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United States General Accounting Office  
Washington, D. C. 20548

FOR RELEASE ON DELIVERY  
EXPECTED AT 2:00 p.m. EST  
Thursday, February 19, 1976

Statement of  
Elmer B. Staats, Comptroller General  
of the United States  
before the  
Committee on Banking, Housing, and Urban Affairs  
United States Senate  
on  
GAO Report on [Implementation of the  
Emergency Loan Guarantee Act]

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Mr. Chairman and members of the Committee:

I am pleased to have this opportunity to comment on our report concerning Lockheed Aircraft Corporation's loans covered by the Emergency Loan Guarantee Act, and on your request of August 28, 1975, for GAO to obtain additional information concerning Lockheed's payments to foreign officials or political organizations to promote foreign business.

On January 30, 1976, we issued our fourth report on activities of the Lockheed Aircraft Corporation, the only recipient of a loan guarantee under the Emergency Loan Guarantee Act. The law established the Emergency Loan Guarantee Board to administer loans in amounts up to but not exceeding \$250 million by the Government. Currently, loans to Lockheed guaranteed by the Government total \$195 million.

We reviewed corporate actions which had a material effect on Lockheed's financial structure. We examined the bases for Lockheed's forecasts of cash flow and revenues and compared these forecasts with actual transactions. We also made such tests of the accounting records and major cash transfers as we deemed necessary.

We relied on the examinations performed by Lockheed's independent external auditors, particularly as those examinations related to verifying assets pledged to protect the Government's interests. Corporate assets pledged as security for the

loan are the outstanding shares of stock of five wholly owned subsidiaries and certain machinery and equipment.

The emergency loan guarantee fund, used by the Board to pay expenses and to fulfill its obligations under the act totaled \$19,103,016 as of September 30, 1975, after deducting expenses of \$597,167. Of this amount, \$17,569,918 was invested in Treasury bills with the balance representing available cash. The loan fund was accumulated from guarantee and commitment fees that Lockheed paid and interest on Treasury bills.

We were advised by company officials that neither the company's external auditors nor a number of Lockheed directors were aware of the procedures used for foreign sales promotion until mid-year 1975. Lockheed has taken the position that the foreign payments were in keeping with business practices in many foreign countries and were not illegal under the laws of the United States.

Lockheed officials believed that the company's ability to fully realize foreign sales, forecast at almost \$4 billion for the 5 years 1975 through 1979, could be placed in considerable jeopardy if the company was forced to fully disclose the details of its payments to foreign officials.

The current financing plan Lockheed has negotiated with its lending banks is still unresolved. A major part of the plan provides for converting bank loans and certain debentures to

preferred stock. This part of the plan cannot be consummated, however, without stockholder approval. The company's annual stockholders' meeting has been deferred on three occasions and had not been rescheduled at the time of our report because of the lack of agreement leading to a consent decree with the Securities and Exchange Commission as to the extent of disclosure in the corporation's proxy statement regarding its foreign payments.

#### NEW CAPITALIZATION

Because of its continuing need for working capital to finance the TriStar program, Lockheed and its lending banks have sought various methods to increase its equity capital and restructure its outstanding debts and credit arrangements. The company had previously negotiated a tentative agreement with Textron, Inc., and the banks which was intended to strengthen Lockheed's financial position.

The tripartite negotiations provided for converting \$275 million of bank loans into Lockheed preferred stock--an action which would have released the Government's loan guarantee of \$195 million. At the same time, Textron agreed to invest \$100 million into the company's equity. However, in February 1975 the negotiations were canceled because of delays in implementing the refinancing plan.

Lockheed's continued efforts to seek a solution to enhance its financial structure culminated in negotiations on April 1, 1975, with its lending banks on a three-phase financing and

recapitalization program subject to approval by the Loan Guarantee Board. The program was designed to reduce financial uncertainties and improve the company's marketing posture as well as to improve earnings and build up shareholders' equity during the next few years. It was approved by the Board on May 17, 1975, and by the lending banks on May 20, 1975.

The outcome of Lockheed's claims against the Navy may also have an impact on its financial situation. Claims of \$159 million have been settled for \$62 million, the amount agreed to in 1971 by the Navy and Lockheed. The Navy has, however, referred the claim to the Department of Justice.

#### STATUS OF GUARANTEED LOANS

The Emergency Loan Guarantee Act of 1971 provided that guaranteed loans shall be repayable in not more than 5 years, but may be renewable for not more than an additional 3 years. In May 1975 the Emergency Loan Guarantee Board extended the Government's guarantee through the end of 1977 although the company's December 1974 cash flow projections did not anticipate full payment of its guaranteed borrowings before 1979. These circumstances indicated that the Board may be called on again to consider a further extension for repayment of the guaranteed loans within the limits provided by law. Lockheed forecasted that guaranteed borrowings at the end of 1977 will total \$118 million.

Currently, Lockheed's overall bank loans total \$595 million, of which \$195 million is guaranteed by the Government.

The reduction in loan principal will not be consistently sustained, according to the company's December 1974 5-year financial forecast, through the succeeding year. Although Lockheed expects that additional borrowings of \$40 million will be needed during 1976 to meet the company's financial commitments, the company expects that this additional loan of \$40 million will be repaid before the end of the year.

#### Collateral

The book value of the assets pledged as collateral for the guaranteed loans totaled \$190 million at the end of December 1974. Available property tax bills for 1974 covering real and personal properties with a book value of \$85 million listed the market value for these assets at \$234 million. Book values or current market values are not necessarily reliable indicators of amounts that could be realized in the event of forced liquidation. Nevertheless, on the basis of the property tax assessments and generally favorable earnings of the pledged operating subsidiaries we believe that the Government's interests are adequately safeguarded.

#### CORPORATE 5-YEAR FORECAST

Lockheed's December 1974 forecast projected operating profits for the 1975-79 period sufficient to maintain the company's

stability, but insufficient to liquidate its guaranteed bank loans by the end of 1978--the maximum time provided by law. The projected profits and cash flow for the 5-year period assume that the financial plan with the company's lending banks will be fully operative. Also, Lockheed must substantially achieve all of its projected forecast premises, a significant part of which includes expected revenues from foreign sources. However, the potential results arising from the actions of the Government agencies concerned with the company's payments to foreign officials, may seriously inhibit Lockheed's future success in foreign markets and invalidate its current forecasts.

Lockheed reportedly has prepared a new 5-year forecast under which Lockheed would be able to repay its Government guaranteed loans by 1978. We have asked Lockheed for the details of this new forecast but have been advised that they are too tentative to be released at this time.

#### FINANCIAL DATA

Government sales continue to be the mainstay of Lockheed's business and the Company headed the list of awards of Government contracts in fiscal year 1975. These sales have averaged about 75 percent of total sales during the last 5 years.

Lockheed's financial performance in 1974 was encouraging and resulted in an improvement in its cash position. The company's net profit was \$23.2 million on operations which

represented an increase of \$9.5 million over the prior year (restated to reflect the change in L-1011 inventory accounting), and was accomplished after paying substantial interest expense of \$10.27 million. The improved performance enabled Lockheed to reduce its anticipated borrowings during 1974 and to repay \$50 million of the guaranteed loans. The company's net worth was substantially reduced, however, by their writing off \$448 million of the development costs for the L-1011. At December 30, 1973, Lockheed's net worth totaled \$283.2 million, but less than 10 percent of this amount remained at the end of 1974.

Reported corporate profits for the first 9 months of 1975 showed a substantial upturn, primarily because of the reduced interest rate on \$400 million of nonguaranteed bank borrowings as provided by phase 1 of a three-phase financing program with the company's lending banks. The company reported 9-month net earnings for 1975 of \$37.4 million as compared to \$18.5 million for the first 9 months of 1974. Lockheed's net earnings are based on the assumption of a 300-airplane L-1011 TriStar program.

#### L-1011 SALES AND PRODUCTION

At the end of September 1975 the company had received firm orders for 154 aircraft, 118 of which had been already delivered and the balance scheduled for delivery through 1980. TriStar customers have also made commitments for 51 optional second buys to be produced and delivered by the end of 1984.

The depressed state of the airline industry has caused Lockheed to further stretch out the TriStar production schedule. In its December 1973 forecast, the company anticipated producing and delivering at least 200 L-1011's through 1978. Because of deteriorating economic conditions, however, in its December 1974 forecast, the company projected that an overall total of only about 180 to 185 L-1011 aircraft would be delivered through 1979.

In its third quarterly report for 1975, however, Lockheed indicated that the rate of TriStar production in the near term would decrease and may be at a level of only about nine aircraft annually during the next 2 or 3 years. The sales goal projected by Lockheed in December 1974 averaged 14 aircraft annually.

#### GENERAL OBSERVATIONS

Despite Lockheed's improved profits for 1974, and reported earnings for the first 9 months of 1975, Lockheed does not anticipate complete repayment of its guaranteed loans even within the extended period provided by law, considering the various uncertainties discussed above. Principal among these are the contingencies involved in the company's efforts to improve its equity capital position, and the substantial downward revision of anticipated revenues from TriStar sales from 1975 to 1979.

The company believes that an L-1011 program of 300 aircraft should result in recovery of its TriStar inventory investment that amounted to \$719.8 million at the end of September 1975. Lockheed

acknowledges that continued financing will be needed until the investment in the L-1011 inventory is recovered through sales.

STATUS OF WORK ON LOCKHEED  
PAYMENTS TO FOREIGN OFFICIALS

On August 28, 1975, you requested us to determine the amounts of payments made by Lockheed Corporation to foreign officials in order to consummate sales to foreign countries (Exhibit I). We requested this information from Lockheed by letter on September 8, 1975 (Exhibit II). Lockheed replied in a letter of September 26, 1975 (Exhibit III), advising that they did not deem it advisable or prudent to comply with our request. Lockheed has not given us access to any of the information except for records relating to the amount of payments that may have been charged to general overhead allocable to Government contracts. As mentioned to you in our letter of October 20, 1975, we have been monitoring DCAA's efforts in reviewing these overhead charges and plan to report to you upon completion of this work.

Defense Contract Audit  
Agency Efforts

Lockheed has refused to furnish GAO or the Defense Contract Audit Agency details of the payments it made to foreign officials and other parties to facilitate overseas sales.

In the absence of the detailed information DCAA has been attempting to review Lockheed overhead charges for the last

several years to be sure the amounts in question have not been charged to Government contracts. We have been closely monitoring the DCAA work and have concluded that to continue the present procedure would be excessively costly and time consuming.

We believe that it would be much more expeditious and economical to trace details of the payments that have been made into the accounting records to determine the contracts that have been charged. We believe that with this approach there would be greater likelihood that we could be assured that the payments have not been charged to Government contracts.

#### Right of Access to Information

The General Accounting Office is authorized access to Lockheed's records both under a provision of the Emergency Loan Guarantee Act and under a provision of the implementing Loan Guarantee Agreement between the Government and Lockheed. Section 7(b) of the Act, provides:

"The General Accounting Office shall make a detailed audit of all accounts, books, records, and transactions of any borrower with respect to which an application for a loan guarantee is made under this Act. The General Accounting Office shall report the results of such audit to the Board (Emergency Loan Guarantee Board) and to the Congress."

The Loan Guarantee Agreement (which together with the Credit Agreement and Security and Pledge Agreement formed the framework

within which a number of banks provided a loan to Lockheed) provides:

"SECTION 13. Guarantor's Authority of Inspection.

The Borrower authorizes the Guarantor, its members, employees and agents, and the General Accounting Office, its employees and agents, to make such inspections of accounts, books, records, memoranda, correspondence and other documents and files of the Borrower, and to make such copies thereof, as any of the foregoing agencies or persons may in its or their sole discretion determine is necessary or appropriate in connection with this Agreement, the Credit Agreement, the Security and Pledge Agreement and the Guaranteed Notes and the collateral therefor, including any matters which may bear upon (a) the ability of the Borrower to repay the Guaranteed Notes within the time fixed therefor, (b) the interests of the United States in the property of the Borrower, (c) the assurance that there is reasonable protection afforded to the United States in respect of this Agreement and the Guaranteed Notes and (d) compliance with the provisions of the Act."

Though it is our opinion that GAO has the legal and contractual right to request and obtain the information from Lockheed, there is no ready and direct method to obtain these records absent our having subpoena authority.

The Securities and Exchange Commission has obtained enforcement of a subpoena in U.S. District Court which required Lockheed to appear and bring certain documents before the Commission in furtherance of its investigation of Lockheed. The documents in question presumably contain the names of the foreign officials to whom payments were made. The District Court, however, has retained jurisdiction over the documents and has ordered that the Lockheed information not be disclosed to any third party, except a duly authorized grand jury until:

1. the SEC affords interested agencies of the U.S. Government and Lockheed ten days notice prior to releasing such documents to permit such interested parties an opportunity to apply to the Court for relief, and
2. the Court has ruled upon any such request for relief.

This concludes my statement Mr. Chairman. We will be glad to answer questions you or the other members of the Committee may have.

WILLIAM PROXMIRE, WIS., CHAIRMAN	JOHN TOWER, TEX.
JOHN SPARKMAN, ALA.	ELWAH L.W. BROOKS, MASS.
HARRISON A. WILLIAMS, JR., N.J.	BOB PACKWOOD, OREG.
THOMAS J. MCINTYRE, N.H.	BESSIE HELMS, N.C.
ALAN GRANSTON, CALIF.	JACK GARR, UTAH
ADLAI E. STEVENSON, ILL.	
JOSEPH R. BIDEN, JR., DEL.	
ROBERT MORGAN, N.C.	

# United States Senate

COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS  
WASHINGTON, D.C. 20510

KENNETH A. MCLEAN, STAFF DIRECTOR  
ANTHONY T. CLUFF, MINORITY STAFF DIRECTOR  
GIRILLA C. POMPER, CHIEF CLERK

August 28, 1975

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GPO - LOCKHEED FILES

Honorable Elmer B. Staats  
Comptroller General of the United States  
441 G Street, N. W.  
Washington, D. C. 20548

Dear Mr. Staats:

During the hearings held by the Senate Committee on Banking, Housing and Urban Affairs on August 25th it was revealed that the Lockheed Aircraft Corporation paid at least \$22 million in the form of bribes to foreign officials or political organizations during the five year period ending in 1974 in order to secure foreign business. The Chairman of the Board of Lockheed, Mr. Daniel Haughton, acknowledged that a portion of these payments was made for the purpose of securing sales of the L-1011 aircraft whose production is financed in part through loans guaranteed under the Emergency Loan Guarantee Act which is under the Committee's jurisdiction. However, Mr. Haughton refused to say what portion of these payments was in connection with L-1011 sales. He also refused to provide the Committee with the names of the foreign officials who were the ultimate recipients of these payments or the company's marketing consultants who transmitted such payments.

Section 7(b) of the Emergency Loan Guarantee Act empowers the General Accounting Office to make a detailed audit of all accounts, books, records, and transactions of any borrower receiving a loan guarantee under the Act. Accordingly, I request that you use your powers under this Act as well as your powers under other Acts including your power to suspend payments to Lockheed under 31 U.S.C. 74 in order to obtain for me the following information:

1. The names and addresses of the marketing consultants to whom payments were made as described on pages 2 through 14 of Exhibit A of Lockheed's submission to the SEC, dated July 16, 1975 and on all subsequent addenda to this exhibit.

Honorable Elmer B. Staats  
Page Two

August 28, 1975

2. The names and titles of the foreign officials who were the ultimate recipients of these payments.
3. The contracts pursuant to which each of the above payments were made.

In addition to this information, which I would appreciate receiving as soon as possible, I am also requesting that you conduct a complete audit of Lockheed's books and records over the period from January 1, 1969 to June 30, 1975, to determine the following:

1. The total amount of fees paid to marketing consultants or others acting in a similar capacity in connection with both foreign and domestic sales, broken down by the particular contract with which each payment is associated and the name and address of each such person, the amount paid, the date of each payment, and the particular contract involved.
2. The total amount of payments made to any person, group or entity employed by, affiliated with or representing, directly or indirectly, any foreign government, any agency of the U.S. Government, any political organization, either foreign or domestic, or any other actual or potential customer of Lockheed to whom Lockheed Aircraft Corporation or its subsidiaries, or representatives or other persons on its behalf, have paid or entered into any contracts, agreements or understandings to pay, any funds, gratuities or other emoluments in excess of \$1,000 in any fiscal year from 1969 through 1975, and the name, address and title of each such person, the name of the organization by whom such person is employed or with whom such person is affiliated or who such person directly or indirectly represents, the amounts paid, the date of each payment, and the particular contract involved.
3. The total amount of funds listed under paragraph (1) or (2) which have been charged to general overhead and subject to reimbursement, in whole or in part, from government funds.

BEST DOCUMENT AVAILABLE

Sincerely,

  
William Proxmire  
Chairman



## UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

PROCUREMENT AND SYSTEMS  
ACQUISITION DIVISION

SEP 8 1975

Mr. Roy Anderson  
Senior Vice President, Finance  
Lockheed Aircraft Corporation  
P.O. Box 551  
Burbank, California 91520

Dear Mr. Anderson:

We have been requested by Senator Proxmire, as Chairman of the Senate Committee on Banking, Housing, and Urban Affairs to obtain the following information:

1. The names and addresses of the marketing consultants to whom payments were made as described on pages 2 through 14 of Exhibit A of Lockheed's submission to the SEC, dated July 16, 1975, and on all subsequent addenda to this exhibit.
2. The names and titles of the foreign officials who were the ultimate recipients of these payments.
3. The contracts pursuant to which each of the above payments were made.

We have also been requested to conduct a complete audit of Lockheed's books and records over the period from January 1, 1969, to June 30, 1975, to determine the following:

4. The total amount of fees paid to marketing consultants or others acting in a similar capacity in connection with both foreign and domestic sales, broken down by the particular contract with which each payment is associated and the name and address of each such person, the amount paid, the date of each payment, and the particular contract involved.
5. The total amount of payments made to any person, group or entity employed by, affiliated with or representing, directly

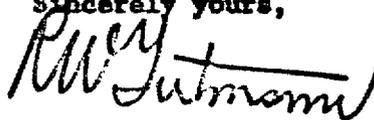
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or indirectly, any foreign government, any agency of the U.S. Government, any political organization, either foreign or domestic, or any other actual or potential customer of Lockheed to whom Lockheed Aircraft Corporation or its subsidiaries, or representatives or other persons on its behalf, have paid or entered into any contracts, agreements or understandings to pay, any funds, gratuities or other emoluments in excess of \$1,000 in any fiscal year from 1969 through 1975, and the name, address and title of each such person, the name of the organization by whom such person is employed or with whom such person is affiliated or who such person directly or indirectly represents, the amounts paid, the date of each payment, and the particular contract involved.

6. The total amount of funds listed under paragraph (4) or (5) which have been charged to general overhead and subject to reimbursement, in whole or in part, from government funds.

We would appreciate receiving the information requested under items 1, 2, and 3 as soon as possible. Our Los Angeles Regional Office will be in touch with you to make arrangements for conducting the necessary review work discussed in paragraphs 4, 5, and 6.

Sincerely yours,



R. W. Gutsann  
Director

*J. J. Foster*  
bc: Mr. Flynn (PSAD/GP)  
Mr. Wolin (PSAD/GP)

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## LOCKHEED AIRCRAFT CORPORATION

BURBANK, CALIFORNIA 91503

September 26, 1975

Mr. R. W. Gutmann  
Director  
United States General Accounting Office  
Washington, D.C. 20548

Dear Mr. Gutmann:

This letter is in response to your letter to me dated September 8, 1975 which advised us of Senator Proxmire's request for certain information and for an audit pertaining to Lockheed's sales commissions and fees.

The specific details involved in items 1 through 5 of your letter are essentially the same type of information that, as explained by our Board Chairman, D. J. Haughton, before Senator Proxmire's committee and Senator Church's Subcommittee on Multinational Corporations, cannot be disclosed without risking needless and serious adverse effect upon the company. Accordingly, we do not deem it advisable or prudent to comply with the request with respect to items 1 through 5 of your letter.

We believe possession by the GAO of possible identifying details of foreign commissions and payments will serve no purpose with regard to any of its mandated responsibilities under the Emergency Loan Guarantee Act. The nature of the transactions (which we have voluntarily disclosed to appropriate Government agencies), rather than names of individuals and countries, serves investigative and legislative purposes in considering the effect of the transactions. Possession by GAO of the identifying details of foreign names and places would not provide added protection to the U. S. Government's financial interest. It would have no significant bearing on any of the specified areas of interest of the GAO as stated in the Act or in the financing agreements under the various inspection of records provisions.

It is not possible for us to definitively quantify the ultimate effect upon the Corporation of disclosure of identifying details. The ultimate effect is dependent upon whatever actions might be taken by our foreign customers. In the interim, the Corporation could be affected by the assessment of such anticipated actions by other customers, the financial community and other influencing parties. Such reactions by our customers, foreign or otherwise, would be beyond the control of Lockheed or that of the U. S. Government. However, in an attempt to give some perspective as to the risks associated with public disclosure of identifying details, the following key areas are of significant concern to us:

Mr. R. W. Gutmann

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- (1) As of July 31, 1975, foreign orders included in backlog amounted to approximately \$1.5 billion. Customer advances on these orders totaled over \$300 million, and the inventory investment and commitments amounted to millions of dollars.

We are concerned that a significant portion of this backlog might be vulnerable to adverse customer reaction from public disclosure of the commission and payment details. The political and public embarrassment flowing from detailed disclosure might lead some foreign government customers to attempt to rescind the contracts and demand return of advance payments. This could prejudice recovery of millions of dollars of investment in inventory and commitments under these contracts.

There is uncertainty as to the precise actions which customer countries might take as a result of detailed disclosures, and the related legal effects. Appropriate defenses and legal action would be initiated by the company, if necessary, to protect its interests. However, it must be recognized that any tying up for an extended period of time of even a significant fraction of these gross amounts, while the problems are worked out, could be serious to the company's financial viability.

- (2) At risk, beyond the revenues which result from foreign orders, are the substantial revolving financing benefits attributable to this segment of the company's business. Foreign orders generally involve substantial early cash advances which on a continuing basis liquidate a significant portion of the investment in work-in-process. However, in addition to minimizing such investment, advances on numerous orders exceed the investment in those orders by a substantial amount. Since mid-1973, the excess of such advances over investment has amounted to approximately \$100 million or more. As a result, the favorable cash flow on those orders has been a substantial contributing factor to the overall financing of the company.
- (3) Foreign business is a significant portion of the company's total business. Over the past five years, foreign sales have totaled in excess of \$2 billion, with before-tax profits of more than \$200 million (excluding the L-1011 program). This portion of the company's sales has been critical to the company's overall financial position.

Public disclosure of the details of past sales commissions and payments by Lockheed, without similar requirements upon our foreign and domestic competitors, could place the company at a competitive disadvantage. The potential sales sign-ups at risk are substantial. Follow-on business applicable to specific customers, based on a detailed analysis of known future requirements for

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products and services, totals \$2 billion. Similarly, a specific listing of new business currently under consideration by specific foreign customers, which could be placed at risk, is estimated to be an additional \$2 billion. A substantial portion of this total business potential could be expected to be added to the company's backlog within the next year.

- (4) Of substantial concern is the effect of detail disclosure on the L-1011 program. As of July 31, 1975, the backlog of foreign orders includes firm orders for 24 TriStars valued at over \$500 million and second buy orders for an additional 18 TriStars valued at approximately \$400 million. These orders, plus additional orders from current and other foreign customers, are important to the overall TriStar program and to the continuity of the TriStar production line. Disruption of the TriStar production line for any appreciable period of time could make it economically impracticable to resume production and, in turn, severely affect Lockheed's overall financial condition and continued viability.
- (5) Information in our files regarding possible recipients is in several cases based on hearsay and speculation and thus may be unreliable and misleading. If hearsay and speculative information is released regarding foreign officials and such information cannot be substantiated or is proved to be false, the damage to the Corporation could be severe with respect to present and future transactions with the countries involved.

Recently, the Senate Subcommittee on Multinational Corporations made a partial disclosure of details (names of foreign officials were deleted) with respect to four countries. The action is too recent to determine the ultimate impact of such partial disclosure and any assessment will have to be deferred until a definitive reaction is discernible. It is interesting to note, however, that in the hearings of that Subcommittee on September 12 the Chairman commented as follows with respect to the deletion of names of foreign officials from the documents that had been released by the Subcommittee:

"As it is the purpose of this inquiry to lay bare the facts, without entailing the United States in embarrassing revelations that could undercut our foreign policy position with foreign governments, the names of foreign government officials who might be directly or indirectly implicated in these documents have been deleted."

In summing up the preceding, we would like to set forth several observations for your consideration in evaluating this detailed disclosure problem.

- (1) Although we cannot, as stated, quantify with any preciseness the consequences attendant to the above-enumerated risks associated with public disclosure of details regarding past foreign commissions and payments, we believe they could be potentially severe. There would seem to be no practicable or financial justification on the part of the company to invite such risks which

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have the potential of jeopardizing the company's financial viability. Accordingly, we sincerely believe that we should provide such details to appropriate government agencies only if complete confidentiality can be assured and there is no risk of subsequent public exposure. Present indications are that it is difficult for any of these agencies to guarantee that protection.

- (2) We question what meaningful purpose can possibly be served by public disclosure of identifying details when weighed against the potential consequences as enumerated. It has been argued that exposure will embarrass the countries involved and lead to a tightening of procurement practices by those countries. The latter objective could be pursued on a direct government-to-government basis, after a comprehensive study and evaluation of all multinational company practices. To single out and use Lockheed in the public press to achieve the stated objective does not appear equitable to its shareholders and creditors.
- (3) We have, therefore, attempted to set forth publicly the overall magnitude of foreign sales commissions and other payments and their relationship to foreign sales and backlog. For appropriate government agencies, we have supplied detail to set forth the nature of the individual transactions, including the time frame, the amounts and other pertinent information. Thus, we are earnestly endeavoring to meet the essential needs of the various government agencies. Further, we have submitted information which shows that these foreign commissions and payments were supported by monies made available by the foreign orders themselves. Loans guaranteed under the Act were really not the source of these funds.
- (4) Concerning the future, the company has adopted a stringent new policy governing foreign commissions and payments which we believe will meet the criteria which may be established as national guidelines. We intend to enforce vigorously that policy.

Our position relative to the release of the identifying details involved in items 1 through 5 of your letter is not inconsistent with the various record inspection requirements of our status as a borrower under the Emergency Loan Guarantee Act. Under the Act the GAO has an obligation to audit all accounts, books, records and transactions with respect to an application for a loan guarantee. (Section 7(b).) Such an audit was conducted at the time of our application. The Act also provides that the Emergency Loan Guarantee Board is authorized to inspect records concerning any matter which may bear upon (1) the borrower's ability to repay the guaranteed loan, (2) the Government's interest in the property of the borrower, and (3) the assurance that the Government is reasonably protected. (Section 7(a).) Under the Guarantee Agreement (Section 13) the Government and the GAO are authorized to inspect the books and records, as necessary or appropriate in connection with the Guarantee Agreement, the Credit Agreement, the Security and Pledge Agreement and the notes and collateral, including the matters specified in the Act, as noted above, and compliance with the

Mr. R. W. Gutmann

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Act. In his letter dated January 12, 1972 to the Chairman, House Committee on Banking and Currency, and in a similar letter to the Chairman, Senate Committee on Banking, Housing and Urban Affairs, the Comptroller General identified the audit requirement upon application for a loan guarantee, as specified in Section 7(b) of the Act, and concluded that the audit would consist of a continuous review of corporate decisions and actions that may diminish the borrower's assets or income or otherwise adversely affect the borrower's repayment ability.

We believe that consideration of the Act's record inspection requirements, the Guarantee Agreement record inspection provisions and the Comptroller General's view of its audit function, against the background of the disclosure risk described above, leads to the conclusion that disclosure of names of possible recipients and details requested by Senator Proxmire would be counter to the purposes of the Act. Such disclosure could impair our future ability to pursue foreign sales activity and thereby adversely affect our repayment ability. As previously noted, our foreign sales have contributed substantially to the overall financial operations of the company since the early 1970s and foreign markets hold the prospect of considerable future business. Disclosure of identifying details creates a risk of damage which is difficult to quantify but the uncertainty of the consequences does not remove the risk. We sincerely believe that no Government representative or agency would wish to place the company, its stockholders, employees and creditors - even the Government itself - at risk by disclosing details which serve no useful purpose. Therefore, we do not believe the information described in items 1 through 5 of your letter should be made available in any manner which could lead to public disclosure.

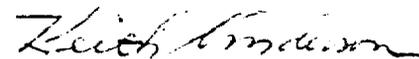
However, we agree there is a very legitimate interest on the part of the Government in the inquiry described in item 6 of your letter. In this regard the Defense Contract Audit Agency is currently conducting an audit on this same matter. We have assured them, as we do you, of our full cooperation in that effort and we have stated that foreign sales commissions and fees and related payments have not been improperly charged to U. S. Government contracts. Public disclosure of the results of an audit in that area would have no detrimental effect.

We sincerely hope that the information we have provided previously and in this letter will be helpful to the GAO in its evaluation of this problem of foreign commissions and other payments and in responding to Senator Proxmire's requests.

We are prepared to discuss our position further with you and are ready to furnish such additional information as may be useful to your office in evaluating the risks involved in possible public disclosure of detailed information concerning our foreign sales arrangements.

Sincerely,

LOCKHEED AIRCRAFT CORPORATION



Roy A. Anderson  
Senior Vice President-Finance