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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-183327

JUL 1 1975

The Honorable Charles H. Wilson
House of Representatives



Dear Mr. Wilson:

Your letter of February 27, 1975, requested data on profits, corporate tax payments and percentages, property taxes, and the extent of Government-owned buildings being used by specific contractors.

During subsequent discussions with your office, it was agreed that we would supply data relating to the following corporate organizations: General Dynamics, Fort Worth, Texas, and Groton, Connecticut; and Northrop Corporation, Los Angeles, California. It was further agreed that we would furnish additional information concerning (1) the financial effects of General Dynamics of the F-111 budget rescission, (2) the military contract awards in California and Texas for fiscal years 1971 through 1974, and (3) the manner in which Government-owned plants and equipment were handled by the Air Force in evaluating the cost proposals leading up to the F-16 contract award.

We obtained our information from published corporate financial reports, Department of Defense reports, contractor representatives, and the Air Force. The following tabulation summarizes the financial data requested. Reference should be made, however, to the enclosures for qualifying notes and additional comparative data. Ratios are computed for each consolidated corporation as a whole and do not indicate the contribution of each division to the overall corporation performance. The profits presented in this report are before Federal income taxes to prevent any distortion due to special tax considerations.

BEST DOCUMENT AVAILABLE

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Selected Financial Data (note a)

	1974	
	<u>General Dynamics</u>	<u>Northrop</u>
Net income before tax	\$86,241,000	\$33,415,000
Net income before tax as a percent of total cost	4.58	4.03
Net income before tax as a rate of return on total assets	7.94%	8.31%
Income tax expense	\$34,618,000	\$15,279,000
Federal	23,861,000	11,358,000
Foreign	10,757,000	3,921,000

	1974		
	<u>General Dynamics</u>		<u>Northrop</u>
	<u>Groton</u>	<u>Fort Worth</u>	<u>Los Angeles (note b)</u>
Plants and equipment	\$117,531,000	\$212,800,000	\$245,250,520
Government-owned	4,000,000	169,200,000	28,168,520
Company-owned	113,531,000	43,600,000	217,082,000
Percent company-owned	96.6	20.5	88.5
Real and personal property taxes	\$ 1,187,196	(c)	\$ 5,944,000
Total military contract awards (FY 1971 through FY 1974)			
Texas	\$ 9,359,801,000		
California	24,439,932,000		

a/See enclosures I, II, and III.

b/Northrop Corporations Aircraft Division had \$5,292,745 of Government-owned plants and equipment at Hawthorne, Palmdale, and Edwards Air Force Base, California and \$96,700,083 of company-owned plants and equipment at Hawthorne.

c/The Court of Civil Appeals of Texas ruled on February 24, 1961, that the City and school district of Fort Worth, Texas, had no authority to levy taxes on the company's buildings and personal property located on land ceded to the Federal Government.

The cost proposal of General Dynamics for the F-16 aircraft was predicated on rent-free use of Government-owned plants and equipment. For evaluation purposes, General

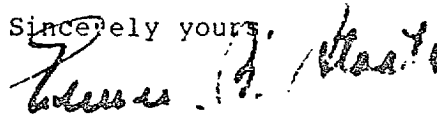
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Dynamics provided the equivalent fair rental price of \$6,856,812 for the full-scale development program and \$15,314,643 for the production program. Northrop also predicated its cost proposal on rent-free use of Government-owned plants and equipment. Air Force officials told us that no consideration was given to the equivalent rental values in evaluating cost proposals because the amounts were considered insignificant.

Federal funds for procuring 12 F-111 aircraft were rescinded effective April 8, 1975. According to officials of General Dynamics, this rescission will reduce business volume about \$108 million, the bulk of which will occur in 1976 and 1977. In addition, it is estimated that this rescission will cause a layoff of many key skilled factory workers.

If we can be of further assistance, please let us know.

Sincerely yours,



Comptroller General
of the United States

Enclosures - 3

ALL INFORMATION CONTAINED
HEREIN IS UNCLASSIFIED
DATE 10/20/2011 BY 60322/UC/STP

SELECTED FINANCIAL DATA ON GENERAL DYNAMICS CORPORATION
AND CONSOLIDATED SUBSIDIARIES

	<u>1974</u>	<u>1973</u>	<u>1972</u>
Net sales	\$1,968,416,000	\$1,641,799,000	\$1,539,390,000
Total costs (note a)	1,882,175,000	1,576,938,000	1,498,932,000
Net income before taxes	86,241,000	64,861,000	40,458,000
Average total assets (note b)	1,086,265,000	1,001,613,000	1,093,401,000
Net income before taxes as a percent of total costs (note c)	4.58	4.11	2.70
Net income before taxes as a rate of return on total assets (note d)	7.94%	6.48%	3.70%
Total corporate income tax expense \$	34,618,000	\$ 24,820,000	\$ 14,416,000
Federal	23,861,000	22,828,000	12,831,000
Foreign	10,757,000	1,992,000	1,585,000
Sales for military aircraft	255,700,000	336,400,000	431,200,000
Operating earnings for military aircraft	29,300,000	22,900,000	21,900,000

a/Total costs include cost of sales, interest expense, and other deductions.

b/Average total assets were computed by using the beginning and ending balances of total assets for each year.

c/If we had included extraordinary items in our net income before taxes, the ratios for 1972, 1973, and 1974 would have been 2.58, 4.18, and 4.65 percent, respectively.

d/If we had included extraordinary items in our net income before taxes, the ratios for 1972, 1973, and 1974 would have been 3.54, 6.58, and 8.06 percent, respectively.

ENCLOSURE I

ENCLOSURE I

The above data was obtained from annual reports filed by General Dynamics Corporation with Securities and Exchange Commission, Form 10-K, for the years ended December 31, 1972, 1973, and 1974. Accounting changes and reclassifications having an impact on the financial statements as reported in the Form 10-K for 1974 follow.

In 1974 two General Dynamics' subsidiaries changed their method of pricing a portion of their inventories, previously stated principally at average cost, to the last-in, first-out method. The change had the effect of reducing inventory at December 31, 1974, by \$7.6 million and earnings before extraordinary items (transactions that are unusual and infrequent) by \$4.0 million for the year then ended. At December 31, 1974, inventories, before advance and progress payments, of \$94.3 million are stated on the last-in, first-out method. There is no cumulative effect of the change on previous years.

To comply with statements of the Financial Accounting Standards Board two subsidiaries had to change their method of accounting for certain product development costs. Before 1974 such costs were deferred and amortized over future sales. In 1974, these costs were expensed as incurred. Financial statements of previous years have been restated to reflect a decrease as of January 1, 1973, in total assets (\$6.1 million), deferred taxes (\$3.0 million), and retained earnings (\$3.1 million). The effect of this accounting change on 1974 earnings before extraordinary items is an increase of \$647,000 and an increase in earnings as previously reported for 1973 of \$86,000.

In order to comply with an American Institute of Certified Public Accountants Audit Guide, it was necessary for two finance subsidiaries, which were accounted for on the equity method by a consolidated subsidiary of the Corporation, to change their method of accounting for lease revenue from the sum-of-the-months digits to the effective yield method. The effect of this accounting change on 1974 earnings before extraordinary items is a decrease of \$182,000. Financial statements for 1973 have been restated to reflect a decrease in earnings before extraordinary items of \$347,000. There is no effect on the financial statements for periods before 1973.

To conform to the statement classifications in 1974, amounts billed and included in Government contracts in process and commercial programs in process have been reclassified to accounts receivable in the financial statements as of December 31, 1973.

SELECTED FINANCIAL DATA ON NORTHROP CORPORATION AND
SUBSIDIARIES ON A CONSOLIDATED BASIS

	<u>1974</u>	<u>1973</u>	<u>1972</u>
Net sales	\$853,293,000	\$698,967,000	\$573,749,000
Total costs (note a)	828,482,000	690,007,000	560,760,000
Net income before taxes (note b)	33,415,000	20,083,000	20,608,000
Average total assets (note c)	402,261,000	363,833,000	361,661,000
Net income before taxes as a percent of total costs	4.03	2.91	3.68
Net income before taxes as a rate of return on total assets	8.31%	5.52%	5.70%
Total corporate income tax expense (note d)	\$ 15,279,000	\$ 8,475,000	\$ 9,472,000
Federal	11,358,000	-	-
Foreign	3,921,000	-	-
Sales for military aircraft	381,900,000	273,800,000	242,000,000
Operating earnings for military aircraft	28,882,000	24,730,000	20,548,000

a/Total costs include cost of sales, interest expense, and other deductions.

b/Profits presented are before Federal income taxes to prevent any distortion due to special tax considerations. Northrop Corporation did not report any extraordinary items for 1972 through 1974.

c/Average total assets were computed by using the beginning and ending balances of total assets for each year.

d/Federal and foreign income tax expense is not presented for 1972 and 1973, since it was not available from published sources.

The above data was obtained from annual reports filed by Northrop Corporation with Securities and Exchange Commission, Form 10-K, for the years ended December 31, 1972, 1973, and 1974.

DEPARTMENT OF DEFENSECONTRACT AWARDS (note a)Fiscal Years 1971-74

	<u>California</u>	<u>Texas</u>	<u>Total contracts (note b)</u>
1971--amount	\$5,292,653,000	\$2,721,795,000	\$ 28,605,092,000
Percent of total	18.5	9.5	100
1972--amount	\$6,015,505,000	\$2,491,742,000	\$ 32,135,666,000
Percent of total	18.7	7.8	100
1973--amount	\$6,214,501,000	\$2,232,444,000	\$ 36,065,075,000
Percent of total	20.7	7.4	100
1974--amount	\$6,917,273 000	\$1,913,820,000	\$ 32,621,087,000
Percent of total	21.2	5.9	100
Total 1971 through 1974	\$24,439,932,000	\$9,359,801,000	\$129,426,920,000

a/Data on contract awards by State does not provide any direct indication as to the State in which the actual production work was done.

b/Net value of total contract awards of \$10,000 or more.