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LITTON INDUSTRIES ANNUAL REPORT 1957

fiscal year ended July 31, 1957





HIGHLIGHTS

fiscal year ended July 31, 1957

	1957	1956
<i>Sales and other income</i>	\$28,130,603	\$14,920,050
<i>Earnings</i>	\$ 1,806,492	\$ 1,019,703
<i>Per share outstanding at year end</i>	\$1.51	97¢
<i>Net working capital</i>	\$ 6,731,956	\$ 2,655,003
<i>Backlog</i>	\$54,000,000	\$35,000,000
<i>Employees</i>	2,700	2,000
<i>Shareholders</i>	4,500	3,000



On July 30 this year the company's common stock was listed on the New York Stock Exchange. Shown witnessing the event are (l. to r.) Mr. Mortimer Marcus, Marcus & Company, Litton Industries' President Mr. Charles B. Thornton, and the president of the New York Stock Exchange, Mr. Keith Funston.



TO OUR SHAREHOLDERS:

Consistent with the company's long range plan, fiscal year 1957 witnessed significant increases in both sales and earnings over previous years; our base for continuing progress in the years ahead was further broadened. The company's increased proprietary research and engineering activities, expanded plant capacity and facilities, and the addition of highly-qualified personnel give promise of realization of our growth plans — growth not just for growth's sake, but the logical sequel to the establishment of a broad and strong company.

INTEGRATION OF OPERATIONS

A primary objective of this and other years has been to forward the blending of closely integrated, logically related operating divisions. The values of this policy were demonstrated again on numerous occasions during the year — new programs of research and development were undertaken involving combinations of scientific and engineering talents from several distinct areas of technical proficiency in the company; advanced developments in component divisions contributed to the success of systems development in other divisions; and cooperation between commercial sales groups strengthened the competitive position of new product ventures.

required Monroe

COMMERCIAL DEVELOPMENTS

In our military research and development activities we continued concentration of our efforts in the direction of those programs which have a long-term, high military priority, and which have long-term production potential. Concentration on such programs has placed us in an advanced position relative to the science of electronics and has broadened the company's technical knowledge and skills, which in turn further enhances our competitive position in both military and commercial markets as our work in these fields continues.

Additionally, considerable investment of company funds was made in proprietary research and products. This activity has furthered our position relative to the military and has made possible commercial developments of recognizable potential. Our Patent Department has been one of the most active groups in the company.

DEFENSE EXPENDITURES

In the public press recently attention has been directed to changes in the procurement policies of the Department of Defense. Government fiscal policies now call for maintaining total defense expenditures at current levels, but changes in the requirements in order to have the most advanced possible military force-in-being have brought about a

shift in the character of procurement. Electronics is to be increasingly more important in the defense weapons of the future.

For example, the Secretary of the Air Force has recently indicated that by 1960 Air Force purchases of advanced electronic equipment and systems will have increased to approximately \$1.3 billion a year as compared to 1956 purchases which totalled \$756 million. In addition to this increase, the Secretary has stated that purchases of guided missiles will grow from \$483 million to \$2.8 billion annually in the same period. Included in missile procurement will be navigation, guidance, computing and control, instrumentation, and other equipment of the types developed and produced by Litton Industries.

Having anticipated a re-direction of emphasis in military spending, our efforts and engineering attention during the previous years had already been directed toward programs from which we should realize our part of this potential.

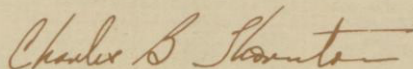
THE IMPACT OF ELECTRONICS

In addition to the firm potential for electronic developments in the military market, the influence of electronics is certain to be felt during the next decade, either directly or indirectly, by virtually every element of our national economy. Many products which are not con-

sidered related to electronics today will feel the impact of that science in the future. Some industries may see the whole character of their products change, while others, of course, will be much less affected. The wide variety of applications for electronics will make increasing research and production demands upon our industry, and will provide commensurate growth and profit opportunities.

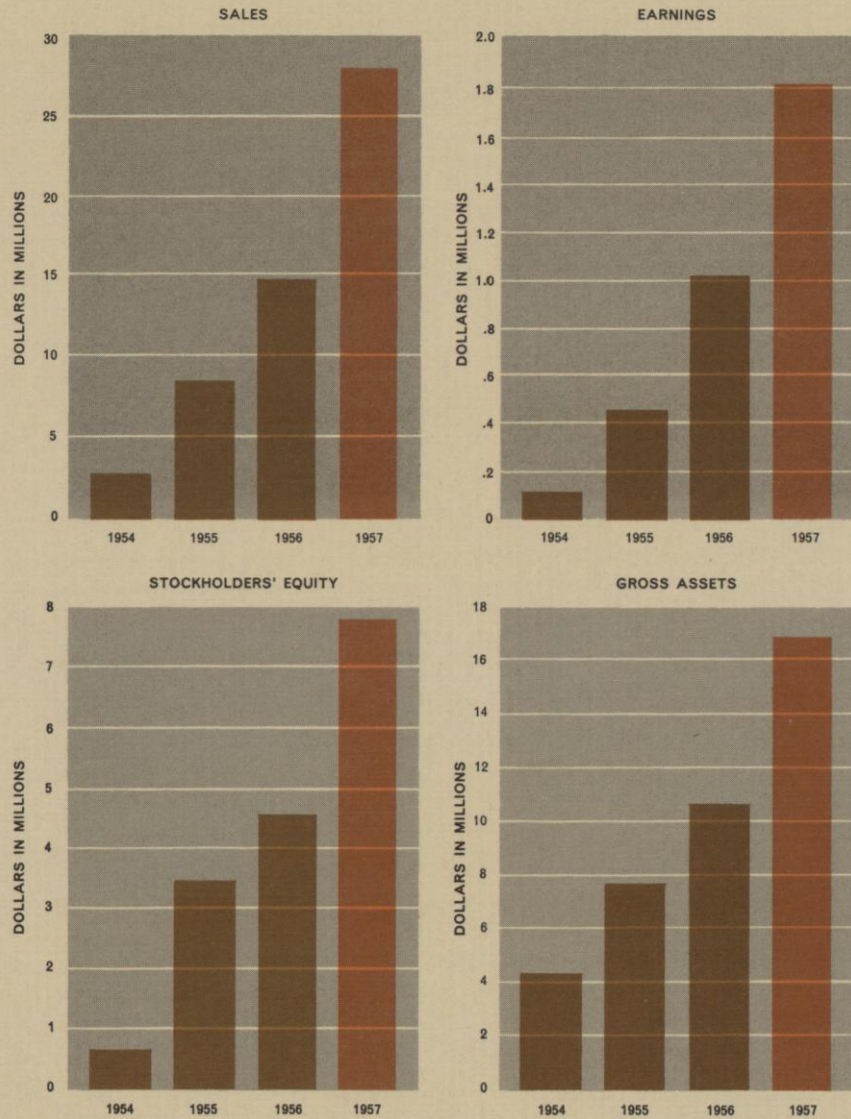
The progress of an electronics company must be measured by its capability to envision future markets and opportunities, realistically plan and implement those plans, and accomplish the longer range objective of being a strong company recognized as a leader in a major industry – an industrial citizen that adds strength to national defense and to our national economy.

Sincerely yours,

A handwritten signature in cursive script, reading "Charles B. Thornton". The signature is written in a dark ink and is positioned above the typed name.

CHARLES B. THORNTON
President, and Chairman
of the Board of Directors

In the course of the fiscal year, substantial increases were made in the volume of products and services delivered, in orders and contracts received for future delivery, and in earnings realized. Behind these cryptic facts is a story of continually growing organizational strength and technical progress. Representative examples of the efforts responsible for this story appear in the pages that follow – examples which do not reveal military or competitive information that is of a classified or confidential nature.



SALES AND BACKLOG

Sales for the year of \$28,130,603 were 89% greater than the \$14,920,050 sales of last fiscal year. The company broadened its distribution of products, furthered the integration of its product capabilities in the field of electronics, and continued to increase production capacity consistent with the demands of a rising market. By the end of the year, our annual sales rate had reached \$34,000,000 – an indication of the increasing scope and tempo of our growth.

Approximately 25% of our sales came from those products, programs, and services which, during the past 12 month period, represented new sources of income. Much of this additional dollar volume, of course, came from products which were conceived and developed in the research programs of 1954 and 1955.

In the course of the year the company received orders for \$47,000,000 of new business for both current and future delivery of products and services. At the beginning of the year the backlog of unfilled business had amounted to \$35,000,000. Thus, with sales of \$28,000,000 for the period, \$54,000,000 of unfilled orders and contracts remained as our backlog of business at year end.

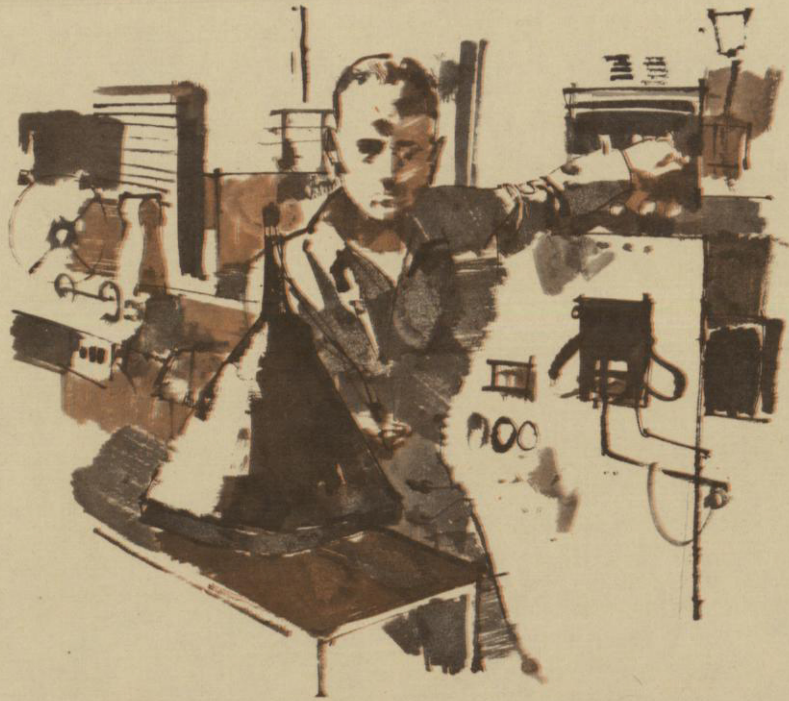
EARNINGS

The year's net earnings of \$1,806,492 were 77% greater than the \$1,019,703 earned last year. Cash available during fiscal 1957 from net earnings plus depreciation expenses amounted to \$2,500,492 or 71% more than the comparable amount during the previous year.

Per share earnings were \$1.51 per share for the total shares outstanding at year end as compared to 97¢ per share last year. Based on the average number of shares outstanding during the year, earnings amounted to \$1.61 per share, whereas the comparable figure for the previous year was \$1.01.

In addition to the profits realized and shown as net earnings, the company continued to expense company-sponsored research and the market pioneering of the many new products sold through manufacturers' representatives, distributors and salesmen who represent various divisions of the company.

In appraising the year's progress and analyzing opportunities for continuing to advance the company's position in the electronics industry, the Board of Directors again determined to reinvest the year's earnings in the business.



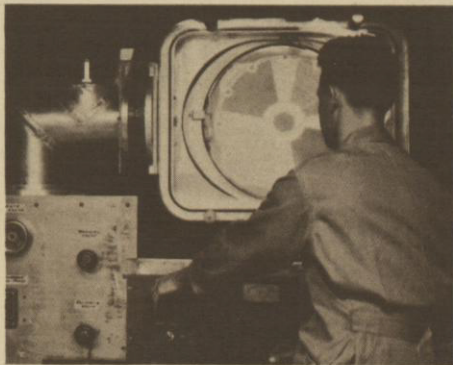
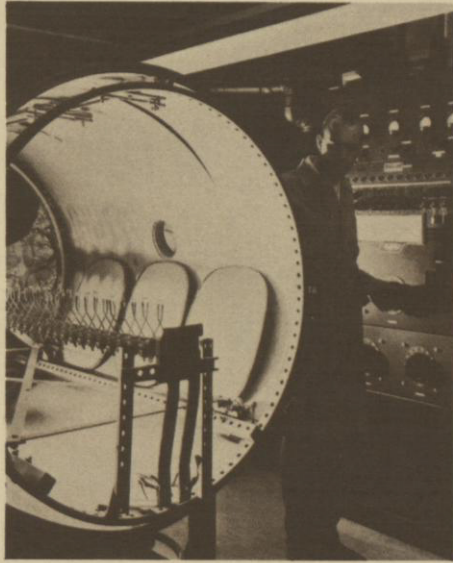
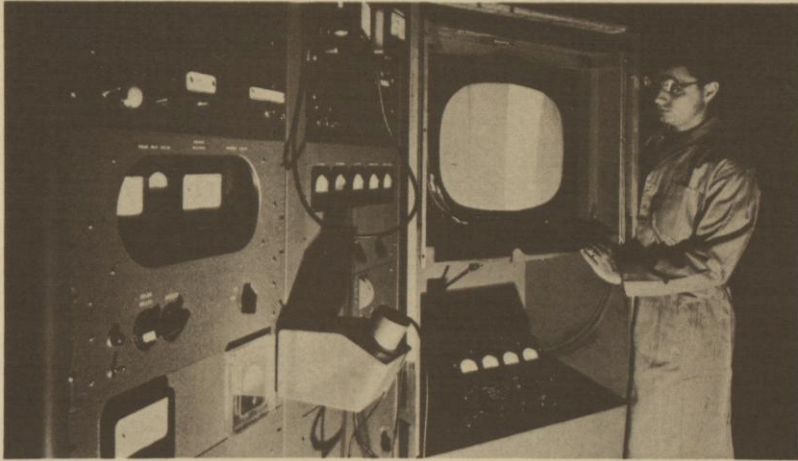
In January 1957 the company was joined by the scientists, engineers, and technical people which now comprise our Electronic Display Laboratory near Oakland, California. The group includes, as consultants, Nobel prize winners Dr. Ernest O. Lawrence and Dr. Edward McMillan, and the renowned physicist Dr. Luis Alvarez. A primary element in the Laboratory's activities is the famed Lawrence tube, named for its inventor, Dr. Lawrence.

A unique color cathode ray tube having outstanding potential in numerous industrial and military applications, the new tube makes possible display of radar information on the radar screen in more than one color, at the election of the operator, giving an added and most important dimension to radar viewing. A wide variety of applications includes air traffic, tactical combat, and industrial process control; electronic instruments such as oscilloscopes; and commercial color television monitoring.

The Electronic Display Laboratory has already this year announced new models of the Lawrence tube, called the CHROMATRON, for a variety of commercial and industrial, as well as military, applications.

Important development work is also being carried on in conjunction with other divisions of the company for applications of the tube in classified military electronic systems for which the company as a whole has major prime contracts.

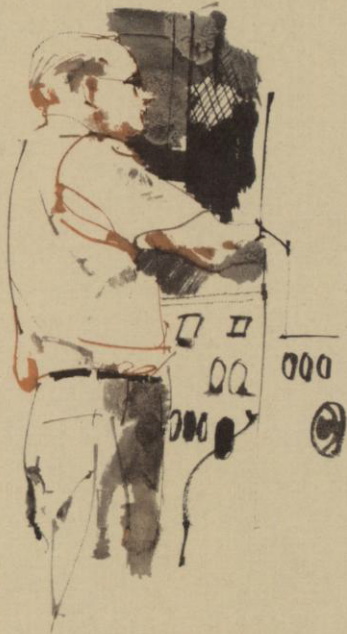
Other promising developments of the Laboratory foretell of important new products for markets of the future.



As another step toward maintaining a proper balance between all elements of our growth, the company continued the expansion of research, engineering, and manufacturing facilities during the year.

Construction was begun on the first building of a new three-unit plant in Salt Lake City and plans are also being finalized for building a major addition to the new plant in San Carlos, California, for the Electron Tube Division. Capacity of this projected plant will be double the capacity of the division's new plant completed and occupied in the fall of 1956.

For the third consecutive year our Electron Tube Division plants were the only electronic manufacturing plants in the San Francisco area picked for visitation by the Industrial College of the Armed Forces in their study of modern production methods and facilities.



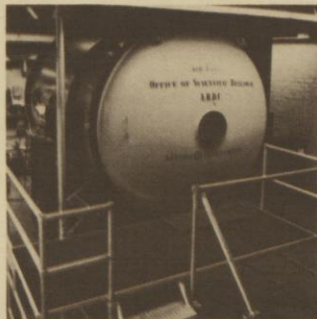




Early in October 1957, the first company-published information will be released describing our new Inhabited High-Vacuum Laboratory. In cooperation with the Air Force Office of Scientific Research, the company has developed a unique research facility for the study of physical phenomena in an environment which simulates the conditions of ultra-high altitudes — altitudes currently far beyond the access of manned aircraft.

The unusual laboratory permits a man — protectively clad in a suit of Litton Industries conception and design — to witness and control experiments in a vacuum environment. The Laboratory will facilitate research activity in the development of equipment that will operate in outer space. It is the only such laboratory existent in the free world.

We attach significant importance to the extensive fund of basic scientific knowledge which the company has and will acquire in the operation of this facility. The culmination of over three years of effort, the continued success of the laboratory is destined to further enhance the company's reputation in this new field.



- BEVERLY HILLS, CALIFORNIA
- SAN CARLOS, CALIFORNIA
- EMERYVILLE, CALIFORNIA
- LA JOLLA, CALIFORNIA
- SALT LAKE CITY, UTAH
- HUNTINGTON, INDIANA
- LOS ANGELES, CALIFORNIA
- GLENDALE, CALIFORNIA
- MT. VERNON, NEW YORK
- COLLEGE PARK, MARYLAND
- VENICE, CALIFORNIA

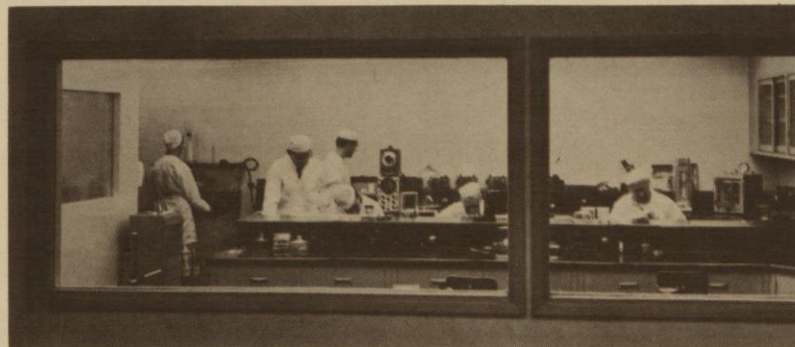
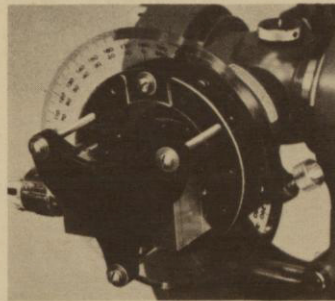
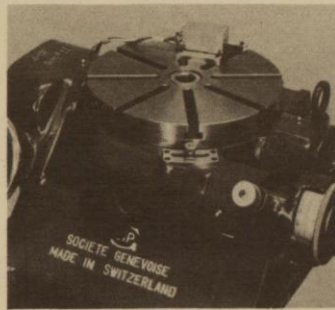


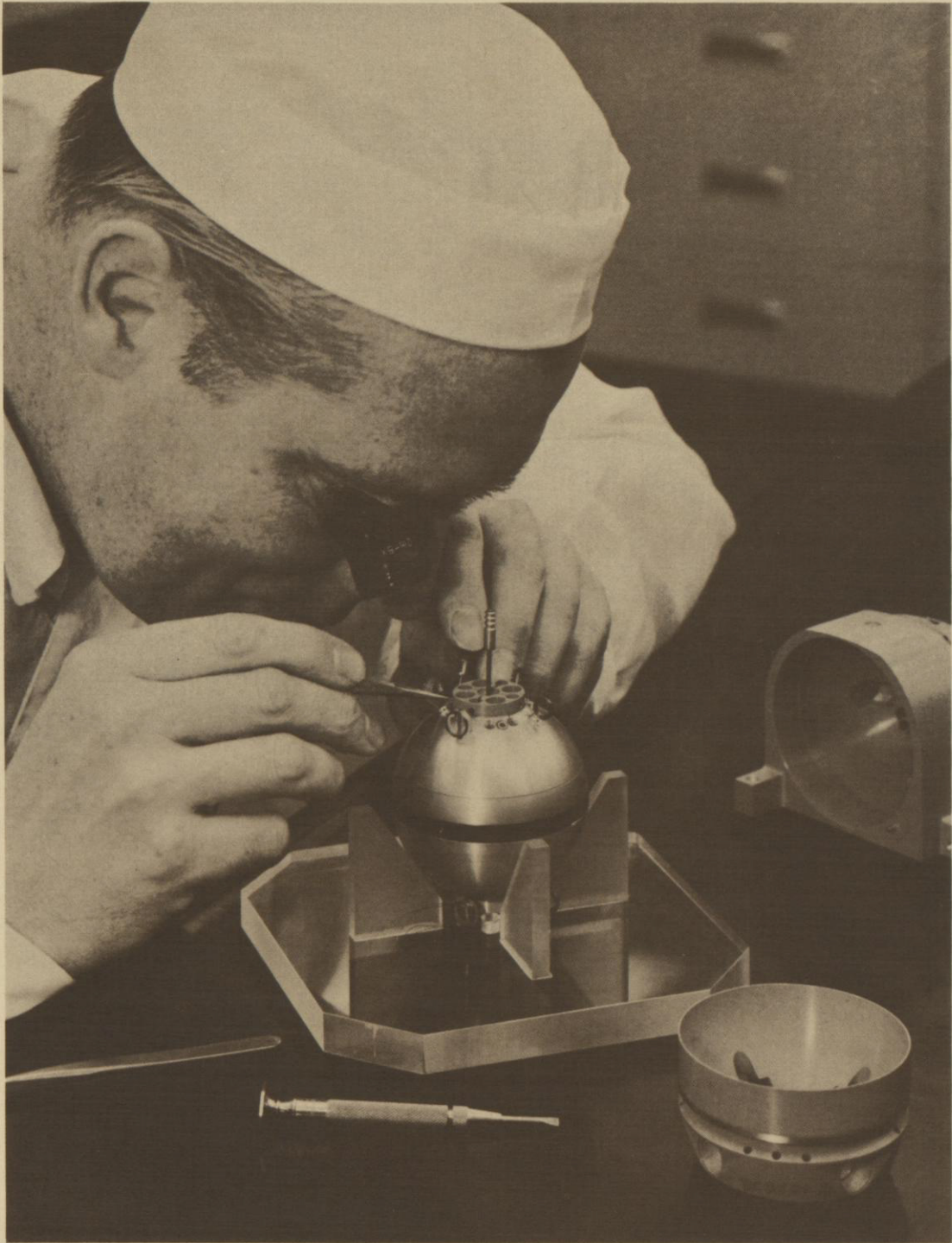


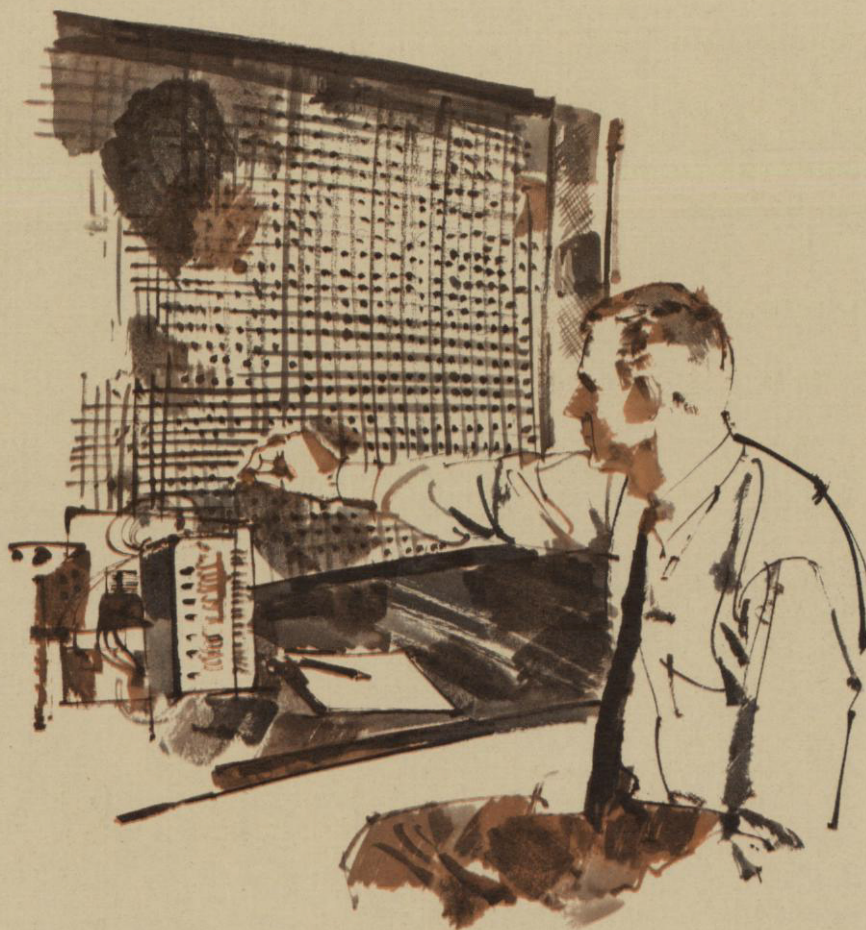
"... promise of realization of our growth plans"

In our inertial guidance activity the feasibility of utilizing two-degrees-of-freedom gyros in inertial guidance systems was positively demonstrated by the company this year. For some years Litton Industries scientists have pioneered this revolutionary concept. Proof of its feasibility now makes possible inertial guidance systems more accurate, lighter in weight, and cheaper in cost than other inertial systems previously developed in the industry.

This significant break-through now places the company in a pre-eminent position in a most critical phase of missile and supersonic aircraft guidance and control development.





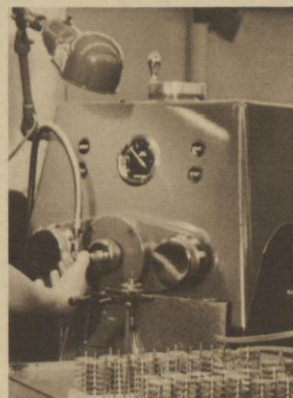
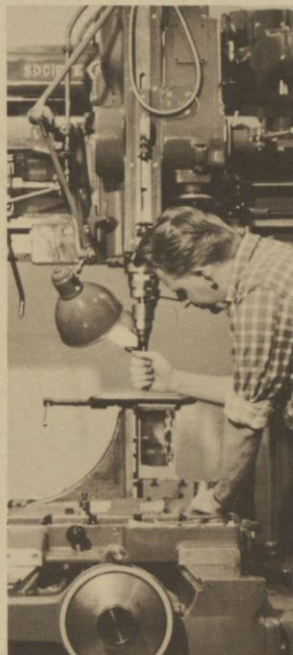


Equally significant results were experienced in numerous other areas of the company's activity during the year:

Two new larger-capacity computer units and additional items of new accessory equipment for our line of computer products were introduced.

The Maryland Division, long a large supplier of electronic equipment to the Navy, closed the year with a backlog more than twice as large as that of the previous year. Almost 100 names were added to the list of customers for the company's Automatic Seriograph equipment—special equipment used in medical X-ray work.

At mid-year a new item of equipment of Litton Industries design, for which the company is the principal source, was put into production for still another of the nation's important guided missiles.



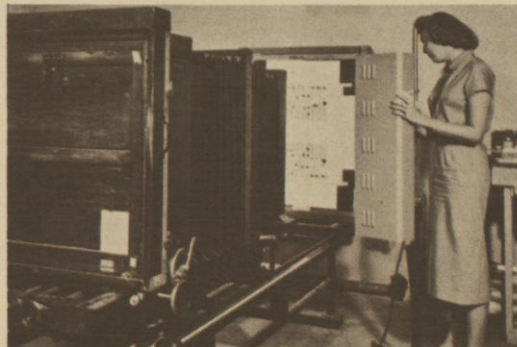
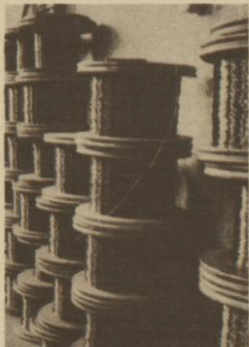
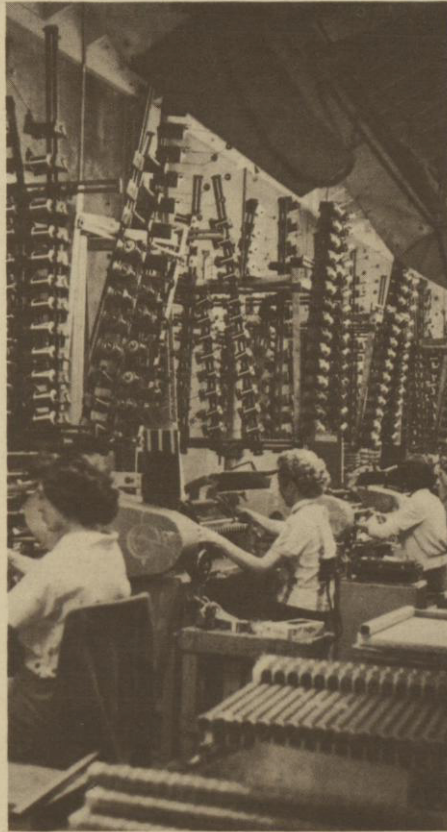
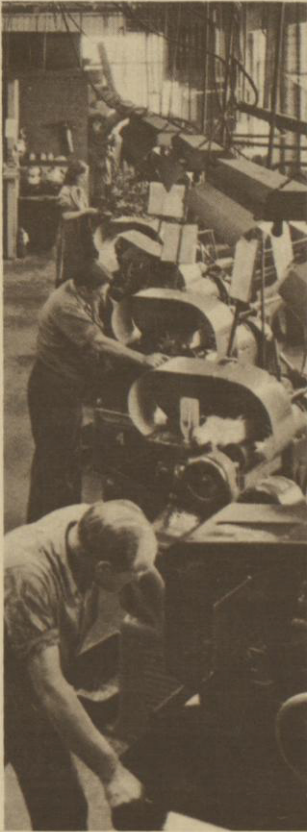


The company's 1957 catalog of transformer products lists over 75 models new to the company. Most of these new products have application in both military and commercial markets.

Employment at our transformer producing facilities was increased over 30% during the past year. This expansion evidences the market acceptance of the company's greatly broadened line of high-quality transformers — important components in many highly advanced electronic equipments for industrial, commercial, and military applications.

The manufacture of our precision potentiometer line was centralized in one location in the East, and was expanded during the year. In the face of a highly competitive market, continued highest quality production resulted in sales of this line being almost triple last year.

During the year, a new and expanded organization for the sale of the company's precision components was established. More than 20% of our component sales came from products which were new this year.



TOUCHE, NIVEN, BAILEY & SMART
CERTIFIED PUBLIC ACCOUNTANTS
LOS ANGELES, CALIFORNIA

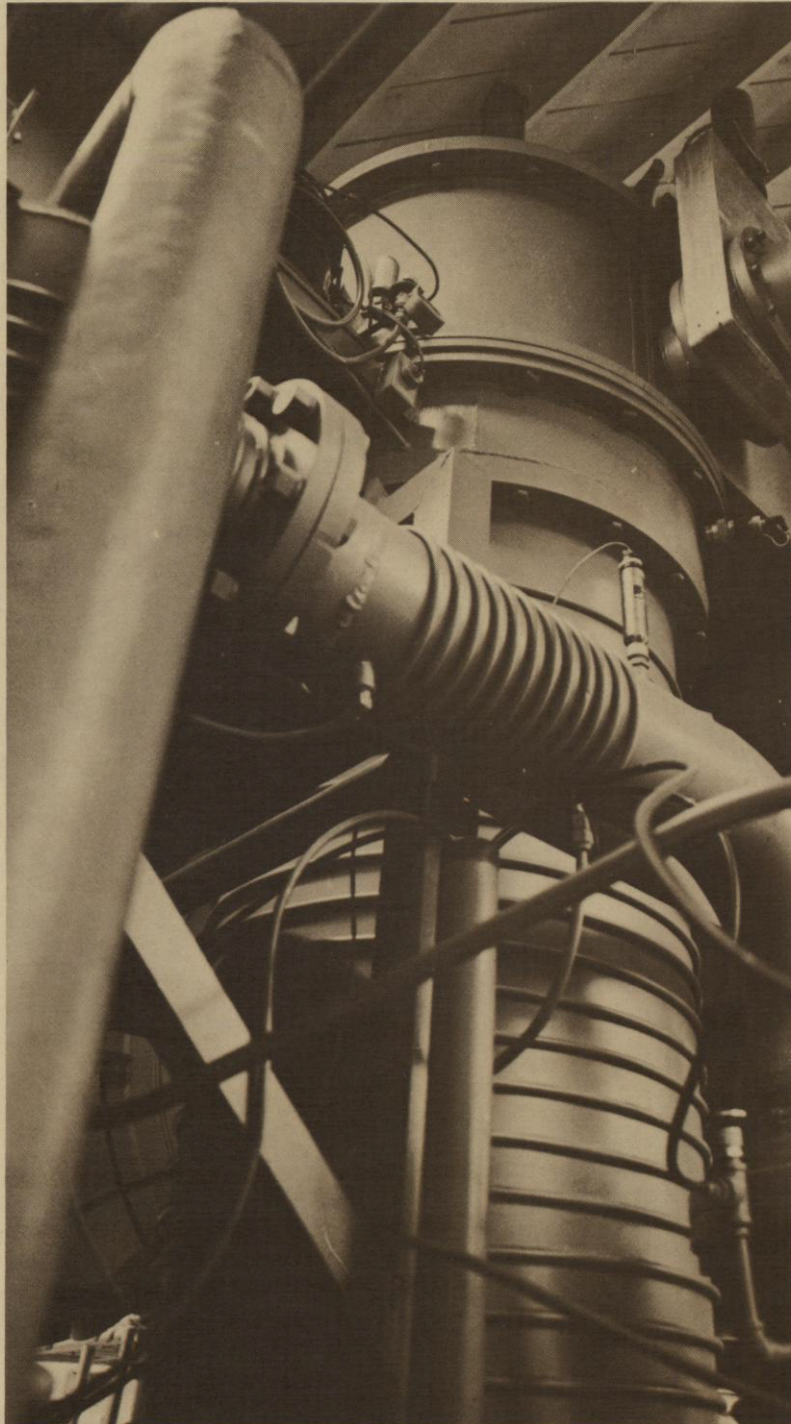
September 20, 1957

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, 1957, 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, 1957, 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, 1957

Sales, including other income of \$143,356		\$28,130,603
Expenses:		
Cost of sales	\$20,823,526	
General and administrative	3,776,338	
Other, including interest of \$203,070	<u>298,246</u>	<u>24,898,110</u>
Earnings before federal taxes on income		\$ 3,232,493
Federal taxes on income		<u>1,426,000</u>
Net earnings		<u><u>\$ 1,806,493</u></u>

See notes to financial statements

CONSOLIDATED BALANCE SHEET

ASSETS

Current Assets:

Cash		\$ 982,233
Accounts receivable:		
Trade accounts, including United States Government of \$860,634, less provision for doubtful accounts of \$37,708	\$3,390,216	
Unbilled amounts under defense contracts	638,683	4,028,899
Amounts in negotiation for amendments to defense contracts		116,245
Inventories at the lower of cost (average) or market, less progress billings of \$641,110		5,616,126
Prepaid insurance, taxes, and other expense		337,187
<i>Total Current Assets</i>		<u>\$11,080,690</u>

Property, Plant, and Equipment — at cost (Note B):

Land	\$ 601,027	
Buildings	2,190,919	
Machinery and equipment	4,485,820	
	<u>\$7,277,766</u>	
Less accumulated depreciation and amortization	1,939,535	5,338,231

Intangible and Other Assets:

Patents, at cost, less accumulated amortization of \$63,513	\$ 238,575	
Excess of cost over net assets acquired therefor, less accumulated amortization of \$12,362	54,861	
Other	111,026	404,462
		<u>\$16,823,383</u>

See notes to financial statements

July 31, 1957

LIABILITIES

Current Liabilities:

Accounts payable		\$ 1,667,079
Payrolls and payroll taxes		1,284,340
Federal taxes on income		1,311,994
Current portion of long-term debt		<u>85,319</u>
<i>Total Current Liabilities</i>		<u>\$ 4,348,732</u>

Long-Term Debt (Note D):

Debentures	\$1,468,000	
Notes payable to banks	2,550,000	
Other notes payable, secured by properties	<u>652,136</u>	4,670,136

Minority Interest

19,096

Stockholders' Equity (Note E):

Capital Stock:

Preferred, convertible, 5% cumulative,
par value \$100 a share:

Authorized, issued and

outstanding, 759½ shares

\$ 75,950

Common, par value ten cents a share:

Authorized, 2,000,000 shares

Issued and outstanding, 1,193,986 shares

119,399

Additional paid-in capital

4,199,832

Earnings retained in the business

3,390,238

7,785,419

\$16,823,383

See notes to financial statements

CONSOLIDATED STATEMENT OF ADDITIONAL PAID-IN CAPITAL
Year Ended July 31, 1957

Balance at beginning of the year	\$2,625,922
Transfer of "excess of assets acquired over cost"	122,958
Excess of proceeds over par value of common stock sold for cash upon exercise of options; 62,433 shares at \$1.00 a share	56,190
Excess of conversion value over par value of common stock issued in exchange for:	
154 shares of preferred stock converted into 15,400 shares of common stock at \$1.00 a common share	13,860
\$262,000 principal amount of ten-year convertible subordinated debentures converted into 19,403 shares of common stock at \$13.50 a common share less \$7,580 of deferred debenture costs applicable thereto	252,420
Excess of approximate market at time of issue over par value of common shares issued for:	
Capital stock of other companies acquired for 41,756 shares of common stock at \$20.12½	836,166
Assets of a company acquired for 5,712 shares of common stock at \$30.75	175,073
Additional purchase price of company acquired during the year, 2,447 shares at \$48.00 (Note G)	117,243
Balance at end of the year	<u>\$4,199,832</u>

CONSOLIDATED STATEMENT OF EARNINGS RETAINED IN THE BUSINESS
Year Ended July 31, 1957

Balance at beginning of the year	\$1,588,264
Net earnings for the year	1,806,493
	<u>\$3,394,757</u>
Cash dividends paid on preferred stock (\$5 a share)	4,519
Balance at end of the year	<u>\$3,390,238</u>

See notes to financial statements

NOTES TO FINANCIAL STATEMENTS

Year ended July 31, 1957

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:

Wholly-owned:

Litton Industries of California
Litton Industries of Maryland, Inc.
Triad Transformer Corporation
U.S. Engineering Co., Inc.
USECO, Incorporated
Utrad Corporation
The Automatic Serigraph Corporation

Majority-owned:

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

NOTE B – Depreciation of properties and federal income taxes:

Depreciation charged against income during the year amounted to \$694,000 computed on a straight-line basis. The benefit of additional declining balance depreciation used for tax purposes has reduced federal income taxes as reported in the financial statements by \$74,000 for the year. Also, one of the subsidiary companies had the benefit of tax loss carry-forward (incurred prior to acquisition) in reduction of federal income taxes in the amount of \$104,000.

NOTE C – Renegotiation and price redetermination:

Approximately 75% of the Company's sales are subject to renegotiation and some are subject to redetermination. In the opinion of management no refunds will be required on these sales.

NOTE D – Long-term debt:

Long-term debt consisted of the following at July 31, 1957:	
Five-year 5% subordinated income debentures, due April 25, 1959	\$ 230,000
Ten-year 5% convertible subordinated debentures, due September 1, 1965	1,238,000
Notes payable to banks, due in four equal semi-annual instalments commencing December 1, 1960	2,550,000
Other notes payable (secured by properties), net of \$85,319 due in one year:	
Payable in equal monthly instalments to October 15, 1970	150,416
Payable in equal quarterly instalments to April 25, 1964	471,636
Other notes	30,084
Total	\$4,670,136

The five-year debentures are subject to redemption by the Company at par. The ten-year debentures are convertible into common stock at \$13.50 a share, are callable at 104 until August 31, 1957, and thereafter on a basis declining to par. The Company agrees to retire \$150,000 principal amount of debentures annually commencing September 1, 1958. Both 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).

In July, 1957 the Company entered into a term loan agreement whereby it may borrow \$3,500,000 from three banks by December 1, 1957. The agreement permits additional short-term borrowings. An amount of \$2,550,000 had been borrowed thereunder at July 31. The notes are repayable in four equal semi-annual instalments commencing December 1, 1960. Interest is payable quarterly at $\frac{3}{4}$ of 1% above the prime and is

currently set at 5 $\frac{1}{4}$ %. Under the terms of the loan the Company agrees (1) to maintain a ratio of current assets to current liabilities (excluding the first million dollars of current bank borrowings) of at least 2 to 1, (2) to maintain a ratio of net fixed assets to unsubordinated debt (excluding bank long-term borrowings of \$1,500,000) of at least 2 to 1, (3) to maintain net worth in excess of 80% of total debt of the Company, and (4) to pay dividends or reacquire capital stock only from earnings after May 1, 1957.

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, 1957, officers and employees hold options to purchase 170,317 shares of common stock for \$1.00 a share (options to acquire 62,433 shares were exercised during the year).

Of the earnings retained in the business at July 31, 1957, the amount of \$533,000 is available for dividends in cash. For restrictions on dividends and acquisitions or retirements of capital shares see Note D.

At July 31, 1957, common shares have been reserved for:

	Shares
Conversion of debentures	91,704
Conversion of preferred stock	75,950
Employee stock options	170,317
	337,971

NOTE F – Long-term leases and 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 \$150,000, plus property taxes and insurance in certain cases.

The Company has guaranteed bank borrowings of another company in the amount of \$45,000.

NOTE G – Acquisition of companies:

In September, 1957 the Company entered into an agreement for the acquisition of the capital stock of a company in exchange for shares of the Company's common stock. In the event all of the stock is acquired, the Company would immediately issue 18,788 shares of its stock in exchange. Additional common shares will be issued on October 1, 1958, 1959, and 1960 with a market value of \$150,000 at each of the dates. Under certain circumstances related to contingent liabilities of the acquired company, the Company would be required to issue additional common shares with a market value at the date of issue of a maximum of \$200,000.

In June, 1957 the Company entered into an agreement for the acquisition of the capital stock of another company in exchange for 2,832 shares of its common stock. This acquisition has not yet been consummated.

Common stock of the Company is to be issued as additional purchase price of a company acquired during the year. The additional consideration is to be based upon earnings of that company over a five-year period and is not to exceed \$483,255 (to be paid in common stock of the Company at its then market price). Under this agreement 2,447 shares with a market value of \$117,488 are to be issued for the year ended July 31, 1957. Effect has been given to the issuance of these shares in the financial statements.

LITTON INDUSTRIES, INC.

BOARD OF DIRECTORS

Charles B. Thornton, Chairman
Roy L. Ash
H. W. Jamieson
Dr. Myles L. Mace
Glen McDaniel
Carl A. Spatz, 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
L. W. Howard	Vice-President
Dr. Harvard L. Hull	Vice-President
George Friedl, Jr.	Vice-President
Glen McDaniel	Vice-President
Charles R. Abrams, Jr.	Treasurer
Richard Loewe	Secretary

CORPORATE OFFICES

Litton Industries
336 North Foothill Road
Beverly Hills, California

Research-Engineering Laboratories and Manufacturing Plants:

Beverly Hills, California	San Carlos, California
College Park, Maryland	Los Angeles, California
Emeryville, California	Mt. Vernon, New York
Glendale, California	Salt Lake City, Utah
Huntington, Indiana	La Jolla, California
	Venice, California

TRANSFER AGENTS

J. P. Morgan & Company	California Bank
23 Wall Street	629 South Spring Street
New York 8, New York	Los Angeles, California

REGISTRARS

Chemical Corn Exchange Bank	Security-First National Bank
770 Broadway	of Los Angeles
New York 15, New York	215 West Sixth Street
	Los Angeles, California

