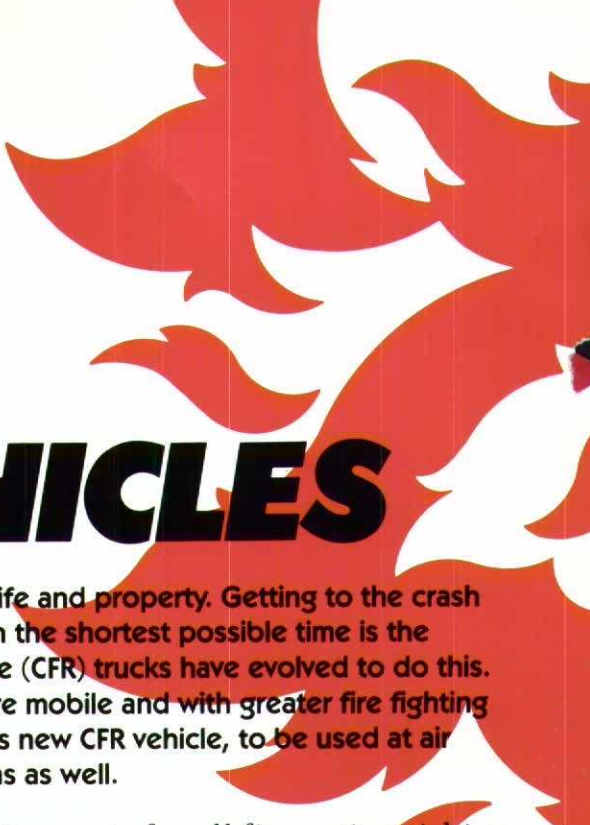


TeledyneReport

For the Year 1988

Crash Fire Rescue Vehicles: Getting There Faster With More





CFR VEHICLES

CRASH FIRE RESCUE

In aircraft mishaps, fire is the greatest destroyer of life and property. Getting to the crash site with massive amounts of fire fighting materials in the shortest possible time is the name of the game, and specialized Crash Fire Rescue (CFR) trucks have evolved to do this. A new, advanced Teledyne vehicle that is faster, more mobile and with greater fire fighting capacity has been chosen by the U.S. Air Force as its new CFR vehicle, to be used at air bases worldwide. It will have commercial applications as well.

Bringing aircraft crash fires under control presents fire fighters with unique and difficult problems. Even if these mishaps occur within range of airport fire fighting services, getting to them may involve traversing rough off-road terrain through sand, mud, snow or other difficult conditions. And, because of the remote and unpredictable nature of most crash sites, the fire fighters must carry all the fire fighting materials they need—water, foam generating chemicals and other fire extinguishing agents—with them. Fast response is one of the most critical factors in fighting fires, and hence the vehicles used must be able to operate under adverse conditions at the highest possible speed. To meet these needs, very specialized vehicles known as Crash Fire Rescue (or CFR) trucks have evolved and are in use at all major civilian airports and military air bases.

The New Air Force Crash Fire Rescue Vehicle

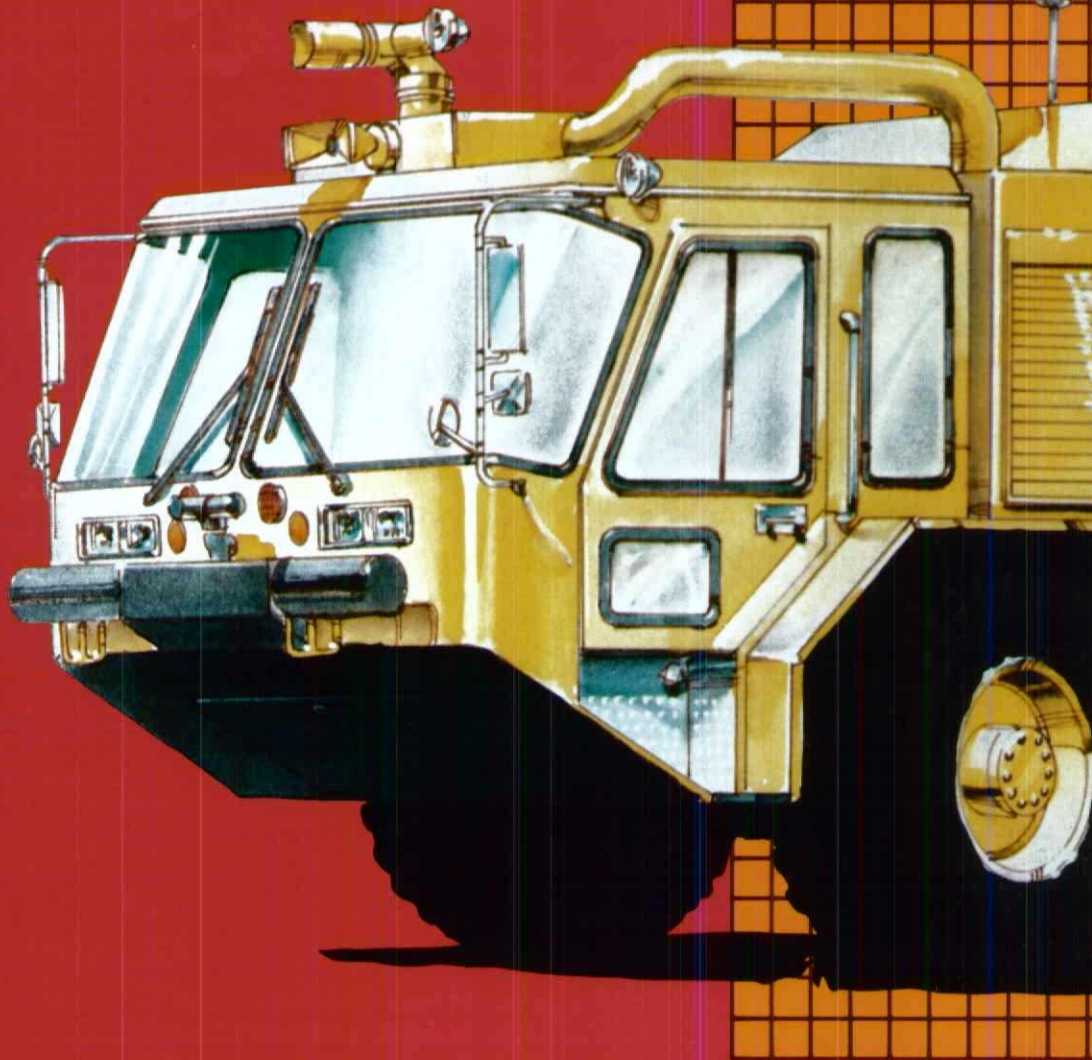
The new Air Force CFR, known as the P-23, designed by Teledyne Continental Motors, General Products, brings a higher standard of performance to this type of vehicle. With a fully-laden gross weight of 67,000 pounds, the P-23 exceeds the speed, mobility and agility of present CFR vehicles and does so with greater fire-fighting capacities.

Based on an 8-wheel fully independent suspension chassis with all-wheel drive, the P-23 exceeds the Air Force's minimum

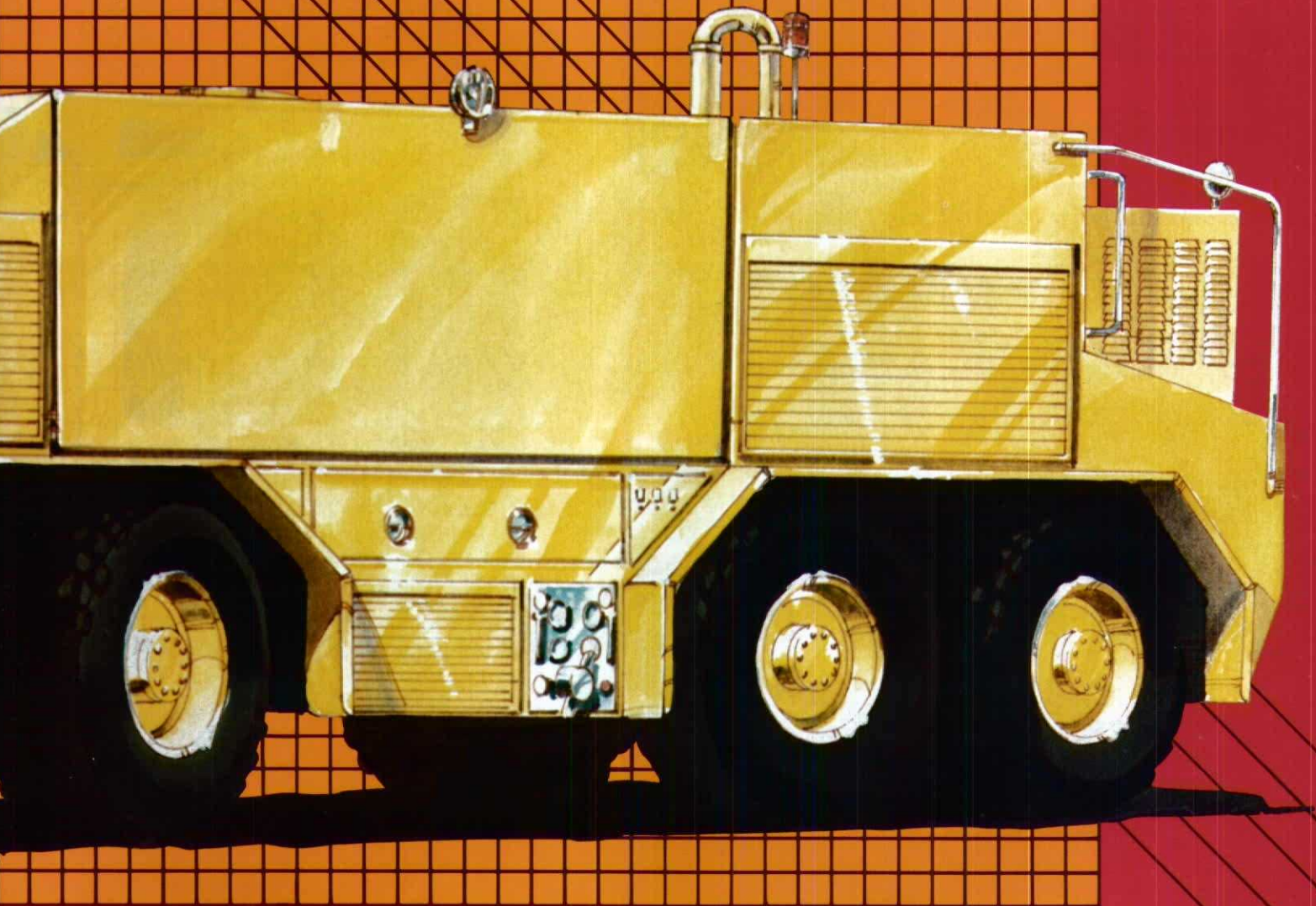
requirements for all fire extinguishing agent capacities by 10 percent. It carries 3300 gallons of water, 500 gallons of foam agent, and 550 pounds of other fire extinguishing agent. These additional capacities can provide an important margin of success in fighting aircraft crash fires.

Since the P-23 is an emergency vehicle, high-speed maneuverability is a critical factor in accomplishing its missions. Arriving a few seconds earlier at a crash site often means the difference in saving lives and aircraft. Driven by a 575 horsepower turbocharged diesel engine, the P-23 accelerates from 0 to 50 miles per hour in just under 36 seconds, 18 percent faster than the 45 second minimum specified by the Air Force. On paved surfaces it has a top speed of over 65 miles per hour.

Even more impressive is the P-23's performance on secondary road surfaces and cross country. The minimum Air Force requirement for travel on gravel surfaces was 30 miles per hour while the P-23 can do 60. Cross country required speed of 20 miles per hour is exceeded by 5 miles per hour. The fully independent all-wheel drive of the P-23 (and other features, discussed later) allows it to operate dependably in soft soil conditions where other CFRs, built on commercial truck chassis, cannot go. It can perform under poor conditions at speeds that are normally only achieved by tracked vehicles.



In March of 1988, Teledyne Continental Motors, General Products was awarded a \$97 million contract by the U.S. Air Force for the production of 200 Crash Fire Rescue trucks for air bases throughout the world. The contract also includes a \$38 million option for an additional 88 trucks. This award was in response to a competitive proposal and bidding process in which the Teledyne design was chosen because of—among other things—its technical excellence in applying state-of-the-art automotive technology to this type of heavy duty vehicle. The result is a CFR vehicle that meets all the Air Force's required performance specifications and substantially exceeds the most critical specifications and mission requirements.



- All-wheel drive
- 8-wheel fully independent suspension
- 575 horsepower turbocharged diesel engine
- Gross vehicle weight 67,000 pounds
- Zero to 50 miles per hour in 36 seconds, 65 miles per hour on paved roads, 60 miles per hour on gravel roads and 25 miles per hour off-road speed
- Pumping capacity 1500 gallons per minute
- Total capacity 3300 gallons of water, 500 gallons of foam and 550 pounds of other fire extinguishing agent
- Lower center of gravity than conventional CFRs
- Negotiates 30 meter radius turns at 40 miles per hour
- Operates on side slopes of up to 66 percent grade
- Central tire inflation system adjusts for terrain

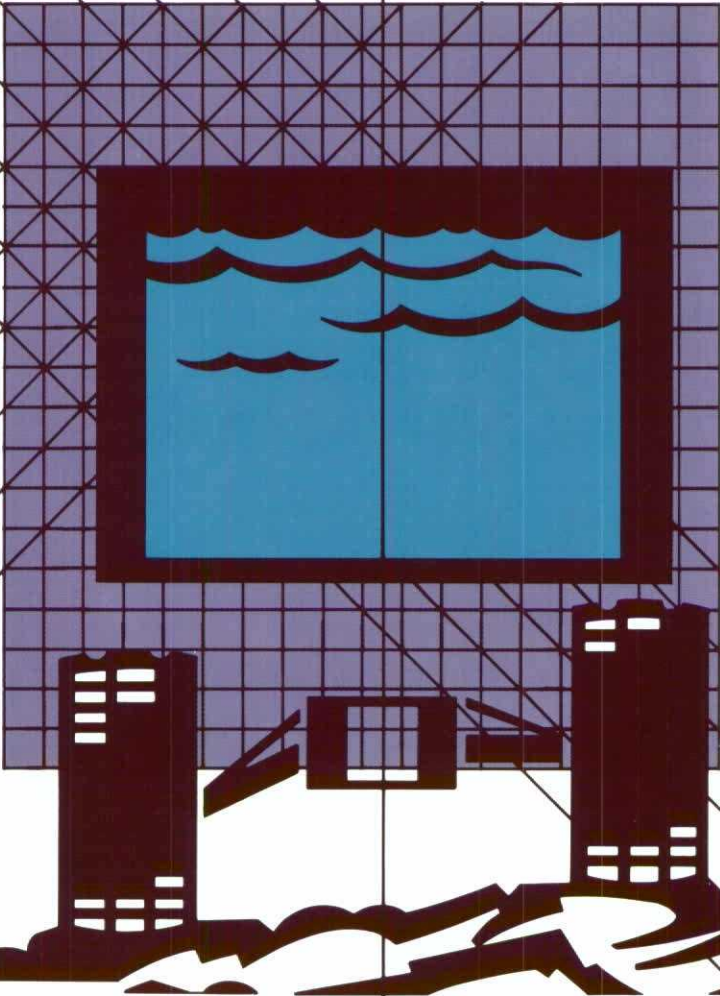
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he new vehicle also carries state-of-the-art fire fighting equipment driven by the vehicle's V-8 diesel engine through a highly reliable power divider transmission. The P-23 can roll and at the same time pump fire extinguishing agents through its roof-mounted water cannon, an important capability in maneuvering at the fire site. The system's pump is capable of discharging 1500 gallons of fire fighting agent per minute to quickly bring the maximum fire quenching effect to bear in the shortest possible time.

Applying State-of-the-Art Design to CFRs.

Teledyne Continental Motors' design of the P-23 began with an analysis of the drawbacks and weaknesses of existing CFR vehicles. One is the high center of gravity of existing vehicles which severely limits their speed, agility and safety in high speed maneuvers. Another weakness is the excessive flexibility of the C-section frames of the commercial truck chassis on which most of these vehicles are built. A third drawback is the solid axle design and tandem or bogie-type suspension commonly in use which limits roadability and traction in adverse terrain. Other problems were found in the areas of reliability, maintainability and cost effectiveness.

It was quickly decided that the solution to many of these problems lay in the use of an entirely different chassis and suspension design. A box-section frame with independent suspension for all eight wheels was chosen for several reasons. One was that the frame offered 450 times the torsional stiffness of a conventional C-section commercial truck frame. Because of the



The long free travel of each independently suspended wheel on the Crash Fire Rescue truck allows the vehicle to cross 14-inch-high obstacles, in rough off-road terrain, without appreciable body twist or loss of traction by any of the wheels.

flexibility of C-section frames, CFR vehicles using them must have a separate second frame mounted on top, flexibly connected to the main frame, to isolate the heavy liquid-filled tanks from the twisting of the chassis. These twisting forces had been found to cause leaks and maintenance problems in the tanks and piping systems. Eliminating the need for this sub-frame permitted the center of gravity of the liquid tanks to be lowered by 10 inches.

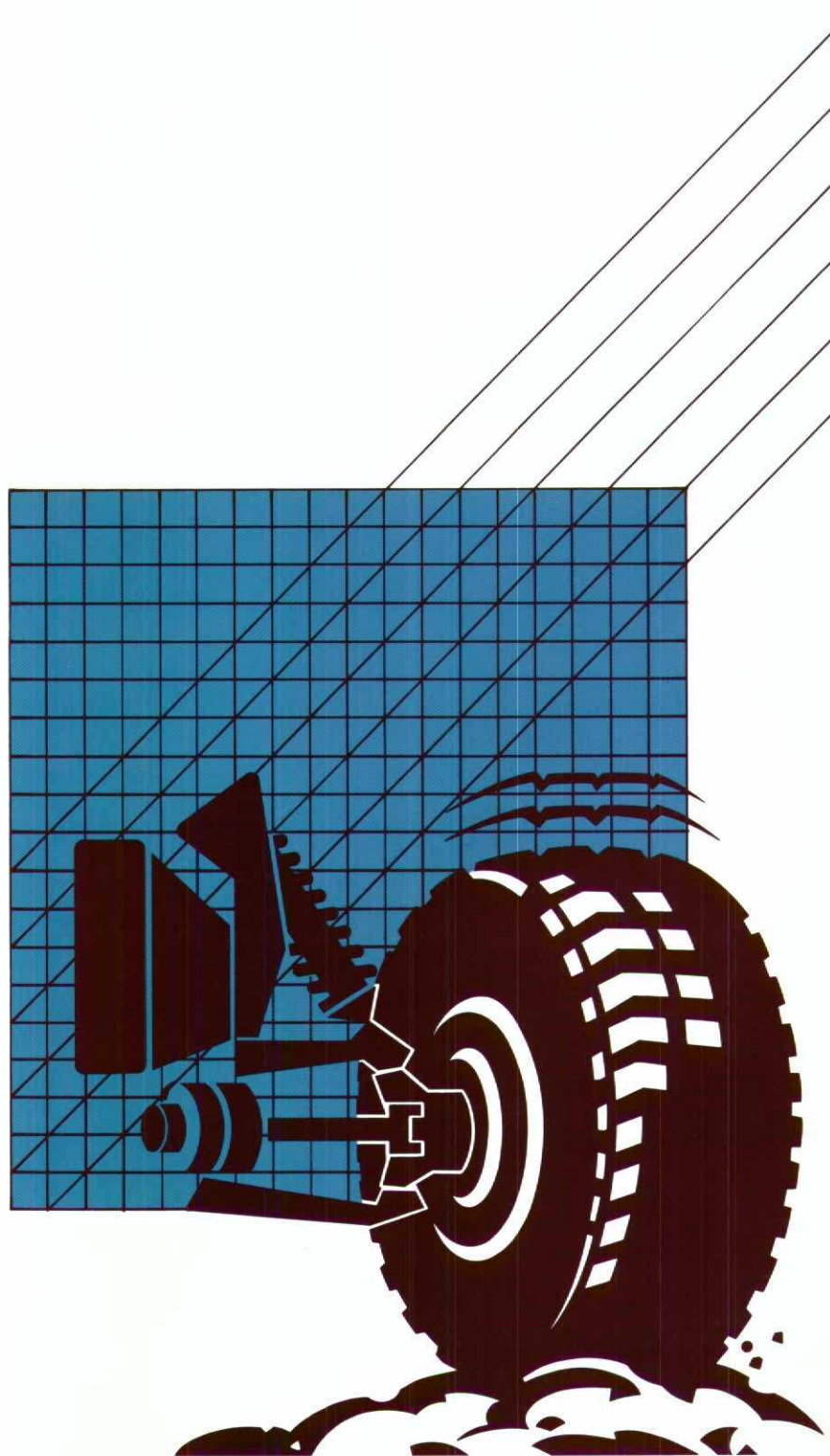
The independent suspension system chosen for the new P-23 mounts the suspensions for each wheel on the sides of the box frame rails, as opposed to beneath the frame as with conventional solid axle truck suspensions. This in turn allowed a further 10 inch drop in the height of the tank's center of gravity, for a total lowering of 20 inches.

This lower center of gravity greatly enhances the vehicle's ability to negotiate high speed turns and improves its effectiveness in responding to emergency missions. The P-23 can accomplish a 30 meter radius turn at approximately 40 miles per hour compared to about 19 miles per hour for conventional trucks of the same size. The lower center of gravity also allows the vehicle to operate on side slopes of up to 66 percent grade.

The Unique Chassis and Suspension

A frame and suspension system such as this had been designed and developed by Technology Investments Limited of Ireland, designers and developers of heavy vehicle chassis. It had been proven in a variety of military and commercial applications in Europe.

The outstanding mobility and traction achieved by the Air Force's new Teledyne-designed Crash Fire Rescue truck is due in large part to the vehicle's unique independent suspension system. Forces acting on any wheel and the movements of that wheel do not affect the operation of any other wheel, as is the case in other suspension systems.



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licensing agreement was reached with this company for the use of their basic design, and the cost to the government of developing a totally new design of this type was minimized. This suspension design was further developed and refined to accommodate the greater loads involved in the CFR vehicle.

With the ultra-rigid box section chassis as a base, each of the eight full-time power driven wheels is attached to the side of the frame with identical suspension elements, including upper and lower wishbone arms, coil springs, shock absorbers and drive shafts. The differentials transmitting power to each pair of wheels are mounted rigidly to the frame and carry the air-operated disc brakes. This configuration lowers the unsprung mass of each wheel, contributing to better roadability and improving the reliability and life of the vehicle by reducing the forces transmitted to other components. Each wheel is fitted with a special high-flotation tire that offers an exceptionally broad footprint for good traction under adverse conditions.

A major advantage of the independent suspension system is that the forces acting on any wheel and the resulting movements of that wheel do not effect the operation of any other wheel, as is the case in the conventional tandem or bogie-type suspension usually used on heavy vehicles. In the tandem system, pairs of wheels on each side of the vehicle are mounted on a sort of central rocking arm suspension so that when one wheel goes over a bump or obstacle its companion is affected. In soft terrain this can result in wheel hop that breaks the traction of those wheels. Independent wheel suspension eliminates this problem and contributes to the P-23's exceptional performance in off-road travel.

The long free travel of each wheel suspension on the P-23 also allows a wheel to go over a 14-inch high obstacle without appreciable body twist or loss of traction by other wheels.

Central Tire Inflation System

Off-road performance of the P-23 is further enhanced by a central tire inflation system

(CTI) developed by Teledyne Continental Motors. The CTI system is an outgrowth of a similar system developed by the company for the U.S. Army's Family of Medium Tactical Vehicles (FMTV) program. As applied to the P-23, CTI allows the driver of the vehicle to reduce or increase tire pressure at all wheels while underway. A push-button panel in the cab lets him select appropriate tire pressures for highway, gravel road, cross country or emergencies in deep mud or snow. As the tire pressure is decreased the special tires provide a larger area of contact or "footprint" with the ground, increasing the vehicle's flotation and traction.

Readiness and Availability

One of the most essential requirements of any emergency vehicle is its reliability and readiness to respond to its missions. Teledyne's choice of self-adjusting air-operated all-wheel disc brakes addressed problems common with existing CFRs that use drum brakes. These problems include excessively long stopping distances, brake fade during heavy operation, cracked brake drums due to overheating and lengthy out-of-service time for maintenance.

On the P-23, the proven reliability and high performance of disc brakes is enhanced by mounting them inboard on the sides of each differential. In this easily accessible location they get more cooling air, and all the disc pads can be changed by two men in half an hour. This compares to the 8 hours required for two men to do similar service on wheel-mounted drum brakes. The P-23 also does not have to be jacked, nor its wheels removed to perform this service.

Close attention was also paid to the location and accessibility of other major components and systems that might require service. The main water pump, for example, that discharges the fire extinguishing materials, is located at the rear of the unit beneath the engine where it is easily serviced without removing other major components. This is in contrast to some CFR designs in which major components must be removed to service this unit.



Power for the CFR's state-of-the-art fire fighting system is provided by the vehicle's 575 horsepower turbocharged diesel engine, which permits it to discharge up to 1500 gallons of fire fighting agent per minute. The vehicle can maneuver while pumping, an important capability in producing the maximum fire quenching effect at the crash site.

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he job of aircraft Crash Fire Rescue (CFR) trucks is to get to the crash site with massive amounts of fire fighting materials in the shortest possible time, often across rough, off-road terrain. The U.S. Air Force's new Teledyne-designed Crash Fire Rescue truck sets new standards for these vehicles with higher speed, improved mobility and greater fire fighting capacities.





The front four wheels of the Crash Fire Rescue vehicle all turn to steer the vehicle, giving it great agility and positive steering response in cross country travel. These four wheels, as well as the rear four are all independently suspended and power driven.

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hroughout the vehicle, easily obtainable, time-tested, heavy-duty commercial components have been chosen to enhance the reliability and maintainability of the vehicle on a worldwide basis.

Fire Fighting Equipment

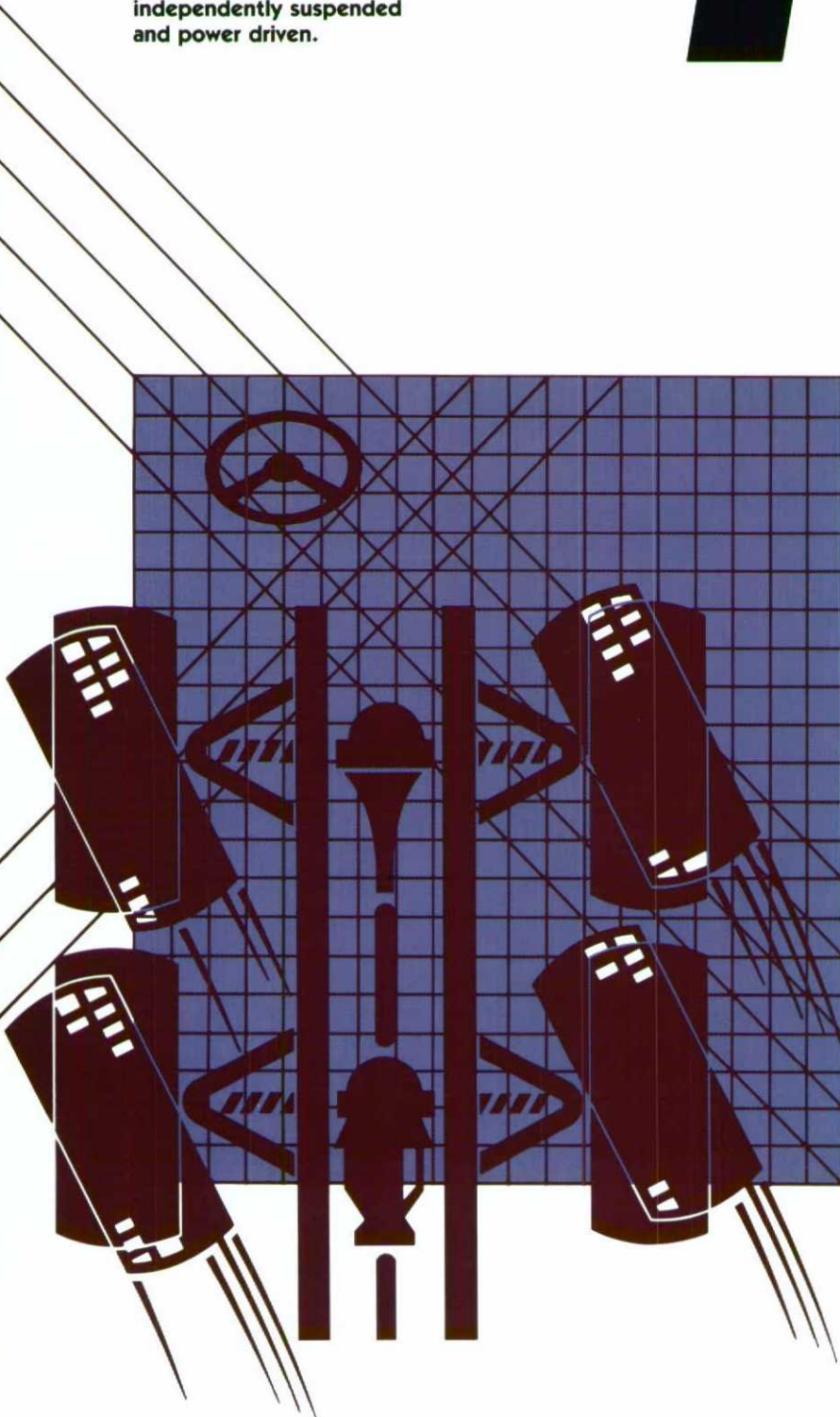
In keeping with its design philosophy of choosing the best tested and time-proved designs at lowest cost to the government, Teledyne Continental Motors chose Emergency One, Inc. of Ocala, Florida as the subcontractor to provide the cab, body and fire fighting systems for the outstanding new P-23 chassis.

The cab and body of the P-23 will be fabricated from high strength aluminum with welded construction that eliminates rivets, and minimizes maintenance. Fast and easy access to the cab for the crew of four is provided by large crew doors on either side. A large 3,300 square-inch wraparound windshield gives outstanding visibility that has not been available in other CFRs.

Years of experience have also gone into the design of the instruments and controls of the P-23. They have been located in the most functional and easily operated arrangement possible, based on the experience of Emergency One and the preferences of professional CFR crews.

CFR for the 21st Century

The design of the new U.S. Air Force P-23 CFR has set the standards for Crash Fire and Rescue vehicles that will last well into the next century. The innovative chassis and suspension design alone has advanced the state-of-the-art of high mobility heavy vehicles immeasurably. Combined with its top quality fire fighting systems, the P-23 will provide the best available emergency CFR vehicle for military and commercial aviation alike.



Teledyne Continental Motors, General Products' Focused Diversity

Teledyne Continental Motors, General Products is a dedicated long term supplier to the U.S. Department of Defense and its allies. With over 40 years of experience as an engine builder, the company has produced over 175,000 heavy duty air cooled diesel tank engines used by the U.S. Army and other friendly nation military forces. Over the years this involvement with military combat vehicles led to the additional production of heavy duty tank transmissions, and advanced hydropneumatic suspensions for tanks and other heavy vehicles. Today, TCM General Products has become a leader in the development of advanced-technology high-mobility military vehicles of both tracked and wheeled types. The P-23 CFR discussed in this issue of Teledyne Report is a prime example of the latter.

At present, TCM's business activities fall into the following four closely related areas:



Mobility Systems

This area includes the company's air cooled diesel engines, up to 1200 horsepower, currently in use for the U.S. Army's M48 and M60 tanks and for the M88 A1E1 Tank Recovery Vehicles. They are also being supplied to friendly foreign governments for various new and retrofit tank applications. Complementing these engines are heavy duty combat vehicle transmissions capable of handling up to 1500 horsepower. The company's mobility package is completed by heavy duty hydropneumatic suspension systems that dramatically improve the mobility and performance of the new generation of tanks. These suspension systems can be retrofitted to existing tanks with similar results.



Vehicle Modernization

As tank technology progresses, older tanks operate at increasing disadvantage. Through TCM's vehicle modernization program, obsolescent tanks can be upgraded to eliminate this disadvantage at a fraction of the cost of replacing them. These modernization programs can include any or all of the tank's subsystems. New

engines, transmissions and hydropneumatic suspensions bring the tank's mobility up to modern standards. The company also provides new subsystems for turret and gun stabilization, fire control, night vision, and gun and armor enhancement to turn obsolete equipment into effective main battle tanks for the U.S. Army and many international customers.



Combat Vehicles

One of three winners of an Armored Family of Vehicles (AFV) contract awarded by the U.S. Army, Teledyne Continental Motors has developed a light weight tracked, Armored Gun System (AGS) that combines the fire power and mobility of a main battle tank in a low profile, highly survivable vehicle. Using composite armor and the latest components common to those used in vehicles now in inventory, the AGS weighs only half as much as a tank and can be airlifted by C-130 or C-141 aircraft anywhere in the world for quick tactical response. As a low profile platform, the basic vehicle can be adapted to carry a variety of weapons for specialized missions.



Tactical Wheeled Vehicles

Teledyne Continental Motors is also an innovative designer and developer of tactical wheeled vehicles for military use. Suspension technology advancements designed by the company provide improved safety, mobility, payload, air transportability and reduced operational costs for tactical vehicles. The company was recently awarded a \$13.5 million contract to build 15 prototype trucks for the U.S. Army's Family of Medium Tactical Vehicles (FMTV) program. This award is part of a design competition to test and choose the vehicle which will replace the current fleets of 2.5 and 5 ton trucks. Prototypes have also been built of a Light Forces Vehicle (LFV) as technology demonstrators for Army testing as a highly mobile weapons carrier, reconnaissance and scout vehicle.

Net income for 1988 was \$391.8 million or \$34.03 per share compared to \$377.2 million or \$32.25 per share for 1987. Revenues were \$4.60 billion in 1988, including \$3.53 billion in manufacturing sales, compared to \$4.25 billion in 1987, which included \$3.22 billion in manufacturing sales.

Net income for the fourth quarter of 1988 was \$98.2 million or \$8.68 per share compared to \$158.8 million or \$13.60 per share for the fourth quarter of 1987. Revenues were \$1.25 billion for the fourth quarter of 1988, including \$977.2 million in manufacturing sales, compared to \$1.07 billion for the same period in 1987, which included \$807.9 million in manufacturing sales.

Income before taxes from manufacturing operations was \$392.0 million and \$104.3 million for the year and quarter ended December 31, 1988 compared to \$354.1 million and \$102.9 million for the same periods of 1987.

Income before income taxes from insurance operations, excluding gains, was \$116.3 million and \$26.8 million for the year and quarter ended December 31, 1988 compared to \$112.7 million and \$34.0 million for the same periods of 1987.

In 1988, Teledyne adopted a new consolidation policy, as required by the Financial Accounting Standards Board. Accordingly, the consolidated financial statements have been restated to reflect the consolidation of its insurance and finance subsidiaries. This change in accounting policy had no effect on net income.

A cash dividend for the quarter ended December 31, 1988 of \$1.00 per share was paid on November 18, 1988 to shareholders of record November 7, 1988.

Revenue and operating profit by business segment are presented in the Summary of Operations on pages 14 and 15. Management's Discussion and Analysis of Financial Condition and Results of Operations is presented on pages 34 and 35.



Chairman of the Board of Directors



President and Chief Executive Officer

(In millions except per share amounts)

<i>Year</i>	<i>Revenues</i>	<i>Net Income</i>	<i>Net Income Per Share</i>	<i>Shareholders' Equity</i>
1988	\$4,597.8	\$391.8	\$34.03	\$2,138.4
1987	4,245.6	377.2	32.25	1,976.0
1986	4,493.3	238.3	20.35	1,636.6
1985	4,608.3	546.4	46.66	1,577.4
1984	4,776.5	574.3	37.69	1,159.3
1983	4,126.1	304.6	14.87	2,641.2
1982	3,972.1	269.6	13.05	2,111.1
1981	4,276.2	421.9	20.43	1,723.2
1980	3,851.2	352.4	15.62	1,410.2
1979	3,532.9	379.6	15.02	1,288.6
1978	3,191.1	254.4	9.63	890.3
1977	2,919.4	201.3	7.53	702.2
1976	2,607.9	137.6	4.78	516.1
1975	2,448.3	101.7	2.57	489.3
1974	2,412.3	31.5	0.55	477.8
1973	2,041.0	66.0	1.01	532.8
1972	1,716.6	59.3	0.67	484.0
1971	1,539.5	57.4	0.62	606.1
1970	1,603.9	61.9	0.69	576.3
1969	1,599.2	58.1	0.68	502.0
1968	936.3	40.3	0.56	316.5
1967	451.1	21.3	0.38	152.6
1966	256.8	12.0	0.29	90.2
1965	86.5	3.4	0.16	34.8
1964	38.2	1.4	0.10	13.7
1963	31.9	0.7	0.06	8.6
1962	10.4	0.2	0.02	3.5
1961	4.5	0.1	0.01	2.5

As reported in the Company's annual reports, adjusted for stock dividends and splits and certain accounting changes. Revenues have been restated to reflect the consolidation of the Company's insurance and finance subsidiaries.

Business Segments. Teledyne, Inc. is a diversified corporation comprised primarily of companies which manufacture a wide variety of products and write a broad line of insurance. Manufactured products consist of aviation and electronics, specialty metals, industrial and consumer. Insurance products include life, accident and health, property and liability.

Companies in Teledyne's aviation and electronics segment produce aircraft engines, airframe structures, remotely-piloted vehicles, drone systems, spacecraft and avionics. Other activities in this segment include the manufacture of semiconductors, relays, aircraft-monitoring and control systems, military electronic equipment and other related products and systems. Products in the specialty metals segment include zirconium, high-speed and alloy steels, tungsten and molybdenum. Other operations in this segment consist of processing, casting, rolling and forging metals. The industrial segment is comprised of companies that manufacture a large range of air and water cooled, gasoline and diesel fueled engines, molded rubber mechanical products, machine tools, dies and consumable tooling. The consumer segment manufactures oral hygiene products, shower massages, water filters, swimming pool and spa heaters and other products and services.

Teledyne's life segment includes both ordinary and group life policies as well as group and individual annuities. The accident and health segment includes policies written for group and individual accident and health and hospitalization. Products provided in the property segment consist of automobile, homeowners, fire and other related lines. The liability segment includes coverage provided for automobile, casualty, workers compensation and other related lines.

Teledyne also operates a thrift and loan company which is included in other in the tables below. The Company distributed Argonaut Group, Inc. (Argonaut), a property-casualty insurer, to its shareholders in September 1986.

Information on the Company's business segments for the years ended December 31, 1988, 1987 and 1986 was as follows (in millions):

	1988	1987	1986
Revenues:			
Manufacturing operations:			
Aviation and electronics	\$1,548.1	\$1,439.3	\$1,444.3
Specialty metals	857.5	713.6	701.8
Industrial	805.5	768.6	819.8
Consumer	323.5	295.3	275.5
Sales	3,534.6	3,216.8	3,241.4
Insurance operations:			
Life	242.3	236.9	222.8
Accident and health	144.6	163.8	168.7
Property	235.8	245.9	231.9
Liability	187.1	177.4	143.2
Net investment income	197.2	178.3	176.7
Argonaut	—	—	293.2
Intersegment premiums	(18.9)	(39.5)	(37.0)
Premiums and net investment income	988.1	962.8	1,199.5
Other	75.1	66.0	52.4
	\$4,597.8	\$4,245.6	\$4,493.3

The Company's sales to the U.S. Government were \$1.3 billion in 1988 and 1987 and \$1.4 billion in 1986, including direct sales as prime contractor and indirect sales as subcontractor. Most of these sales were in the aviation and electronics segment. Sales by operations in the United States to customers in other countries were \$377.8 million in 1988, \$254.7 million in 1987 and \$277.8 million in 1986. Sales and premiums between business segments generally were priced at prevailing market prices.

	1988	1987	1986
Income before Income Taxes:			
Manufacturing operations:			
Aviation and electronics	\$146.4	\$147.3	\$100.0
Specialty metals	118.6	84.1	83.3
Industrial	89.0	83.3	58.8
Consumer	38.0	39.4	31.6
Insurance operations:			
Life	3.9	14.2	14.3
Accident and health	(2.4)	(20.7)	(3.3)
Property	29.2	31.4	13.3
Liability	(28.0)	(11.6)	(1.5)
Argonaut	—	—	(86.4)
Operating profit	394.7	367.4	210.1
Gains on sales of investments	121.5	171.9	30.2
Unallocated insurance net investment income	113.6	99.4	181.2
Interest expense on long-term debt	(67.1)	(71.5)	(77.3)
Corporate expenses	(45.8)	(44.3)	(30.4)
Other	21.4	17.9	14.5
	\$538.3	\$540.8	\$328.3

The operating profit of the life and accident and health segments includes a portion of net investment income which was allocated, in accordance with life insurance accounting practice, based on investable funds generated by these segments.

The Company changed its method of accounting for pension expense in 1987, as required by SFAS No. 87. This change increased the operating profit of the manufacturing operations in 1988 and 1987. Income before income taxes includes a credit of \$33.3 million in 1988 and \$28.6 million in 1987 compared to pension expense of \$49.4 million in 1986.

	1988	1987
Assets:		
Manufacturing operations:		
Aviation and electronics	\$ 395.9	\$ 364.5
Specialty metals	288.7	263.0
Industrial	263.7	251.5
Consumer	86.8	79.2
	1,035.1	958.2
Insurance operations	3,629.9	3,553.2
Corporate	286.2	323.0
Investees	410.9	355.7
Consolidating adjustments	(574.0)	(572.3)
Other	337.2	318.6
	\$5,125.3	\$4,936.4

Assets of insurance operations include the market value of investments in equity securities of Curtiss-Wright and Litton. Assets of investees include the investment in equity securities of Curtiss-Wright and Litton at cost plus cumulative earnings, which is the value included in the consolidated financial statements. Consolidating adjustments eliminate the market value of these securities included in assets of insurance operations.

Consolidated Balance Sheets*December 31, 1988 and 1987**(In millions)*

	1988	1987
ASSETS		
Investments:		
Fixed maturities	\$2,295.6	\$2,314.8
Equity securities	155.5	246.3
Investees	410.9	355.7
Other	252.5	205.6
	3,114.5	3,122.4
Receivables:		
Trade	460.9	400.8
Thrift sales contracts and loans	309.3	276.7
Other	186.4	171.2
	956.6	848.7
Property and Equipment	313.7	320.3
Inventories	267.2	244.0
Cost in Excess of Net Assets of Purchased Businesses	182.1	180.9
Deferred Policy Acquisition Costs	171.9	156.0
Other Assets	119.3	64.1
	\$5,125.3	\$4,936.4
LIABILITIES AND SHAREHOLDERS' EQUITY		
Insurance Reserves	\$1,292.4	\$1,231.3
Long-Term Debt	564.6	564.7
Thrift Investment Certificates and Passbook Accounts	308.6	289.5
Accounts Payable	152.5	170.2
Unearned Premiums	167.4	154.1
Accrued and Deferred Income Taxes	107.6	147.3
Accrued Expenses and Other Liabilities	393.8	403.3
Shareholders' Equity	2,138.4	1,976.0
	\$5,125.3	\$4,936.4

The accompanying notes are an integral part of these statements.

Consolidated Statements of Income*For the Years Ended December 31, 1988, 1987 and 1986**(In millions except per share amounts)*

	1988	1987	1986
Revenues:			
Sales	\$3,534.6	\$3,216.8	\$3,241.4
Premiums and net investment income	988.1	962.8	1,199.5
Other	75.1	66.0	52.4
	4,597.8	4,245.6	4,493.3
Costs and Expenses:			
Cost of sales	2,709.9	2,460.6	2,542.2
Benefits and loss expenses	507.1	500.5	677.8
Selling and administrative expenses	478.8	446.4	455.9
Underwriting expenses	361.8	346.1	404.6
Other	123.4	123.1	114.7
	4,181.0	3,876.7	4,195.2
	416.8	368.9	298.1
Gains on Sales of Investments	121.5	171.9	30.2
Income before Income Taxes	538.3	540.8	328.3
Provision for Income Taxes	186.1	200.3	119.3
	352.2	340.5	209.0
Equity in Net Income of Investees	39.6	36.7	29.3
Net Income	\$ 391.8	\$ 377.2	\$ 238.3
Net Income Per Share	\$ 34.03	\$ 32.25	\$ 20.35

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows*For the Years Ended December 31, 1988, 1987 and 1986**(In millions)*

	1988	1987	1986
Operating activities:			
Net income	\$ 391.8	\$ 377.2	\$ 238.3
Adjustments to reconcile net income to net cash provided by operating activities:			
Policy acquisition costs deferred	(141.0)	(136.0)	(150.7)
Amortization of deferred policy acquisition costs	125.1	120.1	141.2
Gains on sales of investments	(121.5)	(171.9)	(30.2)
Depreciation and amortization of property and equipment	101.8	100.2	110.9
Decrease (increase) in trade and other receivables and inventories	(87.9)	(76.0)	25.1
Increase (decrease) in accrued income taxes	(40.6)	61.7	(34.4)
Increase in insurance reserves	46.6	87.4	23.8
Other, net	(45.7)	5.0	24.3
Net cash provided by operating activities	228.6	367.7	348.3
Investing activities:			
Purchases of fixed maturities	(676.0)	(1,377.5)	(1,751.7)
Sales of fixed maturities	655.3	910.6	1,568.2
Thrift sales contracts and loans acquired	(205.4)	(169.8)	(213.7)
Sales of equity securities	162.8	351.4	16.6
Thrift sales contracts and loans repaid	154.5	137.2	165.5
Purchases of property and equipment	(98.0)	(85.9)	(104.0)
Other, net	(39.1)	(72.8)	(40.3)
Net cash used in investing activities	(45.9)	(306.8)	(359.4)
Financing activities:			
Thrift investment certificate and passbook account deposits	229.1	228.7	250.4
Payments for thrift investment certificates and passbook accounts	(210.0)	(193.7)	(195.1)
Acquisition and retirement of stock	(155.6)	(14.5)	—
Dividends	(46.1)	(46.8)	—
Reduction in long-term debt	(7.1)	(35.4)	(109.1)
Other, net	15.5	0.4	3.7
Net cash used in financing activities	(174.2)	(61.3)	(50.1)
Increase (decrease) in cash	\$ 8.5	\$ (0.4)	\$ (61.2)
Noncash transaction:			
Distribution of Argonaut			\$ 217.2

The accompanying notes are an integral part of these statements.

Consolidated Statements of Shareholders' Equity*For the Years Ended December 31, 1988, 1987 and 1986**(In millions except share and per share amounts)*

	Common Stock	Additional Paid-In Capital	Retained Earnings	Equity in Net Unrealized Appreciation	Currency Translation Adjustment	Shareholders' Equity
Balance, December 31, 1985	\$11.7	\$83.2	\$1,426.9	\$ 58.4	\$(2.8)	\$1,577.4
Net income	—	—	238.3	—	—	238.3
Distribution of Argonaut Group	—	—	(185.8)	(31.4)	—	(217.2)
Change in net unrealized appreciation	—	—	—	37.0	—	37.0
Currency translation adjustment	—	—	—	—	1.1	1.1
Balance, December 31, 1986	11.7	83.2	1,479.4	64.0	(1.7)	1,636.6
Net income	—	—	377.2	—	—	377.2
Cash dividends (\$4.00 per share)	—	—	(46.8)	—	—	(46.8)
Change in net unrealized appreciation	—	—	—	19.0	—	19.0
Acquisition and retirement of stock (41,500 shares)	—	(0.3)	(14.2)	—	—	(14.5)
Currency translation adjustment	—	—	—	—	4.5	4.5
Balance, December 31, 1987	11.7	82.9	1,795.6	83.0	2.8	1,976.0
Net income	—	—	391.8	—	—	391.8
Acquisition and retirement of stock (478,009 shares)	(0.5)	(3.3)	(151.8)	—	—	(155.6)
Cash dividends (\$4.00 per share)	—	—	(46.1)	—	—	(46.1)
Change in net unrealized appreciation	—	—	—	(28.2)	—	(28.2)
Currency translation adjustment	—	—	—	—	0.5	0.5
Balance, December 31, 1988	\$11.2	\$79.6	\$1,989.5	\$ 54.8	\$ 3.3	\$2,138.4

The accompanying notes are an integral part of these statements.

To the Shareholders and Board of Directors of Teledyne, Inc.:

We have audited the accompanying consolidated balance sheets of Teledyne, Inc. (a Delaware corporation) and subsidiaries as of December 31, 1988 and 1987 and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 1988. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the consolidated financial statements of United Insurance Company of America and subsidiaries (Note 9). The total assets of United Insurance Company of America and subsidiaries represent 45 percent in 1988 and 46 percent in 1987 of consolidated assets and its net income represents 24 percent in 1988, 23 percent in 1987 and 28 percent in 1986 of consolidated net income. Those statements were audited by other auditors whose report has been furnished to us and our opinion, insofar as it relates to amounts included for United Insurance Company of America and subsidiaries, is based solely on the report of the other auditors. Additionally, we did not audit the financial statements of certain investee companies (Notes 1 and 3). The equity in net income of these investees represents 10 percent in 1988, 1987 and 1986 of consolidated net income. Those statements were audited by other auditors whose reports have been furnished to us and our opinion, insofar as it relates to amounts included for these investees, is based on the reports of the other auditors.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Teledyne, Inc. and subsidiaries as of December 31, 1988 and 1987, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1988 in conformity with generally accepted accounting principles.

As discussed in Notes 2 and 8 to the consolidated financial statements, the Company changed the method of accounting for its insurance and finance subsidiaries and the method of accounting for pension expense.



ARTHUR ANDERSEN & CO.

Los Angeles, California
January 8, 1989

Note 1. Summary of Significant Accounting Policies. *Principles of Consolidation.* The consolidated financial statements of Teledyne, Inc. include the accounts of all its subsidiaries. All material intercompany accounts and transactions have been eliminated. Certain amounts for 1987 and 1986 have been reclassified to conform with the 1988 presentation. The summary of operations presented on pages 14 and 15 is an integral part of these statements.

Investments. Investments in fixed maturities include bonds, notes and redemptive preferred stocks at amortized cost. The market value of fixed maturities was \$2,268.2 million and \$2,314.7 million at December 31, 1988 and 1987, respectively. Investments in equity securities include common and non-redemptive preferred stocks at market. The cost of equity securities was \$71.8 million and \$118.5 million at December 31, 1988 and 1987, respectively. Gains and losses on sales of investments are computed on the specific identification method and are reflected in net income.

Investments in investees are accounted for by the equity method in the Company's consolidated financial statements when the aggregate voting percentage has exceeded 20 percent for one full quarter. Teledyne's voting percentage and share of earnings or losses of each investee company are determined using the most recent publicly available audited financial statements and subsequent unaudited interim reports. As a result, the amounts included in the results of operations of Teledyne represent amounts reported by the investee companies for periods ending two to three months earlier.

Thrift Sales Contracts and Loans Receivable. Sales contracts and loans receivable are stated net of unearned discount and loan fees and reserve for losses of \$61.4 million and \$56.9 million at December 31, 1988 and 1987, respectively. Unearned discount arises when the total contract amount includes unearned precomputed interest.

Depreciation and Amortization. Buildings and equipment are depreciated primarily on declining balance methods over their estimated useful lives. Leasehold improvements are amortized on a straight-line basis over the life of the lease. Property and equipment is presented net of accumulated depreciation and amortization of \$589.1 million at December 31, 1988 and \$608.6 million at December 31, 1987. Maintenance and repair costs (\$79.9 million in 1988, \$72.2 million in 1987 and \$78.9 million in 1986) are charged to income as incurred, and betterments and major renewals are capitalized. Cost and accumulated depreciation of property sold, retired or fully depreciated are removed from the accounts, and any resultant gain or loss is included in income.

Inventories. Inventories are stated at the lower of cost (last-in, first-out and first-in, first-out methods) or market, less progress payments. Costs include direct material and labor costs and applicable manufacturing overhead. Sales and related costs are recorded as products are delivered and as services are performed, including those under long-term contracts. Costs relating to such long-term contracts are removed from inventory and charged to cost of sales at amounts approximating actual cost. Any foreseeable losses are charged to income when determined.

Cost in Excess of Net Assets of Purchased Businesses. Substantially all of this cost relates to businesses purchased prior to November 1970 and is not being amortized.

Insurance Reserves. Reserves for future life policy benefits are primarily computed on the net level premium method, based on expected mortality, interest and withdrawal rates, including provisions for adverse deviation. These assumptions vary by such characteristics as plan, age at issue and policy duration. Mortality assumptions reflect the Company's historical experience and industry standards. Interest rate assumptions principally range from 3 percent to 5½ percent. Withdrawal assumptions are based on actual experience.

Reserves for losses and loss adjustment expenses on property and liability coverage represent the estimated indemnity cost and loss adjustment expense necessary to cover the ultimate net cost of investigating and settling all losses incurred and unpaid. Such estimates are based on individual case estimates for reported claims, estimates from other companies for reinsurance assumed and estimates for incurred but not reported losses based on past experience. These estimates are adjusted in the aggregate for ultimate loss expectations based on historical experience patterns and current economic trends with any change in probable ultimate liabilities being reflected in operations currently.

Recognition of Premium Revenue and Related Expenses. Life insurance premiums are recognized as revenue over the period benefits are provided. Accident and health premiums are recognized as revenue over the period to which the premiums relate. Benefits and expenses are associated with related premiums to result in recognition of profits over the period benefits are provided. Costs directly associated with the acquisition of new business, principally commissions and medical and inspection fees, are deferred and amortized over the premium-paying period of the related policies. These deferred costs are principally amortized in proportion to the ratio of the annual premium revenue to the total premium revenue anticipated, which is estimated using the same assumptions used in calculating policy reserves.

Premium revenue on property and liability coverage is recognized ratably over the period to which the premiums relate. Policy acquisition costs, consisting principally of commissions and premium taxes, are, to the extent recoverable, deferred and amortized over the terms of the related policies. Anticipated investment income is not considered in determining whether a premium deficiency exists.

Research and Development. Company-funded research and development costs (\$79.3 million in 1988, \$87.7 million in 1987 and \$84.6 million in 1986) are expensed as incurred. Costs related to customer-funded research and development contracts are charged to costs and expenses as the related sales are recorded.

Income Taxes. Provision for income taxes includes Federal, state and foreign income taxes. Deferred income taxes are provided for timing differences in the recognition of income and expenses and undistributed earnings of subsidiaries, except for a portion of the earnings arising from operations of United Insurance Company of America and subsidiaries (United) and Trinity Universal Insurance Company and subsidiaries (Trinity) presented in Notes 9 and 10, respectively.

Net Income Per Share. The weighted average number of shares of common stock used in the computation of net income per share was 11,514,115 in 1988, 11,693,660 in 1987 and 11,709,478 in 1986.

Note 2. Change in Accounting Policies and Presentation. In 1988, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 94, "Consolidation of All Majority-owned Subsidiaries." Accordingly, the consolidated financial statements of the Company have been restated to reflect the consolidation of its insurance and finance subsidiaries which were previously accounted for by the equity method. This change in accounting policy has no effect on shareholders' equity or net income.

Also in 1988, the Company adopted SFAS No. 95, "Statement of Cash Flows." The statements of changes in financial position as previously reported have been restated to reflect this new presentation.

Additionally in 1988, the Company adopted SFAS No. 97, "Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments." Gains on sales of investments have been reclassified to conform with the 1988 presentation. The effect of the change related to long-duration contracts was not material.

Note 3. Investments in Investees. Certain investments held by Teledyne and its subsidiaries are included in the Company's consolidated financial statements using the equity method of accounting. These investments and approximate voting percentages based on the most recent publicly available data were: Curtiss-Wright Corporation (44 percent) and Litton Industries, Inc. (29 percent).

Investments in investees are carried at cost adjusted for Teledyne's equity in undistributed earnings since acquisition. The aggregate market value, based on quoted market prices, was \$632.9 million and \$627.6 million at December 31, 1988 and 1987, respectively. Teledyne's equity in the net assets of the investee companies exceeded the carrying value of the investments by approximately \$23.5 million at December 31, 1988 and this difference is not being amortized; a portion of this amount has been considered to be related to cost in excess of net assets of purchased businesses reported in the financial statements of the investee companies.

Note 4. Inventories. Inventories at December 31, 1988 and 1987 were as follows (in millions):

	1988	1987
Raw materials and work-in-process	\$379.8	\$412.3
Finished goods	65.7	62.4
	445.5	474.7
Progress payments	(178.3)	(230.7)
	\$267.2	\$244.0

Inventories determined on the last-in, first-out method were \$410.3 million at December 31, 1988 and \$440.7 million at December 31, 1987. The remainder of the inventories was determined using the first-in, first-out method. Inventories stated on the last-in, first-out basis were \$241.3 million and \$208.7 million less than their first-in, first-out values at December 31, 1988 and 1987, respectively. These first-in, first-out values do not differ materially from current cost.

Inventories related to long-term contracts were \$152.6 million and \$206.6 million at December 31, 1988 and 1987, respectively. Progress payments related to long-term contracts were \$154.8 million and \$204.3 million at December 31, 1988 and 1987, respectively.

Note 5. Long-Term Debt. Long-term debt at December 31, 1988 and 1987 was as follows (in millions):

	1988	1987
10% Subordinated Debentures, due 2004, Series A and C, \$29.8 payable annually commencing in 1994 (net of unamortized discount of \$68.0 in 1988 and \$73.4 in 1987)	\$495.5	\$490.1
Other	69.1	74.6
	\$564.6	\$564.7

Long-term debt is payable \$4.8 million in 1989, \$4.1 million in 1990, \$6.3 million in 1991, \$9.1 million in 1992 and \$5.1 million in 1993. Interest expense on long-term debt was \$67.1 million in 1988, \$71.5 million in 1987 and \$77.3 million in 1986. Interest paid on long-term debt was \$61.6 million in 1988, \$62.6 million in 1987 and \$70.7 million in 1986.

The Company has domestic credit lines with various banks totaling \$125.0 million at December 31, 1988; no amounts were borrowed under these lines during 1988 or 1987. Commitments under standby letters of credit outstanding were \$70.5 million at December 31, 1988. Compensating balance arrangements of an informal nature exist. Such arrangements had no material effect on the Company's consolidated financial statements at December 31, 1988.

Note 6. Shareholders' Equity. The Company is authorized to issue 60,000,000 shares of common stock, \$1 par value, and 15,000,000 shares of preferred stock, \$1 par value. The Company had common stock issued and outstanding of 11,189,969 shares at December 31, 1988 and 11,667,978 at December 31, 1987. In October 1988, the Board of Directors authorized the repurchase of up to one million shares of the Company's common stock. No preferred shares were issued or outstanding in either year.

At December 31, 1988, gross unrealized gains and gross unrealized losses on equity securities held by insurance subsidiaries, excluding those investments accounted for by the equity method (Note 3), were \$85.1 million and \$1.4 million, respectively. These amounts, net of the deferred income tax effect, are included in shareholders' equity.

Under various borrowing agreements, the Company has agreed to maintain a minimum amount of net worth and has agreed to certain restrictions with respect to borrowing, sale of assets, purchase of capital stock and payment of dividends. At December 31, 1988, the Company was in compliance with these agreements and retained earnings of \$1.7 billion were not restricted by these agreements as to payment of dividends.

Various state insurance laws restrict the amount that insurance subsidiaries may transfer to the Company in the form of dividends, loans or advances without the prior approval of regulatory authorities. In addition, that portion of the insurance subsidiaries' net equity which results from differences between statutory insurance accounting practices and generally accepted accounting principles would not be available for cash dividends, loans or advances. At December 31, 1988, approximately \$1.7 billion of the insurance subsidiaries' net assets were so restricted. Other restrictions as to dividends, loans or advances by United and Trinity are discussed in Notes 9 and 10, respectively. Retained earnings at December 31, 1988 include \$197.2 million representing undistributed earnings of investees.

Note 7. Income Taxes. Provision (credit) for income taxes for the years ended December 31, 1988, 1987 and 1986 was as follows (in millions):

	1988	1987	1986
Current—Federal	\$158.4	\$214.4	\$130.1
—State	24.0	17.3	16.2
—Foreign	5.9	5.2	4.7
	188.3	236.9	151.0
Deferred—Federal	1.0	(32.1)	(21.1)
—State	—	0.8	(1.9)
—Foreign	—	0.2	0.2
	1.0	(31.1)	(22.8)
Investment Tax Credits	(3.2)	(5.5)	(8.9)
	\$186.1	\$200.3	\$119.3

Provision (credit) for deferred income taxes for the years ended December 31, 1988, 1987 and 1986 was as follows (in millions):

	1988	1987	1986
Adoption of completed contract method	\$ 14.1	\$ —	\$ —
Pension	13.1	21.7	(21.1)
Trinity insurance reserves	(4.2)	(15.8)	—
Former investees	(3.1)	(17.3)	—
Argonaut	—	—	(14.9)
Other	(18.9)	(19.7)	13.2
	\$ 1.0	\$ (31.1)	\$ (22.8)

The effective income tax rate on pre-tax income for the years ended December 31, 1988, 1987 and 1986 was as follows:

	1988	1987	1986
Statutory Federal income tax rate	34.0%	40.0%	46.0%
State and local income taxes, net of Federal income tax effect	3.0	2.0	2.4
Tax exempt income	(1.1)	(1.9)	(4.2)
Amortization of investment tax credits	(0.6)	(1.0)	(2.7)
Capital gain rate differential	—	(1.3)	(1.8)
Special deduction allowed for life insurance companies	—	—	(2.2)
Other, net	(0.7)	(0.8)	(1.2)
	34.6%	37.0%	36.3%

Accrued and deferred income taxes at December 31, 1988 and 1987 were as follows (in millions):

	1988	1987
Accrued income taxes	\$ 31.9	\$ 72.5
Deferred income taxes on timing differences and undistributed earnings of subsidiaries	47.4	30.5
Deferred income taxes on unrealized appreciation	28.3	44.3
	\$107.6	\$147.3

Income taxes paid were \$252.6 million in 1988, \$169.6 million in 1987 and \$190.7 million in 1986.

Prior to 1984, a portion of United's income was not subject to Federal income taxes under certain circumstances. Federal income taxes would be paid on the amount of such income, \$163.0 million, if it is distributed to shareholders in the future or if it does not continue to meet certain limitations.

In December 1987, SFAS No. 96 was issued which requires a change in accounting for income taxes. This statement must be implemented no later than 1990. The Company has not yet determined the impact of the adoption of SFAS No. 96 on the financial statements or the date or method of adoption.

Note 8. Pension Plans and Post-Retirement Benefits. The Company sponsors defined benefit pension plans covering substantially all of its employees. Benefits are generally based on years of service and/or final average pay. The Company funds the pension plans in accordance with the requirements of the Employee Retirement Income Security Act of 1974, as amended.

In 1987, the Company changed its method of accounting for pension expense, as required by SFAS No. 87. Income before income taxes includes a credit of \$33.3 million in 1988 and \$28.6 million in 1987 compared to pension expense of \$49.4 million in 1986. Pension expense for 1986 has not been restated.

Components of pension expense (income) for the years ended December 31, 1988 and 1987 include the following (in millions):

	<i>Expense (Income)</i>	
	<i>1988</i>	<i>1987</i>
Service cost—benefits earned during the year	\$ 30.9	\$ 35.5
Interest cost on projected benefit obligation	55.4	53.1
Actual return on assets	(99.3)	(63.5)
Net amortization and deferral	(21.7)	(55.1)
Pension expense (income) for defined benefit plans	(34.7)	(30.0)
Other	1.4	1.4
Pension expense (income)	\$ (33.3)	\$ (28.6)

Actuarial assumptions used to develop the components of pension expense (income) for the years ended December 31, 1988 and 1987 were as follows:

	<i>1988</i>	<i>1987</i>
Expected long-term rate of return on assets	6.00%	6.00%
Discount rate	8.25%	7.25%
Rate of increase in future compensation levels	4.50%	4.50%

A discount rate of 7.75 percent at December 31, 1988 and 8.25 percent at December 31, 1987 and a rate of increase in future compensation levels of 4.50 percent at December 31, 1988 and 1987 were used for the valuation of pension obligations.

Plan assets in excess of projected benefit obligations at December 31, 1988 and 1987 were as follows (in millions):

	<i>1988</i>	<i>1987</i>
Plan assets at fair value	\$ 1,425.7	\$ 1,356.2
Actuarial present value of benefit obligations:		
Vested benefit obligation	625.6	559.5
Non-vested benefit obligation	40.5	35.2
Accumulated benefit obligation	666.1	594.7
Additional benefits related to future compensation levels	125.0	106.0
Projected benefit obligation	791.1	700.7
Plan assets in excess of projected benefit obligation	\$ 634.6	\$ 655.5
Plan assets in excess of projected benefit obligation:		
Included in balance sheet:		
Prepaid pension cost	\$ 68.7	\$ 29.7
Accrued pension liability	(1.1)	(4.5)
Not included in balance sheet:		
Unrecognized net asset at adoption of SFAS No. 87, net of amortization	492.4	533.5
Unrecognized net gain due to experience different from that assumed and changes in the discount rate	74.6	96.8
Plan assets in excess of projected benefit obligation	\$ 634.6	\$ 655.5

At December 31, 1988 and 1987, the plans' assets, consisting primarily of fixed maturities, include debt obligations of the Company (principally Teledyne 10% Subordinated Debentures) with a market value of \$77.4 million and \$76.4 million, respectively.

The Company provides post-retirement health care and life insurance benefits to certain of its employees. The costs for these benefits, which are charged to costs and expenses as incurred, were \$19.2 million, \$14.3 million and \$13.9 million in 1988, 1987 and 1986, respectively.

Note 9. United Insurance Company of America and Subsidiaries. The following condensed statements summarize the consolidated financial position and operating results of United, a 99.2 percent owned subsidiary at December 31, 1988 and 1987 and a 98.4 percent owned subsidiary at December 31, 1986 (in millions):

Consolidated Balance Sheets
December 31, 1988 and 1987

	1988	1987
Assets:		
Investments:		
Fixed maturities, at amortized cost (market: 1988—\$1,553.8; 1987—\$1,620.4)	\$1,573.7	\$1,620.1
Equity securities, at market (cost: 1988—\$203.3; 1987—\$225.1)	365.3	415.8
Other	201.8	90.9
	2,140.8	2,126.8
Deferred policy acquisition costs	142.9	129.5
Other	142.9	133.1
	\$2,426.6	\$2,389.4
Liabilities and Shareholders' Equity:		
Policy reserves and liabilities	\$1,013.2	\$ 981.0
Accrued and deferred Federal income taxes	85.6	118.9
Other liabilities	73.9	82.5
Shareholders' equity	1,253.9	1,207.0
	\$2,426.6	\$2,389.4

Consolidated Statements of Income
For the Years Ended December 31, 1988, 1987 and 1986

	1988	1987	1986
Premiums and Net Investment Income:			
Premiums	\$426.0	\$436.0	\$427.5
Net investment income	154.0	144.9	163.1
	580.0	580.9	590.6
Expenses:			
Benefits paid or provided	247.9	271.3	253.8
Underwriting, acquisition and other expenses	262.5	249.6	250.3
	510.4	520.9	504.1
	69.6	60.0	86.5
Gains on Sales of Investments	76.5	103.4	21.2
Income before Federal Income Taxes	146.1	163.4	107.7
Provision for Federal Income Taxes	45.7	53.9	33.7
Net Income	\$100.4	\$109.5	\$ 74.0

Shareholders' equity includes retained earnings of \$1.1 billion in 1988 and 1987. United presently intends to retain in the business and restrict from the payment of dividends at least 75 percent of retained earnings. Dividends of \$32.5 million were paid to Teledyne in 1988 and 1987.

Note 10. Trinity Universal Insurance Company and Subsidiaries. The following condensed statements summarize the consolidated financial position and operating results of Trinity, a wholly-owned subsidiary (in millions):

Consolidated Balance Sheets
December 31, 1988 and 1987

	1988	1987
Assets:		
Investments:		
Fixed maturities, at amortized cost (market: 1988—\$551.0; 1987—\$512.8)	\$ 557.6	\$ 512.4
Equity securities, at market (cost: 1988—\$83.4; 1987—\$95.1)	359.9	393.3
	917.5	905.7
Receivables	97.5	93.6
Deferred policy acquisition costs	28.7	26.1
Other	33.7	13.2
	\$1,077.4	\$1,038.6
Liabilities and Shareholder's Equity:		
Reserves for losses and loss adjustment expenses	\$ 270.3	\$ 240.7
Unearned premiums	162.3	149.4
Accrued and deferred income taxes	77.8	115.5
Other liabilities	26.7	26.4
Shareholder's equity	540.3	506.6
	\$1,077.4	\$1,038.6

Consolidated Statements of Income
For the Years Ended December 31, 1988, 1987 and 1986

	1988	1987	1986
Premiums and Net Investment Income:			
Premiums	\$382.4	\$386.1	\$338.6
Net investment income	47.8	38.3	39.4
	430.2	424.4	378.0
Expenses:			
Losses and loss adjustment expenses	278.0	267.0	235.8
Underwriting, acquisition and other expenses	103.2	111.4	103.9
	381.2	378.4	339.7
	49.0	46.0	38.3
Gains on Sales of Investments	42.2	111.7	106.9
Income before Federal Income Taxes, Minority Interest and Income Tax Reduction	91.2	157.7	145.2
Provision for Federal Income Taxes	23.6	48.3	44.9
Minority Interest	—	—	22.8
	67.6	109.4	77.5
Income Tax Reduction	—	—	29.8
Net Income	\$ 67.6	\$109.4	\$107.3

Shareholder's equity includes retained earnings of \$348.0 million in 1988 and \$299.9 million in 1987. Trinity presently intends to retain in the business and restrict from the payment of dividends at least 75 percent of retained earnings. Dividends of \$19.5 million and \$25.0 million were paid to Teledyne in 1988 and 1987, respectively.

Note 11. Commitments and Contingencies. The Company is defending a class action brought in the Chancery Court of Delaware alleging claims relating to the Company's offer to repurchase shares of its common stock in February 1976. The action seeks compensatory and punitive damages in an indeterminate amount and alternatively, rescission. The Company believes that the allegations made in the complaint are not meritorious and that the Company has adequate legal defenses.

The Internal Revenue Service (IRS) has proposed the imposition of an accumulated earnings tax of approximately \$122 million for 1981 and \$128 million for 1980 in connection with the audit of the Company's consolidated Federal tax liability. The same issue may be raised by the IRS in its audits of years subsequent to 1981. The Company believes the assertion of an accumulated earnings tax by the IRS is both legally and factually without merit and intends to defend vigorously against it. In the opinion of the Company, the ultimate resolution of this issue will not materially affect its consolidated financial statements.

On January 11, 1989, the Defense Logistics Agency suspended the Teledyne Electronics division of a Company subsidiary from receiving awards of new government contracts or government-approved sub-contracts. The suspension was issued in the still pending suspension and debarment proceedings against the Company stemming from an indictment returned on January 6, 1989 in connection with the U.S. Government investigation of defense industry procurement practices. The indictment includes charges against Teledyne Electronics and three of its employees relating to the award of a single contract which would be worth approximately \$24 million, if all options were exercised.

Teledyne Electronics, which in 1988 contributed less than two percent of Company revenues and income, develops and manufactures aircraft navigation and electronic identification equipment, principally for defense applications. Based on presently available information, the Company believes that neither Teledyne Electronics nor the three division employees have engaged in criminal conduct, and expects all to be acquitted. The trial is scheduled for March 1989.

The Company is committed to taking any and all actions that may be necessary to demonstrate the present fitness of the Company and its subsidiaries as government contractors, and believes that the ultimate resolution of this matter will not have a material adverse effect on its future operating results or financial condition.

OUTLINE OF PRODUCTS AND ACTIVITIES

Aviation and Electronics: Products in the closely related fields of aviation and electronics range from the microscopic world of semiconductor devices to full-scale air frames and complete aircraft.

Teledyne's hybrid microcircuits are widely used in military, space, industrial and medical applications. These compact and complex electronic building blocks combine multiple transistors and integrated circuits in small packaging sizes, where reliability and light weight are of paramount importance. Thousands of these microcircuits, the size of postage stamps, have been produced, and they are providing the precise control required for heart pacemakers and interplanetary missions, as well as many other uses.

On a still larger scale are Teledyne's high power traveling wave tubes, used to simultaneously transmit thousands of telephone conversations—or a dozen television channels—around the world via satellite networks.

Similar types of traveling wave tubes are used in the latest airborne and ground-based electronic counter measure equipment.

Other components include operational amplifiers, digital-analog converters, miniature relays, hybrid switching devices, radar augmenters, lower power microwave tubes, flexible printed-circuit interconnections, high reliability wire and cable, switches, terminals and a line of aircraft, military tank and truck batteries.

In the microwave industry, Teledyne is a leading supplier of ferrite components and switching devices, as well as filters, oscillators and integrated subsystems.

At the systems level, Teledyne produces equipment for telemetering data from remote sources, for electronic counter measures, and for information processing, as well as the aircraft integrated data systems used by dozens of major airlines to record in-flight performance and maintenance data on their jumbo jets.

Teledyne also performs systems engineering and integration for ballistic missile defense, space defense, shuttle payloads, computer software, and designs and produces military airborne training and evaluation systems.

Computing and inertial systems are also produced for the control and guidance of aircraft and space vehicles. Teledyne on-board computers have successfully controlled the launching of dozens of spacecraft, including both Viking missions to Mars.

Teledyne is heavily involved in electronic navigation systems, as well, with Loran and Omega navigators for long-range sea and air

navigation and Raydist systems for precise radiolocation in coastal waters. Doppler radar systems produced by Teledyne were used on 24 successful space landings and guided each Apollo lander to the surface of the moon. Similar Doppler radars are used in military aircraft for anti-submarine warfare and search-and-rescue missions.

Teledyne avionic instruments and electronic systems contribute substantially to flight safety on both military and general aviation aircraft.

The use of the latest microcircuit technology and modern cryptographic algorithms permit Teledyne to supply very advanced identification equipment (IFF) used on military and commercial aircraft for peacetime air traffic control and for safe operation in a wartime environment.

Among Teledyne's many non-electronic products for aviation are controlled explosive devices that precisely time, sequence and actuate aircraft escape systems, and similar pyrotechnic devices used to separate the stages of space vehicles, and to eject or deploy instrument packages of many kinds. Teledyne also produces parachute delivery systems for accurate air-drop of military cargo or emergency supplies.

Precise hydraulic and pneumatic actuating systems and components are made for both fixed and rotary wing aircraft, as are ground support systems such as frequency and power converters and jet engine starters for commercial and general aviation use.

Continental piston engines have been powering airplanes for sixty years, and today about half of the general aviation piston engines produced in the United States are built by Teledyne and used worldwide. Teledyne turbine engines also power remotely piloted aircraft, military trainers and, in small, expendable versions, provide power for the Harpoon and other cruise missiles. Teledyne also services and overhauls turbines manufactured by others for both military and general aviation use.

The Company's expertise in airframe manufacture goes back to Charles Lindbergh's Spirit of St. Louis which was built by Ryan Airlines, Inc., forerunner of today's Teledyne Ryan Aeronautical. More than twenty-five types of remotely piloted aircraft—usually called RPVs—have been built by Teledyne, in both supersonic and subsonic versions. These recoverable and reusable vehicles are used for sophisticated military missions with the pilots safely flying them from remote control centers. Teledyne also builds the airframe for the Army attack

helicopter and has produced thousands of feet of tapered, roll-formed stringers used in wide-body aircraft.

Through the production of sophisticated RPVs, Teledyne has also developed broad expertise in the use of advanced materials such as graphite composites, and has facilities for the numerically-controlled machining of airfoils from honeycomb materials.

Teledyne's participation in all these diverse areas of aviation, space and electronics has given the Company highly developed expertise in some of the most advanced technologies of our time.

Specialty Metals: The products of this business segment are representative of the practical application of metallurgical science and technology as it is known and practiced throughout the world. Their unique characteristics are derived from the nature of the metals produced, the particular properties of the alloys melted, and the various processes, methods, forms, shapes and end products manufactured.

In specialty metals, Teledyne is the most diversified producer of reactive and refractory metals in the United States. Teledyne produces all of the larger volume, commercially important metals and their alloys. Reactive metals production includes titanium, zirconium and hafnium; refractory metals consist of tungsten, molybdenum, niobium, tantalum and vanadium.

Teledyne is the leading U.S. producer of zirconium, a highly corrosion-resistant metal that is transparent to neutrons. It is used for fuel tubes and structural parts in nuclear power reactors, in the form of foil in photographic flash cubes, and for corrosion-resistant chemical industry applications. Hafnium, derived as a by-product of zirconium, is used for control rods in nuclear reactors due to its ability to absorb neutrons.

Teledyne is an integrated producer of tungsten, starting from ore concentrates and a large number of different tungsten bearing raw materials resulting in tungsten and tungsten carbide powders and mill products. Previously used cemented carbide parts are also recycled into tungsten carbide powder. Wrought or ductile tungsten products are used in diverse applications including light bulb filaments, inert gas welding electrodes, electrical contacts and aircraft counterweights.

Molybdenum, a sister metal to tungsten that also has a very high melting point, is produced by Teledyne in powder form and then shaped

into solid forms through powder metallurgy techniques. It is an important alloying element for steels and is used for plasma arc spraying of piston rings, for electrodes in glass melting and for structural parts in high temperature furnaces.

Niobium, also known as columbium, is a high technology metal produced by Teledyne in various forms and alloys. Conventionally, it is used as an alloying element in the manufacture of many steels. The higher quality grades produced by Teledyne are used in superalloys for jet engines and special alloys for aerospace applications such as rocket nozzles. When alloyed with titanium, niobium is used in applications requiring superconducting characteristics for high-strength magnets. This rapidly developing field includes medical devices for body-scanning, accelerators for high-energy physics and fusion energy projects for future generation of electricity.

Tantalum, one of the most corrosion resistant metals, is produced by Teledyne for medical implants, chemical process equipment, and aerospace engine components.

Specialty metals include the special alloys that are central to the production of virtually every modern metal product available today.

Teledyne high-speed steels provide the high temperature hardness required for lathe bits, drills, milling cutters, taps and dies and other cutting tools. Related alloy steels, including a cobalt-free maraging grade, are produced for bearings, gears, special aerospace hardware and high-strength applications.

For the metalworking, mining and other industries requiring machine tools with extra hardness, Teledyne produces a line of sintered tungsten carbide products, made from tungsten carbide and various other metals under heat, to produce a material that approaches diamond in hardness. These cemented carbide products are used as super-hard cutters in the high-speed machining and cutting of steel and other applications where hardness and wear resistance are important. Technical developments related to ceramics, coatings and other disciplines are incorporated in these products.

Furthermore, Teledyne is an integrated producer of vacuum-melted nickel base, titanium base and iron base superalloys that are used worldwide to meet the high performance requirements of the aircraft, aerospace, gas turbine, nuclear energy and chemical process industries. These products, in various forms, are engineered to retain exceptional strength and corrosion resistance at temperatures through 2,000 degrees F and are used in criti-

cal, high-stress applications. Notably, this manufacturing facility installed one of the largest high precision rotary forging presses in the U.S. for more efficient working of these products.

Teledyne also processes metals by a variety of methods, including casting, forging, rolling, drawing and extruding, into finished forms used in a diverse number of industries.

For example, Teledyne is a specialist in the cold rolling of thin and ultra-thin metal strip in over 60 different metals and alloys for applications ranging from watch springs and flash bulbs to aerospace honeycomb materials and camera products.

Teledyne also casts a variety of metals into forms ranging from 90-ton steel mill rolls to lightweight aluminum and magnesium aircraft parts. A variety of housings and parts are made for business machines, tools and automobiles by die casting methods. Cold-finished bar and shafting and cold-drawn stainless and custom fabricated tubing are also produced.

Other Teledyne companies are involved in roll-forming metals, forging heavy parts for construction and earth moving machinery and precision investment casting of difficult to produce parts.

Industrial Products: Engines of many sorts—air and liquid cooled, gasoline and diesel fueled—are products in this category. Teledyne piston engines range in power from lightweight, portable, air-cooled engines of a few horsepower up to heavy-duty turbo-charged diesel engines approaching 1,750 horsepower for use in military tanks and heavy construction equipment.

Another category of industrial products includes machine tools, dies and consumable tooling of all types. These range from numerically-controlled pipe and tube bending machines to a great variety of machines designed for the high speed production of precision machine threads by cutting, grinding and roll-forming methods, and a variety of similar equipment for the production of precision roll-formed gears. Presses, cut-off machines and can-making machines are also produced.

Other Teledyne production equipment includes transfer and assembly machines for the automated production of many kinds of products, as well as multi-gun automated resistance welding machines, single station manual resistance welding machines, welding power supplies, arc welding equipment and consumable supplies, such as welding electrodes and tubular and solid welding wire.

Unusual among Teledyne's welding products

are the world's largest welding positioners and manipulators with capacities to 450 tons. These immense Teledyne machines are used worldwide by the nuclear industry for welding and cladding nuclear reaction vessels with stainless steel.

Teledyne also produces complete automated bakery production lines and mixing and processing equipment for a variety of chemical, food and pharmaceutical products.

Closely related to the machine field are Teledyne's optical encoders and digital readouts which may be added to existing milling machines and other machine tools to modernize them, increase operator output and improve the accuracy of the work produced.

Specialized Teledyne encoders are also incorporated in many electro-mechanical devices such as robots in order to provide precise positioning information.

Teledyne also makes a variety of analytical instruments for pollution control, mine and industrial safety, petrochemical process control, and for medical and deep sea saturation diving applications.

These include percentage and parts per million oxygen detectors, hydrocarbon detectors and photometric instruments for measuring oil or phenol in water and dozens of other chemicals in the parts per million or billion range. Other related products include a variety of instruments for the physical testing of materials; meteorological instruments; equipment and services for the detection, monitoring and analysis of radioactive materials including dosimeters for monitoring the exposure levels of nuclear industry personnel; high-speed motion picture cameras; and equipment for the film recording of video images.

Computer-based control systems are provided to the petrochemical industry for controlling the flow of natural gas and oil through nationwide networks of pipelines. Electrically actuated control valves and large safety relief valves are supplied to this as well as to other industries.

Teledyne also produces a complete line of geophysical instrumentation and related computer systems that are used throughout the world in earthquake monitoring and oil exploration.

In addition, Teledyne carries out seismic surveys on land and under the sea bottom on a contract basis to locate likely oil-bearing strata for major oil companies.

Related activities include the fabrication and installation of large offshore platforms for the oil industry, as well as drilling and workover

services and a variety of maintenance and salvage operations carried out in offshore areas.

The Company owns and operates sea-going derrick barges with up to 800-ton lifting capacity and numerous jack-up drilling rigs to carry on this work for the oil industry.

Sophisticated computer-designed gas lift equipment and services are also provided by the Company for increasing the flow from oil wells and controlling the flow on the surface. In addition, producing reservoirs are studied using radioisotopic tracer services provided by the Company.

Uninterruptible power supplies are produced for the computer industry to eliminate computer failures caused by substandard power or momentary power interruptions.

In the event of power failures, Teledyne emergency lighting equipment can provide safe illumination for continuing operations.

Thermoelectric generators fueled with propane or natural gas are made for use in remote, unattended locations where electrical power is required, and other Teledyne thermoelectric generators powered by radioisotopic materials provide power for deep space missions. This same Teledyne company also produces high purity electrolytic hydrogen generators that are used in many laboratory and industrial applications.

Among Teledyne's remaining miscellaneous industrial activities are the production of solid rubber urethane tires and molded products for the automotive industry.

Consumer: The Teledyne name is widely represented through its consumer products.

Teledyne's best known consumer products are sold under the brand name of Teledyne Water Pik. The Water Pik® oral hygiene appliance line includes a family of dental hygiene devices for use in the home, including oral irrigators, electric toothbrushes and an oral hygiene center combining both products.

Teledyne Water Pik also manufactures and markets a complete line of showerheads, including the Shower Massage® line of invigorating, pulsating showerheads and the Super Saver® line of energy saving, multi-mode spray showerheads.

The Instapure® line includes both faucet mounted and under-the-counter water filters for improving the quality of water used in the home, as well as a line of air filtration appliances for the home and office that utilize a patented low temperature catalyst material to remove carbon monoxide and other noxious gases from the air.

Teledyne is also known throughout the world for its line of high fidelity speakers for the home and automobile and for its turntables marketed under the AR brand name.

In an entirely different consumer area are Teledyne Laars swimming pool and spa heaters. The company also produces a full line of water heating equipment that provides hot water for commercial, residential and industrial space heating.

Teledyne also makes supplies and equipment for dentists and dental laboratories. Among these are dental cements, impression compounds, filling materials, tungsten carbide and diamond drilling burs, air and electric drills, and articulators.

Teledyne produces drafting media and materials used for the creation of engineering drawings and diazo equipment required to reproduce and disseminate such information, as well as microfilm and microfiche.

Other products often sold directly to consumers include battery powered lamps, lanterns, engineering drafting supplies for professional and school use, plastic cups, containers, and wood specialty products.

Insurance: United Insurance Company of America, 99.2% owned by Teledyne, writes life and accident and health insurance. Policies sold include home service, ordinary, group life, group and individual annuities, group and individual accident and health and hospitalization.

Trinity Universal Insurance Company writes a broad line of insurance covering personal and commercial risks. Coverage includes liability, automobile, homeowners and commercial multi-peril, fire insurance and workers compensation.

Finance: Fireside Thrift, a consumer finance company, operates in the state of California.

Selected Quarterly Financial Data

(In millions except share and per share amounts)

Quarterly financial data for 1988 and 1987 were as follows:

	Quarter Ended			
	March 31	June 30	September 30	December 31
1988—				
Sales	\$ 849.9	\$ 868.8	\$ 838.7	\$ 977.2
Premiums and net investment income	241.6	242.1	250.9	253.5
Other	22.3	17.9	18.3	16.6
Revenues	\$1,113.8	\$1,128.8	\$1,107.9	\$1,247.3
Income before income taxes	\$ 214.4	\$ 88.3	\$ 101.7	\$ 133.9
Net income	\$ 148.8	\$ 67.4	\$ 77.4	\$ 98.2
Net income per share	\$ 12.79	\$ 5.80	\$ 6.74	\$ 8.68
Cash dividends per share	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.00
Average shares outstanding	11,634,825	11,616,578	11,484,775	11,320,289
Common stock price				
High	\$344½	\$348½	\$339¾	\$338⅝
Low	\$290¼	\$320¾	\$317	\$321¾
1987—				
Sales	\$ 821.6	\$ 781.3	\$ 806.0	\$ 807.9
Premiums and net investment income	239.2	238.6	238.5	246.5
Other	15.6	16.1	16.8	17.5
Revenues	\$1,076.4	\$1,036.0	\$1,061.3	\$1,071.9
Income before income taxes	\$ 103.8	\$ 77.0	\$ 124.6	\$ 235.4
Net income	\$ 70.9	\$ 58.0	\$ 89.5	\$ 158.8
Net income per share	\$ 6.06	\$ 4.95	\$ 7.66	\$ 13.60
Cash dividends per share	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.00
Average shares outstanding	11,709,478	11,708,064	11,689,119	11,667,978
Common stock price				
High	\$350½	\$343¼	\$390	\$382
Low	\$298¾	\$299½	\$334½	\$242

Gains on sales of investments, before tax, were \$99.6 million for the first quarter of 1988. Gains on sales of investments, before tax, were \$39.8 million and \$123.4 million for the quarters ended September 30 and December 31, 1987.

Revenues and income before taxes have been restated to reflect the consolidation of the Company's insurance and finance subsidiaries.

Teledyne, Inc. common stock is listed on the New York and Pacific Stock Exchanges. As of December 31, 1988, there were approximately 16,000 record holders of common stock.

Selected Financial Data*For the Five Years Ended December 31, 1988**(In millions except per share amounts)*

	1988	1987	1986	1985	1984
Revenues	\$4,597.8	\$4,245.6	\$4,493.3	\$4,608.3	\$4,776.5
Income before income taxes	\$ 538.3	\$ 540.8	\$ 328.3	\$ 599.0	\$ 536.8
Net income	\$ 391.8	\$ 377.2	\$ 238.3	\$ 546.4	\$ 574.3
Net income per share	\$ 34.03	\$ 32.25	\$ 20.35	\$ 46.66	\$ 37.69
Cash dividends per share	\$ 4.00	\$ 4.00	\$ —	\$ —	\$ —
Assets	\$5,125.3	\$4,936.4	\$4,387.8	\$5,759.4	\$5,613.5
Long-term debt	\$ 564.6	\$ 564.7	\$ 589.3	\$ 684.2	\$1,085.5
Shareholders' equity	\$2,138.4	\$1,976.0	\$1,636.6	\$1,577.4	\$1,159.3

Years 1984 through 1987 have been restated to reflect the consolidation of the Company's insurance and finance subsidiaries. In 1987, the Company changed its method of accounting for pensions in accordance with SFAS No. 87, as discussed in Note 8 to the consolidated financial statements.

Management's Discussion and Analysis of Financial Condition and Results of Operations

The Company's consolidated operations consist of a large number of divisions operating in a variety of industries. These operations include insurance and finance subsidiaries which are required to be consolidated by the Financial Accounting Standards Board (FASB). For reporting purposes Teledyne's operations are summarized in the segments presented in the Summary of Operations on pages 14 and 15. It is not practical to attempt to identify and explain fluctuations for any operating units or groups of units smaller than these segments.

Revenues increased \$352.2 million in 1988 after decreasing each year since 1984. The increase in 1988 was primarily due to increases in sales in the specialty metals segment of \$143.9 million and the aviation and electronics segment of \$108.8 million. The Company distributed Argonaut, a property-casualty insurer, to its shareholders in September 1986, which resulted in a decrease in revenues in 1987 of \$293.2 million. The 1986 decrease was primarily due to a decrease of \$110.8 million in the industrial segment.

Operating profit increased \$27.3 million in 1988 and \$157.3 million in 1987. The 1988 increase was due to improved operating results of the specialty metals and accident and health segments partially offset by decreased results in the life and liability segments. The increase in 1987 was primarily in the aviation and electronics, industrial and property segments partially offset by decreased results in the accident and health and liability segments.

The 1988 increase in operating profit in the specialty metals segment resulted principally from increased demand in the transportation, capital equipment and aerospace industries. Changes in the accident and health segment resulted from increased claims on certain products in 1987. The decrease in the life and liability segments was due to increases in claims and benefits paid or provided. Operating profit of the aviation and electronics segment in 1986 was reduced by increased expenses on research and development contracts and lower margins. Depressed economic conditions in various industrial and oil service related markets decreased the operating profit of the industrial segment in 1986. Operating profit of the property segment improved from 1985 to 1988 as a result of general economic conditions affecting the property-casualty insurance industry. A large increase in the operating profit of the manufacturing segments from 1986 to 1987 was the result of a change in the method of accounting for pension expense, as required by the FASB. Operating profit includes a credit of \$33.3 million in 1988 and \$28.6 million in 1987 compared to pension expense of \$49.4 million in 1986. The effect of inflation did not have a material impact on net income from 1984 to 1988.

Net income includes \$16.5 million in 1986 and \$64.2 million in 1985 for Argonaut, which was distributed to shareholders in September 1986.

Gains on sales of investments were \$121.5 million in 1988, \$171.9 million in 1987 and \$30.2 million in 1986. The Company disposed of its investments in Brockway, Inc. (N.Y.) in 1988 and its investments in Kidde, Inc. and Reichhold Chemicals, Inc. in 1987 as a result of tender offers for these companies. Changes in net investment income are related to the level of and yield on investments.

The Company's effective Federal income tax rate decreased in 1988 as a result of the Tax Reform Act of 1986 which lowered the Federal income tax rate on ordinary income to 34 percent in 1988 from 40 percent in 1987. In 1985, Teledyne received a distribution of Litton debentures in exchange for Litton common stock. As a result, the income tax liability previously recorded exceeded the amount required, resulting in a reduction in income taxes provided of \$81.7 million. The FASB has issued a statement which requires a change in accounting for income taxes. This statement must be implemented no later than 1990. The Company has not yet determined the impact of the adoption of this statement on the financial statements or the date or method of adoption.

During 1984, the Company acquired 8,661,053 shares of its common stock. This purchase of stock was financed through bank loans of \$800.0 million and through internally generated funds, which were obtained from sales of equity securities. These notes were repaid as follows: \$97.5 million in 1986, \$402.5 million in 1985 and \$300.0 million in 1984.

Shareholders' equity increased each year since 1984. These increases were the result of net income partially reduced by the acquisition and retirement of stock of \$155.6 million in 1988, cash dividends of \$46.1 million in 1988 and \$46.8 million in 1987 and the distribution of Argonaut of \$217.2 million in 1986. In addition, net unrealized appreciation decreased \$129.4 million in 1985. Assets decreased \$1.4 billion in 1986 primarily as a result of the distribution of Argonaut in September 1986.

The Company has been able to meet all cash requirements during the past five years with cash generated from operations. Restrictions on the net assets of subsidiaries as to dividends, loans or advances, discussed in Note 6 to the consolidated financial statements, have no impact on the ability of the Company to meet its cash obligations. The Company is not aware of any impending cash requirements or capital commitments which could not be met through internally generated funds. The Company is not aware of any circumstances which would adversely affect its liquidity or capital resources in the near future.

As further discussed in Note 11 to the consolidated financial statements, the Teledyne Electronics division of a Company subsidiary was suspended on January 11, 1989 from receiving awards of new government contracts or government-approved subcontracts. The suspension was issued in the still pending suspension and debarment proceedings against the Company stemming from an indictment returned on January 6, 1989 in connection with the U.S. Government investigation of defense industry procurement practices. Based on presently available information, the Company believes that neither Teledyne Electronics nor the three division employees indicted have engaged in criminal conduct, and expects all to be acquitted. The Company is committed to taking any and all actions that may be necessary to demonstrate the present fitness of the Company and its subsidiaries as government contractors, and believes that the ultimate resolution of this matter will not have a material adverse effect on its future operating results or financial condition.

Board of Directors

HENRY E. SINGLETON, *Chairman of the Board, Teledyne, Inc.*

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GEORGE A. ROBERTS, *President and Chief Executive Officer, Teledyne, Inc.*

ARTHUR ROCK, *Private Investor*

FAYEZ SAROFIM, *Chairman of the Board and President, Fayez Sarofim & Co.*

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G. WILLIAMS RUTHERFORD, *Vice President*

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GORDON J. BEAN, *Treasurer*

Corporate Offices

1901 Avenue of the Stars

Los Angeles, California 90067

Common Stock Transfer Agent/Registrar

Inquiries or Delivery by Mail:

Bank of America NT&SA
Corporate Agency Service Center
Box 37002
San Francisco, California 94137

Hand Deliveries (*Transfers Only*):

Bank of America NT&SA
55 Hawthorne Street
San Francisco, California 94105

BankAmerica Trust Company of New York
80 Broad Street, 21st Floor
New York, New York 10004

Debenture Trustees

**10% DEBENTURES DUE 2004
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Union Bank
Box 2461, Terminal Annex
Los Angeles, California 90051

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Box 37002
San Francisco, California 94137

This **Teledyne Report** describes the new Crash Fire Rescue vehicle

that Teledyne Continental Motors, General Products has developed and is now beginning to produce for the U.S. Air Force.

Teledyne Continental Motors is the largest manufacturer of air-cooled diesel tank engines in the free world, with some 175,000 produced to date. The company's experience as an engine builder dates back to 1902, and in addition to tank engines includes the production of over 90,000 multifuel engines for powering the U.S. Army's 2.5 and 5 ton trucks. In 1959, the company introduced the world's first air-cooled diesel tank engine, and has contributed many other innovations in high performance engines both before and since then.

In recent years the company's expertise has broadened to include the design of complete tank systems and heavy duty highly mobile wheeled vehicles for military off-road use. (See Sidebar: Teledyne Continental Motors, General Products' Focused Diversity in this issue.) The new Air Force CFR vehicle described in this report is an example of these expanded capabilities.

Teledyne Report, featuring subjects of particular interest from Teledyne's activities, is issued on a quarterly basis. Previous topics include:

The Inner Zone:

Defending aircraft carriers.

Doppler:

New waves in navigation.

Superconductivity:

Turning up the heat.

Unmanned Airplanes:

Advanced developments.

Composites:

Ultra-light structures for aircraft.

Integrated Circuits:

Bridging the analog and digital worlds.

Microelectronic Hybrids:

State of the art 1987.

Voyager Engine:

Around the world nonstop in 9 days.

Forming Metal:

Lightweight structures for aircraft.

Radon:

Measuring it from the ground up.

IFF:

Electronic passwords for aircraft.

Star Wares:

Products & services for space.

The Water Products:

For health and personal care.

An Ideal Package:

A look at collapsible metal tubes.

Airline Communications:

The digital connection.

High Performance Metals:

Tough alloys for tough environments.

Airframes:

Structures for aircraft.

The Ladle and the Hammer:

Casting and forging iron and steel.

High Tech Wire:

Taking the heat safely.

Electronic Counter Measures:

Protecting friendly forces.

Rubber & Metal:

Working together in automobiles.

Stress Analysis:

How much is enough?

Drafting:

Designs to build by.

Systems Engineering:

Creating complex systems.

Flexible Printed Circuits:

The space age connection.

Mixing:

A fine blend of art and science.

Aircraft Ground Support:

Saving the airlines millions.

Turbine Engines:

Smaller in size and cost.

Heating Water:

For health and home.

Relays:

Thriving in an ultraminiature world.

Truth In Radiation:

A matter of accurate measurement.

Remotely Piloted Vehicles:

Those ingenious flying machines.

Mining Tungsten:

From glowing ore to versatile metal.

Hi-Fi:

Music reproduction goes hi-tech.

Columbium:

From superconductivity to computers.

Energy:

Fueling spaceship earth.

Radar:

Sensing the unseeable.

Fluid Power:

Muscle for machines.

Pipeline Controls:

Operating petroleum pipelines.

The Aerospace Metals:

Superalloys and titanium.

Screw Threading:

Machine tools for industry.

Aerial Mapping:

Advanced digital techniques.

The Water Pik Story:

Innovative consumer product designs.

Dental Health:

Supplies for the dentist.

Space Navigation:

Computers that guide space launches.

Analytical Instruments:

Chemical detection for industry.

1776-1976:

Technology then and now.

Life Insurance:

Financial security and investment.

The Refractory Twins:

Producing tungsten and molybdenum.

The Instrument Makers:

Instruments and optical encoders.

Industrial Engines:

Small piston engines.

Job Corps:

Teaching young people new skills.

Friendly Explosives:

Aircraft emergency escape systems.

Microelectronic Hybrids:

The step beyond integrated circuits.

The Energy Options:

Nuclear fuel versus coal.

Workman's Compensation:

Extending the coverage.

Drilling for Offshore Oil:

Getting the oil out.

The Search for Oil:

Finding new oil deposits.

High Speed Steels:

Premium alloys for machine tools.

Energy Crisis in the Computer Room:

Controlling power quality.

Raydist:

Super-precise radiolocation system.

Welding:

Advanced alloys for joining metals.

General Aviation Engines:

Piston power for aircraft.

Rubber:

Products for automobiles and industry.

Loran:

All-weather navigation system.

Seismology:

Instruments for earthquakes.

Casting:

Precision production of metal parts.

Aircraft Integrated Data Systems:

Monitoring commercial aircraft.

Thermoelectrics:

Conversion of heat to electricity.



 **TELEDYNE, INC.**