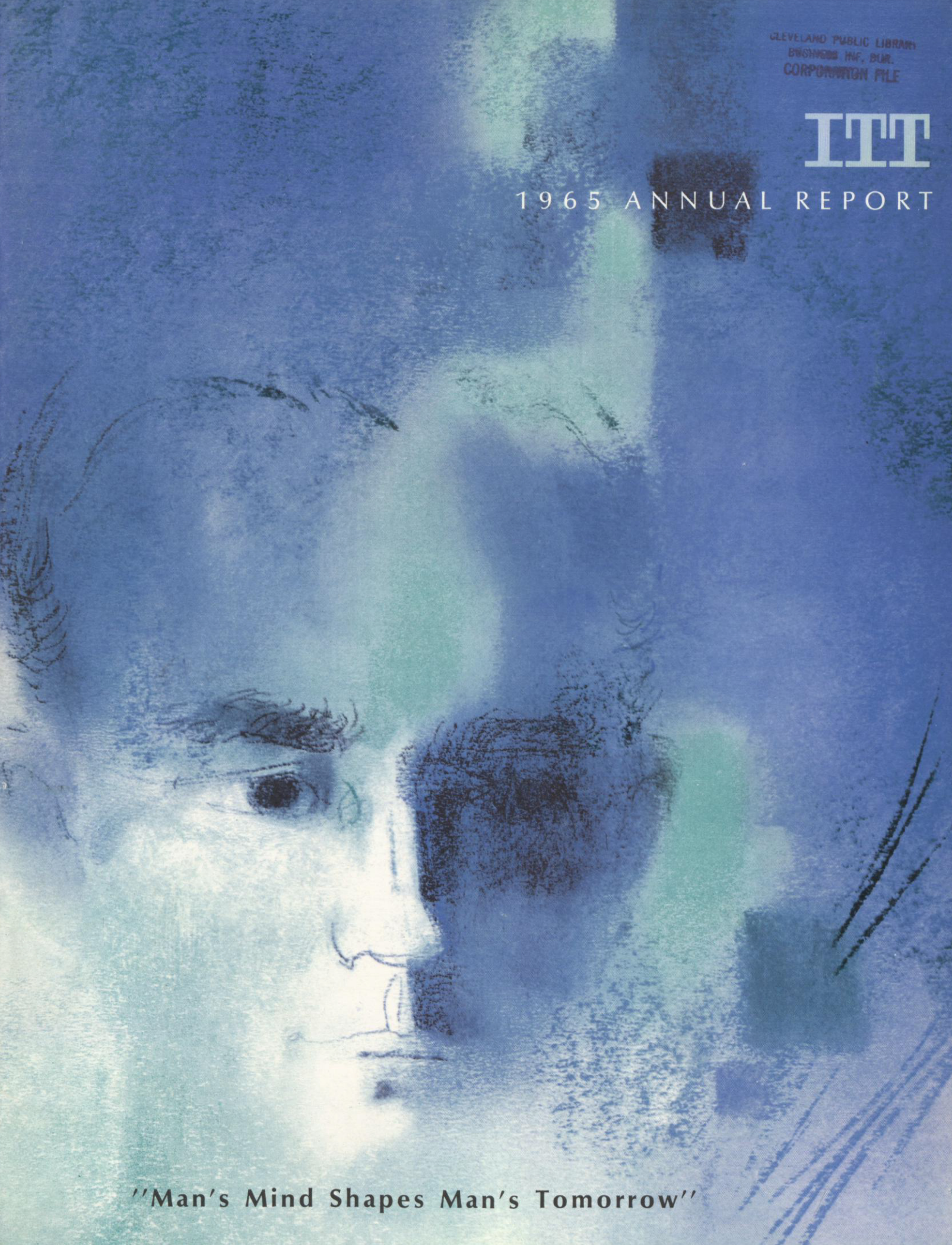


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1965 ANNUAL REPORT



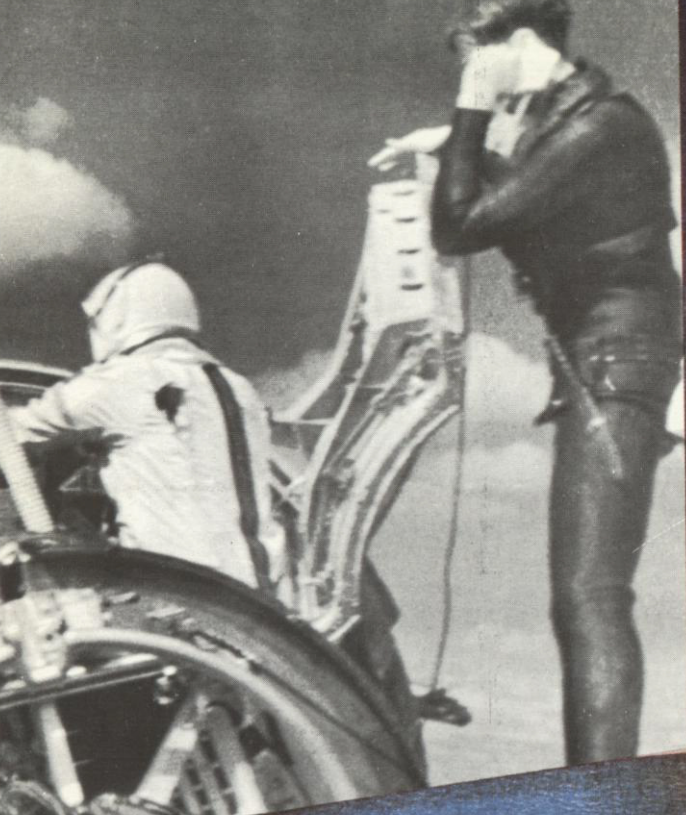
**"Man's Mind Shapes Man's Tomorrow"**



UNITED STATES

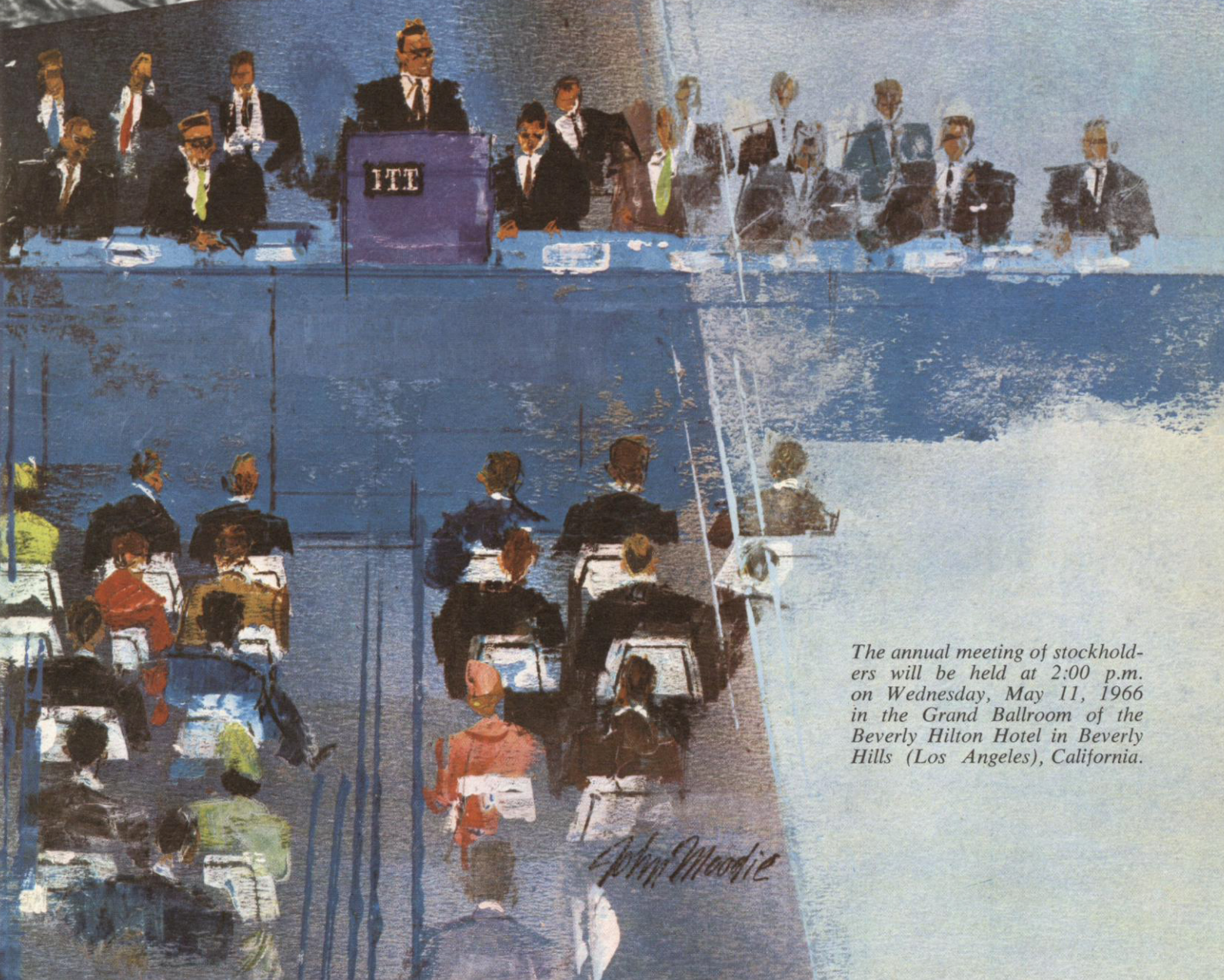
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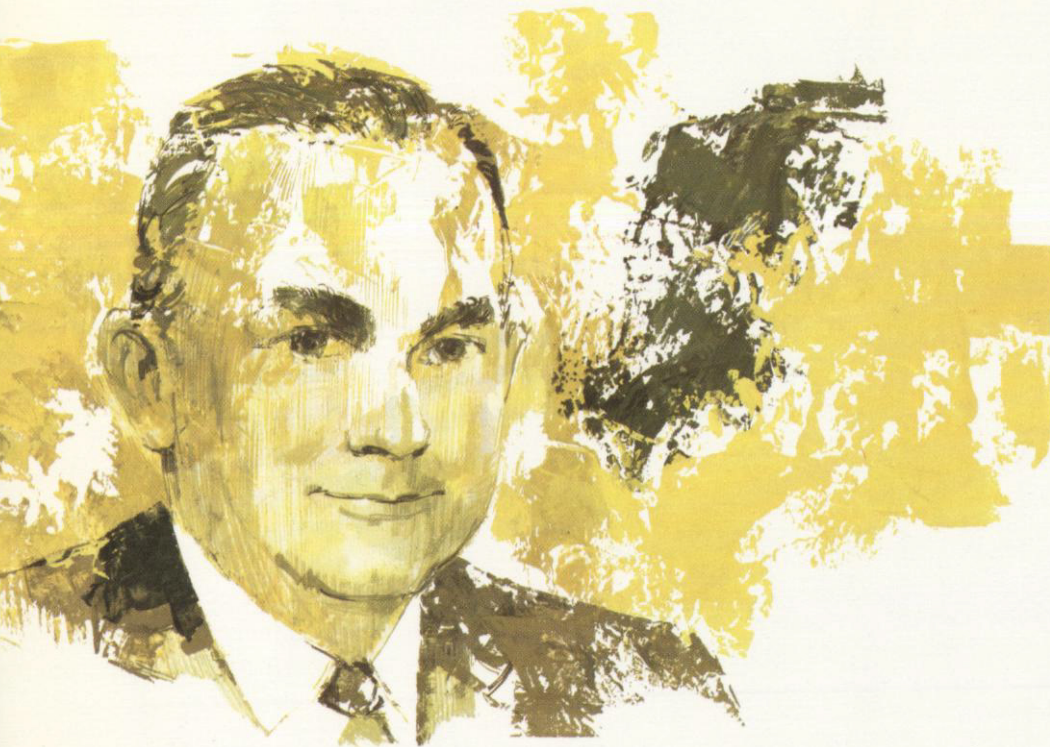
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*The annual meeting of stockholders will be held at 2:00 p.m. on Wednesday, May 11, 1966 in the Grand Ballroom of the Beverly Hilton Hotel in Beverly Hills (Los Angeles), California.*

*John Moodie*



## TO OUR STOCKHOLDERS:

The annual figures tell how a company has fared over the past year. They also contribute to the answer of an even more significant and complex question: Is the company meeting the challenge of the times in terms of adjusting to and taking advantage of changing conditions?

How well is ITT meeting the challenge of technical, economic, and social changes, both for the present and the foreseeable future? How strong is the Company in the areas of operation most important to modern corporate growth—the development of an effective international capability, a varied operational and product mix, and a responsive, efficient management system designed for the environment in which it must function?

Within the context of the times, 1965 is a good year to measure the growth capability of your Company. It was another record year for ITT—the sixth consecutive record year since inception of our growth program. New all-time highs were established for sales, net income, and earnings per share.

Total consolidated net income in 1965 reached a record \$76.1 million on all-time high sales of nearly \$1.8 billion, resulting in earnings of \$3.58 per average common share

outstanding. This was an increase of 13% over restated 1964 earnings of \$3.16 a share or 15% over \$3.11 per share as reported in 1964.

Net income was 14% over the 1964 total of \$66.8 million, after restatement to include the earnings of companies acquired in “pooling of interests” transactions in 1965. Total sales and revenues represented an increase of 11% over the previous peak in 1964. The total 1965 sales and revenues are 133% higher than the amount reported for 1959 and net income has increased by 162% over the same period.

The year marked the first year of ITT’s second five-year growth program. During the first five years your management successfully achieved its goals of doubling the Company’s sales and net income, while earnings per share increased 64%. Results of the first five-year growth program strengthen the promise that ITT will again double its sales and income by the end of 1969.

The year also witnessed the most significant progress to date toward management’s goal of achieving a balance between the domestic and foreign operations of ITT. The earnings of ITT in the United States and its possessions

last year rose to 40% of the total worldwide earnings, compared with 30% in 1964.

The improving balance between domestic and foreign earnings emphasizes ITT's expanding role in still another phase of a world in transition — the continuing expansion of consumer goods and services growing out of population increases. For much of the Company's domestic gain has come from applying ITT strengths, developed over the years in different fields, to the new opportunities offered in the relatively low-risk areas of service operations.

Because we feel that this process of meshing the capabilities of the Company with the needs and nature of the times is such an important element of the ITT story, we have devoted the narrative section of ITT's 1965 Annual Report to an examination of how developments of the past decade and the next decade can be related to ITT progress, and the ways in which your Company has been, and will be, taking advantage of these changes.

Looking further at 1965 results, our orders on hand at year-end totaled \$1.1 billion, a gain of 14% over the preceding year-end, and another all-time record for the Company. During 1965 we enlarged our System-wide manufacturing capacity, bringing our total worldwide capacity to 35.2 million square feet, compared with 34.6 million in 1964, and 17.1 million in 1960, the first year of our growth program.

Expenditures for new facilities and equipment last year totaled \$146 million, a record for any single year in the Company's history. About 75% of such expenditures was financed internally through retained earnings and depreciation.

During the year 1965, we added more than 14,000 employees in the United States and overseas, through expansion and acquisitions, raising our worldwide employment total to 199,000. Among all major industrial companies in the United States we rank as the fifth largest in terms of employment, and we are ninth among all private industrial companies of the world.

The improvement in sales and earnings of our U. S. operations, as forecast in previous Annual Reports, largely reflects the improvement in earnings under ITT management of many companies acquired subsequent to 1962. In Europe, where ITT is a major supplier of telecommunications equipment and a leader in components, consumer products, and commercial products, sales and earnings in

1965 surpassed all previous records. Total European sales reached a new peak of \$894 million compared with \$791 million in 1964. Sales of telecommunication equipment accounted for more than 65% of the total, with the remainder divided among components, consumer products, and commercial products.

In Africa, Latin America, and the Far East, particularly in those developing countries with a rapid rise in living standards, we increased our manufacturing and sales activities, and these areas provide outstanding long-term potential for future growth.

In international communications services, we achieved new peaks in sales and earnings, particularly in cable and radio. Our earnings in these operations have increased more than 150% in the past five years, and prospects for the future point to a continuation of this above-average growth trend.

A major move in the broadening of the Company's U. S. base of activities was announced December 7, when the Boards of Directors of ITT and American Broadcasting Companies, Inc. approved a merger of the two companies, subject to the conclusion of the formal contract, which action was taken on February 14, 1966, and to the concurrence of shareholders of both companies at special meetings to be held on April 27, 1966, and appropriate government agencies.

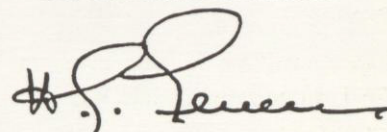
This report of ITT's record achievements in 1965 was made possible by the loyalty of our employees, the cooperation of our suppliers, and the continuing confidence of our customers and shareholders.

In the year 1966 and beyond, our objectives remain basically the same: to manage our resources — in people, in technology, and in capital — so as to earn a superior return for our shareholders. As we look forward to the next five years, our answer to the challenge of the times is to continue building and operating ITT as a company of and for those times.

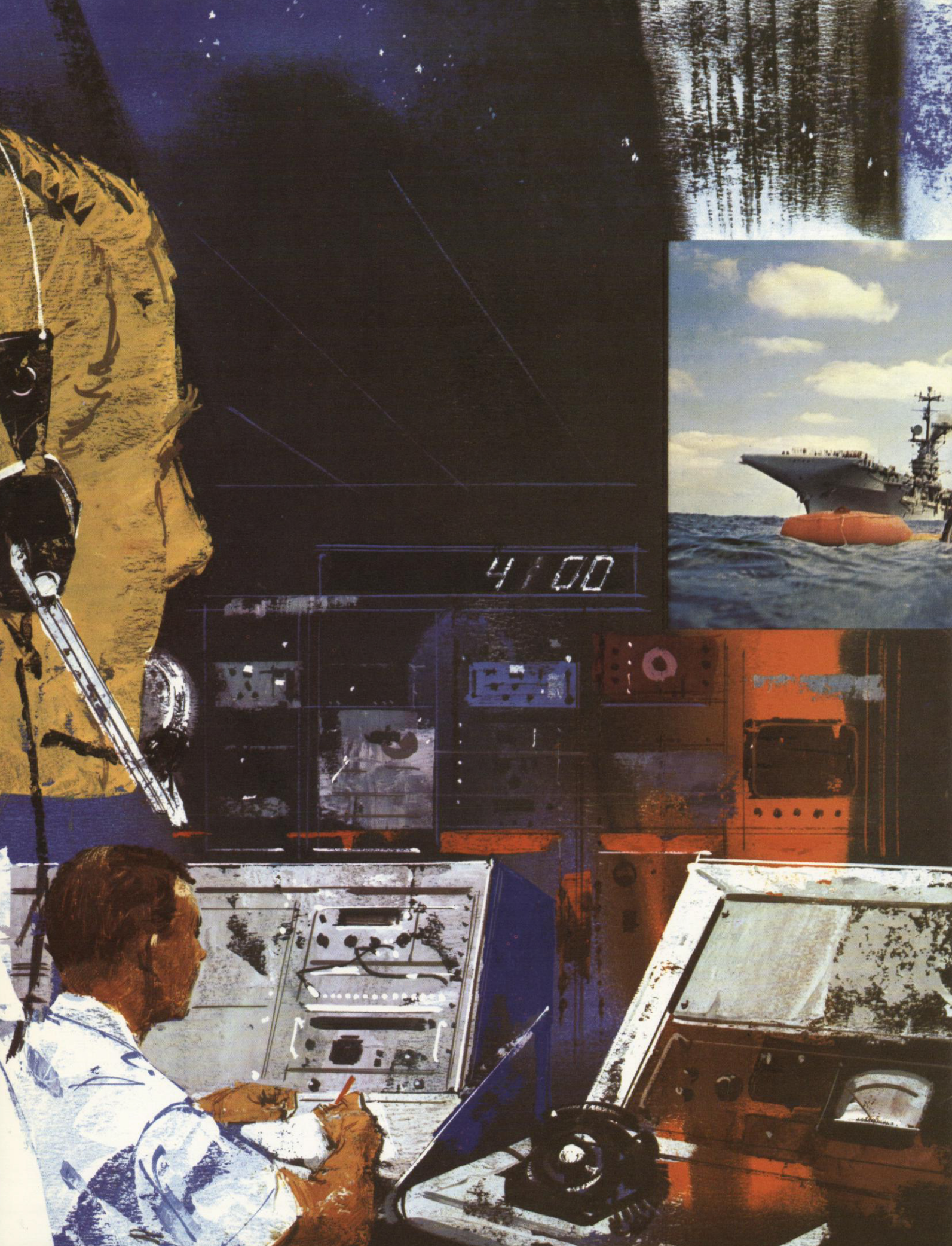
Man's mind shapes man's tomorrow, and tomorrow is ITT's responsibility today.

March 9, 1966

For the Board of Directors



Chairman and President



4100





## ITT: A COMPANY FOR OUR TIMES

On December 16, 1965, millions of American television viewers witnessed an historic communications achievement as live-action pictures of the Gemini 6 recovery operations were flashed instantaneously from the deck of the *U. S. S. Wasp* far out in the Atlantic. Two days later Europe joined the North American audience to follow the live television action as the Gemini 7 astronauts completed their flight. These unprecedented broadcasts, sent over great distances from a remote location, without access to a permanent earth station or cables, marked a beginning of a new era of broadcasting in which it will be possible ultimately to transmit live television pictures instantaneously from any point on the globe to any other point. The live Gemini 7/6 telecasts were achieved as the result of the development by ITT of a transportable satellite-communication earth station, mounted on the deck of the recovery vessel. The ITT transportable station transmitted pictures from the cameras aboard the *Wasp* by microwave signal to the Comsat Early Bird satellite, which, in turn, relayed them to the ground station at Andover, Maine. The signals were

then distributed by land line facilities to the television networks in the United States, which broadcast them to American homes coast-to-coast. Early Bird retransmitted signals from Andover to ground stations in Europe.

For ITT, the live-action broadcasts followed by a few months the impressive achievement of transmitting still pictures of the Gemini 5 recovery instantaneously to the national television audience. The Company's slow-scan VIDEX<sup>®</sup> system which made this possible also backed up the live television coverage of Gemini 7/6.

In the Gemini satellite broadcasts, television pictures and sound were transmitted electronically by microwave radio, and monitored by land-sea telephone circuits — communications methods that extensively involve the manufacturing and service capabilities of ITT. Too, the conditions and elements encompassed by the projects — vast distances, great speeds, and technical complexities — represent challenges faced by ITT on a continuing basis in the normal course of its operations.

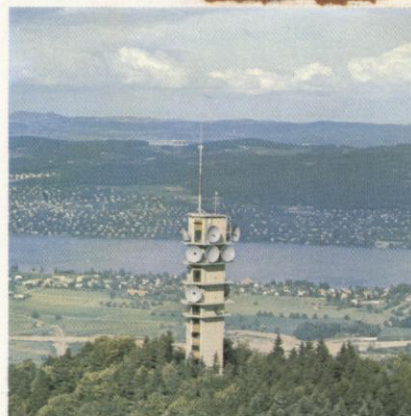


Geared as it is to the march of technical and scientific progress and to meeting both the needs of people and the demands of maintaining the security of the free world, ITT is not the same company it was before 1959, when it began its first five-year growth program. Nor is this the pre-1959 world. Sputnik I changed that world forever, and ITT changed with it, moving with the times strongly into the space age as its products and people made significant contributions to this country's space effort and the worldwide technological boom of which it is a part.

In the past year ITT's high-resolution, infrared scanning camera, carried on the Nimbus satellite, produced the first night-time picture of cloud cover, an achievement for which the Company received the American Meteorological Society "Award for Outstanding Service to Meteorology."

The European Space Research Organization (ESRO) gave an ITT French associate the prime contract for Europe's first space satellite, ESRO I.

Under the direction of ITT's noted scientist, Dr. Philo T. Farnsworth, inventor of electronic television, research has gone forward on the production of power by the controlled fusion of atoms. Several approaches are currently being followed in a newly constructed laboratory specially designed for these investigations at Fort Wayne, Indiana, and these experiments have continued to show increasing yields of the atomic particles characteristic of the atomic fusion process.







Pulse code modulation (PCM), for which ITT's British scientist Alec Reeves, inventor of the system, was awarded the world famous Ballantine medal by the Franklin Institute in October 1965, is now receiving widespread use and seems likely to revolutionize the transmission of speech, television, and other waveforms in the coming decade.

During the year, ITT scientists scored an important electronic breakthrough as one of the first to achieve continuous microwave oscillations generated throughout the bulk of a crystalline material (and as the first to do this in an epitaxially deposited crystalline material) an accomplishment that promises to provide by a solid state device a simple and inexpensive source of microwave power for radio equipment.

It is natural that ITT as a great communications company should be a major force in the spectacular technological advance of this country and the world. Automatic switchboards, for example, pioneered techniques now used in giant computers, information processing systems, and other principal instruments of automation. Many key electronic discoveries have found their first and widest applications in telephony and telegraphy.

Besides being the world's largest international manufacturer of telecommunication equipment and supplier of related services, ITT produces missile equipment, radar systems, simulators, space booster programmers, distance-measuring and bearing systems, navigation systems, and infrared detection and guidance equipment.





ITT also supplies the vital components for electronic and telecommunication systems and commercial industrial products — power rectifiers, transistors, diodes, semiconductor materials, tubes, capacitors, magnetic cores, relays, resistors, and electrical motors. The list of equipment, systems, and components is as extensive and all-encompassing as the complex patterns of the space age itself; for ITT is as much a part of the age as the age is of ITT.

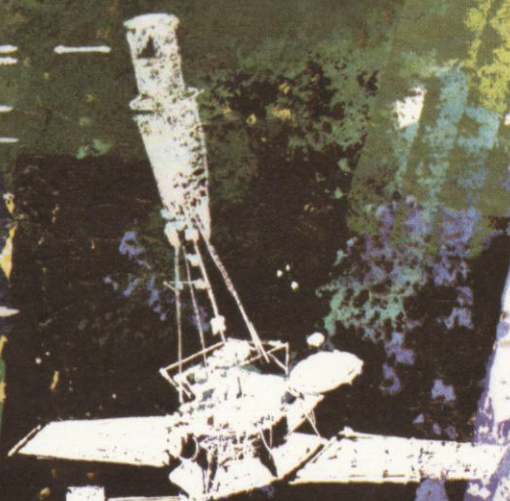
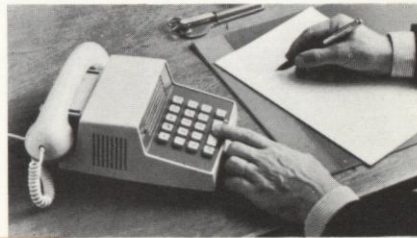
A largely different company today from what it was yesterday, ITT will also be different in 1969 when it completes its second five-year growth plan. As the world must change, so will ITT change, shaping itself to the needs and opportunities of the times; for this is not only a different company, but literally a new kind of company, designed, built, modified, and managed to fit the times, rather than remaining shackled to the rigid and outmoded traditions of a particular industry concept.

That tomorrow is part of today for ITT, in a world dedicated to change, is apparent in the degree to which the present organizational and operational lines of ITT conform to the company of the future as described in "The World of 1975," a report issued by the Stanford Research Institute. The company suited to the conditions of 1975, the report predicts, will be highly diversified, international in scope, professionally managed, and strong in research and development — all characteristics of ITT today. ITT is already diversified and probably the most international in scope of any company, already under the guidance of a team of professional managers oriented to the times, and already heavily engaged in research and development work.

No society previous to ours has ever been confronted in such a short space of time with so many major eruptions in so many areas. Science, technology, education, population, production — all have exploded with such power as to alter substantially the course of man's affairs.

The most important element in the dynamics of these forces for change is the human element, involving, as it does, the tremendous increases in population the world has been undergoing. It took the United States 340 years — from 1620 to 1960 — to reach a population of 180 million. It is estimated that it will take just 35 years to double that figure, meaning a population of nearly 400 million by the year 2000. In the past 50 years the population of the world has increased by one and one-half billion, or approximately one-half of the present world total. By 1985, the total is expected to reach nearly five billion.

As populations grow, needs and markets grow, not only in size but in nature and variety. For example, Western



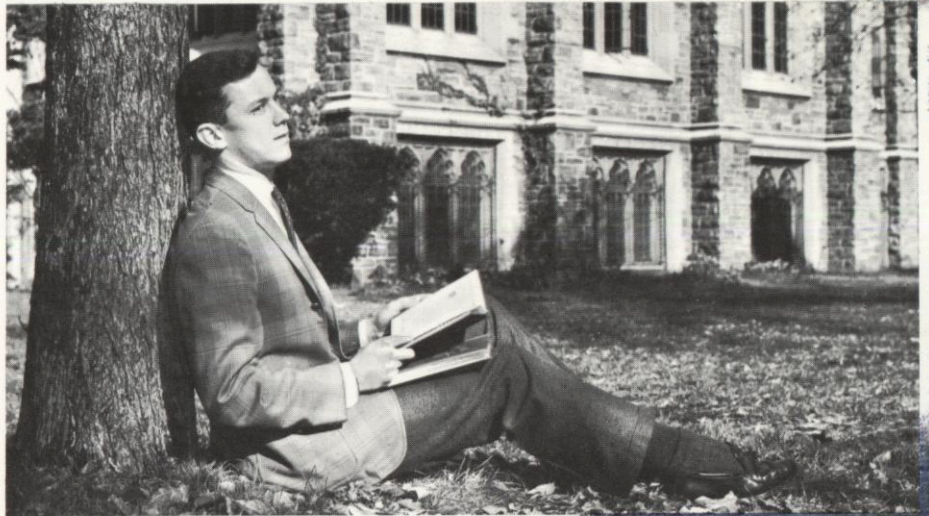
Europe, where ITT is a strong manufacturing and marketing force, has a population of 320 million. The Company's growth in this area will come not only from the population explosion but also from the present state of the communications market, which shows that today there are just 15 telephones per 100 persons, which approximates the ratio in the United States some 20 years ago. Considering the U. S. ratio today — nearly 46 telephones per 100 persons — the opportunity for expansion in Western Europe becomes readily apparent.

The more people there are, the more communications facilities will be needed to bind them together and to handle not only routine communications, but the rapidly growing flood of information that has resulted from and contributed to the technical explosion. To keep pace with the communications needs of the expanding world populations and the resulting national growth, even greater capabilities will be required. For example, in just one field a broad advance in the establishment of both coaxial cables and satellites will be necessary to meet the unprecedented demand for international communications. Going back to 1925 there were only 19 slow-speed telegraph cables across the Atlantic, offering a total of 24 channels, each capable of handling 35 words per minute on the average. At present, there are more than 500 voice-grade channels, or a capacity to transmit 700,000 words a minute compared to the 840 words a minute in 1925, by cable alone — and the Early Bird satellite raised this capacity by nearly 50% in 1965. At the same time, the Company has moved forward in the development of improved cable systems. Currently, ITT has under development transistorized submarine cable systems for 360 and 640 voice-grade channel capacities, and is studying the feasibility of submarine cable systems of 1,280 and higher channel capacities.

Expanding communications systems mean growing markets for public and private switching systems, telephone and telegraph exchanges, telephone sets, long-distance dialing and signaling equipment, microwave radio systems, radio multiplex equipment, data-transmission systems, and teleprinters.

Technical advances developing in response to the pressures of new needs created by population growth have a





way of creating in turn their own new needs. Satellites, for example, have joined the growing swarms of aircraft, ships, trains, and motor vehicles that move over the traffic lanes of land, sea, and sky — each with its own communication, navigation, or control equipment that must interwork with corresponding facilities along its route. The rapid expansion in satellite communication will add still another dimension to ITT's service capabilities. Commercial airliners speeding over remote overseas routes will be able to keep in touch with ground centers via satellite; ships at sea, equipped with ITT Telex, will have immediate access to weather data and land-based computer centers for answers to a variety of administrative and operational problems.

ITT's international communications network was further strengthened in 1965 by the expansion of its cable and satellite communication capabilities. In addition to ownership in a coaxial cable system across the Atlantic, Caribbean, and Pacific, ITT is uniquely equipped to provide all types of communication — voice, pictures, computer data, and television — on an international basis. In Madrid, Grand Canary Island, and Latin America the Company has offered to design and construct satellite earth stations for television transmission and reception as well as voice and data traffic to meet the vastly expanded needs of both government and industry.

All this represents vast new demand for the products and services of a major international communications organization such as ITT.





The Vietnam conflict is another important factor which has created urgent requirements during the year for specialized electronics equipment. ITT's worldwide electronic and telecommunication capabilities have enabled it to respond to these needs by supplying communication, air navigation, and other tactical equipment for use by our land, sea, and air forces in jungle warfare. At the same time, the Company also maintained its active role as a major defense contractor. It continued its leadership in the operation and maintenance field as prime contractor for the Western Test Range, the DEWline, and portions of the Merritt Island Launch facility for NASA. It also participated as prime contractor in the Navy's undersea test programs, and made sizable deliveries of equipment to the military and other prime contractors.

Changes in population makeup, and economic and social advances of populations as a whole can bring with them greatly increased purchasing power and decisive changes in buying habits and attitudes. In the United States there will be a sharp increase in the number of young adults and a resulting increase in the number of families. It is estimated that the number of 20 to 29 year olds will increase about 53% by 1975, compared with a total population growth in the U. S. of 21%.

By 1975 the number of families and individuals with after-tax incomes of over \$10,000 will more than double, and those earning less than \$3,000 will drop by nearly 10%, according to the Stanford Research Institute. During the same period, it is estimated that personal income in the United States will grow more than 40%.



More young families with more money will mean an increased demand for shelter. In recent years, construction of new apartment buildings has accelerated, accounting for roughly one-third of all housing starts since 1964. This trend represents an expanding market for ITT products such as central heating, air conditioning equipment, lighting equipment, telephone intercommunication systems, and wire and cable equipment.

The consumers of the future will be better educated and have both the time and the inclination to devote themselves more to cultural pursuits and recreation. One hundred years ago the average work week in the United States was about 70 hours long. Today it is about 40 hours, and some labor experts predict it may shrink even further in the next decade.

This metamorphosis of the consumer is by no means peculiar to the United States. It is also taking place in Europe, and expansion of the leisure time market will be of significance to ITT, which, with its diversified line of products, is well represented in the consumer goods field. In The Common Market, ITT companies manufacture a complete line of television, radio, and high fidelity phonograph equipment and combinations, both monaural and stereophonic. In the European Free Trade Association

area, ITT companies produce a line of television, radio, and phonograph instruments.

Much of the new leisure time will be devoted to additional schooling. Many young people will delay entry into the job market by going on to graduate school. Others will pursue courses after work hours. Still others, who would have gone to work after high school, will enter college. The expanding rolls of students at all levels and in all categories will create new demand for school supplies and equipment and stimulate activity in school construction. These trends are already underway, and will receive further impetus from federal aid to education.

In the United States, there has been a two-fold increase in total federal commitment to education since 1964, running from \$4.5 billion in that year to \$8.6 billion committed for 1966. Education, in fact, is one of the nation's fastest growing "industries." Colleges have already been affected by the World War II baby crop, and five to eight years from now it is estimated that 50% more students will be enrolled in American colleges and universities than there are today.

Education and the anti-poverty program are inextricably linked with each other. ITT is active in the educational field as a manufacturer of heating, air conditioning, and





lighting equipment for school buildings, and, in the anti-poverty program, as an operator of federal job-training centers. The Company operates the job-training center at Camp Kilmer, New Jersey, having won the contract on the basis of its long experience in serving the government in the installation, running, and maintenance of various electronic communications systems, including the teaching of men to handle them. The Company is responsible for housing, feeding, and teaching some 2,500 youths enrolled in the training program, and has also undertaken on a subcontracting basis the operation of a second center, for girls, in Cleveland, Ohio.

ITT played an active part in the International Cooperation Year of 1965. ITT president Harold S. Geneen accepted the appointment by President Johnson to head the Citizens Committee on Communications, which recommended that the United States propose and support a new United Nations agency to be known as the Voice of Peace to act as a world source of knowledge and reference for the collection, communication, and dissemination of all types of information useful for peaceful purposes through the world. This computer-based center would gather, store, process, program, retrieve, and distribute information on the broadest possible scale.

The educational process now encompasses a vast array of technical equipment including teaching machines, visual aid equipment, closed circuit television, computers, and data processing equipment. And beyond education — in the fields of academic and scientific research, government, and business — electronic data processing is producing increasingly greater quantities of information.

The knowledge and information explosion has significance for ITT in that it has accelerated the demand for electronic equipment and opened the way to still further scientific and technological advances, which, in turn, will create additional demand. Another result will be the development of a more educated, informed, and sophisticated world citizenry, which will not only contribute to new technological advances, but will demand them to fill its own increasingly complex needs.

To meet this global challenge, ITT companies are working on an entirely new generation of systems designed to speed the flow of information across the oceans and continents. Full color television transmission, a capability to visit the world's museums, read any book in any library, attend opening "nights", and summon almost instantly the vast reservoir of knowledge locked in the "memories" of giant computers are but a few of the possibilities en-

visioned by the mating of modern computer and communication techniques.

Specialized needs are a salient factor in both today's and tomorrow's market picture. Although allowances must be made for such major economic factors as the conflict in Vietnam, it is generally true that, as people become more educated, sophisticated, and affluent, they are more likely to spend their money for things they want rather than solely for things they need. Thus, discretionary income becomes a major market factor.

The unprecedented boom in business in this country has pushed discretionary income up 34% since 1960 to \$196.5 billion for 1964, with the result that families have \$50 billion to spend that they did not have four years ago. All this extra spending money has set off still another explosion — the tremendous demand for convenience items. ITT is in a position not only to capitalize on the growing worldwide demand for consumer goods, but to take an active part in an area closely related to consumer purchases — the service industry.

A study recently released by the National Bureau of Economic Research emphasizes that the United States is now operating under a service economy with non-manufacturing industries accounting for more than half of the national income and labor force. It has been estimated that sales of durable goods to consumers in the U. S. will increase by about 1% in 1966 over 1965, and the sale of non-durables by about 4%. On the other hand, the consumption expenditures for services will increase 7.8%.

ITT moved into the service field in 1964 with the purchase of the Aetna Finance Company, which specializes in consumer financing. Aetna, with 227 offices in 25 states in this country, is part of ITT Financial Services Inc., a new subsidiary which also includes other acquisitions in the area of personal finances — American Universal Life Insurance Company and Alexander Hamilton Life In-



ORLD

VISION  
RADIO

Standard  
0052  
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insurance Company, the two life insurance subsidiaries of ITT Aetna Finance Company. ITT also entered another expanding field with the acquisition of Hamilton Management Corporation, distributor of Hamilton Funds, Inc. The acquisition of Press Wireless Inc. in 1965 also represented a major move in ITT's increasing activities in this field. Since its foundation in 1929, Press Wireless has been providing newspapers and press associates in some 65 countries with teleprinter, facsimile, telephoto, and voice communication services — services which are being continuously improved and expanded to include the most recent advances in international communications.

During the year ITT Data Services, a new division, was established and is already operating the world's largest commercial computer service bureau and offers a complete range of data processing services. Based upon the network now in operation in the New York area, national and European networks of computer centers located in major industrial areas are planned to meet the rapid expansion of demand for these services. In addition to the centers now operating in the New York area and in Paris, centers will be opened during 1966 in Los Angeles, London, Stuttgart, Madrid, and Lille, France.

Mobility is another characteristic of a modern, industrialized society. ITT moved into a strong position to take advantage of opportunities in this regard when it purchased Avis Inc., engaged in automotive leasing and rental. Expansion moves such as the Avis purchase have enabled ITT to bring more balance to its operations, as between manufacturing and service activities. They have also helped the Company gain an increasingly important position in a relatively low-risk sector of the economy.

Approximately 40% of total ITT earnings in 1965 were produced by the service operations of the Company, including the traditional utilities area as well as the newer service activities — business and financial services and the consumer services. ITT earnings in the international communications service field have risen more than 150% in the five-year period 1961-1965.

ITT service operations, both new and traditional, hold great promise of future growth; for as there are more people in the world leading more complex lives, more and varied support services are needed to enable them to live as they want to and can afford to live.

One important aspect of the ITT expansion into the domestic business and financial services and consumer services fields is the great contribution the Company can

make to the future international growth of subsidiaries in this segment of the economy. Our Avis overseas expansion has already been advanced in Europe by two years. Few, if any, U. S. companies can match the breadth of ITT experience in operations in markets extending throughout the world.

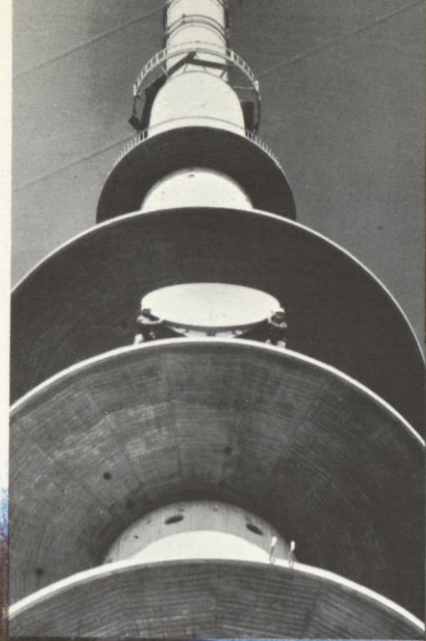
ITT has a long operational background in these new areas of business. It has been active in the profitable service sector of telecommunications in foreign countries for a number of years as its original business, serving both industry and the populace. Its finance companies, including ITT Credit Corporation and Kellogg Credit Corporation, have financed the sale of ITT equipment worldwide.

But the factors that have contributed greatly to the guarantee of the success of ITT in new areas and to the Company's ability to keep at once apace and ahead of the times have been the organization's great resources of technical inventiveness, knowledge, and skill; its dynamic, unrelenting research and development program, always aimed at new horizons; the international nature of the Company; and, more than anything else, the modern management concept with its emphasis on being prepared today for tomorrow's demands.

To help meet this challenge, thousands of scientists, engineers, and laboratory technicians are employed throughout the worldwide ITT System on research and development, which has led historically to many significant ITT "firsts." ITT patents form the basis of modern radar, air navigation, and instrument landing systems. Eighty nations use ITT switching systems to operate over 14 million telephone lines, and ITT holds patents in space communications. The Company is also active in other vitally important technological areas.

In West Palm Beach ITT produces semiconductor integrated circuits, and this is in addition to the fabrication of passive-film type integrated circuits in several of its factories in the United States and Europe. The significance of integrated circuitry lies in the lower cost, improved reliability, and space savings it gives to switching apparatus and other telecommunication equipment.

ITT's traditional ability to achieve major technical "break-throughs" has resulted to a considerable degree from the Company's extensive international involvement which, ranging back some 122 years through its oldest subsidiary, has enabled ITT to encourage and develop the ingenuity and skills of many peoples in many lands. That the Company has been able to develop the fullest benefit of these



invaluable resources has been primarily due to the development of a management system designed specifically to meet the needs of a large, diversified corporation of international scope.

Prior to initiation of the growth plan, which since 1959 has brought great expansion and variation to ITT operations, ITT was essentially a holding company in which each subsidiary unit concerned itself with sales in its own country and the prime export markets of that country.

Under the new ITT management system, autonomous area managements act to meet local area problems, customer needs, and 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 decision.

The basic tools in attaining the Company goals of product development, market penetration, and better earnings are realistic operating plans based on intensive financial controls, written and oral reports, and forecasting techniques employed on a monthly, and often on a day-to-day, basis for each segment of the organization.

The concept and implementation of this new management approach are primarily directed toward matching ITT operations to world growth in both the quantitative sense and in regard to the rate of advance. Flexibility, speed, the efficient handling of information — all are factors vital to the success of the ITT management system. So, of course, is the size of the management force. ITT's executive force, for example, has grown from about 500 in 1959 to around 1,100 today.

Perhaps even more importantly, ITT depends not only on a management concept to fit the times, but on men to fit the times. Merely having enough executives is not sufficient. It is necessary to have men who, besides having the technical knowledge and skills required, also have the ability to think in terms of the operation of a large, diversified, international organization such as ITT.

Essentially such thinking involves an "overview" of international operations which goes beyond local marketing and distribution concepts, crossing national and area boundaries. Within this concept, products and techniques are considered, not only in the light of their immediate application, but in terms of how they can be best utilized on a corporatewide and a worldwide basis. Such an attitude is a prerequisite for the modern, international business execu-



tive. It is the view of the truly international management man who is a vital working force in the success of a truly modern international company, free to take the fullest advantage of opportunities for progress and growth, wherever and whenever they occur and regardless of whether or not they fall within traditional molds.

As is the case with every company, ITT is the sum and substance of the intelligence, skills, energies, and vision of its employees. Yet, the man for our times in modern business — the internationally oriented and technically accomplished executive, flexible in concept and attitudes — could only result from a company designed and directed to meet the needs of the times, a company that views today in terms of tomorrow, proving, advancing, growing, learning, discarding the old and the inadequate for the new and the better, moving on to the next horizon, even as today's has been crossed, combining human concerns with technical powers to identify and solve the problems of mankind in a constantly shrinking and infinitely complex world.

This is a company for our times.

This is ITT.



## DIRECTORS AND OFFICERS

### Directors

EUGENE R. BLACK*	<i>Business Consultant</i>
RAYMOND L. BRITTENHAM	<i>Senior Vice President and General Counsel, International Telephone and Telegraph Corporation</i>
GEORGE R. BROWN*	<i>Oil, engineering, and investments; Chairman of the Board of Texas Eastern Transmission Corporation, and of Brown &amp; Root, Inc.</i>
HAROLD S. GENEEN*	<i>Chairman and President, International Telephone and Telegraph Corporation</i>
ARTHUR M. HILL*	<i>Private investments, officer and director of various unlisted corporations and banks</i>
CHARLES D. HILLES, JR.	<i>Retired</i>
CHARLES T. IRELAND, JR.*	<i>President and Director, Alleghany Corporation, and Chairman of the Executive Committee, Investors Diversified Services</i>
ALLAN P. KIRBY*	<i>Management of personal affairs, Chairman of Alleghany Corporation, a holding company, and Chairman of the Executive Committee of the Board of Directors of the New York Central Railroad</i>
HUGH KNOWLTON*	<i>Limited Partner, Kuhn, Loeb &amp; Co., investment bankers</i>
J. PATRICK LANNAN*	<i>Financial Consultant</i>
JOHN A. McCONE*	<i>Chairman of Joshua Hendy Corporation</i>
RICHARD S. PERKINS*	<i>Chairman of the Executive Committee, First National City Bank, New York</i>
HART PERRY	<i>Executive Vice President—Finance, and Treasurer, International Telephone and Telegraph Corporation</i>
WARREN LEE PIERSON*	<i>Chairman of the Board of Directors, All America Cables and Radio, Inc.</i>
ELLERY W. STONE	<i>Vice President, International Telephone and Telegraph Corporation</i>
TED B. WESTFALL	<i>Executive Vice President, International Telephone and Telegraph Corporation</i>

\* EXECUTIVE COMMITTEE

### Officers

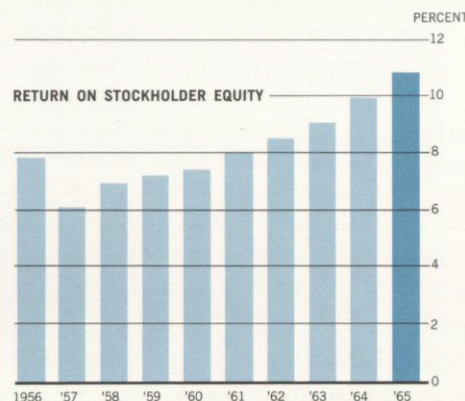
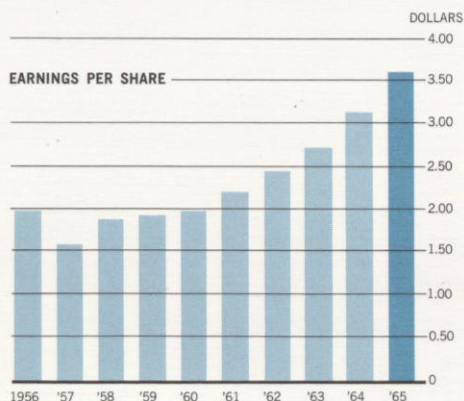
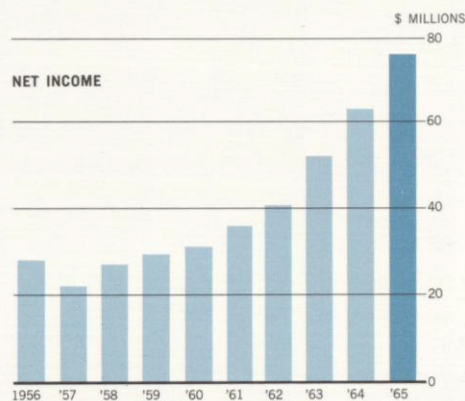
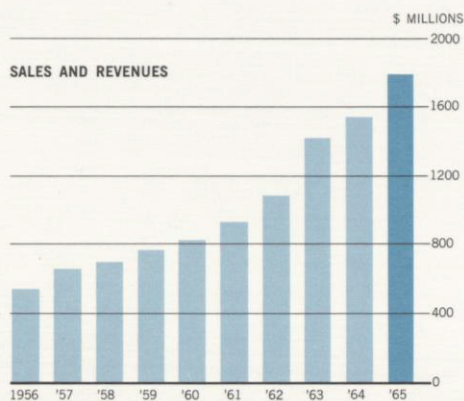
Harold S. Geneen	<i>Chairman and President</i>	John G. Copelin	<i>Vice President</i>
Hart Perry	<i>Executive Vice President—Finance, and Treasurer</i>	Frederick R. Furth	<i>Vice President</i>
Francis J. Dunleavy	<i>Executive Vice President</i>	Rex B. Grey	<i>Vice President</i>
John C. Lobb	<i>Executive Vice President</i>	John W. Guilfoyle	<i>Vice President</i>
Ted B. Westfall	<i>Executive Vice President</i>	James V. Lester	<i>Vice President</i>
Raymond L. Brittenham	<i>Senior Vice President and General Counsel</i>	Stanley Luke	<i>Vice President</i>
Herbert C. Knortz	<i>Senior Vice President and Comptroller</i>	Frank J. McCabe	<i>Vice President</i>
Henri G. Busignies	<i>Senior Vice President</i>	Corbin A. McNeill	<i>Vice President</i>
Edward J. Gerrity, Jr.	<i>Senior Vice President</i>	James R. McNitt	<i>Vice President</i>
John Hanway, II	<i>Senior Vice President</i>	R. Edwin Moore	<i>Vice President</i>
John J. Navin	<i>Secretary</i>	Eugene F. Peterson	<i>Vice President</i>
Gerhard R. Andlinger	<i>Vice President</i>	Henry H. Scudder	<i>Vice President</i>
Frank P. Barnes	<i>Vice President</i>	John Seath	<i>Vice President</i>
Richard E. Bennett	<i>Vice President</i>	Ellery W. Stone	<i>Vice President</i>
Henry E. Bowes	<i>Vice President</i>	Robert J. Theis	<i>Vice President</i>
		John T. Thompson	<i>Vice President</i>



# HIGHLIGHTS

	<u>1965</u>	<u>1964*</u>
Sales and Revenues	\$1,782,939,000	\$1,601,543,000
Net Income	\$ 76,110,000	\$ 66,831,000
Per Average Common Share	\$3.58	\$3.16
Average Common Shares Outstanding during Year	20,099,000	19,863,000
Dividends per Common Share	\$1.23¾	\$1.10
Gross Plant Additions	\$ 145,629,000	\$ 129,161,000
Plant, Property and Equipment, less Reserves	\$ 789,849,000	\$ 695,155,000
Orders on Hand	\$1,140,000,000	\$1,004,000,000
Number of Employees	199,000	189,000
Number of Stockholders	106,000	104,000

\* Restated to include data relating to companies acquired in 1965 in poolings of interests.



## FINANCIAL SUMMARY

Sales and earnings of International Telephone and Telegraph Corporation in 1965 were the highest for any year in the Company's 45-year history.

Worldwide sales and revenues in 1965 rose to \$1,782,939,000, an increase of 11% over the previous record of \$1,601,543,000 in 1964, after restatement to include all companies acquired in "pooling of interests" transactions in 1965.

Sales of our manufacturing and service companies in Europe, Latin America and the Far East approached \$1 billion, of which Europe accounted for 93%. Total sales in the U. S. and possessions amounted to \$679,897,000, or 41% of total sales.

Of total sales and revenues last year, our telecommunications manufacturing activities contributed 46%, commercial and industrial products 14%, defense and space operations 16%, consumer products 8%, telecommunication operating companies 8%, and various consumer and business services 8%.

Consolidated net income rose to an all-time peak of \$76,110,000, an increase of 14% over the 1964 total of \$66,831,000, after restatement for all companies acquired in "pooling of interests" transactions in 1965.

On a per share basis, 1965 earnings were equal to \$3.58 per share on the average of 20,099,000 common shares outstanding. This compared with 1964 earnings of \$3.16 per share, also restated to reflect "pooling of interests" transactions for 1965.

The improvement in 1965 earnings was highlighted by a significant increase in earnings from manufacturing and service activities in the U. S. and possessions. These domestic earnings accounted for 40% of total net income last year, compared with 30% in 1964.

Earnings from our long-established manufacturing operations were 11% above the 1964 peak. Our worldwide telecommunications activity showed an increase of 13% in net income over 1964. The largest percentage increase in 1965 earnings was achieved by our recently formed commercial and industrial products group with an 86% gain. In the domestic defense business, which was affected

by a strike in the first quarter of the year and subsequently by the phasing out of projects at Whiteman Air Force Base, the Corporation reported lower earnings than the prior year.

### ORDERS ON HAND

Orders on hand at December 31, 1965 also rose to a new high, amounting to \$1,140,000,000, an increase of 14% over the 1964 year-end total of \$1,004,000,000. The 1965 order backlog amounted to 73% of total sales of our manufacturing companies, compared with 71% for 1964.

### TAXES

U. S. and foreign income taxes paid in 1965 amounted to \$54,806,000 as compared with \$45,872,000 in the preceding year. Beginning with the 1965 Annual Report, income taxes are shown separately in the consolidated income account, whereas in previous annual reports all taxes were combined into one classification. Taxes, other than income taxes, of \$80,809,000 for 1965 and \$74,162,000 for 1964 are included in "Costs and Expenses" in the consolidated income account.

### CAPITAL EXPENDITURES

Capital expenditures for plant and facilities in 1965 amounted to \$146,000,000, marking the fifth successive year in which such expenditures exceeded \$100,000,000. Of this total, expenditures for our manufacturing and service facilities in the United States and overseas amounted to \$90,000,000, and the remaining \$56,000,000 was added to plant in service of our telephone, cable and radio companies. Depreciation during 1965 totaled \$63,700,000, compared with \$54,700,000 in the previous year, after restatement for "pooling of interests" transactions.

### RETURN ON STOCKHOLDER EQUITY

Total stockholder equity increased during 1965 to \$739,620,000 as of December 31, 1965, compared with \$675,038,000 at the 1964 year-end, after restatement for "pooling of interests" transactions. The return on stockholders' average equity was 10.8% in 1965, compared with 9.9% in 1964, also after restatement.

## NEW FINANCING

Long-term financing arranged during 1965 consisted of the private placement of \$35,000,000 of 5 $\frac{3}{8}$ % promissory notes by American Cable & Radio Corporation, a wholly-owned subsidiary. The final \$25,000,000 of the Corporation's 20-year 4 $\frac{7}{8}$ % promissory note issue arranged in 1964 was taken down in the first quarter of 1965.

During the third quarter of 1965, a newly organized wholly-owned subsidiary, U. S. Telephone and Telegraph Corporation, borrowed \$45,000,000 from a group of banks for two years to finance our investments in several telephone and cable companies. The borrowings under ITT's \$140,000,000 line of credit with a nationwide group of banks amounted to \$14,000,000 at year-end.

In keeping with the United States voluntary program for improving its balance of payments position, the foreign subsidiaries continued to finance their requirements from local sources to the extent possible. In addition, to obtain funds from persons other than nationals or residents of the United States for the financial requirements of the foreign operations of the Corporation, two subsidiaries of the Corporation, International Standard Electric Corporation and ISE Finance Holdings S.A., issued in early 1966 \$30,000,000 of debentures of which \$15,000,000 are convertible into shares of the Corporation's Common Stock.

## DIVIDEND PAYMENTS

The Board of Directors in the fourth quarter of 1965 voted to increase the dividend on the Common Stock to an annual rate of \$1.35 a share, compared with the \$1.20 annual rate which had been in effect since September 1964. This was the second increase in the dividend rate since mid-1964.

## FINANCIAL STATEMENTS

The consolidated financial statements of the Corporation and its subsidiaries consolidated and the opinion of its independent public accountants are shown on this and the following pages. A ten-year summary of the financial highlights of the Corporation and its subsidiaries consolidated follows the financial statements.

## AUDITORS' OPINION

ARTHUR ANDERSEN & Co.

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, 1965 and 1964, the combined balance sheets of the ITT Finance Subsidiaries as of such dates, and the related statements of consolidated and combined income and retained earnings 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 subsidiaries included in the accompanying 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 financial statements referred to above present fairly the financial position of International Telephone and Telegraph Corporation and its subsidiaries consolidated and of the ITT Finance Subsidiaries as of December 31, 1965 and 1964, and the results of their operations for the years then ended, in conformity with generally accepted accounting principles consistently applied during the period.*

*Arthur Andersen & Co.*

New York, N. Y.  
March 3, 1966.

**CONSOLIDATED BALANCE SHEETS***as at December 31, 1965 and 1964***ASSETS**

	<u>1965</u>	<u>1964</u>
<b>CURRENT ASSETS</b>		
Cash, including temporary U. S. cash investments	\$ 88,518,000	\$ 92,261,000
Accounts and notes receivable, less reserves	401,147,000	323,024,000
Inventories, less reserves	470,328,000	423,493,000
Other current assets	72,001,000	60,360,000
	<u>1,031,994,000</u>	<u>899,138,000</u>
 <b>INVESTMENTS, DEFERRED RECEIVABLES AND OTHER ASSETS</b>		
Finance subsidiaries (Page 32)	46,284,000	39,697,000
Other investments, at cost	78,924,000	59,577,000
Accounts receivable due subsequent to one year, less reserves	45,342,000	33,602,000
Other assets	29,402,000	29,106,000
	<u>199,952,000</u>	<u>161,982,000</u>
 <b>PLANT, PROPERTY AND EQUIPMENT, at cost</b>		
Less — Reserves for depreciation	1,189,627,000	1,065,249,000
	<u>399,778,000</u>	<u>370,094,000</u>
	<u>789,849,000</u>	<u>695,155,000</u>
	<u>\$2,021,795,000</u>	<u>\$1,756,275,000</u>

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

## LIABILITIES AND STOCKHOLDERS' EQUITY

	<u>1965</u>	<u>1964</u>
<b>CURRENT LIABILITIES</b>		
Current loans and maturities of long-term debt	\$ 287,956,000	\$ 257,342,000
Accounts payable and accrued charges	324,951,000	293,765,000
Accrued taxes	52,075,000	45,321,000
	<u>664,982,000</u>	<u>596,428,000</u>
DEFERRED LIABILITIES, ETC.	135,538,000	116,628,000
LONG-TERM DEBT (Page 29)	428,134,000	321,577,000
MINORITY EQUITY IN SUBSIDIARIES CONSOLIDATED	53,521,000	46,604,000
	<u>1,282,175,000</u>	<u>1,081,237,000</u>
<b>STOCKHOLDERS' EQUITY</b>		
Cumulative Preferred Stock (Page 29) —		
Authorized — 2,100,000 shares, par value \$100 per share		
Outstanding in series — 1,035,994 and 978,936 shares	103,599,000	97,894,000
Common Stock —		
Authorized — 30,000,000 shares, without par value (stated value \$10 per share)		
Outstanding — 20,265,147 and 19,933,540 shares	202,651,000	199,335,000
Capital surplus	123,512,000	112,256,000
Retained earnings	309,858,000	265,553,000
	<u>739,620,000</u>	<u>675,038,000</u>
	<u>\$2,021,795,000</u>	<u>\$1,756,275,000</u>

**CONSOLIDATED INCOME***for the years ended December 31, 1965 and 1964*

	<u>1965</u>	<u>1964</u>
SALES AND REVENUES —		
Net sales	\$1,639,143,000	\$1,475,091,000
Telecommunication operating revenues	143,796,000	126,452,000
	<u>1,782,939,000</u>	<u>1,601,543,000</u>
COSTS AND EXPENSES (including depreciation of \$63,737,000 and \$54,737,000) —		
Cost of sales	1,304,741,000	1,190,199,000
Cost of telecommunication service	81,735,000	75,673,000
Selling and general expenses	233,312,000	199,724,000
(Gain) on foreign exchange — net	(853,000)	(1,908,000)
	<u>1,618,935,000</u>	<u>1,463,688,000</u>
	164,004,000	137,855,000
Equity in net earnings of finance subsidiaries	4,862,000	4,936,000
INCOME FROM OPERATIONS	<u>168,866,000</u>	<u>142,791,000</u>
Dividends, interest and other income	18,015,000	14,362,000
Interest and other financial charges	(48,459,000)	(38,279,000)
NET INCOME BEFORE INCOME TAXES AND MINORITY EQUITY	<u>138,422,000</u>	<u>118,874,000</u>
U. S. and foreign income taxes	(54,806,000)	(45,872,000)
Minority common stockholders' equity in net income	(7,506,000)	(6,171,000)
NET INCOME	<u>\$ 76,110,000</u>	<u>\$ 66,831,000</u>

**CONSOLIDATED RETAINED EARNINGS**

BALANCE — Beginning of Year, as previously reported		\$ 247,876,000
Deduct — Restatement for companies added through poolings of interests in 1965		<u>2,372,000</u>
BALANCE — Beginning of Year, as restated	\$ 265,553,000	245,504,000
Add (Deduct) —		
Net income	76,110,000	66,831,000
Dividends of the Corporation —		
Preferred stock	(3,623,000)	(2,813,000)
Common stock — \$1.23¾ and \$1.10 per share	(24,409,000)	(20,804,000)
Dividends of companies prior to poolings of interests	(302,000)	(1,111,000)
Transfer to capital surplus, as required by Maryland law, of undistributed earnings of companies added through poolings of interests	<u>(3,471,000)</u>	<u>(22,054,000)</u>
BALANCE — End of Year	<u>\$ 309,858,000</u>	<u>\$ 265,553,000</u>

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

## LONG-TERM DEBT

— December 31, 1965

### INTERNATIONAL TELEPHONE AND TELEGRAPH CORPORATION —

4.90%	Sinking Fund Debentures, due 1967-87	\$ 50,000,000
4 7/8%	Promissory Notes, due 1969-84	50,000,000
5 1/4%	Promissory Notes, due 1966-76	15,000,000
4%	Convertible Subordinated Notes, due 1985	7,500,000
5 7/8%	Senior Notes, due semi-annually 1966-80	6,200,000
5 1/4%	Convertible Subordinated Notes due semi-annually 1971-75	4,000,000
4 7/8%	Convertible Subordinated Debentures, due 1968-83	3,353,000
	Other	5,260,000

141,313,000

UNITED STATES MANUFACTURING AND SERVICE SUBSIDIARIES CONSOLIDATED — 5.4% \* . . . . . 16,046,000

TELECOMMUNICATION SUBSIDIARIES CONSOLIDATED — Principally U. S. dollars — 5.4% \* . . . . . 144,977,000

### FOREIGN MANUFACTURING AND SERVICE SUBSIDIARIES CONSOLIDATED —

	Swiss francs (including \$11,575,000 guaranteed by the Parent Company) — 4.3% * . . . . .	50,241,000
	German deutschemarks — 6.2% * . . . . .	45,617,000
	Sterling — 6.4% * . . . . .	21,012,000
	Other currencies . . . . .	24,044,000

140,914,000

TOTAL . . . . . 443,250,000

Less — Amounts due within one year (included in current liabilities on balance sheet) . . . . . 15,116,000

LONG-TERM DEBT . . . . . \$428,134,000

\* Average interest rate.

## CUMULATIVE PREFERRED STOCK

— December 31, 1965

5.25% Series	40,000 shares	\$ 4,000,000
5.25% Series B	28,424 shares	2,842,000
4% Convertible Series	39,940 shares	3,994,000
4% Convertible Series B	62,191 shares	6,219,000
4% Convertible Series C	129,116 shares	12,912,000
4% Convertible Series D	230,986 shares	23,099,000
4% Convertible Series E	239,944 shares	23,994,000
4% Convertible Series F	265,393 shares	26,539,000
Total outstanding	<u>1,035,994</u> shares	<u>\$103,599,000</u>

## GENERAL GROUPING OF NET ASSETS

— December 31, 1965,  
in thousands of dollars

	Consolidated	United States and Territories		Foreign	
		Manu- facturing & Services	Telecom- munication Utilities	Manu- facturing & Services	Telecom- munication Utilities
Current assets	\$1,031,994	\$356,715	\$ 33,851	\$615,378	\$ 26,050
Investments	125,208	45,959	44,180	33,036	2,033
Deferred receivables and other assets	74,744	17,279	2,878	43,208	11,379
Plant, property, and equipment (net)	789,849	157,290	200,668	266,060	165,831
	<u>2,021,795</u>	<u>577,243</u>	<u>281,577</u>	<u>957,682</u>	<u>205,293</u>
Current liabilities	664,982	174,416	77,170	389,489	23,907
Deferred liabilities, etc.	135,538	17,918	6,779	98,886	11,955
Long-term debt	428,134	153,454	125,509	133,844	15,327
Minority equity in subsidiaries consolidated	53,521	1,242	13,942	28,768	9,569
	<u>1,282,175</u>	<u>347,030</u>	<u>223,400</u>	<u>650,987</u>	<u>60,758</u>
Net assets	<u>\$ 739,620</u>	<u>\$230,213</u>	<u>\$ 58,177</u>	<u>\$306,695</u>	<u>\$144,535</u>

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

## NOTES TO FINANCIAL STATEMENTS

### 1. PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of all significant majority-owned subsidiaries except the finance subsidiaries. The investments in the finance subsidiaries are carried at an amount equivalent to the equity in their underlying net assets. Combined financial statements for these finance subsidiaries are presented on page 32.

The consolidated financial statements include retroactively the accounts of, or the equity in, and shares issued in exchange for, companies added through "poolings of interests" during 1965.

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.

Approximately 60% of consolidated net income for 1965 (before Parent Company interest and taxes) represents earnings of foreign subsidiaries. A general grouping of net assets as at December 31, 1965 by location and by principal operations is shown on page 29.

### 2. INVENTORIES

Inventories, net of applicable reserves, at December 31, 1965 and 1964, are detailed below:

	1965	1964
Manufacturing:		
Finished goods	\$131,749,000	\$127,066,000
Work in process	233,898,000	222,061,000
Raw materials and supplies	137,559,000	102,116,000
	<u>503,206,000</u>	<u>451,243,000</u>
Less progress payments	40,035,000	37,318,000
	<u>463,171,000</u>	<u>413,925,000</u>
Telecommunications:		
Maintenance and construction materials and supplies, generally at average cost	7,157,000	9,568,000
	<u>\$470,328,000</u>	<u>\$423,493,000</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

At December 31, 1965, a total of 34,580 shares of the authorized and unissued Cumulative Preferred Stock and 330,134 shares of

Common Stock were reserved for conversion or exchange of debt of the Corporation and its subsidiaries. In addition, 1,524,455 shares of Common Stock were reserved for conversion of outstanding shares of Cumulative Preferred Stock and 86,940 shares of Common Stock were reserved for conversion of shares of Cumulative Preferred Stock which could be issued on conversion or exchange of debt securities.

Under terms of the agreement covering the exchange for the net assets of Aetna Finance Company, a maximum of 46,123 shares of Common Stock is reserved for possible future issuance.

If the proposed transaction with American Broadcasting Companies, Inc., is consummated on the basis set forth in the Plan and Agreement of Merger dated as of February 14, 1966, a maximum of 2,823,058 shares and 5,646,116 shares of the Corporation's proposed Cumulative Convertible Preference Stock (Participating) and Common Stock, respectively, will be issued or reserved [including shares reserved for conversion of the proposed Cumulative Convertible Preference Stock (Participating)] for possible future issuance in the merger with American Broadcasting Companies, Inc. The Corporation's proposed Cumulative Convertible Preference Stock (Participating) will be convertible into shares of the Corporation's Common Stock, on a one-for-one basis, and will have an annual dividend rate equivalent to twice that of the Corporation's Common Stock, but not less than \$2.40 per share. Such preference stock will rank equally with the Corporation's Cumulative Preferred Stock as to dividends and, to the extent of \$50 per share, as to assets in liquidation.

### 4. STOCK OPTIONS

Under the Corporation's several Stock Option Incentive Plans and a Restricted Stock Option, shares of the Corporation's Common Stock have been 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, 1965, 467,814 shares have been issued on exercise of options since the inception of the Plans. A summary of shares subject to options during the year 1965 is shown below:

Balance, January 1, 1965	474,535
Add — Options granted at \$53.07 to \$66.69 per share	<u>58,500</u>
	533,035
Deduct —	
Options exercised at \$22.56 to \$59.75 per share	72,585
Options cancelled	<u>41,920</u>
	114,505
Balance, December 31, 1965	<u>418,530</u>

At December 31, 1965, 419,339 shares were available for future options.



As part of the poolings of interests with several companies, the Corporation has also issued options to purchase shares of the Corporation's Cumulative Preferred Stock and Common Stock as substitutes for stock options held by employees of those companies. The Substitute Stock Options were issued for the number of shares of the Corporation's Cumulative Preferred Stock and Common Stock which generally would have been issued in respect of the optioned shares of such companies had they been outstanding at the dates of the poolings of interests. As at December 31, 1965, 11,978 shares of Cumulative Preferred Stock and 35,787 shares of Common Stock have been issued on exercise of the Substitute Stock Options. A summary of shares subject to these options during the year 1965 is shown below:

	Cumulative Preferred Stock	Common Stock
Balance, January 1, 1965	7,136	32,869
Add (Deduct) —		
Options issued	23,935	32,913
Options exercised	(8,551)	(18,609)
Options cancelled	(1,314)	(5,624)
Balance, December 31, 1965	<u>21,206</u>	<u>41,549</u>

#### 5. CAPITAL SURPLUS

Changes in consolidated capital surplus during the year are shown below:

Balance — January 1, 1965, as previously reported	\$124,998,000
Deduct — Excess of par and stated value of shares of capital stock of the Corporation over capital of companies added through poolings of interests in 1965	<u>12,742,000</u>
Balance — January 1, 1965, as restated	112,256,000
Add (Deduct) —	
Credits arising from —	
Exercise of stock options	2,199,000
Conversion of debt and preferred stock, etc.	113,000
Transfer from retained earnings, as required by Maryland law, of undistributed earnings of companies in poolings of interests in 1965	3,471,000
Excess of value assigned to net assets of companies acquired, over stated value of Common Stock of the Corporation issued in exchange therefor	6,247,000
Net premium on sale of stock of a subsidiary to the public	1,780,000
Transactions of companies prior to poolings of interests	(240,000)
Cost of warrants to purchase common stock of Avis, Inc., acquired and cancelled	(2,039,000)
Expenses in connection with the issuance of capital stock of the Corporation	(275,000)
Balance — December 31, 1965	<u>\$123,512,000</u>

#### 6. RETAINED EARNINGS

At December 31, 1965, \$35,409,000 of the Parent Company's retained earnings of \$69,699,000 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.

#### 7. COMMITMENTS AND CONTINGENCIES

In 1964, a subsidiary of the Corporation paid deficiency assessments for Japanese income taxes of approximately \$4,113,000 on profits derived from the sale in 1961 of certain Japanese securities. The utilization of such payments and certain other foreign taxes as credits against U. S. income taxes are, largely as a result of extraordinary losses on cable abandonments, dependent upon future developments. Any amounts not utilized will be charged to retained earnings, the account in which the profits or write-offs were originally reflected.

At December 31, 1965, the Corporation and its subsidiaries consolidated were obligated under long-term lease contracts expiring on varying dates to the year 2056 with aggregate annual rentals of approximately \$12,800,000.

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.

The Corporation has guaranteed \$58,062,000 debt of a domestic finance subsidiary outstanding at December 31, 1965, and the Corporation and its subsidiaries consolidated are contingently liable with respect to \$19,108,000 of obligations sold with recourse to another finance subsidiary.

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

## ITT FINANCE SUBSIDIARIES

### COMBINED BALANCE SHEETS

as at December 31, 1965 and 1964

	1965	1964
CASH	\$ 9,974,000	\$ 10,185,000
NOTES AND INSTALLMENT OBLIGATIONS RECEIVABLE, net of unearned income and reserves —		
Affiliated companies	70,091,000	62,887,000
Other customers	218,463,000	168,109,000
INVESTMENTS IN LIFE INSURANCE COMPANIES, at underlying equity	6,777,000	3,734,000
INVESTMENTS IN PROPERTY, leased to affiliated companies	12,951,000	12,856,000
OTHER ASSETS	4,881,000	4,287,000
	<u>\$323,137,000</u>	<u>\$262,058,000</u>
BANK LOANS AND OTHER SHORT-TERM OBLIGATIONS	\$142,867,000	\$104,821,000
ACCOUNTS PAYABLE AND ACCRUED CHARGES	11,086,000	7,914,000
LONG-TERM DEBT	122,900,000	109,626,000
	<u>276,853,000</u>	<u>222,361,000</u>
ITT EQUITY—		
Subordinated notes and advances	8,410,000	5,700,000
Capital stock and capital surplus	22,345,000	21,098,000
Retained earnings	15,529,000	12,899,000
	<u>46,284,000</u>	<u>39,697,000</u>
	<u>\$323,137,000</u>	<u>\$262,058,000</u>

### COMBINED INCOME AND RETAINED EARNINGS

for the years ended December 31, 1965 and 1964

INCOME (including \$5,531,000 and \$5,081,000 from affiliated companies) —		
Interest	\$ 42,531,000	\$ 33,112,000
Commissions	3,424,000	3,047,000
Rentals and other income	1,652,000	1,905,000
	<u>47,607,000</u>	<u>38,064,000</u>
EXPENSES —		
Interest	13,132,000	10,042,000
Administrative expenses, etc.	26,566,000	20,716,000
U. S. and foreign income taxes	3,921,000	3,542,000
	<u>43,619,000</u>	<u>34,300,000</u>
Equity in net earnings of life insurance companies	3,988,000	3,764,000
	<u>874,000</u>	<u>1,172,000</u>
NET INCOME	4,862,000	4,936,000
Add — Retained earnings at beginning of year	12,899,000	11,341,000
(Deduct) — Dividends	(2,232,000)	(3,378,000)
	<u>\$ 15,529,000</u>	<u>\$ 12,899,000</u>
RETAINED EARNINGS AT END OF YEAR	<u>\$ 15,529,000</u>	<u>\$ 12,899,000</u>

## TEN-YEAR SUMMARY\*

(Dollar amounts in thousands except per share figures)

	1965	1964	1963	1962	1961	1960	1959	1958	1957	1956
<b>RESULTS FOR YEAR</b>										
Sales and revenues	\$1,782,939	1,542,079	1,414,146	1,090,198	930,500	811,449	765,640	687,451	638,669	544,834
U. S. and foreign taxes	\$ 135,615	120,034	87,345	65,812	54,133	50,266	45,343	42,410	41,458	45,237
Net income	\$ 76,110	63,164	52,375	40,694	36,059	30,570	29,036	26,600	22,413	28,110
Per average common share	\$ 3.58	3.11	2.70	2.43	2.18	1.96	1.90	1.85	1.56	1.96
Return on stockholders' average equity	10.8%	9.9%	9.1%	8.6%	8.0%	7.4%	7.2%	6.9%	6.1%	7.8%
Dividends per common share	\$ 1.23 $\frac{3}{4}$	1.10	1.00	1.00	1.00	1.00	1.00	.90	.90	.90
Gross plant additions	\$ 145,629	119,336	123,241	114,584	105,311	66,809	84,219	71,989	56,613	41,040
Provision for depreciation	\$ 63,737	50,713	39,378	30,763	31,341	25,066	27,433	24,516	23,048	19,203
R & D expenditures	\$ 182,000	174,000	170,000	150,000	117,000	126,000	117,000	78,000	67,000	53,000

## YEAR-END POSITION

Net current assets	\$ 367,012	308,055	333,849	296,155	268,422	269,324	222,269	233,963	200,828	203,945
Plant, property and equipment (net)	\$ 789,849	668,240	572,469	462,323	391,347	288,461	355,115	303,609	260,250	229,842
Total assets	\$2,022,000	1,668,853	1,469,168	1,235,781	1,088,310	923,944	932,269	869,006	799,873	760,838
Long-term debt	\$ 428,134	309,795	293,408	266,815	182,509	148,478	165,512	158,963	97,293	87,841
Stockholders' equity	\$ 739,620	659,925	592,429	483,531	465,061	415,814	415,088	395,739	375,440	365,939
Stockholders' equity per common share	\$ 31.38	30.12	28.58	28.22	27.53	26.52	26.73	26.87	26.16	25.50

## YEAR-END STATISTICS

Orders on hand	\$1,140,000	1,004,000	917,000	778,000	731,000	623,000	551,000	511,000	485,000	508,000
Shares of common stock outstanding (thousands)	20,265	19,360	18,462	16,629	16,375	15,681	15,530	14,726	14,353	14,353
Stockholders	106,298	104,413	100,269	92,362	94,719	87,818	88,230	67,112	65,642	62,486
Telephones in service	580,193	549,679	517,553	460,980	454,401	430,391	594,405	538,712	495,114	465,767
Employees	199,000	185,000	173,000	157,000	149,000	132,000	136,000	130,000	128,000	122,000

\* 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.

## PRINCIPAL DIVISIONS AND SUBSIDIARIES

### NORTH AMERICA

#### Manufacturing—Sales—Service

#### CANADA

Barton Instruments Ltd. (Canada),  
Calgary, Alta.  
Cannon Electric (Canada) Ltd.,  
Toronto, Ont.  
General Controls Company (Canada)  
Ltd., Guelph, Ont.  
ITT Canada Limited, Montreal, P.Q.  
Royal Electric Company (Quebec) Ltd.,  
Pointe Claire, P.Q.  
Wakefield Lighting Ltd. (Canada),  
London, Ont.

#### JAMAICA

ITT Standard Electric of Jamaica Ltd.,  
Yallahs

#### MEXICO

ITT de México, S. A. de C. V., Mexico  
City  
Industria de Telecomunicación, S. A.  
de C. V., San Bartolo Naucalpán  
Industrias Ocelco de México, S. A.,  
Monterrey  
Materiales de Telecomunicación,  
S. A., Toluca  
McClellan, S. A., Mexico City  
Standard Eléctrica de México, S. A.,  
Mexico City  
Wyatt de México, S. A. de C. V.,  
Tlalnepantla

#### PANAMA

ITT Standard Electric of Panama, S. A.,  
Panama City

#### PUERTO RICO

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

#### UNITED STATES

Documat Inc., Waltham, Mass.  
Federal Electric Corporation, Paramus,  
N. J.  
Intelix Systems Incorporated, Paramus,  
N. J.  
International Standard Engineering, Inc.,  
Paramus, N. J.  
ITT Technical Services Inc.,  
Paramus, N. J.  
International Standard Electric Corpora-  
tion, New York, N. Y.  
International Telephone and Telegraph  
Corporation, Sud America, New  
York, N. Y.  
ITT Arkansas Division, Camden, Ark.  
ITT Cannon Electric (division), Los An-  
geles, Calif.  
ITT Controls and Instruments Division,  
Glendale, Calif.  
Barton Instrument Corporation,  
Monterey Park, Calif.  
General Controls, Glendale, Calif.  
Hammel-Dahl, Warwick, R. I.  
Henze Valve Service, Hoboken, N. J.

ITT Data Services (division), Paramus,  
N. J.

ITT Electron Tube Division, Easton, Pa.  
ITT Electro-Physics Laboratories Inc.,  
Hyattsville, Md.

ITT Environmental Products Division,  
Philadelphia, Pa.  
Nesbitt, Philadelphia, Pa.  
Hayes, Torrance, Calif.  
Norman, Columbus, Ohio  
Reznor, Mercer, Pa.

ITT Export Corporation, New York,  
N. Y.

ITT Farnsworth Research Corporation,  
Fort Wayne, Ind.

ITT Federal Laboratories (division),  
Nutley, N. J.

ITT Federal Support Services,  
Richland, Wash.

ITT Fluid Handling Division, Morton  
Grove, Ill.

Bell & Gossett Hydronics, Morton  
Grove, Ill.

Marlow, Midland Park, N. J.  
Stover, Freeport, Ill.

ITT Gilfillan Inc., Los Angeles, Calif.

ITT Industrial Laboratories Division,  
Fort Wayne, Ind.

ITT Industrial Products Division,  
San Fernando, Calif.

ITT Industries, Inc., New York, N. Y.

ITT Jabsco Inc., Costa Mesa, Calif.

ITT Mackay Marine (division), Clark,  
N. J.

ITT Microwave Inc., Mountainview,  
Calif.

ITT Mobile Telephone, Inc., Burbank,  
Calif.

ITT Semiconductors (division), West  
Palm Beach, Fla. and Lawrence,  
Mass.

ITT Telecommunications (division),  
New York, N. Y.; Corinth, Miss.;  
Milan, Tenn.; Raleigh, N. C.

ITT Terryphone Corporation, Harrisburg,  
Pa.

ITT Wakefield Corporation, Detroit,  
Mich.

ITT Wire and Cable Division, Pawtucket,  
R. I.

Royal, Pawtucket, R. I.  
Surprenant, Clinton, Mass.

Jennings Radio Manufacturing  
Corporation, San Jose, Calif.

#### Telephone Operations

##### PUERTO RICO

Puerto Rico Telephone Company,  
San Juan

##### VIRGIN ISLANDS

Virgin Islands Telephone Corporation,  
Charlotte 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  
Eletrônica Industrial S. A., São Paulo

### CHILE

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

### COLOMBIA

ITT Standard Electric de Colombia,  
S. A., Bogotá

### ECUADOR

International Standard Electric of New  
York Limited (branch), Quito

### EL SALVADOR

International Standard Electric of New  
York Limited (branch),  
San Salvador

### VENEZUELA

Standard Telecommunications C. A.,  
Caracas

#### Telephone Operations

##### BRAZIL

Companhia Telefônica Nacional, Curitiba

##### CHILE

Compañía de Teléfonos de Chile,  
Santiago

##### PERU

Compañía Peruana de Teléfonos  
Limitada, Lima

### EUROPE, MIDDLE EAST, AFRICA

#### Manufacturing—Sales—Service

##### ALGERIA

Société Algérienne de Constructions  
Téléphoniques, Algiers

##### AUSTRIA

Standard Telephon und Telegraphen  
Aktiengesellschaft, Czeija, Nissl  
& Co., Vienna

##### BELGIUM

Bell Telephone Manufacturing Company,  
Antwerp  
ITT Europe, Inc. (branch), Brussels  
ITT Standard S. A. (branch), Brussels  
(Offices in several countries)

##### DENMARK

Standard Electric Aktieselskab,  
Copenhagen

##### FINLAND

Standard Electric Puhelinteollisuus Oy,  
Helsinki

##### FRANCE

Cannon Electric France S.A.,  
Toulouse and Paris  
CFRO/SEDRE, Paris  
Compagnie Générale de Constructions  
Téléphoniques, Paris  
Les Téléimprimeurs, Paris  
Compagnie Générale de Métrologie,  
Anney  
International Standard Engineering Inc.  
(branch), Paris

Laboratoire Central de Télécommunications, Paris  
 Le Matériel Technique Industriel, Paris  
 Le Matériel Téléphonique, Paris  
 Océanic-Radio, Paris and Chartres  
 Société des Produits Industriels ITT, Paris  
 Société Industrielle de Composants pour l'Electronique, Courbevoie

**GERMANY**  
 Deutsche ITT Industries G.m.b.H., Freiburg  
 Standard Elektrik Lorenz Aktiengesellschaft, Stuttgart  
 Graetz G.m.b.H., Stuttgart, and other subsidiaries

**GREECE**  
 ITT Hellas A. E., Athens

**IRAN**  
 Standard Electric Iran AG, Tehran

**ITALY**  
 Fabbrica Apparecchiature per Comunicazioni Elettriche Standard S.p.A., Milan  
 Società Impianti Elettrici Telefonici Telegrafici e Costruzioni Edili S.p.A., Florence  
 ITT Domel Italiana S.p.A., Milan

**NETHERLANDS**  
 Internationale Gas Apparaten N.V., Utrecht  
 Nederlandsche Standard Electric Maatschappij N.V., The Hague

**NIGERIA**  
 ITT Nigeria Limited, Lagos

**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

**RHODESIA**  
 Supersonic Africa (Pty) Limited, Bulawayo

**SPAIN**  
 Compañía Internacional de Telecomunicación y Electrónica, S. A., Madrid  
 Compañía Radio Aérea Marítima Española, S. A., Madrid  
 Standard Eléctrica, S. A., Madrid

**SWEDEN**  
 ITT Norden AB, Solna  
 Standard Radio & Telefon AB, Barkarby

**SWITZERLAND**  
 Intel S. A., Basle  
 ITT Standard S. A., Basle

Standard Téléphone et Radio S. A., Zurich  
 Müller-Barbieri AG, Wettswil  
 Steiner S. A., Berne

**TURKEY**  
 Standard Elektrik ve Telekomünikasyon Limited Şirketi, Ankara

**UNITED KINGDOM**  
 Cannon Electric (Great Britain) Ltd., Basingstoke  
 Creed and Company Limited, Brighton  
 ITT Industries Limited, London  
 Maclaren Controls Limited, Glasgow, and other subsidiaries  
 Standard Telephones and Cables Limited, London  
 Standard Telecommunication Laboratories Limited, London, and other subsidiaries

**ZAMBIA**  
 Supersonic Radio Zambia Limited, Livingstone

**FAR EAST AND PACIFIC Manufacturing—Sales—Service**

**AUSTRALIA**  
 Cannon Electric (Australia) Pty. Limited (50% interest), Melbourne  
 Standard Telephones and Cables Pty. Limited, Sydney  
 ITT Australia Pty. Limited, Brisbane and other cities

**HONG KONG**  
 ITT Far East and Pacific, Inc. (branch), Hong Kong  
 ITT Far East Ltd., Hong Kong  
 Transelectronics, Limited, Hong Kong

**INDIA**  
 ITT Far East and Pacific, Inc. (branch), New Delhi

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

**NEW ZEALAND**  
 Standard Telephones and Cables Pty. Limited (branch), Upper Hutt, Wellington

**PHILIPPINES**  
 Globe-Mackay Cable and Radio Corporation, Manila (Unit of ICO Group, below)  
 ITT Philippines, Incorporated, Makati, Rizal

**INTERNATIONAL COMMUNICATIONS OPERATIONS**  
 American Cable & Radio Corporation, New York  
 All America Cables and Radio, Inc.  
 Commercial Cable Company, The

Globe-Mackay Cable and Radio Corporation  
 ITT All America Communications—Caribbean, Inc.  
 ITT Cable and Radio, Inc.—Puerto Rico  
 ITT Communications, Inc.—Virgin Islands  
 ITT World Communications Inc. Press Wireless, Inc.  
 Companhia Rádio Internacional do Brasil, Rio de Janeiro  
 Compañía Internacional de Radio Boliviana, La Paz  
 Compañía Internacional de Radio, S. A., Buenos Aires  
 Compañía Internacional de Radio, S. A., Santiago  
 Cuban American Telephone and Telegraph Company (50% interest), Havana  
 Radio Corporation of Cuba, Havana

**FINANCIAL AND OTHER SERVICES**

Alexander Hamilton Life Insurance Company, Denver, Colo.  
 American Universal Life Insurance Company, St. Louis, Mo.  
 Hamilton Management Corporation, Denver, Colo.  
 ISE Finance Holdings S. A., Luxembourg  
 ITT Avis, Inc., Garden City, N. Y.  
 ITT Financial Services Inc., New York, N. Y.  
 Great International Life Insurance Company (50% interest), Atlanta, Ga.  
 International Telephone and Telegraph Credit Corporation, New York, N. Y.  
 ITT Aetna Finance Company, St. Louis, Mo.  
 Kellogg Credit Corporation, New York, N. Y.

**INTERESTS (minority and other) AND ASSOCIATE LICENSEES**

**AUSTRALIA**  
 Austral Standard Cables Pty. Limited, Melbourne

**FRANCE**  
 Lignes Télégraphiques et Téléphoniques, Paris

**ITALY**  
 Società Italiana Reti Telefoniche Interurbane, Milan

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

**SPAIN**  
 Marconi Española, S. A., Madrid

**THE WORLD OF ITT**

**NORTH AMERICA\***  
 47,000 employees  
 10,000,000 square feet

**EUROPE, MIDDLE EAST, AFRICA**  
 135,000 employees  
 23,300,000 square feet

**SOUTH AMERICA**  
 13,500 employees  
 1,100,000 square feet

**FAR EAST AND PACIFIC**  
 3,500 employees  
 800,000 square feet

**TOTALS**  
 199,000 employees  
 35,200,000 square feet

Sales representatives in most countries

\* includes Central America and Caribbean

*Transfer Agents for Common 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 4% Convertible Series F, 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 Common 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 4% Convertible Series F, Cumulative Preferred Stock 5.25% Series B.*

First National City Bank, New York 10015

*Trustee for 4 $\frac{7}{8}$ % Convertible Subordinated Debentures*  
Irving Trust Company, New York 10015

*Registrar for 4 $\frac{7}{8}$ % 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



