ANNUAL REPORT 1956

fiscal year ended July 31, 1956

LITTON INDUSTRIES

LITTON INDUSTRIES, INC.

BOARD OF DIRECTORS

Charles B. Thornton, Chairman
Roy L. Ash
H. W. Jamieson
Dr. Myles L. Mace
Carl A. Spaatz, General, USAF (Ret.)
Joseph A. Thomas

OFFICERS

Charles B. Thornton	President
Roy L. Ash	Vice-President
H. W. Jamieson	Vice-President
Dr. Myles L. Mace	Vice-President
Dr. Norman H. Moore	Vice-President
William R. Ahrendt	Vice-President
Dr. Harvard L. Hull	Vice-President
L. W. Howard	Vice-President
Charles R. Abrams, Jr.	Treasurer
Richard Loewe	Secretary

TRANSFER AGENTS

J. P. Morgan & Company
23 Wall Street
New York 8, New York

California Bank
629 South Spring Street
Los Angeles, California

REGISTRARS

Chemical Corn Exchange Bank
770 Broadway
New York 15, New York

Security-First National
Bank of Los Angeles
215 West Sixth Street
Los Angeles, California

ELECTRON TUBE DIVISION

Dr. Norman H. Moore
Vice-President & Managing Director
963 Industrial Road
San Carlos, California

ELECTRONIC EQUIPMENTS DIVISION

Dr. Myles L. Mace
Vice-President & General Manager
336 North Foothill Road
Beverly Hills, California

TRIAD TRANSFORMER CORPORATION

L. W. Howard
President
4055 Redwood Avenue
Venice, California

AHRENDT INSTRUMENT COMPANY

William R. Ahrendt
President & General Manager
4910 Calvert Road
College Park, Maryland

U.S. ENGINEERING CO., INC.

Harry J. Gray
General Manager
5873 West Jefferson Boulevard
Los Angeles 16, California

WEST COAST ELECTRONICS CO.

Bruce A. Worcester
President & General Manager
9261 West Third Street
Beverly Hills, California

UTRAD CORPORATION

Arnold R. Kaufman
President
305 North Briant Street
Huntington, Indiana

CORPORATE OFFICES

Litton Industries
336 North Foothill Road
Beverly Hills, California

LITTON INDUSTRIES, INC.
336 NORTH FOOTHILL ROAD
BEVERLY HILLS, CALIFORNIA

CHARLES B. THORNTON
PRESIDENT

TO OUR SHAREHOLDERS: October 1, 1956

Fiscal year 1956 has been another year of measurable accomplishment. Major steps were taken toward meeting our planned objectives; our progress continued.

Sales for the period exceeded those of the previous year by more than 68%. Earnings more than doubled – our backlog at year end had been increased to $35 million.

The effort and money invested during previous years in extensive research programs have been rewarded by important development contracts in a number of areas of our activity. The advanced nature of these programs is such that hundreds of new people, many of them important and experienced scientists and engineers, have joined the company. By the end of the year, our employment was up 40% over last year. By October 1 of the current year almost 2000 people were on our rolls.

With the growth in the number of our stockholders from 1700 to over 3000, and to meet the desire expressed by many of our stockholders, we had made arrangements by year end to have our common stock listed on both the American Stock Exchange and the Los Angeles Stock Exchange.

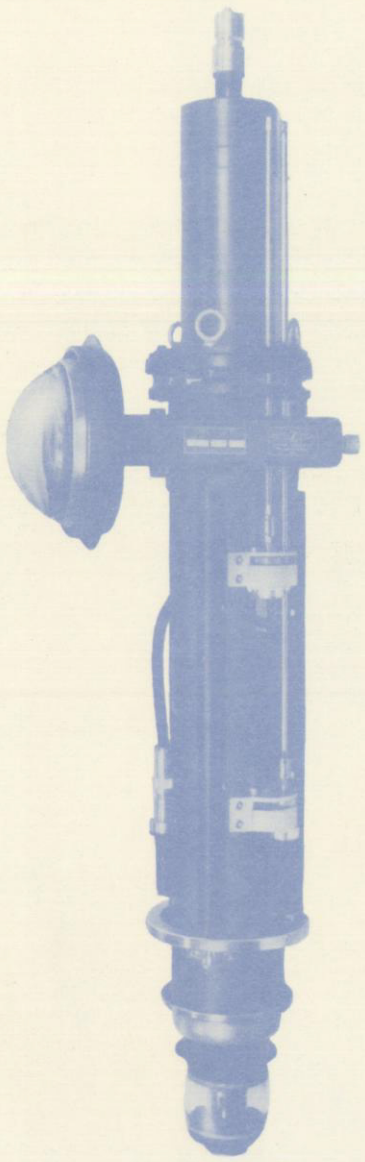
In the course of the year every division expanded its physical facilities. Laboratories and production areas throughout the company were augmented by the installation of additional modern equipment to meet the requirements of our increased activities.

Shortly after the close of the year we welcomed to the Litton organization the 400 employees of Triad Transformer Corporation and Utrad Corporation as a result of the purchase of these two companies. The addition of Triad's outstanding and nationally known line of electronic transformers, wave filters, and other magnetic component products, represented throughout the country by 387 jobbers, distributors, and representatives – one of the most extensive sales organizations in our industry – will make a major contribution to our progress in the future. This acquisition further broadens the national scope of our operations.

With a sizable and diversified backlog on hand, with our sales and production rates constantly increasing and our research continually providing new products, and with an outstanding complement of capable people aggressively at work, it is anticipated that a general continuation in our growth will be reflected in substantially greater sales and earnings for fiscal year 1957 and subsequent years.

Charles B. Thornton

PRESIDENT

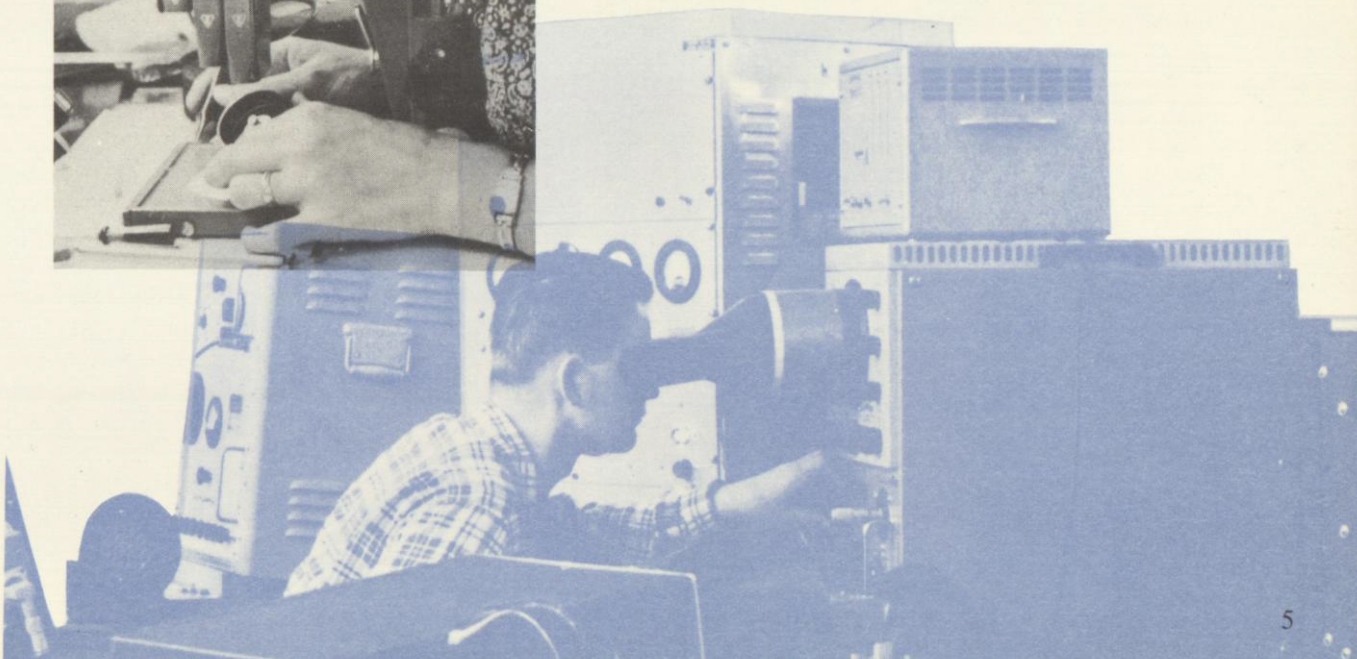


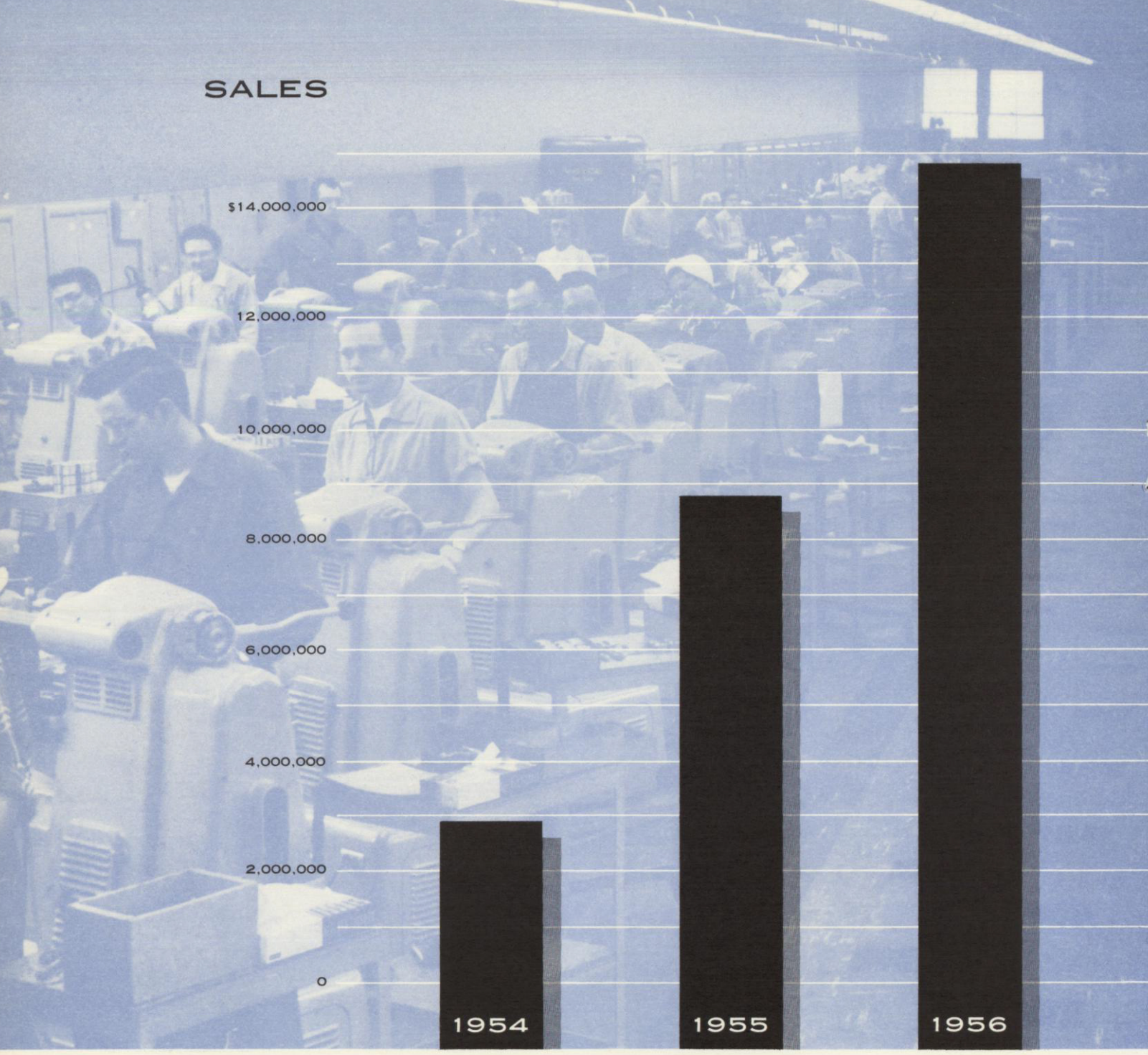
HIGHLIGHTS

	1956	*1955*
SALES and other income	$14,920,050	$ 8,898,797
EARNINGS	$ 1,019,703	$ 436,413
Per share outstanding at year end	97c	44c
NET WORKING CAPITAL	$ 2,655,003	$ 1,130,111
BACKLOG	$35,000,000	$19,000,000
EMPLOYMENT	2000	1100
SHAREHOLDERS	3000	1700

Throughout the year the company has actively pursued its plan of building a well-balanced, integrated organization capable of leadership in the highly complex field of advanced electronics – a plan for bringing together the experienced personnel, the financial resources, and the extensive research and production facilities essential to a major company in our industry.

An elaboration upon the information appearing in the financial statements of this report describes our progress during the year toward fulfillment of this plan. A description of typical areas of activity within the company serves to foretell of continued progress in the future.





SALES AND BACKLOG

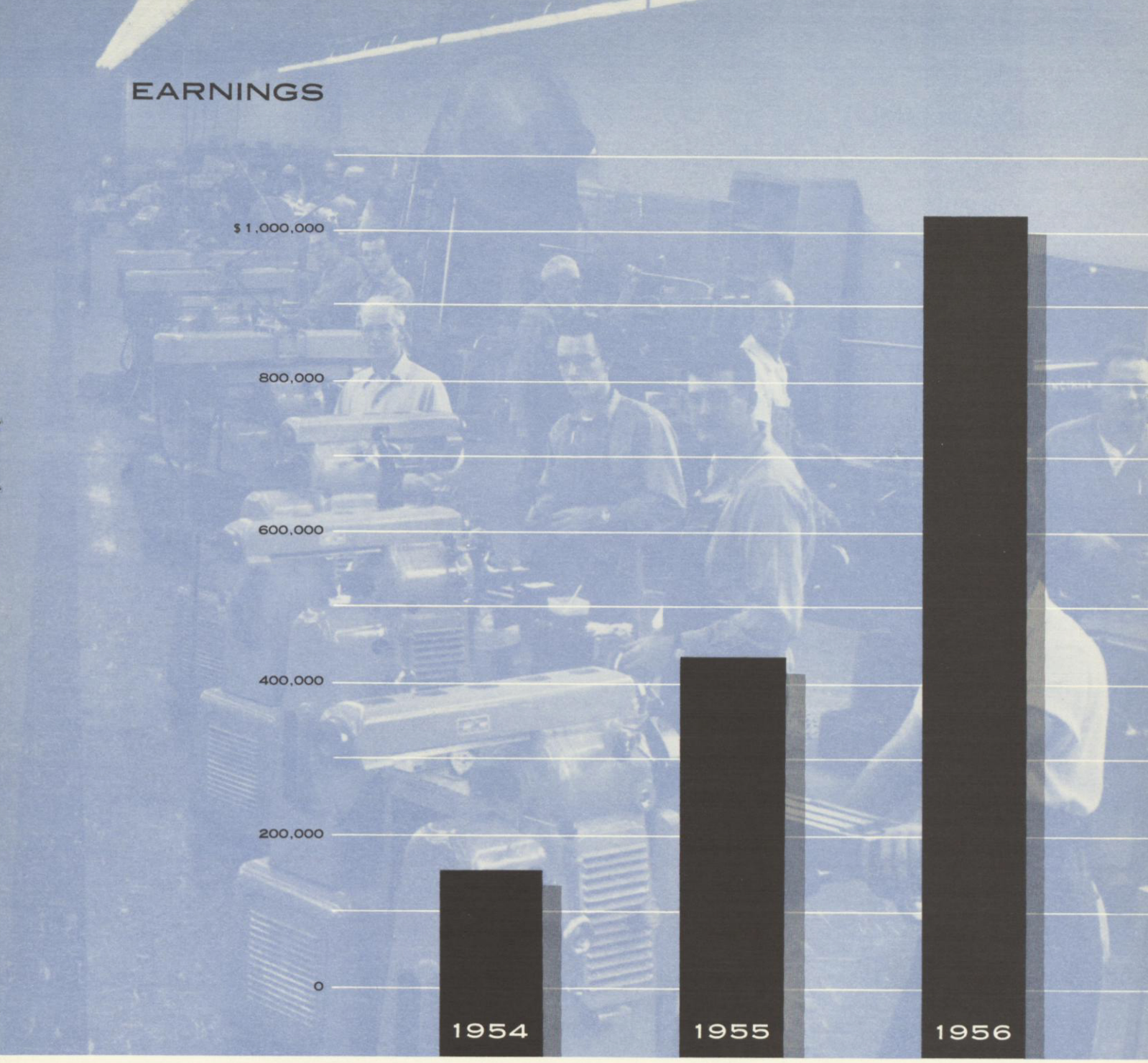
Sales for the year of $14,920,050 were 68% greater than the $8,898,797 sales volume recorded during the previous year. This increase reflects the general growth and progress of the company – the expansion of the sales of existent products, the entrance into new markets, and more importantly, the effectiveness of research and development programs initiated in prior years. Over 40% of total sales came from products and programs not developed as recently as two years ago.

Currently, Litton products and Litton product development capabilities are employed in every major branch of our Armed Forces. Typical of the breadth of this participation is that Litton products are used in, or have been specified for 15 of the missiles currently under development or in production for various activities of the military.

All indications point to a continuation in the expansion of our sales during the years ahead, both through the furtherance of our present products as well as from the introduction of still more new products currently emerging from our laboratories.

At the beginning of the year the company's backlog of products and services amounted to $19 million. The addition of $31 million in new business during the year, less the delivery of almost $15 million in sales for the period, resulted in a backlog at year end of $35 million.

Increasingly significant in this backlog are additional new research and development programs of critical importance to the technological progress of our national defense efforts. Completion of these programs, as has



been the case with programs in the past, is expected to be followed during the next few years by quantity production of the equipment developed. In addition to the expansion potential of such manufacturing opportunities, we plan to pioneer the commercial applications of many of these developments.

EARNINGS

Earnings for the year of $1,019,703 represent an increase of 134% over last fiscal year's $436,413. Per share earnings amount to 97c on the 1,046,834 shares outstanding at year end, compared to earnings of 44c for each share outstanding at the end of the previous fiscal year. Based on the average number of shares outstanding during fiscal year 1956, earnings amount to $1.01 per share, as compared to last year's 58c per share for the average number of shares outstanding. The increased earnings reflect both the greater volume of sales during the year, and more importantly, the increased profitability of our operations. A number of the research and development programs which were undertaken in earlier years to establish proprietary positions are now resulting in profitable sales.

Previously stated policy of the company has been to retain earnings, reassessing each year the opportunities for and prudence of reinvestment in further expansion. In view of the confidence with which we foresee continuing increases in sales with earnings levels rising commensurately, profits were again this year retained and reinvested in the company's future.

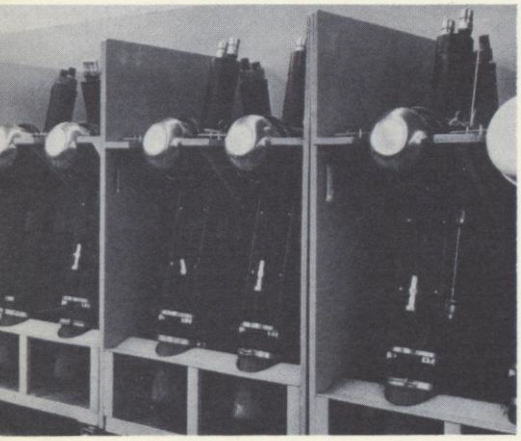
To meet the pressing demands for increased production output arising out of current and foreseeable-future sales, and to provide ever better facilities for further research and development work – to stay in the forefront of the dynamic electronics industry – the company has continued its expansion of physical facilities during the year.

Completed and occupied just after the close of the fiscal year was the first 40,000 sq. ft. section of a planned 120,000 sq. ft. supplement to our plant facilities at the Electron Tube Division in San Carlos, California. This unit now houses the production of klystrons, most of our power tube engineering activities, and the administrative offices of this division.

The second 40,000 sq. ft. portion of this new plant is scheduled for construction within the present fiscal year. Completion of this second unit will bring the total plant facility at San Carlos to 145,000 sq. ft.

The Electronic Equipments Division is this year expanding into an additional 65,000 sq. ft. area of its Beverly Hills plant.

The manufacturing, laboratory and office activities of the company presently occupy almost 450,000 sq. ft. at nine plant locations.

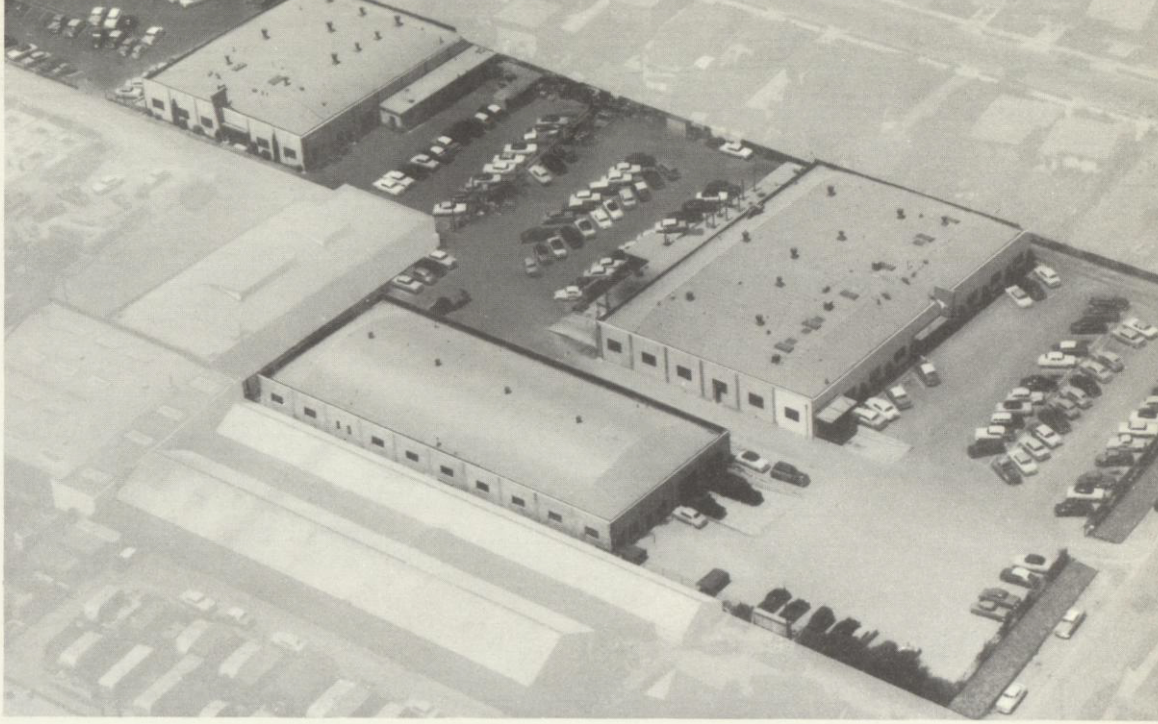


Subsequent to year end, negotiations were completed for the purchase of the majority of the common stock of Triad Transformer Corporation, Los Angeles, California, and of Utrad Corporation, Huntington, Indiana.

Triad is one of the nation's leading producers of electronic transformers, reactors, toroid coils, electronic wave filters and related products in wide use today in such advanced electronic equipment as guided missiles, commercial airline weather detection radar, communications systems, military fire control equipment, electronic computers, high fidelity sound systems, and precision electronic instruments. Triad also is one of the industry's foremost firms in the design and manufacture of miniature and sub-miniature transformers for use with transistors.

Utrad, with a product line of pulse transformers complementary to that of Triad, also serves as an eastern manufacturing and distribution facility for certain of Triad's product items.

Sales by the jobber, representative, and manufacturing sales organizations of these two companies, which provide representation in Canada, Cuba, Hawaii and Alaska, as well as throughout the United States, exceeded $4 million for the past year. The 75,000 sq. ft. of plant facilities at Triad and Utrad are completely equipped with the latest and most modern equipment for quality production of the products in their field.



epresentative of the year's operations has been the company's progress in inertial guidance, one of the most highly technical and advanced areas of development in the electronics industry. Our research in this field has resulted in the development of unusual techniques of significant importance for military application in aircraft and missile guidance. Resultant contracts for specific application of these techniques have provided the basis for major research and development activities. Our research staff engaged in this work is one of the three largest and most experienced in the nation. Expected with the successful completion of this development is operational equipment which will have widespread application leading to quantity production.

Dead reckoning, radio and radar controlled flight, celestial navigation – all of the commonly used techniques for the navigation and guidance of missiles and aircraft – have major shortcomings in operation in a military environment. The need is for a guidance system not dependent upon ground contact – radio, radar or visual – but which can always retain in its own "brain" a full knowledge of where it is relative to both a starting point and a destination on the ground.

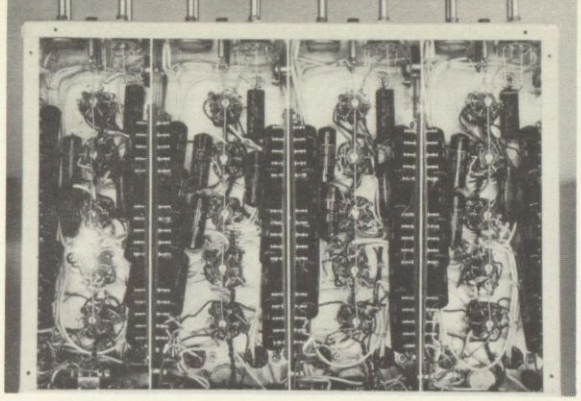
Inertial guidance systems – intricate and complex systems making use of the change-resistant nature of gyroscopes to realize physically on board a moving aircraft or missile a "stable" platform, a platform capable of retaining an original orientation relative to a spherical earth in spite of the drift or acceleration, or the pitching, rolling, or other motions of the aircraft – are the predicted answer to this need.

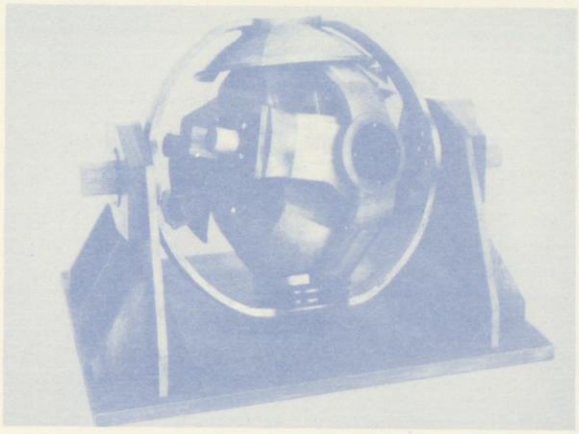
In the development of inertial guidance systems, it is believed the company has achieved models of equipment which will be very much smaller, lighter, less expensive, more reliable, and considerably more accurate than any yet presented to the military for consideration.

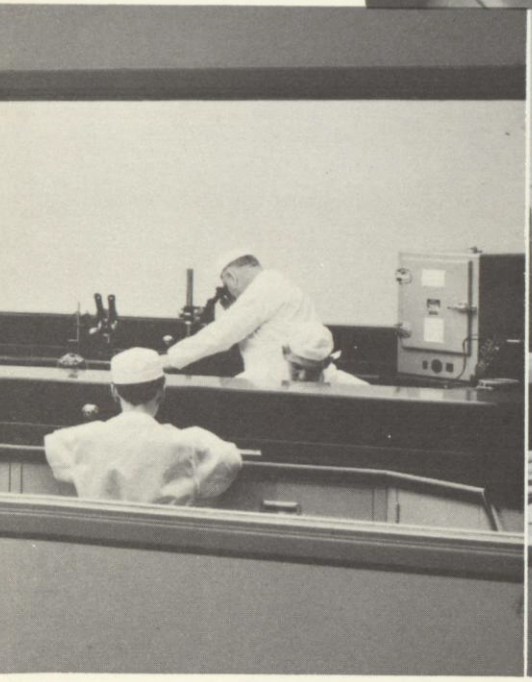
To meet the specialized needs of this project, completely new laboratory and preliminary production facilities were constructed this year and outfitted with the latest in scientific equipment. One can appreciate the minuteness of this work when it is realized that certain of the components of inertial guidance systems are connected by wires 1/20th the diameter of a human hair.

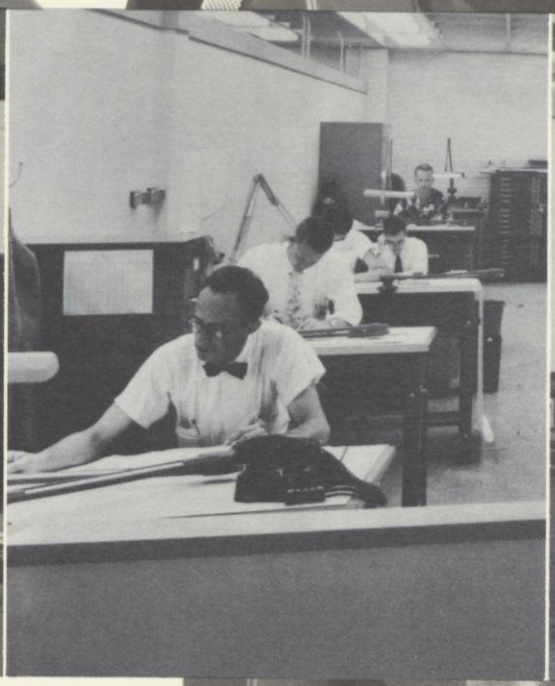
The special work areas for assembly of the component parts are maintained under precisely controlled conditions of temperature, humidity and air purity.

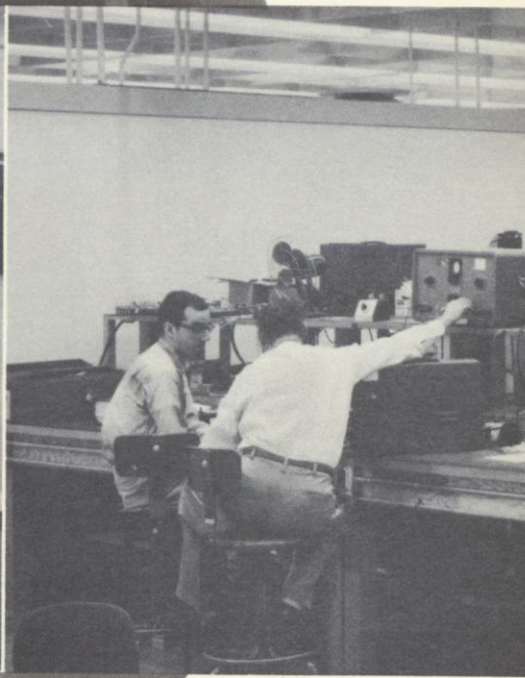
The company's recognized capabilities and position in the field indicate promising growth in this area in the future.









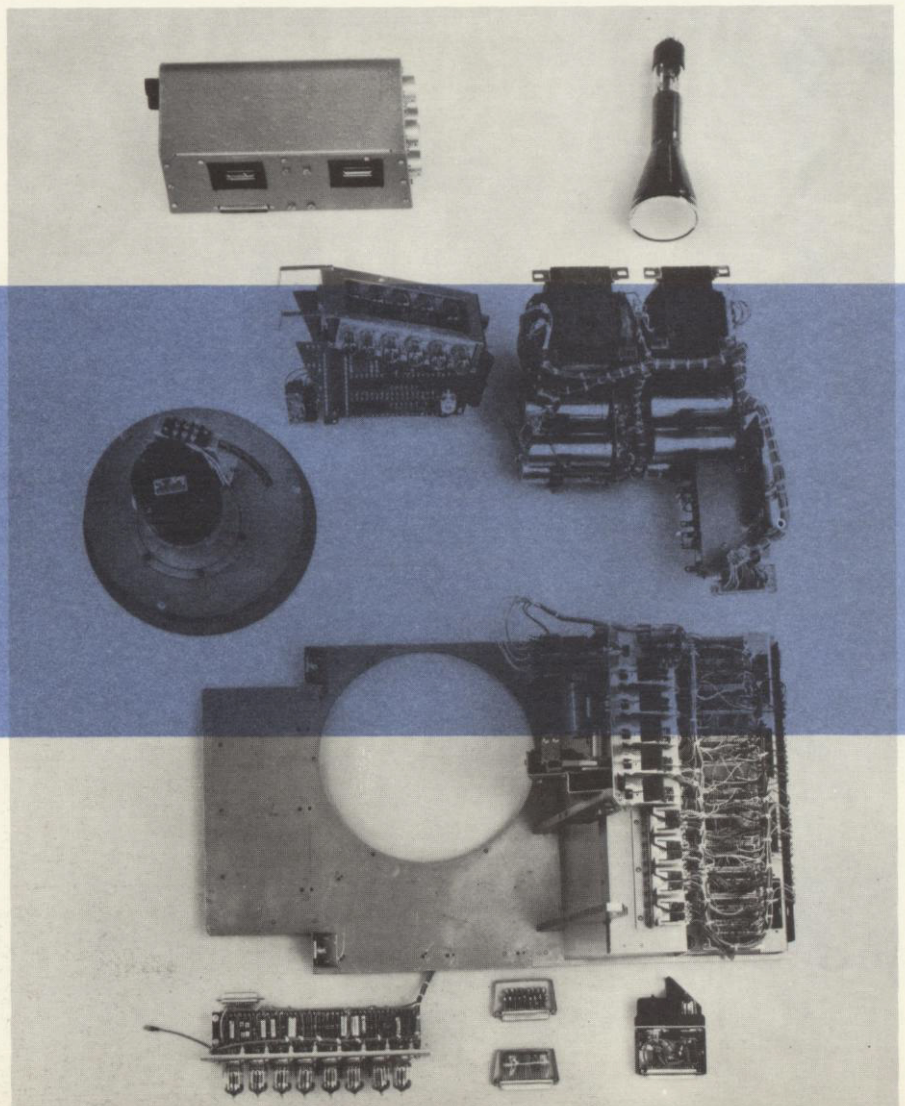


Another of the areas that typifies our progress during the year is that of computers and controls.

One of the most talked about accomplishments of the electronics industry has been the development of modern computing equipment – the so-called "electronic brains." Both of the two generic types of such equipment – analog and digital – are found in use in the three general areas of computer application: in mathematical computation; in automatic control functions, for both industrial and military applications; and in business data handling. The emphasis of our activity to date has been in the first two of these three areas.

During the year, we introduced our first scientific computing unit, the LITTON 20, a digital type computer for the solution and analysis of differential equations. This unit embodies the first commercial equipment application of our unique proprietary techniques, which are radical departures from previously employed practices in the logical design of digital computers. Typewriter-size, requiring no elaborate installation, unusually reliable, the LITTON 20 has a capacity comparable to many very much larger and more expensive computer installations.

Analog computers, which operate through a series of physical inter-relationships much like a speedometer or a thermometer, are considerably less accurate than digital units. Further, the more complicated the problems they are designed

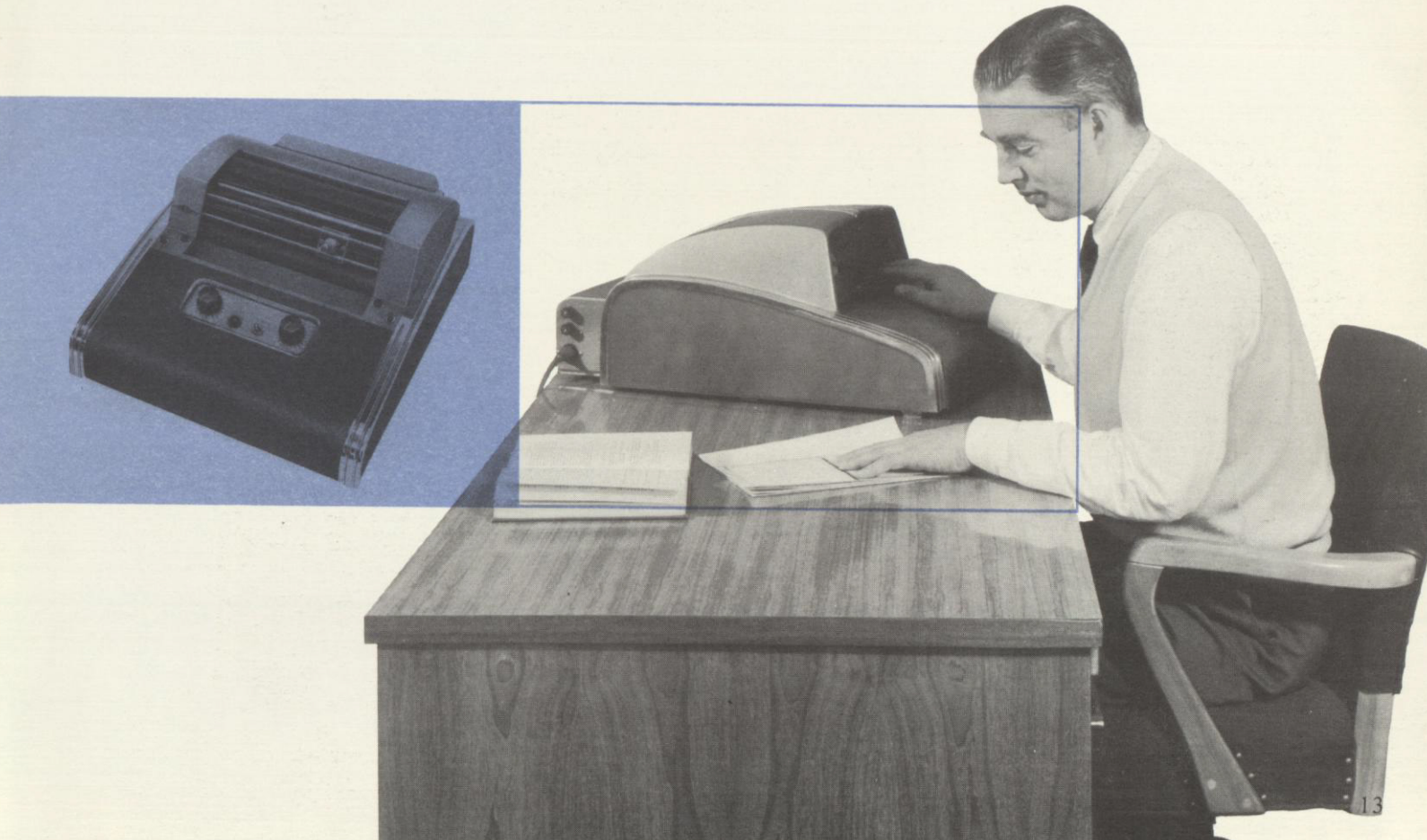


to handle, the geometrically larger and more complex must be the analog equipment. Digital computers, which operate on the basis of absolute numbers converted to magnetic impulses, have high accuracy, but typically have contained intricate electronics and have required complex information "input and output" mechanisms, which have always made them very expensive. To have retained digital equipment accuracy at the low costs and with the simplicity of operation generally associated with analog units has been one of the outstanding features among the revolutionary Litton developments. The LITTON 20 sells for less than $10,000.

During the year we produced our first units of a second model and made available to the market complementing accessory items. Additionally, the results of our developments were carried to the military market. The development of a completely new set of "building blocks" for computer assemblies – a new type high-density memory drum, new transistorized computer circuits, and specialized input-output devices – as well as the complete systems employing our techniques, were received with great interest. As a result, we were awarded contracts for specific development of applications of these techniques to problems in every major branch of the military. These contracts are expected to lead to very sizable subsequent production.

In summary, our unusual position in the field of digital computers and controls – our ability to serve increasingly complex problems with less complex equipment having unusually low size, weight, initial cost and maintenance cost factors, but retaining the high accuracy characteristics of digital versus analog units – has now been generally recognized by industry and the military alike. We see a broad potential in the years to come for the production and sale of our computing equipment, of our "building block" components, and of complete automatic control systems, both for military and for industrial automation applications.

In two of the three main fields of computational equipment, Litton Industries has already become known.



The Electron Tube Division of the company is outstanding among the various divisions of the company that have expanded this year. Fiscal year 1956 has seen the greatest expansion to date in the history of this division – expansion in sales, in personnel, and in facilities.

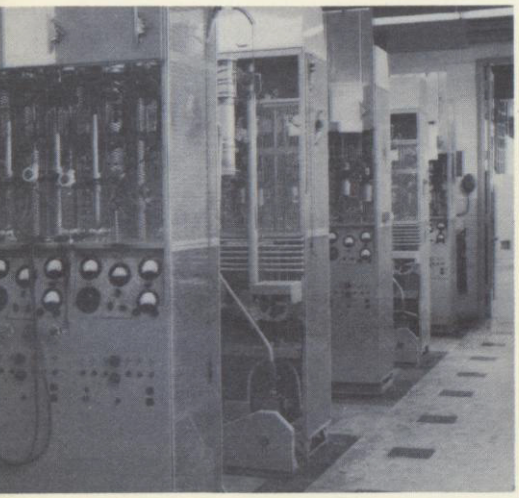
Our production of only the highest quality microwave tubes – the high power magnetrons and klystrons of ingenious design that generate the pulsating microwave energy which constitutes the emanating beam in radar equipment – continues to result in excellent acceptance and service-in-use of the end equipment in which these tubes are installed. As our customers have benefited, the sales volume and backlog of the products we pioneered in earlier years have grown.

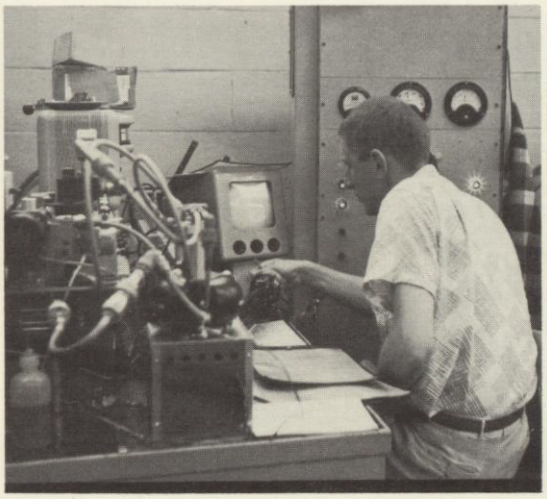
In February of this year we received from the Air Force what is believed to be the largest single contract ever placed for microwave power tubes. This contract was for a product we had developed over a period of four years in conjunction with the Microwave Laboratory of Stanford University. This tube is the highest-power pulsed amplifier klystron ever to go into quantity production. We were awarded this contract on the strength of our reputation in the microwave tube field. Through this development we are now effectively and importantly established in klystron production.

In almost all of the more than 100 different magnetron and klystron models we manufacture we are the principal source. Litton Industries manufactured power tubes are Litton developed products. And the development of our own specialized manufacturing processes for their production has enabled us to retain in volume production the high-quality characteristics which had been designed into these products originally – a feat unusual in the field of microwave tube production, where it is frequently difficult to maintain quality standards in quantity production.

The principal application today of Litton Industries microwave power tubes is in radar, countermeasures, and navigation systems, both airborne and ground- and sea-based. The application of such systems is continually expanding in both military and commercial areas. Prospects are for increased demand of virtually all of the models recently introduced to production; and our development and research of still newer types and applications continues.

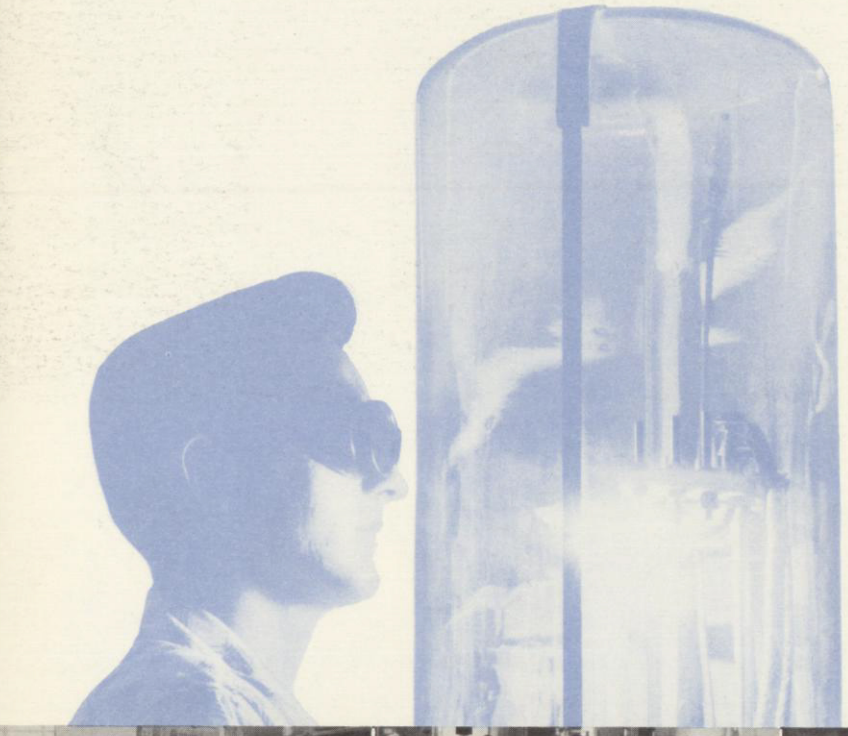
Such activity is an integral part of our plan to broaden our capabilities in this field and to continue the diversification of the use of our production facilities. Almost 200 people, an increase of over 40%, were added to our rolls in this division during the year to handle the constant increase in production schedules. We are continuing to expand as fast as personnel can be obtained, trained and assimilated.

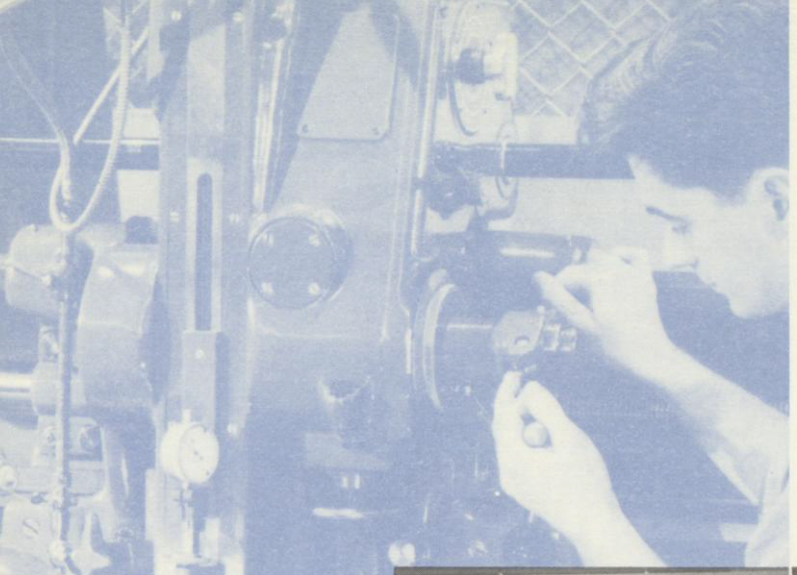


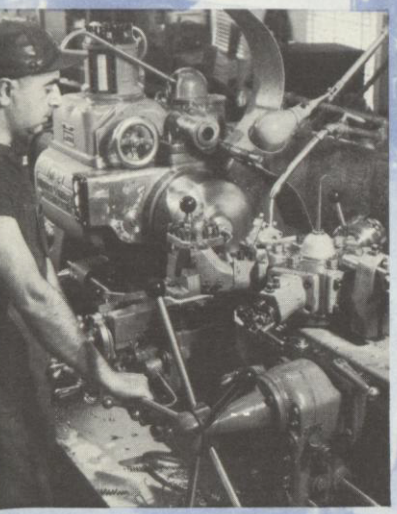


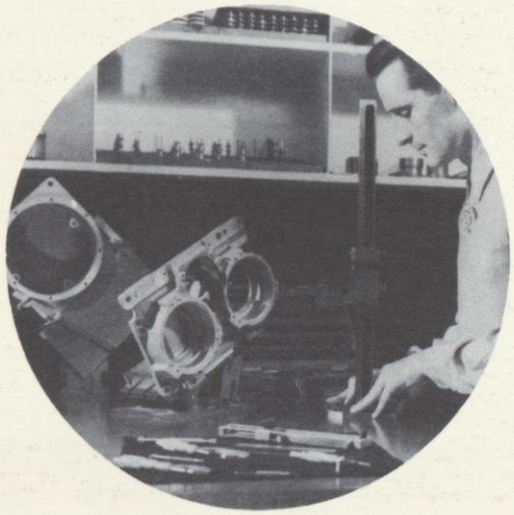
The facilities of the company are fully equipped with the vast variety of electronic laboratory, test and production equipment essential for research, product development and precision manufacturing in our industry. In addition, and typical of the more integrated companies in the field of electronics, is the unusual production capability of the company evidenced by the high precision parts fabrication and testing equipment found in our production areas: from Swiss SIP jig borers to Leitz optical comparators, Zeiss toolmakers' microscopes to Litton lathes, Fellows gear shapers to Rockwell testers, and on through a list that includes tens of well known names among the leading machine tool and production testing equipment manufacturers.

From experimental design to finished product, Litton Industries facilities are equipped to be independent and self-contained.



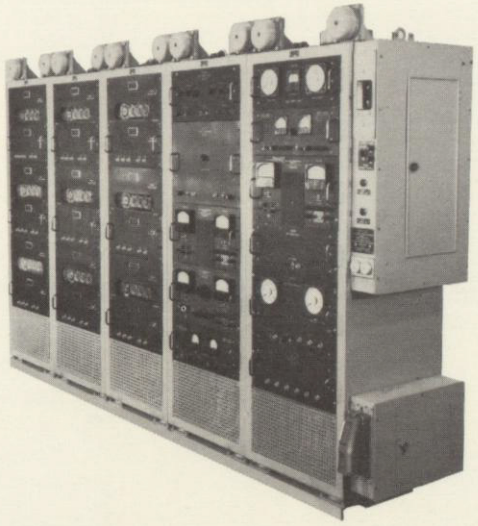


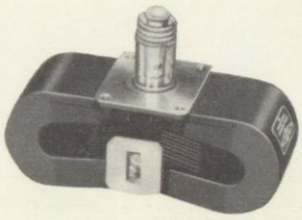


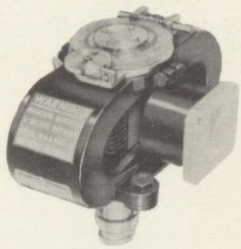


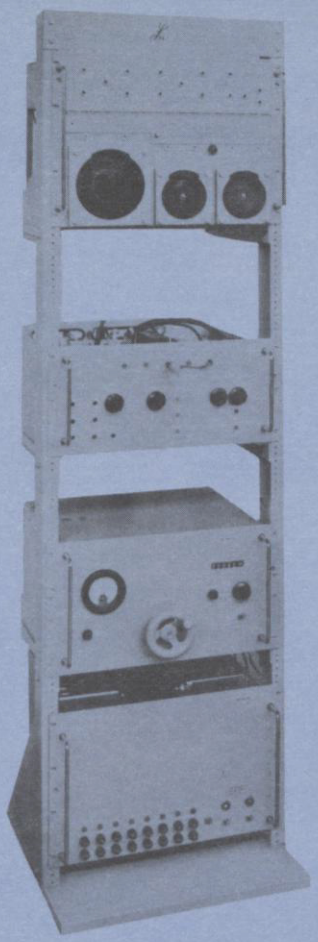
The rapid advance of technology in the electronics industry has brought about an ever-increasing inter-relationship of the varied areas of research in this field. To enable us to employ an integrated approach to product development of the complex equipment our customers' needs require, we have brought together product capabilities in most of the critical aspects of our industry. Our fields of work are many, our products numerous. They exemplify the complexity and the rate of change of our dynamic industry.

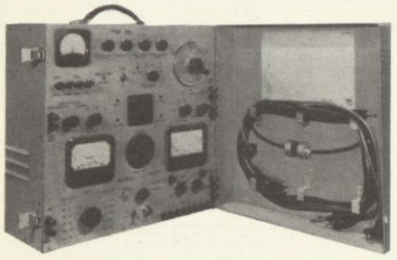
In radar and countermeasures, digital computers and controls, inertial guidance systems, microwave power tubes, servomechanisms and automatic controls, electronic transformers and magnetic components, printed and etched circuitry, and precision microwave components the reputation of Litton Industries research and products is constantly being furthered.

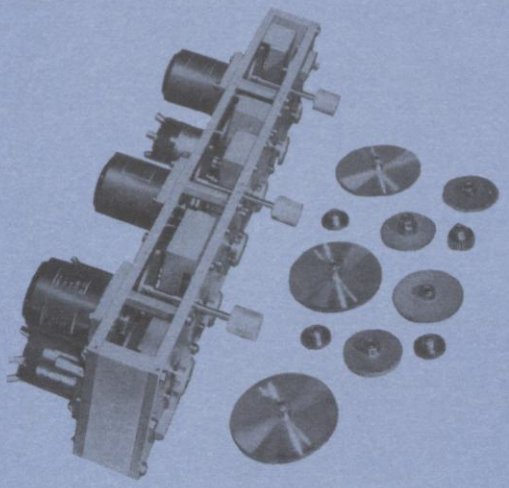


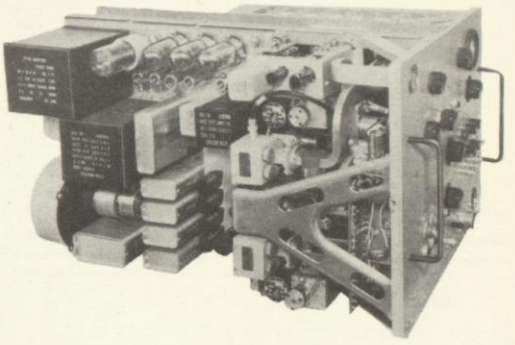


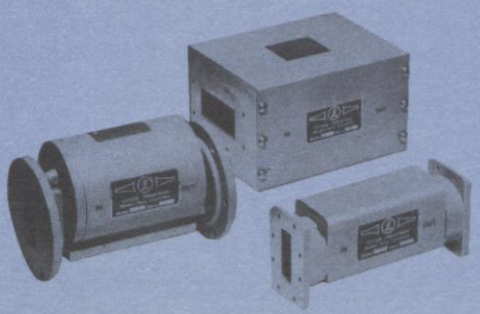












TOUCHE, NIVEN, BAILEY & SMART

CERTIFIED PUBLIC ACCOUNTANTS
LOS ANGELES, CALIFORNIA

September 26, 1956

Board of Directors
Litton Industries, Inc.
Beverly Hills, California

We have examined the consolidated balance sheet of Litton Industries, Inc. and subsidiary companies as of July 31, 1956, and the related statements of earnings, earnings retained in the business, and additional paid-in capital for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet and statements of earnings, earnings retained in the business, and additional paid-in capital present fairly the consolidated financial position of Litton Industries, Inc. and its subsidiary companies at July 31, 1956, and the consolidated results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Touche, Niven, Bailey & Smart
CERTIFIED PUBLIC ACCOUNTANTS

CONSOLIDATED STATEMENT OF EARNINGS

YEAR ENDED JULY 31, 1956

Sales and other income		$14,920,050
Expenses:		
Cost of sales	$10,732,893	
General and administrative	2,042,133	
Interest	149,321	12,924,347
Earnings before federal taxes on income		$ 1,995,703
Federal taxes on income		976,000
Net earnings		$ 1,019,703

See notes to financial statements

CONSOLIDATED BALANCE SHEET

JULY 31, 1956

ASSETS

CURRENT ASSETS:		
Cash		$ 958,985
Accounts receivable:		
United States Government	$ 863,121	
Other trade accounts	1,042,566	
Unbilled amounts under defense contracts	394,647	2,300,334
Inventories, at the lower of cost (average) or market, less progress billings of $658,985		3,063,913
Prepaid insurance, taxes, and other expense		288,275
TOTAL CURRENT ASSETS		$ 6,611,507
INVESTMENT, ADVANCES, AND OTHER ASSETS:		
Notes receivable	$ 240,603	
Investments in and advances to affiliated company	65,018	305,621
PROPERTY, PLANT, AND EQUIPMENT — at cost (Note B):		
Land	$ 493,545	
Buildings	1,603,272	
Machinery and equipment	2,551,364	
	$ 4,648,181	
Less accumulated depreciation and amortization	1,144,109	3,504,072
DEFERRED CHARGES AND INTANGIBLE ASSETS:		
Patents, at cost, less accumulated amortization of $44,409	$ 252,879	
Excess of cost over net assets acquired therefor, less accumulated amortization of $9,000	58,223	
Deferred debenture costs, less accumulated amortization of $6,409	48,325	
Other	45,555	404,982
		$10,826,182

See notes to financial statements

LIABILITIES

CURRENT LIABILITIES:		
Notes payable to bank		$ 1,100,000
Accounts payable		906,062
Payrolls and payroll taxes, including amounts withheld from employees		674,474
Estimated refunds due on defense contracts (Note C)		263,496
Federal taxes on income		930,999
Current portion of long-term debt		81,473
TOTAL CURRENT LIABILITIES		$ 3,956,504
LONG-TERM DEBT (Note D):		
Five-year 5% subordinated income debentures, due April 25, 1959	$ 230,000	
Ten-year 5% convertible subordinated debentures, due September 1, 1965	1,500,000	
Note payable secured by property purchased, 4½%, payable in equal quarterly instalments to April 25, 1964, less $67,259 due within one year	541,973	
Other notes secured by properties, less $14,214 due within one year	49,489	2,321,462
MINORITY INTEREST		15,039
STOCKHOLDERS' EQUITY (Note E):		
Capital stock:		
Preferred, convertible, 5% cumulative, par value $100 a share: Authorized less shares converted, 913½ shares Issued and outstanding, 913½ shares	$ 91,350	
Common, par value ten cents a share: Authorized,1,750,000 shares Issued and outstanding, 1,046,834 shares	104,683	
Excess of assets acquired over cost	122,958	
Additional paid-in capital	2,625,922	
Earnings retained in the business	1,588,264	4,533,177
		$10,826,182

See notes to financial statements

CONSOLIDATED STATEMENT OF ADDITIONAL PAID-IN CAPITAL

YEAR ENDED JULY 31, 1956

Balance at beginning of the year	$2,522,614
Excess of proceeds over par value of common stock sold for cash upon exercise of options by officers and employees; 42,250 shares at $1.00 a share	38,025
Excess of assigned value over par value of common stock issued in exchange for: 348 shares of preferred stock converted into 34,800 shares of common stock at $1.00 a common share	31,320
Additional capital stock of partially-owned subsidiary acquired for common stock (3,189 shares) at assigned value of $10.75 a share.	33,963
Balance at end of the year	$2,625,922

See notes to financial statements

CONSOLIDATED STATEMENT OF EARNINGS RETAINED IN THE BUSINESS

YEAR ENDED JULY 31, 1956

Balance at beginning of the year	$ 654,778
Transferred to excess of assets acquired over cost	81,000
	$ 573,778
Net earnings for the year	1,019,703
	$ 1,593,481
Cash dividends paid on preferred stock	5,217
Balance at end of the year	$ 1,588,264

See notes to financial statements

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JULY 31, 1956

NOTE A – Principles of consolidation:

The accounts of the Company's wholly-owned subsidiaries, and its one majority-owned subsidiary are consolidated in the accompanying financial statements.

The following subsidiary companies are included in these financial statements:

Wholly-owned:
Litton Industries of California
U. S. Engineering Co., Inc.
The Ahrendt Instrument Company
The Automatic Seriograph Corporation
USECO, Incorporated

Majority-owned:
West Coast Electronics Co.
(The Company owns 99% of the common stock and 85% of the preferred stock)

NOTE B – Property, plant, and equipment:

Depreciation charged against income during the year amounted to $430,607 computed on a straight-line basis. For income tax purposes portions of assets covered by Certificates of Necessity are amortized over five years and assets purchased since December 31, 1953 are depreciated on a declining-balance basis. The benefit of this additional depreciation and amortization for tax purposes has reduced federal income taxes by $65,000 for the year.

NOTE C – Renegotiation and price redetermination:

Substantially all of the Company's sales are subject to renegotiation and some are subject to redetermination. In the opinion of management adequate provision has been made for any price adjustments that can reasonably be anticipated.

NOTE D – Long-term debt:

The five-year 5% subordinated income debentures are due April 25, 1959 and are subject to redemption by the Company at par. Interest at 5% is payable semi-annually, if earned.

In October, 1955 the Company issued $1,500,000 of ten-year 5% subordinated convertible debentures due September 1, 1965 to private investors. The debentures are convertible into common stock at $13.50 a share, the conversion price to be protected against dilution. They are callable at 105% until August 31, 1956, and thereafter on a basis declining to par. The Company agrees to retire $150,000 principal amount of debentures on September 1, 1958 and on each September 1st until 1964.

The debentures are subordinated to all existing debt and future debt of the Company, with limited exceptions (the ten-year debentures are subordinated to the five-year debentures).

Under the terms of these debentures the Company agrees (1) to acquire or retire capital stock or pay dividends on common stock only from consolidated earnings and proceeds from the issuance of capital stock after July 31, 1955, and (2) not to create or guarantee additional funded debt unless the consolidated tangible assets immediately thereafter shall be 1⅔ times the consolidated funded debt.

At July 31, 1956 111,111 shares of common stock have been reserved for conversion of the ten-year debentures.

NOTE E – Stockholders' equity:

The preferred stock is callable at par, plus dividends in arrears, upon 30-day notice and the holders of the preferred stock have preference of $100 a share, plus accrued dividends in the event of dissolution. It is convertible into common stock of the Company at $1.00 a share. At July 31,1956 91,350 shares of common stock are reserved for the conversion of preferred stock.

At July 31, 1956 officers and employees hold options to purchase 232,750 shares of common stock for $1.00 a share (options to acquire 42,250 shares were exercised during the year). There is an anti-dilution provision applicable to these options and to the preferred stock.

Of the earnings retained in the business at July 31, 1956 the amount of $1,056,736 is available for dividends in cash on common stock. For restrictions on dividends and acquisitions or retirements of capital shares see Note D.

NOTE F – Contingent liabilities:

The Corporation and its subsidiaries are lessees of various land and buildings for varying periods to 1981; some with renewal options not to exceed fifteen years. Under terms of certain of the leases the Company and its subsidiaries have options to buy the property. Annual rentals under the current leases are approximately $118,000, plus property taxes and insurance in certain cases.

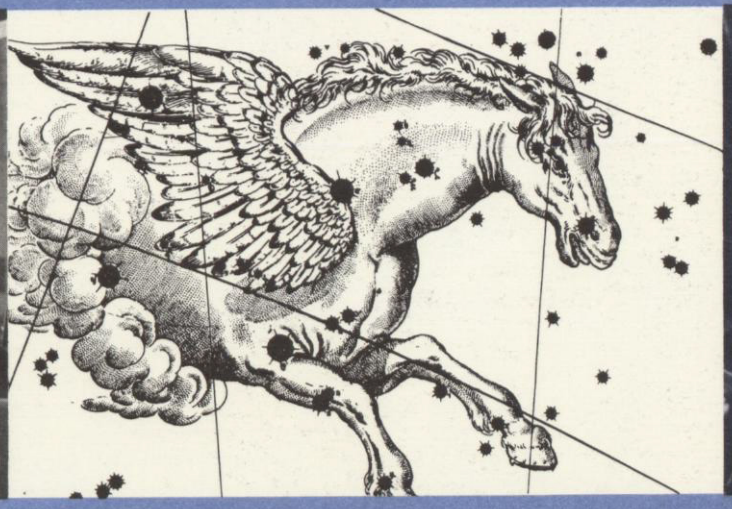
The Company has guaranteed bank borrowings of a building contractor up to $750,000 in connection with construction of a new plant leased to the Company. Commitments for purchase of equipment at the new plant aggregate $285,000 at July 31, 1956.

NOTE G – Acquisition of companies:

In September, 1956 the Company entered into agreements for acquisition of the capital stock of two corporations in exchange for shares of the Company's common stock. In the event all the stock of the two corporations is acquired, the Company would immediately issue 41,756 shares of its stock in exchange. Additional common stock of the Company may be issued (up to 16,809 shares) as additional purchase price of the companies being acquired; the additional purchase price to be based upon earnings of these companies over a five-year period.

LITTON INDUSTRIES

PACING PROGRESS IN ELECTRONICS



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