040,058
Current Ratio	3.7 to 1
Working Capital	\$ 5,535,164
Long-Term Liabilities	\$ 2,048,829
Property, Plant and Equipment (net)	\$ 3,003,510
Expenditures for Property, Plant and Equipment	\$ 205,759
Depreciation and Amortization	\$ 363,448
Square Feet of Building Space:	
Owned	163,400
Leased	159,200
Total	322,600
Common Shares Outstanding (1)	2,793,165
Per Share Statistics: (1)	
Earnings (Loss)	\$ (.55)
Book Value	\$ 3.16
Stockholders' Equity	\$ 8,819,909

10 YEAR COMPARISON

1969	1968	1967	1966	1965	1964	1963	1962	1961
\$10,908,350	\$17,408,523	\$24,575,859	\$22,119,382	\$18,394,329	\$29,387,053	\$27,705,772	\$20,898,611	\$11,598,068
\$ (132,000)	\$ (290,000)	\$ 438,000	\$ 308,000	\$ 54,000	\$ 2,206,000	\$ 2,122,994	\$ 1,320,000	\$ 1,000,500
\$ (57,998)	\$ (603,107)	\$ 619,706	\$ 376,621	\$ 37,193	\$ 2,243,904	\$ 1,907,680	\$ 1,176,784	\$ 903,340
(0.53%)	(3.46%)	2.52%	1.70%	0.20%	7.64%	6.89%	5.63%	7.79%
\$10,399,935	\$12,068,690	\$12,887,219	\$13,768,628	\$12,981,993	\$12,034,290	\$11,887,905	\$ 9,223,214	\$ 5,216,707
\$ 3,018,394	\$ 4,592,574	\$ 4,818,330	\$ 6,837,517	\$ 5,119,686	\$ 3,641,030	\$ 4,858,822	\$ 4,841,954	\$ 1,700,069
3.4 to 1	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
\$ 7,381,541	\$ 7,476,116	\$ 8,068,889	\$ 6,931,111	\$ 7,862,307	\$ 8,393,260	\$ 7,029,083	\$ 4,381,260	\$ 3,516,638
\$ 2,178,176	\$ 2,286,187	\$ 1,818,495	\$ 1,031,650	\$ 1,110,638	\$ 913,785	\$ 861,270	\$ 153,058	\$ 135,904
\$ 3,200,743	\$ 4,315,005	\$ 3,905,631	\$ 3,203,425	\$ 3,260,222	\$ 2,876,240	\$ 2,435,280	\$ 1,976,768	\$ 1,111,160
\$ 175,204	\$ 903,725	\$ 1,133,541	\$ 852,955	\$ 632,644	\$ 789,741	\$ 653,840	\$ 975,431	\$ 296,520
\$ 372,064	\$ 383,070	\$ 335,457	\$ 298,427	\$ 244,057	\$ 197,904	\$ 155,450	\$ 106,823	\$ 73,354
168,400	168,400	130,900	118,600	138,600	133,600	113,600	65,850	40,850
178,820	163,200	215,200	274,450	147,400	131,400	127,400	120,400	107,000
347,220	331,600	346,100	393,050	286,000	265,000	241,000	186,250	147,850
2,793,165	2,793,165	2,786,938	2,784,687	2,784,571	2,784,571	2,775,681	2,765,948	2,765,948
\$ (.02)	\$ (.22)	\$.22	\$.14	\$.01	\$.81	\$.69	\$.43	\$.33
\$ 3.71	\$ 3.74	\$ 3.95	\$ 3.73	\$ 3.60	\$ 3.59	\$ 2.77	\$ 2.04	\$ 1.63
\$10,377,416	\$10,446,690	\$11,007,753	\$10,380,026	\$10,011,866	\$ 9,984,345	\$ 7,676,159	\$ 5,645,344	\$ 4,498,217

(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, 1969 and 1970.

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.



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