

although very costly initially, have less salvage value than the cost of removal and just cannot be feasibly identified as to usage hours, part members, quantity and further, these are not production operations and therefore have no operation numbers. The same is true at Buffalo with the further addition of the die room. We further question the application of normal use criteria to the one of a kind machine tool needed in the production of a sole source item; nor can management just arbitrarily subcontract union operations in today's labor relations environment in order to divest itself of a given machine tool. The procedure requested for utilization surveys, therefore, must recognize these special situations which, under the proposals, are not being recognized. Further, the definition of usage is limited to the time spent in the actual cutting of chips. Set-up, repair and maintenance and other downtime essentials have been excluded from the definition of "usage hours".

Let us turn to the problem of rent and the inequity to the contractor. Because of the peculiar application of the rental formula, the rent costs to Curtiss-Wright increases whenever:

1. We acquire modern government furnished equipment for exclusive use on rent free (government) sales.
2. We acquire company owned equipment exclusively for commercial production.
3. We expand commercial sales volumes without added equipment.
4. Government sales decline with no change in commercial volume.

As now structured, the rent formulae charges rent on the basis of the percentage of hours used on commercial sales to total hours used instead of to the total hours available which includes the maintenance of the capability. As you know, the sales volume has declined drastically (at Wood-Ridge from \$356 million in 1953 to \$101 million in 1956). As a result, the decline in hours used for military purposes increases the rent to the commercial sales base. In addition, Curtiss-Wright has appropriated \$25 million of its own funds for new equipment in 1967, which will further increase the already excessive rent costs.

As you will observe, we are extremely aware of property administration and have conscientiously sought ways and means of minimizing costs relating to a declining product line.

With this background, which unfortunately was not part of the GAO report, we will now comment on those items pertaining to Curtiss-Wright specifically:

1. Pages 13-26 of 133 items retained. The nature of our forward capability and the compressor rotor blade line cited above should explain our position relative to retention of equipment.
2. Page 29. On inclusion of engineering labor hours in rent free base. As previously stated, Curtiss-Wright, Wood-Ridge, in accordance with negotiations with the ACO, uses the total labor content of total cost of sales and this is segregated as between contracts with the rent free clause and all others. The percentage of rent free labor to total labor is the basis for the credit.
3. Page 50. Inventory of Government-owned tooling. It is not the practice of business generally to inventory tooling nor was there any requirement to do so for government tooling under those contracts. This tooling produces only those parts for which designed and are worthless for any other purpose, and by virtue of the fact that we continue to produce these parts, we must therefore have tools. Tooling, especially after 15 years, is subject to wear, tear, scrap, breakage, and modification; furthermore Curtiss-Wright has expended the initial cost and more than the total present value for the replacement of this tooling as required during this period.
4. Pages 56 and 57. Accounting and control of Government furnished material. When called to our attention in the fall of 1966, the company took immediate steps to correct this deficiency which involved Overhaul contracts amounting to less than 3% of our total volume. We recognize the need for improved physical controls and have responded accordingly. The contractor does not agree with the proposal to institute financial accounting for these items as it does not result in control, the real control being the physical accountability of material.
5. Page 64. Withholding of property administration system approval. At that time the disapproval of the entire property system of the contractor resulted from the deficiencies in the Overhaul area discussed above. As stated above, the contractor took immediate steps to correct the deficiencies without the need to have ASPR provide additional incentives to do so. Further, the contractor prefers an environment whereby a specific area disapproval would be possible rather than a total property disapproval.