BUILDING LASTING VALUES/LING-TEMCO-VOUGHT, INC./ANNUAL REPORT '65

Table of Contents

Table of Contents	Page
Illustration Theme	1
Highlights	2
Shareholders' Letter	2–5
Results in Brief	5
The Adding of Values	6–9
The Okonite Company	10–11
LTV Aerospace	12–13
LTV Electrosystems	14–15
LTV Ling Altec	16–17
Research and Computing Centers	18–19
Officers & Directors	20
Organization Chart	21–22
9 Years' Progress	25
Financial Review	26–27
Consolidated Balance Sheet	28–29
Statement of Consolidated Income	30
Summary of Source & Use of Working Capital	31
Accountants' Report	31
Notes to Financial Statements	32–33
Transfer Agents, Trustees, Registrars, Auditors	34
Key to Illustrations	Inside Back Cover

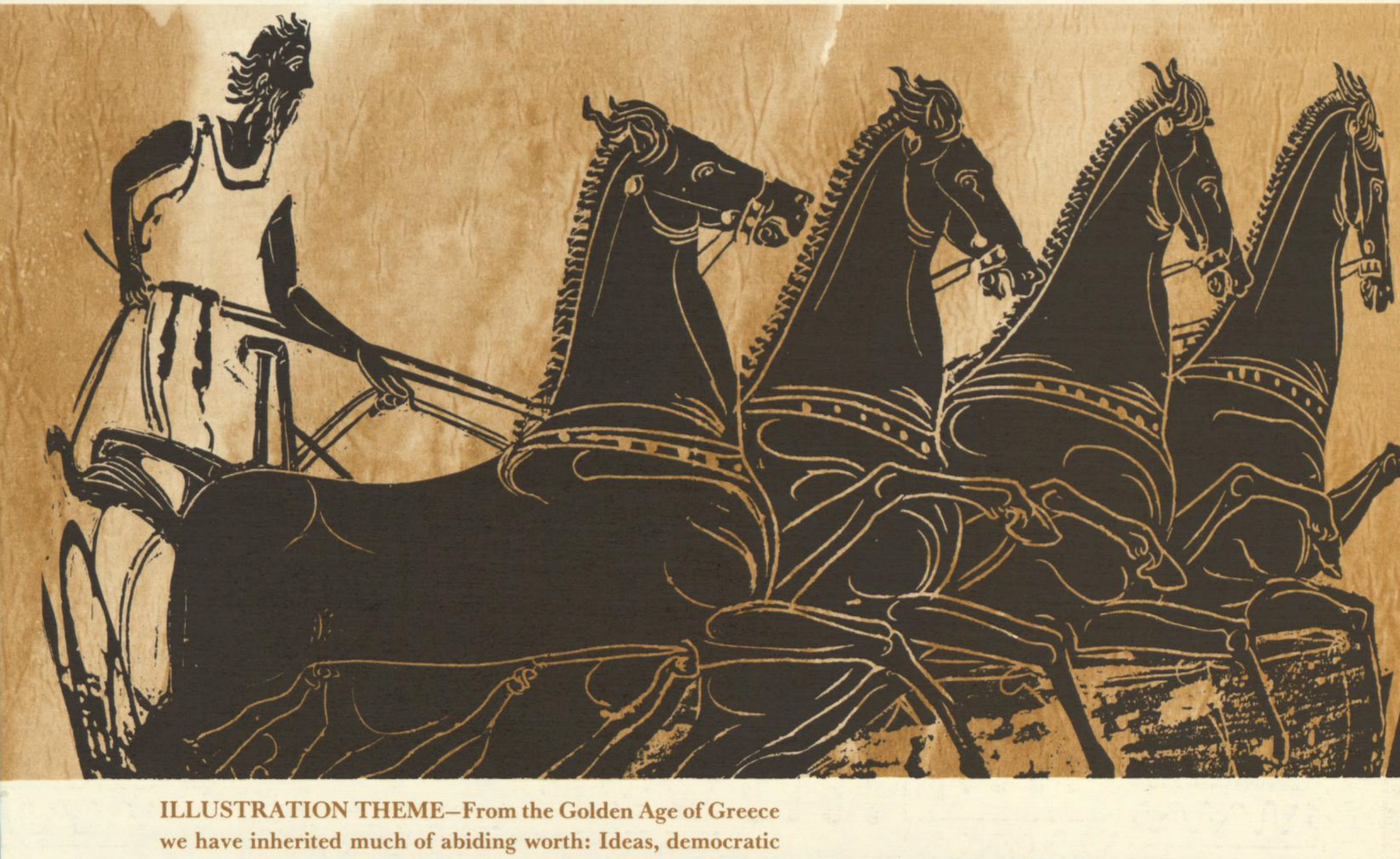


ILLUSTRATION THEME—From the Golden Age of Greece we have inherited much of abiding worth: Ideas, democratic principles, the spirit of scientific and philosophical inquiry, architecture, art . . . myriad reminders that man has created and can create thoughts and objects to endure the test of time. Thus, we have drawn from the Hellenic Golden Age to illustrate "Building Lasting Values"—our corporate goal and the theme of this report. *(Identification of our illustrations appears on the inside back cover of this report.)*

HIGHLIGHTS

Financial

Acquisition of The Okonite Company

Doubling of common stock dividend rate

Improvement in operating results:

- Net sales up 4% to $336 million
- Pre-tax earnings up 28% to $11.5 million
- Net earnings up 22% to $6 million
- Earnings per common share up 25% to $2.88
- Shareholder equity up 7% to $30.5 million

Project Redeployment

Formation of three strong subsidiaries

Establishment of definite market values for securities of subsidiaries

Operational

Progress of current programs at LTV Aerospace:

- A-7A *Corsair II* close-support aircraft
- *Lance* battlefield missile
- Space maneuvering units
- XC-142A V/STOL transport
- XM-561 all-terrain vehicle

LTV Electrosystems sales reach $100 million annual rate

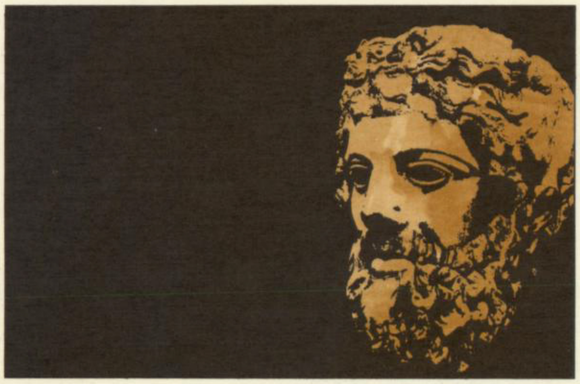
All LTV Ling Altec operating units increase sales

TO THE SHAREHOLDERS OF LTV:

Anyone who has closely followed the company's progress during the past year is aware that we have made significant advances. In this message, we will present the philosophy behind these accomplishments and explain why we are even more enthusiastic about what lies ahead of us.

Without question, the most important move in our corporate development was *Project Redeployment.* This concept of dynamic realignment of our assets has proven even more successful during its initial year than we had anticipated.

Project Redeployment is a constant, continuous philosophy of operation, and even now we have barely tapped its full potential. The initial phase, which began in December, 1964, saw us group eight of our eleven divisions into three areas of technology. The three resulting subsidiaries then became publicly owned corporations, with their own assets and their own management. The second step was to place our



remaining operating divisions, at mid-year 1965, into the particular subsidiaries which could best capitalize upon their capabilities. Subsequently, an opportunity arose for a major acquisition—an agreement to purchase from the Kennecott Copper Corporation one of the nation's largest and most respected independent manufacturers of high-voltage cable—The Okonite Company.

The acquisition of this fourth subsidiary significantly improves our ratio of commercial sales to military. The purchase of Okonite—a company rich in quality products—was substantially agreed upon in October, 1965. Okonite, with a current sales rate of $70 million per year, has 1,720 employees in four East Coast plants which have recently been modernized through a multi-million-dollar capital investment in the latest of equipment. Okonite is now operating as a wholly owned subsidiary of LTV. It is possible that it will become a publicly held company like the other three subsidiaries when the timing seems appropriate.

REDEPLOYMENT BENEFITS

We believe this concept of dynamic use of assets has benefited the company in many ways, and consequently has built values for our shareholders, our customers, our employees and the communities in which we operate.

Project Redeployment was well received in the financial marketplace, as evidenced by the acceptance of our subsidiaries' securities. It opened the door for possible further acquisitions when such moves seem to hold suitable promise of profitable growth. It also delegated more authority to subsidiary management, leaving LTV Corporate management more time for major decisions on creative steps that can lead the company and its subsidiaries to even greater achievements.

When the subsidiaries were formed, we wanted to combine the plus factors of centralization with the optimum advantages of decentralization. We have allowed the subsidiary presidents—all proven men who had operated efficiently prior to *Project Redeployment*—considerable autonomy. Certain policy determinations and some corporate services which would be expensive to duplicate or triplicate at subsidiary level were retained as LTV Corporate responsibilities. Face-to-face meetings are held with subsidiary management staffs at regular intervals, so that we can review problem areas, discuss the status of major programs, and provide guidance. These meetings bring cross-fertilization of ideas and keep LTV management fully informed of progress, in keeping with the majority interest the corporation holds in the subsidiaries.

MOTIVATION STIMULATED

When *Project Redeployment* was initiated, we knew that decentralization would bring managers and the top staffs of the subsidiaries into the spotlight, stimulating their development as better leaders. We also knew that such a move would permit closer contacts between customers and the LTV unit with which they were doing business, making the subsidiaries more responsive to the customers' needs.

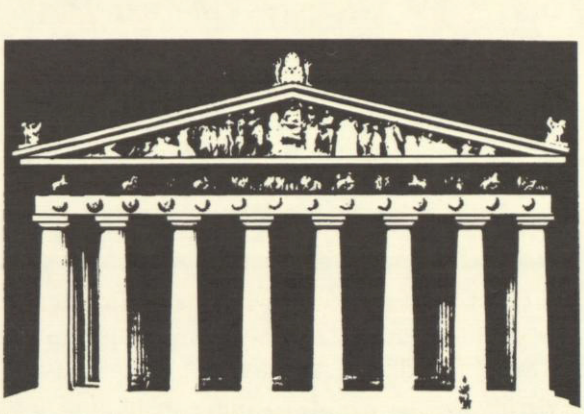
If we underestimated the impact of *Project Redeployment,* it was in the motivating of people. The strength and depth of response by management-level personnel in the subsidiaries has been only a little short of astonishing. In some measure, this response was enthusiasm for the extension of stock option plans. These plans, based in part upon the attainment of solid earnings goals, have created opportunities for individual growth and reward for superior performance. As one result, there is now an even deeper awareness of the need for cost control, cost avoidance and increased profitability.

Options based upon earnings attract and retain people of intelligent thought and action. In highly sophisticated technologies, energetic brainwork, so motivated, is a decisive factor in success.

The worth of such greatly increased enthusiasm is not measurable in percentage points, but certainly it is a strong asset and one of the most important by-products of *Project Redeployment.* The full value of this intangible asset will become more evident as time goes on.

1965 OPERATING RESULTS

On a consolidated basis, our sales for 1965 were approximately \$336 million, with inclusion of The Okonite Company for the last quarter only. Our after-tax profit was approximately \$6 million, or \$2.88 for each Ling-Temco-Vought, Inc., common share outstanding at year-end, after provision for preferred dividends. This compares with sales of approximately \$323 million and net earnings of \$2.31 per share in 1964. After-tax profits increased 22% over the \$4.9 million reported for 1964.



This increase in after-tax earnings is particularly significant in view of the changed mix of government contracts. In 1964, fixed-price contracts accounted for only one-fifth of our business; in 1965, nearly half was fixed-price and we believe nearly three-fourths of our 1966 sales will be on a fixed-price basis. Our policy of producing quality products while keeping our belt tight under a fixed-price procurement environment indicates it may be possible to achieve the earnings commensurate with risk that the majority of non-defense industrial firms have attained.

Electronic system and equipment sales were up for the year and accounted for 33% of our total business. Aeronautics programs brought in 29%; missiles and space work accounted for 30% and other sales amounted to 8%. U.S. Government agencies accounted for 85% of our sales, and non-government business for 15%. The acquisition of The Okonite Company increased our percentage of commercial sales in 1965, and will further increase that percentage in 1966.

SUBSIDIARY PERFORMANCES

Performance by individual subsidiaries was satisfactory, even during a period when they were making adjustments to take full advantage of their new status as publicly held companies. LTV Aerospace sales were down slightly from 1964, largely due to phase-out of F8 *Crusader* fighter production while such major programs as the A-7A light attack bomber, the XC-142A vertical/short takeoff and landing aircraft, the *Lance* missile and the XM-561 Army vehicle all were still in development status.

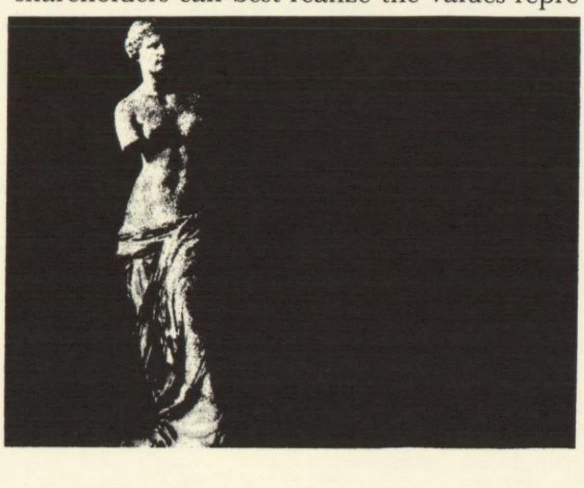
LTV Electrosystems, with its major business in classified military electronics programs, recorded a sales increase, and, at year-end, experienced sales at an annual rate of approximately $100 million, giving full effect to the mid-year acquisition of a new division and a new subsidiary. LTV Ling Altec, which added University Sound as a division during the year, reported sales of approximately $24.1 million, including University for the last six months.

One subsidiary, LTV Aerospace Corporation, had a further financial development as it moved into 1966. On Feb. 8, 1966, that subsidiary's shareholders approved a 2½-for-1 stock split of all common stock held of record on Feb. 14 and an exchange of the common shares held by the parent corporation, LTV, into a new non-cash-dividend Class B stock. LTV retains the privilege of exchanging this Class B stock into dividend-paying common stock on a share-for-share basis, but we have no plans to exercise the option at this time. The LTV Aerospace Board of Directors voted a 20¢ first-quarter dividend on each share of the stock after the stock split, payable April 11 to shareholders of record March 15. In addition, LTV Aerospace on March 10, 1966, made a primary public offering of 500,000 shares of common stock after the split. These actions will broaden substantially the market for securities of that LTV subsidiary and provide additional working capital for increased business activity.

DIVIDEND DOUBLED

We should point out, too, that the Ling-Temco-Vought, Inc., Board of Directors voted in January, 1966, to double the cash dividend on LTV common stock to the rate of $1 a year. This increase was justified by increased earnings resulting from existing business and the acquisition of The Okonite Company.

Because we have determined that LTV's shareholders can best realize the values repre-



sented by our investment in a new company, Saturn Industries, Inc., as direct owners of the equity, we are distributing approximately 700,000 Saturn shares to the holders of our common stock. Representing approximately 75% of the outstanding stock of Saturn Industries, these shares will be distributed in early April to shareholders of record on March 10, on the basis of approximately 35 shares of Saturn for each 100 shares of LTV. The Company will retain no operating interest in Saturn.

CUSTOMERS & EMPLOYEES

This year's progress was achieved because of continuing strong support from our customers and thousands of dedicated employees. We thank them for all they have contributed during 1965 and will sincerely appreciate their continued backing in 1966.

We called 1964 a pivotal year—in our message to shareholders a year ago. The year 1965 has proven the aptness of that term.

Although any forecast is subject to changes in the international situation or the domestic economy, we presently expect 1966 to be an even better year, with substantially higher sales and earnings—a reflection of our dedication to research and development and to the redeployment of assets for their optimum utilization. In closing, we call your attention to the pages immediately following for a review of our financial philosophy and actions which have been directed to building lasting values.

March 14, 1966

James J. Ling
JAMES J. LING
Chairman of the Board
and Chief Executive Officer

CLYDE SKEEN
President

RESULTS IN BRIEF

FOR THE YEAR ENDED DECEMBER 31:	1965	1964
Net sales	$336,206,379	$322,859,402
Earnings before taxes	11,533,093	9,030,346
Net earnings	5,983,652	4,903,597
Net earnings per share of common stock*	2.88	2.31
Dividends paid per share of common stock	.50	.50
AT YEAR END:		
Net working capital	$ 21,615,983	$ 35,506,930
Short-term borrowings	57,000,000	21,700,000
Long-term debt	40,273,674	37,012,401
Shareholders' equity	30,534,053	28,562,150
Common shares outstanding	1,764,610	1,849,982

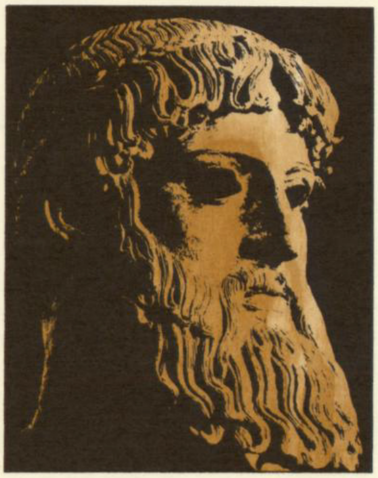
*Based on shares outstanding at year end and after allowance for dividends on preferred stock.

THE ADDING OF VALUES

In previous Annual Reports we have reviewed in some detail our dedication to the vastly important areas of research and development and the creation of superior systems and products. Coupled with these activities—and with our continuing emphasis on achieving more from our marketing, engineering, production and management operations—are executive management's financial philosophy, planning and actions. We believe it is timely and pertinent to discuss this subject in depth for three reasons:

1. The planning and implementation of financial actions in today's business world in many ways have become equally as complex as the conception, engineering and production of quality products, and as necessary to corporate success as the requirements to maintain solid customer, employee and community working relationships.

2. The survey of shareholder opinions and attitudes relative to our shareholder communications, conducted in the fourth quarter of 1965, revealed that many new shareholders, as well as others who invested in LTV earlier, wanted to know more about LTV's financial activities.



3. A rather large percentage of our current shareholders acquired their investment in LTV in recent months.

STRATEGY & TACTICS

In retrospect it may seem that the financial actions that LTV has taken since 1961 represent steps in a pre-conceived master plan. Such is not the case. Obviously, following without deviation a set plan of financially-oriented actions, with many variables (especially in timing), is even less possible than it is in games of chess or football—or in armed conflicts.

Each financial accomplishment brings a new deployment of the dynamic forces involved and develops potential for several subsequent actions. Selection of the next action, therefore, depends upon the current situation in relation to the participant's strategy and available resources.

DEPLOYMENT, as used here, means the current utilization of dynamic forces (in this case, corporate assets) by design to achieve a strategic or tactical objective, primarily earnings per share reflecting positively on the shareholders' investments.

Devising strategy involves setting intermediate and ultimate goals, not precise planning. The tactics employed depend upon timing their acceptability within the strategic framework and the resources at hand.

SHAREHOLDER VALUES

Our intermediate and ultimate objectives are the same: to increase shareholder values for the owners of the company.

"Values," as a term, has many different applications. For the management of LTV, it has one overriding meaning—*shareholder values.* The shareholder owns the assets we manage; through his elected Board of Directors, he approves or qualifies corporate policy. As owner, he accepts a share in the ultimate risk of proper asset utilization as well as a share in after-tax earnings and the growth of corporate financial strength.

"Values" for him exist at two levels: (1) net worth or book value, and (2) market value, as established by the interaction of his fellow shareholders and the financial community in appraising the earning power of his investment. The primary responsibility of the corporate management of LTV is to build these "values" for the shareholder, realizing that in so doing we must do an outstanding job of operating the Company and of meeting or exceeding our commitments to customers, employees and community alike.

VALUE BUILDING

Our approach involves the deployment of all corporate assets, tangible and intangible, and resources in the most efficient arrangement conceivable to realize as much shareholder value as possible. This requires continuing redeployment because of constant changes in assets, value concepts and the business environment.

Deploying the assets and resources to achieve the highest possible shareholder values most frequently means the best possible performance on the basis of earnings per share, which, since it relates on a multiplier basis to market value, and therefore the liquidity of the shareholders' investment, is the most important measure of value at LTV.

Because LTV concentrates financially on increasing shareholder values by increasing per-share earnings through creative deployment of assets, the company's financial history, since 1961, has been one of innovative actions— ■ acquisitions ■ dispositions of dissimilar operations acquired in previous acquisitions ■ debt realignment ■ debt reduction ■ minimization of equity dilution ■ internal reorganizations ■ formation of publicly owned subsidiaries ■ distribution of interests in separate companies to the shareholders as an extra dividend.

Every action has been true to management's financial philosophy and strategy. These financial operations require a personal and corporate discipline that never loses sight of the paramount objective of building shareholder values. The actions discussed below illustrate our financial philosophy which is dedicated to growth in value through broad-gauge planning and quick reaction to targets of opportunity within the framework of the philosophy. We summarize it as: ■ minimization of dilution ■ optimum use of funds and operating assets ■ judicious use of borrowing power. Each facet reflects from and upon the others, creating a recurring cycle of growth, sometimes continuous, sometimes plateauing, but always continuing.

PROJECT REDEPLOYMENT

LTV's most significant financial accomplishment to date is *Project Redeployment.* We believe the financial community generally has understood the operational rationale for *Project Redeployment,* but initially, perhaps, did not grasp as fully the financial logic behind this approach to increased shareholder values, which was the most persuasive consideration to LTV's management. One reason: Many shied away from putting it to the test of understanding, or, as we say, "putting the pencil to it," because it may not have been considered to be conventional. Another reason seems to be a tendency to regard *Project Redeployment* as the division of a whole—the slicing of a pie. Actually, *Project Redeployment* compares more accurately with the biological reproduction of cells: multiplication through division, with each offspring a complete and viable, if smaller, replica of the parent.

Ling-Temco-Vought, Inc., transferred certain of its assets to three newly incorporated subsidiaries in December, 1964—later exchanging cash and 10% of its interest in each of the subsidiaries for 13% of the parent company's outstanding common shares. LTV thus went one step further than the conventional decentralization of operations: Giving the new subsidiaries (in addition to greater degrees of autonomy and management motivation) public shareholders and, most importantly of all, definite values established by (1) their individual equities, or book values, and (2) market values as an appraisal of their earning capabilities.

RESULTS SPEAK CLEARLY

Project Redeployment may be categorized as unconventional, but we believe innovation or unconventionality, which produce positive results, are desirable traits. In our view, tradition, conformity and orthodox attitudes, while they have their place, can never substitute for ingenuity and initiative.

The results speak best for themselves. Before *Project Redeployment* the assets used to form the three new subsidiaries had only book values; *Project Redeployment* provided the opportunity for the earning power of these assets to be translated into substantially greater values as measured by the market for subsidiary shares. On the date of distribution, the beginning market value for the subsidiaries' outstanding common shares was approximately $40 million. At the end of 1965, those shares displayed a definite common share market value of approximately $88 million. At this writing, the market value of those common shares is approximately $123 million.

ACQUISITION CONSIDERATIONS

Subsequent to the initiation of *Project Redeployment,* the opportunity arose for the acquisition of The Okonite Company. *Project Redeployment* obviously facilitated this action to increase sales and earnings and balance better LTV's overall commercial and military/space sales. In a financial sense, it represented the concept that redeployment of assets in hand brings additional opportunities for deployment.

Our determination to increase earnings and shareholder values embraces something more than the common desire to grow at least as rapidly as the market for the corporation's products and services. LTV, on a continuing basis, is alert to acquisitions that measure up to management's quality standards: ■ An acquisition must be economically sound. ■ It must enhance competition. ■ It must not impinge upon, or threaten national anti-trust policy. ■ Most importantly, it must not dilute earnings; it must meet the test of the 2+2=5 (or 6) formula. LTV does not seek "bigness for the sake of bigness." We are not "block builders." Our acquisition goals are not primarily product-oriented, although this consideration possesses high priority in our thinking. The acquisition must come within LTV's current operational management capabilities or include completely capable management, as well as being a profitable business.

ACQUISITION ACTIONS

The period of more than four years between the acquisition of Chance Vought and of Okonite remained relatively quiescent in the area of acquisitions, because the needs of this period required deployment of assets and resources in other financial programs. However, LTV in seeking to complement internal growth did make three small acquisitions:

1. Kentron Hawaii, Ltd., leader in the electronics maintenance business with a large potential for providing sophisticated military "housekeeping" services under contract.
2. Clark-Root, Inc., patentees of a broadcast automation concept named *PROLOG.*

3. Gonset, Inc., a long-established name in the amateur and mobile radio communications market.

DISSIMILAR OPERATIONS

During this period just discussed, most of the assets had to remain in the then-current deployment while redeployments were achieved in dissimilar operations, with consequent debt realignment and reduction—and reduction of potential equity dilution.

Briefly, and for the record, LTV has never disposed of an operation making significant or continuing contributions to earnings. We have disposed of dissimilar operations acquired in acquisition packages in order to more effectively channel management attention, to improve return on investment and to reduce long-term debt.

DEBT CONSIDERATIONS

Achieving higher shareholder values requires a reasoned balance of equity and debt, with equity not exceeding corporate needs and debt determined by the corporation's objectives and borrowing power. Because of present tax laws, and the price of equity capital (as demanded by investors), it costs any profitable company more to maintain $1 of shareholder equity than it does $1 of borrowings. Still, many corporate managements shy away from borrowings and, consequently, from this savings. At LTV, we strive for savings of any kind, and thus have utilized corporate borrowing power for the optimum benefit to shareholder values.

Our utilization of this corporate borrowing power has not been made without giving complete recognition to the risks involved and the financial disciplines required. Our actions, however, have always been supported by substantial earning power—more than adequate to meet principal and interest payments and return a reasonable profit. These actions have been based on sound financial principles and have been subjected to the scrutiny and approval of some of the nation's most successful commercial banking institutions.

Our objective always has been to utilize debt capital to acquire additional earnings assets of sufficient quality to make it worthwhile—thereby increasing shareholder values. We have not, however, followed a policy of ever-increasing debt. To the contrary, substantial debt reductions have been made, from time to time, in recent years when circumstances indicated this to be in the best interest of the Company and its shareholders.

Handled properly, corporate debt, or borrowing power, is a highly efficient means for deployment of assets, and we will continue to use it in the building of shareholder values—increasing or decreasing the debt as may be appropriate at the time.

DEBT AND EQUITY ACTIONS

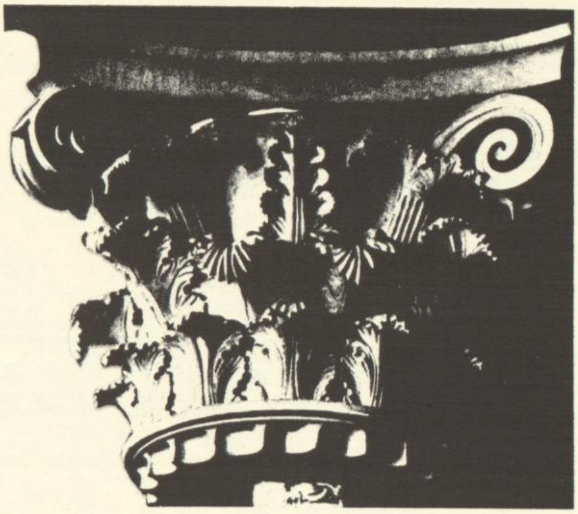
In general, actions taken to realign or reduce debt and prevent equity dilution have been combined operations. In one instance, we utilized a major sale-leaseback arrangement to reduce long-term convertible debt. A "sale-leaseback" constitutes accelerated cash flow, substituting immediate cash for future depreciation. The same logic that applies to borrowed funds vs. equity also applies to leased assets vs. directly owned assets; many times it is better not to have funds tied up in the ownership of assets. Obviously, in any debt reduction program, the timing must be opportune, a standard which we always strive to achieve.

We refer the shareholder to five briefly described financial actions over the past few years. They illustrate, in a sense, what has been said above:

Debenture Exchange. In May, 1963, LTV offered to exchange new 4¾% subordinated convertible debentures and 5½% subordinated non-convertible debentures for outstanding 5½% and 5¼% subordinated convertible debentures. Of an aggregate principal amount of $56,706,000 outstanding, $44,258,000 was exchanged for the new issues, resulting in a net reduction of potential dilution of 244,696 shares and an annual savings in interest costs of $129,000.

Debt Retirement. In November, 1963, four issues of long-term debt totaling approximately $27 million were redeemed. As a result, potential dilution was reduced by 1,098,077 shares (net after including 42,534 shares due to an adjustment upward in the conversion price of the old 5½% convertible debentures), and shares outstanding were increased by only 50,569 on conversion of a small amount of the called debentures. Approximately $18 million of the funds required for this redemption were provided by the sale-leaseback discussed earlier.

Series B Preferred. In May, 1964, LTV offered to exchange one share of a new $3 Series B Cumulative Convertible Preferred and $15 cash for each three shares of common tendered. This exchange established a market for a fixed-income equity security for use in acquisitions where such a security might be more desirable as the mechanism of exchange and additionally provided a fixed income security preferred by some investors. This offer



resulted in the issuance of 265,830 shares of Series B (currently convertible into 332,287 shares of common) and cash payments of $4 million in exchange for 797,490 shares of common.

Open-Market Purchases. From time to time LTV has purchased its common stock in the open market, and we will consider further purchases when such action is timely and appropriate.

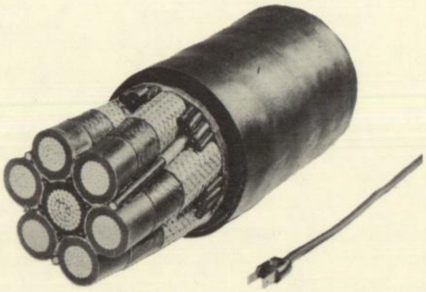
Project Redeployment Exchange. In May, 1965, 122,570 shares in each of the three new subsidiaries and $2,206,260 cash were exchanged for 245,140 shares of LTV common stock.

DISTRIBUTION OF INTERESTS

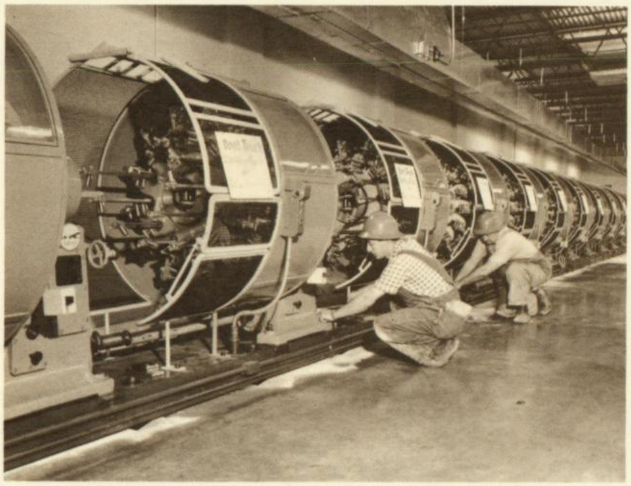
One of LTV's most-recent financial actions serves as an example of a related concept. LTV's investment in the companies constituting Saturn Industries could not be deployed as effectively within the framework of LTV ownership as it could be if the new company were separate and publicly owned, with LTV no longer having any operational interest. We believe LTV common shareholders will realize the value of their interest in these companies more rapidly by this distribution than if LTV had retained corporate ownership for the shareholder.

SUMMARY

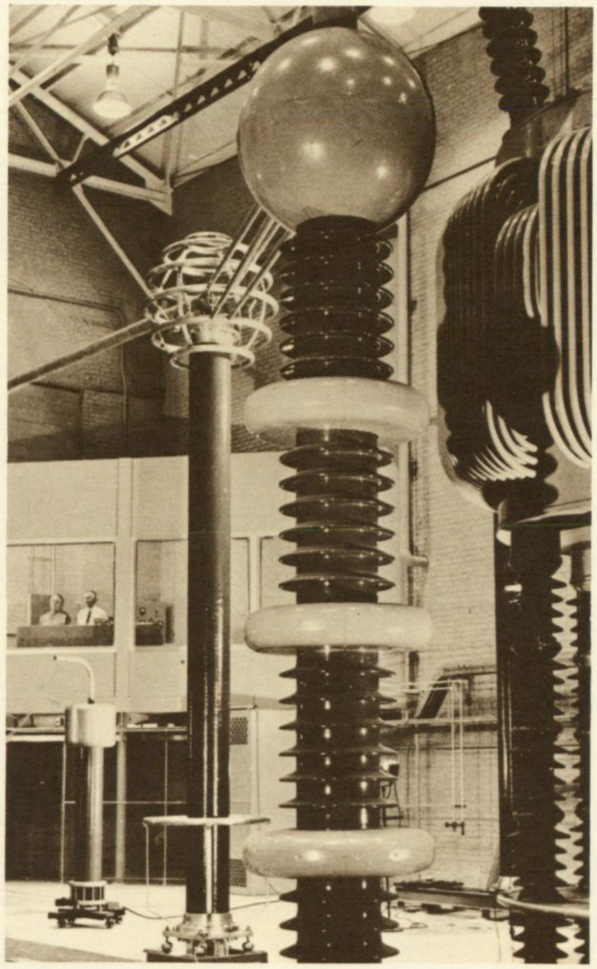
LTV thus continually endeavors to build lasting shareholder values through deployment of assets, just as the Company's research and development, engineering, production and other operational activities are specifically designed to build lasting values for our customers, employees and the communities in which we do business. In this way, LTV strives to contribute vitally and dynamically to the health and growth of our nation.



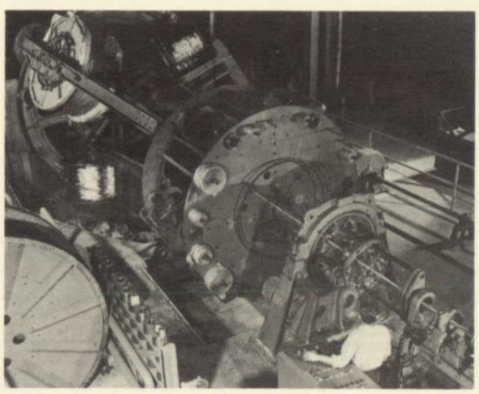
World's largest "extension cord" is a 5⅝-inch-diameter, 8,000-volt lead made for the Peabody Coal Company's 115-cubic-yard electric shovel (also the world's largest). Lead was made at Okonite's Passaic, N.J., plant. At right, for contrast, is a familiar extension cord used for lamps and other small electrical appliances.



The taping machine which workmen are shown installing here was the most modern in its field only a few years ago and was used to apply insulation to a more-than-$4-million order for 345,000-volt cable from Consolidated Edison Company.



Cables are tested at extremely high voltages in this laboratory at the Paterson plant. This scientific installation also is used for Research and Development projects.



One workman attends a Trafalgar wire-spinning machine at the Paterson plant.

THE OKONITE COMPANY

Okonite, a company rich in quality products, is a highly respected factor in the production and marketing of insulated electrical power and communications cable —an expanding field.

It has been a leader in this industry for 88 years. It now has some 1,720 employees in four company-owned East Coast plants (at Passaic, Paterson and North Brunswick, N.J., and Providence, R.I.) with total floor area of 1,620,000 square feet and some 195 acres of land.

Sales and Customers Specialized

Okonite's sales ran at an annual rate of $70 million during the latter part of 1965. Customers number many thousands, but the bulk of merchandise goes to some 2,000 heavy-user purchasers such as electric utilities, independent telephone companies, railroads, heavy industry and industrial construction contractors. Okonite makes most of its sales directly through strategically located company representatives, but also has a marketing network of distributors and agents.

Advanced-Products Research

It is a research-oriented company and has built an industry reputation for development of new and advanced products. Some of its research has brought new testing techniques to the industry, where Okonite has maintained a reputation for quality and reliability. Its *Micro-Scanner,* a patented testing device developed in-house, gives Okonite unusual quality-control surveillance over its high-voltage cable products.

Modernization Pushed

Of major significance is the recent modernization program which has given Okonite some of the most efficient facilities in the world for production of a wide range of wire and cable, with emphasis on the high- and extra-high-voltage conductors needed to meet the nation's increasing electrical power needs. Approximately $20 million has been spent on such modernization, including plants and machinery, within the past few years.

Court Approves Acquisition

Okonite is operating as a wholly owned subsidiary of LTV. Agreement was reached for its acquisition from the Kennecott Copper Corporation in October of 1965. The acquisition followed a Federal District Court order that Kennecott divest itself of Okonite because its prior acquisition had been contrary to anti-trust law and that Okonite be re-established as a viable competitor, independent of the copper industry.

LTV was considered by Kennecott to be the purchaser which best met all requirements of the order. The intentions and capabilities of LTV to expand Okonite's role in its present markets were specific subjects at a subsequent Federal District Court hearing, which concluded with the presiding District judge approving the sale to LTV.

Business: Value-Adding

Okonite's business is the adding of value through a complex series of technological processes. The company purchases tons of raw material, such as quality copper and aluminum, and the various chemicals and other material which make up the insulating layers. It forms the metal, drawing, rolling and stranding it into conductor wire, then insulating it with a series of impregnated materials. These include paper tapes, or rubber, or plastic extrusions. Some cables are sheathed with metals such as lead or aluminum, others with various non-metallic coverings.

Okonite's varied lines include so-called "solid dielectric" power and control cables with extruded walls of rubber, plastic or other insulating material; the "paper" power cables, utilizing paper wrappings and insulation materials which are later oil-impregnated and then covered by outer jackets of lead, neoprene, armor or a combination of these; the "pipe-type" paper-insulated cables which are installed in oil or gas-pressurized underground pipes to carry tremendous power loads for electric utilities; telecommunications cables with up to 3,030 pairs of small wires tightly bound in protective coverings, and a variety of special products.

Production Lines Automated

Efficient production of such complex cables requires a high degree of automation. One unique Okonite machine which has patented components applies 171 tape wrappings in a single operation, and another machine can apply up to 216 wrappings. And some of the cables with high-voltage capacities, such as those furnished for power lines across Puget Sound in Washington State, weigh as much as 11½ pounds per foot. Okonite also is one of the four companies capable of producing 345,000-volt cable for high-power transmission.

The Okonite facilities are now highly automated and productivity has approximately doubled in the past few years. Wires are run through new insulating machines at speeds up to 4,000 feet per minute, with temperatures automatically controlled and quality constantly monitored. Production executives admit they are in a state of "divine discontent"—highly pleased with their equipment, but determined to achieve even greater efficiency.

Management Young and Aggressive

Contrasting with the long record of the company is the typical age of Okonite's management-level people—in the early 40s. Paul Dashine, a 45-year-old veteran metals and mining executive, is president of Okonite. Prior to accepting the presidency, he was manager of technical services for Kennecott, in charge of research and development, purchasing, patents and licenses, transportation, industrial and market research, and special projects.

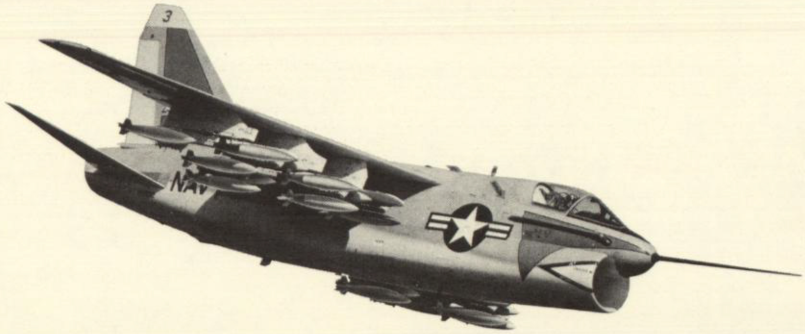
Following LTV's acquisition of Okonite, this young and aggressive group of executives launched *Project Lift* —a company-wide, comprehensive program to further reduce costs, improve efficiency, increase profitability and expand operations. This campaign includes a continuing appraisal of all aspects of company operations, including research, planning, purchasing, production and marketing.

New Products Developed

Always a leader in developing practical ideas, Okonite expects that nearly two-thirds of its sales by 1970 will be in products recently placed on the market or still in development stages. One of these promising new lines is *Okoclad*—a self-contained wiring system for industrial and commercial construction. *Okoclad* has its own aluminum conduit, pliable enough to be formed by hand, as a fully integrated outer sheath. Its use eliminates the need for separate conduit installation, with its many cuttings, elbows and joints. *Okoclad* saves considerable installation time and has been received with enthusiasm by contractors for both new installations and the rewiring of older buildings.

Okonite's cables have been installed underground, in waterways, on utility poles, on ships and in buildings. The trend toward greater use of underground cables for power transmission; the increasing use of telephones and the constant upgrading of telephone systems; the gradual raising of power transmission voltages; the population explosion; the extension of national power grids; the introduction of new products such as *Okoclad*—all these factors unite to give Okonite great potential for growth.

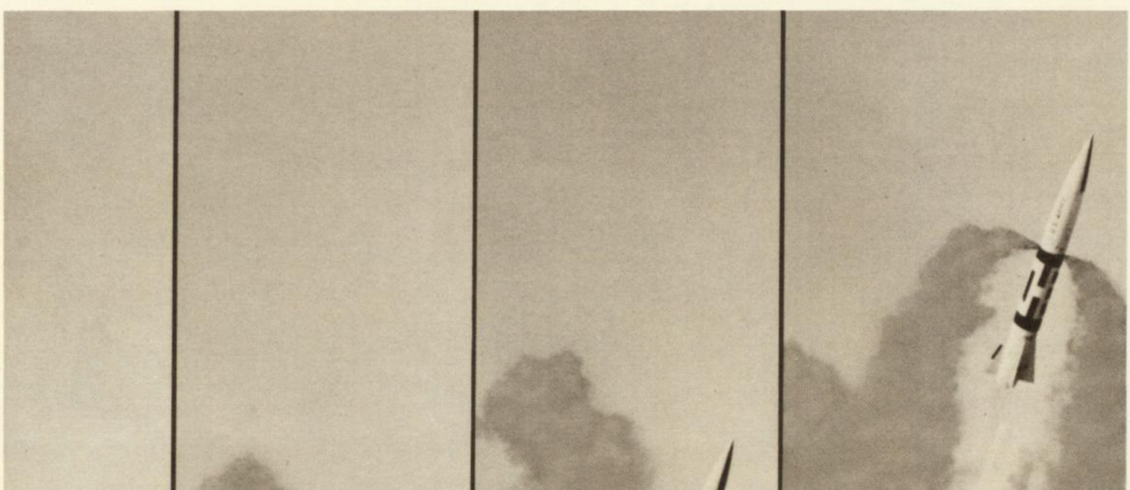
Currently in production, the A–7A Corsair II *will fly longer distances with larger payloads than any existing jet light attack aircraft. It can penetrate enemy defenses by hugging the ground at near-sonic speeds and can be rapidly deployed from carriers, advanced bases, or points in the U.S. to any critical area in the world. The A–7A was designed and developed by LTV Vought Aeronautics.*



The AMU (Astronaut Maneuvering Unit) was developed by LTV Astronautics Division under an Air Force contract for use in the Gemini *program.*

The world's largest flying V/STOL, the tri-service XC–142A transport can take off vertically, hover, convert to normal flight, approach a designated spot, hover and land vertically. It can fly at speeds in excess of 430 miles an hour, carry 32 fully equipped troops or 8,000 pounds of cargo. The XC–142A was designed and developed by LTV Vought Aeronautics.

The LANCE, *the Army's new battlefield missile developed by LTV Michigan Division, is simple and reliable. Offering remarkably short reaction time,* LANCE *is capable of delivering a relatively high rate of fire with dependable accuracy at ranges beyond those attainable by the* Honest John *missiles, which it is scheduled to replace.*



LTV AEROSPACE CORPORATION

During its first full year of operations as a publicly owned corporation, LTV Aerospace made significant progress in terms of financial results, product development and motivation of personnel and management.

Earnings for 1965 before federal income taxes were $6,969,000 on sales of $195,262,000. Earnings after taxes were $3,316,000, equivalent to $2.96 per share after provision for preferred dividends, on the 1,203,796 common shares outstanding at the year's end or $1.18 per share adjusted to give effect to the stock split approved on Feb. 8.

The largest of LTV's subsidiaries, LTV Aerospace is engaged primarily in the design, development and production of attack and transport aircraft, missiles, space maneuvering systems, high-mobility ground vehicles, and in providing management of range and launch operations and engineering support services.

Created in December, 1964, as part of *Project Redeployment,* LTV Aerospace is composed of four divisions: LTV Vought Aeronautics, LTV Astronautics, LTV Michigan and LTV Range Systems—and one subsidiary, Kentron Hawaii, Ltd. It employs 11,083 people, of whom some 3,567 are engineers, scientists and technicians.

At the end of 1965, approximately 10 per cent of the outstanding stock of LTV Aerospace was publicly held, with the remaining shares owned by the parent corporation.

Subsequent to the year's end, the Company's equity and working capital were increased by approximately $11 million through a primary offering of 500,000 shares of Common Stock. It is anticipated that the Common Stock of LTV Aerospace Corporation will be listed on the American Stock Exchange.

Throughout 1965, each of the company's operating units was profitable. On a basis of product lines, aircraft sales amounted to 46 per cent of the business; space systems & products: 26 per cent; missiles: 25 per cent; other products and services: 3 per cent.

The LTV Vought Aeronautics Division enjoyed a particularly good year. The A-7A *Corsair II* light attack airplane made its first flight last fall—26 days ahead of schedule. Designed to carry twice the bomb load or fly twice the distance of any existing jet light attack aircraft, the *Corsair II* is currently in production at the company's Grand Prairie plant. Present firm fixed-price contracts for the A-7A total more than $223 million.

The company's XC-142A V/STOL tri-service transport underwent further evaluation by the military during 1965. Designed to fly at speeds in excess of 400 miles an hour and carry 32 fully equipped troops or 8,000 pounds of cargo, the XC-142A combines the vertical takeoff and landing advantages of the helicopter with the high speed qualities and increased range of conventional aircraft. By March of this year, the XC-142A had accumulated more than 190 flight hours during some 237 flights.

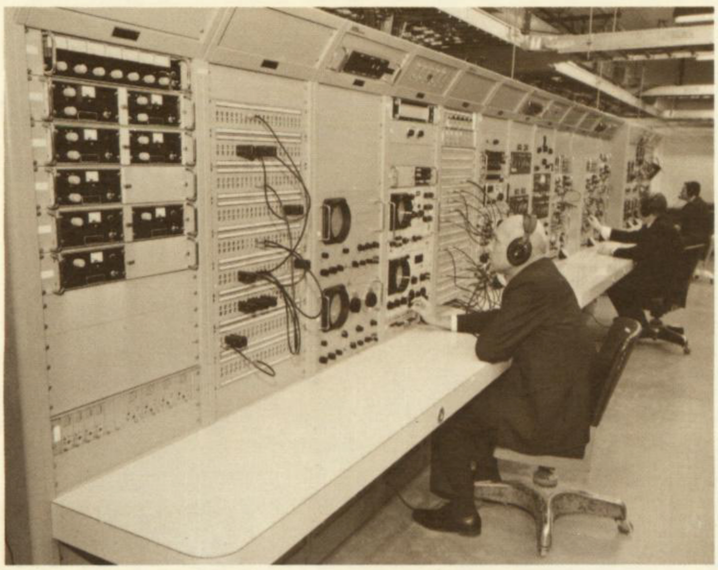
The LTV Astronautics Division in 1965 further demonstrated its capability in providing science and engineering leadership in space systems development, manufacture and operations. The *Scout* launch vehicle continued to achieve remarkable reliability in placing research payloads into orbit for NASA and DOD programs. Out of its last 19 firings, 18 were successful. This division also delivered to the Air Force the first flight article AMU (Astronaut Maneuvering Unit) 20 days ahead of schedule. A "back pack" designed to literally convert an astronaut in a pressure suit into a one-man spacecraft for performing useful tasks in space, the AMU is scheduled for its first mission as part of Air Force Experiment D-12 during the Gemini 9 flight in mid-1966.

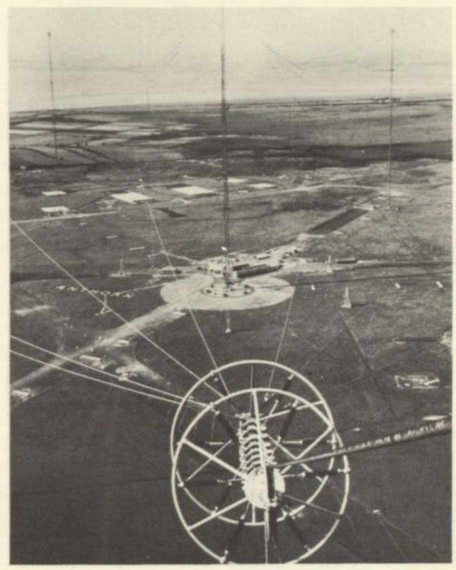
The company's Michigan Division in 1965 witnessed the first firing of its *Lance* battlefield missile system and further development of the XM-561 high-mobility ground vehicle. To date, *Lance* has scored many successful test flights and is scheduled to replace *Honest John* missiles in the Army's inventory. The Department of Defense has announced it will spend $19 million on *Lance* in fiscal 1966 for production tooling and advance production engineering; also that in fiscal 1967 DOD plans to procure a "substantial number" of the missiles and associated ground-support equipment.

LTV Range Systems Division and Kentron Hawaii, Ltd., a subsidiary, are service organizations of LTV Aerospace Corporation and specialize in providing range and launch operations and management, and technical support services. Range Systems concentrates its activities primarily in the United States. Kentron is active throughout the Pacific Ocean area. In 1965, both Range Systems and Kentron had their share of success in obtaining new business. The largest contract was obtained by Range Systems and called for the design, fabrication, installation and checkout of tracking, command, communications and data handling systems for the two Apollo Re-entry Instrumentation Ships (AGM-6 and AGM-7).

ABC^3 (Airborne Battlefield Command and Control Center) is an electronic war room that permits commanders of joint forces and their staffs to conduct complete combat operations in a "know-exactly-for-yourself" situation. Operational either in the air or on the ground, ABC^3 has been combat-proved in Viet Nam and other global trouble spots. Additional units were ordered by the U.S.A.F.

For quick reaction in airborne and ground-based electronic systems, Electrosystems' Greenville Division is the experienced leader. Range instrumentation and tracking, ground-based satellite tracking stations, command and control systems—all are in production or have been delivered to various customers.





Designer and builder of the world's most powerful transmitting equipment, Continental Electronics was the prime contractor for the NATO VLF installation at Anthorn, England. Continental is the Free World's most experienced organization specializing in super-power electronics.

Intricate display systems such as shown here and installed at NASA's Manned Spacecraft Center in Houston demonstrate only one phase of Electrosystems' Garland Division's experience and capability. With this display system, the decision-making controllers in the Mission Operations Control Room view space performance activities from launch to recovery in a form very much like instant animation.

LTV ELECTROSYSTEMS, INC.

LTV Electrosystems, Inc., grew significantly in sales, profits, facilities, employees and capabilities in 1965.

This subsidiary specializes in the design, development and installation of electronic systems for airborne, ground and shipboard use, with particular emphasis on electromagnetic reconnaissance and detection systems and such equipment as airborne command and control centers.

Acquisitions Add Product Lines

At mid-year, the acquisition of the Garland Division (formerly LTV Military Electronics) added several product lines, such as automatic control devices for missiles and aircraft; large-scale precision antennas; guidance systems; automated information displays; digital communications programs; electronic warfare systems; specialized antenna and RF equipment, and space programs. Simultaneously, the acquisition of the Continental Electronics capabilities added super-power radar and radio transmitters; commercial broadcast transmitters and automated *PROLOG* systems for broadcast stations and other uses. Continental has significant overseas sales, both in powerful VLF (very low frequency) installations such as the NATO station at Anthorn, England, and governmental or commercial broadcast facilities. In addition to product lines, the acquisitions under *Project Redeployment* gave LTV Electrosystems added modern facilities and key scientific personnel. The basic Greenville (Texas) Division during the year also opened an aircraft maintenance facility in South Carolina, and F-102 tactical aircraft are in work there now.

LTV Electrosystems now has approximately 6,000 employees and 1,680,000 square feet of floor space at Greenville, Garland, Arlington, Dallas and Richardson, Texas and at the Donaldson Center in South Carolina. More than 1,650 of these employees are scientific and technical personnel engaged in electronics design and development.

Greenville Division Largest

The Greenville Division is the largest Electrosystems unit, both in sales and personnel. A major output of this division is security-cloaked airborne reconnaissance and surveillance systems; therefore, the accompanying pictures can show only a sampling of capabilities. This division has a history of profitable growth which extends back to the mid-Fifties and has continuously expanded its capabilities in its specialized electronic fields.

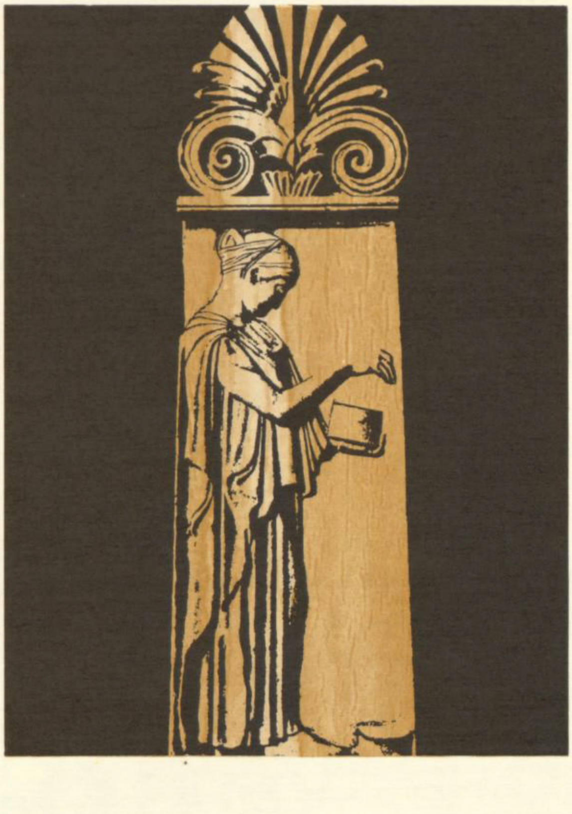
New three-year labor agreements were signed in late 1965 with hourly employees at the Greenville, Garland and Arlington facilities. These agreements should assure uninterrupted production until at least the latter part of 1968.

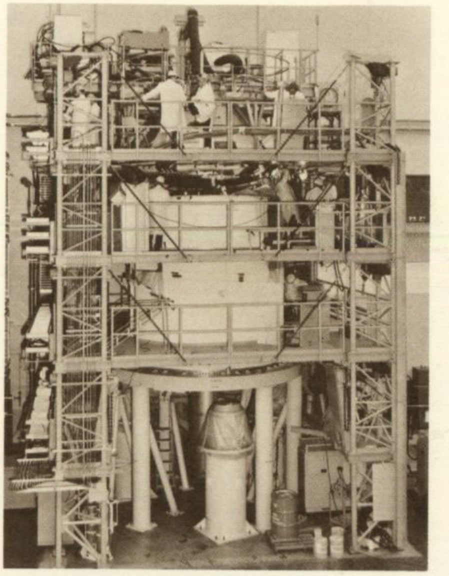
Research Allocations: $4 Million

Approximately $4,000,000 will be allocated to company-sponsored research and development during 1966 to extend LTV Electrosystems' capabilities in electronic systems. Judicious allocation of R & D funds in the past contributed to LTV Electrosystems' record of steadily increasing sales and this year's research is expected to be translated into products for the future.

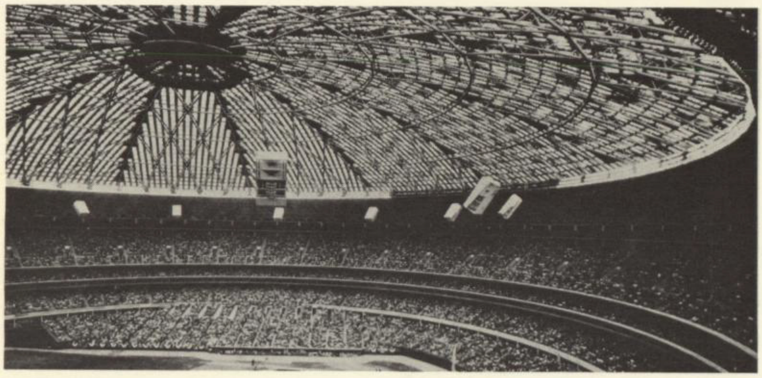
LTV Electrosystems has a highly motivated cadre of well-educated, experienced personnel, with the facilities and the initiative to move forward. *Project Redeployment* not only created LTV Electrosystems, Inc., as a publicly held subsidiary of LTV, but gave it momentum for growth.

Total sales for 1965 were $80,995,000, including results of the final half only for the Garland Division and the Continental Electronics companies acquired at mid-year. Net earnings amounted to $2,205,000 or $1.79 per common share of the subsidiary's stock outstanding at year end and after provision for preferred dividends.



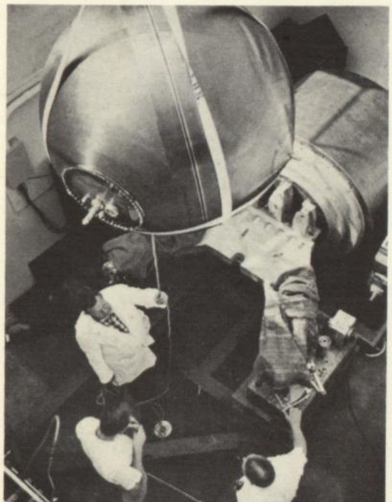


An Apollo *module is about to be tested for vibration environment performance on a Ling Thruster System (an array of 10,000-force-pound thrusters) at North American's Space & Information Division in Downey, Calif. Ling Electronics originated the thruster-array concept for large "packages."*



Inside the Astrodome, *the world's largest indoor stadium, Houston, Texas, Altec Lansing speakers are suspended from a ceiling high enough to top an 18-story building and covering 9½ acres.*

Altec Lansing's PLAYBACK *series of studio-quality components for the audiophile's home sound system features this new all-silicon 711A solid state stereo receiver. This model experienced a complete sell-out throughout the country after its introduction in the fall of 1965. Being one of the most competitive high fidelity stereo receivers on the market promises a greater productivity in total sales for the unit during 1966.*



The Lunar Excursion Module (LEM) *LOX (liquid oxygen) container is being tested for performance in a harsh vibration environment by technicians utilizing a 30,000-force-pound Ling "shaker" at Wyle Laboratories in El Segundo, California.*

LTV LING ALTEC, INC.

Each of the three divisions and four subsidiaries now part of LTV Ling Altec increased sales and earnings in 1965 compared to their individual performances before they were consolidated into this new LTV subsidiary company.

Ling Electronics Division, specializing in high-power electronics with emphasis on the vibration environment-test equipment required for Space Age projects, increased sales through a number of new product lines: • pulse modulators • power supplies • high intensity sound • instrumentation.

Altec Lansing Division, which has been advancing the audio state-of-the-art since 1941, reported increased sales in all of its three product areas: • commercial sound • telephone products • stereo high fidelity components for the home. Altec Lansing's new Audio Controls Division introduced a number of new products, and the Peerless Electrical Products Division experienced a military-influenced growth in demand for its transformers and related products.

University Sound Division, long-time leader in electro-acoustics, recorded across-the-board increases in four product areas: • public address • high fidelity • microphones • special products.

SUBSIDIARIES SUCCESSFUL

Altec Service Corporation responded to the revival of the indoor motion picture business, and increased as well its maintenance and related services for other industries.

Gonset, Inc., one of the most respected names in the field of amateur radio, introduced its *Sidewinder* for "hams," and its *Comtron* entry into the rapidly growing field of two-way radio communications for industrial enterprises.

INTERNATIONAL SALES HIGHER

The other two subsidiaries, LTV Export Corporation and LTV Western Hemisphere Corporation, specialize in overseas sales of University Sound products. In 1965 they increased sales in Europe, the Near East and Canada.

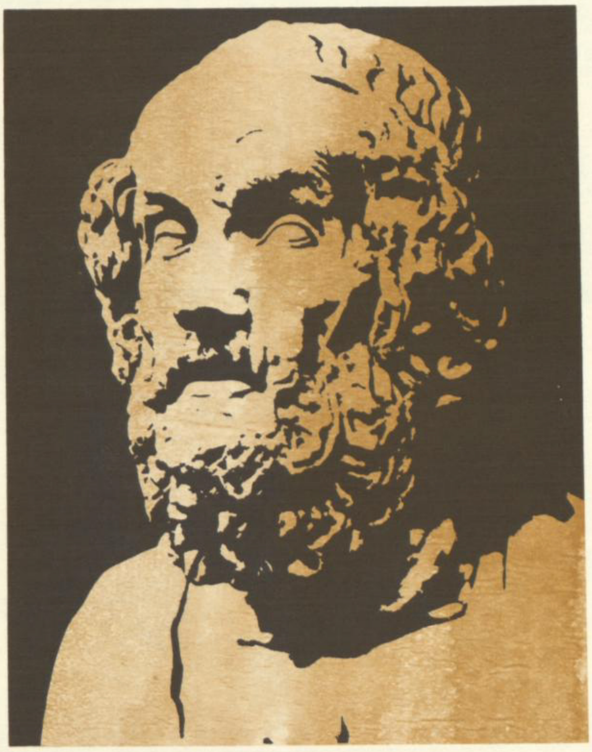
Altec Lansing's newly established International Department opened markets for its own products and those of Peerless and Gonset, in Europe, Asia and Africa.

LTV Ling Altec acquired the parent corporation's interest in Pye-Ling, Ltd., a jointly owned British subsidiary, which reported 1965 a record sales year.

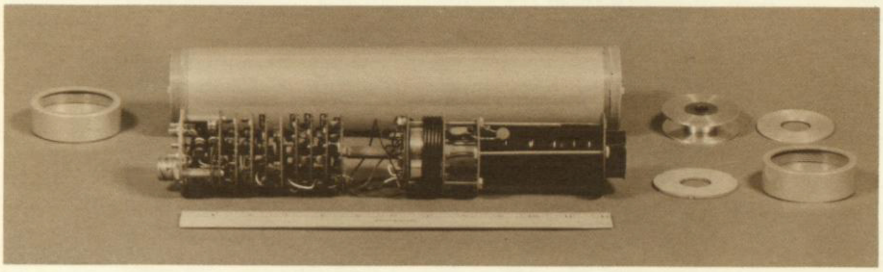
PRESIDENT'S LETTER

In his Annual Report letter to LTV Ling Altec shareholders, President A. A. Ward contrasted the newness of the recently created company with its heritage of successful operations since 1934. He explained that *Project Redeployment* has opened a new world for LTV Ling Altec, providing vital ingredients in the formula for success: • technical skills • production capability • marketing operations • management. He also told of new geographic advantages and increased incentives for management success.

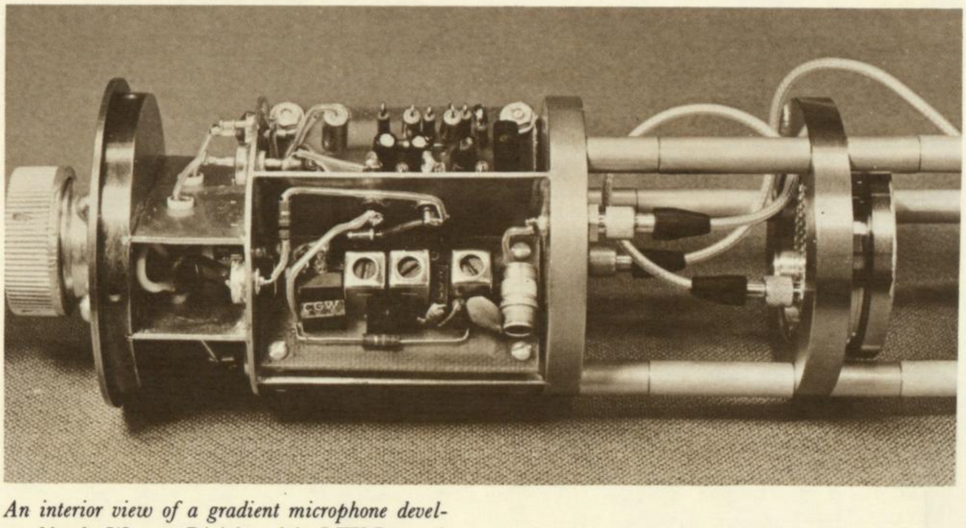
President Ward said that growth in the future is anticipated through (1) research & development; (2) prudent management; (3) aggressive marketing and (4) acquisitions. "As an LTV subsidiary," he said, "we are continually looking for selective acquisitions that will add to our growth."



An engineer at a "remote console" near his own desk "talks" to the computer at the LTV Data Processing & Computing Center, receiving responses from the computer in seconds, solutions to his scientific problems within minutes. The keyboard enables him to use the computer's FORTRAN (FORmula TRANslation) "language." The remote console is connected by regular telephone lines.*



This prototype of a Beta-Gamma Spectrometer fabricated by the LTV Research Center's Nucleonics Section is scheduled to participate in scientific experiments performed during the Gemini 12 *flight.*



An interior view of a gradient microphone developed by the Western Division of the LTV Research Center shows the precision with which these tiny devices are manufactured. They can be used in arrays to find the direction of low frequency sounds.

LTV RESEARCH AND COMPUTING CENTERS

In addition to the management services (see box at end of column at right) that Ling-Temco-Vought, Inc., provides for its subsidiaries, the Corporation directly supports the operating units in two fields:

1. **Research.** LTV Research Center, with its Dallas, Western (Anaheim) and Hawaiian Divisions, works in the same sciences—primarily in electronics, acoustics, aeronautics, astronautics and nucleonics—as the subsidiaries but much further beyond the current state-of-the-art. Each operating unit pursues a vigorous R&D program of its own to develop the products of tomorrow, accounting for the bulk of LTV's total R&D budget.

2. **Electronic Computing.** LTV Data Processing & Computing Center, headquartered in the Dallas suburb of Arlington, Texas, provides both scientific and business data computing services, in digital, analog and hybrid modes, serving the Corporation and its subsidiaries. Although some of the operating units possess their own computers to meet specialized requirements, LTV's more extensive centralized facilities are available to all LTV enterprises and their customers.

RESEARCH

In research, several new projects were initiated by both the Dallas and Western Divisions, and significant progress was reported on all research fronts. The Hawaiian Division was established, concentrating in the realm of oceanography, working frequently with the University of Hawaii in cooperative programs to extend the scope of LTV's scientific activities.

At Dallas, new projects included:

§Pursuit of new advances in molecular electronics, such as electronic signal amplification through the utilization of certain semiconductor materials possessing characteristics representing superior performance to conventional junction devices.

§Studies in optics of photographic and other optical techniques allowing the use of advanced optical systems as data processors that entail performance capabilities superior to conventional approaches.

§Work involving ultrasonics in the microwave region relating to the interactions of magnetic and electronic properties of certain materials, showing promise for the development of improved radar components.

§Investigations of viscous fluid mechanics and gas dynamics involving ducted fans to learn more about basic phenomena of vertical/short takeoff and landing aerodynamics and related aerophysical subjects for advanced flight projects.

§Preparation of new materials such as tungsten carbides with higher density and more useable forms than previously attainable.

§Development of nuclear radiation and micrometeoroid detectors, based on research in electron interactions, such as beta-gamma and proton-alpha spectrometers for space research applications.

At the Western Division in Anaheim, new projects embraced:

§Development of acoustic meteoroid sensors for detecting microparticles impacting at hypervelocities, based upon the electrostatic ballistic pendulum principle, and providing an increase in sensitivity of two orders of magnitude.

§Development of microphones as small as ⅛-inch diameter, yet capable of operating over extremely wide frequency ranges, and of gradient microphones operating at frequencies as low as 0.01 of a cycle per second. Gradient microphones measure the difference in pressure between two points, providing the capability for direction-finding and locating the source of sounds.

Hawaiian Division

Even in its earliest days, the Hawaiian Division began work on a number of oceanographic projects complementary to the Company's existing interests in acoustics, meteorology, detection, communications and related areas.

ELECTRONIC COMPUTING

In computing, 1965 was a year of expanding services, both for LTV's operating units and outside customers, with the data processing and computing facilities being utilized on a 3-shift basis.

In December, several sections of the Computing Center staff supported the LTV Range Systems Division's winning bid for a NASA contract to staff and operate the 200-man Michoud computer installation at Slidell, La.

Scientific Applications

Supporting the R&D efforts of the LTV Research Center and subsidiary research teams, the Computing Center developed new programs involving specialized display and plotting techniques as well as special computer "languages" for electronics design and controls systems.

Simulation Programs

A number of new hybrid analog/digital simulation programs were completed, including programs in which computers simulate: close-support attack aircraft flying qualities • vertical and short takeoff and landing aircraft flying characteristics • automatic landings aboard aircraft carriers • space vehicle performance parameters.

Management Systems

Another of the year's high points was the sale of computerized management information systems (such as PERT, PERT-COST and the Critical Path Method) to the U.S. Army Corps of Engineers. This contractual experience established the Computing Center as a leader in the management information systems field.

Business Applications

In the area of business applications, substantial progress was made in expanding and integrating a new data collection system involving payroll and labor reporting on a current basis. Efforts also were devoted to the development of more efficient and economical programs for configuration management, engineering breakdown and spares control.

New Computer

At year's end the Computing Center was looking forward to an expansion of its capabilities and activities through the installation during 1966 of its third generation of computing equipment—an IBM 360 system. One of its provisions will permit engineers in other LTV offices to "talk" directly to the computer—that is to present a problem and receive an answer in a matter of minutes, depending upon the complexity of the problem. The computer will: improve data communications • process several programs at one time • provide much greater data storage (or "memory") capacities • afford opportunities for "real-time" (current) integrated management control systems.

In addition, the Computing Center plans to add computer-driven visual display units to its analog equipment and to continue its emphasis on hybrid computing techniques that combine the accuracy of digital computations with the speed of analog.

Management services provided to the subsidiaries embrace such areas as ■ financial planning and arrangements ■ accounting and auditing ■ long-range planning and market analysis ■ public relations and advertising ■ industrial relations ■ purchasing coordination ■ administrative consultation.

-VOUGHT, INC.

DALLAS, TEXAS 75222

	Year Ended Dec. 31, 1965
	$336,206,000
	$ 11,533,000
	$ 5,984,000
NDS)	$ 2.88
	1,764,610
	79,169
	265,822
	$ 30,534,000
	20,670

LTV RESEARCH CENTER

Dallas, Texas Anaheim, Calif.
Honolulu, Hawaii

LTV LING ALTEC, INC.

LTV Ownership 90%

FINANCIAL DATA	Year Ended Dec. 31, 1965*
Sales	$24,111,000
Earnings After Taxes	$ 601,800
Earnings Per Share (after preferred dividends)	$ 0.46
Common Stock	
Public Ownership (1,000 Shareholders)	122,570 shares
LTV Ownership	1,077,430 shares
Total Shares Outstanding	1,200,000 shares
Preferred Stock (convertible 1 for 10 common) LTV Ownership	65,000 shares
Shareholders' Equity	$ 3,850,000
Commercial Development and Engineering Expenditures	1,669,000**

FACILITIES AND PERSONNEL

Plants in Anaheim, California, Oklahoma City, Oklahoma and Winchester, Massachusetts, with 377,200 sq. ft. floor space.

Field offices in more than 100 major cities in U. S.

Total Employees	1,330
Scientific and technical	141
Management, admininstrative and clerical	366
Production	823

PRODUCTS

Vibration test equipment; Acoustic test equipment; High fidelity sound units; Commercial sound systems; Industrial radio equipment; Telephone equipment; Transformers; Modulators.

DIVISIONS AND SUBSIDIARIES

Ling Electronics . . . Division
Altec Lansing . . . Division
Peerless Products . . . Division
Audio Controls . . . Division
University Sound . . . Division*
Altec Service Corp. . . . Subsidiary
Gonset, Inc. . . . Subsidiary
LTV Export Corporation . . . Subsidiary*
LTV Western Hemisphere Corporation . . . Subsidiary*

*Division and Subsidiaries included for last six months
**Full Year Expenditures for all Divisions & Subsidiaries

THE OKONITE COMPANY

Wholly Owned By LTV

PARTIAL-YEAR FINANCIAL DATA
Included in LTV Consolidated Report

FACILITIES AND PERSONNEL

Plants in Passaic, Paterson, and North Brunswick, N. J. and Providence, R. I., with 1,620,827 sq. ft. of floor space.

Field Offices in 26 major cities in the U. S.

Total Employees	1,720
Scientific and Technical	115
Management, Administrative and Clerical	531
Production	1,074

PRODUCTS

Underground and aerial power distribution and telephone cable; signal and control cable; bare wire products; and other related products.

LING-TEMCO

P. O. BOX 5003,

SALES	
EARNINGS BEFORE TAXES	
EARNINGS AFTER TAXES AND MINORITY INTEREST	
EARNINGS PER SHARE (AFTER PREFERRED DIVIDE	
COMMON SHARES OUTSTANDING	
PREFERRED SHARES OUTSTANDING	
SERIES A	
SERIES B	
SHAREHOLDERS' EQUITY	
TOTAL EMPLOYEES	

LTV COMPUTING CENTER

Arlington, Texas

LTV AEROSPACE CORPORATION

LTV Ownership 90%

FINANCIAL DATA	Year Ended Dec. 31, 1965
Sales	$195,262,000
Earnings After Taxes	$ 3,616,000
Earnings Per Share (after preferred dividends)	$ 1.18*
Common Stock—Public Ownership (1,018 shareholders)	315,915 shares*
Class B Common Stock (convertible 1 for 1 Common) LTV Ownership	2,693,575 shares*
Preferred Stock (convertible 1 for 25 Class B Common) LTV Ownership	65,000 shares
Shareholders' Equity	$ 9,653,000
Company-sponsored Research and Engineering Expenditures	$ 6,640,000

FACILITIES AND PERSONNEL

Plants in Dallas, Texas, Warren, Michigan, and Honolulu, Hawaii, with 4,300,000 sq. ft. floor space.

Field offices in Washington, D. C.; Dayton, Ohio; Los Angeles, California; Huntsville, Alabama; Houston, Texas; Hampton, Virginia; Paris, France; and Bonn, Germany

Total Employees	11,083
Scientific and technical	3,567
Management, administrative and clerical	1,293
Production	6,223

PRODUCTS

Navy A-7A attack aircraft; Tri-service XC-142 V/STOL logistic transport aircraft; NASA *Scout* space research vehicles; Air Force Space Maneuvering systems; Army *Lance* missile; Space probes and upper stages; Aerospace range operations and management; Electronic installations on range tracking ships; Army XM-561 special purpose ground vehicle; Army PATA low ground pressure vehicle.

DIVISIONS AND SUBSIDIARIES

LTV Vought Aeronautics Division
LTV Michigan Division
LTV Astronautics Division
LTV Range Systems Division
Kentron Hawaii, Ltd. . . . Subsidiary

*After giving effect to stock split and reclassification approved by shareholders on Feb. 8, 1966. Earnings were equal to $2.96 per share outstanding before such split.

LTV ELECTROSYSTEMS, INC.

LTV Ownership 90%

FINANCIAL DATA	Year Ended Dec. 31, 1965*
Sales	$80,995,000
Earnings After Taxes	$ 2,205,000
Earnings Per Share (after preferred dividends)	$ 1.79
Common Stock	
Public Ownership (1,015 Shareholders)	126,989 shares
LTV Ownership	1,077,430 shares
Total Shares Outstanding	1,204,419 shares
Preferred Stock (convertible 1 for 10 common) LTV Ownership	65,000 shares
Shareholders' Equity	$ 4,163,000
Company-sponsored Research and Engineering Expenditures	$ 3,743,000**

FACILITIES AND PERSONNEL

Plants in Dallas, Garland, Greenville, Richardson and Arlington, Texas; Greenville, South Carolina, with 1,688,168 sq. ft. floor space.

Field offices in Oklahoma City, Oklahoma, San Antonio, Texas, and Macon, Georgia.

Total Employees	5,896
Scientific and technical	1,681
Management, administrative and clerical	1,088
Production	3,127

PRODUCTS

Space/Air/Ground electronic reconnaissance and surveillance systems; Command and control systems; High power radar and radio; Nuclear detection and surveillance equipment; Information display systems; Commercial radio transmitters; Guidance systems; Aircraft overhaul.

DIVISIONS AND SUBSIDIARIES

Garland . . . Division*
Greenville . . . Division
Continental Electronics . . . Subsidiary*

*Divisions and Subsidiaries included for last six months
**Full Year Expenditures for all Divisions & Subsidiaries

DIRECTORS

JAMES H. BOND
Investments, Banking and Government

D. H. BYRD
D. H. Byrd Enterprises
Dallas, Texas

V. A. DAVIDSON, M.D.
Investments
Dallas, Texas

ROBERT B. GILMORE
President, DeGolyer and MacNaughton
Dallas, Texas

LeVAN GRIFFIS, Ph.D
Director of the Office of Research Services, Southern Methodist University
Dallas, Texas

JAMES J. LING
Chairman of the Board and Chief Executive Officer

ROBERT McCULLOCH
Chairman of the Executive Committee

A. D. MARTIN
Chairman of the Board, A. D. Martin Properties, Inc.,
Dallas, Texas

O. R. MOORE
Chairman of the Board, American Security Insurance Company
Atlanta, Georgia

WILLIAM H. OSBORN, JR.
Partner, Lehman Bros.
New York, New York

TROY V. POST
Chairman of the Board and President, Greatamerica Corporation, Dallas, Texas

L. T. POTTER
President, Lone Star Gas Company
Dallas, Texas

CLYDE SKEEN
President

W. P. THAYER
President, LTV Aerospace Corporation

JAMES O. WELDON
Chairman of the Board, LTV Electrosystems, Inc., and President, Continental Electronics Companies

OFFICERS

JAMES J. LING
Chairman of the Board and Chief Executive Officer

ROBERT McCULLOCH
Chairman of the Executive Committee

CLYDE SKEEN
President

R. C. BLAYLOCK
Vice President and Technical Director

FORBES MANN
Vice President—Government and Foreign Relations

HARRY E. KAY
Secretary

BERNARD L. BROWN
Treasurer

J. G. BACSIK
Controller

Lift For
LTV Organization Chart

FINANCIALS

NINE YEARS OF PROGRESS

LING-TEMCO-VOUGHT, INC.

OPERATING RESULTS	1965	1964	1963	1962	1961*	1960**	1959	1958***	1957***
Sales	$336,206,379	$322,859,402	$329,001,855	$325,439,135	$192,847,111	$148,447,484	$48,086,785	$6,923,167	$3,970,420
Earnings (loss)									
Before taxes	11,533,093	9,030,346	8,392,537(1)	8,796,824	(14,526,897)	5,737,132	3,139,639	452,161	621,851
After taxes and minority interest	5,983,652	4,903,597	6,186,809(A)	8,650,069(B)	(13,158,591)	3,051,172	1,866,466	227,161	308,485
Per common share****	2.88	2.31	2.12(A)	3.03(B)	(4.74)	1.20	1.13	0.21	0.35
FINANCIAL POSITION (at year end)									
Net working capital	$ 21,615,983	$ 35,506,930	$ 38,118,628	$ 46,268,154	$ 36,030,530	$ 22,558,484	$ 7,760,736	$ 874,820	$1,109,859
Ratio of current assets to current liabilities	1.17	1.62	1.55	1.66	1.41	1.45	1.51	1.27	2.13
Notes payable to banks	$ 57,000,000	$ 21,700,000	$ 26,800,000	$ 39,000,000	$ 48,600,000	$ 29,340,000	$ 7,200,988	$1,526,860	$ 106,551
Long-term debt	40,273,674	37,012,401	34,591,553	64,198,617	64,948,003	14,639,132	7,613,920	461,021	475,855
Shareholders' equity	30,534,053	28,562,150	32,861,815	26,655,718	17,916,594	28,532,956	9,792,609	2,695,379	1,406,901
GENERAL (at year end)									
Employment—total	20,670	16,513	17,533	18,392	18,729	10,303	2,500	800	280
Employment—engineers and scientists	5,743	4,750	4,000	3,700	2,700	1,040	180	60	35
Common shares outstanding	1,764,610	1,849,982	2,824.772	2,783,600	2,775,185	2,553,040	1,610,762	950,095	873,752
Common shareholders of record*****	10,342	11,886	16,428	17,795	18,713	18,838	12,000	5,353	2,563

*Includes operations of Chance Vought Corporation for four month period subsequent to its acquisition in August, 1961.

**Includes full year operations of Temco Aircraft Corporation acquired in July, 1960 as a pooling of interests.

***Year ended July 31.

****Based on shares outstanding at year-end and after giving effect to preferred dividends.

*****Does not include shareholders (approximately 5,200 at December 31, 1965) whose shares are held in street names.

(1) As restated.

(A) Earnings after tax are affected by application of remaining tax loss carry-forward from 1961.

(B) No Federal taxes on income for 1962 because of tax loss carry-forward from 1961.

FINANCIAL REVIEW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Sales

Net sales increased in 1965 to $336,206,379 as compared with $322,859,402 in 1964. Operations of The Okonite Company, LTV's newest subsidiary, were included for only the fourth quarter of 1965 but contributed to a significant increase in the overall percentage of non-government business to 15% of total sales versus 7% in 1964.

Distribution of 1965 sales (in thousands of dollars) among major customers was as follows:

Navy	$ 95,362	28%
Air Force	83,097	25%
Army	63,238	19%
NASA	28,722	9%
All Other	65,787	19%
Total	$336,206	100%

By product line, 1965 sales were distributed 33% in electronic systems and parts, 30% missiles and space, 29% aeronautics and 8% in all other products and services.

Earnings

1965 pre-tax earnings totaled $11,533,093, up 27.7% from $9,030,346 in 1964. Current year pre-tax earnings amounted to 3.4% of sales compared with 2.8% in 1964.

Net income, after provision for taxes on income and minority interest in earnings of subsidiaries, was $5,983,652, up 22% over 1964 net income of $4,903,597. After allowance for preferred dividends, current year net income was equal to $2.88 per share of common stock outstanding at year end, compared with $2.31 per share in 1964.

Dividends

Cash dividends totaling 50¢ per share were paid during 1965 to holders of common stock in four regular quarterly payments of 12½¢ each. On January 10, 1966, the annual dividend rate was doubled to $1.00 per share and the first quarterly dividend for 1966 in the amount of 25¢ per share was declared, payable March 24 to shareholders of record on March 1.

The regular annual dividend of $1.35 per share was paid in March, 1965, to holders of Series A preferred stock and the two regular semi-annual dividends of $1.50 each were paid in June and December on the $3 Series B preferred stock.

Exchange of Capital Stock

At the beginning of 1965, LTV owned all of the outstanding capital stock of its three new subsidiaries established under *Project Redeployment*—LTV Aerospace Corporation, LTV Electrosystems, Inc., and LTV Ling Altec, Inc. In April an offer was made to exchange ½ share of common stock of each of those subsidiaries and $9 in cash for each share of LTV common stock tendered by LTV shareholders. As a result, 122,570 shares of stock in each of those subsidiaries and $2,206,260 cash were exchanged for 245,140 shares of LTV common stock. This exchange placed approximately 10% of the outstanding common stock of those subsidiaries in the hands of more than 1,000 shareholders and trading in those shares has been established in the over-the-counter market.

Shareholders' Equity

The book value of subsidiary shares exchanged plus the cash payments to exchanging shareholders and expenses of the offer described above resulted in a reduction at that time of $3,401,000 in consolidated shareholders' equity. Retained earnings for the year more than offset this reduction, however, which, together with other equity additions, resulted in a net increase in shareholders' equity of nearly $2 million for the year, to $30,534,053 at December 31, 1965, from $28,562,150 at the end of 1964.

Working Capital

The Summary of Source and Use of Working Capital, appearing on Page 31 of this report, sets forth the major changes in working capital during the year, the most important of which relates to the acquisition of the net assets of The Okonite Company, discussed earlier in this report. That acquisition was accomplished with no new equity financing and, consequently, required the use of nearly $19 million of working capital funds. As a result, net working capital declined to $21,615,983 at December 31, 1965, from $35,506,930 a year earlier. However, the public offering of 500,000 shares of LTV Aerospace common stock on March 10, 1966, and other equity additions since the end of the year have increased working capital by approximately $15 million, and further increases are anticipated during the balance of 1966.

A new revolving bank loan agreement was entered into during 1965 providing for borrowing at the prime rate of interest by LTV and three subsidiaries—LTV Aerospace Corporation, LTV Electrosystems, Inc., and LTV Ling Altec, Inc.—up to an aggregate amount of $50 million. Borrowings under this loan agreement at December 31, 1965, totaled $37 million, all on behalf of the three subsidiary companies. In addition, a $20-million bank loan was consummated on behalf of LTV's new subsidiary, The Okonite Company, in connection with the Okonite acquisition, bringing total outstanding borrowings at the end of 1965 to $57 million, compared with $21.7 million at the end of the previous year.

Facilities

New plant and equipment expenditures totaled $6,800,000 in 1965 compared with $4,292,000 in 1964. Important additions during the year included completion of a new propulsion test facility at LTV Aerospace Corporation's plant near Dallas and equipment to facilitize the new LTV Electrosystems aircraft overhaul and modification plant at Donaldson Center near Greenville, South Carolina.

Depreciation and amortization charges totaled $3,760,000 in 1965 compared with $3,465,000 in 1964.

Research and Engineering

Expenditures for independent technical efforts (company-sponsored military research, development and bidding, and commercial development and engineering) in 1965 totaled $13,198,000, for all subsidiaries and the corporate Research Center. Not included in this amount are the research and development programs conducted under contract to the government as part of the procurement cycle of military systems and subsystems. Spending for independent technical effort is expected to be substantially higher in 1966.

Employment

Total employment at 1965 year-end stood at 20,670, up approximately 25% from 16,513 at the end of 1964. Acquisition of The Okonite Company added 1,720 employees who are included in the 1965 totals. The balance of the increase reflects a buildup in operations at each of the other three subsidiaries.

New labor agreements were negotiated during 1965 covering some 80% of all employees included in LTV bargaining units. Particularly important is the fact that the new agreements run for a period of three years.

Subsidiary Financial Information

The chart appearing on Pages 21 and 22 of this report sets forth in summary form certain pertinent financial information of LTV Aerospace Corporation, LTV Electrosystems, Inc., and LTV Ling Altec, Inc., subsidiaries of LTV which are publicly owned. Complete financial statements are contained in the separate annual reports to shareholders of those companies, copies of which may be obtained by writing the LTV Public Relations Department, P.O. Box 5003, Dallas, Texas 75222.

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CONSOLIDATED BALANCE SHEET

LING-TEMCO-VOUGHT, INC. AND SUBSIDIARIES

	DECEMBER 31 1965	1964
ASSETS		
CURRENT ASSETS		
Cash and U.S. Government securities	**$ 17,707,804**	$ 11,600,511
Notes and accounts receivable, less allowances (1965—$795,807; 1964—$700,885) for doubtful receivables—Note K	**50,997,826**	25,807,632
Unreimbursed costs and fees under cost-plus-fee contracts—Note K	**23,923,584**	22,308,963
Inventories, less progress payments received—Note B	**52,483,214**	32,146,852
Prepaid expenses	**1,499,324**	1,202,638
TOTAL CURRENT ASSETS	**$146,611,752**	$ 93,066,596
INVESTMENTS AND OTHER ASSETS		
Investments in and advances to affiliated companies	**$ 806,327**	$ 816,327
Notes and accounts receivable and other investments, less allowances (1965—$1,636,919; 1964—$2,805,242) for doubtful receivables	**7,046,857**	9,553,783
Excess of investment in subsidiaries over net assets acquired, patents and trademarks, less amortization	**3,093,474**	3,164,268
Unamortized debt expense	**243,481**	240,188
TOTAL INVESTMENTS AND OTHER ASSETS	**$ 11,190,139**	$ 13,774,566
PROPERTY, PLANT, AND EQUIPMENT—At cost—Notes C and D		
Land	**$ 2,605,273**	$ 555,263
Buildings	**16,276,960**	11,577,534
Machinery and equipment	**41,942,341**	21,379,493
	$ 60,824,574	$ 33,512,290
Less allowances for depreciation	**16,242,093**	13,385,036
TOTAL PROPERTIES—NET	**$ 44,582,481**	$ 20,127,254
	$202,384,372	$126,968,416

LIABILITIES AND SHAREHOLDERS' EQUITY	DECEMBER 31 1965	1964
CURRENT LIABILITIES		
Notes payable to banks—Note C	$ 57,000,000	$ 21,700,000
Payable for assets of another company—Note A	15,950,000	—
Accounts payable	30,385,975	21,072,046
Accrued compensation, taxes, interest, etc.	17,554,271	11,027,720
Federal, state and foreign income taxes	3,794,864	3,592,576
Current portion of long-term debt—Note D	310,659	167,324
TOTAL CURRENT LIABILITIES	$124,995,769	$ 57,559,666
LONG-TERM DEBT—Note D	40,273,674	37,012,401
RESERVES AND DEFERRED CREDITS		
Reserve for deferred federal income taxes	$ 787,518	$ 714,717
Reserve for possible future losses arising from adjustment or disposition of assets	595,214	1,159,203
Deferred credits—Note E	3,669,563	1,860,688
TOTAL RESERVES AND DEFERRED CREDITS	$ 5,052,295	$ 3,734,608
MINORITY INTEREST IN SUBSIDIARIES	1,528,581	99,591
SHAREHOLDERS' EQUITY		
4½% Series A preferred stock, par value $30—Notes G and I: Authorized 252,000 shares; outstanding 79,169 shares in 1965, and 150,994 shares in 1964	$ 2,375,070	$ 4,529,820
$3 Series B preferred stock, par value $1—Note G: Authorized 1,748,000 shares; outstanding 265,822 shares in 1965, and 265,830 shares in 1964	265,822	265,830
Common stock, par value $0.50—Notes F, G, H, and I: Authorized 8,000,000 shares; outstanding 1,764,610 shares in 1965, and 1,849,982 shares in 1964, after deducting 1,246,637 shares and 1,003,307 shares, respectively, in treasury	882,305	924,991
Capital surplus—Note J	8,741,775	6,381,440(1)
Retained earnings—Note C	18,269,081	16,460,069(1)
TOTAL SHAREHOLDERS' EQUITY	$ 30,534,053	$ 28,562,150
COMMITMENTS AND CONTINGENCIES—Note K		
	$202,384,372	$126,968,416

(1) As restated with respect to cost of treasury stock.

See notes to financial statements.

STATEMENT OF CONSOLIDATED INCOME AND RETAINED EARNINGS

LING-TEMCO-VOUGHT, INC. AND SUBSIDIARIES

	YEAR ENDED DECEMBER 31 1965	1964
Net sales, including costs and fees under cost-plus-fee contracts	**$336,206,379**	$322,859,402
Other income	**2,016,910**	1,330,450
	$338,223,289	$324,189,852
Costs and expenses:		
Manufacturing costs, selling, administrative and general expenses—Note M	**$322,780,048**	$311,851,777
Interest expense	**3,783,476**	3,154,155
Other expenses	**126,672**	153,574
	$326,690,196	$315,159,506
INCOME BEFORE INCOME TAXES AND MINORITY INTEREST	**$ 11,533,093**	$ 9,030,346
Federal, state, and foreign income taxes	**5,134,487**	4,120,434
INCOME BEFORE MINORITY INTEREST	**$ 6,398,606**	$ 4,909,912
Minority interest in income of subsidiaries	**414,954**	6,315
NET INCOME	**$ 5,983,652**	$ 4,903,597
Per common share at year end	***$2.88***	*$2.31*
Retained earnings at beginning of year	**16,460,069**	20,141,303 (1)
	$ 22,443,721	$ 25,044,900
Deduct:		
Dividends paid:		
On 4½% Series A preferred stock—Note G	**$ 203,836**	$ 203,712
On $3 Series B preferred stock—Note G	**797,478**	398,745
On common stock—$0.50 per share	**912,175**	1,185,464
Cash paid to holders of common stock in connection with surrender of common shares—Note F	**2,206,260**	3,987,450
Excess of cost over par value of common stock acquired for treasury, less portion charged to capital surplus	**54,891**	2,809,460 (1)
	$ 4,174,640	$ 8,584,831
RETAINED EARNINGS AT END OF YEAR—Note C	**$ 18,269,081**	$ 16,460,069 (1)

Provision for depreciation and amortization:
1965—$3,760,413; 1964—$3,465,485.

(1) As restated with respect to cost of treasury stock.

See notes to financial statements.

SUMMARY OF SOURCE AND USE OF WORKING CAPITAL

LING-TEMCO-VOUGHT, INC. AND SUBSIDIARIES

Year Ended December 31, 1965

Working Capital at Beginning of Year		$35,506,930
Source of Working Capital:		
Net income	$ 5,983,652	
Minority interest in income of subsidiaries	414,954	
Depreciation and amortization	3,760,413	
Proceeds from sale of common and Series A preferred stock	1,293,692	
Increase in long-term debt	3,261,273	
Other	1,245,823	15,959,807
		$51,466,737
Use of Working Capital:		
Cash dividends paid	$ 1,913,489	
Additions to property, plant, and equipment	6,799,619	
Net assets (excluding current) of company acquired	18,931,386	
Cash paid to holders of common stock in connection with surrender of common shares	2,206,260	29,850,754
Working Capital at End of Year		$21,615,983

ERNST & ERNST

1700 LTV TOWER

DALLAS, TEXAS 75201

To the Shareholders and Board of Directors,
Ling-Temco-Vought, Inc.,
Dallas, Texas.

We have examined the consolidated balance sheet of Ling-Temco-Vought, Inc. and subsidiaries as of December 31, 1965, and the related statement of consolidated income and retained earnings and summary of source and use of working capital for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. It was not practicable to confirm by direct correspondence amounts receivable from United States Government departments, but we satisfied ourselves as to such amounts by means of other auditing procedures.

In our opinion, the accompanying balance sheet and statement of income and retained earnings present fairly the consolidated financial position of Ling-Temco-Vought, Inc. and subsidiaries at December 31, 1965, and the consolidated results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. It is also our opinion that the accompanying summary of source and use of working capital presents fairly the information therein shown.

Dallas, Texas
February 15, 1966

Ernst & Ernst

NOTES TO FINANCIAL STATEMENTS

LING-TEMCO-VOUGHT, INC. AND SUBSIDIARIES

December 31, 1965

NOTE A–PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its subsidiaries. During 1965 the Company organized a new subsidiary, The Okonite Company, which acquired the business and net assets of another company for approximately $31,000,000, and its operations have been included in the consolidated financial statements since September 20,1965. Upon consolidation, all inter-company accounts and transactions have been eliminated.

NOTE B–INVENTORIES

The inventories are stated generally at average or accumulated costs, not in excess of market, and are detailed as follows:

	1965	1964
Finished products	$ 4,459,900	$ 1,984,661
Fixed price contracts, etc. in process	72,783,038	54,464,624
Raw materials and purchased parts	10,128,968	8,097,059
	$87,371,906	$64,546,344
Less progress payments received	34,888,692	32,399,492
	$52,483,214	$32,146,852

NOTE C–NOTES PAYABLE TO BANKS AND DIVIDEND RESTRICTIONS

Under the terms of a loan agreement expiring June 30, 1966, the Company and three of its subsidiaries may borrow an aggregate of $50,000,000. At December 31, 1965, $37,000,000 of such borrowings were outstanding. The agreement, as amended, contains requirements covering maintenance of consolidated working capital, consolidated net worth, and other matters. Under the most restrictive of these requirements, the amount of consolidated retained earnings available for payment of dividends at December 31, 1965, was $5,889,000. (See Note G for dividend preferences of Series A and B preferred stock). An additional $20,000,000 borrowed from banks is not covered by this agreement, but is secured by certain assets of the Company.

NOTE D–LONG-TERM DEBT

Long-term debt due beyond one year comprises the following:

	1965	1964
5¾% Subordinated convertible debentures due September 1, 1976	$10,810,700	$10,820,600
5¾% Subordinated debentures due September 1, 1976	23,736,460	23,736,460
5¾% and 6% mortgage notes payable	5,726,514	2,355,341
Sundry notes payable	—	100,000
	$40,273,674	$37,012,401

Because of previous acquisitions and retirements, no prepayments will be required on the convertible debentures, and prepayment requirements on the remaining debentures amount to $2,375,000 annually, from 1967 through 1975. Mortgage notes mature in 1982 and 1983, and are payable in monthly installments with approximately $210,000 maturing in 1966.

The indentures pertaining to long-term debt, among other things, contain certain restrictions as to the payment of dividends. (See Note C with respect to the loan agreement with banks which contains the most restrictive requirements as to dividend payments.)

NOTE E–DEFERRED CREDITS

The consideration paid for the net assets of another company was less than the fair value of the assets acquired, and that portion of the excess which was not allocated as a reduction of fixed assets and inventories was recorded as a deferred credit to be amortized into income over a fifteen month period ending December 31, 1966, which period is the Company's estimate of the time required for the initial reorganization of the operations under new management. The amount shown for deferred credits at December 31, 1965, includes $2,128,999 relating to the above mentioned acquisition and $1,540,564 relating to sale and leaseback of machinery and equipment in 1963.

NOTE F–EXCHANGE OF CAPITAL STOCK

On April 7, 1965, the Company made an offer to exchange with its common shareholders one-half share of common stock of each of three subsidiaries (LTV Aerospace Corporation, LTV Electrosystems, Inc., and LTV Ling Altec, Inc.) and $9 in cash for each share of common stock of Ling-Temco-Vought, Inc. tendered. This offer expired on May 27, 1965, as of which date 245,140 shares of common stock had been tendered and were exchanged for 122,570 shares in each of the aforementioned subsidiaries and $2,206,260 in cash.

NOTE G–PREFERRED STOCKS

Each share of 4½% Series A preferred stock is convertible into approximately 0.857 shares of common stock to June 30, 1966, and on a reduced basis thereafter. The stock is subject to redemption at 105% of par value plus accumulated unpaid dividends, and is required to be redeemed on July 1, 1970. Each share is entitled to receive cash dividends to the extent consolidated net income exceeds $2 per share on common stock outstanding on the last day of each year, limited in any year to 4½% of its par value of $30. At December 31, 1965, accumulated and undeclared dividends (earned in 1965) amounted to $106,878.

The $3 Series B cumulative convertible subordinated preferred stock is convertible into common stock on the basis of one share of preferred for 1.25 shares of common, to June 15, 1974, and on a reduced basis thereafter. The stock is subject to redemption at $75 per share plus accumulated unpaid dividends, and is required to be redeemed in specified percentages (5% to 10%) of such shares outstanding on June 15 in each of the years 1974 through 1985, with the remaining shares to be redeemed on June 15, 1986. However, such redemptions are subject to deferment under certain conditions. Each share is entitled to receive cash dividends at the annual rate of $3, cumulative and payable before any dividends are paid on common stock, subject to the prior payment of accumulated dividends, if any, on 4½% Series A preferred stock. Accumulated dividends at December 31, 1965, amounted to $33,227.

In the event of liquidation, after the payment to holders of Series A preferred stock of the par value of $30 and accumulated dividends, the Series B preferred stock shall be entitled to receive $75 a share plus accumulated dividends. With respect to Series B shares outstanding as of December 31, 1965, the aggregate of such preference in excess of par value is $19,670,828. In the opinion of the Company's counsel, the existence of this excess imposes no restriction upon surplus.

NOTE H–COMMON STOCK RESERVED

At December 31, 1965, the Company had reserved shares of its common stock as follows (reference is made to Note I concerning shares of capital stock reserved for option plans):

RESERVED FOR	NUMBER OF SHARES	PRICE PER SHARE
Conversion of 5¾% debentures	320,412	$33.74(1)
Exercise of warrants expiring December 1, 1969	52,936	31.17(2)
	15,634	36.46(2)
Exercise of warrants expiring August 31, 1966	242,657	30.00
	243,019	40.00
Conversion of Series A preferred stock	67,859(3)	—
Conversion of Series B preferred stock	332,277	—

(1) Conversion price of 5¾% debentures is $38.34 after August 31, 1967. Such prices are subject to adjustment for anti-dilution provisions.
(2) Prices subject to adjustment for anti-dilution provisions.
(3) Exclusive of additional shares which may become reserved upon exercise of Series A preferred stock options.

NOTE I–OPTIONS TO PURCHASE COMMON AND SERIES A PREFERRED STOCK

The Company has a plan, adopted in 1957, for granting restricted stock options to officers and employees of the Company and its subsidiaries. Under the plan, options have been granted at prices not lower than 85% of market price at date of grant and the terms of such options range from a minimum of two years to a maximum of ten years from date of grant. Options are outstanding under two other restricted stock option plans which were assumed in connection with the acquisition of Temco Aircraft Corporation and the purchase of the assets of Chance Vought Corporation in 1960 and 1961, respectively. No additional options will be granted under the Temco plan or the Chance Vought plan. At December 31, 1965, the Company had reserved under all plans an aggregate of 156,336 shares of common stock and 784 shares of 4½% Series A preferred stock, of which 85,910 common shares and all of the reserved preferred shares were issuable at option prices aggregating $1,189,937. Under the plans during 1965, options were granted for 3,434 shares of common stock at option prices aggregating $68,680, options for 49,795 shares of common and 636 shares of preferred were cancelled or forfeited, and options were exercised for 81,638 common shares and 3622 preferred shares at option prices aggregating $1,143,102. Unoptioned shares under the plan at December 31, 1965, aggregated 70,426 shares of common stock.

NOTE J–CAPITAL SURPLUS

	1965	1964
Balance at beginning of year	$6,381,440	$6,775,606(1)
Add (deduct*):		
Excess of par value of preferred stock over par value of common shares issued in conversion	2,220,102	2,611
Excess of option proceeds over par value of common and Series A preferred stock (in 1965) sold under option plans	993,623	237,279
Excess of par value of common stock surrendered in exchange for Series B preferred stock over the par value of the preferred shares	--	132,915
Excess of proceeds over par value of common shares sold upon exercise of warrants	87,200	--
Other capital credits	76,741	--
Excess of cost over par value of common stock acquired for treasury, less portion charged to retained earnings	1,017,331*	766,971*(1)
Balance at end of year	$8,741,775	$6,381,440(1)

(1) As restated; the entire excess of cost over par value of common stock acquired for treasury was previously charged to capital surplus.

NOTE K–COMMITMENTS AND CONTINGENCIES

A major portion of sales is subject to renegotiation and other price adjustments. Renegotiation proceedings under the Renegotiation Act of 1951 have been completed for all years through 1963, except that a refund (net of applicable federal income tax credits) of $1,003,790 was assessed for the year 1953 for which a suit for elimination has been filed in the Tax Court of the United States.

Certain governmental agencies have proposed adjustments affecting allowable costs for 1961 and subsequent years. As a consequence, the final disposition of approximately $6,830,000 of accounts and unreimbursed costs is being delayed pending settlement with the U.S. Government.

The Internal Revenue Service has proposed a tax deficiency for the 1961 year of Chance Vought Corporation (which liability was assumed by the companies as part of the acquisition cost of the Chance Vought Corporation assets) and has proposed income adjustments to the 1961 consolidated tax return of the companies which would also affect subsequent years.

The above mentioned renegotiation assessment and the proposed tax and other adjustments, in the opinion of management, are without merit and are being contested and no specific provision has been made therefor in the financial statements.

The Companies were contingently liable for customer indebtedness guarantees and/or repurchase agreements aggregating approximately $950,000 at December 31, 1965.

Substantial portions of plant facilities and machinery and equipment are leased. Leases in effect at December 31, 1965, which expire more than three years after that date require annual rental payments of approximately $3,750,000 for the next three years, and approximately $1,200,000 for the succeeding five years. In addition, the Company is lessee of office space for a period of twenty-two years ending in 1987, at an annual rental of $902,000. The Company is subleasing to others a portion of this space.

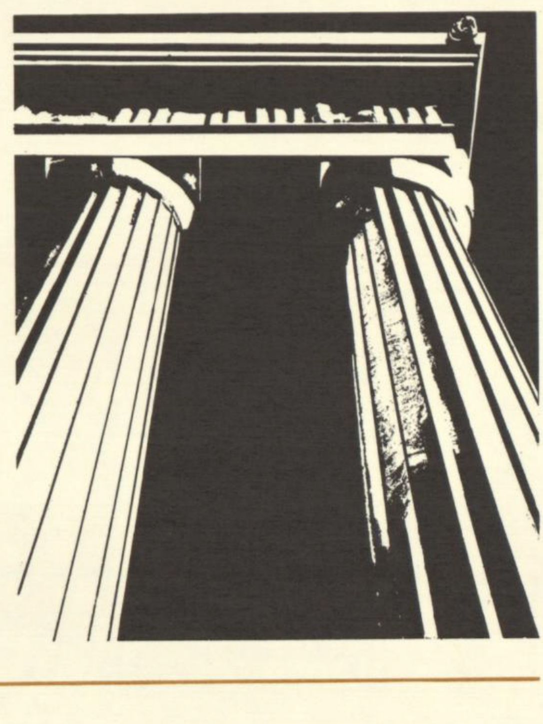
In June, 1965 the Company sold certain real property and improvements subject to an outstanding mortgage securing a promissory note having an unpaid principal balance of $2,324,531 at December 31, 1965. The Company remains liable for payment of such note in the event the purchaser of the property defaults in the payment thereof.

NOTE L–PENSION PLANS

Current and past service costs of pension plans charged to operations during the year ended December 31, 1965, totaled approximately $7,880,000.

NOTE M–SELLING, ADMINISTRATIVE AND GENERAL EXPENSES

Selling, administrative and general expenses amounted to $27,644,126 and $23,998,936, respectively, for the years ended December 31, 1965 and 1964.



TRANSFER AGENTS

Republic National Bank of Dallas, Dallas, Texas
The Chase Manhattan Bank (National Association), New York, New York
Bank of America National Trust and Savings
Association, Los Angeles, California

REGISTRARS

First National Bank in Dallas, Dallas, Texas
Bankers Trust Company, New York, New York
Texas Bank & Trust Company of Dallas, Dallas, Texas
Security First National Bank, Los Angeles, California

TRUSTEES, CONVERSION AND PAYING AGENTS

5¾% Subordinated Convertible Debentures and
5¾% Subordinated Debentures:
Bank of America National Trust and Savings
Association, Los Angeles, California

AUDITORS

Ernst & Ernst

Common and Series B Preferred Stocks and Debentures listed on the New York Stock Exchange

LTV LING-TEMCO-VOUGHT, INC.
P. O. BOX 5003 · DALLAS, TEXAS 75222

KEY TO ILLUSTRATIONS

COVER: The Parthenon.

PAGE 1: "The Charioteer"—from a painting on a Grecian Urn.

PAGE 2: Zeus, the king of gods and men.

PAGE 3: The Parthenon on the Acropolis in Athens.

PAGE 4: Athenian coin with the first three words of the Athenian peoples' name.

PAGE 4: Venus de Milo.

PAGE 5: Pericles, the leader of Athens during its greatest period.

PAGE 6: Poseidon, the god of the sea.

PAGE 7: "The Hunter"—from a painting on a Greek Vase.

PAGE 8: The Ionic Capitol.

PAGE 9: The Corinthian Capitol.

PAGE 11: Sophocles, the great Greek dramatist.

PAGE 13: Pegasus, the winged horse of the muse, the symbol for inspiration.

PAGE 15: Giustiniani Stele, woman at a small altar.

PAGE 17: Homer, the blind but inspired poet of classical Greece.

PAGE 20: Corinthian pottery with frieze decor.

PAGE 23: The Doric Column

PAGE 24: A Grecian Urn

PAGE 26: The Ionic Capitol

PAGE 27: The Corinthian Capitol

PAGE 33: The Parthenon

BACK INSIDE COVER: The Winged Nike, a symbol of victory erected by the Greeks to commemorate their freedom.