

Annual Report 1963





International Telephone and Telegraph Corporation *Annual Report 1963*

CONTENTS

Directors and Officers	2
Highlights	3
President's Summary	4
North America	7
Europe, Middle East, Africa	15
South America	23
Far East and Pacific	27
Research and Development	29
Financial Summary	32
Financial Statements	34
Auditor's Opinion	38
Notes to Financial Statements	39
Ten-Year Summary	41
Principal Divisions and Subsidiaries	42
Principal ITT System Products	44

Directors and Officers

Directors

EUGENE R. BLACK* *Business Consultant*
GEORGE R. BROWN* *Co-owner, Herman Brown & George R. Brown, engineering and investments*
HAROLD S. GENEEN* *President, International Telephone and Telegraph Corporation*
JOHN J. GRAHAM *Vice President, International Telephone and Telegraph Corporation*
ARTHUR M. HILL* *Chairman of the Executive Committee, The Greyhound Corporation, interstate bus service*
CHARLES D. HILLES, JR. *Retired*
ALLAN P. KIRBY* *Management of personal affairs and Chairman of the Executive Committee of the Board of Directors of the New York Central Railroad*
HUGH KNOWLTON* *Limited Partner, Kuhn, Loeb & Co., investment bankers*
J. PATRICK LANNAN* *Chairman of the Board of The Susquehanna Corporation, Chicago, chemicals and metallurgy*
ROBERT MCKINNEY* *Editor and Publisher, "Santa Fe New Mexican"*
RICHARD S. PERKINS* *Chairman of the Executive Committee, First National City Bank, New York*
WARREN LEE PIERSON* *Chairman of the Board, Great Western Financial Corp.*
ELLERY W. STONE *Vice President, International Telephone and Telegraph Corporation*
TED B. WESTFALL *Vice President, International Telephone and Telegraph Corporation*

* EXECUTIVE COMMITTEE

Officers

Harold S. Geneen *President*
Herbert C. Knortz *Vice President and Comptroller*
Raymond L. Brittenham *Vice President and General Counsel*
Hart Perry *Treasurer*
John J. Navin *Secretary*
Frank P. Barnes *Vice President*
Joseph J. Bokan *Vice President*
Henry E. Bowes *Vice President*
Henri G. Busignies *Vice President*
John G. Copelin *Vice President*
William M. Duke *Vice President*
Neil E. Firestone *Vice President*
Frederick R. Furth *Vice President*
Edward J. Gerrity, Jr. *Vice President*
John J. Graham *Vice President*
John C. Lobb *Vice President*
Stanley Luke *Vice President*
Corbin A. McNeill *Vice President*
Eugene F. Peterson *Vice President*
Henry H. Scudder *Vice President*
Ellery W. Stone *Vice President*
John T. Thompson *Vice President*
Ted B. Westfall *Vice President*
Chris J. Witting *Vice President*

The annual meeting of stockholders will be held at 2:00 p.m. on Wednesday, May 13, 1964, in the Crystal Ballroom of the Benjamin Franklin Hotel in Philadelphia.

Highlights

	1963	1962*
Sales and Revenues —		
Net Sales		
United States and Territories	\$ 620,286,520	\$ 597,363,061
Foreign	686,488,601	583,780,660
Total sales	<u>1,306,775,121</u>	<u>1,181,143,721</u>
Telecommunication Operating Revenues		
United States and Territories	53,377,372	45,919,239
Foreign	53,993,892	50,200,260
Total revenues	<u>107,371,264</u>	<u>96,119,499</u>
Total sales and revenues	<u>\$1,414,146,385</u>	<u>\$1,277,263,220</u>
Net Income	\$ 52,374,939	\$ 45,819,176
Per Average Common Share	\$2.70	\$2.37
Average Common Shares Outstanding during Year	18,402,460	18,192,400
Dividends per Common Share	\$1.00	\$1.00
Net Current Assets (Working Capital)	\$ 333,848,965	\$ 345,889,971
Ratio of Current Assets to Current Liabilities	1.8 to 1	1.9 to 1
Plant, Property and Equipment, less Reserves	\$ 572,469,232	\$ 502,838,745
Orders on Hand —		
United States	\$ 286,000,000	\$ 313,000,000
Foreign	631,000,000	521,000,000
Total	<u>\$ 917,000,000</u>	<u>\$ 834,000,000</u>
Telephones in Service	517,553	460,980
Backlog Telephone Demand	226,655	220,601
Number of Employees	173,000	171,000
Number of Stockholders	100,269	92,362

*Restated to include data relating to companies acquired in 1963 in poolings of interests.

President's Summary

TO OUR STOCKHOLDERS:

I am pleased to report that International Telephone and Telegraph Corporation had another record year in 1963, both in growth and in profitability.

It was the fourth consecutive year that our managed growth program, launched at the beginning of 1960, has led the Company to new levels of achievement.

After exceeding the billion-dollar mark in sales and revenues for the first time in 1962, we stayed on schedule by moving strongly beyond that record during 1963.

We continued to go forward with the expansion of our worldwide manufacturing capacity through acquisitions and new plant construction. We continued to broaden our product base, and we continued to improve our competitive position in the key areas of our worldwide operations.

In short, it was another year of continued growth with profitability — the policy with which your management leads this Company.

Consolidated sales and revenues for the year rose to \$1.4-billion, up 11 per cent over 1962, as restated for "poolings of interests" acquisitions during 1963, and our earnings reached \$52,375,000, or \$2.70 per average common share.

The 1963 earnings reflect an increase of 14 per cent over 1962 earnings of \$45,819,000 or \$2.37 per average common share, as restated. Per share earnings increased 11 per cent over the \$2.43 reported in 1962, prior to the acquisitions.

Our internal growth has also been highly satisfactory in 1963, quite apart from the acquired companies. Excluding the effects of any of the companies acquired in 1963 from the results of that year and the one

preceding, our 1963 sales and revenues were up 12 per cent, our net income up 14 per cent, and net earnings per share up 13 per cent.

Our orders on hand as of December 31, 1963 rose to a year-end record high of \$917-million, or 70 per cent of our 1963 manufacturing sales. This is a gain of approximately 10 per cent over the restated figure for the 1962 backlog.

During 1963 alone we enlarged our System-wide productive capacity by adding 7.3-million square feet of floor space to our manufacturing plants and laboratories, bringing our total worldwide capacity to 31.9-million square feet for an increase of 30 per cent over 1962. Of this increase, 2.5-million square feet were added by new construction and 4.8-million square feet by acquisition.

Also during the year, we added some 16,000 men and women to our rolls for a gain of 10 per cent over the 1962 employment level, raising the System's worldwide roster of employees to a record total of 173,000.

Our expanding strength during the past four years can largely be traced to our controlled growth program, which requires management to meet the demanding standards of performance it sets for itself in terms of both operating activities and results for our stockholders. Prior to the establishment of this program, ITT operated basically as a holding company in which each subsidiary concerned itself with sales in its own country and that country's prime export market, and was left to operate largely on its own.

When we undertook our program of reorganization four years ago, one of our first priorities was the development of the controls and management direction needed to



weld our subsidiaries into a powerful unit to meet the conditions of our rapidly growing and profitable foreign areas. We therefore set up an organization based on area managements. These managements are partly autonomous. Acting to meet local area problems, they supply the coordinating influence required within each area. At the same time, they provide a sensitive reaction to world conditions, contributing information to the development of the needed inter-area policies and, ultimately, through direct participation at ITT World Headquarters, to the rapid formulation of worldwide management policy and decisions.

This program has provided the means of managing the Company and achieving its goals — product development, market penetrations, and better earnings — rather than holding the Company's assets for the investment income. Our basic tools are realistic yearly operating plans based on intensive financial controls, written and oral reports, and result-forecasting techniques on a monthly, and often on a day-to-day, basis for each segment of the organization.

The creation of a strong management team — in fact, several such teams if we count those at area level as well as those at our World Headquarters — is perhaps the most important achievement of the past four years so far as the Company's future is concerned.

Because of this important maturing of the Company, which I feel should be recognized, our annual report will be presented in a manner different from prior years. The area approach we have adopted for our business management has also been adopted for our annual report and will, I hope, give you some feeling of the depth and true international operating strength of your Company.

Before turning to the different area reports, let me outline briefly the relationship of these parts to the whole, and the sensitive network of control that links them and makes it possible for our management groups around the world to be constantly in touch and to meet the goals that our World Headquarters sets for them.

Every month each of our managers throughout the System sends to World Headquarters in New York a report stating his problems and all other matters affecting the success of his unit. These reports are reviewed for all problems and points of indicated action in face-to-face discussions at monthly meetings at the headquarters in the area. These meetings are attended by the managing directors responsible for each unit's performance within the area, together with members of the area staff. Their decisions are reviewed in turn for worldwide coordination and policy by the monthly meeting of staff and group executives at World Headquarters. Pressing problems are followed throughout the month on an almost daily basis.

In setting goals, each System company is required once a year to develop a complete business plan covering a five-year period, with primary emphasis on the two years ahead. Each year this plan is reviewed by the appropriate area staff and again by the headquarters staff in New York. ITT's top executives, both line and staff, attend these business plan meetings, which are held at the area level, and they thrash out questions directly with the area and unit managers and their staffs.

Thus, in this continuous interplay between our System goals and changing field conditions, there is no lack of communication for setting goals, following performance, or taking action between the top echelon of the Company and the firing line. This communication in both directions continues throughout the year in terms of goal achievement and necessary action.

Our worldwide operations are therefore now being guided by a dynamic management team of some 728 executives. Nearly half of this executive force, or 351 management professionals, have been members of the ITT organization for ten years or more. About 16 per cent of the total group, or 116 executives, have been with ITT for 30 years or more. These figures reflect the results of our management development program, and our policy of promotion from within wherever possible.

During the past five years, ITT's executive force has been strengthened through selection and performance to meet changing management requirements brought about by the dynamics of the System's growth. We will continue this policy. In this five-year period, 118 members of the present executive force were brought into ITT from outside the Company. At the same time, 131

executives were promoted from within the System. Our present management team, which leads our worldwide work force of 173,000 men and women, is therefore a blend of seasoned veterans and capable additions who, as proven, not only bring to the Company original ideas and new points of view, but add new contributions to our capabilities and goals as well.

I have described our business growth program in some detail, because its operation is vital to ITT's continued expansion and profitability, and it is bound so to remain as our products, our capacities, our areas of operation, and our employees continue to increase.

As the world's largest international manufacturer and supplier of electronic and telecommunication equipment and services, your Company is unique in many respects.

While we are a U. S. corporation with predominantly U. S. stockholders and with U. S. management, we operate directly more than 100 companies in 49 countries. Many of these subsidiaries have been established leaders in electronics and telecommunication for as long as 55 to 86 years. These include those in existence for 85 years in Germany, 82 years in Belgium, 81 years in England, 80 years in Austria, 55 years in the United States, and 86 years in South America. Our activities range from the production of equipment for telecommunication utilities to the operation of such utilities, and include the manufacture and sale of electronics, consumer goods, and industrial products.

In a period of expanding world commerce, which is the foreseeable trend of the next ten years, ITT is a company that literally girdles the world and directly manages its operations throughout the world, both in

developed and developing areas.

Moreover, ITT stands to benefit almost more than any other U. S. company from the rapidly rising income levels and industrial growth in our markets abroad. It is significant that in Europe, our largest market, the increase of passenger-car production in 1963 exceeded that of the United States. This single fact, more than anything else, will convey the growing maturity of this vast market of 305-million people in Europe, where we are so active.

Measured in terms of dollar equivalents, ITT in 1962 stood 41st in sales and 27th in assets among all U. S. industrial companies. But in another, more meaningful, operating measure recognizing cost levels and currencies around the world, ITT has become the world's 10th largest industrial employer and 5th largest among U. S. corporations.

It will help to put the size of our foreign manufacturing operations into perspective if we consider that, of the 200 largest foreign industrial companies, our non-U.S. operations as a group would place ITT, without its highly promising U. S. operations, 36th in sales and 18th in net profit among all foreign industrial companies throughout the world.

In its basic product line of telecommunications, ITT is the largest in the world outside of the United States.

Moreover, we are still planning in terms of future growth trends as sharp as in the recent past. In particular, we are anticipating accelerated growth in our U. S. operations and earnings. We will continue, as opportunity affords, to add to our growth by acquiring companies that are compatible with our policies and that can make a constructive contribution to our Company and to the national economies we support.

A brief review of just a few results of our managed growth program over the past four years will be of value to you in appraising the trend of your Company. During this period:

Sales and revenues rose 83 per cent — from \$765-million to \$1.4-billion.

Employees increased by 27 per cent — from 136,000 to 173,000. Note that during this period our sales rose three times as fast as our people.

Manufacturing and laboratory space increased 88 per cent — from 17-million square feet to 31.9-million square feet.

We entered new fields of activity and set up new marketing groups.

We acquired companies with 1963 sales of about \$325-million.

While all this was being accomplished, the growth rate of our earnings per share has been accelerating, and during each of the past three years it has exceeded 11 per cent.

As noted, we are presenting this 1963 annual report by the areas in which we operate. This will make clear, I believe, what we do by area and by product — and demonstrate the trends of performance being created in these areas by our coordinated managements. These areas, in order, are: 1, North America; 2, Europe, Middle East, and Africa; 3, South America; and 4, Far East and Pacific.

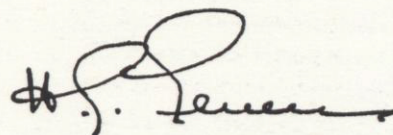
During the year, Mr. Eugene R. Black, former president of the International Bank for Reconstruction and Development, who has a long record of outstanding public service, joined our board of directors, and Mr. Robert M. McKinney was reelected to the board

after distinguished service as United States Ambassador to Switzerland.

As a final word to our stockholders, let me say that our managed growth program is building for a stronger as well as bigger and always more profitable ITT, and that meeting these goals is our primary concern.

I would also like to thank the men and women of our ITT System, our suppliers, and our customers for their help in achieving another record year for ITT.

For the Board of Directors



March 11, 1964

President



New York City — World Headquarters of the ITT System and hub of our North American area.

North America

1963 was a year of growth results as well as growth input for our North American area of operations.

The area's share of total System sales and revenues and manufacturing income increased. The area's manufacturing capacity and product lines were broadened and diversified, and some of our newer products will contribute to future profitability not only in our North American market but in Europe and other worldwide markets as well.

Earnings of the area's manufacturing companies rose to 19 per cent of the System's total net income for a gain of 27 per cent over 1962, and more than 28 per cent of the System's total income was earned in the United States and U. S. Territories in 1963 as compared with 24 per cent the year before.

Our main traditional products in this area are communication, navigation, and defense systems and equipment, in many of which we have long held a leading position. We now also manufacture for the newer satellite and space fields.

Other ITT products in the North American area include all types of electrical connectors for military, commercial, and industrial use; industrial pumps, motors, compressors, and air conditioning and refrigeration equipment; capacitors, diodes, transistors, silicon rectifiers and micro-miniature semiconductors; control valves, regulators and flow tubes, automation and automatic controls, and aircraft electronic controls; precision-built wire and cable, coaxial cable, rubber- and plastic-coated electrical wire, electrical fuses, and wiring devices; non-thermionic vacuum devices, vacuum power switches, and vacuum transfer relays.

In addition, we operate through All America Cables and Radio in Central America, Puerto Rico, the Virgin Islands, and other Caribbean islands. We operate telephone companies in Puerto Rico and the Virgin Islands as well as international communication services. We also manufacture in Canada and Mexico.

It is significant that, in the urgency of world conditions during 1963, we were awarded the contract to install the Washington-to-Moscow "Hot Line" cable facility agreed to by delegates of the United States and the Soviet Union in Geneva. Our Company provides the U. S. terminal of the telegraph circuit between Washington and Moscow through London, Copenhagen, Stockholm, and Helsinki. Complete privacy of transmission is achieved by means of special equipment, a portion of which was manufactured by ITT.

For the third consecutive year our long-standing position as a major contributor to national defense requirements advanced — moving up from 25th in 1961 to 22nd in 1962 and 18th in 1963 among the nation's leading prime contractors to the U. S. Defense Department. The defense program, with a \$50-billion annual budget, continued to be one of the major efforts of our nation. The Company's sales as a prime contractor to this program have risen from \$189-million in 1960 to \$303-million in 1963, a gain of 60 per cent. The nation's changing defense needs will require more of the communication and control electronics of the types we make.

Since 1959, the Company has added a total of 4.7-million square

feet to the area's manufacturing and research capacity for a present total of more than 9-million square feet, or an increase of better than 100 per cent.

In 1963 alone, we added 16,000 employees worldwide for an increase of 10 per cent in the System's total employment over the preceding year. Of this total, 11,000, or two-thirds, were added to our North American operations, raising the area total to 40,000 employees at the outset of 1964.

By way of contrast, in 1945, our manufacturing operations were conducted in only one state—New Jersey—and our research activities were centered in New York City. Today, the area's operations include factories, laboratories, and sales and service units in 38 states and the District of Columbia, and in six provinces of Canada.

We acquired during the year 1963 five U. S. manufacturing companies that have broadened and diversified the area's product lines in new and promising large markets.

Each of the companies acquired in 1963 occupies an important position in its field and is a leader in its major product lines. The companies, together with their product lines and markets, are:

ITT General Controls Inc., of Glendale, California. Founded in 1930, it designs, manufactures, and supplies automatic controls for domestic, industrial, and aerospace uses. The company ranks among the first three manufacturers, both in the gas-heating control sector and in the controls market as a whole. It has five plants in the United States, and conducts manufacturing opera-

tions in Canada, England, and Germany as well.

ITT Bell & Gossett Inc., of Morton Grove, Illinois. Founded in 1916, it manufactures a broad range of industrial and commercial pumps; heating, air-conditioning, and refrigeration accessories and equipment; oil-less air compressors, and other related equipment. Ranking first in important sectors of its market, the company has eight plants in the United States and one in England.

ITT Nesbitt Inc., of Philadelphia, Pennsylvania. Founded in 1917, it is the leading manufacturer of heating, ventilating, and air-conditioning equipment for schools. This market is expanding under current pressure for additional educational facilities. The company has four plants, three in Philadelphia and one in Columbus, Ohio.

ITT Cannon Electric Inc., of Los Angeles, California. Founded in 1915, it is an international supplier of electrical connectors for industrial, commercial, and military use. The company holds a top position in the military and industrial segments of this market. It has six plants in the United States and also manufactures in Canada, England, Belgium, and Australia.

ITT Gilfillan Inc., of Los Angeles, California. Founded in 1912, it specializes in the manufacture of airport surveillance and ground control approach radar in which it is a pioneer. The company holds the number-one position in this market.

Since the start of our growth program, our commercial industrial sales in North America have increased even more rapidly than our

ITT is now the leading U. S. manufacturer of heating, ventilating, and air-conditioning equipment for schools.



defense sales, bringing the two sectors closer to a balance.

Of total sales in 1963, commercial industrial sales represented 38 per cent, with U. S. Government sales accounting for 62 per cent. In 1959, this relationship was 26 per cent commercial industrial and 74 per cent U. S. Government.

Components

Components are the building blocks of all electronic and electromechanical equipment. Our companies in these markets have been moving steadily forward to a position of increasing strength.

As the world's largest producer

of gold-bonded germanium diodes, now used primarily in computers where quality is at a premium, we quadrupled our production and nearly tripled our dollar sales in 1963. Production rose from 2-million units a month to 8-million units a month and the number of employees engaged in diode production expanded from some 400 to the present force of approximately 800.

Construction of a new 135,000-square-foot semiconductor production and research facility was started in West Palm Beach, Florida. This will provide expanded capability for production of zener and 4-layer diodes, rectifiers, and capacitors, and

for development and manufacture of integrated circuits, which will be broadly applied in electronic systems of the future.

We continue to lead the world as the largest supplier of hydrogen thyratrons, widely used in radar applications. In these and other electron tubes we are using the latest ceramic technology to attain the greatly increased power-levels required to reach present and future requirements.

We also began construction during the year of a new facility in Easton, Pennsylvania, for development and manufacture of special-purpose electron tubes, thus providing for consolidation of such operations previously carried out at 3 separate locations. Completed in March of 1964, the plant's 145,000 square feet will give us manufacturing capability to enlarge our share of this market.

We also maintained our leading position in image-storage and display tubes, and photo-sensitive devices such as infrared and visible-image converters.

An important commercial application of image-storage tubes was the development by the Company of its *Videx* equipment for the telephone-line transmission of graphic material. This equipment was marketed in 1963 for remote verification of signatures and transmission of weather radar and chart reports, and other visual displays.

Communication Equipment and Systems

ITT's basic strength in communications is reflected in the progress of our area's companies in this field of



ITT silicon rectifiers for high-current use — tiny workhorses of the electronic industry, where they replace larger and more fragile vacuum tubes.

This installation of our ITT 7300 ADX automatic data exchange system went into operation for Eastern Air Lines in December 1963.



our activities during the year.

We continued to play a leading role in the development of automatic data, message, and voice switching systems uniquely designed for modern commercial and industrial demands.

During the year, four major installations of our ITT 7300 ADX automatic data exchange system became operational. These installations were for Eastern Air Lines, the U. S. Air Force Air Weather Service, the National Aeronautics and Space Administration's Marshall Space Flight Center in Huntsville, Alabama, and the Montreal headquarters of Aluminium Limited. At year's end orders were on hand and fabrication was under way on several additional ADX systems for commercial and industrial use.

Meanwhile, we have developed one of the finest capabilities of any U. S. company for the programming of data and information handling systems. Several hundred specialists are now trained in the vital programming function.

We advanced our position as the leading manufacturer and research organization of non-thermionic vacuum devices for transmitters, radar, sonar, missiles, and atomic energy work, and our vacuum switches cut further into established markets for circuit-breakers in heavy power uses.

1963 also saw the beginning of the first commercial production of our *Kelex* electronic private automatic telephone exchange, or switchboard. This new equipment is now in operation in a number of installations, and additional installations are scheduled for completion during 1964.

Also during the year, we expanded our unit sales of telephone handsets to the independent U. S. telephone market by 55 per cent over 1962.

Further progress in our development of electronic telephone switching equipment was marked by orders received to supply the U. S. Air Force with 100-line, two-wire, solid-state, fully electronic transportable switchboards, together with complex airborne switching centers, for the Strategic Air Command. In addition, the U. S. Army designated ITT to produce an entire new electronic tactical switching system, including a new-type four-wire telephone.

We were awarded a multimillion-dollar contract by Western Union to supply high-speed communication switching equipment for the General Services Administration of the U. S. Government. The contract calls for the Company to provide switching-center equipment for 24 district offices of the agency, providing subscriber service and three junction offices throughout the continental United States. Requirements of the contract will make this system for teletype transmission one of the most advanced within the means of present-day technology. Facsimile and data can also be expeditiously transmitted.

We developed for the Bell Telephone Laboratories switching equipment and terminal transmission signaling equipment to be used in the Bell System's new and improved mobile telephone service. A marked advance in mobile telephone technique, the equipment makes mobile service more nearly equivalent to traditional fixed-office service, thus

ITT's U. S. service organization carries out projects worldwide. Shown here is a 600-foot tropospheric-scatter antenna being completed in the Near East.

enabling an operating company to handle more customers and increase its revenues. We have received several production orders, and the market potential is promising.

In the same field, license approvals by the Federal Communications Commission in 1963 led to a new ITT commercial communications activity — the establishment of mobile radiotelephone communication operations in seven U. S. cities. These operations have been initially established in Los Angeles, San Bernardino, San Diego, and San Francisco, Calif.; Cleveland, Ohio; Omaha, Nebr.; and Fort Wayne, Ind. Further expansion to include other key U. S. cities is foreseen within the near future. Meanwhile, production of mobile radiotelephone equipment has been concentrated on the West Coast.

We took another important step forward in commercial electronic communication with the development and field testing by our Canadian company of a commercially economic 2-gigacycle 60-voice-channel, completely solid-state microwave radio communication system.

Cable and Wire

ITT's cable and wire activities in the area during 1963 were featured by a \$3-million plant modernization and expansion program, product development, establishment of new marketing plans and techniques, and increased merchandising efforts — all aimed at achieving cost leadership in this highly competitive field and expansion of our share in the area's commercial and industrial market.

Early results of these expansion efforts include the opening up of important new industrial markets for abrasion-resistant wire produced by one of our companies. Formerly confined primarily to the military and space markets, it is now being supplied on contract to a major locomotive manufacturer. Similarly, new commercial and industrial applications are expected to develop in 1964 for existing cable and wire products.

Materials Handling

Modern business and industry demand swift methods of transporting records and other vital materials, and we continue to be an important producer of such systems. In 1963, we engineered for the Puerto Rico Medical Center in San Juan a pneumatic tube system nearly four miles long that will provide rapid transportation for medical records, prescriptions, and drugs. And in early 1964, one of the most modern tube systems ever installed in an existing structure was completed for the Morgan Guaranty Trust Company in New York.

Defense and Commercial Electronics

Few companies in the United States equal ITT for the variety of projects undertaken and the number of branches of the Armed Services, the National Aeronautics and Space Administration (NASA), and the other government agencies served. In fact, it is this ability of the Company to cover a broad spectrum of defense requirements — from the production of microminiature components to vast radar networks —



that has secured our strength in this field.

We are an acknowledged leader in many branches of defense activity. In navigation, for example, we stand first in the development and production of marine and aerial guidance and navigation equipment such as ILS (instrument landing system), Tacan (tactical air navigation), Vortac (very-high-frequency omnidirectional radio range plus Tacan), DME (distance measuring equipment), and Loran (long-range navigation). We supply this and related equipment to the Army, Navy, Air Force, and Coast Guard, the

Advanced models of ITT spaceborne radio transmitting units used in various U. S. missile-system space-probes.



Federal Aviation Agency, and a wide range of civilian customers as well.

We also supply field communication equipment to the Army; ground and airborne communication equipment to the Air Force; sonar and shipboard and airborne communication equipment to the Navy; and ground and missile communication equipment, and satellites, for the Air Force and various space programs. We play an important part in communication and control systems at the Pacific Missile Range and Vandenberg Air Force Base, as well as at numerous missile sites around the country. Equally important to the country's defense are the underwater warfare studies in which we are engaged for the government.

The new automated command control system, which we have designed and built for the Strategic Air Command, entered the stage of field implementation and programming in 1963. This system will give SAC an automated, high-speed method of controlling its missiles, personnel and manned bombers. Its successful progress reflects ITT's long-established capabilities in the command and control field.

We have just completed the ACE HIGH communication system for Supreme Headquarters Allied Powers Europe, and are presently in charge of many other communication programs of this kind now being built in Europe and the Far East.

We maintain and operate the DEW Line of radar defenses stretching from Bering Strait to Iceland.

We designed and built transportable ground stations for satellite communication. These were used with Relay I and II satellites to carry out the first satellite communication experiments between North and South America and between South America and Europe. In addition, other experiments were carried out between Europe and the United States, and further experiments were conducted with Syncom and Telstar satellites.

Also, we were chosen by both the Defense Communications Agency and the Air Force to advise upon and plan communication and satellite systems of the future.

Other Area Activities

ITT's multicompetence in electronics and communication is nowhere better illustrated than in the Caribbean.

This rapidly developing area is a historic theater of operations for ITT: the two companies acquired by the newly formed ITT Corporation in 1920 as foundation-stones of its present worldwide System were both Caribbean utilities. Today the area hums with new industrial activity and planning.

We enjoyed important growth in 1963 in manufacturing, sales, installation, and service, the operation of telephone companies, and the operation of international and marine communication networks. Our progress was especially notable in two of the fastest-growing areas, Puerto Rico and the Virgin Islands.

Our new subsidiary in Puerto Rico, ITT Caribbean Manufacturing, Inc., is the only company manufacturing telecommunication equipment in that Commonwealth. Started in 1963, the company is already in operation in its modern 50,000-square-foot plant in San Juan. It assembles and fabricates K-500 subscriber sets and *Pentaconta* switching equipment for the export market as well as for our own Puerto Rican telephone utility.

In Jamaica, we have set up a new sales unit that will expand into a manufacturing company for telephone equipment when its plant is completed late in 1964.

Telephone Operations

Our Puerto Rico Telephone Company, with 2,063 employees and 162,624 subscriber stations, operates 95 per cent of the Island's telephones. The company continued its expansion program throughout 1963, but at a slower pace, owing to the lack of rate relief to attract

New automatic public telephone switching exchange at Isla Verde, one of many put into service as part of our Puerto Rican company's expansion program.

additional financing. Hearings were held before the Public Service Commission on the company's request for a rate increase, and it is hoped that a decision will be rendered soon.

A total of 54,288 new telephones was installed in 1963 for a net gain of 30,907 — a 23.5 per cent increase for the year. Gross plant additions for the year totaled \$18,571,899. Automatic dial service was extended to five more areas to bring the number of automatic exchanges to 59 out of a total of 64 on the Island.

Since the start of the company's expansion and improvement program in 1959, a total of 95,871 telephones has been added, or an increase of 144 per cent. Gross plant additions for the five-year period totaled \$105,559,778.

Our Virgin Islands Telephone Corporation, founded in 1959, became 100 per cent *Pentaconta* automatic in 1963. The company's 81 employees operate 6,415 telephones, of which 1,756 represent a net gain for the year, or an extraordinary 38 per cent. Incoming traffic increased 36 per cent, inter-island and long-distance traffic 44 per cent.

International Communications

Coordination of our international cable and radio facilities throughout the Caribbean was effected in 1963. Our telegraph services in Puerto Rico, the Virgin Islands, and other Caribbean islands were remodeled and teleprinters installed. Telex service was extended to Haiti and to three cities in the Dominican Republic. The use of telex in Puerto Rico and the Virgin Islands rose



nearly 50 per cent during the year, and increased demand for teleprinter channels accounted for 12.5 per cent of total revenues from telegraph communication.

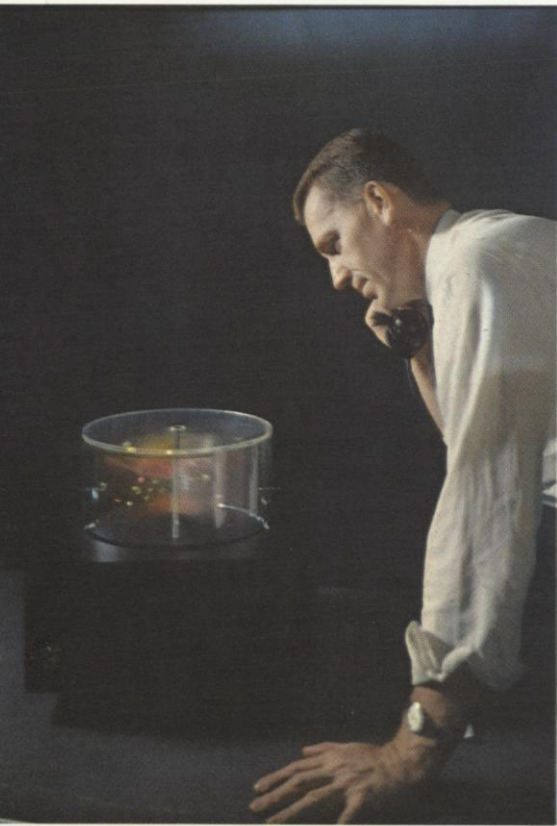
Growth possibilities in the area were also vividly illustrated by inauguration of the coaxial submarine cable from Florida to the Panama Canal Zone on April 1, 1963. This joint venture of ITT and American Telephone and Telegraph Company has since resulted in an 80 per cent increase in international telephone traffic compared with 1962, when traffic was handled by high-frequency radio. Overseas telephone channels from the Caribbean to the United States increased from 88 to

101 during the year and will be further increased to 172 by the beginning of 1965.

Shore stations for marine radiotelephone service are being re-sited for better coverage of the needs of commercial and private shipping in the vicinity of Puerto Rico and the Virgin Islands.

Use was acquired of telegraph channels in submarine cables connecting the United States and Bermuda, Jamaica, Panama, Australia, and New Zealand, as well as across the Atlantic. A new high-frequency radiotelegraph link was inaugurated between our facilities in Manila and those of the Chinese Government Radio Administration in Tai-

ITT three-dimensional display device for use in air-traffic control, space navigation, missile and satellite tracking, and scientific data analysis.



wan. Existing point-to-point radio facilities between the United States and Latin America were augmented.

ITT-manufactured automatic telex switching equipment installed in our New York and San Francisco operating centers enabled us to be the first U. S. carrier to offer American subscribers fully automatic subscriber-to-subscriber telex service between the United States and principal overseas countries. In November, the Belgian Telephone and Telegraph Administration, through a similar ITT telex switching system, was the first European country to make it possible for its subscribers to reach subscribers in the United States without operator intervention.

In October 1963 a series of proceedings was initiated before the Federal Communications Commission in order to protect and enhance your Corporation's stake in international communications. Your Corporation has contended before the Commission that AT&T's dominant position in the domestic voice field, its international voice monopoly, and its gradual acquisition of a virtual monopoly of modern cable facilities, together with its efforts to invade the field of the international record carriers, were rapidly creating a serious competitive imbalance which would make continued effective competition impossible. Your Corporation has asked the Commission to permit us, in opposition, to construct the fourth transatlantic cable and to acquire indefeasible right of user in the existing cables as well as right of interconnection with the domestic telephone network. We have also asked that the franchises of international record carriers be clarified and that AT&T be excluded from the franchise which has been traditionally that of the competitive international record carriers.

Significant gains have been realized with respect to indefeasible right of user and interconnection. It is our intention to continue to press vigorously your Corporation's other contentions before the Federal Communications Commission to promote a healthy climate for the international telegraph business, in order that we may continue to grow as a competitive factor in the international communications field in which we have been a pioneer and active contributor for many years.

Marine Radio

The Marine Division of Mackay Radio designs and manufactures electronic communication and navigation equipment for sale and installation on ocean-going ships. It also manufactures specialized equipment, designed by Mackay, for the Parent Company's expanding international communication system, as well as for other ITT System companies. Major orders received in 1963 increased by 50 per cent over 1962.

The Marine Division also operates seven high-power coastal radiotelegraph stations in the United States and one at Manila.

Area Summary

Basically, 1963 was a year of overall progress for the North American area, which saw the expansion of its commercial activities broadening from its previously established base. We have moved closer to a balance between our military and commercial sales and earnings, aided by fresh marketing techniques, vigorous exploitation of new developments, and a constructive program of cost reduction.



Brussels, capital of the Common Market, boasts one of Europe's most famous squares — the Grand' Place. ITT's European headquarters is situated nearby.

Europe, Middle East, Africa

Before reviewing some of ITT's accomplishments in Western Europe in 1963, let us look briefly at the area itself, with its expanding population already in excess of 300-million.

Today there is much more to Europe than the fascinating medieval towns and other features that beguile the tourist. Alongside the old Europe a new, dynamic industrial and commercial expansion is making itself apparent. Spurred in large measure by the Common Market and EFTA (the Outer Seven), prosperity and growth are seen everywhere. The car-clogged streets . . . the demolition crews tearing down whole city sections to make way for modern office and apartment blocks . . . the new transportation arteries that know no national boundaries . . . the glossy supermarkets . . . the crowded restaurants . . . the leisure-time spending that takes the factory and office worker by air to summer and winter vacation resorts once available only to the privileged few . . .

These are just a few of the outward signs of a whole new stage in European life that is rapidly unfolding. ITT is simultaneously helping to bring about this transformation and sharing in its benefits. Our long-established position in Europe gives us a head start on both counts.

Once again in 1963 Europe was ITT's largest market area. Accounting for 49 per cent of total System sales, our European companies boosted their sales last year to 20 per cent above their 1962 volume, itself a record.

The year also marked a further



Headquarters for ITT Europe, above, is the scene of regular monthly meetings between area staff and representatives from ITT World Headquarters. Below is ITT President Harold S. Geneen, seated fifth from right on far side of table, presiding at a recent meeting.



phase in our comprehensive plant expansion program, with the addition by ITT in Europe of 3.9-million square feet of floor space, bringing our European total to over 20-million.

Major new facilities were brought into operation in Austria, Belgium, France, Germany, Italy, Norway, Spain, and the United Kingdom. Also during the year, our European area headquarters moved into new premises in Brussels. Staffed by a small group of executives and specialist personnel of many nationali-



ties, the 3½-year-old Brussels headquarters provides the continuous coordinating influence necessary within the area, and between area and ITT headquarters.

By year's end we had almost 115,000 employees in Europe, and our manufacturing operations were being conducted in all of the Common Market countries with the exception of Luxembourg, and in every one of the Outer Seven. In addition, we manufacture on a large and growing scale in Spain, and have further plants in Finland, Algeria, and the Republic of South Africa. Besides serving their national markets, our factories in Europe provide a very strong, competitive manufacturing base for our products in the Middle East and Africa, and other developing parts of the world. Some of our companies have an export ratio exceeding one-third of their sales volume.

Because numerous ITT companies in Europe have roots going back several decades, we derive many advantages from the development of our companies along with the economies of their respective countries. Moreover, our employees are almost 100 per cent nationals of the countries in which they work. A typical example is our company in Belgium, founded in 1882 — only six years after the invention of the telephone — and today the country's fourth largest employer.

Communication Equipment and Systems

Our product strength in Europe can best be expressed in the single word "Telecommunication". However, we are now developing in many prom-

ising fields that are an outgrowth of our telecommunication background, as well as in entirely new areas.

ITT has long been the leading accredited supplier of telecommunication equipment to every major government in Europe, with 30 per cent of the European telephone equipment market as a whole — more than our two closest competitors combined. The importance of this fact is that the potential market in Europe is much greater than in the United States. The 305-million West Europeans still have only 13 telephones per 100 population, compared with 43 per 100 for the 190-million Americans. Yet only 25 years ago in the United States the corresponding ratio was 13.8 telephones per 100, or almost exactly the same as Europe's today. We have reason to believe that the next 25 years in Europe will see an even greater rate of growth than did the last 25 in the United States. This is the solid base of ITT's continuing, strong, non-cyclical growth.

ITT companies in Europe manufacture virtually every product for modern telecommunication: telephone handsets, teleprinters, automatic telephone and telegraph exchanges, transmission equipment, signaling and control systems, cable and wire products, to name only a few.

Although telecommunication accounts for the major part of our sales volume in Europe, it does not represent the total of our activities in this market. Drawing on our unique capabilities and resources, we have successfully diversified and are steadily strengthening our position in other growing multimil-

lion-dollar European markets. These include consumer products, components, controls, air-conditioning and heating, avionics, commercial radio, and defense products.

In 1963, further important gains were made with the ITT *Pentaconta* crossbar telephone switching system, which originated in one of our French companies. France continues to be our major source of *Pentaconta* equipment and the year saw the cut-over of numerous public exchanges in that country, manufactured by both of our principal French companies.

In addition, this versatile equipment is now manufactured in our plants in Belgium, Denmark, Italy, Spain, Sweden, and Switzerland. To date our *Pentaconta* equipment has been supplied to more than 60 countries, from the Republic of Ireland to New Zealand, and from Korea to the southernmost tip of the inhabited world, Tierra del Fuego.

Output of *Pentaconta* equipment in Spain is building up rapidly in a new plant near Madrid, in order to serve the expanding telephone market in that country, and later for export. Another new *Pentaconta* plant was opened in 1963 at Laval, in France.

Parallel with the rising output of *Pentaconta* equipment, our European companies continued to fill major requirements for switching equipment of the step-by-step and rotary types, both for local markets and for export. Our Belgian company was a notable performer in the export field and also in the supply of automatic telegraph exchanges.

The year was marked by further

Our company in Switzerland, in cooperation with the Swiss Government and our West German company, erected this multipurpose antenna on Mount Rigi for FM and television broadcasting and mobile telephone services.



progress in the development of electronic telephone switching equipment. One important milestone was the inauguration in Stuttgart of a new quasi-electronic exchange built by our West German company. Extensive service trials have confirmed the exceptional reliability of the system, which accommodates a push-button version of the ITT *Assistant* telephone handset.

Europe's dynamic commercial and industrial growth continued to spur demands in the field of private automatic branch exchanges, highlighted by the following installations:

A 2,000-line PABX for the new radio and television center in Paris; Britain's largest cordless installation for the United Kingdom Atomic Energy Authority; a new-style 3,000-line installation for London Airport; and a system with special features for the new London Hilton Hotel. Our West German company delivered its 10,000th crossbar ex-

change and received an order from the Government of Luxembourg for a system with push-button selection.

Sales of teleprinters and punched tape equipment totaling \$22-million were made during the year by our West German and British companies, the latter delivering its 10,000th Model 75 machine, to date sold in 60 countries and in service on land, at sea, and in the air.

Also in the United Kingdom, our principal company occupied new plants providing facilities unequaled in Europe for the manufacture of long-distance transmission equipment. In addition to a British Post Office contract for over \$4-million of multiplexing equipment, our company has been entrusted, jointly with our Spanish associate, with a major microwave network for Spain. Transmission and microwave equipment also figures prominently in the programs of several of our other European companies.

Mobile radio equipment represents another important area of ITT activity in Europe. During the year our West German and British companies both secured major contracts from the German Government for newly developed mobile radio equipment suitable for all kinds of military vehicles. The contract placed in Britain is believed to be the largest ever received in that country for the export of radio equipment, and the two together totaled in excess of \$70-million.

Commercial/Industrial Equipment and Systems

Automation is no novelty to ITT, and in Europe our Belgian and West German companies have long

been noted for their pioneering in the design and production of automatic mail-handling equipment. In 1963, our Belgian company scored a major success with a \$15-million contract for the automation of the Belgian postal check system.

Our basic skills in communication long ago put us in the controls field. During 1963 we established a new centralized organization in Europe, under the name ITT Industries, Europe Inc., to expand our markets in the broad area of heating and industrial controls, particularly for the products of certain of our recent acquisitions in the United States. For example, the vast potential of the newly discovered natural gas field in northeastern Netherlands will open up markets for the products of our Bell & Gossett and General Controls subsidiaries, and the city of Rotterdam has specified ITT General Controls as its supplier in the electrohydraulic valve actuator field.

We are moving ahead, too, in the air-conditioning and heating markets in Europe. Already amounting to over \$1-billion annually, there is every indication that these will be profitable growth markets for at least another decade.

The increasing interest in Europe in digital data-processing equipment and systems led us to strengthen our position with the formation of an ITT Data Systems Group. Basing its operations on our diversified equipment capabilities, its responsibilities include international marketing as well as over-all system design and engineering. In addition, the group functions as a source of data processing and computer pro-

gramming services for ourselves and our customers.

Cable and Wire Products

Cable systems, both for communication and electric power transmission, represent a product area in which ITT has unique strengths in Europe, where we operate plants in the United Kingdom, Norway, West Germany, Spain, and Belgium for the manufacture of cable and wire and associated equipment.

Our principal British company was a major contributor to one of the significant achievements in world telecommunication during 1963 — inauguration on December 3 of the British Commonwealth Pacific Cable (COMPAC), between Sydney in Australia and Vancouver in Canada. This event marked the completion of another major section of the planned round-the-world telephone cable system, which began with the United Kingdom - Canada (CANTAT) cable in 1961, in which our company was also heavily involved. As one of the prime contractors for COMPAC, our company supplied 2,800* nautical miles of submarine cable and a large part of the shore-based terminal equipment, as well as 244 undersea repeaters and 34 undersea equalizers.

Our British company during the year went into full-scale production of lightweight undersea cable of the AT&T type in a second and new factory in Southampton, England. This new operation marked the emergence of ITT as the world's largest manufacturer of undersea cable, in addition to its leading position as a manufacturer of related apparatus, including undersea re-

Top: Desk-type operator's sets for our Belgian company's *Pentomat* private automatic branch telephone exchanges for commercial and industrial use.

Bottom: Track-diagram interlock railway signaling systems pioneered by our West German company, now being adapted to international requirements.



One of the 244 undersea repeaters built by our principal British company for the Commonwealth Pacific cable is shown here undergoing final inspection.



peaters, equalizers, and shore-based terminal equipment. It also established ITT as the only company able to manufacture cable of both the AT&T and British Post Office designs, which are the principal types in use throughout the world today.

Output of the new factory has already reached 3,600 nautical miles, mainly for the TAT-3 transatlantic telephone cable brought into service in October, which provides 128 circuits and is the first such cable to link the United States and the United Kingdom directly. Our British company's leadership in the over-all field of undersea cable, demanding a maximum degree of reliability in the cables themselves as well as in the submerged repeaters and equalizers required for their use, was first established in 1953. Of the more than 1,500 submerged telephone repeaters in service around the world, it has supplied well over a third — with many now in oper-

ation for over ten years and still giving peak performance.

The company's expanding leadership in the field of submarine cable systems was reflected in orders received during the year from the British Post Office for four systems to link England with Germany (two cables), Denmark, and the Netherlands; and for a 160-circuit, 720-nautical-mile, deep-water submarine cable system linking Spain with the Canary Islands. The company will supply for the latter system all of the deep-sea lightweight cable, 51 high-reliability repeaters, and the shore-based terminal equipment. It will also be responsible for laying the cable and commissioning operations.

In Scandinavia, our Norwegian company has long held a commanding position in the production of oil-filled, high-voltage submarine power cable. In 1963 it added to its prestige with the supply of the longest such cable ever produced in Nor-

way, to deliver 20 kilovolts of mainland power 21 miles along the seabed to the Island of Røst, within the Arctic Circle. Playing a vital role in the country's electrification program, our company has produced, and laid with its own cable-ship, more than 700 cables along the Norwegian coast.

Navigation and Radar

ITT companies in Europe continue to play a leading role in the supply of navigational aids, contributing significantly to safety in the air.

Two major ITT aids to all-weather landing are the instrument landing system (ILS) and the high-precision radio altimeter. ITT companies have supplied more than 100 ILS installations to a score of countries, enabling aircraft to make an accurate approach to the runway in conditions of poor visibility. Using our British company's radio altimeter for vertical guidance, more than 15,000 experimental fully automatic blind landings have been accomplished without incident. This vital radio altimeter is being supplied for the U. K.'s fleets of VC-10 and "Trident" jets, soon to come into scheduled passenger service.

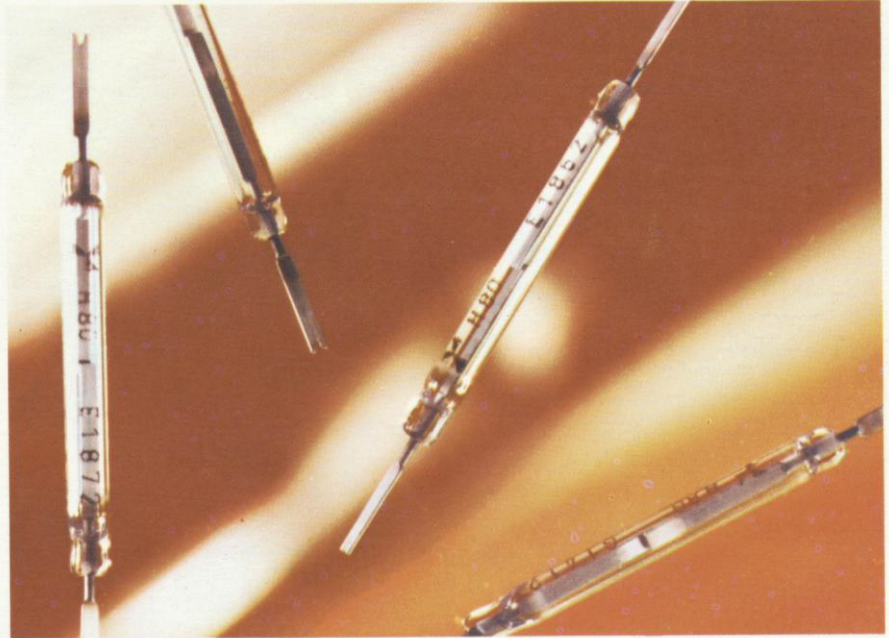
Our company has also been awarded a design study contract for the notch antenna for the new Anglo-French supersonic airliner, the "Concorde".

Participating in the extension of the European *en route* navigation network, our British and West German companies have provided most of the VOR (very-high-frequency omnidirectional radio range) equipment used, and our company in Italy recently developed a DME (distance

ITT ranks among the largest manufacturers of television sets in Europe. Shown here is one of our German-made sets displayed for sale in Sweden.



Gas-encapsulated reed relays for use in telecommunication and industrial control equipment are among the many modern components we manufacture in Europe.



measuring equipment) ground beacon that has been installed and successfully tested at Rome Airport.

To provide navigational aids for the military in Europe, ITT companies continue to supply Tacan (tactical air navigation) equipment of both ground and airborne types. Practically the whole of the NATO area is covered by Tacan ground beacons of our manufacture, while our French, British, and Italian companies are currently producing airborne equipment for such programs as the F104-G NATO Starfighter, and the Mirage III and IV aircraft.

Our Belgian and West German companies are also engaged in the manufacture of important sub-units for the airborne computer associated with the F104-G inertial navigation system.

In Sweden, our company is the prime contractor for the Swedish air defense system, while our company in Portugal is supplying an

important sub-unit for the European production of the Sidewinder missile.

Space Equipment and Systems

Following its success in North and South America, the new ITT Transportable Space Communication Ground Terminal is now in service in Europe. Supplied through our West German company to the order of the Federal Post Office, one of these stations has been installed at Raisting in Upper Bavaria for satellite communication experiments. A similar station will be installed and operating in southern Europe early in 1964.

Also in the space field, our Belgian company is under contract to ELDO (European Launcher Development Organization) to provide equipment for the down-range tracking facility at the Woomera Range in Australia.

Components and Materials

Still another growth area for ITT in Europe is that of components. Our launching in 1962 of a reorganized international marketing approach, with coordinated manufacturing and development, is proving effective. Over-all, the 1963 sales of our European companies engaged in this field increased by 30 per cent over the preceding year. We expect further substantial gains ahead, based on our growing ability to supply the user industries with a broad range of components for entertainment and professional applications. These include rectifier elements, transistors and signal diodes, electron tubes, capacitors, resistors, thermistors and varistors, quartz crystals and filters, magnetic materials and ferrites, relays and switches, and thin-film and solid-state circuits.

ITT is Europe's largest manufacturer of silicon planar and silicon

epitaxial planar transistors, and during 1963 we increased our sales by 25 per cent in the semiconductor field. Production of the latest types of silicon planar transistors was started by our South African company, along with quartz crystals, while our West German company introduced a new, space-saving rectifier that will further improve our market position.

Our British company, which is the principal manufacturer in the United Kingdom for high-reliability basic components, including vacuum tubes and capacitors for undersea telephone cable repeaters, strengthened its position by the provision of special facilities for the development and production of transistors for applications such as submerged repeaters and satellite systems.

In the field of capacitors, our British company also set up a new full-scale, semi-automatic production line for solid tantalum types, while in France we additionally acquired a major interest in a capacitor manufacturer having a good domestic and export position.

Our electron tube line registered a 30 per cent increase in sales and was augmented during the latter part of the year by a new picture tube for fully transistorized portable TV sets.

A further example of how experience gained in our traditional field of telecommunications is proving profitable in other areas is supplied by our electromechanical components line. Sales to industrial users have more than doubled, and we have strong expectations of further growth in this area. Our expanded range of industrial relays,

which now includes both dry-reed and mercury-wetted switches, has also increased our ability to meet our customers' requirements.

Consumer Products

Nowhere is Europe's rapidly rising standard of living more in evidence than in the area of consumer products. These figure importantly in our over-all growth pattern, and our management approach and merchandising methods have been geared appropriately for success in this competitive market.

ITT is particularly strong in television and radio in the United Kingdom and West Germany, which countries together account for approximately half the European market for these products.

In the United Kingdom, the output of TV sets from our factories was double that of the previous year. Our TV rental business also continued to improve, and our share of the U. K. radiophonograph market rose 50 per cent in the past year. Meanwhile, the government's decision to open up new UHF bands on the 625-line European standard is giving further stimulus to both sales and rental activities.

In West Germany, we operate one of Europe's largest single-unit production plants for TV sets, and our output in 1963 exceeded that of any other manufacturer.

We also increased our sales of radio and TV sets in France, marketing ITT products of both French and West German manufacture. Increases in television sales were likewise made by our companies in

Portugal and Belgium. Our Belgian company additionally made gains in its sales of domestic and commercial refrigeration equipment to the local market and for export elsewhere in Europe.

Area Summary

In summary, 1963 was another year of significant progress for ITT in Europe . . . progress in all facets of our business: in sales volume, earnings, product acceptance, research and development, manufacturing facilities, marketing methods, personnel, and management techniques . . . progress not only in our traditional, continuously expanding telecommunication markets, but also in the newer product fields into which we have successfully diversified.

In our uniquely integrated organization, the gratifying results of 1963 reflect the contributions made by all of our European companies, large and small. Their mutual effort and cooperation can in truth be likened to an industrial counterpart of the European Common Market.

Space in this report permits only a sampling of the activities and achievements of the area. But the unstated accomplishments of all the companies that constitute our strength in Europe are evident in the record area-wide performance of \$642-million sales in 1963. Those strengths, allied to our resources in the other areas that make up ITT worldwide, are the solid basis of our continued growth expectations in this important market, with its expanding population and rapidly rising living standards.



One of the world's most beautiful harbors graces Rio de Janeiro, former capital of Brazil and seat of ITT's manufacturing company and international communication operation that provides domestic radiotelephone service as well.

South America

The year 1963 saw further development of our continued interest in South America. The area is the largest foreign market for North America after Europe and one close geographically to this country.

South America is dynamic in its resources, people, talents, aspirations, and destiny. Realizing that its great potential growth challenges the imagination and ingenuity of both government and business, ITT has long prepared itself in both its bases of operation and depth of experienced local management to contribute to and share in South America's industrial growth.

This area is one in which we have enjoyed an association dating back 45 years to the very foundations of ITT. In Argentina, our manufacturing and sales company was founded in 1919 and our international communication companies in 1922. We have been in Peru since 1930 with a telephone utility and later with international communications; in Brazil since 1927 with a telephone utility and a manufacturing company; in Chile since 1922 with international communications. ITT operations are, in many cases, a continuation of companies formed as far back as 85 years ago, such as the telephone utility in Chile and our All America Cables and Radio, Inc.

With communications a necessary forerunner and adjunct to growth and progress, ITT facilities provide more than 90 per cent of the voice or telephone service between the United States and the countries of Argentina, Brazil, Chile, and Peru, which comprise 76 per cent of the

South American population. We supply more than 50 per cent of the service between these same countries and Europe as well as 80 per cent of the service between these countries and other points on the continent. We also operate 50 per cent of the message and telex market in South America and we are the largest single entity operating on the continent in that field.

Recognizing these values for the future, as well as the varying rates of growth and other problems involved in doing business in the different South American countries, in 1963 the U. S. Government policy has encouraged private enterprise to maintain and expand its interest in that area. In accordance with our policy throughout the world, we have taken the steps necessary to the extent possible to insure our investments covered by AID contracts against the risks of expropriation, war damage, and our inability to convert into dollars any liquidation of, and the return on, our investments.

The year's activities were highlighted by:

... The completion in only 150 days of a \$2-million, 7,000-mile addition to the ITT international communication system in order to meet defense requirements. The network, which connects Panama with Peru, Chile, Brazil, and Argentina, is also being utilized to meet increasing demands of commercial traffic. Further service improvement was effected by the integration of our All America Cables and Radio operations with our other radio companies in Argentina, Brazil, Bolivia, and Chile.

... The successful testing of space communications between Brazil, the

United States, and Europe, via the Relay satellite, conducted by our Brazilian international communication subsidiary at its ITT-manufactured transportable ground station in suburban Rio de Janeiro.

... An expansion of our manufacturing facilities with the addition of 36,310 square feet to our plant in Rio de Janeiro. Locally-manufactured *Pentaconta* switching equipment was installed for the first time in Argentina, where ITT supplies 60 per cent of the total market. We are also moving forward rapidly toward local manufacture and assembly of *Pentaconta* equipment in Brazil, where ITT supplies 25 per cent of the market, and in Chile, where we supply almost 100 per cent.

... A revitalization of all ITT sales efforts, including the formation of a company in Colombia and the planning of new companies or offices in Peru and Ecuador. These activities are geared to the vast market potential in South America which, with a population of 153-million, has an estimated 2.3 telephones per 100 persons as compared to 43 in the United States and 13 in Western Europe.

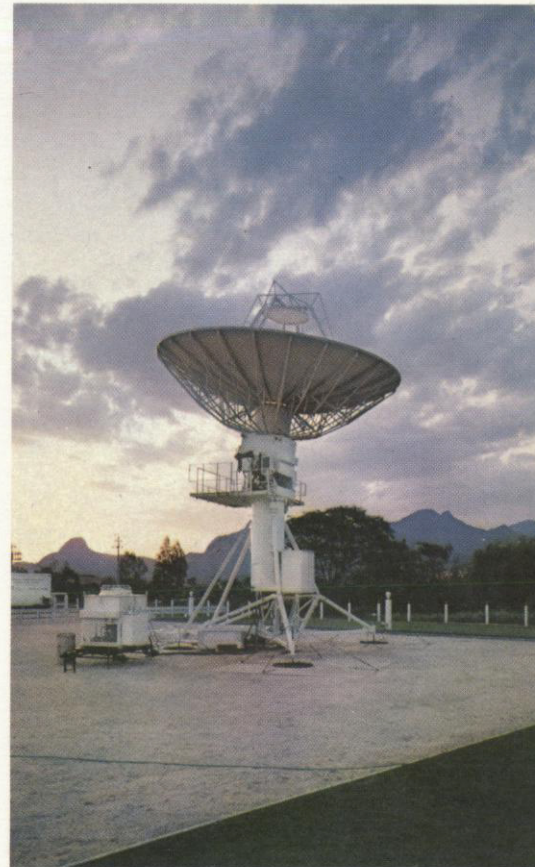
... A 23,910 net gain in telephones installed in our operating companies in Brazil, Chile, and Peru.

Details of some of the major operations follow.

Argentina

Our interests in Argentina are represented by international communication operations and a fully integrated 605,000-square-foot manufacturing and sales operation found-

ITT's transportable satellite communication ground station, shown here in operation in suburban Rio de Janeiro, made possible the first space communication via the Relay satellite between Brazil and the United States, and Brazil and Europe. At right, an engineer checks the controls.



ed in 1919. The manufacturing operation is concerned with telecommunication products, cable, radio, and electronic systems and equipment as well as vacuum tubes and television and radio receivers. In spite of economic stresses, significant strides in manufacturing operations were registered.

Installation was begun on what will be the first long-distance *Pentaconta* public switching exchange in the South American area, with service expected by mid-1964. This will make possible direct distance dialing and provide the basis for future international direct dialing.

A total of 22,000 lines of public telephone switching equipment was



installed for the Argentine administration, and the formation of 26 rural telephone cooperatives was promoted. The many rural areas with no telephone service constitute a sizable market, in which the company is helping to organize telephone cooperatives to purchase its equipment. This market can be compared to that developed by the Rural Electrification Administration in the United States, whereby a "turnkey" project or full assistance was effected in the promotion of self-sustaining companies.

Our company supplied and installed 8 of the 12 broadcasting radio stations authorized by the government.

The cable department produced and delivered 330-million conductor meters of paper-insulated, lead-covered cable, 26-million conductor meters of plastic-insulated switchboard cable, and 6-million meters of drop wire.

A technical center was established for the training of personnel for the South American area.

Brazil

ITT is represented in Brazil by a manufacturing company established in 1927, that is one of the country's largest industrial concerns, with more than 337,000 square feet of floor space primarily utilized in the manufacture of telecommunication equip-

ment and such consumer products as television and radio receivers; an international communication operation that provides international radiotelephone, radiotelegraph, and telex services as well as domestic radiotelephone service; and a telephone company in the State of Paraná with 32,326 subscriber stations.

The year marked our manufacturing company's entry into the production of ITT's *Pentaconta* switching equipment, with the inauguration of public telephone exchanges in seven cities. An order was also received for 14,000 lines of *Pentaconta* equipment for rural areas in the State of Guanabara — the largest contract of its kind to be awarded in Brazil in 1963. Sales of private *Pentaconta* exchanges increased 50 per cent during the year. Importantly, the company continued in its position as the sole manufacturer of microwave and rural subscriber carrier equipment.

Significant strides were made in new products. Preparations were far advanced for the manufacture in 1964 of the ITT *Assistant* telephone handset, with an annual production goal of 100,000 units. A new merchant-marine ship radio console is in service in an increasing number of Brazilian ships. A mobile two-way radio set for small craft has also been developed.

The newly developed 100-watt TV repeater station, used in extending reception to outlying areas, is in production, as is our new TV tuner for receiving sets.

The company's position in consumer products was further improved with the introduction of a 19" TV receiver, a stereophonograph, and a transistorized radio

adaptable for use as an automobile radio. Chassis production lines were automated, new engineering offices and facilities added, and cabinet-shop space increased. A 40 per cent increase was registered for the year in the sale of radiophonographs.

In addition to expansion of facilities in international communications between existing foreign points, telex service was introduced for the first time between Rio de Janeiro and Asunción, Paraguay, as well as with Berne, Switzerland. Locally, service was established in 1963 with the Brazilian Government's national telex system. The number of our company's directly-connected exclusive clients meanwhile rose from 181 to 232.

Chile

ITT operations in Chile comprise a telephone company with 226,000 subscriber stations, integrated international communication operations, and a manufacturing company. The 51,000-square-foot manufacturing operations are exclusively devoted to meeting the telecommunication needs of the country.

During 1963, gross additions to our company's telephone network, which is among the fastest growing and most modern in South America, resulted in a net increase of 14,075 telephones and the addition of 60 new long-distance circuits throughout the country. Also added were 5,000 lines to four public telephone switching exchanges in metropolitan Santiago, and 4,000 lines in four other new exchanges, including a 2,500-line installation at Punta Arenas, the world's southernmost city.

Our manufacturing company in Chile maintained its position in 1963 as the major installer of Chile's public telephone switching equipment. The company was also selected as the supplier and installer of a 200-line *Pentaconta* private telephone exchange, manufactured by one of our French companies, for the presidential palace and incorporating special conference circuits for use of the president and his ministers. The system will be equipped with our *Assistant* handsets, *Code-a-Phone* answering devices, and "hands-free" telephone sets.

Development proceeded on a complete line of *Pentomat* private exchanges ranging from 10 to 200 lines, with production scheduled for 1964.

Peru

ITT's principal activities in Peru are our telephone company in Lima with 89,902 subscriber stations in the metropolitan area, and our international communication operation, which also offers international telephone service. The telephone company accounts for 85 per cent of the telephones in the nation.

We added 5,000 new lines of telephone switching equipment to the San Martín public exchange in Lima. Further expansion to meet demands of 93,500 applicants is contingent upon action by the government to provide appropriate regulatory measures and to support the company's financing efforts outside Peru. Specifically, our preliminary application for financing to expand service is under consideration by the World Bank.

Area Summary

More effective operations in 1963 resulted from adjustments in our manufacturing companies and expansion of our international communication network and telephone utilities. We are, consequently, in a stronger position in experienced manpower, improved product lines, and ability to provide better public service. This is of special significance in the light of the economic growth and prosperity that should come to all the area, an area that holds the genuine interest and support of the U. S. Government and the world of free enterprise.



The free port of Hong Kong is the hub for much of the surging commerce of the Far East and the headquarters of ITT Far East and Pacific, Inc.

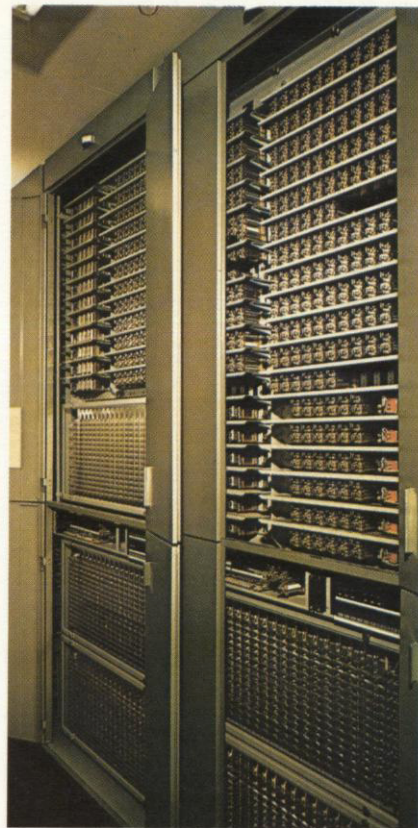
Far East and Pacific

The Far East and Pacific area, even without the teeming millions of communist China, constitutes one of the world's great markets. The human and natural resources of this sprawling region far outweigh the economic, social, and political troubles that plague some parts of it. The various nations that have achieved independence there in our own generation are, in the main, putting their houses in order. Rich in resources, they are developing their productive skills with the technical and financial aid of more industrialized countries, such as Australia, France, Germany, Japan, the United Kingdom, and the United States. Without exception, they are awakening to the necessity of communications for economic development and political stability.

ITT took a number of important steps during 1963 to improve its position in this area. The complete reorganization of our selling effort was marked by the official opening of our Hong Kong headquarters in February. Additional field representation was established during the year in Indonesia, Korea, and Thailand. Sales agents and representatives were strengthened where necessary. The result was to double the order input during the year.

In line with the industrial aspirations of the more advanced countries in the area, ITT developed plans during the year to establish several local assembly operations that will lead ultimately to complete manufacture of telephone and electronic equipment, as conditions warrant.

Two accomplishments deserve particular mention. The first is the \$11.8-million Philippines telecom-



The new Malaysian parliament building in Kuala Lumpur, left, is equipped with a 400-line private automatic branch telephone exchange, right, manufactured by our company in West Germany.

munication project, work on which began in 1963. ITT companies in Australia, Belgium, Germany, and the United States are combining their efforts with those of our company in the Philippines to provide a tropospheric radio backbone link between Manila and principal cities to the north, south, and east; very-high-frequency and ultra-high-frequency feeder lines connecting this backbone link with other major cities; telephone switching exchanges for 27 municipalities; and switching equipment for the telegraph network linking the various islands.

Equally significant are two contracts now in the final stages of negotiation with the Indian Government. Totalling more than \$10-million, they call for the supply of ITT *Pentaconta* telephone switching exchanges to Bombay, Madras, and New Delhi, and the joint establishment with the Indian Government of a modern factory capable of turning out 100,000 lines a year of this sophisticated, highly reliable equipment. These Indian contracts are important not only because they

determine the future trend of telephone switching in one of the world's largest countries, but also because the combination of supply and manufacturing worked out with India may well suit the needs of other countries with similar problems.

More routine achievements during 1963 included a contract, financed by AID, for the supply to troubled Vietnam of two central telephone exchanges of 2,000 lines each for Saigon, plus 21 small rural exchanges. This equipment is being manufactured by our subsidiary in Puerto Rico. In spite of setbacks resulting from the activities of the Viet Cong, and damage to microwave towers incurred during the November *coup d'état*, one of our U. S. subsidiaries is now completing the installation of a microwave network covering the southern portion of the country. Multiplex equipment manufactured by our Belgian subsidiary is included in the installation.

In Australia, complete reorganization of our manufacturing sub-

sidiary was effected, with sharp reduction in indirect personnel and important strengthening of executive personnel. Orders received during 1963 exceeded the combined totals for the two years preceding. Its *Pentaconta* private automatic exchanges outsold all of its competitors together in 1963. The company is also actively developing and marketing its microwave equipment. With the help of the revitalized area sales organization based on Hong Kong, this company has joined the front rank of Australian exporters of manufactured goods. It supplies some 50 per cent of Australia's domestic telecommunications market.

Internally, the same company won an important contract to supply and install a 1250-mile broadband microwave link between Brisbane and Cairns, which, with the recently supplied coaxial system between Sydney and Brisbane, will in 1966 join the new transpacific cable (COMPAC) to the Southeast Asian cable (SEACOM), thus completing the vital Australian overland link of 1900 miles needed to connect Singapore, Hong Kong, and Borneo to North America and Europe.

Area Summary

In the Far East and Pacific area we expect to follow the continuing pattern of ITT expansion. The long experience of our management in this area goes back 52 years in the case of our Australian manufacturing company and even farther with our European companies, many of which have been active in the Far East since long before the end of the last century. We are thus in a strong position to benefit from the certain rise in Asian living standards, to which we are ourselves contributing.



We use the moon to symbolize ITT's research and development effort because so much of the work we do for government agencies concerned with the conquest of space is important also for the betterment of life on earth, and for ITT's part in that betterment.

Research and Development

The primary and most immediate function performed by the research and development programs in our laboratories and factories is to provide the products and systems clearly needed for tomorrow's business, as well as some trial products for testing future markets. A secondary but vital function is to provide insurance against technical surprise or obsolescence, by maintaining a relatively small, advanced technical group of engineers and scientists working in the vanguard of our constantly changing technology. Of ITT's 25,000 scientists, engineers, laboratory technicians, draftsmen, and other specialists at work in all parts of the world, approximately one in eight is engaged in this advanced sector.

ITT's research, development, and engineering effort amounted to \$170-million in 1963 — an increase of \$20-million over the preceding year. Again in 1963 the technical management program concentrated its effort on achieving greater results for every dollar spent, through close coordination of the programs carried on at our larger factories and in our central laboratories in the United States and Europe.

ITT's most important product area is telephone switching, which accounts for a substantial share of our sales and profits. This product area will, over a period of years, undoubtedly experience significant changes springing from the rapidly advancing science of electronics.

ITT is in the forefront of the development of electronic switching, with research into a broad spectrum of promising systems. We are working on full electronic, semi-electronic, and quasi-electronic systems,

Plasma flame-detector monitors ultra-purification of electronic material by the vapor chromatography process recently developed by ITT.

using a wide variety of space-division switches and both electronic computer-type controls and the more conventional wired controls. ITT will be fully prepared for the future.

Examples of our work in these areas are the fully solid-state small exchanges of several types now being produced in the United States for both commercial and military use; the highly successful quasi-electronic system using glass-encapsulated reed relays, recently put into service in Germany; a modified military version of this reed-relay switching system developed for the military in the United States; an advanced semi-electronic system using magnetically latched crossbar switches and computer-type controls, now being developed for trial installation in Spain; and several varieties of time-division systems for military application. We are also active in the British Post Office electronic switching program.

This effort serves also the needs of telex and message switching, where the application of electronic controls has been achieved in both civilian and military equipment. Our electronic message switching equipment is now available to satisfy the rapidly increasing demand for normal and high-speed record communication. This advanced design is less costly and uses less space than its predecessor. We use the latest solid-state components to obtain the highest possible over-all reliability.

As a result of our advanced work in telegraph switching we now have a major contract to produce all the switching equipment for a large U. S. telegraph network, involving many switching centers and several tandem exchanges.

In microwave transmission, new ITT products likewise increasingly

employ solid-state circuits. In a number of cases, the radio tubes of the past have been completely eliminated. Furthermore, these systems will carry up to 1800 telephone channels.

Our laboratories have developed a very flexible version of such equipment for military use, covering several frequency ranges and applicable to over-the-horizon transmission.

On coaxial transmission and multiplex systems, completely solid-state equipment is now available at reduced cost and considerable saving of space (600 telephone channels on one standard double rack). A transmission system for the modern, small-core coaxial cable is now available, with 300 channels today and many more in the near future.

Two new transmission systems, all solid-state, will permit placing 24 telephone channels instead of one on each pair of copper wires already installed between telephone exchanges, at decidedly less cost than that of installing new cables.

As technical advisers to the U. S. Defense Department in the field of satellite communications, we have the opportunity to work on the most advanced designs of transmission systems in this field.

The use of lasers as a means of transmission, through pipes buried in the ground and through the atmosphere, is under test. This could provide a greater number of telephone and television channels than any existing system.

Data and message communication is growing rapidly, using either existing telephone networks or specialized data networks. This growth is creating a demand for faster teleprinters, semi-electronic circuits for teleprinters, full alphabet printers,



mosaic and very high speed printers, error detecting and correcting equipment, and data transmission equipment to produce and receive the type of signals transmitted through a network. In cooperation with several telecommunication administrations, ITT has completed or is developing equipment to satisfy these requirements.

In air navigation, we are frequently in cooperation with U. S. and other defense administrations — achieving a high degree of micro-miniaturization in existing or new equipment by application of microelectronics. Integral circuits (chip, multiple chip, monolithic, thin film, hybrid) give higher reliability at considerably reduced weight. This effort will result in a basic change in maintenance concepts through a considerable reduction of maintenance required. These circuits were developed and built by our laboratories and manufacturing companies. In the United States, work has been completed or is proceeding on new Omega and Loran receivers, a new airborne Tacan, and a clock system for military application.

In Great Britain an airborne marker-receiver has been developed, made completely of integral circuits and 10 times smaller than the present receiver. The function performed by this receiver is required on practically all aircraft.

Work has been continued with good success on complete blind landing of aircraft. The U. S. version of our British low-level altimeter is ahead of other developments and has been well received.

In components, we have developed a new type of transistor and diode for use in thin-film and hybrid integral circuits. Many other applications are under consideration, such as microwave transmission, data systems, and teleprinters.

This work includes passive film (wiring, resistors, capacitors) using tantalum, nichrome and cermet processes. We have mastered the technology of vapor-phase epitaxial deposition and other forms of vapor-phase transport, for silicon, gallium arsenide, and foreign epitaxial deposition. We have learned to localize deposition in specific areas, a technique basic to the production of integral circuits for all electronic equipment now being planned or already started.

Research on materials is essential to our advances in components and integral circuits. Very high mechanical pressure studies have revealed new properties of materials, while radiation technologies have permitted us to improve voltage ratings in cables. Material research has permitted us to make available higher-voltage self-protecting "controlled avalanche rectifiers", the best presently available for broad applications.

Such work is basic to the development of the small "memories", cheap and very fast, necessary for electronic switching and most modern electronic systems.

Research on materials is also being applied to increasing our commercial industrial business. New technology in ceramics is being ex-

ploited in our high-power vacuum switches for industrial control; in developing high-temperature electrical connectors capable of performing across severe temperature gradients of over 1500°F; and in high-power tubes for industrial heating.

An aluminum die-casting alloy that can be heat-treated to give high strength is being substituted for cast iron to reduce the weight of airborne electrical connectors. Equipment for arc percussion-welding of dissimilar materials and stranded wire has been developed. Such technology supplements our rapidly growing micro-connector business.

Continuing research on heat transfer has resulted in highly efficient and economic tubular heat-exchanger designs that use new manufacturing techniques. Extensive engineering testing has improved our understanding of long-term corrosion of ceramic-to-metal seals used in water circulators. Various corrosion inhibitors have been evaluated.

Broad industrial and space use of liquid oxygen and hydrogen has required the development of special valves of advanced design. Applications of new materials have permitted us to design non-galling and non-cavitating valves operating with a 5000-pound pressure drop. Rapid temperature-drops to below -250°C, encountered in the transfer of liquid hydrogen, have been handled using our advanced-design, vacuum-jacketed valves, and other special techniques for controlling heat in-flow. Test-stand data on new valve designs have permitted the development of very rapid electrohydraulic feedback control systems. Essential fluid-flow data showing quantitative relationships between the position of the valve plug and flow-through

have been found. These design criteria have been applied to new, very large diameter, high-pressure cryogenic valves, as well as to re-optimization of existing valve designs.

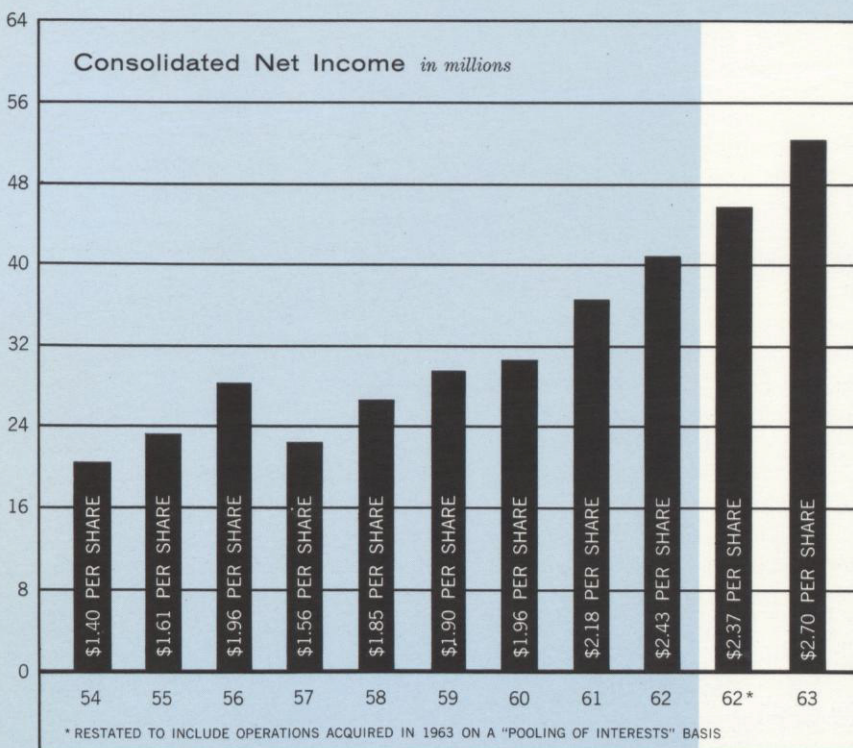
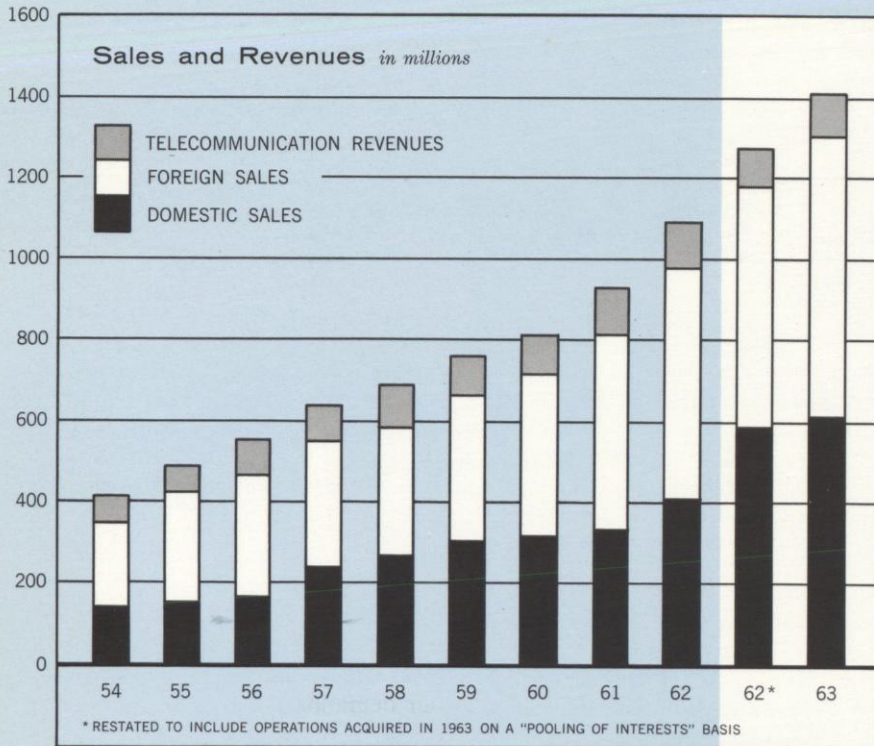
Summary

The increasing importance of commercial industrial products to our business gives us new opportunities to apply the technology resulting from our entire research and development program. Most of the equipment used in industry, commerce, and the home has yet to feel the full impact of modern electronics. Such equipment will become more responsive to customer needs as our electronic techniques are adapted to it. New products will perform old functions more cheaply and reliably, as well as create and satisfy new customer demands.

During 1963 our research and development program resulted in a large number of ultramodern products and systems, both for our established lines of telecommunication and electronics and for our newer commercial industrial lines. The bulk of our effort in this field is focused on developments for the next three to five years. At the same time, our long-range research is being accelerated to keep us ahead of the technological changes that will determine the future of our business.

Tighter management is achieving these goals with increased efficiency. With virtually the same engineering force, we have undertaken an increasing number of new product developments and shortened the development cycle. Here, as in other sectors of our organization, modern management methods are making it possible for ITT to meet effectively the needs of its growing volume and variety of business.

Financial Summary



Financial results for 1963 once again represented new highs in performance both in total sales and revenues, and in earnings, carrying forward the trend of the past several years. In particular, our management controls program enabled us to continue our high growth-rate without substantial additional outside financing. As one measure of the effectiveness of this program, in 1963 we required only 82 cents of assets to support a dollar of manufacturing sales compared with 93 cents in 1959.

Our sales expansion was largely internally financed and took place at the same time that we continued with the high rate of both expansion and modernization of our plants and facilities to provide the needed production capacity and to achieve lower manufacturing costs. A considerable portion of our plant modernization and expansion program has been completed.

Over-all, orders on hand at year's end were at a record high, the ratio of receivables and inventories to total sales and revenues was improved, our financial position was stronger, and our earnings continued to reflect our improvement in sales and revenues.

Highlights of our financial activities during 1963 follow.

INCOME SETS NEW RECORD

The consolidated net income for 1963 advanced significantly to \$52,375,000. This represented an increase of 14% over the \$45,819,000 applicable to 1962, and constituted a new record for the Corporation. The earnings for both years include the operations of all companies acquired in "pooling of interests" transactions during 1963. The earnings per average common share amounted to \$2.70 in 1963 as compared with \$2.37 in 1962 on a restated basis for the 1963 pooling of interests acquisitions, and compared with the \$2.43 reported by our Company in 1962, prior to such restatement.

Our operations improved in all major areas of activity. Foreign manufacturing operations were particularly strong with a gain of 27% over the earnings reported in the prior year. Do-

mestic manufacturing results increased in total due to the Company's program of internal growth together with acquisitions, and represented for 1963 19% of our consolidated net income as compared with 15% reported in the previous year. Our worldwide telecommunication utility earnings increased by 22% over the results for 1962.

More than 28% of the consolidated income was earned in the United States and U. S. Territories in 1963, as compared with the 24% reported in the prior year.

SALES AND REVENUES REACH NEW HIGH

Worldwide sales and revenues amounted to \$1,414,146,000, an increase of 11% over the restated 1962 figure and a larger gain of 30% over the \$1,090,198,000 reported for 1962. Particularly significant gains were reported for England, France, Germany, Spain, and the United States.

The worldwide sales of manufacturing divisions and subsidiaries amounted to \$1,306,775,000, an increase of 11% after restatement. The telephone, cable, and radio companies of the System showed an improvement of 12% in the gross revenues.

ORDERS ON HAND INCREASE

The orders on hand at December 31, 1963 amounted to \$917,000,000 or 70% of the 1963 sales for the manufacturing companies. The total backlog was 10% higher than the restated figure for the previous year and represented another new record for ITT.

INVENTORIES AND RECEIVABLES IMPROVE

As at December 31, 1963, current receivables and inventories amounted to only 49% of total sales and revenues as compared with 52% at the close of the prior year after restatement. This is an improvement in current asset usage which continues our past improvement trend and which is the equivalent of over \$35,000,000 of asset savings for 1963 alone. In total, since 1959 the trend of savings in our current receivables and inventories has

accumulated similarly more than \$100,000,000 of asset savings over prior usage levels. All areas of the world participated in the improved asset turnover but particularly important gains were made in Europe where our new system of controls supplied new guides to management action.

DIVIDEND RATES UNCHANGED

Dividends of 25 cents per share were declared on the Capital (common) Stock of the Corporation in each quarter of 1963. In addition, the regular dividends on the preferred stock were declared.

PLANT CAPACITY GROWS

Plant and equipment expenditures, including our utilities, amounted to \$123,241,000 and exceeded \$100,000,000 for the third successive year. Major new plant facilities were established during 1963 at San Fernando, California; Brussels, Belgium; Harlow, England; Laval, France; Dortmund, Mannheim, and Stuttgart, Germany; Milan, Italy; Oslo, Norway; Lisbon, Portugal; and Málaga and Villaverde, Spain. Approximately \$50,000,000 was added to utility plant in service, thereby becoming a part of the rate base against which allowable revenues are measured. Depreciation during 1963 amounted to \$39,378,000 including \$12,283,000 for the telephone, cable and radio group.

FINANCIAL CONDITION

Consolidated cash and short-term investments amounted to \$78,276,000 at the end of 1963, representing an improvement of \$7,568,000 during the year.

During 1963, \$23,800,000 was borrowed in the United States under our \$95,000,000 line of credit. Of this amount, \$9,000,000 was used to repay short-term bank loans and \$10,000,000 to finance part of the domestic plant expansion program. The balance of the amount borrowed was used to increase working capital for manufacturing operations in the United States.

Although sales by our foreign manufacturing companies increased by more than \$100,000,000, the improved

utilization of assets, particularly of receivables and inventories, permitted us to maintain this growth with virtually no increase in outside financing. The internal flow of funds also covered the capital requirement of the extensive plant program in the foreign manufacturing companies.

The only significant long-term financing in 1963 was needed for utility operation. American Cable & Radio Corporation, a wholly owned subsidiary, and its subsidiary ITT Central America Cables & Radio, Inc., raised \$7,000,000 through debentures and term loans for their improved cable projects in the Caribbean. The Virgin Islands Telephone Corporation, also a wholly owned subsidiary, refinanced \$3,500,000 of short-term debt through an ITT finance subsidiary.

ABANDONMENT OF CABLE FACILITIES

During 1963, improved cable facilities became available in the Caribbean and AC&R abandoned its older and less efficient cables, which ran from the United States to Cuba and on to Panama, including some older properties in use in Cuba. Also, since plans are being made to run new coaxial cables to South America, AC&R made preparations to abandon all of its existing South American cables and to reorganize its applicable operations in South America. The after-tax cost of the cables and these facilities actually abandoned amounted to \$1,600,000 in 1963. This amount, together with an additional \$4,350,000 provision for the after-tax costs of the South American cables to be abandoned in the next few years, was charged to retained earnings.

FINANCIAL STATEMENTS

The consolidated financial statements of the Corporation and its subsidiaries consolidated and the opinion of its independent public accountants are shown in the following pages. A tabulation of net assets and net income by general area of activity is shown in Note 1 to the financial statements. A ten-year summary of the financial highlights of the Corporation and its subsidiaries consolidated follows the financial statements.

Consolidated Balance Sheets

Assets

CURRENT ASSETS

	1963	1962
Cash, including temporary U. S. cash investments	\$ 78,276,322	\$ 70,708,176
Accounts and notes receivable, less reserves	297,585,758	282,683,030
Inventories, less reserves	398,996,836	377,342,554
	<u>774,858,916</u>	<u>730,733,760</u>

INVESTMENTS, DEFERRED RECEIVABLES AND OTHER ASSETS

Nationalized companies \$33,195,604 and \$33,182,391 fully reserved	—	—
Finance subsidiaries	14,349,656	13,639,679
Other investments, at cost, less reserves of \$2,607,371	38,676,460	38,411,133
Accounts receivable due subsequent to one year, less reserves	31,411,396	39,098,894
Other assets	37,402,002	33,199,988
	<u>121,839,514</u>	<u>124,349,694</u>

PLANT, PROPERTY AND EQUIPMENT, at cost

Less — Reserves for depreciation	885,966,534	786,628,834
	<u>313,497,302</u>	<u>283,790,089</u>
	572,469,232	502,838,745
	<u>\$1,469,167,662</u>	<u>\$1,357,922,199</u>

*The accompanying notes to financial statements
are an integral part of the above balance sheets.*

as at December 31, 1963 and 1962

Liabilities and Stockholders' Equity

	1963	1962
CURRENT LIABILITIES		
Bank loans and current maturities of long-term debt	\$ 116,319,819	\$ 107,043,161
Accounts payable and accrued charges	283,891,491	240,946,492
Accrued taxes	40,798,641	36,854,136
	<u>441,009,951</u>	<u>384,843,789</u>
DEFERRED LIABILITIES, ETC.	96,841,613	81,034,120
LONG-TERM DEBT (Page 37)	<u>293,408,155</u>	<u>285,484,737</u>
MINORITY EQUITY IN SUBSIDIARIES CONSOLIDATED (Page 38)	<u>45,479,213</u>	<u>42,064,586</u>
STOCKHOLDERS' EQUITY		
Cumulative Preferred Stock —		
Authorized — 1,100,000 shares, par value \$100 per share		
Outstanding in series — 648,716 and 645,387 shares	64,871,600	64,538,700
Capital (common) Stock —		
Authorized — 30,000,000 shares, without par value (stated value \$10 per share)		
Outstanding — 18,461,917 and 18,321,170 shares	184,619,170	183,211,700
Capital surplus	74,757,122	72,928,476
Retained earnings invested in the business	268,180,838	243,816,091
	<u>592,428,730</u>	<u>564,494,967</u>
	<u>\$1,469,167,662</u>	<u>\$1,357,922,199</u>

Consolidated Income*for the years ended December 31, 1963 and 1962*

	<u>1963</u>	<u>1962</u>
SALES AND REVENUES —		
Net sales	\$1,306,775,121	\$1,181,143,721
Telecommunication operating revenues	107,371,264	96,119,499
	<u>1,414,146,385</u>	<u>1,277,263,220</u>
COSTS AND EXPENSES —		
Cost of sales and operating expenses	1,217,840,498	1,113,272,774
Provision for depreciation	39,377,844	36,059,855
	<u>1,257,218,342</u>	<u>1,149,332,629</u>
INCOME FROM OPERATIONS	156,928,043	127,930,591
Dividends, interest, royalties and other income	15,961,052	21,299,015
Interest and other financial charges	(28,656,382)	(23,463,594)
	<u>144,232,713</u>	<u>125,766,012</u>
NET INCOME BEFORE TAXES AND MINORITY EQUITY	144,232,713	125,766,012
U. S. and foreign taxes	(87,344,756)	(76,397,776)
Minority common stockholders' equity in net income	(4,513,018)	(3,549,060)
NET INCOME	<u>\$ 52,374,939</u>	<u>\$ 45,819,176</u>

**Consolidated Retained Earnings
Invested in the Business**

BALANCE — Beginning of Year, as previously reported		\$184,851,585
ADD — Undistributed earnings of companies in poolings of interests		38,474,965
BALANCE — Beginning of Year, as restated	\$243,816,091	<u>223,326,550</u>
ADD (Deduct) —		
Net income	52,374,939	45,819,176
Dividends of the Corporation —		
Preferred stock	(1,214,221)	(619,039)
Common stock — \$1.00 per share	(17,054,212)	(16,512,228)
Dividends of companies prior to poolings of interests	(2,111,708)	(8,198,368)
Transfer to capital surplus, as required by Maryland law, of undistributed earnings of General Controls Co. at date of merger	(1,680,051)	—
Provision for abandonment of certain Caribbean and South American cable facilities — net of taxes	(5,950,000)	—
BALANCE — End of Year	<u>\$268,180,838</u>	<u>\$243,816,091</u>

The accompanying notes to financial statements are an integral part of the above statements.

Long-Term Debt — December 31, 1963

INTERNATIONAL TELEPHONE AND TELEGRAPH CORPORATION

4.90% Sinking Fund Debentures, due 1987	\$50,000,000	
5¼% Promissory Notes, due 1976	15,000,000	
5% Senior Notes, due semi-annually 1965-80	6,600,000	
4% Convertible Subordinated Debentures, due 1983	4,572,700	
5¼% Convertible Subordinated Notes, due semi-annually 1971-75	4,000,000	\$ 80,172,700

UNITED STATES MANUFACTURING SUBSIDIARIES CONSOLIDATED

INTELEX SYSTEMS INCORPORATED —		
5¼% First Mortgage Notes, Series A, on plant and property leased to U. S. Post Office, due monthly to 1980	13,067,308	
ITT CANNON ELECTRIC INC. —		
5½% Notes, due 1965-74	3,138,000	
ITT NESBITT INC. —		
4¾% Bank loans, due quarterly to 1967	750,000	
4% Lease-purchase agreement, due quarterly to 1987	1,503,279	
OTHER	1,372,854	19,831,441

TELECOMMUNICATION SUBSIDIARIES CONSOLIDATED

AMERICAN CABLE & RADIO CORPORATION —		
5% Bank loans, due 1965-68	8,000,000	
INTERNATIONAL TELEPHONE AND TELEGRAPH CORPORATION, SUD AMERICA —		
7½% Debentures, Series due 1977	10,000,000	
COMPANIA DE TELEFONOS DE CHILE —		
5% to 6% Installment Purchase Obligations, due 1965-67 — Held by finance subsidiary — BF 11,629,948; £ 324,129; DM 937,220; U. S. \$250,127	1,624,593	
7% Notes, due semi-annually 1965-68 — DM 10,796,984	2,699,246	
COMPANIA PERUANA DE TELEFONOS LIMITADA (Peru) —		
Held by finance subsidiaries —		
8% U. S. dollar Debentures, Series A, due annually 1965-75	2,340,000	
8% U. S. dollar Debentures, Series B, due annually 1965-76	1,245,000	
5½% to 8¾% Installment Purchase Obligations, due 1965-68	725,667	
ITT CENTRAL AMERICA CABLES & RADIO, INC. (Panama) —		
5¼% Bank loan, due semi-annually 1969-88	4,000,000	
PUERTO RICO TELEPHONE COMPANY —		
Twenty-Five Year 4¾% Sinking Fund Debentures, Series A, due 1978	4,300,000	
Twenty-Five Year 4¾% Sinking Fund Debentures, Series B, due 1981	4,600,000	
Twenty-Four Year 6% Sinking Fund Debentures, Series C, due 1984	8,000,000	
Twenty-Five Year 5¾% Sinking Fund Debentures, Series D, due 1986	12,500,000	
RADIO CORPORATION OF PUERTO RICO —		
Twenty-Five Year 5½% Sinking Fund Debentures, Series A, due 1984	5,000,000	
VIRGIN ISLANDS TELEPHONE CORPORATION —		
6% Serial Notes, due semi-annually to 1983 — Held by finance subsidiary	3,325,000	
OTHER	538,134	68,897,640

FOREIGN MANUFACTURING SUBSIDIARIES CONSOLIDATED

INTERNATIONAL STANDARD ELECTRIC CORPORATION —		
Eighteen Year 4¾% Swiss franc Debentures, due 1980 — SF 60,000,000	13,890,000	
Eighteen Year 4½% Swiss franc Debentures, due 1970-78 — SF 50,000,000	11,575,000	
Sixteen Year 4% Swiss franc Debentures, due 1965-70 — SF 55,000,000 (guaranteed by the Parent Company)	12,732,500	
Fifteen Year 4% Swiss franc Debentures, due 1974 — SF 50,000,000	11,575,000	
Five Year 4¾% Swiss franc Debentures, due 1965 — SF 18,000,000	4,167,000	
BELL TELEPHONE MANUFACTURING COMPANY (Belgium) —		
2¾% to 7% Bank loans, due 1965-70 — BF 58,350,000	1,167,000	
FABBRICA APPARECCHIATURE PER COMUNICAZIONI		
ELETTRICHE STANDARD S.p.A. (Italy) —		
3% to 7½% Bank loans, due 1965-75 — IL 2,007,300,000	3,211,680	
LE MATERIEL TELEPHONIQUE (France) —		
3¾% to 6% Debentures, due annually to 1981 — FF 18,143,268	3,701,227	
STANDARD ELECTRICA, S.A. (Brazil) —		
12% Special loan, indeterminate due date — CR 1,447,756,023	1,563,577	
12% Exchange contracts, indeterminate due dates — CR 721,610,376	779,339	
STANDARD ELEKTRIK LORENZ AG (Germany) —		
Twenty Year 6½% Debentures, due 1965-78 — DM 32,700,000	8,175,000	
Twenty Year 6% Debentures, due 1968-82 — DM 35,000,000	8,750,000	
4% to 6¾% Bank loans, due 1965-70 — DM 83,915,578	20,978,895	
STANDARD RADIO & TELEFON AB (Sweden) —		
4¾% Bond loan, due annually 1965-83 — SK 7,750,000	1,495,750	
STANDARD TELEPHON UND TELEGRAPHEN AG CZEIJA, NISSEL & Co. (Austria) —		
4¼% to 8% Mortgage and Bank loans, due 1965-82 — AS 40,506,346	1,571,646	
STANDARD TELEPHONES AND CABLES LIMITED (England) —		
6¼% Twenty Year Note, due 1978 — £ 1,500,000	4,200,000	
6½% Twenty Year Note, due 1978 — £ 1,500,000	4,200,000	
4% to 6% Loans, due 1966-68 — £ 2,000,000	5,600,000	
STANDARD TELEPHONES AND CABLES PTY. LIMITED (Australia) —		
5½% to 6½% Mortgage loans, due 1965-76 — A£ 1,483,315	3,322,626	
OTHER	1,850,134	124,506,374

TOTAL LONG-TERM DEBT

(excluding amounts due within one year included in current liabilities) \$293,408,155

The accompanying notes to financial statements are an integral part of the above statement.

Minority Equity in Subsidiaries Consolidated — December 31, 1963

PREFERRED STOCK

PUERTO RICO TELEPHONE COMPANY —

6¾% Cumulative Preferred Stock, Series A, of \$100 par value per share — 39,000 shares

\$ 3,900,000

6¼% Cumulative Preferred Stock, Series B, of \$100 par value per share — 50,000 shares

5,000,000

STANDARD TELEFON OG KABELFABRIK A/S (Norway) —

4%-6% Non-cumulative Preferred Stock of NK 1,000 par value per share — 7,000 shares

1,110,055 \$10,010,055

COMMON STOCK AND SURPLUS

FOREIGN MANUFACTURING SUBSIDIARIES CONSOLIDATED

21,998,202

TELECOMMUNICATION SUBSIDIARIES CONSOLIDATED

13,470,956 35,469,158

TOTAL MINORITY EQUITY IN SUBSIDIARIES CONSOLIDATED

\$45,479,213

The accompanying notes to financial statements are an integral part of the above statement.

Auditors' Opinion

ARTHUR ANDERSEN & Co.

80 Pine Street
New York

TO THE STOCKHOLDERS,

International Telephone and Telegraph Corporation:

We have examined the consolidated balance sheets of International Telephone and Telegraph Corporation (a Maryland corporation) and its subsidiaries consolidated as of December 31, 1963 and 1962, and the related statements of consolidated income and consolidated retained earnings invested in the business for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. It was not practicable to confirm receivables from certain governments, as to which, however, we have satisfied ourselves by other auditing procedures. Financial statements of certain foreign subsidiaries, and of companies in poolings of interests for the year 1962, included in the consolidated statements were not examined by us but we were furnished with reports of other auditors thereon.

In our opinion, based upon our examinations and upon the reports of other auditors, the accompanying consolidated balance sheets and statements of consolidated income and consolidated retained earnings invested in the business present fairly the financial position of International Telephone and Telegraph Corporation and its subsidiaries consolidated as of December 31, 1963 and 1962, and the results of their operations for the years then ended, in conformity with generally accepted accounting principles consistently applied during the period.

New York, N. Y.,
March 2, 1964.

Arthur Andersen & Co

Notes to Financial Statements

1. PRINCIPLES OF CONSOLIDATION

The financial statements include the accounts of all significant majority-owned subsidiaries except for the finance subsidiaries. The financial statements give retroactive effect to the inclusion of the accounts of, and related shares issued in merger with General Controls Co. and in exchange for net assets of Bell & Gossett Company, Cannon Electric Company, John J. Nesbitt, Inc. and Gilfillan Corporation in poolings of interests. As a result of the agreement with the Brazilian Government in 1963 with respect to the portion of the properties of the Brazilian telephone subsidiary seized in 1962, the accounts of that subsidiary have been consolidated for both years. The investments in finance subsidiaries are carried at amounts equivalent to the equity in their underlying net assets. The earnings of these finance subsidiaries (\$1,564,235 in 1963 and \$1,226,904 in 1962, after applicable income taxes) are included in "Dividends, Interest, Royalties and Other Income" in the consolidated statement of income. A summary of the combined financial position of these subsidiaries as at December 31, 1963 and 1962 is shown on page 40.

The net income of the Parent Company alone amounted to \$18,618,890 and \$20,910,181 for the years 1963 and 1962, respectively, and its retained earnings at December 31, 1963 amounted to \$68,759,272 of which \$35,641,745 was available for payment of

dividends on capital stock of the Corporation.

The undistributed earnings of foreign subsidiaries included in consolidated retained earnings should not be understood to represent U. S. dollars immediately available, since the retained earnings of some foreign subsidiaries are subject to certain restrictions on the amount of dividends that may be paid and to taxes payable on declaration of dividends.

Procedures followed in translating accounts of foreign subsidiaries into terms of U. S. dollars were consistent with those of preceding years. Net assets are translated, generally, at the applicable rates of exchange in effect at the year-end, except for property and investment accounts which are translated at historic cost. Income accounts are translated, generally, at the average rates of exchange prevailing during the year, except for provisions for depreciation which are translated on the basis of the U. S. dollar equivalents of the related net asset accounts. Foreign exchange gains or losses, including those arising from translation of net assets at year-end, have been included in consolidated net income.

A general grouping of net assets as at December 31, 1963, and net income for the year 1963 by location and by principal operations, in thousands of dollars, is shown below:

	United States and Territories			Foreign		Other Foreign Investments
	Consolidated	Manufacturing	Telecommunication Utilities	Manufacturing	Telecommunication Utilities	
NET ASSETS AT DECEMBER 31, 1963						
Net current assets	\$ 333,849	\$169,676	\$ (32,030)	\$187,793	\$ 745	\$ 7,665
Investments, deferred receivables and other assets	121,840	23,344	5,307	54,474	13,620	25,095
Plant, property and equipment—net	572,469	106,022	149,649	175,630	141,168	—
	<u>1,028,158</u>	<u>299,042</u>	<u>122,926</u>	<u>417,897</u>	<u>155,533</u>	<u>32,760</u>
Deduct—						
Deferred liabilities, etc.	96,842	9,269	8,527	71,886	7,160	—
Long-term debt	293,408	100,004	49,725	124,506	19,173	—
Minority equity in subsidiaries consolidated ...	45,479	—	14,114	23,108	8,257	—
	<u>435,729</u>	<u>109,273</u>	<u>72,366</u>	<u>219,500</u>	<u>34,590</u>	<u>—</u>
Net assets	<u>\$ 592,429</u>	<u>\$189,769</u>	<u>\$ 50,560</u>	<u>\$198,397</u>	<u>\$120,943</u>	<u>\$32,760</u>
NET INCOME for the year (after allocation of Parent Company interest and taxes)	<u>\$ 52,375</u>	<u>\$ 9,990</u>	<u>\$ 5,021</u>	<u>\$ 25,317</u>	<u>\$ 9,221</u>	<u>\$ 2,826</u>

2. INVENTORIES

Inventories, net of applicable reserves, at December 31, 1963 and 1962, are detailed below:

	1963	1962
Manufacturing:		
Finished goods	\$117,176,255	\$114,729,070
Work in process	221,638,544	211,371,851
Raw materials and supplies	86,133,473	78,978,540
	<u>424,948,272</u>	<u>405,079,461</u>
Less progress payments	38,867,904	40,177,300
	<u>386,080,368</u>	<u>364,902,161</u>
Telecommunications:		
Maintenance and construction materials and supplies, generally at average cost	12,916,468	12,440,393
	<u>\$398,996,836</u>	<u>\$377,342,554</u>

Finished goods, raw materials and supplies are stated, generally, at the lower of cost or market. Work in process includes substantial amounts of costs accumulated under firm electronic equipment orders and defense contracts. Under the companies' accounting policies for recording profits on these orders and contracts, the inventory amounts are at or below realizable value.

3. CAPITAL STOCK

The following sets forth the outstanding shares of each series of the Corporation's Cumulative Preferred Stock, par value \$100 per share, as at December 31, 1963 and 1962:

	1963	1962
5.25% Series	40,000	40,000
5.25% Series B	28,452	28,452
4% Convertible Series	40,000	40,000
4% Convertible Series B	62,244	62,252
4% Convertible Series C	129,442	128,357
4% Convertible Series D	229,208	227,978
4% Convertible Series E	119,370	118,348
	<u>648,716</u>	<u>645,387</u>

As a part of the exchange for substantially all of the business and net assets of Jennings Radio Manufacturing Corporation in 1961, the Corporation issued non-transferable Certificates of Contingent Interest representing rights to receive in annual installments, over a period ending not later than March 15, 1966, shares of the Corporation's Capital (common) Stock having an aggregate value of as much as \$8,000,000 if certain increasing annual net earnings goals of the Jennings operations after January 1, 1961 are met. The number of shares to be issued pursuant

Notes to Financial Statements

to the Certificates of Contingent Interest are determined by the average market price for the Corporation's Capital (common) Stock for specified periods and within certain limits. If all earnings goals are achieved, after giving effect to shares issued in 1962 and 1963 and to be issued in 1964, the minimum number of shares remaining issuable under the Certificates is 32,000 shares and the maximum is 128,000 shares. Pursuant to such provisions, 63,393 shares of Capital (common) Stock having an aggregate market value of \$3,200,000 have been issued and 23,755 shares of Capital (common) Stock having an aggregate market value of \$1,333,333, will be delivered to holders of Certificates of Contingent Interest by March 15, 1964.

At December 31, 1963, a total of 21,411 shares of the Corporation's authorized and unissued Cumulative Preferred Stock and 256,905 shares of Capital (common) Stock were reserved for conversion of the 4% Subordinated Debentures and the 5 1/4% Subordinated Notes. In addition, 956,072 shares of the Corporation's Capital (common) Stock were reserved for conversion of outstanding shares of Cumulative Preferred Stock, and 51,392 shares of the Corporation's Capital (common) Stock were reserved for conversion of shares of Cumulative Preferred Stock which could be issued under the terms of the Subordinated Notes and Substitute Stock Options.

4. STOCK OPTIONS

Under the Corporation's several Stock Option Incentive Plans and a Restricted Stock Option, as approved by the Stockholders, a total of 906,268 shares (net of 23,732 shares for which the authority to grant options has expired) of the present Capital (common) Stock of the Corporation were made available for options to employees of the Corporation and its subsidiaries. Options granted to September 1, 1959 were generally made exercisable in whole or in part by such employees after two years, but not later than seven years after date of grant. Options granted subsequent to September 1, 1959 are exercisable to the extent of one-third of the optioned shares after two years, to the extent of two-thirds after three years and in full after four years, but not after five years from date of grant. The price for the shares covered by each option prior to June 14, 1961 was 95% of the fair market value of the stock on the date such option was granted. The price for the shares covered by each option granted from June 14, 1961 is 100% of the fair market value on the date such option is granted. As at December 31, 1963, 359,345 shares have been issued on exercise of options since the inception of the Plans. A summary of shares subject to options during the year 1963 is shown below:

Balance, January 1, 1963	358,801
Add — Options granted at \$43.88 to \$56.75 per share	153,500
	<u>512,301</u>
Deduct —	
Options exercised at \$15.6875 to \$38.875 per share	54,898
Options cancelled	27,733
	<u>82,631</u>
Balance, December 31, 1963	<u>429,670</u>

At December 31, 1963, 117,253 shares were available for future options.

As part of the poolings of interests with the several companies in 1963, the Corporation has also issued options to purchase shares of the Corporation's Cumulative Preferred Stock and Capital (common) Stock as substitutes for stock options held by employees of those companies. These Substitute Stock Options were issued for the number of shares of the Corporation's Cumulative Preferred Stock and Capital (common) Stock which would have been issued in respect of the optioned shares of such companies had they been outstanding at the date of the poolings of interests. Options for a total of 13,894 shares of Cumulative Preferred Stock and 45,477 shares of Capital (common) Stock were granted in these transactions. During the year, options for a total of 993 shares of Cumulative Preferred Stock and 1,845 shares of Capital (common) Stock were exercised and options for a total of 3,371 shares of Cumulative Preferred Stock and 1,585 shares of Capital (common) Stock expired, leaving a balance at December 31, 1963 of 9,530 shares of Cumulative Preferred Stock and 42,047 shares of Capital (common) Stock subject to the Substitute Stock Options.

5. CAPITAL SURPLUS

Changes in capital surplus during the year are shown below:

Balance — January 1, 1963, as previously reported	\$102,310,801
(Deduct) —	
Excess of par and stated value of 503,135 shares of Cumulative Preferred Stock, and 1,692,317 shares of Capital (common) Stock of Corporation over capital of companies in poolings of interests	(29,019,051)
Amount applicable to Brazilian telephone subsidiary	(363,274)
Balance — January 1, 1963, as restated	<u>72,928,476</u>
Add (Deduct) —	
Credits arising from —	
Conversion of \$671,500 principal amount of debentures	298,281
Conversion of 8 shares of Preferred Stock	645
Exercise of stock options	1,246,311
Transfer from retained earnings of undistributed earnings of General Controls Co. at date of merger	1,680,051
Stated value of 34,652 shares of Capital (common) Stock of the Corporation issued pursuant to Certificates of Contingent Interest	(346,520)
Expenses in connection with the issuance of Cumulative Preferred Stock and Capital (common) Stock of the Corporation	(1,171,747)
Transactions of companies prior to poolings of interests	121,625
Balance — December 31, 1963	<u>\$ 74,757,122</u>

6. COMMITMENTS AND CONTINGENCIES

A U. S. Government Agency has indicated that, under the terms of a contract with such agency, the Corporation may be liable for liquidated damages of a substantial amount for failure to meet delivery schedules specified in the contract. The Corporation believes that negotiations presently in progress will not result in the assessment of any significant amount of damages.

In 1963, the Ministry of Finance of the Japanese Government issued assessments against a subsidiary of the Corporation of approximately \$4,400,000 for Japanese income taxes, plus accrued interest thereon, on profits derived from sales in 1957 and 1961 of certain Japanese securities. In the opinion of the Corporation's legal counsel in Japan, no liability for Japanese taxes resulted from the sales.

The ultimate liability with respect to guarantees, pending lawsuits, taxes, claims, etc., is not considered to be material in relation to the consolidated financial position.

ITT Finance Subsidiaries

COMBINED FINANCIAL POSITION

	December 31	
	1963	1962
Cash	\$ 3,558,860	\$ 1,707,683
Receivables, less unearned income—		
Affiliated companies	52,689,925	30,837,842
Other customers	57,241,955	44,005,483
Land and buildings — leased to affiliated companies	11,709,222	8,779,056
Deferred charges, etc.	766,487	705,508
Total assets	<u>125,966,449</u>	<u>86,035,572</u>
Long-term debt	57,608,468	48,198,876
Short-term bank borrowings	47,274,943	20,993,798
Other loans and accounts payable, etc.	6,733,382	3,203,219
Total liabilities	<u>111,616,793</u>	<u>72,395,893</u>
ITT equity in net assets	\$ 14,349,656	\$13,639,679
ITT equity represented by—		
Common stock	\$ 12,569,801	\$12,566,793
Reinvested earnings	1,779,855	1,072,886
	<u>\$ 14,349,656</u>	<u>\$13,639,679</u>

Ten-Year Summary*

(Dollar amounts in thousands except per share figures)

	1963	1962	1961	1960	1959	1958	1957	1956	1955	1954
RESULTS FOR YEAR										
Sales and revenues	\$1,414,146	1,090,198	930,500	811,449	765,640	687,451	638,669	544,834	489,746	412,619
Provision for depreciation	\$ 39,378	30,763	31,341	25,066	27,433	24,516	23,048	19,203	17,908	15,688
U. S. and foreign taxes	\$ 87,345	65,812	54,133	50,266	45,343	42,410	41,458	45,237	39,781	31,795
Net income	\$ 52,375	40,694	36,059	30,570	29,036	26,600	22,413	28,110	23,070	20,069
Per average common share	\$ 2.70	2.43	2.18	1.96	1.90	1.85	1.56	1.96	1.61	1.40
Special credits**	\$ —	—	7,620	7,902	—	—	—	—	—	—
Per average common share	\$ —	—	.47	.51	—	—	—	—	—	—
Dividends per common share	\$ 1.00	1.00	1.00	1.00	1.00	.90	.90	.90	.65	.50
Gross plant additions	\$ 123,241	114,584	105,311	66,809	84,219	71,989	56,613	41,040	31,055	26,800
YEAR-END POSITION										
Net current assets	\$ 333,849	296,155	268,422	269,324	222,269	233,963	200,828	203,945	199,986	180,567
Plant, property and equipment (net)	\$ 572,469	462,323	391,347	288,461	355,115	303,609	260,250	229,842	208,021	190,489
Total assets	\$1,469,168	1,235,781	1,088,310	923,944	932,269	869,006	799,873	760,838	687,452	636,970
Long-term debt	\$ 293,408	266,815	182,509	148,478	165,512	158,963	97,293	87,841	78,156	72,324
Stockholders' equity	\$ 592,429	483,531	465,061	415,814	415,088	395,739	375,440	365,939	350,747	336,971
Common stockholders' equity per share	\$ 28.58	28.22	27.53	26.52	26.73	26.87	26.16	25.50	24.44	23.48
YEAR-END STATISTICS										
Shares of common stock outstanding (thousands)	18,462	16,629	16,375	15,681	15,530	14,726	14,353	14,353	14,353	14,353
Stockholders	100,269	92,362	94,719	87,818	88,230	67,112	65,642	62,486	58,889	56,937
Telephones in service	517,553	460,980	454,401	430,391	594,405	538,712	495,114	465,767	450,532	435,136
Employees	173,000	157,000	149,000	132,000	136,000	130,000	128,000	122,000	111,000	102,000

* The above data are as reported in the ITT Annual Reports for the respective years, except that per share amounts have been adjusted for 2-for-1 stock split effective February 5, 1959.

** Net profit on sale of investments, etc.

Principal Divisions and Subsidiaries

NORTH AMERICA

MANUFACTURING—SALES—SERVICE

Canada

ITT Canada Limited, Montreal
Royal Electric Company (Quebec) Ltd.,
Pointe Claire, P.Q.

Jamaica

ITT Standard Electric of Jamaica Ltd.,
Kingston

Mexico

Industria de Telecomunicación, S. A. de
C. V. (50% interest), Mexico City
Standard Eléctrica de México, S. A., Mexico
City

Panama

ITT Standard Electric de Panamá, S. A.,
Panama City

Puerto Rico

ITT Caribbean Manufacturing, Inc., Rio
Piedras
ITT Caribbean Sales and Service, Inc., Rio
Piedras
ITT Puerto Rico, Inc., Rio Piedras

U. S. A.

Federal Electric Corporation, Paramus, N. J.
Intelex Systems Incorporated, New
York, N. Y.
International Standard Engineering,
Inc., Paramus, N. J.
Industrial Products Division, San Fernando,
Calif.
ITT Mobile Telephone, Inc., San Fer-
nando, Calif.
International Standard Electric Corporation,
New York, N. Y.
International Telephone and Telegraph Cor-
poration, Sud America, New York,
N. Y.
International Telephone and Telegraph
Credit Corporation, New York,
N. Y.
ITT Arkansas Division, Camden, Ark.
ITT Bell & Gossett, Inc., Morton Grove, Ill.
ITT Cannon Electric Inc., Los Angeles, Calif.
ITT Communication Systems, Inc., Paramus,
N. J.
ITT Data and Information Systems Division,
Paramus, N. J.
Airmatic Systems Corporation, Saddle
Brook, N. J.
ITT Electron Tube Division, Clifton, N. J.
Kuthe Laboratories, Inc., Newark, N. J.
ITT Export Corporation, New York, N. Y.

ITT Farnsworth Research Corporation, Fort
Wayne, Ind.

ITT Federal Laboratories, Nutley, N. J.
ITT General Controls Inc., Glendale, Calif.
ITT Gilfillan Inc., Los Angeles, Calif.
ITT Industrial Laboratories Division, Fort
Wayne, Ind.
ITT Intelcom Inc., Falls Church, Va.
ITT Kellogg Communications Systems, Chi-
cago, Ill.
ITT Kellogg Telecommunications, Chicago,
Ill.
ITT Nesbitt Inc., Philadelphia, Pa.
ITT Semi-Conductors, Inc., Lawrence, Mass.
National Transistor, Lawrence, Mass.
ITT Surprenant Inc., Clinton, Mass.
Jennings Radio Manufacturing Corporation,
San Jose, Calif.
Kellogg Credit Corporation, New York, N. Y.
Royal Electric Corporation, Pawtucket, R. I.

TELECOMMUNICATION OPERATIONS

Canal Zone

ITT Central America Cables & Radio, Inc.,
Balboa

Cuba

Cuban American Telephone and Telegraph
Company (50% interest), Havana
Radio Corporation of Cuba, Havana

Puerto Rico

Puerto Rico Telephone Company, San Juan
Radio Corporation of Puerto Rico, San Juan

Virgin Islands

ITT Communications, Inc. — Virgin Islands,
Charlotte Amalie
Virgin Islands Telephone Corporation, Char-
lotte Amalie

SOUTH AMERICA

MANUFACTURING—SALES—SERVICE

Argentina

Compañía Standard Electric Argentina,
S.A.I.C., Buenos Aires

Brazil

Standard Eléctrica, S.A., Rio de Janeiro

Chile

Compañía Standard Electric, S.A.C.,
Santiago

Colombia

ITT Standard de Colombia, S.A., Bogotá

Venezuela

Standard Telecommunications C.A., Caracas

TELECOMMUNICATION OPERATIONS

Argentina

Compañía Internacional de Radio, S.A.,
Buenos Aires

Bolivia

Compañía Internacional de Radio Boliviana,
La Paz

Brazil

Companhia Rádio Internacional do Brasil,
Rio de Janeiro
Companhia Telefônica Nacional, Curitiba

Chile

Compañía de Teléfonos de Chile, Santiago
Compañía Internacional de Radio, S.A.,
Santiago

Peru

Compañía Peruana de Teléfonos Limitada,
Lima

EUROPE, MIDDLE EAST, AFRICA

MANUFACTURING—SALES—SERVICE

Algeria

Société Algérienne de Constructions Télé-
phoniques, Algiers

Austria

Standard Telephon und Telegraphen Aktien-
gesellschaft, Czeija, Nissl & Co.,
Vienna

Belgium

Bell Telephone Manufacturing Company,
Antwerp
ITT Europe, Inc., Brussels
ITT Industries, Europe Inc., Brussels
ITT Standard S. A., (branch), Brussels

Denmark

Standard Electric Aktieselskab, Copenhagen

Finland

Standard Electric Puhelinteollisuus Oy,
Helsinki

France

Compagnie Générale de Constructions Télé-
phoniques, Paris
Les Téléimprimeurs, Paris
International Standard Engineering, Inc.
(branch), Paris
Laboratoire Central de Télécommunica-
tions, Paris
Le Matériel Téléphonique, Paris
Société Industrielle de Composants pour
l'Electronique, Courbevoie

Germany (West)

Standard Elektrik Lorenz Aktiengesellschaft,
Stuttgart

Graetz Kommanditgesellschaft, Altena
SEL Feinmechanik G.m.b.H., Kauf-
beuren

SEL Finanz G.m.b.H., Stuttgart

Eduard Winkler Apparatebau G.m.b.H.,
Nuremberg

Iran

Standard Electric Iran AG, Tehran

Italy

Fabbrica Apparecchiature per Comunicazi-
oni Elettriche Standard S.p.A.,
Milan

Società Impianti Elettrici Telefonici
Telegrafici Edili, Milan

ITT Domel Italiana S.p.A., Milan

Netherlands

Nederlandsche Standard Electric Maats-
chappij N.V., The Hague

Internationale Luchtvaart Radioser-
vice N.V., Rotterdam

Norway

Standard Telefon og Kabelfabrik A/S, Oslo

Portugal

Standard Eléctrica, S.A.R.L., Lisbon

Republic of South Africa

Standard Telephones and Cables (South
Africa) (Proprietary) Limited,
Boksburg East, Transvaal

Spain

Compañía Internacional de Telecomunica-
ción y Electronica, S.A., Madrid

Compañía Radio Aérea Marítima Española,
S.A., Madrid

Standard Eléctrica, S.A., Madrid

Sweden

Standard Radio & Telefon AB, Bromma
(Stockholm)

Switzerland

ITT Standard S.A., Basle

Standard Téléphone et Radio S.A., Zurich
Steiner S.A., Berne

Turkey

Standard Elektrik ve Telekomünikasyon
Limited Şirketi, Ankara

United Kingdom

Creed & Company Limited, Croydon

Standard Telephones and Cables Limited,
London

Ace Radio Limited, Rhyl (Wales)

P. X. Fox Limited, London

Hudson Electronic Devices Limited,
Footscray

International Marine Radio Company,
Croydon

Kolster-Brandes Limited, Sidcup

Robert Maclaren & Co. Ltd., Glasgow

Regentone Products Limited, London

Standard Telecommunication Labora-
tories Limited, London

Stanelco Industrial Services Ltd.,
London

FAR EAST AND PACIFIC**MANUFACTURING—SALES—SERVICE****Australia**

Standard Telephones and Cables Pty. Lim-
ited, Sydney

Hong Kong

ITT Far East and Pacific, Inc., Hong Kong

ITT Far East Ltd., Hong Kong

Japan

ITT Far East and Pacific, Inc. (branch),
Tokyo

New Zealand

Standard Telephones and Cables Pty. Lim-
ited (branch), Upper Hutt,
Wellington

Philippines

ITT Philippines, Incorporated, Makati, Rizal

WORLDWIDE**CABLE AND RADIO TELEGRAPH OPERATIONS**

American Cable & Radio Corporation, New
York

All America Cables and Radio, Inc.,
New York

Commercial Cable Company, The, New
York

Globe Wireless Ltd., New York

ITT Central America Cables & Radio,
Inc., Balboa, C. Z.

ITT Communications, Inc. — Virgin Is-
lands, Charlotte Amalie

Mackay Radio and Telegraph Com-
pany, New York

Radio Corporation of Puerto Rico, San
Juan

ASSOCIATE LICENSEES FOR MANUFACTURING

(MINORITY INTEREST)

Australia

Austral Standard Cables Pty. Limited,
Melbourne

France

Lignes Télégraphiques et Téléphoniques,
Paris

Italy

Società Italiana Reti Telefoniche Interur-
bane, Milan

Japan

Nippon Electric Company, Limited, Tokyo
Sumitomo Electric Industries, Limited,
Osaka

Spain

Marconi Española, S.A., Madrid

THE WORLD OF ITT**North America***

40,000 employees

9,100,000 square feet

Europe, Middle East, Africa

115,000 employees

20,600,000 square feet

South America

15,000 employees

1,400,000 square feet

Far East and Pacific

3,000 employees

800,000 square feet

Totals

173,000 employees

31,900,000 square feet

Sales representatives in most countries

* Includes Central America and Caribbean

Principal ITT System Products

Communication Equipment and Systems

automatic telephone and telegraph central office switching systems... private telephone and telegraph exchanges— PABX and PAX, electromechanical and electronic... carrier systems: telephone, telegraph, power-line, radio multiplex... long-distance dialing and signaling equipment... automatic message accounting and ticketing equipment... switchboards: manual (local, toll), dial-assistance... test boards and desks... telephones: desk, wall, pay-station, special-environment, field sets... automatic answering and recording equipment... microwave radio systems: line-of-sight, over-the-horizon... teleprinters and facsimile equipment... broadcast transmitters: AM, FM, TV... studio equipment... point-to-point radio communication... mobile communication: air, ground, marine, portable... closed-circuit television: industrial, aircraft, nuclear radiation... slow-scan television... intercommunication, paging, and public-address systems... submarine cable systems... coaxial cable systems

Data Handling and Transmission

data storage, transmission, display... data-link systems... railway and power control and signaling systems... information-processing and document-handling systems... analog-digital converters... alarm and signaling systems... telemetering

Navigation and Radar

electronic navigation... radar: ground and airborne... simulators: aircraft, radar... antisubmarine warfare systems

... distance-measuring and bearing systems: Tacan, DMET, Vortac, Loran... Instrument Landing Systems (ILS)... air-traffic control systems... direction finders: aircraft, marine... altimeters... flight systems

Space Equipment and Systems

simulators: missile... missile fuzing, launching, guidance, tracking, recording, and control systems... missile-range control and instrumentation... electronic countermeasures... power systems: ground-support, aircraft, spacecraft missile... ground and environmental test equipment... programmers, automatic... infrared detection and guidance equipment... global and space communication, control, and data systems... system management: worldwide, local... ground transportable satellite tracking stations

Commercial/Industrial Equipment and Systems

inverters: static, high-power... power-supply systems... mail-handling systems... pneumatic tube systems... instruments: test, measuring... oscilloscopes: large-screen, bar-graph... vibration test equipment... pumps: centrifugal, circulating (for domestic and industrial heating)... industrial heating and cooling equipment... automatic controls, valves, instruments, and accessories... nuclear instrumentation

Components and Materials

power rectifiers: selenium, silicon... transistors... diodes: signal, zener, parametric, tunnel... semiconductor

materials: germanium, silicon, gallium arsenide... picture tubes... tubes: receiving, transmitting, rectifier, thyatron, image, storage, microwave, klystron, magnetron, traveling-wave... capacitors: paper, metalized paper, electrolytic, mica, plastic film, tantalum... ferrites... magnetic cores... relays: telephone, industrial, vacuum... switches: telephone (including crossbar), industrial... magnetic counters... magnetic amplifiers and systems... resistors... varistors, thermistors, Silistors... quartz crystals... filters: mechanical, quartz, optical... circuits: printed, thin-film, integrated... hermetic seals... photocells, photomultipliers, infrared detectors... antennas... motors: sub-fractional, fractional, integral... connectors: standard, miniature, micro-miniature... speakers and turn-tables

Cable and Wire Products

multiconductor telephone cable... telephone wire: bridle, distribution, drop... switchboard and terminating cable... telephone cords... submarine cable and repeaters... coaxial cable: air and solid dielectric... wave guides... aircraft cable... power cable... domestic cord sets... fuses and wiring devices... wire, general-purpose

Consumer Products

television and radio receivers... high-fidelity phonographs and equipment... tape recorders... microphones and loudspeakers... refrigerators and freezers... air conditioners... hearing aids... home intercommunication equipment... electrical housewares

Transfer Agents for Capital Stock

Office of the Corporation, 320 Park Avenue, New York 10022
Continental Illinois National Bank and Trust Company of Chicago, Chicago 60690
Dresdner Bank AG, Frankfurt-am-Main, Germany

Transfer Agent for Cumulative Preferred Stock, 4% Convertible Series, Cumulative Preferred Stock 4% Convertible Series B, Cumulative Preferred Stock 4% Convertible Series C, Cumulative Preferred Stock 4% Convertible Series D, Cumulative Preferred Stock 4% Convertible Series E, Cumulative Preferred Stock 5.25% Series, Cumulative Preferred Stock 5.25% Series B.

Office of the Corporation, 320 Park Avenue, New York 10022

Registrars for Capital Stock

First National City Bank, New York 10015
Harris Trust and Savings Bank, Chicago 60690
First National City Bank, Frankfurt-am-Main, Germany

Registrar for Cumulative Preferred Stock, 4% Convertible Series, Cumulative Preferred Stock 4% Convertible Series B, Cumulative Preferred Stock 4% Convertible Series C, Cumulative Preferred Stock 4% Convertible Series D, Cumulative Preferred Stock 4% Convertible Series E, Cumulative Preferred Stock 5.25% Series B

First National City Bank, New York 10015

Trustee for 4 $\frac{1}{2}$ % Convertible Subordinated Debentures

Irving Trust Company, New York 10015

Registrar for 4 $\frac{1}{2}$ % Convertible Subordinated Debentures

Irving Trust Company, New York 10015

Trustee for 4.90% Sinking Fund Debentures

Morgan Guaranty Trust Company of New York, New York 10015

Registrar for 4.90% Sinking Fund Debentures

Morgan Guaranty Trust Company of New York, New York 10015

General Offices

320 Park Avenue, New York 10022

