

Low Utilization of IPE—(Pages 14 & 15) : Please refer to Mr. G. Y. Meyer's letter of December 9, 1966 (copy attached) addressed to Mr. Leon Ruderman relative to Justification of Retention of Equipment.

Prior Approval Not Obtained, etc.—(Pages 17, 18 & 19) : We are still uncertain as to the meaning of the 25% criteria referred to in this Section and are presently working with DOD personnel in an attempt to comply with this requirement.

Improper Use of Government-Owned IPE—(Pages 19 & 20) : When we originally entered into the agreement with the Navy to use the Cold Forming facilities in the development and production of commercial items, there were no known military requirements. We realized that if we did not continue to advance in this relatively new method of extrusion we would not long be able to remain in this field. It would only have been a matter of time until the manufacturing and engineering "know-how" which we had developed up to that time would be lost.

When the Navy had a requirement for the 2.75" general purpose rocket heads in 1965, we were in a position to deliver at the indicated rate of production required, namely 15,000 to 52,000 heads per month. The difficulty in meeting delivery schedules was not due to our lack of capacity, but rather to the unrealistic scheduling at the beginning of the contract. While we ordered steel immediately upon being awarded the contract, and the steel was delivered at the earliest possible time, September 27, 1965 to be exact, the September requirement of 15,000 pieces was an impossible task. As a result of this, we were not able to fully meet the schedule during the early months of the contract.

At about the same time, we were advised that the Navy anticipated a requirement of a minimum of 100,000 of these rockets per month. It was at this time that we indicated that a certain few pieces of equipment (New Britain Gridleys and an Annealing Furnace) would have to be replaced in order to guarantee such high production schedules. Our records showed that from the beginning of the production at our plant, back in 1952, we had produced approximately five (5) million rocket heads which were manufactured using these machine tools and furnace. This high production was the principal reason that these machines had to be replaced, plus the fact that the annealing furnace, by its very nature, is a self-destructive unit. It should be mentioned here that the installation of the replacement furnace necessitated the expenditure of \$25,000 by Kelsey-Hayes for brick and mortar to house this unit.

As noted in your report, we did continue commercial production at the same time that we produced the new rocket head requirements in 1965 and 1966, but we maintain that at no time did this production interfere with our delivery commitments of military items.

Another important consideration relating to this contract is that it would have been necessary, had there been no military requirements, for this facility to be placed on "stand-by" and maintained in a ready to use condition. We estimate that such maintenance costs during the nine year period would have been in excess of \$2,000,000, which the Government would have had to pay to keep this facility on "stand-by". We would like to point out that during this period, not only was the Government relieved of this heavy maintenance charge, but the Heintz Division also paid rental in excess of \$500,000 for the use of these facilities on commercial work.

Current Lease Terms Permit Inequities—(Pages 27 & 28) : Consideration in the amount of \$5,000 was agreed upon in payment of rental of support type equipment on which rental had not been paid. Copies of correspondence relating to this settlement are enclosed. A Procedure has been established with DCASR and DCAA for the payment of rental on this class of equipment for periods subsequent to the GAO review.

With reference to the paragraph relating to our Navy facility and the 2% rental clause contained therein, we submit that we have calculated and paid rental in accordance with the terms of our contract, ASPR notwithstanding.

General—(Pages 52, 53 & 54) : The marginal notes on these pages made reference to special tooling used in the production of commercial components. During the review we referred the GAO representatives to either our customers or their respective Contracting Officers regarding control of and authorization to use any special tooling located in our plant.

We trust that the foregoing information, together with the attached correspondence, will enable you to document our position when you report back