Ling-Temco-Vought, Inc. Annual Report 1966

on building lasting values—through innovation

Message to Readers

It is our hope that the theme of this Annual Report will be of special interest to today's college students. Few areas of human endeavor offer so much opportunity for constructive innovation as does the modern business scene. Yet business has failed in an important way to get across its story to the young people who will make up tomorrow's leadership. Today's enlightened business man is concerned with all areas involving the fabric of life: human relations, political action, many of the arts, economics, international affairs, technology and science, religion, sociology and welfare. He is very close to the heartbeat of society and a much-involved participant in moulding a better world. To the degree that he is an innovator, he stands also as a constant challenge to the status quo and as an exponent of constructive change.

Special Note: Please forward your Annual Report to a student when you no longer need it.

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Preface . . .

Innovation is the engine of change. And, since it is a way of life at LTV, we have made it the theme of our Annual Report for 1966.

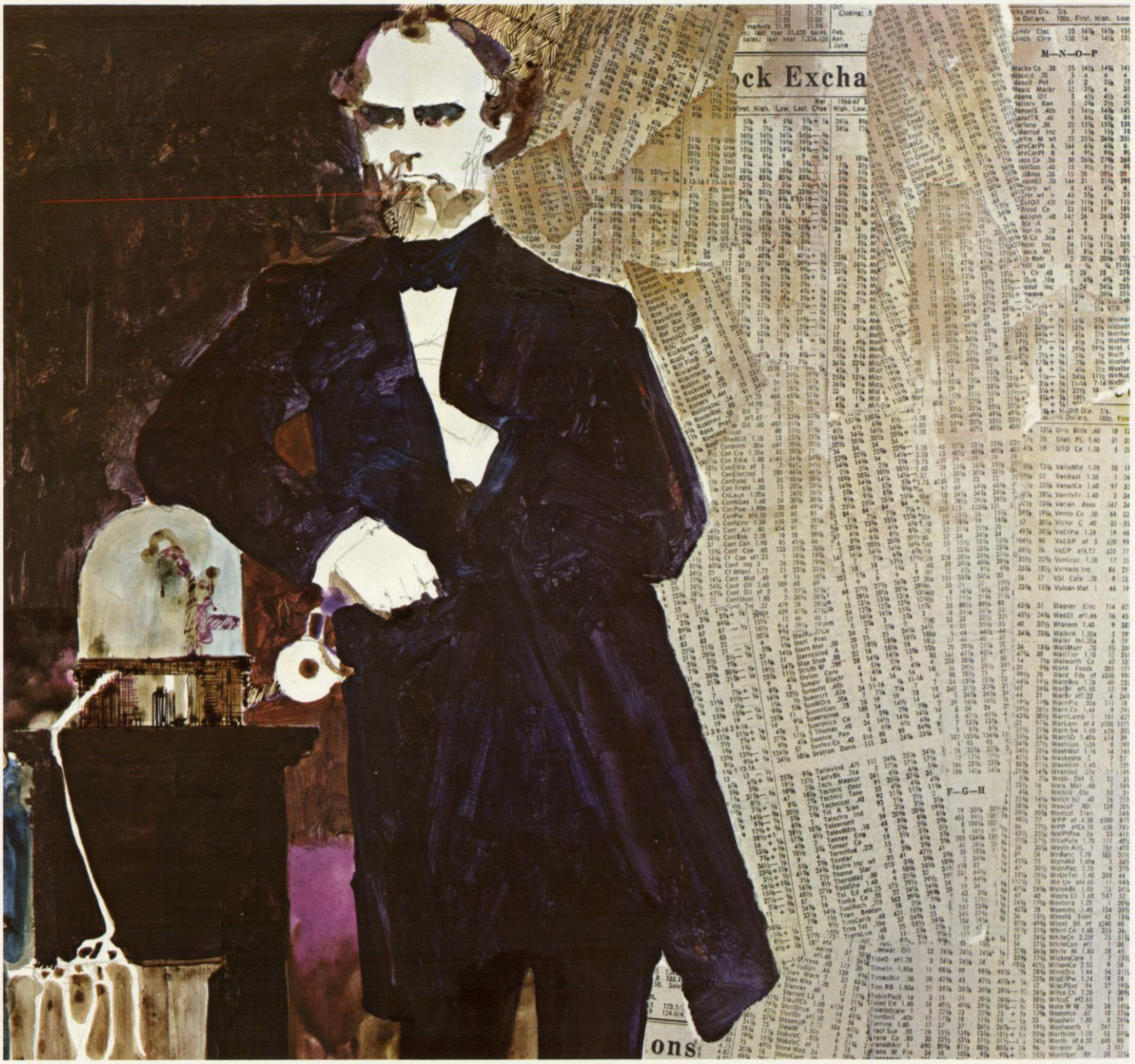
In the introductory essay, beginning on page 9, we present the observations of two distinguished thinkers on the concept of innovation and its significance for society and the world of business.

Further, to illustrate the theme in a larger context, we have selected several great innovators who made their mark on Western Civilization and who came from varied walks of life. The contributions of some have been enormous, of others more modest.

Their selection was necessarily arbitrary. Obviously, many who deserve a place in this gallery were left out for reasons of space. The ones chosen, however, represent, in our view, the main point of our theme: that without innovation, business — even civilization itself — remains static and stripped of the necessary vitality of renewal.

We salute the innovators of history — along with the contemporary conceivers and doers who are not afraid to turn down untrod paths or to apply tested formulas to untried situations.

Henry Varnum Poor



(1812-1905) Analysis, shareholder information and a new ethics for big business

From his vantage point as an editor, Henry Varnum Poor was one of the first to understand and record the multitude of problems involved in financing and managing large-scale industry. Through his editorials in the *American Railroad Journal,* he constantly campaigned for solvency and growth through sound, professional management and informed, responsible investors.

Because he pioneered much of the rationale and the methods of gathering, interpreting and publishing comprehensive analyses of publicly owned businesses, Poor was one of the prime motivators behind what we know today as the "Corporate Annual Report."

As an eyewitness during the growth years of America's first complex industrial establishment, the railroads, Poor saw an unprecedented situation develop: the emergence of an investor class and a managerial class. Unfortunately, investors had little time or inclination to learn the operating details of the industries in which they invested, and management lacked the incentives of ownership.

Poor believed this system was the most practical for underwriting large business ventures. But management had a moral responsibility to keep shareholders adequately informed. He advocated a policy of accountability and full disclosure to enable owners of businesses to intelligently direct the future of their investment. With this in mind he began publishing a yearly *Manual of the Railroads of the United States* — forerunner of today's Standard and Poor manuals and a heavy influence on similar investor service publications.

To Our Shareholders:

Record operating results in most categories and truly significant improvements in financial indices were among the achievements of 1966. We will list these calendar-related marks, then go into factors which made them possible, and review significant goals for the future.

On a consolidated basis, our 1966 sales, not including Wilson & Co., Inc., were approximately $468 million, or 39% more than 1965's $336 million. Net income, after taxes and minority interests, was approximately $13.7 million, or 129% higher than the $6 million reported for 1965. Earnings per common share, after full service of the preferred stock, were $6.51 on the 1,936,088 shares outstanding at year's end, or 126% higher than the $2.88 on 1,764,610 shares a year earlier. On the average number of shares outstanding during 1966 — 2,090,335 — earnings were $6.03, or 115% higher than the $2.81 on the 1965 average of 1,807,389.

Significant improvement in the company's financial posture accompanied the increases in operating results. On a consolidated basis, working capital increased to $74 million, more than three times the amount available at the beginning of the year. Net worth increased $28 million, or 93%, to $59 million.

Much of this progress is the result of our investments in research and development in past years, leading to significant internal growth which is expected to continue at a substantial rate. Consolidating the sales and earnings of The Okonite Company, acquired in 1965, for the full year also was a major factor and greatly increased the ratio of commercial to government business.

Diversification – Year 1966

Missiles and space, accounting for 28% of sales, was the largest segment of LTV's business during 1966, followed by electronics, 26%; aeronautics, 24%; electrical cable, 19%, and all other, 3%. Sales were 27% commercial and 73% government — although commercial business contributed approximately 50% of 1966 profits. Variety of government customers remained a strong point of LTV's "3-D" diversification, with 33% of government sales going to the Air Force, 33% to the Navy, 18% to the Army, 14% to NASA and 2% to other government agencies.

A frequent question is "What will happen to the aerospace industry if the conflict ends in Vietnam?" We have studied this possibility and believe only a minimal percentage of anticipated 1967-68 LTV sales base could be affected by such an eventuality, because a very small proportion of our business is directly oriented to Vietnam. The A-7 Corsair II close-support light attack bomber was designed before the Southeast Asia fighting became a major military involvement, was planned as a logical answer to an armed forces need, and, while it will be extremely useful in Vietnam, is not dependent upon the continued conflict there. Our studies, too, indicate that space programs and other developments temporarily delayed by Vietnam budgetary limitations would be accelerated if the conflict ends.

Highlights

	1966	1965	Percent Increase
Net sales	**$468,251,000**	$336,206,000	**39**
Earnings before taxes and minority interest	**30,327,000**	11,533,000	**163**
Net earnings	**13,683,000**	5,984,000	**129**
Earnings per share of common stock — at year end	**6.51**	2.88	**126**
Cash dividends paid per share of common stock	**1.00**	.50	**100**
Research and development expenditures	**16,136,000**	13,198,000	**22**
Working capital	**73,986,000**	21,616,000	**242**
Shareholders' equity	**58,906,000**	30,534,000	**93**
Common shares outstanding — at year end	**1,936,088**	1,764,610	**10**

Corporate technology

To define the dynamics of LTV's approach to management, we have applied the term, "Corporate Technology." Stated simply, it is the management philosophy that injects the element of innovation into all of our financial considerations, and stresses *growth* in *earnings per equity share* as an essential aspect of the decision-making process.

These are the touchstones of Corporate Technology, the basic guidelines for LTV management *action* as well as philosophy.

The clearest demonstration of this principle in action may be seen in Project Redeployment, implemented in early 1965 through the public offering of an interest in three subsidiaries of LTV. Each of the new companies was a going business with product and customer identities, successful operating management and outstanding technical competence. Strong incentives to subsidiary managements were provided for above standard performance, and, during the intervening period, LTV substantially strengthened the financial postures of the subsidiaries with short-term working capital funds, long-term debt and equity financing.

As demonstrated in Project Redeployment, Corporate Technology calls for the application of initiative and ingenuity to interrelated (and simultaneously employed) techniques of analysis and planning to achieve the optimum profitability in the use of underlying operating assets and other resources of LTV. It calls for the development of new approaches to corporate debt capacity and the expansion of current concepts and applications of leverage. In short, it attempts to be financially innovative and constructive in its actions.

The keystone of this LTV management philosophy — to which financial innovation is the corollary action — is dedication to the building of lasting and increasing value for the shareholders. We recognize that all forms of corporate securities and resources should be utilized in the acquisition of operating assets and earnings ability. However, we also recognize the greater import of our responsibility to you as owners of LTV to minimize the dilution in the acquisition of these factors. We desire to grow, but only in the true sense of growth — that which is measured in earnings, and, therefore, value per equity share. One aspect of this growth philosophy is the obvious one of acquisition in which the use of equity shares is limited. Another aspect, less apparent, is that of financial management or discipline requiring the plowing back of a substantial portion of our earnings and working capital into facilities and research and development programs designed to keep LTV in the forefront of progress for the foreseeable future.

Subsidiary performances

Each of the four subsidiaries reported record sales and earnings for 1966. Backlogs of orders, new product developments and construction of new and modern facilities show promise of continued progress during 1967 and beyond.

The Okonite Company, even while operating in a copper shortage environment, surpassed expectations in the electrical cable industry. Okonite's performance again proved what a management motivating factor is Project Redeployment, with its concept of optimum decentralization, public ownership, and awards based upon actual performance.

LTV Aerospace Corporation moved into the production phase of its largest program, the Navy A-7 Corsair II light attack aircraft, designed to provide close tactical support for ground troops. A highlight of the year was the Air Force decision to buy a version of this aircraft, called the A-7D, equipped with the Rolls Royce Spey engine. In the fourth quarter of the year, LTV Aerospace combined complementary skills and programs of two existing divisions into a single new Missiles & Space Division, preparing for increased efforts in this field. The Lance missile, scheduled for the Army battlefield, moved steadily toward its production phase, and progress was made on vertical takeoff and

landing aircraft, launch vehicles and other major programs. The two Aerospace service organizations — Range Systems and Kentron Hawaii — also recorded growth in 1966.

LTV Electrosystems, Inc., continued to broaden the markets for its many electronics and communications systems and products, enabling this subsidiary to again register a substantial growth in sales over 1965.

LTV Ling Altec, Inc., also pushed to new highs in sound equipment fields, adjusting to the state of flux in its marketing and supplier environments. Marketing of electronic equipment for the communications field, under the Altec, University, Gonset and DuMont names, was satisfactory, complementing the sales of vibration test equipment and other sophisticated electronics systems under the Ling and Calidyne names.

Wilson & Co.

In January, 1967, LTV acquired approximately 53% of the outstanding common stock of Wilson & Co., Inc., a large, diversified business operating on an international scale with an excellent management.

We see Wilson as an excellent diversification move for LTV. We believe the company is one of the best in the meat and food-processing industry, where it ranks as third largest. Its wholly owned sporting goods subsidiary is the largest company of its type in the world. Additionally, the company has important interests in the pharmaceuticals-industrial chemicals industry.

The Wilson & Co. purchase places LTV in the commercial and consumer industry as a primary producer, with growth expected to at least parallel the population explosion. It does not detract from our interests in the electronics and aerospace fields, which have grown considerably in 1966 and which will expand further in 1967 and in the future.

The purchase of a controlling interest in Wilson was a major investment by LTV, totaling more than $81 million. The majority of financing was by Eurodollars — American dollars in the hands of foreign banks — and the LTV-Wilson financing marked, to our knowledge, the greatest single return of Eurodollars to this country. We were supported in this purchase by approximately 18 European banks and a substantial number of major institutions in the United States.

A key factor in the purchase was the success of our Project Redeployment, which gave public recognition to the financial worth of our assets as measured by LTV's holdings in the marketable securities of our subsidiaries.

Customers, suppliers and employees

The progress made in 1966 was achieved largely because of the strong support that continued to come from our customers, suppliers, and the thousands of dedicated individuals employed by LTV. They have our sincerest appreciation for their contributions during the year.

Looking ahead

It is a governing principle of business with LTV to keep our shareholders informed as to future possibilities for growth, while at the same time clearly stressing that these could be changed by economic and other factors beyond our ability to foresee or control.

This is especially important this year, because of the internal growth factors in our present programs, and the acquisition of new interests such as Wilson, which will have a major effect upon 1967 sales and earnings.

The anticipated merger of Memcor, Inc., into LTV Electrosystems, Inc., will provide this subsidiary with new markets and new capabilities in the high-production-rate area of communications and additional fields of both military and commercial electronics, as well as contributing to LTV Electrosystems sales and earnings. Shareholders of both Memcor and LTV Electrosystems are expected to

approve the merger on March 17, 1967.

It also is anticipated that Okonite will be able to go ahead with its pending acquisition of Rome Cable Corporation. However, the U. S. Department of Justice as yet has not announced whether it will appeal the decision of the Federal Court approving the proposed acquisition.

Assuming the acquisition of Memcor and Rome and on the basis of our best possible projections considering business on hand and continued follow-ons of reasonably anticipated military business, and the Wilson & Co. sales in diversified industries, we can reasonably expect for 1967:

- A sales increase to the $1.6-$1.8 billion range.
- Net income increasing to the $24-$27 million range, excluding minority interests in Wilson & Co. and the other subsidiaries, and anticipating that the earnings rates on the various segments of total sales will be no less than those experienced in 1966.
- Earnings per common share increasing to the $10.50-$13.50 range, depending on the number of common shares outstanding as a result of conversions of convertible debentures and preferred stock which may be made during the year.

In 1968, with the same qualifications, sales should increase to the $2 billion range, and a suitable improving ratio of profit on these sales is a priority goal.

Today's diversification

The complexion of LTV sales will completely change in 1967 — a majority falling into the commercial and consumer bracket, even though the dollar amount of government sales should increase significantly.

During 1967, then, LTV's consolidated sales ratio will invert from the 1966 ratio and become approximately 70% commercial and 30% government.

The extent of diversification in today's LTV can best be illustrated by a projection of 1967 sales, including Wilson & Co.'s meat and food products, sporting goods and pharmaceuticals-industrial chemicals sales, added to our electronics and aerospace growth. Again inclusive of Memcor and Rome, these 1967 projections are:

Type of Sales	% of total, 1967
Meat and Food Products	53%
Aeronautics	13
Electronics	10
Electrical Cable	9
Missiles and Space	7
Athletic Goods	5
Industrial Chemicals	2
Other	1
Total	100%

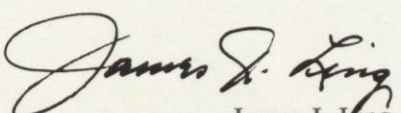
Innovation

Although it might seem self-serving to base the growth of LTV upon management innovation — as many other factors are involved — we believe our Corporate Technology philosophy was the springboard and catalyst for the major portion of growth.

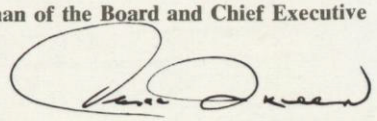
In 1966, Fortune Magazine listed LTV as the fastest grower in sales of the top 500 U.S. companies in the 1955-1965 decade. LTV now is moving into the top 50 companies on the basis of projected 1967 sales. We are dedicated to the goals that are making that growth possible.

In closing, we invite your attention to Page 9 and the essay on the importance of innovation — the theme of our 1966 Annual Report, the key to the success of the American system of business and the keystone of LTV's philosophy of management.

March 14, 1967



James J. Ling
Chairman of the Board and Chief Executive

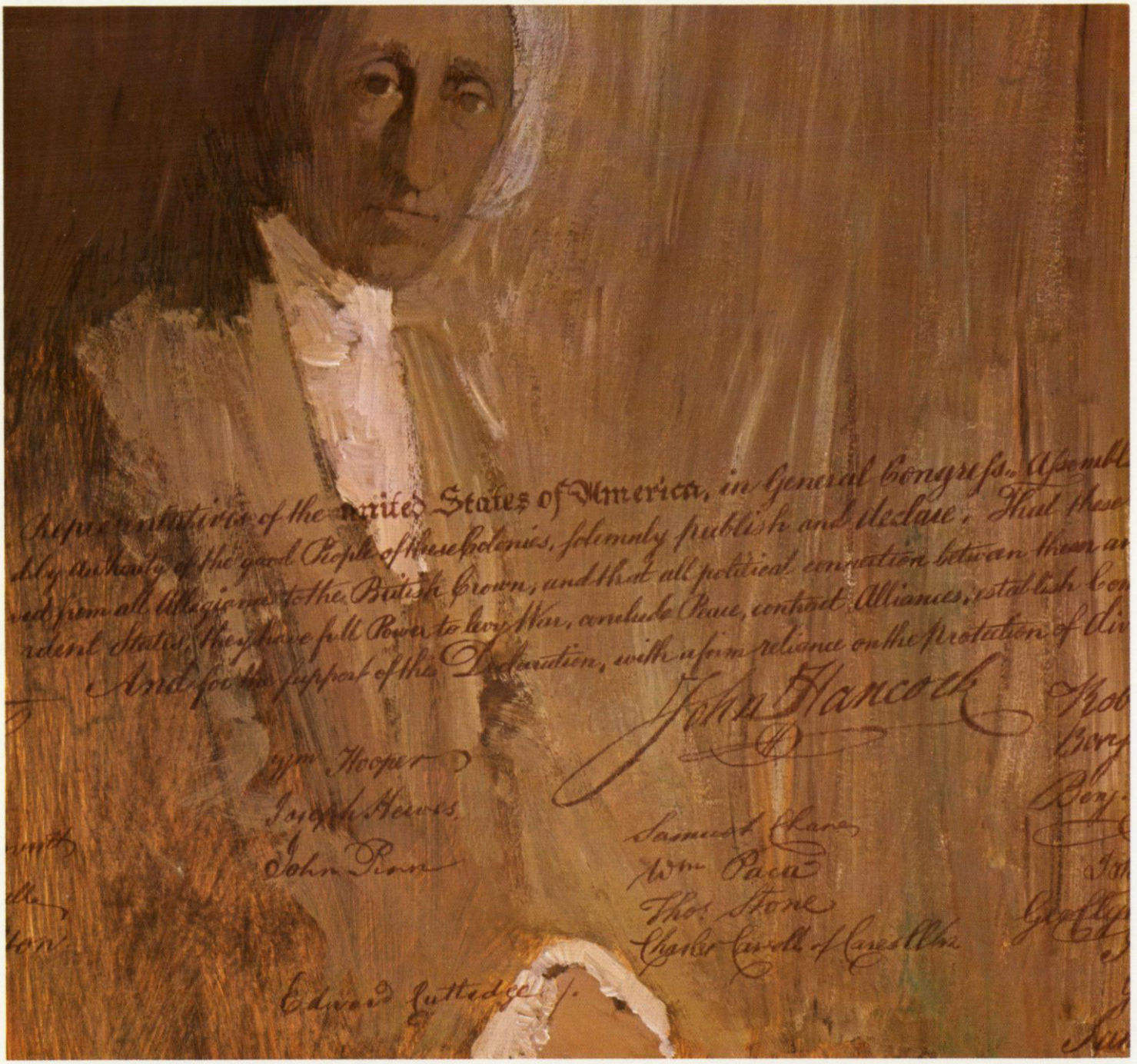


Clyde Skeen
President

Clyde Skeen

James J. Ling

John Locke



(1632-1704) Father of modern democratic thought

Prior to the eighteenth century, almost all political theorists assumed without serious argument that orderly life in society required some to govern and the vast majority to be governed. Unless men surrendered their freedom to a sovereign, life would be poor, nasty, brutish and short.

But John Locke caught a different vision. He believed that government was indeed necessary, that without it there could be no security of life and property, and hence no meaningful freedom. He believed governments exist *for the sake of* the governed, and must be held to this purpose. He insisted that only the governed themselves were qualified to pass judgment upon leaders entrusted with the responsibility of government.

Locke's great contribution to political theory was his demonstration that this is possible, that democracy need not mean anarchy, that particular governments can be called to account without destroying government itself.

A familiar notion? Not to most men today, and to hardly anyone in Locke's time. His *Two Treatises on Government* were grounded in a vision. But they came to fruition in the American Declaration of Independence and Constitution. And they still stir man's hope and steel his resolve in every quarter of the globe.

Innovation, The Engine of Change . . . an Essay

Few popular assumptions are more misleading than the notion that conservatism and innovation are opposed to one another. Edmund Burke, one of the first to define a philosophy of political conservatism, observed that "a state without the means of some change is without the means of its conservation." In a world of rapid and often unpredictable change, no organization can survive and prosper without some capacity for innovation.

Every system of human organization faces two major challenges: Preservation of order. Encouragement of change. Conservatism can prevent change from creating chaos; innovation may assure that order will not lead to stagnation.

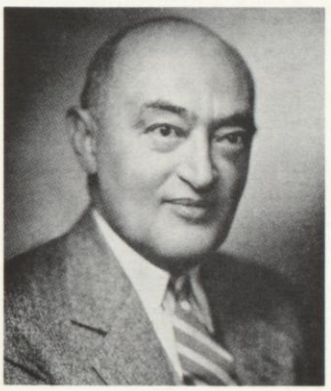
The people of the United States have preserved order and adopted innovation with a success so extraordinary that many citizens, unfortunately, have begun to take it for granted. They have lost the capacity to be astonished by the achievements in the arts and sciences, in industry and commerce, by politicians and educators, by institutions and individuals. The danger is that they also will lose sight of the underlying forces, the personal and group attitudes which have made it possible for individualistic innovators to ignore tradition and precedent in the search for "a better way."

The 1966 Annual Report of Ling-Temco-Vought, Inc., in taking innovation as its theme, pays special tribute to a diverse but representative selection of innovators, from antiquity till today.

The inspiration for this theme came in large part from the writings of Alfred North Whitehead and Joseph Schumpeter, two scholars — one a philosopher, the other an economist — who understood in an exceptional way the importance of innovation. Their ideas seem particularly relevant for an understanding of the dynamic American economy and the innovating role of the business man in society.

Schumpeter once wrote: "What our time needs most and lacks most is the understanding of the [capitalist] process which people are passionately resolved to control."[1] Schumpeter also suggested how important the understanding of this process could be: "Not only the modern mechanized plant and the volume of the output that pours forth from it, not only modern technology and economic organization, but all the features and achievements of modern civilization are, directly or indirectly, the products of the capitalist process."[2]

Schumpeter once vividly described a portion of the capitalist process as "Creative Destruction:"



Joseph A. Schumpeter (1883-1950), born and educated in Austria, taught at universities throughout Europe, and was professor of economics at Harvard from 1932 until his death. Throughout his career he was interested in capitalism as a dynamic system. The strategic role in his economic theory was assigned to the entrepreneur, and innovation was for him the essential feature of capitalism.

". . . the history of the productive apparatus of a typical farm, from the beginnings of the rationalization of crop rotation, plowing and fattening to the mechanized thing of today — linking up with elevators and railroads — is a history of revolutions. So is the history of the productive apparatus of the iron and steel industry from the charcoal furnace to our own type of furnace, or the history of the apparatus of power production from the overshot water wheel to the modern power plant, or the history of transportation from the mail-coach to the airplane. The opening of new markets, foreign or domestic, and the organizational development from the craft shop and factory to such concerns as U. S. Steel illustrate the same process of industrial mutation — if I may use that biological term — that incessantly revolutionizes the economic structure *from within*, incessantly destroying the old one, incessantly creating a new one. This process of Creative Destruction is the essential fact about capitalism. It is what capitalism consists in and what every capitalist concern has got to live in."[3]

The ordering element in the American economy is the free market pricing system, often described as one of the greatest inventions of civilization. Because the market is able to organize and coordinate millions of individual decisions without controlling the decision-makers, it contains its own engine of change. Within a framework of order, there remains enormous freedom to explore new possibilities, to

1 From *Business Cycles*, by Joseph A. Schumpeter, Vol. I, p. vi. With permission of McGraw-Hill Book Co. copyright 1939.

2 From *Capitalism, Socialism and Democracy*, by Joseph A. Schumpeter, p. 125.

3 *Ibid.*, p. 83. Both quotations reproduced with permission of Harper Row, Publishers Inc., copyright 1950.

initiate novel actions, to adapt to a continually changing environment — to innovate.

While this system of social and economic organization has achieved its most striking success in the United States, it is not an American discovery. Its roots reach back into the Old World; and its fundamental ideas are part of America's European heritage. Whitehead and Schumpeter both were born and educated in Europe, but spent their later years in the United States. Cited here because they uniquely appreciated the importance of innovation, novelty, and creative adventure, they also stand as symbols of America's intellectual debt to Europe.

Long a truism in economics, accepted without argument, was the idea that land, labor, and capital were the sources of all wealth. One of the first economic thinkers to question this concept was Richard Cantillon, a Paris banker of Irish extraction and English citizenship. In his *Essai sur la nature du commerce in general,* written around 1730, Cantillon called attention to another indispensable agent in the creation of wealth. He called this agent *l'entrepreneur* — and added a word to the English language.

The entrepreneur is the business man who senses a new possibility and takes the risk of making it a reality — who innovates. As the initiating and reorganizing factor in the economic environment, he turns invention into innovation. As Schumpeter once observed: "Innovation is the outstanding fact in the economic history of capitalist society."

But innovation is continually resisted, frequently in the name of conservatism. Whitehead suggested that people are conditioned by social folkways and *mores* to resist innovation, but that this conditioning is largely inappropriate to the world as it really is:

". . . Our sociological theories, our political philosophy, our practical maxims of business, our political economy, and our doctrines of education, are derived from an unbroken tradition of great thinkers and of practical examples, from the age of Plato in the fifth century before Christ to the end of the last century. The whole of this tradition is warped by the vicious assumption that each generation will substantially live amid the conditions governing the lives of its fathers and will transmit those conditions to mold with equal force the lives of its children. We are living in the first period of human history for which this assumption is false . . .This assumption . . . is at the basis of our conception of the reliable businessman, who has mastered a technique and never looks beyond his contracted horizon. It colors our political philosophy and our educational theory, with their overwhelming emphasis on past experience . . . The point is that in the past the time-span of important change was considerably longer than that of a single human life. Thus mankind was trained to adapt itself to fixed conditions.

"Today this time-span is considerably shorter than that of human life, and accordingly our training must prepare individuals to face a novelty of conditions . . . We require such an understanding of the present conditions, as may give us some grasp of the novelty which is about to produce a measurable influence on the immediate future."[4]

Innovation for Whitehead was more than a factor in economics. He once observed in conversation:

Alfred North Whitehead (1861-1947), born and educated in England, achieved distinction as both a mathematician and a philosopher. He came to the United States in 1924, taught at Harvard until he retired in his late seventies.

One of the most influential thinkers of this century, Whitehead was renowned particularly for his vivid demonstrations that "creative advance into novelty" is a dominant reality of life.

"I wish I could convey this sense I have of the infinity of the possibilities that confront humanity — the limitless variations of choice, the possibilities of novel and untried combinations, the happy turns of experiment, the endless horizons opening out. As long as we experiment, as long as we keep this possibility of progressiveness, we and our societies are alive; when we lose them, both we and our societies are dead, no matter how externally active we and they may be, no matter how materially prosperous they and we may appear. And nothing is easier to lose than this element of novelty."[5]

Whitehead was convinced that innovation is as necessary for an entire society as for business firms and individual men:

"A race preserves its vigor so long as it harbours a real contrast between what has been and what may be; and so long as it is nerved by the vigor to adventure beyond the safeties of the past. Without adventure, civilization is in full decay."[6]

4 From *Adventures of Ideas,* by Alfred North Whitehead, pp. 117-118.

5 From *Dialogues of Alfred North Whitehead,* p. 163, copyright 1954, by Lucien Price, with permission of Atlantic-Little, Brown & Company.

6 From *Adventures of Ideas,* by Alfred North Whitehead, p. 360. Quotations from *Adventures of Ideas* reprinted with permission of the Macmillan Company, copyright 1933; copyright renewed 1961 by Evelyn Whitehead.

Ben Franklin

(1706-1790) The American personality

Since his passing, Ben Franklin has become less a man, more a symbol. He smiles at us benignly from postage stamps, half-dollars, trademarks and a venerable magazine. Square-rimmed "Ben Franklin" glasses were a recent fashion among teenagers. The very memory of Franklin summons up warmth, humor, gregariousness, intelligence, order. We remember him as both an idealist and an acutely shrewd and practical Yankee.

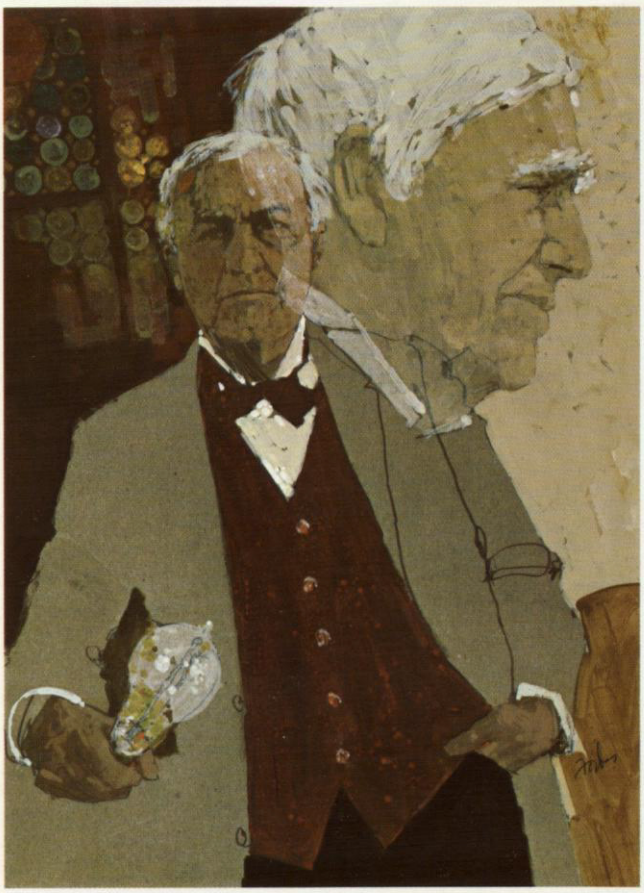
Why? What did he do to earn immortality?

No single answer will do. No single accomplishment dominates his life. He had a dozen vocations and excelled in all of them.

Woven through his occupations as printer, journalist, colonial public servant, and minister to France is Franklin the satirist, the revolutionary and the man of learning. The inventor who devised bifocals, the smokeless stove, lightning rods and electrical gadgets was also the persuasive diplomat who negotiated peace treaties with the Indians, championed the colonies in the English Parliament and sold America to the older nations of Europe. Out of Franklin-founded institutions have grown the American Philosophical Society, the University of Pennsylvania, the postal system, fire insurance companies and municipal fire departments, to name a few.

Perhaps Ben Franklin's own character was his greatest innovation. In his image he created a unique personality for America.

Thomas Alva Edison



(1847-1931) The indispensable man

Born into poverty, only three months of formal education, almost deaf through most of his life — Thomas Edison overcame it all to become one of the most prolific inventors in history and a central figure in the technological revolutions of the late nineteenth and early twentieth centuries.

Half tinkerer, half scientist, Edison was the match-maker who introduced formal research to business and served as best man at their marriage.

Hundreds of products and entire new industries exist today as testimonials to his innovating genius.

The first full year of operations as a subsidiary of Ling-Temco-Vought, Inc., probably was the most significant year in the 89-year history of The Okonite Company. Operating results were all records. The volume of new orders passed the $100-million-mark before the end of the year, compared to $86 million in 1965. Facility expansion and improvement programs raised production capacities to new highs. Cost-reduction efforts achieved new parameters in profit capabilities. Employee relations activities reached areas of greater understanding.

Many factors acted together to bring about such a year. First was the inspiration of LTV's "Project Redeployment," which enabled the new Okonite to emerge and progress toward the full realization of its potential. Then the logical "Corporate Technology" extension of the concept of deploying assets and other resources to maximize profitability clearly demanded the public sale of Okonite securities, resulting in further strengthening of the company's financial posture — and in additional incentives to management on all levels. Combining with these factors and the facility, cost-reduction and productivity programs was the dynamic energy of the national economy in 1966 and the resulting continued increases in demand for cable and related products keyed by industrial and utility construction programs.

Marketing gains

Clear evidence of the inspiration of "Project Redeployment" and the incentives of public ownership was provided by Okonite's ability to react to and aggressively take advantage of the improved marketing environment. Okonite carefully selected certain elements of the overall market and concentrated on specific and astutely identified types of wire and cable users. In addition, several new and important product lines were developed and introduced in 1966, with pilot tests made in the field. Each of these new product lines showed the potential for substantial gains.

Okonite's ability to provide improved customer service while at the same time realizing cost-reduction savings also was most impressive in 1966. Each of the four East Coast plants recorded a shipping volume which was the highest in its history, and this was accomplished while achieving records in cost-reduction savings at no expense in quality.

Operating results

Sales for 1966 increased 32% over 1965 to $90,252,000 from $68,453,000 in 1965, and net income after taxes of $7,715,000 was approximately 330% higher than the best pro forma estimates for net income in 1965. After allowing for preferred dividends, 1966 income was equal to $2.87 per share on the average number of common and Class B common shares outstanding during the year.

Sales for 1966 also were 67% higher than the average for the previous five years. Income before taxes amounted to 15.8% on sales compared to a previous mark of approximately 5%. Net income amounted to 8.5% on sales.

In June, 500,000 shares of Okonite common stock were sold publicly, and the net proceeds after expenses amounted to $7,815,000. Traded initially on the over-the-

More than two dozen varieties of Okonite electrical cable are depicted in this photograph which suggests the wide range of technology required to develop and produce a broad line of products in this single field. Also suggested are the many separate processes — each of them adding value — that raw copper bar and wire pass through on their way to the ultimate user.

counter market, the stock later was listed on the American Stock Exchange, where trading began on July 25.

In the half-year period following the public sale of stock, cash dividends totaling 50¢ per share were paid. On December 6, the Board of Directors declared the third quarterly dividend of 25¢ per share which was paid on January 30, 1967.

Shareholders' equity increased from $4,307,000 on December 31, 1965, to $24,982,000, on December 31, 1966. This increase of $20,675,000 resulted chiefly from net income of $7,715,000, the $7,815,000 net proceeds of the public stock sale, and $5,500,000 of additional capital contributed by the parent corporation, LTV.

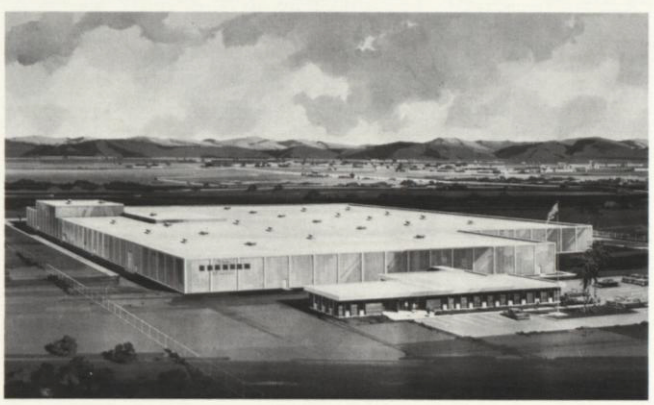
Working capital increased by $11,273,000 during the year.

Facilities

Feature of the long-range program of internal expansion undertaken in 1966 is the construction of a new $10 million plant in Santa Maria, California. With construction moving ahead on schedule, this new plant will further expand Okonite's capacity for manufacturing insulated power and control cable and "Okoclad" pre-assembled wiring systems. Additionally, the California location will enable the Company to provide better service to the rapidly expanding utility and industrial markets in the West. The Santa Maria plant is expected to be in operation during the first quarter of 1968. More than $5.7 million was expended during 1966 on plant and equipment additions and modernization at Okonite's four existing East Coast plants, the primary emphasis being on production machinery. Over the past five years, approximately $21 million has been invested in plant and equipment, with some $17 million expended on production machinery and related equipment.

Research and development

Okonite continued to be a leader in the scientific area of the cable industry. Facilities were expanded and improved, new equipment was added and many new projects undertaken. Overall the total research effort was increased substantially.



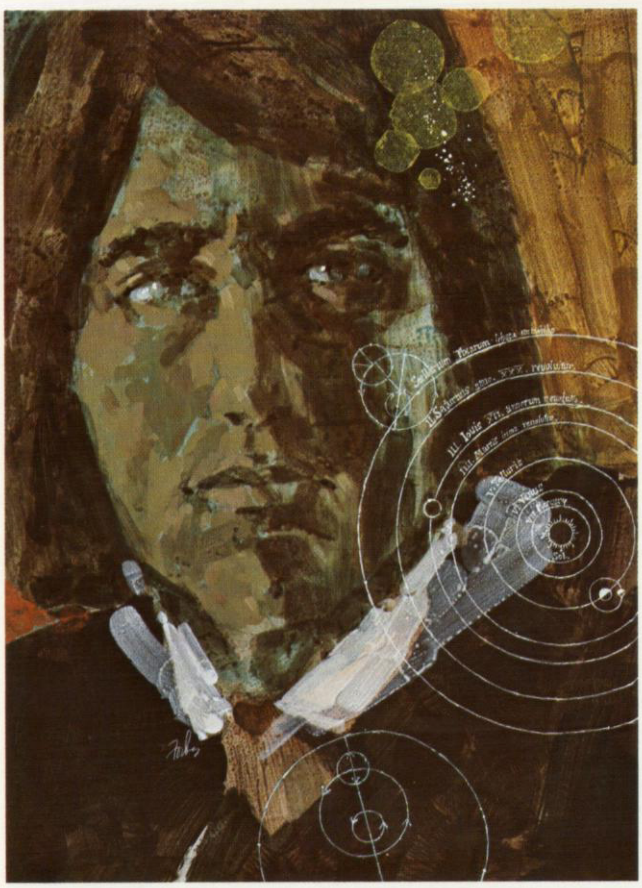
Okonite's new plant in Santa Maria, California, shown here, will be the most modern in the cable industry, providing at an investment of some $10 million the production facilities that will enable the Company to be more competitive on the West Coast and, by adding substantially to overall capacity, throughout the entire nation.

Outlook

The outlook for 1967 and subsequent years is promising. Building upon the record results of 1966, Okonite is in a strong position to grow and expand, both internally and externally.

The Company is looking forward to the completion of its acquisition of Rome Cable Corporation of Rome, New York. As a result of the ruling on December 21 by Judge Brennan of the Federal District Court, Utica, New York, Okonite was able to continue negotiations for the purchase of Rome from the Aluminum Company of America, following the divestiture decision of the U. S. Supreme Court. The court's decision is subject to possible appeal by the Justice Department. The acquisition would result in the adding of important product lines and the opening of new avenues for sales in markets not presently being actively cultivated by Okonite.

Nicholas Copernicus



(1473-1543) He stopped the sun and set the earth in motion

To scientists before Copernicus, it was "obvious" that the sun moved and the earth stood still, and that the science of astronomy had to be based upon this postulate. But with the passage of the years and the accumulation of evidence, the laws of astronomy were crumbling into disorder. The principles by which astronomers explained the movements of the heavenly bodies were contradicted by the movements themselves.

Copernicus restored order by a radical innovation. He denied the "obvious" and changed the fundamental point of view. And the universe again sprang to order — inaugurating the age of modern science.

While increasing sales 18%, LTV Aerospace Corporation also improved its net-income-per-sales-dollar ratio by 36%, to 2.51% from 1.85% in 1965.

Based on current government procurement plans and contracts already in being, LTV Aerospace's growth is expected to continue at a rather rapid rate over the next three to five years.

Major programs progress

A significant portion of the anticipated growth can be attributed to the A-7 light attack aircraft program which achieved tremendous progress during 1966 and entered its rapidly accelerating production phase. Schedules and contract specifications were met, and certain delays were overcome, particularly in the delivery of vendor-furnished equipment. Most gratifying to the Navy, as well as to the subsidiary and Ling-Temco-Vought, was the early and highly successful performance of the A-7. Early flight test results contributed to the Air Force's decision authorizing LTV Aerospace to purchase long-lead-time items and to engineer the A-7D aircraft; the original letter contract indicated an initial Air Force "buy" of 367 aircraft.

Although the company and its predecessor organizations have been building military aircraft for 50 years, this is the first multi-service aircraft to be purchased in large quantities. The A-7's operational capabilities meet the requirements of the types of conflict in which the United States has become involved several times.

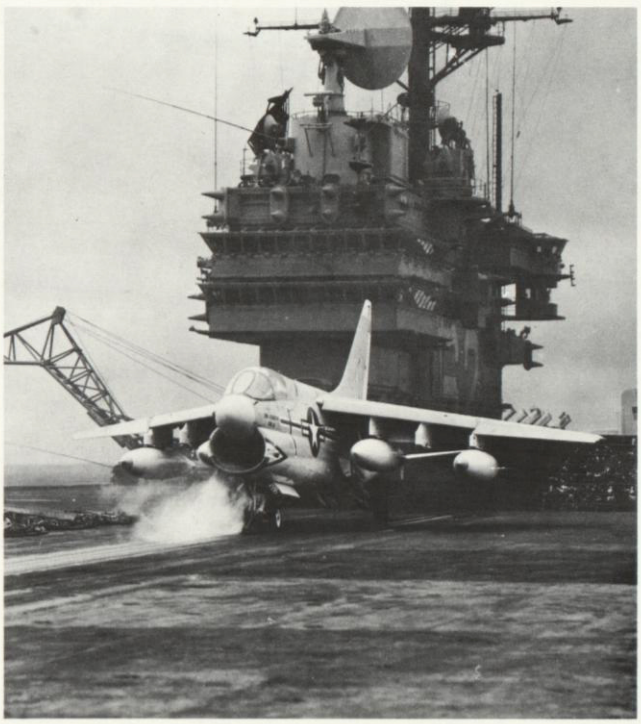
The Lance battlefield missile program also progressed steadily through the test phase toward the production phase in 1966 and will contribute to the anticipated sales increase.

Still being tested is the M-561 all-terrain military truck program which is expected to go into production only after a hotly competitive bidding exercise in which LTV Aerospace is competing with the auto industry.

The Scout rocket launch vehicle program continued to be the company's mainstay in a highly diversified space enterprise, improving its reliability record significantly during 1966 and providing the base, with new contracts at the outset of 1967, for expanded space operations by the company in this and later years.

New division formed

Because the technologies involved are so closely akin, all of the company's missile and space operations — embracing business formerly performed by the LTV Michigan, LTV Astronautics and LTV Vought Aeronautics Divisions — were combined during the fourth quarter of the year. The result was a new division — Missiles and Space — which will be headquartered in Dallas and also will include the entire Michigan facility and all of its personnel. The Michigan and Astronautics Divisions thus were merged into one, and the Vought Aeronautics Division enabled to concentrate on its growing aircraft business. One goal of Aeronautics is to improve its ratio of commercial business, compared to government business, and significant progress was achieved in this area during 1966 with the winning of a major subcontract on the 490-passenger Boeing 747 airliner. The Boeing Company also named the Vought Aeronautics Division of LTV Aerospace as a major subcontractor on the SST (supersonic transport) program. The Range Systems Division and Kentron Hawaii, Ltd., sub-



sidiary also reported increases in sales and penetration of new service areas during 1966.

Facilities expansion

Formation of the Missiles and Space Division and current in-house growth prospects have led to the planning of a new 900,000-square-foot facility for MSD in the Dallas suburban area. This facility is to be occupied later this year. The growth experienced in 1966 and anticipated for 1967 and later years required a considerable effort in facility improvement and expansion, including a new engineering building for the Vought Aeronautics Division.

The 1967 capital investment budget requires the commitment of approximately $40 million to be expended over the next two years. Half of this will improve present properties and enable the construction of the new Missiles & Space facility. The balance will add new factory equipment, engineering laboratory and test equipment for an expanding level of business.

Financial improvements

The financial strength required to support these investments and provide the other operating ingredients required by the anticipated growth in sales and income over the next few years was largely provided in 1966. The net worth and subordinated debt of LTV Aerospace was increased $36 million by sale of 500,000 shares of common stock and $25 million in subordinated convertible debentures. The proceeds of these transactions and earnings retained in the business provided more than a 400% increase in capital available for operation of the company. On December 31, 1966, bank borrowings totaled $11.7 million of the $35 million open line of credit and $18.2 million in cash and Government securities were on hand.

The outlook

Based upon the continuation of present programs as indicated by customers, annual sales are expected to increase substantially over the next three to five years.

Some of the key preparations for an expanding volume of business were made in 1966. Financial strength was increased. Total employment by year-end was 15,081, with 2,083 individuals participating in after-work formal educational courses. An additional 6,190 received on-the-job training, greatly increasing their ability to contribute to the technologies required in 1967 and future years.

Company-sponsored research and engineering budgets have been increased by approximately 20% for 1967 in order to assure the company's continued leadership in its technologies. Selected research efforts are as broad as the company's products and services, which reach from the ocean into the frontiers of space. Hypersonic aircraft, propulsive devices, lasers, fluid dynamics, hybrid trackers, vertical takeoff aircraft, new land vehicles, lightweight materials — all are important to the future of LTV Aerospace Corporation.

Major LTV Aerospace programs grew in 1966 and were growing again in 1967. The A-7A depicted here is now in production and has been ordered by the Navy, Air Force and Marine Corps. Testing of Army battlefield missile system, the Lance, was almost completed and new versions were in development. Important business developments in the M-561 all-terrain front-line vehicle program are expected in 1967.

David Sarnoff

Prophet of the Electronics Age

A world united through one great communications system — this is David Sarnoff's prevailing dream. From his first communications job as a $7.50 a week wireless operator to his ascendency as board chairman of The Radio Corporation of America, General Sarnoff has always been in the vanguard of electronics communication technology.

His unique ability to create practical applications out of the substance of inventors' dreams has been the palpable spirit behind nearly every major innovation in twentieth century communications science: first wireless, then short wave radio, home radio receivers, network broadcasting, television, and now, the revolutionary communications media of the future which will use lasers, solid-state electronics, microwaves and similar technological marvels.

Perhaps not since Thomas Edison has anyone affected our daily lives to the extent that General Sarnoff has. His visionary concept for the future of global communications will undoubtedly continue to revolutionize and shape the way we live and think.

Significant increases in sales and net income were registered in 1966 by LTV Electrosystems, Inc., which also expanded its technologies and penetrated new markets. Sales increased to $123,564,000 from $80,995,000 in 1965, and net income to $2,644,000 from $2,205,000.

This subsidiary's financial strength was enhanced in several ways during 1966, notably by the sale of 400,000 shares of common stock, which added some $5.4 million to net worth. Another significant achievement was the listing of LTV Electrosystems common stock on the American Stock Exchange, where trading is conducted under the symbol "LTE." Additional financial strength was required to support the rapid buildup in engineering and production personnel necessitated by the surge in sales volume as well as to facilitate external growth through acquisitions.

Memcor merger

Negotiations for the merging of Memcor, Inc., into LTV Electrosystems as a division were initiated during 1966. Stockholders of both companies are expected to approve the agreement at meetings on March 17, 1967. Memcor will bring a wide variety of electronic capabilities and product lines into LTV Electrosystems, the most prominent being compact two-way radio units carried by one man or mounted in a vehicle to provide front-line tactical communications.

Like LTV Electrosystems, Memcor is a multidivision organization with geographic as well as product diversification; Memcor headquarters are in Huntington, Indiana.

Memcor also will add significantly to LTV Electrosystems' production capabilities, bringing, in the form of three major plants, additional production equipment and tools, as well as experience and "know-how" in mass production techniques that have not heretofore been characteristic of LTV Electrosystems' operations.

Facilities expansion

Increasing financial strength also enabled this subsidiary to undertake a major facilities expansion program for all of its operating units. At company headquarters in Greenville, Texas, a $2-million general facilities expansion is under way. A new office and engineering building, extended production areas and other improvements such as landscaping and parking lots are included in the expansion program.

The Garland Division occupied a 63,000-square-foot Advanced Technology Laboratory Building, which also houses the division's new IBM 360/Model 50 computer, a major addition to LTV Electrosystems' extensive computer installations. The Continental Electronics subsidiaries neared completion of a 79,000-square-foot building especially designed for volume production of super-power transmitters, a unique facility in this country which will allow the company to virtually double its transmitter production capacity. An engineering facility also was established to augment the capabilities of the LTV Electrosystems operations in Greenville, S. C.

New business

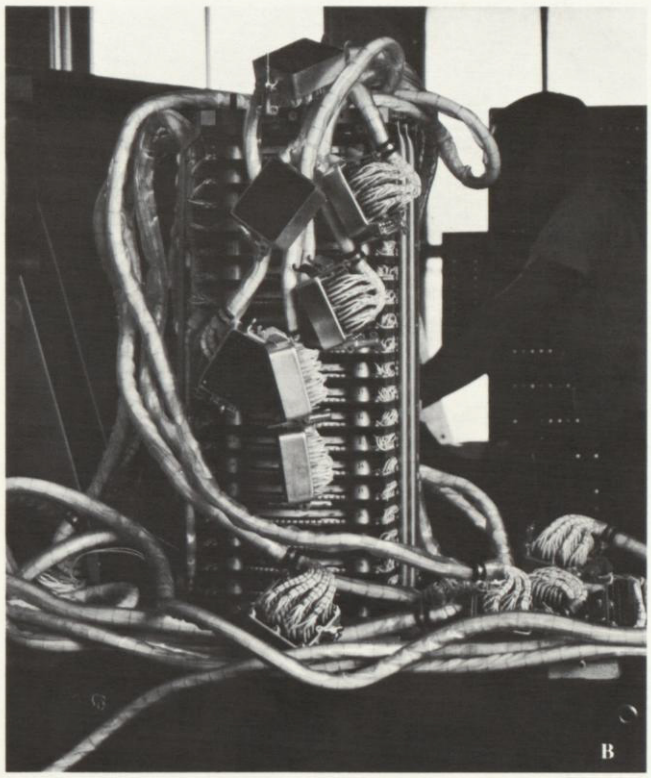
Both new and existing customers participated in the addition of new business which accounted for a 62% increase in the firm backlog at the end of 1966 compared to a year earlier. Both new products and penetration of new markets were reflected in the increased sales volume. Within its major marketing area, the Department of Defense, LTV Electrosystems penetrated deeper into systems development for the Army and Navy while continuing to win, as well as to complete and deliver on schedule, additional major systems business from the Air Force. NATO, NASA and several commercial enterprises, as well as other government agencies both domestic and abroad, were included on LTV Electrosystems' 1966 customer list. Each of the operating units increased its sales and backlogs during 1966.

A notable example was the $15-million award from NATO to the Continental Electronics companies to design and construct a super-power VLF (very low frequency) radio communications station in Norway, keeping intact

these subsidiaries' record for participating in every major operational VLF contract in the Free World for more than 15 years. The Greenville Division continued deliveries of reconnaissance, surveillance and tracking systems, and the Garland Division won additional business for its automatic control systems, guidance systems and electronic warfare research and development.

Outlook

Based on business already on the books and the experience gained over the past 10 years, which have resulted in a really remarkable growth record for LTV Electrosystems, the year 1967 should result in another significant increment of growth and profitability. The acquisition of Memcor should be a definite plus factor in the year's operations, as well as in the years ahead. It is never possible to be completely certain of how any business venture will turn out because of what might happen in national and international affairs and economics, but even with those considerations, it appears that LTV Electrosystems will be able to continue the growth record it has established.



Some of the many varied electronic activities of LTV Electrosystems are depicted in these photographs. (A) Technician clad in "clean room" protective clothing works with precise laboratory equipment on a microcircuit. (B) Wiring almost as complex as the human nervous system marks this large device as a switching unit which is extremely compact for the function it performs. (C) "Clean room" smocks are worn by assembly workers in an area where a large variety of electronic equipment takes final shape.

George Gershwin

(1898-1937) A new dimension in music

Jazz and the concert hall. Separate worlds? They were when George Gershwin started out as a song-plugger in Tin-Pan Alley. But his *Rhapsody in Blue* changed all that. And the *Concerto in F, An American in Paris,* and *Porgy and Bess* proved conclusively that a synthesis of classical and popular music could create new and exciting sounds.

Gershwin was an innovator because his imagination bridged a vast musical gulf and gave American music an identity all its own.

Sustaining its growth in 1966, LTV Ling Altec, Inc., increased sales 21% and net income 43% over comparable figures for 1965.

The progression of technology, always at higher power levels, was particularly impressive during the year. This technology has been applied to develop a wide variety of products, from audio amplifiers to vibration exciters to pulse modulators to power generators. Also significant was the continuing extension of acoustic and related technologies.

Another facet of the advance of technology at LTV Ling Altec is the incorporation of solid state electronics into an everwidening number of products in the commercial and professional sound, telephonic and high fidelity equipment lines, as well as to the amplifier-modulator-generator area for such applications as airborne radar. Improved versions of the vacuum tube equipment have been maintained on the product lists, and these units, as have all of the products designed and manufactured by LTV Ling Altec, have become increasingly sophisticated.

Effects of the mixed economy

Vietnam procurement stimulated sales of certain LTV Ling Altec product lines, but this was just about balanced by the negative effect on other products brought on by tighter money and suspension of the investment tax credit and the rapid depreciation provisions of the federal tax laws. In the long run, the net effect of these sales fluctuations probably will be positive because the sales not recorded in 1966 most likely can be considered as postponed but not cancelled, especially in light of the immediate reinstatement of the tax benefits as proposed by President Johnson. Even this was balanced, to some extent, however, by additional difficulty encountered in obtaining some supplies and materials and in recruiting and training additional employees to engage in increased production. In the field of employment, the signing of three new labor agreements was significant.

Increased military procurement had other influences on LTV Ling Altec, being a consideration in the formation of a new Ordnance Department, designed to develop and market proprietary products to the military agencies. And, in one of the more traditional product lines, a powerful sound system designed to provide the military services with an improved capability for talking from airplanes to the ground was developed and sold to the Air Force.

Other new developments

Also developed was a new product line of large power supplies, beginning at 10 kilowatts and ranging upward into the multi-megawatt region. These power supplies are used in such applications of high-energy physics as particle accelerators and plasma arc installations. Lightweight solid-state versions increase the efficiency of airborne radar. And there are many other applications in general industry. One of these industrial applications is the relatively new field of industrial microwave processing, a field which LTV Ling

these industrial applications is the relatively new field of industrial microwave processing, a field which LTV Ling Altec entered in 1966 as a major component supplier to the largest producer of microwave processing equipment. LTV Ling Altec contracted with Cryodry Corporation to deliver a production run of 60,000-watt power generators for such applications as potato chip processing, bulk thawing of frozen foods, lumber processing, finish drying, baking, pasteurization and curing.

Many new products contributed to the increases in sales in the largest single marketing category, commercial and professional sound equipment, which accounts for more than one quarter of consolidated sales volume. This also is the field in which LTV Ling Altec is best known. Although competitors in 1966 began to recognize and respond to the trend to more sophisticated and better quality sound systems, the subsidiary maintained its leadership in this segment of the market and continued to be one of the principal factors in the public address market.

Technological achievements continued to provide the foundation for growth in all other LTV Ling Altec marketing areas — environmental test, telephonic equipment, high fidelity, two-way mobile radio communications, motion picture theatre and other electronics service and maintenance, etc.

Forecast

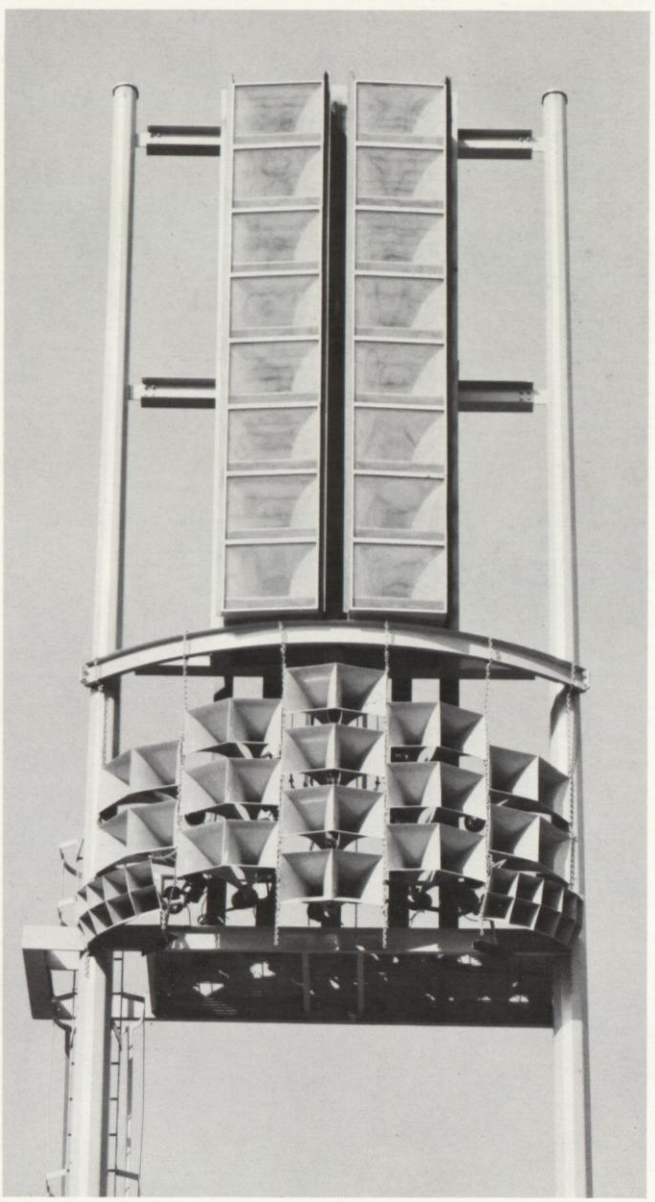
Generally, 1967 is expected to be another good year, and internal growth should bring another significant increase in sales. Management of this subsidiary also believes it will be possible to increase net income as a percentage of the sales dollar. It is anticipated that production capabilities will be expanded. LTV Ling Altec's aim will be to improve its marketing position in all fields.

Technological capabilities will be expanded again in all areas, and new products will be developed and introduced to the various markets for all of the lines.

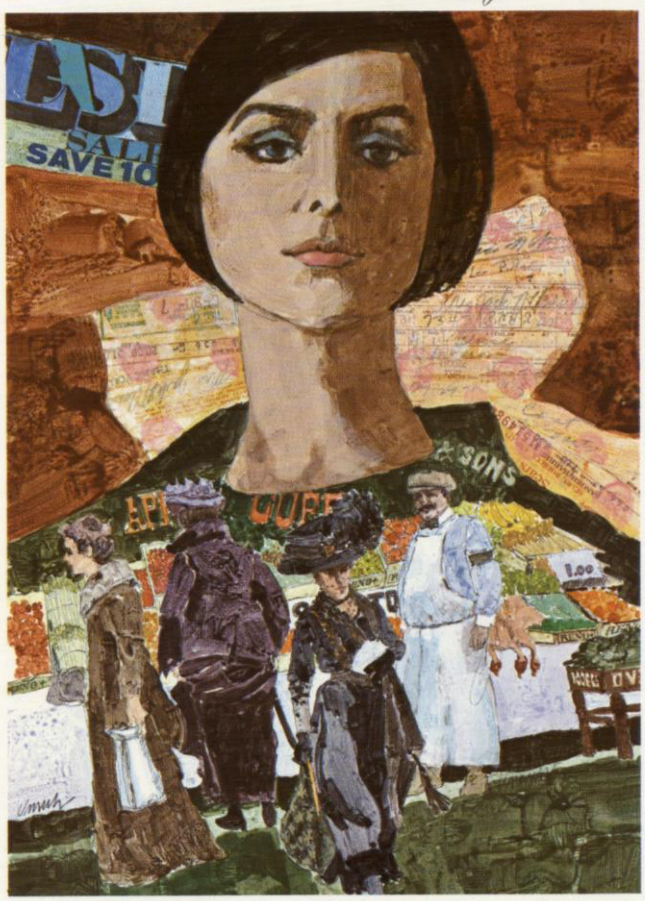
It will be a continued objective to investigate all possibilities for additional growth, both internal and external, during 1967.

Anaheim Stadium, home of the Angels, has been provided with one of the finest sound systems ever engineered for an outdoor ballpark by LTV Ling Altec. Behind center field, the 90-foot tower depicted here provides absolutely clear sound over a distance of more than 700 feet to blanket the entire ballpark.

LTV Ling Altec sound equipment is displayed at the LTV Tower.



American Housewife



Imaginative monarch

In a market economy, the consumer is king. The American housewife has proved to be an innovating monarch. She has taken in stride the waves of technical and social change that have swept through the twentieth century, responding with flexibility and stimulating new departures.

Novel ways to handle familiar tasks, effective products at acceptable prices, new tastes, colors, and designs to brighten daily life — these are her contributions to innovation.

Wilson & Co., Inc., newest LTV subsidiary, is the nation's third largest meat packer and food processor and the world's largest manufacturer of sporting and athletic equipment. It also has significant operations in industrial chemicals and pharmaceuticals and extensive foreign operations, chiefly involving meat packing and food processing and sporting goods.

Founded in 1853, the company's original headquarters were located on the plot in New York City which is now the site of the United Nations Buildings. Wilson & Co. now headquarters — and has for a number of years — in Chicago. It is a world-wide company.

Wilson & Co. operates as three major "company-divisions":

- Wilson Meat & Food Products Co., with 36 domestic (within the continental United States) plants and processing branches and nine other plants and processing units in other countries.
- Wilson Athletic Goods Mfg. Co., with 13 factories in the United States and two plants overseas.
- Wilson Chemical Industries Co., with nine U. S. plants.

These 69 plants, processing units and factories throughout the world have sales and distribution services provided by 296 sales branches, agents and representatives, plus numerous route salesmen.

There are more than 20,000 employees.

For the fiscal year ending October 29, 1966, Wilson & Co. reported sales of $991 million and net income of $12.9 million. Foreign operations of approximately $70 million were not consolidated.

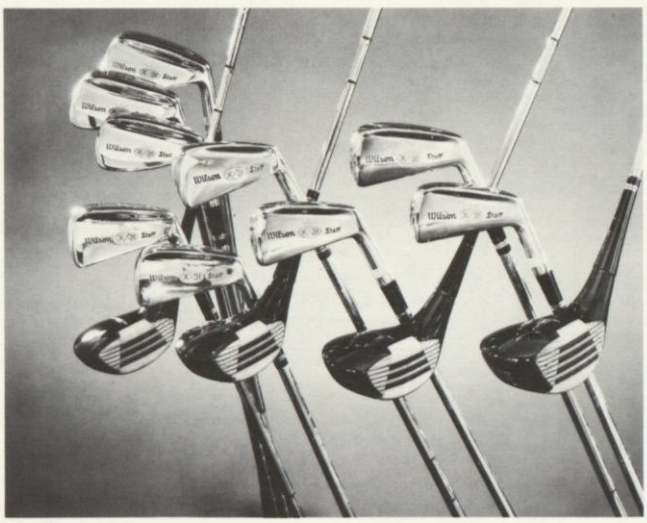
LTV's executive management believes that the management of Wilson & Co. is superior and recognizes that the Wilson name is a quality by-word in much of the world.

Wilson Meat & Food Products Co.

Hams, bacon, sausage, canned meats, fresh beef, pork, lamb and veal, dairy, poultry and related products are distributed through 77 domestic sales branches or representatives and by a number of route salesmen representing the plants in large sections of the United States. Foreign distribution is accomplished through 82 sales agents or representatives.

Brand names include Wilson's Certified, Corn King, Wilson's Festival, Wilson's Meat Specialties, Wilson Tidbit's. Grocery products embrace Wilson's Certified Mor, Bif, and other canned meats; Bake-Rite Pure Shortening, B-V Gravy and Soup Base, and Ideal Dog Food.

Recent growth has embraced the acquisition of Briggs & Company, Washington, D. C. area producer of a diversified line of processed meat products, in July, 1965; the construction and opening of a new meat-packing plant at Cherokee, Iowa, in the fall of 1965; the acquisition of New England Provision Co., Inc., in Boston, in September, 1966; the placing in service of new processed meat products facilities in Auckland, New Zealand, in November, 1966, and the beginning of operations at another new plant, in Birkenhead, England, specializing in the manufacture and sale of shortening and oils to the bakery trade, at the



Most of America's sports fans and consumers are acquainted well with the Wilson name because of products like the superb golf clubs, balls and Wilson's Certified packaged meats.

end of 1966. Additional domestic meat packing and food processing facilities are being provided in 1967.

Wilson Athletic Goods Mfg. Co.

More than 7,000 individual equipment and apparel products for golf, tennis, baseball, football, basketball, volley ball, track, boxing, wrestling and other active sports are distributed by 31 domestic sales branches and 60 foreign sales branches and representatives.

Operations of the Irvine, Scotland, golf club manufacturing plant, which went into production in 1962, have accounted for marketing gains in not only Great Britain, but also Western Europe, South Africa and the Far East. Sales of plastic spring horses and other nursery items and precision molded plastic products manufactured by Wonder Products Company, acquired in November, 1965, increased in 1966. New golf equipment manufacturing facilities are being built at Grand Rapids, Michigan, due for completion in mid-1967, and expanded facilities for tennis racquet manufacturing in Courtland, New York, are being provided.

Wilson Chemical Industries Co.

Pharmaceuticals, vegetable hard butters, industrial chemicals, cosmetic ingredients, edible and inedible tallow and oils, gelatin and gelatin desserts and resin products are distributed through 27 domestic sales offices and 19 foreign sales agents or representatives.

Leading pharmaceutical products include hormones, enzymes, bile derivatives, heparin, liver products and diagnostic agents. Industrial chemicals embrace sulphuric acid, edible and inedible tallow and oils, as well as peptones for pharmaceutical fermentation and proteins used in specialty foods and pharmaceuticals. Vegetable hard butters are manufactured for the food industry and used in food toppings, coffee whiteners and for candy and pastry coatings. Cosmetic ingredients are used generally in shampoos, hair conditioners and other beauty aids. Gelatin is supplied to producers of such products as gelatin desserts, candy, meat and other food products. Resins are used to manufacture polyurethane foams and coatings, the principal uses of which are filters, insulation and fabric lamination.

Facilities to provide Wilson Chemical Industries with additional capacity for various products also are being provided in 1967.

Albert Einstein

(1879-1955) Theoretical adventurer

Progress in science, as in all human endeavor, usually takes place through diligent plodding and the slow, cumulative overcoming of obstacles. But occasionally, the inspiration and insight of one man produces a theory which brings about scientific renaissance. Albert Einstein was such a man. He did nothing less than to lay out the main lines along which twentieth century theoretical physics has developed.

As a university student, he asserted his independence by avoiding traditional academic rigor, choosing rather to ponder the works of the great physicists of the nineteenth century. Later as a young patent examiner, working essentially alone and removed from professional contact, he wrought a series of scientific miracles. These embraced broad areas of scientific thought including concepts of space and time, the duality of light and matter, the equivalence of mass and energy, and the nature of gravitational forces.

The enormous potential contained in the innovating leap of one man's imagination is dramatically reflected in our present atomic era. Because of the genius of the ideas proposed by this young man in 1905 — at the age of 26 — we all live in a world transformed.

Research & Development

The Company's independent technical efforts were increased sharply in 1966 with expenditures totaling $16,136,000 compared with $13,198,000 in 1965. These costs include company-sponsored military research, development and technical bid and proposal efforts and those connected with the development and engineering of commercial products. They do not include, however, substantial amounts expended on research and development programs under government-funded contracts with the Company.

Continuing to supplement, in the more basic areas of science, the research and development programs of LTV's subsidiaries, the three divisions of the LTV Research Center recorded considerable growth in 1966 with an activity level approximately 30% higher than in 1965.

Growth embraced both company-funded programs, accounting for more than half of the total effort, and projects supported by government and other agencies and required the recruitment of key scientific personnel as well as the establishment of suitable laboratories equipped with advanced, sophisticated experimental equipment.

This trend is continuing, and the Dallas Division is constructing a new, ultra-modern, $2.5 million laboratory facility in 1967; the Hawaiian Division will occupy new quarters; the Western Division's physical facilities will be expanded.

Electronic research expanded

New programs were initiated by the Electronic Sciences Group in the fields of optics, microwave acoustics and molecular electronics. Experiments revealed electronic phenomena which are apparently newly observed and potentially valuable. The continuing laser research program's experimental capabilities were enhanced to provide the capabilities for constructing gas or solid state lasers and flash lamps in support of many LTV projects.

Space radiation measured

For the Nuclear Sciences Group, the highlight of 1966 was the successful flight on Gemini 12 of the LTV Beta-Gamma spectrometer, measuring the energy spectrum of the electrons and gamma rays inside the space capsule as it orbited within the Van Allen radiation belts. A second space-qualified research instrument, designed to detect and measure the protons and alpha particles encountered in space, was produced for Rice University's "Owl" satellites.

Future flight frontiers

Physical phenomena related to hypervelocity flight, novel VTOL (vertical take-off and landing) devices and basic fluid mechanics continued to be studied by the Aerophysics Group. Meteorological research programs received support from the National Science Foundation and the new Environmental Sciences Service Administration. Company-funded meteorological research resulted in a new method for arriving at long-range predictions of the properties of the upper atmosphere, including the effects of the solar cycle.

Improved materials

During 1966, the Materials Sciences Group synthesized new carbide bodies. Both open scientific literature and government reports show increasing interest in refractory metal carbides and carbide composites, indicating the timeliness of these LTV programs. Other long-term programs continued to develop materials for energy conversion, refractory alloys and coatings. In the composite materials program, ceramic fibers were synthesized with tensile strengths of up to 300,000 pounds per square inch.

Acoustic capabilities expanded

In addition to performing successfully on several commercial and governmental acoustic development contracts, the Western Division concentrated on the continued development of sophisticated microphones, transducers and instrumentation. Microphones of extremely small size (1/10 of an inch in diameter) and capable of withstanding environmental extremes of temperature and pressure were developed for aircraft, missile and space instrumentation.

Oceanography, anti-submarine warfare

In its first full year of operations, the Hawaiian Division: 1. Established a laboratory for analyzing underwater acoustic data, the only one of its kind in the Fiftieth State; 2. Demonstrated its capability to conduct oceanographic research programs in all stages from initial concept and planning through the development of specialized instrumentation, at-sea data collection, laboratory data reduction and final data analysis and interpretation; 3. Penetrated the Anti-Submarine Warfare (ASW) research and development market. Further expansion in these areas is continuing in 1967.

LTV Computing Center

The LTV Computing Center, 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 on a centralized basis. In addition some of the LTV subsidiary operating units possess their own computers to meet specialized requirements.

Installation of the third generation of IBM 360 series computers has been completed in Arlington and the programming will be fully converted to this new equipment during the current year. These computers with integrated circuits offer new potentials for faster processing, random access to banks of electronically stored data, transmission to remote terminals and lower costs per unit of computing work. Consequently, the employee staff has remained at about 325 but the capabilities of the center have been increased substantially.

Remote access terminals have been installed in various engineering areas of LTV. Despite the fact that each of these terminals is located several miles away, they are all connected directly to the computer and share its use. This time-sharing system, called RAX, permits real time use of the computer by engineers at all terminals.

Ling-Temco-Vought, Inc.
P.O. Box 5003, Dallas, Texas 75222

THE OKONITE COMPANY

LTV Ownership 82.3%

FINANCIAL DATA	Year Ended Dec. 31, 1966
Sales	$90,252,000
Earnings After Taxes	$ 7,715,000
Earnings Per Share (After Preferred Dividends)*	$ 2.87
Common Stock—Public Ownership (2,254 shareholders on 12/15/66)	516,298 shares
Class B Common Stock (convertible 1 for 1 Common) LTV Ownership	2,400,000 shares
Preferred Stock (convertible 1 for 20 Class B Common) LTV Ownership	65,000 shares
Shareholders' Equity	$24,982,000
Commercial Development and Engineering Expenditures	$ 508,000

FACILITIES AND PERSONNEL

Plants in Passaic, Paterson, and North Brunswick, N.J., and Providence, Rhode Island, with 1,864,000 sq. ft. floor space.

Field Offices in 26 major cities in the United States.

Total Employees	1,725
Scientific and Technical	190
Management, Administrative, and Clerical	494
Production	1,041

PRODUCTS

Underground and aerial power distribution and telephone cable; Signal and control cable; Bare wire products, and other related products.

*Based on average Common and Class B Common shares outstanding during year.

LTV AEROSPACE CORPORATION

LTV Ownership 74.8%

FINANCIAL DATA	Year Ended Dec. 31, 1966
Sales	$231,552,000
Earnings After Taxes	$ 5,809,000
Earnings Per Share (After Preferred Dividends)*	$ 1.67
Common Stock—Public Ownership (2,841 Shareholders)	905,804 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	$ 25,746,000
Company Sponsored Research and Engineering Expenditures	$ 8,049,000

FACILITIES AND PERSONNEL

Plants in Dallas, Texas; Warren, Michigan; and Honolulu, Hawaii; with 4,615,000 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	15,081
Scientific and Technical	4,903
Management, Administrative, and Clerical	1,700
Production	8,478

PRODUCTS

Navy A-7A attack aircraft; Air Force A-7D attack aircraft; Tri-Service XC-142 V/STOL logistic transport aircraft; NASA *Scout* space research vehicles; 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; Boeing 747 commercial transport tail assembly; Boeing SST fuselage section. Saturn 1B first stage tanks.

DIVISIONS AND SUBSIDIARIES

Vought Aeronautics Division
Missiles and Space Division
Range Systems Division
Kentron, Hawaii, Ltd., Subsidiary

*Based on average Common and Class B Common shares outstanding during year.

LTV ELECTROSYSTEMS, INC.

LTV Ownership 75.7%

FINANCIAL DATA	Year Ended Dec. 31, 1966
Sales	$123,564,000
Earnings After Taxes	$ 2,644,000
Earnings Per Share (After Preferred Dividends)*	$ 0.97
Common Stock—Public Ownership (2,796 shareholders)	692,750 shares
Class B Common Stock (convertible 1 for 1 Common) LTV Ownership	2,154,860 shares
Preferred Stock (convertible 1 for 20 Class B Common) LTV Ownership	65,000 shares
Shareholders' Equity	$ 12,064,000
Company-sponsored Research and Engineering Expenditures	$ 4,932,000

FACILITIES AND PERSONNEL

Plants in Dallas, Garland, Greenville, Richardson and Arlington, Texas; and Greenville, South Carolina, with 1,850,762 sq. ft. floor space.

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

Total Employees	7,125
Scientific and Technical	1,532
Management, Administrative, and Clerical	2,160
Production	3,433

PRODUCTS

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

DIVISIONS AND SUBSIDIARIES

Garland . . . Division
Greenville . . . Division
Continental Electronics Manufacturing Co. . . . Subsidiary
Continental Electronics Systems, Inc. . . . Subsidiary

*Based on average Common and Class B Common shares outstanding during year.

LTV COMPUTING CENTER

Arlington, Texas

LTV RESEARCH CENTER

Dallas, Texas Anaheim, Calif.
Honolulu, Hawaii

LTV LING ALTEC, INC.

LTV Ownership 87.8%

FINANCIAL DATA	Year Ended Dec. 31, 1966
Sales	$29,242,000
Earnings After Taxes	$ 859,000
Earnings Per Share (After Preferred Dividends)*	$ 0.67
Common Stock	
Public Ownership (1,000 Shareholders)	149,231 shares
LTV Ownership	1,077,430 shares
Total Shares Outstanding	1,226,661 shares
Preferred Stock (convertible 1 for 10 Common)	
LTV Ownership	65,000 shares
Shareholders' Equity	$ 4,695,000
Commercial Development and Engineering Expenditures	$ 1,331,000

FACILITIES AND PERSONNEL

Plants in Anaheim, California; Oklahoma City, Oklahoma; and Wilmington, Massachusetts, with 418,500 sq. ft. floor space.
Field Offices in more than 100 major cities in the United States.

Total Employees	1,534
Scientific and Technical	135
Management, Administrative and Clerical	410
Production	998

PRODUCTS

Vibration test equipment; High fidelity sound systems and equipment; Commercial sound systems and equipment; Telephone equipment; Industrial radio equipment; Transformers; Acoustic test equipment; Modulators, Magnet power supplies.

DIVISIONS AND SUBSIDIARIES

Ling Electronics . . . Division
Altec Lansing . . . Division
University Sound . . . Division
Altec Service Corporation . . . Subsidiary
Gonset, Incorporated . . . Subsidiary

*Based on average Common and Class B Common shares outstanding during year.

WILSON & CO., INC.[1]

LTV Ownership 53%

FINANCIAL DATA	Year Ended Oct. 29, 1966
Sales	$990,860,000
Earnings After Taxes	$ 12,905,000
Earnings Per Share (After Preferred Dividend)	$ 3.34[2]
Common Stock	
Public Ownership	1,695,414 shares[2]
LTV Ownership	1,943,362[1][2]
Preferred Stock	
Public Ownership	158,200 shares
LTV Ownership	–0–
Shareholders' Equity	$121,983,000

FACILITIES AND PERSONNEL

Plants: 69 domestic and foreign

Employees	
Domestic	17,200
Foreign	3,700

PRODUCTS:

Meat and Food Products (over 600 items); 1966 sales	$875,000,000
Sporting Goods (over 7,000 items); 1966 sales:	$ 80,000,000
Chemicals and Pharmaceuticals; 1966 sales:	$ 36,000,000

DIVISIONS AND SUBSIDIARIES

Wilson Meat and Food Products Company . . . Division
Wilson Athletic Goods Mfg. Company . . . Subsidiary
Wilson Chemical Industry Company . . . Division
Numerous Other Domestic and Foreign Subsidiaries

(1) LTV owns approximately 53% of the common stock of Wilson & Co., Inc. Wilson operating results were not included in LTV's consolidated statement for 1966.
(2) Shares outstanding at year end adjusted for 50% stock dividend declared January 6, 1967.

Alexander Hamilton

(1755-1804) Architect of a nation's economy

Alexander Hamilton is usually thought of today as a conservative, and in many ways he was. But innovation is sometimes the only effective method of conservation, and it was through his innovations that Hamilton earned his place in American history.

The raw materials of a great economy lay ready at hand in the 1790's. Hamilton was the principal architect. As first Secretary of the Treasury, he faced almost insuperable obstacles. The new government had no adequate currency, no viable banking system, no means of raising revenue, no economic policy, little prestige, and huge debts. Hamilton established a monetary system, devised and fought through a banking program, created and defended a scheme for securing adequate revenue, successfully funded the Revolutionary War debts, established the prestige and credit of the central government, and fashioned a vision of industrial greatness that became in large part a national policy.

And in almost every instance his proposals were initially rejected as radical and dangerous. It is the strange fate of the successful innovator to be called a conservative by history.

Financial Section

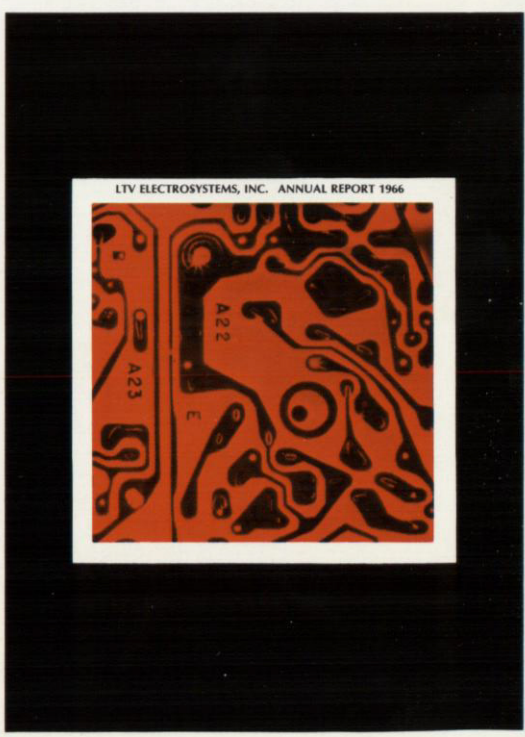
A decade of growth—Ling-Temco-Vought, Inc., and subsidiaries

Consolidated Operating Results	1966	1965	1964
Sales	**$468,251,000**	$336,206,000	$322,859,000
Earnings (loss)			
Before taxes and minority interest	**30,327,000**	11,533,000	9,030,000
After taxes and minority interest	**13,683,000**	5,984,000	4,904,000
Per common share — at year end	**6.51**	2.88	2.31
— average	**6.03**	2.81	1.82
Consolidated Financial Position (at year end)			
Net working capital	**$ 73,986,000**	$ 21,616,000	$ 35,507,000
Ratio of current assets to current liabilities	**1.59**	1.17	1.62
Notes payable to banks	**$ 47,640,000**	$ 57,000,000	$ 21,700,000
Long-term debt	**95,773,000**	40,274,000	37,012,000
Shareholders' equity	**58,906,000**	30,534,000	28,562,000
General (at year end)			
Employment — total	**26,158**	20,670	16,513
Employment — engineers and scientists	**6,944**	5,743	4,750
Common shares outstanding	**1,936,088**	1,764,610	1,849,982
Common shareholders of record(G)	**11,029**	10,342	11,886

Annual Reports of the Subsidiary Companies

THE OKONITE COMPANY

LTV AEROSPACE CORPORATION



LTV ELECTROSYSTEMS, INC.

1963	1962	1961(A)	1960(B)	1959	1958(C)	1957(C)
$329,002,000	$325,439,000	$192,847,000	$148,447,000	$48,087,000	$6,923,000	$3,970,000
8,393,000(D)	8,797,000	(14,527,000)	5,737,000	3,140,000	452,000	622,000
6,187,000(E)	8,650,000(F)	(13,159,000)	3,051,000	1,866,000	227,000	308,000
2.12(E)	3.03(F)	(4.74)	1.20	1.13	0.21	0.35
2.13(E)	3.04(F)	(4.99)	1.25	1.31	0.25	0.35
$ 38,119,000	$ 46,268,000	$ 36,031,000	$ 22,558,000	$ 7,761,000	$ 875,000	$1,110,000
1.55	1.66	1.41	1.45	1.51	1.27	2.13
$ 26,800,000	$ 39,000,000	$ 48,600,000	$ 29,340,000	$ 7,201,000	$1,527,000	$ 107,000
34,592,000	64,199,000	64,948,000	14,639,000	7,614,000	461,000	476,000
32,862,000	26,656,000	17,917,000	28,533,000	9,793,000	2,695,000	1,407,000
17,533	18,392	18,729	10,303	2,500	800	280
4,000	3,700	2,700	1,040	180	60	35
2,824,772	2,783,600	2,775,185	2,553,040	1,610,762	950,095	873,752
16,428	17,795	18,713	18,838	12,000	5,353	2,563

(A) Includes operations of Chance Vought Corporation for four-month period subsequent to its acquisition in August, 1961.

(B) Includes full-year operations of Temco Aircraft Corporation acquired in July, 1960 as a pooling of interests.

(C) Year ended July 31.

(D) As restated.

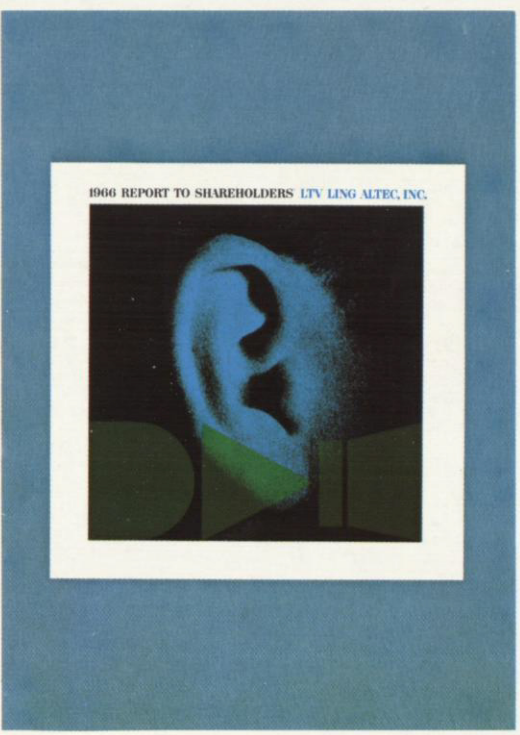
(E) The effective tax rate for 1963 was 26%, resulting from the application of the remaining tax loss carry-forward from 1961.

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

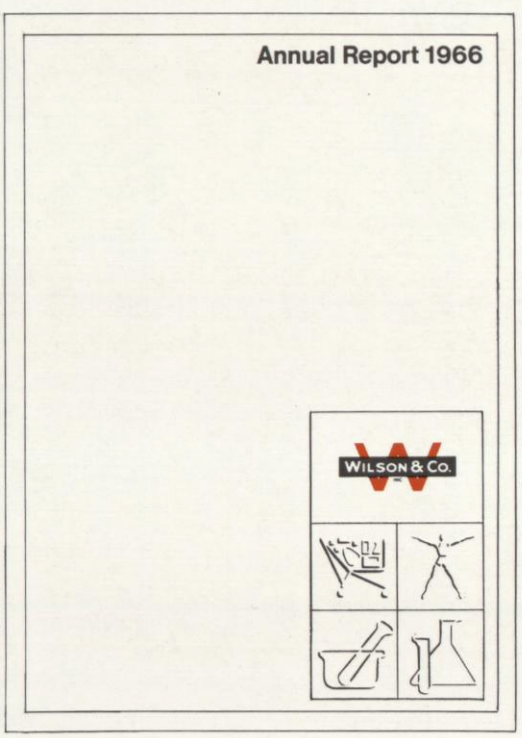
(G) Does not include shareholders (approximately 5,000 at December 31, 1966) whose shares are held in street names.

Annual Reports of the subsidiary companies will be made available upon request to the LTV Corporate offices.

Write: Annual Report,
Ling-Temco-Vought, Inc.,
P. O. Box 5003, Dallas, Texas 75222.



LTV LING ALTEC, INC.

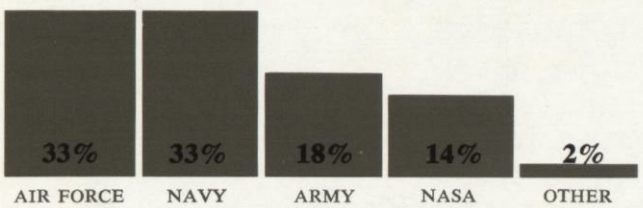


WILSON & CO., INC.

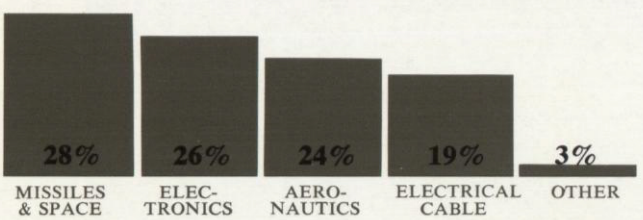
Sales

Consolidated sales in 1966 totaled $468,251,000, an increase of 39% over the previous record sales of $336,206,000 reported in 1965. Substantial increases were recorded by each of the Company's four subsidiaries — LTV Aerospace Corporation, LTV Electrosystems, Inc., LTV Ling Altec, Inc. and The Okonite Company. Commercial business increased to 27% of total sales, nearly double the 1965 figure of 15%. This resulted primarily from the inclusion of The Okonite Company sales for the full year together with a significant increase in Okonite sales levels.

Government sales, accounting for 73% of the total, or $340,033,000, were well distributed among government customers as shown below:



Sales were also diversified in terms of product line, as reflected in the following chart:



Earnings

Consolidated net earnings, after provision for taxes and for minority interest in the earnings of subsidiaries, were $13,683,000, an increase of 129% over 1965 net earnings of $5,984,000. On the basis of common shares outstanding at year end and after provision for preferred dividends, current year earnings amounted to $6.51 per share as compared with $2.88 per share in 1965. Based on the average number of shares outstanding during the year, 1966 earnings were $6.03 per share vs. $2.81 per share in 1965.

Dividends

In January, 1966, the annual dividend rate was doubled to $1.00 per share and four quarterly dividends of 25¢ each were paid during the year. In addition, in March 1966, a total of 681,851 shares of common stock of Saturn Industries, Inc. were distributed to shareholders as a special dividend, on the basis of 34 shares of Saturn for each 100 shares of LTV common stock held.

The annual dividend of $1.35 per share on the Series A preferred stock was paid in March, 1966, and the semi-annual dividend of $1.50 per share was paid in June and December to holders of $3 Series B preferred stock.

Shareholders' equity

Consolidated shareholders' equity amounted to $58,906,000, at December 31, 1966, nearly double the $30,534,000 of a year earlier. There were a number of factors, in addition to retained earnings, which contributed to this significant improvement:

Subsidiary stock offerings

During the year three of the Company's subsidiaries had public offerings of common stock — LTV Aerospace Corporation sold 500,000 shares, LTV Electrosystems, Inc. 400,000 shares and The Okonite Company 500,000 shares. The approximate proceeds, net of expenses, were $11.1 million, $5.4 million and $7.8 million, respectively, increasing the net worth of each of those companies by a corresponding amount. This, in turn, increased the Company's equity in those three subsidiaries by an aggregate of $15.4 million, which amount was credited directly to consolidated retained earnings, increasing stockholders' equity accordingly.

Exercise of warrants

Shareholders' equity was further increased by approximately $15.9 million through the exercise of $30 and $40 warrants for the purchase of common stock of the Company.

Conversion of debentures

Shareholders' equity was also increased by approximately $2.9 million from conversion of

5¾% subordinated convertible debentures, with a corresponding reduction in long-term debt. A total of 85,980 common shares was issued as a result of those conversions.

In October, 1966, the Company offered to exchange cash and shares of $3 Series B preferred stock for outstanding shares of common stock in the ratio of $20 cash plus ½ share of Series B preferred for each share of common. In response to this offer, 687,684 common shares were tendered and, in exchange therefor, the Company issued 343,842 shares of Series B preferred and paid a total of $13,753,680 to tendering shareholders. This amount was charged to retained earnings, reducing shareholders' equity accordingly.

The Series A preferred stock of the Company was called for redemption on December 30, 1966, at a price of $31.50 per share. The Series A shares were each convertible into ¾ of a share of common stock and only 6,224 shares remained outstanding on the redemption date, requiring a total payment of $196,056.

Working capital

Net consolidated working capital increased sharply during the year, totaling $73,986,000 at December 31, 1966, compared with $21,616,000 at the end of 1965. The principal factors contributing to this marked improvement are set forth in the Statement of Consolidated Source and Use of Working Capital appearing on page 35 of this report. Of major importance among those factors was a $25 million issue of 6½% convertible subordinated debentures by LTV Aerospace Corporation in October. These debentures, which were sold publicly, are convertible into common stock of LTV Aerospace Corporation at $18.00 per share commencing January 1, 1968.

During 1966 separate lines of credit with a group of leading banks were established for each of the four subsidiary companies without any requirement for guarantee by the parent company. Those credit lines aggregate $70 million as follows: $35 million for LTV Aerospace Corporation, $18 million for LTV Electrosystems, Inc., $7 million for LTV Ling Altec, Inc., and $10 million for The Okonite Company. Borrowings of $43,640,000 by those subsidiaries were outstanding as of December 31, 1966. In addition, the parent company had outstanding bank borrowings of $4,000,000 bringing total consolidated borrowings at 1966 year-end to $47,640,000, compared with $57,000,000 outstanding at the end of 1965.

Plant and equipment

New plant, laboratory and equipment expenditures totaled $17,018,000 for the year, as compared with $6,800,000 in 1965. The higher level of expenditure in 1966 reflects the increasing need to expand technical and production capabilities in keeping with the rapidly rising sales volume and to invest in new and improved equipment to realize the benefits of technological advancements.

Depreciation and amortization charges amounted to $5,586,000 for the year, up from $3,760,000 in 1965.

Investment in Wilson & Co., Inc.

The Company's purchase of shares of Wilson & Co. common stock has been discussed earlier in this report. At December 31, 1966, LTV's holdings of Wilson shares represented an investment of $34,620,000. As of January 6, 1967, the Company's holdings represented approximately 53% of the outstanding Wilson common stock, and a total investment of approximately $81,500,000.

New financing

To finance the purchase of Wilson stock and to replenish working capital funds used for that purpose, during January and February 1967 the Company borrowed an aggregate of $80 million. Of that amount, $50 million is in the form of two-year Eurodollar loans from various European banks and foreign branches of U. S. banks. The remaining $30 million is in the form of three-year loans from various domestic institutional investors and, in connection therewith, the Company issued five-year warrants for the purchase of an aggregate of 150,000 shares of common stock at $75 per share.

Consolidated Balance Sheet

Ling-Temco-Vought, Inc. and Subsidiaries

Assets

	December 31	
	1966	**1965**
	In Thousands of Dollars	
Current Assets		
Cash and U. S. Government securities	**$ 33,516**	$ 17,708
Notes and accounts receivable, less allowances (1966 — $282,663; 1965 — $795,807) for doubtful receivables	**59,817**	50,998
Unreimbursed costs and fees under cost-plus-fee contracts	**28,488**	23,924
Inventories — generally at average or accumulated costs, not in excess of market:		
Finished products	**5,265**	4,460
Work in process	**113,731**	72,783
Raw materials and purchased parts	**26,843**	10,129
	145,839	87,372
Less progress payments received	**68,851**	34,889
	76,988	52,483
Prepaid expenses	**1,462**	1,499
Total current assets	**200,271**	146,612
Investments and Other Assets		
Investments in and advances to affiliated companies — Note H	**35,462**	806
Notes and accounts receivable and other investments, less allowances (1966 — $90,000; 1965 — $1,636,919) for doubtful receivables	**4,084**	7,047
Excess of investment in subsidiaries over net assets acquired, patents and trademarks, less amortization	**2,989**	3,094
Unamortized debt expense	**1,065**	243
Total investments and other assets	**43,600**	11,190
Property, Plant, and Equipment — At cost		
Land	**2,464**	2,605
Buildings	**16,908**	16,277
Machinery and equipment	**55,856**	41,942
	75,228	60,824
Less allowances for depreciation	**20,681**	16,242
Total properties — net	**54,547**	44,582
	$298,418	$202,384

Liabilities and Shareholders' Equity

	December 31	
	1966	1965
	In Thousands of Dollars	
Current Liabilities		
Notes payable to banks	**$ 47,640**	$ 57,000
Payable for assets of another company	**—**	15,950
Accounts payable	**45,481**	30,386
Accrued compensation, taxes, interest, etc	**23,156**	17,554
Dividends payable	**311**	—
Federal, state and foreign income taxes	**7,014**	3,795
Current portion of long-term debt	**2,683**	311
Total current liabilities	**126,285**	124,996
Long-Term Debt — Note B	**95,773**	40,274
Reserves and Deferred Credits		
Reserve for deferred federal income taxes	**1,437**	788
Reserve for possible future losses arising from adjustment or disposition of assets	**—**	595
Deferred credits	**2,640**	3,669
Total reserves and deferred credits	**4,077**	5,052
Minority Interest In Subsidiaries	**13,377**	1,528
Shareholders' Equity		
4½% Series A preferred stock, par value $30	**—**	2,375
$3 Series B preferred stock, par value $1 — Note C: Authorized 1,748,000 shares; outstanding 434,107 shares in 1966 and 265,822 shares in 1965	**434**	266
Common stock, par value $0.50 — Notes C, D, E, and H: Authorized 8,000,000 shares; outstanding 1,936,088 shares in 1966 and 1,764,610 shares in 1965, after deducting 687,684 shares and 1,246,637 shares, respectively, in treasury	**968**	882
Capital surplus	**30,075**	8,742
Retained earnings — Note B	**27,429**	18,269
Total shareholders' equity	**58,906**	30,534
Commitments and Contingencies		
	$298,418	$202,384

See notes to financial statements.

Statement of Consolidated Income and Retained Earnings

Ling-Temco-Vought, Inc. and Subsidiaries

	Years ended December 31	
	1966	**1965**
	In Thousands of Dollars	
Net sales, including costs and fees under cost-plus-fee contracts	**$468,251**	$336,206
Other income	**821**	2,017
	469,072	338,223
Costs and expenses:		
Manufacturing costs	**398,284**	295,136
Selling, administrative and general expenses	**34,755**	27,644
Interest expense	**5,500**	3,783
Other expenses	**206**	127
	438,745	326,690
Income before income taxes and minority interest	**30,327**	11,533
Federal, state and foreign income taxes	**13,984**	5,134
Income before minority interest	**16,343**	6,399
Minority interest in income of subsidiaries	**2,660**	415
Net income	**13,683**	5,984
Per common share — at year end	***6.51***	***2.88***
— average	***6.03***	***2.81***
Retained earnings at beginning of year	**18,269**	16,460
Increase of equity in net assets of subsidiary companies arising from transactions in subsidiary shares	**13,926**	—
	45,878	22,444
Deduct:		
Dividends paid in cash:		
On 4½% Series A preferred stock	**103**	204
On $3 Series B preferred stock — Note C	**1,047**	798
On common stock — $1.00 a share in 1966 and $0.50 a share in 1965	**2,061**	912
Dividends paid in common shares of Saturn Industries, Inc.	**1,386**	—
Cash paid in connection with surrender of common shares	**13,852**	2,206
Excess of cost over par value of common stock acquired for treasury, less portion charged to capital surplus	**—**	55
	18,449	4,175
Retained earnings at end of year — Note B	**$ 27,429**	$ 18,269

See notes to financial statements.

Consolidated Source and Use of Working Capital

Ling-Temco-Vought, Inc. and Subsidiaries

	Years ended December 31	
	1966	**1965**
	In Thousands of Dollars	
Working capital at beginning of year	**$ 21,616**	$35,507
Source of Working Capital:		
Net income	**13,683**	5,984
Minority interest in income of subsidiaries	**2,660**	415
Depreciation and amortization	**5,586**	3,760
Proceeds from sale of capital stock, including $25,108,000 from sale of common stock by subsidiary companies in 1966	**41,640**	1,294
Increase in long-term debt, including $25,000,000 from issuance of convertible subordinated debentures by a subsidiary company in 1966	**55,499**	3,261
Other	**3,289**	1,246
	122,357	15,960
	143,973	51,467
Use of Working Capital:		
Cash dividends paid (including $1,285,791 paid to minority shareholders of subsidiary companies in 1966)	**4,497**	1,913
Additions to property, plant and equipment	**17,018**	6,800
Net assets (excluding current) of company acquired	**—**	18,932
Cash paid in connection with surrender of common shares	**13,852**	2,206
Purchase of common stock of another company	**34,620**	—
	69,987	29,851
Working capital at end of year	**$ 73,986**	$21,616

Statement of Consolidated Capital Surplus

Ling-Temco-Vought, Inc. and Subsidiaries

	Years ended December 31	
	1966	**1965**
	In Thousands of Dollars	
Balance at beginning of year	**$ 8,742**	$6,382
Add (deduct*):		
Excess of proceeds over par value of common shares sold upon exercise of warrants	**15,857**	87
Excess of par value of preferred stock over par value of common shares issued in conversion	**2,221**	2,220
Excess of principal amount of subordinated convertible debentures over par value of common shares issued upon conversion	**2,858**	10
Excess of option proceeds over par value of capital stock sold under option plans	**409**	993
Other capital credits (charges*)	**12***	67
Excess of cost over par value of common stock acquired for treasury, less portion charged to retained earnings	**—**	1,017*
Balance at end of year	**$30,075**	$8,742

See notes to financial statements.

Notes to Financial Statements

Note A — Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its significant subsidiaries. Upon consolidation, all inter-company accounts and transactions have been eliminated.

Note B — Long-Term Debt

Long-term debt due beyond one year consists of the following:

	1966	1965
5¾ % Subordinated convertible debentures due September 1, 1976	**$ 7,909,500**	$10,810,700
5¾ % Subordinated debentures due September 1, 1976	**21,361,460**	23,736,460
6½ % Convertible subordinated debentures of a subsidiary company	**25,000,000**	—
Liability for purchase of common stock of another company	**34,614,667**	—
Sundry mortgage notes payable	**6,887,405**	5,726,514
	$95,773,032	$40,273,674

Annual maturities and sinking fund requirements of the notes and debentures amount to $2,682,921 in 1967 and approximately $2,800,000 during each of the succeeding four years. See Note H for details of financing the liability for purchase of common stock of another company.

The indenture covering the 6½ % convertible subordinated debentures and bank loan agreements of certain subsidiaries contain provisions which limit the amount of their retained earnings available for payment of dividends by such subsidiaries. At December 31, 1966, there were no restrictions on consolidated retained earnings as to the payment of dividends by the Company.

Note C — Preferred Stock

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. In the event of liquidation, the stock shall be entitled to receive $75 a share plus accumulated dividends, and as of December 31, 1966, the aggregate of such preference in excess of par value is $32,178,181. In the opinion of the Company's counsel, the existence of this excess imposes no restriction upon retained earnings.

Note D — Options to Purchase Common Stock

Under existing plans for granting stock options to officers and employees, 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. At December 31, 1966, the Company had reserved under all plans an aggregate of 124,839 shares of common stock, of which 54,823 shares were issuable at option prices aggregating $784,513. Under the plans during 1966, options were granted for 750 shares at option prices aggregating $29,719, options for 340 shares were cancelled, and options were exercised for 32,151 shares at option prices aggregating $445,247.

Note E — Common Stock Reserved

At December 31, 1966, the Company had reserved shares of its common stock as follows (see Note D concerning common stock reserved for option plans, and Note H with respect to warrants issued in January, 1967):

RESERVED FOR	NUMBER OF SHARES	PRICE PER SHARE
Conversion of 5¾ % debentures	234,425	$33.74
Exercise of warrants expiring December 1, 1969	48,121	31.17
	15,426	36.46
Conversion of preferred stock	542,634	

Conversion price of 5¾ % debentures is $38.34 after August 31, 1967.

Note F — 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 1965, except 1952 and 1953. The sum in controversy is approximately $1,600,000 (net of federal income tax credits), and the cases are pending in Tax Court.

Certain governmental agencies have proposed adjustments affecting allowable costs for 1961 and subsequent years. As a consequence, approximately $6,500,000 is subject to final disposition pending settlement of the issues.

The Internal Revenue Service has proposed income adjustments to the 1961 consolidated tax return of the Company which would also affect subsequent years. The issues involved relate, for the most part, to the same matters giving rise to the proposed adjustments referred to in the preceding paragraph.

While it is not presently possible to predict the outcome of the foregoing matters, in the opinion of management settlement of the issues should be resolved without a material adverse effect on the financial statements, and accordingly no specific provision has been made therefor.

Substantial portions of plant facilities, machinery and equipment, and office space are leased. Leases in effect at December 31, 1966, which extend more than three years after that date require annual rental payments ranging from approximately $3,230,000 to $2,580,000 through 1973, and from $1,650,000 to $1,186,000 to 1987.

Note G — Pension Plans

Based on December 31, 1966 employment, the estimated annual cost of pension plans, including amortization of past service costs, amounts to approximately $12,700,000.

Note H — Purchase of Common Stock of Wilson & Co., Inc.

As of December 31, 1966, the Company had purchased 556,588 shares of Wilson & Co., Inc. common stock at a cost of $34,619,823, and such cost and related liability for payment are reflected in the accompanying balance sheet. As of January 6, 1967, a total of 1,295,575 (1,943,362 shares after 50% stock dividend) shares, representing approximately 53% of the outstanding common stock of Wilson & Co., Inc. had been purchased by the Company, including those purchased as of December 31, 1966, at an approximate aggregate cost of $81,500,000. In connection with those purchases, on January 6, 1967 the Company borrowed an aggregate of $42,000,000 payable January 6, 1969, and on January 10, 1967, an aggregate of $30,000,000 payable January 10, 1970, and on February 3, 1967, an aggregate of $8,000,000 payable January 6, 1969. In connection with the January 10, 1967 borrowing, the Company issued warrants expiring January 10, 1972, for the purchase of 150,000 shares of its common stock at $75 per share.

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

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Accountants' Report

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, 1966, and the related statements of consolidated income and retained earnings, capital surplus and 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 statements of income and retained earnings, capital surplus and source and use of working capital present fairly the consolidated financial position of Ling-Temco-Vought, Inc. and subsidiaries at December 31, 1966, and the consolidated results of their operations and source and use of working capital for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Ernst & Ernst

Dallas, Texas
February 15, 1967

Officers

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

Clyde Skeen
President

Robert McCulloch
Chairman of the Executive Committee

R. C. Blaylock
Vice President and Technical Director

Forbes Mann
Vice President — Government and Foreign Relations

Dan Burney
Secretary and General Counsel

Bernard L. Brown
Treasurer

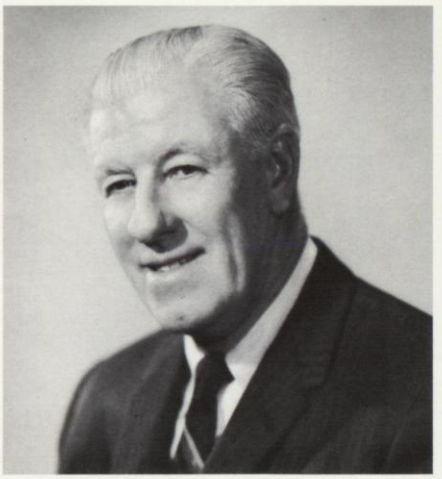
J. G. Bacsik
Controller

Directors

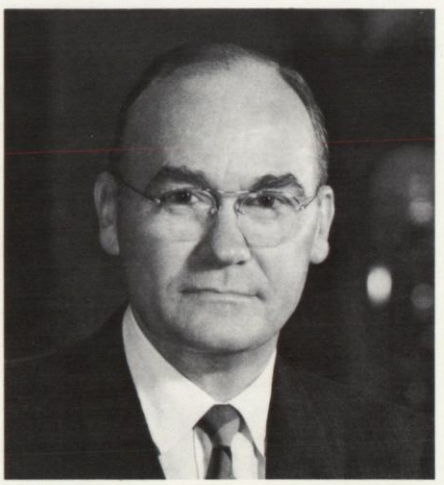
James H. Bond
Investments, Banking and Government, Dallas, Texas

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

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



Robert McCulloch
Chairman of the Executive Committee



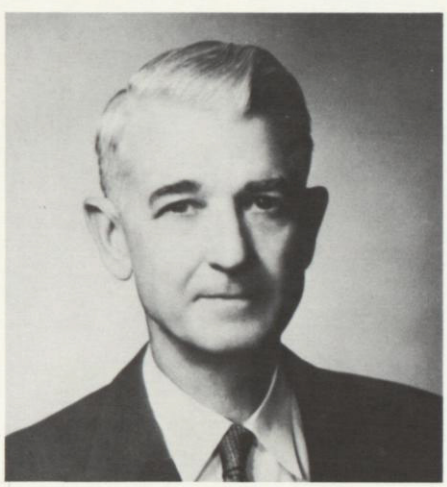
Troy V. Post
Chairman of the Board and President, Greatamerica Corporation, Dallas, Texas

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

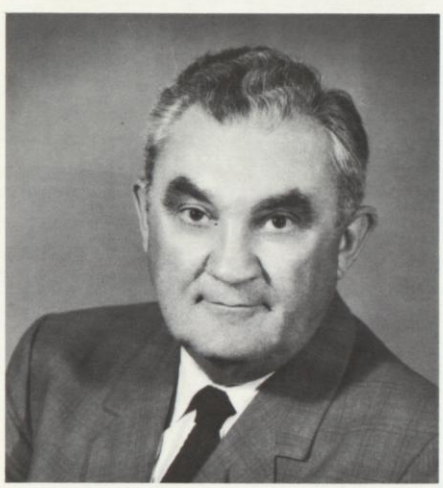
James F. Chambers
President, Chief Executive Officer and Publisher, The Dallas Times Herald, Dallas, Texas

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

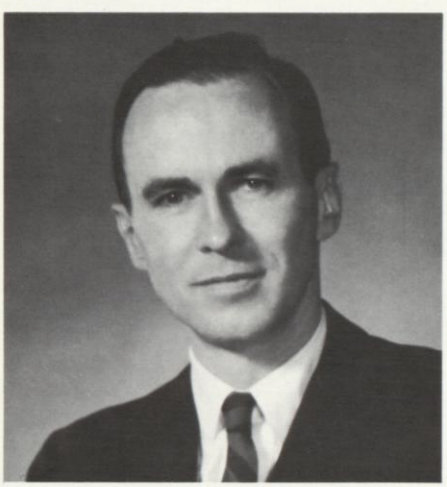
Robert B. Gilmore
President, DeGolyer and MacNaughton, Dallas, Texas



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

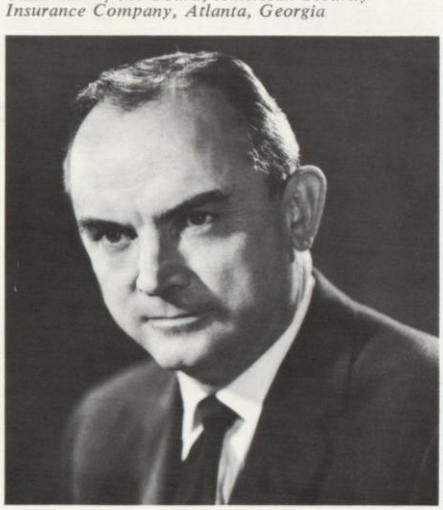


O. R. Moore
Chairman of the Board, American Security Insurance Company, Atlanta, Georgia

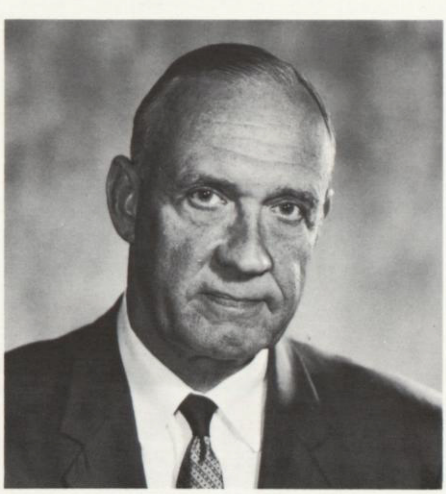


William H. Osborn, Jr.
Partner, Lehman Bros., New York, New York

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

The Greeks

Western civilization was born with them

When he said, "The unexamined life is not worth living," Socrates distilled the essence of the Greek spirit. All Greek accomplishment flows out of this code. The process of "knowing themselves" was a way of life for the ancient Greeks. Nothing in the total of experience failed to challenge their imaginations. And out of their collective genius, a new world emerged from disorder and darkness.

In a sense, all Western civilization has been a re-enactment of the dramas of thought and action originated in classical Greece. Art and architecture, music, sports, government, religion, science, philosophy, economics . . . all perfected by their inventive touch.

But what would we have gained from the Greek way of life had they not developed a polished literary sense? Many ancient races exist today only as shadowy remnants because they left no coherent written record. For whatever reason, the Greeks were compelled to put their experiences in writing. They invented a language to express new ideas and abstract feelings and the literary forms to contain this expression. Their literature, perhaps, is their greatest single innovation.

The Greek historians, poets, philosophers, scientists, politicians and playwrights left an indelible record of their times and ideas and dreams. Out of this record, we who followed have been able to resurrect the poetry, the ideas and the principles that resulted in the flowering of Greek culture and the foundation of our own.

Again, Socrates has the last word: "I am a citizen, not of Athens, nor of Greece, but of the world."

Ling-Temco-Vought, Inc. Annual Report 1966

on building lasting values—through innovation