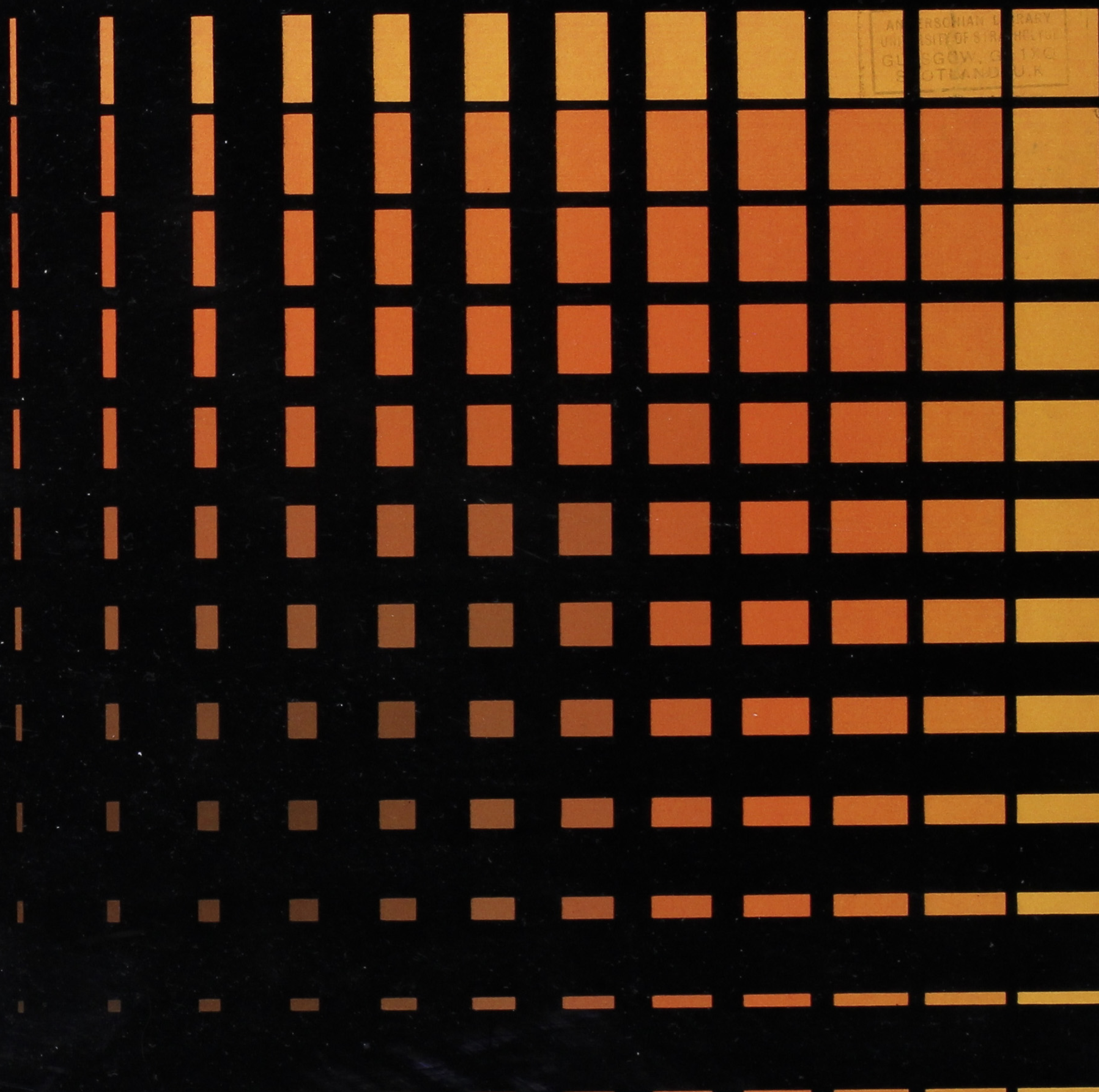
Litton Industries, Inc. 1979 Annual Report



Litton Industries, Inc. and Subsidiary Companies
Annual Report for the Fiscal Year Ended July 31, 1979

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Corporate Profile

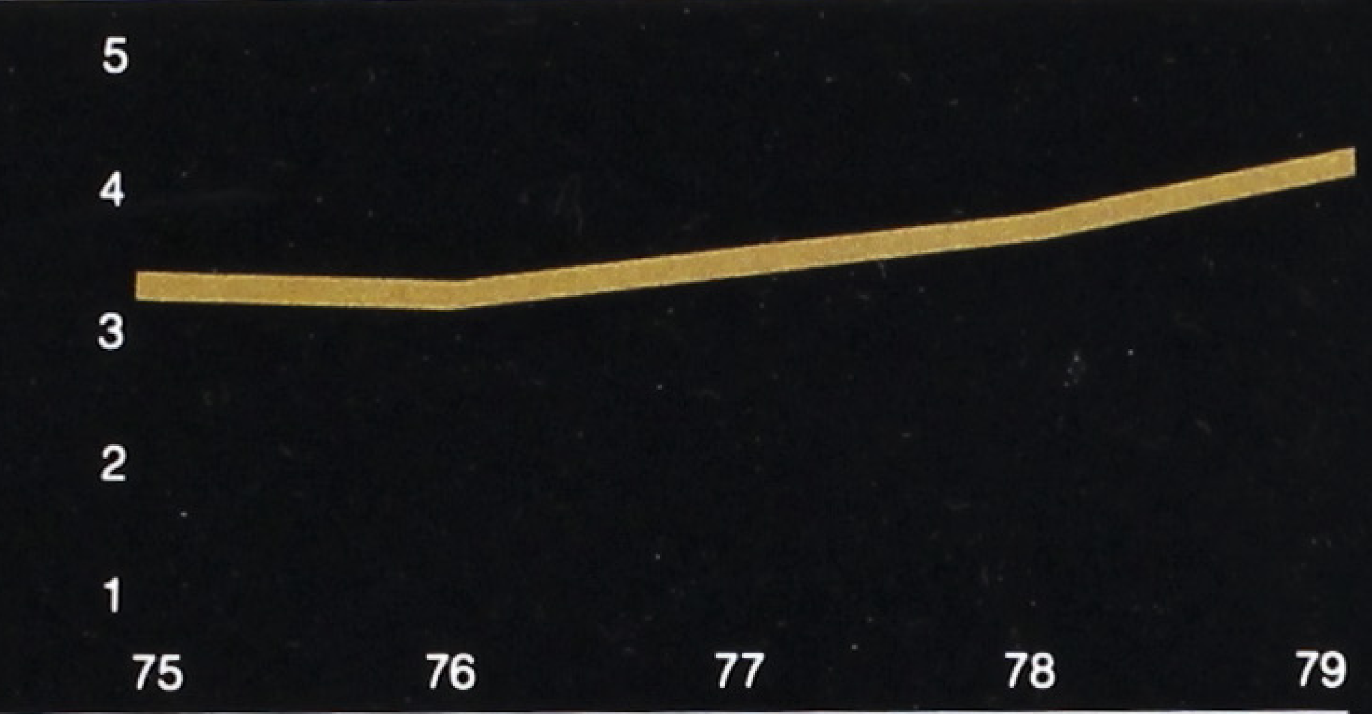
Litton Industries is a major industrial corporation serving worldwide markets for commercial, consumer, industrial, professional and defense-related products. The company assigns a high priority to constantly expanding its scientific and technological base, as evidenced by its approximately 4,500 U.S. and foreign patents and pending patent applications. The proprietary character of its operations also is reflected by more than 900 Litton trademarks. Today, more than 13,000 Litton scientists, engineers and technicians are working in fields which range from microelectronics to molecular biology, from seismology to toxicology, from optics to robotics and from chemistry to metallurgy. The company's major business areas include: Business Systems and Equipment; Industrial Systems and Services; Electronic and Electrical Products; Paper, Printing and Publishing; Advanced Electronic Systems; and Marine Engineering and Production.

About the Cover

Color values and geometric forms symbolize Litton's continuing progress toward achieving its long-range goals.

Operating Performance Indicators

Sales
in billions

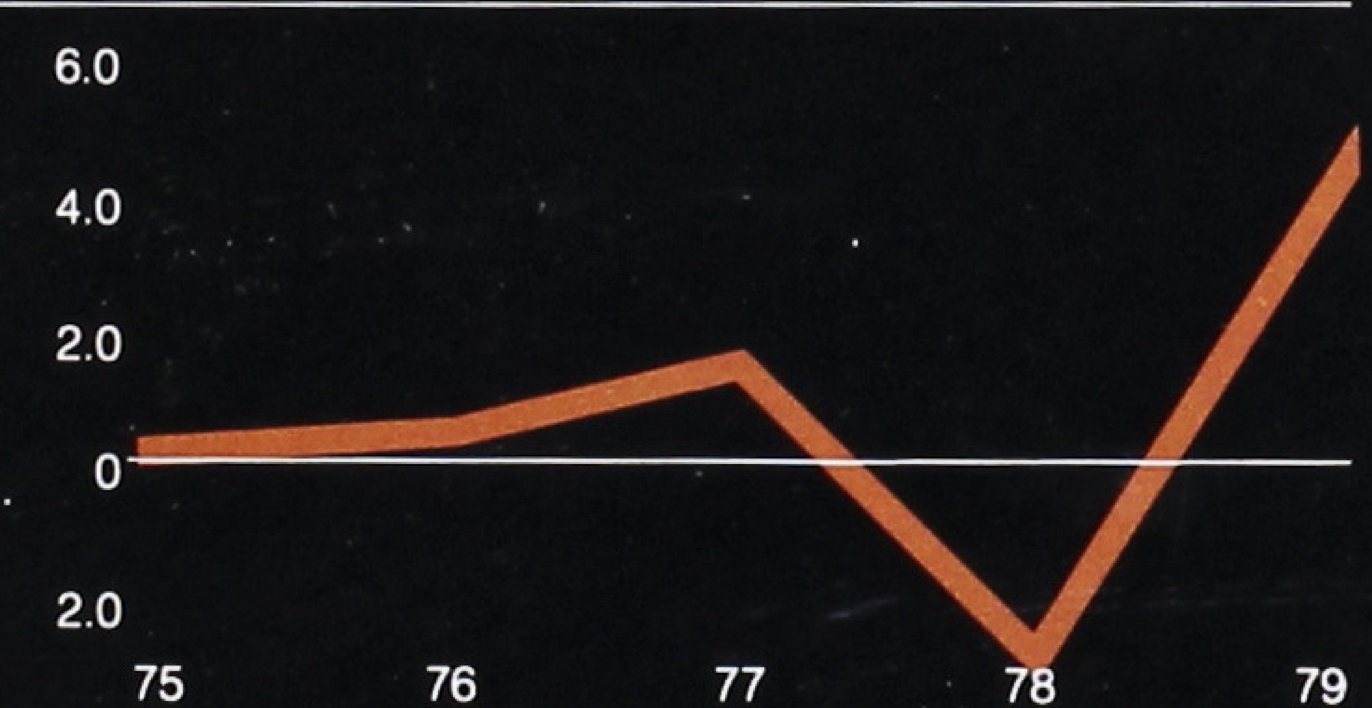


Over the past five years, Litton's business volume reflects a steady shift in sales "mix". . .

Operating Profit
(Before currency adjustments and 1978 Navy contract settlement.)
in millions

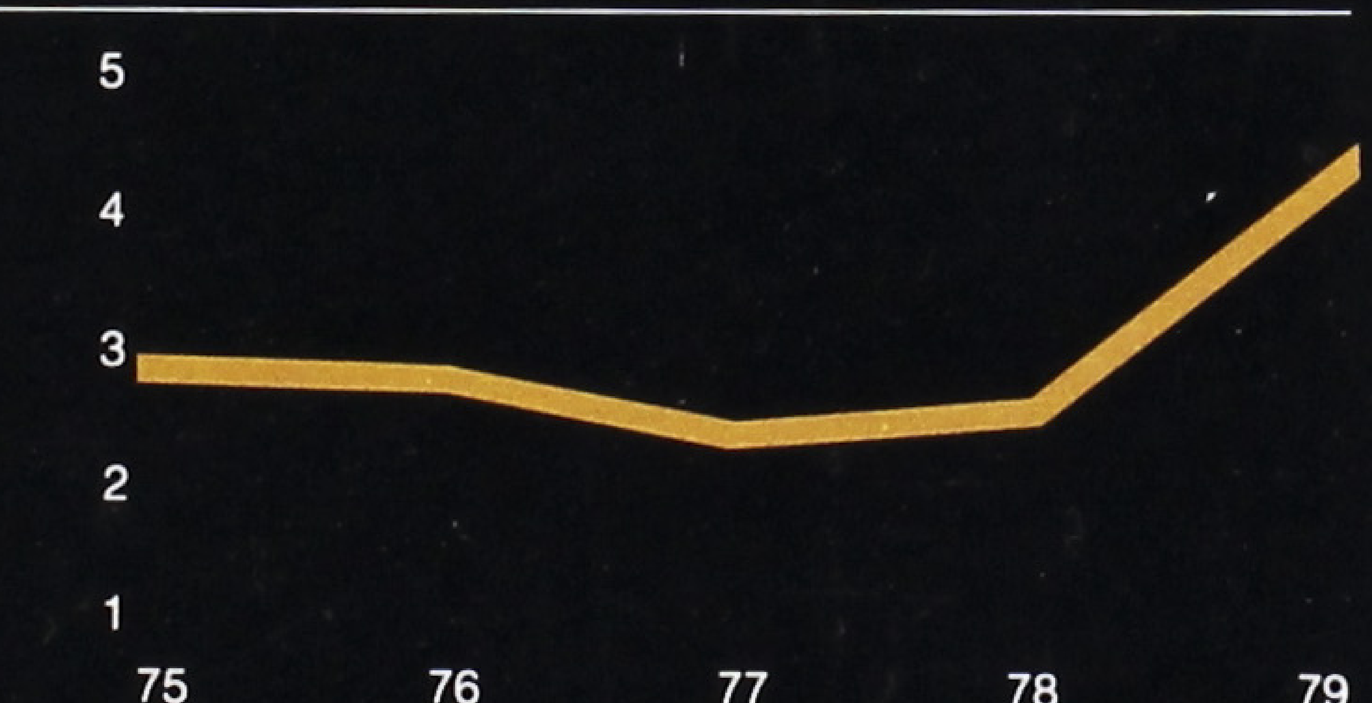
Toward stable, long-term markets where the company's competitive strengths could generate greater profitability.

Net Earnings as % of Sales



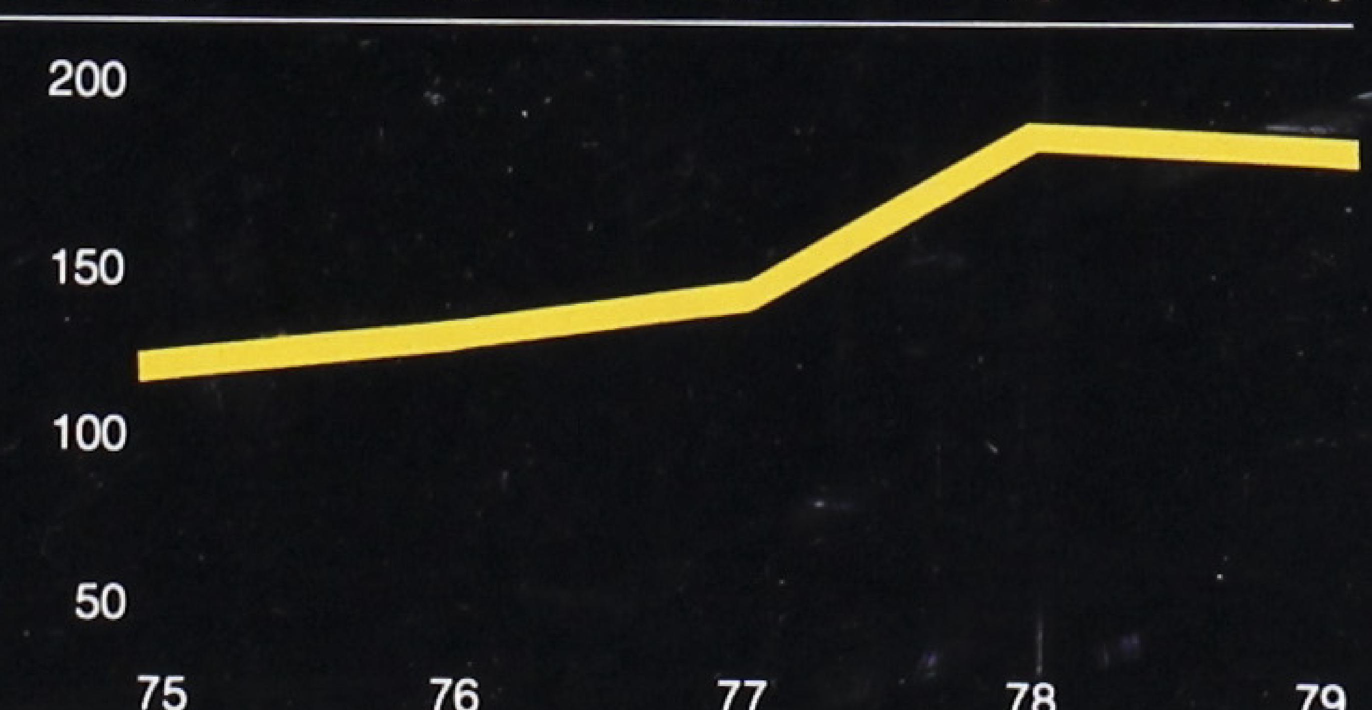
This strategy is enabling Litton to achieve improvement in the company's overall profit margin.

Backlog
in billions



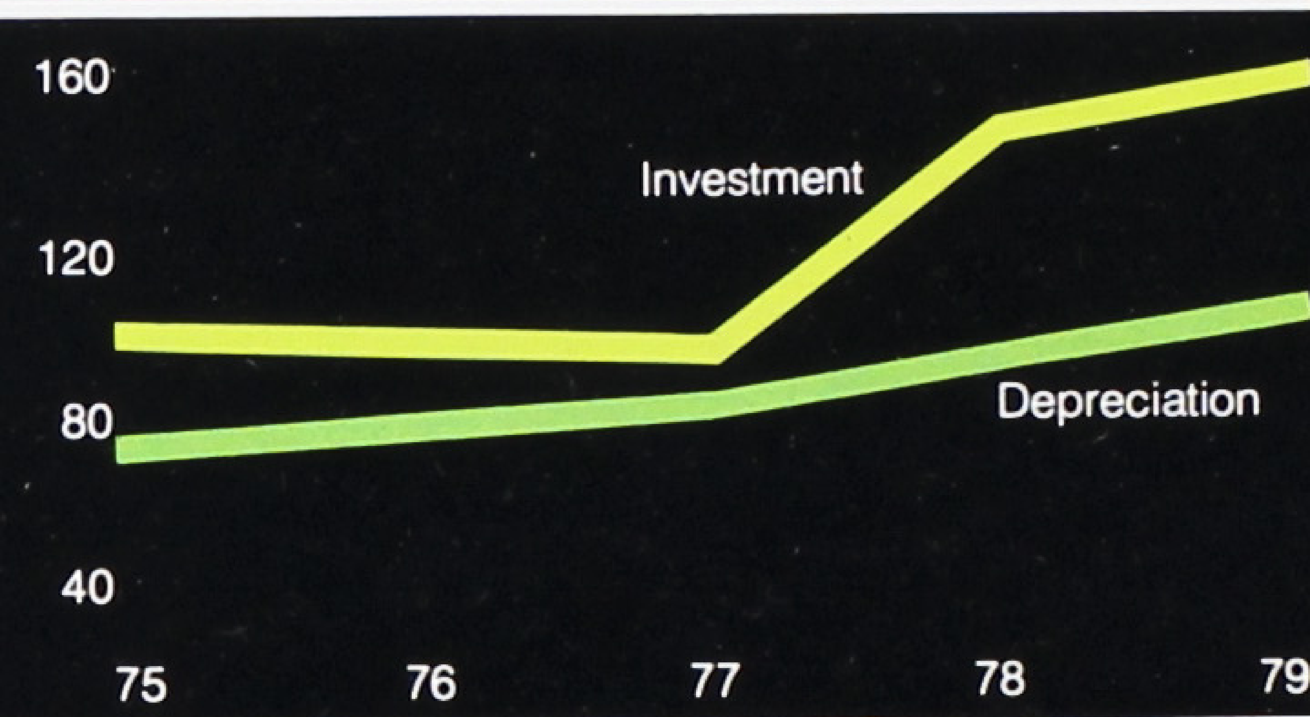
In addition, backlogs have reached all-time highs in most product categories, even though two major ship contracts are nearing completion.

R&D Expenditures
in millions



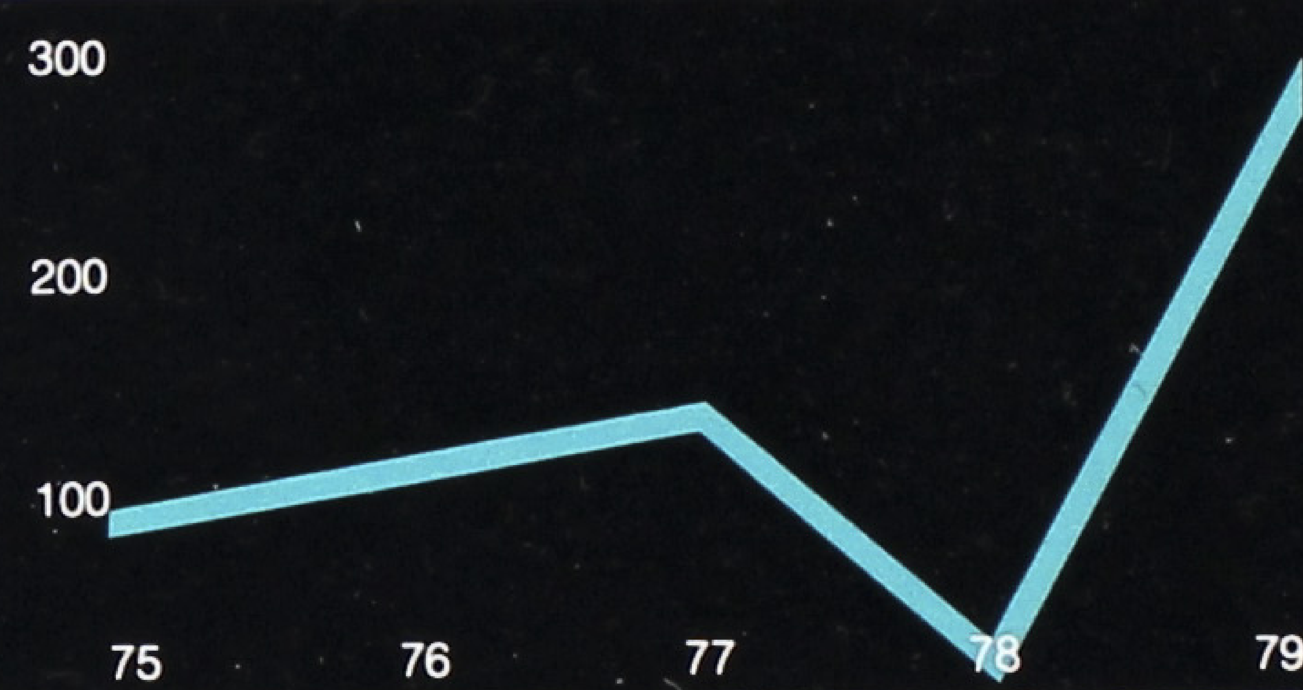
This has been largely due to the expenditure of over $750 million for designing, developing and testing new and improved products . . .

Capital Investment and Depreciation
in millions



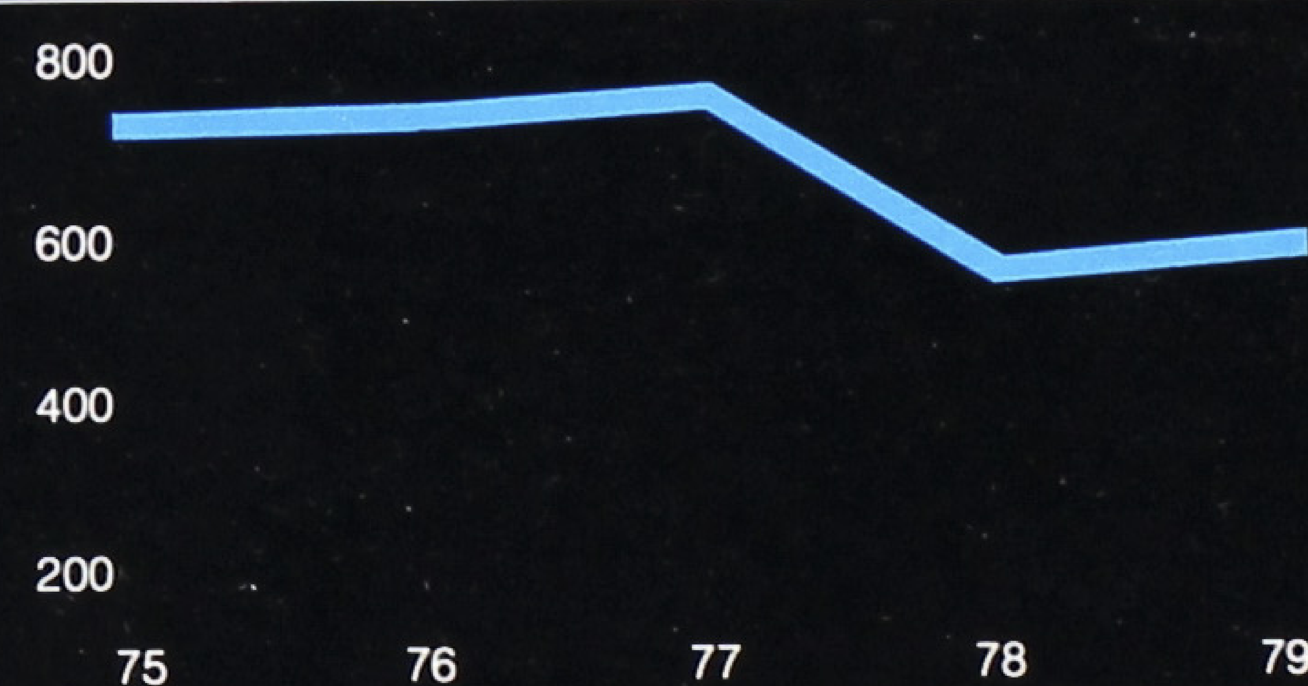
And to investment of over $600 million in new capital assets to increase productivity and provide for expansion in growing markets.

Cash Flow from Operations
(Net Earnings plus Depreciation)
in millions



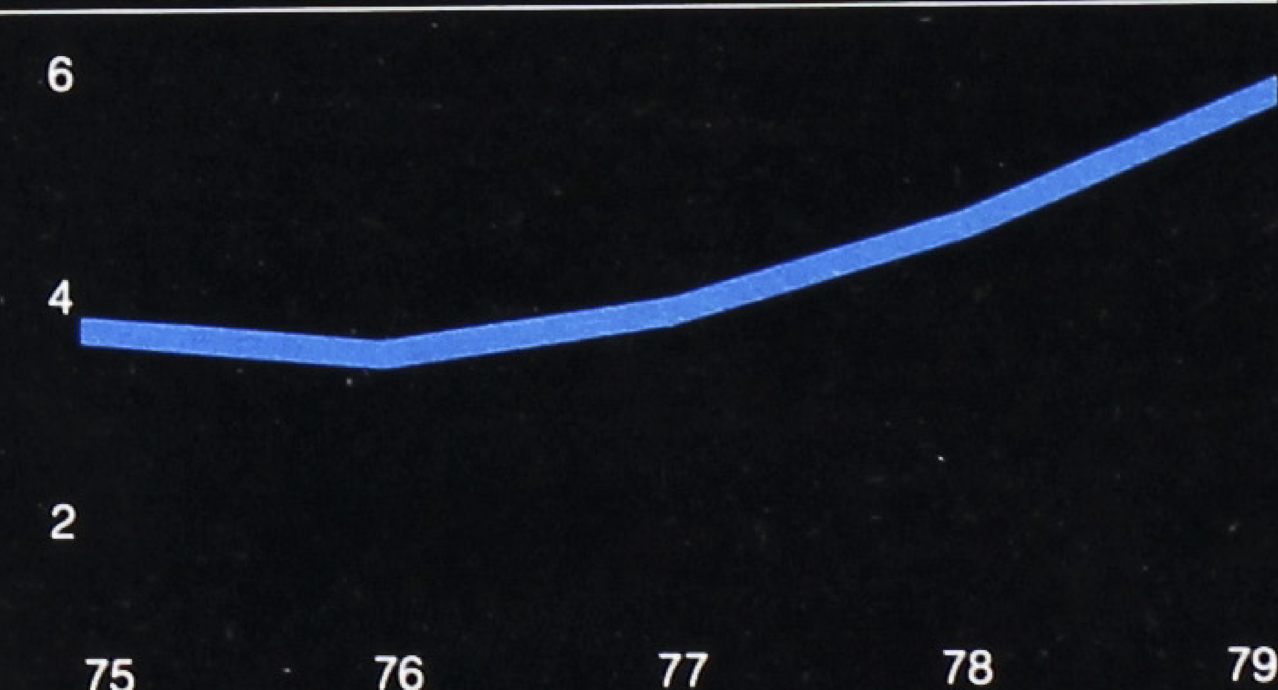
Rapid customer acceptance of Litton's products has helped generate a substantial cash flow to finance further progress.

Net Working Capital
in millions



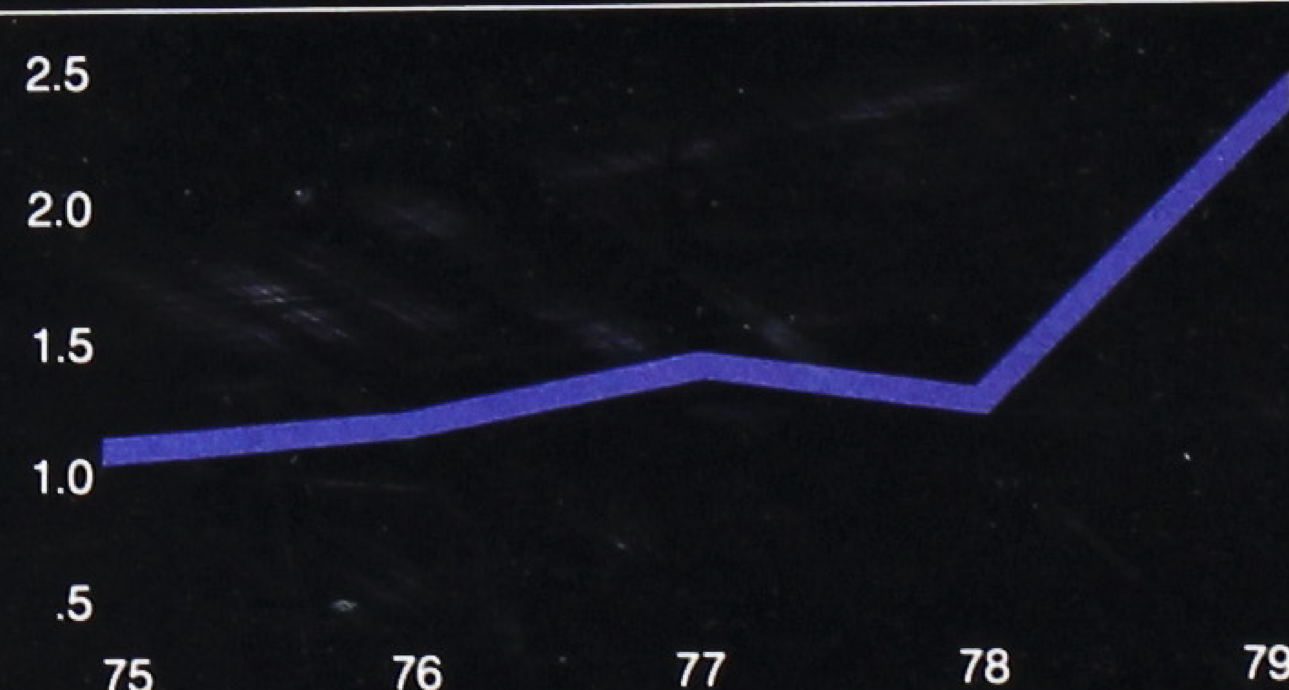
Litton's balance sheet remains strong though important new programs are requiring substantial pre-production cash outlays.

Net Working Asset Turnover



Established and effective asset-management programs are continuing to result in more intensive asset utilization.

Ratio of Equity to Long-Term Debt



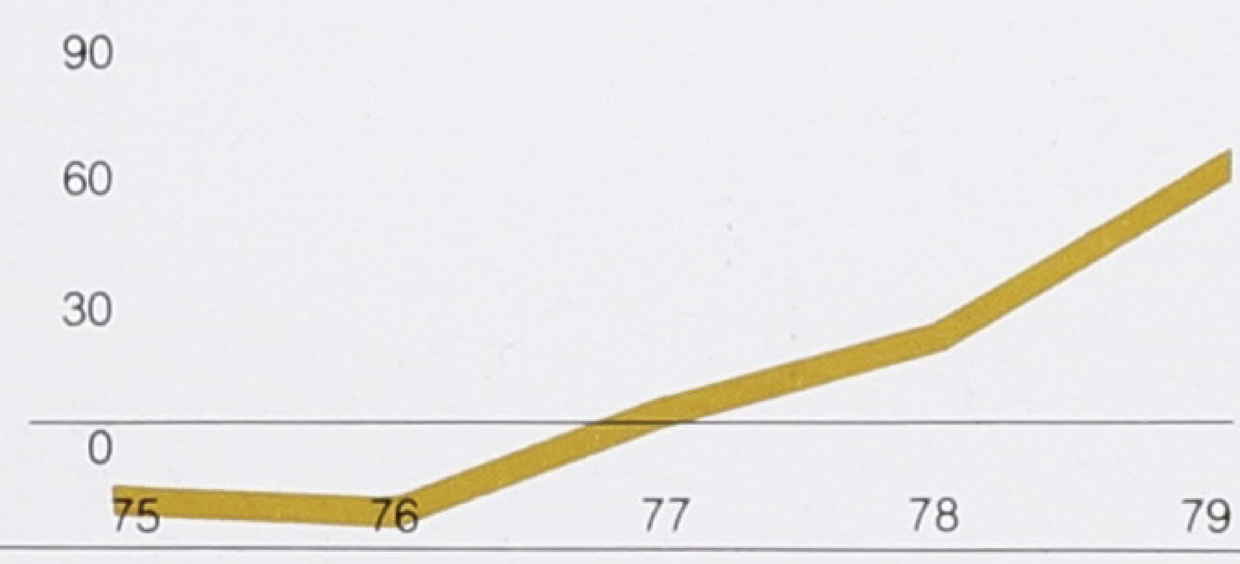
The company's capital structure is comfortably weighted in favor of equity, providing a very high degree of flexibility for decision making.

Operating Trends 1975-1979

Business Systems and Equipment

Segment Results	(millions of dollars)	
Fiscal Year	1979	1975
Sales:	$1,098.7	$849.4
Operating Profit (Loss):	62.5	(15.5)
Capital Expenditures:	31.8	22.2
Depreciation:	20.9	20.7
Number of Employees:	13,100	31,600

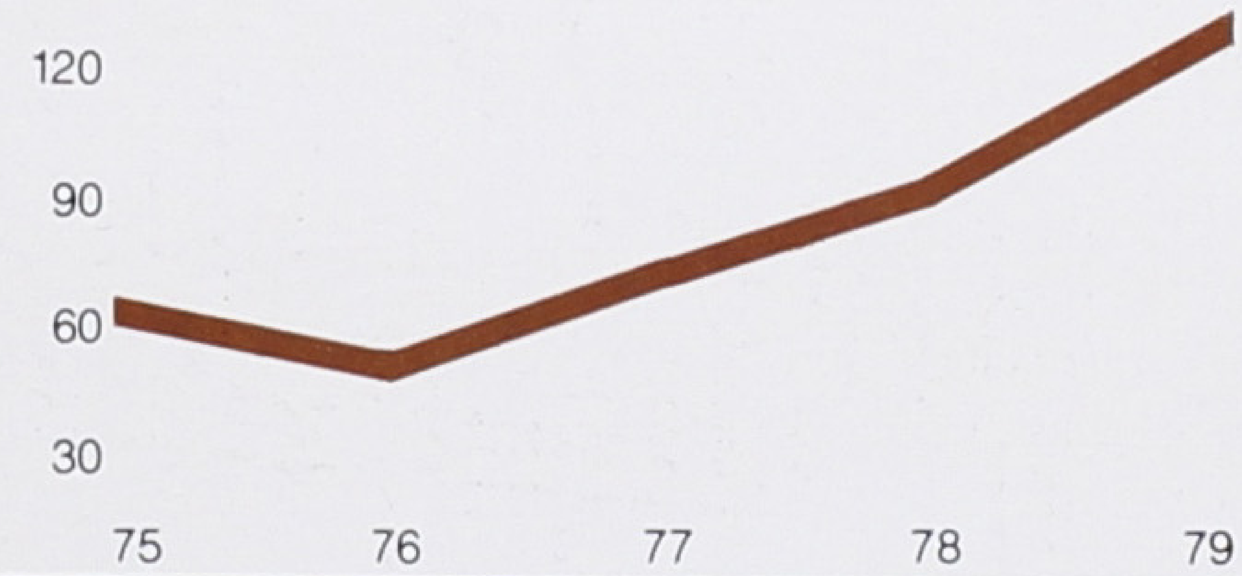
Operating Profit



Industrial Systems and Services

Segment Results	(millions of dollars)	
Fiscal year	1979	1975
Sales:	$780.5	$511.6
Operating Profit:	133.1	66.6
Capital Expenditures:	61.0	44.7
Depreciation:	34.1	23.2
Number of Employees:	13,600	12,000

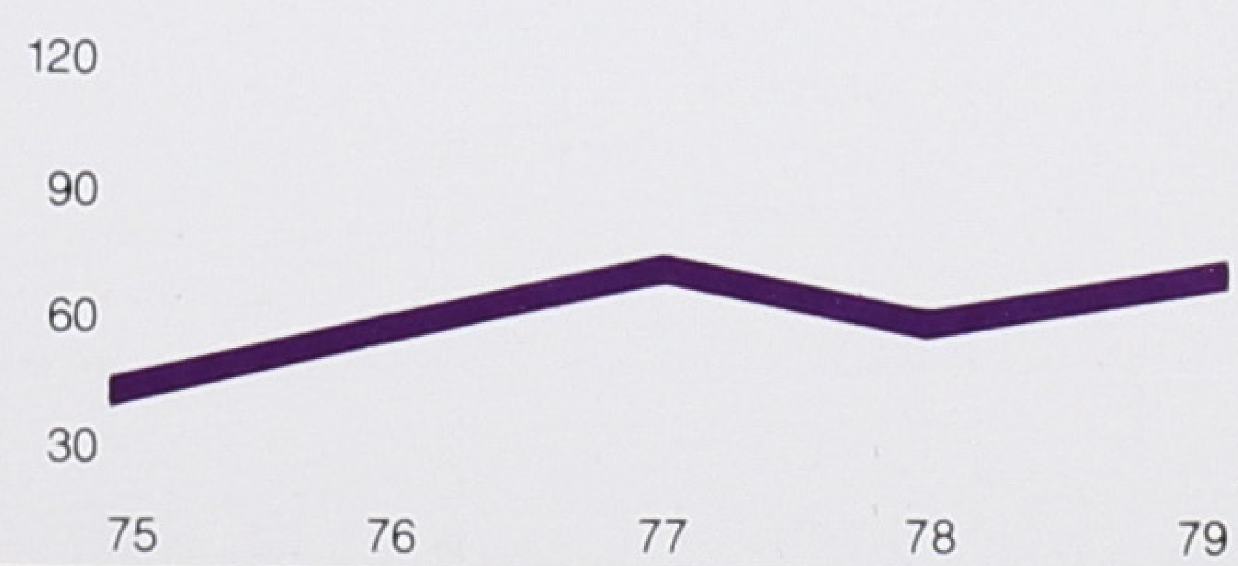
Operating Profit



Electronic and Electrical Products

Segment Results	(millions of dollars)	
Fiscal Year	1979	1975
Sales:	$794.8	$594.8
Operating Profit:	73.0	47.6
Capital Expenditures:	23.1	12.4
Depreciation:	11.9	6.9
Number of Employees:	15,900	14,900

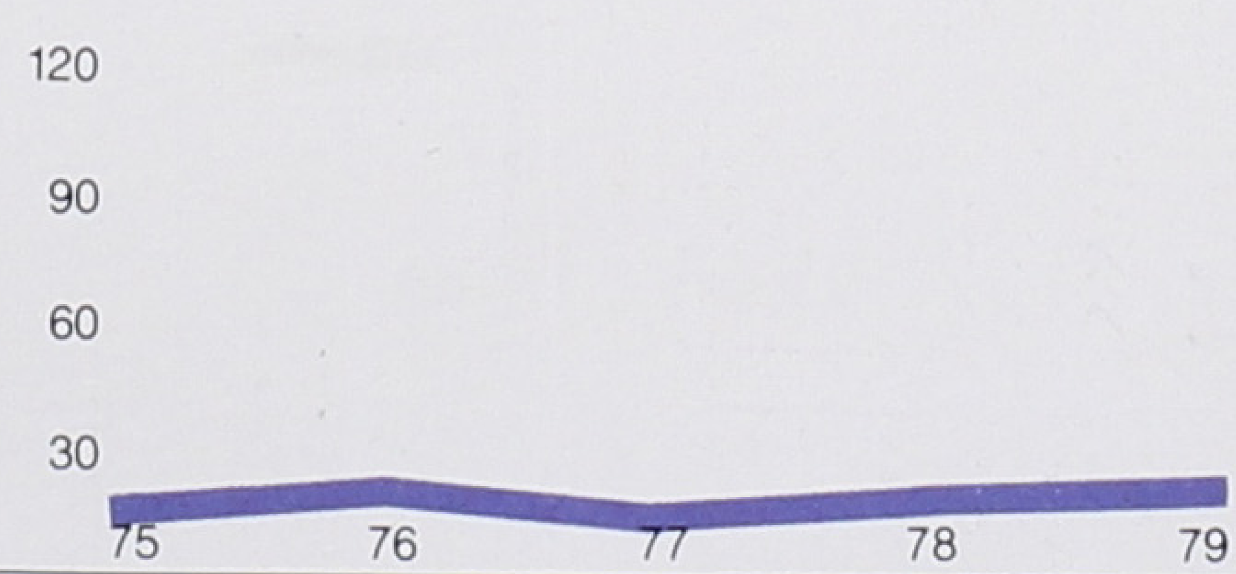
Operating Profit



Paper, Printing and Publishing

Segment Results	(millions of dollars)	
Fiscal Year	1979	1975
Sales:	$341.5	$252.0
Operating Profit:	23.2	20.2
Capital Expenditures:	15.3	8.4
Depreciation:	11.1	7.0
Number of Employees:	4,800	4,100

Operating Profit



Advanced Electronic Systems

Segment Results	(millions of dollars)	
Fiscal Year	1979	1975
Sales:	$579.1	$448.1
Operating Profit:	61.9	39.0
Capital Expenditures:	20.8	7.1
Depreciation:	9.5	4.2
Number of Employees:	12,400	11,700

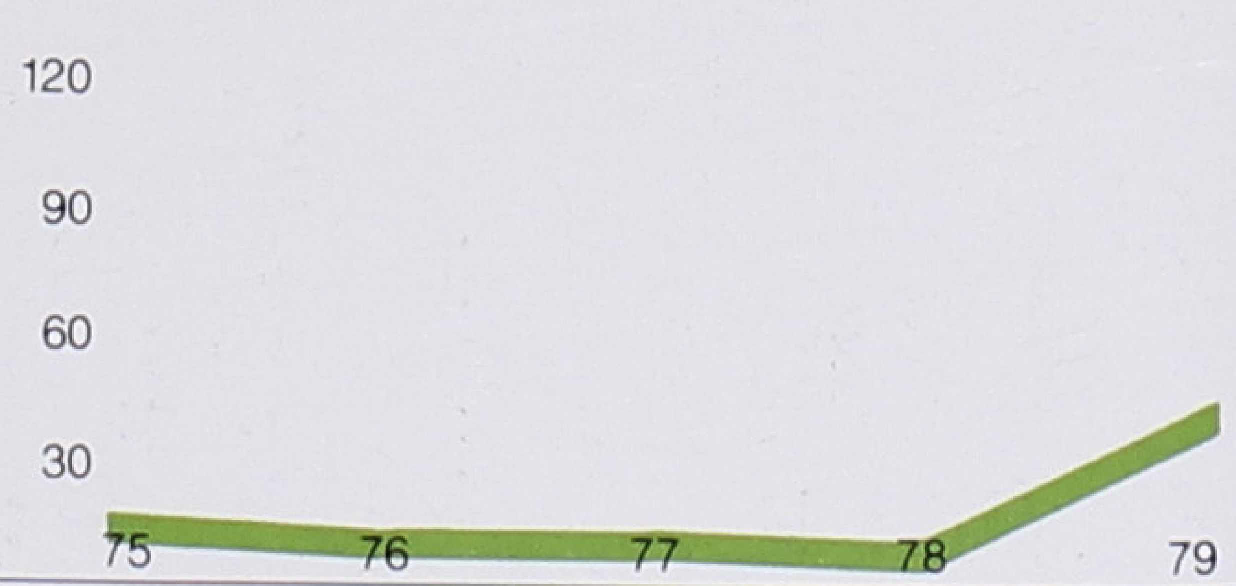
Operating Profit

Marine Engineering and Production

Segment Results	(millions of dollars)	
Fiscal Year	1979	1975
Sales:	$547.4	$904.6
Operating Profit:	44.1	17.0
Capital Expenditures:	5.9	9.2
Depreciation:	15.5	13.5
Number of Employees:	17,900	22,700

*(Before 1978 Navy Contract Settlement)

Operating Profit*



Major Product Lines	Business Analysis
Business Furniture/Store Fixtures Calculators Electronic Accounting Systems Electronic Cash Registers Office Products & Supplies POS Retail Information Systems Point-of-Receipt Retail Information Systems	The Business Systems and Equipment operations continued to improve their profitability, earning $62.5 million compared with $25.1 million in fiscal 1978. The electronic calculator and accounting system operations, as well as the office furniture divisions, performed at or near record levels, and the Sweda International point-of-sale (POS) retail-information-system and electronic-cash-register division further strengthened its worldwide market position. Progress in these divisions has been highlighted by exceptionally strong customer acceptance of new products featuring the latest electronic technology.

Major Product Lines	Business Analysis
Cutting Tools Geophysical Instrumentation Geophysical Surveys Hand Tools Machine Tools Material-handling Systems & Products Specialty Metal Products	The Industrial Systems and Services divisions increased their profitability by 40 percent, attaining an operating profit of $133.1 million compared with $95.4 million a year ago. All three product-market areas achieved new highs in performance as worldwide capital spending increased sharply in response to needs for more industrial productivity, more energy and more-efficient transportation. These operations continue to benefit from their leadership positions in technology, product design, production efficiency and customer service. While product shipments exceeded year-earlier levels by 27 percent, incoming order rates were even stronger, resulting in a 35 percent increase in combined backlog.

Major Product Lines	Business Analysis
Computer Components Magnetic Components Medical Systems & Services Microwave Ovens Servo Components Specialty Motors & Products	Operating profit in the Electronic and Electrical Products divisions was up 19 percent, totaling $73 million compared with $61.5 million a year ago. This improvement was due primarily to a record-setting performance in the Electronic and Electrical Components divisions and to a substantial gain in profitability in the Medical and Electronic Products area. While Litton Microwave Cooking Products was impacted by a highly competitive environment and vendor production problems, the division nearly matched last year's record sales. Promotional programs initiated during the year stimulated business and increased market share, and the division begins fiscal 1980 with a record backlog.

Major Product Lines	Business Analysis
Coated Paper Products Educational Publishing Heat-transfer Products Printed Products Professional/Consumer Periodicals Specialty Papers	Profitability in the Paper, Printing and Publishing segment increased modestly, with operating profit rising to $23.2 million compared with $21.6 million a year ago. This improvement was due to record performance in the Specialty Paper, Printing and Forms area in response to high-level demand for a variety of products. Profitability in the Educational and Professional Publishing operations was reduced by substantial investments made to develop three new publications — two for health-care professionals and one for general-interest subscribers.

Major Product Lines	Business Analysis
Airborne Navigation Systems Command and Control Systems Communications Systems Electronic Signal Surveillance Systems Shipboard Electronics/Navigation Systems Software/Support	Operating profit in the Advanced Electronic Systems divisions increased to $62 million, reflecting the build-up on major production programs which recently completed engineering and acceptance testing. These operations represent an important part of Litton's high-technology capabilities, and they place a major emphasis on "state-of-the-art" R&D programs. The year's highlights included winning a $1.64 billion contract to provide a countrywide air defense system for Saudi Arabia, the strong order rate for commercial and military avionics, and the high production pace on two major U.S. Army command, control and communications systems.

Major Product Lines	Business Analysis
DD-963 Program DD-993 Program DDG-47 Program Industrial Products and Equipment LHA Program Navy Overhaul & Modernization	Performance at Ingalls Shipbuilding was highlighted by a sharp increase in operating profit, reflecting continuing productivity gains on all ship construction work, excellent performance on two new ship programs incorporating the highly successful DD-963 design, and the winning of incentive awards on the DDG-47-class destroyers. The division's operating profit was up from $10.4 million a year ago to $44.1 million. Ingalls continues to demonstrate the advantages and efficiencies of its modular shipbuilding techniques. During fiscal 1979, it delivered five DD-963 destroyers and two LHA (general purpose assault) ships to the U.S. Navy, all ahead of their delivery schedules.

Business Systems & Equipment

Monroe's 2880 model electronic calculator combines computer-like capability with a calculator's simplicity through use of proprietary software cartridges. This unit has helped Monroe strengthen its position in key markets.

The Business Systems and Equipment divisions continue to emphasize development of new and improved product lines capable of expanding the breadth and depth of their worldwide business base. They are contributing to improved productivity in many "white collar" occupations, using the latest electronic technology to simplify complex tasks, reduce errors, provide better decision-making data and generate cost savings.

The Monroe division enhanced its position as the leading U.S. electronic office calculator producer, achieving one of the best sales performances in its history. The major thrust came from strong customer demand for its new 2800™ Series of calculators. Monroe also made available multi-faceted financial programs from Litton Industries Credit Corporation, enabling customers to obtain their products and financing at a single source.

Approximately one-quarter of the 2800 Series' business volume came from the productivity-oriented, "high-end" programmable models, paced by the recently introduced 2880 unit, which combines computer-like capability with a calculator's simplicity through proprietary software cartridges. This model, and a new bond-trader calculator introduced during the year, enabled Monroe to improve its position significantly in important financial and commercial markets.

The division also continued to accelerate its pace in the small electronic accounting system area, increasing business volume by over 50 percent. In addition, Monroe introduced its first calculator line designed exclusively for its dealers in international markets. Significant increases in sales and new dealerships reflected the success of this effort.

Cole's steel office furniture lines (left) provide customers with an attractive and productivity-oriented environment for conducting business.

Kimball Systems' KODE 610 system (below) can automatically produce conventional or OCR-imprinted retail merchandising tags, labels from electronically stored purchase order data.

Sweda International's supermarket POS system (below) utilizes a patented laser-optical scanner and advanced software packages to give store managers the information and controls essential for successful and efficient operation. Consumers favor benefits accruing from faster checkout, more-detailed receipts.

Sweda International strengthened its position as one of only two full-line worldwide suppliers of POS (point-of-sale) equipment, setting records for sales, new incoming orders and backlogs. The division increased its installation of POS-system terminals and electronic cash registers (ECRs) by over 30 percent, and received many substantial orders from major retailers in the United States and abroad.

These gains were largely due to exceptional customer acceptance of 11 new ECR models designed for the food, general merchandise and hospitality markets and to a 90-percent increase in system installations, including supermarket systems which incorporate Sweda's highly regarded, patented laser-optical scanner.

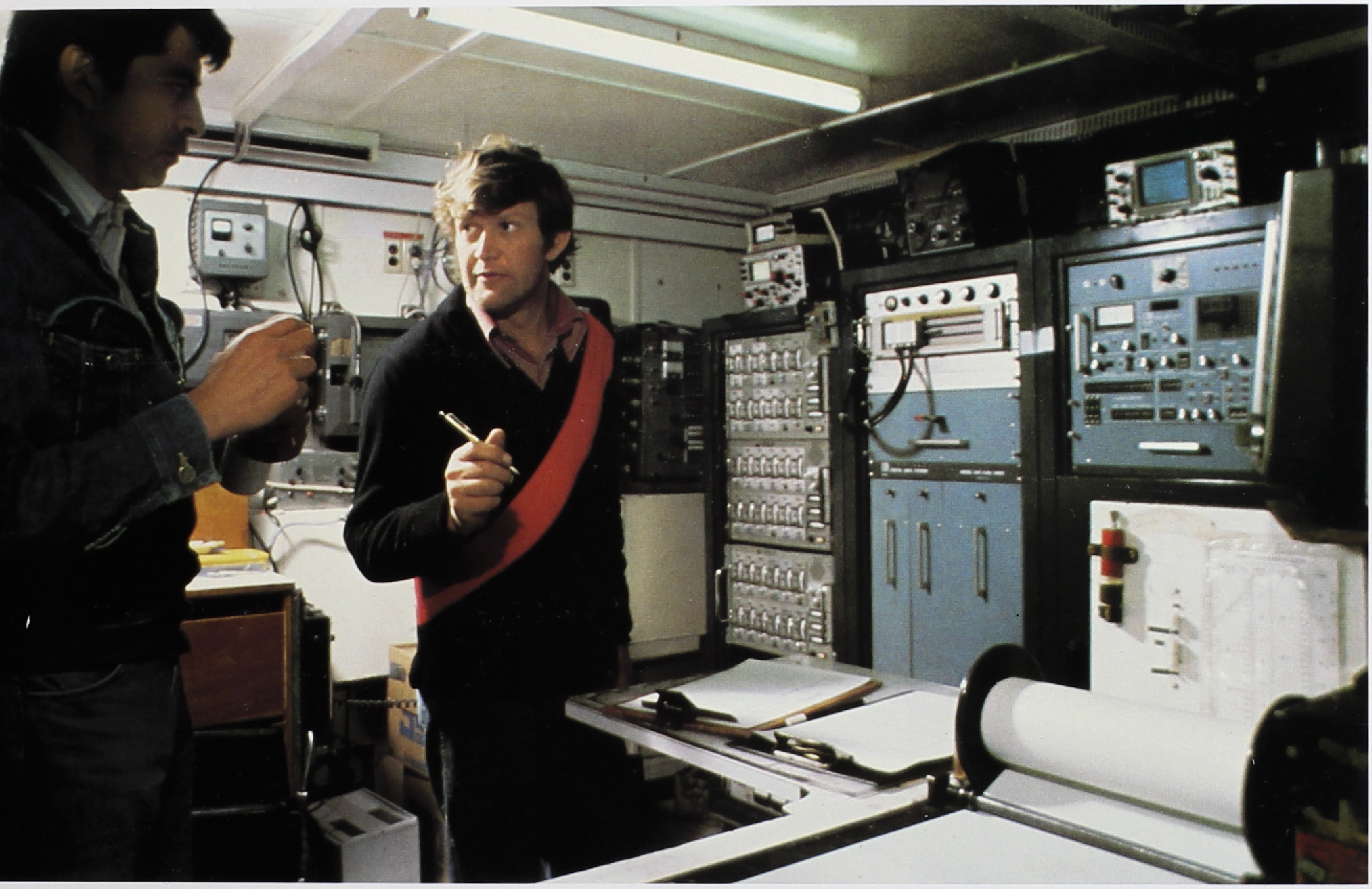
Sweda's R&D and marketing efforts are directed toward meeting retailers' specific needs through innovative hardware, software and system design. For example, Sweda recently announced the planned introduction of its L-70™ series of compact retail systems, which will make the benefits of POS affordable to a larger segment of the retail industry, accommodate anticipated future technological advances and meet retailers' growing requirements for expanded memory, data-collection and data-consolidation.

Sweda also is combining its POS "know-how" with its point-of-receipt capabilities, gaining a key competitive advantage by offering retailers a broader scope of automation. In this regard the division expanded U.S. sales of its Kimball KODE® 610 document-production system and prepared to introduce it in Europe. The system can automatically produce conventional or OCR (optical character recognition) - imprinted retail tags and labels from punchcards, cassettes, "floppy disks" or other memory devices.

The Litton Office Furniture divisions attained record-setting sales as the office construction industry continued to expand at a rapid rate. They also benefited from exceptional customer demand for several recently introduced wood and steel furniture lines.

The Cole and Lehigh-Leopold divisions in the United States, Standard Desk in Canada and ATAL in France are concentrating increasingly on developing furniture lines that provide buyers with a great degree of flexibility in office design without sacrificing the production efficiencies of standardization. This approach is typified by the company's Divider™ panel system, Centurion Series™ and Sculptures in Wood™ office furnishings. They enable planners to structure an office in its most productive configuration, and to change it easily and inexpensively whenever circumstances require a new working environment. The systems are also well-suited to accommodate telecommunications and word- and data-processing equipment.

Western Geophysical's fleet of seismic exploration vessels is outfitted with a wide range of sophisticated data-acquisition equipment and instruments produced by Litton Resources Systems, the only full-line supplier of these products for both land and marine crews.



The Machine Tool, Material Handling and Resource Exploration operations improved their shares of many key markets as record incoming order rates led to new highs in shipments, sales and backlogs. These divisions also took important steps to strengthen their future competitive positions.

The Machine Tool Systems Group ended fiscal 1979 with a backlog equal to nine months' sales, as its new-order rate was 20 percent above last year's record level and 22 percent higher than shipments. Business came from a broad customer base in the United States and overseas, with major impetus provided by demand from the automotive, petroleum and farm and construction equipment areas. Virtually every division achieved improved performance, with the greatest gains coming from New Britain Machine's automated machine tool operations and Union/Butterfield's cutting-tool business.

The machine tool-producing operations maintained their technological leadership, as company engineers worked closely with customers to develop even-more-productive grinding, metal-cutting, thread-rolling, gun-drilling and plastics injection-molding systems. Many of these units include numerical controls, programmable controllers or microprocessors which reduce waste, error and set-up time. They also incorporate sensing devices for continuous maintenance.

The company's hand tool, cutting tool and specialty metal products divisions continued to expand markets in fields ranging from proprietary self-lubricating bearings to new "chipless" thread-rolling applications. Progress was highlighted by New Britain Tool's increasing hand tool sales to professionals and in consumer markets, where it began selling products under the Litton brand name for the first time. Contromatics introduced a new series of butterfly valves which can function in temperatures up to 1400 degrees F. and down to −360 degrees F. for petrochemical and cryogenic applications.

Litton UHS's Automove™ "miniload" system (left) is essentially an automatic warehouse for small items. It improves inventory controls and space utilization, generating cost savings.

Gardner Machine's double-disc grinding system (below) incorporates programmable controller for efficient high-rate production of precision automobile brake components.

The Material Handling operations increased sales by 30 percent and backlogs by 18 percent. The largest contributions came from Litton UHS, which continues to capitalize on its ability to provide customers with a high degree of automation and reliability in virtually any kind of industrial storage and retrieval system. This rapidly growing automated line supplements the division's traditional leadership in the engineered conveyor system field.

Litton UHS is well-positioned as industrial companies show increasing interest in the automation and control of manufacturing and distribution popularly called the "automatic factory." The division possesses outstanding capabilities in engineering, robot vehicles, stacker cranes, palletizers, controls and computer software, and it is familiar with the requirements of most major industries. During the past year, Litton UHS successfully worked on large contracts in the food processing, transportation and defense-related industries.

In the bulk-handling area, Robins Engineers and Constructors (RE&C) doubled its sales volume and won two major new contracts. These awards were for: Design, engineering and installation of the first U.S. computer-controlled circular-bed blending system for the storage and prehomogenization of raw materials; and construction of a conveyor for carrying 66 million tons of overburden to the site of a large earthen dam being built in Sonoma County, Calif.

The Litton Resources Group also achieved a 30-percent expansion in business volume as the worldwide search for gas, oil and other strategic minerals continued to increase in urgency. The Western Geophysical division's land and marine seismic exploration crews were active in many geographic regions, with much of their work being done in Alaska, the western United States and Canada, and the Gulf of Mexico. The vast amount of seismic data generated led to a planned expansion of the division's computer centers in Denver, Calgary, and London, where data are enhanced, analyzed and interpreted.

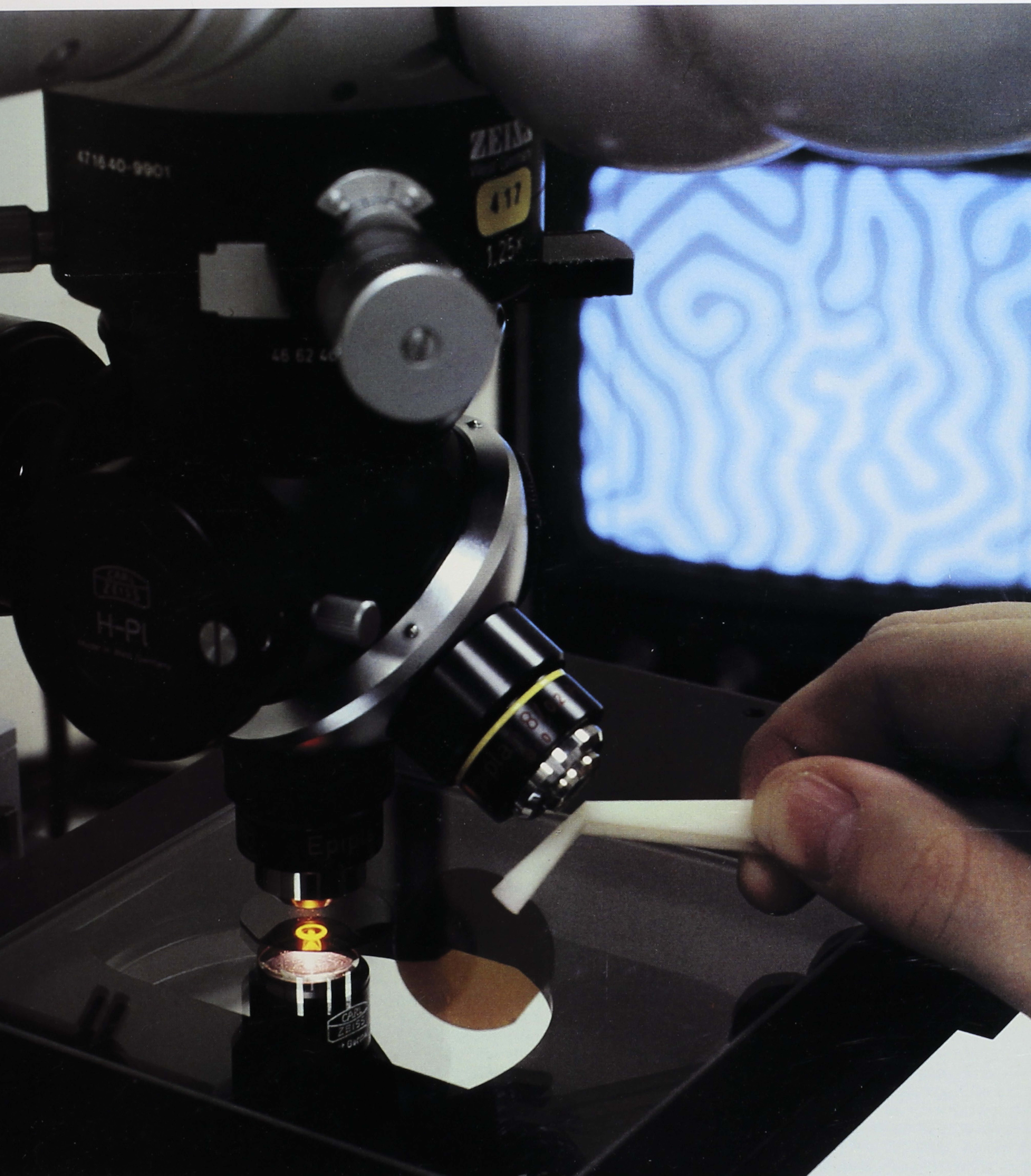
Western Geophysical also continued to benefit from new technologies. Its geologists further improved their data evaluation by using color in computer-generated cross sections of underground geological formations to distinguish between different types of rock, and its Kiloseis® seismic-recording cables permitted changes in marine cable-recording configurations through simple component substitutions, eliminating the time-consuming conventional practice of physically changing two-mile-long cables.

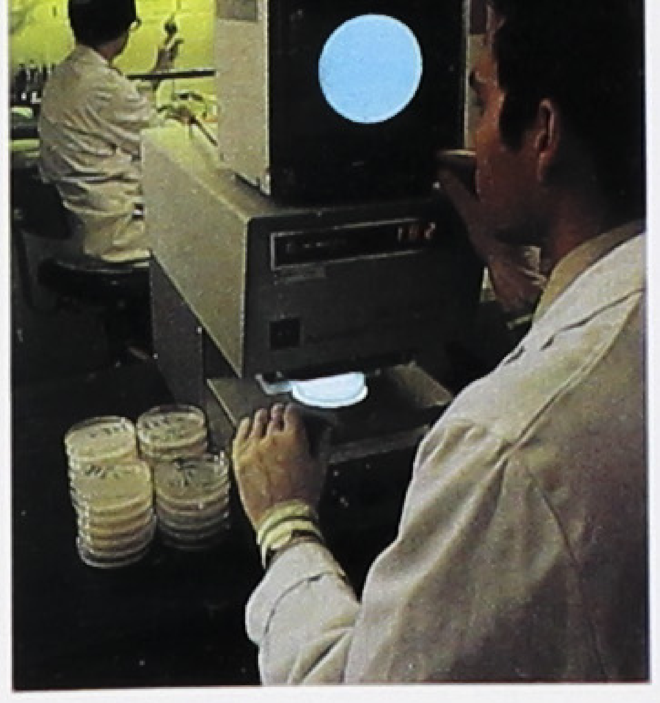
Litton Resources Systems bolstered its position as the only full-line supplier of land and marine seismic instrumentation and equipment for exploration crews. The division expanded its capabilities to supply seismic cables, geophones and hydrophones; and began construction of a new facility that will increase its marine-cable and energy-source production by 50 percent. It also developed a large-capacity air gun which will significantly reduce maintenance and operating costs on marine surveys; a massive six-wheel vehicle for transporting a new broad-band vibrator over virtually any terrain; and data-acquisition and -processing systems which substantially increase capabilities for gathering and processing seismic data in the field.

Aero Service flew numerous magnetic and spectrometric surveys from the Arctic to the Sahara. The division has expanded its digital-processing technique to include enhancement of Landsat satellite imagery to better pinpoint encouraging areas for on-site exploration. It has also developed advanced digital photogrammetric methods to convert aerial photographs and map information into a computerized data-base for easy manipulation in many applications. Aero Service continues to demonstrate the superiority of its high-resolution, synthetic aperture airborne radar (SAR) as a remote-sensing system for geological detail.

Electronic & Electrical Products

Airtron's high-purity substrate wafers are key component of magnetic domain "bubble" memories for computers. Video screen shows magnification of domains where digital data is stored. Bubble memories provide expanded storage capacity, retain data if power is lost.





Litton Bionetics' strongest growth area is its biosafety testing business (left). This work centers around tests of pharmaceuticals, agricultural and industrial chemicals, food additives and numerous other consumer products.

Litton Microwave Cooking Products' Meal-In-One countertop ovens (below) give consumers unsurpassed convenience in the kitchen.

The Electronic and Electrical Products divisions again demonstrated their ability to identify and capitalize on opportunities well-suited to their capabilities, serving a diverse customer base as efficient and reliable suppliers of high-quality precision products and life-science services. An increasingly important part of their sales is being achieved in export markets.

The servo and computer component divisions set new performance records, with the servo operations benefiting from strong demand for a wide range of aircraft cockpit instrumentation, high-speed printers and close-tolerance controls used in machine tools. The computer component divisions expanded business volume by more than one-third. The largest contributions came from electrical connectors and printed circuit boards which are essential elements of computers, telecommunications equipment, peripheral devices and other office equipment. In addition, the Airtron division continued to build its position as a supplier of high-purity substrate materials for magnetic domain "bubble" memories, supplementing its position as the leading U.S. supplier of laser rods for high-technology applications. Litton Fastening Systems further improved its position as a major supplier of high-strength, high-temperature fasteners to the aerospace industry.

The magnetic component operations achieved a 20-percent sales gain, competing successfully in diverse fields ranging from night-vision devices to consumer electronics. The year's highlights included: Electron Tube's expanding its night-vision sales efforts into civil markets, such as law enforcement and oil exploration; its winning major new orders for traveling-wave tubes used in a variety of avionic systems; and Triad-Utrad's strong order rates for microwave oven power packs.

Louis Allis not only strengthened its competitive position in traditional specialty motor markets, but also made its entry into a number of new business areas. They included microprocessor-controlled drives, energy-efficient motors, large alternators and compressors. As a result, the division gained its first significant orders from the petrochemical industry and won key contracts to supply all drives and controls for a major automotive assembly plant and all large motors for two important power-generating stations.

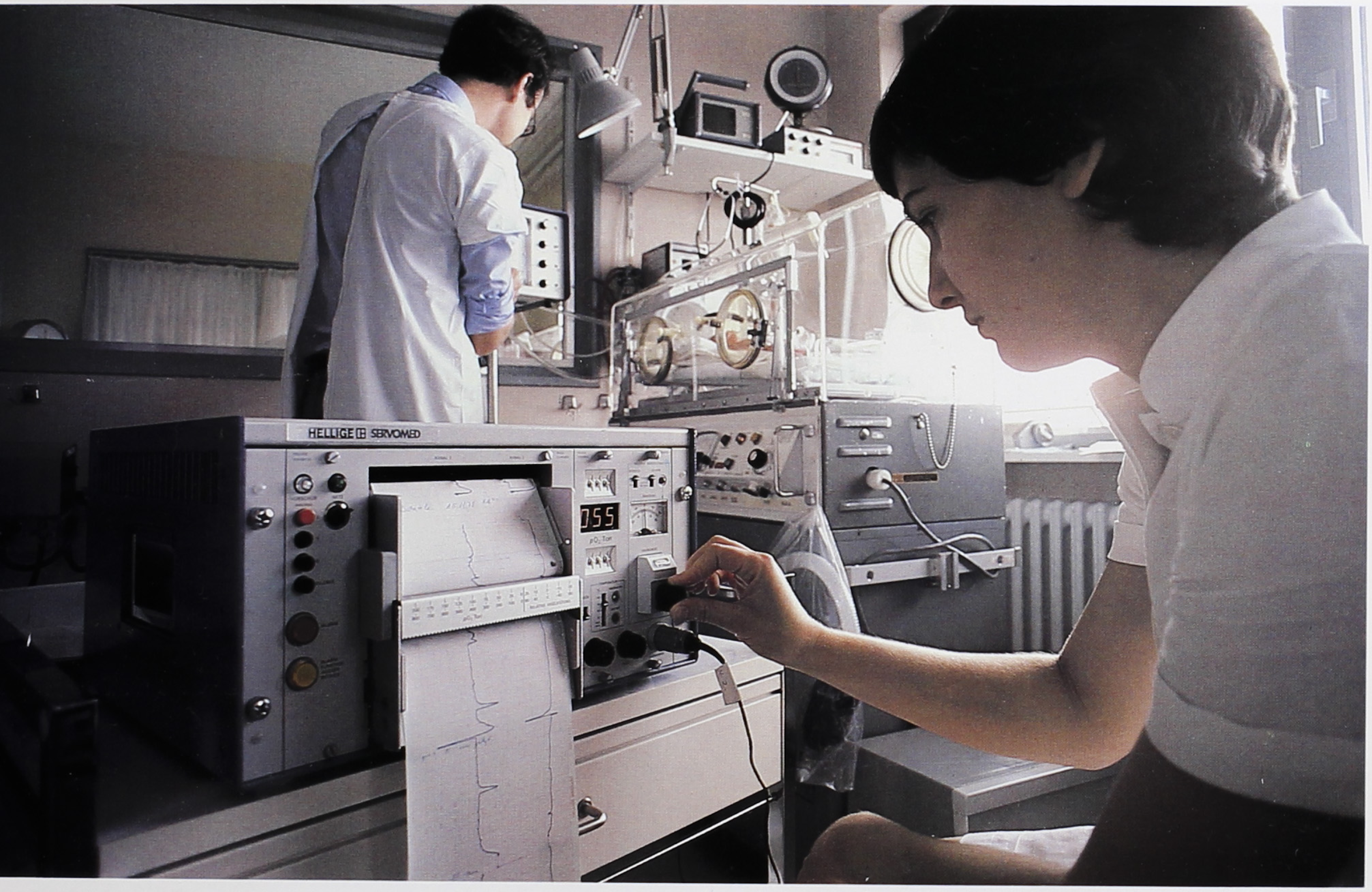
In the Medical and Electronic Products area, Hellige again produced a record performance. The Freiburg, West Germany-based division was particularly successful in exporting its cardiovascular diagnostic, patient-monitoring and therapeutic systems. During the year, Hellige tripled its U.S. business volume — largely due to the continuing strong acceptance of its Oxymonitor® blood-oxygen-monitoring system, which obtains continuous readings without piercing the patient's skin. The division also made its first significant sales in Red China, following its participation in scientific symposiums.

Litton Bionetics' strongest growth came from its biosafety testing operations. The

Electronic & Electrical Products (continued)

Airtron's capabilities for "growing" single-crystal materials (right) have made it the leading supplier of high-technology, solid-state laser rods. The "boule" shown here will be fabricated to exacting optical integrity.

Hellige's Oxymonitor oxygen monitor (below) is particularly valuable in protecting premature infants from blindness, irreversible brain damage. These conditions can result from a child's getting either too much or too little oxygen.



division responded to an increasing demand for this type of work from U.S. industry, following new regulations issued by the Food and Drug Administration and the Environmental Protection Agency. A significant amount of this business also came from clients in Japan and Europe.

The division is concentrating on development of application skills to complement its existing capabilities in basic life-science research and technology, and its R&D is being focused on expanding its laboratory reagent and human diagnostic product lines. Additional development work is being directed toward the division's participation in the vast emerging market related to occupational health and safety.

Litton Microwave Cooking Products' sales improved substantially over the last half of fiscal 1979, exceeding the division's prior-year total and the industry's overall performance for that period by a wide margin. This momentum produced a record order input in July, as well as a record year-end backlog.

The division's achievement primarily reflected strong consumer demand for the Meal-In-One® models, which can cook three courses at once; an aggressive sales/promotion campaign, and the strengthening of its dealer and distributor commitments. These programs were complemented by: The negotiation of new private-label arrangements for countertop models and for combination ranges; continuing rapid sales growth in the European market; and entry into the microwave-cooking accessory market.

Litton Microwave Cooking intends to maintain its leading position in the marketplace and a good level of profitability, despite the challenge of continuing inflation and competing manufacturers. The division is placing major emphasis on product innovation and quality, effective advertising, superior merchandising and efficient production. Working toward the latter goal, Litton Microwave Cooking achieved productivity gains which increased its manufacturing capacity by over 35 percent without major capital expenditures.

Paper, Printing & Publishing

Fitchburg Paper's surgical papers (left) provide sterilization and protection for surgical instruments, serving as effective bacteria barriers.

Medical Economics' highly respected *Physicians' Desk Reference* annual directory (below) is recognized as the most authoritative source of prescription drug information available.

The Paper, Printing and Publishing divisions benefited from strong positions in key specialty markets and expanded their activities in response to new customer needs and requirements.

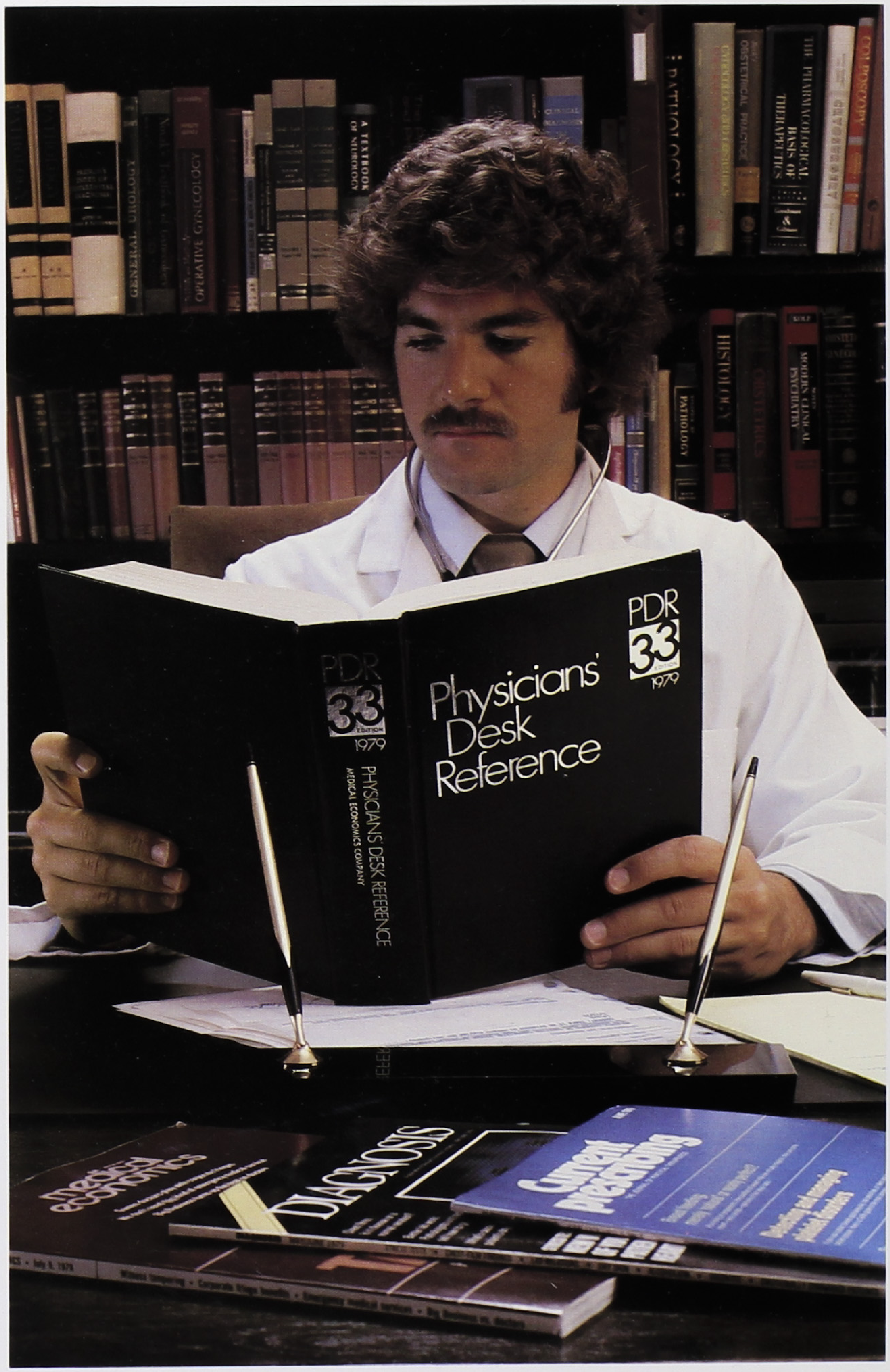
The paper-making operations increased sales by more than 20 percent, aided by an overall strengthening of world markets. Fitchburg, Fitchburg Coated Products, Valentine and Versoix combined to produce a record output of specialty products, including papers for decorative lamination, photocopying and facsimile use. In the general printing area, sales of computer forms continued to grow rapidly, and McBee Systems again emphasized aggressive marketing programs for popular manual-accounting systems sold in the vast small-business market.

Decotone's new Printworld™ dry-dye-transfer paper and designs gained acceptance in the U.S. garment industry, and Decotone-Permaco's record business volume reflected high-level demand for lamination paper from the housing and furniture markets in Europe.

Litton's Educational and Professional Publishing divisions increased sales by 10 percent, and paved the way for future growth by investing in three new publications. The year was highlighted by distribution of a record 1,150,000 copies of the *Physicians' Desk Reference®* annual, the authoritative ethical drug directory.

During the year, the Medical Economics division announced plans to publish a new *Physicians' Desk Reference for Nonprescription Drugs™* directory, beginning in 1980. It will be distributed to more than 285,000 doctors and pharmacists, providing them with the first comprehensive single source of nonprescription drug information. Medical Economics, which publishes a variety of periodicals and directories in the health-care field, also introduced *Diagnosis™* magazine, providing professional information for internists.

In the educational publishing area, D. Van Nostrand's college texts and Van Nostrand-Reinhold's scientific, reference and trade books continued to achieve strong growth. American Book strengthened its marketing program in the increasingly competitive elementary and secondary schoolbook field. Delmar attained a high business volume for its vocational and technical books. Van Nostrand-Reinhold Ltd. of Canada led international sales performance.

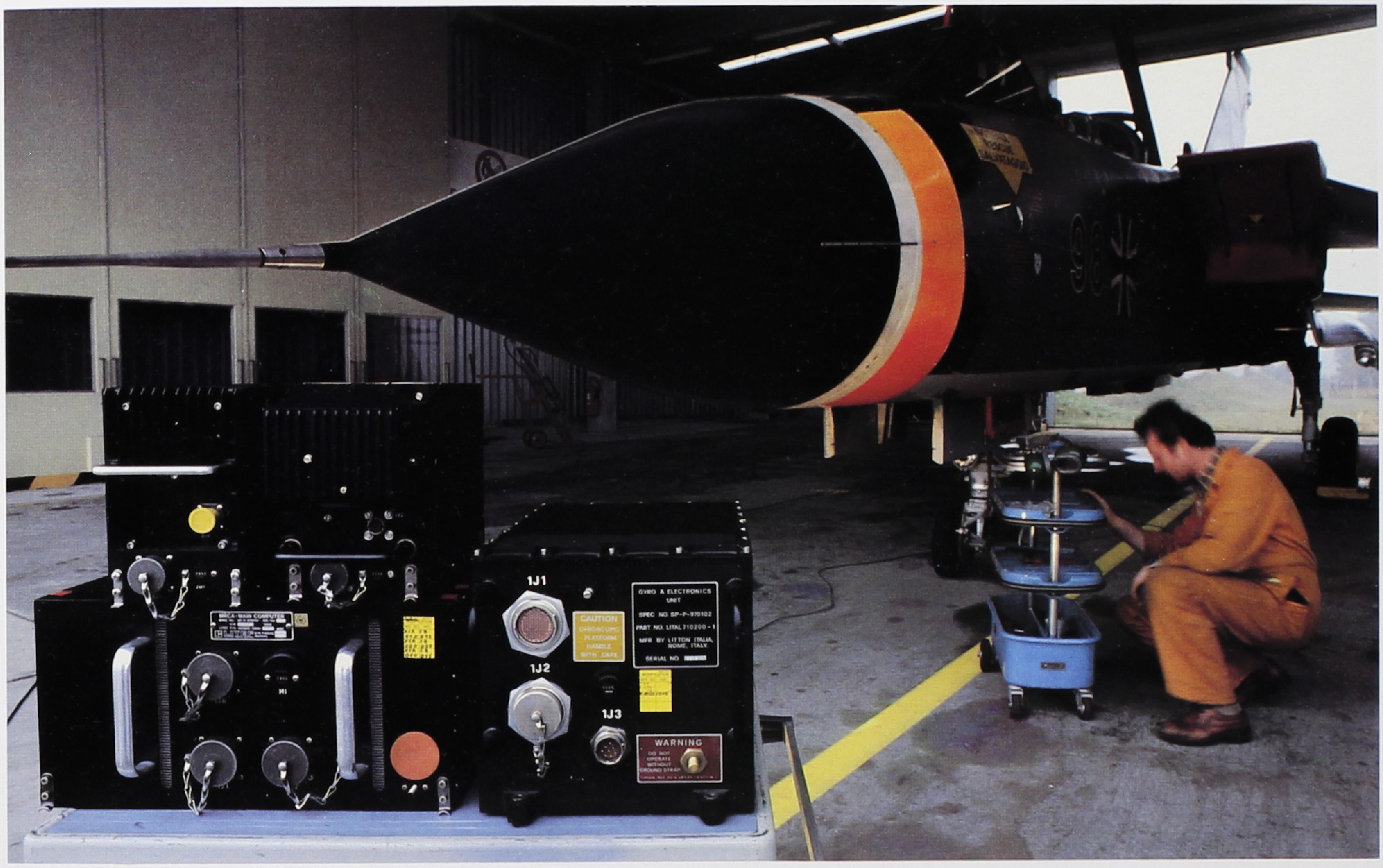


Advanced Electronic Systems

Guidance and Control Systems' laser gyro (below) was successfully flight-tested in fiscal 1979, and additional development and testing are scheduled in the new fiscal year. Key advantages include lower costs, no moving parts.

Data Systems' R&D in "intelligent" terminals (left) generated new contract to develop, produce U.S. Marine Corps' hand-held digital communications terminals for field use.

LITEF's main airborne computer and Lital's attitude and heading reference system (below) are key elements in European Tornado multi-role combat aircraft's avionics package.



The Advanced Electronic Systems operations maintained a sound balance between high-volume production, booking new business, and conducting R&D to strengthen their competitive positions and broaden their range of opportunities.

R&D in the Navigation and Control Systems area is being focused on a new generation of "strapdown" inertial systems. This technology reduces complexity and costs by eliminating gimbals and their associated electronics, and it is well-suited for a wide variety of aircraft, helicopter and missile applications. Parallel strapdown programs are under way in both the commercial and defense areas, with some of these programs using Litton's newly developed laser gyro instruments.

Aero Products achieved a record performance in markets for commercial inertial navigation systems (INS) and Omega radio navigation systems. By the end of fiscal 1979, 81 U.S. and foreign airlines were using the division's avionics, and a strong incoming order rate had doubled its backlog. New contracts included large sales of Omega systems to the U.S. Navy, the British Royal Air Force and the Royal New Zealand Air Force and an award to install INS on the U.S. Air Force's new KC10 tanker aircraft fleet.

Guidance and Control Systems (G&CS) attained record sales and new bookings and further expanded its business base. In July, it won its largest initial production contract — for supplying 99 Position and Azimuth Determining Systems (PADS) to the U.S. Army. PADS provides ground or airborne surveyors with real-time position data at vehicle speeds. G&CS also entered new markets in supplying strapdown guidance systems and hardware for the Army's AH64 advanced helicopter, the Army's new Division Air Defense System and a developmental U.S. Air Force air-to-air missile.

In addition, the division has begun delivering guidance systems for the air-launched cruise missile program's competitive fly-off scheduled for 1980. G&CS and Litton Systems Canada (LSC) have been separately selected as the suppliers of guidance hardware for U.S. land-targeted cruise missiles. LSC also has moved into full-scale production on INS for Canada's long-range patrol aircraft and won a key contract to provide 16 automatic data-link processing systems for installation on Canadian destroyers and shore-based support facilities.

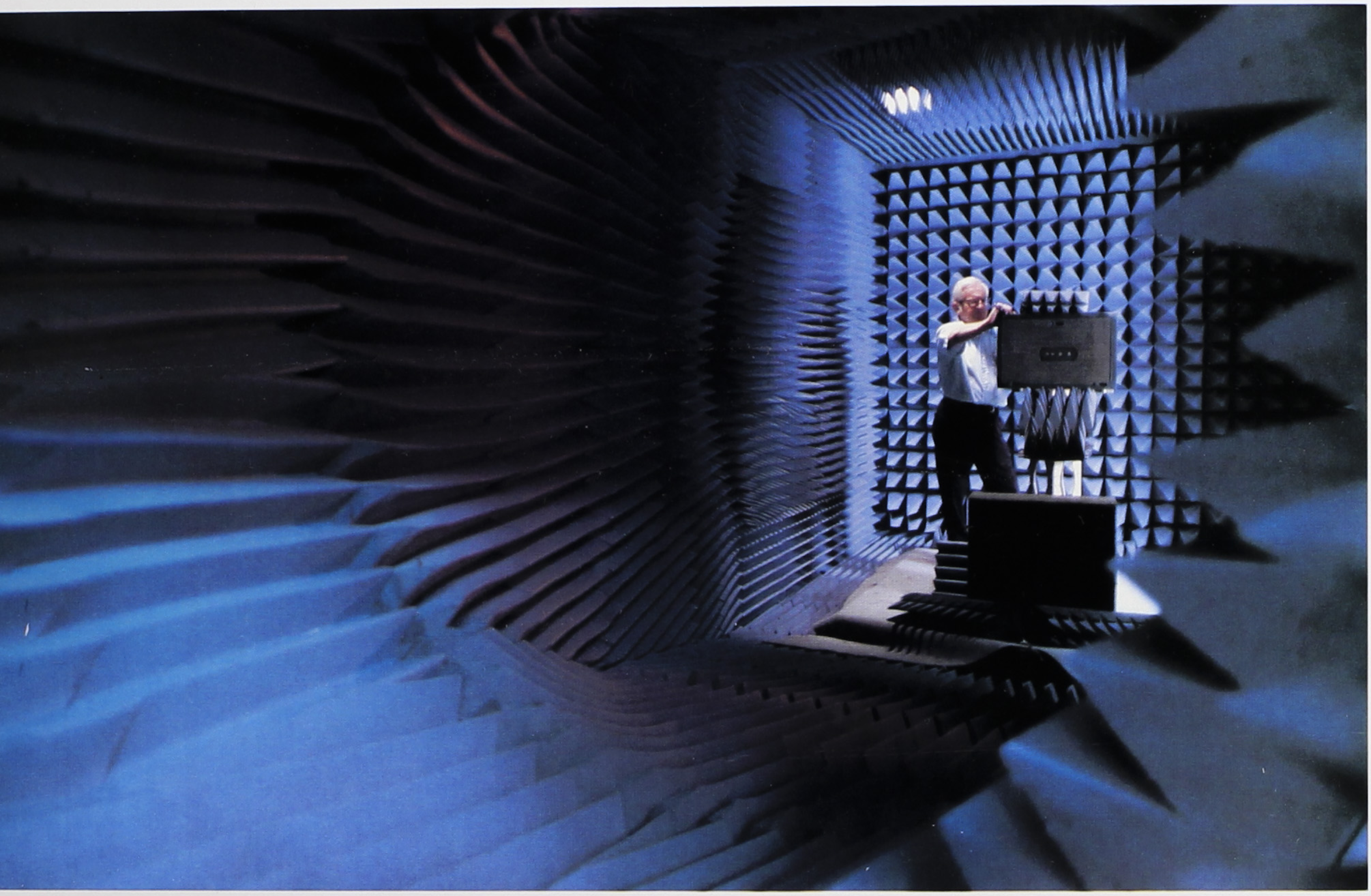
LITEF (Litton Technische Werke), based in Freiburg, West Germany, provided a high volume of main airborne computers and interface units for the Tornado multi-role combat aircraft being built by Germany, Great Britain and Italy. Litton Italia, headquartered near Rome, supplied attitude and heading reference systems for the same aircraft.

In the Communications and Electronic Data Systems area, Data Systems firmly established itself as a major supplier of large-scale command, control and communications systems for air defense purposes, winning a $1.64 billion contract from the Kingdom of Saudi Arabia. The system will coordinate the activities of missile and antiaircraft batteries, as well as provide countrywide communications. Data Systems has delivered similar equipment to Kuwait and Jordan.

Advanced Electronic Systems (continued)

Guidance and Control Systems' major production award for Position and Azimuth Determining Systems (right) represents new use of proven inertial navigation technology.

Amecom's anechoic chamber (below) provides reflection-free environment for precise antenna-characteristic measurement. It is critical in developing new systems for detecting, classifying signals from unfriendly transmitters.



In addition, the division positioned itself as a leading supplier of handheld "intelligent" terminals, winning contracts to develop and produce digital communications terminals for the U.S. Marine Corps and mortar fire-control calculators for the U.S. Army. Data Systems also continued high-rate deliveries on the Army's TACFIRE automated artillery fire-control and AN/TSQ-73 Missile Minder systems.

Amecom enhanced its capabilities as a supplier of electronic signal surveillance and communications systems, bolstering its ability to design and produce integrated and hybrid circuits for microwave systems. The division also supplied instantaneous frequency measurement receivers to an industrial team competing to build a major self-protective airborne jamming system for the U.S. military services.

Amecom additionally has developed an affordable, airport-traffic-control system based on digital, time-division multiplexing technology, which reduces costs and increases transmission reliability. This results in improved operator performance and greater flight safety. During the year, Amecom was selected to install its system at the FAA's National Aviation Facilities Experimental Center in New Jersey, opening opportunities in a large market.

Datalog's sales of high-speed, data-compression facsimile systems and advanced non-impact printers were up nearly 30 percent, and the division increased the pace of its R&D efforts, moving beyond defense and government-agency markets into the commercial field. Late in the year, the division introduced its Fastfax®/2000 digital facsimile for the secure transmission of sensitive documents and pictures. It transmits a normal typewritten page in less than 25 seconds with outstanding quality. Datalog also demonstrated an operating model of its Tactical Digital Facsimile for military applications.

Mellonics won a major contract to manage, design, develop, maintain, test and evaluate all software at the U.S. Air Force's Satellite Control Facility.

The Peleliu, last of the five LHA-class ships, is shown in outfitting at Ingalls in preparation for sea trials, upcoming delivery to U.S. Navy.

Data Systems has system-integration responsibility for complete electronics package aboard LHA and DD-963-class ships, with support from Amecom and Guidance and Control Systems.

As of Sept. 1, 1979, Ingalls Shipbuilding had delivered 26 of the 35 ships called for in its DD-963 destroyer and LHA (general purpose assault) ship contracts with the U.S. Navy. All of the remaining nine vessels — eight destroyers and one LHA — had been launched and were being readied for their sea trials.

Vessels from both classes are serving with the Atlantic and Pacific Fleets, where they have been impressive during distant deployments. A destroyer command recently evaluated DD-963-class ships as follows: "The ability of the ships to perform as Anti-Surface Warfare Commander or Anti-Submarine Warfare Commander is superb. They have definitely proven their worth." In addition, LHA-1, the USS Tarawa, demonstrated its "mercy ship" capabilities last summer, providing emergency support for Vietnamese "boat people."

High-rate production was continuing on a new class of four DDG-993 guided missile destroyers. These vessels had been originally programmed for delivery to Iran, but the U.S. Navy has decided to add all four to its own fleet after the change in government in that country. The first vessel, the Kidd, was launched last August, and the succeeding ships are in modular construction.

Late in fiscal 1979, Ingalls began fabrication of the first DDG-47 fleet-air-defense destroyer, preparing for a keel-laying early in the new fiscal year. Like the DDG-993s, the DDG-47s will adopt the ship and propulsion system of the DD-963-class ships. Armed with the advanced AEGIS radar-and-missile system, the DDG-47s are described as "the most broadly capable, heavily armed and best-protected destroyers the Navy has developed."

Early in fiscal 1980, Ingalls gained a $231 million contract for detail design and construction of a 31st DD-963-class destroyer, the DD-997. The amount includes $85 million already awarded for advance procurement of long-lead items. Previously, Ingalls had won an award to install newly available weapons and electronics on the last 13 ships in the original DD-963 series, which was specifically designed in anticipation of these improvements.

Ingalls is pursuing new business in the highly competitive shipbuilding market when it has a reasonable opportunity to earn a fair profit at an acceptable risk. The division expects to be assigned a construction contract for the second DDG-47 destroyer on a directed-procurement basis in fiscal 1980. In addition, it is actively competing for: The DD-963 overhaul program; the Navy's long-range program to develop a new class of DDG-X guided missile destroyers; and selected conversion and modernization programs.

The availability of a skilled labor pool has prompted Ingalls to re-enter the industrial products market. The division has signed a long-term contract to produce railroad hopper cars in a specially designated area of its facilities, and work began in August. Ingalls also has contracted to modernize offshore oil-drilling rigs, and other opportunities are in the offing.

Five-Year Summary of Operations Year Ended July 31,	1979	1978	1977	1976	1975
		(thousands of dollars, except per share data)			
Sales and Service Revenues—Continuing Operations	**$4,087,809**	$3,653,209	$3,442,924	$3,350,377	$3,406,086
Costs and Expenses—Continuing Operations:					
Cost of sales	**2,955,133**	2,750,521	2,631,281	2,567,640	2,632,129
Selling, general and administrative	**688,979**	588,546	553,827	556,531	547,414
Depreciation	**104,833**	92,167	82,064	79,362	75,540
Interest—net	**16,787**	39,272	44,008	50,235	62,465
	3,765,732	3,470,506	3,311,180	3,253,768	3,317,548
Earnings—Continuing Operations before Currency Adjustments, Gain on Sale of Subsidiary, Contract Settlement with U.S. Navy, Taxes on Income and Extraordinary Item	**322,077**	182,703	131,744	96,609	88,538
Currency adjustments	**(35,367)**	(54,600)	(16,075)	(15,526)	(39,875)
Gain on sale of subsidiary	**42,197**				
Contract settlement with U.S. Navy		(332,573)			
Earnings (loss)—continuing operations before taxes on income and extraordinary item	**328,907**	(204,470)	115,669	81,083	48,663
Taxes on Income—Continuing Operations:					
Before currency adjustments, gain on sale of subsidiary and contract settlement with U.S. Navy	**149,866**	88,494	69,519	51,087	41,296
Currency adjustments	**(26,034)**	(42,486)	(9,756)	2,108	(18,682)
Gain on sale of subsidiary	**16,188**				
Contract settlement with U.S. Navy		(159,635)			
	140,020	(113,627)	59,763	53,195	22,614
Earnings (loss)—continuing operations before extraordinary item	**188,887**	(90,843)	55,906	27,888	26,049
Discontinued operations, net of tax				(16,071)	(6,711)
Earnings (loss) before extraordinary item	**188,887**	(90,843)	55,906	11,817	19,338
Extraordinary item				16,480	
Net Earnings (Loss)	**$ 188,887**	$ (90,843)	$ 55,906	$ 28,297	$ 19,338
Net earnings (loss) after preferred dividends	**$ 182,989**	$ (96,794)	$ 49,955	$ 22,346	$ 13,386
Earnings (Loss) per Share					
Continuing operations before extraordinary item	**$4.87**	$(2.59)	$1.33	$ .59	$ .54
Discontinued operations				(.43)	(.18)
Earnings (loss) before extraordinary item	**4.87**	(2.59)	1.33	.16	.36
Extraordinary item				.44	
Earnings (loss) per share	**$4.87**	$(2.59)	$1.33	$ .60	$ .36
Number of shares used to compute earnings (loss) per share (See Note A to the Financial Statements.)	**37,575,010**	37,321,021	37,451,320	37,409,020	37,297,894

Note: Per share amounts of continuing operations before extraordinary item are as follows:

	1979	1978	1977	1976	1975
Operations	**$4.43**	$ 2.36	$1.50	$1.06	$1.11
Currency adjustments	**(.25)**	(.32)	(.17)	(.47)	(.57)
Gain on sale of subsidiary	**.69**				
Contract settlement with U.S. Navy		(4.63)			
	$4.87	$(2.59)	$1.33	$ .59	$ .54

Management's Discussion and Analysis of the Summary of Operations

During fiscal 1979, prior-year emphasis on managing assets and realigning the Company's businesses reached fruition and provided significant profit growth. Operating profits from the Company's six business segments were up 53 percent over fiscal year 1978, with four of the six achieving record profitability.

Fiscal Year 1979 vs. 1978

In fiscal year 1979, the Company achieved record sales of $4,087,809,000 with all business segments except Marine Engineering and Production having higher sales volume. Marine sales reflect a lower level of activity at Ingalls Shipbuilding Division. Excluding Marine, total sales were approximately 15 percent higher in 1979, which also resulted in a nearly proportionate increase in selling, general and administrative expenses.

The Company invested $158 million in new property, plant and equipment during fiscal 1979. The increased level of capital expenditures for the past two years is the primary reason for the higher depreciation expense in fiscal 1979.

Net interest has decreased significantly from the fiscal 1978 amount. This has been caused by reduced long-term debt balances and increased interest income due to the Company's improved cash position.

Earnings before currency adjustments, gain on sale of subsidiary, contract settlement with U.S. Navy and income taxes increased by more than 75 percent over fiscal 1978. Profitability improved in all six business segments, with the greatest improvement being shown by Business Systems and Equipment. This segment has shown continued growth in revenues and operating profits since its return to profitability in fiscal 1977.

In May 1979, the Company sold share capital representing a controlling interest in Triumph Werke Nurnberg A.G. (Triumph). The operations of Triumph are included in the statements through the date of sale. The profit resulting from the sale of Triumph and its subsidiaries is reflected in the fiscal 1979 financials as "gain on sale of subsidiary." There was no similar transaction in fiscal 1978.

Earnings before taxes on income in fiscal 1979 reflected improved operating results in all six business segments, as well as shipbuilding performance gains over those estimates made at the time of the contract settlement with the U.S. Navy in fiscal 1978.

In fiscal 1979, the negative impact on earnings due to currency adjustments was significantly less than in fiscal 1978. This results in part from the Company's reduced borrowings in foreign currencies.

Fiscal Year 1978 vs. 1977

In fiscal 1978, the Company invested $149 million in new property, plant and equipment as compared to approximately $100 million in the two prior years. As a result, depreciation expense in fiscal 1978 exceeded fiscal 1977 by more than 10 percent.

Fiscal 1978 earnings before currency adjustments, contract settlement with U.S. Navy and income taxes increased over fiscal 1977 by 39 percent. The significant turnaround of the Business Systems and Equipment Segment and a combined operating profit increase exceeding 25 percent in three of the other five business segments contributed to this improvement.

The Company had significant borrowings in currencies other than the U.S. dollar. As a result of the changes in the value of the U.S. dollar, major unrealized losses due to currency adjustments were incurred in fiscal 1978.

Business Segment Results—Continuing Operations Year Ended July 31, 1979		1978	1977	(thousands of dollars) 1976	1975
Sales and Service Revenues by Business Segment:					
Business Systems and Equipment					
Sales and service revenues	**$1,096,389**	$ 943,872	$ 830,454	$ 817,304	$ 847,158
Intersegment transfers	**2,336**	2,862	1,878	2,699	2,250
	1,098,725	946,734	832,332	820,003	849,408
Industrial Systems and Services					
Sales and service revenues	**779,581**	613,171	492,999	464,321	511,257
Intersegment transfers	**882**	357	150	379	336
	780,463	613,528	493,149	464,700	511,593
Electronic and Electrical Products					
Sales and service revenues	**781,647**	718,759	662,695	629,627	577,512
Intersegment transfers	**13,204**	13,327	13,421	18,262	17,271
	794,851	732,086	676,116	647,889	594,783
Paper, Printing and Publishing					
Sales and service revenues	**337,924**	286,678	256,166	256,449	251,242
Intersegment transfers	**3,578**	3,807	2,618	974	757
	341,502	290,485	258,784	257,423	251,999
Advanced Electronic Systems					
Sales and service revenues	**529,458**	460,396	396,252	369,906	315,252
Intersegment transfers	**49,626**	69,556	78,774	98,115	132,819
	579,084	529,952	475,026	468,021	448,071
Marine Engineering and Production					
Sales and service revenues	**547,390**	616,043	792,202	794,115	904,631
Intersegment transfers		26	11		
	547,390	616,069	792,213	794,115	904,631
	4,142,015	3,728,854	3,527,620	3,452,151	3,560,485
Intersegment eliminations	**(69,626)**	(89,935)	(96,852)	(120,429)	(153,433)
Miscellaneous	**15,420**	14,290	12,156	18,655	(966)
Sales and service revenues—continuing operations	**$4,087,809**	$3,653,209	$3,442,924	$3,350,377	$3,406,086
Operating Profits by Business Segment:					
Business Systems and Equipment	**$ 62,452**	$ 25,113	$ 4,521	$ (17,770)	$ (15,456)
Industrial Systems and Services	**133,103**	95,448	72,864	54,653	66,612
Electronic and Electrical Products	**73,033**	61,510	73,409	60,808	47,598
Paper, Printing and Publishing	**23,201**	21,557	15,032	23,873	20,199
Advanced Electronic Systems	**61,950**	47,407	41,449	46,073	38,968
Marine Engineering and Production (before $332,573 charge in 1978 for contract settlement with U.S. Navy)	**44,068**	10,445	11,696	11,658	16,961
	397,807	261,480	218,971	179,295	174,882
Intersegment eliminations	**(8,710)**	(7,714)	(6,614)	(5,986)	(1,858)
	389,097	253,766	212,357	173,309	173,024
Net interest and corporate expenses	**(67,020)**	(71,063)	(80,613)	(76,700)	(84,486)
Earnings — continuing operations before currency adjustments, gain on sale of subsidiary, contract settlement with U.S. Navy, taxes on income and extraordinary item	**$ 322,077**	$ 182,703	$ 131,744	$ 96,609	$ 88,538

Note: Operating profits by business segment have been restated for 1978 and prior years to reclassify state and local taxes on income, including them in the taxes on income caption along with national taxes on income.

Sales and Service Revenues by Product Line—Continuing Operations

(thousands of dollars)

	Year Ended July 31, 1979	1978	1977	1976	1975
Business Systems and Equipment					
Business machines and retail information systems	**$ 529,334**	$ 448,109	$ 373,489	$ 389,270	$ 431,624
Typewriters and office copiers	**357,927**	321,970	302,078	284,814	284,268
Office products, furniture and fixtures	**212,427**	177,510	157,899	147,313	143,337
Intrasegment eliminations	**(963)**	(855)	(1,134)	(1,394)	(9,821)
	1,098,725	946,734	832,332	820,003	849,408
Industrial Systems and Services					
Machine tools	**350,847**	282,475	252,238	223,671	242,775
Resource exploration	**305,394**	235,494	161,206	159,577	177,436
Material handling	**124,222**	95,559	79,705	81,452	91,382
	780,463	613,528	493,149	464,700	511,593
Electronic and Electrical Products					
Microwave cooking products	**174,934**	179,640	160,104	129,400	69,399
Medical and electronic products	**132,677**	160,964	187,762	220,776	217,163
Electronic and electrical components	**494,599**	398,241	336,742	305,240	313,021
Intrasegment eliminations	**(7,359)**	(6,759)	(8,492)	(7,527)	(4,800)
	794,851	732,086	676,116	647,889	594,783
Paper, Printing and Publishing					
Specialty paper, printing and forms	**258,867**	215,561	194,108	199,560	190,460
Educational and professional publishing	**82,635**	74,924	64,676	57,863	61,539
	341,502	290,485	258,784	257,423	251,999
Advanced Electronic Systems					
Navigation and control systems	**351,584**	315,045	276,719	285,658	247,786
Communications and electronic data systems	**235,392**	222,427	203,809	187,160	205,010
Intrasegment eliminations	**(7,892)**	(7,520)	(5,502)	(4,797)	(4,725)
	579,084	529,952	475,026	468,021	448,071
Marine Engineering and Production	**547,390**	616,069	792,213	794,115	904,631
	4,142,015	3,728,854	3,527,620	3,452,151	3,560,485
Intersegment eliminations	**(69,626)**	(89,935)	(96,852)	(120,429)	(153,433)
Miscellaneous	**15,420**	14,290	12,156	18,655	(966)
Sales and service revenues—continuing operations	**$4,087,809**	$3,653,209	$3,442,924	$3,350,377	$3,406,086

Note: The above table sets forth the sales and service revenues of continuing operations by classes of similar products or services within the various segments.

Board of Directors and Shareholders
Litton Industries, Inc., Beverly Hills, California

Report of Independent Public Accountants

We have examined the consolidated balance sheets of Litton Industries, Inc. and subsidiary companies as of July 31, 1979 and 1978, and the related statements of operations, shareholders' investment and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of Litton Industries, Inc. and subsidiary companies at July 31, 1979 and 1978, and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

TOUCHE ROSS & CO.
Certified Public Accountants
Los Angeles, California
September 24, 1979

(thousands of dollars, except per share data)

Consolidated Statements of Operations	Year Ended July 31, 1979	1978
Sales and Service Revenues	**$4,087,809**	$3,653,209
Costs and Expenses:		
Cost of sales (exclusive of depreciation shown below)	**2,955,133**	2,750,521
Selling, general and administrative	**688,979**	588,546
Depreciation	**104,833**	92,167
Interest — net (Note E)	**16,787**	39,272
Total	**3,765,732**	3,470,506
Earnings before Currency Adjustments, Gain on Sale of Subsidiary, Contract Settlement with U.S. Navy and Taxes on Income	**322,077**	182,703
Currency adjustments (Note A)	**(35,367)**	(54,600)
Gain on sale of subsidiary (Note B)	**42,197**	
Contract settlement with U.S. Navy (Note L)		(332,573)
Earnings (loss) before taxes on income	**328,907**	(204,470)
Taxes on Income (Note J):		
Before currency adjustments, gain on sale of subsidiary, and contract settlement with U.S. Navy	**149,866**	88,494
Currency adjustments (Note A)	**(26,034)**	(42,486)
Gain on sale of subsidiary (Note B)	**16,188**	
Contract settlement with U.S. Navy (Note L)		(159,635)
Total	**140,020**	(113,627)
Net Earnings (Loss) (Note A)	**$ 188,887**	$ (90,843)
Earnings (Loss) per Share (Note A)	**$4.87**	$(2.59)

See accompanying notes to financial statements.

Assets	Consolidated Balance Sheets	July 31, 1979	1978
		(thousands of dollars)	
	Current Assets:		
	Cash and marketable securities (Note E)	**$ 410,123**	$ 93,323
	Cash—temporarily invested and restricted (Note E)	**314,000**	
	Accounts receivable less allowance for doubtful accounts of $21,495 and $27,520 (Note C)	**628,177**	638,258
	Inventories less progress billings (Notes A and C)	**502,615**	562,986
	Deferred taxes on income (Note J)	**204,914**	210,683
	Prepaid expenses	**20,773**	18,957
	Total Current Assets	**2,080,602**	1,524,207
	Equity in Unconsolidated Finance Subsidiaries (Note D)	**52,114**	48,654
	Long-term Investments (at Cost) and Other Long-term Assets (Notes B and J) (Includes $1,722 and $1,627 Due from Officers)	**112,271**	48,306
	Property, Plant and Equipment (Notes A and F):		
	Land	**21,600**	22,759
	Buildings	**331,404**	342,129
	Machinery and equipment	**697,585**	714,777
		1,050,589	1,079,665
	Less accumulated depreciation	**(488,624)**	(521,951)
	Net Property, Plant and Equipment	**561,965**	557,714
	Cost of Businesses Purchased over Corresponding Net Assets (Notes A and B)	**38,929**	91,853
	Other Assets, Including Patents (Note A)	**8,417**	8,211
	Total Assets	**$2,854,298**	$2,278,945

See accompanying notes to financial statements.

Liabilities and Shareholders' Investment		July 31, 1979 (thousands of dollars)	1978
	Current Liabilities:		
	Notes payable to banks (Note E)	**$ 39,087**	$ 71,330
	Accounts payable	**436,990**	395,131
	Payrolls and related expenses	**147,998**	154,756
	Dividends payable	**9,339**	
	Taxes on income	**41,214**	50,433
	Current portion of long-term liabilities and capital lease commitments	**18,273**	77,519
	Customer deposits and progress payments	**608,298**	79,997
	Amounts related to LHA/DD contracts (Note C)	**177,421**	111,183
	Total Current Liabilities	**1,478,620**	940,349
	Long-term Liabilities (Note E)	**180,786**	325,459
	Capital Lease Commitments (Note F)	**129,536**	132,025
	Deferred Taxes on Income (Note J)	**39,329**	16,397
	Deferred Service Contract Revenues and Other Income	**34,224**	38,995
	Minority Interest in Subsidiary (Note B)		10,198
	Convertible Subordinated Debentures and Other Subordinated Debt (Note G)	**61,036**	56,178
	Shareholders' Investment (Notes D and H and accompanying statements):		
	Capital stock:		
	Voting preferred stock:		
	Series A (liquidating preference $4,486 and $4,648)	**498**	516
	Series B (liquidating preference $54,696 and $57,612)	**13,674**	14,403
	Voting preference stock (liquidating preference $25,663 and $28,085)	**2,852**	3,121
	Common stock	**38,793**	37,537
	Additional paid-in capital	**488,814**	466,544
	Earnings retained in the business	**409,696**	260,783
		954,327	782,904
	Less cost of common shares held in treasury	**(23,560)**	(23,560)
	Total Shareholders' Investment	**930,767**	759,344
	Total Liabilities and Shareholders' Investment	**$2,854,298**	$2,278,945

Consolidated Statements of Shareholders' Investment

Balance at July 31, 1977
Net loss
Cash dividends on preferred stock:
Series A—$3 per share
Series B—$2 per share
Transfers among accounts to record 2½% Common stock dividend in November 1977
Transfers among accounts to record the conversion of Preference stock
Exercise of employee stock options
Other capital charges
Balance at July 31, 1978
Net earnings
Cash dividends:
Preferred:
Series A—$3 per share
Series B—$2 per share
Common and Preference—$.25 and $.3714 per share, respectively
Transfers among accounts to record 2½% Common stock dividend in November 1978 (cumulative transfers to November 1978 were $372,709)
Transfers among accounts to record the conversion of Preferred and Preference stock
Exercise of employee stock options
Retirement of Series B preferred stock
Other capital charges
Balance at July 31, 1979

Share Information:
Shares outstanding at July 31, 1977
Shares issued for 2½% Common stock dividend in November 1977
Shares exchanged for conversion of Preferred and Preference stock
Shares issued under the stock option plan
Shares outstanding at July 31, 1978
Shares issued for 2½% Common stock dividend in November 1978
Shares exchanged for conversion of Preferred and Preference stock
Shares issued under the stock option plan
Shares retired
Shares outstanding at July 31, 1979
Shares Authorized:
Cumulative Preferred stock, par value $5
Convertible Preference stock, participating series, par value $2.50
Common stock, par value $1
Number of Shareholders

See accompanying notes to financial statements.

(dollar amounts expressed in thousands)
Years Ended July 31, 1979 and 1978

Total Shareholders' Investment	Capital Stock: Preferred Series A	Capital Stock: Preferred Series B	Capital Stock: Preference	Capital Stock: Common	Additional Paid-in Capital	Earnings Retained in the Business	Common Shares Held in Treasury
$856,104	$ 516	$ 14,403	$ 3,437	$ 36,438	$455,728	$369,142	$ (23,560)
(90,843)						(90,843)	
(308)						(308)	
(5,643)						(5,643)	
				912	10,653	(11,565)	
			(316)	180	136		
36				7	29		
(2)					(2)		
759,344	516	14,403	3,121	37,537	466,544	260,783	(23,560)
188,887						188,887	
(308)						(308)	
(5,590)						(5,590)	
(9,339)						(9,339)	
				939	22,080	(23,019)	
	(18)		(269)	167	120		
627				150	477		
(2,846)		(729)			(399)	(1,718)	
(8)					(8)		
$930,767	$ 498	$ 13,674	$ 2,852	$ 38,793	$488,814	$409,696	$ (23,560)
	103,291	2,880,600	1,374,698	36,437,906			(2,850,126)
				911,840			(71,253)
	(1)		(126,483)	180,496			
				7,215			
	103,290	2,880,600	1,248,215	37,537,457			(2,921,379)
				939,090			(73,034)
	(3,606)		(107,620)	165,249			
				150,569			
		(145,800)					
	99,684	2,734,800	1,140,595	38,792,365			(2,994,413)
	22,000,000						
			8,000,000				
				120,000,000			
	2,367	8,148	15,129	104,892			

Consolidated Statements of Changes in Financial Position

		(thousands of dollars) Year Ended July 31, 1979	1978
Working Capital Was Provided by:	**Current Operations:**		
	Earnings (loss)	**$ 188,887**	$ (90,843)
	Items not requiring (providing) working capital:		
	Depreciation	**104,833**	92,167
	Increase in long-term liabilities and subordinated debt due to changes in exchange rates	**8,428**	29,327
	Deferred taxes on income	**14,607**	4,194
	Undistributed earnings of finance subsidiaries	**(1,447)**	(1,868)
	Working capital provided from operations	**315,308**	32,977
	(Increase) decrease in long-term investments and other long-term assets	**18,960**	(2,665)
	Incurrence of long-term liabilities and capital lease commitments	**17,676**	11,218
	Depreciated cost of disposals of property, plant and equipment	**6,850**	6,450
	Decrease in cost of businesses purchased over corresponding net assets	**585**	15,763
	Other items—net	**1,439**	1,739
		360,818	65,482
Working Capital Was Applied to:	Additions to property, plant and equipment	**158,349**	149,490
	Payments made or due within one year on long-term liabilities and capital lease commitments	**103,990**	93,333
	Remaining interest in subsidiary sold (Note B)	**39,948**	—
	Long-term liabilities less long-term assets of subsidiary sold (Note B)	**22,324**	—
	Cash dividends on common and preference stock	**9,339**	—
	Cash dividends on preferred stock	**5,898**	5,951
	Retirement of Series B preferred stock	**2,846**	—
		342,694	248,774
	Increase (decrease) in working capital	**$ 18,124**	$(183,292)
Changes in Working Capital:	**Increase (Decrease) in Current Assets:**		
	Cash and marketable securities	**$ 329,065**	$ 19,995
	Cash—temporarily invested and restricted	**314,000**	—
	Accounts receivable	**114,737**	(59,853)
	Inventories	**81,284**	20,354
	Deferred taxes on income	**(5,769)**	169,615
	Prepaid expenses	**2,572**	619
		835,889	150,730
	(Increase) Decrease in Current Liabilities:		
	Notes payable	**9,667**	(21,208)
	Accounts payable	**(95,138)**	(40,548)
	Payrolls and related expenses	**(16,817)**	(18,185)
	Dividends payable	**(9,339)**	—
	Taxes on income	**5,208**	(27,748)
	Current portion of long-term liabilities and capital lease commitments	**57,576**	(35,153)
	Customer deposits and progress payments	**(528,301)**	(79,997)
	Amounts related to LHA/DD contracts	**(66,238)**	(111,183)
		(643,382)	(334,022)
	Working Capital at August 1, 1978 of Subsidiary Sold (Note B)	**(174,383)**	—
	Increase (decrease) in working capital	**$ 18,124**	$(183,292)

See accompanying notes to financial statements.

Note A: Significant Accounting Policies

Earnings Per Share

Earnings (loss) per share computations are based on the weighted average number of outstanding Common and Preference shares adjusted for the Common stock dividends through November 1978 and the number of Common stock equivalent shares deemed to have a dilutive effect.

Computations were based upon 37,575,010 and 37,321,021 shares in 1979 and 1978, respectively, and net earnings (loss) after provision for cash dividends on Series A and Series B preferred stock. Earnings (loss) per share and fully diluted earnings (loss) per share are the same. The computations do not reflect the 2% Common stock dividend payable November 15, 1979 to holders of record at the close of business September 26, 1979.

The results of these computations for operations, currency adjustments, gain on sale of subsidiary and contract settlement with the U.S. Navy included in the Consolidated Statements of Operations are as follows:

(thousands of dollars except per share amounts)	Total		Per Share	
	1979	1978	**1979**	1978
Earnings from operations (after tax)	**$172,211**	$ 94,209	**$ 4.43**	$ 2.36
Currency adjustments (after tax)	**(9,333)**	(12,114)	**(.25)**	(.32)
Gain on sale of subsidiary (after tax)	**26,009**	—	**.69**	—
Contract settlement with U.S. Navy (after tax)	**—**	(172,938)	**—**	(4.63)
	$188,887	$ (90,843)	**$ 4.87**	$ (2.59)

Principles of Consolidation

The accounts of the Company and all its majority-owned subsidiaries (other than its finance subsidiaries) are included in the accompanying financial statements. All material intercompany transactions are eliminated. Certain items in the 1978 financial statements have been reclassified to conform to the presentation contained in the 1979 statements.

The investments in finance subsidiaries are accounted for on the equity method. Earnings of such subsidiaries are included in the Consolidated Statements of Operations.

Inventories and Long-Term Contracts

Advanced Electronic Systems and Marine Engineering and Production inventories are stated at average cost. Other inventories are generally stated at the lower of cost (first-in, first-out method) or market.

General and administrative costs are included in inventories along with other manufacturing costs for the Marine Engineering and Production Segment and certain divisions of the Advanced Electronic Systems Segment. For all other segments of the Company, general and administrative costs are expensed as they are incurred. Title to certain inventories vests in the U.S. Government by reason of contract provisions related to progress payments.

Major contracts for complex weapons systems are performed over extended periods of time and are subject to changes in scope of work and delivery schedules. Pricing negotiations on changes and settlement of claims often extend over prolonged periods of time. Any anticipated losses on contracts (estimated final contract costs in excess of estimated final contract revenues) are charged to current operations as soon as they are determinable.

Revenues on contracts other than long-term contracts are generally recognized as products are delivered, based on estimates of ultimate contract price. Profits on these contracts are recognized on delivery using the average profit expected, based on current estimates of final contract values and costs. Revenues and profits on long-term contracts are recognized under the percentage-of-completion method of accounting.

Note A: (continued)

Research and Development
Company-sponsored research and development expenditures are charged to expense as incurred. The Company expended $181,000,000 and $182,500,000 on research and development activities, of which 38% and 37% was Company-sponsored, in fiscal years 1979 and 1978, respectively.

Property, Plant and Equipment
Property, plant and equipment is stated at cost. Expenditures for maintenance and repairs are charged against earnings. Additions, major improvements and renewals are capitalized and depreciated.

Depreciation is provided generally on a straight-line basis over the estimated useful lives of the various classes of assets.

The estimated useful lives for determining depreciation and amortization of the various classes of assets are:

Buildings	10-50 years
Land improvements and building improvements	2-33 years
Machinery and equipment	2-20 years
Furniture and fixtures	3-20 years
Automobiles and trucks	2-5 years
Patents	Lives of patents

Costs and the related allowances for depreciation of properties sold or otherwise retired are eliminated from the asset and depreciation accounts. Gains or losses on disposition are recorded at the time of disposition.

Cost of Businesses Purchased Over Corresponding Net Assets
Amounts which relate to companies acquired prior to November 1970 are believed to have continuing value to the Company and are not being amortized.

Income Taxes
The Company provides for taxes on the basis of items included in the determination of income for financial reporting purposes regardless of the period when such items are reported for tax purposes. The resulting timing differences relate principally to provisions for unrealized currency losses and long-term contracts. United States investment tax credits are deferred and amortized over the estimated useful lives of the related assets.

Translation of Non-U.S. Currencies
Assets and liabilities of operations located outside the United States have been translated to U.S. dollars at year-end market rates, except that inventories, property, plant and equipment, cost of businesses purchased over corresponding net assets, and other minor accounts have been translated at rates prevailing when acquired.

Income and expense accounts have been translated to U.S. dollars at historical rates when the related assets and liabilities have been translated on this basis. All other income and expense items have been translated at average rates during the year.

All currency gains and losses, including unrealized amounts, are included in the determination of net earnings for the period in which rates change.

Pension Plans
The Company has pension plans for most of its employees. Employees are eligible for benefits at age 65. Pension expenses for United States and Canadian plans are provided and funded based on the actuarially determined costs of the plans. Pension expenses for other plans are based on actuarial computations and are primarily unfunded, as permitted by the laws of the applicable countries. The Company is in full compliance with the provisions of the Employee Retirement Income Security Act.

Note B: Sale of Subsidiary

In May 1979, the Company sold share capital representing a controlling 52.17% interest in Triumph Werke Nurnberg A.G. (Triumph). The sale resulted in a gain of $42,197,000 ($26,009,000 after tax, or $.69 per share).

After the effects of an increase in the capital of Triumph, the Company's ownership of the voting securities of Triumph was reduced to 19.08%. The Company has received a two-year option to sell and granted a two-year option to buy its remaining equity interest in Triumph.

Triumph and its subsidiaries are engaged principally in the manufacture and sale of typewriters and business machines. In fiscal 1979 and 1978, these companies recorded consolidated sales of approximately $549,000,000 and $470,600,000, respectively.

Note B: (continued)

In the 1979 consolidated financial statements, the Company's remaining investment in the capital stock of Triumph is accounted for by the cost method. This investment, including a note receivable from a United States subsidiary of Triumph, is classified as a long-term investment. Revenues and expenses related to Triumph and its subsidiaries are included in the Consolidated Statements of Operations through May 1979.

The sale of the controlling interest in Triumph significantly reduced the "Cost of businesses purchased over corresponding net assets" included in the Consolidated Balance Sheets for 1979 and resulted in the elimination of minority interests.

In the Statements of Changes in Financial Position, the effect of the sale of Triumph on long-term items in the balance sheets is reflected in the lines captioned "Remaining interest in subsidiary sold" and "Long-term liabilities less long-term assets of subsidiary sold." Under changes in working capital, the working capital of Triumph as of August 1, 1978 is set forth on one line so as to accurately reflect the changes from remaining operations in each category of working capital.

Note C: Accounts Receivable and Inventories

Following are the details of accounts receivable at July 31, 1979 and 1978:

(thousands of dollars)	July 31, 1979	1978
Accounts Receivable:		
U.S. Government long-term contracts:		
Amounts billed	**$ 39,183**	$ 40,387
Recoverable costs and accrued profit on progress completed — not billed	**21,103**	17,950
Retentions	**86,020**	104,349
Less transfer to "Amounts related to LHA/DD contracts"	**(82,663)**	(102,980)
	63,643	59,706
Commercial customers — billed	**489,528**	578,552
Amounts receivable from subsidiary sold	**75,006**	—
	$628,177	$638,258

Of the retention balance at July 31, 1979, $45,683,000 is expected to be collected in fiscal 1980 with the balance to be collected in subsequent years, as contract deliveries are made and warranty periods expire.

Summarized below are the components of inventory balances at July 31, 1979 and 1978:

(thousands of dollars)	July 31, 1979	1978
Inventories:		
Raw materials and work in process	**$356,901**	$344,004
Finished goods	**151,393**	216,721
Inventoried costs relating to long-term contracts	**221,094**	290,314
Less transfer to "Amounts related to LHA/DD contracts"	**(126,777)**	(154,807)
	602,611	696,232
Deduct progress billings:		
Related to long-term contracts	**224,360**	238,123
Less transfer to "Amounts related to LHA/DD contracts"	**(186,861)**	(168,970)
Other than long-term contracts	**62,497**	64,093
	99,996	133,246
	$502,615	$562,986

The cost elements included in inventoried costs related to long-term contracts are:

(thousands of dollars)	July 31, 1979	1978
Production costs of goods currently in process	**$212,179**	$279,410
Production cost of delivered units in excess of expected average cost of all units expected to be produced	**2,868**	2,083
General and administrative costs	**6,047**	8,821
	$221,094	$290,314

Production costs of goods currently in process represent costs incurred less costs associated with sales recorded under the percentage-of-completion or delivery method of accounting, as appropriate.

Note C: (continued)

Receivable, inventory and progress billing amounts related to the LHA and DD contracts are netted against the related reserve for loss which is classified in current liabilities as "Amounts related to LHA/DD contracts."

Total general and administrative expenses charged to inventory during the years ended July 31, 1979 and 1978 were $36,783,000 and $38,224,000, respectively.

Progress billings related to long-term contracts represent the difference between amounts billed and amounts accrued as sales.

Inventories titled in the U.S. Government by reason of contract provisions related to progress payments are represented principally by the long-term contract amounts shown above.

Note D: Equity in Unconsolidated Finance Subsidiaries

Cumulative undistributed earnings of wholly owned finance subsidiaries were $35,409,000 and $33,962,000 at July 31, 1979 and 1978, respectively. These subsidiaries had total assets of $147,173,000 and $138,095,000 and liabilities to banks and others of $95,059,000 and $89,441,000 at July 31, 1979 and 1978, respectively. For the years ended July 31, 1979 and 1978, the earnings of these subsidiaries were $1,447,000 and $1,868,000, respectively. These amounts are included in sales and service revenues in the Consolidated Statements of Operations.

Note E: Long-Term Liabilities, Notes Payable, Credit Arrangements, Cash and Interest Expense

Long-term liabilities at July 31, 1979 and 1978 consisted of the following:

(thousands of dollars)	**July 31, 1979**	1978
Notes payable to insurance companies—		
With interest at 4⅔% due to 1984	**$ 25,500**	$ 29,625
Notes payable to banks:		
With interest at 1⅝% above published bank borrowing rates	**—**	26,666
With interest at 2⅞% to 6⅝% (payable in Swiss francs) due to 1983	**34,940**	79,570
With interest at 7⅞% (payable in Dutch guilders) due to 1982	**6,353**	8,742
With interest at variable rates above published bank borrowing rates (payable in German marks) due to 1981	**59,950**	54,131
Bonds payable with interest at 6¼% (payable in Swiss francs)	**—**	32,258
Miscellaneous debt with average interest at 7⅜% due to 2007	**54,043**	94,467
	$180,786	$325,459

The long-term liabilities at July 31, 1979 mature as follows:

(thousands of dollars)	
Year ended July 31, 1981	$64,101
Year ended July 31, 1982	54,453
Year ended July 31, 1983	5,893
Year ended July 31, 1984	5,879
Years subsequent to July 31, 1984	50,460

Debt stated in other than U.S. dollars has been translated at the rates of exchange in effect at the end of each fiscal year.

The Company has complied with its agreements to maintain specified working capital, assets-to-debt and debt-to-equity ratios.

The average interest rate on outstanding short-term notes payable was 12.25% at July 31, 1979. The maximum amount of short-term notes payable outstanding at any month-end in 1979 was $96,619,000, while the average amount outstanding was $67,510,000. The weighted average interest rate on short-term notes payable during 1979 was 10.1%. This percentage was determined by considering the time each obligation was outstanding and the interest rate in effect during that time.

At July 31, 1979, the Company had total unused credit commitments exceeding $230,000,000. Compensating balances of 10% on certain of the unused credit commitments are maintained under informal arrangements. These balances are not legally restricted and are available for use in current operations. At July 31, 1979, the compensating balance requirements were $12,500,000. The compensating balance requirements for each calendar year are calculated on average daily balances. The Company pays a commitment fee on certain unused commitments at the rate of ½ of 1% per annum.

Note E: (continued)

Cash and marketable securities consisted of the following:

(thousands of dollars)	July 31, 1979	1978
Unrestricted demand deposits	**$ 36,944**	$ 70,068
Time deposits and certificates of deposit	**334,154**	23,255
Commercial paper and bankers acceptances	**39,025**	—
	$410,123	$ 93,323

Cash — temporarily invested and restricted of $314,000,000 includes amounts pledged as collateral under certain bank guarantee agreements (see Note M) and amounts representing payments to be made to subcontractors. All restricted balances are invested by the Company in interest-bearing securities.

Net interest expense is comprised of the following:

(thousands of dollars)	July 31, 1979	1978
Interest on long-term debt	**$ 29,958**	$ 33,271
Other interest expense	**11,553**	13,444
Less: interest income	**(24,724)**	(7,443)
Net interest expense	**$ 16,787**	$ 39,272

Note F: Leases

Property, plant and equipment includes the following amounts for capital leases:

(thousands of dollars)	July 31, 1979	1978
Property, plant and equipment, at cost:		
Land	**$ 1,338**	$ 1,088
Buildings	**105,634**	104,485
Machinery and equipment	**42,633**	39,218
	149,605	144,791
Less accumulated depreciation	**(73,044)**	(62,788)
Net property, plant and equipment	**$ 76,561**	$ 82,003

The most significant capital land and plant lease relates to the shipyard facility at Pascagoula, Mississippi which may be acquired by the Company under certain conditions. Other capital leases also contain provisions for acquiring the facilities.

As of July 31, 1979, minimum rental commitments under capital and noncancellable operating leases were:

(thousands of dollars)	Capital Leases	Operating Leases
Year ended July 31, 1980	$ 11,906	$ 21,802
Year ended July 31, 1981	11,834	15,811
Year ended July 31, 1982	11,658	11,405
Year ended July 31, 1983	11,611	8,323
Year ended July 31, 1984	11,581	5,949
Years subsequent to July 31, 1984	148,887	18,590
Total minimum lease payments	207,477	$ 81,880
Amounts representing interest	(72,873)	
Net minimum lease payments	134,604	
Current portion of capital lease commitments	5,068	
Long-term portion of capital lease commitments	$129,536	

Rental expense for noncancellable operating leases, including amounts for short-term leases with nominal, if any, future rental commitments, was $47,974,000 and $43,160,000 for the years ended July 31, 1979 and 1978, respectively. The minimum future rentals receivable under subleases and the contingent rental expenses were not significant.

Note G: Convertible Subordinated Debentures and Other Subordinated Debt

At July 31, 1979, $15,855,000 of 3½% debentures due April 1, 1987 were outstanding. These debentures are convertible into Common stock of the Company at $42.50 a share until April 1, 1982 and $45.00 a share thereafter. With limited exceptions, they are subordinated to all existing debt and future debt of the Company. The Company has complied with the terms of the debentures including the sinking fund requirements which have been satisfied to April 1, 1986. Other subordinated debt of $45,181,000 (payable in Swiss francs) represents outstanding debt of a wholly owned European subsidiary of the Company and is due in four equal annual installments beginning on June 26, 1981 with interest at 6⅜%.

Note H: Shareholders' Investment

The Series A preferred stock receives a $3.00 annual dividend. Each share is convertible into two shares of Common stock and is redeemable at the option of the Company at $100.00 per share plus accrued dividends. In the event of liquidation, each Series A preferred share is entitled to receive $50.00 plus accrued dividends.

The Series B preferred stock receives a $2.00 annual dividend. The Series B preferred stock is not convertible into Common stock. Each share of Series B preferred stock is redeemable at the option of the Company at $80.00 plus accrued dividends and, in the event of liquidation, is entitled to receive $25.00 plus accrued dividends.

Each share of Preference stock is currently convertible into 1.4857 shares of Common stock. Each share of Preference stock is entitled to receive a cash dividend in an amount equal to the dividend paid per Common share times the then applicable Preference stock conversion rate. Each share of Preference stock is redeemable at the option of the Company at any time at prices ranging from $74.43 in 1979 to $100.95 in 1989 and thereafter. In the event of liquidation, each Preference share is entitled to receive $25.00 plus accrued dividends.

At July 31, 1979, 1,893,950 Common shares were reserved for the exchange of the Series A preferred and Preference stocks described above. In addition, 373,059 Common shares were reserved for exchange of the convertible debentures described in Note G.

In December 1970, the shareholders of the Company approved a Qualified Stock Option Plan under which shares of Common stock were made available for sale to key employees under option contracts at prices not less than the market value on the date the option is granted. Options are cumulatively exercisable and expire five years after the date of grant.

Under the Qualified Stock Option Plan, options were outstanding at July 31, 1979 to purchase 143,372 shares at prices per share ranging from $2.89 to $23.72 and options were exercisable at that date to purchase 52,632 shares at prices per share ranging from $2.89 to $14.15. During the year ended July 31, 1979, options for 150,569 shares were exercised at prices per share ranging from $3.26 to $12.59.

At July 31, 1979, 1,672 shares were available for future option contracts under the 1970 Qualified Stock Option Plan, whereas at July 31, 1978, 58,671 shares were available.

Note I: Business Segments

The Company is a major industrial corporation serving worldwide markets for commercial, consumer, industrial and defense-related products. The following tables set forth revenues, profitability, total assets and other information relating to the Company's six business segments.

(thousands of dollars)	**Year Ended July 31, 1979**	1978
Sales and Service Revenues by Business Segment:		
Business Systems and Equipment		
Sales and service revenues	**$1,096,389**	$ 943,872
Intersegment transfers	**2,336**	2,862
	1,098,725	946,734
Industrial Systems and Services		
Sales and service revenues	**779,581**	613,171
Intersegment transfers	**882**	357
	780,463	613,528
Electronic and Electrical Products		
Sales and service revenues	**781,647**	718,759
Intersegment transfers	**13,204**	13,327
	794,851	732,086
Paper, Printing and Publishing		
Sales and service revenues	**337,924**	286,678
Intersegment transfers	**3,578**	3,807
	341,502	290,485
Advanced Electronic Systems		
Sales and service revenues	**529,458**	460,396
Intersegment transfers	**49,626**	69,556
	579,084	529,952
Marine Engineering and Production		
Sales and service revenues	**547,390**	616,043
Intersegment transfers	**—**	26
	547,390	616,069
	4,142,015	3,728,854
Intersegment eliminations	**(69,626)**	(89,935)
Miscellaneous	**15,420**	14,290
Sales and service revenues	**$4,087,809**	$3,653,209
Operating Profits by Business Segment:		
Business Systems and Equipment	**$ 62,452**	$ 25,113
Industrial Systems and Services	**133,103**	95,448
Electronic and Electrical Products	**73,033**	61,510
Paper, Printing and Publishing	**23,201**	21,557
Advanced Electronic Systems	**61,950**	47,407
Marine Engineering and Production (before $332,573 charge in 1978 for contract settlement with U.S. Navy)	**44,068**	10,445
	397,807	261,480
Intersegment eliminations	**(8,710)**	(7,714)
	389,097	253,766
Net interest and corporate expenses	**(67,020)**	(71,063)
Earnings before currency adjustments, gain on sale of subsidiary, contract settlement with U.S. Navy and taxes on income.	**$ 322,077**	$ 182,703

Note I:
(continued)

(thousands of dollars)	Year Ended July 31, 1979	1978
Total Assets and Other Information by Business Segment:		
Business Systems and Equipment (Note B)		
Total Assets	**$ 324,332**	$ 646,097
Capital Expenditures	**$ 31,769**	$ 33,958
Depreciation Expense	**$ 20,880**	$ 20,963
Industrial Systems and Services		
Total Assets	**$ 440,184**	$ 377,294
Capital Expenditures	**$ 61,028**	$ 50,779
Depreciation Expense	**$ 34,139**	$ 27,735
Electronic and Electrical Products		
Total Assets	**$ 396,582**	$ 351,280
Capital Expenditures	**$ 23,064**	$ 22,755
Depreciation Expense	**$ 11,877**	$ 9,428
Paper, Printing and Publishing		
Total Assets	**$ 204,735**	$ 190,212
Capital Expenditures	**$ 15,305**	$ 15,215
Depreciation Expense	**$ 11,126**	$ 9,954
Advanced Electronic Systems		
Total Assets	**$ 237,732**	$ 190,401
Capital Expenditures	**$ 20,756**	$ 13,522
Depreciation Expense	**$ 9,465**	$ 7,434
Marine Engineering and Production		
Total Assets	**$ 236,929**	$ 265,543
Capital Expenditures	**$ 5,919**	$ 11,150
Depreciation Expense	**$ 15,548**	$ 14,952
Corporate and Eliminations		
Total Investments and Other Assets (1979 includes cash of $710,352)	**$1,013,804**	$ 258,118
Capital Expenditures	**$ 508**	$ 2,111
Depreciation Expense	**$ 1,798**	$ 1,701
Consolidated		
Total Assets	**$2,854,298**	$2,278,945
Capital Expenditures	**$ 158,349**	$ 149,490
Depreciation Expense	**$ 104,833**	$ 92,167

The Company's operations outside the United States are principally located in Western European countries. The following tables display a summary of its U.S. and other operations:

(thousands of dollars)	Year Ended July 31, 1979	1978
Sales and Service Revenues by Geographic Area:		
United States:		
Trade	**$3,097,923**	$2,861,671
Intergeographic area	**40,133**	25,393
	3,138,056	2,887,064
Outside the United States:		
Trade	**989,886**	791,538
Intergeographic area	**119,239**	97,412
	1,109,125	888,950
Intergeographic area elimination	**(159,372)**	(122,805)
Sales and service revenues	**$4,087,809**	$3,653,209

Note I: (continued)

Operating Profits by Geographic Area:		
United States (before $42,197 gain on sale of subsidiary in 1979 and $332,573 charge for contract settlement with U.S. Navy in 1978)	**$ 302,696**	$ 196,784
Outside the United States	**86,401**	56,982
	389,097	253,766
Net interest and corporate expenses	**(67,020)**	(71,063)
Earnings before currency adjustments, gain on sale of subsidiary, contract settlement with U.S. Navy and taxes on income	**$ 322,077**	$ 182,703
Consolidated Assets by Geographic Area:		
United States	**$1,971,750**	$1,842,914
Outside the United States	**954,073**	636,623
Eliminations	**(71,525)**	(200,592)
Consolidated assets	**$2,854,298**	$2,278,945

The only significant single customer of the Company is the Federal Government of the United States of America (see Note K: Defense Contracts). This involves primarily the Advanced Electronic Systems Segment and the Marine Engineering and Production Segment. The Company's export sales from the United States are not material.

Internal sales and transfers are based on negotiated prices.

Note J: Taxes on Income

The components of the provision for taxes on income are:

(thousands of dollars)	**Year Ended July 31, 1979**	1978
Currently payable:		
United States	**$ 31,545**	$ 48,352
Foreign	**35,332**	20,112
State and local	**24,428**	13,736
	91,305	82,200
Tax effects of timing differences:		
United States	**31,733**	(213,100)
Foreign	**16,488**	682
	48,221	(212,418)
Utilization of operating losses and tax credits	**—**	15,459
Net deferred investment tax credits	**494**	1,132
	$ 140,020	$(113,627)

The components of tax effects of timing differences are:

(thousands of dollars)	**Year Ended July 31, 1979**	1978
Contract settlement with U.S. Navy	**$ —**	$(159,635)
Other long-term contract profits	**30,744**	(16,103)
Receivable and inventory reserves and expenses	**(12,337)**	(8,443)
Deferred income	**4,156**	2,397
Currency realignment amounts	**20,130**	(35,853)
Other items	**5,528**	5,219
	$ 48,221	$(212,418)

The effective income tax rate for 1979 differs from the U.S. statutory rate principally due to the following increases (decreases) in the provision: amortization of investment tax credits, $(5,302,000); taxes on non-U.S. operations different from the U.S. statutory rate, and savings from liquidation of non-U.S. operations, $(12,097,000); portion of currency amounts not tax allocated (principally translation amounts which never enter into the determination of taxable income), $(9,482,000); state taxes net of federal benefit, $12,996,000; other items, $(23,000).

The effective income tax rate for 1978 differs from the U.S. statutory rate principally due to the following increases (decreases) in the provision: amortization of investment tax credits, $(4,994,000); taxes on non-U.S. operations different from the U.S. statutory rate, $1,130,000; portion of currency amounts not tax allocated (principally translation amounts which never enter into the determination of taxable income), $(16,278,000); state taxes net of federal benefit, $7,143,000; other items, $(2,482,000).

Note J: (continued)

The Company has not provided U.S. taxes on undistributed earnings of non-U.S. subsidiaries that are deemed to have been permanently reinvested in the growth of business outside of the United States. Undistributed earnings of non-U.S. subsidiaries for which taxes have not been provided are included in consolidated retained earnings in the amounts of $290,000,000 and $266,000,000 at July 31, 1979 and 1978, respectively. If such earnings were distributed, U.S. income taxes would be substantially offset by available tax credits.

Deferred taxes on income classified as current assets in the Consolidated Balance Sheets represent current timing differences and include $98,557,000 and $114,095,000 at July 31, 1979 and 1978, respectively, related to the contract settlement with the U.S. Navy.

Future tax benefits classified in long-term investments and other long-term assets in the Consolidated Balance Sheets are as follows:

(thousands of dollars)	**July 31, 1979**	1978
Long-term timing differences	**$ —**	$20,851
Refunds due and miscellaneous	**10,484**	14,903
	$10,484	$35,754

Long-term timing differences at July 31, 1979 amounted to a net credit of $22,438,000, and are classified with unamortized investment tax credits as deferred taxes on income in the liability section of the Consolidated Balance Sheet.

Note K: Defense Contracts

Approximately 26% and 29% of the sales and service revenues of the Company for the years ended July 31, 1979 and 1978, respectively, arose from U.S. Government contracts and subcontracts. Approximately 65% of these revenues for 1979 relate to fixed-price type contracts.

As is common with Government contracts, the Company's defense contracts are unilaterally terminable by the Government at its convenience with compensation for work completed and costs incurred. Profits on the Company's U.S. Government contracts may be subject to the profit limitation provisions of the Vinson-Trammell Act. However, the Company believes that no liability exists to refund any profits under the Act.

At July 31, 1979, the amount of worldwide defense contract work backlog to be completed was approximately $3,433,666,000, of which $2,359,812,000 has been funded. At July 31, 1978, the amount of major defense contract work backlog was $1,829,550,000.

Note L: Marine Contracts

The shipbuilding activities of the Company are conducted in Pascagoula, Mississippi by the Ingalls Shipbuilding Division of Litton Systems, Inc., a wholly owned subsidiary of the Company.

The previously reported LHA and DD disputes between Ingalls and the U.S. Navy were resolved by a settlement negotiated in June 1978 which resulted in an after-tax charge of $172,938,000 ($332,573,000 before taxes) for 1978. While the Company maintains that an equitable settlement should have resulted in full recovery on these programs, acceptance of the Navy terms at that time was clearly in the best interests of the Company, its shareholders and its employees.

The negotiated settlement of the LHA and DD contracts dispute also provides that Ingalls will recover 80% of any amount by which the final cost at completion is less than the negotiated estimated cost at completion for the combined LHA and DD programs. Conversely, if actual costs exceed the negotiated estimated cost at completion of these two contracts, such cost growth would be equally shared by Ingalls and the U.S. Navy up to an aggregate of $100,000,000.

In fiscal 1979, Ingalls' performance has been better than the estimated costs to complete of June 1978 and there have been profitable work additions made to these programs. Estimated revenues and costs on the remaining portion of the LHA and DD programs are being recorded as performance progresses, in accordance with the percentage-of-completion method of accounting. In fiscal 1979, cost reductions and added-scope profit of approximately $19,500,000 on these programs are included in operating results. Based on current performance rates and current estimates of costs to complete, the Company expects to have further cost-sharing recoveries on these two programs.

As of July 31, 1979, 25 of the 35 ships ordered on these two contracts had been delivered and all of the remaining 10 ships had been launched and were in final stages of outfitting for delivery in 1980.

Note M: Litigation and Contingencies

In January 1974, the U.S. Navy referred to the Justice Department for investigation an assertion that misrepresentations were contained in a request for equitable adjustment submitted by the Ingalls Shipbuilding Division of a subsidiary of the Company. This request related to a completed Navy submarine contract. The investigation which followed involved hearings before a Grand Jury in Alexandria, Va., which expired in September 1976, after two and one-half years of proceedings. Subsequently, in April 1977, a new Grand Jury indicted Ingalls for an alleged violation of the False Claims Act. This indictment was dismissed in a Federal District Court in May of 1977, which dismissal was reversed by the Fourth Circuit Court of Appeals in April 1978. The case has since been transferred to the Southern District of Mississippi for further proceedings, including eventual trial of the violations alleged in the indictment. Counsel for the Company believes there are meritorious defenses to the charges which have been made.

During the period of the Grand Jury proceedings, Ingalls' claim was heard before the Armed Services Board of Contract Appeals which, in April 1976, awarded Ingalls $17,300,000 of which $13,600,000 was withheld by the Navy. Ingalls filed suit against the Government in the Court of Claims seeking, among other things, payment of that award. In March 1978, the Navy paid to Ingalls provisionally the sum of $13,600,000 in dispute and the Court of Claims proceedings were suspended pending the outcome of the proceedings on the indictment. In the opinion of counsel, Ingalls ultimately will prevail in these actions.

In June 1979, a trial court in Pennsylvania rendered a decision holding that neither the Company nor one of its subsidiaries had any liability to Bethlehem Steel Corporation under an alleged option agreement which contemplated the possible construction of certain ore carriers for Bethlehem. This decision resulted from the filing of a lawsuit by Bethlehem in 1974, claiming damages in excess of $95,000,000 on account of an alleged breach of such purported agreement by the Company's subsidiary. In September 1979, a further hearing was held on certain exceptions which Bethlehem took to the decision and the court is considering Bethlehem's arguments. In the opinion of counsel to the Company, the Company will prevail in the final disposition of this matter.

In April 1977, the Securities and Exchange Commission issued an order directing a private investigation of financial information relating to the Company's shipbuilding operations as set forth in the Company's filings with the Commission and reports to shareholders since approximately 1972. The order referred to financial reporting of claims against the U.S. Navy, allocation of costs between military and commercial shipbuilding contracts, and the Company's income, revenues, assets and liabilities. The Company cannot predict what the full scope of the investigation, its duration or outcome will be. Management believes the financial information in such reports and filings was fairly presented.

There are various other litigation proceedings in which the Company and its subsidiaries are involved. In the opinion of the Company's General Counsel, such litigation proceedings will not have a material adverse effect upon the business, assets, or financial condition of the Company and its subsidiaries.

As required under provisions of a contract between an affiliate of the Company and the Kingdom of Saudi Arabia, the Company has entered into agreements whereby bank consortiums have issued two guarantees to the customer in the amounts of $300,000,000 and $82,000,000, guaranteeing, respectively, the return of the customer's advance payment (included under the caption "Customer deposits and progress payments" on the Consolidated Balance Sheet), if demanded, and the performance of the contract. If the banks were required to make payment under either guarantee, the Company would be obligated to such banks for the aggregate amount paid. As of July 31, 1979, time deposits and certificates of deposit (included under the caption "Cash — temporarily invested and restricted" on the Consolidated Balance Sheet) totaling $270,000,000 were pledged to the banks as partial collateral for the $300,000,000 guarantee agreement.

In July 1979, the Company entered into an agreement whereby a subsidiary of Morgan Guaranty Trust Company of New York has assumed the Company's obligation to pay the principal of 50,000,000 Swiss francs, interest and related charges with respect to certain notes payable due in January 1980. The Company is contingently liable on these notes until the subsidiary of Morgan discharges the assumed obligation.

Note N: Pension and Retirement Plans

Charges to operations under the various pension and retirement plans aggregated $41,400,000 and $38,500,000 for the years ended July 31, 1979 and 1978, respectively. The actuarial liability for vested benefits of the United States and Canadian plans exceeded the corresponding market value of assets by approximately $51,000,000 at July 31, 1979. Past service costs are not significant.

Note O: Quarterly Financial Information (unaudited)

Summarized quarterly financial data of the Company during fiscal 1979 and 1978 were as follows:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
	(thousands of dollars, except per share data)				
1979					
Sales	$940,495	$1,038,631	$1,088,571	$1,020,112	$4,087,809
Gross Profit	$228,303	$ 252,287	$ 276,228	$ 286,045	$1,042,863
Net Earnings (Loss):					
Operations	$ 29,585	$ 36,475	$ 51,424	$ 54,727	$ 172,211
Currency adjustments	(20,234)	13,821	482	(3,402)	(9,333)
Gain on sale of subsidiary	—	—	—	26,009	26,009
Total	$ 9,351	$ 50,296	$ 51,906	$ 77,334	$ 188,887
Earnings (Loss) per Share:					
Operations	$ .75	$ .93	$1.33	$1.42	$4.43
Currency adjustments	(.54)	.37	.01	(.09)	(.25)
Gain on sale of subsidiary	—	—	—	.69	.69
Total	$ .21	$1.30	$1.34	$2.02	$4.87
1978					
Sales	$903,417	$ 945,814	$ 855,876	$ 948,102	$3,653,209
Gross Profit	$192,022	$ 209,432	$ 205,743	$ 213,307	$ 820,504
Net Earnings (Loss):					
Operations	$ 20,029	$ 23,193	$ 24,771	$ 26,216	$ 94,209
Currency adjustments	(4,405)	(6,138)	(3,605)	2,034	(12,114)
Contract settlement with U.S. Navy	—	—	—	(172,938)	(172,938)
Total	$ 15,624	$ 17,055	$ 21,166	$ (144,688)	$ (90,843)
Earnings (Loss) per Share:					
Operations	$ .50	$ .58	$ .62	$ .66	$ 2.36
Currency adjustments	(.12)	(.16)	(.10)	.05	(.32)
Contract settlement with U.S. Navy	—	—	—	(4.63)	(4.63)
Total	$ .38	$ .42	$ .52	$(3.92)	$(2.59)

The number of shares used in computing the earnings per share amounts reported above have been restated, where appropriate, to reflect the 2½% Common stock dividend paid November 15, 1978.

The total of the quarterly amounts for earnings per share will not necessarily equal the annual amount, since the computations are based on the average number of shares outstanding during each period.

Note P: Replacement Costs (unaudited)

The Company has made estimates of the replacement cost of inventories and productive capacity existing at July 31, 1979.

The information collected shows that the capital cost of replacing such assets would be substantially higher than their original cost. The Company believes that, if these assets were replaced, operating efficiencies would at least partially offset increased charges to cost of sales and depreciation expense.

This information will be included in Form 10-K Annual Report to the Securities and Exchange Commission for the year ended July 31, 1979.

The classes of Litton securities listed below are traded principally on the New York Stock Exchange and the Pacific Stock Exchange. The Common stock also is listed for trading on certain exchanges in Continental Europe.

High and Low Market Prices for Litton's Capital Stock

Titles of Each Class of Security		Quarter Ended Oct. 31	Jan. 31	April 30	July 31
Series A $3.00 Cumulative Convertible Preferred Stock, par value $5.00					
Fiscal 1979	High	$60	$51½	$56¾	$66
	Low	48	44	44¾	54⅞
Fiscal 1978	High	39½	39	45¾	50
	Low	37⅜	36	38½	45
Series B $2.00 Cumulative Preferred Stock, par value $5.00					
Fiscal 1979	High	$20⅞	$21⅜	$20⅜	$20¼
	Low	19¾	17¾	19¾	19⅜
Fiscal 1978	High	22	21½	21¼	21
	Low	20⅝	20½	20½	19¾
Convertible Preference Stock Participating Series, par value $2.50					
Fiscal 1979	High	$40⅜	$32⅝	$38¼	$48½
	Low	33	26½	29	35½
Fiscal 1978	High	19¼	21½	27½	34¾
	Low	16	16	20⅛	26¾
Common Stock, par value $1.00					
Fiscal 1979	High	$28¼	$23¼	$26	$33½
	Low	21⅞	18¼	18⅞	24¼
Fiscal 1978	High	13⅜	14⅞	19¼	24⅛
	Low	11	11¼	13½	18

A 2½% stock dividend was paid on the Common stock on November 15, 1978 and on November 15, 1977. The market prices shown above for the Common stock have been adjusted for these dividends where appropriate.

Semi-annual cash dividends of $1.50 per share were paid on the Series A preferred stock and quarterly cash dividends of $.50 per share were paid on the Series B preferred stock in both fiscal 1979 and 1978. In addition, a quarterly cash dividend of $.25 per share on Common stock and $.3714 per share on Preference stock was declared in June 1979.

Other Data

(dollar amounts expressed in thousands, except book value)

July 31,	**1979**	1978	1977	1976	1975
Shareholders' Investment	**$930,767**	$759,344	$856,104	$806,158	$783,637
Capital expenditures	**$158,349**	$149,490	$ 99,485	$ 99,764	$104,049
Common stock dividends	**2½%**	2½%	2½%	2½%	2½%
Number of employees	**77,700**	90,400	94,000	92,800	97,000
Book value per common share	**$ 23.15**	$ 18.35	$ 21.10	$ 19.71	$ 19.46

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Chairman, President and Chief Executive Officer, Ducommun Incorporated (Metals and Electronics Distribution)

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Corporate Management Adviser

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President, Litton Industries, Inc.

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Distinguished Visiting Professor and Executive-in-Residence, The George Washington University

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Chairman of the Board, Litton Industries, Inc.

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Chancellor, University of Southern California

James O. Wright
Investments

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In accordance with applicable policies of the New York Stock Exchange and in accordance with prevailing practices of comparable industrial corporations, Litton Industries, Inc. publishes shareholders' reports shortly after the close of each fiscal quarter.

Major Litton Divisions

Business Systems and Equipment
Kimball, Litton Office Furniture, Litton Office Product Centers, Litton Store Fixtures, Monroe, Sweda

Industrial Systems and Services
Aero Service, Butterfield-Canada, Contromatics, Eldorado Tool, Gardner Machine, Hewitt-Robins Conveyor Equipment, Hewitt-Robins Crushing & Vibrating Equipment, Koehler-Dayton, Landis Lund, Landis Tool, Litton Resources Systems, Litton Unit Handling Systems, Lucas Machine, Merriman, New Britain Machine, New Britain Plastics, New Britain Tool, Reed Rolled Thread Die, Robins Engineers and Constructors, Union/Butterfield, Union Chain, Western Geophysical, Xcel

Electronic and Electrical Products
Advanced Circuitry, Airtron, Clifton, Electron Tube, Eureka X-Ray Tube, Hellige, Jefferson Electric, Kester Solder, Liberty Wire, Litton Bionetics, Litton Fastening Systems, Litton Microwave Cooking Products, Louis Allis, Poly-Scientific, Potentiometer, Triad-Utrad, USECO, Veam, Westrex, Winchester

Paper, Printing and Publishing
Decotone, Decotone-Permaco, Fitchburg Coated Products, Fitchburg Paper, Kimball/McBee, Litton Educational Publishing, Litton Financial Printing, Medical Economics, Valentine, Versoix

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Aero Products, Amecom, Data Systems, Datalog, Guidance and Control Systems, LITEF, Litton Italia, Litton Systems Canada, Mellonics, C. Plath

Marine Engineering and Production
Ingalls Shipbuilding

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