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REPORT TO THE CONGRESS



Implementation Of Emergency Loan Guarantee Act

B-169300

Lockheed Aircraft Corporation
Emergency Loan Guarantee Board

*BY THE COMPTROLLER GENERAL
OF THE UNITED STATES*

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AUG. 13, 1973



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 second report on the implementation of the
Emergency Loan Guarantee Act administered by the Emergency
Loan Guarantee Board. 1477

We made this review pursuant to the Emergency Loan
Guarantee Act, 1971 (15 U.S.C. 1841, supp. I, 1971); the
Budget and Accounting Act, 1921 (31 U.S.C. 53); and the Ac-
counting and Auditing Act of 1950 (31 U.S.C. 67).

The Emergency Loan Guarantee Act created the Emergency
Loan Guarantee Board and authorized it to provide a Govern-
ment guarantee for the repayment of loans up to \$250 million
to major business enterprises that meet certain conditions.
The Board found that the Lockheed Aircraft Corporation, Bur-
bank, California, the only borrower under the act, qualified
for the Government guarantee, and, as of June 30, 1973,
Lockheed had borrowed \$150 million under the Government guar-
antee. c 221

The emergency loan guarantee fund, used by the Board to
pay expenses and to fulfill its obligations under the act,
totaled \$4,520,187 as of April 30, 1973. Of this amount,
\$4,157,078 was invested in Treasury bills. The fund was ac-
cumulated from guarantee fees, commitment fees, and interest
on Treasury bills. Expenses incurred against the fund through
April 1973 totaled \$235,158.

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

We relied on the examinations performed by Lockheed's
independent external auditors, particularly as those examina-
tions related to verifying assets pledged to protect Govern-
ment interests. Corporate assets pledged as security for the
guaranteed loan are the outstanding shares of stock of five
wholly owned subsidiaries and certain machinery and equipment
located in Los Angeles County, California.

The book value of the assets pledged as collateral for the loan totaled \$247 million at the end of December 1972. Available 1973 tax bills covering real and personal properties with a book value of \$111.6 million listed the assets as having a total market value of \$274.4 million.

On the basis of current book valuations and certain known market values of the pledged assets, the Government's interests appear to us to be adequately protected. Barring unforeseen circumstances, Lockheed should generate enough cash during the next few years to repay the Government-guaranteed loan. We also believe that, if Government business continues at current levels and if Lockheed's expectations for its L-1011 commercial aircraft (TriStar) program are fulfilled, prospects for the corporation's financial stability are promising.

REPAYMENT OF LOANS UNDER THE GOVERNMENT GUARANTEE

Lockheed indicated in its most recent financial forecast (February 1973) that it would need a maximum of \$210 million of the \$250 million in guaranteed loans authorized by the statute. Although not specifically stated in its forecast, Lockheed considered \$30 million of its projected needs as a cash reserve for unforeseen contingencies.

In August 1971 when the Congress was considering the Emergency Loan Guarantee Act, Lockheed estimated that its borrowings would peak at \$150 million. Higher costs for the TriStar program than were originally anticipated and changes in Department of Defense policy resulting in slower progress payments have necessitated additional working capital. Lockheed, however, still expects repayments to start in the fourth quarter of calendar year 1973 and the Government-guaranteed loan to be fully repaid by the end of 1975.

We estimate that Lockheed, on a companywide basis, could generate a minimum of \$280 million in cash through calendar year 1975. We based our estimate on latest corporate projections for all of its ongoing programs and we considered sales of only 122 TriStars for which Lockheed has firm orders. Current market indications, however, suggest that Lockheed's customers will exercise most, if not all, of the 77 second-buy options.

LOCKHEED'S FINANCIAL STABILITY

About 74 percent of Lockheed's sales of almost \$2.5 billion during 1972 represented Government business, mostly for

the Department of Defense. Lockheed's principal objective in reentering the commercial aviation field with the L-1011 TriStar airliner in 1968 was to lessen its dependence on defense orders which have generated most of its sales revenues. The company's most recent sales forecast in February 1973 anticipated that Government sales would represent about 59 percent of all of its income sources through the end of 1975--when its guaranteed borrowings are scheduled to be fully repaid.

Despite the importance of revenue-producing Government business, the TriStar program continues to be crucial to the company's financial stability mainly because of Lockheed's tremendous investment in TriStar development and production. At December 31, 1972, TriStar inventories represented about 70 percent of the corporation's current assets of \$1.4 billion consisting of precertification development and planning costs; related parts, components, and tooling costs; and partially completed L-1011 aircraft. Therefore, the company has a critical need for working capital to carry on its widespread activities and, at the same time, meet its interest payments on long-term borrowings of about \$761 million at December 31, 1972.

L-1011 program expenditures and current projected costs are substantially higher than were originally anticipated. The company stated that costs significantly increased following a production stretchout after the 1971 disruption resulting from the Rolls-Royce financial failure. The increased costs were manifested principally in higher labor hours because of out-of-position work and higher rates of material usage than had been originally estimated. Furthermore, prior cost forecasts were based on a projected learning rate which did not materialize.

Lockheed is intensively restructuring production processes to reduce costs and improve its delivery schedule. The company has also designated new top management personnel to monitor the progress of the TriStar program. Current aircraft production hours show a favorable downward trend, and production costs parallel the company's most recent forecast. The ultimate financial outcome of the TriStar program will depend on the company's ability to achieve sales, cost, and performance goals. Decisions to develop and market longer range L-1011 models will also be important in the program's overall success.

A total of 17 TriStars were delivered to customers during 1972, and Lockheed expects to complete and deliver an additional 39 during 1973. As of June 30, 1973, Lockheed had

completed and delivered 34 TriStars, 1 behind schedule. On July 4, 1973, the company delivered two additional TriStars and is confident that all aircraft deliveries for 1973 will be completed on schedule.

Lockheed's reported net earnings for calendar years 1971 and 1972 were \$15.4 million and \$16.2 million on sales of \$2.8 billion and \$2.5 billion, respectively. Present indications are that Lockheed will, for some years to come, have to exercise considerable vigilance to control its economic health mainly because of its burdensome debt. But, if Government business continues at current levels and if the TriStar program is fulfilled and expanded, the prospects for the corporation's financial stability are favorable.

MARKET FORECASTS FOR
WIDE-BODIED JET AIRCRAFT

Authentic forecasts have generally projected that revenue-producing air passenger miles should increase at an annual rate of about 10 percent for several years and that the future commercial market should be dominated by wide-bodied aircraft. Lockheed's own forecast, for the most part conforming with independent forecasts, indicates that about 1,280 wide-bodied trijets will be required worldwide through 1980, including approximately 750 of the basic models, the L-1011-1 and the DC-10-10.

As of June 1973, firm orders and optional second buys for the Lockheed L-1011-1 and the McDonnell-Douglas DC-10 series, the only wide-bodied trijets currently available, were as follows.

	<u>Domestic</u>			<u>Foreign</u>		
	<u>Orders</u>	<u>Op- tions</u>	<u>Total</u>	<u>Orders</u>	<u>Op- tions</u>	<u>Total</u>
Basic:						
L-1011-1	93	41	134	29	36	65
DC-10-10	<u>98</u>	<u>-</u>	<u>98</u>	<u>5</u>	<u>-</u>	<u>5</u>
	<u>191</u>	<u>41</u>	<u>232</u>	<u>34</u>	<u>36</u>	<u>70</u>
Long range:						
DC-10-20, -30, -30CF, -40	<u>32</u>	<u>10</u>	<u>42</u>	<u>63</u>	<u>26</u>	<u>89</u>
Total	<u>223</u>	<u>51</u>	<u>274</u>	<u>97</u>	<u>62</u>	<u>159</u>

Using industrial predictions as a gauge, it appears that a considerable sales potential remains for wide-bodied trijets. Lockheed is considering two proposed extended-range versions of the TriStar (L-1011-2 and L-1011-2LR) which would make transoceanic flights. The general characteristics of the basic TriStar and the proposed versions follow.

	<u>L-1011-1</u>	<u>L-1011-2</u>	<u>L-1011-2LR</u>
Gross takeoff weight (pounds)	430,000	516,000	516,000
Maximum payload (pounds)	85,500	87,200	87,160
Passenger capacity	273	^a 256	216
Range (miles)	3,900	5,300	6,200
Engine type	RB 211-22	RB 211-524	RB 211-524
Maximum takeoff thrust (pounds)	42,000	48,000	48,000

^a273 if below-deck galley is used.

Rolls-Royce, the manufacturer of the L-1011 propulsion system, has already begun development of the RB 211-524 engine after receiving approval from the British Government.

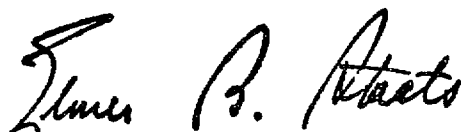
Several airlines are now seriously studying the proposed extended-range versions of the TriStar. Lockheed's plans for proceeding with the program depend on securing the necessary airline orders and financing.

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Barring a major mishap in the L-1011 program and assuming that Lockheed substantially realizes the projections in its latest forecast, the guaranteed loan will most likely be fully repaid by the end of 1975. We believe that the Lockheed assets pledged as security are adequate to protect the Government's interests.

On the basis of the records made available to us, we believe that the Emergency Loan Guarantee Board has complied with the provisions of the Emergency Loan Guarantee Act.

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



Comptroller General
of the United States

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