

**The original documents are located in Box C35, folder “Presidential Handwriting, 2/20/1976” of the Presidential Handwriting File at the Gerald R. Ford Presidential Library.**

### **Copyright Notice**

The copyright law of the United States (Title 17, United States Code) governs the making of photocopies or other reproductions of copyrighted material. Gerald Ford donated to the United States of America his copyrights in all of his unpublished writings in National Archives collections. Works prepared by U.S. Government employees as part of their official duties are in the public domain. The copyrights to materials written by other individuals or organizations are presumed to remain with them. If you think any of the information displayed in the PDF is subject to a valid copyright claim, please contact the Gerald R. Ford Presidential Library.

---

keep here  
for now ?

Jim -

Did you see this before it went in?

Trudy

**THE PRESIDENT HAS SEEN....**

**THE WHITE HOUSE**

**WASHINGTON**

February 20, 1976

MEMORANDUM FOR JAMES E. CONNOR

FROM: ROGER B. PORTER *RBP*

SUBJECT: Current Assessment of Lockheed's  
Financial Situation

A memorandum, prepared at my request, from the Treasury on Lockheed's financial situation is attached. It is based on the company's projections which the Emergency Loan Guarantee Board received last week and does not include an assessment of the impact on future orders of the recent disclosures of improper payments. I will keep you advised of any further developments or assessments made by the Board



THE GENERAL COUNSEL OF THE TREASURY  
WASHINGTON, D.C. 20220

FEB 20 1976

MEMORANDUM TO: Mr. Roger Porter  
Executive Secretary,  
Economic Policy Board

FROM: Richard R. Albrecht *RRA*

SUBJ: Current Assessment of Lockheed's  
Financial Situation

Scope

The following assessment is based on the review by the staff of the Emergency Loan Guarantee Board (ELGB) of Lockheed's preliminary 1975 operating results and the Company's December 1975 financial forecast. Since the Company's projections were given to the staff just last week, we have not had an opportunity to do anything more than a preliminary analysis. Also, Lockheed's projections do not include an assessment of the impact on future orders of the recent disclosures of improper payments and no attempt has been made by the ELGB staff to assess this problem.

1975 Operating Results

Last year Lockheed's non-L-1011 business exceeded projections and produced an operating profit of \$262 million, which was a \$56 million improvement over forecast. On the other hand, the L-1011 program recorded an operating loss of \$83.6 million, a \$42 million greater loss than forecasted. Consolidated net income of about \$47 million will be reported for 1975. Backlog at yearend totaled \$4.2 billion and was composed of 48.7% for U. S. military programs, 10.3% for foreign government sales, and 41% for commercial programs, nearly all of which is related to the L-1011 program. During 1975, Lockheed's L-1011 commercial aircraft program experienced a significant setback resulting from the weakness in the airlines, which caused the Company to reduce its manufacturing rate to nine aircraft per year. A total of seventeen L-1011's was delivered, five less than forecasted, which resulted in a cash short-fall of approximately \$50 million and was the principal reason the guaranteed loans were not reduced last year as projected.

FOR OFFICIAL LIMITED USE ONLY

12/75 Financial Forecast

Lockheed's new forecast reflects substantial business from the DoD over the next three years. Major programs include the Trident and Poseidon Missile, space programs, C-130 cargo aircraft, and the P-3C and S-3A anti-submarine patrol aircraft. Since 1971, Lockheed has been able to meet or exceed its projections on military business, which in 1975 accounted for approximately 60% of revenues. Sales to the U. S. Government in 1976, 1977, and 1978 are projected to constitute 68%, 61%, and 59%, respectively, of total revenues.

Foreign government sales, primarily C-130 aircraft, aerospace-related service contracts, and anti-submarine patrol aircraft accounted for approximately 10% of total revenues in 1974 and 1975. These sales in 1976 through 1978 should become more important, particularly with the recently announced decision by the Canadian Government to purchase P-3 aircraft and certain anticipated service contracts in the Middle East. Foreign government sales are projected to generate 13%, 22% and 22% of total revenues in 1976, 1977, and 1978, respectively. Unless and until the uncertainties caused by the recent disclosures of Lockheed's improper payments abate, the impact on this portion of the Company's business is not assessable.

The L-1011 program projections reflect a slower delivery schedule with seventeen, twelve, and eleven aircraft being delivered in 1976, 1977, and 1978, respectively. During this period, Lockheed must sell eleven aircraft. However, in order to maintain the forecast production rate, only six orders are required in that five aircraft are in inventory. The L-1011 portion of the forecast appears reasonable since L-1011 manufacturing costs, with a minimum production rate of between six and eight aircraft per year, are now predictable. If the economic health of the airline industry improves, the ELGB staff is of the opinion that Lockheed's L-1011 market forecast premises are attainable.

The new forecast projects Lockheed will repay \$75 million of guaranteed loans in each year 1976 and 1977 and will repay the balance of \$45 million in the first half of 1978.

Based on the above, the ELGB staff believes the corporate forecast is reasonable. This, however, is dependent upon: (1) Lockheed's ability to obtain additional L-1011 orders to maintain a continuing production line and (2) Lockheed's ability to maintain its base of business in the wake of recent public disclosure of details of the Company's improper payments abroad, which I must reemphasize is impossible to assess at this time.

It should be noted that the data referred to herein has not been publicly released by Lockheed and, consequently, should be treated as private data.

Attached for your information is a copy of Secretary Simon's prepared statement on the Emergency Loan Guarantee Program before the Senate Banking Committee on February 19, 1976.

Attachment

STATEMENT OF THE HONORABLE WILLIAM E. SIMON  
SECRETARY OF THE TREASURY  
BEFORE THE SENATE BANKING COMMITTEE  
FEBRUARY 19, 1976, 2:00 P.M. EST

Mr. Chairman and Members of the Committee:

I am here today in my capacity as Chairman of the Emergency Loan Guarantee Board to address certain issues you have raised about outstanding guaranteed loans to the Lockheed Aircraft Corporation. Your primary concern is the ability of Lockheed to repay guaranteed notes in an orderly fashion. That, of course, is also the primary concern of the ELGB. Mr. Chairman, you have stated that the board should require a phase-out of the loan program by mandating steady reductions in the amount of outstanding loans. For the reasons I will explain, the Board feels that such an approach is not only impractical but inconsistent with the intent of the original 1971 loan guarantee legislation.

The goal of that legislation was to assist Lockheed through a liquidity crisis. The proponents of the program persuaded Congress that passage of the legislation would avert the impact of a Lockheed failure upon the economy while not posing a grave risk to the Federal purse. In recognition of Lockheed's longer-term borrowing requirements and the expected fluctuation in its cash needs, the Emergency Loan Guarantee Board was given great discretion and flexibility in administering the program. The program was designed to restore Lockheed to a position that would afford it access to normal private credit markets. The desirability of granting the ELGB wide-ranging authority is evident from the developments that have occurred since 1971. To cite an important example--because of a sharp drop-off in their business, the failure of certain airline customers to make final payment for and take delivery of Tri-star aircraft last year prevented Lockheed from paying off as originally planned a large segment of its outstanding guaranteed loan obligation. This is the sort of development that could not have been anticipated at the outset.

Your suggestion of a rigid repayment schedule is more consistent with the approach taken by Congress in dealing with the New York City fiscal crisis. In the case of New York City, while Federal assistance was similarly intended to bridge the gap until access to private capital markets could be regained, different factors were present which motivated Congress to insist upon less flexible repayment terms. New York City had been living beyond its means for some time and had a fundamental and growing budget gap between revenues and expenditures. In order to restore market confidence in the City, a strict financial plan was developed by the City and the State calling for the achievement of a balanced budget over three years. The only Federal assistance required was to cover seasonal financing needs during the three-year adjustment period. The legislation that Congress passed and the credit agreement that we entered into with New York City were tailored to meet that seasonal need. Thus, there is a requirement in the law that specific sources of repayment be identified at the time each loan is made as well as a requirement that all loans be repaid in the fiscal year in which they are extended. New York City indicated that this type of seasonal financing arrangement would enable it to return to the capital markets by 1978, and Congress and the Administration agreed.

In contrast, the purpose of the Lockheed program was to restore the financial health and viability of the company over the long term. Because of uncertainties as to such matters as the timing of product sales and cash receipts inventory needs and general business trends in the aerospace industry, it was felt inadvisable to require Lockheed to adhere to a rigid repayment schedule when the ELGB program was set up in 1971. For the same reasons, a rigid repayment requirement at this time could well impair Lockheed's ability to regain its financial health.

I think it appropriate that I say a few words about the activities that have recently been reported in the press. I will then focus on the repayment question.

I am sure you will agree that my remarks before this committee last August left no doubt in anyone's mind about my views, and the views of the Loan Guarantee Board, on the issue of bribes and other improper payments. I condemned in the strongest possible terms all improper payments made by Lockheed. The ELGB does not condone bribery in any way, shape or form. The fact that a firm's competitors may



engage in such practices does not make the practices, in any way, less odious.

I am a strong advocate of the American system of free enterprise and of a competitive economy. When a business seeks to obtain orders or make sales through bribes and kickbacks, it not only undermines competition in the marketplace, it seriously erodes the reputation of the American business community. This cannot be tolerated.

Since last summer, Lockheed has worked, at our behest, and under our supervision, to put an end to all improper practices. Lockheed's Board has adopted a set of rigid controls over payments and over the hiring of consultants and commissioned agents to assure that no improper payments occur in the future. The ELGB is closely monitoring the implementation of that policy by Lockheed. With respect to improper payments previously made, the ELGB's principal concern has been to assess the effect of the disclosure of such payments on future and existing foreign orders for Lockheed products. The primary factor bearing upon this is, of course, the extent to which Lockheed will be required to disclose publicly the names of all countries in which payments were made and the identities of those who received payments. The ELGB has concluded that this kind of detail is not necessary for it to perform its function of evaluating Lockheed's ability to repay its guaranteed borrowings.

The Emergency Loan Guarantee Board has taken a number of important and decisive steps since learning that Lockheed had been making improper foreign payments. We requested from Lockheed information about the payments in order to assess their impact on the guarantee program. The ELGB insisted that Lockheed cease all improper payments immediately, and Lockheed agreed to do so. The Company also instituted certain procedures to prevent its officers or agents from again becoming involved in improper marketing activities. The ELGB reviewed those policy measures and required certain modifications. As Lockheed develops further procedures to implement its new policies, the ELGB will continue to review the adequacy of such safeguards.

Lockheed's Board has established a flat prohibition against the payment of any commissions directly or indirectly to foreign government officials or to political organizations. Any officer or employee found circumventing this rule will be dismissed. Lockheed's Board has also ordered that no corporate funds are to be maintained outside of normal channels to prevent the setting up of secret "slush" funds.

Lockheed has agreed to certify each month to the Emergency Loan Guarantee Board that both these requirements are being properly followed. In addition, Lockheed has set up a committee of outside directors to investigate the Company's prior activities. Finally, I should note that at a board of directors' meeting last Friday, important changes were made in Lockheed's top management. I might add parenthetically that I have been acquainted with Bob Haack for some time, and I personally am pleased by his being named Chairman of Lockheed at this time. This management change can be a significant first step in rebuilding public confidence in the Company.

On its part, the ELGB is presently considering amending its agreements with Lockheed and the lending banks. The new amendments would cause the making of further improper payments to be an event of default. The Amendments would also set up a formal monitoring system to assure, to the extent possible, that no wrongful payments are made in the future.

The ELGB also contemplates that it will require a special accounting from the committee of outside directors recently set up by Lockheed's Board to investigate the Company's improper activities. The Directors' committee will use independent resources to investigate and fully account for all past improper transactions. The ELGB will evaluate the nature and scope of that investigation and require a special report about its findings. We will require a further accounting if one is warranted:

Finally, with respect to the issue of disclosure, I think it is important to note that Lockheed has turned over all subpoenaed documents relating to foreign payments and bribery to the Securities and Exchange Commission. This has been done under a court order which requires that that information not be made available by the SEC to anyone outside the agency pending action by the court.

Mr. Chairman, in your letter of February 13, you requested that I provide a number of documents. These have been provided to your staff. You also asked that I furnish you with the Board's assessment of the impact of a Lockheed collapse on the economy. The Board itself has not made such an assessment. However, last fall as part of the staff's consideration of the Board's options in connection with the

improper-payments problem, the staff sought an analysis along these lines from the Treasury Department's research staff. Since several months have elapsed and major changes in the economy have occurred in the interim, I have instructed my staff to obtain a new analysis. I will be pleased to furnish you this new analysis on its completion.

The Emergency Loan Guarantee Board staff has just returned from Lockheed's headquarters in California, so we have timely reports on issues of concern to this committee. Meetings were held with Lockheed management as part of our regular monitoring function through which the Company's financial projections are reviewed and evaluated. While at Lockheed, the staff also sought to assess the possible impact of recent newspaper stories about foreign payments made by Lockheed on the Company's future. We are continuing to obtain information that will enable us to evaluate how sales of particular product lines to foreign countries might be influenced by disclosure of improper payments. While we will monitor further public disclosures of improper payments, the ELGB does not consider detailed information about individual transactions necessary to carry out its mission.

Mr. Chairman, in your letter to me of February 12, you urge that the ELGB take immediate steps to require a phase-out of the guaranteed loan. You urge this to prevent a "Hobson's choice" in 1978 -- extending the guarantee further or bankrupting Lockheed. In point of fact, the course you propose would quite likely only force us to settle sooner on one alternative of that dilemma -- bankrupting Lockheed. In considering your suggestion, we should keep in mind the original objective of the statutory program -- the rehabilitation of Lockheed to avoid the economic impact of a major corporate failure.

The United States has only been experiencing economic recovery since April 1975. Over the last two years, Lockheed, which is so dependent on a healthy commercial airline industry, was particularly hard hit by the recession. In spite of this, the Company was able to show small operating net profits. As the airline industry benefits from improved economic circumstances, Lockheed's prospects should be greatly enhanced. However, the Company's overall situation is uncertain because of the impact that disclosure of improper payments could have on existing and future orders for Lockheed products.

Mr. Chairman, I do not believe that the approach you propose is appropriate. In view of present conditions and uncertainties, requiring Lockheed to adhere to a strict repayment schedule would be the equivalent of attempting to squeeze "blood out of a turnip". We cannot predict with certainty that repayment money will be available to Lockheed in specific future periods of time. Lockheed's ability to

ultimately generate sufficient cash to repay the guarantee notes can be achieved only if the Company is successful in maintaining its business base. Any imposition of restrictions such as you propose would create additional risks to Lockheed's ability to operate in its present form. This in turn could discourage existing and new customers from placing orders with Lockheed, thus, further decreasing the probability of an orderly termination of the guarantee program. The key here is that Lockheed must regain the confidence of all sectors of the public including the government, customers, suppliers, and other company creditors. Based on Lockheed's financial projections, we believe that there is a reasonable prospect that the company will be able to return to the private capital markets by the time that the guarantee period expires.

I recognize that we do not know what impact on Lockheed's operations will occur as a result of the foreign-payments disclosures that have been made. We do not yet know whether order cancellations might result from detailed disclosures about improper payments. The Board and its staff will continue to monitor these events closely. There are many uncertainties. The improper-payments question has placed some clouds on the horizon. These clouds, by no means however, necessarily spell the demise of Lockheed.

Mr. Chairman, in your letter of February 12 calling for a rigid phase-out of the guaranteed loan program, you made reference to the fact that the repayment schedule has been modified several times. You cite the GAO report on the guarantee program in making this observation. I think there may be a basic misunderstanding here. We are not really dealing with a repayment schedule. The arrangement that was set up for Lockheed through the guarantee legislation was not intended to operate like a consumer loan for a new car. It is not a loan that is to be paid off in installments. While there is an expectation that over time Lockheed will be able to scale down the amount of its guaranteed borrowings, this is not a strict formal requirement.

I think what the GAO may have been focusing upon was Lockheed's December 1974 forecast for debt repayment, which also was described in the Loan Guarantee Board's most recent annual report covering the period August 1974 through July 1975. The report indicates that in its December 1974 forecast, Lockheed projected reducing borrowings under the loan Guarantee program by about forty million dollars during 1975. As it turned out, last year Lockheed was unable to reduce its borrowings under the program below the \$195 million level that pertained at the year's outset, largely because of postponement by airline customers of earlier agreed-to delivery dates. The airlines were hard hit, first by increased fuel costs, and then by traffic declines caused by the recession.

The important distinction that must be recognized here is that we are dealing with a corporation's financial projection and not with a repayment plan in the sense of a formal loan repayment schedule. All corporations make projections about their financial position over future periods of time. Such is necessary for sound corporate planning. It is true that as part of its evaluation of the loan guarantee program, the Guarantee Board and its staff look closely at Lockheed's financial projections. The projections are used to assess both policy with regard to continuation of the loan guarantee and the possible modification of its conditions. However, the financial projections cannot be regarded in any sense as a requirement that Lockheed reduce the amount of its outstanding loans at the projected rate.

Lockheed's inability to meet its financial forecast during 1975 was caused mainly by factors external to the firm. In fact, Lockheed's business in certain areas exceeded forecast expectations. Lockheed's cash problems since 1974 have been closely related to the financial problems of the airline industry. Airlines have defaulted on purchase orders and have deferred delivery of some aircraft, with a serious impact on the Company's anticipated cash flow. All of this is without any practical recourse being available to the company, since its commercial airframe business is closely tied to the fate and fortune of its airline customers. Some of these situations are now clearing up and if deliveries can be made as now anticipated, Lockheed's cash-flow situation will benefit. The point I want to make is that Lockheed's inability to repay forty million dollars last year, as it had originally hoped, was largely caused by external factors not evident to Lockheed when it made its projections in December 1974.

It is Lockheed's practice to do a completely new forecast annually. The Company's latest forecast, which still has not been finalized, was made available to the ELGB for the first time last week. I must point out that the effects of the recent disclosure of Lockheed's improper payments are not and cannot be taken into account in that forecast, and the ELGB does not believe they are fully assessable unless and until the current uncertainties are resolved.

This new forecast indicates that guaranteed borrowings will trend downward as was expected by Lockheed and the ELGB during 1975. In fact, the forecast now projects repayment by the end of 1977 of \$150 million of the \$195 million of guaranteed debt with the remaining \$45 million to be repaid in 1978. Based on a preliminary assessment, the ELGB is of the opinion that the forecast is reasonable, although I must reemphasize that it does not take into account the potential impact of disclosures of the details of past foreign payments. The forecast does, however, provide some cushion which could be applied against contingencies. If Lockheed is in fact able to reduce the guaranteed borrowings substantially over the next two years as it has forecasted, it seems reasonable to me to anticipate that Lockheed will have access to private capital sources by the time that the Government Guarantee program ends.

Another factor that I think merits your consideration is the Government's collateral. Our most recent analysis shows that the value of the underlying collateral for the Government's loan continues to cover adequately the Government's potential exposure in this program. This opinion was concurred in by the Comptroller General in his January 1976 report.

Thus, we are looking at a situation where the amount of guaranteed loans outstanding has dropped from a high of \$245 million to \$195 million, has been steady recently, and should begin to decline in the near future, while the value of the Government's collateral fully covers the Government's potential exposure. In view of this, it would be unwise to shift to the rigid repayment schedule you are suggesting, possibly causing a default by Lockheed and bringing about the very bankruptcy dislocations that the whole program was set up to avoid.