

Menasco has a large number of a wide variety of Government-owned and Menasco-owned machine tools which we use in the manufacture of landing gear. Because of the changing character and changing requirements of our product programs, our facility requirements are subject to constant change. It is our policy to dispose of equipment which does not have continuing economic utility whether it be Government-owned or Menasco-owned. Our failure to declare these two machines as surplus was a Menasco administrative error. All of our product contracts are fixed price. Because of excess costs associated with space utilization and maintenance of equipment, it is in our own interest promptly to dispose of equipment no longer in use.

Page 41 of the report recites in part:

"One contractor informed us that its policy was to invest in IPE one half of its after-tax earnings, plus the amount of depreciation for the period. The remaining IPE needed would then be requested from modernization funds and the DIPEC inventory. The stated policy appears to be in consonance with present DOD objectives in the modernization program." [Italic ours]

Menasco appreciates this favorable comment. You may be interested in learning that long before the recent announcement of our new \$7 million modernization and expansion program, Menasco had adopted the policy of applying *all* of its after-tax earnings and depreciation recovery to finance its modernization and expansion.

Page 43 recites in part:

"The ASPR, section 7-702.12, provides that, for rental computations, the cost of facilities shall include the cost of transportation and installation. We found that these costs had in some cases been applied as a percentage factor to the acquisition cost of IPE being rented by contractors. One contractor added a factor of 3.5 percent, another contractor added a factor of 1 percent." [Italic ours]

Menasco has been applying a factor of 1 percent to inbound freight for the purpose of developing a base for rental computation. The actual cost of installation of equipment if it is borne by the Government is added to the cost of the equipment for purposes of rental computation. If Menasco assumes the cost of installation, the cost is written off against current profits. A recent study by us makes it evident that the application of 1% develops an aggregate amount which is almost identical to that which would have been determined by a tabulation of the actual inbound freight bills. Finally, the question is actually academic with respect to our Texas Division—which was the subject of your inquiry—because through our fiscal 1967 ended June 30, 99% of our Texas effort was on Government contracts.

I am attaching for your further information, a copy of a talk which I recently made at Wright-Patterson Air Force Base in which from our point of view I attempted to place in focus Government-owned equipment and its utilization in the context of the economics of the landing gear industry. I hope that you will find this helpful in your further study of this question.

Sincerely,

GERALD J. LYNCH.

BEECH AIRCRAFT CORP.,
Wichita, Kans., December 18, 1967.

Mr. C. M. BAILEY,
Director, Defense Division,
U.S. General Accounting Office,
Washington, D.C.

DEAR MR. BAILEY: Your letter, referenced B-140389, addressed to Mrs. O. A. Beech has been referred to this office for reply.

In accordance with your request, we have the following comments relative to the items identified by marginal notation in your report to the Congress on Government Owned Property in Contractors Plants.

Page 14—first paragraph

Our records indicate the equipment in question is used extensively on government programs. Beech Aircraft Corporation operations include a variety of government contracts all of which do not have a long period of effort. Use of the equipment fluctuates with contractual requirements.

As a reimbursement to the Government for use on commercial programs, Beech Aircraft Corporation has paid rent in accordance with an accepted formula. In