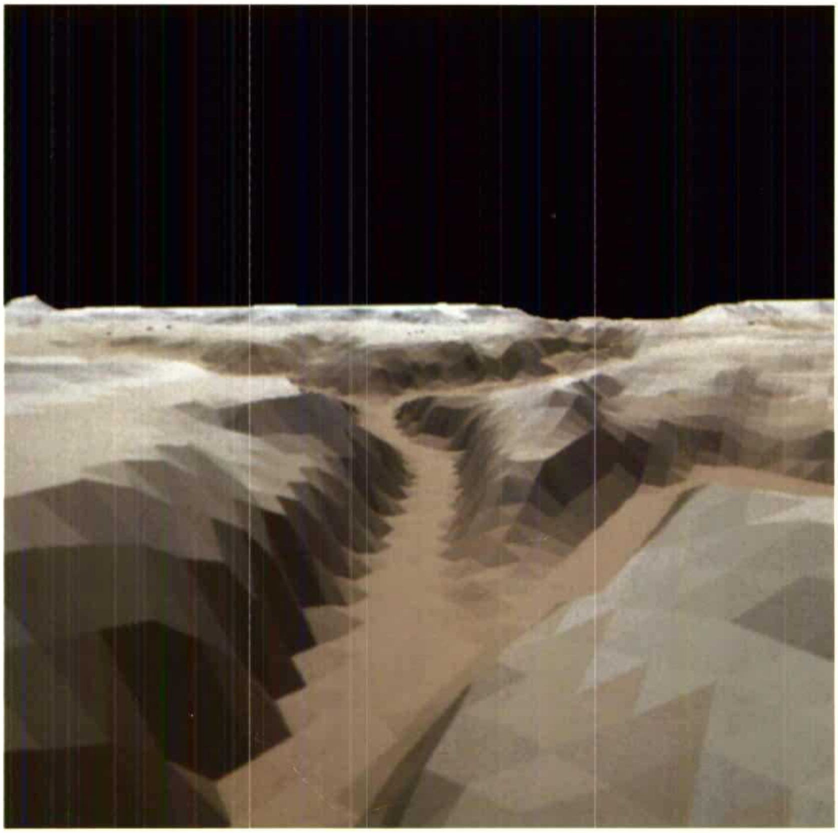
Annual Report
for the Fiscal Year
1989



Litton

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On the Cover

Engineers at Litton Systems Canada Limited have created this three-dimensional perspective view of the Grand Canyon using the Company's graphics software and the U.S. Defense Mapping Agency's digital terrain elevation data. These images will be used in Litton-developed, full-color cockpit displays being designed and built for the next generation of U.S. Army and Air Force aircraft. Such imagery provides preflight, incockpit simulations and inflight previews of terrain to be encountered during a mission.

Company Description

Litton is a multi-industry, high-technology corporation based in Beverly Hills, California. The Company provides advanced electronic and defense systems, resource exploration services and industrial automation systems to U.S. and world markets. Litton was founded in California in 1953, and has evolved into a major international organization with 50,700 employees working at more than 40 divisions around the world.

Summary of Financial Information

	(dollar amounts in millions, except per share amounts)	1989	1988	1987
		Year Ended July 31		
Operating Results	Sales and Service Revenues	**$5,022.8**	$4,863.9	$4,419.7
	Segment Operating Profit	**456.1**	425.9	360.0
	Earnings before Taxes on Income and Minority Interest	**314.5**	291.9	249.0
	Net Earnings	**178.3**	167.0	138.1
	Earnings per Share	**7.05**	6.33	5.16
	Sales to the U.S. Government as a Percent of Sales	**47%**	48%	58%
Financial Position at Year End	Cash and Marketable Securities	**1,068.8**	1,140.3	1,229.6
	Total Assets	**5,257.7**	5,074.5	4,880.8
	Long-term Obligations	**182.1**	198.5	180.9
	Subordinated Notes and Debentures	**1,311.3**	1,311.3	1,311.3
	Shareholders' Investment	**1,267.7**	1,175.4	1,053.8
	Working Capital	**1,435.6**	1,184.6	974.0
	Current Ratio	**1.81**	1.69	1.54
Other Selected Financial Information	Return on Average Shareholders' Investment	**14.8%**	15.1%	13.8%
	Book Value per Share	**51.64**	45.82	40.28
	Common Shares Outstanding at Year End*	**24.3**	25.4	25.9
	Shares Used to Compute Earnings per Share*	**25.2**	26.3	26.6
	Capital Expenditures	**249.3**	249.5	242.8
	Depreciation Expense	**204.2**	189.1	149.4
	Research and Development Expenditures	**270.1**	227.9	209.7
	Backlog at Year End	**8,714.1**	7,699.7	6,569.0
	Number of Employees at Year End	**50,700**	55,000	54,200

*Rounded in millions.

Business Segment Information

	(thousands of dollars)	Year Ended July 31 1989	1988	1987
Sales and Service Revenues	Advanced Electronics			
	Navigation and control systems	$ 933,402	$1,094,369	$1,016,148
	Communications and electronic data systems	927,125	921,490	990,388
	Electronic components	396,972	405,447	357,431
	Intrasegment eliminations	(24,262)	(21,987)	(27,134)
		2,233,237	2,399,319	2,336,833
	Industrial Systems and Services			
	Resource exploration services	818,954	750,100	371,348
	Industrial automation systems	730,072	600,365	412,846
	Computer products	284,833	274,328	227,209
		1,833,859	1,624,793	1,011,403
	Marine Engineering and Production	1,048,766	909,825	1,129,836
	Subtotal	5,115,862	4,933,937	4,478,072
	Intersegment Eliminations	(105,233)	(86,567)	(81,073)
	Miscellaneous	12,153	16,527	22,690
	Sales and Service Revenues	$5,022,782	$4,863,897	$4,419,689
Operating Profit	Advanced Electronics	$ 185,333	$ 186,214	$ 186,095
	Industrial Systems and Services	147,179	127,279	54,885
	Marine Engineering and Production	126,670	113,898	120,985
	Subtotal	459,182	427,391	361,965
	Intersegment Eliminations	(3,107)	(1,503)	(2,015)
	Segment Operating Profit	456,075	425,888	359,950
	Other Unallocated Expenses	(61,130)	(58,604)	(55,323)
	Interest — Net	(80,425)	(75,398)	(55,594)
	Earnings before Taxes on Income and Minority Interest	$ 314,520	$ 291,886	$ 249,033

To Our Shareholders

LITTON had another good year in fiscal 1989 with positive financial and operating results. Sales and service revenues topped $5 billion for the first time in the Company's history, earnings continued to improve and yearend backlog exceeded fiscal 1988's record.

Our commercial operations were primarily responsible for the higher earnings and sales. The Industrial Automation Systems business gained a greater share of automotive manufacturing contracts in both the U.S. and overseas. However, the U.S. auto industry, our largest market, may be moving into a period of uncertainty as it faces more stringent fuel consumption and emission standards. This could cause a short-term delay in new engine programs for the U.S. market.

The Company's success with automated material handling and document management systems for industries such as electronics, aerospace, food and retailing, should lessen the effect of any slowdown in the automotive industry. The long-term outlook for our Industrial Automation business continues to be positive in the markets we serve.

The fiscal year for Resource Exploration Services was marked by a continued geographical shift as exploration and development activities for oil and gas expanded in the international arena. By improving our positions in Africa, the Middle East and Asia, we were able to offset weakness in the North American market. Profitability was affected by investments for the startup of work in new overseas areas. In fiscal 1990 we expect to see further gains in both revenues and market share in Resource Exploration.

Our Advanced Electronics business showed improved profit margin as production progressed on several major new programs, including the TAOC/MCE air operations command and control systems for the U.S. Marine Corps and Air Force. Segment revenues were affected by lower electronic component sales and completion of the final test phase on a large overseas program.

We continue to win important new defense contracts and follow-on work, while improving asset management, reducing risks by teaming with other companies on new development programs, taking advantage of opportunities in the international market and carefully selecting the programs for which we compete. Our broad program base helps assure positive performance for Advanced Electronics in future years.

Good profitability was again recorded by the Marine Engineering and Production business. This segment generates strong cash flow and has a four-year backlog of more than $4 billion. As a leading producer of complex surface combatant ships for the U.S. Navy, we will be engaged in the nation's highest priority shipbuilding programs well into the 1990s. Our first international ship construction contract won in fiscal 1989 could open business opportunities with other countries.

Our strong financial position allowed us to continue the share buyback program in fiscal 1989 as we repurchased an additional 1.4 million shares of Litton Common stock at an average price of about $74 a share. This activity is part of a 4.5-million-share buyback program authorized by the Board of Directors. As of July 31, 1989, a total of 4.0 million shares of Common stock had been repurchased by the Company.

Arjay Miller, a Litton director, retired from the Board on December 8, 1988. We thank Arjay for his years of wise counsel.

As we enter the 1990s, Litton is in good shape. We are among the market leaders in our core businesses and we have the financial strength to take advantage of new opportunities. Our operations will generate the returns necessary for further investments in the future growth of the Company.

Orion L. Hoch

Orion L. Hoch
Chairman

Roland O. Peterson

Roland O. Peterson
President

October 10, 1989

At Point Mugu Naval Air Station in California, a technician checks out a Litton-built inertial navigation system installed aboard a Navy F-14 fighter plane. Most tactical U.S. Air Force, Navy and Marine aircraft are equipped with Litton inertial navigation systems.

Introduction: Major products and services are inertial navigation and guidance systems; command, control and communications systems; electronic warfare systems; optical and electro-optical systems; night vision equipment; microwave components; materials for solid state and optical electronics; and computer services. Primary customers are the U.S. and allied governments; aerospace and defense contractors; and commercial and business aviation.

Business Description:

Litton has had a successful history in advanced electronics since the Company's founding. Continuing strategy is to focus on specific technologies in which the Company has exceptional capabilities, and in market segments that are critically important for long-term growth. Litton is a leader worldwide in inertial navigation and guidance, command, control and communications, and electronic warfare systems.

The Company sells primarily through its North American divisions, but also is well positioned with engineering and manufacturing operations in other industrialized areas of the world. This allows Litton to participate actively in the national and multinational programs of Canada, Italy, West Germany and Korea, and to benefit from those countries' historic links with other markets. To take advantage of these opportunities, Litton's foreign operations have developed their own proprietary technologies.

1989 Highlights:

The U.S. Navy ordered 25 more Tactical Air Operations Module/Modular Control Equipment systems for the U.S. Marine Corps and Air Force. By the end of fiscal 1989, Litton had received contracts totaling almost $700 million under this program. A highly sophisticated command, control and communications system provided by Litton to a foreign customer passed its final system installation tests. The Company won a major contract to design and produce land- and ship-based tactical command and control systems for the South Korean Navy. This marked Litton's entry into that market in the Far East.

Initial production contracts were received for the Carrier Aircraft Inertial Navigation System (CAINS) II program. These awards established Litton as the only company currently producing laser gyro navigation systems for both U.S. Navy and Air Force tactical aircraft. Under separate U.S. and West German development programs, Litton demonstrated the feasibility of fiber optic gyro technology for navigation systems in the world's first flight tests with these new sensors.

For the commercial aircraft market, Litton is developing an advanced, smaller and more reliable laser gyro system called Flagship LTN-101. This system will be available first to airlines using the new Airbus A-330 and A-340 aircraft. Agreements already have been signed with Aerospatiale, producer of the Airbus. Sabena World Airlines of Belgium was the first carrier to select the system for its jet liners.

Litton's electronic warfare systems group won multiple contracts for continued production of AN/ALR-67 radar warning receiver systems for U.S. Navy tactical aircraft, and a development contract from the West German Air Force to upgrade the AN/ALR-68A(V) radar warning system for its RF-4E and F-4F tactical aircraft.

Q & A: Litton actively disseminates timely financial and operating information to its shareholders, the investment community, employees and customers. As part of a continuing communications effort, this annual report provides answers to some of the questions most frequently asked about the Company's major businesses.

Q: *What makes Litton a successful aerospace and defense contractor in today's increasingly competitive markets?* A: First, we have been strong historically in high technology, which is the foundation of U.S. defense capability. Second, we have chosen businesses — navigation and guidance, electronic warfare and command, control and communications — in which we have expertise and which are high-priority areas for our customers. Third, we have an efficient, worldwide organization.

Q: *How stable is the electronics portion of the defense budget?* A: Electronics continues to be one of the most important elements in the defense budget. New weapons platforms generally have a greater electronics content, and the update of older weapons systems is largely based on improving their electronic equipment. The capability of many military systems depends on their electronics — communications, navigation, computing ability, weapons delivery and other critical functions.

Q: *How has Litton prepared for reduced defense budgets?* A: We have put a high priority on running the most cost-efficient organization consistent with maintaining the highest quality. As we anticipate tighter defense budgets, we have taken measures to improve competitiveness.

Q: *The U.S. defense budget appears to be headed for some years of no growth. Can you prosper in this environment?* A: It will be a difficult task, but we have a number of high-volume, long-running production programs under contract, as well as important development work which we believe will mature into major production efforts. As these programs progress and we continue our strict asset management, performance should improve further. In fact, our sales per employee have risen steadily. We also are putting greater emphasis on the international market.

Q: *How are you going to offset Litton's dependency on the U.S. defense budget with sales in the international arena?* A: Our high-technology divisions in West Germany and Italy have been active in major national and multinational programs for years. The European Fighter Aircraft will be among the new programs in which we will participate. Additionally, we are making progress in the Pacific Rim markets and on the Asian mainland, where we established an operation several years ago.

Q: *With fewer prime military platforms in development, what are the major future programs for Litton?* A: We have been able to win good positions on a number of key development programs that have long-term production potential. These include the guidance system for the Air Force's new short-range attack missile; cockpit displays for the Army's new LHX helicopter; electronic equipment upgrade for the Navy's EA-6B Prowler aircraft; and electronic support measures and the inertial navigation system for the Navy's new A-12 aircraft. We also expect to participate in the Air Force's Advanced Tactical Fighter program.

Q: *Are you still looking at acquisitions for this business?* A: We are always evaluating opportunities to expand the strength of our ongoing business.

Q: *How important are new program awards in comparison to follow-on contracts to existing programs?* A: Both are important. We are a production house with strong engineering capability; we are not a one- or two-unit development house. We look for programs that have multiyear, high-volume production requirements with significant earnings potential. Profits generated by today's production programs are invested in new development programs which become the production programs of tomorrow.

Q: *Is Litton taking advantage of the boom in commercial aircraft orders?* A: Litton is a leading supplier of inertial navigation and attitude and heading reference systems as well as long-range radio navigation systems. Our customers include most of the world's commercial airlines and major aircraft manufacturers.

Q: *What new technologies does Litton have in development?* A: Emphasis is on advanced laser gyro technology, fiber optics, sophisticated display systems, and the ability to detect and process more electronic signals in very dense electronic warfare environments. We also are developing more powerful computers and the related software to acquire and analyze increasing amounts of information more quickly.

In the Gulf of Mexico, the Western Atlas, newest addition to the Company's fleet of survey vessels, performs deepwater three-dimensional seismic operations in the search for oil and gas. For improved data acquisition, the Western Atlas is equipped with multiple streamer cables and the industry's most advanced recording, navigation and processing equipment.

Introduction:

This business performs seismic services; integrated reservoir description services; data reduction and interpretation; core and fluid analysis; wireline logging; and provides specialized oilfield services equipment. Primary customers are the energy industry and governments worldwide.

Business Description:

Litton's resource exploration services company, Western Atlas International, is the leading single source for integrated reservoir description services. Formed in April 1987 by the combination of Litton's Resources group and Dresser Industries' Atlas Oilfield Services division, the majority-owned Litton subsidiary provides customers with advanced services, software and equipment to manage their exploration, development and production programs. Western Atlas has laboratories, data processing facilities and offices worldwide.

Key acquisitions and the application of existing technologies to new services have positioned Western Atlas to provide the most comprehensive information over the full life span of a well. Other major companies are following Litton's lead by broadening their service capabilities.

1989 Highlights:

Two large, new seismic survey vessels, *Western Atlas* and *Western Hercules*, went into service, equipped with multiple streamer cables and the most advanced equipment for three-dimensional marine seismic surveys.

The subsidiary introduced its revolutionary Tomex® "seismic-while-drilling" technology and started field tests on a second-generation version which is expected to increase the quantity and reliability of recording and processing data at well sites.

Western Atlas created Horizon™, a new software package that broadens the application of its Well Data System™, one of the industry's most advanced well log analysis packages. Horizon software delineates geological characteristics by integrating core analyses with well log data.

Western Atlas upgraded and expanded computer installations at its Houston Marine Data Center, opened a new core analysis laboratory in Kuala Lumpur, Malaysia, and is building a major new data processing facility in Singapore for the growing Southeast Asian market.

Resource Exploration Services

Q: What makes Western Atlas unique in the oil services industry? A: We have outstanding technology and a reputation for reliability and cost-efficient performance. We are financially sound, profitable and able to make the investments necessary to maintain our leadership position. Western Atlas also provides the broadest range of services in the industry and has a presence in key domestic and foreign areas. We have comprehensive data processing and laboratory installations, as well as land and marine crews around the world. Even as the energy industry was turning down in the mid-1980s, we made long-term investments to broaden our capability in high-tech oilfield services.

Q: How does Western Atlas rank in the resource exploration services marketplace? A: Western Atlas is first in the world in seismic exploration and data processing services, first in core and fluid analysis work, and a recognized leader in downhole wireline measurement and evaluation services.

Q: Has the oil price recovery had a positive effect on your operations? A: Oil prices have started to recover only recently from low levels and high volatility. Even more important than price level, however, is price stability because it generates the confidence oil companies need to plan their budgets and spend the allocated funds.

Q: In 1988, oil companies underspent their exploration budgets. What is happening in 1989? A: Expenditures were affected in 1988 both by price level and volatility in the market. Nonetheless, energy companies and foreign governments continue to fund exploration, development and production, primarily overseas. Budget forecasts for 1989 were about equal to actual spending in 1988. Although each proposed project is evaluated on its own merit, greater price stability this year is an indicator that available budgets may be spent, at least outside North America.

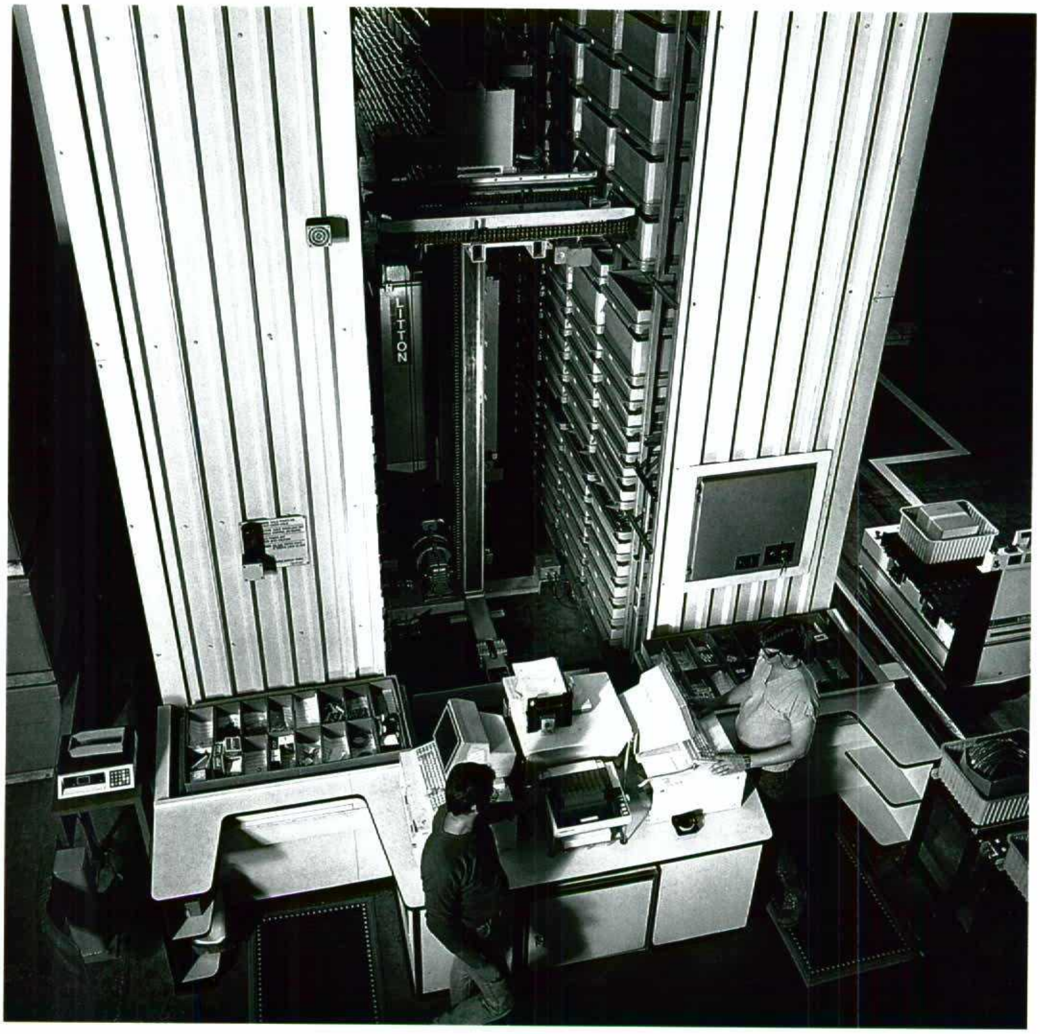
Q: Energy companies have sharply curtailed their North American exploration and production activities in favor of lower cost overseas areas. How does this affect your operations? A: Since it costs, on average, half as much to find and get a barrel of oil out of the ground overseas as it does in North America, oil companies continue to move their exploration activities to the international arena. Our operations follow that trend, and we do not see a near-term reversal. Today, 60 percent of our revenues are derived from the international market and North America is down to 40 percent.

Q: *This move to the international arena must be a costly venture. How long will it take you to absorb the startup costs?* **A:** Major investments are necessary for our overseas market expansion. Fortunately, at Western Atlas, we have the financial strength to do this. Upfront investments of such magnitude obviously affect profitability, but the impact is short-term. We should begin to see a flattening of these costs in fiscal 1990 and then an increase in our operating margins. We will continue expansion of our operations overseas as new opportunities present themselves.

Q: *What is the outlook for the North American market?* **A:** It appears to have about bottomed out. We are taking advantage of the depressed exploration market in North America by selling an increasing amount of proprietary seismic data acquired on our own surveys. Our library of proprietary data is the largest in the world. We also see a shift in user interest in the U.S. from oil to gas. It is evident that more money is being spent in North America on exploration for gas than on the search for oil.

Q: *What is the outlook for your worldwide business over the next year or two?* **A:** Overall, Western Atlas expects to improve its technical position, enhance its share of markets and increase profitability.

Q: *What are your most promising new technologies?* **A:** New technological developments include: 1) a deepwater marine seismic streamer cable with fiber optic transmission capable of dramatically increasing the amount of data from hydrophones to the survey ship, which improves the quantity and quality of information we get from the subsurface; 2) Tomex®, a "seismic-while-drilling" system which uses the drill bit as a downhole seismic source for geophysical surveying of subsurface strata during drilling operations; 3) Well Data System™, the most comprehensive and flexible well log analysis service in the oil industry, and 4) Mineralog™, a revolutionary system based on infrared spectroscopy that rapidly and precisely determines the mineral content of well cores and drill cuttings.



Litton's miniload automated storage and retrieval system, and its automated guided vehicle, at right, are major elements of today's sophisticated material handling installations. Together, they function as a small parts warehouse and can be integrated into a facility's material control network. Litton AGVs are computer-controlled and operate along predetermined optical guidepaths.

Industrial Automation Systems

Introduction: Major products and services are automated manufacturing, assembly and control systems; material handling and management systems; software and document management systems. Primary customers are worldwide automotive, electronics, aerospace, retail, food and beverage industries. The Computer Products business provides interconnection systems and multilayer circuit boards. Computer Products' primary customers are telecommunications, computer, automotive and transport industries and utilities.

Business Description:

Through a combination of acquisitions and internal growth, Litton Industrial Automation Systems has become a major supplier to the integrated manufacturing market. Litton is a developer of high-volume production systems for the manufacture of automotive engines, transmissions and welded body assemblies, as well as material and document management systems and automated material handling systems.

Litton not only can engineer the most efficient manufacturing systems, but with simultaneous engineering it can also help customers design products that can be produced at lower costs with higher quality. Continuous training of customer employees, as well as product and manufacturing systems improvements, are integral to ongoing relationships between Litton and its customers.

Based on these successful partnerships, Litton is able to win larger portions of new projects, apply its systems integration know-how to new business areas and expand further into the international market.

Computer Products:

Litton's position in the competitive markets for electrical and electronic connectors, printed circuit boards, back panels, card cages and solder products is characterized by innovative design, a broad line of proprietary products and a systems approach to interconnection. Over the past few years, Litton has successfully broadened its customer base. The business serves customers worldwide, with about 40 percent of its sales outside the U.S.

1989 Highlights:

Higher revenues were a result of the completion of several major multimillion-dollar projects. These included shipment of an advanced manufacturing system to the British automaker Austin Rover for production of car engines. In the U.S., Litton completed installation of an integrated materials management and control system for Chrysler and an automated storage and retrieval system for General Motors. Further expanding its position in the international market, Litton is designing and will install three major engine machining systems for Ford Motor Company plants in the United Kingdom.

To increase its services to the auto industry, Litton has established a material handling operation dedicated to car manufacturers. A Japanese auto company recently signed a multimillion-dollar order for automated guided vehicles.

In the aerospace industry, The Boeing Company awarded contracts to Litton for a 600-terminal, three-plant electronic document imaging and control system for engineering and manufacturing drawings, and what is believed to be the largest automated material handling system for small parts in the industry.

Q: Why is the automotive industry so important to your Industrial Automation Systems business? A: More than half of our revenues in fiscal 1989 were auto-related. This includes work in integrated machining, welding, automated material handling and software control systems. No other industry in the U.S., Canada or Europe invests as much money in capital equipment and manufacturing services. While there will be cycles through the years, the basic importance of the automotive industry will not change.

Q: How do you see the future for this part of your business? A: U.S. government requirements for emission controls and fuel economy are causing our customers to reassess future engine development programs. If this results in some delays of new programs, it could affect our business for the short term, primarily in machining and assembly systems. The outlook for future years remains very positive. We intend to expand geographically and win a larger share of each systems project.

Q: What is your backlog as you enter fiscal 1990? A: Overall, it is healthy—slightly more than last year. In our material handling and systems integration businesses, it is the highest it has ever been.

Q: Many of your competitors have fallen on hard times or gone out of business. What sets Litton apart from its competitors and traditional machine tool companies? A: Traditional machine tool companies sell customers anything that is in their product catalog or could be easily adapted. At Litton we have evolved into an engineering, systems integration and service company. We have established a highly capable supplier base to which we outsource much of the hardware we integrate. We also provide high-level, software-based control systems for large installations of machinery and peripheral equipment. We target selected industries in which we thoroughly understand the product and the production process, rather than selling a particular product to everybody.

Q: What is your strategy for further developing the business? A: There are four parallel actions: 1) Our own continuing internal development of technologies we believe will be important in the future; 2) Extending our products and services to other industries; 3) Evaluating possible acquisitions that could complement our capabilities; and 4) Expanding our business in Western and Eastern Europe and the Far East. About 20 percent of our revenues now come from outside the U.S.

Q: *Years ago, high labor costs and the need for increased capacity drove manufacturers to install automated production systems. What motivates your customers today?* A: Faced with worldwide competition in all markets, our customers put prime emphasis on quality, efficiency and quick response. Flexibility and inventory control are the other driving forces. Our products and services are designed to respond to these requirements.

Q: *U.S. car manufacturers are faced with increasing competition from foreign-owned "transplants" to the U.S. Do you get business from them?* A: Initially, Japanese manufacturers shipped nearly all of their production equipment to the U.S. However, this is slowly changing. During fiscal 1989 we received a major order from a Japanese manufacturer in the U.S. and we see foreign-owned plants as a future market. For sophisticated systems, you need to be close to the customer—and we are.

Q: *Is your primary competition today from U.S. or foreign suppliers?* A: There is more and more competition in the U.S. market from foreign suppliers. This is not surprising, as automotive companies are themselves international and buy internationally. But it works both ways since Litton also competes worldwide. Our European presence is successful proof of that, where we provide manufacturing systems to both U.S. and European-owned car production operations.

Q: *How are you participating in the trend toward a higher level of systems integration in industry?* A: Systems integration is really just beginning in industry and is primarily a software effort. We have the capability at Litton to control what we install to any level of business function a customer chooses. Our Boeing contract for a document control system is representative of the ways in which the production floor will be integrated with other business functions such as engineering and scheduling.

USS Wasp (LHD-1), first of a new class of multipurpose amphibious assault ships being built by Ingalls, has been commissioned into active service with the U.S. Navy. Primary mission of the 844-foot, 40,500-ton ship is the embarkation, deployment and support of a 2,000-member Marine landing force. Three other LHDs are currently under contract at Ingalls.

Introduction: Major products and services are the design, engineering and modular production of surface combatant ships; ship overhaul, repair and modernization; as well as advanced marine research, development and engineering studies. Primary customer is the U.S. Navy.

Business Description:

Litton's Ingalls Shipbuilding division is a leading designer and builder of complex surface combatant ships for the U.S. Navy. Since 1975, the Company has delivered a total of 53 new destroyers, cruisers and amphibious assault ships, and has been the lead builder of five of the Navy's latest classes of major surface combatants.

Currently, Ingalls has construction contracts for seven *Ticonderoga*-class Aegis guided missile cruisers, three *Wasp*-class multipurpose amphibious assault ships and three *Arleigh Burke*-class Aegis guided missile destroyers. It also is building three corvettes for an allied country.

At the end of fiscal 1989, Ingalls was completing modernization and overhaul work on the guided missile cruiser *USS Richmond K. Turner* (CG-20) and the guided missile destroyer *USS Luce* (DDG-38). Ingalls began fiscal 1990 with a backlog of more than $4 billion.

1989 Highlights:

LHD-1, first of the Navy's new class of 40,500-ton multipurpose amphibious assault ships being built by Ingalls, was commissioned into active service as *USS Wasp*. Production is underway on *Essex* (LHD-2), steel fabrication began on *Kearsarge* (LHD-3) and material procurement started for *Boxer* (LHD-4).

The 10th, 11th and 12th Ingalls-built Aegis guided missile cruisers, *Lake Champlain* (CG-57), *Princeton* (CG-59) and *Chancellorsville* (CG-62), were delivered.

Navy funding was received for further lead yard engineering and support services on the cruiser program.

Construction began on *John Barry* (DDG-52), the first of the series of Aegis guided missile destroyers Ingalls will build for the Navy. A contract was won to produce two more of these vessels. This new destroyer class is the Navy's highest priority, long-running surface ship program. Present Navy plans call for funding five Aegis destroyers per year over the next five years. Ingalls also received a contract with renewable options to bring the shipyard further into the engineering and planning support activities for this new class of naval ships.

Ingalls received a contract to overhaul the *USS John Hancock* (DD-981), one of the 31 *Spruance*-class destroyers built by the shipyard. Earlier in the year, a comprehensive reactivation and modernization of the 58,000-ton battleship *USS Wisconsin* (BB-64) was completed.

As part of an ongoing productivity improvement program, Ingalls completed an additional 274,000-square-foot facility for the initial assembly and pre-outfitting of ship sections.

Q: *How would you characterize today's naval shipbuilding market in the U.S.?* A: Even though the U.S. Navy may not achieve the Reagan Administration's goal of a 600-ship Navy, the market is largely predictable. The Navy plans its construction requirements in five-year increments and the few competitors are well known to each other and to the Navy. What wins contracts is long-term demonstrated capability, superior productivity that allows bidding at competitive prices, and the delivery of quality ships. Litton's Marine operations have demonstrated all these capabilities.

Q: *How would you assess Litton's position in the market?* A: When we look at the marketplace, we concern ourselves not so much with the total number of ships in the fleet, but with the types and numbers of ships that get the highest priority in the Navy. This is why we are specialists in surface combatant vessels, destroyers and cruisers that protect the center of the naval task force — the aircraft carrier — and in amphibious assault ships that support Marine forces in conflict situations. We are successful because we built and staffed a shipyard that takes full advantage of modular construction techniques.

Q: *Litton has developed a leading position in the construction of large surface combatant ships. What is the outlook for these ships?* A: In the next five years, the Navy plans construction of more than 25 vessels of the new types we are now building — Aegis guided missile destroyers and *Wasp*-class amphibious assault ships. The Navy also is planning to replace existing ships in its cruiser/destroyer force. More than 40 Navy destroyers and cruisers will be over 35 years old by the end of the 1990s. Fleetwide, a similar aging situation is developing. About 70 surface combatant ships will have reached the end of their usual 35-year service life between the years 2000 and 2010. Shipbuilding, overhaul, modernization and repair have a high level of priority in defense budgets. We see this as a stable and profitable business.

Q: *How important is modernization, overhaul and repair work to your business?* A: Our overhaul and repair work averages about $50 million annually in revenues. It is not significant in terms of overall sales, but it is important in the utilization of our engineering and production capacity.

Q: *Is the foreign marketplace an area of future expansion?* A: We are looking at opportunities to construct smaller but highly sophisticated corvette-type ships for foreign governments, and have identified future requirements for new naval vessels in both Europe and the Far East. However, this is a market which could be slow to develop.

Q: Ingalls introduced modular production techniques to the U.S. shipbuilding industry. How has that helped in your chosen marketplace? A: We pioneered modular construction in the U.S. almost 20 years ago because it was the most efficient way to build large numbers of the same class of vessel. Since then we have improved that process. Our ships are constructed in sections on land. Large, open-ended modules are pre-outfitted with machinery, piping and electrical systems. Then the modules are joined to form an enclosed hull at the water's edge, and the ship is floated off for final outfitting. This is much more efficient than conventional shipbuilding in which a hull is built up from the keel and totally closed in before installation of heavy equipment begins.

Q: What technologies are you emphasizing today? A: Capital improvements have been made in such technologies as computer-aided design and manufacturing in order to improve productivity and competitiveness. We are also involved in other developments like composite materials to strengthen the durability of shipboard structures. Litton also is helping the Navy implement various applications of fiber optics technology in order to increase shipboard communications transmission capability while reducing weight and bulk.

Q: Is Ingalls involved in any new ship design work? A: In addition to technologies related to ships currently in production, we work closely with Navy laboratories and other organizations in various cooperative efforts. Advanced hull forms and new propulsion techniques such as electric drive systems are of critical interest. We recently completed a comprehensive conceptual design for the Navy of a new, fast hydrofoil sealift ship of about 20,000 tons which could move troops and equipment at speeds approaching 55 knots. "Fast sealift" capabilities have received increasing attention and the Navy has assigned funds for further research and development. This could become a new business over the next five years.

Results of Operations

THE COMPANY'S sales increased by 3.3% to $5.0 billion in fiscal year 1989 and net earnings increased by 6.7% to $178.3 million. At July 31, 1989, backlog amounted to $8.7 billion. In fiscal years 1988 and 1987, the Company reported sales of $4.9 billion and $4.4 billion, respectively. Net earnings for fiscal 1988 were $167.0 million compared with $138.1 million in fiscal 1987. The improvement in sales and net earnings in both fiscal 1989 and 1988 was primarily attributable to the Company's Industrial Systems and Services segment. The segment experienced significant internal growth in the current fiscal year. Results for fiscal 1988 reflected mainly the expansion of the segment through business combinations.

The Industrial Systems and Services segment, which comprises the Company's industrial automation systems, resource exploration services and computer products businesses, reported sales of $1.8 billion in fiscal 1989 compared with sales of $1.6 billion in fiscal 1988 and $1.0 billion in fiscal 1987. Operating profits for the segment were $147.2 million in fiscal 1989 compared with $127.3 million in fiscal 1988 and $54.9 million in fiscal 1987. Each of the product lines contributed to the improved results in both fiscal 1989 and 1988. The industrial automation systems businesses benefited from the acquisition in April 1987 of Lamb Technicon Corp., a supplier of automated manufacturing systems for the automobile industry, and the acquisition in August 1987 of Integrated Automation, Inc. which provides systems for information management, inspection and process control. The enhanced capabilities obtained with these acquisitions enabled these businesses to expand their activities and successfully compete for larger contracts of longer term duration. The increased activity and longer operating cycles associated with the larger contracts, particularly in the automobile industry, have resulted in increased investments in operating working capital. The resource exploration services businesses benefited from the formation in April 1987 of Western Atlas International, Inc. ("Western Atlas"), a majority-owned subsidiary of the Company (see Note B), and the acquisition by Western Atlas of the McCullough division of NL Industries, Inc. in fiscal 1988. These transactions provided wireline oil well logging and completion service capabilities and were the main reason for the improved performance of these businesses in fiscal 1988. In fiscal 1989, the resource exploration services businesses continued to increase their activity in the international market even as they experienced continued softness in the domestic market. Higher costs associated with the expansion in the international market curtailed growth in operating profit.

Segment Operating Profit ($ in millions)

The Company's Advanced Electronics segment reported sales of $2.2 billion in fiscal 1989 compared with $2.4 billion in fiscal 1988 and $2.3 billion in fiscal 1987. Operating profits amounted to $185.3 million in the current fiscal year compared with $186.2 million in fiscal 1988 and $186.1 million in fiscal 1987. Operating profit margins for this segment improved in fiscal 1989 as more contracts moved into the production phase and as cost efficiencies were achieved. The U.S. Government's Department of Defense is the primary customer of the Advanced Electronics businesses. Therefore, cutbacks in funding for defense projects and increased competition for these projects could affect sales growth in these businesses; however, the Company believes the segment is well positioned to maintain its market share and profitability in the defense markets in which it competes.

The Marine Engineering and Production segment continued to report strong profitability in the current fiscal year. The Company believes that the solid performance of this segment will continue in fiscal year 1990 due to construction on new contracts. In fiscal year 1989, the activity of this segment includes the Company's Canadian Tribal Class (destroyer) Update and Modernization Project (TRUMP), previously reported in the Advanced Electronics segment.

Information on business segments is presented on pages 39 and 40.

Liquidity and Capital Resources

The Company had $1.069 billion in cash and marketable securities at July 31, 1989, which represents a slight decrease from the prior yearend amount. Cash requirements for operating working capital increased in fiscal 1989 compared with fiscal 1988, primarily due to the rapid growth in the Industrial Systems and Services segment previously discussed. Capital expenditures were comparable in fiscal years 1989 and 1988. In fiscal 1989, the Company repurchased 1.4 million shares of its Common stock for cash of $104.3 million under a program, commenced in fiscal 1986, to acquire up to 4.5 million shares of the Company's Common stock. This brought the total number of shares repurchased under this program to 4.0 million for total cash of $299 million at July 31, 1989. Interest rates increased in fiscal 1989, resulting in increased interest expense and interest income in the current fiscal year compared with fiscal 1988. At July 31, 1989, the Company had unused lines of credit of $560 million. The principal credit facility of a majority-owned subsidiary of the Company has certain limitations as to use of its funds (see Note I).

Segment Operating Margin (%)

Tax and Accounting Issues

The Tax Reform Act of 1986 provides for a corporate income tax rate reduction which was phased in over two fiscal years: in the Company's 1989 and 1988 fiscal years, the U.S. statutory tax rate for the Company was 34%, and in the 1987 fiscal year, the U.S. statutory rate for the Company was a composite rate of approximately 45%. There are significant offsets to the benefits of the lower tax rate, including the elimination of the investment tax credit and changes related to the method of accounting for long-term contracts. The provisions of the 1986 Act restrict the deferral benefits related to accounting for long-term contracts under the completed contract method of accounting. The Budget Reconciliation Act of 1987 further restricts such deferral benefits.

Financial Accounting Standards Board Statement No. 96, Accounting for Income Taxes (SFAS No. 96), requires a change in the method of accounting for income taxes for financial reporting purposes. The Company plans to adopt SFAS No. 96 in fiscal 1991. The impact of the adoption of the new standard on the Company's financial statements has not yet been determined.

Sales per Employee ($)

Share Buyback (number of shares in thousands)

Management's Responsibility for Financial Reporting

The consolidated financial statements of Litton Industries, Inc. and subsidiary companies, and related financial information included in this Annual Report, have been prepared by the Company, whose management is responsible for their integrity. These statements, which necessarily reflect estimates and judgments, have been prepared in conformity with generally accepted accounting principles.

The Company maintains a system of internal controls to provide reasonable assurance that assets are safeguarded and transactions are properly executed and recorded. As part of this system, the Company has an internal audit staff to monitor compliance with and effectiveness of established procedures.

The consolidated financial statements have been examined by Touche Ross & Co., independent certified public accountants, whose report appears on page 41.

The Audit Committee of the Board of Directors, which consists solely of directors who are not employees of the Company, meets periodically with management, the independent auditors and the Company's internal auditors to review the scope of their activities and reports relating to internal controls and financial reporting matters. The independent and internal auditors have full and free access to the Audit Committee and meet with the Committee both with and without the presence of Company management.

Joseph T. Casey
Vice Chairman and
Chief Financial Officer

October 10, 1989

Consolidated Statements of Operations

	Year Ended July 31		
(thousands of dollars, except per share amounts)	1989	1988	1987
Sales and Service Revenues	$5,022,782	$4,863,897	$4,419,689
Costs and Expenses			
Cost of sales (exclusive of depreciation shown below)	3,908,460	3,799,614	3,512,505
Selling, general and administrative	515,209	507,924	453,120
Depreciation	204,168	189,075	149,437
Interest — net (Note C)	80,425	75,398	55,594
Total	4,708,262	4,572,011	4,170,656
Earnings before Taxes on Income and Minority Interest	314,520	291,886	249,033
Taxes on Income (Note G)	127,095	116,335	110,804
Minority Interest in Earnings of Consolidated Subsidiary (Note B)	(9,153)	(8,518)	(117)
Net Earnings	$ 178,272	$ 167,033	$ 138,112
Net Earnings per Share (Note A)	$7.05	$6.33	$5.16

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheets

	(thousands of dollars)	July 31 1989	1988
Assets	Current Assets		
	Cash and marketable securities (Note C)	$1,068,761	$1,140,317
	Accounts receivable less allowance for doubtful accounts of $43,257 (1989) and $40,990 (1988) (Note D)	1,060,222	830,339
	Inventories less progress billings (Notes A and D)	805,275	725,781
	Prepaid taxes on income and other expenses	275,612	196,060
	Total Current Assets	3,209,870	2,892,497
	Property, Plant and Equipment, Net (Notes A and E)	1,269,386	1,235,832
	Goodwill and Other Intangibles, Net of Amortization of $72,608 (1989) and $56,377 (1988) (Notes A and B)	451,787	462,576
	Long-term Investments and Other Assets (Includes $4,750 (1989) and $4,749 (1988) Due from Related Parties)	326,638	483,578
	Total Assets	$5,257,681	$5,074,483
Liabilities and Shareholders' Investment	Current Liabilities		
	Accounts payable	$ 739,282	$ 639,335
	Payrolls and related expenses	277,843	270,901
	Taxes on income	170,461	153,815
	Notes payable and current portion of long-term obligations (Note C)	149,384	47,147
	Customer deposits and contract liabilities (Note D)	437,327	596,696
	Total Current Liabilities	1,774,297	1,707,894
	Long-term Obligations (Note C)	182,128	198,503
	Deferred Taxes on Income and Other Deferred Items	521,028	490,852
	Subordinated Notes and Debentures (Note C)	1,311,305	1,311,305
	Minority Interest in Consolidated Subsidiary (Note B)	201,266	190,559
	Shareholders' Investment (Notes A and F and accompanying statements)		
	Capital stock		
	Voting preferred stock — Series B (liquidating preference $8,213)	2,053	2,053
	Common stock (shares outstanding: 24,348,754 (1989) and 25,425,153 (1988))	24,349	25,425
	Additional paid-in capital	437,888	443,349
	Earnings retained in the business	808,537	709,442
	Cumulative currency translation adjustment	(5,170)	(4,899)
	Total Shareholders' Investment	1,267,657	1,175,370
	Total Liabilities and Shareholders' Investment	$5,257,681	$5,074,483

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Investment

(thousands of dollars)		Capital Stock				
	Total Shareholders' Investment	Preferred Series B Par Value $5	Common Par Value $1	Additional Paid-in Capital	Earnings Retained in the Business	Cumulative Currency Translation Adjustment
Balance at July 31, 1986	$1,019,896	$2,053	$27,220	$448,767	$543,938	$(2,082)
Net earnings	138,112	—	—	—	138,112	—
Cash dividends on Preferred — Series B ($2.00 per share)	(821)	—	—	—	(821)	—
Purchase of Common stock	(122,202)	—	(1,617)	(26,602)	(93,983)	—
Exercise of employee stock options	15,850	—	292	15,558	—	—
Currency translation adjustment	2,507	—	—	—	—	2,507
Other capital transactions	441	—	10	431	—	—
Balance at July 31, 1987	1,053,783	2,053	25,905	438,154	587,246	425
Net earnings	167,033	—	—	—	167,033	—
Cash dividends on Preferred — Series B ($2.00 per share)	(821)	—	—	—	(821)	—
Purchase of Common stock	(57,999)	—	(778)	(13,205)	(44,016)	—
Exercise of employee stock options	18,698	—	298	18,400	—	—
Currency translation adjustment	(5,324)	—	—	—	—	(5,324)
Balance at July 31, 1988	1,175,370	2,053	25,425	443,349	709,442	(4,899)
Net earnings	178,272	—	—	—	178,272	—
Cash dividends on Preferred — Series B ($2.00 per share)	(821)	—	—	—	(821)	—
Purchase of Common stock	(104,259)	—	(1,404)	(24,499)	(78,356)	—
Exercise of employee stock options	21,034	—	328	20,706	—	—
Currency translation adjustment	(271)	—	—	—	—	(271)
Other capital transactions	(1,668)	—	—	(1,668)	—	—
Balance at July 31, 1989	$1,267,657	$2,053	$24,349	$437,888	$808,537	$(5,170)

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(thousands of dollars)	1989	1988	1987
	Year Ended July 31		
Cash and marketable securities at beginning of period	$1,140,317	$1,229,593	$1,515,556
Cash Was Generated by (Used for)			
Operating Activities			
Net earnings	178,272	167,033	138,112
Items not requiring cash			
Depreciation of property, plant and equipment	204,168	189,075	149,437
Provision for deferred taxes on income	34,841	128,968	9,935
Dividends received from unconsolidated finance subsidiaries, less equity in net income	22,263	21,765	(4,360)
Increase in operating working capital accounts (see details below)	(467,823)	(286,280)	(185,600)
Other	(2,785)	13,161	14,304
Cash generated by (used for) operations	(31,064)	233,722	121,828
Investing Activities			
Capital expenditures	(249,304)	(230,082)	(231,771)
Proceeds from sale of investments	97,461	37,937	62,072
Return of capital from unconsolidated finance subsidiaries	87,262	—	—
Proceeds from sale of businesses	47,054	22,898	74,845
Proceeds from sale of property, plant and equipment	19,032	27,844	38,414
Purchase of long-term investments	(18,435)	(6,635)	(29,043)
Acquisition of businesses, net of cash acquired			
Goodwill	(6,976)	(91,075)	(97,220)
Property, plant and equipment	(8,654)	(26,368)	(45,399)
Operating working capital	(6,967)	1,275	(25,579)
Other assets acquired and liabilities assumed	6,814	(7,943)	28,991
Other	(4,234)	7,836	348
Cash used for investing activities	(36,947)	(264,313)	(224,342)
Financing Activities			
Purchase of Common stock	(104,259)	(57,999)	(122,202)
Short-term obligations, net	100,728	(9,234)	(19,117)
Repayment of long-term obligations	(17,138)	(13,537)	(60,234)
Other	17,124	22,085	18,104
Cash used for financing activities	(3,545)	(58,685)	(183,449)
Resulting in			
Decrease in cash and cash equivalents (Note A)	(33,143)	(39,491)	(144,913)
Decrease in other marketable securities	(38,413)	(49,785)	(141,050)
	(71,556)	(89,276)	(285,963)
Cash and marketable securities at end of period	$1,068,761	$1,140,317	$1,229,593
Details of Changes in Operating Working Capital Accounts Which Generated (Used) Cash			
Accounts receivable	$ (244,884)	$ (68,923)	$ (73,827)
Inventories	(75,614)	25,390	(104,020)
Prepaid taxes on income and other expenses	(79,492)	(143,750)	24,260
Accounts payable	71,358	(5,127)	27,402
Payrolls and related expenses	(7,890)	(24,077)	(8,237)
Taxes on income	28,068	(20,219)	4,382
Customer deposits and contract liabilities	(159,369)	(49,574)	(55,560)
	$ (467,823)	$ (286,280)	$ (185,600)

See accompanying notes to consolidated financial statements.

Note A: Significant Accounting Policies

PRINCIPLES OF CONSOLIDATION The accounts of Litton Industries, Inc. and all its majority-owned subsidiaries (the Company) are included in the accompanying consolidated financial statements. Investments in finance subsidiaries, which have been substantially liquidated by July 31, 1989, are included on the equity method. All material intercompany transactions have been eliminated. Certain reclassifications of prior period information were made for comparative purposes and for the adoption in fiscal year 1988 of Statement of Financial Accounting Standards No. 95, Statement of Cash Flows, which superseded Accounting Principles Board Opinion No. 19, Reporting Changes in Financial Position.

CASH EQUIVALENTS The Company considers securities purchased within three months of their date of maturity to be cash equivalents.

At July 31, 1989 and 1988, cash and marketable securities of $1,068,761,000 and $1,140,317,000, respectively, included cash and cash equivalents of $294,177,000 and $327,320,000.

EARNINGS PER SHARE Earnings per share computations are based on the weighted average number of common shares outstanding and common share equivalents with dilutive effects. There is no significant difference between earnings per share and fully diluted earnings per share.

Computations were based on 25,177,550 (1989), 26,272,899 (1988) and 26,614,689 (1987) weighted average shares and net earnings after provision for cash dividends on preferred stock.

INVENTORIES AND LONG-TERM CONTRACTS Inventories of raw materials are generally stated at the lower of cost (first-in, first-out method) or market. Work in process and finished goods are stated at average cost. General and administrative costs are allocated to and included in the work in process inventory of the Marine Engineering and Production segment and certain divisions of the Advanced Electronics segment. Otherwise, general and administrative costs are expensed as incurred.

Revenues and profits on long-term contracts are recorded under the percentage-of-completion method of accounting. Major contracts for complex weapons and defense systems are performed over extended periods of time and are subject to changes in scope of work and delivery schedules. Total revenues on these contracts are necessarily estimated while the changes are being negotiated and their impact assessed. Any anticipated losses on contracts are charged to operations as soon as they are determinable.

RESEARCH AND DEVELOPMENT Company-sponsored research and development expenditures are charged to expense as incurred. Worldwide expenditures on research and development activities amounted to $270.1 million, $227.9 million and $209.7 million, of which 48%, 35% and 43% were Company-sponsored, in the years ended July 31, 1989, 1988 and 1987, respectively.

PROPERTY, PLANT AND EQUIPMENT Investment in property, plant and equipment is stated at cost. Allowances for depreciation and amortization, computed generally by the straight-line method for financial reporting purposes, are provided over the estimated useful lives of the related assets.

INCOME TAXES The Company provides for taxes in accordance with the standards of Accounting Principles Board Opinion No. 11, Accounting for Income Taxes. Thus, taxes are provided 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 investment tax credit (ITC) was repealed, with some transitional exceptions, effective January 1, 1986. The Company has, for financial reporting purposes, deferred recognition of the ITC each year and continues to amortize ITC as a reduction of the provision for income taxes over the estimated useful lives of the assets to which the credits apply.

Note A: (continued)

FOREIGN CURRENCIES The currency effects of translating the financial statements of those non-U.S. subsidiaries and divisions of the Company which operate in local currency environments are included in the "Cumulative currency translation adjustment" component of shareholders' investment. Currency adjustments included in the Consolidated Statements of Operations are principally related to transactions and are as follows:

	Year Ended July 31		
(thousands of dollars)	**1989**	1988	1987
Currency adjustment loss	**$436**	$ 455	$2,699
Tax benefit	**320**	2,423	1,904
Net currency adjustment (gain) loss	**$116**	$(1,968)	$ 795

PENSION PLANS Effective August 1, 1986, the Company adopted the provisions of Statement of Financial Accounting Standards No. 87, Employers' Accounting for Pensions (SFAS 87), for its U.S. pension plans. Accounting policies for pensions, including the effect in fiscal year 1987 of adopting SFAS 87, as well as policies for accounting for other retirement benefits, are discussed in Note H.

GOODWILL AND OTHER INTANGIBLES For financial statement purposes, goodwill and other intangibles are generally amortized using the straight-line method over their estimated useful lives, not exceeding 40 years.

Note B: Business Combinations

On April 30, 1987, the Company and Dresser Industries, Inc. ("Dresser") formed Western Atlas International, Inc. ("Western Atlas") in which they combined the operations and net assets of the Company's Resource Exploration Services group and Dresser's Atlas Oilfield Services division ("Atlas"). The Company and Dresser, in exchange for their contributions of assets, liabilities and stock of certain of their respective subsidiaries to Western Atlas, each received 50 percent of the common stock of Western Atlas. In addition, the Company received convertible preferred stock of Western Atlas which gave the Company 70 percent of the total equity (on a fully converted basis) in Western Atlas. The historical cost of the net assets of Atlas transferred to Western Atlas at date of amalgamation consisted of property, plant and equipment of $106.5 million, operating working capital of $55 million and other assets and liabilities of $15.1 million, net. The accounts of Western Atlas, based on the historical cost of the underlying net assets transferred, have been included in the Company's consolidated financial statements since April 30, 1987 and the minority interest of Dresser in Western Atlas has been separately stated.

Several acquisitions were made, primarily in the Industrial Systems and Services segment, during the three years ended July 31, 1989, which were integral to the Company's long range plan though not financially material to the operations of the Company. The acquisitions were accounted for by the purchase method.

Note C: Cash and Marketable Securities, Debt and Interest

Cash and marketable securities (at cost, which approximates market) consist of the following interest-earning investments:

	July 31	
(thousands of dollars)	**1989**	1988
Time deposits and certificates of deposit	**$ 251,594**	$ 263,588
U.S. Government and U.S. Government agency obligations	**529,239**	576,781
Other short-term negotiable instruments	**287,928**	299,948
	$1,068,761	$1,140,317

Note C: (continued)

Notes payable and current portion of long-term obligations are composed of:

(thousands of dollars)	July 31 1989	1988
Notes payable to banks	$ 129,192	$ 28,940
Current portion of long-term obligations	20,192	18,207
	$ 149,384	$ 47,147

Long-term obligations consist of the following:

(thousands of dollars)	July 31 1989	1988
Capital lease commitments (Note E)	$ 68,972	$ 85,583
Other long-term obligations		
Industrial Development Revenue Bonds, with interest based generally on 2/3 of the current prime rate, due to 2008	34,095	35,220
Pension accruals (other than U.S. and Canadian plans)	39,241	36,701
Other debt, with average interest at 9 1/4% in fiscal years 1989 and 1988, due to 2004	39,820	40,999
	113,156	112,920
	$ 182,128	$ 198,503

Other long-term obligations at July 31, 1989 mature as follows:

(thousands of dollars)	
Year ended July 31	
1991	$ 20,242
1992	4,735
1993	4,273
1994	3,930
Years subsequent to July 31, 1994	79,976
	$ 113,156

The balances of Subordinated Notes and Debentures at July 31, 1989 and 1988 were as follows:

(thousands of dollars)	
Floating Rate Subordinated Notes Due 2000	$ 439,695
11 1/2% Subordinated Notes Due 1995	435,805
12 5/8% Subordinated Debentures Due 2005	435,805
	$1,311,305

The Floating Rate Subordinated Notes bear interest at a rate of 1 1/4% over the three-month London Interbank Offered Rate, reset quarterly with a minimum interest rate of 5% per annum. At July 31, 1989, the rate was 10 5/8%. Interest is payable quarterly on the Floating Rate Subordinated Notes and semi-annually on the 11 1/2% Subordinated Notes and the 12 5/8% Subordinated Debentures.

Note C: (continued)

The Floating Rate Subordinated Notes and the 11½% Subordinated Notes provide for redemption at par at the option of the Company on or after July 1, 1987 and 1992, respectively, and have no sinking fund provisions. In connection with the 12⅝% Subordinated Debentures, the Company is required to satisfy a $24.1 million sinking fund requirement annually beginning on July 1, 1996, may make an additional optional sinking fund payment of $36.1 million annually beginning on July 1, 1996 and may redeem the debentures at declining redemption prices beginning at 104.2% of par on July 1, 1995 and declining annually to 100% of par on July 1, 2000.

Interest expense on the Subordinated Notes and Debentures was $151.4 million in fiscal year 1989, $143.3 million in fiscal year 1988 and $139.4 million in fiscal year 1987.

At July 31, 1989, the Company had total unused credit commitments of $560 million providing for revolving credit or term loans.

Net interest is composed of the following:

	Year Ended July 31		
(thousands of dollars)	**1989**	1988	1987
Interest income	**$ 107,561**	$ 97,208	$ 109,848
Interest expense	**(187,986)**	(172,606)	(165,442)
Net interest expense	**$ (80,425)**	$ (75,398)	$ (55,594)

The Company made interest payments of $171.6 million, $169.7 million and $162.8 million in fiscal years 1989, 1988 and 1987, respectively. Capitalized interest costs in each of the three years in the period ended July 31, 1989 were not material.

Note D: Accounts Receivable and Inventories

Following are the details of accounts receivable:

	July 31	
(thousands of dollars)	**1989**	1988
U.S. Government long-term contract receivables		
Amounts billed	**$ 150,441**	$ 169,799
Unbilled recoverable costs and accrued profit on progress completed and retentions	**90,408**	51,084
	240,849	220,883
Other receivables, principally from commercial customers	**819,373**	609,456
	$1,060,222	$ 830,339

At July 31, 1989 and 1988, Other receivables included $305.5 million and $172.6 million, respectively, of receivables related to long-term contracts with customers other than the U.S. Government. Of these amounts, $177.3 million and $59.7 million represented unbilled recoverable costs and accrued profit on progress completed and retentions at July 31, 1989 and 1988, respectively.

Of the $267.7 million not billed at July 31, 1989, $221.3 million is expected to be collected in fiscal year 1990 with the balance to be collected in subsequent years, as contract deliveries are made and warranty periods expire.

Note D: (continued)

Summarized below are the components of inventory balances:

(thousands of dollars)	July 31 1989	1988
Raw materials and work in process	**$ 476,682**	$ 454,025
Finished goods	**62,931**	55,029
Inventoried costs related to long-term contracts	**610,859**	556,695
Gross inventories	**1,150,472**	1,065,749
Less progress billings, principally related to long-term contracts	**(345,197)**	(339,968)
Net inventories	**$ 805,275**	$ 725,781

The amounts included in "Inventoried costs related to long-term contracts" representing general and administrative costs and production cost of delivered units in excess of anticipated average cost of all units expected to be produced are not significant.

When the receivable, inventory and progress billings amounts related to any one contract result in a net credit balance, such amounts are classified in current liabilities as "Customer deposits and contract liabilities."

Total general and administrative expenses charged to inventory during the years ended July 31, 1989 and 1988 were $53.1 million and $52.6 million, respectively.

Note E: Property, Plant and Equipment

Investment in property, plant and equipment consists of the following:

(thousands of dollars)	July 31 1989	1988
Property, plant and equipment, at cost		
Land	**$ 97,259**	$ 98,162
Buildings	**793,565**	754,995
Machinery and equipment	**1,351,733**	1,297,020
	2,242,557	2,150,177
Less accumulated depreciation	**(973,171)**	(914,345)
Net investment in property, plant and equipment	**$1,269,386**	$1,235,832

Included in the above table are amounts relating to assets utilized under capital leases which had a net book value of $40.3 million and $52.2 million at July 31, 1989 and 1988, respectively.

As of July 31, 1989, minimum rental commitments under capital and noncancellable operating leases were:

(thousands of dollars)	Capital Leases	Operating Leases
Year ended July 31		
1990	$ 18,490	$ 36,448
1991	16,317	19,778
1992	12,472	9,458
1993	9,676	6,521
1994	8,816	3,328
Years subsequent to July 31, 1994	34,852	3,718
Total minimum lease payments	100,623	$ 79,251
Less amounts representing interest	(17,874)	
Net minimum lease payments	82,749	
Less current portion of capital lease commitments	(13,777)	
Long-term portion of capital lease commitments	$ 68,972	

Note E: (continued)

Rental expense for operating leases, including amounts for short-term leases with nominal, if any, future rental commitments, was $86.9 million, $85.1 million and $62.8 million for the years ended July 31, 1989, 1988 and 1987, respectively. The minimum future rentals receivable under subleases and the contingent rental expenses were not significant.

Note F: Shares Outstanding and Shareholders' Investment

SHARE INFORMATION

	Year Ended July 31		
	1989	1988	1987
Capital Stock			
Shares Outstanding			
Preferred stock — Series B	**410,643**	410,643	410,643
Common stock			
Beginning balance	**25,425,153**	25,905,426	27,219,603
Purchases of Common stock	**(1,404,661)**	(777,796)	(1,616,806)
Exercise of employee stock options	**328,262**	297,523	292,788
Other capital transactions	—	—	9,841
Ending balance	**24,348,754**	25,425,153	25,905,426

At July 31, 1989, there were authorized 120 million shares of Common stock, par value $1.00; 22 million shares of preferred stock, par value $5.00 and 8 million shares of Preference stock, par value $2.50.

No cash dividends were paid on the Common stock in the three fiscal years ended July 31, 1989.

The Series B preferred stock receives a $2.00 annual dividend, is not convertible into Common stock and 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.

STOCK OPTION INFORMATION The Company has various plans which provide for the grant of incentive awards to officers and other key employees. Incentive awards may be granted in the form of stock options, stock appreciation rights or restricted stock. Stock options and stock appreciation rights may be granted at not less than 50% nor more than 100% of the fair market value of the Company's Common stock on the date of grant.

The awards outstanding under the Company's various employee incentive plans at July 31, 1989 and 1988 were stock options to purchase 1,921,396 and 2,233,508 shares, respectively, at exercise prices per share ranging from $24.08 to $98.94 for each year. Of these options, 965,765 and 815,873 were exercisable by their terms at July 31, 1989 and 1988, respectively. During fiscal year 1989, options were granted under these plans to purchase 94,500 shares at prices per share ranging from $35.13 to $80.00 and options to purchase 351,081 shares were exercised at prices per share ranging from $28.69 to $76.06. During fiscal year 1988, options were granted under these plans to purchase 492,675 shares at prices per share ranging from $34.13 to $98.94 and options to purchase 379,560 shares were exercised at prices per share ranging from $18.90 to $82.56. At July 31, 1989, there were 595,879 shares available for grants of future awards under these plans.

Note F: (continued)

A majority-owned subsidiary (the "Subsidiary") of the Company adopted a restricted stock purchase plan in December 1988. This plan provides for the sale of shares of the Subsidiary's common stock to its key employees at a price per share of not less than the fair market value of the common stock on the date of sale. Shares so sold may be repurchased by the Subsidiary upon termination of employment and may be resold to the Subsidiary by the employee under certain circumstances at the fair market value of such shares at date of sale in accordance with the terms of the individual stock purchase agreements. A total of 5% of the shares of the Subsidiary's common stock has been authorized for issuance under this plan. During fiscal year 1989, 165,600 shares were purchased under this plan at a price per share of $20.70. Such shares were outstanding at July 31, 1989.

In December 1988, the shareholders of the Company ratified a Director Stock Option Plan which provides for the grant of stock options to the Company's non-employee directors. Under this plan, stock options will be granted annually at the fair market value of the Company's Common stock on the date of grant. The number of options to be so granted is fixed by the plan. Such options become fully exercisable on the first anniversary of their respective grant. The total number of shares to be issued under this plan may not exceed 200,000 shares. During fiscal year 1989, options under this plan were granted to purchase 35,000 shares at a price per share of $69.94. At July 31, 1989, these options were outstanding, but not exercisable.

Note G: Taxes on Income

Earnings before taxes on income by geographic area are as follows:

	Year Ended July 31		
(thousands of dollars)	**1989**	1988	1987
United States	**$216,988**	$ 222,549	$204,681
Other nations	**97,532**	69,337	44,352
	$314,520	$ 291,886	$249,033

The components of taxes on income consist of the following provisions (benefits):

	Year Ended July 31		
(thousands of dollars)	**1989**	1988	1987
United States			
Current	**$ 79,391**	$ 218,105	$ 17,419
Deferred	**(16,257)**	(157,507)	87,636
	63,134	60,598	105,055
Other nations			
Current	**42,265**	40,031	13,659
Deferred	**565**	(1,615)	(4,575)
	42,830	38,416	9,084
State and local, primarily current	**19,294**	21,571	15,266
Net deferred investment tax credits	**1,837**	(4,250)	(18,601)
	$127,095	$ 116,335	$110,804

Note G: (continued)

The details of deferred taxes, the tax effects of timing differences, are:

(thousands of dollars)	Year Ended July 31 1989	1988	1987
Long-term contract amounts	**$ (63,199)**	$ (91,925)	$ (36,860)
Deferred income	**21,389**	(71,408)	48,829
Accelerated depreciation	**15,642**	9,405	30,345
Receivable and inventory reserves and expenses	**9,859**	(11,120)	33,496
Other items	**617**	5,926	7,251
	$ (15,692)	$(159,122)	$ 83,061

The following is a reconciliation of income taxes at the U.S. statutory rate to the provision for income taxes:

(thousands of dollars)	Year Ended July 31 1989	1988	1987
Tax at U.S. statutory rate	**$106,937**	$ 99,241	$112,065
State taxes net of federal benefit	**12,734**	14,237	8,396
Earnings taxed at other than U.S. statutory rate	**12,238**	12,188	(871)
Amortization of investment tax credits	**(4,842)**	(4,457)	(4,401)
Other items	**28**	(4,874)	(4,385)
	$127,095	$ 116,335	$110,804
Effective tax rate	**40.4%**	39.9%	44.5%

Undistributed earnings of non-U.S. subsidiaries for which U.S. taxes have not been provided are included in consolidated retained earnings in the amounts of $319 million and $336 million at July 31, 1989 and 1988, respectively. If such earnings were distributed, U.S. income taxes would be partially reduced by available credits for taxes paid to the jurisdictions in which the income was earned.

The Company made tax payments of $127.1 million, $128 million and $106.5 million in fiscal years 1989, 1988 and 1987, respectively.

Note H: Pension and Post-Retirement Plans

The Company has various retirement and pension plans which cover most of its employees. Total pension (income) cost of these plans for the years ended July 31, 1989, 1988 and 1987 was $(3.5) million, $10 million and $18.2 million, respectively. The Company adopted as of August 1, 1986 the Statement of Financial Accounting Standards No. 87, Employers' Accounting for Pensions (SFAS 87), with respect to its U.S. pension plans. The effect of the adoption of SFAS 87 in fiscal year 1987 was not material to the Company's consolidated financial statements.

Most of the Company's U.S. employees are covered by contributory defined benefit plans under which employees are eligible for benefits at age 65. Generally, benefits are determined under a formula based primarily on the participant's total plan contributions. The Company's funding policy is to make annual contributions to the extent such contributions are actuarially determined and tax deductible.

The Company has a defined contribution savings plan in the form of a voluntary savings plan for eligible U.S. employees. This 401(K) plan is designed to enhance the existing retirement programs of participating employees. The Company matches 50% of a certain portion of participants' contributions to the plan. Certain operating companies sponsor defined contribution plans in the form of profit sharing plans.

Note H: (continued)

The Company's non-U.S. subsidiaries also have retirement plans for long-term employees. The most significant of these are the defined benefit plans of the Company's Canadian subsidiaries. At July 31, 1989 and 1988, the actuarial present value of accumulated plan benefits for the Canadian plans was $46.1 million and $51.6 million, respectively, of which $44.8 million and $50 million, respectively, was vested. The assumed rate of return used in estimating the present value amounts was 6%. Liabilities under these plans were fully funded at July 31, 1989 and 1988. The pension liabilities and related costs of other non-U.S. retirement plans are computed in accordance with the laws of the individual nations and appropriate actuarial practices.

A summary of the components of net periodic pension (income) cost for the U.S. defined benefit plans and total pension cost for the defined contribution plans and non-U.S. pension plans for fiscal years 1989, 1988 and 1987 are as follows:

	Year Ended July 31		
(thousands of dollars)	**1989**	1988	1987
Defined benefit plans			
Service cost — benefits earned during the period	**$ 23,694**	$ 21,168	$ 23,719
Interest cost on projected benefit obligation	**45,675**	40,150	36,804
Actual return on plan assets	**(197,825)**	359	(158,076)
Net amortization and deferral	**112,061**	(70,653)	104,282
Net periodic pension (income) cost	**(16,395)**	(8,976)	6,729
Defined contribution plans	**9,388**	14,812	8,031
Non-U.S. pension plans	**3,467**	4,207	3,437
Net pension (income) cost	**$ (3,540)**	$ 10,043	$ 18,197

The projected benefit obligation of the U.S. defined benefit plans was $658.5 million and $627.3 million at July 31, 1989 and 1988, respectively. The fair value of plan assets, primarily equity securities and U.S. Government securities, was $1,041.4 million at July 31, 1989 compared with $913.6 million at July 31, 1988. The unrecognized net transition asset was $171.4 million and $186.6 million at July 31, 1989 and 1988, respectively, and the unrecognized net gain was $183.4 million at fiscal year end 1989 compared with $97.7 million at fiscal year end 1988. Prepaid pension cost was $28.1 million at July 31, 1989 compared with $2 million at July 31, 1988.

The accumulated benefit obligation was $584.3 million at July 31, 1989, inclusive of the vested benefit obligation of $559.3 million. At July 31, 1988, the accumulated benefit obligation was $549.1 million, inclusive of the vested benefit obligation of $523.5 million.

Actuarial assumptions for the Company's U.S. defined benefit plans at July 31, 1989 and 1988 included $8^3/_4$% for the expected long-term rate of return on plan assets, $8^1/_2$% for the assumed discount rate used to determine the present value of future benefit payments, and a rate of increase of 5% in future compensation levels.

The excess of plan assets over the projected benefit obligation at August 1, 1986 and subsequent unrecognized gains and losses are fully amortized over the average remaining service period of active employees expected to receive benefits under the plans, generally 15 years.

In addition to providing pension benefits, the Company and its subsidiaries provide post-retirement health care and life insurance benefits to certain retirees of certain operations, generally as a result of union contracts or acquisitions. The Company recognizes the cost of providing the Company-paid portion of these benefits by expensing an amount to cover the estimated claims or insurance premiums for the fiscal year. The cost recognized in each of the three fiscal years in the period ended July 31, 1989 relating to these benefits was not material to the Company on a consolidated basis.

Note I:
Defense Contracts, Litigation and Contingencies

Approximately 47%, 48% and 58% of the sales and service revenues of the Company for the years ended July 31, 1989, 1988 and 1987, respectively, were from U.S. Government contracts and subcontracts. Approximately 82% of these revenues for 1989 related to fixed-price type contracts. At July 31, 1989, of the total Company backlog of $8.7 billion, the amount of worldwide defense contract backlog was approximately $7.5 billion, of which $6.5 billion has been funded. At July 31, 1988 and 1987, the amount of worldwide defense contract backlog was $6.6 billion and $5.8 billion, respectively.

As is common with U.S. Government contracts, the Company's U.S. defense contracts are unilaterally terminable at the option of the U.S. Government with compensation for work completed and costs incurred. Contracts with the U.S. Government are subject to certain laws and regulations, the noncompliance with which may result in various sanctions including monetary payments as well as suspension or debarment from receiving further U.S. Government contracts.

In July 1989, a dispute between an affiliate of the Company and a customer was resolved by, among other things, the substitution of a new $30 million performance guarantee for a previously issued $40 million guarantee and the repayment to the Company's affiliate of the $40 million which the customer had demanded under the prior guarantee. The new bank-provided guarantee will continue in effect until final completion of the contract and the Company is liable to the issuing bank for any amount paid under the guarantee.

Under the terms of a $100 million revolving credit agreement between a group of banks and a majority-owned subsidiary of the Company, the subsidiary is prohibited from making advances or loans which are not in the ordinary course of business. In addition, dividends declared or paid by this subsidiary cannot in aggregate exceed $25 million plus 70% of the subsidiary's consolidated net income earned subsequent to May 1, 1987.

There are various litigation proceedings in which the Company is involved. Any liability which the Company may have under many of these proceedings is covered by insurance. The results of litigation proceedings cannot be predicted with certainty; however, in the opinion of the Company's General Counsel, the Company does not have a potential liability in connection with these proceedings which would have an adverse material effect on the financial condition of the Company.

Note J:
Business Segment Reporting

The Advanced Electronics segment includes navigation and control systems, communications and electronic data systems and electronic components operations. The Industrial Systems and Services segment includes resource exploration services, industrial automation systems and the computer products businesses. The Marine Engineering and Production segment comprises the construction and overhaul of naval ships. In fiscal year 1989, the activity on the Company's Canadian Tribal Class (destroyer) Update and Modernization Project (TRUMP) contract is reported in the Marine Engineering and Production segment. Prior to fiscal year 1989, this activity, which is not material to the Company's consolidated financial statements, was reported in the Advanced Electronics segment.

Advanced Electronics sales include $102 million, $84 million and $78 million in intersegment sales for fiscal years 1989, 1988 and 1987, respectively. Intersegment sales included in the sales of the other segments are not significant. Sales between geographic areas and export sales are not material. All internal sales and transfers are based on negotiated prices.

Operating profit for Corporate and Other Amounts includes net interest and currency adjustments. Assets classified as Corporate and Other Amounts consist primarily of cash and marketable securities and certain other investments.

The U.S. Government is a significant customer primarily for the Advanced Electronics and Marine Engineering and Production segments (see Note I).

Note J: (continued)

OPERATIONS BY BUSINESS SEGMENT

(millions of dollars)	Year Ended July 31	Advanced Electronics	Industrial Systems and Services	Marine Engineering and Production	Eliminations	Corporate and Other Amounts	Total
Sales	**1989**	**$2,233**	**$1,834**	**$1,049**	**$(105)**	**$ 12**	**$5,023**
	1988	2,399	1,625	910	(87)	17	4,864
	1987	2,337	1,011	1,130	(81)	23	4,420
Operating profit	**1989**	**185**	**147**	**127**	**(3)**	**(141)**	**315**
	1988	186	127	114	(1)	(134)	292
	1987	186	55	121	(2)	(111)	249
Capital expenditures	**1989**	**77**	**151**	**20**	**—**	**1**	**249**
	1988	100	110	39	—	1	250
	1987	133	97	12	—	1	243
Depreciation expense	**1989**	**88**	**94**	**17**	**—**	**5**	**204**
	1988	85	82	17	—	5	189
	1987	79	48	17	—	5	149
Identifiable assets at year end	**1989**	**1,512**	**1,813**	**281**	**—**	**1,652**	**5,258**
	1988	1,472	1,462	284	—	1,856	5,074
	1987	1,499	1,270	245	—	1,867	4,881

OPERATIONS BY GEOGRAPHIC AREA

(millions of dollars)	Year Ended July 31	United States	Other Nations	Subtotal	Corporate and Other Amounts	Total
Sales	**1989**	**$3,683**	**$1,328**	**$5,011**	**$ 12**	**$5,023**
	1988	3,539	1,308	4,847	17	4,864
	1987	3,393	1,004	4,397	23	4,420
Operating profit	**1989**	**349**	**107**	**456**	**(141)**	**315**
	1988	356	70	426	(134)	292
	1987	324	36	360	(111)	249
Identifiable assets at year end	**1989**	**2,808**	**798**	**3,606**	**1,652**	**5,258**
	1988	2,740	478	3,218	1,856	5,074
	1987	2,544	470	3,014	1,867	4,881

Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of Litton Industries, Inc. and subsidiary companies as of July 31, 1989 and 1988, and the related statements of operations, shareholders' investment and cash flows for each of the three years in the period ended July 31, 1989. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Litton Industries, Inc. and subsidiary companies as of July 31, 1989 and 1988, and the results of their operations and their cash flows for each of the three years in the period ended July 31, 1989, in conformity with generally accepted accounting principles applied on a consistent basis.

Touche Ross & Co.

Touche Ross & Co.

Los Angeles, California
September 22, 1989

Quarterly Financial Information (unaudited)

	(millions of dollars, except per share amounts)	Sales	Gross Profit	Net Earnings	Net Earnings Per Share	Common Stock High and Low Market Prices	
Fiscal Year 1989	First Quarter	$1,229	$228	$ 44	$1.69	High	76 5/8
						Low	70 5/8
	Second Quarter	1,205	227	43	$1.71	High	76 1/2
						Low	68 1/8
	Third Quarter	1,267	238	45	$1.79	High	83 3/4
						Low	72 3/4
	Fourth Quarter	1,322	238	46	$1.86	High	91 3/8
						Low	78 1/2
	Fiscal Year 1989	$5,023	$931	$178	$7.05		
Fiscal Year 1988	First Quarter	$1,197	$212	$ 41	$1.51	High	108 1/4
						Low	64
	Second Quarter	1,158	225	41	$1.56	High	81 1/2
						Low	65
	Third Quarter	1,197	223	42	$1.60	High	87 1/4
						Low	71 1/4
	Fourth Quarter	1,312	237	43	$1.66	High	85 3/4
						Low	73 3/4
	Fiscal Year 1988	$4,864	$897	$167	$6.33		

The Litton Common stock is traded principally on the New York Stock Exchange and the Pacific Stock Exchange. The symbol is "LIT."

As of September 30, 1989, there were approximately 55,200 holders of record of the Common stock.

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Corporate Offices	Litton Industries, Inc. 360 North Crescent Drive Beverly Hills, California 90210-4867	Telephone: (213) 859-5000 Telex: 67-4991 Telefax: (213) 859-5940
Transfer Agent	Litton maintains its own shareholder records and acts as transfer and paying agent for its Common and Series B Preferred stock and debt securities. Shareholder questions may be directed to:	
	Shareholder Services P.O. Box 5555 Beverly Hills, California 90209-5555	Inquiries regarding: your account: (213) 859-5048 interest and dividend payments: (213) 859-5060 securities transfer: (213) 859-5053
Registrar	Security Pacific National Bank Corporate Services Division 701 South Western Avenue Glendale, California 91201-2397	
Form 10-K	The Company's Form 10-K report to the Securities and Exchange Commission, or additional copies of the annual report to shareholders, may be obtained without charge by writing:	
	Corporate and Law Library 360 North Crescent Drive Beverly Hills, California 90210-4867	
Investor Relations	Litton maintains an active investor communications program. Individuals or organizations associated with the investment community may contact:	
	Investor Relations 360 North Crescent Drive Beverly Hills, California 90210-4867 (213) 859-5921	
Stock Listing	Common shares of Litton are listed and traded on the New York and Pacific Stock Exchanges under the trading symbol "LIT." Shares also are traded on certain exchanges in the Netherlands, Switzerland and West Germany.	
Quarterly Reporting	In accordance with applicable policies of the New York Stock Exchange and in accordance with prevailing practices of comparable industrial corporations, Litton publishes shareholders' reports shortly after the close of each fiscal quarter.	
Annual Meeting	The annual meeting of shareholders will be held at 10 a.m. on Thursday, December 7, 1989, at the University of Southern California's Davidson Conference Center, Los Angeles.	

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Litton

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