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Report to the Congress; by Elmer B. Staats, Comptroller General.

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Congressional Relevance: House Committee on Banking, Finance and Urban Affairs; Senate Committee on Banking, Housing and Urban Affairs; Congress.
Authority: Emergency Loan Guarantee Act of 1971 (15 U.S.C. 1846(b) (Supp. I)).

Lockheed Corporation is the only holder of a guaranteed loan and has $80 million outstanding. The Government's commitment terminates at yearend unless terminated earlier by the lending banks' voluntary release, but the commitment can also be extended. Findings/Conclusions: Lockheed plans to have the guaranteed loan terminated at yearend and then switch to a normal revolving line of bank credit. Corporate assets, totaling $178.7 million in 1975, were pledged as security for the guaranteed loans, and the lending banks have agreed to subordinate their interest to those of the Government. The emergency loan guarantee fund, used to pay expenses and fulfill board obligations, had accrued up to $6,607,152 in September 1976. Lockheed and its lending banks consummated a financial restructuring program to improve its equity position and extend the period of nonguaranteed bank loans. Lockheed's management policy, established in October 1975, to institute more effective controls over foreign payment practices, offers reasonable assurances against company payments to foreign officials but cannot control all external factors. (SS)

REPORT TO THE CONGRESS

BY THE COMPTROLLER GENERAL
OF THE UNITED STATES

Implementation Of Emergency Loan Guarantee Act

Lockheed Aircraft Corporation
Emergency Loan Guarantee Board

This is the current status of Lockheed's financial position and its ability to repay the Government guaranteed loans. GAO evaluated the collateral securing those loans and assessed the impact of the disclosure of questionable commission payments on current and future foreign sales.

APRIL 25, 1977

PSAD-77-101

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

B-169300

To the President of the Senate and the
Speaker of the House of Representatives

This is our fifth report on the implementation of the Emergency Loan Guarantee Act administered by the Emergency Loan Guarantee Board.

This review was made pursuant to the Emergency Loan Guarantee Act, 1971 (15 U.S.C. 1846(b), supp. I, 1971); the Budget and Accounting Act, 1921 (31 U.S.C. 53); and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

Copies of this report are being sent to the Director, Office of Management and Budget, and to the Chairman, Emergency Loan Guarantee Board.

Elmer B. Staats
Comptroller General
of the United States

COMPTROLLER GENERAL'S REPORT TO THE CONGRESS

IMPLEMENTATION OF EMERGENCY LOAN GUARANTEE ACT
Lockheed Aircraft Corporation
Emergency Loan Guarantee Board

D I G E S T

This is GAO's fifth report on activities of Lockheed Aircraft Corporation, the only company to apply for a guaranteed loan under the Emergency Loan Guarantee Act of 1971. As of February 18, 1977, guaranteed loans to Lockheed totaled $80 million. The Government's guarantee commitment is scheduled to terminate at yearend unless terminated earlier by the lending banks' voluntary release. However, the Emergency Loan Guarantee Board has statutory authority to extend Lockheed's guaranteed loans until December 31, 1978.

Corporate assets--the outstanding shares of five wholly owned subsidiaries and certain machinery and equipment--are pledged as security for the guaranteed loans. The Government has been placed in a preferred position with respect to the collateral. Based on current book valuations and certain known market values of the pledged assets, the Government's interests appear to be adequately protected. (See p. 3.)

Although there are uncertainties associated with the L-1011 TriStar aircraft program (see p. 13) and some proposed foreign sales due to the disclosure of the company's foreign commission payment practices (see p. 7), Lockheed expects to realize sufficient revenues to liquidate its guaranteed loans by yearend 1978 if the positive premises in its July 1976 forecast materialize. However, in its December 1976 forecast, Lockheed changed its premise to provide that the guaranteed loans be terminated at yearend 1977 and any unliquidated balance be replaced by a normal revolving line of bank credit. (See p. 3.)

After receiving the required approvals, Lockheed and its lending banks consummated a financial restructuring program on October 27, 1976. The plan has been basically designed to improve

Lockheed's equity position and extend the period of its nonguaranteed bank loans. (See p. 5.)

In October 1975, Lockheed established a management policy to institute more effective controls over the selection and approval of international marketing consultants and related payment procedures. GAO believes that Lockheed's policy and procedures contain controls that provide a reasonable degree of assurance that the company itself will not make payments to foreign governmental, military, or customer officials for their influence in securing sales. However, there are some external factors in the foreign market beyond Lockheed's control and the company's actions alone may not necessarily preclude the possibility of money ultimately flowing to such officials. (See p. 8.)

Contents

ABBREVIATIONS

SEC	Securities and Exchange Commission
GAO	General Accounting Office
LTU	Lufttransport Unternehmen

CHAPTER 1

INTRODUCTION

This is our fifth report on activities of the Lockheed Aircraft Corporation, Burbank, California, the only business to apply for a guaranteed loan under the Emergency Loan Guarantee Act, 1971 (15 U.S.C. 1846(b), supp. I, 1971). As of February 18, 1977, guaranteed loans to Lockheed totaled $80 million. Since the inception of the act, we have reviewed and reported to the Congress on the company's ability to repay Government-guaranteed loans. For this report, we have developed certain information concerning foreign commission payments made by Lockheed during the 5-1/2 year period ended June 30, 1975.

We reviewed corporate actions which have had a material effect on Lockheed's financial structure and examined the bases for the company's financial forecasts. We tested and relied on the examinations performed by Lockheed's independent external auditors as well as its internal auditors and the Defense Contract Audit Agency, particularly in those areas related to activities involving cash flow, revenues, and commission payments. We also reviewed audit activities related to the integrity of assets pledged as collateral for the company's outstanding loans.

CHAPTER 2

LOANS UNDER GOVERNMENT GUARANTEE

Since Lockheed repaid $20 million of guaranteed loans on February 18, 1977, its bank borrowings now total $430 million, $80 million of which is guaranteed by the Government. The company's best loan repayment record was accomplished in 1976 through payments of $95 million to the lending banks. The Government-guaranteed loans are to be repaid before those without a guarantee. According to its latest financial forecast, the company projects to repay an additional $15 million by yearend 1977. A listing of yearend loan balances guaranteed by the Government since the inception of the Emergency Loan Guarantee Act is shown below:

Year	Borrowings	Repayments Forecast	Repayments Actual	Yearend balances
	(millions)	(millions)		(millions)
1971	$75	$ -	$ -	$ 75
1972	55	-	-	130
1973	70	30	-	200
1974	45	50	50	a/195
1975	-	47	-	195
1976	-	75	95	100
1977	-	35	b/20	b/80

The provisions of the credit agreement, negotiated in 1971 by the Emergency Loan Guarantee Board and a 24-bank consortium, enabled Lockheed to borrow up to $250 million under Government guarantee. Guaranteed loans were to be repaid by yearend 1975 unless extended by joint action of the Board and the lending banks. The act permits renewals of the Government-guarantee commitment for a maximum of 3 years or, as in the case of Lockheed's borrowings, through 1978. Because of the company's inability to fulfill the initial repayment obligation by 1975, the Board agreed to an amendment in the credit agreement extending the Government's commitment for 2 years or through 1977.

a/In September 1974, Lockheed's bank borrowings guaranteed by the Government reached a maximum of $245 million.

b/As of February 18, 1977.

In its July 1976 financial forecast Lockheed anticipated that the guaranteed loans would not be fully repaid until yearend 1978. Under these circumstances, the Board may be asked to grant a further extension of the repayment schedule. However, in its newly released December 1976 forecast, Lockheed changed its premise to provide that the guaranteed loans be terminated at yearend 1977 and that the anticipated $65 million guaranteed loan balance would be replaced by a normal revolving line of bank credit.

Corporate assets pledged as collateral

Corporate assets--the outstanding shares of five wholly owned subsidiaries and certain machinery and equipment located in Los Angeles County, California--were pledged as security for the guaranteed loans. The lending banks have agreed to subordinate their interests in the pledged collateral to Government's interests.

The cumulative book value of the pledged assets totaled $178.7 million at yearend 1975 or about $34 million less than at program inception at yearend 1971. This reduction resulted principally from the operating losses sustained by the Lockheed Shipbuilding and Construction Company ($24.5 million) and depreciation charges and disposals related to real property and equipment ($48.8 million).

Although book values for real property and equipment totaled only $75.7 million at yearend 1975, fiscal year 1976 property tax bills showed a total market value of $231.2 million. Although we recognize that market estimates may not be realized in the event of forced liquidation, we believe that current property assessments, in addition to the very favorable earnings record of the company's most viable pledged subsidiary, Lockheed Missiles and Space Company, Inc., (5-year total through 1975: $153 million), are positive indicators that the Government's interests are protected.

The company is currently endeavoring to dispose of one of its pledged assets, the Hollywood-Burbank Airport, owned and operated by Lockheed Air Terminal, Inc., a wholly owned subsidiary. Negotiations are in progress for a group of local governments to purchase the airport and continue its operation, but a final resolution is not expected in the near future. Independent appraisals of the value of disposable airport property have been obtained by the potential buyer and by Lockheed. These assessments valued the property at $35 and $55 million, respectively. Sale of the airport will require Board approval to transfer title of the pledged property.

Emergency loan guarantee fund

The emergency loan guarantee fund--set up as a depository for guarantee and commitment fees earned--is used by the Board to pay expenses and fulfill its obligations. This fund totaled $25,909,044 as of September 30, 1976. For the period August 1, 1975, through September 30, 1976, the Board earned guarantee and commitment fees of $6,607,152, while its expenses totaled $198,226. The fund, except for small amounts to cover current operating expenses, has been invested in U.S. Government obligations.

CHAPTER 3

NEW FINANCIAL RESTRUCTURING PLAN

As described in our January 30, 1976, report (PSAD-76-63), Lockheed's efforts to improve its financial structure had culminated in negotiations with its lending banks in April 1975 on a three-phase financing and recapitalization program. Although the three-phase program was approved by the Emergency Loan Guarantee Board in May 1975, only the first phase of the plan was actually implemented. A principal provision of the initial phase of the plan was the reduction in the interest rate to 4 percent per annum on the $400 million of non-guaranteed bank loans.

Approval and implementation of the second and third phases of the program were deferred for an extended period due to negotiations between Lockheed and the Securities and Exchange Commission (SEC) regarding the extent of public disclosure of the company's foreign commission payments. An agreement satisfactory to both SEC and Lockheed was approved by the U.S. District Court of the District of Columbia in April 1976.

Due to changed conditions, Lockheed and its lending banks negotiated a revised financial restructuring program in 1976. The new financial plan was approved by the Board as well as the company's stockholders and debentureholders, and was implemented on October 27, 1976. The principal parts of the new financial plan are described below:

--$50 million of the company's nonguaranteed bank loans was converted into a new series of preferred stock with a par value of $100 per share, mandatory redemption provisions, and a 9.5-percent dividend rate payable semiannually on a cumulative basis, beginning February 1, 1977. (However, Lockheed is prohibited from paying any dividends until after the loan guarantee program is terminated.) Commencing December 31, 1979, the preferred stock provides for a fixed annual sinking fund amounting to 15 percent of the original issue of 500,000 shares for redemption purposes at an 8-percent premium, or $108 per share.

--The remaining $350 million of nonguaranteed loans was converted to a term loan extending into 1981. The nonguaranteed loans had been 90-day revolving notes. The term loan will bear a 4-percent interest rate through December 31, 1976, the prime rate plus 1 percent until termination of the guarantee, then prime plus 1.25 percent. Principal payments on the term loan will be made in eight quarterly installments of $20 million, commencing March 31, 1979, plus one lump payment of $190 million at loan maturity on March 31, 1981.

--The lending banks will be issued 10-year warrants to purchase an additional 1.75 million shares of Lockheed common stock. Under phase I of the previous program, 1.75 million warrants had been issued to the banks. The exercise price for the first 3 million warrants is $7 per share; for the remaining 500,000 warrants, $10 per share.

In consideration for the consummation of the revised agreement, the company agreed to pay the lending banks a fee of $5.3 million.

Also during 1976, the $75 million credit agreement between Lockheed and its lending banks, negotiated in 1974 for nonguaranteed short-term loans, was canceled without being used. This credit was available to assist the company over periods between completion and delivery of L-1011 TriStars during 1974 and 1975.

CHAPTER 4

SALES IMPACT RESULTING FROM QUESTIONABLE PAYMENTS TO FOREIGN OFFICIALS

Lockheed publicly disclosed in July 1975 that about $147 million in foreign commission payments were made from January 1970 through June 1975. Of this amount, the company reported that about $24 million of the payments were known or suspected to have been received by foreign officials and political organizations.

Since the disclosures of the questionable commissions, the legislative and executive branches of the U.S. Government and several foreign governments have made numerous inquiries and investigations of the company's foreign payment practices. In February 1976 testimony before the Subcommittee on Multinational Corporations of the Senate Foreign Relations Committee, Lockheed officials disclosed certain data identifying regions where known or suspected payments were made, and in some cases, the names of public officials.

In April 1976, Lockheed entered a consent decree with SEC, requiring that the company's Board of Directors establish a Special Review Committee to investigate and report on past practices relating to commissions and other payments made in connection with the company's foreign sales activities. The consent decree required the investigation to be completed by August 1976, or such further time as approved by the SEC. Subsequently, the completion date was extended and a final report is not anticipated before spring 1977.

The Emergency Loan Guarantee Board, through amendments to the 1971 Guarantee Agreement, required that Lockheed discontinue its improper payment practices. The amendments provide that the making of such payments or the company's failure to comply with its new policy on the selection and use of international consultants (see p. 8) are events which may constitute a default on the part of Lockheed, causing the termination of the guaranteed loans.

Effect on potential foreign sales

Lockheed's July 1976 financial forecast projected total foreign sales to be about 31 percent of total sales from 1976 through 1978. In the past, company officials believed that if all details of their foreign commission payments were fully disclosed to public scrutiny, the company's foreign market potential would be seriously impaired. Present indications are that, with the exception of uncertainties associated with certain Japanese sales, the disclosure of Lockheed's commission payment practices has not adversely affected current or future sales to foreign customers. However, Lockheed officials believe that the final assessment of the impact will not be known until after the Special Review Committee report is released.

Japan's political climate, resulting from the disclosure of questionable payments, has created uncertainty as to the realization of certain potential sales to that country. During the course of Japanese government investigations, several government and business officials have been indicted in connection with circumstances surrounding the purchase of Lockheed aircraft.

In one marketing circumstance, Lockheed reported that the disclosure may have adversely affected the market potential of a P-3 Orion antisubmarine warfare aircraft program. Over a 10-year period the program would provide some $300 million in sales revenues generated from a production and licensing arrangement. The disclosure has also contributed to a delay in the consummation of three firm orders for the L-1011 TriStar aircraft, which requires the approval of the Japanese government. Even if the orders, valued at about $78 million, are ultimately canceled, Lockheed does not anticipate a negative impact on cash flow significant enough to adversely affect its ability to repay the Government-guaranteed loans.

It appears that the public disclosure may not have caused an unfavorable impact on potential Lockheed sales to other foreign countries. In one geographic area, for instance, where questionable payments were known or suspected to have been made, the company has already consummated a significant part of its projected sales.

Revised management policy

Shortly after disclosure of the commission payments, Lockheed took action to institute more effective controls over the selection and approval of international marketing consultants and related payment procedures. The policy, established in October 1975, prescribed the following restrictions:

1. No consultant shall be an official or employee of the government or an active member of the

armed forces of the country in which services are to be rendered, unless such dual activity is permissible in the country involved and is approved in writing by the head of the government agency or senior officer of the armed services.

2. No consultant shall be an officer, director, employee, or "affiliate" of any customer unless such dual activity is permissible in the country involved and is approved in writing by the chief executive officer of such customer.

3. Payments shall only be made by check or bank transfer to the order of the consultants.

4. No consultant shall make payments to third parties in connection with performance under the agreement if such payments would (1) not constitute a deduction by Lockheed for U.S. tax purposes, (2) be in violation of applicable U.S. and customer country law, or (3) be for political purposes.

5. Consultants shall comply with applicable laws of the United States and the customer country.

6. Written consultant certifications are required in connection with 4 and 5 above.

We found that Lockheed's policy and procedures contain controls that provide a reasonable assurance that the company itself will not make payments to foreign governmental, military, or customer officials for their influence in securing sales. However, there are some external factors in the foreign market beyond Lockheed's control and the company's actions alone may not necessarily preclude the possibility of money ultimately flowing to such officials.

The first consideration is the amount of money paid to consultants for their services in securing sales for companies they represent. The amounts paid are not controlled or determined by Lockheed alone, but rather by prevailing rates in a foreign country and in an industry. It seems that the probability of consultants offering payments to unauthorized third parties in influential positions and such third parties accepting the offers increases as the amount of money involved increases.

A second consideration is the accepted business customs and practices in the foreign countries. In the past, it was the practice in some countries to make payments to officials of the government, military, or customers for their influence in securing sales.

Thirdly, while Lockheed consultants contractually agree not to make payments to unauthorized third parties and certify that they are not doing so, it should be recognized that Lockheed has no means of its own to determine what a consultant ultimately does with money received from the company.

It is possible that a greater degree of assurance on the ultimate disposition of moneys paid to consultants would result from country-to-country agreements on ethical business practices and vigorous enforcement by participating countries. Such agreements probably would require political and diplomatic involvement and accordingly would be beyond the purview of Lockheed or any other corporation doing business in foreign countries.

We found that Lockheed's policy implementation was generally adequate except for the procedure of reviewing certain individuals' or firms' qualifications to serve in a consultant capacity. Lockheed established a committee to review consultant qualifications; however, certain consultants under agreements predating the policy were not reviewed.

Lockheed's policy does not specifically require a retroactive review and approval of those consultants serving under pre-existing agreements. In our opinion, however, it seems reasonable that the committee would have undertaken a comprehensive evaluation to determine if these consultants meet the new policy restrictions. Lockheed stated that appropriate reviews had been made by their International Marketing organization. Our review, however, did not disclose adequate documentary evidence to that effect. The company agreed to have the committee review these consultants' qualifications.

Other matters

Lockheed reported that as of June 30, 1975, it had outstanding commitments to international consultants for sales commissions totaling about $48 million. The company advised that $4.7 million of this amount represented a contingent liability to an official of a government-owned company. The customer official requested payment of the sales commission but Lockheed has refused because of restrictions in the company's current management policy. Lockheed's general counsel indicated that the consultant has initiated foreign legal proceedings to recover the unpaid commissions. In spite of the legal action taken, there has been no apparent sales impact in the region involved.

The Emergency Loan Guarantee Board reviewed the possible aftermath of Lockheed's disclosure of foreign commission payments in conjunction with the company's December 1975 financial forecast. Based on its analysis, the Board believed that Lockheed could survive the effects of disclosure. It reported that should a negative cash flow impact cause a small portion of the guaranteed borrowings to remain outstanding by yearend 1978, and if Lockheed's financial forecast is otherwise met, it is likely that the lending banks would extend the maturity of the loans without the benefit of a Government guarantee.

We were advised by the company's internal auditors that periodic reviews of commission payments are planned. Lockheed's external auditors made a selective review of 1975 payments. The audit groups have coordinated their efforts in reviewing the 1976 implementation of the company's management policy, but have not yet formulated complete plans for such examinations subsequent to 1976.

CHAPTER 5

FINANCIAL OUTLOOK

Lockheed's financial restructuring program has improved the company's equity position by the conversion of $50 million of nonguaranteed bank loans to preferred stock. (See p. 5.) Lockheed's reported net worth at the end of December 1974 was down to a low of only $26.5 million after the $448 million retroactive writeoff of research and development costs for the L-1011 TriStar program under a Financial Accounting Standards Board pronouncement. Since then, the implementation of the financial restructuring plan and operating profits have improved the company's equity position on its financial statements. Thus, the unaudited corporate equity at yearend 1976 totaled $166.7 million.

Close examination of the composition of the company's net worth, however, reveals that at yearend 1976 there remains as an asset $453.3 million of L-1011 TriStar deferred charges, described as initial planning and tooling costs and unrecovered production startup costs. However, recovery of these costs is subject to uncertainties and therefore, they are being amortized at a rate of $50 million annually, starting in the fourth quarter of 1975.

After amortizing $12.5 million of deferred charges, the company's reported net earnings for 1975 were $45.3 million on sales of about $3.4 billion. This was almost double the prior year's profits of $23.2 million on sales of about $3.3 billion. The more favorable 1975 profit picture resulted principally from a substantial decrease in interest expense on long-term borrowings (see p. 5) and significant increases in profits on two military aircraft programs.

The unaudited 1976 earnings totaled $38.7 million on sales of $3.2 billion. The decline in 1976 earnings from the 1975 figures was due mainly to (1) increased provision for Federal income taxes and (2) increased L-1011 program losses over those of the prior year. The 1976 L-1011 losses were anticipated in budgetary projections and resulted from lower sales activity and the amortization of the deferred charges.

Lockheed's largest customer has been the U.S. Government, with annual sales averaging 64 percent of total sales during the 4-year period 1973-1976. As long as these revenues are sustained at or near that pace, this income will represent a major contribution to the company's working capital needs. Lockheed's cash flow has been significantly dependent on Government military purchases. In spite of the company's good loan repayment record in 1976, there still remains a need for Lockheed to conserve its available cash to the greatest possible extent. Lockheed must now meet sizable loan and interest obligations in addition to the sinking fund payments required for preferred stock redemption under the terms of the financial restructuring program. (See p. 5.)

TriStar production and sales perspective

As of December 31, 1976, firm orders for the L-1011 TriStar aircraft totaled 162. Of these, 138 have been delivered and the remaining 24 were forecast for delivery through 1980. TriStar customers have also made commitments for 46 optional second-buys, 41 of which are projected to be delivered through 1985.

In February 1975, the company projected 300 TriStar deliveries through 1984. In subsequent forecasts, the delivery schedule for the projected program quantity extended into the late 1980s. For the years 1977 through 1980, the company does not project delivery of more than an average of 12 TriStars annually. An average of 15 deliveries per year is required to achieve the program goal.

To maintain the viability of the L-1011 program, the company has maintained a manufacturing capability and has retained a minimum of engineering and production personnel in excess of the needs of the current production level. About $38 million of such standby costs were incurred in 1976. These expenditures are treated as expenses in the period incurred rather than being capitalized as inventory costs.

The financial outlook for the airline industry's replacement of aging aircraft fleets remains uncertain. Another contingent problem concerns the potential impact of recent investigations into Lockheed's questionable commission payments on its foreign sales. (See p. 7.) About 45 percent of the L-1011 backlog at December 31, 1976, related to foreign airlines.

Lockheed received an initial order for the L-1011-500 (Dash 500) long-range version of the TriStar from British Airways in August 1976. This order (six firm and six options) replaced earlier customer commitments for nine L-1011's with lesser range capabilities. The first Dash 500 aircraft delivery is scheduled for 1979.

The Emergency Loan Guarantee Board and the lending institutions comprising the "majority banks" agreed to permit production of the Dash 500 version under certain conditions, including the following:

--Lockheed had to obtain a firm order for at least six Dash 500 aircraft through conversion of existing orders for L-1011's of lesser range.

--The company had to have an option agreement with the same purchaser for the sale of at least six additional Dash 500 aircraft.

--The company had to receive outside financing for any additional nonrecurring development costs to assure that the Dash 500 program would not affect repayment of the guaranteed loans.

Although the terms of the sale to British Airways fall within Board restrictions, the sales contract provides that the customer may not be obligated to exercise its option commitments. Under the sales agreement, the customer may cancel its six optional second-buys to the extent that Dash 500 sales to other customers are later consummated.

In October 1976, Lockheed announced that three new L-1011's would be sold to Lufttransport Unternehmen (LTU), a charter tour airline based in West Germany. The LTU purchase represents a replacement order for the three L-1011's originally ordered and later refused by Pacific Southwest Airlines. Delivery to LTU was scheduled to begin in March 1977. The agreement, however, provides for Lockheed to accept two used L-1011's owned and operated by LTU. As a result, the yearend backlog for L-1011's was not greatly improved since the beginning of 1976.

One of the two L-1011's to be traded in by LTU was acquired from Lockheed; the other was originally purchased by Eastern Airlines, then sold by Eastern to LTU. There have been other instances of sales competition from Lockheed's customers. In 1975, Eastern Airlines sold two L-1011's to Cathay Pacific. Also, Trans World Airlines sold two of its aircraft to Saudi Arabian Airlines before the aircraft were put into domestic service.

Overall, the L-1011 production program obviously hinges on the company's ability to obtain new orders. If Lockheed's program goal is not achieved, the resulting loss could have a serious effect on the company's reported financial position. Lockheed is currently writing off $50 million annually over a 10-year period to amortize the initial planning and tooling costs and unrecovered production startup costs of the program, now classified as deferred charges. As of December 31, 1976, deferred charges of $453.3 million remain to be amortized. If the L-1011 program is prematurely terminated during the amortization period, the remaining portion of the deferred charges will have to be offset against corporate equity.

We have reviewed Lockheed's accounting treatment for its L-1011 TriStar program costs and we believe that they are in compliance with the rules and pronouncements of SEC as well as those of the American Institute of Certified Public Accountants.

Financial forecast

In Lockheed's July 1976 financial forecast, Government military and space programs represented about two-thirds of the projected sales for the 3-year period through 1978, when the loan guarantee program expires. However, projections of future Government business are subject to congressional authorization of proposed procurements.

Our current inquiries at the Department of Defense have revealed that at least two Government programs included in the company's July 1976 near-term forecast have been either canceled or awarded to other firms. However, the company does not forecast a negative cash flow impact through 1978 occasioned by the elimination of these programs because anticipated revenues would have been offset by startup expenditures. Even though these programs were deleted, Government sales are still projected at about 65 percent of total sales during the 3-year period 1976-1978.

In July 1976, the company executed a contract with the Canadian government for the purchase of 18 CP-140 aircraft with a total program value of about $700 million. The CP-140 is a derivative of Lockheed's P-3 Orion antisubmarine warfare aircraft. The cash flow generated by this sale through 1978, during the initial stages of contract implementation, is estimated by Lockheed as minimal, with little or no effect on its ability to liquidate the guaranteed loans.

Other than the repayment of bank borrowings and interest forecast for the 2-year near-term through 1978, the largest drain on Lockheed's cash reserves is projected for L-1011 Tri-Star operations in which net outlays of about $228 million are projected for the period. (See p. 13 for discussion of TriStar sales perspectives.) Sufficient revenues are expected to be realized from non-L-1011 operations to provide enough cash to liquidate the guaranteed loans by the final maturity date in 1978, if the loans have not already been terminated as prescribed in Lockheed's most current forecast. This will materialize only if the premises in the company's forecast relating to inward cash flow materialize.

OFFICIALS OF EMERGENCY LOAN GUARANTEE BOARD RESPONSIBLE FOR ADMINISTERING ACTIVITIES DISCUSSED IN THIS REPORT

	Tenure of Office	
	From	To
SECRETARY OF THE TREASURY AND CHAIRMAN OF THE BOARD:		
W. Michael Blumenthal	Jan. 1977	Present
William E. Simon	May 1974	Jan. 1977
George P. Shultz	June 1972	May 1974
John B. Connally	Aug. 1971	June 1972
CHAIRMAN OF THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM:		
Arthur F. Burns	Aug. 1971	Present
CHAIRMAN OF THE SECURITIES AND EXCHANGE COMMISSION:		
Harold M. Williams	Apr. 1977	Present
Roderick M. Hills (note a)	Oct. 1975	Apr. 1977
Ray Garrett, Jr.	Aug. 1973	Oct. 1975
G. Bradford Cook	Mar. 1973	May 1973
William J. Casey	Aug. 1971	Feb. 1973

a/Mr. Hills refrained from active Board participation to avoid any possible conflict-of-interest situations because of the SEC investigation of Lockheed's foreign marketing practices.