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INVESTIGATION OF SHIPYARD PROFITS

HEARINGS

BEFORE THE

COMMITTEE ON THE MERCHANT MARINE AND FISHERIES HOUSE OF REPRESENTATIVES

SEVENTY-NINTH CONGRESS

SECOND SESSION

PURSUANT TO THE AUTHORITY OF

H. Res. 38

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SEPTEMBER 23, 24, 25, AND 26, 1946

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INVESTIGATION OF SHIPYARD PROFITS

MONDAY, SEPTEMBER 23, 1946

HOUSE OF REPRESENTATIVES,
COMMITTEE ON THE MERCHANT MARINE AND FISHERIES,
SUBCOMMITTEE TO STUDY SHIPYARD PROFITS,
Washington, D. C.

The subcommittee met at 10 a. m., Hon. Schuyler Otis Bland (chairman of the committee) presiding.

Present: Representatives Bland (chairman), Bradley, Weichel, Herter, and McConnell.

Also present: Marvin J. Coles, general counsel for the committee; Nathaniel C. W. Gennett, Jr., associate counsel; Frederick N. Jones, assistant counsel; Reginald S. Losee, chief investigator.

The CHAIRMAN. The subcommittee will meet. I have asked as many of the members of the subcommittee as possible to meet with me purely as a subcommittee for the purpose of taking testimony on such matters as counsel for the investigation committee desires to bring before the subcommittee. We have no authority to pass on anything. It simply means getting the information before the committee, as has been done many times. I have appointed subcommittees before that went out to take testimony. I did not know who would be here. I called in all who were able to come, and they will operate as a subcommittee for the purpose of taking testimony.

The subcommittee now meets.

Mr. Counsel for the committee, do you have any statement to make? I wish, before you begin, to say that we are concerned only with the profits of the shipbuilding companies. Extraneous matters are not permissible.

Mr. COLES. During the recent war, great numbers of merchant ships were needed and needed quickly. Existing shipyards were not sufficient for the task and companies and men with shipbuilding experience were not available in sufficient numbers to do the job. To obtain the needed merchant ships the Government was forced to turn to newly formed companies, most with little capital and with little background or experience in shipbuilding.

The production job done by these shipyards was excellent. Thousands of ships were built faster than had previously been though possible. But while the shipbuilding program was effective, it was also costly. Previous committee hearings have shown, and the Maritime Commission has recently admitted, that in parts of the program there was waste, extravagance, and high cost.

One factor in these costs, which so far has received little public attention, is the profits and fees paid by the Government to the various shipbuilding organizations. Early in 1944 this committee held hear-

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ings on the subject of profits and fees paid to operators of shipyards. No report was then issued as, I am informed, the committee was told the issuance of such a report might have hindered the continued optimum operation of the construction program.

The CHAIRMAN. I thought a report was made.

Mr. COLES. No, sir; no report was issued.

Today the facts involved can be revealed without any possible impediment to the war effort.

I feel sure that all of us here strongly believe in the profits system. It is the basis of our American economy. All of us further believe, I am sure, that even in dealings where the Government is the sole customer, and even during wartime, our Nation's industry is entitled to a reasonable profit for its efforts and risks. At the same time, unreasonable wartime profits and war profiteering must be condemned.

During the next few days, this commitee will receive evidence as to the profits and fees which were made by the various companies operating Government-owned shipyards. The determination which the committee must make is whether the amounts they received as fees and profits were reasonable and proper, or unreasonable and unconscionable. There is no accurate formula or rule to measure this, nor any precise dividing line as to what constitutes reasonableness or what constitutes profiteering in the unpleasant sense of that word. But I believe that sufficient information can be brought before this committee for it to have sound grounds upon which it can determine whether the amounts paid to these companies were proper compensation for their work or excessive and unconscionable profiteering made at the expense of the taxpayer.

The shipbuilding program was so huge that it can be dealt with and understood only by taking it in small bites. In this series of hearings, therefore, the committee staff will confine itself to the presentation of data concerning shipyards which were wholly owned by the Government and the fees and profits which these yards made. A study of the profits of other shipyards will be made as soon as time will permit.

The shipyards which will be referred to during the present hearings were built solely with Government funds and were fully owned by the Government. In most cases, I believe it will be found that the operator of the shipyard had no money of his own invested in the physical plant. The procedure used was for the Maritime Commission to make two contracts with the newly formed company. The first, usually referred to as the facilites contract, provided that the company would build a yard at the expense of the Government. The second contract would provide that the contractor would construct ships in that yard.

A word seems necessary at this time about these shipbuilding contracts. Most of these ship construction contracts were on a basis known as cost-plus-a-fixed-fee. Under these contracts, the contractor was reimbursed for all costs, including labor, material, management, salaries, interest, overhead, and other factors going to make up the total cost of the vessels built. In addition, he received a fee varying in amount between a specified maximum and minimum, with the actual fee paid determined by the time required to build the ship and the number of man-hours used. You will note that, under this type of contract, all costs and expenses were reimbursed and there was no

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possibility of loss to the operator. The question then arises as to what the fees were paid for. I am informed, and it will be brought out later, that under the other forms of contract used, usually referred to as price-minus, selective price, and fixed price, the risk was likewise small.

At this time, I should like to introduce into the record as exhibit 1 certain documents furnished by Admiral Smith, of the Maritime Commission, in response to our request and to furnish each member with a copy of this exhibit.

I believe I have given a copy of that exhibit to you. It is a letter from Admiral Smith dated July 13, 1946.

Mr. BRADLEY. We will have an opportunity to question Admiral Smith on this letter, I suppose?

The CHAIRMAN. Yes.

(Document so described was received and marked "Exhibit No. 1.")

Mr. COLES. You will note from this exhibit that the Government spent $424,250,694 for the construction of shipyards which were operated by the 19 companies listed therein. I might add, parenthetically, that figures furnished the committee by Admiral Smith indicate that little if anyhing will be realized from their sale as surplus. Turning to the next column, you will see that these 19 companies had total combined net worth of their own of only $22,975,275. It should be noted, however, that this money of the operators was the capital which they had available and was not actual investment in the shipyard itself. Now, turning to the last column, you will see that these 19 shipyards received total fees and profits from the Government of $356,006,612. This committee's basic problem is to determine whether or not, under all of the circumstances involved, these profits and fees were reasonable or whether they constituted unreasonable profits and profiteering.

Two caveats should be noted about these profit figures. First, is that some of the profits which are included in the last column are before renegotiation. If you will look at the last page of this exhibit, however, and as will be more fully brought out through introduction of the financial records furnished by the various companies involved, the renegotiation process recovered but a comparatively small percentage of the fees and profits paid. The second matter to note is that parts of these fees were subject to recovery through taxes. As will be brought out later, however, certain companies making large profits from shipbuilding operations paid practically no taxes.

You will note that there are asterisks next to the names of six shipyards. These shipyards were owned and operated by what we can call the Henry J. Kaiser group. The sum total of the fees and profits received by these Kaiser group yards amounts to $192,237,284. Your attention is also invited to one of the smaller yards known as the St. Johns River Shipbuilding Co., where the figures furnished us by the Commission show that they had a total invested capital of $600, that their profits and fees were $2,080,000, giving a total return on their capital investment of almost 350,000 percent.

If the committee approves, I should like to call as our first witness a representative of the General Accounting Office, Mr. Casey, to testify concerning the general background of these contracts. Subsequent to his testimony, we can call upon representatives of each of the com-

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panies that operated government-owned shipyards to supply information as to the financial structure and profits of their organizations and to explain their views concerning them. We can also call upon representatives of the Maritime Commission for their views.

The CHAIRMAN. The Chair wishes to announce that Mr. Herter, a member of the committee from Massachusetts, will be here later. His train is late, and that is the reason that he is not present now.

Mr. Casey, have you been sworn?

Mr. CASEY. No, sir.

The CHAIRMAN. Do you solemnly swear that the evidence you will give will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. CASEY. I do.

TESTIMONY OF RALPH E. CASEY, REPRESENTATIVE OF THE GENERAL ACCOUNTING OFFICE

Mr. COLES. Mr. Casey, will you tell us, for the purpose of the record, your full name?

Mr. CASEY. Ralph E. Casey.

Mr. COLES. Whom do you represent?

Mr. CASEY. The General Accounting Office.

Mr. COLES. And are the views which you are going to express today the official views of the Comptroller General and the General Accounting Office?

Mr. CASEY. The Comptroller General has read this prepared statement and says he agrees a hundred percent with it.

Mr. COLES. Will you read that statement, Mr. Casey?

Mr. CASEY. Mr. Chairman and members of the committee, you will recall that about 2 months ago, the Comptroller General of the United States appeared before the Special Senate Committee Investigating the National Defense Program to express his views on the general subject of wartime procurement by the Government. You will recall further that in his statement before that committee he pointed out some of the weaknesses and deficiencies in our system of procurement during the war period—weaknesses and deficiencies which could only result in excessive and extravagant expenditures of public funds and the realizing of unreasonable and excessive profits by those contracting with the Government. He described briefly the inherent viciousness of the cost-plus form of contract; the practically limitless power and authority conferred upon the procurement agencies by the First War Powers Act; and finally, the helplessness of the General Accounting Office under existing law to question any renegotiation or termination settlement no matter how favorable to the contractor the terms of such settlement might be. The thought which the Comptroller General left with that committee was that it could render invaluable service to the nation by calling attention to the need for restoring some of the safeguards, checks and controls which experience has dictated are absolutely essential to the protection of the taxpayers against excessive and illegal expenditures of public funds.

Recently, there has come to the attention of the General Accounting Office, a letter from the Chairman of the Maritime Commission, to the chairman of this committee, enclosing a copy of a tabulation

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entitled "Fees of Shipyard Operators in Relation to Their Capital Investment Under Ship Construction Contracts With the United States Maritime Commission."

Mr. BRADLEY. Is that the same statement that was referred to by counsel?

Mr. CASEY. That is exhibit 1, sir.

We have had occasion to examine this statement to some extent, and on the basis of that examination, it is our view that the statistics reflected thereon, considered in the light of facts and circumstances of which the General Accounting Office has been cognizant throughout the war, represent to a marked degree precisely what the Comptroller General had in mind in the statement referred to above.

In a sense, the figures contained on this tabulation speak for themselves. That is to say, it shows that one company, the St. Johns River Shipbuilding Corp., with an original investment of but $600, realized profits estimated at $2,080,000 or 346,666 percent of their capital investment. Also, it indicates that companies owned or controlled by Henry J. Kaiser and his associates, namely, California Shipbuilding Corp., Kaiser Co., Inc., Kaiser Cargo, Inc., Oregon Shipbuilding Corp., Permanente Metals Corp., and Walsh-Kaiser, Inc., had a total capital investment of $2,510,000 and made profits estimated at $192,237,284, in other words, these companies with but one-ninth of the total private capital invested, realized more than half the total profits. It would seem that when profits from Government contracts paid from public funds soar to such astronomical heights in proportion to invested capital, someone—either Government representative or contractor—should come forward with a satisfactory explanation.

It is our understanding that the purpose of the present investigation and hearings is to enable the committee to decide whether the profits realized by these shipbuilding companies are reasonable in amount. And it is solely in the interest of aiding the committee in reaching its conclusion, that representatives of the General Accounting Office appear here today pursuant to your invitation. To that end, it will be our primary purpose to lay before this committee facts, contracting methods and operating procedures which, in our opinion, have a material bearing on the issue to be decided.

In the first place, information of record in the General Accounting Office would indicate that the figures contained on this tabulation with respect to the capital investment of each shipyard operator are misleading. It is believed, in some instances at least, that a substantial part of what is denoted as capital investment represents profits and fees paid from public funds.

For example, the California Shipbuilding Corp. was incorporated under date of January 6, 1941, and the entire original cash investment in the corporation, represented by 1,000 shares of capital stock at a par value of $100 per share, consisted of $50,000, invested by the Todd Shipyards Corp., and $50,000, invested by 10 companies affilitaed with Henry J. Kaiser. About a year later, on February 19, 1942, a meeting was called for the purpose of declaring dividends out of the surplus of the corporation. The minutes of this meeting read:

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After a full discussion, upon motion, duly made, seconded, and carried, it was unanimously resolved, that a dividend in the amount of $1,000 per share, be and the same hereby is declared on all issued stock of this corporation payable on February 19, 1942, to stockholders of record as of the clase of business on February 18, 1942.

This dividend was payable in cash or in stock at the option of the stockholder at a value of $100 per share.

Thereupon, a series of transactions took place which had the effect of: (1) The cancellation of and reissuance to the remaining stockholders of the 500 shares originally held by Todd Shipyards Corp.; (2) the declaration of a $500,000 stock dividend and a $500,000 cash dividend; (3) cancellation and reissuance of about one-third of the 625 shares received by the Henry J. Kaiser Co., as a stock dividend; (4) cancellation and reissuance of about one-third of the 625 shares received by the Kaiser Co. as a stock dividend; and (5) cancellation and reissuance of about one-half of the 455 shares received by the General Construction Co. as a dividend.

This information, which was contained in a report made by investigators of the General Accounting Office, would indicate that the figure of $600,000 shown in this tabulation as invested capital of the shipyard operator consists of but $100,000 of private capital, the remaining $500,000 consisting of profits from Maritime Commission contracts.

Now, turning once again to the general aspects of the matter of profits, I should like to describe briefly the nature and characteristics of the forms of contracts employed by the Maritime Commission in the building of ships.

In the first place, the Government furnished the contractors listed on this tabulation with a fully equipped shipyard. This was accomplished under a so-called facilities contract. The Maritime Commission agreed to purchase, lease, or otherwise acquire the land on which the contractor was to build a shipyard according to approved plans and specifications. The contract provided that the complete cost of building the yard would be paid to the contractor by the Commission with the understanding that the work would be performed without profit. Title to the facilities vested in the United States, but for the purposes of carrying out his vessel construction contracts, the contractor was given use of the facilities without the payment of rent or other fees or charges.

Then, with respect to the vessel construction contracts themselves, I should like to point out, first, the salient features of the so-called cost-plus-a-fixed-fee form of contract. Under such a contract, the contractor agrees to construct a specified number of vessels according to plans and specifications and to deliver the vessels on certain specified dates. The Commission agrees to pay, or cause to be paid, to the contractor the entire cost of performing the contract plus a fee for each vessel as provided therein. The costs are to be governed by the rules and regulations issued by the Commission entitled "Regulations Prescribing the Method of Determining Profit Adopted May 4, 1939." However, the contract itself lists the following as reimbursable costs:

(1) The net cost of all materials, equipment, and machinery purchased for the construction of the vessels.

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(2) The actual cost of all labor properly chargeable to the construction of the vessels including bonuses, overtime, and vacation pay.

(3) The salaries and wages of officers, managers, superintendents, foremen, engineers, draftsmen, supervisors, storekeepers, clerks, and laborers, and all other employees on the pay roll of the contractor who are engaged in the maintenance, construction, or protection of the vessels or in the maintenance, operation, and protection of the facilities and the premises on which they are constructed, or in clerical or administrative work in connection with any of such activities.

(4) The net cost of engineering services, plans and specifications, and reasonable legal and accounting fees specifically approved by the Commission, and charges for clerical and administrative services rendered by others (including affiliates) provided such charges are approved by the Commission.

(5) The actual cost of delivery of the vessels and of any trials and tests.

(6) Rental payments under any lease approved by the Commission under the vessels contract.

(7) Rental payments for equipment.

(8) The actual net cost of fuel, power, water, stationery, telephone, telegraph, reasonable traveling and transportation expense of employees, freight, express, trucking, unloading and handling costs, permits, licenses, royalties for the use of patents when authorized by the Commission or required by the design of the vessel, taxes, insurance and bond expense, and the actual net cost of replacing any work or vessels destroyed or damaged and not covered by insurance.

(9) Actual interest paid or accrued for payment (subject to certain limitations) on loans incurred solely for the performance of the contract work.

(10) The actual net cost of supplies, tools, and equipment purchased and used in the construction of the vessels.

(11) General administrative and operating expenses of the contractor incurred in performance of the contract not otherwise provided for.

(12) The actual net cost to the contractor of carrying on a training program, reasonable in extent, for the training of employees for the shipbuilding project.

(13) State, city, and county taxes against the land and improvements upon which the vessels are to be constructed.

(14) All proper cancellation costs and charges where cancellations or terminations are directed and approved by the Commission.

(15) All costs of remedying defective work or replacing materials.

Article 8 covers the amount of the fee payable for each vessel. It provides for a base fee subject to adjustment depending upon the date of actual delivery, as compared to the agreed delivery date, and the actual number of man-hours of direct and indirect labor expended in the completion of the vessels, as compared to the estimated number of man-hours specified in the contract. However, the article fixes both a maximum and a minimum fee.

It has been said that under this form of contract the fee constitutes compensation for the know-how of the contractor. But when you consider that the Government pays the salaries of the contractor's officers to a maximum of $25,000 a year, pays all engineering and architectural fees, as well as every other wage or salary for skilled or un-

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skilled labor, and that in many cases the contractors had no previous shipbuilding experience whatever, it looks as though the only know-how covered by the fee was knowing how to secure a contract from the Maritime Commission.

Next, there is what is known as a price-minus form of contract. The contract provides for a fixed contract price subject to adjustment for increases or decreases in labor costs and also subject to adjustment depending upon the final cost of performing the contract. That is to say, if upon completion and delivery of the vessels it develops that the amounts paid in costs and fees are less than the stipulated contract price, the Commission agrees to pay the contractor 50 percent of the difference. If, however, the contractor's costs exceed the stipulated contract price, the full amount of such costs are nevertheless reimbursed to the contractor.

The theory of this form of contract is to provide an incentive to the contractor to keep his costs to a minimum so that he may benefit by the additional payment of one-half the excess of the stipulated contract price over his costs plus fees. Of course, the extent to which economy and efficiency are needed to enable the contractor to earn this additional amount depends primarily upon the amount fixed by representatives of the Maritime Commission as the stipulated contract price; and, of course, it is obvious that in no event can the contractor lose money since his costs are reimbursed to the penny, no matter by how much they exceed the stipulated price.

Incidentally, this form of contract is understood to have been originated by the Bethlehem Steel Corp. during World War I and a reading of the Supreme Court opinion in the case of *U. S.* v. *Bethlehem Steel Corp.* (315 U. S. 289) will show that that company certainly used the price-minus contract to good advantage, making 22 percent profit under the "half savings" clause.

Finally, I should ilke to discuss briefly the principal characteristics of the so-called selective-price contract. Under this contract the Commission furnishes to the contractor the principal items of machinery, material, and equipment and certain subcontract work, it being provided that there will be deducted from amounts otherwise payable under the contract, a fixed sum as the agreed costs of the materials, etc., furnished.

Article 7 provides that, as compensation for the contract work, the contractor will be paid a fixed price subject to adjustments, additions, and deductions thereafter provided for. Article 10 is the key provision of this type of contract. Under this article the contractor is required to repay to the Commission all profit in excess of the amount of retainable profit determined in accordance with the terms of the contract. It provides that the Commission will determine the profit on the basis of there being involved a fixed price, rather than a reimbursable cost contract, so that the contractor is allowed all his costs even though unreasonable and excessive, unless there is evidence of reckless or willful misconduct or that the contractor had a pecuniary interest in the particular transaction. The article further provides that prior to the laying of the keel of a vessel, the contractor may decrease or increase the price paid for that vessel according to a table set forth in the contract. This table contains a certain scale of prices with a corresponding scale of maximum vessel profit, in inverse proportion to the vessel prices.

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In other words, the theory of this form of contract is that by permitting the contractor, prior to the laying of a keel of a particular vessel, to select his own price for that vessel, it affords him an incentive to keep his costs at a minimum and to select the lowest price possible so that he may retain a greater profit.

Many, if not most, of these selective-price contracts have been exempted from renegotiation by the Commission and its Chairman under authority conferred by the Renegotiation Act on the basis that profits can be determined with reasonable certainty when the contract price is fixed.

As I have previously stated, under this form of contract the Maritime Commission furnished practically all the heavy material and equipment and deducted a specified sum from the contract price to cover the material furnished. I believe, in most cases, this specified sum was about $1,000,000 as compared to a contract price of something over $2,000,000. In other words, about 40 percent of the gross vessel price represented Government-furnished material. So that by fixing the fees and retainable profit on the basis of the gross contract price, the result was that the Government paid a percentage of profit on the value of its own materials. The committee may wish to consider whether this was a proper method of computing fees and profits.

The foregoing types of contracts are those principally employed by the Maritime Commission in the construction of vessels. Of course, it is impossible for a contractor to lose money under either a cost-plus or a price-minus contract. Theoretically, I suppose a contractor could lose money under a selective-price contract if he chose too low a figure; but our examination of individual cases indicates that invariably the contractor was too cautious in his price selection for the first vessels constructed under his contract and that he successively chose lower prices for the vessels with correspondingly larger profits.

Under our economic system profit is generally associated with risk. In fact, bringing this proposition closer to home, the Renegotiation Act provides that in determining the reasonableness of a contractor's profit, two of the factors to be considered are: (1) The amount and source of public and private capital employed and net worth and (2) the extent of risk assumed. So it becomes pertinent to ask with respect to the profits made by these shipbuilding companies: First, what was the amount and source of public and private capital employed; second, what risk did the contractors assume; and third, what weight was accorded these factors by the Price Adjustment Board in renegotiation?

In considering the reasonableness of profits, it would seem that a distinction should be recognized between two types of cases. If a contractor obligates himself to build a vessel for a fixed price in his own shipyard, and takes the risk that he can perform for that price and still make a profit, he should, of course, be entitled to retain a reasonable percentage of the price paid for the vessel. But where a contractor assumes no obligation and no risk with respect to the cost of a vessel—as in the case of a cost-plus or a price-minus contract—and where, in addition, he uses a Government-owned shipyard, certainly he should not be permitted to realize the same percentage of profit. In fact, in view of the Government's obligation under these forms of contract to pay every conceivable item of cost incurred by the con-

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tractor, whether prudently incurred or not, the contractor is nothing more or less than the manager of a Government shipyard for the construction of ships. He is not required to forecast the future, outguess his competitors, risk his capital, or contend with any of the other factors ordinarily standing between an enterpreneur and his profit. Under section 805 of the Merchant Marine Act of 1936 his salary as a reimbursable item of cost is limited to $25,000 a year. But since the amount received by him as salary for his managerial duties is reimbursed to him under his contract with the Maritime Commission, the payment of enormous fees in addition would seem to violate at least the spirit, if not the letter, of this law.

As bad as these forms of contract are from the standpoint of protecting the Government and the taxpayer from waste and extravagance, you would at least think that once a contract was executed it would be performed according to its terms. And yet that was the exception rather than the rule. In most of the cases I have seen the original contract was torn up somewhere along the line, and a new one of a different form executed in its place. It will be seen when the facts of individual cases are described that to ascertain the precise effect in dollars and cents of this conversion from one form of contract to another you have only the statements of those in the Commission recommending the conversion to rely on. But, bearing in mind that in each case the cntractor's consent was necessary to the conversion, and that in many cases the contractors themselves urged such action, even a child can reason that the contractor must invariably have received more money under the new contract. We, in the General Accounting Office, consider this device as a vicious means of circumventing the audit of individual cost items by our Office, as well as of extracting still more money from the public till. But whatever the purpose might be in particular cases, you can be sure that the United States got a "fast shuffle" in each deal.

In many cases there was nothing the General Accounting Office could do in such a situation in view of the broad authority under which the Commission was operating during the war period. However, the Comptroller General did hold that in his opinion there was no authority of law for converting a cost-plus-a-fixed-fee contract to a lump-sum contract after all the work had been performed and when nothing remained but payment of the amount due. Under date of April 18, 1945, he advised the Chairman of the Maritime Commission as follows [reading]:

> Accordingly, you are advised that any conversion of cost-type contracts into fixed-price contracts, upon completion of the work and before final payment has been made, will not be recognized by this office insofar as such conversions purport to limit the evidence which the contractor will be required to furnish in support of vouchers covering payment under such contracts, and that unless vouchers covering reimbursement to contractors are supported by evidence such as will enable this Office to make a satisfactory audit thereof, credit for any such payments will be withheld in the accounts of the accountable officers concerned.

I believe it would be of interest to consider certain specific cases of conversions from one form of contract to another. First, let us take a case which, while it does not involve a company on the list furnished this committee, does illustrate the practice to which I refer. On September 30, 1940, the Maritime Commission entered into a price-minus contract with Western Pipe & Steel Co. for the

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construction of a cargo vessel for the Isthmian Steamship Corp. On February 6, 1942, this contract was converted to a cost-plus-a-fixed-fee contact. This conversion was necessary because the Isthmian Steamship Corp. had relinquished its right to the vessel and it was being completed as a destroyer tender for the Navy. Obviously, a price-minus contract containing a stipulated figure for a cargo vessel would not be appropriate for a destroyer tender, and this phase of the transaction is not open to question.

However, on December 31, 1942, this contract and five other contracts—apparently all originally price-minus, later converted to cost-plus—were converted to a lump-sum contract providing for a payment of $47,954,740 for all six vessels. This price was $7,914,270 in excess of the estimated amounts payable under the six cost-plus contracts. In fact, this lump-sum contract recited on its face that the vessels covered by it already had been completed. It further recited that the lump sum agreed upon, in lieu of the compensation under the cost-plus contract, was an amount which the parties estimated would not exceed the total compensation and that the Maritime Commission had determined it to be in the best interest of national commerce and defense to modify the contract so as to provide for a lump-sum payment.

The General Accounting Office took exception to the action in this case on the ground that the record failed to disclose how it could have been determined to be in the best interest of the United States to pay out almost $8,000,000 more under the new contract. The Maritime Commission replied that the primary reason for the conversion was that the contractor did not have the documentary evidence necessary to support requests for reimbursement under the cost-plus contract by virtue of the fact that a large portion of the work had been completed while under the price-minus contract. The Commission stated, however, that the lump sum agreed upon was only $1,396,740 more than the contractor's costs and that, therefore, the conversion resulted in a saving of $1,903,000 which would have been payable in fees.

Legally, this explanation by the Commission closed the door on the General Accounting Office. We had no evidence of fraud or bad faith, and by the act of May 2, 1941, the Commission was authorized, upon it determination that such action was in the best interests of national commerce and defense because of changes in conditions occurring after the execution of its contracts theretofore or thereafter entered into for the construction of vessels, to modify such contracts in conformity with the provisions of such law and to adjust the payments accordingly. In other words, the General Accounting Office had to accept the administrative finding, as well as the figures upon which the finding was based, by reason of the broad grant of discretion contained in the provisions of law cited. But how the original estimate of cost could have been almost $10,000,000 out of the way has never been explained.

Then we have a conversion involving the Permanente Metals Corp. Originally, the company had two cost-plus contracts covering the construction of 142 vessels, 77 under contract No. 1 and 65 under contract No. 2. The Commission settled for 32 completed vessels under contract No. 1 for a lump sum. The remaining 45 vessels under con-

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tract No. 1 and the 65 vessels under contract No. 2 were transferred to a new selective-price contract, dated as of April 1, 1945. However, the records indicate that as of that date, namely, April 1, 1945, 39 of the 45 vessels transferred from contract No. 1 were complete and the remaining six 80 percent complete, and that 14 of the 64 vessels transferred from contract No. 2 were complete and the remaining 51 vessels averaged 45.4 percent of completion.

By letter of October 19, 1945, the Comptroller General directed the attention of the Chairman of the Maritime Commission to this matter and requested an explanation. He also requested a copy of the audit statement reflecting the cost of the 32 vessels for which the lump sum of $87,005,000 had been paid.

To date there has been no reply.

In the case of a similar conversion, that is, from two cost-plus contracts to one selective-price contract involving the Bethlehem-Fairfield Shipyard, Inc., the Chairman of the Maritime Commission submitted the matter to the Comptroller General for a decision as to the propriety of the action before it was taken. In decision dated July 16, 1945, after reciting the fact that all 53 vessels were already completed under one contract and that 24 keels had been laid under the second contract, the Comptroller General stated [reading]:

* * * Confining consideration to the first contract it would seem clear beyond any question of doubt—even aside from the figures stated above with respect to maximum fees and retainable profit—that for the Maritime Commission now to enter into any agreement which would have the effect of foreclosing the General Accounting Office from determining the propriety of any of the items of cost reimbursed to the contractor, in connection with the construction of these first 53 vessels and which would foreclose the Government's right to determine the reasonableness of the profit realized by the contractor (it being noted that under article 33 the proposed new contract would be exempt from renegotiation) could not be in the interest of the United States.

Furthermore, it is understood that the advantages of the selective-price form of contract are derived from (1) the incentive which the contractor has to reduce costs and (2) the risk the contractor assumed in agreeing to construct a vessel for a fixed price. However, where a vessel has been completed under a cost-plus-a-fixed-fee contract, not only is there no opportunity for the cost-reduction incentive to operate, but the only risk involved is that the contractor has correctly computed its costs before selecting the fixed price. This is true, not only with respect to contracts under which all the vessels called for have been completed, but also, to a lesser degree, with respect to contracts under which any vessels have been completed or under which any keels have been laid. In other words, the selective-price form of contract can be expected to accomplish its intended purposes only when used to cover the construction of vessels, the keels for which have not been laid.

Another feature of the selective-price form of contract also would seem open to question. When such a contract covers the construction of a number of vessels, as is understood to be the usual case, it would seem necessary that records pertaining to construction costs be kept separately for each individual vessel; otherwise the risk element can be nullified. For example, if the contractor selects a low figure for the first hulls to be built under the contract—thereby permitting a comparatively high retainable profit—and it later turns out that the cost of constructing such hulls exceeded the estimate upon which the price selection was based, the contractor still would have the opportunity—if the construction costs of all hulls covered by the contract are commingled—to offset the mistake in judgment in selecting too low a price for such first hulls, by merely selecting a price for the remaining hulls that will allow a recoupment of the excess of costs previously incurred, even though such higher price would not permit as high a retainable profit with respect to the remaining hulls.

For reasons indicated above, I am unable to agree with the view expressed in your letter that it would be in the best interests of the Government for the Commission to execute the proposed new contract. Nor do I perceive the ad-

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vantage, from the standpoint of the Government, in converting to a selective-price form of contract that part of contract No. MC c-30813 covering vessels whose keels already have been laid. On the other hand, I perceive no objection to such a conversion of that portion of contract No. MC c-30813 pertaining to vessels whose keels have not yet been laid, provided such converted contract is carried out with respect to the computation of construction cost along the lines hereinbefore indicated.

It is our understanding that the Commission subsequently decided not to disturb the first contract covering the 53 vessels and to execute a fixed-price contract for the vessels covered by the other contract.

There have been other conversions of somewhat the same type, including contracts of the Oregon Shipbuilding Corp. and the California Shipbuilding Corp., and Marineship Corp.

What is behind these conversions? Well, two factors we know. By throwing out the cost-plus or price-minus contract after it has served its purpose from the contractor's standpoint and supplanting it with a fixed-price or a selective-price contract any audit of individual items of cost by the General Accounting Office is eliminated. In other words, the cost-plus contract has but one undesirable feature for the contractor—the vouchers on which he is reimbursed his costs must stand the test of an audit by the Government accounting officers. So, that feature is remedied by canceling the cost-plus contract prior to the day of reckoning. The other factors is the exemption of the contract from renegotiation. This, of course, successfully eliminates the only other possibile check on the judgment of the Government contracting officer in fixing the amount payable under the contract. As a net result, the Government—and by that I mean the taxpaying public—is left at the mercy of a handful of individuals in transactions involving hundreds of millions of dollars. It is small wonder that the Comptroller General felt the need for strong language in his statement before the Senate committee.

Turning attention once again to the tabulation prepared by the Maritime Commission, it should be remembered that there is not reflected here the total amount of money paid out by way of profit in the shipbuilding program. Each subcontractor and each materialman who participated in the construction of a vessel took his profit, too. For example, generally the engine of a ship was built under a subcontract. A Diesel engine would cost, I believe, somewhere in the vicinity of $400,000. So, not only did the prime contractor get a profit based on the total cost of the ship including the $400,000 engine, but the subcontractor received a profit for building the engine, and each sub-subcontractor or materialman who furnished parts for the engine received a profit as well. In building the shipyards the prime contractor received no profit—at least, no profit as such—but subcontractors and materialmen, even though affiliated or associated with the prime contractor, were permitted to, and did, receive substantial profits.

Moreover, in many cases the same companies held subcontracts in connection with the construction of two or more yards. For example, Gilpin Construction Co., a wholly owned subsidiary of one of the original Kaiser-associated companies, General Construction Co., had subcontracts running into millions of dollars in connection with the construction of various Kaiser yards. In the case of the facilities at Oregon Shipbuilding Corp., Gilpin received $1,104,851 under sub-

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contracts. This was 22 percent of all work subcontracted here. And Gilpin's parent company, General Construction Co., owned 26 percent of the stock in Consolidated Builders, Inc., which, in turn, owned 100 percent of the stock in the Oregon Shipbuilding Corp.

We have another example of the prime contractor under a facilities contract receiving profits indirectly in the case of the St. Johns River Shipbuilding Co. The company was chartered on March 9, 1942, and the stock was originally issued as follows:

Class A stock: Thompson Starrett Co. (200 shares)	$200
Class B stock: James E. Merrill (director of Thompson Starrett Co.) (200 shares)	200
Class C stock:	
Henry M. Hope (90 shares)	90
Benjamin Phowley (director of Thompson Starrett Co.) (90 shares)	90
Walter H. Rogers (20 shares)	20
Total (600 shares)	600

On March 24, 1942, the charter of the company was amended to provide that, until the facilities and vessels contracts to be entered into by the corporation were completed, the directorate should consist of nine directors, five elected by class A stock and two each by class B and class C stock. This, of course, placed control of the company in Thompson-Starrett Co., owners of all class A stock.

On March 4, 1942—5 days prior to the incorporation of the company—the Maritime Commission entered into a contract with St. Johns River Shipbuilding Co. for the construction of shipyard facilities, which contract was to be performed without profit to the contractor.

However, on March 24, 1942, St. Johns entered into a subcontract with its controlling stockholder, Thompson-Starrett Co., under which the latter company undertook the contract work of constructing the facilities for a fee of $300,000, of which $100,000 was reimbursed by the Maritime Commission as an allowable cost under the facilities contract. Which only tends to show that if you had enough of these no-profit contracts you would soon be a millionaire.

Then there is the matter of brokerage fees. It has been reported by General Accounting Office representatives in the field of that Davis Sales & Engineering Co., of New Orleans, La., received a total of $39,137.18 over a 3-year period in commissions on purchases made by various shipbuilding companies from the American Machinery Corp. The record indicates that these commissions were paid for brokerage services rendered by the Davis Sales & Engineering Co. The record further indicates that an organization known as the Engineering & Expediting Service, located here in Washington, received $30,226.91, over a 2½-year period, from the same company, that is, American Machinery Corp., for similar services. The significance of these facts here is that American Machinery Corp. received over $3,000,000 in orders from numerous shipbuilding companies, including most of those on the list before the committee, from the beginning of the defense program through February 29, 1944. In other words, these commissions were paid indirectly from public funds.

While on the subject of commissions, investigators of the General Accounting Office also have reported a set of facts and circumstances

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involving San Jacinto Shipbuilders, Inc.—later taken over by McCloskey & Co.—which illustrates the different methods employed by contract brokers in obtaining fees for their services.

San Jacinto Shipbuilders, Inc., was chartered under the laws of Texas on November 19, 1941, with an original stock authorization of 200 shares at $100 per share, subscribed for by H. C. Cockburn and H. K. Johnson in equal amounts. Mr. Cockburn was elected president of the corporation. The cashbook of the corporation indicates a deposit on November 18, 1941, of $10,000 as a credit to the stock subscription account in favor of Messrs. Cockburn and Johnson in equal amounts.

Under an agreement dated November 29, 1941, Mr. Johnson acknowledge receipt of $5,000 from Mr. Cockburn. The agreement recited that Mr. Johnson had a claim to 50 percent of the authorized capital stock and that when the Maritime Commission approved and executed a contract for the construction of five concrete barges Mr. Cockburn would pay Mr. Johnson an additional $25,000 as well as assume his obligations with respect to the unpaid stock subscribed for, whereupon Mr. Johnson would transfer his stock to Mr. Cockburn.

The contract with the Maritime Commission was executed. Thereupon some $25,000 was paid to Mr. Johnson and a receipt issued by him for that amount on December 15, 1941. It is stated in the investigation report that H. K. Johnson made trips to Washington as early as September 12, 1941, for the purpose of securing a contract with the Maritime Commission as well as a loan from Defense Plant Corporation for the construction of facilities.

In conclusion, I should like to point out that theoretically the matter of eliminating excessive profits should be taken care of by the Renegotiation Act and the procedures established thereunder. By that law the Congress expressed its will that those dealing with the Government in time of war should not be permitted to realize and retain unconscionable or unreasonable profits. You will recall that originally it was the duty and responsibility of certain administrative agencies of the Government to renegotiate contracts where it appeared that excessive profits had been made. Subsequently, the law was amended to establish a War Contracts Price Adjustment Board to perform that function. While this Board constitutes a more or less independent agency, what has developed is that the Board has delegated its authority with respect to Maritime Commission contracts to a Price Adjustment Board within the Maritime Commission. So, the result is that we still have the Maritime Commission renegotiating its own contracts and, in effect, passing judgment upon the reasonableness of fees and prices which its own officials established in the first place.

It is, of course, for Congress and the appropriate committees of Congress to decide whether the procedures which have been established are adequate for the prevention or elimination of excessive profits. But, as the Comptroller General himself has stated, we in the General Accounting Office look askance at the published results of renegotiation. Consider, for example, the comparatively small perecentage of total profits recovered by way of renegotiation as reflected by exhibit B attached to the letter from the Chairman of the Maritime Commission. Also, note that it shows nothing at all recovered from St. Johns

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River Shipbuilding Co. notwithstanding the proportion of profit to capital investment realized by that company. How much weight could the Price Adjustment Board have accorded in that case to the amount and source of private capital invested and the extent of risk assumed—two factors which the law requires to be taken into consideration in determining the reasonableness of profit?

We have found it to be a fact that the Maritime Commission Adjustment Board has based its determinations concerning excessive profits upon facts and figures furnished by the contractors themselves. In the case of a renegotiation agreement with the Oregon Shipbuilding Corp. it was found that although paragraph 2 of the agreement recited that the determination of excessive profits was based on the "final audit report certified to the Board by the General Auditor of Construction of the Commission," such report was not even submitted to the General Auditor of Construction until 8 days after the date of the renegotiation agreement.

Moreover, back in July 1944, the Comptroller General addressed a letter to the Chairman of the Maritime Commission calling attention to the fact that its Price Adjustment Board was entering into renegotiation agreements solely on the basis of cost statements prepared by the contractors or by accounting firms employed by the contractors and suggested that it would seem of primary importance that the Price Adjustment Board have available to it audited cost statements prepared by auditors and accountants under the direct supervision of the Commission for renegotiation purposes. No reply to this suggestion has ever been received.

In a recent letter addressed to the chairman of the Special Senate Committee Investigating the National Defense, the War Contracts Price Adjustment Board attempted to justify this practice on the grounds that the majority of this country's contractors are honest. We consider such an explanation as naive, to say the least. The majority of the Government's disbursing officers are honest, too, so are we to let them audit their own accounts? In other words, checks and controls by the Government in connection with its operations are not necessarily predicated on the assumption that all Government contractors are dishonest. But, after all, these contractors are in business to make money, and if the Price Adjustment Board by accepting a contractor's own facts and figures with respect to profits accords him, the freedom to retain as much profit as his conscience will permit, it is fair to assume that he may be overly generous with himself.

Also, it has been found that the Price Adjustment Board frequently allows as proper items of business expense for renegotiation purposes, expenditures which clearly were not reimbursable under the terms of the contract. In the case of the Oregon Shipbuilding Corp. the Washington Construction Cost Committee of the Maritime Commission disallowed as reimbursable costs items amounting to $163,960.60, but recommended that the Price Adjustment Board of the Maritime Commission consider such items as proper in the renegotiation. Needless to say, the Board followed that recommendation.

I believe it appropriate at this point to recall to the committee the jurisdiction of the General Accounting Office under the Renegotiation Act. The law provides that an agreement made by the Price Adjustment Board with a contractor or subcontractor for the elimination of

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excessive profits shall be conclusive according to its terms and that in the absence of fraud, malfeasance, or a willful misrepresentation of a material fact, such an agreement shall not be modified by any officer, employee, or agent of the United States.

At one time, it was suggested that the General Accounting Office is charged by law with the duty and responsibility of investigating the facts and circumstances underlying the execution of all renegotiation agreements for the purpose of determining whether there exists fraud, malfeasance, or a willful misrepresentation of a material fact. Under existing law, however, no matter how unjustifiable the Comptroller General might consider a determination with respect to the amount of profit allowed a contractor or subcontractor under a particular agreement, he has no legal authority to nullify or even to question such an agreement.

One of the basic reasons for this conclusion was that the Congress could not have intended the Comptroller General or the General Accounting Office to have any investigative duties in the field of renegotiation inasmuch as it had not provided the power necessary to conduct an investigation which could be expected to produce satisfactory results. While the Renegotiation Act empowers the Price Adjustment Board to inspect and audit the books and records of contractors and subcontractors, it contains no similar grant to the General Accounting Office.

The status of the Comptroller General and of the General Accounting Office with respect to renegotiation has an important bearing on the mater now being considered by this committee. First, it explains why the General Accounting Office does not have, and could not be expected to have, under existing law, full and complete information with respect to the profits of shipbuilding companies. Second, it illustrates the absolute lack of any review or independent investigation in the field of renegotiation by an agency directly responsible to the Congress. It would seem that if the Congress desires to know whether a statute such as the Renegotiation Act is achieving the results intended, provision should be made for some independent audit or examination of settlements effected under that law.

As was stated at the outset, we in the General Accounting Office see in this picture of the shipbuilding program a complete exemplification of all the deficiencies in Government wartime procurement to which the Comptroller General referred in his statement of 2 months ago. I repeat that these men were really only managers of Government shipyards—and enviable managers at that, inasmuch as no skill or ability was required to make money when you consider the extent to which the Maritime Commission went not only to insure them against loss but to guarantee them huge profits. I dare say that at no time in the history of American business, wheher in wartime or in peacetime, have so few men made so much money with so little risk—and all at the expense of the taxpayers, not only of this generation but of generations to come.

The CHAIRMAN. The Chair thinks that the best procedure possibly for examination will be to recognize first the attorney for the investigating committee, who has given the matter considerable study and who has had interviews with these people; and at the conclusion of his examination the Chair will then recognize the majority party in

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the order in which they are represented; the Chair reserving for himself the last place on the list. The next, the minority party; and we will alternate between the majority and the minority for that cross-examination. As the Chair reserves for himself the last place on the list, if you will, take as little time as possible. As no member of the majority happens to be present at this time except the Chair, the Chair recognizes the ranking member present, Mr. Bradlay, for examination. Counsel, first.

Mr. COLES. Mr. Casey, I have several questions I have noted about your statement that I should like to bring out perhaps a little more clearly. You mentioned first, the picture as to the capital invested by the shipyard operator was not accurate in that it was actually less than appears in this chart; is that correct?

Mr. CASEY. That would seem to be indicated by some of the cases we have seen, including the example I gave of the California Shipbuilding Corp.

Mr. COLES. So that part of the figures here stated as capital investment were bookkeeping transactions set up from Government profit, is that correct?

Mr. CASEY. After some profit had been realized under the contract.

Mr. COLES. Now, does that amount indicate the actual investment of the shipyard operator in the yard itself, or is that merely his available working capital?

Mr. CASEY. I really cannot say where that capital found its employment. An examination of the provisions of the contracts leaves some doubt that the contractor needed any capital, but if some capital was required I assume it might have been for the purpose of paying costs until such time as he might be reimbursed under his first voucher presented to the Commission.

Mr. COLES. You stated also that the original contracts between the Maritime Commission and the operator, for the construction of the yard, provide basically that the contractor shall not profit from the building of the yard; is that correct?

Mr. CASEY. That is correct.

Mr. COLES. But do I understand that while the contractor himself did not profit, affiliates of the contractor did profit to a substantial extent?

Mr. CASEY. That is correct; and the contract so provides that affiliates and associates of the contractor shall be permitted reasonable fees and charges for services. That is an express provision of the contract.

Mr. COLES. Now, in the case of the St. Johns River Shipbuilding that you mentioned, where a $300,000 fee has been claimed and a $100,000 fee had been paid to the subcontractor building the yard, was that $200,000 disallowed by the Maritime Commission, although claimed by the subcontractor?

Mr. CASEY. That, I believe, is correct.

Mr. COLES. Do the ship-construction contracts provide that the management personnel of the operating company will be paid salaries, and that these salaries will be reimbursed by the Maritime Commission?

Mr. CASEY. They do.

Mr. COLES. What is the limit of such reimbursement by the Commission?

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Mr. CASEY. There is a maximum limitation of $25,000 on salaries reimbursed by the Maritime Commission.

Mr. COLES. So that the personnel of this yard, the people with the know-how and the engineering background, are provided for reimbursement under the contracts with the Commission, up to $25,000?

Mr. CASEY. That is correct.

Mr. COLES. There have been some statements made in the reports which we have received from the various shipyard operating companies concerning nonreimbursable items. Could you explain what "nonreimbursables" are?

Mr. CASEY. I would describe a nonreimbursable item of cost as an expense to which the contractor has gone, and paid money out of his own pocket, for which he is claiming reimbursement under a cost-plus contract or possibly under a price-minus or even a selective-price contract, but which either the applicable provisions of the contract or the regulations of the Maritime Commission do not provide shall be paid from public funds.

Mr. COLES. What sort of expenditures are those?

Mr. CASEY. The one that comes to mind first would be sponsor's gifts. They have refused to reimburse the contractor for these expensive gifts that were made to sponsors, stating that that was an expense that, if he wanted to pay it out, he had to take it out of his profit.

Mr. COLES. What would be some of the other nonreimbursables?

Mr. CASEY. Contractors might make contributions to various charities in the course of a year, which would not be reimbursable under the terms of the contract.

Mr. COLES. So that the nonreimbursables are basically expenses which are not properly chargeable to the Government and for which the Government is not liable?

Mr. CASEY. That is correct.

Mr. COLES. Do you have any ideas as to the extent of these nonreimbursables? Were they minute in comparison with the over-all amount of the contracts?

Mr. CASEY. Oh, I would say they were minute, and depended to a large extent on the policies of the particular companies or contractors involved.

Mr. COLES. Do I understand from your statement, the Comptroller General's letter of October 19, 1945, regarding the conversion of the Permanente Metals Co. contract has never been answered to this day?

Mr. CASEY. The records of our office do not indicate that any reply has ever been received.

Mr. COLES. And do I understand further that the letter from the Comptroller General to the Maritime Commissio, suggesting that they hire Government accountants to audit these books prior to making renegotiation settlement, has likewise not been answered?

Mr. CASEY. That is correct; but I do not know that he suggested that they hire Government accountants. I think he suggested that they use the accountants that they have, and that they base their determinations of excessive profits on audited cost statements by those accountants rather than by accountants hired by the contractor; but that is correct that no reply has been received.

Mr. COLES. You mentioned further that the conversion of contracts from cost-plus to a fixed-price or a selective-price or a price-minus

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had been done in several cases. Was this a rather common occurrence?

Mr. CASEY. Yes; I would say it was a common occurrence in the Maritime Commission.

Mr. COLES. And generally speaking have you found that the conversions resulted in greater profit to the contractor and conversely, greater cost to the taxpayer?

Mr. CASEY. As I stated, as a general proposition it is very hard to crystallize the precise effect of this conversion from a cost-plus contract to a lump-sum contract, and to state unequivocally that more money was paid out under the new contract; the prime reason for that being that the statistics and figures upon which the conversion was based were primarily under the control of those in the Maritime Commission who were recommending the conversion, and if you read their statements in which they will point out to the Chairman of the Commission why it is in the interest of the United States to convert, those statements will indicate invariably that the Government is saving money by converting from the cost-plus or price-minus to a fixed-price contract; but we still think, notwithstanding those statements, that a contractor would never consent to such a conversion, unless he were going to get at least as good, if not a better, deal under the conversion.

Mr. COLES. Under a cost-plus contract, is every item of expenditure by the contractor subject to audit by the General Accounting Office?

Mr. CASEY. That is correct.

Mr. COLES. It is subject to audit by an independent Government agency outside the Maritime Commission?

Mr. CASEY. That is correct.

Mr. COLES. Under the other forms of contract, fixed-price and selective-price, are they subject to audit?

Mr. CASEY. In a different way. The individual items of cost are not subject to audit under a fixed-price contract, and I do not believe they would be subject to audit under a selective-price form of contract. The clearest example of that would be the fixed-price contract, where, when the contract establishes a fixed price for the performance of the work and the contractor does the work and submits his voucher, his voucher will be stated in the amount fixed in the contract; and so far as the General Accounting Office is concerned, if we have the administrative certification that the work has been performed according to contract and that the contractor is being paid only the amount specified in the contract, that is the beginning and end of our audit.

Mr. COLES. In the ordinary course of an audit by the GAO of a cost-plus contract, are items found which are usually disallowed?

Mr. CASEY. Invariably that is the case.

Mr. COLES. And the contractor therefore does not receive reimbursement for those disallowed items?

Mr. CASEY. He may already have received reimbursement, but steps will be taken to recover that money back.

Mr. COLES. Under the process where no audit is permitted, through the conversion of the contract from cost-plus to another form, is there any possibility of such disallowances being made by the General Accounting Office?

Mr. CASEY. Not after it has been converted. The procedure is to provide that all payments made under the cost-plus contract will be

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considered as partial payments under the fixed-price contract, and up till that point he may have only performed two thirds of the work and been paid for two-thirds of the work, but he will be paid a lump sum and it will be considered that the payments already made will constitute two-thirds of the compensation he is to receive.

Mr. COLES. But there will be no audit of individual items, and the money could have been expended for anything?

Mr. CASEY. That is correct.

Mr. COLES. Do I understand further from your statement that the profits shown here in exhibit 1 are only the profits made by a primary contractor, but that there is a pyramiding of profits, as to an engine builder and people below him who supplied parts for that engine?

Mr. CASEY. That is correct.

Mr. COLES. So actually the Government may have paid substantially more in profits for shipbuilding than appears in this record?

Mr. CASEY. I do not believe there is any question about that.

Mr. COLES. Mr. Casey, in figuring the profits which have been made, are the Government-included materials considered as an item in figuring the contractor's percentage?

Mr. CASEY. That is my impression from reading the terms of the contract.

Mr. COLES. In other words, if the contract costs $10,000,000 and the Government supplies $5,000,000, the profit percentages are figured by the Price Adjustment Board on the basis of $10,000,000 and not on the $5,000,000 actually paid by the contractor?

Mr. CASEY. Well, I was speaking primarily about the fixing of the fee or the profit by the Maritime Commission in the first instance, rather than of what the Price Adjustment Board might do afterward.

Mr. COLES. Let me summarize and ask if the view of the General Accounting Office as expressed by you is that the fees and profits paid to the operators of these Government-owned shipyards were excessive for the service rendered?

Mr. CASEY. I believe they were.

Mr. COLES. I have no further questions, Mr. Chairman.

The CHAIRMAN. Mr. Bradley.

Mr. BRADLEY. Mr. Casey, I think you have given us a very splendid statement, here. Do I understand correctly that the General Accounting Office has no authority by law to check into the Maritime Commission's statements of profits paid these contractors? That is, insofar as the renegotiation is concerned.

Mr. CASEY. Insofar as renegotiation is concerned, we do not have that authority.

Mr. BRADLEY. You have no authority whatsoever, then?

Mr. CASEY. No, sir.

Mr. BRADLEY. Isn't it the general intent that the General Accounting Office should be "the watchdog of the Treasury funds"?

Mr. CASEY. That is the general intent, but in this particular instance the Congress seems to have gone to a meticulous extent to provide that the agreement that is made by the Price Adjustment Board shall not, in the absence of fraud, malfeasance, or a misrepresentation of a material fact, be questioned by any officer or employee of the United States.

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Mr. BRADLEY. Under what authority did this general Renegotiating Board operate? What do you call it, here?

Mr. CASEY. The War Contracts Price Adjustment Board.

Mr. BRADLEY. They are the ones who are charged with the responsibility of renegotiating all contracts?

Mr. CASEY. That is right.

Mr. BRADLEY. By what authority did they in turn allocate this readjustment over to the Maritime Commission?

Mr. CASEY. That is authorized in the act, that they may delegate or "redelegate," I believe, their function with respect to the renegotiation to individual boards.

Mr. BRADLEY. They have done that in other departments?

Mr. CASEY. I think they have done that in all departments.

Mr. BRADLEY. In all departments?

Mr. CASEY. But that is only my offhand impression.

Mr. BRADLEY. There is not much reason then to have this War Contracts Price Adjustment Board, if they delegate all the authority back to the individual departments to check on the work of their own people?

Mr. CASEY. That is my belief, also.

Mr. BRADLEY. Do you happen to know who, in the Maritime Commission, is responsible for these contracts that seem to have mulcted the taxpayers of plenty of money?

Mr. CASEY. No; I do not.

Mr. BRADLEY. You do not know who is responsible for the execution of the contracts?

Mr. CASEY. No, sir.

Mr. BRADLEY. I assume we will have Maritime Commission officials on here, later, to go into that matter.

Mr. COLES. Yes; Mr. Bradley.

Mr. BRADLEY. Did I understand that the Maritime Commission contracts called for the Government to reimburse the contractor for all taxes, insurance, and bond expenses?

Mr. CASEY. Yes, sir.

Mr. BRADLEY. And that they did not have to pay any taxes or insurance or bond expenses on these contracts?

Mr. CASEY. Well, you say "no taxes." I assume that they have to pay some income taxes; but these taxes that are provided for here are taxes directly applicable to the contract work; that is, I suppose, all sales taxes, excise taxes, real-estate taxes, and so forth.

Mr. BRADLEY. They did not have to pay any of those taxes?

Mr. CASEY. No, sir.

Mr. BRADLEY. And I understand they paid all the salaries of the contractor's officers, up to $25,000?

Mr. CASEY. Yes, sir.

Mr. BRADLEY. Were the contractors then at liberty to set the salaries wherever they pleased, within their organization?

Mr. CASEY. To a certain extent, although I do believe that the Maritime Commission exercised some general sort of supervision over the reasonableness of the salaries set.

Mr. BRADLEY. I question that, based on these contracts that they have been passing out, here, where everything was in favor of the contractor and apparently very little in favor of the Government;

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because you point out here, the only "know-how" covered by the fee was knowing how to secure a contract from the Maritime Commission. That seems to be pretty much correct. Do I understand you to say that where they changed these forms of contract from one to the other, apparently that was instigated mostly by the contractor passing on suggestions to the Maritime Commission, with which they fell wholly in line?

Mr. CASEY. Of course, we would only pick up that information incidentally where it happened to appear in some record of the Maritime Commission; but I, personally, have seen cases where the contractor has been urging a certain conversion, and even in the intraoffice communications of the Maritime Commission, it will contain statements that "the contractor is anxious to have this conversion," or "the contractor is pressing for action in this matter" or some such language.

Mr. BRADLEY. Invariably the Maritime Commission apparently went along with the contractor's request?

Mr. CASEY. I would think that were so.

Mr. BRADLEY. So it is reasonable to assume that the contractors, unless they were superpatriotic, would probably not ask for a change of contract, or changing the rules of the game, after the game had started, unless they were going to get more reimbursement; is that a fair assumption?

Mr. CASEY. I think that is logical.

Mr. BRADLEY. Do I understand also that your investigation has proven beyond question that in many instances the contracts were renegotiated after the ships had even been built and completed?

Mr. CASEY. Converted, you mean?

Mr. BRADLEY. Yes; I mean the contracts had been converted, after the ships had been constructed and all they were awaiting was final payment under the terms of the original contract.

Mr. CASEY. That is right.

Mr. BRADLEY. And then the Maritime Commission, you say, changed the rules of the game after it had been played, in other words?

Mr. CASEY. That is one way of putting it.

Mr. BRADLEY. Mr. Chairman, I think it is a mighty fine idea that this investigation started.

Now, how do you claim that the Government paid a percentage of profit on the value of its own materials?

Mr. CASEY. Well, take the selective-price form of contract, and take an arbitrary figure of $2,200,000 for a vessel. A contract will stipulate that as the base price for the vessel. Then it will provide that the Maritime Commission will furnish to the contractor all the heavy equipment, materials, and supplies that go into that vessel.

Mr. BRADLEY. Plus all the salaries and all labor costs and everything else—the whole business?

Mr. CASEY. That is right. But the Maritime Commission will itself furnish that material in the physical form rather than reimburse the contractor after he buys it. They will turn that material over to the contractor for the construction of his vessels, and they will deduct from the gross contract price of $2,200,000, $1,000,000 to cover the cost of this material, supplies, and equipment they have furnished. But the fee or the profit that will be computed will be computed on the basis of the gross contract price; so that the result is that the Gov-

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ernment is paying a percentage on the value of the material they furnished the contractor.

Mr. BRADLEY. Who did the purchasing of that material furnished by the Government?

Mr. CASEY. I only assume it was purchased by some appropriate purchasing division of the Maritime Commission.

Mr. BRADLEY. By the Maritime Commission itself—not by the contractor?

Mr. CASEY. No, sir; by the Maritime Commission.

Mr. BRADLEY. Then, when they paid out these fees to the subcontractors or to the brokers or to this expediting firm that you mentioned, here, the Maritime Commission were actually paying those fees to those people; or, who paid those fees?

Mr. CASEY. Those fees were being paid, of course, indirectly from public funds, since the public was paying for the vessel; but the fees—the Maritime Commission would be reimbursing the shipbuilding companies upon vouchers submitted by the shipbuilding companies, representing various costs that they had incurred; and some of the costs they had incurred were, for example, with the American Machinery Corp., for various work the American Machinery Corp. had done for these shipbuilding companies.

Mr. BRADLEY. Right at that point: if the Maritime Commission were purchasing the machinery from the American Machinery Corp., as I understand, they were purchasing the equipment and heavy machinery?

Mr. CASEY. That only took place under certain forms of contract. Under other forms of contract, as for instance the cost-plus contract, the contractor went ahead himself and bought all the material and all the equipment and supplies, and was reimbursed to the penny by the Maritime Commission. But, under other forms of contract, the Maritime Commission undertook to supply this heavy equipment and machinery themselves.

Mr. BRADLEY. You believe that the item of risk on the part of the contractor did not enter into most of these contracts?

Mr. CASEY. I believe he did not have any risk.

Mr. BRADLEY. I am very much interested to see that you could find, despite this list that you have given, in here, that there were some nonreimbursable items. I swear I couldn't find any. I thought it was a nonexistent animal. And you have received no replies, counsel stated, to those two letters you referred to, in here?

Mr. CASEY. That is what the records of our office indicate.

Mr. BRADLEY. What is your personal opinion of the audit system set up by the Maritime Commission—if there was any?

Mr. CASEY. My opinion would necessarily be based upon facts and circumstances that came out at the recent hearing, here, on the accounting practices of the Maritime Commission. However, based on our audit report and the facts and circumstances that were disclosed at that hearing, I would say that their audit system certainly needs some going over. We have evidence of contractors voluntarily refunding to the Maritime Commission a total of over $600,000 that they had received in duplicate payments that they voluntarily undertook to return without any action by our Office or by the Maritime Commission.

Mr. BRADLEY. I recall that in the earlier hearings, here, apparently

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at one time the Maritime Commission had asked the General Accounting Office to revise or to set up a new accounting system for them, but apparently nothing was done along that line whatsoever.

Mr. CASEY. I believe the evidence was that at the outset they asked our Office to establish an accounting system, and we did, and they never adopted it.

Mr. BRADLEY. I recall also that apparently some of the contractors themselves were asking for something in the form of a suitable audit system to be set up by the Maritime Commission, because in reading over the hearings which another subcommittee of this committee conducted out on the west coast in June 1943, by the testimony of Mr. Kaiser, the very first thing he asked for was that the Maritime Commission set up an adequate auditing system; so apparently they did not know where they were with the Maritime Commission a big part of the time, and is it your opinion that probably the reason the Maritime Commission's Price Adjustment Board, in renegotiation, has had to rely on the contractors' own audit is because of the deficiencies in the Maritime Commission's own auditing machinery?

Mr. CASEY. I personally have no doubt but that that is a large factor.

Mr. BRADLEY. In other words, they did not know; they were spending the taxpayers' money, and had to rely on the honesty of the taxpayer to go back to them with his figures, before they could renegotiate?

Mr. CASEY. I believe that is probably the fact.

Mr. BRADLEY. If I understand it, there has been quite a change of the over-all personnel of the Maritime Commission since all of this "live" subject matter?

Mr. CASEY. That is correct.

Mr. BRADLEY. In other words, there has been a change of the chairmanship and of the entire Commission, and also in the Auditing Department of the Maritime Commission; so that what is said in here now is no reflection on the present Maritime Commission as constituted today?

Mr. CASEY. That is correct.

Mr. BRADLEY. This goes back into the wartime Maritime Commission and its accounting staff as constituted at that time?

Mr. CASEY. That is correct.

Mr. BRADLEY. If there is anything now, we would like to know about it. What is your impression, now, of the Maritime Commission's performance?

Mr. CASEY. I might state in that connection that I have noticed in the last 5 or 6 months we are constantly receiving replies to communications from our Office going as far back as 1943 and 1944, and the letters that we are getting now will say, "referring to your letter of April or May 1944," going on to give us the answer that we feel we should have gotten 2 or 3 years ago.

Mr. BRADLEY. In other words, they are now trying to pick up the loose ends?

Mr. CASEY. Yes, sir.

Mr. BRADLEY. Under the new set-up?

Mr. CASEY. Yes, sir.

Mr BRADLEY. I think they are to be congratulated on that, and I should imagine it is a relief to your department finally to get some answers.

Mr. CASEY. Yes, sir.

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Mr. BRADLEY. Mr. Chairman, those are the only questions, I think of, at the moment, though I reserve the right to question further.

The CHAIRMAN. Mr. Weichel. I might say I have a telegram from Mr. Hand stating that he will be here tomorrow.

Mr. BRADLEY. Mr. McConnell has arrived.

The CHAIRMAN. Yes; Mr. McConnell has arrived; and Mr. Hand will be here tomorrow. Mr. Weichel.

Mr. WEICHEL. The statement that you have made, Mr. Casey, covering the irregularities, to say the least, with reference to hundreds of millions of dollars, refers to ship construction, does it not?

Mr. CASEY. Yes, sir.

Mr. WEICHEL. And during the period of time to which you refer, they had a general auditor of ship construction by the name of Slattery, did they not?

Mr. CASEY. I do not believe that is so, Mr. Weichel. I believe Mr. Slattery has taken over that position recently; although it may be.

Mr. WEICHEL. Mr. Slattery in a previous statement before this committee said, "I was for 3 years general auditor of construction."

Mr. CASEY. Then I stand corrected. I do not know the set-up within the Maritime Commission.

Mr. WEICHEL. So there was supposed to be somebody examining into the irregularities of construction with reference to the expenditures of the money, with reference to the giving away of 325 millions of dollars of fees where there was no investment? That comes under "Ship construction," does it not?

Mr. CASEY. Yes, sir.

Mr. WEICHEL. That same Mr. Slattery is now at the Maritime Commission and has been promoted because of the audit work he did on ship construction, of which you are now telling us? He has been promoted, and he is now in charge of general finance for the Maritime Commission. Do you think that that would be a great improvement with reference to the future, if a gentleman who had charge of all this that you have told us about, and things that you have not been able to tell us about, in going behind certification of work done—that gentleman is now head of all the finance. I do not think that is an improvement. I think that is a reward for past conduct; so, knowing that, now, do you think that that is a vast improvement, according to the answer to Mr. Bradley's question?

Mr. CASEY. I do not believe that it is within my province to pass on the personal qualifications of people within the Commission.

Mr. WEICHEL. I mean, I was wondering if you knew, in answering Mr. Bradley's question, that the same gentleman who was in charge of all this has now been promoted to the general finance.

Mr. CASEY. No; I was confining it——

Mr. WEICHEL (interposing). You did not know that, at the time you answered Mr. Bradley's question?

Mr. CASEY. I may have known it, but I did not have that in mind.

Mr. WEICHEL. You did not have it in mind?

Mr. CASEY. That is my answer.

Mr. WEICHEL. In my opinion, I do not believe in forgetting those, and keeping those who have taken part in all the irregularities. Now, in answer to Mr. Bradley's question about auditing, and that the General Accounting Office has been auditing—talked about as the

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"watchdog of the Treasury." That is only insofar as you can go, is it not?

Mr. CASEY. That is all.

Mr. WEICHEL. And that is not too far, is it?

Mr. CASEY. In some of these matters, it is not very far, at all.

Mr. WEICHEL. In other words, with reference to ship construction, even indefinite contracts and otherwise, when the Maritime Commission has certified as to the work done and payment is made thereon, you cannot go behind the curtain, can you?

Mr. CASEY. In certain forms of contract, we cannot.

Mr. WEICHEL. You cannot go behind it? So, in view of all the irregularities and the practices that have gone on, there might have been great discoveries if you could go behind the certification?

Mr. CASEY. There is that possibility.

Mr. WEICHEL. Well, is there quite a probability, in view of some of the statements that you have made in your prepared statement?

Mr. CASEY. Yes; I would say that is probably so.

Mr. WEICHEL. To go behind the certification of the Maritime Commission with reference to payment of money, as to whether the work was done, or whether the material was received—can you do that under your present authority in law?

Mr. CASEY. Of course, it would depend a lot on the form of contract. Taking a cost-plus form of contract, we would not be able to determine whether the material had actually been received. We do not. We are not on the spot, there, when they get the material off the train. We have to rely on the administrative certification that they actually received that material.

Mr. WEICHEL. In other words, if they certified to receiving a million dollars' worth of material, could they only receive a half million? That might be—there is no check on it?

Mr. CASEY. We have no check on that.

Mr. WEICHEL. Outside of their own word?

Mr. CASEY. That is right.

Mr. WEICHEL. These same people who have entered into all the shady practices—the people of this country have to take their word as to whether they got material—there is no check on it?

Mr. CASEY. There is no check.

Mr. WEICHEL. Except in the cost-plus contracts, there is no check whether services have been performed; you have to take the word of these same people as to whether services were performed or the Government received anything?

Mr. CASEY. Generally speaking, that is correct. There is a possibility that we might happen on something in the way of services, but——

Mr. WEICHEL (interposing). In other words, to go behind the transaction and see whether or not services were actually performed and the material actually received—I do not mean with reference to dollar items; I am talking now with reference to what became of the $21,000,000,000 that they spent—to go behind their certifications you would have to have a special act of Congress?

Mr. CASEY. That is right.

Mr. WEICHEL. In other words, they have themselves in such a fortified position that even the Government of the United States and the

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Accounting Office and the public cannot get behind what happened; isn't that correct?

Mr. CASEY. Under exisiting law.

Mr. WEICHEL. Under exisiting law, I mean. That is, now, with reference to the payment of money.

Mr. CASEY. Well, you were speaking primarily——

Mr. WEICHEL (interposing). Yes; I am speaking now with reference to your statement of the General Accounting Office with reference to payment of money. You do check that? That is within your authority?

Mr. CASEY. That is the function of the audit.

Mr. WEICHEL. Yes; that is the function of the audit. So that you do check the money transactions?

Mr. CASEY. Yes, sir.

Mr. WEICHEL. Now, with reference to the Maritime Commission, with reference to their purchases of property amounting to billions of dollars, as to what became of that property, does the General Accounting Office have a right to check and see whether they have the property, or what they did on it? In other words, is there a check and the examination of property, after once the Maritime Commission have it?

Mr. CASEY. Generally speaking, we have nothing to do with the accounting for property. Our prime job is to check on the expenditure of public funds.

Mr. WEICHEL. Does the General Accounting Office or any other checking department of the Government have the authority to examine the inventory to see whether they have the property, or what they did with it after they had it? In other words, are there periodic checks with reference to property, as there are with reference to money?

Mr. CASEY. No; sir.

Mr. WEICHEL. There are not?

Mr. CASEY. No; sir.

Mr. WEICHEL. So that the General Accounting Office, or no other office of the Government that you know, has, or can make a check of the Maritime Commission as to what it did with the property it is supposed to have received, whether they have it, or what they did with it; is that correct?

Mr. CASEY. That is my understanding of what the law provides.

Mr. WEICHEL. Yes; and so that you could make that examination with reference to the property supposed to have been received, as to whether they have it, or what they did with it, you would have to have an act of Congress to do that?

Mr. CASEY. We could not do that, now.

Mr. WEICHEL. You could not do it, now, is that right?

Mr. CASEY. No, sir.

Mr. WEICHEL. You would have to have an act of Congress to find that out?

Mr. CASEY. I mean, we could not now find out what they did with property they had in the last 4 or 5 years.

Mr. WEICHEL. No; but in the loss of the four or five billions, at least, you might be able to find something of what happened to it. You might not be able to find out, with reference to each little item, but for losses in the big amounts—for instance, the matter where there

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were five warehouses that they did not know they had, with property throughout the country.

Mr. CASEY. My personal opinion is that it is quite questionable how far we could go now in doing anything with respect to the accounting for property, that has taken place during the war period.

Mr. WEICHEL. You could make the check——

Mr. CASEY. We could do it for the future, but I doubt if we could do it for the past.

Mr. WEICHEL. Well, with reference to the past, you could examine what was purchased and make some determination as to where they put it—as to where they say they put it—as to where they said they put it?

Mr. CASEY. I assume that some examination could be made, but I really think that someone who is more conversant with the actual audit of our office would have to answer that question more fully.

Mr. WEICHEL. Yes; but under existing law there is no way?

Mr. CASEY. No, sir.

Mr. WEICHEL. This Maritime Commission Price Adjustment Board—is that composed of people who work for the Maritime Commission? I mean, in their own agency?

Mr. CASEY. It is established within the Maritime Commission, and although I am not entirely familiar with its personal composition—I do not even know that the people who are on there were even former employees of the Maritime Commission—but, at least, it is a component part of the Maritime Commission.

Mr. WEICHEL. It is a part of the Maritime Commission?

Mr. CASEY. Yes, sir.

Mr. WEICHEL. So that they are checking and examining their own contracts to determine as to whether they paid too much?

Mr. CASEY. That is correct.

Mr. WEICHEL. That's a nice business. You mentioned nonreimbursables. Was that the term?

Mr. CASEY. Yes, sir.

Mr. WEICHEL. And in answer to a question of counsel, did you mean to say and give a full clearance to all the gifts that were made by shipyards, and supposed to be charged to construction? Do you mean those were nonreimbursables, or weren't they ever charged and paid?

Mr. CASEY. I believe that as a general rule—oh, I think probably I am wrong in saying "as a general rule"—I do not believe that there were any expenditures for sponsors' gifts for which the contractor was reimbursed from public funds. I believe that not only the Maritime Commission but our office undertook very carefully to see that those were not reimbursed under the contract.

Mr. WEICHEL. Were they charged to ship construction?

Mr. CASEY. Well, when you say "charged to ship construction," I do not know that they may possibly have been charged in the renegotiation and, of course, we do not have sufficient information about what goes on in the renegotiation to know whether they were or not.

Mr. WEICHEL. The Maritime Commission has not provided all that, but hasn't there been some understanding that these gifts were charged into ship construction, as a part of the construction, and were charged off, with reference to income tax, and charged in as cost of building the ships? Isn't that a fact?

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Mr. CASEY. Your question is a little bit too broad to permit me to give you an unequivocal answer.

Mr. WEICHEL. Well, I could break it down.

Mr. CASEY. When you say "charged to ship construction," of course most of the cost of building a ship, that is charged to ship construction, is reimbursable to them, penny for penny, under the cost-plus contract. With respect to sponsors' gifts, he is not reimbursed for the sponsors' gifts under the provisions of his contract. Now, we have got to go one step further and find out whether or not when he is renegotiated they permit him to count that as a legitimate business expense for renegotiation purposes. There may very well be a distinction.

Mr. WEICHEL. That amounts to the same thing?

Mr. CASEY. Well, just about.

Mr. WEICHEL. It amounts to the same thing, whether you give it back to them as a reimbursable for ship construction, or whether you give it to them as a legitimate business expense?

Mr. CASEY. The net result would be, the Government pays for it.

Mr. WEICHEL. The net result would be the same thing—the Government foots the bill and pays for the lavish gifts?

Mr. CASEY. If he is permitted, under either condition, the Government would be paying for it.

Mr. WEICHEL. That has been a deep secret. You have not been permitted to pry into that; isn't that a fact?

Mr. CASEY. We have not. I believe that we were even refused access to the books of the Price Adjustment Board.

Mr. WEICHEL. So you cannot testify with reference to that?

Mr. CASEY. No, sir.

Mr. WEICHEL. But one can draw his own conclusions, if they would not let you examine them. In other words, they are a little bit afraid of the GOP?

Mr. CASEY. GAO.

Mr. WEICHEL. Anyhow, you have not been permitted to examine into that phase of it, at all?

Mr. CASEY. No, sir.

Mr. WEICHEL. If they permitted that as a business expense the Government pays it just the same?

Mr. CASEY. If they did, the Government would be paying for it.

Mr. WEICHEL. With further reference to gifts, outside of the very open way in which they might be put off as a legitimate business expense, there are all kinds of ways of burying it in the accounting, too, are there not—various ways and means of burying those things so that it would be hard for an auditor to find them?

Mr. CASEY. I believe there probably are.

Mr. WEICHEL. And the General Accounting Office has not been permitted to pry into all those affairs of accounting, has it?

Mr. CASEY. Not in renegotiation.

Mr. WEICHEL. The renegotiation is a sort of cover-all for the various things the General Accounting Office has unearthed, evidently?

Mr. CASEY. Well, that covers profits. That is the legislation which gives the Government the right to get profits back, if they are unreasonable.

Mr. WEICHEL. And this same Price Adjustment Board, with its accounting, and no outside agency examining the accounting, is making all the determinations, is that correct?

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Mr. CASEY. That is correct.

Mr. WEICHEL. Counsel offered, in the beginning, here, an exhibit. I do not know whether it is No. 1.

Mr. COLES. Yes.

Mr. WEICHEL. Will you permit Mr. Casey to examine that?

Mr. COLES. Yes.

Mr. WEICHEL. With reference to the so-called exhibit No. 1 in this hearing, it purports to be the names of the ship contractors and cost of facilities. In the second column, it says: "Capital invested by contractor"—which is a misnomer, and I want to say it here again. I said it once before. And in the third one is "Fees or profits." In reference to the so-called profits to ship contractors, have you ever examined into the matters set forth in that exhibit with reference to the statement that you made?

Mr. CASEY. Well, only on its face?

Mr. WEICHEL. I mean, on its face.

Mr. CASEY. Yes, sir.

Mr. WEICHEL. There are some 19 ship contractors? What is it—19 ship contractors? Is that the number?

Mr. CASEY. Yes, sir; 19 companies.

Mr. WEICHEL. The first column—what does that recite, in the total, with reference to these "constant facilities?"

Mr. CASEY. $424,250,694.

Mr. WEICHEL. The originals of that—the original from which this statement was taken, and the one submitted by the Comptroller General in the fall of 1943, came from figures that were compiled by your office, did it not?

Mr. CASEY. I do not know exactly what you are referring to in that 1943 statement.

Mr. WEICHEL. In the fall of 1943 the newspapers generally talked about the profits ship contractors were making, and at that time the Comptroller General sent to this committee a similar set of figures to this exhibit 1, which was supposed to be a statement concerning these same 19 contractors, with reference to Government facilities, with reference to the investments so-called, and with reference to profits paid up to that time. In other words, the figures came from your office?

Mr. CASEY. I do not know.

Mr. WEICHEL. Now, I understand from you, with reference to that first column, that says "cost of facilities." Does that mean what the Government paid to erect the yard and build the yard?

Mr. CASEY. Yes, sir; I believe so.

Mr. WEICHEL. Further, in line with your statement, with reference to these 19 yards, the Government paid for everything that went into building the yard. Then, next, it paid for all the material that went into the ship. It paid for all labor, and it paid for all administration costs for individuals so employed, up to $25,000 a year, a person?

Mr. CASEY. Yes, sir.

Mr. WEICHEL. That is correct, is it not?

Mr. CASEY. Yes, sir.

Mr. WEICHEL. So that with reference to the ships constructed by these 19 companies, the so-called 19 ship contractors had not a single penny invested, did they, in the yard that built the ship?

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Mr. CASEY. As I stated, I do not know exactly where that capital, if any, was invested, in view of, as you point out in your question, the fact that every conceivable item of cost was reimbursed to them, building the shipyard under his contract; but I can conceive that he may need some capital—working capital, at least—to carry him along until he gets his first check from the Maritime Commission.

Mr. WEICHEL. For a few minutes, until he can get it?

Mr. CASEY. Well, I do not know how long it would take to do that.

Mr. WEICHEL. Some of them got credit. Some of them got credit of 10 days and some 30 days on that?

Mr. CASEY. I do not know the lapse of time between the paying out of his own pocket and getting it back.

Mr. WEICHEL. Now, the second column of that exhibit—and this is the exhibit that is supposed to come from the Maritime Commission, on these 19 ship contractors—and what is the total on that second column?

Mr. CASEY. $22,979,275.62.

Mr. WEICHEL. And what does it say at the top of that column?

Mr. CASEY. It says "capital investment of shipyard operator."

Mr. WEICHEL. In your determination, this $22,000,000 was not invested by these 19 ship companies in the facilities where these ships were built, was it?

Mr. CASEY. I will answer that by amplifying what I have in my written statement, somewhat; and that is, that in view of the facts and circumstances that we have found with respect to, for example, the California Shipbuilding Corp.—and I believe there are several others—we say that we believe the statement is misleading, and that the capital investment of a shipyard operator does not represent actual dollars taken out of his own pocket and put into the shipyard or into the construction work of the contract.

We believe that in some cases he took out his profits and put some of it back by way of capital, but, of course, that came from Government funds.

Mr. WEICHEL. This 22 million in that column represents money that they had invested in some other business, or do you know?

Mr. CASEY. I do not know that.

Mr. WEICHEL. All right. In previous testimony from Admiral Land back in 1944, and which I will ask to be made a part of this record, Admiral Land testified and everyone else testified, at that time, that that so-called column represented what these alleged contractors had in other business, not in the business of building ships, so that the statement of the Maritime Commission when they say "Investment of ship contractor" is not true. It is a half truth and it is misleading, because when you are talking about ship contractors' profits and you are talking about their investment, you are talking about the investment that they had in the yards in which they built the Government ships for which they received money. That is what you are supposed to be talking about in your inquiry, is that not correct?

Mr. CASEY. That is correct.

Mr. WEICHEL. So that if this $22,000,000 was invested in other business of these people, it has no place in trying to make someone believe that these contractors had $22,000,000 invested in the building of ships for the Government, which they did not do and did not have.

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Mr. CASEY. If that is the circumstance and that is correct and a fact, then the picture is more misleading than I thought.

Mr. WEICHEL. That is why I was wondering, in view of what you said and in view of previous testimony started in the fall of '43 and a little in '44, and then stopped, as counsel has said, on behalf of the Maritime Commission, on the basis that because of the war it was not desirable that the public should know what was going on.

Now, with reference to the third column on exhibit No. 1, what is the total of that?

Mr. CASEY. $356,006,612.

Mr. WEICHEL. And what is the heading of that column as presented here by the Maritime Commission?

Mr. CASEY. "Estimated profits."

Mr. WEICHEL. That is estimated profits? Now, if the ship contractors, these 19, had no investment, which has been testified to before in previous hearings, and the $22,000,000 was not invested in these yards, this figure of $354,000,000, and calling it a profit—you usually call profit based on something over cost, do you not? Is that not the general way of doing it?

Mr. CASEY. That is the general way of determining it.

Mr. WEICHEL. You take cost, and how much you have, and the difference is profit.

Mr. CASEY. That is right.

Mr. WEICHEL. In this instance the people had no cost whatsoever. It was entirely a gift, if there was no investment, is that not true?

Mr. CASEY. That is, to a certain extent, true.

Mr. WEICHEL. That is true; if there was no investment and they were given money, it was a gift. It was not a percentage of profit on cost at all, is that not correct?

Mr. CASEY. Well, it was a percentage on cost, but the cost was reimbursable.

Mr. WEICHEL. They had no investment in it. When you talk about excess war profits with reference to some other people in the Government, munitions, getting 100 percent or a thousand or a million percent profit, here are some people who had not a single penny invested and they got $354,000,000. What kind of accounting definition of profit would you call that, when people have no investment at all?

Mr. CASEY. As I indicated, it seemed to me excessive.

Mr. WEICHEL. It would, if they had no investment.

Mr. CASEY. It would, and of course I went on the theory——

Mr. WEICHEL (interposing). That they had $22,000,000 invested in these plants.

Mr. CASEY. At least some of it.

Mr. WEICHEL. This is the second time that this has come before this committee, and now the present administration of the Maritime Commission and the present general finance officer, I suppose, have seen this, and it is over the signature of the chairman. The Maritime Commission puts that out here and says "Investment of ship contractor." They know, or ought to know, that they did not have any, and the Chairman permits the same kind of people who were down in that office to prepare this kind of statement and bring it up here again. The $22,000,000 invested in their other businesses is all the money they claimed they had, their assets, not in the shipbuilding

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business, yet it gives them more than 10 times in profit everything they claim they owned, as a fee for building ships, with no investment; and, as you pointed out, they probably never had the $22,000,000 themselves, because it was built up out of Government money, because it was not invested in this, and I was wondering if you knew that when you were making your statement.

Mr. CASEY. No, sir; I did not.

Mr. WEICHEL. Did you know that there were hearings that started in March, after the Comptroller General sent over some figures in November or December of 1943, and the same people who are now in the Maritime Commission with reference to ship construction and with reference to general finance and with reference to accounting knew previous to November '43, and this committee knew shortly after November '43 and in the beginning of January 1944, and hearings were commenced in March 1944, and I want to introduce this as a special exhibit at this time.

(Tabulation of shipbuilders' profits was marked "Exhibit No. 2.")

Mr. WEICHEL. Would you casually examine the list of so-called ship contractors on that exhibit and on exhibit No. 1 and see if they are approximately the same?

Mr. CASEY. They look the same.

Mr. WEICHEL. What is the total so-called cost of facilities on that exhibit?

Mr. CASEY. $371,960,113.

Mr. WEICHEL. How does that compare with exhibit 1?

Mr. CASEY. Well, apparently they spent about $50,000,000 more between the time of this original tabulation and the present tabulation.

Mr. WEICHEL. In the next column are figures as given to the Comptroller General with reference to investment of ship contractors. What figures did they have put down for that?

Mr. CASEY. They have $22,979,275.62.

Mr. WEICHEL. Is that the same on exhibit 1?

Mr. CASEY. That is the identical figure.

Mr. WEICHEL. The Maritime Commission are still calling that "Investment of ship contractor" when he had none, which will be disclosed by this other testimony.

Now, what is in the third column of the exhibit you have in your hand, exhibit 2?

Mr. CASEY (reading):

Fees earned by shipyard operator to November 30, 1943.

Mr. WEICHEL. What is the total of that?

Mr. CASEY. $174,094,051.

Mr. WEICHEL. Between the time of quieting the investigation on exhibit 2 and up to the time of the statement in exhibit 1 they gave these same ship contractors, who had no investment, how many hundred million more dollars, instead of stopping it?

Mr. CASEY. About $175,000,000 more.

Mr. WEICHEL. $175,000,000 more was given to these same people after the time of the beginning of the statement on exhibit 2 and as now set forth in exhibit 1? They gave them $175,000,000 more?

Mr. CASEY. Yes.

Mr. WEICHEL. With reference to profits for ship construction or anything else, as to accounting and the General Accounting Office, how

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do you determine profits? What is the general way of determining profits from an accounting standpoint?

Mr. CASEY. Bearing in mind that I am not an accountant in the first place, and in the second place that the General Accounting Office does not have anything to do with determining profits—we are out of the picture altogether on renegotiation—I find it hard to answer.

Mr. WEICHEL. In the examination made by the General Accounting Office with reference to the figures on exhibit 1 and exhibit 2, those came from the General Accounting Office and were certified to this committee.

Mr. CASEY. Is that true?

Mr. COLES. As I understand, Mr. Chairman, those figures were prepared by committee counsel, Mr. Zincke. They were not furnished by the Comptroller General.

Mr. WEICHEL. The Comptroller General had the figures.

Mr. COLES. I understand not.

Mr. WEICHEL. I will do some questioning about that.

In making your examination for the Comptroller General, is it not a fact that you or the Office have been calling attention, the attention of the public, to excessive wartime profits?

Mr. CASEY. We have been writing letters suggesting that they seemed excessive from the information we had in our Office.

Mr. WEICHEL. That is what I thought.

Mr. CASEY. But I might say that that is really a gratuitous function on the part of the Comptroller General, under existing law.

Mr. WEICHEL. Oh. I thought that in view of the fact that you were calling the attention of the public to the fact of exorbitant profits you had some idea of how profits were determined; in other words, that you would take the cost and then what you get for it, and that is how you fix it.

Mr. CASEY. The extent to which we questioned it, I might say, was that we stated that it would seem that in view of the relationship of profits to capital investment the contracts were providing for excessive profit.

Mr. WEICHEL. Then the General Accounting Office and the Comptroller General certainly have some idea with reference to accounting principles and how you determine profits, or you could not make those statements.

Mr. CASEY. That is right.

Mr. WEICHEL. That is what I was trying to get at.

Mr. CASEY. That I could not answer, because I did not make the determination in the first place.

Mr. WEICHEL. I mean, you made some examination with reference to ship construction, according to your statement.

Mr. CASEY. I can see sufficient figures in front of me, and from the provisions in contracts, to make the statements I have made with respect to profits.

Mr. WEICHEL. That is what I am asking you about, and you have made a very long and detailed and very comprehensive statement with reference to ship construction and the expenditures; and, with reference to profits, how do you make the determination? Do you look at what it costs?

Mr. CASEY. Of course, we can see how the profits in this case were fixed. They were fixed on the total cost of the construction of the

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vessels by way of payment of certain fees, presumably a percentage of the total cost of the vessel.

Mr. WEICHEL. Yes. Well, what I mean is that the usual method of determining profit is that you take the bona fide and honest-to-God cost and you subtract that from what you received for the thing you were paid for.

Mr. CASEY. That is what denotes profits.

Mr. WEICHEL. That is what denotes profit in anybody's conception, accountants' or anybody's else, so that with reference to the construction of ships there was no question with reference to these 19, with reference to cost, because there was no cost to these ship contractors and they were given $354,000,000 as a gift. It was not a profit on something they did, or something that they paid something for.

Mr. CASEY. Of course, profits could not have been determined in the usual way in these contracts, because there was not any fixed price or any cost to be subtracted from the fixed price.

Mr. WEICHEL. But, going back to the statements exhibit 1 and exhibit 2, the Government paid for the land and the equipment and the buildings. They paid for material, labor, and everything that went into the ship.

Mr. CASEY. Yes, sir.

Mr. WEICHEL. So that the $354,000,000 was not something on an investment they had. There was no investment, is that not correct?

Mr. CASEY. That is correct, substantially.

Mr. WEICHEL. In previous hearings which were quietly stopped there is testimony that the Maritime Commission gave what at that time was $226,000,000 to ship contractors on exhibit 1, that they gave it to ship contractors saying that the ship contractors had no investment whatsoever in these 19 yards, but they gave it to them on the basis of "moral assets." Is there anything in the law with reference to the General Accounting Office whereby you can give money on the basis of moral assets—to give away Government money?

Mr. CASEY. If you mean by that: Can the General Accounting Office do anything about it? there is not.

Mr. WEICHEL. Is there anything that authorizes the General Accounting Office to pass by $226,000,000, which it is testified to were given on the basis of the moral assets of these people?

Mr. CASEY. We would have to give them credit in the disbursing officers' accounts for those payments.

Mr. WEICHEL. Well, supposing the War Department gave a check for $1,000,000, or a check for $100, to some person who had no investment in anything. Would you pass that by?

Mr. CASEY. Are those the only facts you are going to give me?

Mr. WEICHEL. Give it to them outright, with no investment?

Mr. CASEY. Of course, we would suspend credit.

Mr. WEICHEL. Supposing the War Department gave somebody a million dollars when there was no investment of any kind on the part of the person to whom they gave it, with reference to manufacturing munitions. Supposing the person who manufactured, now, had no investment—everything was paid for, just as in this ship construction everything was paid for—and they gave him $1,000,000.

Mr. CASEY. If that bore some reasonable relationship to the over-all contract that the War Department had with the munitions maker, we would have to pass that to credit.

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Mr. WEICHEL. These 19 ship contractors had everything paid for, even the so-called brains, if there were any, because they only had to follow blueprints and were paid up to $25,000 a year for looking at blueprints. That was the greatest amount of brains that was required in this. Everything was handed to these 19 people. They had no investment. The Government paid for everything; the Government paid for administration and everything under the sun. Yet the Maritime Commission totally gave away $350,000,000.

Now, on what kind of legal process can you predicate the giving away of $350,000,000 under that kind of set-up?

Mr. CASEY. Well, of course, essentially that was done throughout the war in every department of the Government under the cost-plus form of contract.

Mr. WEICHEL. No——

Mr. CASEY. Under a cost-plus form of contract the man is reimbursed his cost to the penny for performing that type of contract, and on top of it he is given a fee. If he is paid his salary as part of the cost of performing a contract for the managerial duties he performs, and for any knowledge he might have of how that work should be done, then the fee on top of it is in the same category as the fees paid to these shipyard operators.

Mr. WEICHEL. Just a minute. The kind of a cost-plus contract you are talking about is one. Supposing they had one with the Ford Motor Co. to build tanks on a cost-plus basis. That was with the Ford Motor Co., who had an investment and who had machinery and who had everything else. You made a contract with them on a cost-plus basis. If you made one with a company like that, or any other motor company that had an investment.

Mr. CASEY. I believe a distinction should be drawn between contractors who were operating Government-owned shipyards and contractors operating shipyards built with their own investment.

Mr. WEICHEL. Take a shipyard that was in existence previous to the war and you made a contract with that shipyard to build a ship on a cost-plus basis. That is one thing, to pay them a fee for that. But to take 19 that were set up, like you started out with the Kaiser outfit, which started out with nothing. These were set up specifically with no investment whatsoever. Should you pay them $354,000,000? That is not the same kind of thing you are talking about, a contract with a person who is reimbursed for his costs plus a fee for doing things. That is not true in this sort of thing, because they paid them for everything, even their so-called brains.

Mr. CASEY. There is a distinction to be drawn, and of course the Renegotiation Act itself recites that a distinction should be drawn, in providing that the extent of risk assumed and the amount of public and private capital involved should be considered.

Mr. WEICHEL. In these 19 there was no private capital involved, there was no risk involved, but there is a difference of $354,000,000. I should say there should be a difference, but I cannot understand how they can excuse giving away $354,000,000 under these circumstances, any more than they could take the money out of the till and hand it to anybody else as a gift. There is nothing about moral assets in the law that I know anything about. Do you know of anything with reference to checking accounting?

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Mr. CASEY. No, sir.

Mr. WEICHEL. In other words, if the War Department, the Navy Department, or any other department of the Government wrote out a check for any amount of money—millions or hundreds of millions—and just presented it to somebody and said to the General Accounting Office, "That is because they have good moral assets and we are doing other business with them"—is that justifiable under the existing law?

Mr. CASEY. No, sir.

Mr. WEICHEL. That is all.

The CHAIRMAN. Mr. McConnell?

Mr. MCCONNELL. I understand you are a representative of the General Accounting Office. In what capacity?

Mr. CASEY. Here I am a representative of the General Accounting Office. My official capacity in the Office is principal attorney in the Legal Division.

Mr. MCCONNELL. You are an attorney and not an accountant?

Mr. CASEY. That is right.

Mr. MCCONNELL. That is what I wanted to get straight.

Now, I understand we are here to check whether, in our judgment, the profits received by shipbuilding companies are reasonable in amount. To bring it to a focus, you, as a representative of the General Accounting Office, charge that the profits were unreasonable, is that correct?

Mr. CASEY. That is substantially correct, and our purpose is to present facts and figures to enable this committee to decide whether in their opinion the profits are unreasonable. In our opinion the profits were unreasonable.

Mr. MCCONNELL. Would you not say that the Price Adjustment Board in the Maritime Commission thought otherwise, or they would have called for further renegotiation of profits? Is that correct?

Mr. CASEY. My impression is that they have not completed their renegotiation of all these contractors. In fact, exhibit 2, here, showing the results of their renegotiation, presumably as of July 1946, shows that only 7 of the 19 companies have been involved in renegotiation, and it indicates that for at least two of the companies here, although they were renegotiated, nothing was taken back from them.

Mr. MCCONNELL. Now, I gather from your statement that you are in disagreement with the findings so far of the Price Adjustment Board within the Martime Commission.

Mr. CASEY. That is substantially correct.

Mr. MCCONNELL. Is that a general opinion, or do you have a formula by which you arrived at such a conclusion?

Mr. CASEY. That, in the main, is a general conclusion based upon the capital investment and the profits as indicated by the figures of the Maritime Commission as contained on exhibit No. 1, and the general manner in which these contracts were performed with Government shipyards. But we do not have the facts and figures to make any accounting determination with respect to it, since we are foreclosed from receiving facts and figures.

Mr. MCCONNELL. In other words, we will take the case here mentioned in your statement, the St. Johns River Shipbuilding Corp., with an original investment of $600, and realized profits estimated at $2,080,000, or 346,666 percent of their capital investment. On the face

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of that, that does seem like an unreasonable amount of profit. But are you prepared to say what that profit should be in actual figures?

Mr. CASEY. No, sir; I am not.

Mr. McCONNELL. In other words, it still remains in the realm of a general idea that the profits are too great. They seem too great, but I think you ought to have a substitute amount to put in there. I would like to know what your formula is.

Mr. CASEY. The Renegotiation Act, of course, vests authority to renegotiate these contracts, as I pointed out, in the War Contracts Price Adjustment Board, who in turn have delegated that function to the Maritime Commission Price Adjustment Board for Maritime contracts; but the law provides that two of the factors to be considered by the Price Adjustment Board in determining reasonableness of profits are the extent and source of public and private capital employed, and, second, the extent of risk assumed. There are seven factors altogether, and those are two of them.

Now, when you see on the tabulation that St. Johns River Shipbuilding Co. made $900,000 in profits and they made the $900,000 after renegotiation, we just wonder how much weight they could have accorded to those two factors in that case, when they had only $600 to begin with.

Mr. McCONNELL. But you are not prepared to say the exact amount to which it should be reduced?

Mr. CASEY. No; we are not.

Mr. McCONNELL. Do you know whether in the considering of the amount of profit, as to its unreasonableness or not, comparative profits or costs of other shipbuilding companies were considered? For instance, we will state here that so-and-so shipbuilding company made an unreasonable profit. How would that compare with some other company? Has that been taken into consideration?

Mr. CASEY. We have not, sir. That is within the province of the Maritime Commission Price Adjustment Board, and within the province of the various price adjustment boards renegotiating profits, and we have no idea how they operate.

Mr. McCONNELL. I do not want to prolong this. All I will say is that the General Accounting Office makes the statement that in their judgment the profits made by various shipbuilding companies are unreasonable. You make that statement definitely, is that not correct?

Mr. CASEY. Yes, sir.

Mr. McCONNELL. Thank you.

Mr. COLES. Mr. Chairman, if there are no further questions, rather than running until 1 o'clock might I suggest adjournment now, so that we can reconvene a little earlier?

The CHAIRMAN. I think that is desirable. The Chair is the only other party left, and he has no questions.

Mr. COLES. I beg your pardon.

Mr. WEICHEL. May I ask one question, the basis of the $600 figure?

The CHAIRMAN. I dislike to return, but I will permit it, although not as a precedent. You may ask your question.

Mr. WEICHEL. With reference to the $600 of the St. Johns River, they did not even have $600 in this Government-operated contract, did they? They did not have any investment in that yard at all. They were just like the rest of them, were they not?

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Mr. CASEY. I do not know. The statement furnished this committee by the Maritime Commission shows that the company was incorporated with an original capitalization of $600, mainly by either Thompson-Starrett Co. or the directors of Thompson-Starrett.

Mr. WEICHEL. Like all the Government yards, the Government paid for everything in that in the same way.

Mr. CASEY. That is right.

Mr. WEICHEL. So that not even the $600 was in that particular yard.

Mr. CASEY. That is right.

The CHAIRMAN. We will reconvene at 2:30.

(Whereupon at 12 o'clock noon a recess was taken until 2:30 p. m. of the same day.)

AFTERNOON SESSION

(The hearing was resumed at 2:30 p. m., upon the expiration of the recess.)

The CHAIRMAN. Who is your next witness, Mr. Coles?

Mr. COLES. Mr. Chairman, there are 19 companies involved, 6 of them the so-called Kaiser affiliates, and I would suggest that we call Mr. Kaiser as our next witness.

The CHAIRMAN. All right.

Mr. COLES. Mr. Chairman, I am told that Mr. Kaiser cannot be here for about 5 minutes. May we wait for him?

The CHAIRMAN. All right. Do you have any 5-minute witnesses?

Mr. COLES. No, sir.

(Subsequently Mr. Henry J. Kaiser entered the hearing room, whereupon the following proceedings occurred:)

The CHAIRMAN. Please stand and be sworn, Mr. Kaiser.

Do you solemnly swear that the evidence you will give will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. HENRY KAISER. I do.

TESTIMONY OF HENRY J. KAISER

Mr. COLES. For the sake of the record, will you give us your full name, please?

Mr. HENRY KAISER. Henry J. Kaiser.

Mr. COLES. And your occupation?

Mr. HENRY KAISER. Industrialist.

Mr. COLES. Do you have a prepared statement that you would like to read?

Mr. HENRY KAISER. I would like to make a few remarks.

The CHAIRMAN. Of course it will be borne in mind, Mr. Kaiser, that the matter of this investigation is the cost of the shipbuilding program, and only that.

Mr. HENRY KAISER. I will bear that in mind, unless someone interrogates me about Ford. A representative did a few minutes ago.

Mr. WEICHEL. You may have enough answers to make on this matter.

Mr. HENRY KAISER. I would like, first, to thank this committee for this opportunity. I would like to thank God for the opportunity of

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living in a democracy that permits you to appear before a body and be frankly investigated. I know that no man of integrity need fear.

I want to read a statement that we have supplied, and I think that your attorney will tell you that we have done one of the most splendid jobs that has ever been done in connection with furnishing statements. We have supplied your committee with full and complete answers to your questionnaire of July 27, and in addition we have supplied information not requested. I have also furnished you with a booklet entitled "Facts in Brief About Henry J. Kaiser"; and this booklet has been sent to every Member of Congress and to all the parties. It is for release and publication now.

Several Members of Congress have continued to repeat wholly untrue statements to the effect that I provided shipyards on $100,000 capital. The truth is we employed over $32,000,000 of risk capital obtained from private sources for the wartime operation of the needed shipyards under our management. None of this $32,000,000 was obtained from the Government or guaranteed by the Government. The details of this have been supplied to your committee.

If invested capital were the only standard for war production, thousands of small manufacturers throughout the country would have been barred from war production. Invested capital was not the standard. Small plants were built to produce and to expand for needed war production. Congress recognized that invested capital was not the sole yardstick when it set up the $350,000,000 Smaller War Plants Corporation, and later when it cited other standards for the purpose of renegotiation.

Congress also recognized that it was necessary to provide both manufacturing facilities and a source of working capital, and it set up guaranteed loans which provided over $10,000,000,000 in available working capital to all American industries, including many of the largest corporations. The congressional authorization also provided $18,000,000,000 for Government-owned plants, and most of these Government-owned plants were operated by existing large corporations.

I recall quite vividly that it was important at one time to win the war; that ships were necessary to win the war, and that the Kaiser men and women did an outstanding job. We are proud of it. We alone produced 27 percent of the entire Maritime ship program, 1,460 ships, plus 30. Our first 30 were built for England, nearly 15,000,000 tons, $4,000,000,000 worth, when they were needed. We did this at a saving of more than $250,000,000 to the Government on Liberty ships alone. We operated 27 percent of the Maritime Commission-owned yards. We produced 35 percent of all the Maritime ships produced in Government-owned yards in the 1941–45 period. We provided the organization, the major portion of the operating capital, the brains—and I hope that brains are not yet a thing that is without value in our country—the brains and the product. The Government provided facilities just as it did for tanks and guns and airplanes, and released steel.

Although the committee addressed 12 major questions to everyone, to me alone, I am advised, was addressed a thirteenth question, concerning my personal dividends and those of the members of my family received from shipbuilding.

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I had thought that Congress had provided throughout that personal matters were not matters to be investigated . But I was glad that they asked that question, because I want that same question asked also of the Pew family and all the other families with whom we competed and whom we excelled. I have gladly supplied this information, but it is difficult for me to understand this question.

I wish to point out that I am appearing only in behalf of those companies which are now under our management. They are the Oregon Shipbuilding Corp., the Permanente Metals Corp., the Kaiser Co., Inc., the Kaiser Cargo.

The Congressional Record contains errors with regard to our interest in certain companies. I have never had any interest, direct or indirect, in those companies; and the Congressional Record is wrong. Our interest in the California Shipbuilding Co. ceased in April 1945.

Mr. Casey—not the Comptroller General—had me this morning controlling this company. It is false, and worse if he does not know it is false.

The war has been won over a year. These problems are the problems of peace; but we now pause to review the past, and in a review of the past it is proper to recall that in achieving victory incredible deeds were performed on the beachheads and on the battlefields as well as in the factories, mines, and shipyards and by the men and women in this country who built guns and planes and ships. We have learned that at the bottom this country's most precious and valuable resource is its people—people with enterprise, with courage, with vision, and the will and the power to do the most for the right and just cause.

This committee has the opportunity of formulating legislation which will stimulate and supply incentives rather than to discourage those who are willing and ready with their enterprise and ability to supply this country's needs in war as well as in peace.

The figures quoted by Mr. Casey this morning I have observed are not the figures of the Comptroller General. How could they be? They are not complete. They are misleading. They have no deductions for taxes, either individual or corporate. He himself admitted that only a few of the companies had been renegotiated. Still he brings in figures that are not complete—that are misleading to the people.

Much has been said this morning about cost-plus and fixed-price contracts, and much has been slurred upon the contractor—that he wanted the cost-plus contract.

I want to read you a letter which I wrote to the President on March 17, 1944, the Hon. Franklin D. Roosevelt, in which I said [reading]:

> MY DEAR MR. PRESIDENT: I hate to encroach upon your time, but the importance of getting young industrial workers into the Army without reducing war production prompts me to request a discussion of it with you, and it is only because I believe the solution of the problem is possible that I wish to bring it to your attention.

I suggested that the solution, very briefly stated, was that the Government procurement agencies should return to the practice of competitive bidding, to eliminate cost-plus-fixed-fee and negotiated-price contracts, which would result in more efficient management in order to meet competition, less man-hours, production with fewer men, and providing young men for the Army from those liberated workers.

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I may be reached through Mr. Calhoun in Washington.
Sincerely.

I did not stop there. I went to almost every representative head of this Government requesting it. Some of this you will find in this little book [indicating]. I went to Donald Nelson; I went to Mr. Wilson; I went to Paul McNutt. As a matter of fact, Paul McNutt came to me on a special mission in this regard; but, unfortunately, the war was on.

Why did Mr. Casey, the man who brought the statements from the Comptroller General's office—which are obviously wrong—why did he omit, when he read you the law, the paragraph which Congress placed first in importance in the law? And I read:

Efficiency of the contractor, with particular regard to quantity and quality production, the reduction of costs, and economy in the use of materials, facilitates manpower.

He did not read that. Why? Neither did he read in paragraph 5 the nature and the extent of the contribution to the war effort. He did not read that. Is that misleading?

I listened intently this morning to the man from the Comptroller General's office. He clearly demonstrated to you that a feud existed. Almost everyone knows of the feud that existed. He stated that he was not an accountant from the Comptroller General's office; that the figures are not the figures of the Comptroller General. They could not be. They are too inaccurate. No accountant, no reasonable person, would present a statement of profits without also accompanying it by a statement of liabilities and taxes, both individual and corporate.

I was shocked, also, that the attorney for this committee asked for exactly the same thing from the Kaiser family—a statement only of dividends, not of losses. I was shocked.

Now, let us go back to the Comptroller General's man who did not get his figures from the Accounting Office. Apparently he does not know that at all times in our yards the General Accounting Office had a staff of investigators in every yard. At no time did we refuse to ask any questions. We asked and constantly cooperated. We asked the Comptroller General's office to sit in on our conferences. They did sit in, and the GAO did make constant reports, and at Permanente they had a staff of at least 15 to 20 auditors.

Why this misrepresentation? They had detailed knowledge of all of our contracts; and, further than that, anyone who knows the law knows that the Comptroller General at all times has the power to investigate irregularities and regularly report them to Congress.

Why was Mr. Slattery suddenly promoted? I might tell you that I went to the Attorney General at the beginning of these contracts, personally, with my son, and I said to the Attorney General: "My God! Let us all get together and cooperate and have these facts straight and keep them straight in the accounting departments." And the Attorney General referred me to Mr. Bell——

The CHAIRMAN. Are you speaking of the Attorney General or of the Comptroller General?

Mr. HENRY KAISER. I mean, the Comptroller General. He referred me to Mr. Bell, of the Audit Section; and my son and I went to Mr. Bell, of the Audit Section, and spent hours with him begging him to get men into our yards, to get this thing straightened out so that we

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could all work together cooperatively, so that the information would be available to all. He said: "No; I am sorry. We cannot cooperate. We don't rely upon the Maritime Commission."

Mr. BRADLEY. They do not rely on the Maritime Commission?

Mr. HENRY KAISER. On the Maritime Commission's accountants. Then it was Anderson. Cord is still there. I cannot tell you what he said about Cord.

Mr. WEICHEL. Is Slattery the man who was in charge of all this audit of your business?

Mr. HENRY KAISER. Yes; sir.

Mr. BRADLEY. Did I understand you to say that the Comptroller General told you, Mr. Kaiser, that they did not rely on the Maritime Commission? I think you meant that they did rely on the Maritime Commission, did you not?

Mr. HENRY KAISER. They could not cooperate with them because they could not rely on them. I understood him to say they could not trust the officers; and he named the gentlemen by name. It was a hopeless case for us.

Mr. WEICHEL. Was Mr. Cord promoted, too?

Mr. HENRY KAISER. I think so. I am not criticizing anyone. But I want to say this—that no one can gainsay that the Kaiser companies did their utmost to create a full disclosure of everything, and we now stand ready to disclose it, but we do not want it disclosed unfairly or unjustly. We do not want it disclosed at a time when everyone has forgotten the war, when undue and unjust reflections are made. We want it disclosed—don't misunderstand me—but this is not the time that the Comptroller General should have brought these matters to Congress. They should have been brought when they could have been acted upon under his authority, under the law.

I do not believe that the Comptroller General agrees with all the things that Mr. Casey says. I do not believe that. The Comptroller General, Mr. Warren, was fair to us. He knew what we were trying to do, but it just could not be done.

The CHAIRMAN. Have you completed your statement?

Mr. HENRY KAISER. Yes; I have finished—no; I would like to make one further statement, and that is this: The witness from the General Accounting Office has sarcastically talked about the salaries received by shipbuilders. The men on Normandy and on Okinawa had no sarcasm about ships, and any fathers here who had sons on those ships knew that, too. I never drew a single cent of salary from any of the companies with which I was connected. We did produce, and I will not stand by silently when those who never built anything and did not even know the facts offer sarcasm and ill-starred humor at those who helped win the bloody battles that our boys went through.

The CHAIRMAN. Have you finished?

Mr. HENRY KAISER. Yes, sir.

The CHAIRMAN. Proceed, Mr. Coles.

Mr. COLES. You spoke, first, of four companies, the Kaiser Co., the Oregon Shipbuilding Co., the Permanente Metals Co., and the Kaiser Cargo, Inc. Did you also have an interest in the California Shipbuilding Co. until 1945?

Mr. HENRY KAISER. You have the information. Whatever that information says is true.

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Mr. COLES. That information says you did; and in 1945 you traded your interest in the California Co. with the Bectel Co. for their interest in the Permanente Metals Co.?

Mr. HENRY KAISER. I did.

Mr. COLES. Have you also been interested for several years in the Walsh-Kaiser Co., in Providence, R. I.?

Mr. HENRY KAISER. I am glad you brought that out.

Mr. COLES. I would like to develop the background of your shipbuilding work, and because of the complexity of these companies, to take each company as an individual item, if that is satisfactory. I think that is the only way that we can make a coherent presentation.

Will you tell us, first, about the development of the so-called Six Companies, Mr. Kaiser?

Mr. HENRY KAISER. It is 15 years ago. I think I ought to prepare a list.

Mr. COLES. Can you give us the names of the six companies?

Mr. HENRY KAISER. Yes; I think I can. Morrison Knudson Co.; the Utah Construction Co. It was then W. A. Bectel Co. J. F. Shea Co.; Pacific Bridge Co.; and MacDonald-Kahn.

Mr. COLES. What was their experience in the major part of their work? Was it mainly the building of dams and public works?

Mr. HENRY KAISER. It was endless. It is an endless area of performance, and it represents, roughly, probably $1,000,000,000 worth of work. I alone in Cuba built 500 bridges and 300 kilometers of highway without any basic materials.

Mr. COLES. Had any of that work prior to 1939 been shipbuilding?

Mr. HENRY KAISER. Before the war the only shipbuilding they did—yes; they did. J. F. Shea was in World War I, and he was building ships in Seattle.

Mr. COLES. That is prior to the 15 years you have mentioned?

Mr. HENRY KAISER. Yes. I remember now that J. F. Shea was in there and the General Construction Co. Prior to the war we organized the Seattle-Tacoma Shipbuilding Co. and bid competitively on ships and became a competitor.

Mr. COLES. That was in 1939?

Mr. HENRY KAISER. I imagine it was. You have the records there.

Mr. COLES. What proportion of your time did you give to shipbuilding back in 1939?

Mr. HENRY KAISER. A great deal of it; more than anything else.

Mr. COLES. What was your first entrance into shipbuilding on a large scale in one of these six companies?

Mr. HENRY KAISER. That was the Seattle-Tacoma. That was a tremendously large contract for that time.

Mr. COLES. When was the Kaiser Co. formed?

Mr. HENRY KAISER. The Kaiser company? Which one are you talking about?

Mr. COLES. The Kaiser Shipbuilding Co.

Mr. HENRY KAISER. There is a Kaiser Co. which is owned 95 percent——

Mr. COLES. I am referring to the Kaiser Co., Inc.

Mr. HENRY KAISER. I do not know the date of it.

Mr. COLES. Was it in 1941?

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Mr. HENRY KAISER. You have that information; you have all those records. I accept the record.

Mr. COLES. Now, Mr. Kaiser, the figures given us by the Maritime Commission——

Mr. HENRY KAISER. You asked another question that I must finish the answer to. Prior to the war the British finally selected us to build ships for them, and they were astounded at our costs, they were so low. That was our experience before the war.

Mr. BRADLEY. Be good enough to raise your voices. We do not want a private conversation between you and the attorney.

Mr. HERTER. Mr. Kaiser, I think you assume that counsel has a record of these things. He may have it in physical form, but the members of the committee have not got it; so we would like very much to get the answers as they come from you.

Mr. HENRY KAISER. I will have him read it, because it has all been furnished.

Mr. COLES. The figures given us by the Maritime Commission, incorporated in exhibit No. 1, show that the investment in the six Kaiser-controlled yards, which include the California Shipbuilding Co., is $223,000,000. Have you any reason to dispute that figure?

Mr. HENRY KAISER. Yes. When you say that, my son just brings up the question that this is a family affair, apparently, when you speak of Kaiser-controlled yards.

Mr. COLES. The Kaiser facilities.

Mr. HENRY KAISER. We control a small percentage of them.

Mr. COLES. Let us consider that we are talking about those which were formed by you and the companies which formerly comprised the "Six Companies."

Mr. HENRY KAISER. That is not a correct statement.

Mr. COLES. Let us put it another way. Let us talk of the Kaiser group as including the ones which are incorporated in this statement which you gave us showing Kaiser ownership and which I would like to introduce as exhibit No. 3.

(Document so described was received and marked "Exhibit No. 3.")

Mr. HENRY KAISER. I would like to take all the credit. If you insist on it, I will.

Mr. COLES. Would you like all the profit?

Mr. HENRY KAISER. I would like to have you consider my losses as well.

Mr. COLES. We will get to that. The "Six Companies" had a substantial interest in the Permanente Metals Co.; is that correct?

Mr. HENRY KAISER. I do not think that the "Six Companies" had. The answer is "No."

Mr. COLES. The figures I have of the Permanente Metals Co. show the Henry J. Kaiser Co.——

Mr. HENRY KAISER. Those are different people again.

Mr. COLES. Let us not quibble, Mr. Kaiser. The Kaiser Co., Inc., can be considered a Kaiser group shipyard. It is owned 100 percent.

Mr. HENRY KAISER. No; it could not be.

Mr. COLES. Is not the Kaiser Co. owned 100 percent by the Henry J. Kaiser Co.?

Mr. HENRY KAISER. It is a hundred percent owned by me, the family.

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I believe we should ask counsel to use an accurate chart, and not one that has been pointed out before as wholly inaccurate. Here is a little chart, Mr. Chairman [indicating], and he was quoting from an inaccurate chart. So we want him to use an accurate chart.

Mr. McCONNELL. Who drew the accurate chart?

Mr. COLES. The Kaiser Co. The thing I am trying to find, Mr. Chairman, is what yards comprised the so-called Kaiser group; and for purposes of convenience I think we must take as the Kaiser group those companies which are controlled by Mr. Kaiser and the affiliated companies known as the "six companies." It must be said that the Kaiser Co., Inc., which we will get to next, is the only 100 percent Kaiser-owned yard——

Mr. HENRY KAISER. So long as you do not call it Kaiser-controlled. When I have 2 or 3 or 5 or 8 percent it is not Kaiser-controlled.

Mr. COLES. Let us say the Kaiser affiliates control group, which are the shipyards certainly which you represent here; is not that correct?

Mr. HENRY KAISER. No; I do not represent them all here.

Mr. COLES. Do I not have letters in the file saying that you will appear for the Kaiser companies?

Mr. HENRY KAISER. You have for four.

Mr. COLES. In April of 1945 were you interested in the California Shipbuilding Co.?

Mr. HENRY KAISER. Yes.

Mr. COLES. And are you still interested in the Walsh-Kaiser Co.?

Mr. HENRY KAISER. Yes.

Mr. COLES. So, while you are not representing those can we take those six and treat the others as Kaiser-group yards?

Mr. HENRY KAISER. No, sir. May I get some information?

The CHAIRMAN. You can confer with your associates, but their answers are not part of the record.

Mr. HENRY KAISER. Let me answer this question this way, that the yards we manage we control the management of. The yards we do not manage we do not control in any way, shape, or form. We simply had an interest in them.

Mr. COLES. Those yards which you managed and which you had an interest in would include those six shipyards; is that right?

Mr. HENRY KAISER. That is right.

Mr. BRADLEY. What are those yards?

Mr. COLES. The Kaiser Co., Inc.; the Permanente Metals Co.; the Oregon Shipbuilding Corp.; the Kaiser Cargo Co.; the California Shipbuilding Co., until April of 1945; and the Walsh-Kaiser Co.

The CHAIRMAN. Does Mr. Kaiser agree to that?

Mr. HENRY KAISER. Yes, sir.

Mr. COLES. The figures given us by the Maritime Commission show that the total Government investment in facilities in those yards is 223 millions plus. Do you agree with that figure?

Mr. HENRY KAISER. We do not know, because we do not know the Walsh-Kaiser figures, and we do not know the California Shipbuilding Co. figures.

Mr. COLES. Do you dispute the figures given on the four yards that you do own?

Mr. HENRY KAISER. No.

Mr. COLES. They are correct?

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Mr. HENRY KAISER. Those figures we have given you. I think he ought to read you the figures, so you will know what they are.

The CHAIRMAN. The committee will determine the procedure.

Mr. COLES. Mr. Kaiser, what was the total investment of yourself or the Kaiser affiliated companies in the physical plants of these six shipyards?

Mr. HENRY KAISER. You are going back to the six shipyards?

Mr. COLES. Let us take the four that you say you controlled or managed. What was the total of your investment in those four shipyards?

Mr. HENRY KAISER. We have a property investment.

Mr. COLES. Would you say that your total property investment in those four yards equals a million dollars?

Mr. HENRY KAISER. I would not know until I get the statement.

(Exhibit 35 gives the following additional written answer by Mr. Kaiser:)

Though totals varied considerably during the period 1942–46, inclusive, the maximum and minimum investments by Kaiser-managed shipbuilding companies in land and buildings, furniture and fixtures, and automobiles at the various yards operated by the companies to the latest dates available were as follows:

	Maximum	Minimum
	June 1943	June 1946
Kaiser Co., Inc.:		
Land and buildings [1]	$376,487.17	
Furnishings and fixtures	5,936.23	$24,740.92
Automobiles	54,790.10	70,091.04
Total	437,213.50	94,831.96
	December 1943	July 1946
Oregon Shipbuilding Corp.:		
Land and buildings	$135,764.74	$93,903.71
Furnishings and fixtures	6,909.08	7,565.33
Automobiles	32,015.99	33,188.13
Total	174,689.81	134,657.17
	December 1945	August 1946
The Permanente Metals Corp.:		
Furnishings and fixtures	$2,793.75	$1,636.23
Automobiles	60,104.56	28,186.24
Total	62,898.31	29,822.47
	October 1944	August 1946
Kaiser Fleetwings, Inc. (formerly Kaiser Cargo, Inc.): Automobiles	$1,601.32	
Total maximum, all yards	676,402.94	

[1] Title to land and buildings was held in Kaiser Co., Inc., for a considerable period of time until legal technicalities for transfer from the original owner to Maritime Commission could be worked out.

(See p. 4, exhibit 6.)

Mr. COLES. Your son is shaking his head.

Mr. HENRY KAISER. We neither one of us know.

Mr. COLES. In other words, you may not have a million dollars invested in those four yards?

Mr. HENRY KAISER. I do not know. You should have asked that question when you sent in all those questionnaires that I had the organization working for 2 months on.

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Mr. COLES. We are doing our best. Do you have a million dollars invested in those facilities?

Mr. HENRY KAISER. I do not know.

Mr. COLES. Mr. Edgar Kaiser indicated a moment ago that he might have an answer to that. Can you check with him?

The CHAIRMAN. I will say to counsel for the committee that if the other Mr. Kaiser is going to be introduced we will have to swear him.

Mr. COLES. I think it is preferable that he testify through this Mr. Kaiser.

Mr. HENRY KAISER. He doesn't know. You are talking about physical property?

Mr. COLES. Physical investment in the shipyards.

I would like to go over, if we can, to the first of these companies, the Kaiser Co., Inc. Mr. Kaiser, what were the circumstances leading to the formation of the Kaiser Co., Inc.?

Mr. HENRY KAISER. Admiral Land has testified that it took 2 years to hook us, and he did hook us, and when he hooked us we went ahead with the job of building as he wanted them built.

Mr. COLES. So you formed the Kaiser Co. at the instance of Admiral Land?

Mr. HENRY KAISER. We formed many of these companies when they wanted ships.

Mr. COLES. Let us take up each one in turn.

The CHAIRMAN. Confine your answer to the Kaiser Co. as indicated.

Mr. HENRY KAISER. I was just about to say what my son has just said, that we had difficulty getting steel for the ships. Our shipyards were held up. Our ships were not being delivered. Neither Bethlehem nor the other steel companies could deliver, and we formed that company so that we would be able to set up as best we could anything we owned a hundred percent. We formed with the idea of getting a steel plant to get steel for the ships.

Mr. COLES. Who was the president of that company?

Mr. HENRY KAISER. I don't know.

Mr. COLES. Were you not the president?

Mr. HENRY KAISER. I hope so.

Mr. COLES. Who are the other major partners in that enterprise?

Mr. HENRY KAISER. I don't know what you mean.

Mr. COLES. Was Mr. Edgar Kaiser an officer of the company?

Mr. HENRY KAISER. Will you read that?

Mr. COLES. I assure you that I depend upon you for this information.

The CHAIRMAN. Have the statements that have been filed been put in shape to incorporate into the record?

Mr. COLES. Yes, sir.

The CHAIRMAN. Are they under oath?

Mr. COLES. They are extremely long and so voluminous that our staff spent a great deal of time on them. I would like to put them in the printed record. I would like the principal officers at the beginning of the corporation.

Mr. HENRY KAISER. There are 30 of them here.

Mr. COLES. I mean the top three or four.

Mr. HENRY KAISER. Henry J. Kaiser, president; Edgar F. Kaiser, vice president; E. E. Trevelyan, vice president, director, and secretary; and C. F. Calhoun, vice president and assistant secretary.

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Mr. COLES. In getting your original shipbuilding contracts whom did you deal with in the Maritime Commission?

Mr. HENRY KAISER. It largely depended on who was there. I would say, primarily with Admiral Vickery.

Mr. COLES. Did you deal with Admiral Land, too?

Mr. HENRY KAISER. Very little.

Mr. COLES. When was the original shipbuilding contract and shipyard facility contract with Kaiser Co., Inc., entered into?

Mr. HENRY KAISER. January 1942.

Mr. COLES. Mr. Kaiser, when you formed Kaiser Co., Inc., how much capital stock was there and how much did you invest of the capital stock in that company?

Mr. HENRY KAISER. We got bank loans of $13,750,000, and a capital stock of $100,000.

Mr. COLES. The capital stock was $100,000?

Mr. HENRY KAISER. Yes.

Mr. COLES. Did you also borrow $13,000,000?

Mr. HENRY KAISER. That is what our record shows here.

Mr. COLES. Were you a personal endorser of those loans to the company?

Mr. HENRY KAISER. I think you ought to get the Bank of America here to find out about that.

(Exhibit 35 gives the following additional written answer by Mr. Kaiser:)

Those loans of $13,750,000 were made to Kaiser Co., Inc., by private banks upon the credit of the company and without any guaranty by the Government. I was not a personal endorser in a strict legal sense, but all of the loans were made to the company upon the basis of my character, reputation, and past accomplishments established by punctually meeting all terms and conditions of every loan obtained over a period of approximately 40 years in private business during which time companies managed by me had completed $383,000,000 worth of work.

The CHAIRMAN. It does not make any difference who we ought to get, sir. Answer the question.

Mr. HENRY KAISER. Well, I don't know.

The CHAIRMAN. If you don't know, say so.

Mr. HENRY KAISER. All right; I don't know.

Mr. COLES. Did you have any personal obligation in connection with that loan?

Mr. HENRY KAISER. Every personal obligation that could be within my whole soul and body.

Mr. COLES. Did you have any legal obligation?

Mr. HENRY KAISER. I don't know that. You want to know exactly, and I don't know.

Mr. COLES. Was interest paid on those loans?

Mr. HENRY KAISER. I'm sure it must have been.

(Exhibit 35 gives the following additional written answer by Mr. Kaiser:)

Yes, it was, at a rate of 2½ percent per annum.

Mr. COLES. Was this an item of interest in your shipbuilding contracts?

Mr. HENRY KAISER. You have got the records; I don't have them.

Mr. COLES. It is not in the record that you gave me.

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Mr. HENRY KAISER. The Maritime Commission has the records. To the best of our knowledge, half of it was and half of it was not.

Mr. COLES. And that half that was was reimbursed to you by the Maritime Commission; is that correct?

Mr. HENRY KAISER. Yes.

The CHAIRMAN. If the other Kaisers are to testify they will have to be sworn and the record will have to show from whom the answer comes.

Mr. COLES. So that, in effect, the Government reimbursed you for the interest paid on half of this loan; is that correct?

Mr. HENRY KAISER. Yes.

Mr. COLES. When was this loan originally floated? Do you remember?

Mr. HENRY KAISER. I don't remember; I don't know.

(Exhibit 35 gives the following additional written answer by Mr. Kaiser:)

The first loan under the credit agreements for the Vancouver yard and Richmond No. 3 yard was made in February 1942. The first loan under the credit agreement for the Portland Swan Island yard was made in April 1942.

Mr. HENRY KAISER. Mr. Chairman, they are asking questions about a lot of technical and detailed records involving over $5,000,000,000 worth of business. I will be glad to answer if I can.

The CHAIRMAN. You can answer or say that you cannot answer.

Mr. HENRY KAISER. I would suggest that he ask this in writing, so that the questions can be answered by accountants.

The CHAIRMAN. The committee will decide what should be done. You try to answer the questions.

Mr. COLES. In December 1942 was this borrowing from the bank not guaranteed by the Government?

Mr. HENRY KAISER. I don't know.

Mr. COLES. Did you sign this statement reporting on the Kaiser Co., Mr. Kaiser?

Mr. HENRY KAISER. If it is over my signature; yes.

Mr. COLES. Mr. Chairman, I find some difficulty in locating this in the record, but the record furnished by the Kaiser Co. shows that in December 1942 and March 1943 up to those dates $13,750,000 had been borrowed by the company and was not guaranteed. On those two dates new arrangements were made in the amount of almost $18,000,000 guaranteed by the Government.

Is that correct, Mr. Kaiser?

Mr. HENRY KAISER. No; it is not correct.

(Exhibit 35 gives the following additional written answer by Mr. Kaiser:)

I find upon examining the report originally filed with the committee by Kaiser Co., Inc., and particularly exhibit B attached thereto, that the answer to the above question is "Yes." The new arrangements were necessary because of the magnitude of the operation. In the first instance, it was necessary for Kaiser Co., Inc. to borrow from several banks so that no one of them would exceed the limitations imposed by the Federal Government on loans which banks can make to any one borrower. Later, with increased operations, it was necessary to borrow under regulation V, which loans were guaranteed by the Government so that the effect of borrowing under this regulation was to permit larger loans by each bank without exceeding their maximum limits on loans to any one borrower. I might add that regulation V loans were not only authorized by Federal law but their use was encouraged by the Government to further the war effort.

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Mr. COLES. Would you correct it, please?

Mr. HENRY KAISER. First of all, I have never failed to pay a loan, and they know it, and the guaranty of that bank is character and reputation and performance.

Mr. COLES. I want to read from that statement, Mr. Chairman.

The CHAIRMAN. Proceed.

Mr. COLES (reading):

Under date of December 15, 1942, the Bank of America and the company—

That is, the Kaiser Co.—

entered into a credit arrangement which made available $11,000,000. In connection therewith a credit agreement was secured by the bank from the United States Maritime Commission wherein the Commission obligated itself to purchase up to 50 percent of the unpaid balance of the loan under certain conditions.

Is that correct, Mr. Kaiser?

Mr. HENRY KAISER. Read the rest of it.

Mr. COLES (reading further):

This was never necessary. The maximum borrowings under this credit agreement was $10,500,000.

Is that correct?

Mr. HENRY KAISER. Yes. I am glad you read the rest of it.

Mr. COLES. I am sorry. I had no intention of keeping it out. I thought it was not relevant.

The Government paid you for half the interest on the money you borrowed and the Government guaranteed half the money you borrowed?

Mr. HENRY KAISER. If your record shows that is correct, and it has my signature; yes.

Mr. COLES. Do you have any personal or legal obligation on those loans?

Mr. HENRY KAISER. I would have to get a series of attorneys to tell you that—whether they are legal obligations or not. I know I have a personal obligation.

(Exhibit 35 gives the following additional written answer by Mr. Kaiser:)

As of this time I could not have any personal or legal obligations under said loans because the last of them were paid in full in June, 1945. However, I never had any personal legal obligation in the strict sense but my personal character and reputation were nevertheless at risk so that I could not have permitted any default on the loans to occur if I expected to carry on business in the future.

Mr. COLES. Did you endorse any of those loans with your personal signature?

Mr. HENRY KAISER. That I do not know.

(Exhibit 35 gives the following additional written answer by Mr. Kaiser:)

No; but those loans were "character-endorsed" by me in the same manner as the private unguaranteed loans of $13,750,000 as mentioned in answers to previous questions.

Mr. COLES. Did you pledge as guaranty of those bank loans——

Mr. HENRY KAISER. I would like to say this to you, that I do not think the bank would have ever loaned that amount of money if Henry J. Kaiser had not been borrowing it on his character and his reputa-

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tion for always paying it. That is the credit that he had from that bank. And I would like to go further and say that that yard, together with other yards, produced C-4 ships and the contracts had to be transferred from other companies who had failed to deliver—that particular yard. And thousands of men, soldiers and sailors, will be thankful. I would like to present some of the letters from them as the result of the performance of that yard.

Mr. COLES. Mr. Kaiser, you have talked about soldiers and sailors. How much did they get as fees or profits?

Mr. HENRY KAISER. I don't know. It is about like ourselves: it is not completed yet.

Mr. COLES. Were receivables from the Government pledged as security for those loans?

Mr. HENRY KAISER. If the book says so, they were; I don't know.

(Exhibit 35 gives the following additional written answer by Mr. Kaiser:)

With respect to the private unguaranteed loans in the amount of $13,750,000, neither the Government contracts nor any receivables thereunder were pledged or assigned as security for such loans. Respecting Government guaranteed loans in the amount of $16,870,000, actually borrowed under loan agreement permitting $18,000,000 to be borrowed, all receivables including fees under the contracts were assigned to the banks as required by Government regulations covering such guaranteed loans.

Mr. COLES. The book does not say so.

Mr. HENRY KAISER. I don't know.

Mr. COLES. Will you furnish that information for the record, please?

Mr. HENRY KAISER. Yes.

Mr. COLES. Did you also borrow money from the Government for the Kaiser Co., Inc.?

Mr. HENRY KAISER. The Kaiser Co.?

Mr. COLES. Yes.

Mr. HENRY KAISER. Yes, sir. We were forced to.

Mr. COLES. Did you pledge your receivables from Government contracts to guarantee those loans?

Mr. HENRY KAISER. Yes; we did.

Mr. COLES. So, in summary, what you had was bank loans partially paid for, interest partially paid by the Government, partially guaranteed by the Government, and the Government lending you some money for which you pledged receivables?

Mr. HENRY KAISER. Except we put some private profit from other things into this same company.

Mr. COLES. What were those things?

Mr. HENRY KAISER. I would have to get a list of them. Now we are losing because of the fact that we cannot get the ship settlement with our shipyard No. 3, which you are familiar with and saw, and I thought it ought to be straightened out when I talked to you about it.

Mr. COLES. You said "other profits." Were you referring then to profits put into the Kaiser Co., Inc.?

Mr. HENRY KAISER. Yes; or other work.

Mr. COLES. And was that other work mainly for Government contracts?

Mr. HENRY KAISER. No; not all. Mainly, perhaps. I don't know definitely.

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(Exhibit 35 gives the following additional written answer by Mr. Kaiser:)

We put other work in addition to shipbuilding into Kaiser Co., Inc. This other work consisted generally of the following:

Richmond yard No. 3: A Navy contract for militarization of floating drydocks; two ship-repair contracts with War Shipping Administration; a ship-repair contract with the War Department; a contract with the Navy for disarmament and storage; a Navy contract for ship repair; miscellaneous repair, scrapping, and construction contracts for private parties; repair work for the Maritime Commission on both fixed-price and cost-plus-fixed-fee basis.

Portland (Swan Island) yard: two ship-repair contracts with the War Shipping Administration; two ship-repair contracts with the Navy; one ship-repair contract with the War Department; miscellaneous ship-repair work for private parties and foreign governments; ship-repair work for the Maritime Commission.

Vancouver yard: A contract with the Navy for the construction of eight carriers. Due to the end of the war, no vessels were completed under this contract. This was a fixed-price contract subject to redetermination. The total contract price was $88,000,000.

Mr. COLES. So that you put in $100,000 in the Kaiser Co., Inc., originally. What other money did you put into that company?

Mr. HENRY KAISER. Well, I did $383,000,000 worth of work and borrowed the operating capital from the banks, like every single big concern today is doing—borrowing operating capital. I don't know what Eugene Grace or Benjamin Fairless know about the needs of the United States Steel Corp.——

Mr. COLES. Read my question, please, Mr. Reporter.

(The question referred to was read by the reporter as above recorded.)

Mr. HENRY KAISER. I really do not know. I can furnish that information.

(Exhibit 35 gives the following additional written answer by Mr. Kaiser:)

As mentioned previously, profits from work other than shipbuilding were made by Kaiser Co., Inc. No other money was put into Kaiser Co., Inc. but it borrowed $13,750,000 from private banks without Government guaranty for use in its shipbuilding activities.

Mr. COLES. Do you know of any other that you did put up?

Mr. HENRY KAISER. I don't know. How could I know of any other?

Mr. COLES. Will you please furnish the information?

The CHAIRMAN. If he does not know, it is up to him to furnish the information.

Mr. COLES. Was there any increase in the Kaiser Co. through stock dividends?

Mr. HENRY KAISER. I don't know.

(Exhibit 35 gives the following additional written answer by Mr. Kaiser:)

No; there was not.

Mr. COLES. Was the capital of this Kaiser Co. used to advance any of your other shipbuilding operations?

Mr. HENRY KAISER. I don't know that. I can furnish it.

(Exhibit 35 gives the following additional written answer by Mr. Kaiser:)

No, not in a direct way. However, all of the shipyards operated by Kaiser-managed companies were conducted at the behest of the Maritime Commission

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in such manner as to obtain the best over-all production records. This sometimes entailed a yard operated by one Kaiser-managed company doing work for a yard operated by another Kaiser-managed company. For example, Oregon Shipbuilding Corp. completed two liberty vessels which the Vancouver yard of Kaiser Co., Inc., had started under its original contract but which Kaiser Co., Inc., allowed to be canceled so that Kaiser Co., Inc., could convert and use the facilities on the LST program.

Later in the program when the Vancouver yard of Kaiser Co., Inc., had excess capacity temporarily, it partially completed eight vessels for Oregon Shipbuilding Corp.

Richmond shipyard No. 3, operated by Kaiser Co., Inc., also outfitted numerous victory ships for the Permanente Metals Corp.

In the above manner working funds of Kaiser Co., Inc., were tied up in accounts receivable for work done by yards operated by other Kaiser-managed companies and vice versa, and in this sense and to foster the greatest production of ships, capital of Kaiser Co., Inc., was used in other shipbuilding operations.

Mr. COLES. Are you the president of the company?

Mr. HENRY KAISER. Yes.

Mr. COLES. Were you in charge of its operations?

Mr. HENRY KAISER. Yes, sir.

Mr. COLES. You were rewarded for that in the sense that you had a share of the profits?

Mr. HENRY KAISER. I had a share of the losses, too.

Mr. COLES. We will get to that later. Did you participate in the earnings of that company?

Mr. HENRY KAISER. Had there been some earnings I would have participated.

Mr. COLES. But you cannot remember whether the capital of the company was used to advance any other company?

Mr. HENRY KAISER. You had difficulty reading your record, or you could not find something in the record. Don't you think I have trouble?

The CHAIRMAN. It is perfectly useless to sit there and debate with each other.

Mr. COLES. Were the shipyard profits guaranteed to pledge the loan on your steel company?

Mr. HENRY KAISER. Yes.

Mr. COLES. As a result of pledging those profits was it impossible for the Kaiser Co., Inc., to pay up its bank loans?

Mr. HENRY KAISER. I don't know. I can furnish the information.

(Exhibit 35 gives the following additional written answer by Mr. Kaiser:)

No. The bank loans have been paid in full in accordance with the loan agreements.

Mr. COLES. Was the payment of those bank loans delayed because the profits were pledged to the Steel Co.?

Mr. HENRY KAISER. I can furnish the information to the committee. I would like to have it done by an accountant.

(Exhibit 35 gives the following additional written answer by Mr. Kaiser:)

No. Repayment of the bank loans was in no way delayed by the fact that shipbuilding fees were pledged as security for repayment of the loan of the Reconstruction Finance Corporation on the Fontana steel plant.

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Mr. COLES. As a result of any delay which may have occurred, would the Government continue to have to pay half the interest, reimbursing the shipyard profit loans?

(Exhibit 35 gives the following additional written answer by Mr. Kaiser:)

No, sir. No delay occurred.

Mr. HENRY KAISER. No, sir.

Mr. COLES. Does not that infer that the loan must have been paid off sooner?

Mr. HENRY KAISER. I don't know.

(Exhibit 35 gives the following additional written answer by Mr. Kaiser:)

The question is indefinite because it is not clear whether reference is made to the bank loans or the Reconstruction Finance Corporation loan on the Fontana steel plant. Apparently, counsel is concerned with or wishes to establish through the foregoing series of questions that the Government had to reimburse a greater amount of interest on the bank loans obtained for shipbuilding purposes because of the pledge of the shipbuilding fees as security for the RFC loan on the steel plant. Actually the opposite is the case. The bank loans applicable to particular contracts were in all instances paid off before any shipbuilding fees were applied on the RFC steel plant loan, and, in fact, after it was necessary to use Government guaranteed bank loans all receivables from the shipbuilding contracts, including fees, were assigned to the bank and were applied first in repayment of the bank loans as soon as the funds were disbursed by the Government in payment of work on the contract. Therefore, the only additional interest which might have accrued on the bank loans resulted from delays of the Government in paying invoices under the shipbuilding contracts after they were submitted, and the pledge of the shipbuilding fees as security for the steel plant loan in no way affected repayment of the bank loans. On the other hand, through this arrangement earned shipbuilding fees were held by the bank until the particular contract under which they were earned was completed so that during this interim period the fees could not be applied on the steel plant loan, thus actually resulting in increased interest which Kaiser Co., Inc., had to pay to RFC.

Mr. COLES. If the loans were not paid off——

Mr. HENRY KAISER. I can furnish all this information.

Mr. COLES. I would like to have it in the record.

Mr. HENRY KAISER. I will be glad to furnish it.

Mr. COLES. At this time.

Mr. HENRY KAISER. I cannot furnish it to you at this time; I don't know.

Mr. COLES. You cannot squeeze blood from a stone.

The CHAIRMAN. If counsel asks you a question and you cannot answer it, say so.

Mr. HENRY KAISER. Counsel just says you cannot squeeze blood from a stone; so he assumes that I am a stone.

Mr. COLES. Let us go on, Mr. Kaiser, to the Government investment in the Kaiser Co. yard. How much did the Government invest in the Kaiser Co.'s shipyards?

Mr. HENRY KAISER. I will furnish it.

(Exhibit 35 gives the following additional written answer by Mr. Kaiser:)

I will furnish it. Exhibit H attached to the report submitted to the committee shows that the Government invested a total of $75,594,732.89 in the three yards operated by Kaiser Co., Inc. In addition, the Government invested a total of $34,057,893.53 in housing and transportation facilities at the three yards operated by Kaiser Co., Inc., making in all a total investment by the Government of $109,652,626.42, all of which was constructed by Kaiser Co., Inc., without any fee or profit on the work.

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Mr. COLES. It is in the records.

The CHAIRMAN. What is already in the record, if it is made an exhibit, may be received.

Mr. COLES. Will you glance at that? I show you that and ask you what the total investment of the Maritime Commission was in the Kaiser Co.'s three yards.

Mr. HENRY KAISER. There is a confusion here in regard to money invested in those shipyards. I will have to get the information and furnish it.

The CHAIRMAN. You answer that there is confusion here. That does not show in the record what you mean. The confusion is where?

Mr. HENRY KAISER. He asks me if this is correct, and I cannot say that it is correct. There are Navy investments and housing investments and Maritime Commission investments in the yard. But I will furnish any information you ask for. I do not have it here.

The CHAIRMAN. I did not know what you were talking about.

Mr. COLES. The Maritime Commission in exhibit 1 says that the Government put $113,812,000 into the building of the Kaiser Co.'s three yards. Have you any reason to dispute that figure?

Mr. HENRY KAISER. I would not know.

Mr. COLES. The total figure you gave us is, for the yards themselves, $75,594,000. When you include housing in the yards, and transportation to the yards, $109,652,000. Are those figures corerct?

Mr. HENRY KAISER. To the best of my knowledge they are; I don't know.

(Exhibit 35 gives the following additional written answer by Mr. Kaiser:)

To the best of my knowledge, they are. I have previously answered this in your preceding question.

Mr. COLES. Now, do you recall whether or not you had any investment in this yard at all?

Mr. HENRY KAISER. I can furnish you any information you want.

Mr. COLES. We are trying to bring this out.

The CHAIRMAN. Just say whether you do or do not know.

Mr. COLES. Did you have $1, so far as you know, invested in facilities, physical facilities?

Mr. HENRY KAISER. We had money invested, but how much I do not know.

Mr. COLES. I will show you here a copy of a record prepared by the War Production Board which shows the total private investment in all your yards, and call your attention to the Kaiser Co. shipbuilding activities, which shows that in the Portland yard you had $120,000 invested. Is that correct?

Mr. HENRY KAISER. Mr. Chairman, I will furnish all these figures to you. This is a question, or a series of questions, on accounting that I should not be asked to answer and should not be asked to furnish, and I cannot. I can say "No."

(Exhibit 35 gives the following additional written answer by Mr. Kaiser:)

Our records show that we had a low of $104,827.88 in September 1942 and a high of $376,487.17 in June 1943 invested in land and buildings at the Portland Swan Island yard operated by Kaiser Co., Inc. After June 1943 legal technicali-

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ties were worked out so that the land and buildings could be transferred from the original owners to the Maritime Commission and Kaiser Co., Inc., had no further investment therein. The above figures do not include Kaiser Co., Inc.'s, investment in furniture, fixtures, and automobiles used at the yard which varied between a minimum of $4,458.68 in April 1942 and a maximum of $53,336.75 in October 1945. The investment in the items mentioned above varied considerably during the period 1942–46, and while the date of the WPB report is not given, we are unable to find any combination of figures representing investment in land and buildings, furniture and fixtures, or automobiles during the period 1942–46 which we can reconcile with the $120,000 figure quoted from the WPB report.

The CHAIRMAN. The Chair rules that the questions are proper. You can answer them or not.

Mr. HENRY KAISER. I cannot answer them now, but I will furnish the answers.

The CHAIRMAN. Very well. That is an answer.

Mr. COLES. Did you have as much as $1,000,000, or 1 percent of the Government's investment, invested?

Mr. HENRY KAISER. I cannot answer it now, but I will furnish the answer.

(Exhibit 35 gives the following additional written answer by Mr. Kaiser:)

No. As mentioned in an answer to a previous question, Kaiser Co., Inc., had a maximum of $437,213.50 invested in yards operated by it at any one time. However, it should be pointed out that all of the yards except possibly Richmond Yard No. 3 were highly specialized plants built to meet a wartime emergency and it was not contemplated that they could be used in private industry after the war. Richmond Yard No. 3, the only one which could be considered as of a permanent nature, is actually being held by the Maritime Commission to meet possible future emergency shipbuilding needs of the Government. Under these circumstances, the Government did not expect or require private investment in the yards themselves any more than private investment in hundreds of other emergency plants built during the war was expected or required. Kaiser Co., Inc., was, however, required to provide adequate equity capital which, in earlier Maritime contracts with other operators, had been fixed at a minimum of $100,000 per way. Using this standard, Kaiser Co., Inc., actually provided more than five times the minimum equity captial per way which had previously been fixed by the Maritime Commission with respect to other yards.

Mr. COLES. Do you have any reason to believe that you had $1,000,000 invested in this yard now, if you thought that you had at one time?

Mr. HERTER. If that is going to be the response, may I suggest that the answer be furnished and printed in the record with the question.

Mr. COLES. Mr. Kaiser, will you be able to get us these answers by tomorrow?

Mr. HENRY KAISER. I hope so. I have all the men here to do so. If you will just write these questions for me as soon as you finish, I will get the answers for you.

Mr. COLES. Will you have someone make a record of this?

Mr. HENRY KAISER. I am doing that right here.

Mr. COLES. Was there a provision in the contract for the building of the yard, which we shall call the facilities contract, against any profit going to the Kaiser Co., Inc., from its building?

Mr. HENRY KAISER. We initiated, on this question of the building of the yard, that it be done without any fee.

Mr. COLES. Was that not standard form for all these ship facilities contracts?

Mr. HENRY KAISER. That became, then, standard form.

Mr. COLES. Are you inferring that yours was the first Maritime yard built?

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Mr. HENRY KAISER. I think ours was the first Maritime yard built.

(Exhibit 35 gives the following additional written answer by Mr. Kaiser:)

Kaiser Co. Inc., was not the first to do so but Oregon Shipbuilding Corp., a Kaiser-managed company, was one of the first three companies to make such a contract with the Maritime Commission. All three companies signed their contracts with the Commission on the same day in January 1941.

Mr. COLES. Would you check on that, please? I think you are wrong.

Mr. Henry Kaiser, on page 36 of your report you state [reading]

No funds or profits of any kind were paid to Kaiser Co., Inc., on any of the above work.

Is that correct?

Mr. HENRY KAISER. As near as I know it is correct.

Mr. COLES. What was the major engineering company which you retained to build this yard?

Mr. HENRY KAISER. I know that in the Kaiser Co. yards in Richmond, or I believe, the Henry J. Kaiser Co. did the work. I believe a fee of $300,000 was authorized, and they refused it.

Mr. COLES. In other words, the main subcontracting job was done by the Henry J. Kaiser Co.?

Mr. HENRY KAISER. We did the work at our cost, without any fee, and at a loss.

Mr. COLES. Did you have any other subcontractor build that yard?

Mr. HENRY KAISER. At Richmond? No; not at Richmond. I am talking about the Kaiser Co. To the best of my knowledge and belief, the Kaiser Co. did most of the work free of charge, but there were some subcontractors.

Mr. COLES. Were any of those other subcontractors affiliates of the so-called six companies?

Mr. HENRY KAISER. No.

Mr. COLES. I say affiliates of any of the so-called Six Companies, directly or indirectly. You mentioned Gilpin Construction Co. as one, which is a subsidiary of one of the other companies.

Mr. HENRY KAISER. You mean it was a subsidiary of another company.

Mr. COLES. Of one of the six companies. I think we can get the answer to that tomorrow.

Mr. HENRY KAISER. I do not know that we can find out from Gilpin who owns Gilpin. We will try to.

Mr. COLES. I would like to find out, if you will, what the total fees paid to subcontractors in the construction of the yard amounted to and the relationship of those. Can you furnish that tomorrow?

Mr. HENRY KAISER. Yes.

(Exhibit 35 gives the following additional written answer by Mr. Kaiser:)

In the construction of Richmond shipyards 3 and 4, Kaiser Co., Inc., paid a total of $300,000 in fees to Arthur Rousseau, Louis C. Dunn, and Robert McCarthy Co. on cost-plus-fixed-fee contracts performed by those contractors amounting to a total of $13,667,492.06, including the above-mentioned fees. All other subcontracts for work in connection with yards 3 and 4 in the total amount of $15,152,326.46 were on a lump-sum or fixed-price basis and the amount of profits or losses sustained by such subcontractors cannot be ascertained by us. There were a very great number of such subcontractors and we presume

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that the committee will be able to develop this information through the War Contracts Price Adjustment Board if desired.

In the construction of the Vancouver yard, Kaiser Co., Inc., paid a fee of $13,300 to Gilpin Construction Co. under a contract with that company. All other work in connection with this yard in the total amount of $11,850,856.11, including the above-mentioned fee, was subcontracted on a lump-sum or fixed-price basis and again we have no way of ascertaining the profit or loss which may have been sustained by the numerous subcontractors performing such work.

In the construction of the Swan Island yard, Kaiser Co., Inc., paid one fixed fee amounting to $12,000 to Reimers & Jolivette under one cost-plus-fixed-fee contract with that firm in the total amount of $137,569.84, including said fee. In connection with construction of the Swan Island yard several fees for professional engineering and architectural services were paid to Miles Cooper, Wolff & Phillips, John W. Cunningham, Kaiser Engineers, Inc., and H. R. Cedergren, in the total amount of $52,555.08. Only one subcontract was made with Kaiser Engineers, Inc., an affiliate of Kaiser Co., Inc., and a so-called fee of $2,843.78 was paid to Kaiser Engineers, Inc., under said contract but this only represented direct costs which were audited by the Maritime Commission and did not include anything for overhead or profit. We have no way of determining the actual profits made by other subcontractors performing these professional services.

With the exception of the one cost-plus-fixed-fee contract and the fees as noted above all other subcontracts at the Swan Island yard, totaling $9,153,709.53, were let on a lump-sum or fixed-price basis and we have no way of determining the amount of profits or losses which may have been sustained by the numerous subcontractors involved.

All subcontracts which were awarded by Kaiser Co., Inc., for construction of the yards were submitted to and approved by the Maritime Commission.

Mr. COLES. Now, Mr. Kaiser, going to the shipbuilding contracts, I see by the record you furnished that you had the three types of contracts—cost-plus-fixed-fee, price-minus, and fixed-price. The total of those was $1,658,000,000. Is that correct? That is the Kaiser Co., Inc.

Mr. HENRY KAISER. Yes.

Mr. COLES. Your record also shows that you received fees of $21,000,000 and profits of $25,000,000 on this company, making a total of $46,883,000. Is that correct?

The CHAIRMAN. When the counsel says "the record shows," is that the statement filed by the Kaiser Co. or a deduction of counsel?

Mr. COLES. No. I should like to introduce as exhibit 4 this report from the Kaiser Co., Inc., and I would like to refer in that report to the answer to question No. 9, schedule No. 1.

The CHAIRMAN. Very well. That is admissible as testimony.

(The report so designated was received and marked as "Exhibit No. 4.")

Mr. COLES. I am trying to save time.

The CHAIRMAN. I think time is saved by introducing the interrogatories and the answers which he has himself made, without asking him to say whether he told the truth when he answered them or not, unless that answer was prejudicial.

Mr. COLES. The total of fees and profits before renegotiation amounted to $46,863,000?

Mr. HENRY KAISER. That compares with the record I have here; yes.

Mr. COLES. And that record was furnished by you?

Mr. HENRY KAISER. Yes.

Mr. COLES. Was there $5,750,000 of nonreimbursables?

Mr. HENRY KAISER. That is right.

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Mr. COLES. Giving a total of fees and profits of $41,133,000 from shipbuilding operations; is that correct?

Mr. HENRY KAISER. That is right.

Mr. WEICHEL. Are we just examining Henry Kaiser on what he says he got? Do we not have any other way of finding out what he got except by what he himself says? Do we not have any Government records downtown here in Washington? This seems to be asking Mr. Kaiser, "Did you tell me that you got $46,000,000?"

The CHAIRMAN. Counsel has asked inquiries, and I have already reminded him that those exhibits of those answers can come in as part of the record. If they are prejudicial to Mr. Kaiser, it is up to Mr. Kaiser to testify. I do not see any use in asking him if what he said was true.

Mr. WEICHEL. That is what I am getting at. It seems we should have some information in Washington as to whether what Mr. Kaiser said is true, instead of asking him, "Did you tell me you made $46,000,000?"

Mr. HENRY KAISER. I agree with you.

Mr. COLES. These figures are Mr. Kaiser's figures, but I have checked them against the Maritime Commission's figures, and they are almost all of them pretty much the same, so we can rely on them.

Mr. BRADLEY. Right at that point, I understood Mr. Kaiser to say that these records given by the Maritime Commission were all wrong. I think counsel should proceed to find out which is right.

Mr. WEICHEL. Mr. Coles is asking him if he made so much money.

Mr. COLES. Mr. Weichel, this is just on this one yard, one of the six yards.

Mr. HENRY KAISER. Three.

Mr. COLES. I mean one of the six shipbuilding companies.

Now, Mr. Kaiser——

Mr. HENRY KAISER. Well, finish the rest of this.

Mr. COLES. I will get to that later, Mr. Kaiser. I assure you I will.

Mr. HENRY KAISER. I would like at this time to state that he has not read all of these figures of this sheet which I have been approving, which show a loss.

The CHAIRMAN. I think it is entirely legitimate for the witness, if he objects to the statement of counsel, to proceed to read that which he thinks should have been read.

Mr. HENRY KAISER. All the figures have been read here which show profits, but the final figure shows a loss, and that has not been read.

The CHAIRMAN. State what it is.

Mr. HENRY KAISER. The loss is $18,579,040.26.

Mr. COLES. Mr. Kaiser, were any of those losses on shipbuilding operations?

Mr. HENRY KAISER. You mean of the shipbuilding division? They are losses of the company, but they are not losses of the shipbuilding division. There are some losses now occurring in the shipbuilding division that should be added to these, as a result of the delay and all of the questions and the competitive situation in yard 3, which I have formerly advised you of, which is part of this.

The CHAIRMAN. Our examination is directed to shipbuilding companies' profits and losses.

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Mr. HENRY KAISER. There is shipbuilding in this, Mr. Chairman, that is going on now, that has been up to this time. There have been some losses.

The CHAIRMAN. Then it is up to you to show what they are.

Mr. HENRY KAISER. You would have to bring the statement up to date. We are only bringing it up to one point.

Mr. COLES. The figures I have read, showing something over $41,000,000 after nonreimbursable, are profits on shipbuilding; is that correct?

Mr. HENRY KAISER. No. There are ship repairs in there, too, and there is a lot of drydock work in there.

Mr. COLES. Rather than quibble with you, are these basically profits which were paid for from the Maritime Commission; or possibly from the War Shipping Administration on its repair operations?

Mr. HENRY KAISER. There is some Navy work in there. The Navy was desperately up against it for repairs, and we repaired a ship a day during the war, so that is in there.

Mr. COLES. Will the reporter please read the question?

(The reporter read the question.)

Mr. HENRY KAISER. These figures that they have shown here are not finally adjudicated by the Commission, so that so far as the figures are concerned, they are only tentative.

Mr. COLES. Were you paid over $40,000,000 in fees and profits for your shipbuilding operations?

Mr. HENRY KAISER. I do not know.

(Exhibit 35 gives the following additional written answer by Mr. Kaiser:)

Exhibit F, schedule 1 of the report previously submitted by Kaiser Co., Inc., to the committee prior to the September 1946 hearings shows that to May 31, 1946, Kaiser Co., Inc., had been paid $44,229,424.21 in gross fees before deduction of $5,750,360.98 in nonreimbursable costs and before final settlement of amounts which remained unpaid by the Maritime Commission under certain of Kaiser Co., Inc.'s, contracts in the total sum of $29,766,134.78 which said amounts are now in process of settlement. Until such settlement is completed, the total amount of gross fees which Kaiser Co., Inc., will have received and retained from shipbuilding operatoins will not be known.

Mr. COLES. Does the record so show, the record submitted by you?

Mr. HENRY KAISER. It may.

Mr. COLES. Mr. Kaiser, we get nowhere by these evasions, if I may call them such.

Mr. HENRY KAISER. Do not call them evasions.

Mr. COLES. Call them anything you want, but let us see if we can stick to the question, and correct me if I am wrong.

Mr. HENRY KAISER. I have stated I would go to our own records and I will furnish them if I do not know. Is that evasion?

Mr. COLES. Let me state that the thing that I have been trying to get from Mr. Kaiser appears in the exhibits furnished by them.

The CHAIRMAN. Very well. That is evidence, then.

Mr. HENRY KAISER. Except that I say, Mr. Chairman, that it has not yet been fully renegotiated.

The CHAIRMAN. It is up to you. That constitutes evidence so far as the committee is concerned, until you show to the contrary, and that is your responsibility.

Mr. HENRY KAISER. That is what I am trying to do now.

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Mr. COLES. Mr. Chairman, profits in Mr. Kaiser's exhibit show, for shipbuilding, $46,833,000 before nonreimbursables and after deducting those things which are nonreimbursable he says it is forty-one-million-odd dollars.

Mr. HERTER. Mr. Chairman, just for the record, we are talking now only about the Kaiser Co.?

Mr. COLES. The one company.

Mr. HENRY KAISER. I would like to say, Mr. Chairman, that this is one company which produced both ships and steel for the ships, and under the law we had to combine them both, and therefore the loss should be shown and they should not be separated. We produced the material for the ships as well.

Mr. COLES. Mr. Kaiser, let us skip my outline for a moment and go to a later portion of it, in order that we can take care of these losses you mentioned.

Now, Mr. Kaiser, have most of your contracts of the Kaiser Co., Inc., been renegotiated?

Mr. HENRY KAISER. We do not think so.

Mr. COLES. I would like to read from your statement, Mr. Kaiser. [Reading:]

Business of the Kaiser Co., Inc., has been renegotiated through the fiscal years ending June 30, 1944. It was found by the Price Adjustment Board of the United States Maritime Commission that no excessive profits have been realized. Renegotiation Agreement No. MCC–40480-PABS-817, dated August 23, '45, was executed covering the fiscal year ending June 30, 1944.

Is that correct?

Mr. HENRY KAISER. That is correct.

Mr. COLES. You further state [reading]:

Renegotiations have not been completed for the fiscal years ending June 30, '45, and June 30, '46, but it is obvious that no excessive profits will be found to have been realized during said years, because the contractor realized net loss on the total operations, subject to renegotiation.

Mr. HENRY KAISER. That is right.

Mr. COLES. So, is the statement not correct that none of these shipbuilding profits or fees has been renegotiated back, or you think will be renegotiated back?

Mr. HENRY KAISER. The statement which you read answers the question.

Mr. COLES. Very good.

Now, Mr. Kaiser, did you pay a penny of taxes on the shipbuilding profits made by the Kaiser Co., Inc?

Mr. HENRY KAISER. Apparently we did not, if we had losses.

(Exhibit 35 gives the following additional written answer by Mr. Kaiser:)

Kaiser Co., Inc., paid taxes in its first year of operation, but a claim for refund has been made since the company has shown a net loss on an over-all basis from the beginning. This being the case, no taxes were chargeable to the company.

For the fiscal year ending June 30, 1942, Kaiser Co., Inc., has paid $1,064,000 in income taxes. We have applied to the Treasury for a refund of this tax, and have every reason to believe that a refund will be granted. We have therefore stated in the written report to this committee that no income taxes have been paid by Kaiser Co., Inc.

Except for this 1942 tax payment on which we expect to receive a refund Kaiser Co., Inc., has paid no income taxes, since it has had a net loss in every year of these operations.

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Mr. COLES. In other words, on the shipbuilding profits you paid not a penny of taxes?

The CHAIRMAN. Did you or did you not?

Mr. HENRY KAISER. He tells me now we paid some in our first year.

Mr. COLES. How much taxes did you pay in '41 of the $46,000,000 in fees and profits?

Mr. HENRY KAISER. We will furnish that information.

(Exhibit 35 gives the following additional written answer by Mr. Kaiser:)

In the first place, Kaiser Co., Inc., was not formed until December 1941, so it had no fees or profits in that year. In the second place, throughout the entire period of the operations of Kaiser Co., Inc., it could not be said that it had $46,000,000 in fees and profits no matter what basis is used for the computation. Schedule I attached to exhibit F of the report originally submitted to the committee shows that after deducting nonreimbursables, Kaiser Co., Inc., had gross earnings from shipbuilding contracts of $41,133,396.23. Said schedules show that in the operation of the steel plant Kaiser Co., Inc., sustained a gross loss of $59,712,436.49, resulting in a net loss of $18,579,040.26 to May 31, 1946. Under these circumstances, no income taxes were payable by Kaiser Co., Inc.

Mr. COLES. Did it amount to as much as $1,000,000?

Mr. HENRY KAISER. Yes.

Mr. COLES. Was it a minute fraction of that?

Mr. HENRY KAISER. I would like to furnish the information tomorrow.

The CHAIRMAN. If you will pardon me, you have asked enough questions there for a man to spend the next week trying to answer them. It seems to me if he will get to work on what he has to answer tomorrow and meet here at 10 o'clock in the morning we will probably save time.

Mr. COLES. May I do this: I will talk to Mr. Kaiser's attorney later and go over these questions with him again, but I should like to finish one thing. It will not take over 10 minutes.

The CHAIRMAN. In 10 minutes we will reach the time for adjournment.

Mr. COLES. You stated that some taxes were paid in the very beginning. Have any taxes been paid on the major portion of the $46,000,000?

Mr. HENRY KAISER. I do not know.

The CHAIRMAN. Cannot counsel state what he desires to be shown, and produce it?

Mr. COLES. I would like to read from the statement Mr. Kaiser gave us: "Due to net loss, no Federal income taxes were paid on aggregate totals." Is that correct?

The CHAIRMAN. If he has answered that, I guess we can assume it is correct. If it is not correct, it is his fault.

Mr. COLES. Is that correct?

Mr. HENRY KAISER. Up to date.

Mr. COLES. Now, Mr. Kaiser, you spoke of the fact that you had losses which were set off against those profits. Now, those losses were on the steel operation, is that correct?

Mr. HENRY KAISER. Mr. Chairman, I promise you I will answer the questions if he will ask them in writing.

The CHAIRMAN. You can say, "I cannot tell you, but I will answer them in the morning."

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Mr. COLES. On the same question, schedule 9, you state, "Iron and steel division loss to May 31, 1946, $61,000,000," and you set that off against your shipyard profits. Is that corerct?

Mr. HENRY KAISER. That is correct.

Mr. COLES. In other words, the losses are on the iron and steel division?

Mr. HENRY KAISER. I do not want to say that they are all there. Detailed accounting will show it.

Mr. COLES. Let us turn to question No. 9, schedule 7, and it shows here your net losses totaling $61,000,000 from the iron and steel division. Now, it further shows you had a net operating loss of only $2,687,000. Will you verify these as we go along?

Now what was your loss for interest expense?

Mr. HENRY KAISER. $9,383,000.

Mr. COLES. What was the interest expense?

Mr. HENRY KAISER. To the best of my knowledge and belief it was the interest that I am complaining about, that was charged me that was not charged the United States Steel Corp.

Mr. COLES. That is the interest on the loan from RFC; is that correct?

Mr. HENRY KAISER. Yes.

Mr. COLES. And this was deducted from your shipyard profits and prevented renegotiation recovery or taxation; is that correct?

Mr. HENRY KAISER. That is correct. The law specifically provided for it.

Mr. COLES. So, in fact, do you not have the Government lending you money on the steel plant, charging you interest, and paying you interest through deductions against the shipyard profits and failure to tax?

Mr. HENRY KAISER. Have you forgotten——

The CHAIRMAN. Answer the question, please.

Mr. HENRY KAISER. No. I am liable on the loan. The company is liable for the loan.

Mr. COLES. And this is the interest your company paid the Government for the RFC loan?

Mr. HENRY KAISER. Did I not just say that?

Mr. COLES. And that interest was paid for, in effect, by deducting it from shipyard profits, in the sense that no renegotiation recovery was effected and no taxes were paid on those shipyard profits?

Mr. HENRY KAISER. It was not a deduction. The law provides that when two companies are involved they will be combined together, and we combined them according to the law.

Mr. COLES. Is that not the effect, that the interest on the Government loan was paid for from shipyard profits which were not renegotiated or taxed?

Mr. HENRY KAISER. The question that you bring up I believe is trying to indicate that we did something ourselves. We had no other alternative. We followed the law.

The CHAIRMAN. Read the question.

(The question was read twice by the reporter.)

Mr. HENRY KAISER. I am at a loss to know what the effect is. We produced the steel for the ships, and where the effect is, where it goes to the effect of the loss on the steel or the loss on the ships or what it

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does, I cannot tell you. I merely know this, that we were short of steel, and we were without deck steel, and then we were without bottom steel, and finally we did, after 2 years, get the Government to let us build a steel plant so we could build the ships to win the war. Now, where the effect of it is, I know only one effect, and that was the effect to get the ships out.

Mr. COLES. Now let me go back to that, and put it in a rather lengthy question, and perhaps we can get a "yes" or "no" answer, Mr. Kaiser.

The Government lent you money and charged you interest on it, that money being lent to the steel plant. The Government gave you contracts for ships and gave you profits for building those ships. When it came to renegotiating or paying taxes, you deducted from the profits you made on those ships certain expenses and losses of your steel company, which included $9,000,000 interest and because of that loss, including the $9,000,000, you were not renegotiated out of that portion of the profits and you paid no taxes on the profits.

Mr. HENRY KAISER. The answer is "No."

Mr. COLES. Will you explain to me why not?

Mr. HENRY KAISER. I would like to give you a written answer.

(Exhibit 35 gives the following additional written answer by Mr. Kaiser:)

Let me answer that question in this way. Early in 1942 when Kaiser Co., Inc., started its operations, German submarine warfare was seriously depleting all the small merchant fleet which our country had at that time. Ships in quantity were needed at an unprecedented rate to get munitions and supplies to the fighting fronts. From past experience with other Kaiser-managed companies, it had been found that we were unable to obtain steel in sufficient quantities from existing sources to meet the desired ship delivery schedules. After exhausting every possibility of a Government-owned D. P. C. steel plant on the coast to meet the critical steel shortage and being flatly refused, I finally approached the RFC and obtained a loan to construct a steel plant on the coast. This was not done through any particular desire to enter the steel business but to assist in the war effort, and particularly in the delivery of ships which were so vitally needed. Therefore, the steel plant was directly related to the shipbuilding program and actually could be considered an integral part of it.

As you know, taxes are only payable if a company has profits on its entire operations, and as shown by schedule I attached to exhibit F of the report which we recently submitted to your committee, Kaiser Co., Inc., sustained a loss in the operation of its steel plant as of May 31, 1946, of $59,712,436.49 which exceeded by $18,579,040.26 the estimated gross earnings on shipbuilding contracts. Therefore, because of this loss, no taxes were payable. Similarly, since the over-all operations of Kaiser Co., Inc., resulted in a loss and it was engaged almost exclusively in war work, both in its steel operations and shipbuilding operations, there were no excessive profits to be recaptured through renegotiation. As matters now stand, Kaiser Co., Inc., has made nothing whatever from the war effort, but on the contrary shows in excess of $18,000,000 loss on its books and holds possession of a steel plant upon which approximately $90,000,000, exclusive of interest, and after application of shipyard earnings when received, still must be paid and which, under such circumstances, is a liability rather than an asset. Assuming for the moment that Kaiser Co., Inc., had never operated the steel plant, the profit on the shipbuilding operations alone amounted to only sixty-eight hundredths of 1 percent of the total contract volume after applying Federal income taxes which would have been applicable had there been only shipyard earnings, and we know of no instance where such a low percentage of profit has been deemed "excessive" in any renegotiation proceeding by the War Contracts Price Adjustment Board.

Mr. COLES. Mr. Chairman. It is 4 o'clock. I think we ought to avoid written answers. We have a list of questions now. I can confer with Mr. Cox this evening.

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Mr. BRADLEY. You can furnish a written answer and read it to us.

The CHAIRMAN. We are not getting anywhere now, and I am very much convinced that where an answer has been made, it may be prejudicial. If so, it is evidence before the committee and counsel can conclude in any way he pleases, but it is adverse to the witness. If there is any explanation, it is up to the witness to explain and not up to counsel to give him an opportunity to explain. I never did like this thing of giving a witness on the other side an opportunity to explain something against him. He can explain it if he wants to.

Mr. WEICHEL. Mr. Chairman, is not part of this investigation to find out who gave away Government money, properly or otherwise, and what people gave it away in the Government?

The CHAIRMAN. We want to find out the facts rather than the conclusions of either you or myself or somebody else. On the same facts we might have different conclusions. But on the facts, the facts themselves are the things that we want now, upon which to base our conclusions.

Mr. WEICHEL. Can we not get some of that from the Government, instead of from Mr. Kaiser?

The CHAIRMAN. I think we can. I will be glad if counsel will undertake to do that.

The committee stands adjourned until 10 o'clock tomorrow morning.

(Whereupon, at 4 p. m., the committee adjourned until the following day, Tuesday, September 25, 1946, at 10 a. m.)

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INVESTIGATION OF SHIPYARD PROFITS

TUESDAY, SEPTEMBER 24, 1946

HOUSE OF REPRESENTATIVES,
COMMITTEE ON THE MERCHANT MARINE AND FISHERIES,
SUBCOMMITTEE TO STUDY SHIPYARD PROFITS,
Washington, D. C.

The committee met at 10 a. m., pursuant to adjournment, Hon. Schuyler Otis Bland (chairman) presiding.

Present: Representatives Bland (chairman), Bradley, Weichel, Herter, McConnell, and Keogh.

Also present: Marvin J. Coles, general counsel for the committee; Nathaniel C. W. Gennett, Jr., associate counsel; Frederick M. Jones, assistant counsel; Reginald S. Losee, chief investigator.

The CHAIRMAN. The subcommittee will come to order, please. At the close of the hearing yesterday, certain questions had been asked, and answers were to be given by Mr. Kaiser this morning. Counsel for the committee is recognized for further questioning.

TESTIMONY OF HENRY J. KAISER—Resumed

Mr. COLES. Mr. Kaiser, I think we had best go back to yesterday's questions and ask again: What was the total investment in the physical facilities of the Kaiser yards? Those are the six yards, including in that group California and the Walsh-Kaiser Cos.

Mr. HENRY KAISER. At your request I have signed the answers to all of your questions that I know of at the present time, except the 200 you prepared and sent me last night. I now swear that to the best of my knowledge and belief they are true.

The CHAIRMAN. You are under oath.

Mr. COLES. Now, give us the answer.

The CHAIRMAN. In making your statements you need not add "I now swear," because you are under oath.

Mr. HENRY KAISER. All right.

The CHAIRMAN. Your statements are under oath.

Mr. COLES. Will you tell us then, in short, what the total investment of the Kaiser companies in those six yards were?

(Exhibit 35 gives an additional written answer by Mr. Kaiser.)

Mr. HENRY KAISER. The questions that you are asking are questions that require attorneys and accountants. They have to be very correct answers. They have been prepared. They have been given to the best of my knowledge and belief, and I do not want to have anything given to the committee here that is inaccurate in any way, and I have given them as best I can, and I am ready to answer all of those questions if you will give me time; but I have to answer them,

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and you must remember we had a million men on our pay roll, and any company which has that many must have thousands of trained personnel.

The CHAIRMAN. Can you answer the question, or not?

Mr. HENRY KAISER. I cannot answer the question, unless I am given time to do so, and unless it is already in the record.

(Exhibit 35 gives an additional written answer by Mr. Kaiser.)

Mr. COLES. As I understood from your testimony yesterday, it was less than a million dollars' investment in these six yards; is that still correct?

Mr. HENRY KAISER. If the record shows that, it is correct.

Mr. COLES. Now, taking the Kaiser Co., alone—Kaiser Co., Inc.—which is one of the six yards, have you been able to discover what the total of your investment in that yard was?

Mr. HENRY KAISER. I will have to answer you exactly the same way. That has all been presented to you.

(Exhibit 35 gives an additional written answer by Mr. Kaiser.)

The CHAIRMAN. Is it correct, in the book?

Mr. HENRY KAISER. Yes, sir.

The CHAIRMAN. Is it correct, in the book?

Mr. HENRY KAISER. Every answer in that book is correct to the best of my knowledge and belief.

Mr. COLES. Mr. Kaiser, is this the same book that was submitted to us before?

Mr. HENRY KAISER. Mr. Chairman, I would like to have these answers submitted out of the book.

Mr. COLES. Is this the same book that was submitted to us before?

Mr. HENRY KAISER. Yes.

Mr. COLES. It is not in this book.

The CHAIRMAN. Very well; that is not in the book.

Mr. BRADLEY. Mr. Chairman, even if those answers are in the book, the members of the committee have not seen that book, and we do not know what the answers are, and I would like to have Mr. Kaiser give us answers out of the book.

Mr. HENRY KAISER. I would just like to read this, May I, Judge?

The CHAIRMAN. Read what?

Mr. HENRY KAISER. These questions and answers that were given yesterday.

The CHAIRMAN. I am not going to start a long dissertation now. You have had an opportunity now to present your statement to the committee, and you are now under examination.

Mr. HENRY KAISER. If counsel will ask a series of questions——

The CHAIRMAN. If it is an answer to a specific question you can recite the question and then the answer.

Mr. HENRY KAISER. On the detailed questions asked of me yesterday afternoon, where it was possible to obtain the facts, the answers are as follows—am I allowed to go on?

The CHAIRMAN. Go head.

Mr. COLES. What is the total investment in the yards?

Mr. HENRY KAISER. (reading):

The committee's counsel asked a series of questions about the shipbuilding profits of the Kaiser Co., Inc., and how it happened that these profits were set off in renegotiation against the losses suffered by the same company in manufacturing steel for the Government.

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Kaiser Co., Inc., operations included the production of steel for ships, for shells, and other war products as well as the production of ships. Both were an integral part of the operations of this one company. As a matter of practical common sense, as well as law, both operations were treated, as they were in fact, as the operations of one company.

The CHAIRMAN. Can you answer the question which has been propounded by counsel? We cannot take an indefinite period here for any one witness.

Mr. HENRY KAISER. I cannot answer it in one or two words.

The CHAIRMAN. All right.

Mr. COLES. The question is, Mr. Kaiser: Have you been able to discover what the total investment was?

The CHAIRMAN. If there is a question, the answer to which is found in any of the statements that have been supplied by Mr. Kaiser, it is already evidence in this case, and further testimony is not necessary on that account, but counsel will be given an opportunity to read that if he wants to.

Mr. COLES. Mr. Chairman, I know that the answer to this question is not in that record, sir.

The CHAIRMAN. There is no statement in the record. Now, we will have to proceed to interrogate him—not now, but later. I cannot take up the time of these gentlemen who are brought here from their respective districts during their campaigns, unnecessarily, delaying them for somthing that can be supplied through questionnaires. Proceed, Mr. Coles.

Mr. COLES. Have you been able to discover what the total investment of the six Kaiser companies in the physical yards was?

Mr. HENRY KAISER. If I cannot read this, I will submit the whole thing as an exhibit.

Mr. COLES. Very well. Let this be marked.

(Document so described was received and marked "Exhibit No. 5.")

The CHAIRMAN. Will you answer the question?

Mr. HENRY KAISER. I cannot answer those questions unless I get the facts. I tried to answer them.

Mr. COLES. Does anybody know, Mr. Kaiser?

Mr. HENRY KAISER. The exhibit says that we will get them. We have got people working on them. It will take many weeks to get them. [Witness rises.] Mr. Chairman, I would like to say this to you——

The CHAIRMAN. Be seated, please. The exhibit submitted will be considered by the committee and as the committee may desire. It will not now be incorporated as a part of the evidence unless the committee so wishes.

Mr. WEICHEL. May we have copies of all these exhibits, including these questionnaires?

The CHAIRMAN. Mr. Steinko has supplied me with mimeographed copies of all the evidence of yesterday, and that copy is going to each member of the committee, not only the members who are here today but the members who are not here. I mean, members who were here yesterday, but the members who are not here, and anything else—any material that we may have—efforts will be made by counsel to submit it.

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Mr. WEICHEL. Mr. Chairman, I had in mind a letter sent to the 19 companies asking every one of them a lot of questions. Now we are going to sit here and listen and go over each one of these questions again—you will be here for 6 months.

The CHAIRMAN. I quite agree with you, and I do not think that that is necessary.

Mr. WEICHEL. The members of the committee, after all, are the persons who are conducting this, and we should have a copy of that so that if we desire to question any witness on it, we, the committee, will determine who they are going to question with reference to all of this material we do not have.

Mr. COLES. I will have that within 5 minutes. Mr. Jones is securing it now, Mr. Chairman.

Mr. WEICHEL. I agree with Mr. Bradley; we do not know what anybody has here, and we should be supplied with that for questioning.

The CHAIRMAN. We will supply any member of the committee who desires it with any and all information that we have.

Mr. COLES. A duplicate letter went to all the companies, Mr. Weichel, with one exception. That is the letter to the Kaiser Co., Inc.

Mr. WEICHEL. I am now talking about the answers.

Mr. COLES. I have given you now the copy, I think, of all the Kaiser answers, and I will see you get the answers to all of them.

Mr. WEICHEL. Are the rest of them printed?

Mr. COLES. We do not have them, Mr. Weichel, because in many cases they gave us one copy; in other cases, several.

Mr. WEICHEL. How long have you had these in this book?

Mr. COLES. I have had it for about 2 weeks—3 weeks.

Mr. WEICHEL. Why were not copies supplied for all members of the committee?

The CHAIRMAN. All right—anything that is desired, we will try to furnish it.

Mr. COLES. We can give you summaries of all of them, if you like, Mr. Weichel, prepared by the committee's staff.

The CHAIRMAN. Every effort will be made to supply the members of the committee with whatever the members of the committee may wish. Mr. Bradley wishes a copy of some of them, too.

Mr. BRADLEY. Have you got an extra copy?

Mr. COLES. Mr. Kaiser, you stated that you do not know the total amount of the investment in the six yards. Do you know your total investment in Kaiser Co., Inc., one of the six yards?

Mr. HENRY KAISER. Those are accounting records, and I give them to you. As I said, I would like to answer that question. We are checking with our staff on the west coast, where the records are located, as to the amount of our investment in the physical facilities, and we will furnish you the information for the record when it has been gathered together.

(Exhibit 35 gives an additional written answer by Mr. Kaiser.)

The CHAIRMAN. Very well; go ahead.

Mr. COLES. The War Production Board show that there is under $1,000,000 of investment. Have you any reason to dispute that?

Mr. HENRY KAISER. No; I would not. I haven't any reason to dispute that. I haven't any reason to dispute it.

Mr. WEICHEL. Where is this?

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Mr. COLES. I have here the records of the War Production Board in a publication known as War Manufacturing Facilities Authorized Through August 1944, and it is marked at the place of the Kaiser Co.

Mr. WEICHEL. Is that introduced now, that we can question on it?

Mr. COLES. We can put it in evidence if you like, Mr. Weichel.

Mr. WEICHEL. Well, if that is what we want, let us put it in—all of them.

Mr. COLES. May that be marked as "Exhibit No. 5," Mr. Chairman?

The CHAIRMAN. It will be so marked.

(Document so described was received and marked "Exhibit No. 6.")

Mr. COLES. I suggest that in publication we only publish the applicable portions because, as you can see, it is a very large volume.

Mr. HENRY KAISER. Wait a minute. I cannot confirm that, nor can I dispute it, as you say.

The CHAIRMAN. All right.

Mr. COLES. Now, we went back yesterday and asked you what part of the work in the building of the Kaiser Co., Inc., yards was subcontracted, and you were going to get us that and the names of the subcontractors.

Mr. HENRY KAISER. Here is the answer I have got [reading]:

> As I have said, moreover, most of the subcontractors' bids were on a fixed price, competitive bidding basis. We do not know and cannot know the profits which these subcontractors made, but perhaps you can get that information from the War Contracts Price Adjustment Board. We will be glad to furnish the names of these subcontractors, of whom there were hundreds.

Mr. COLES. Were you able to determine which of those subcontractors, if any, were related to the Kaiser Co. or to the companies which comprise the so-called Six Companies?

Mr. HENRY KAISER. In order that the record may be clear, neither the Kaiser family nor any of the Kaiser companies had any interest, directly or indirectly, in any subcontractor's firm or any subcontractor who built any facilities of the shipyards.

Mr. COLES. Were any of the subcontractors affiliates of the so-called Six Companies?

Mr. HENRY KAISER. Not to our knowledge.

Mr. COLES. Now, Mr. Kaiser, going over to——

Mr. HENRY KAISER (interposing). No; I do not believe they were, really.

The CHAIRMAN. You have answered the question. You said "not to your knowledge."

Mr. COLES. Now, Mr. Kaiser, going over to the records, we show that you had cost-plus-a-fixed-fee contracts, price-minus contracts, and fixed-price contracts. The records furnished by you for the Kaiser Co., Inc., show $46,883,000 was the total amount of fees and profits. Now, I should like to go over to your fixed-price contract, as I discussed with your attorney, yesterday, and call attention to one contract, No. 28994, which was for the 35 C–4 type ships. Are you familiar with that contract?

Mr. KAISER. No; I am not familiar with it.

Mr. COLES. I spoke to Mr. Cutler about it yesterday and told him we would question you on the basis of it today.

The CHAIRMAN. Mr. Kaiser is not familiar with it, and whoever is familiar with it should be sworn as a witness and testify later. We have got to have some orderly procedure here.

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Mr. COLES. Well, then divide that up into the two contracts. Did you not have a group of cost-plus-a-fived-fee contracts for the construction of C–4 ships, in the Kaiser Co., Inc.?

Mr. HENRY KAISER. No; they were fixed prices.

Mr. COLES. They were originally cost-plus-fixed-prices?

Mr. HENRY KAISER. No.

Mr. COLES. Is it not true, Mr. Kaiser, that they were?

Mr. HENRY KAISER. They were fixed price. They were either fixed price or a selective price.

Mr. COLES. Is it not true that originally the contract for these C–4 ships was on the cost-plus-a-fixed-fee basis, and that, after 26 of those ships had been delivered, and the total contract was 89.8 percent completed, it was transferred to a fixed-price contract?

Mr. HENRY KAISER. No; not to the best information I have, that is not correct.

The CHAIRMAN. It seems to me you should finish with the present witness, and put the other witness on, if he wants to appear.

Mr. COLES. Now, Mr. Kaiser, getting over to another contract, which is No. 28948, which amounts to $168,400,000, was that not changed to a cost-plus?

Mr. HENRY KAISER. I would like to have my son answer that.

The CHAIRMAN. Your son is going to answer it? Will you stand up. Do you solemnly swear that the evidence you will give will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. EDGAR KAISER. I do.

TESTIMONY OF EDGAR F. KAISER

Mr. COLES. Now, if I may return to the previous contract a moment, I show you, here, from the exhibit furnished by you, a statement which shows the fixed-price contracts, and show you a fixed-price contract, No. 28994 for C–4-type ships, to the number of 35, and the total volume, $354,000,000 plus.

The CHAIRMAN. This question is propounded to Mr. Kaiser, senior?

Mr. COLES. Or junior, Mr. Chairman—whoever can answer it.

The CHAIRMAN. Well, I want to know who is going to answer it.

Mr. COLES. Do you recall that contract?

Mr. EDGAR KAISER. Yes. There were two contracts.

Mr. COLES. Originally, there were two contracts, were there?

Mr. EDGAR KAISER. That is right.

Mr. COLES. And were those original contracts——

The CHAIRMAN. Answered by Mr. Kaiser, junior.

Mr. EDGAR KAISER. They were originally fixed-price contracts.

Mr. COLES. The information we have is that they were originally cost-plus-a-fixed-fee contracts, Mr. Kaiser.

Mr. EDGAR KAISER. I am quite sure they were fixed price.

Mr. COLES. And it is also our information, and perhaps this will refresh your recollection, that after the ships had been completed, after 26 had been completed, it was transferred to a fixed-price contract from a cost-plus basis. Are you familiar with that?

The CHAIRMAN. The question is either to Mr. Kaiser, senior, or junior.

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Mr. EDGAR KAISER. To the best of my knowledge, there was a letter of intent issued to the Vancouver Shipyard, and to Kaiser Co., Inc., to the Richmond No. 3 shipyard of Kaiser Co., Inc., for an aggregate total of 35 C-4's. That letter of intent provided, to the best of my knowledge—now we can furnish it to the record—that there would either be a plus-cost basis or a fixed-price basis. So far as I know, there was never a cost-plus basis on the C-4, any of those 35 C-4 vessels, and the contract was finally signed, to the best of my knowledge, on a fixed-price basis.

Mr. COLES. Does it refresh your recollection to recall that the maximum fee payable for those ships originally was $102,500 per ship?

Mr. EDGAR KAISER. No, sir; I do not remember that figure at all.

Mr. COLES. Is it not true, then, to phrase the question differently, that that fixed-price contract was signed after 26 of the ships had already been delivered?

Mr. EDGAR KAISER. That I do not know for sure, but it was signed.

Mr. BRADLEY. Mr. Kaiser, will you please raise your voice, because this is not a private conversation between you.

Mr. EDGAR KAISER. I am not sure.

Mr. BRADLEY. We want to hear it.

Mr. EDGAR KAISER. The letter of intent to the best of my knowledge was never changed. The letter of intent was issued, to be a fixed price or a price minus.

Mr. BRADLEY. Well, it was at that time a fixed price or a price minus?

Mr. EDGAR KAISER. The letter of intent authorized either way that could be. To the best of my knowledge the contract was signed as a fixed-price contract. It was signed after some of the ships had been delivered, whether it was 26, 10—I do not remember. We can furnish that.

(Exhibit 35 gives an additional written answer by Mr. Kaiser.)

The CHAIRMAN. I would suggest also to counsel that where the facts can be established from other records available, we would rather not go into it.

Mr. EDGAR KAISER. That is right.

Mr. WEICHEL. Mr. Chairman, it seems to me that the Maritime Commission, who dealt on behalf of the Government and went into all of these things with reference to contracts with Kaiser or anybody else, with reference to the building of ships, that we should get the information from them as to—say—what they paid, and then, if Mr. Kaiser says they did not pay it, why, that is one thing, but to come out here on cross-examination without introducing anything which the Government has, you will never get anywhere. It seems to me there should be records of the Maritime Commission and that whoever the present custodians, they should have had that all together by this time, with reference to all the contracts with reference to Mr. Kaiser.

Mr. COLES. Mr. Weichel, I have here——

Mr. WEICHEL (interposing). Have them introduced here by somebody.

Mr. COLES. I should like to introduce as exhibit 6 the Maritime Commission's record of the transaction and their recommendation concerning it.

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Mr. WEICHEL. Well, now, with reference to the Maritime Commission's record, introducing it without them, if you are going to offer some records in here from the Maritime Commission, with people from the Maritime Commission, somebody might like to ask the Maritime Commission something about the record, but just to stick a piece of paper in here and then ask somebody else, we are never going to get anywhere. No one else is.

Mr. COLES. They will be introduced.

Mr. WEICHEL. Somebody of the Maritime Commission—the proper person, if he knows about it, so he can be asked about it.

The CHAIRMAN. We will endeavor to get anything that any member of the committee desires.

Mr. COLES. Now, at the time that the contract was entered into, on May 17, 1945, had 26 of these vessels been completed?

Mr. EDGAR KAISER. Do you ask me a question?

Mr. COLES. I am referring to this.

Mr. EDGAR KAISER. That may be so. I am not sure.

Mr. COLES. At that time, then, the full price of the vessel was known; is that correct?

Mr. EDGAR KAISER. No, sir; that is not correct.

Mr. COLES. After 26 vessels had been completed?

Mr. EDGAR KAISER. That is right.

Mr. COLES. You did not know the cost of it?

Mr. EDGAR KAISER. Not the full price of all of the vessels. There were certain changes constantly being made in those vessels as we were proceeding. You see, the contract was originally let to the two yards for 10 C–4 troop transports to be built at Richmond Shipyard No. 3, and 25 to be built at Kaiser Co., Inc., and Vancouver Shipyard. It was then modified to build 5 only at Richmond and 30 at Vancouver. It was then changed to build 12 of them as troop transports and 8 as cargo vessels and 10 were deleted from the contract. These changes did not all occur at one time. They occurred after the letter of intent was issued, and as the theater-of-war operations were changing and the requirements for these vessels, these changes came through.

(Document so described was received and marked "Exhibit No. 7.")

Mr. COLES. Did the profit on the last five of those vessels not amount to $520,000 per ship?

Mr. EDGAR KAISER. As I recall it, there was a recapture provision in the fixed-price contract, providing that if we earned more than $520,000 we would repay to the Commission any profits in excess of that amount per vessel.

Mr. COLES. Did you earn more than that amount per vessel?

Mr. EDGAR KAISER. The records at Richmond No. 3 on those vessels have not been closed yet with the Commission, and at Vancouver, I think they have been closed, and I believe we earned more, and recapture has been paid; but I am not certain on that point.

Mr. COLES. So that you made $520,000 per vessel at Vancouver and returned the excess, is that correct?

Mr. EDGAR KAISER. Yes; and I think that applies to the troop transports, and I am not sure about the recapturable profit. I do not think it was $520,000 on the cargo vessels, but it might have been; I am not sure.

(Exhibit 35 gives an additional written answer by Mr. Kaiser.)

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Mr. COLES. Now, referring to contract No. 28948, which is a contract for C-4 vessels, 20 C-4 vessels, for $164,000,000, do you recall that contract?

Mr. EDGAR KAISER. That is the same contract that we are talking about. That is the Vancouver contract, and the other one is the Richmond contract, I think.

Mr. COLES. Was that contract changed from a cost-plus basis?

Mr. EDGAR KAISER. No, sir.

Mr. COLES. Under that contract——

Mr. EDGAR KAISER (interposing). You asked if it was changed from a cost-plus basis to a fixed-price. It was not. It was always on a fixed-price basis.

Mr. COLES. I should like to introduce certain comments on that.

The CHAIRMAN. What do you mean by the comments on that?

Mr. COLES. Just a recapitulation, Mr. Chairman, of the transactions involving that contract.

The CHAIRMAN. By whom?

Mr. COLES. This one was made by the General Accounting Office.

Mr. WEICHEL. Let us have that presented through people who prepared this business.

Mr. COLES. This is a recapitulation, Mr. Weichel. It quotes from the Maritime Commission.

Mr. WEICHEL. All right, but let us have it from the Maritime Commission, first. Those are the Government records?

Mr. COLES. Yes, sir.

Mr. WEICHEL. Now, let us have the other.

Mr. COLES. We will get to the other.

Mr. WEICHEL. Let us have the person who made them up, so we can see what he says about those.

Mr. COLES. Very well, sir.

The CHAIRMAN. The Chair rules they are admissible at this time, and if further examination is desired, that can be called for.

Mr. WEICHEL. Well, what are they?

The CHAIRMAN. We cannot get them all at one time.

Mr. WEICHEL. But what are they? We do not know what he is talking about. We do not have copies. This is getting the cart before the horse on every one of these things.

The CHAIRMAN. I am afraid we have to have it done in this way.

Mr. HERTER. Mr. Chairman, I might suggest that counsel tell us what is in that exhibit, so we can find out what the purpose of putting it in the record is.

Mr. COLES. Yes, Mr. Herter; the last exhibits show that there was a change in these contracts after the vessels were completed, and the changes were such as to give an increased profit over the original intent, and the original contracts to the Kaiser Co., Inc.

The CHAIRMAN. That will be shown by the language, rather than the conclusion of counsel.

Mr. WEICHEL. Mr. Chairman, the proper way, it seems to me, to handle this, if the Government made the contracts and then changed them, let us have those people here to see what they say about it, and why they changed them. Let us get the information from the source

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where the money ran out from, but not where it was received, and let us get the business right.

The CHAIRMAN. We will undertake to have them. The evidence is admissible now.

Mr. COLES. Under these fixed-price contracts, Mr. Kaiser, was there any renegotiation?

The CHAIRMAN. Mr. Herter asked that the specific language be read, that is in the exhibit.

Mr. COLES. I beg your pardon. Do you want the last one?

Mr. BRADLEY. The language that indicates the point that you are trying to bring out, indicating that there was a change.

Mr. COLES (reading):

Under date of May 15, 1945, the Commission's Committee on Awards, consisting of H. L. Vickery, R. E. Anderson, William A. Weber, Walston S. Brown, and R. P. Mills, submitted to the Commission recommendations (prepared by Walston S. Brown) that an agreement be entered into with Kaiser Co., Inc., providing a fixed price of $354,690,000 for the construction of 35 C-4 vessels.

And I might ask parenthetically, is Mr. Brown employed by your company in any capacity now?

Mr. EDGAR KAISER. No.

Mr. COLES (reading):

The proposed settlement, prepared by Walston Brown and approved by the Committee on Awards is as follows:

"Kaiser Co., Inc., entered into a contract under date of January 9, 1942, which contract, as amended, provided for the construction of 30 design C-4 vessels at the shipyard known as Richmond yard No. 3. Work under this contract will not be completed for several months. Under date of May 4, 1943, the Commission and Kaiser Co., Inc., entered into a letter of intent which provided that a fixed-price contract will be made covering the construction of an additional five C-4 vessels which are now scheduled for delivery during the last half of this year.

"Kaiser Co. proposed, in January of this year, to enter into a fixed-price contract covering the construction of all 35 vessels called for by the existing contract and the letter of intent. After this proposal was received the Finance Division made a careful review of the costs incurred in connection with the construction of the first 30 vessels, the contract for which was on the so-called price-minus basis. As a result of this it was determined that the costs so far incurred, together with the estimated cost of completing the contract work, without allowance for contingencies was the sum of approximately $303,200,000. Representatives of the contractor agreed to accept a contract price equal to this cost, together with an amount to cover profit and contingencies.

"Under the contract dated January 9, 1942, as amended, the minimum fee is $100,000 for each of 10 vessels, and $102,500 for each of the remaining 20 vessels. The maximum fee is $518,000 per vessel. Since the costs definitely exceed the target price of $6,235,000 per vessel stated in the contract, and the actual delivery dates are much later than those set forth, it would appear that the contractor should be entitled to receive as profit not more than the minimum fee, although the increased cost and delays may in large measure be attributable to the numerous changes in plans and specifications made by the Commission at the request of the War Department and lated by the Navy Department. It was therefore decided to recommend that the contractor agree to limit the profit on account of the 30 vessels covered by the contract dated January 9, 1942, to the sum of $3,050,000 the minimum fee specified in such contract.

"The contractor has pointed out that this profit is approximately 1 percent of costs incurred, and that on account of the disallowances hereafter referred to it will be reduced to approximately ½ percent of such costs. The contractor therefore contended that a rather liberal contingency should be allowed in the price for the 30 vessels, and asked that such contingency be placed at 1½ percent of the total estimated cost, or approximately the sum of $4,500,000. The committee, in lieu of this, suggested a contingency of approximately $3,800,000, which is acceptable to the contractor. The afore-mentioned contingency does not cover the contractor's liability on account of violation of the Fair Labor Stand-

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ards Act. These violations which came about by making deductions from the pay of exempt employees at the direction of the Commission, and classifying certain employees as administrative and executive with the approval of the Commission, give rise to a total liability which may equal the sum of $2,000,000. The contractor has requested that this amount be included in the contract price, upon the understanding, however, that if the total payments which it is required to make on account of liabilities incurred under the Fair Labor Standards Act shall actually be less than such amount, the contract price may be correspondingly decreased.

"The contract price for the remaining five vessels should be the same as that recommended for the vessels of identical design to be built by the same company at the Vancouver, Wash., yard. Such price is $8,000,000, but does not include the performance of joiner work by the contractor. The estimated cost of joiner work is $538,000 per vessel, making the total contract price for the last five vessels the sum of $8,538,000 per vessel. Adding such contract price to the $312,000,000 for the first 30 vessels will make a contract price of $354,690,000.

"In the memorandum from this committee in regard to an award of contract for the construction of C-4 vessels at Vancouver, Wash., it is recommended that all profits in excess of $520,000 per vessel be subject to recapture. This would equal $2,600,000 for the five vessels at Richmond covered by the letter of intent. Adding this to the minimum fee of $3,050,000 to be allowed as profit on the 30 vessels, the Commission will recapture all profits in excess of $5,650,000.

"In determining costs for recapture the contractor should not have substantially more favorable treatment in respect of the costs incurred for the construction of the 30 vessels than it would have under the price-minus contract. There have been disallowed from costs, or withheld by the contractor from applications for payments, to date, charges amounting to $1,597,504.20. The Finance Division has reviewed these disallowances and determined the charges totaling $231,228.25 included therein should have been allowed. It is therefore recommended that the contract provide that both parties agree for the purpose of determining profits, the sum of $1,366,276 shall be disallowed from cost on account of the disallowances heretofore made by the Commission.

"As has been pointed out above the contract price recommended contains a substantial allowance to cover contingencies. In view of this, and the fact that Kaiser Co., Inc., is engaged in other activities, it is believed that special provisions should be made for withholding, at the Commission's option, a sufficient amount to protect recapture, rather than to make the usual provisions for payment of the full amount of the contract price upon delivery of the last vessel. Such provision should have the effect of permitting the Commission to withhold (i) part or all of the $5,800,000 contingency which includes that for restitution paid, contained in the unadjusted price for the 30 vessels, (ii) the sum of $1,600,000 which represents the normal hold-back from the contract price specified for the five vessels, and (iii) such additional amount as the Commission may determine at any time to be necessary in order to protect its rights of recapture, but not to exceed the sum of $3,000,000.

"RECOMMENDATION

"It is recommended that the Commission enter into a contract with Kaiser Co., Inc., in accordance with the provisions outlined in this memorandum."

Then, following through, are comments made, I believe, by a representative of the General Accounting Office. [Reading:]

Although the letter of intent states that the contract will be dated as of May 2, 1944, and numbered Mcc-28994, such contract is dated as of April 1, 1945, but was actually approved by the Commission May 17, 1945.

As of May 17, 1945, progress of completion of the 35 vessels was as follows: 26 vessels delivered, 5 hulls launched, 3 keels laid, 1 keel unlaid.

The progress reports reflect percentage of completion of the vessels as of April 30, 1945, and May 31, 1945, as follows—

And then there is a recapitulation showing the percentage of completion of the various vessels.

Mr. HENRY KAISER. Mr. Chairman.

Mr. COLES. Excuse me; I will finish this, if I may. The rest has to do with this [reading]:

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In the event the vessels were delivered as incomplete (progress reports show 100-percent complete) there may exist an overlapping of payments under the contracts and settlements thereunder.

Attention is invited to the statement in the first paragraph of the memorandum—

"Under date of May 4, 1943, the Commission and Kaiser Co., Inc., entered into a letter of intent which provided that a fixed-price contract will be made covering the construction of aditional five C–4 vessels. * * *"

The letter of intent referred to is dated May 4, 1944, and provides for the construction of 10 additional C–4 vessels (hulls 2383 to 2392), 5 of which (hulls 2388 to 2392) were canceled, and said letter of intent provides that the contract will be either upon a fixed-price or the so-called price-minus basis.

It will be noted that as a result of establishing a fixed-price contract for the last five vessels, the contractor is allowed a profit thereon of $520,000 per vessel as compared with $100,000 per vessel for the first 10 and $102,500 per vessel for the next 20 vessels. In other words, the contractor is allowed a profit per vessel on the last 5 vessels which exceeds the profit per vessel on the first 30 vessels by more than five times as follows—

Then they show by group 1, of 10 vessels, they made a profit of $1,000,000, which is $100,000 per vessel; on group 2, which is 20 vessels, they made a profit of $102,500 per vessel, which is $2,050,000; and on group 3, which is just the 5 vessels, they made a profit per vessel of $520,000, which is a total of $2,600,000, giving the total on this contract of $5,650,000. [Reading:]

The records of the Commission show that as of May 17, 1945, keels for four of the last five vessels had been laid and one hull had been launched.

Mr. EDGAR KAISER. Mr. Chairman.

Mr. WEICHEL. Mr. Chairman, as a member of the committee, now, who wrote that as a memorandum?

Mr. COLES. This was provided to us, at our request, by the General Accounting Office.

Mr. WEICHEL. By the General Accounting Office?

Mr. COLES. Yes, sir. Excuse me. The memorandum was written by the Maritime Commission.

Mr. WEICHEL. All right. Then why did you not have the Maritime Commission here with reference to these contracts, as to what our Government's books show, to whom they gave the profit, and then we will take care of the fellow who got too much profit afterward; but who was the fellow in the Government who gave that? That is the part we want disclosed up here, first.

Mr. COLES. Mr. Weichel, I will have the names. Admiral Vickery, who is deceased——

Mr. WEICHEL. Bring the people from the Maritime Commission up here.

The CHAIRMAN. Counsel may proceed in his own way. It is impossible to get all the evidence at one time. It will be in sequence. First, the facts are endeavored to be shown, and then there may be questions, and then the producing of witnesses that will establish them, if there are any controversies.

Mr. WEICHEL. Where are the Government records on it? That is what the people did. Let them come up here. This is not a proceeding to shield people in the Maritime Commission, or to shield Kaiser, or anybody else, but to get the people up here who did this, and who are not here; and you haven't got them here.

The CHAIRMAN. Will the member suspend a minute? As long as the statement is made that this is not a proceeding to shield the Mari-

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time Commission or anybody else, the chairman desires to state that there is no desire on the part of the committee or of the chairman to shield anybody, but to bring the facts out fully. They cannot all be brought out at one time. The order in which they are presented may to some members seem mistaken. If so, and there is any change that can be made, the Chair and counsel will undertake to make them, but the procedure that is being followed is the procedure that has been decided to be the best way to present the facts, giving an opportunity to members of the committee to interrogate any witnesses whom they may desire, and have them brought forward. All right. Proceed.

Mr. WEICHEL. Mr. Chairman, when are we going to get the Government records where all this thing came from? That is what we want. When are we going to get them?

The CHAIRMAN. I may also say it is the intent of the committee neither to exonerate nor to excuse anyone, nor to crucify anyone. What we desire are the full facts, the facts in their fullest, and they cannot always be proceeding in one particular way. We have got to get at it the best way that we can. Probably Mr. Weichel could do it a lot better.

Mr. WEICHEL. I am asking about the Government records. We still do not have the Government records. We are asking somebody else to give his opinion. There are no Government records, nor are those people here.

The CHAIRMAN. Very well; we will proceed with what we have, and we will endeavor to get for the member just whatever the member wants.

Mr. BRADLEY. Mr. Chairman, may I say for Mr. Weichel's benefit that we did have some Government records here yesterday, from the Maritime Commission, which Mr. Kaiser immediately challenged and said were entirely wrong.

Mr. WEICHEL. I haven't seen any yet.

The CHAIRMAN. We want to give him an opportunity. He is here, now, and we want to give him the right to fully produce the facts. We are not going to crucify or excuse. We want the facts. One thing stands out—that we won this war.

Mr. WEICHEL. With reference to the money they spent, their records should show how they spent it, and to whom they gave it, and then we could check as to whom they gave it; but we do not know that.

The CHAIRMAN. If any member is dissatisfied, the executive committee will be called, but this is not the place for debate between members of the committee.

Mr. COLES. Mr. Chairman, we have notified the Maritime Commission to be present, and have requested them to give us full information on this, and I feel confident that they will be here for examination.

The CHAIRMAN. If they do not, we will use all the powers we have to get them here.

Mr. EDGAR KAISER. Mr. Chairman, now that I have heard the letter read from the Comptroller General's Office, I understand the confusion that is existing: we are not even talking about the same contracts, on the original question.

The CHAIRMAN. All right; tell us what we are talking about.

Mr. EDGAR KAISER. Counsel's question originally was, "Were you awarded any C-4 ships on a cost-plus basis, and then was it changed

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to a fixed-price?" The answer is still "No"; they were either on a price-minus or a fixed-price basis; but the first 30 ships that are referred to in the letter are the first 30 C–4 vessels that were let to Kaiser Co., Inc., at Richmond No. 3, in January 1942. That was let on a price-minus basis. The contract was changed to 35 vessels, I think in '44, when the 5 vessels were added to the contract. That is why the record appears that the fees were changed, or the recapturable profits were changed on the vessels. The original contract provided, as I recall it, for a minimum fee of $150,000 and a maximum fee, I think, of six hundred-and-some-odd-thousand, depending on the work done.

These vessels were changed four or five times, to Navy transports, then Army transports, and so on, through four or five changes. The facility cost was increased as a result of those changes. The Maritime Commission arbitrarily, we said, reduced the minimum fee to $102,000—I believe that is correct—when the contract was increased by the five vessels, which was done in '44, and they limited the profit on the first 30 vessels to the figures quoted in that letter, which were approximately $100,000 a vessel, because those vessels were substantially completed; but on the new vessels, the new five which we had not built yet, they then set up recapture provisions for $520,000, if we made more than that. Those were a different type vessel. They were still a C–4, but they were a different designation and for an entirely different purpose. Even those, however, were changed during the performance of the contract from five troop transports to go to the Army, to three to go to the Navy and to two to go as cargo vessels.

Mr. COLES. Now, there was a change in the contract to a fixed-price contract after 26 vessels had been completed?

Mr. EDGAR KAISER. Not a change, because the original letter of intent provided price-minus, which is the same as the fixed-price, only it amounts to a difference in the recapture provision.

Mr. COLES. The fixed-price contract was signed after the 26 vessels had been completed, is that correct?

Mr. EDGAR KAISER. Well, only because the five were added, so that it made a completely new picture.

Mr. COLES. Very well.

Mr. EDGAR KAISER. Not because anyone was changing the conditions on the original 26 or 30.

Mr. COLES. But at the time the fixed-price contract was made, the vessels had been completed; the cost was substantially known, is that correct?

Mr. EDGAR KAISER. And the profit was limited to $100,000 or thereabouts on those vessels.

Mr. COLES. But under that contract there was no risk of loss, was there?

Mr. EDGAR KAISER. No—and they reduced the fee.

Mr. COLES. All right. Now, let us get on to the other contract, which is the one for $164,000,000, that we referred to before. Was that contract likewise made after most of the vessels were completed?

Mr. EDGAR KAISER. No, sir.

Mr. COLES. It was not?

Mr. EDGAR KAISER. No. Now, I would be sure we are talking about the same contract.

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Mr. COLES. All right.

Mr. EDGAR KAISER. That is the 20 C-4's?

Mr. COLES. C-4's.

Mr. EDGAR KAISER. The three different types, at Vancouver, and five at Richmond, which were added to the original 30?

Mr. COLES. Yes. Was that settlement not made January 15, 1946?

Mr. EDGAR KAISER. The final contract may have been signed then, but the settlement was made considerably in advance of that.

Mr. COLES. So that by the time the final contract was signed, the vessels had been completed?

Mr. EDGAR KAISER. No, sir.

Mr. COLES. How many remained to be completed.

Mr. EDGAR KAISER. I do not know.

Mr. COLES. Were there some of them completed?

Mr. EDGAR KAISER. At the time that the negotiated fees were changed, less than—well, I do not know, really.

The CHAIRMAN. Let us get this clear. What do they do—make settlements, and then make contracts to agree with the settlements?

Mr. EDGAR KAISER. Well, sometimes it takes counsel some time to prepare the contracts after the agreements are made.

Mr. COLES. What time lag was there here, do you now?

Mr. EDGAR KAISER. I do not know.

Mr. COLES. Was the contingency allowance allowed under these contracts for the fixed price actually to be paid?

Mr. EDGAR KAISER. I am not sure. I would have to check on that. I think in most cases there was an amount withheld by the Commission to protect it. In some cases of the fixed-price based contracts, I think it was paid; I am not sure. I can check that and let you know.

Mr. COLES. Was that contingency allowance included in the total profits which you show, or not?

Mr. EDGAR KAISER. I think we should be clear as to what the contingency allowances are. They are for wage adjustments, retroactive, to be approved by the Wage Stabilization Board, changes in classifications, or other items of that nature.

Mr. COLES. Was there any surplus of those contingency funds over and above your actual expenditures?

Mr. EDGAR KAISER. Well, if there was, it did not make any difference, because of the recapture provision in the contract.

(Exhibit 35 gives an additional written answer by Mr. Kaiser.)

Mr. COLES. That is what I am trying to get at.

Mr. EDGAR KAISER. Right.

Mr. COLES. It was recaptured, was it?

Mr. EDGAR KAISER. That is right.

Mr. COLES. Now, let us get to the total cost of contracts. Our figures are that the total cost to the Kaiser Co. was $1,658,000,000. Is that correct?

Mr. EDGAR KAISER. To the best of our knowledge and belief, that is correct.

Mr. COLES. Of that, $316,334,000 was Government-owned material supplied to you, was it not?

Mr. EDGAR KAISER. That is correct, according to our records.

Mr. COLES. Was any of that $1,342,000,000 of material which you purchased, which you put into the ships, purchased from a subsidiary company or an affiliated company?

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Mr. EDGAR KAISER. Not to my knowledge.

Mr. COLES. Where do you get your engines?

Mr. EDGAR KAISER. The turbines came from Sun Ship, I think, for those ships, because they were originally bought by the Government to go to Sun, then were transferred to us.

Mr. COLES. Did you buy any of your engines, or did you receive them from the Joshua Hendy Iron Works?

Mr. EDGAR KAISER. Not for the Kaiser Co., Inc.

Mr. COLES. None of their contracts?

Mr. EDGAR KAISER. Those were delivered for Liberty vessels.

Mr. COLES. Did you get Liberty engines from Joshua Hendy for contractors?

Mr. EDGAR KAISER. We did not; no.

Mr. COLES. For none of your yards?

Mr. EDGAR KAISER. We got Joshua Hendy engines, but they were purchased by the Maritime Commission.

Mr. COLES. In how many vessels were those Joshua Hendy engines installed at Kaiser yards?

Mr. EDGAR KAISER. We are talking about Kaiser Co., Inc.?

Mr. COLES. Well, we will get to it later.

Mr. EDGAR KAISER. Or Kaiser Co.? No Joshua Hendy engines, to my knowledge. Now, Joshua Hendy later built turbines. I do not remember whether there were any turbines furnished through the Government from Joshua Hendy on Kaiser Co., Inc.'s, jobs.

Mr. COLES. Well, just for one moment, let us digress from Kaiser Co., Inc. In some or all the Kaiser Co. yards which built Liberty ships, were Joshua Hendy engines used?

Mr. EDGAR KAISER. Yes; there were some Joshua Hendy——

Mr. COLES. Do you have any idea of the number of Joshua Hendy engines that were used?

Mr. EDGAR KAISER. No idea at all.

Mr. COLES. Would there be several hundreds, or thousands, of the engines?

Mr. EDGAR KAISER. None purchased by us.

Mr. COLES. But purchased by the Maritime Commission from Joshua Hendy, is that correct?

Mr. EDGAR KAISER. That is correct.

Mr. COLES. What was the average cost of those?

Mr. EDGAR KAISER. I do not know.

The CHAIRMAN. What is Joshua Hendy Iron Works?

Mr. COLES. I will show it is another affiliate of the Kaiser companies. Is that not one of the companies controlled by the so-called six companies?

Mr. HENRY KAISER. No.

Mr. EDGAR KAISER. Well, in answer to your question, I do not know what the cost was of the Liberty engine, whatsoever.

Mr. COLES. Very well. Let us have an answer as to whether or not Joshua Hendy is controlled by Kaiser.

Mr. EDGAR KAISER. No; Joshua Hendy is not controlled by Kaiser, and never was, nor was it at any time.

Mr. COLES. Does Kaiser not have an interest in Joshua Hendy?

Mr. HENRY KAISER. It has a small interest in it.

Mr. COLES. And is not the remaining interest controlled by the companies which are a part of the Kaiser group, such as the Bechtel Co.,

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the General Construction Co., the Utah Co., the Shea Co., and so on?

Mr. HENRY KAISER. The majority interest was held by the Moore Machinery Co.

Mr. EDGAR KAISER. The majority interest was held by the Moore Machinery Co.—Charlie Moore.

Mr. COLES. But the Kaiser group do hold an interest in Joshua Hendy, is that right?

Mr. HENRY KAISER. Yes, sir.

Mr. COLES. Would you say that for the record?

Mr. HENRY KAISER. Yes.

Mr. COLES. Now, Joshua Hendy sold engines to the Maritime Commission, is that correct?

Mr. HENRY KAISER. Yes, definitely. I can go further on that and enlighten you further. When we built the first 30 British ships, Gibbs & Cox, I think, purchased the engines.

Mr. EDGAR KAISER. They were the procurement agents.

Mr. HENRY KAISER. They were the procurement agents for the Maritime Commission. Gibbs & Cox were procurement agents for the Maritime Commission, and I remember when the first British ships came up, Gibbs & Cox called me up and said, "We are up against it. There isn't any place we can get engines. Is there any way that you can get any one?" And I told them that I thought possibly Joshua Hendy; and we notified Joshua Hendy—Mr. Moore—and he went to see them. I think that they were competitively bidding; I am not sure, and they furnished engines for I do not know how many yards throughout the country. I do not know where those engines went.

Mr. COLES. Did some of the Joshua Hendy engines go into the Liberty ships built by any of the six yards?

Mr. HENRY KAISER. Oh, I am sure they must have.

Mr. COLES. Now, those were purchased by the Maritime Commission from Joshua Hendy Co., is that correct?

Mr. HENRY KAISER. I have in mind they were purchased by Gibbs & Cox.

Mr. COLES. We are not talking about the British ships.

Mr. HENRY KAISER. No, no.

Mr. COLES. We are talking of the general——

Mr. HENRY KAISER (interposing). I think the others were.

Mr. EDGAR KAISER. I am not sure. Gibbs & Cox might have bought some.

Mr. COLES. But they paid for them?

The CHAIRMAN. Wait a minute. We do not want confusion here. We want to show here the answer of the witness.

Mr. EDGAR KAISER. I will strike my answer.

Mr. HENRY KAISER. Gibbs & Cox. I am satisfied Gibbs & Cox were the purchasing agent of the Maritime Commission for a long time, and I am satisfied they purchased a number of those engines for the Maritime Commission; how many, I do not know.

Mr. COLES. Was Joshua Hendy Co. given a profit on the engines so purchased for the account of the Maritime Commission?

Mr. HENRY KAISER. I think you should call Joshua Hendy for that.

Mr. COLES. Well, do you have any doubt but that a profit was paid to them? Are any of your companies in business——

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The CHAIRMAN (interposing). Just a minute; if he does not know——

Mr. HENRY KAISER. I do not know. I think it would.

Mr. COLES. Did you answer the question, Mr. Kaiser, Jr.?

Mr. HENRY KAISER. Well, I really do not know. I do not like to talk about Joshua Hendy, when their representatives are here now. They can give you all the facts. I do not know. I am not managing, and I do not know what goes on in the company. I am not a director. I am merely a stockholder having a small percentage.

Mr. COLES. What I am trying to bring out, Mr. Kaiser, is that Joshua Hendy Co., received a profit on the engines, the engines were then sent over to the Kaiser yards, and the Kaiser yards received another profit; is that not correct?

Mr. HENRY KAISER. Well, it may be. I am a stockholder in General Motors, and I may have gotten a profit on automobiles that they sold the yards; I do not know.

(Exhibit 35 gives an additional written answer by Mr. Kaiser.)

Mr. COLES. Is that an interesting revelation of stockholding in a competing company? Now, this material that you put into your ships was all supplied by the Maritime Commission, or reimbursed to you by the Maritime Commission, is that not correct, under the cost-plus contracts?

Mr. EDGAR KAISER. No. We bought a considerable portion of the material.

Mr. COLES. Yes; but were you not reimbursed by the Commission for that material?

Mr. EDGAR KAISER. That is correct.

Mr. COLES. So that the Commission or the Government paid for the material going into these ships, is that not correct?

Mr. EDGAR KAISER. That is correct. Now, we are talking about Kaiser Co., Inc.?

Mr. COLES. Kaiser Co., Inc.

Mr. EDGAR KAISER. All right.

Mr. COLES. Was the labor paid for by the Government on all these cost-plus-fixed-fee contracts?

Mr. EDGAR KAISER. Not all of it, but most of it.

Mr. COLES. Was the interest on borrowed capital paid for by the Government?

Mr. EDGAR KAISER. I do not know the answer to that question. I think the answer is, to the best of my knowledge, the same as we gave yesterday—about half of it.

Mr. COLES. About half of it?

Mr. EDGAR KAISER. Might have been a little less. We are checking that question and will furnish the answer.

(Exhibit 35 gives an additional written answer by Mr. Kaiser.)

Mr. COLES. Thank you. Now, Mr. Kaiser, were the management's salaries of the management and executive personnel paid by the Maritime Commission?

Mr. EDGAR KAISER. The staff that was on the job doing the work, none of the management from the Henry J. Kaiser Co., Oakland office, which had a very——

Mr. COLES. Did you get a salary of $18,000 a year from Kaiser Co., Inc.?

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Mr. EDGAR KAISER. Well, I got a total salary of $18,000. I do not think I got it all from Kaiser Co., Inc. I think some of it was from Oregon Shipbuilding.

Mr. COLES. I think the records show.

Mr. EDGAR KAISER. Well, maybe later on it changed over, but the total was $18,000.

Mr. COLES. Was that $18,000 paid to you reimbursed by the Maritime Commission?

Mr. EDGAR KAISER. I think it was.

Mr. COLES. Now, what nonreimbursable expenses did you have for the Kaiser Co.? What were they for?

Mr. EDGAR KAISER. To the best of my knowledge, all of that is in that book.

Mr. COLES. That deduction was $5,750,000. Can you tell me what those nonreimbursables were, and whether the Government should have been liable for them?

Mr. EDGAR KAISER. May I refer to the list? We do not have the detail exhibit supporting the summary figure of $5,750,000.

Mr. COLES. Would you get us a break-down of that?

Mr. EDGAR KAISER. We will.

(Exhibit 35 gives an additional written answer by Mr. Kaiser.)

Mr. COLES. Now, Mr. Kaiser, I assume that you laid out money for the Government, in the sense that you paid the labor and then you were subsequently reimbursed, is that correct?

Mr. EDGAR KAISER. Yes; that is correct.

Mr. COLES. How long was the average time for reimbursement on expenditures made for the Commission's account?

Mr. EDGAR KAISER. I will have to refer, if I may.

Mr. COLES. Certainly.

Mr. EDGAR KAISER. Probably about a 2½ week period, on the average. About a 2½ week period on the average, to the best of our knowledge.

Mr. COLES. And during that 2½ weeks you were a claimant from the Government much in the way that a bondholder is a claimant against the Government, is that corect?

Mr. EDGAR KAISER. I do not know about that.

Mr. COLES. But I mean you have a claim for money against the Government?

Mr. EDGAR KAISER. We had a claim for it.

Mr. COLES. All right; let us go back for a moment. We find that the material was paid for by the Government, the labor was paid for by the Government; at least part of the interest on borrowed capital used was paid for by the Government; management and salaries were paid for by the Government; reimbursement was about 2½ weeks. What were the fees paid for?

Mr. EDGAR KAISER. The fees were paid for furnishing the organization, the management of the job, the personnel that we brought on the job, also paid for furnishing the operating capital of $32,000,000, because our pay rolls ran, in the northern yards, in excess of 5 million in a week, and in excess of 5 million a week, in the southern yards, making 10 million a week. We were paid also for the speed of performance; for building the vessels at about $250,000,000, on the Lib-

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erty ships, under the cost of the average of all other Liberty ships in the country.

Mr. COLES. Now, you talk about the salaries and management. Were not management salaries paid for by the Commission?

Mr. EDGAR KAISER. No; not all of them. This is our manager. He knows more about what is going on than we do, even though he is not there.

Mr. COLES. He has not shown it in the hearings.

Mr. EDGAR KAISER. Well, you have not asked him technical questions about how to build the ships, or how to get it done, or how to organize to do the things that were needed at the time; but when you ask him some technical questions about "which agreement had what interest in it?" I do not wonder he cannot answer it; but ask him who the men were that took the job—he knows that answer.

The CHAIRMAN. Individuals, or members of the committee, I do not think counsel should reflect upon that, that he has not shown it at the hearing. That would be a conclusion.

Mr. COLES. I ask the remark be withdrawn.

The CHAIRMAN. That is all right. Go ahead.

Mr. COLES. Mr. Kaiser, were management salaries not limited to $25,000, under the 1936 Merchant Marine Act?

Mr. EDGAR KAISER. I do not know about that, but they were, in our contract, limited to $25,000.

Mr. COLES. So that these salaries, themselves, then, were what we would call super management fees, isn't that correct?

Mr. EDGAR KAISER. No; I would not call them that, because in that case you would have paid salaries to all of the Oakland offices and to all of the staff that was assisting in that, which were not paid, and no home office expense was claimed or allowed.

Mr. COLES. Would that have been reimbursable if claimed?

Mr. EDGAR KAISER. Yes.

Mr. COLES. Why was it not claimed?

Mr. EDGAR KAISER. Because we did not feel it should, and because my father always took the position that he did not want to get in that position, regardless of what the contract said.

Mr. COLES. So that what you say is that these fees of millions of dollars made up for those payments, for those expenditures?

Mr. EDGAR KAISER. I would rather say it this way: the amounts that we earned on the volumes of ships that we built; because we have got to talk about the volume of the work done and not about how many millions of dollars were earned. It is a question of volume.

Mr. COLES. What private business do you know of where you can figure profits on volume except pari-mutuel machines at racetracks?

Mr. EDGAR KAISER. As far as I know, the Internal Revenue Department figures it every day.

Moody's Industrials shows that the net profit of General Motors, after taxes and after renegotiation, were 6.02 of gross sales in 1945 and 4.01 percent in 1944. The figures for du Pont are 12.7 percent in 1945 and 12.51 percent in 1944——

The CHAIRMAN. Has that anything to do with this question?

Mr. EDGAR KAISER. Yes, sir. He asked me the question as to whether or not you could figure profit in percentages, and I am quoting from Moody's Industrials profits which were made.

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For United States Steel, 3.33 percent in 1945 and 2.91 percent in 1944; for Bethlehem Steel, 2.63 percent in 1945 and 2.07 percent in 1944; for Chrysler 3.77 percent in 1945 and 2.26 percent in 1944; ours was one-tenth of 1 percent.

Mr. COLES. Are those companies privately owned companies?

Mr. EDGAR KAISER. No.

Mr. COLES. Is there private capital invested in those companies?

Mr. EDGAR KAISER. I have two advisers to answer, now. I think I will turn this question over to Mr. Kaiser, Sr.

Mr. HENRY KAISER. General Motors operated a Government plant.

Mr. COLES. How much money in private capital was turned into it?

The CHAIRMAN. I did not know that we were going into General Motors.

Mr. COLES. I want to show the return of a company such as this, with Government capital invested.

The CHAIRMAN. I do not think we will take the whole range.

Mr. COLES. You spoke of $32,000,000 invested. Did that include the bank loans you spoke of?

Mr. EDGAR KAISER. Yes.

Mr. COLES. On those bank loans the interest was paid by the Government?

Mr. EDGAR KAISER. No; a portion of it was.

Mr. COLES. So, a portion of the $32,000,000 was paid for by the Government so far as interest was concerned?

Mr. EDGAR KAISER. As provided in the contract.

Mr. COLES. That was money borrowed from the bank which had to be repaid to the bank?

Mr. EDGAR KAISER. Yes.

Mr. COLES. So that that $32,000,000 figure is money borrowed from banks, and a portion of the interest was paid for by the Government?

Mr. EDGAR KAISER. It is the capital required in order to do business, which we had to have or we could not have performed the contract.

Mr. COLES. But it was furnished by banks?

Mr. EDGAR KAISER. On our credit.

Mr. COLES. Was there any personal endorsement on those loans?

Mr. EDGAR KAISER. We went all through that yesterday.

Mr. COLES. We did not get an answer.

Mr. EDGAR KAISER. The answer yesterday was that there was not a personal endorsement; but my father could not get the information until he went through all the bank loan agreements to determine what the terms were, and we were to furnish that information.

Mr. COLES. To go over to the renegotiation, was any money turned into the Kaiser Co. in connection with renegotiation?

(Exhibit 35 gives an additional written answer by Mr. Kaiser.)

Mr. EDGAR KAISER. That has not been finished; but there would not be any taken back, in my opinion, even if they did not include the steel losses.

Mr. COLES. Going back for a moment to those steel losses: as I understand it, the reason that no renegotiation profits were turned back from Kaiser Co., Inc., and the reason that no taxes were paid on those shipyard earnings is that those shipyard earnings were offset by losses on the steel plants?

Mr. EDGAR KAISER. No; that is not correct.

Mr. COLES. Will you correct me, please.

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Mr. EDGAR KAISER. The reason we suplied all the information concerning the Kaiser Co., Inc., operations is because it was the operation of one company. The reason we put emphasis on the losses incurred by the steel division was because of question 13 that you asked. You asked what the members of the Kaiser family personally got. In order to know that you have to know what the losses and the profits of the whole corporation were; but if you take the shipbuilding division only, which you wanted to take yesterday, and compute the profits on $1,300,000,000, without the Government furnishing materials, the profit is less than 3 percent. There is not any renegotiation that we have heard of where a job was done as good as that job was done where they have renegotiated below that point without steel losses.

Mr. COLES. Let us look at it from a taxation point of view.

Mr. EDGAR KAISER. That is before taxes.

Mr. COLES. Let us get to taxes now. Did you pay any taxes on the forty-odd million of profit made by Kaiser Co., Inc.?

Mr. EDGAR KAISER. The statement is filed in the record that we did not. We find on careful checking that we did pay taxes, and a claim for refund has been made which we believe will be allowed. That is why the statement was put in the record as it was.

Mr. COLES. What was the amount of taxes?

Mr. EDGAR KAISER. $1,064,000.

Mr. COLES. So, you paid no taxes on the $41,000,000?

Mr. EDGAR KAISER. To the best of my knowledge. If you are talking about Kaiser Co., Inc.; if you are talking about the members of the Kaiser family, again we get back to taxes. Let us talk about it all together, and not only the things that are going to hurt us.

Mr. COLES. I know that you can take care of yourself. Let us get to the taxation of the Kaiser Co., Inc. Did you pay any taxes on the forty-odd million? I think you have answered that question.

Mr. EDGAR KAISER. I answered that, yes; but there is a claim for refund on that.

Mr. COLES. In any event, your total tax was a little over $1,000,000?

Mr. EDGAR KAISER. I think that is right.

Mr. WEICHEL. Does the Internal Revenue Department claim that this man has not paid taxes according to law?

Mr. COLES. No.

Mr. WEICHEL. If these people have violated the law they should go to jail, if they have not paid their taxes. This is not a tax investigation. If the Internal Revenue Department does not know how to do it, let us get somebody else to do it.

Mr. COLES. I intend to show that the reason no taxes were paid was because they set it off against steel company losses; but those steel company losses were merely an amortization of the steel companies——

Mr. WEICHEL. Does the Internal Revenue Department claim that that is fraudulent?

Mr. COLES. No; it is perfectly legal, Mr. Weichel.

Mr. WEICHEL. I am for forgetting it, then.

Mr. COLES. What I am trying to show is that the shipbuilding company profits and the taxes which otherwise would have been paid were used to pay for the steel plant. It is perfectly legal. I have not questioned its legality.

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The CHAIRMAN. You can consult the Internal Revenue Department about that.

Mr. COLES. I notice that you have the losses deducted from $41,000,000, and the reasons for nonpayment of taxes, showing an item of one million and some odd thousand dollars which was interest to RFC.

Mr. EDGAR KAISER. If it is in the book it is correct, to the best of my knowledge.

Mr. COLES. Another item is $45,927,000, and that is listed as amortization, depletion——

The CHAIRMAN. If that is in the statement that has been filed by the Kaiser Co. it is evidence until a showing is made to the contrary.

Mr. COLES. I should like to introduce as exhibit 8 a letter from the Civilian Production Administration dated September 8, 1946, signed by Mr. Francisco M. Bianco, in which it is shown that the Kaiser Co. had certificates of necessity of $90,000,000. Under the tax laws the war plant was allowed to amortize over a 5-year period. The plant may have actually only depreciated 5 percent a year, but for tax purposes they were allowed to write off 20 percent a year, so that at the end of 5 years the write-off of that plant had been accomplished. I hope to be able to bring out that that is what was done in the steel company plant; that this $45,000,000 represents such a write-off, and you have a steel plant paid for by shipyard profits.

(Document so described was marked "Exhibit No. 8.")

Mr. COLES. Is this $45,000,000 not an amortization under certificates of necessity?

Mr. EDGAR KAISER. There was a loss not only of $45,000,000, but $35,000,000, making $80,000,000, as the result of a plant being sold, to United States Steel by the Government at 20 cents on the dollar. So, if you are trying to show a loss of $45,000,000, you should remember that we lost $80,000,000.

Mr. COLES. Was that $45,000,000 not a write-off under a certificate of necessity?

Mr. EDGAR KAISER. Yes.

Mr. COLES. So that no taxes were paid on your shipbuilding profits because of this write-off for amortization and depreciation?

Mr. EDGAR KAISER. I feel sure of that, but we will have increased taxes later if we can possibly make the plant a profitable one. Certificates of necessity have always been considered by businessmen as deferred tax. They will be taken care of. They are written off in the first 5 years, but after that, since there is no write-off, the Internal Revenue Department will tell you that taxes take place. Unfortunately in this case there should have been $80,000,000 written off, another plant being sold at 20 cents on a dollar.

Mr. COLES. I am trying to show merely that no taxes were paid on your shipyard earnings.

Mr. EDGAR KAISER. There will be less paid if this 20 cents on the dollar continues.

Mr. COLES. In summary, for the Kaiser Co., then, we can say that there was forty-odd million made as shipbuilding profit, none recovered back so far in renegotiation, and no taxes paid. Is that correct?

The CHAIRMAN. Is that shown by the statement that has been filed?

Mr. COLES. Yes, sir.

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The CHAIRMAN. It stands proven. Why ask him if it is correct?

(Exhibit 35 gives an additional written answer by Mr. Kaiser.)

Mr. COLES. Now, if we can turn from the Kaiser Co. to the Permanente Metals Corp., when was that company formed?

Mr. HENRY KAISER. Is it in the book?

Mr. COLES. It was incorporated in December 1940, and the name was changed to Permanente Metals Corp. in November 1941. It took over the Richmond Shipbuilding Corp.——

The CHAIRMAN. If that is in the matter that has been filed there is no necessity for repeating it.

Mr. COLES. You are the president of the Permanente Metals Corp.?

Mr. HENRY KAISER. I think so.

Mr. COLES. Mr. Kaiser, Jr., are you an officer of that company?

Mr. EDGAR KAISER. Yes, sir.

Mr. COLES. How much of the incorporators' money was originally put into the capital stock of this company?

Mr. HENRY KAISER. Is that in the record?

Mr. COLES. No; it does not appear. I have a figure here of $460,000. That includes a stock dividend.

The CHAIRMAN. Is that shown in his statement?

Mr. COLES. I am afraid it is not, Mr. Chairman.

What was the original amount of capital stock?

Mr. HENRY KAISER. It is shown in the statement—$460,000.

Mr. COLES. What was the original amount of capital stock?

Mr. HENRY KAISER. If that is not it, we will have to check it.

Mr. COLES. Will you check whether it was a smaller amount and was increased to $460,000 and let us know later?

Mr. HENRY KAISER. Yes.

(Exhibit 35 gives an additional written answer by Mr. Kaiser.)

Mr. COLES. There is a statement in the report that the original capital stock was $460,000 but the funds therefrom were used in the operation of another division of the company. Is that correct?

The CHAIRMAN. If that is shown in his report, is not that correct?

Mr. HENRY KAISER. Yes; it is shown in the report.

Mr. COLES. So that none of the original capital, whatever it may have been, was used in the shipbuilding operations?

Mr. EDGAR KAISER. I do not think that is correct. What page are you reading there?

The CHAIRMAN. The Chair thinks that everything that is shown in the statement is presumed and will be presumed by the committee to be correct unless they themselves show to the contrary.

Is there a question pending?

Mr. COLES. Will you read my question, Mr. Reporter?

(The reporter read as follows:)

So that none of the original capital, whatever it may have been, was used in the shipbuilding operations?

Mr. EDGAR KAISER. Let us find out what the original capital was that was used. I think you have got to tie it in with another statement which we are having trouble in locating ourselves here. When the company was originally formed there was $100,000 which was used in shipbuilding when the company went into magnesium production—no; magnesium was the $100,000; and when it went into shipbuilding it was $460,000 and we borrowed an additional $7,500,000.

Mr. COLES. Was that $7,500,000 bank loans?

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Mr. EDGAR KAISER. Bank loans and advances from subsidiary companies. It shows in the book.

Mr. COLES. Was interest paid on those loans?

Mr. EDGAR KAISER. I do not know.

Mr. COLES. If it was, was it later reimbursed by the Government?

Mr. EDGAR KAISER. No; I do not think it would have been.

Mr. COLES. None at all?

Mr. EDGAR KAISER. I do not know about "none at all." I will have to check it.

(Exhibit 35 gives an additional written answer by Mr. Kaiser.)

Mr. COLES. It was reimbursed by the Government?

Mr. EDGAR KAISER. I think it worked under the stipulation the Maritime Commission required in order to prevent people from coming in without capital. As I recall it, that $100,000 or $200,000 was paid up, and then they paid over that or under that, I have forgotten which it was.

Mr. COLES. So this was also a part of the capital to which you referred, and this was also money borrowed from banks and part of the interest was paid by the Government?

Mr. HENRY KAISER. It says "Loans and advances from subsidiaries."

Mr. COLES. That subsidiary was the Richmond Shipbuilding Corp.?

Mr. HENRY KAISER. That is what it says in the book.

Mr. COLES. Was not the Richmond Shipbuilding Co.'s original capital stock about $200,000, and did it not borrow from the banks?

Mr. HENRY KAISER. Yes.

Mr. COLES. So, is not this all the same money, when it comes to the Richmond Shipbuilding Co.?

Mr. HENRY KAISER. Somewhere in this is $200,000,000 worth of RFC's which have been paid.

Mr. COLES. The subsidiary may have been the original borrower?

Mr. HENRY KAISER. No. Is there anything wrong about getting money from a bank?

Mr. EDGAR KAISER. It is something that most people have difficulty in getting.

Mr. COLES. Were you a personal guarantor of any of these loans?

Mr. EDGAR KAISER. I would have to get the bank loan agreements to know that.

(Exhibit 35 gives an additional written answer by Mr. Kaiser.)

Mr. COLES. Did you also borrow $28,475,000 from the RFC?

Mr. EDGAR KAISER. Yes.

Mr. COLES. Was that guaranteed by your shipyard profits?

Mr. EDGAR KAISER. Yes.

Mr. COLES. How much of the corporation's money was put into the actual physical yard of Permanente Metals?

Mr. EDGAR KAISER. The $28,000,000 has been paid back with interest.

Mr. COLES. How much of the corporation's money was invested in the Permanente Metals Shipyard?

The CHAIRMAN. Does the record show?

Mr. COLES. No; it does not.

The WPB records show $151,000. Do you have any reason for disputing that?

Mr. EDGAR KAISER. No; only we are confirming it. The boys are checking that.

(Exhibit 35 gives an additional written answer by Mr. Kaiser.)

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Mr. COLES. You stated that the stock was originally $100,000 but was increased to $460,000. Was the $360,000 a stock dividend, or was that from profits that had been earned previously from the Government, or was that a new payment of $360,000 in cash?

Mr. HENRY KAISER. From these figures it appears that it is capital stock.

Mr. COLES. But was it not from a stock dividend of December 1941?

Mr. HENRY KAISER. I don't think so.

Mr. EDGAR KAISER. I don't think it had any dividends at that time.

Mr. COLES. Would you check that?

Mr. EDGAR KAISER. Yes; we will check it.

(Exhibit 35 gives an additional written answer by Mr. Kaiser.)

Mr. COLES. The Maritime Commission's investment in the yard is $35,000,000, which includes $5,000,000 paid by the British. What part of that work was subcontracted?

Mr. EDGAR KAISER. I don't know the answer to that. That question is one that we are checking.

(Exhibit 35 gives an additional written answer by Mr. Kaiser.)

Mr. COLES. Did any of the fees to pay subcontractors go to contractors affiliated with either the Kaiser Co. or any of the companies in the Kaiser group?

Mr. EDGAR KAISER. Not to my knowledge.

Mr. COLES. The figures show that you have $826,000,000 worth of cost-plus contracts, $134,000,000 of fixed-price and $272,000,000 of selected-price contracts.

Mr. EDGAR KAISER. I think that is correct. That is in the figures in the book.

Mr. WEICHEL. Has it not been shown that the Government paid for everything at the yards? You went into that. Don't we want to know who gave it to them and why? I do not know how you can find out by this line of questioning. I think the committee has something to say about it if you are going to prolong this thing.

Mr. COLES. I apologize for the length of time, but Mr. Kaiser represents 6 companies and over 50 percent of the profits, and it takes a good deal longer with him than it will with the others.

(Informal discussion off the record.)

Mr. WEICHEL. This is a committee investigation and not counsel's investigation.

The CHAIRMAN. The Chair will try to be as impartial as if he were a judge presiding in court.

Mr. COLES. How many of your fixed-price and selected-price contracts were converted from other forms or were entered into after all the ships had been completed?

Mr. EDGAR KAISER. I do not know the answer to that.

Mr. COLES. Will you check it for us, please?

Mr. EDGAR KAISER. Yes.

(Exhibit 35 gives an additional written answer by Mr. Kaiser.)

Mr. COLES. The total volume was $1,269,000,000. Have you any idea how much was Government-furnished material?

Mr. EDGAR KAISER. It is in the book.

Mr. COLES. The figure I have—but I have no reference to where it was taken from—is $726,000,000.

Mr. HENRY KAISER. It is in the records.

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Mr. COLES. So that actually the Government supplied $726,000,000 and you people supplied $542,000,000. Is that correct?

Mr. EDGAR KAISER. No.

The CHAIRMAN. If the records show that——

Mr. COLES. They do not, Judge.

Mr. HENRY KAISER. Yes; it is there.

Mr. COLES. The amount furnished by you is how much?

Mr. EDGAR KAISER. The total value of the contract was $1,168,748,034.30, of which the Commission furnished $515,000,000 worth of material. Whether or not that was furnished by the Government or whether they directed us to buy a part of that, I do not know. You cannot tell without going back to the details, because in many cases that happened, and then it switched over into this column [indicating]. It was a matter of getting the material as quickly as you could wherever you could. It looks like this is all in the book, but I cannot refer you to the pages.

Mr. COLES. Was it not over half a billion dollars?

Mr. EDGAR KAISER. Yes.

Mr. COLES. And the total contract was one and a quarter billion?

Mr. EDGAR KAISER. Approximately; but that does not necessarily mean that we did not buy some of it.

Mr. COLES. Did the management of this yard get paid management salaries?

Mr. EDGAR KAISER. The men in responsible charge of the job in the yard; yes, sir.

Mr. COLES. Did Mr. Clay Bedford receive over $22,000 a year?

Mr. EDGAR KAISER. Yes; but it was not reimbursable, as I recall.

Mr. COLES. Was most of it reimbursable?

Mr. EDGAR KAISER. I think $18,000 was, for quite a period of time.

Mr. COLES. Do I understand that in some cases the Maritime Commission refused to reimburse full salaries on the ground that they were too high?

Mr. EDGAR KAISER. Not with us.

Mr. COLES. Would you say that $20,000 was not reimbursable?

Mr. EDGAR KAISER. When we started on these shipyards Mr. Clay Bedford was closing up other jobs, and we didn't want it said that his entire compensation was being reimbursed by the Government when he spent a small portion of his time outside.

I would like to make one more remark on that salary question. I think the record does show that our management salaries were lower than any shipyards in the program.

Mr. COLES. Are not management salaries just a drop in the bucket as compared with the fees and profits realized?

Mr. EDGAR KAISER. No. You have to go back all through the companies and see who the stockholders are.

The CHAIRMAN. Would not that be determined from facts that appear already in the record?

Mr. COLES. I am trying to proceed as fast as I can. We are almost through with Permanente now.

Your original capital stock was $460,000, and your profits were $58,000,000?

Mr. EDGAR KAISER. Before taxes.

Mr. COLES. Was that the total profit before taxes?

Mr. EDGAR KAISER. But after taxes it was what? $8,999,000.

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Mr. COLES. Did you not write off in the same way as in the Kaiser Co., Inc., the losses of the steel plants which were mainly amortization and interest written off against shipyard profits of that company?

Mr. EDGAR KAISER. Not in exactly the same way, because the circumstances were different from the circumstances in Kaiser Co., Inc.

Mr. COLES. But did you not write off magnesium amortization and depreciation as a major item against the profits?

Mr. EDGAR KAISER. I do not know whether it is a major item or not. I would have to analyze it.

Mr. HENRY KAISER. I can answer that for you. If the law provided for it, we wrote it off. Unfortunately, much of it has been abandoned and is now a loss, and we are losing about $50,000 per month still on the plant, which does not show in these later records.

Mr. COLES. Are you still operating the magnesium plant?

Mr. HENRY KAISER. No. We are still making a real effort to make a real contribution to a light metal. We might make it, but we are losing $50,000 a month trying it in that same plant; but much of the plant is abandoned.

Mr. COLES. Did you not write off $25,417,000 as provision for amortization and depreciation against your shipyard profits both for tax purposes and renegotiation purposes?

Mr. EDGAR KAISER. It is in the book.

The CHAIRMAN. If it is in there, it is proven.

Mr. COLES. Were the profits and fees made before taxes, of $58,000,000, not something like 11,600 percent on the original capital?

Mr. EDGAR KAISER. No; because there is a difference of opinion over the question. We say it includes the operating capital you had to have in order to run the yard. Furthermore, we do not think that any Government agency required anybody to have a certain amount of capital or to try to determine profits on a basis of invested capital, when all the laws were set up just to the contrary. That is trying to make us look as though we were doing something that is not right.

Mr. COLES. I am not trying to make you look as though you were doing something that was not right——

The CHAIRMAN. Just ask the question, and get the answer, please.

Mr. COLES. I am trying to find out whether the profits were reasonable or unreasonable, in view of all the circumstances.

Mr. EDGAR KAISER. But capital investment is not a measure.

The CHAIRMAN. That is a matter for the committee's determination.

Mr. HENRY KAISER. Congress has made that determination already.

Mr. EDGAR KAISER. Because they did not set up such a requirement.

Mr. COLES. Were those fixed-price contracts of yours changed after they had been originally made?

Mr. EDGAR KAISER. Can we furnish that for the record?

(Exhibit 35 gives an additional written answer by Mr. Kaiser.)

Mr. COLES. Yes. Will you tell us at what stage of the record they were so changed, if so?

Mr. EDGAR KAISER. I think I can tell you that now. I cannot tell you as to specific numbers, but I can tell you why. There was an order or a directive that went out, as we were informed by the Maritime Commission, from either the White House or the Joint Chiefs of Staff, or somebody, that all contracts should be converted to a fixed-price basis wherever possible. We worked for months with the Maritime Commission trying to work out that conversion. We were unable

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to do so after spending 3 or 4 months on it. Finally we got a telegram from the Maritime Commission, I think, signed by the Secretary, saying that certain additional contract ships had to be constructed for the war effort and were assigned to our yards and that unless we converted those contracts to fixed-price contracts they would not assign those other ships. It was a pure and simple forcing procedure. So we got together and finally worked it out.

Mr. COLES. In most cases were the fixed-price contracts signed after the ships had been built?

Mr. EDGAR KAISER. I do not know. You have got to analyze each one.

Mr. COLES. Will you do that?

(Exhibit 35 gives an additional written answer by Mr. Kaiser.)

Mr. EDGAR KAISER. I know that the directive said—at least, the Commission told us that—that the agencies contracting were directed to change those contracts. It was not something that the Commission wanted or that we wanted to do.

Mr. COLES. In most cases the cost of the ships was known before the contract was signed?

Mr. EDGAR KAISER. No; I don't think that is true. The fear at that time was this—it is a well-established fact as to what happened in connection with building ships in World War I. Everybody was frightened to death as to what was going to happen at the end of this war, as to whether that same condition would exist. How to evaluate it was the problem that all Government agencies faced.

Mr. COLES. In discussing your taxation you set off $28,000,000, $25,000,000 of which was amortization for your magnesium plant, against your shipyard profits?

Mr. EDGAR KAISER. I think that is in the book.

The CHAIRMAN. All right. If it is there, it is so.

Mr. COLES. I would like to go over, now, if we can, to the Kaiser Cargo Co., and I think we can do that very quickly.

When was the Kaiser Cargo Co. formed?

Mr. HENRY KAISER. Is it in the book?

Mr. EDGAR KAISER. November 17, 1942.

Mr. COLES. What was the purpose of founding that company?

Mr. HENRY KAISER. That is many years ago. It is difficult for me to have an accurate memory on that.

The CHAIRMAN. You do not remember?

Mr. HENRY KAISER. No, sir. It was a long time ago. It was for two types of ship, but I cannot remember which it was.

The CHAIRMAN. Certainly. I can understand that.

Mr. COLES. The total capital stock originally, as of November 1942, was $100,000; is not that correct?

Mr. EDGAR KAISER. I think it was $500,000.

Mr. COLES. It was $100,000 and increased to $500,000.

Mr. EDGAR KAISER. All right, if it is in the book.

Mr. COLES. You borrowed from the bank $10,500,000. That appears in the book.

Mr. EDGAR KAISER. Yes.

Mr. COLES. And that was guaranteed by the War Department?

Mr. HENRY KAISER. If that is in the book, it is O. K.

Mr. COLES. Was that $10,000,000 guaranteed by the War Department part of the $32,000,000 of capital that you spoke of?

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Mr. HENRY KAISER. Is that in the book?

Mr. EDGAR KAISER. I say, definitely not. The answer is "no."

Mr. COLES. What was the major portion of this used for? Was it used for shipbuilding or other operations?

Mr. HENRY KAISER. It is very difficult to tell you. It is all in the book.

Mr. COLES. I am trying to bring out to the committee the fact that only $1,500,000 was used for shipbuilding.

The CHAIRMAN. What company are you talking about?

Mr. COLES. The Kaiser Cargo Co., one of the smaller subsidiaries.

Mr. HENRY KAISER. It is in the book, and it is not like you say. Under date of June 17, 1943, the company and the Bank of America entered into a credit agreement under which $11,500,000 was made available. Of this amount $2,000,000 was available for the purpose of shipbuilding operation, and the allocations for shipyard operations were subsequently reduced to $1,500,000. The largest amount was used in aircraft production. They did a tremendous job. It would take hours to talk about that. I do not think the chairman wants to hear about aircraft.

Mr. COLES. This company had no shipyard itself?

Mr. HENRY KAISER. No.

Mr. COLES. And no investment in shipyards?

Mr. EDGAR KAISER. It did have an investment. I do not know how much. That is part of the record.

Mr. COLES. I think we can skip over that company, Mr. Chairman, because most of the information is in the printed record. I think we can go over to the Oregon Shipbuilding Co.

When was that company formed, Mr. Kaiser?

Mr. HENRY KAISER. That is in the book.

Mr. COLES. Will you tell us?

Mr. HENRY KAISER. January 6. I thought the chairman did not want what was in the book repeated.

Mr. COLES. These are just introductory questions, although they are in the book.

Mr. HENRY KAISER. All right. January 6, 1941.

Mr. COLES. And you put in the book that the capital stock was $500,000. What was its original capital stock?

Mr. HENRY KAISER. The original was $100,000, and the increase is $450,000.

Mr. COLES. By stock dividend; is that correct?

Mr. HENRY KAISER. Loans from stockholders.

Mr. COLES. Were those loans paid?

Mr. HENRY KAISER. I don't think they were repaid—yes; they were repaid in full, March 1944. The loans from stockholders totaled $3,000,000.

Mr. COLES. Was interest paid on those loans?

Mr. HENRY KAISER. The bank loans were $3,400,000.

Mr. COLES. Was interest paid on the bank loans?

Mr. EDGAR KAISER. I think it is the same situation as the other, about half and half.

Mr. COLES. Who built the yard for the Oregon Shipbuilding Co.?

Mr. EDGAR KAISER. The Oregon Shipbuilding Corp.

Mr. COLES. Who was the subcontractor that had charge of all construction?

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Mr. EDGAR KAISER. The Oregon. We did it ourselves. The only thing we subcontracted was the piling, because we did not have the water equipment. That is the Oregon Ship, up at St. Johns. The first yard that was built in the Portland area was near the St. Johns Bridge that goes across there.

Mr. COLES. Did any subcontractor make a profit on the building of the yard?

Mr. EDGAR KAISER. Wherever we let a cost-plus or fixed-fee contract he might, but I don't know about that.

Mr. COLES. Will you give us a list of any companies affiliated in the Kaiser group which made a profit?

Mr. EDGAR KAISER. There wasn't any.

Mr. HENRY KAISER. You can get that information from the Renegotiation Act. But there were not any affiliated with us.

Mr. COLES. The information we have is that the Gilpin Co. constructed the yard. That information is taken from the renegotiation.

Mr. HENRY KAISER. That is not correct. They did some work, but they did not build the yard. They didn't have charge of it.

Mr. COLES. Were they a major contractor? Did they have supervision?

Mr. HENRY KAISER. They had supervision of the part of the work they did, surely; but they did not have responsible charge of the whole yard or any major part of it.

Mr. COLES. Did the J. A. McEachern Co.?

Mr. HENRY KAISER. You are talking to the general manager of that yard now, so he is getting into water that he likes.

Mr. COLES. Did the J. A. McEachern Co. have any interest in the Oregon yard?

Mr. HENRY KAISER. No; nor did we have any interest in the J. A. McEachern Co.

Mr. COLES. Is not that a wholly owned subsidiary of the General Construction Co.?

Mr. HENRY KAISER. Not to my knowledge.

Mr. COLES. Did the General Construction Co. own 25 percent of the stock of Consolidated Builders?

Mr. HENRY KAISER. I don't know.

Mr. COLES. Does not Consolidated Builders own 100 percent of the Oregon Co.?

Mr. HENRY KAISER. Yes.

Mr. COLES. So, actually, don't you have one of the subsidiaries?

Mr. HENRY KAISER. No; they are not a subsidiary.

Mr. COLES. Or affiliates?

Mr. HENRY KAISER. I do not think we did any subcontracting work at Oregon with affiliates, associates, or anyone else, or any of the stockholders of the Oregon Ship.

Mr. COLES. The renegotiation board says that the Gilpin Construction Co. built the Oregon yard. How much profit did they make?

Mr. HENRY KAISER. I cannot give you that, because I think most of it was on a competitive-bid price where we took the lowest bidder.

Mr. COLES. Will you get us what the total bids were, the total amounts, and the total amount paid to the Gilpin Construction Co. for the construction of the Oregon Shipyard?

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Mr. HENRY KAISER. Not for construction of the Oregon Shipyard, because they did not do it.

Mr. COLES. Any part of it?

(Exhibit 35 gives an additional written answer by Mr. Kaiser.)

Mr. EDGAR KAISER. I would like to make it clear also that the Kaiser Co., the Henry J. Kaiser Co., or any of the family had no interest whatsoever in McEachern, Gilpin, or anyone else. You are trying to show that somebody got an indirect cut ,and they did not. You are asking me for that testimony, and they did not get it.

Mr. COLES. The total contracts of the Oregon Shipbuilding Co. were $963,000,000, of which the Government furnished $435,000,000 worth of material?

Mr. HENRY KAISER. It is in the book.

Mr. COLES. And the Oregon Shipbuilding Co. made fees of $44,-830,000?

Mr. EDGAR KAISER. It is in the book. They did the best job of any yard in the country.

Mr. COLES. Were any of the contracts of the Oregon Shipbuilding Co. on a fixed-price or selected-price basis, changed from the former basis?

Mr. EDGAR KAISER. Yes; under the same basis I described a little while ago.

Mr. COLES. Will you give us all the changes for the record?

Mr. EDGAR KAISER. I will.

(Exhibit 35 gives an additional written answer by Mr. Kaiser.)

Mr. COLES. Let us take two contracts which were cost-plus-a-fixed-fee. The number is MC–3X34763. What was the amount of that contract?

Mr. EDGAR KAISER. It says in the book here that it was $104,000,000.

Mr. COLES. The contract was originally cost-plus-a-fixed-fee, was it not?

Mr. EDGAR KAISER. That is a very complicated contract, because that contract was changed at the time of this order from top side, whatever it was, to the agencies to convert over to fixed price. I think it is a combination of several contracts. The contract is not finished yet; we are still building some of the ships.

Mr. COLES. Under that cost-plus contract was not the fee from $74,000 to $100,000 per ship?

Mr. EDGAR KAISER. Does the book say that?

Mr. COLES. No; I got it from other sources. Were the fees under the selected-price contract from $116,000 to $239,000 per ship?

Mr. EDGAR KAISER. No. I don't think that is right. It is a selected price, so they have to depend on what you select.

Mr. COLES. Did you receive a salary of $13,000 from this company in 1941 and $10,000 and something in 1942 from the Oregon Shipbuilding Co.?

Mr. EDGAR KAISER. Yes; but I want to make it clear that the total I got at any time was not more than $18,000.

Mr. COLES. Mr. Chairman, there are two other yards which are Kaiser yards, the Walsh-Kaiser and the California Ship. They were in California Ship until 1945.

Mr. EDGAR KAISER. Not a Kaiser yard. It was a good yard, too.

The CHAIRMAN. What about it?

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Mr. COLES. I might now turn over Mr. Kaiser to the committee members to be questioned and question representatives of California Ship and Walsh-Kaiser later.

The CHAIRMAN. Have you finished your questions?

Mr. COLES. Yes.

The CHAIRMAN. Mr. Bradley.

Mr. EDGAR KAISER. There is just one thing I would like to say on those last two companies, the Oregon Ship and the Kaiser Cargo, that we paid very large taxes but did not make a large profit, and we do not like to talk about that.

The CHAIRMAN. All right, Mr. Bradley.

Mr. BRADLEY. Mr. Kaiser, I have been rather disturbed prior to your coming here by several newspaper articles I have read which quoted you as saying, in effect, that this committee had determined upon an inquisition of the Kaiser interests. I hope that you do not think that that is the purpose of this inquiry?

Mr. HENRY KAISER. I think I made the written statement that I thought the questionnaire sent out by this committee was one of the most clear and straightforward questionnaires that I have ever seen. I think I told the judge and I told counsel as the result of that questionnaire that I thought that this committee was trying to do an excellent job.

Mr. BRADLEY. You, of course, appreciate that what we are trying to get at is whether or not the Maritime Commission paid any excessive fees and, if so, to whom?

Mr. HENRY KAISER. That is right.

Mr. BRADLEY. And, as the chairman stated yesterday, it is our intent, as I understand, to call in representatives of each of these other 19 companies who were operating on Government-constructed facilities. So I hope you do not feel that this is any inquisition or that we are trying to carry on any warfare between you and United States Steel or the Sun Oil Co. or anybody else in the inquiry.

Mr. HENRY KAISER. No. I did state that I thought this committee would only investigate one side of the question; that is, the shipbuilding side and not the steel side. The two were combined, and the chairman has stated that repeatedly.

Mr. BRADLEY. We are not interested in steel; we are interested in shipyards.

Mr. HENRY KAISER. That is right.

Mr. BRADLEY. You made the statement yesterday and you made the statement a little while ago that you saved the country $250,000,000 on your Liberty ships alone?

Mr. HENRY KAISER. That is right.

Mr. BRADLEY. How do you calculate that?

Mr. HENRY KAISER. From the Truman committee reports. We attempted to get only Government reports in substantiation of all these figures. There are other great savings. There have been tremendous savings on tankers, but we cannot get sufficient Government reports to substantiate them, so we do not quote them.

Mr. BRADLEY. You are talking only about Liberty ships?

Mr. HENRY KAISER. Yes, sir. In the tankers and C-4's we made tremendous savings, but we cannot get any Government reports to substantiate it.

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Mr. BRADLEY. You have also been inclined to pride yourself on the speed that you made in your various yards in the construction of vessels, with which I am in agreement. I have before me the bulletin of the American Bureau of Shipping, January 1946, and on page 26 thereof they have set down the number and average time to complete Liberty ships constructed by each shipyard from 1941 up to 1945. I will introduce it into the record, but I would like to point out that I notice that on the Atlantic coast the average time was 68.4 days, and the best record apparently was made by Bethlehem-Fairfield yard at Baltimore, which constructed 380 vessels at an average of 53.8 days per vessel. Walsh-Kaiser shows 208.7 days. On the Pacific coast they made a remarkable record of 49.6 days. The California Shipbuilding Corp. shows 60.7. The Kaiser Co. at Vancouver, 80.4. American Ship, 100.2 days. Oregon Ship, 44.9. Permanente No. 1 shows 48.3, on 138 ships. Incidentally, Oregon was on 132 vessels, but Permanente Metals showed a better record than your Oregon Shipyard—41.1 days.

Mr. EDGAR KAISER. I always objected to that Truman report.

Mr. BRADLEY. This is a report of the American Bureau of Shipping. I would like to introduce it into the record.

The CHAIRMAN. It will be made a part of the record.

(Document so described was marked "Exhibit 9.")

Mr. BRADLEY. I understand that Mr. Kaiser stated yesterday that he had never taken any salary whatsoever from the corporation on any of these yards, which is of course creditable; but at the same time I understand you to say, Mr. Kaiser, that you own 99 percent of Kaiser, Inc?

Mr. HENRY KAISER. One hundred percent.

Mr. BRADLEY. Therefore, if they made a good income you would hardly need a salary?

Mr. HENRY KAISER. No; but they lost, and I still have them to pay back. That is the point. That is what I have been trying to bring out.

Mr. BRADLEY. That is on account of your steel mill?

Mr. HENRY KAISER. Yes. But it is all one company. You can't take the Frigidaires out of the automobiles and say it is not all one company.

Mr. BRADLEY. I noticed yesterday when you were questioning the figures submitted by the General Accounting Office you referred several times to Attorney General's figures. I take it you meant the Comptroller General?

Mr. HENRY KAISER. I meant the Comptroller General. They were not all Comptroller General's figures. He merely submitted them.

Mr. COLES. They are the Maritime Commission's figures, and they are in evidence as exhibit 1.

Mr. HENRY KAISER. I appreciate that.

Mr. COLES. The total profit figures, the investment-in-yards figures, and the investment of the Government—those were Maritime Commission figures. They were introduced as exhibit 1.

Mr. HENRY KAISER. Yes.

Mr. BRADLEY. I recall that at the time the First War Powers Act was passed by the Congress there was a vigorous fight against cost-plus contracts and an amendment was introduced by my colleague from Michigan, Mr. Engel, to prohibit cost-plus contracts, but it was defeated by a mere two votes. Had we gone into competitive bidding and cut out the cost-plus contracts, we would be a lot better off today, from a taxpayer's viewpoint.

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Mr. HENRY KAISER. You are right. I spent literally weeks in a sincere effort to get competitive bidding. I really believed that competitive bidding would have helped the situation. But I didn't know it all. The Chiefs of Staff and others did not agree with that.

Mr. BRADLEY. That is true. That was the argument on the floor of the House. But the Maritime Commission, the Army, and the Navy said that they had no time to wait for competitive bidding; they had to go along on cost plus. This price-minus thing came in later.

Mr. HENRY KAISER. For your information, I wanted competitive costs shown daily or monthly of all the various situations in all the plants as an incentive to a particular plant. I understand that in one of our competing yards there was a great sign saying "Beat Oregon."

Mr. BRADLEY. Permanents did, apparently. I agree with you on that. But I do not see how it would have been physically possible, based on the muddled auditing situation in the Maritime Commission, about which you complained to us on the west coast.

Mr. HENRY KAISER. I am sure you will not find our accounting system muddled.

Mr. BRADLEY. I don't know. It has been pretty hard for you to remember some figures here today.

Mr. HENRY KAISER. You cannot produce these figures instantaneously. We pride ourselves on our accounting system, and I think the Comptroller General will agree with us.

Mr. BRADLEY. I sincerely hope so, because the Comptroller General and the General Accounting Office are operating under rigid legal restrictions that I did not realize until these hearings came up. That is why I was surprised yesterday—and I think this is a matter, Mr. Chairman, for legislation in the next Congress, to give them more authority. I had always understood that they were the watchdogs of the Treasury, but apparently in the case of the Maritime Commission and all these other agencies they are limited by the law to merely finding out the terms of the contract, whether the work has been performed, and whether proper check has been paid for it.

Mr. HENRY KAISER. I am told not.

The CHAIRMAN. My understanding was that they were probably a little stricter with regard to the Maritime Commission and more liberal as to other agencies of the Government.

Mr. HENRY KAISER. I think they were. We had 15 or 20 of their staff constantly in our Permanente offices and in all of our offices.

Mr. BRADLEY. I appreciate that. Were they not there for the express purpose of finding out whether you had performed your contract, whether the proper bills had been submitted, and proper checks paid in the amount authorized by the Maritime Commission?

Mr. EDGAR KAISER. What my father said is correct. The GAO had a staff in each of our shipyards of 15 or 20 or 30 people. That staff in most of the yards was from the Investigation Section of GAO. There were two prime sections—the Audit Section and the Investigation Section. We also had in some of the yards audit sections of GAO. They made thorough and complete audits of every single thing, and the Maritime Commission constantly kept them fully informed, whether it was the Audit Section or the Investigation Section.

Mr. BRADLEY. Kept them fully informed?

Mr. EDGAR KAISER. Yes.

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Mr. BRADLEY. We had testimony out on the west coast from Mr. Bryan that you did not know yourself within $8,000,000 how much inventory you had from day to day.

Mr. EDGAR KAISER. But Mr. Bryan was a special person. Those were not the facts. The Maritime Commission did know, and they knew what the conditions were. The man's mind was warped.

Mr. BRADLEY. Warped?

Mr. EDGAR KAISER. There was something wrong with Bryan.

Mr. BRADLEY. He was warped because he gave damaging testimony that the Maritime Commission could not and did not later refute.

Mr. EDGAR KAISER. Maybe they did not, but they should have. There was a monthly report submitted by GAO to the Maritime Commission.

Mr. BRADLEY. I am talking about the Maritime Commission's auditors now.

Mr. EDGAR KAISER. They did have that investigating section out there, and they knew the situation. They were in other yards on the west coast, too, I think. The GAO sat in with us and reviewed how we received materials—how we were handling our invoices. Anyone here who has the idea that GAO did not know is wrong.

Mr. BRADLEY. I did not say they did not know.

Mr. EDGAR KAISER. I did not say you did.

Mr. BRADLEY. I am talking about their legal limitations.

Mr. EDGAR KAISER. If an investigation section has the power—which they do—to go in and investigate all those yards, and they can show up something that is fraud or wrong, anything that is really wrong is going to come to light.

Mr. BRADLEY. That is exactly why this investigation started—because the GAO now believes that things were wrong.

Mr. EDGAR KAISER. I am not trying to defend either the Commission or the GAO. I am trying to tell you what they did out there.

Mr. BRADLEY. They found evidence of possible fraud in their audit of the 1943 books, but prior to 1943 they could not get an audit out of the Maritime Commission because their accounting methods were so faulty.

Mr. EDGAR KAISER. I think that is another question. That is another argument between the Maritime Commission and the GAO with which I am not familiar.

Mr. BRADLEY. The fact still remains that this investigation started because of irregularities found in the auditing system of the Maritime Commission. They had been asked by the former head of the Maritime Commission to set up an adequate auditing system as far back as 1939. Unless they have done it since this investigation started, they still have a very faulty auditing system in the Maritime Commission, and that is what Mr. Casey was following up yesterday on the original testimony that we had from their Investigation Section.

Mr. EDGAR KAISER. All I am trying to say, Mr. Bradley, is that the Maritime Commission and the GAO, in my opinion, in the shipyards we operated, knew what was going on and knew where we stood.

Mr. BRADLEY. Then let me ask you this: Why did your father testify before our subcommittee out in San Francisco—and I can give you his exact words—that he wanted an adequate auditing system in the Maritime Commission?

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Mr. EDGAR KAISER. Because we had a situation in yard No. 3 where we had someone from the Maritime Commission—bear in mind, one man—who was reporting half-truths and mistruths, both to the GAO people and to the Maritime Commission people themselves; and the Maritime Commission people, their regional auditor, would come out and say all this-and-such is so, which sounded terrible, and when you went back to check the facts it wasn't so at all. It was caused by this one individual, and at that time rightly, we thought. We thought, "For God's sake, what is going on in the Maritime Commission?"

As a result of the hearing you held out there, they then appointed a committee to come out and investigate that and find out what the trouble was.

Mr. BRADLEY. Just a minute, and I will see exactly what your father said, and see whether he now wants to retract it. Here is what your father said out there on the west coast on Tuesday, June 29, at 10 o'clock in the morning [reading]:

> Mr. KAISER. The opening statement I wish to make is one that I am very seriously interested in, and I am sure the Merchant Marine Committee can be very helpful on it; that is, that the Kaiser interests would be delighted to have the assistance of the Merchant Marine Committee in establishing a current audit position. We want this much more than the Government. This would require the assistance of many departments of the Government.

Mr. EDGAR KAISER. I can answer that for him. He will want that statement to stand, because that was exactly the case, but that was the condition created by this one individual at the time you are talking about.

Mr. BRADLEY. We will skip that. We had plenty of other evidence out there substantiating Mr. Bryan's statements. We also had plenty of evidence—your father stressed the efficiency, the quality of the work in your various yards, and I will grant you you did a remarkable job during the war and are to be congratulated on it, but we certainly had any amount of evidence on the west coast criticizing the inefficiency of yard No. 3.

Mr. EDGAR KAISER. That is right.

Mr. BRADLEY. I also want to point out that we had plenty of evidence of lack of quality of products from that yard, as well as from others. We have heard numbers of stories of ships that have broken in two that were Kaiser-built.

Mr. EDGAR KAISER. That's right—and others.

Mr. BRADLEY. We have also had evidence before us down there from the Maritime Commission inspectors, and other inspectors, of bulkheads that were set up a foot out of line, that had to be torn up and torn out.

Mr. EDGAR KAISER. I know those stories. I do not know them to be a fact. The American Bureau of Shipping records do not show that, so far as faulty construction.

Mr. BRADLEY. We had the Government inspectors to prove that.

Mr. EDGAR KAISER. That is right; but there is a record right straight from the American Bureau of Shipping on each of the failures, how they occurred, and to the best of their knowledge what the facts may have been that caused those.

Mr. BRADLEY. You do not mean to deny, in view of the testimony we had out there from Government inspectors themselves, that there

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were bulkheads out of line that had to be put back in place, due to the hurry-up production.

Mr. EDGAR KAISER. No; I do not.

Mr. BRADLEY. You do not deny that there were welders that went in there and took the training course that the Government paid for, that walked in and punched the clock and walked out again and then paid $5 to pass the examination?

Mr. EDGAR KAISER. That is right; but I can come back to the over-all cost of building the ship and the time of performance and the quality of the ship. That still answers the question.

Mr. BRADLEY. I would still like to see the figures on the over-all costs.

Mr. EDGAR KAISER. They are available. We submitted them for the record.

Mr. BRADLEY. Did I understand you to say yesterday, Mr. Kaiser, that Mr.—who was the man who had the previous shipbuilding experience before you started?

Mr. HENRY KAISER. There are two of them. One of them was J. F. Shea—Charlie Shea. You probably know him. He was in World War I in Seattle in that shipbuilding program, and Jack McEachern was in the Oregon program.

Mr. BRADLEY. I thought a few minutes ago you said McEachern had no connection with Kaiser.

Mr. HENRY KAISER. He had 25 percent interest in Consolidated Builders. That is part of my evidence.

Mr. BRADLEY. I was quite disturbed yesterday when you said that despite the fact that you own 100 percent of Kaiser, Inc., and are a man who is said to control a billion-dollar empire, to have you testify before the committee that you could not recall whether you had endorsed a note for $11,000,000. That is not chicken feed, and it seems to me I would certainly remember whether I endorsed a note for $11,000,000.

Mr. HENRY KAISER. I will tell you. In the first place, I do not think I endorsed any of the notes. I do not know that I endorsed a single note. We have one building alone of our own, the Kaiser Building, of 10 floors, and many of the bank agreements I know I never see. Those bank agreements are voluminous. I am operating 28 industries.

Mr. BRADLEY. I appreciate that.

Mr. HENRY KAISER. And I just couldn't memorize something for you accurately. I can get the record for you.

(Exhibit 35 gives an additional written answer by Mr. Kaiser.)

Mr. BRADLEY. Who, in Kaiser, Inc., would endorse the original note, as I understand it, for the shipyard venture of $11,000,000?

Mr. HENRY KAISER. I think our treasurer would probably do that.

Mr. BRADLEY. Would it be countersigned by the president on an amount as big as $11,000,000?

Mr. HENRY KAISER. The loans were really something in size, and are today. For instance, I couldn't tell you right now—we are using, I think, an obligation from the bank of $16,000,000 for operating capital alone in aluminum. I could not tell you the details of that loan. I would have to get that loan agreement, and that is postwar. That is just operating capital alone, and that is only recently.

Mr. BRADLEY. Counsel has sought to bring out, and I think probably has been able to explain, or at least you explained to your satis-

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faction, but perhaps I am dumb, but I cannot figure out how you were entitled to charge the loss of your steel plant against the ship profits.

Mr. HENRY KAISER. Well, I think I can give you that very clearly, maybe. We tried to write it out last night.

Mr. BRADLEY. As I understand it, you had something like $46,000,000, or $41,000,000, profit, in shipyards, and wrote it off with $46,000,000 in steel, or something like that.

Mr. HENRY KAISER. This is very carefully worked out, and it is only a paragraph.

Kaiser Co., Inc., which counsel is talking about, operations include the production of steel for ships and for shells and other war products as well as the production of ships. Both were an integral part of operations of this one company, and as a matter of practical common sense as well as law, both operations were treated as they were in fact, as the operations of one company, under the specific provisions of the law passed by Congress, the Renegotiation Act. Both operations of the one company are lawfully considered as one in the case of this company, as well as in the case of hundreds of other companies similarly situated. This is not only our interpretation of the facts and the law, but it is the interpretation of virtually every law officer of the Government agencies concerned with this problem, and it was so testified before the House Committee on Ways and Means last year.

Mr. BRADLEY. I am glad you mentioned that Ways and Means, because I have a copy of a letter from the Honorable Roy O. Woodruff, of the Ways and Means Committee, addressed to Judge Bland, copy of which he sent to me, and the judge says he has no objection to my reading it at this time. It is dated September 23, 1946. [Reading:]

MY DEAR JUDGE: Press reports indicate that Mr. Henry Kaiser will appear before your committee this week. War profiteering on the part of New Deal sacred cows has cost the American people many billions of dollars. Many of these billions have been illegally and contrary to law paid to these New Deal sacred cows. I sincerely hope your committee will properly and exhaustively explore the whole Kaiser group and other war-profiteering conditions in the Maritime Commission and War Shipping Administration, letting the "chips fall where they may."

Congress enacted the renegotiation law to eliminate profiteering in war contracts and made the renegotiation of almost all productive contracts, over certain amounts, compulsory.

Hearings before the Ways and Means Committee on April 12, 1945, show Admiral Land testified in answer to my query "profits of Kaiser companies pledged to service Reconstruction Finance Corporation loans of approximately $100,000,000."

The same hearings, pages 224–225, show that the Reconstruction Finance Corporation, on my demand, filed with the Ways and Means Committee confirmation that profits accruing to Kaiser companies from ship-construction contracts had been pledged to the Reconstruction Finance Corporation to liquidate loans of some 110 millions of dollars.

The Congressional Record of August 1, 1946, page A4985, and that of August 2, 1946, page A5045, show that the Maritime Commission paid the Kaiser companies partial ship-contract profits of some 120 millions of dollars.

"Review of Renegotiation Proceedings, Kaiser Companies," filed with the Ways and Means Committee by Admiral Land, on my demand, shown in hearings of April 12, 1945, page 145, reveal that Kaiser companies were "assigned to Maritime Commission" and fees and bonuses allowed four companies listed as having capital stock and surplus of less than $600,000, had received more than 85 millions of dollars after renegotiation for supervising construction of 895 vessels.

Facilities for vessel construction, all materials used, labor and other costs for constructing these vessels were supplied by funds from the Treasury of the United States.

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Fees and bonuses of 120 millions of dollars for supervising construction of vessels in a period of 3 or 4 years, with no investment on the part of contractor jeopardized, savors of war profiteering at its worst.

Failure of the Maritime Commission to protect Reconstruction Finance Corporation loans will probably cost the American people an additional 60 or 70 or more millions of dollars.

Your committee should ascertain why the Kaiser group, having pledged their ship-construction profits of more than $120,000,000 and assigned their properties to the Maritime Commission as security for Reconstruction Finance Corporation loan of $110,000,000 to Kaiser companies, permitted, on payment of only 10 millions by the Kaiser group to the Reconstruction Finance Corporation, these Kaiser companies to receive $120,000,000 in ship-construction profits from the Maritime Commission.

The Congressional Record of August 2, 1946, page A5045, shows that this loan of $110,000,000 made by the RFC to the Kaiser companies has not been paid. This loan, despite the fact that the security pledged for the liquidation was greatly in excess of the loan, has been refunded, and in typical "Get-rich-quick Wallingford" style, the payment of some $35,000,000 has been put off for a period of 25 years, during which time the Kaiser companies will not be called upon to pay any interest thereon.

Furthermore, your committee should ascertain why the Maritime Commission, with full knowledge that the Kaiser companies had pledged their ship-construction profits to liquidate the Reconstruction Finance Corporation loans, did not pay directly to the Reconstruction Finance Corporation sufficient of these ship-construction profits to liquidate these Reconstruction Finance Corporation loans.

Sincerely,

ROY O. WOODRUFF.

What can you answer to that?

Mr. HENRY KAISER. I am glad you have given me an opportunity to answer that, because that definitely is prejudicial, and therefore the witness, as I have understood from the judge, has a right to answer a statement which might prejudice him.

Mr. BRADLEY. That is why I would like to get your answer.

Mr. HENRY KAISER. I would like to say this first, that the Kaiser Co. is the only company that I know of that deliberately and willfully obligated all of its fees to the Government, instead of keeping them and having them for carry-back purposes and every other purpose. It obligated its fees to the Government to pay for a steel mill.

Now, the exact opposite occurred with the United States Steel Corp. Instead of giving Kaiser $100,000,000, which he asked for as a defense-plant grant to avoid borrowing that money, and which was necessary for the ships, as has been proven here, they gave to the United States Steel Co. $200,000,000 on what was called by them a dream plant. "Nothing like it has ever been built," they said in the last week in the press. And they sold it back to them for $40,000,000. Now, let Mr. Woodruff explain that.

Mr. BRADLEY. Were the United States Steel Corp. required by Reconstruction Finance Corporation to put up any collateral?

Mr. HENRY KAISER. No, not a cent. They were paid, and they were paid, as well, 25 cents a ton royalty for the ore that they had, and they did not put up one nickel, not even the operating capital.

Frankly, I was asked, with a group of others, to build the plant with the Utah Construction Co., one of the so-called Six Companies, and I specifically and definitely refused to participate in the building of the plant, because I did not want to be involved on one of these questions that this counsel has constantly endeavored to involve me in, and has not been successful in. I did not want to get two fees for the same kind of operation.

(Exhibit 35 gives an additional written answer by Mr. Kaiser.)

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Now, get this clear: At Geneva, that plant cost $200,000,000. It did not produce as much steel as the Fontana plant—not as much. And the Fontana plant cost only $100,000,000. And the evidence is clear, sworn evidence, that I went to the Reconstruction Finance Corporation or the Defense Plants Corporation and distinctly asked, pleaded, and begged, to be permitted to have a steel plant on the same basis as the United States Steel Corp., and I was refused, and it is in this little booklet. If you will permit me, I will read it.

Mr. BRADLEY. I read the little booklet.

Mr. HENRY KAISER. I was refused, and they in turn gave $200,000,000 to the United States Steel Corp. for a dream plant. They forced us to build; they would not let us even buy the material or the machinery, where the United States Steel Co. existed, and we fought our way through that and we received many awards for the work we did there, and many congratulatory letters during the war. The shell program was tremendously improved as a result.

Mr. BRADLEY. I knew you would get a chance to make a good stump speech on that before you got through. I judged that by the booklet.

Mr. HENRY KAISER. I thank you. You gave it to me. I am not anywhere near through on it. I would like to go all the way through, now that you presented that prejudiced statement.

Mr. BRADLEY. You just said a few minutes ago that you did not want to build a steel company, and I have been trying to find your testimony in here of yesterday. My recollection was that you said, when you were not getting steel, that you did want to build a steel company so you could get steel.

Mr. EDGAR KAISER. That is right.

Mr. HENRY KAISER. I will give you this same an opinion on Renegotiation Act that you referred to, with the date. I would like to read this, and would again like to read it as a result of Mr. Woodruff's prejudiced statement. [Reading:]

Admiral LAND. This is the position of the Maritime Commission, the War Shipping Administration, and the renegotiation boards of both, and I would like to add this: So far as I am concerned, I am a strong believer in giving a break to a man who does a better job more than I am in giving a man a break who does a poorer job.

The CHAIRMAN. From what are you reading?

Mr. HENRY KAISER. The same hearing of this Ways and Means Committee that has just been referred to, page 156.

The CHAIRMAN. All right.

Mr. HENRY KAISER (reading):

Admiral LAND. May I say, Mr. Woodruff, that the members of the renegotiation committee of the Maritime Commission are imbued and indoctrinated with principles that you have enunciated and for which I stand, and that is the reason why there is a variation in the percentage of profit allowed, and that is generally true with the smaller ones, and if you will analyze the material that I am submitting for the committee, you will find that Oregon, for example, which is an outstanding organization from the standpoint of efficiency, has a higher percentage allowed than some of the others.

Now, the whole hearing refutes—I do not want to bore you with it here—what Mr. Woodruff has said, and my own statement now does.

I ask you, if the United States Steel Corp. is given $200,000,000——

Mr. BRADLEY. Are you interrogating us, or are we interrogating you?

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Mr. HENRY KAISER. You asked me the question. You said you gave me a chance to get it off my chest.

If the United States Steel Corp. is allowed to take $200,000,000 plus interest of the Government's money, and then buy it back for 20 cents on the dollar——

Mr. BRADLEY. You have paid back only $10,000,000, according to Woodruff, on $120,000,000.

Mr. HENRY KAISER. We have paid a lot more than that.

Mr. BRADLEY. I am asking you, how much have you paid back?

Mr. HENRY KAISER. The best information I have is $27,000,000.

Mr. BRADLEY. On $120,000,000.

Mr. HENRY KAISER. That is right.

Mr. BRADLEY. Now, if I understood you correctly a few minutes ago, you said you did not want to get the steel plant, that you fought it——

Mr. HENRY KAISER. Oh, no. I wanted a steel plant because we were not being delivered steel by both Bethlehem—and I will go further now; we were not getting steel from Bethlehem, we were not getting steel from United States Steel for the ships. I wrote them both a letter. I was told that I was fighting the wrong people, that if I kept on with that I would get hurt, so I went ahead and got hurt and built this plant and borrowed the money and put it up and guaranteed everything we had to make it.

Mr. BRADLEY. That is all in the hearings of yesterday. I have your statement right before me here now. You apparently did not even know yesterday who was the president of the company. You said here [reading]:

> Mr. COLES. Who was the president of the company?
> Mr. KAISER. I don't know.
> Mr. COLES. Were you not the president?
> Mr. KAISER. I hope so.

Mr. HENRY KAISER. In all fairness to me, I am operating 28 industries, and my memory—I will not trust it to serve in answering questions before a committee when I am under oath. I want to get you accurate information, and I think you would want me to do that, would you not?

Mr. BRADLEY. That is quite obvious.

Mr. HENRY KAISER. You would want me to do that.

Mr. BRADLEY. I think you have, if I may be pardoned to say so, a very convenient lapse of memory on too frequent occasions.

Mr. HENRY KAISER. I would like to challenge you on that. I would like to know where it is.

Mr. BRADLEY. You have your son with you, you have presumably your auditor. At least he knows where to find stuff in the books. And you have your attorney. Yet frequently in this record, and the record of yesterday is replete with, "I don't know"; "I don't know"; "I don't know."

Mr. HENRY KAISER. Because of the fact that you had the information already in a book, and I don't want to be placed in a position where my memory—well, there are 150 pages of evidence here that have taken 90 days to prepare.

Mr. BRADLEY. I repeat again that Mr. Coles knew in advance what questions he was asking and what the answers were, but the committee does not know them. We do not know the questions, nor did we know

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the answers, and the only way to find out is to have him interrogate you and have you give us the answers.

Mr. HENRY KAISER. The answers were in the book. The chairman kept repeating that where the answers were in the book I did not have to answer.

Mr. BRADLEY. We do not know anything about what the answers were going to be.

Mr. HENRY KAISER. I do not blame you. I brought some books along so you would have books yourselves.

Mr. BRADLEY. These ladies and gentlemen of the press do not know what the answers are. That is why we have open hearings. We do not have hearings to put stuff in the record, which cannot be printed until after the next Congress convenes. They cannot be printed and they cannot be public property unless questions are asked here and covered by the press.

Mr. HENRY KAISER. You did hear me say yesterday that I would provide everything written so it would be accurate. There could not be anything wrong with that, could there?

Mr. BRADLEY. Could you not give the same answers verbally?

Mr. HENRY KAISER. I did, consistently.

Mr. BRADLEY. I do not find it in here. It is "I don't know"; "I don't know," "I don't know," all the way through.

Mr. HENRY KAISER. Oh, no; that is not fair. Surely I said "I did not know, I would have to get the information." I am sure that you will be fair about it, now.

Mr. BRADLEY. I certainly want to be fair.

Mr. HENRY KAISER. You are not being fair when you saw me here struggling, endeavoring to get the information.

Mr. BRADLEY. You can read right through here and find out.

Mr. HENRY KAISER. I imagine it was. You have the record there. I don't know.

The CHAIRMAN. The records will speak for themselves.

Mr. HENRY KAISER. I think you believe I am trying to get them, do you not?

Mr. BRADLEY. I believe you; yes, sir.

Mr. HENRY KAISER. All right.

Mr. BRADLEY. I took your opening statement yesterday at your full value, and I know on the west coast you gave us every cooperation out there, and so did your men out there.

Mr. HENRY KAISER. Thank you.

The CHAIRMAN. Mr. Weichel?

Mr. WEICHEL. Mr. Kaiser, outside of the six yards we have been talking about—I mean, there are six companies, are they not, six separate companies?

The CHAIRMAN. I did not call on Mr. Keogh, who just came in. Ordinarily he would have been called on next.

Mr. WEICHEL. I yield to Mr. Keogh.

Mr. KEOGH. No; go ahead.

Mr. WEICHEL. The California Shipbuilding Corp. operated what, one Government yard?

Mr. HENRY KAISER. Yes.

Mr. WEICHEL. Did that corporation operate a yard owned by itself, a shipyard?

Mr. HENRY KAISER. I will tell you. I no longer own anything in it. Their representatives are here. They will give you the full

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information. I think that you really should ask the California Shipbuilding Corp. management for information regarding it, because I do not feel I can be accurate about it.

Mr. WEICHEL. Will you read the question?

(The pending question was reread.)

Mr. HENRY KAISER. I do not know what that corporation does now.

Mr. WEICHEL. Will you please read the question. I think I stated it in the past tense.

Mr. HENRY KAISER. Owned by itself?

Mr. WEICHEL. Please read the question.

(The question was again read.)

Mr. HENRY KAISER. Did it?

I own a small stock interest in that yard, or did own up to 2 years ago, and therefore I do not believe it could be owned by itself, if I understand you correctly.

Mr. WEICHEL. Read the question once more and, Mr. Kaiser, tell me what you do not understand about it.

Mr. KAISER. I am answering it. I do not think it was owned by itself, because I owned a small interest in it. You are talking about the shipyard. The Maritime Commission owned the shipyard, if I am correct.

Mr. WEICHEL. The California Shipbuilding Corp. operated a Government yard?

Mr. HENRY KAISER. That is right.

Mr. WEICHEL. Did the California Shipbuilding Corp. operate a yard owned by itself?

Mr. HENRY KAISER. No. It was owned by the Government. I think it was owned by the Government. How much of it was owned—some of that, I think, was owned by the city. I think you should get that from the corporation management.

The CHAIRMAN. You just give what information you have.

Mr. WEICHEL. The California Shipbuilding Corp. did not operate a totally owned Government yard, did it?

Mr. HENRY KAISER. I do not think it was totally owned. I think it was owned partly by the city.

Mr. WEICHEL. I am talking about the yard, and about the California Shipbuilding Co., which received $44,000,000 in fees. That California Shipbuilding Co., operated a Government yard. Did it, or did it not, or do you know?

Mr. HENRY KAISER. It operated the Government facilities, the Government-owned facilities. I think the yard was or is still owned by the city.

Mr. WEICHEL. The Government paid for it, and you just operated it?

Mr. HENRY KAISER. No; I never operated it.

Mr. WEICHEL. Did the California Shipbuilding Corp. operate it? I mean, according to this list they did.

Mr. HENRY KAISER. Yes; I think they did.

Mr. WEICHEL. Did the California Shipbuilding Corp. operate any yard that it owned itself?

Mr. HENRY KAISER. I don't think so. I don't know whether they had additional yards or not. They are here. They can tell you.

Mr. WEICHEL. Who is here from the California Shipbuilding Co.? (Mr. John A. McCone.)

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Did the California Shipbuilding Corp., outside of the Government-operated yard that the Government paid for, operate a yard of its own? Did it?

Mr. JOHN A. MCCONE. No; it did not.

Mr. WEICHEL. During the years that the California Shipbuilding Corp., received the $44,000,000 in fees, you just testified it did not have a yard of its own. What other business did the California Shipbuilding Corp., do beside operate the Government yard?

The CHAIRMAN. Is that question propounded to Mr. McCone?

Mr. WEICHEL. Yes.

The CHAIRMAN. Mr. McCone, wil you please raise your right hand?

Do you solemnly swear that the evidence you will give in this and succeeding hearings on the same subject matter will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. MCCONE. I do.

Mr. WEICHEL. You say you know nothing about the California Shipbuilding Corp., Mr. Kaiser?

Mr. HENRY KAISER. It is not a Kaiser yard.

Mr. WEICHEL. I do not mean now. I am talking about before you sold out.

Mr. HENRY KAISER. I still have to ask him about it.

Mr. WEICHEL. You sold out in '45?

Mr. HENRY KAISER. He ran it, and he managed it. I was only a stockholder.

Mr. WEICHEL. You were just a stockholder?

Mr. HENRY KAISER. That is right.

Mr. WEICHEL. You do not know anything about it at all?

Mr. HENRY KAISER. I do not know enough to tell you anything intelligently about it.

Mr. WEICHEL. Did you have anything to say about the management of it at all?

Mr. HENRY KAISER. No. I would say I was there only as a stockholder. I was an officer or a director at one time, I think.

Mr. WEICHEL. There was no advisory counsel that you rendered to the California Shipbuilding Corp. then?

Mr. HENRY KAISER. The president is here. He can tell you that.

Mr. WEICHEL. Did you render any?

Mr. HENRY KAISER. If he asked me for it, I did.

Mr. WEICHEL. But otherwise you know nothing about its operations?

Mr. HENRY KAISER. That is right.

Mr. WEICHEL. With reference to the Kaiser Co., Inc., how many Government-owned yards did it operate?

Mr. HENRY KAISER. Three.

Mr. WEICHEL. Do you know anything about that company?

Mr. HENRY KAISER. Oh, yes.

Mr. WEICHEL. With reference to that company, did it own and operate any yards that it owned itself—any shipyards?

Mr. HENRY KAISER. I do not think so.

Mr. EDGAR KAISER. If I may answer that, only insofar as we had an investment in those yards, and the amount of that investment we are going to furnish to counsel.

Mr. WEICHEL. Well, what were the names of the other yards that this company operated? Did this company operate them, or did it just have an investment in them?

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Mr. EDGAR KAISER. Kaiser Co., Inc., operated three yards.

Mr. WEICHEL. Three Government-owned yards?

Mr. EDGAR KAISER. Three Government-owned yards, known as Swan Island, at Portland, Oreg.; Vancouver, at Vancouver, Wash.; Richmond 3, at Richmond, Calif.

Mr. WEICHEL. Did it operate any yards that it owned itself?

Mr. EDGAR KAISER. Not that it wholly owned itself.

Mr. WEICHEL. Not that it wholly owned?

Mr. EDGAR KAISER. That is correct.

Mr. WEICHEL. What yards did it operate that it partly owned?

Mr. EDGAR KAISER. Well, we had some investment in each of the three yards that I listed, the amount of which I do not know. We will furnish counsel that information.

(Exhibit 35 gives an additional written answer by Mr. Kaiser.)

Mr. WEICHEL. Did you operate those other three?

Mr. EDGAR KAISER. Those are the same three. In other words, we had some investment in those yards. How much I do not know. But they are termed "wholly owned Government yards."

Mr. WEICHEL. I mean, on these three, did not the Government pay for everything?

Mr. EDGAR KAISER. Not everything. We had some investment in those yards. We want to look it up and find out exactly how much.

Mr. WEICHEL. Well, outside of what you say, that you had some investment, even though the Government owned them, you had actually an investment in the yards, physically?

Mr. EDGAR KAISER. That is right. It is small, very small, I think, but we want to get the very exact figures.

Mr. WEICHEL. What do you mean by that—that you owned some machinery in the yard?

Mr. EDGAR KAISER. That is right.

Mr. WEICHEL. You did not lease it to the Government?

Mr. EDGAR KAISER. No, sir.

Mr. WEICHEL. And that was true for each one of the yards?

Mr. EDGAR KAISER. I think so. We are checking the record to find out exactly what it was.

Mr. WEICHEL. You do not know whether that was a million dollars or a hundred thousand dollars?

Mr. EDGAR KAISER. No, sir.

Mr. WEICHEL. But it is very small?

Mr. EDGAR KAISER. I think it is small proportionately to the total value of the yards. We are getting the actual figures.

Mr. WEICHEL. Outside of that—this small investment that you say that you had in the physical assets of the Government yards—did the Kaiser Co., Inc., operate any other business?

Mr. EDGAR KAISER. Yes; Fontana Steel.

Mr. WEICHEL. Fontana Steel? And what other business besides the Fontana Steel?

Mr. EDGAR KAISER. I would like to refer to the book for that.

Mr. WEICHEL. What was the Fontana Steel?

Mr. EDGAR KAISER. That is the iron and steel plant at Fontana, Calif., which is a Kaiser Co., Inc., operation.

Mr. WEICHEL. Besides that, what other business did it operate?

Mr. HENRY KAISER. It is still operating. The yard is still operating.

Mr. EDGAR KAISER. That is substantially it.

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Mr. WEICHEL. I am talking about what you operated before 1946.

Mr. EDGAR KAISER. Coal mines and ore mines, as part of the iron and steel division—accessories to the iron and steel division.

Mr. WEICHEL. Were they operated by the Kaiser Co., Inc., people?

Mr. EDGAR KAISER. That is right.

Mr. WEICHEL. Before you got the contract to operate these three yards?

Mr. EDGAR KAISER. It was all about the same time. I do not know whether iron and steel came first.

Mr. WEICHEL. Was the iron and steel one connected with the building of ships, or was it another business venture that you got from the Government?

Mr. EDGAR KAISER. It was the same company, the same top management, but they had divisions. We had management in each of the spots, just as in the three shipyards.

Mr. WEICHEL. Were you in the steel business on your own capital?

Mr. EDGAR KAISER. Yes; because we borrowed it from the Reconstruction Finance Corporation.

Mr. WEICHEL. When did you start that, at about the same time you got the ship contracts?

Mr. HENRY KAISER. Our records show that we started in 1940, and we did not make the grade of getting steel until 1942. In the meantime we lost a lot of time building ships.

Mr. WEICHEL. But the business of this Kaiser Co., Inc.—did it have any kind of business whatsoever except on money that it borrowed from the Government?

Mr. EDGAR KAISER. Yes.

Mr. WEICHEL. Well, I mean did you?

Mr. EDGAR KAISER. Yes; we did.

Mr. WEICHEL. You said you got all this from the Government on the Fontana Steel, and you got the three contracts, and you said you had a little physical property in these yards.

Mr. HENRY KAISER. It had bank loans.

Mr. WEICHEL. I was talking about business, not about loans.

Mr. EDGAR KAISER. You cannot operate business without loans.

Mr. HENRY KAISER. You could not operate this business without loans.

Mr. WEICHEL. Did it operate any business?

Mr. HENRY KAISER. It operated steel and ships.

Mr. WEICHEL. We got this about the ships. Now, with reference to steel. When did it start in the steel business?

Mr. EDGAR KAISER. At about the same time.

Mr. WEICHEL. Previous to the time it went in the steel business, and previous to the time it got these contracts, what kind of business was this company in?

Mr. EDGAR KAISER. It was not organized. It was organized in December of 1941.

Mr. HENRY KAISER. It was organized on December 1, 1941.

Mr. WEICHEL. Take the Oregon Shipbuilding Co. That operated a Government yard; is that correct? The Government owned everything?

Mr. EDGAR KAISER. No.

Mr. WEICHEL. The Oregon Shipbuilding Co. operated a Government yard, did it not?

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Mr. HENRY KAISER. We owned a great deal of property, and still do, in that yard.

Mr. WEICHEL. Do you know anything about the Oregon Shipbuilding Co.?

Mr. HENRY KAISER. Yes. That is the one I am talking about.

Mr. WEICHEL. It operated a fully owned Government yard and received $58,000,000, did it not?

Mr. HENRY KAISER. Up to some sum. It is not $58,000,000.

Mr. WEICHEL. I say the Oregon Shipbuilding Co. operated a Government yard, fully owned.

Mr. KENRY KAISER. No.

Mr. WEICHEL. Did it not?

Mr. KENRY KAISER. No.

Mr. WEICHEL. Then the statement from the Maritime Commission with reference to the Oregon Shipbuilding Corp. operating a Government yard on which the Government paid $22,000,000 for facilities is not true?

Mr. HENRY KAISER. That does not say "fully owned."

Mr. WEICHEL. I am asking about fully owned.

Mr. KENRY KAISER. No.

Mr. WEICHEL. Did you operate a fully owned one? Did the Oregon Shipbuilding Corp. operate one like that?

Mr. HENRY KAISER. No. We own a lot of that property.

Mr. WEICHEL. With reference to the Oregon Shipbuilding Co., what did it operate for the Maritime Commission where the Maritime Commission sets forth a $22,000,000 Government yard?

Mr. HENRY KAISER. It operated that $22,000,000 of facilities, plus our own facilities.

Mr. WEICHEL. You had facilities that you physically owned in that yard?

Mr. HENRY KAISER. Yes, sir.

Mr. WEICHEL. What did you own in that yard?

Mr. EDGAR KAISER. We owned more than a third of the land.

Mr. WEICHEL. In that $22,000,000 yard, you claim that the Oregon Shipbuilding Co. physically owned some of the facilities?

Mr. HENRY KAISER. More than a third of the land, in addition to part of the facilities. I will have to get the facts.

Mr. WEICHEL. Was the Oregon Shipbuilding Corp. engaged in any other business besides operating this $22,000,000 yard?

Mr. HENRY KAISER. Yes, sir.

Mr. EDGAR KAISER. Yes, sir.

Mr. WEICHEL. What was it in?

Mr. EDGAR KAISER. It built for the Army aluminum pontoons, but it built them in this yard.

Mr. WEICHEL. In this Government-owned yard?

Mr. EDGAR KAISER. Mostly Government-owned.

Mr. WEICHEL. Was there no separation between what was the Government's and what was yours?

Mr. EDGAR KAISER. Yes; you bet there was.

Mr. WEICHEL. Were the pontoons built in your own private facilities in the yard?

Mr. EDGAR KAISER. No; it was not separated by types of buildings.

Mr. WEICHEL. What other business was the Oregon Shipbuilding Corp. engaged in?

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Mr. EDGAR KAISER. There may have been some other work, but those two are the prime work jobs; the shipbuilding job and the aluminum pontoon contract are the prime jobs of Oregon.

Mr. WEICHEL. Was this pontoon business a big business?

Mr. EDGAR KAISER. We built about 3,000 of them.

Mr. WEICHEL. How much did you get for those apiece, roughly?

Mr. EDGAR KAISER. I think around $2,700.

Mr. WEICHEL. So that that was not very much with reference to the over-all $22,000,000?

Mr. EDGAR KAISER. That is still a lot of business to me.

Mr. WEICHEL. With reference to those two things, that is the only business the company had?

Mr. EDGAR KAISER. Primarily.

Mr. HENRY KAISER. It has some private ships now.

Mr. EDGAR KAISER. No.

Mr. WEICHEL. I am talking about in the past—not now; just in the past.

So that out of this particular company the only other business it engaged in was that it made three or four thousand pontoons.

Mr. EDGAR KAISER. Primarily. There may have been some other, relatively small, business.

Mr. WEICHEL. And those pontoons were made with the Government facilities in the Government plant?

Mr. EDGAR KAISER. Primarily, yes.

Mr. WEICHEL. Did the company own anything? Did this Oregon Shipbuilding Corp. own anything in this plant, outside of some land?

Mr. EDGAR KAISER. Yes.

Mr. WEICHEL. What did it own?

Mr. EDGAR KAISER. Some pieces of equipment.

Mr. WEICHEL. A machine here and there?

Mr. EDGAR KAISER. Yes.

Mr. WEICHEL. It did not amount, practically, to anything?

Mr. EDGAR KAISER. Yes; it did. You get yor figures kind of distorted in this war effort. How much, I do not know, and we will furnish it.

(Exhibit 35 gives an additional written answer by Mr. Kaiser.)

Mr. WEICHEL. How many acres of land was it that you owned?

Mr. EDGAR KAISER. At Oregon I think there was approximately 290 to 300 acres. I would like to check that figure.

Mr. WEICHEL. And you had some pieces of machinery?

Mr. EDGAR KAISER. That is right.

Mr. WEICHEL. That is the only physical thing this company owned?

Mr. EDGAR KAISER. Outside of the land.

Mr. WEICHEL. We mentioned that once—two to three hundred acres. Is that what the Maritime Commission says is your $400,000 of capital?

Mr. EDGAR KAISER. No; that is not capital.

Mr. HENRY KAISER. No; that has never been included in that.

Mr. WEICHEL. What did this Oregon Shipbuilding Co. have? You said it had some machinery and about 300 acres of land.

Mr. EDGAR KAISER. No; Oregon Ship did not have that. The total acreage on which Oregon Shipbuilding Corp. operated was somewhere around 290 to 300 acres, I think.

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Mr. WEICHEL. Who owned that?

Mr. EDGAR KAISER. Part of it was owned by the Government.

The CHAIRMAN. About how much?

Mr. EDGAR KAISER. I think that the corporation owned better than a third of the land and the Maritime Commission about two-thirds.

Mr. WEICHEL. That would be about a hundred acres?

Mr. EDGAR KAISER. That is right. I would like to verify the figures if you want them accurately.

Mr. WEICHEL. So the Oregon Shipbuilding Corp. owned 100 acres of land and some physical property in the way of machinery?

Mr. EDGAR KAISER. Yes. I would like to check that.

(Exhibit 35 gives an additional written answer by Mr. Kaiser.)

Mr. WEICHEL. And that was worth $300,000?

Mr. EDGAR KAISER. No. I do not know what that was worth. That figure you refer to of capital does not include that.

Mr. WEICHEL. It does not include it?

Mr. EDGAR KAISER. No.

Mr. WEICHEL. Was it $300,000?

Mr. EDGAR KAISER. I do not know. I can find out for you.

Mr. HENRY KAISER. There are $3,000,000 worth of capital here, plus the $550,000. That is on exhibit B. Would you like this?

Mr. WEICHEL. No; I would like to have one that counsel has.

Mr. HENRY KAISER. I will give you one of these.

Mr. WEICHEL. No; I will take ours.

With reference to the Oregon Shipbuilding Corp.——

Mr. HENRY KAISER. "Exhibit B, Capital."

Mr. WEICHEL. The one that the Maritime Commission says that it has.

With reference to what the Maritime Commission says was the capital of the Oregon Shipbuilding Corp., how much do they say it is?

Mr. HENRY KAISER. The Oregon Ship? The Maritime Commission, in this statement I read here, says there is a capital of $550,000.

Mr. WEICHEL. The Maritime Commission says $550,000 for the Oregon Ship?

Mr. HENRY KAISER. That is right.

Mr. WEICHEL. I understood you to say that a third of the land——

Mr. HENRY KAISER. That's right.

Mr. WEICHEL. And you had some pieces of machinery?

Mr. HENRY KAISER. That is right.

Mr. WEICHEL. That is what was in the yard?

Mr. HENRY KAISER. That is right.

Mr. WEICHEL. For which you received the fees set forth in that exhibit?

Mr. HENRY KAISER. That is right.

Mr. WEICHEL. And the only other thing you did in the yard was to build pontoons—4,000 of those. Now, what is the capital, then?

Mr. HENRY KAISER. The capital is the stockholders' loans, which were subordinated, of $3,000,000, and the bank loans from three banks, the Bank of California, the First National Bank of Portland, and the United States National Bank, of $3,400,000, and the $550,000, which makes a total of $6,950,000. That is the capital.

Mr. WEICHEL. That yard was a Government-owned yard?

Mr. HENRY KAISER. That is right.

Mr. WEICHEL. And the Oregon operated it?

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Mr. HENRY KAISER. That is right.

Mr. WEICHEL. And it built these pontoons. That is the only thing it did, is it not?

Mr. HENRY KAISER. No; it built both ships and pontoons.

Mr. WEICHEL. Well, I am saying that the only thing that the Oregon Ship did was to build some ships on which the Government gave these fees, and they built some pontoons.

Mr. HENRY KAISER. That is right.

Mr. WEICHEL. That is the only thing that that company did?

Mr. HENRY KAISER. Approximately all.

Mr. WEICHEL. That is what I mean. And with reference to the pontoons, about $100,000 worth?

Mr. HENRY KAISER. No.

Mr. EDGAR KAISER. About $9,000,000 worth.

Mr. WEICHEL. About $9,000,000 worth of pontoons?

Mr. HENRY KAISER. That is right.

Mr. WEICHEL. And were those built on a fee basis?

Mr. EDGAR KAISER. No. Those were built on a competitive-bid basis.

Mr. WEICHEL. On a competitive bid?

Mr. EDGAR KAISER. That is right.

Mr. WEICHEL. And you used this Government-owned yard to build them?

Mr. EDGAR KAISER. Yes; with the consent of the Maritime Commission.

Mr. WEICHEL. I presume you got their consent.

Mr. EDGAR KAISER. And they established a rental formula for the use thereof and paid those moneys to the Army.

Mr. WEICHEL. Did everybody else who bid on a competitive basis have a right to use the Government-owned yard to build them?

Mr. EDGAR KAISER. There were bidders who bid with Government facilities on the pontoon contract.

Mr. WEICHEL. Did they have a right to use the yard also?

Mr. EDGAR KAISER. Not that yard.

Mr. HENRY KAISER. They had a right to use their Government facilities.

Mr. WEICHEL. So that when you bid on a competitive basis you were not using your own capital with reference to the facilities?

Mr. HENRY KAISER. You are about right.

Mr. WEICHEL. It is all right, is it not?

Mr. HENRY KAISER. No, no; because some of that land was ours.

Mr. WEICHEL. One hundred acres?

Mr. HENRY KAISER. One-third of the land was ours.

Mr. WEICHEL. Was the pontoon plant on your hundred acres?

Mr. EDGAR KAISER. It just so happened it was.

Mr. WEICHEL. That part was?

Mr. EDGAR KAISER. And we forgot to charge a rent for it, too. I am glad you brought it up.

Mr. WEICHEL. Did your company pay for all the building there?

Mr. EDGAR KAISER. No, sir.

Mr. WEICHEL. That is all Government building?

Mr. EDGAR KAISER. That is right, but in the bidding of the job, just there would not be the thing I think you are thinking about——

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Mr. WEICHEL. I am not thinking about anything.

Mr. EDGAR KAISER. All right. But there was set up by the Commission and the Army an amount to be taken into consideration, so that anybody who bid who did not have Government facilities would be on an equal footing.

Mr. WEICHEL. And this hundred acres that you had adjoined the Government land? How much was that land worth an acre, the hundred acres you own?

Mr. EDGAR KAISER. I do not know.

(Exhibit 35 gives an additional written answer by Mr. Kaiser.)

Mr. WEICHEL. Was it rich farm land, growing 30 or 40 bushels of wheat per acre?

Mr. EDGAR KAISER. No. In fact, most of it was a lake and we pumped it up.

Mr. WEICHEL. It was not worth much?

Mr. EDGAR KAISER. It was, because it was on the river.

Mr. WEICHEL. How much did you pay for this hundred acres?

Mr. EDGAR KAISER. I said I did not know. The figure was not high.

Mr. WEICHEL. Did you pay more than a couple of dollars an acre?

Mr. EDGAR KAISER. Yes; considerably more.

Mr. WEICHEL. Did you pay $50?

Mr. EDGAR KAISER. Considerably more than that.

Mr. WEICHEL. One hundred? Farm land is about $100 an acre.

Mr. EDGAR KAISER. When you get to $100, you are getting in the range, and I am not sure.

Mr. WEICHEL. Were there farmhouses on this property?

Mr. EDGAR KAISER. No. The port of Portland terminal facilities are adjacent to it.

Mr. WEICHEL. Then, on this land, all that the Oregon ever had was 100 acres and pieces of machinery. All the rest came from the Government.

Mr. EDGAR KAISER. No. The private capital came from the banks.

Mr. HENRY KAISER. And from the stockholders.

Mr. EDGAR KAISER. We could not have operated the yard unless we had been able to furnish private capital in order to operate the yard. We could not have done it if they had just said, "There are the facilities." Supposing they owned them all and owned all the land, and said, "There it is." We could not have done the job without our funds.

Mr. WEICHEL. Well, with reference to the material you bought, and with reference to the labor and everything that went into it, the Government repaid you almost immediately.

Mr. EDGAR KAISER. Not almost immediately.

Mr. WEICHEL. As fast as you submitted it.

Mr. EDGAR KAISER. We said formerly, and I think it is about right, that the average lapse was about 2 to 2½ weeks.

Mr. WEICHEL. So your investment, then, was the interest on the money for each 2½ weeks you waited.

Mr. HENRY KAISER. No; it was the risk.

Mr. EDGAR KAISER. If anybody could go to the bank and just get money by paying interest, that would be one thing. But they can't.

Mr. WEICHEL. You had your Government contracts for it.

Mr. EDGAR KAISER. We did not pledge our Government contracts in order to get those loans.

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Mr. WEICHEL. That is all you had invested, the interest, with this company.

Mr. EDGAR KAISER. When you borrow money from a bank you have an obligation to pay it back. That is your obligation. It is not the interest.

Mr. WEICHEL. You paid it back as soon as you got the check from the Government.

Mr. EDGAR KAISER. No. We had to continue to borrow substantial funds at Oregon for a long period of time in order to operate the yard.

Mr. HENRY KAISER. Plus our own funds of $3,000,000.

The CHAIRMAN. It is just 1 o'clock. If my friend has a line of questioning he wants to continue, we will do so, but if not, we will adjourn until 2:30. Would you rather proceed now?

Mr. WEICHEL. No; it is all right.

The CHAIRMAN. We will adjourn until 2:30.

(Whereupon, at 1 p. m., the hearing was adjourned until 2:30 p. m. of the same day.)

AFTERNOON SESSION

(The hearing was resumed at 2:30 p. m., upon the expiration of the recess.)

The CHAIRMAN. The committee will come to order. Mr. Weichel.

TESTIMONY OF HENRY J. KAISER—Resumed

Mr. WEICHEL. Mr. Kaiser, we were talking about the Oregon Shipbuilding Corp. and that it owned 100 acres of land when it started in business, and a couple of pieces of machinery, when it started in business. When did it start in business? I do not mean the day you got the charter, but when did it start to do any business?

Mr. HENRY KAISER. January 6, 1941.

Mr. WEICHEL. January 6, 1941?

Mr. HENRY KAISER. Yes.

Mr. WEICHEL. And at that time it had 100 acres of land?

Mr. HENRY KAISER. Well, shortly after that; around that.

Mr. WEICHEL. Well, January 6, what did it have in dollars—money?

Mr. HENRY KAISER. I will give you that in just a second. It had in 1941 $100,000.

Mr. WEICHEL. Was that when it started to do business?

Mr. HENRY KAISER. No; it was just the formation of the company. They were all formed with that.

Mr. WEICHEL. Does that mean that it was $100,000 in cash that it had?

Mr. HENRY KAISER. Well, you see, now, in April it had—wait just a minute. In April '41 it had $800,000.

Mr. WEICHEL. Well, it started in January '41, and is that the date it started doing business?

Mr. HENRY KAISER. That was the first capital contribution, and then there was another one of $700,000.

Mr. WEICHEL. Wait a minute. It started to do business in January 1941?

Mr. HENRY KAISER. Oh, no; it was then organized.

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Mr. WEICHEL. It was organized in January 1941?

Mr. HENRY KAISER. That is right.

Mr. WEICHEL. Now, how many dollars were paid into that in January 1941—dollars?

Mr. HENRY KAISER. $100,000 in January 1941, the time it was organized.

Mr. WEICHEL. $100,000 was paid in?

Mr. HENRY KAISER. That is right.

Mr. WEICHEL. Was that by the stockholders?

Mr. HENRY KAISER. And then, at the same time——

Mr. WEICHEL (interposing). Well, just a minute. The $100,000—was that paid in by stockholders?

Mr. HENRY KAISER. That is right.

Mr. WEICHEL. Or was it paid in by corporations, or property of some corporation that you had an interest in?

Mr. HENRY KAISER. No; it was paid in; it was cash.

Mr. WEICHEL. It was $100,000 in money paid in, in stock subscription?

Mr. HENRY KAISER. That is correct.

Mr. WEICHEL. January 1941?

Mr. HENRY KAISER. The best of my knowledge and belief that was it.

Mr. WEICHEL. All right. Then, what did they do with the $100,000? Did they buy this 100 acres? What did you do with the $100,000?

Mr. HENRY KAISER. I will have to get the records of the company for that.

Mr. WEICHEL. Well, how did you get the 100 acres? You only started, now, with $100,000. How many pieces of machinery did you buy with the $100,000?

(Exhibit 35 gives an additional written answer by Mr. Kaiser.)

Mr. HENRY KAISER. Just 2 months later——

Mr. WEICHEL (interposing). I want to know. Please answer this other question. I will get to the "2 months later."

Mr. HENRY KAISER. I do not know that. I would have to get the books of the company, to find out.

Mr. WEICHEL. Have you got the books of the company here?

Mr. HENRY KAISER. No.

Mr. WEICHEL. Does anybody know what you did? Do you know what was done with the $100,000, right from the start?

Mr. HENRY KAISER. No.

Mr. WEICHEL. You do not know what was done with the $100,000?

Mr. HENRY KAISER. No.

Mr. WEICHEL. Well, did you buy 100 acres of land with it?

Mr. HENRY KAISER. No, sir.

Mr. EDGAR KAISER. The $100,000?

Mr. WEICHEL. What was done with the $100,000? That is all you had, now.

Mr. EDGAR KAISER. As far as I know, the $100,000 stayed right in the bank to the credit of the corporation.

Mr. WEICHEL. It stayed right in the bank, to the credit of the corporation?

Mr. EDGAR KAISER. That is right.

Mr. WEICHEL. Now, just a minute. So that is all the corporation had was $100,000 in money?

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Mr. EDGAR KAISER. At the time of its initial formation.
Mr. WEICHEL. $100,000 in money?
Mr. EDGAR KAISER. That is right.
Mr. WEICHEL. And it did not own anything?
Mr. EDGAR KAISER. That is right.
Mr. WEICHEL. So, that is the way we start off the corporation. Did the bank or anybody else get stock then from the corporation? It had $100,000 in money?
Mr. EDGAR KAISER. That is right.
Mr. WEICHEL. Now, what next happened with the $100,000?
Mr. EDGAR KAISER. As far as I know, I do not know that anything happened.
Mr. WEICHEL. You say you kept it in the bank?
Mr. EDGAR KAISER. What we started to do before, when we began to operate Oregon Ship, actually putting people on the pay roll, starting to do business.
Mr. WEICHEL. Well, I know, but you did not have anything? You did not have a thing? You did not own anything. All you had were the charter and the $100,000. Now, how could you start putting people on the pay roll when you did not own anything and did not have anything?
Mr. EDGAR KAISER. We started to put——
Mr. WEICHEL (interposing). What pay roll were they on?
Mr. EDGAR KAISER. I will answer the question if I may, please. We started to put people on the Oregon pay roll, as I recall it.
Mr. WEICHEL. You put them on the Oregon pay roll, but all you had was $100,000 and no property or anything?
Mr. EDGAR KAISER. I have not been permitted to say when we put them on the pay roll, yet.
Mr. WEICHEL. Well, I am asking what you did with the $100,000, first. Now, we were going to start right from there.
Mr. EDGAR KAISER. I think we have still got it in the bank. That is where we left it last.
Mr. WEICHEL. All right. We will put it in the bank.
Mr. EDGAR KAISER. I will say that this was in either the latter part of March or April. We began to put people on the Oregon Shipbuilding prior to that time.
Mr. WEICHEL. At that time did you still have the $100,000, up till March?
Mr. EDGAR KAISER. No; we had more than that.
Mr. WEICHEL. When did you next get some more than $100,000?
Mr. EDGAR KAISER. I think it was in February—in either March or April, I am not sure; the records will show.
Mr. HENRY KAISER. It was April.
Mr. WEICHEL. You had the $100,000. When did you get the next money?
Mr. EDGAR KAISER. April.
Mr. HENRY KAISER. April—$700,000.
Mr. WEICHEL. Who did you get it from?
Mr. EDGAR KAISER. Stockholders.
Mr. HENRY KAISER. Stockholders.
Mr. WEICHEL. The stockholders? They paid in $700,000 more, in money?

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Mr. HENRY KAISER. That is right.
Mr. EDGAR KAISER. That is right.
Mr. WEICHEL. You sold some more stock?
Mr. EDGAR KAISER. I do not know whether we sold more stock.
Mr. HENRY KAISER. They were loans.
Mr. WEICHEL. How?
Mr. HENRY KAISER. They were loans.
Mr. WEICHEL. Which were?
Mr. HENRY KAISER. The $700,000.
Mr. WEICHEL. The $700,000 was a loan?
Mr. HENRY KAISER. Yes, sir; a stockholders' loan.
Mr. WEICHEL. A stockholders' loan? Why, your corporation had nothing in the world but the charter and $100,000, and somebody lent that same corporation $700,000?
Mr. EDGAR KAISER. Well, the corporation had a little more than "nothing in the world."
Mr. WEICHEL. Well, I asked you.
Mr. EDGAR KAISER. It had all the people that were behind it—the management, and the creditors.
Mr. WEICHEL. No, the corporation is only liable for what is in the corporation, nothing else, now.
Mr. EDGAR KAISER. Well, we have already been through that.
Mr. WEICHEL. Now, just a minute. You had $100,000, and then somebody loaned $100,000 to the corporation which had $100,000?
Mr. HENRY KAISER. The stockholders loaned $700,000.
Mr. WEICHEL. Now, here is a corporation. All you can collect from a corporation is what it has. It had $100,000 and the charter?
Mr. HENRY KAISER. That is right.
Mr. WEICHEL. Then some people loaned that corporation $700,000?
Mr. HENRY KAISER. Then those loans were subordinated.
Mr. WEICHEL. I say: but the loans were $700,000?
Mr. HENRY KAISER. The loans were subordinated.
Mr. WEICHEL. They loaned them $700,000?
Mr. HENRY KAISER. That is right.
Mr. WEICHEL. Without any security except the $100,000?
Mr. HENRY KAISER. That is right.
Mr. EDGAR KAISER. The same people.
Mr. HENRY KAISER. The same people.
Mr. WEICHEL. Oh, the same people!
Mr. HENRY KAISER. Oh, yes.
Mr. WEICHEL. But I am talking about the corporation. It had $100,000 in assets, and people loaned it $700,000 without security?
Mr. HENRY KAISER. That is right—the same stockholders.
Mr. WEICHEL. The same people?
Mr. HENRY KAISER. And subordinated additional——
Mr. WEICHEL (interposing). Then you had $800,000?
Mr. HENRY KAISER. That is right.
Mr. WEICHEL. Now, with reference to the contract to operate this Government-owned yard, in which the Government spent $22,000,000. When did you get the contract and start to operating that? Or did you know all this in advance?
Mr. HENRY KAISER. That is what I want to find out for you.

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Mr. WEICHEL. I mean, was that in advance? Was it organized for this, or what?

Mr. HENRY KAISER. Yes.

Mr. WEICHEL. It was all in advance, was it?

Mr. HENRY KAISER. I will give you the date in a minute.

Mr. WEICHEL. So the people who lent the $700,000—they know they could not lose, then?

Mr. EDGAR KAISER. No; they did not.

Mr. WEICHEL. Well, if you knew of this in advance, you were going to get in this?

Mr. EDGAR KAISER. We have not said that we did know it, yet.

Mr. WEICHEL. How?

Mr. EDGAR KAISER. We have not said that we did know it, yet. Let us find out—that we entered into the contract.

Mr. WEICHEL. I mean you were not doing all this in the dark, were you?

Mr. HENRY KAISER. I would love to have you pursue this question, and just wait. Coming right back at you.

Mr. WEICHEL. Well, $100,000?

Mr. HENRY KAISER. We haven't got the dates, here. The Maritime Commission can furnish those. Now, to the best of my recollection we did not have any contracts at the time for the vessels, and I think we merely had a contract to build the yard at cost. That is the best of my recollection.

Mr. WEICHEL. That was January 1940? In January 1940?

Mr. EDGAR KAISER. 1941.

Mr. HENRY KAISER. 1941.

Mr. WEICHEL. In January 1941?

Mr. HENRY KAISER. That is right.

Mr. WEICHEL. How many other people formed this corporation with you?

Mr. HENRY KAISER. Now, those names are here.

Mr. WEICHEL. I mean, were they real or fictitious persons—these other ones who formed it?

Mr. HENRY KAISER. Well, at the time, you see, the Todd Shipbuilders—are they real?

Mr. WEICHEL. Who?

Mr. HENRY KAISER. The Todd Shipbuilders.

Mr. WEICHEL. Well, the incorporators of this company—this Oregon Shipbuilding Co. Were you one of them?

Mr. HENRY KAISER. The stockholders here are the stockholders.

Mr. WEICHEL. I did not ask for the stockholders. I asked for the incorporators. Were you one? Were you an incorporator?

Mr. HENRY KAISER. Are you interested in the stockholders? Shortly after——

Mr. WEICHEL (interposing). Will you please tell me about the incorporators who sat around the table and got the noble idea of incorporating the Oregon Shipbuilding Co?

Mr. HENRY KAISER. Oh!

Mr. WEICHEL. Who were those people? Were you one of them?

Mr. HENRY KAISER. These stockholders?

Mr. WEICHEL. Were you one of them?

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Mr. HENRY KAISER. Yes.

Mr. WEICHEL. You were one of them?

Mr. HENRY KAISER. Yes, sir.

Mr. WEICHEL. And how many incorporators were there that did this?

Mr. HENRY KAISER. There were the H. J. Kaiser Co., the J. F. Shea Co., W. A. Bechtel, the Bechtel-Macomb-Parsons, the Utah Construction, the Morrison-Knudson, the Todd Shipyard.

Mr. WEICHEL. Are those people or are those inanimate corporations? They do not speak. Those people do not. I am asking, Who were the people who sat around and got the idea to form the Oregon Shipbuilding Corp.—the people? You are naming a lot of corporations.

Mr. HENRY KAISER. Well, you are looking at one.

Mr. WEICHEL. Well, all right. You were one, and who was the other?

Mr. HENRY KAISER. There were the Todd Shipyards, Mr. Haig and John Riley.

Mr. WEICHEL. Shea, you say?

Mr. HENRY KAISER. No—Haig; Joe Haig.

Mr. WEICHEL. And Riley?

Mr. HENRY KAISER. John Riley.

Mr. WEICHEL. And Kaiser got the idea?

Mr. HENRY KAISER. No.

Mr. WEICHEL. Some more of them?

Mr. HENRY KAISER. There was Jack McEachern, of General Construction; Charles Shea, who was the former shipbuilder we spoke of, in the previous war; Johnny Macomb; Mr. Stephen Bechtel and Kenneth Bechtel, Felix Kahn, Mr. Les Corey, and Gorel Sweigart. I think I have called them all. Harry Morrison, I think—no.

Mr. WEICHEL. Those men that you mentioned——

Mr. HENRY KAISER (interposing). Harry Morrison? Yes, Harry Morrison.

Mr. WEICHEL. The names of these men. Now, what are the names of those corporations that you mentioned, that had the idea?

Mr. HENRY KAISER. Just mention them again? They are right here in the book.

Mr. WEICHEL. The corporations that had the big idea?

Mr. HENRY KAISER. Henry J. Kaiser Co., the Kaiser Co.

Mr. WEICHEL. The Henry J. Kaiser Co. Who was that?

Mr. HENRY KAISER. That is myself and my family.

Mr. WEICHEL. And what kind of business were they in, in 1941?

Mr. HENRY KAISER. Shipbuilding business.

Mr. WEICHEL. They were in the shipbuilding business?

Mr. HENRY KAISER. Yes.

Mr. WEICHEL. Where did they ever build any ships?

Mr. HENRY KAISER. They were in the same group.

Mr. WEICHEL. Well, no; just a minute. This Henry Kaiser Co., in January '41.

Mr. HENRY KAISER. Oh, yes; they were; in '39 they were in.

Mr. WEICHEL. How?

Mr. HENRY KAISER. They were, in '39 in shipbuilding.

Mr. WEICHEL. They had built some ships in '39?

Mr. HENRY KAISER. I had built some competitively, and built some big contracts.

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Mr. WEICHEL. Who for—the British Government?
Mr. HENRY KAISER. No; the Maritime.
Mr. WEICHEL. In '39?
Mr. HENRY KAISER. Yes; before the war.
Mr. WEICHEL. Before the war? All right.
Mr. HENRY KAISER. On a competitive basis.
Mr. WEICHEL. On a competitive basis?
Mr. HENRY KAISER. That is right.
Mr. WEICHEL. And you bid along with other companies?
Mr. HENRY KAISER. That is right. We were low.
Mr. WEICHEL. And that was a company?
Mr. HENRY KAISER. The Seattle-Tacoma Shipbuilding Co.
Mr. WEICHEL. Well, I thought you mentioned the Henry Kaiser Co.
Mr. HENRY KAISER. Well, you are asking.
Mr. WEICHEL. I will take one at a time. You said the Henry Kaiser Co.?
Mr. HENRY KAISER. Henry J. Kaiser Co.
Mr. WEICHEL. Was that a shipbuilding company?
Mr. HENRY KAISER. No; a stockholder in a shipbuilding company.
Mr. WEICHEL. Oh; and Henry Kaiser Co. was a stockholder in the shipbuilding company?
Mr. HENRY KAISER. In a shipbuilding company; that is right.
Mr. WEICHEL. And what shipbuilding company were they a stockholder in?
Mr. HENRY KAISER. Seattle-Tacoma.
Mr. WEICHEL. Seattle-Tacoma?
Mr. HENRY KAISER. Yes.
Mr. WEICHEL. Was the Seattle-Tacoma a corporation which other people ran and operated?
Mr. HENRY KAISER. We were all directors in this, this group, here.
Mr. WEICHEL. You were all directors in the Seattle-Tacoma?
Mr. HENRY KAISER. Yes.
Mr. WEICHEL. And then you were the directors in the Henry Kaiser, and the Henry Kaiser held the stock——
Mr. HENRY KAISER. That is right.
Mr. WEICHEL. In the Seattle-Tacoma?
Mr. HENRY KAISER. That is right.
Mr. WEICHEL. Why did you go through all these mysterious things like that to have them hold the shares of stock?
Mr. HENRY KAISER. Well, is there anything mysterious about having a stock company?
Mr. WEICHEL. No, but when a man has stock in a company that has stock in another company that he has stock in, and that has stock in another one, it does become a little bit involved.
Mr. HENRY KAISER. That is quite a business.
Mr. WEICHEL. But anyhow, that is one company that had the idea, along with these 10 men. Now, what is the next company that had the idea, next after Kaiser?
Mr. HENRY KAISER. Well, then there is a Mr. McEachern.
Mr. WEICHEL. No, no, no!
Mr. HENRY KAISER. Of the General Construction. Oh, the next company?
Mr. WEICHEL. The next company after Kaiser.
Mr. HENRY KAISER. The General Construction Co.

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Mr. WEICHEL. Who?

Mr. HENRY KAISER. The General Construction Co.

Mr. WEICHEL. Who was he?

Mr. HENRY KAISER. J. A. McEachern was the name. He was the former shipbuilder.

Mr. WEICHEL. Well, wait; I did not ask about the shipbuilders. I will get to that. This General Construction Co.—how long had they been in business?

Mr. HENRY KAISER. Oh, I do not know, but I can guess for you.

Mr. WEICHEL. Well, a guess is good.

Mr. HENRY KAISER. Thirty yeears.

Mr. WEICHEL. Thirty years?

Mr. HENRY KAISER. Yes.

Mr. WEICHEL. And what kind of business were they in?

Mr. HENRY KAISER. Oh, all kinds and types of business.

Mr. WEICHEL. Well, I mean, what did they do? Build radios, or furniture?

Mr. HENRY KAISER. No; they were in the shipbuilding business—one.

Mr. WEICHEL. The General Construction Co. was in the shipbuilding business?

Mr. HENRY KAISER. Yes.

Mr. WEICHEL. For 30 years?

Mr. HENRY KAISER. Yes; and they built bridges. No, not 30 years. I do not know how many years the General Construction—they were not in the shipbuilding business for 20 years. They had been in the shipbuilding business in the World War, so they advised me.

Mr. WEICHEL. Now, just a minute—the General Construction Co.?

Mr. HENRY KAISER. That is right.

Mr. WEICHEL. And they were in the construction of roads and dams and irrigation projects—is that what they did?

Mr. HENRY KAISER. Bridges.

Mr. WEICHEL. Bridges?

Mr. HENRY KAISER. Bridges, cofferdams.

Mr. WEICHEL. And how long were they doing that, previous to January 1941?

Mr. HENRY KAISER. Just a minute. You did not let me finish, did you?

Mr. WEICHEL. I said, how long previous to January '41 were they in the business of building?

Mr. HENRY KAISER. Are you talking about General Construction?

Mr. WEICHEL. Yes.

Mr. HENRY KAISER. I would guess they were in all kinds, different types of business, for a period of 30 to 40 years.

Mr. WEICHEL. All right.

Mr. HENRY KAISER. Very highly regarded company, by the way.

Mr. WEICHEL. Well, I did not ask you that.

Mr. HENRY KAISER. You don't want to know that? [Laughter.]

Mr. WEICHEL. Well, I think you are like Andy and Amos, who recommends himself most highly. You should not do that.

Mr. HENRY KAISER. No; this is General Construction. I am recommending the General Construction. I will get to myself later.

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Mr. WEICHEL. All right. This company—this General Construction, you say, was in business for 30 years. Were you a stockholder in that one?

Mr. HENRY KAISER. No.

Mr. WEICHEL. In the General Construction?

Mr. HENRY KAISER. No; never.

Mr. WEICHEL. Were these other 10 people you mentioned in that?

Mr. HENRY KAISER. No.

Mr. WEICHEL. They were not in that?

Mr. HENRY KAISER. No.

Mr. WEICHEL. None of these 10 people that had the idea?

Mr. HENRY KAISER. No.

Mr. WEICHEL. Was this company in the ship construction business in January '41?

Mr. HENRY KAISER. Oh, yes; they were in, through the Seattle-Tacoma.

Mr. WEICHEL. What? Well, then they were not in the construction business and the ship business themselves; they did not build any ships, did they? When we talk about being in the ship business I am talking about the company building ships. This General Construction did not build a ship, did they?

Mr. HENRY KAISER. No.

Mr. WEICHEL. Well, then, why do you say that they were in the shipbuilding business? They were never in it?

Mr. HENRY KAISER. They did. I told you they did, in World War I.

Mr. WEICHEL. Well, I did not ask you if they ever did, in World War I. I asked you what they did. Now, this General Construction Co. did not build any ships in the last 15 years previous to January 1, 1941, did they? Did they build any ships?

Mr. HENRY KAISER. I cannot hear. The General Construction?

Mr. WEICHEL. Yes.

Mr. HENRY KAISER. I am told they did.

Mr. WEICHEL. Why, you just said they didn't, that they were stockholders.

Mr. HENRY KAISER. In World War I.

Mr. WEICHEL. I said in the last 15 years they did not build a ship, previous to this war?

Mr. HENRY KAISER. Well, they may have; I do not know.

Mr. WEICHEL. All right. They were in the general construction business?

Mr. HENRY KAISER. My son just advises me that I am mistaken—they did build some barges. He does not know whether they called them ships, but they float in the water.

Mr. WEICHEL. But you are calling them shipbuilders, because they had stock in this Tacoma Co.?

Mr. HENRY KAISER. Sure; that is what we called a shipbuilder.

Mr. WEICHEL. Anybody that has stock in something?

Mr. HENRY KAISER. Well, I do not want you to put those words into my mouth, that anybody that has stock in something is called a shipbuilder. I don't.

Mr. WEICHEL. Well, you have been calling them that. You have been calling these people shipbuilders and you said they had stock

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in this Tacoma Co. That is the No. 2. Now, in this General Construction Co., who were the people that operated that? You say you had no stock in it, nor your family had any in it?

Mr. HENRY KAISER. Not in the General Construction.

Mr. WEICHEL. Not in the General Construction Co.?

Mr. HENRY KAISER. Can I explain this to you just a moment?

Mr. WEICHEL. I will ask the question.

Mr. HENRY KAISER. You know you will never get the answers, the way you are asking.

Mr. WEICHEL. Did you or your family have any stock in the General Construction Co.? Did you?

Mr. HENRY KAISER. No.

Mr. WEICHEL. These other 10 people that got the idea, as you said, along with the corporation—did they have any stock in the General Construction Co.?

Mr. HENRY KAISER. No.

Mr. WEICHEL. All right. What is the third corporation that had the idea to start the Oregon?

Mr. HENRY KAISER. The J. F. Shea Co.

Mr. WEICHEL. The J. F. Shea Co.?

Mr. HENRY KAISER. Yes.

Mr. WEICHEL. And how long had that been in business?

Mr. HENRY KAISER. Oh, 30 or 40 or 50 or 60 years.

Mr. WEICHEL. Well, what was it doing for the 10 years previous to January 1941?

Mr. HENRY KAISER. In the World War I, he was——

Mr. WEICHEL (interposing). I just limit it to 10 years previous to 1941.

Mr. HENRY KAISER. Oh, you do not want to know whether he was in the shipbuilding business.

Mr. WEICHEL. I want to know whether it was previous to 1941.

Mr. HENRY KAISER. Previous to '41?

Mr. WEICHEL. Ten years previous to 1941, what did he or the corporation do?

Mr. HENRY KAISER. In 1939, all these 10 companies joined together to form a shipbuilding company to bid on maritime jobs on a competitive basis.

Mr. WEICHEL. In '39?

Mr. HENRY KAISER. In '39. Now, I have got that out.

Mr. WEICHEL. What did he do before '39? The J. F. Shea Co.—what did they do?

Mr. HENRY KAISER. He built ships in World War I, was one of the things.

Mr. WEICHEL. I asked you, for 10 years previous to 1941.

Mr. HENRY KAISER. Oh, you don't want to know.

Mr. WEICHEL. And '39.

Mr. HENRY KAISER. You do not want to know whether he had any shipbuilding experience.

Mr. WEICHEL. I asked you this question—what they did.

The CHAIRMAN. If the witness can answer it, all right.

Mr. HENRY KAISER. It would be difficult for me, Mr. Chairman, to say exactly what they did.

Mr. WEICHEL. These were all close associates and friends of yours, were they not?

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Mr. HENRY KAISER. Oh, yes.

Mr. WEICHEL. But you do not know—it was a mystery to you what they did in those previous years?

Mr. HENRY KAISER. Oh, no; it was not a mystery. I would say they were in a dozen different kinds of business. There were from 1 to 50 different kinds of construction business.

Mr. WEICHEL. Just general construction business, by the job?

Mr. HENRY KAISER. One to fifty kinds; I cannot name them all.

Mr. WEICHEL. Up to '39? Up to '39? Is that to '39?

Mr. HENRY KAISER. And they may have been in manufacturing. I cannot tell you exactly what business. You can call them for that.

Mr. WEICHEL. Well, I would like to know how these corporations suddenly got this idea, along with these 10 men, including yourself; that is what I am trying to find out.

Mr. HENRY KAISER. Well, I told you we suddenly got——

Mr. WEICHEL (interposing). All right.

Mr. HENRY KAISER. I can tell you that. That is very easy.

Mr. WEICHEL. Now, in '39, did you say Shea got an idea previous to the Oregon? In '39, he got an idea to have a company and to organize it into a shipbuilding company?

Mr. HENRY KAISER. All 10 of us did.

Mr. WEICHEL. In '39?

Mr. HENRY KAISER. In '39.

Mr. WEICHEL. Yes.

Mr. HENRY KAISER. Yes.

Mr. WEICHEL. That was previous to the Oregon?

Mr. HENRY KAISER. Oh, yes. Took millions of dollars.

Mr. WEICHEL. What was the fourth one, then, that got the idea, along with these 10?

Mr. HENRY KAISER. All these 10 that I have named here.

Mr. WEICHEL. All right. What is the next one after Shea?

Mr. HENRY KAISER. Bechtel.

Mr. WEICHEL. The what?

Mr. HENRY KAISER. The W. A. Bechtel Co.

Mr. WEICHEL. Bechtel?

Mr. HENRY KAISER. Yes.

Mr. WEICHEL. And what kind of business were they in previous to 1941?

Mr. HENRY KAISER. Oh, from 1 to 50 different kinds of construction work.

Mr. WEICHEL. Construction work?

Mr. HENRY KAISER. Yes; big construction and small; all types.

Mr. WEICHEL. Construction? What do you mean? Building roads, building bridges?

Mr. HENRY KAISER. Building bridges.

Mr. WEICHEL. Dams?

Mr. HENRY KAISER. Railroads, dams.

Mr. WEICHEL. What railroads did they build?

Mr. HENRY KAISER. Oh, gosh! They built—I would say they built a third of the railroads in the West. They are here. You can ask them.

Mr. WEICHEL. Well, they have all been built a long time before the thirties. There have been no major projects in the last 5 or 6 years, have there—railroad projects?

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Mr. HENRY KAISER. Five or six.

Mr. WEICHEL. In the last 5 or 10 years? Major projects in railroads?

Mr. HENRY KAISER. Mr. Bechtel is right here. He can give you both his father's and his own business.

Mr. WEICHEL. They were in the construction business?

Mr. HENRY KAISER. That is right.

Mr. WEICHEL. But they were building railroads in the last 10 years?

Mr. HENRY KAISER. That is right. One of the most highly respected firms in the West.

Mr. WEICHEL. Did I ask for that?

Mr. HENRY KAISER. No; but I think you should know.

Mr. WEICHEL. You know all the answers, excepting the right one.

Mr. HENRY KAISER. No.

Mr. WEICHEL. What is the No. 5 company that suddenly got the idea?

Mr. HENRY KAISER. Well, the Utah Construction Co.

Mr. WEICHEL. Utah?

Mr. HENRY KAISER. Yes.

Mr. WEICHEL. Who were those people? Where were they from—Utah?

Mr. HENRY KAISER. They are from Utah.

Mr. WEICHEL. They are from Utah?

Mr. HENRY KAISER. And they have offices pretty much throughout the West.

Mr. WEICHEL. What kind of business were they in?

Mr. HENRY KAISER. They were in a general construction business of every type and kind that I can think of.

Mr. WEICHEL. Up until 1939?

Mr. HENRY KAISER. They were also one of the largest companies in the West.

Mr. WEICHEL. Up to 1939? Now, what was the sixth one?

Mr. HENRY KAISER. Morrison-Knudson.

Mr. WEICHEL. What kind of business were they in previous to 1939 and previous to the Oregon?

Mr. HENRY KAISER. They were in more different kinds of business than any other company I know of.

Mr. WEICHEL. Then what is the seventh one?

Mr. HENRY KAISER. McDonald-Kahn.

Mr. WEICHEL. Where are they from?

Mr. HENRY KAISER. They are from San Francisco.

Mr. WEICHEL. And what kind of business were they in?

Mr. HENRY KAISER. They were in the construction business of every type and kind, including buildings.

Mr. WEICHEL. And then what are the other two?

Mr. HENRY KAISER. Buildings and bridges and all kinds of construction generally.

Mr. WEICHEL. The next one? The next corporation that got the idea along with you?

Mr. HENRY KAISER. The Pacific Bridge.

Mr. WEICHEL. The Pacific Bridge? Their business is what?

Mr. HENRY KAISER. The same thing.

Mr. WEICHEL. Building bridges, or what?

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Mr. HENRY KAISER. Building bridges—all kinds—underwater work. They did a great deal of the work at the Hawaiian Islands in raising those ships during Pearl Harbor.

Mr. WEICHEL. Is that all 10 of them, now?

Mr. HENRY KAISER. No; the Todd Shipyards.

Mr. WEICHEL. The Todd Shipyards? And where were they in business?

Mr. HENRY KAISER. In New York City.

Mr. WEICHEL. In New York City?

Mr. HENRY KAISER. Oh, they are in a dozen of the big cities.

Mr. WEICHEL. But they are eastern people, who operated this job——

Mr. HENRY KAISER. East and West. They had a big shipbuilding yard in the West.

Mr. WEICHEL. So the Todd people were the tenth corporation that got this idea?

Mr. HENRY KAISER. Yes. They had 50 percent of this corporation.

Mr. WEICHEL. Well, I mean, that was the tenth corporation that got the idea along with these 10 men?

Mr. HENRY KAISER. Yes; that is right.

Mr. WEICHEL. And then this is the group that formed each one of the six companies we talked about here this morning?

Mr. HENRY KAISER. No.

Mr. WEICHEL. How?

Mr. HENRY KAISER. No.

Mr. WEICHEL. How many did this group form, outside of the Oregon? This is the group that formed the Oregon?

Mr. HENRY KAISER. They formed Seattle—this group that we have just been talking about, that you asked about, formed Seattle-Tacoma in 1939.

Mr. WEICHEL. 1939?

Mr. HENRY KAISER. Bid on the Maritime jobs.

Mr WEICHEL. Who bid on the Maritime jobs?

Mr. HENRY KAISER. In the competitive way, in peacetime work.

Mr. WEICHEL. Going back to the Oregon, you said these 10 people were in that?

Mr. HENRY KAISER. Yes.

Mr. WEICHEL. You mean these 10 corporations?

Mr. HENRY KAISER. They expanded their work.

Mr. WEICHEL. The 10 corporations——

Mr. HENRY KAISER. They took another job.

Mr. WEICHEL. Well, just a minute. The 10 corporations formed the Oregon Shipbuilding Co.—these same 10 corporations?

Mr. HENRY KAISER. That is right.

Mr. WEICHEL. Well, did they have stock in the Oregon as corporations, or did they have dummy persons in there to represent them?

Mr. HENRY KAISER. No; they had them, as corporations.

Mr. WEICHEL. They had them as corporations?

Mr. HENRY KAISER. And they were directors, as well.

Mr. WEICHEL. The corporation was a director in another corporation?

Mr. HENRY KAISER. No; the individuals were directors, and the corporation owned the stock.

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Mr. WEICHEL. The corporation owned the stock?

Mr. HENRY KAISER. Yes. This country is based upon a business basis, where corporations are found to be the best business to pursue—is to form corporations.

Mr. WEICHEL. Well, that is a question.

Mr. HENRY KAISER. And individuals operate them.

Mr. WEICHEL. Well, that is still questionable—that part of it is; but with reference to the Oregon Shipbuilding Co., you say that was formed by these 10 corporations?

Mr. HENRY KAISER. That is right; that is right.

Mr. WEICHEL. And they held all the stock?

Mr. HENRY KAISER. That is right.

Mr. WEICHEL. And then when you come to have directors in the Oregon, these corporations picked a dummy person to represent the corporation in the Oregon?

Mr. HENRY KAISER. Oh, no. I will give that.

Mr. WEICHEL. Now, just a minute. Answer that question.

Mr. HENRY KAISER. No.

Mr. WEICHEL. All right.

Mr. HENRY KAISER. Would you like the names that were not dummies?

Mr. WEICHEL. No. I will get to those; do not worry; but going back to the Oregon Shipbuilding Corp., did these 10 corporations put the $100,000 in there, that you talked about when we started out?

Mr. HENRY KAISER. Yes.

Mr. WEICHEL. They each one put $100,000 in—each corporation?

Mr. HENRY KAISER. No; no; no.

Mr. WEICHEL. Well, who did?

Mr. HENRY KAISER. They altogether put $100,000 in.

Mr. WEICHEL. Well, all right. Did each one put in $10,000 apiece?

Mr. HENRY KAISER. No; they each put their proportionate share in relation to the stock that they owned.

Mr. WEICHEL. Well, did they each have a tenth interest in the Oregon?

Mr. HENRY KAISER. No.

Mr. WEICHEL. What interest did each one of these 10 corporations have?

Mr. HENRY KAISER. I will read them to you: Henry J. Kaiser Co., 6 percent; Kaiser Co., 6 percent; J. F. Shea, 10 percent; General Construction Co., 6 percent; the W. Bechtel Co., 3.8 percent; the Bechtel-Parsons-Macomb, 3.8 percent; the Utah Construction Co., 3.8 percent; the Morrison-Knudson, 3.8 percent; the McDonald-Kahn, 3.8 percent; Pacific Bridge, 2 percent; Todd Shipyards, 50 percent.

Mr. WEICHEL. And that was agreed upon by the 10 corporations, that was the percentage they should have in the Oregon?

Mr. HENRY KAISER. That is right.

Mr. WEICHEL. And when they formed the Oregon, that was the agreement, that is the percentage they would get of this Government money that was going to come to the Oregon; is that right?

Mr. HENRY KAISER. Well, that is an excellent question, and it prompts me to answer you that that gave them the opportunity to save the Government $50,000,000 over any other shipbuilders in the United States.

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Mr. WEICHEL. Is that the answer?

Mr. HENRY KAISER. That is the answer, and that is the other way of answering your question.

Mr. WEICHEL. You understand the question perfectly?

Mr. HENRY KAISER. Oh, yes; I did.

Mr. WEICHEL. And that is the answer?

Mr. HENRY KAISER. That is the answer, plus. That is exactly what they did.

Mr. WEICHEL. All right.

Mr. HENRY KAISER. Plus the opportunity to bid and build ships for the United States in time of war, requested by and urged by the Maritime Commission, according to their own evidence and according to Admiral Land's own evidence.

Mr. WEICHEL. Did the Maritime Commission urge you to make these percentages or divisions of what you were going to get?

Mr. HENRY KAISER. No; they urged us to organize a company to go into the shipbuilding business, and he states he "finally hooked us."

Mr. WEICHEL. This Oregon outfit was not in any business? They did not own anything? They did not own anything?

Mr. HENRY KAISER. Oh, yes.

Mr. WEICHEL. Now, just a minute. They did not own anything? They had $100,000 in the charter, and a promise to get something from the Government. That is all they had?

Mr. HENRY KAISER. That is not true.

Mr. WEICHEL. What was the basis of agreement upon the percentages each one was going to get out of the profits of this company?

Mr. HENRY KAISER. According to the stock and the money they put up.

Mr. WEICHEL. How did you agree on these minute percentages? Was that based on some previous experiences you had, with reference to getting Government money?

Mr. HENRY KAISER. No—how much risk each one wants to take, usually.

Mr. WEICHEL. Risks?

Mr. HENRY KAISER. Yes.

Mr. WEICHEL. Where was the risk?

Mr. HENRY KAISER. Oh, well!

Mr. WEICHEL. In the Oregon?

Mr. HENRY KAISER. You ought to deal—you have just heard about the Maritime——

Mr. WEICHEL. Where was the risk in the Oregon? You had $100,000 in money, and you had a charter, and you were going to operate a Government yard that cost 22 millions of dollars. Where was the risk?

Mr. HENRY KAISER. There was so much risk that certain bankers would not take the risk at all.

Mr. WEICHEL. Where was the risk in that?

Mr. HENRY KAISER. Well, they felt there was an awful risk in doing business with the Government, because some people had been 10 and 15 years getting their settlements, and we haven't got some, yet. You understand that.

Mr. WEICHEL. Why, you got yours in 2 weeks—where was the danger?

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Mr. HENRY KAISER. Oh, no; you misunderstand.

Mr. WEICHEL. You say the percentages of stock in the Oregon, of these 10, were based on risk; is that what it was?

Mr. EDGAR KAISER. I would like to answer the risk question.

Mr. WEICHEL. Well, I am asking him. What do you say? You say it was based on risk. I am asking him. You say it was based on risk, Mr. Kaiser?

Mr. HENRY KAISER. Oh, a tremendous risk.

Mr. EDGAR KAISER. That is right.

Mr. HENRY KAISER. We did not even have a contract. We did not even have a contract.

Mr. EDGAR KAISER. Not for the operation of the yard.

Mr. WEICHEL. But you expected to get it, did you not? You had assurances you were going to get it?

Mr. HENRY KAISER. No, we did not.

Mr. WEICHEL. Oh, you were just forming this and praying God that something was going to get it for you?

Mr. EDGAR KAISER. No.

Mr. WEICHEL. You did not know anything about it?

Mr. EDGAR KAISER. No; we had a contract.

Mr. HENRY KAISER. I do not depend on God ordinarily, although He is a very suitable person to depend upon.

Mr. WEICHEL. But you did not form this corporation that way, in the hope?

Mr. HENRY KAISER. No, I did not pray to God on this.

Mr. WEICHEL. No, you knew you were going to get this—had this all set up, and this was the vehicle to take it?

Mr. EDGAR KAISER. We formed it because we had a contract entered into to build the facilities. That facility contract was a no-fee contract—$2.

Mr. WEICHEL. You mean you did this for nothing?

Mr. EDGAR KAISER. That is right.

Mr. HENRY KAISER. That is right.

Mr. EDGAR KAISER. To build the facilities; and we had no contract to operate the yard; but the contract specifically provided, that contract to build the facilities, that we might not get one to build the yard.

Mr. WEICHEL. You mean you built the yard for nothing?

Mr. EDGAR KAISER. That is right.

Mr. WEICHEL. No charge or anything?

Mr. EDGAR KAISER. That is right.

Mr. WEICHEL. How did you get all this money, by doing everything for the Government for nothing?

Mr. EDGAR KAISER. We are now talking about facilities.

Mr. WEICHEL. You mean you built the yard for nothing?

Mr. HENRY KAISER. Right. That is something you did not know.

Mr. WEICHEL. How many yards did you build for nothing?

Mr. HENRY KAISER. Who built?

Mr. WEICHEL. You. Seven yards, for nothing?

Mr. HENRY KAISER. That is right. Loss, as a matter of fact.

Mr. WEICHEL. You built them for nothing? What do you mean, you "built them for nothing?"

Mr. HENRY KAISER. We did not get any fee for it.

Mr. WEICHEL. Did not get any fee?

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Mr. HENRY KAISER. No; no compensation. Two dollars. And we didn't get the $2.

Mr. WEICHEL. You did not get any fee? Well, was that a "come on" to get this 200 million?

Mr. HENRY KAISER. We think that probably the Government intended it as a "come on," because here is Admiral Land's testimony, to show you [reading]:

Mr. JENKINS. Those companies who built Hoover Dam and Boulder Dam, while Mr. Kaiser was identified with that, he was not the primary figure in all of them, as he is in these.

Admiral LAND. ——

Mr. WEICHEL. Wait a minute, right there. You are the primary figure, you admit, and before you were doing, you were not?

Mr. HENRY KAISER. Oh, no; I am not.

Mr. WEICHEL. Now you desire to assume, you say, that you are not the primary figure?

Mr. HENRY KAISER. No; I am giving you the proportion. Now, wait a minute. [Reading:]

I am not so sure of that—

says Admiral Land—

There is a matter of personal opinion. I think a lot of people do. He certainly was one of the keymen in the six companies, and it took us 2 years to hook him. He came down to my office at least three times, and I do not know how many times, to Admiral Vickery's office, before we could get them mixed up in the shipbuilding business.

The CHAIRMAN. What are you reading from, now?

Mr. HENRY KAISER. I am reading from the Committee on Ways and Means, House of Representatives, 1945, Extension of Termination Date of Renegotiation Act.

Mr. WEICHEL. Well, that is the same thing he is referring to, whereby you and this group of companies received $200,000,000 in fees, without any investment in the Government yard. That is what he is referring to.

Mr. HENRY KAISER. Now, you are putting those words into my mouth. I am not saying that.

Mr. WEICHEL. Well, I am saying that the Maritime Commission has given us reports showing they have given these companies that much.

Mr. HENRY KAISER. Well, the Maritime Commission has not given them that much, and you know that, because you know those figures are not right. You know—you have heard all about the taxes and renegotiation, and you have heard, and you know that those figures are not quite right. You cannot get the accurate figures, and you have heard that all in this evidence, here, so you cannot use that.

Mr. WEICHEL. Well, this is a part of the smoke and confusion that everybody wants to put into this, so that the public cannot get the real facts and figures.

Mr. HENRY KAISER. Oh, no; you can really get it. You have got the power to get it from the Internal Revenue Bureau.

Mr. WEICHEL. Well, we will get it.

Mr. HENRY KAISER. That is where you can get it.

Mr. WEICHEL. On this Oregon, these 10 companies put in the money on the basis of percentages, and they had a charter, and the $100,000.

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Mr. HENRY KAISER. Yes.

Mr. WEICHEL. When were you first told about building that—before you formed a company? When were you told that—before you built the company? Before you built and organized the company?

Mr. HENRY KAISER. Building what? The facilities? There were two companies.

Mr. WEICHEL. Before you started getting this Government money. That is what I am talking about, because that is all you had.

Mr. HENRY KAISER. That is not true. Why do you persist in not telling the truth?

Mr. WEICHEL. Well, the $100,000 doesn't bear any relation to 300 million, you know. That is just "peanuts."

Mr. HENRY KAISER. Well, it is up to 300 million, now.

Mr. WEICHEL. How?

Mr. HENRY KAISER. Is is up to 300 million. That is a new figure.

Mr. WEICHEL. Well, you knew more than that. I am talking about the profit. I am talking about what you had.

Mr. HENRY KAISER. I never heard of even 200 million profit, or 300 million profit. That is a new figure.

Mr. WEICHEL. Have you ever heard what the Maritime Commission set forth about how much they gave your companies?

Mr. HENRY KAISER. The Maritime Commission do not permit——

Mr. WEICHEL. Government-operated yards.

Mr. HENRY KAISER. The Maritime Commission are superseded. Their profits are superseded by the law of the Renegotiation Act, and you must take that off, if you want to be really fair, and you must take, before you talk about profits.

Mr. WEICHEL. This is what they gave you.

Mr. HENRY KAISER. You really must be fair about the thing.

Mr. WEICHEL. Well, all right. Back to the Oregon, again. The charter, and the $100,000, and 10 corporations with an idea, and 10 persons, including yourself. Now, how did you come to form that? Who gave you the advance information that you were going to get to build the yard, and you were going to get the millions of dollars spent, in this exhibit from the Maritime Commission? Whom did you talk to about that?

Mr. HENRY KAISER. Now, I just want to say this, that you see there is another little gap in here that you have missed.

Mr. WEICHEL. We will take this gap, first.

Mr. HENRY KAISER. Well, whom did I talk to? I do not know. This is the best evidence, the sworn evidence, here.

Mr. WEICHEL. Read the question to Mr. Kaiser.

Mr. HENRY KAISER. Admirals Land and Vickery——

Mr. WEICHEL. Read the question to Mr. Kaiser.

(Question read.)

Mr. HENRY KAISER. I had never talked in my life to any single individual in the Maritime Commission about the price that they would ever pay us for any jobs, and personally refused to do it, and any one of them can tell you I had no interest in what the fees were going to be, and told them so. I was out and took these ships because they wanted the ships built.

Mr. WEICHEL. Do you claim this 200 million was forced on you?

Mr. HENRY KAISER. Oh!

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Mr. WEICHEL. I know, but I am saying there is 200 million.

Mr. HENRY KAISER. Now, it was 300. Now, it was 200. Now, what are you talking about?

Mr. WEICHEL. I am talking exactly about what is in this exhibit.

Mr. HENRY KAISER. Well, that exhibit is not correct. We did not receive profits to that amount.

Mr. WEICHEL. The Maritime Commission's statement added up to your companies that about $200,000,000 in fees—I am talking about fees to your company; I am talking about fees. You are confusing profits and fees, for the purpose of confusion. I am talking about fees you got—fees.

Mr. HENRY KAISER. I thought I understood he talked about profits.

Mr. WEICHEL. I am talking about fees.

Mr. HENRY KAISER. Oh! Now, what do you say? Let us see the question about the fees.

Mr. WEICHEL. I will remake the question. On this exhibit of the Maritime Commission, your companies, of which you are the primary figure, or supposed to be, received $200,000,000 in fees on yards that were fully paid for by the Government—all the material and all the labor. Now, do you claim that those fees were forced upon you and that you knew nothing about them?

Mr. HENRY KAISER. I claim that the statement is incorrect—that your statement is incorrect.

Mr. WEICHEL. That these six companies did not get 200 million as set forth in here?

Mr. HENRY KAISER. In the first place, I am only connected with four companies.

Mr. WEICHEL. Well.

Mr. HENRY KAISER. They have tried to connect me with the six all along.

Mr. WEICHEL. You say 200 million is not right?

Mr. HENRY KAISER. That is right.

Mr. WEICHEL. Well, what is right—199?

Mr. HENRY KAISER. I do not know. I agree with you that you should get your figures from the Maritime Commission.

Mr. WEICHEL. Well, I have them here from the Maritime.

Mr. HENRY KAISER. No.

Mr. WEICHEL. That is what the books show that these companies have received.

Mr. HENRY KAISER. But you have already added many companies with which I am not even associated and never have been.

Mr. WEICHEL. I have not added many. There are six companies in here, and you know the six we talk about.

Mr. HENRY KAISER. What six are they, so we will know what we are talking about.

Mr. WEICHEL. Counsel, will you read him the six companies, if he does not know?

Mr. COLES. The Kaiser Co., Inc.; Permanente Metals; Oregon Shipbuilding; Kaiser Cargo, Inc.; California Shipyard (until April 1945); and Walsh-Kaiser.

Mr. WEICHEL. Now, those are the six we are talking about, to refresh your memory.

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Mr. HENRY KAISER. Then will you ask counsel the amount of money that they made, that they were to be paid, in fees?

Mr. COLES. Those six companies, Mr. Weichel, got 190 some million dollars, and I understand a part of that 190 has already been renegotiated.

Mr. WEICHEL. Well, it adds up to nearly 200 million.

Mr. HENRY KAISER. No; it does not. Those six companies?

Mr. WEICHEL. Those six. That is the fees. Just a minute, Mr. Kaiser.

Mr. HENRY KAISER. And yet you admit I am not associated with them now.

Mr. COLES. Since April 1945 you have not been associated with Calship.

Mr. WEICHEL. Mr. Kaiser, this question of your getting out, after the hopes of fees are all in—you are out of it now, but I am saying that those are the fees that were paid to these six companies.

Mr. HENRY KAISER. Can I see this document?

Mr. LOSEE. Here is one.

Mr. WEICHEL. Oh, you have not seen it?

The CHAIRMAN. Hand him a copy of the paper.

Mr. HENRY KAISER. This does not say "fees." It says "estimated profits."

Mr. WEICHEL. Well, it was fees, was it not?

Mr. HENRY KAISER. No.

Mr. WEICHEL. Wasn't that fees?

Mr. HENRY KAISER. This is what it says: "estimated profits."

Mr. WEICHEL. What do you say you got all that money for—fees or profits? You got fees, didn't you?

Mr. HENRY KAISER. We tried to get in our profits.

Mr. WEICHEL. Didn't you get the amount set forth in there as fees for operating this Government yard?

Mr. HENRY KAISER. We have a statement here that shows exactly.

Mr. WEICHEL. Did you get it as fees?

Mr. HENRY KAISER. No. Do you wish——

Mr. WEICHEL (interposing). I asked you, did you get it as fees for the operating of the yard?

The CHAIRMAN. Answer the best you can.

Mr. WEICHEL. Did you get it as a fee?

Mr. HENRY KAISER. The accurate figures are in this book.

Mr. WEICHEL. Did you get the moneys from the Maritime Commission for operating the yards, as fees?

Mr. HENRY KAISER. No.

Mr. WEICHEL. You had no investment in the yard?

Mr. HERTER. Would the gentleman yield for a moment?

Mr. WEICHEL. Yes.

Mr. HERTER. To clarify the situation, on page 145 of the document from which you have been reading, 1945, termination of the Renegotiation Act, on page 145 of that is a table submitted by Admiral Land, showing the total fees paid to these six companies, up to February 28, 1945. Those total 240,000,000, as shown in that table.

Mr. HENRY KAISER. That is not true. You put in two figures, there. Now, wait a moment.

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Mr. EDGAR KAISER. On page 145, Kaiser-group proportion, so-called Kaiser group, was 47 percent of the total, which would be less than 120 million.

Mr. HERTER. Yes; but those companies received those fees.

Mr. EDGAR KAISER. That is right, but those are not all the Kaiser-group companies.

Mr. HERTER. No; but the stock interests of the Kaiser group represent 47 percent of that?

Mr. EDGAR KAISER. No; I believe not, sir. You notice they list Consolidated Engine Co.

Mr. HENRY KAISER. They list Production Engineering Co., and I do not even know who the stockholders are, and I have no interest in it whatsoever. You have got that Kaiser-group proportion, did you not?

Mr. HERTER. Mr. Chairman, just to clarify this, that table on page 145 gives the fees paid to the Kaiser Co., Inc., Kaiser Cargo, Inc., Walsh-Kaiser Co., Inc., Oregon Shipbuilding Corp., Permanente Metals Corp., and the Shipbuilding Corp.

Mr. HENRY KAISER. But it adds a note at the bottom, "Kaiser-group proportion, comprising 47 percent."

Mr. HERTER. That is right.

Mr. WEICHEL. With reference to the Oregon job——

Mr. HENRY KAISER. And it also adds another note [reading]:

> Before any review of the status of the Kaiser interests in renegotiation is undertaken, a study of the interlocking corporate relationship as set forth in the attached chart should be made.

And then they took off of that, again, all the nonreimbursables, so this 120 million is no criterion at all.

Mr. WEICHEL. With reference to the Oregon Shipbuilding Corp.——

Mr. HENRY KAISER. And we maintain——

The CHAIRMAN. Let him finish.

Mr. HENRY KAISER. Our records show that when we have finished with this, and after taxes, the Kaiser family, themselves, the Kaiser interests, this is maybe three, maybe nine, as against a loss of 18 million they yet have to pay—maybe three something, or maybe nine.

Mr. WEICHEL. Going back to the Oregon Shipbuilding Corp., Mr. Kaiser, that operated a Government yard, did it not, Government facilities?

Mr. HENRY KAISER. Yes.

Mr. WEICHEL. Where was that operated?

Mr. HENRY KAISER. Portland, Oreg.

Mr. WEICHEL. The Portland Oreg., yard operated by the Oregon Shipbuilding Corp. was a Government yard, with the Federal Government paying for the land, buildings, machinery, labor, and you were paid a fee for operation?

Mr. HENRY KAISER. We have just been all through the evidence, where we owned a third of the land.

Mr. WEICHEL. Well, anyhow, the Maritime Commission says they paid the Oregon Shipbuilding Corp. $40,000,000 in fees, and all that the Oregon Shipbuilding Co. had was $100,000?

Mr. HENRY KAISER. No.

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Mr. WEICHEL. That is what you started out with?

Mr. HENRY KAISER. Yes. I have stated six times to you—and I really would like you to look at this, because this does not show $100,000; it shows $7,000,000.

Mr. WEICHEL. I do not care what it shows. I am asking you. You started with $100,000, and you have not said what you did with that. Did you buy a hundred acres of land with that?

Mr. HENRY KAISER. I don't know. That was 5 years ago.

Mr. WEICHEL. Let us start with the $100,000.

Mr. HENRY KAISER. And added capital to the company as was required.

Mr. WEICHEL. You started with $100,000?

Mr. HENRY KAISER. And added capital to the company as was required.

Mr. WEICHEL. You do not want to tell what you did with that $100,000. Did you buy land with it?

Mr. HENRY KAISER. If you want that information, I will get it for you.

Mr. WEICHEL. You said you owned a hundred acres of land.

Mr. HENRY KAISER. I will get that information for you, exactly what we did, what it was paid for and what happened to it and all about it, if it is important to you.

Mr. WEICHEL. And you took $40,000,000 in fees?

Mr. HENRY KAISER. Oh, no.

Mr. WEICHEL. The Maritime Commission has written in saying that.

Mr. HENRY KAISER. If they said it. Have they said it?

Mr. WEICHEL. That is right here in this list.

The CHAIRMAN. Is there any question pending?

Mr. WEICHEL. Yes. With reference to the total amount which the Maritime Commission claims was paid as fees to these 19 companies, it adds up $356,000,000, according to the total of the supposed assets of these 19 companies. So 22 million, none of which, according to Admiral Land, was invested in the yards, according to testimony given in 1944——

Mr. HENRY KAISER. You have not got all of the companies in there. There are a lot more to be added, the Sun Shipbuilding Co. and a lot of them.

Mr. WEICHEL. Just a minute. Of the $356,000,000 paid to companies for fees on Government-owned yards, the so-called Kaiser group that we are talking about received $200,000,000. Now, with reference to the so-called assets of the 19 companies, the Kaiser people add up to something like $22,000,000. That is what they add up, out of the whole thing.

Mr. HENRY KAISER. That is not correct.

Mr. WEICHEL. How much do you say?

Mr. HENRY KAISER. Thirty-two millions.

Mr. WEICHEL. With reference to exhibit 1——

Mr. HENRY KAISER. This is not complete. I am just drawing your attention to the fact that the figures you have are wrong.

Mr. WEICHEL. Talking about a million here and there does not mean anything when you are dealing with $356,000,000.

Mr. HENRY KAISER. There was a difference of $80,000,000.

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Mr. WEICHEL. No; there was not any difference of $80,000,000.

With reference to exhibit 1, you claim assets for your six companies, the so-called six Kaiser companies.

What is the total as set forth there, Mr. Counsel? Have you added those up?

Mr. COLES. Yes, sir.

Mr. WEICHEL. How much does it add up to in exhibit 1 for those six companies?

Mr. COLES. As I remember, it was $2,510,000.

Mr. WEICHEL. Two million five hundred and ten thousand for Mr. Kaiser's six companies; only 2 million out of the alleged $22,000,000 for all the 19 contractors, the whole 19 together. They are supposed to have $22,000,000, and Mr. Kaiser's group gets $200,000,000 in fees. How did you come to be especially favored with $200,000,000 worth of fees, when your group had some $20,000,000 invested? How did you become particularly favored?

Mr. HENRY KAISER. Your figures are all wrong. I cannot do anything more than say that.

Mr. WEICHEL. How did you get particularly favored in that?

Mr. HENRY KAISER. They are all wrong. Why were we favored and given more work? Is that what you want to know? You say we were favored.

Mr. WEICHEL. I do not know what you would call it, if you had $2,000,000 invested and the other people had $20,000,000.

Mr. HENRY KAISER. We delivered the ships quicker and at lower cost to the Government and saved them $250,000,000. Wouldn't you want to save them that?

Mr. WEICHEL. On a $2,000,000 alleged investment.

Mr. HENRY KAISER. Liberty ships alone.

Mr. WEICHEL. You got $200,000,000 in fees where other people who had $20,000,000 invested got $150,000,000 in fees. I would say you were particularly favored with Government business and Government money.

Mr. HENRY KAISER. Whoever alleged it is wrong.

Mr. WEICHEL. It can't be many millions out of the way.

Mr. HENRY KAISER. I do not know how many millions out of the way, but the figures are so absolutely ridiculous on the face of them that we should not go on discussing them.

Mr. BRADLEY. Will the gentleman yield to me?

Mr. WEICHEL. I will.

Mr. BRADLEY. Either Mr. Kaiser, Sr., or Mr. Kaiser, Jr., was remarking how accurate the Commission's figures were, but now he comes back and says the audit figures are all cockeyed.

Mr. HENRY KAISER. Oh, no.

Mr. EDGAR KAISER. I did not comment as to the accuracy of the Maritime Commission's figures. I stated that the Maritime Commission and the Investigation Section of the GAO knew what was going on in each of the shipyards we operated.

Mr. BRADLEY. These figures are supposed to be made up on that basis.

Mr. EDGAR KAISER. That is a summary of the figures. We have submitted facts, and sworn to them, showing that it is not $2,500,000, but that it is $32,000,000.

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Mr. BRADLEY. Why is it that you take particular delight in swearing to the accuracy of the Truman committee's figures that you saved the Government $250,000,000, and you cannot yet show you saved $250,000,000?

Mr. HENRY KAISER. Oh, yes; we can.

Mr. BRADLEY. How can you prove that?

Mr. EDGAR KAISER. You take the total number of man-hours that it costs to build ships by another builder in other yards and you multiply them by dollars and get so much cost per ship. Then take the number of man-hours on ships built by Kaiser, and the difference is $256,000,000.

Mr. BRADLEY. That is a very convenient way of figuring it; but did you ever stop to figure how much the Government paid out for so many ships?

Mr. HENRY KAISER. Was the Truman committee wrong?

Mr. BRADLEY. I don't know, but they are the only figures we have found yet from the Government that were not wrong.

Mr. HENRY KAISER. They had every contractor in; they had us in; they had us before them.

Mr. BRADLEY. You also made quite a speech here this morning about the United States Steel Corp., but from RFC and other sources the United States Steel Corp. did not borrow one cent from the RFC to build a plant.

Mr. HENRY KAISER. Oh, I didn't say that.

Mr. BRADLEY. You said the RFC loaned them $200,000,000 and then sold the plant back to them.

Mr. HENRY KAISER. Oh, no.

Mr. BRADLEY. Just a minute. The facts of the matter are, as you well know, that the Government went to the Steel Corp. and asked them to build a plant for them at Geneva, Utah.

Mr. HENRY KAISER. Yes.

Mr. BRADLEY. And it was built as a Defense Plant Corporation plant by the Steel Corp.

Mr. HENRY KAISER. That is what I said this morning.

Mr. BRADLEY. You did not mention the Defense Plant Corporation. I will apologize if I am wrong.

Mr. HENRY KAISER. Well, you are wrong.

Mr. BRADLEY. I will accept your statement. It was built for the Defense Plant Corporation by the Steel Corp. at no fee whatsoever and operated at no fee whatsoever. The Steel Corp. advised that it be built half as big as it was, but they were overruled by the Government. Then when the war came to an end it was turned back as surplus property to the War Assets Administration and put up for bid by them. You had just the same opportunity to bid as anybody else. The Steel Corp. hesitated for a while before they submitted a bid of $40,000,000, and they now have a white elephant on their hands that they would like to get rid of.

Mr. HENRY KAISER. If you look at it from the standpoint of press conferences in the last few days, they say it is a dream plant. Chairman Olds made that statement.

Mr. BRADLEY. Why did you not buy in that dream plant?

Mr. HENRY KAISER. We have very definitely stated that we were handicapped by these losses; and we said so in a letter to them at the hearing.

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Mr. BRADLEY. I have also been talking with the RFC on the status of your loan, so we can keep the record straight. That is what you want to do; you have so stated many times.

Mr. HENRY KAISER. That is right.

Mr. BRADLEY. And Mr. Steele is right behind me and can correct me if I am wrong.

Up to June 30, 1945, you had a total amount of $111,805,000 in eight loans, of which $95,155,000 went into the plant, $16,650,000 was working capital. As of September 5, 1946, you had paid back on principal $17,830,000. You had paid back on interest $9,028,000, making a total of $26,858,000, which is approximately what you said this morning—$27,000,000. Much of that has been recaptured from your ship properties?

Mr. HENRY KAISER. Yes, sir.

Mr. BRADLEY. Or ship fees, or whatever you want to call it.

Mr. HENRY KAISER. Mr. Steele knows it in detail. It is not very different, anyhow.

Mr. BRADLEY. He says you agree with him on that.

I understand that you asked RFC for $58,000,000 for reconversion based on an estimate made by Mr. Brassert, whom I have known for many years.

Mr. HENRY KAISER. How long ago was that, Mr. Steele?

Mr. STEELE. In 1945.

Mr. BRADLEY. They actually awarded you, as I understand it, $11,500,000. I understand that for refinancing they now have a first mortgage out in the amount of $69,500,000, of which $58,000,000 represents plant value depreciated plus the $11,500,000 allowed for reconversion, but of that $9,585,000 has not been disbursed as yet. So your balance on the books as of today is $59,974,000 on mortgage No. 1. The second mortgage is $28,123,000, and the working capital net is $7,890,000.

Here are the RFC figures on your refinancing program.

Mr. HENRY KAISER. If Mr. Steele gave you those figures I will take them. Another point that I think Mr. Steele also will agree with me on is that we have a real burden to carry a plant at that capitalization, the United States Steel Co. having bought a plant at 20 cents on the dollar in competition with it.

Mr. BRADLEY. Why did you not ask for a Defense Plant Corporation plant instead of taking this? Was it not because you were gambling on the possibility of the war going on——

Mr. HENRY KAISER. Wait a minute. I will give you sworn evidence here. You ask me why I did not ask for a Defense Plant Corporation plant. I did ask, and here it is [reading]:

> Why does Kaiser say he was discriminated against and forced to borrow money to build a needed steel plant? The answer is that after Pearl Harbor, Kaiser renewed his proposals. He was referred to William Allen, adviser to Jesse Jones. Allen turned down Kaiser's proposals completely. Later, in sworn testimony before the board of supervisors in San Bernardino County, Calif., Mr. Allen stated:
>
> "In 1941 I was retained by Mr. Jesse Jones of the RFC as steel consultant to him, charged with the responsibility of negotiating for the Defense Plant Corporation of all the steel expansion that was contemplated in this country."
>
> He further stated in his evidence:
>
> "Now, it was maintained by those who visited Washington that the future industrial development of the Pacific coast made it essential that steel from raw materials be produced on the Pacific coast."

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Continuing sworn testimony, he said:

"We then approached various steel companies whom we thought perhaps were best able to carry that venture out. I think, almost without exception, those steel companies who were familiar with the territory and large enough to carry out a large program of this kind on the Pacific coast, were very loath and unwilling to do it.

"I was unwilling to approve the building of a blast furnace plant for using iron ore and coals of this district, if some other method could be found to supply the Pacific coast with steel.

"The Columbia Steel Co. was a going organization that had been making steel for years, who had been supplying many plants steel plates, and it was my judgment it was wiser to use the Government's money where the factors were all known, than to venture a hazard here in this community."

The community Mr. Allen referred to was San Bernardino County, Calif. Allen also stated at the above hearing:

"I thought there was a possibility that the venture might be successful, but the facts were not sufficiently clear to me to take the responsibility of gambling our Government's money, your money and my money, on that."

At the hearing at which Allen gave the above testimony, Kaiser gave sworn testimony in which he stated:

"I listened to this for 2 hours in Washington, and his position (Mr. Allen's position) definitely was that, as far as he was concerned, he would not recommend one dime of the United States money going into a Defense Plant ownership of the Government, under the information he had, and he gave that opinion with great clarity to me. So that you may understand, just as soon as I found out that Mr. Allen would not support any Defense Plant money, I then cast around to see what could be done to have a steel plant. I think I could show you a hundred thousand tons of steel, in all the yards, that I call dead steel, because you cannot build a ship when you haven't got the decks and only the keel plates, and vice versa. In other words, there is no consecutive shipment of steel to us. My real feeling was that, if we could really get those odd sizes for this coast, we could keep this coast in the shipbuilding business and deliver more ships. And it will not be very long when the yards with which I am associated on the coast—and I think it will be this year—will deliver a thousand ships, so you can readily see the tremendous and vital interest."

The CHAIRMAN. Where are you reading from?

Mr. HENRY KAISER. From sworn testimony.

The CHAIRMAN. From the record, or what?

Mr. HENRY KAISER. This is sworn testimony on this question.

The CHAIRMAN. I know; but is it in any hearing?

Mr. HENRY KAISER. Yes. It is a hearing held before the board of supervisors at San Bernardino County, Calif.

The CHAIRMAN. You were reading from a book prepared by yourself?

Mr. HENRY KAISER. No; this is from sworn evidence. It is a book prepared by myself, but it contains sworn evidence, and I now state that this was the sworn evidence.

Mr. BRADLEY. What is the date of that?

Mr. HENRY KAISER. In 1943.

Mr. BRADLEY. You applied for your first loan in the early part of 1942; is not that correct?

Mr. HENRY KAISER. No, sir; in 1940.

The CHAIRMAN. You were asked when you applied for your first loan.

Mr. HENRY KAISER. It was authorized March 4, 1942, $48,700,000.

I want to make it clear, Mr. Bradley, that the RFC has as much of a problem as we have. When the Government sold that plant at 20 cents on the dollar I think they have a real problem themselves, unless the money is charged to the people for the additional steel. If the

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United States Steel Co. reduces their price on the coast in proportion to that which they bought the plant for, then that will be a great advantage to the Pacific coast, and it will completely eliminate and put in default this whole plant and make it worth very little.

Mr. BRADLEY. That will make Fontana a complete wash-out?

Mr. HENRY KAISER. Yes. You are just getting the point that is bothering all of us.

Mr. BRADLEY. I think you need not bother about reducing prices.

Mr. HENRY KAISER. I do, believe me. If the United States Steel Co. will reduce their prices I will do anything that will help to reduce the prices in the United States. I am for competitive forces unless they are unfair, unless the Government contributes to one party more than it does to another. Then I think there should be some adjustment.

Mr. BRADLEY. I do not see your point with reference to the Government contributing more to one party than to another. You have been pretty successful in borrowing from the Government and from the banks.

Mr. HENRY KAISER. I saved the Government $250,000,000, and on the steel plant alone I delivered out of $100,000,000 more steel than the United States Steel Co. did out of a $200,000,000 plant.

Mr. BRADLEY. You are a wizard; there is no question about it. I wonder if anybody else did anything about winning the war.

Mr. HENRY KAISER. I take issue with you there. I think every citizen in the United States did everything he could to win the war. It was a serious thing with me.

Mr. WEICHEL. We now have the information about your Oregon Shipbuilding Corp. Now, the Permanente Metals Corp. Who were the people that sat around the table and got that idea—the same 10 corporations, the same 10 people?

Mr. HENRY KAISER. Yes.

Mr. WEICHEL. How did they all figure out the percentage to put in $600?

Mr. HENRY KAISER. What $600?

Mr. WEICHEL. How much was put in originally?

Mr. HENRY KAISER. Where does the $600 come from?

Mr. WEICHEL. I asked you. Was that the total amount you put in, or did you put in $6,000, or how much did you put in?

Mr. HENRY KAISER. Where did you get that $600 from?

Mr. WEICHEL. I asked you. Did you put in $600 or $6,000?

Mr. HENRY KAISER. The maximum of the capital consists of $2,360,000.

Mr. WEICHEL. When you formed it and started in business were the same 10 corporations involved, these same 10 people?

Mr. HENRY KAISER. Now the capital is over $7,000,000.

Mr. WEICHEL. I asked you if the same 10 corporations sat around the table.

Mr. HENRY KAISER. Yes. I answered that.

Mr. WEICHEL. The same 10 people?

Mr. HENRY KAISER. Well, now, I don't know about that.

Mr. WEICHEL. Or did you change one or two here and there?

Mr. HENRY KAISER. It is the same 10 people.

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Mr. WEICHEL. The same 10 people again. We will not have to repeat all of them again.

When you started business on that, how much did these same 10 people pay in, in money?

Mr. HENRY KAISER. The records here show $460,000.

Mr. WEICHEL. Was it the 10 corporations that put in the money, or were they individuals?

Mr. HENRY KAISER. They are all corporations.

Mr. WEICHEL. How did they come in on this? Did each one put in one-tenth?

Mr. HENRY KAISER. No; different percentages, as there always are.

Mr. WEICHEL. What were the percentages?

Mr. HENRY KAISER. They were 8, 8, 8, 6, 6, 6, 6, 3, 35.

Mr. WEICHEL. Who is the one that put in 35 percent?

Mr. HENRY KAISER. The Todd Shipyards.

Mr. WEICHEL. Why did they get 35 percent?

Mr. HENRY KAISER. I presume they were willing to put in more money.

Mr. WEICHEL. That is the only reason?

Mr. HENRY KAISER. I don't know exactly.

Mr. WEICHEL. What percent did Todd have in the Oregon Shipbuilding Co.?

Mr. HENRY KAISER. Fifty. I am not clear on why that was; it was so many years ago.

Mr. WEICHEL. If you did this six times over with 10 corporations it would be easy to remember, I think.

Mr. HENRY KAISER. That is true.

Mr. WEICHEL. What was done with the $400,000?

Mr. HENRY KAISER. I cannot tell you. You mean, what was done with each dollar, every dollar?

Mr. WEICHEL. You had a charter and then you had $400,000.

Mr. HENRY KAISER. $460,000.

Mr. WEICHEL. Pardon me for omitting the extra 60.

Mr. HENRY KAISER. I cannot remember what was done with that.

Mr. WEICHEL. Did you buy a shipbuilding plant with that?

Mr. HENRY KAISER. We started to operate a shipbuilding plant and a magnesium plant.

Mr. WEICHEL. The Permanente Metals Co., with the $460,000, what did you do?

Mr. HENRY KAISER. We got loans and advances.

Mr. WEICHEL. On the $460,000? You didn't have anything to loan on, did you?

Mr. HENRY KAISER. The stockholders loaned it.

Mr. WEICHEL. How much did the stockholders lend to this corporation?

Mr. HENRY KAISER. $2,500,000.

Mr. WEICHEL. The corporation was worth $460,000, and the stockholders loaned that much?

Mr. HENRY KAISER. $2,500,000.

Mr. WEICHEL. On the strength of the $460,000?

Mr. HENRY KAISER. No; it was on their confidence.

Mr. WEICHEL. Confidence in what?

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Mr. HENRY KAISER. Conducting a satisfactory business, as had been done over the past 30 or 40 or 50 years.

Mr. WEICHEL. Had they been in business 30 or 40 years? It was a corporation with $460,000, a brand-new one.

Mr. HENRY KAISER. That is right.

Mr. WEICHEL. And with $460,000, the stockholders loaned them $2,500,000?

Mr. HENRY KAISER. Yes.

Mr. WEICHEL. On what basis; on what security?

Mr. HENRY KAISER. On the experience, integrity, and credit of the people behind it.

Mr. WEICHEL. A corporation is an inanimate thing. It had $460,000 and nothing else. It had no personal responsibility whatever. There was no experience in the corporation; it was only formed 5 minutes.

Mr. HENRY KAISER. They made the corporation; they made up the corporation.

Mr. WEICHEL. And it was for the purpose of getting out of personal liabilities. These people had no personal liability in a corporation. So, when you say the corporation had integrity and assets and credit——

Mr. HENRY KAISER. It certainly did. It would not have got a bank loan of $5,000,000 if it had not. You try to get $5,000,000 from any banking corporation.

Mr. WEICHEL. What did it have besides the $460,000?

Mr. HENRY KAISER. The ability to produce.

Mr. WEICHEL. Ability to produce?

Mr. HENRY KAISER. Yes.

Mr. WEICHEL. This corporation was just formed.

Mr. HENRY KAISER. The ability of the men back of it. Don't you think every corporation is sound and strong in exact proportion to the men back of that corporation?

Mr. WEICHEL. It is just as good as what you can collect out of it—$460,000.

Mr. HENRY KAISER. Oh, no.

Mr. WEICHEL. You could not collect anything from Kaiser if his corporation failed. You could only collect out of the corporation.

Mr. HENRY KAISER. If you feel that way you never could get a bank loan of $5,000,000, because you have to feel the integrity.

Mr. WEICHEL. The idea was that you personally would be trading something for the dollars of this corporation; is not that true?

Mr. HENRY KAISER. We had already put up 2½ million dollars.

Mr. WEICHEL. You put up $460,000.

Mr. HENRY KAISER. No; two and a half million in loans. That was a method of supplying it with capital.

Mr. WEICHEL. Along with the Government having promised to give you this plant and the fees?

Mr. HENRY KAISER. Many of the Government's promises were not kept.

Mr. WEICHEL. They did a fairly good job of keeping whatever arrangement was made previous to the time you incorporated each one of these companies.

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Mr. HENRY KAISER. Don't you understand that all these contracts that we made with the Government, we furnished over $18,000,000,000 worth of plants through the Defense Plant Corporation?

Mr. WEICHEL. I am just talking about yourself, that you got the loans, and so on.

Mr. HENRY KAISER. This country exists on the incentive profit principle. Even Russia had to go finally to incentives.

Mr. WEICHEL. We are talking about the $200,000,000 that you got in fees.

Mr. HENRY KAISER. You were talking about the principles of corporations and corporate law.

Mr. WEICHEL. You had $460,000. Listen. If you wanted to be personally responsible, then you would have made personal contracts and personal obligations. You would not have hid behind the subterfuge of a corporation and added 10 corporations into it.

Mr. HENRY KAISER. I don't believe this is persecution on your part. I don't believe you are capable of doing that.

Mr. WEICHEL. Was the $200,000,000 persecution?

Mr. HENRY KAISER. You have made an attack upon my character, and that should be answered. I have to give you the doubt that you do not mean to do that, because this was not an evasive matter.

Mr. WEICHEL. You had 10 corporations going into a corporation, did you not, on these two occasions? Was it the same thing for the rest of the six?

Mr. HENRY KAISER. What is the first question?

Mr. WEICHEL. With reference to these 6 corporations or 10 corporations which you have mentioned, in the case of the Oregon Co.

Mr. HENRY KAISER. That is not the question. The gentleman has made an attack upon my character, and I want to hear the question read.

Mr. WEICHEL. Oh, forget about it and answer this question.

The CHAIRMAN. He has a right to have the question read.

Mr. McCONNELL. May I suggest something, Mr. Chairman? When Mr. Kaiser is asked a question we get a loud murmur through the group. Can we not get an answer without the gentlemen saying, "Oh" and "Ah"?

The CHAIRMAN. Let there be straight answers to questions. He has a right, of course, to get information from his associates.

Mr. McCONNELL. That is perfectly all right, but we are getting a lot of other stuff than information.

The CHAIRMAN. Entirely so. I hope it will not be necessary for us to go into executive session on the matter.

Read the question, please, Mr. Reporter.

(The reporter read as follows:)

> You had $460,000. Listen. If you wanted to be personally responsible, then you would have made personal contracts and personal obligations. You would not have hid behind the subterfuge of a corporation and added 10 corporations into it.

Mr. HENRY KAISER. The inference is that I did not want to be personally responsible.

The CHAIRMAN. Answer the question, now, and not the inference. It was read to you. Now, answer it.

Mr. HENRY KAISER. The answer is that we all put up, the 10 men all put up——

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Mr. WEICHEL. Answer the question in reference to what I asked, with reference to the corporation.

The CHAIRMAN. I think he is trying to answer it right now.

Mr. HENRY KAISER. We put up $2,500,000 and $460,000, and we borrowed in addition from banks who trusted us $5,000,000, all of which was a personal obligation and involved their integrity. I doubt whether there is a man in the Nation today that would doubt the integrity of any one of them if they borrowed any money from them. They took that responsibility.

Mr. WEICHEL. You put 10 corporations into 1 corporation. Is that true for the whole 6?

The CHAIRMAN. Will you yield to Mr. Herter?

Mr. WEICHEL. I will.

Mr. HERTER. I have got to leave, and I would like to ask one or two questions. I am sorry to interrupt.

In connection with these various group set-ups in the shipping business, as I understand it, the Kaiser Co., Inc., is the only one that was personally owned by you, wholly through the medium of the Henry J. Kaiser Co.?

Mr. HENRY KAISER. That is correct.

Mr. HERTER. That is the only one in which you had a sole interest?

Mr. HENRY KAISER. Yes.

Mr. HERTER. The Henry J. Kaiser Co., which is your personal company—did that have additional interests?

Mr. HENRY KAISER. It has been in business for about 30 years.

Mr. HERTER. But it is the Kaiser Co., Inc., which operated both a shipbuilding division and an iron division?

Mr. HENRY KAISER. Yes.

Mr. HERTER. The shipbuilding division profits went to offset the iron division's losses?

Mr. HENRY KAISER. Yes.

Mr. HERTER. The iron division in this particular case was not set up as a separate corporation; it was set up as an integral part of the whole in business?

Mr. HENRY KAISER. That is correct.

Mr. HERTER. I will come back to that in just a minute.

In the case of the Permanente Metals Corp., as I understand it, both the Henry J. Kaiser Co. and the Kaiser Co. hold a stock interest, besides a number of others who are associated with it?

Mr. HENRY KAISER. Yes.

Mr. HERTER. That company had both a shipbuilding operation and a magnesium operation?

Mr. HENRY KAISER. Yes.

Mr. HERTER. They were separately accounted for?

Mr. HENRY KAISER. They were jointly accounted for.

Mr. HERTER. As I understand it, you pledged profits from the shipbuilding end to the Reconstruction Finance Corporation?

Mr. HENRY KAISER. The magnesium and shipbuilding went together, jointly.

Mr. HERTER. You had in one case a family corporation, and the other was a stock company in which both your corporation and the Kaiser Co. had a stock interest?

Mr. HENRY KAISER. Not the same Kaiser Co. This Kaiser Co. that is interested in the Permanente is a company which is owned 95 per-

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cent by my employees. We have got several Kaiser companies. There is the Henry J. Kaiser Co., which is owned by myself and my family; the Kaiser Co., which is owned 95 percent by my employees——

Mr. HERTER. I have before me information which may be incorrect. It is a statement of the Maritime Commission which says that the Kaiser Co. is wholly owned by the Henry J. Kaiser Co.

Mr. HENRY KAISER. The Kaiser Co., Inc. That was the one very largely created to take these contracts.

Mr. HERTER. I am a little confused. You have the Kaiser Co. and the Kaiser Co., Inc., two separate companies?

Mr. HENRY KAISER. That is right.

Mr. HERTER. There are a number of other companies that carry the Kaiser name. There are the California Kaiser Co. and the Kaiser Engineers, and so on?

Mr. HENRY KAISER. Yes, sir. All those companies are largely employee-owned companies, other than the Henry J. Kaiser Co.

Mr. HERTER. The Kaiser Co., Inc., which is wholly owned by the Kaiser family, not by the employees, did the shipbuilding job?

Mr. HENRY KAISER. And the steel job.

Mr. HERTER. In that case all your earnings from the ship job were pledged for the steel job?

Mr. HENRY KAISER. That is right.

Mr. HERTER. May I get the dates straight as to when you began shipbuilding and when you began making steel?

Mr. EDGAR KAISER. The facilities contracts were entered into January 9, 1942, and the ship contracts, I think, on January 13, a few days thereafter.

Mr. HERTER. And the steel division made its first borrowings from the Reconstruction Finance Corporation?

Mr. HENRY KAISER. They did a remarkable job. We got a blast furnace going in about 6 months.

Mr. HERTER. You went into the steel business because you could not get regular supplies?

Mr. HENRY KAISER. Yes.

Mr. HERTER. You had long discussions with Mr. Allen and other people about going into the steel business?

Mr. HENRY KAISER. Yes.

Mr. HERTER. But you did not go into the shipbuilding until 2 months before you went into the steel business?

Mr. HENRY KAISER. Yes.

Mr. HERTER. How could you determine within that time that you could not get steel?

Mr. HENRY KAISER. Because of our experience in the other shipbuilding companies.

Mr. HERTER. You had already discovered that?

Mr. HENRY KAISER. Yes. That was where our difficulty was. I have letters that I can furnish, if you like, written to all the steel companies, telling them that the deliveries were all out of line, not in sequence, and we were 60 days behind on the ships.

Mr. HERTER. When you pledged with the Reconstruction Finance Corporation to repay ship profits on the note you at the same time had certain profits coming to you from other shipbuilding companies, as stockholders in other shipbuilding companies?

Mr. HENRY KAISER. Yes.

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Mr. HERTER. Were those pledged to the Reconstruction Finance Corporation?

Mr. HENRY KAISER. No, sir. They were not wholly owned, and we could not do that. I attempted to do it, but it was not successful.

Mr. HERTER. The Henry J. Kaiser Co., as such, is a stockholder in all these other companies, is it not, as well as the Kaiser Co., Inc.? They both must have received dividends from other companies on ship profits?

Mr. HENRY KAISER. The Henry J. Kaiser Co. did, but they did not control, so they could not use those ships fees.

Mr. HERTER. The Henry J. Kaiser Co. is your company, the family company?

Mr. HENRY KAISER. That is right.

Mr. HERTER. And the Kaiser Co., Inc., is wholly owned by that?

Mr. HENRY KAISER. Yes.

Mr. HERTER. So those two are, to all intents and purposes here, synonymous? There are no outside holdings in each?

Mr. HENRY KAISER. That is right.

Mr. HERTER. Both of them were receiving profits, or one of them, the Kaiser Co., Inc., was receiving shipbuilding profits, offsetting the steel losses; but the Henry J. Kaiser Co., as well as the Kaiser Co., Inc., were both receiving dividends presumably from the profits of other shipbuilding corporations?

Mr. HENRY KAISER. That is right.

Mr. HERTER. And the minute they received those dividends they were pledgable, of course. They were pledged for the Reconstruction Finance Corporation loan?

Mr. HENRY KAISER. The Henry J. Kaiser Co. dividends?

Mr. HERTER. Yes.

Mr. HENRY KAISER. No. I have letters from the RFC questioning whether they wanted to take any more, because the Henry J. Kaiser Co. had, of course, many other risks.

Mr. HERTER. But the Kaiser Co. did?

Mr. HENRY KAISER. They had pledged everything, the Kaiser Co., Inc.

Mr. HERTER. Wherever it was received from?

Mr. HENRY KAISER. Yes; and they really offered to pledge more—this will interest you—they really offered the RFC to pledge more, but where there was a risk involved of any kind the RFC refused to take anything. You could not pledge your profits without their taking the losses, and they did not want to take those risks.

Mr. HERTER. In two of your principal shipbuilding companies, as against the profits from shipbuilding, you had offsets in other operations; in one case, magnesium?

Mr. HENRY KAISER. Yes.

Mr. HERTER. We have not discussed the magnesium at all. What is the status of that particular note?

Mr. HENRY KAISER. It is paid.

Mr. HERTER. In full?

Mr. HENRY KAISER. In full.

Mr. HERTER. Some $28,000,000?

Mr. HENRY KAISER. Yes.

Mr. HERTER. Paid for in full out of shipbuilding fees?

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Mr. HENRY KAISER. And other income. That company is now doing probably $6,000,000 a month in gross revenues at this moment.

Mr. HERTER. But it has liquidated that RFC loan?

Mr. HENRY KAISER. Yes.

Mr. HERTER. So that the shipbuilding profits are no longer pledgable from the Permanente Co. to any of the other operations?

Mr. HENRY KAISER. That is correct. The RFC will not take anything where they have to take a risk. You could not just pledge profits and not losses. We can show you from the RFC where they have refused to take any pledged profits. They would take the profits if they did not have to take the losses. As a matter of fact, at the moment they have refused to go on any further in shipyard 3, because they see a loss involved. Shipyard 3 is operated by Kaiser Co., Inc., and there is a loss involved due to the manner in which it has been handled, and so forth, and they have notified us that they did not want any more pledged profits from there because we would likewise have losses. So they have asked us to take yard 3 out of the Kaiser Co., Inc.

Mr. HERTER. Are yards 1, 2, and 3 all owned by the Kaiser Co.?

Mr. HENRY KAISER. No. This yard 3 of the Kaiser Co., Inc.—it is operated only, not owned.

Mr. HERTER. Operated by the Kaiser Co., but none is owned?

Mr. HENRY KAISER. No.

Mr. HERTER. But operated, and the profits are received by the Kaiser Co., Inc.?

Mr. HENRY KAISER. Yes.

Mr. HERTER. I suppose you realize that in this particular study that we are making now, to find out just what happened in connection with the shipbuilding operation, it is pretty difficult for us to incorporate in any thinking about this the other operations of a corporation that have nothing to do with shipbuilding, except that you might argue that the construction of steel was an aid to the shipbuilding program.

Mr. HENRY KAISER. It was. But you can go further than that. Let us assume that the Kaiser Co., Inc., was just formed and took on without pledging any fees. The fees that it would have received would not have been excessive profits, and that is what you are interested in, because they have never been over 3 percent; so if all those fees had been paid to the Kaiser Co., Inc., you see, they would not have been over 3 percent and they would not have come within the consideration of the Renegotiation Act, because renegotiation, to our mind, has never touched a thing under 3 percent and allowed up to 6 percent.

You see, the thing I would like to make clear to you is that this was really an act in an effort to get steel. We gave up all the fees that we could have earned and kept.

Am I making that clear to you? That is a very important fact that I have not often been able to bring out.

Mr. HERTER. I think that all people have an independent judgment as to what constitutes a proper fee for the conduct of an operation, depending a great deal on how much individual risk capital has gone into it, how much it has been wholly financed as to material, working capital, and so on, by the Government.

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Mr. HENRY KAISER. That is true.

Mr. HERTER. And I do not think there is any fixed yardstick by which that can be judged.

Mr. HENRY KAISER. I agree with that. It is very difficult to fix that, but Congress did try to set up one in that Renegotiation Act.

Mr. HERTER. But, so far as I can see in the renegotiations in this case, the Government was in a very peculiar position, because they could renegotiate you out of fees and take it out of RFC money.

Mr. HENRY KAISER. But they would never have renegotiated us on the basis of what they are doing in all other renegotiations, because we never did have sufficient fees. We would not have been renegotiated downward, because we did not get as much as they were giving others, percentagewise.

Mr. HERTER. There again I think the volume comes into the picture.

Mr. HENRY KAISER. Oh, volume. Percentage is what they have been using. It is very difficult to find any other measure.

Mr. HERTER. I think it was you in your earlier testimony that spoke of the fact that volume was a material factor in any business.

Mr. HENRY KAISER. Volume is a tremendous factor. It meant a great deal at the time of the war in getting these ships. If you had ever seen what the Navy did to get us to deliver a carrier a week, something that had never been heard of before in the world, when they found out what it meant to them at Leyte, you would understand what volume meant.

Mr. HERTER. One other thing, Mr. Kaiser. In connection with the steel plant, you have told us, or I think it has been brought out in figures that came from the book, that in offsetting the profits of the Kaiser Co. you had the losses sustained in the steel division?

Mr. HENRY KAISER. That is right.

Mr. HERTER. And that of those losses, some $9,000,000 represented interest on borrowed money, and some $45,000,000 represented amortization and depletion and depreciation?

Mr. HENRY KAISER. That is right. If you took those all out, our percentage still would be below that of any others that we know of.

Mr. HERTER. My question is this: How completely has your steel company been amortized at this time, under the 5-year permission that you had to amortize?

Mr. HENRY KAISER. Approximately half, but in effect—it is a point that I am glad you are bringing up—it ought to be amortized 80 percent, on account of the Geneva steel plant being sold at 80 percent off. You see, it is amortized 50 percent, about half; but here we have another competing steel company, the dream plant, that sold at 20 percent of its value, so it is really depreciated 80 percent, and in effect that is an additional depreciation. That is the part I have been trying to bring out.

Mr. HERTER. That may be true, but I do not think the Internal Revenue Department would recognize it.

Mr. HENRY KAISER. That is right. That is just the point. But it is there.

Mr. HERTER. But from the point of view of the Internal Revenue Department, you have been able to charge off these losses, so that the steel plant today——

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Mr. HENRY KAISER. That is right.

Mr. HERTER. You can still charge off 50 percent of the amortization, and you do not have to charge off up to 20 percent per year if you do not want to. That is your privilege.

Mr. HENRY KAISER. I think you have to declare what you want to do and follow that procedure. I am not quite clear on the taxes. The tax problem is too complicated for me to answer you accurately, but I think if you decide that you will charge off only a small proportion, you can elect to take a certain method. I think the law permits you to do that. I am not quite clear. It is too complicated for me.

Mr. HERTER. Apparently in your refinancing with the Reconstruction Finance Corporation on the steel company you now have a period of years in which to pay it off under a complicated series of notes that there is no use in going into in detail now.

Mr. HENRY KAISER. No; but I can say this to you about it, that the fixed charges are too high to carry it and to make a success of it. It is valueless if we have to continue on the basis that they have set up for us, in competition with the other plant.

Mr. HERTER. You have still pledged in advance your shipbuilding profits for future years?

Mr. HENRY KAISER. And we are paying them and have been doing it since the war.

Mr. HERTER. That raises a question right away; while you still owe the Government money, is not the Government likely to want to do business with you to get its money back by giving you ship contracts?

Mr. HENRY KAISER. We have not seen any evidence of it. As a matter of fact, we have not seen any evidence, and the RFC probably will not take any competitive contracts, because they are afraid of the loss on it. They have always indicated that. They have told us so. And, as a matter of fact, they have declined, just answering your question, some contracts because there was a possibility of loss in them if we took them competitively.

Mr. EDGAR KAISER. That is correct.

Mr. HENRY KAISER. It is just the opposite from what you are thinking of.

Mr. HERTER. On the steel company itself, you have some hundred million dollars in there?

Mr. HENRY KAISER. That is right.

Mr. HERTER. During the time that it was operating, was it selling steel direct to the Maritime Commission and the Maritime Commission delivering steel to your yards?

Mr. HENRY KAISER. I think that the War Production Board was allocating that steel; 100 percent CMP, I think.

Mr. HERTER. But it was actually being purchased by the Government?

Mr. HENRY KAISER. Yes.

Mr. HERTER. Was the Government determining the price at which it was purchased.

Mr. HENRY KAISER. Yes.

Mr. HERTER. They determined the price, the quantity, and the allocation, all three?

Mr. HENRY KAISER. Oh, yes; on all the steel plants at that time.

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Mr. HERTER. So your own company had no preference in the allocation of steel?

Mr. HENRY KAISER. No; none.

Mr. HERTER. It went wherever the Government told you to send it?

Mr. HENRY KAISER. Yes.

Mr. HERTER. And you manufactured what the Government wanted you to manufacture?

Mr. HENRY KAISER. Yes.

Mr. HERTER. I suppose you are somewhat relaxed from the point of those restrictions now?

Mr. HENRY KAISER. Yes; we are. We are in a commercial business.

Mr. HERTER. In a commercial business, at present prices, does it look like a profitable operation?

Mr. HENRY KAISER. It does so long as we do not have the high fixed charges. That is what the interim period is for, to see what we could do with it. It is a low-cost operating plant. It is on a comparable basis with the Geneva plant, but its fixed charges are high because of the 100 percent.

Mr. HERTER. Its capacity is greater than the Geneva plant's?

Mr. HENRY KAISER. It is one-half.

Mr. HERTER. But you said it turned out more steel.

Mr. HENRY KAISER. Yes; it did. Thank you for bringing that one out. That is what it did. With half the capacity and at half the cost, it turned out a little bit more steel.

Mr. HERTER. If you were asked this question, and with the permission of the chairman I think the witness ought to be entitled to decline to answer it if he wishes to, on net balance, with the personal family investment put into shipbuilding and other operations during the war period, how do you feel that you came out at the end of the war from the point of view of the capitalization?

Mr. HENRY KAISER. I really do not think—that question has been brought up a number of times within our own group. It really cannot be determined until we determine what losses we are going to be prepared to take.

Mr. HERTER. You have the magnesium plant free and clear, paid for out of the ship profits.

Mr. HENRY KAISER. Let me get that clear. I am delighted you are asking all these questions. I am delighted about it. That magnesium plant is a real problem at the present moment. We are losing $50,000 a month on it. At least three-quarters of that plant never will be operated. We were not permitted during the war to do the development work that we wanted to do, so we merely produced to get the magnesium, even though we produced it and saved the Government a great deal of money.

Now, at the present time that magnesium plant is a problem, only from the standpoint that we must make a success of it. We have great hopes that we can do something with it, and we are on the verge of a development. Each month, which does not come that month, it is $50,000, so it depends entirely on how successful we are in developing a completely new product, and perhaps cutting the cost of magnesium 50 percent.

Mr. HERTER. The same holds true of your steel company to a large extent, so far as the future is concerned.

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Mr. HENRY KAISER. No. It is the fixed charge. It cannot exist under that fixed charge in competition with a fixed charge of 20 cents on the dollar at Geneva. That is the difference right there. It cannot exist.

Mr. HERTER. In other words, you feel that the new facilities of which you are now the owner as a result of the shipbuilding and other operations cannot be evaluated at the present time?

Mr. HENRY KAISER. No. And then we put a lot of money into it that we have earned private-wise in addition, that we will lose, and that cannot be evaluated. That is right.

Mr. HERTER. Is there any chance in connection with the development of magnesium and the likelihood that it will be of any help to you in building automobile bodies?

Mr. HENRY KAISER. Wonderful opportunities.

Mr. HERTER. That is your hope?

Mr. HENRY KAISER. Yes; and we also have tremendous hope in aluminum. We are doing some remarkable things. There are great possibilities. We are on the eve, in my judgment, of a great revolution.

Mr. HERTER. Did you borrow Government money in the development of your aluminum plant?

Mr. HENRY KAISER. No; no Government money. We are paying them a million dollars a year rent, and we borrowed from the bank in the same way $16,000,000 for the aluminum plant, but that is all something that has nothing to do with the Government. That is private borrowings from the bank.

The CHAIRMAN. Mr. Weichel, Mr. McConnell is not going to be here tomorrow, and he wishes to ask some questions.

Mr. MCCONNELL. Mr. Kaiser, I feel, as I have sat here for the last 2 days, that I have been in a temple of confusion at times, and I would like to humbly suggest that simplification might be a great asset to the Kaiser interests for the future.

I am wondering if we could bring a few of these things down to almost a simple statement of certain figures of profit or loss, or just what was gained. There have been so many things stated here that I have had a hard time boiling them down.

I would like to ask you this: Do you know how much you did make starting in 1941–42 up to the time when you have the figures that are not yet proven? For instance, there must have been figures in past years that are now finished, where you can say, "We made so much." Do you have them available?

Mr. HENRY KAISER. We have submitted that to the committee.

Mr. MCCONNELL. You have submitted that?

Mr. HENRY KAISER. Yes.

Mr. MCCONNELL. Is it separated as to shipbuilding and other operations?

Mr. HENRY KAISER. It is shipbuilding only.

Mr. MCCONNELL. You have it separated between shipbuilding and other operations?

Mr. HENRY KAISER. It is all separated, in the different companies, Kaiser Engineers, Kaiser Co., and Henry J. Kaiser Co.

Mr. MCCONNELL. And you stand by those figures? In other words, the committee can rely on the figures that you have given as to your

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earnings, profits or earnings, from shipbuilding over a period of how long? Did you start in 1941?

Mr. HENRY KAISER. This is question 13 that we have talked about, and I think counsel can tell you the date it starts. It is January 1941, is it not, up to July 27, 1946?

Mr. McCONNELL. You have all those figures, and they have been turned in?

Mr. HENRY KAISER. That is right.

Mr. McCONNELL. I would like to know the total profit in that period.

Mr. COLES. I presume you are looking at this. Yes; we are looking at the same table. This is merely the figures of dividends which have been paid to the Kaiser-owned companies by the shipbuilding operating companies. It does not state how much the shipbuilding operating companies made. Now, the figures by the Maritime Commission, if I may digress for a moment——

Mr. McCONNELL. We are getting into this confusion again.

Mr. COLES. I think it might clear it up if I can read this. [Reading:]

The Maritime Commission figures say that profits earned by shipbuilders are captioned "Estimated profits" because final settlement has not been consummated with respect to many of the contracts. However, the profits are substantially actual. It should also be borne in mind that certain costs have been incurred by contractors which are not reimbursable or allowable under the contracts. The amount of disallowances is relatively small compared to earned profits.

Then, in here, the listing of the six companies shows about $192,000,000 of fees and profits over and above all costs were paid to these six shipbuilding companies in which the Kaisers have an interest. It might be of interest also to note that the information furnished to the committee by these six Kaiser companies shows that before full renegotiation, but so far as renegotiation has already gone, the Kaiser companies made $173,000,000, the five companies, not including Walsh-Kaiser, upon which we have no figure.

Now, the figure that Mr. Kaiser reads, so far, and only so far, is that dividends of just under $5,000,000 have been paid to the Kaiser holding companies by these operating companies, but this in no way shows how much money the operating companies made.

Mr. McCONNELL. Mr. Kaiser, do you have other figures than those?

Mr. HENRY KAISER. Yes; oh, yes.

Mr. McCONNELL. Read those figures. I would like to have them right next to the other figures.

Mr. HENRY KAISER. I do not have it in dollars. I have it percentage-wise. If you want that in dollars, it will have to be gotten up.

Mr. COLES. These figures of $173,000,000 are taken from your own books, Mr. Kaiser, that you submitted to the committee.

Mr. McCONNELL. Will you accept that $173,000,000?

Mr. HENRY KAISER. I will have to look at that. It is not renegotiated yet.

Mr. COLES. It is as far as renegotiation has gone, and I might add that in most cases it has gone to the end of 1944, and in some cases to the end of 1945, so that I think the major renegotiation is finished, although I would not want to state that categorically.

Mr. McCONNELL. Will you accept them before renegotiation? Will you accept that?

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Mr. HENRY KAISER. Before renegotiation and before taxes for all the Kaiser companies, and before all nonreimbursables and before all claims, which are running into the millions, and we do not know how much. We get different stories every day.

Mr. McCONNELL. Outside of those statements, will you agree that $173,000,000 is the figure?

Mr. HENRY KAISER. That is on all the companies which I have ever had an interest in?

Mr. COLES. No; excuse me, that is the five companies, California Shipbuilding Corp., Kaiser Co., Inc., Kaiser Cargo, Inc., Oregon Shipbuilding Corp., and Permanente Metals Corp. It does not include Walsh-Kaiser or Joshua Hendy.

Mr. McCONNELL. Does it include California Ship?

Mr. COLES. It does.

Mr. McCONNELL. I want what you will admit. Won't you give me what you will agree to, what you say is accurate? Let's not slide off into something else. What will you admit?

Mr. HENRY KAISER. What do you want to know, about the Kaiser companies?

Mr. McCONNELL. You told me your earnings were agreed upon up to 1946. Now, what are those earnings?

Mr. HENRY KAISER. The Henry J. Kaiser Co., or all the companies?

Mr. McCONNELL. I want to know it from the shipyard operations. That is what we are investigating at the present time, as I understand it. I do not care about any of these outside things. I want to know it from the shipbuilding operations, and what you will admit to. What are you willing to accept? "They are my figures, and I will accept them." That is what I want to hear from you.

Mr. HENRY KAISER. All kinds of companies, all the Kaiser companies?

Mr. McCONNELL. Engaged in shipbuilding.

Mr. HENRY KAISER. All companies in which I have ever been interested, had even 3 percent or 5 percent of whatever I have been interested in, the total amount. Is that what you want?

Mr. McCONNELL. If you have it.

Mr. HENRY KAISER. Could I hand this to you?

Mr. McCONNELL. Read it. There is no use in giving it to me privately.

Mr. HENRY KAISER. These are for all the shipyards, the Portland, the Vancouver, the Richmond, managed by Kaiser Co., Inc.

May the attorney read it?

Mr. McCONNELL. I do not care who reads it.

Mr. OSCAR COX (attorney). The statement for Kaiser Co., Inc., which ran the Portland, Richmond, and Vancouver yards, is a complete statement which is already in evidence, which reads as follows [reading]:

> The gross fees payable to the Kaiser Co., Inc., were $46,883,757 before renegotiation and before the deduction of nonreimbursable items and subject to renegotiation for the last 2 years. The nonreimbursable items which are deductible from that are $5,750,360.
>
> After these deductions the gross fees on United States Maritime Commission contracts were $41,133,396. The losses before taxes, and there were no taxes due to net loss, except in 1941, show losses of $59,712,436, a net loss in the operation of Kaiser Co. of $18,579,040.

Mr. McCONNELL. What were your losses?

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Mr. HENRY KAISER. The losses were the operation of the steel plant.

Mr. McCONNELL. I would like to get the shipbuilding by itself.

Mr. COX. I gave it to you. The $41,000,000 was the fees from shipbuilding operations, and the separate loss from steel was $59,000,000.

Mr. McCONNELL. That is for one company. Now we are getting somewhere.

Mr. COX. The Oregon Shipbuilding Corp.: Gross fees were $44,830,597. So far nonreimbursable items were $4,549,517; the gross fees less the nonreimbursables to date were $40,327,339. Wait a minute. The Federal income and excess profits taxes already paid are $27,000,000, and the net is $13,000,000.

Mr. McCONNELL. That is reported on a different basis than Kaiser. One is before taxes and the other after.

Mr. COX. The other showed no taxes because there was no net income, except in 1 year.

Mr. McCONNELL. Because you put it against the steel losses.

Mr. COX. You have to take one other figure there, and that is the Kaiser interest in Oregon Ship.

Mr. HENRY KAISER. You want to get the whole company first, do you not?

Mr. McCONNELL. Yes.

Mr. COX. You have to take Kaiser's interest. Kaiser's interest in Oregon Ship through Henry J. Kaiser Co. and the Kaiser Co. was 16½ percent.

Mr. HENRY KAISER. One-half of that is employees'.

Mr. COX. The other ownership in terms of distribution of earnings would have gone to the eight other companies, like J. F. Shea and General Construction, in which Kaiser Co. has no pecuniary interest, direct or indirect, so you take 16½ percent of the $13,000,000 if you want to find out how much profit was made.

Mr. HENRY KAISER. By Kaiser out of Oregon Ship. That is before he paid dividends. We don't know the answer for some time to come yet, until we get through these settlements and claims.

Mr. COX. Kaiser Cargo, which is the third company, had gross fees of $1,358,058 less nonreimbursables, showing gross fees of $1,047,000 less taxes paid of $776,619, leaving a net income for the 6 years, or approximately 6 years, of $270,682. The Kaiser percentage in that company was 58 percent.

Permanente Metals Corp. shows gross fees before reimbursement were $57,936,000. The nonreimbursable items to date were $4,426,000, leaving gross fees after nonreimbursable items to date of $53,000,000. The net loss on the magnesium division was $23,000,000; the gross income after that net loss was $30,000,000. The taxes paid, Federal income and excess profits taxes, were $21,000,000, leaving a net income for the more than 5 years of $8,999,000. The interest of the Kaiser companies in Permanente Metals has varied from year to year, but in '41 it was 16 percent, in '42 it was 23.4 percent, in '43 and '44 it was the same as in '42, and in '45, up to November, before the exchange and trade on California Ship, it was 17 percent, and in '46 after the trade with Calship it was 64.7 percent. That is just recently.

Mr. McCONNELL. Now do you have a total of what you received from shipbuilding operations for those 5 years?

Mr. COX. We can just add them up for you right now.

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I think there is one other set of figures that the committee might want to evaluate, because ultimately the profits that are available for distribution come in the form of dividends, and I think, for whatever it is worth in the evaluation, you ought to also have the companion figures that go with that, and I have them calculated here, with the comments on them. If the committee wants them, there are just two basic paragraphs on that.

The companies in which Mr. Kaiser and his family owned stock received dividends amounting to $4,936,000 for the five war years. Of that $4,936,000, stockholders other than Kaiser Co. participated to the extent of $1,353,000, leaving $3,583,000 over a 5-year period allocable to stock which the Kaiser family owned. That figure is before regular corporate taxes, which run about 40 percent; before corporate excess profits, which run far higher than 40 percent; and before individual income taxes, which have run as high as 80 percent in the years involved. The earnings are available as reserves for losses on other operations which have been incurred and which are likely to be incurred in the future, and they were dividends, of course, paid to corporations in these cases as a result of the shipbuilding and other operations.

Mr. McCONNELL. May I ask you this personal question, Mr. Kaiser? Do you know whether you are solvent or not?

Mr. HENRY KAISER. It depends on what hazards I take as the aftermath of all these conversions. There is some problem.

Mr. McCONNELL. We start out with very large figures, and when we get them all boiled down I don't know whether you are a minus or a plus quantity.

Mr. HENRY KAISER. We start all over again, that is one thing, and the reconversion problems, if you go to the Fleetwing, which is maintaining some beautiful offices right now, you have another problem. These reconversion problems are not simple ones, and the Maritime Commission has made it very difficult on shipyard 3. I just learned last night that this month we will lose $140,000.

Mr. McCONNELL. Mr. Kaiser, while you are getting those other figures, do you know how much you put into your enterprises, in one figure? Can you tell me that? Do you know that?

Mr. HENRY KAISER. You see, now we have to go and add all these together again. You would say, if you loaned a company money, if you had personally loaned it money to operate, that that was what you put in, would you not?

Mr. McCONNELL. Yes. In other words, what did you have that you put in to start it off?

Mr. HENRY KAISER. That is right. Then, in addition to that, the Commission required from all shipbuilders $100,000 per way. That went in definitely as capital. Well, we are going to get into confusion here in a minute.

Mr. McCONNELL. Are you saying you do not know how much you put into these?

Mr. HENRY KAISER. I think we can get it from these figures. We have worked on these figures with the best accountants, and with the best engineers that I can devise.

Mr. McCONNELL. They do not seem to have come out, these great accountants, with any clear figures.

Mr. COLES. May I say this, that we have had Commander Jones, a certified public accountant, go over the figures that Mr. Kaiser has

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given us, and he has made a great many adjustments. I will introduce this in the record as exhibit 10. The figures he has come out with on a percentage basis are substantially higher than those submitted by the Kaiser Co., several times as high on a percentage basis. The bases of his changes are that Mr. Kaiser has included in his figures all Government-supplied material, which amounts to many hundreds of millions of dollars, so he is figuring his percentage including Government-supplied material. He also included in his percentage the facilities upon which the contracts specifically state that there shall be no profit, which again amounts to about another $100,000,000, and he also is including as his base, if his article cost $1 and sold for $1.10, he is figuring on a basis of $1.10. He is taking fees and profits in.

With that, plus some minor reconciliation, I would like to introduce this in the record, which shows larger percentages.

(The tabulation and compilation so identified was marked "Exhibit 10.")

Mr. Cox. Excluding the losses on the steel plant, the total gross fees of Kaiser Co., Inc., involved are $46,883,757.

In those figures, when we exclude the losses, the taxes which would have been payable would have been $29,000,000. The losses which we included were $59,000,000. So if you take the losses into account, the net on the over-all shows a loss of $18,000,000. With the loss out, it is $11,000,000.

Mr. HENRY KAISER. With the loss out on the steel plant, which there seems to be a lot of question about, but which is there.

Mr. MCCONNELL. What did you make from shipbuilding, leaving out the losses?

Mr. Cox. Completely forgetting the losses on the steel plant, the profits on shipbuilding after taxes were $11,000,000 for Kaiser Co., Inc.

Mr. Cox furnished the following information on November 12, 1946:

For all four Kaiser-managed companies—Kaiser Co., Inc., Permanente Metals, Oregon Shipbuilding, and Kaiser Cargo—theoretical earnings on shipbuilding, without regard to actual losses on other operations, and after theoretical Federal income taxes, would have been about $40,000,000. Of that theoretical amount, the theoretical share of the Kaiser interests, based on their stockholdings in those companies, would have been about $16,000,000.

Mr. MCCONNELL. That is after taxes?

Mr. HENRY KAISER. After taxes.

Mr. MCCONNELL. What were your losses on the steel? I would like to put them alongside of this.

Mr. Cox. The losses of $59,000,000 on the steel are shown. But if you take that loss into account you have to subtract $29,000,000 of taxes which you would not have to pay, because you have to pay taxes only when you have a net income. You do not have to pay taxes when you have a net loss, which was the actual fact in the Kaiser Co., Inc. In the years other than 1941 there were no Federal income taxes payable because the operations of this one company under the law, and lawfully permitted, were to take the steel operations and ship operations, and there was a net loss in each of those years. If you exclude the losses, which is what you asked for, then the taxes would have been $29,821,712.27.

Mr. MCCONNELL. That is the complete figure for the shipbuilding?

Mr. COLES. Is that for the one company or for the 4 companies?

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Mr. Cox. For Kaiser Co., Inc.

Mr. HENRY KAISER. Without any loss, and before taxes.

Mr. McCONNELL. You did not have any loss in the shipbuilding. You had it in connection with steel and magnesium.

Mr. Cox. That is on the assumption that we would have paid taxes on Kaiser Co., Inc., which is not the case in fact.

Mr. McCONNELL. You have stated the losses alongside of it. You have named the losses, I understand, here.

Mr. Cox. That is right.

Mr. McCONNELL. Now can we have, about that same place, how much was put into this whole enterprise? Can that be worked out?

Mr. Cox. Yes, sir.

Mr. HENRY KAISER. Do you want the bank loans included in it?

Mr. McCONNELL. How much did you personally, and the companies, put in? I would like to have that, separated.

Mr. HENRY KAISER. You would have to get the percentage. That is kind of a problem.

Mr. Cox. We would have to supply that for the record, but it is the Kaiser percentage of $32,000,000. You would have to do it comparably with this, by taking each company in terms of the Kaiser Co. interest in it. We can do it in about 2 minutes, approximately.

Mr. McCONNELL. All right; let's have it approximately. We will put it side by side with the profits, the losses, and how much they put in.

Mr. Cox. A simple answer to the question of Representative McConnell is, the capital investment of the four Kaiser companies in the shipyards that have been testified about here today, proportionately, out of the $32,000,000, is $19,050,000, in round figures. For Kaiser Co., Inc., the losses on the steel plant were $59,712,436. If the losses are not accounted for, of the steel plant, then as against the entire figure of $46,000,000 that I have testified to, the $29,000,000 for taxes should be subtracted, because they were not in fact paid but had been calculated in the prior figure. So that if the losses are taken into account as against the shipbuilding profits, they are larger than the profits.

Mr. McCONNELL. The losses are larger than the profits?

Mr. HENRY KAISER. They would overtake the profits.

Mr. McCONNELL. If you take the steel operations and the magnesium operations.

Mr. HENRY KAISER. That is right.

Mr. McCONNELL. I thought you were going to tell me how much was put into this enterprise originally.

Mr. Cox. The Kaiser Co. proportion in operating capital, of the $32,000,000 put up, was $19,059,000, in round figures.

Mr. McCONNELL. You mean you started in this whole enterprise with $19,000,000?

Mr. HENRY KAISER. No. They added that as working capital.

Mr. McCONNELL. A lot of that was purely borrowed money, like from the RFC or banks?

Mr. HENRY KAISER. This includes capital borrowed from the banks, but not the RFC. It includes capital stock contributions and loans by stockholders, as well as commercial bank loans. But it excludes all RFC. That is the Kaiser proportion.

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Mr. McCONNELL. Exclusive of bank loans, exclusive of all loans, how much was put in? Then we will have it all together.

Mr. Cox. We will refigure that for you.

Mr. HENRY KAISER. You admit we have to have the loans to do business.

Mr. McCONNELL. We have the figures with the loans in. Now I would like how much you put in without borrowing; how much came from your actual ownership originally.

Mr. Cox. The proportion of the four Kaiser companies' contributions in capital to the four corporations which were testified to is, in approximate figures, about $2,000,000, and I would like to just add one note.

Mr. HENRY KAISER. $1,978,000.

Mr. Cox. We have calculated these very quickly, and I think in the interest of accuracy, while they are substantially correct, they ought to be cross-checked. It does not include operating capital in the form of bank loans or RFC loans.

Mr. McCONNELL. This is exclusive of any bank loans or RFC loans or loans of any description. Would that be correct?

Mr. Cox. No.

Mr. McCONNELL. There are loans in here?

Mr. Cox. They are stockholders' loans, the same in effect as capital stock.

Mr. McCONNELL. You are speaking of the loans Mr. Kaiser made to these companies as a stockholder of the company? He took his own money and loaned it to these four companies?

Mr. Cox. That is right.

Mr. HENRY KAISER. One thing I cannot give you. I never have charged any overhead of our home office to any of these companies, and I cannot give you what that cost it. That is a large investment. In addition to that, we have some other losses. We operated Brewster, for instance, for 7 months without any fee. We were offered it. The Navy insisted we take it. We did not take it. There is additional capital that went into this that is not accounted for at all.

Mr. McCONNELL. Coming back to the $16,000,000, approximately, of profits, from four Kaiser companies, is that after taking into consideration the percentage of your stock ownership in these companies? It is not 100-percent owned.

Mr. Cox. Yes.

Mr. McCONNELL. You are just taking your proportionate share in those companies?

Mr. Cox. That is right, of the Kaiser companies.

Mr. McCONNELL. Those companies made much more money than would be indicated by the $16,000,000 profit?

Mr. Cox. Yes. For example, to give you an illustration, in the case of Permanente Metals, in 1941 Todd Shipbuilding had a 50-percent share, so that could hardly be called a Kaiser or Kaiser family profit. Correction—I think they had in Permanente 35 percent, and in Oregon 50.

Mr. McCONNELL. In other words, can we boil it down a little like this: Into the four companies the Kaiser family put approximately $2,000,000?

Mr. Cox. That is right.

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Mr. McCONNELL. The profits that they made on shipbuilding totaled approximately $16,000,000.

Mr. COX. That is a purely theoretical figure, because you cannot spend a loss.

Mr. McCONNELL. I am going to get to your loss. I am trying to separate these things.

I will reiterate. The Kaiser family put into the four corporations approximately $2,000,000.

Mr. COX. Right.

Mr. McCONNELL. They made profits in the shipbuilding end of $16,000,000, approximately.

Mr. COX. Right.

Mr. McCONNELL. And they showed losses of how much on the steel and magnesium?

Mr. COX. They showed losses on steel of $59,000,000.

Mr. McCONNELL. And what on magnesium?

Mr. HENRY KAISER. You want the Kaiser proportionate loss?

The CHAIRMAN. The hour of five has arrived.

Mr. McCONNELL. I would like to finish just this one part.

Mr. COX. The total loss on magnesium operations was $28,454,000, of which the Kaiser Co.'s share was approximately $5,290,000.

Mr. McCONNELL. In other words, the Kaiser loss, then, from magnesium operations, was $5,000,000, approximately?

Mr. COX. Yes.

Mr. McCONNELL. All right. Let's have the steel.

Mr. COX. $59,712,000.

Mr. McCONNELL. That is not Kaiser's share.

Mr. COX. That is 100-percent owned.

Mr. McCONNELL. Are you solvent, then, Mr. Kaiser? All right; check that out.

Mr. COX. When you take the steel loss into account, then you have to make one adjustment, which I think is a little complicated, but at the same time it should be cleared. That is, there was $29,000,000 of taxes computed, disregarding the losses, which is a theoretical calculation. Taking the $59,000,000 in, that is the equivalent of an $18,000,000 loss for Kaiser Co., and no taxes except in 1941 were paid, because no taxes are payable in fact and in law when there is a net loss.

Mr. McCONNELL. What are theoretical losses? In a practical manner, how do they affect you?

Mr. COX. This is a real loss.

Mr. McCONNELL. I thought you said it was a theoretical loss.

Mr. COX. A theoretical tax, not a theoretical loss. You wanted to compare two things. I think you have clarified this a great deal. What was the income of the Kaiser Co., for example, on ships only?

Mr. McCONNELL. Yes.

Mr. COX. Without taking steel into consideration, or magnesium. Now, the total gross was $41,000,000, and if you had disregarded steel loss, then you would have had to pay a tax of $29,000,000. But that is not in fact what happened. What in fact happened was that you had a gross of $41,000,000 from ships and a loss of $59,000,000 on steel, or a net loss of $18,000,000. Now, when you have a net loss you do not, in fact, pay taxes, because they are not payable under law, so that in effect no taxes have been paid, except in '41, by Kaiser Co.,

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Inc., and there is a claim for a refund there which has not yet been determined by the Bureau of Internal Revenue, but for the years '42, '43, '44, '45, and '46, the company showed a loss in each of those years, and there were no taxes payable and there were none in fact paid, because there was no net income.

The CHAIRMAN. Is the question answered?

Mr. McCONNELL. Well, it is not entirely answered, Judge, but I have enough figures to work with over the next day or two. It is clearer now than it was to me a little while ago.

Mr. COX. If we can help in any way——

The CHAIRMAN. I would suggest that you get together with counsel.

Mr. COX. It has been clarified a great deal already, and if we can get any other figures for you, we will be glad to do it.

The CHAIRMAN. Gentlemen, the committee stands adjourned until 10 o'clock tomorrow morning.

(Whereupon, at 5:10 p. m. the hearing was adjourned, to reconvene on the following day, Wednesday, September 25, 1946, at 10 a. m.)

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INVESTIGATION OF SHIPYARD PROFITS

WEDNESDAY, SEPTEMBER 25, 1946

HOUSE OF REPRESENTATIVES,
COMMITTEE ON THE MERCHANT MARINE AND FISHERIES,
SUBCOMMITTEE TO STUDY SHIPYARD PROFITS,
Washington, D. C.

The subcommittee met at 10 a. m., pursuant to adjournment, Hon. Schuyler Otis Bland (chairman) presiding.

Present: Representatives Bland (chairman), Hand, Keogh, Bradley, Weichel, Herter, and McConnell.

Also present: Marvin S. Coles, general counsel for the committee; Nathaniel C. W. Gennett, Jr., associate counsel; Frederick M. Jones, assistant counsel; Reginald S. Losee, chief investigator.

The CHAIRMAN. Gentlemen, I regret the delay because of a conference I have been having in connection with committee matters and otherwise.

We hope that we may be able to finish with Mr. Kaiser as soon as possible. We have a number of other witnesses who have come from out of town to be heard. I want to give everybody an opportunity to be heard, if I can, before Friday night. I am compelled to leave on the boat at 6 o'clock Friday night. We will adjourn the hearings at 5 o'clock on Friday.

It is possible that the hearings will be resumed later, but I doubt that further inquiry or hearings will be resumed until after the election, because many of the members of the committee have opposition. I have opposition myself. Whether it be formidable or not I do not know. They want to conduct their campaigns, and I want to give them an opportunity to conduct their campaigns, the Republicans as well as the Democrats. I think there is probably less opposition to the Democrats than some of the others.

But what I am anxious to do is, by the best method possible—and if I am not following it I hope that the members of the committee may feel free to make their suggestions to me, because Heaven knows that I desire to get all of the facts fully—to get the facts and nothing but the facts, so that we may prepare a report, if possible, at this Congress. If it is not possible, why, then, it is in the lap of the gods as to what the Congress chooses to do. This committee has a responsibility, and I am trying to discharge that responsibility. It is no more pleasure to me than it is to many of you gentlemen to be here at this time, rather than resting for the next session of Congress.

Mr. KEOGH. May I inquire of you as to the probable order of witnesses following the present one?

The CHAIRMAN. I will have to ask you to refer to Mr. Coles, counsel, on that.

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Mr. COLES. We had intended to take all of the companies related to the Kaiser group next, which would be California Shipbuilding, Walsh-Kaiser, and then Marinship, which is very indirectly related, as will be shown. However, we have certain commitments to people who have come from a great distance to get them off the stand today so they can return. They have plane reservations, so I think we will take California Shipbuilding, Marinship, and J. A. Jones Co., and the Todd people, and then run down the list.

Mr. KEOGH. Today?

Mr. COLES. I have hopes.

The CHAIRMAN. We have started holding from 10 to 5. If necessary, I will hold later, but I do not feel like punishing the members of the committee by going on later than 5 o'clock, or punishing the representatives of the press who are here. I am trying to work this to the best advantage of all of us. I know that we cannot complete now, but as much of the information as is brought out in hearings such as this will form the basis of further study by counsel and those who are conducting the investigation, trying to learn what the facts are.

When we concluded our hearings yesterday, Mr. Herter and Mr. McConnell had asked to be recognized in the time that belonged to Mr. Weichel, and Mr. Weichel had not finished his cross-examination. He now resumes his cross-examination.

However, Mr. Kaiser was about to make a remark, and I will give him an opportunity to make that remark or to ask me a question, at least.

TESTIMONY OF HENRY J. KAISER—Resumed

Mr. HENRY KAISER. In order to comply with your wishes and shorten the time, I will arrange to have our counsel, Mr. Cox, answer the various questions that your counsel has asked in writing, so that he will get them.

The CHAIRMAN. So far as he can, and the committee desires them to be answered personally, we will try to do it, and those that have been postponed we would ask to be submitted in writing, because it will undoubtedly be necessary for the committee to hold further hearings in November.

Mr. Weichel, you have the witness.

Mr. WEICHEL. Yesterday, Mr. Kaiser, with reference to Oregon Ship and Permanente Metals, with reference to their formation, you said that 10 corporations—and you named them—were the ones who had the idea to form Oregon Shipbuilding, and that they put in the original money. Is that true with reference to Walsh-Kaiser Co., Inc.?

Mr. HENRY KAISER. No; that is different.

Mr. WEICHEL. Were these 10 corporations in that?

Mr. HENRY KAISER. No.

Mr. WEICHEL. With reference to the Walsh-Kaiser Corp., is that the one that took over the shipyard at Providence, R. I., after the Maritime Commission threw out the Rheem Manufacturing Co.—and I mean threw them out?

Mr. HENRY KAISER. That is right.

Mr. WEICHEL. What was the name of that? Was it called the Providence yard?

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Mr. HENRY KAISER. It is all right to call it that.

Mr. WEICHEL. Rheem Manufacturing Co. contracted to build a yard and had a contract for some ships. They got half way through with one ship and probably finished one and then were asked to leave, and you were put in charge?

Mr. HENRY KAISER. That is right.

Mr. WEICHEL. What did you do when you came into that picture at Providence?

Mr. HENRY KAISER. Admiral Vickery called me, and he said that the yard was in terrible condition, and that the Liberty ship had cost 10 times what our ship had cost, roughly, or what our ships were costing, and asked if I would be willing to take over and take them out of the mud and get some ships out, and I said:

> Well, I am perfectly willing to do anything, Admiral, that you want done. That is going to certainly put an awful load on us, to try to do that, and I would have to get some assistance from some of the organizations that I have been working with, and I know an organization, the Walsh organization in New York, which is a very competent organization, which has done a large amount of construction work, and there was a tremendous amount of reconstruction in the yard, based upon what you say, and I would have to have our man make a study, together with Walsh, and make a report to you of the cost to put that yard in condition so it could produce ships fast and cheap—

which we did.

We then made a report to the Maritime Commission and told them what that yard would cost if they wanted to produce ships fast and cheap, and the Maritime Commission, I think, considered that for 2 or 3 weeks, and called us in. They said, "This is a lot of money."

We said, "Don't spend it if you don't think you want the ships, because this is a real problem for us. In the first place, Mr. Walsh will have to take his organization away from a lot of important work he is doing, and we will give him a few of our keymen to help him until he gets started. That is about all we can do. And we have one other concern here that is willing to go along and provide whatever key personnel is necessary to try to do the job"; but further than that, that is how we started in that yard.

Mr. WEICHEL. You just provided some key personnel for Walsh?

Mr. HENRY KAISER. Kaiser provided some key personnel. It was largely a Walsh organization.

Mr. WEICHEL. Then, was Walsh and Kaiser in on a 50–50 basis on that?

Mr. HENRY KAISER. I have the percentage here.

Mr. WEICHEL. I mean, was that you personally?

Mr. HENRY KAISER. My employees were in on 10 percent of it.

Mr. WEICHEL. Which employees, those in California?

Mr. HENRY KAISER. Yes. Henry J. Kaiser had 20 percent of it, and Kaiser Engineers, who did a lot of the engineering work—and they are mostly employees—had 10 percent, and the Walsh Construction had 50 percent, and Morrison-Knudsen, who do a lot of water work, and this was a very serious water job, had 20 percent.

Mr. WEICHEL. Walsh had 50, and the rest was divided up among the Kaiser group. Walsh had 50 percent, and the rest was divided up among your men.

Mr. HENRY KAISER. No; Morrison-Knudsen is not our group.

Mr. WEICHEL. Was he one of those 10 corporations?

Mr. HENRY KAISER. Yes; he was one of the 10.

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Mr. WEICHEL. One of the 10 that were in all the other set-ups?

Mr. HENRY KAISER. That is right.

Mr. WEICHEL. In view of the fact that the claim against Rheem was that the yard was costing too much, and when Rheem was before this committee he said one of the reasons they told him that he had to give up the yard was that it was costing too much for the construction of the yard. Did you not spend additional money for the construction of the yard?

Mr. HENRY KAISER. Oh, a great deal more—millions.

Mr. WEICHEL. So that the reason given to Rheem for taking him out, that he spent too much for the construction of the yard, was not the reason, if that is what they told him?

Mr. HENRY KAISER. The reason I was given was that the first ship—I think the records will show that the first ship cost them 3,000,000 man-hours—was too costly. Now, the average cost of the first ship was anywhere from 800,000 to 1,000,000 man-hours. That is the average.

Mr. WEICHEL. You mean the first ship cost 3,000,000 man-hours?

Mr. HENRY KAISER. The first ship of Rheem's.

Mr. WEICHEL. And the first ship made by anybody else?

Mr. HENRY KAISER. Our first Liberty ship cost 800,000 man-hours. Some of ours cost a million. It depends on circumstances. There was nothing like 3,000,000.

Mr. WEICHEL. In reference to the cost of yards and the cost of ships, we have had testimony here——

Mr. HENRY KAISER (interposing). In perfect fairness to Rheem, I want to say I don't know whether it was due to the condition of the yard that that first ship cost that much or not. I only know that it was no job that was attractive to us. I think you ought to let me say, this time, that all of these various yards that were built in different places were built with these groups when they came to us and begged us to do them. They had no other place to go, the same as the British. The British came over and spent 4 months and could not find a shipyard to do their work. Then they came to us as construction men and begged us to do this work, because of the fact that we had the background of experience.

I think it should be shown, and you should recognize yourself, Representative Weichel, that we did do the work cheaper than anyone on the average over all the others, and at a lower cost, and did save the country $250,000,000, and when you recognize that, had you been in charge I am satisfied that you would have done the same thing. You would have tried to save the $250,000,000 for the United States, and that is something that you should consider.

When you are talking about pure investment, God, if a man is going to save me $250,000,000, I don't care whether he has a dollar invested or not.

Mr. WEICHEL. You recognize profit on the basis of investment. That is fundamental, and that is how you pay taxes, based on what you have invested, and the cost, and what you receive is profit. You base that on cost and you do not base it on the percentage of what you made. In all your statements you say, "Well, it cost 1.3 percent of all the money that was spent." That is not based on cost. You do not base profit that way.

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Mr. HENRY KAISER. If a man came to you and said, "I have a dollar, and I will save you $250,000,000," and another came and said, "I have $10,000,000 and I will cost you $200,000,000," which would you take for the Government?

Mr. WEICHEL. This is in time of emergency and time of stress, when men had to go into the armed forces, and on the same kind of basis I do not think that anybody should say that he did not make any profit and that he bases his profit on a percent of what was spent, rather than on what it cost and what his investment was.

Mr. HENRY KAISER. Of course, you know the whole war was conducted on that basis. Every one of the departments conducted it on a percentage basis.

Mr. WEICHEL. That does not necessarily make it right.

Mr. HENRY KAISER. I am wholly in accord. If you want to reconstruct the method and put everybody in soup kitchens at the next war so that no one makes a dime, I am wholly in accord if Congress wants to adopt that policy. Now, unfortunately, I do not know of any other country that has ever won a war on any other policy but the profit system and the incentive system, and even Russia finally subscribed to that system. I do not know of any other system. But if Congress can find a system of soup kitchens that will take care of all of us——

Mr. WEICHEL (interposing). I do not believe we go into war to make profits for manufacturers. We went in there to defend ourselves.

Mr. HENRY KAISER. I do not believe that either, and the fun I am having now is after the war, getting started again, getting our people back to work. I agree with you 100 percent, and if you can find some way to stop war, and if you think it is the soup kitchens that will do it, I will be for it, too, if you can prove that by history.

Mr. WEICHEL. With reference to Kaiser Corp., Inc., were the 10 corporations you mentioned yesterday in on the formation of that company?

Mr. HENRY KAISER. Kaiser Co., Inc.?

Mr. WEICHEL. Kaiser Cargo.

Mr. HENRY KAISER. Oh, Kaiser Cargo. No. There was only the Kaiser Co., Kaiser Engineers, and Henry J. Kaiser, Morrison-Knudsen, and J. F. Shea. In that case I bought out an existing plant.

Mr. WEICHEL. They are part of that same original 10?

Mr. HENRY KAISER. Yes; that is right.

Mr. WEICHEL. And the rest of it is the Kaiser family or yourself, personally?

Mr. HENRY KAISER. Yes; but this is one in which I bought out an existing plant that had been in existence for 10 years, and again was not producing in accordance with the desires of the Government. I bought it out. We bought it out with our own capital, and then we turned over to it additional work that the Maritime wanted us to do.

Mr. WEICHEL. The Kaiser Cargo, Inc., operated a plant of its own?

Mr. HENRY KAISER. It operated a plant of its own and another plant.

Mr. WEICHEL. And it operated a Government facility?

Mr. HENRY KAISER. That is right—and a Government facility.

Mr. WEICHEL. That cost some $1,300,000?

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Mr. HENRY KAISER. That is right. It is the cheapest shipyard that was ever built.

Mr. WEICHEL. Out of that facility that company was paid $1,345,000 as a fee, according to the Maritime Commission, in this exhibit 1?

Mr. HENRY KAISER. I do not know.

Mr. WEICHEL. With reference to the Kaiser Co., Inc., were the 10 corporations in on the formation of that?

Mr. HENRY KAISER. No; just myself.

Mr. WEICHEL. Kaiser Co., Inc., is just yourself?

Mr. HENRY KAISER. Henry J. Kaiser Co., the family.

Mr. WEICHEL. On this list it is called "Kaiser Co., Inc." What is the name of that one?

Mr. HENRY KAISER. That is the name, but the stock of it is owned by the Henry J. Kaiser Co.

Mr. WEICHEL. That is the family?

Mr. HENRY KAISER. Yes; that is right.

Now, do you want to know why that was formed?

Mr. WEICHEL. Now, with reference to the California Shipbuilding Corp., how many of the 10 corporations that you mentioned before were in on that?

Mr. HENRY KAISER. I would appreciate it if you would ask the California Shipbuilding Corp.

Mr. WEICHEL. I am asking you.

Mr. HENRY KAISER. I do not have that information. I do not have that information here, and the president of the company is here.

Mr. WEICHEL. Were any of the 10 companies that you are interested in in on the formation of this?

Mr. HENRY KAISER. I can get the information over here.

Mr. WEICHEL. No; with reference to yourself.

Mr. HENRY KAISER. Were they interested in my interest?

Mr. WEICHEL. With reference to you. What part did you have in the formation of it, you and the various companies or corporations in which you were interested?

Mr. HENRY KAISER. I subscribed to my proportion of the stock. Here is a record that shows it.

Mr. WEICHEL. Did you participate in the formation of the company, as you did with reference to these other companies?

Mr. HENRY KAISER. You could say "Yes," and you could say "No." I think they feel that they did it. I think you should give them that credit. I think they did do it. I think they did a magnificent job in the production of ships.

Mr. WEICHEL. With reference to these 10 corporations——

Mr. HENRY KAISER. I do not suppose I was in the yard over two or three times in my life.

Mr. WEICHEL. With reference to the 10 corporations that you have mentioned, who put in some money covering the formation of five of these companies? Did any of those 10, or affiliates or subsidiaries or groups controlled by these same people, have anything to do with building any of the yards? Did they receive any money for doing any work or providing any material for any of the yards that these six companies operated, these Government-owned yards?

Mr. HENRY KAISER. I do not know. That is 5 years. I think the records will show that. I think it is comparatively small. It is a fraction of the volume of work, if they did any.

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Mr. WEICHEL. To your knowledge, did the stockholders of any of these 10 corporations you mentioned, or their affiliates or subsidiaries, or any of those receive any money with reference to the building of any of these yards for service work, material, or anything else, of any kind or description, on the yards?

Mr. HENRY KAISER. I think it is a fraction if they did. The records will show that. It has all been approved by the Maritime Commission and accepted by them. They were all competitive bids, in the majority of cases, and anywhere you could get anything done you did in the war.

The sad thing about this is that we are forgetting that we had to win a war. We are forgetting what was necessary. We are forgetting the dead man who was practically crucified in the winning of this war, Admiral Vickery. We are forgetting his efforts and what he did, and how he worked to get these ships built. He made a lot of mistakes that you have not even brought up, not in connection with us. But he made the greatest success, and he will go down in history. But he will be crucified, I guess. He was.

Mr. WEICHEL. Now, with reference to these 10 corporations that you mentioned, that put in some money and formed these five corporations that operated these Government yards, and which with California Shipbuilding received some $190,000,000 in fees without those companies having any investment whatsoever in the yards, you testified yesterday that they were companies that were engaged in the general construction business, with the exception of Todd Shipyard and a man by the name of Shea, who built several ships during World War I.

With reference to Todd, you set forth a percentage of around 50 percent. That was for the Todd Shipyard experience in building ships?

Mr. HENRY KAISER. No. I think I should explain these percentages to you this way. This is customary over the past 30 years in my experience. We have built work in Cuba, we have built work everywhere, on the basis of any 1 of 20 or 30 associates that I have, that have gone into projects on the basis of the percentage of risk and money they wanted to take in it. There is not one of them that would have gone into any one of these projects if they thought they were going to take bank loans, for instance, that they could not pay back. They have gone in on a percentage.

Now, Todd wanted 50 percent. That was the reason he got 50 percent. He wanted it.

Mr. WEICHEL. They were the people who had some experience in building ships, were they not?

Mr. HENRY KAISER. Yes; they did have.

Mr. WEICHEL. The rest of them did not have any experience in building ships.

Mr. HENRY KAISER. I gave testimony here yesterday that they did. You do not want me to repeat that, do you?

Mr. WEICHEL. They had 2 years' experience, and Shea built some in World War I.

Mr. HENRY KAISER. I would like to rely on the testimony I gave yesterday.

Mr. WEICHEL. Can you not give it again today?

Mr. HENRY KAISER. Yes; if you want me to repeat it.

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Mr. WEICHEL. Todd was 50 percent. They were the people who had some real ship experience, were they not?

Mr. HENRY KAISER. They, and the General Construction, and J. F. Shea. J. F. Shea was in the former World War on a long-time basis.

Mr. WEICHEL. He built a few ships during World War I?

Mr. HENRY KAISER. You say a few. He built quite a percentage with Tuohey. J. F. Shea was with both Skinner & Eadie, and they had a great reputation in the former war, and with Tuohey. Now, you can get Tuohey here and he will tell you the exact number of boats he built, and exactly his experience. Unfortunately Charlie Shea is dead.

Mr. WEICHEL. Did the Todd people have more than Shea, or less?

Mr. HENRY KAISER. I question that, in shipbuilding. Todd's experience was in the former war, also in shipbuilding.

Mr. WEICHEL. Did they build them all through, from then down to this war?

Mr. HENRY KAISER. No. They went into the ship repair business.

Mr. WEICHEL. They went into the ship repair business?

Mr. HENRY KAISER. Yes. I don't know of any ships they built throughout between the wars. I think they felt they had had an unfortunate experience. I think that is one of the reasons it was so hard for Admiral Land to hook them.

Mr. WEICHEL. Todd had the biggest percent in these companies, 50 percent?

Mr. HENRY KAISER. Yes; that is right—in these companies.

Mr. WEICHEL. His experience was considerable, you said, but that experience did not go along up to now in the companies at all.

Mr. HENRY KAISER. Well, the companies divided at that time. I am glad you brought this question up and I am sorry you did, but you are asking what experience was worth.

Mr. WEICHEL. Well, you got their experience. They were out of business in 1942 and '43 and '44 and '45.

Mr. HENRY KAISER. No, no.

Mr. WEICHEL. You bought them out when—in '42, did you not?

Mr. HENRY KAISER. But they were not out of business. Just a moment.

Mr. WEICHEL. You bought out their interest in these companies?

Mr. HENRY KAISER. In those yards, and we sold our interest in other yards that we had with them.

Mr. WEICHEL. But you say you bought them out in these particular ones that we are all talking about here in 1942?

Mr. HENRY KAISER. That is right.

Mr. WEICHEL. So that in '42, '43, '44, and '45 their experience was not in these companies at all.

Mr. HENRY KAISER. That is right.

Mr. WEICHEL. On which these great fees were received.

Mr. HENRY KAISER. That is right.

Now, the results were these. After that, Todd went alone and we went alone. The records will show the experience of the two companies, and which saved the Government the most money, and it might be well for you to look that up, and that will answer your question, because our costs were very much lower than those costs in the yards that Todd took over. I am glad you brought up the point, but I am

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sorry to be able to constantly say we saved so much money, and that investment has nothing to do with it, but that proves again that investment is not the criterion which makes the money for the Government.

Mr. WEICHEL. Investment has nothing to do with the profits you get. Is that the way you state it?

Mr. HENRY KAISER. Absolutely. Investment is not the criterion. It is what you save, how you reduce the cost. The people are interested in how little it costs them, not in how much it costs them.

Mr. WEICHEL. The public are not interested in how much? They are not interested in $190,000,000-some that you got?

Mr. HENRY KAISER. I have just said this to you again, that for the public, as a Representative, if you can save them money you should.

Mr. WEICHEL. But you should not have to give away some $190,000,000.

Mr. HENRY KAISER. If you had a balance in their favor you might.

Mr. WEICHEL. Not to that tune.

Mr. HENRY KAISER. Well, if you do not want to save them that money, that is another story.

Mr. WEICHEL. In other words, your idea of saving them money is to give it away?

Mr. HENRY KAISER. You would soak the public rather than give them money?

The CHAIRMAN. I do not think that the committee will be interested in the respective philosophy of the witness and the gentleman. It is facts we are after now.

Mr. WEICHEL. With reference to the Richmond yard No. 3, it has been rumored, and someone has asked me with reference to it, so I ask you, do you know anything of the burial of hundreds of thousands of dollars' worth of material in the Richmond yard with concrete? Did you ever hear of that story? Did you ever hear of it?

Mr. HENRY KAISER. I never heard of any burial of material. I have never heard of it being buried, but there is a story about warehouses being filled with material, if that is what you are thinking of.

Mr. WEICHEL. I am talking with references to the Richmond yard. There is a story that it was buried in the ground and covered up. You never heard of anything like that?

Mr. HENRY KAISER. No; I certainly did not.

Mr. WEICHEL. That is was put down there and covered with concrete. Did you ever hear that?

Mr. HENRY KAISER. No; and I think the Maritime Commission ought to be asked about that. They had 200 men there all the time watching that, and if they did not report that material was being buried and concrete put on top of it, something should be done about it.

Mr. WEICHEL. Some people would like to know, and I asked you if you knew anything about it. You never heard of it?

Mr. HENRY KAISER. I never heard of it.

Mr. WEICHEL. So if any engineer employed at Richmond plant No. 3 makes that statement, it is untrue? I mean, you never heard of it?

Mr. HENRY KAISER. I have never heard of any such thing, and I could not believe it could be true.

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Mr. WEICHEL. If any engineer at the plant who worked at the plant has made those statements, it is untrue?

Mr. HENRY KAISER. I would think so. I think the Maritime Commission would immediately expose it.

Mr. WEICHEL. I am not so sure they would know.

Mr. HENRY KAISER. They had 200 men there. There was not just one. They had a series of constant inspections and investigations.

The CHAIRMAN. I think that has all been gone into very fully.

Mr. WEICHEL. In March 1944 there were some hearings before this committee with reference to the matter now under consideration, and at that time committee Document No. 57 showed that there was $228,000,000 paid to the 19 ship contractors, among which your companies were named as in this exhibit, which now shows that $356,000,000 in fees was paid. There was a hundred and some million paid since the time of that testimony. The same companies are in this exhibit 1 and also in this exhibit 2, or whatever number they gave it, which is committee Document 57. This shows the same companies, including the six in which it is claimed that you have an interest.

With reference to the fees that were received by your company for the operations of the California Shipbuilding Co., in which you say you have an interest, and Kaiser Co., Inc., operating the Portland yard, Richmond yard No. 3, the Vancouver yard, Kaiser Cargo, Inc., Oregon Shipbuilding Corp., Permanente Metals, and Walsh-Kaiser or whatever its name was at that time, Admiral Land testified that the column with reference to capital investment of the contractor did not mean that the contractor had any investment whatsoever in the Government yards, the yards that we are talking about in this investigation. He said that the land was paid for by the Government, the buildings were erected by the Government, the machinery was installed and paid for by the Government; all labor in building ships was paid for by the Government; all material was paid for by the Government, and the complete operation at the Government plant was paid for up to $25,000 per person, and he said that the fees were paid to the various ship contractors, the 19 in this group including your companies, without their having any investment whatsoever in these Government yards, and that the payment was made not on the basis of any investment whatsoever, so that the fees that were so paid at that time, $254,000,000, and $356,000,000 now, would be profit without any investment in the yards on the part of the ship contractors. That is what Admiral Land testified to at that time. The only difference now is in the amount.

Would you say that that is correct?

Mr. HENRY KAISER. No; it is not correct, but I do not want to comment on his testimony. You have all the information here in great detail. I think you can refer to that.

The CHAIRMAN. Would Mr. Weichel give me the page number of that testimony?

Mr. WEICHEL. It is in the hearings entitled "Shipyard Profits" and it is on pages 32 and 33, especially, and all through the hearings where the admiral testified.

Mr. HENRY KAISER. My answer to that is in 160 pages or more of information, and we are going to furnish more.

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Mr. WEICHEL. I am just talking with reference to what the admiral said, that he paid that money without any investment by these ship contractors at all in the particular yards.

Mr. HENRY KAISER. Well, we told you yesterday we owned 100 acres of land. Probably the admiral was not thinking of that. I do not want to criticize the admiral.

Mr. WEICHEL. That 100 acres does not bear much relationship to this $356,000,000.

Mr. HENRY KAISER. I do not want to criticize his testimony. I do not want to say he was talking in general. I want to say we have the records here, and you can get the information from the records.

Mr. WEICHEL. I presume that this is a continuation of the hearings on shipyard profits, and that this will all be introduced and made a part of the record, these previous hearings at which Admiral Land testified.

Mr. COLES. I understood the chairman so ruled the first day, Mr. Weichel.

Mr. WEICHEL. Yesterday, Mr. Kaiser, you were speaking with reference to the formation of these corporations, and how, because of yourself, the credit of these corporations stood very high, because of you and your associates. And I said something with reference to the fact that only the moneys or property of the corporation would be liable for anything.

With reference to your saying that your background and your credit loomed large in your estimation, I just wanted to call to your attention that in two of these corporations, the Oregon Shipbuilding and the Kaiser Co., Inc., in the articles of incorporation, so that the individuals involved would specifically not be liable even though they were liable in law, this clause appears [reading]:

> The private property of the stockholders shall not be subject to the payment of company's debts to any extent whatsoever.

So you specifically put that in the incorporation, and I was wondering how far you intended to be liable, or your credit, in view of the fact of what you had specifically stated in the incorporation papers.

Mr. HENRY KAISER. I think the fact that the banks are still loaning us millions indicates that they have confidence in us, on the same basis, in the postwar world.

Mr. WEICHEL. But, I mean, you did specifically put that in, that you would not be liable in any way, shape, or form?

Mr. HENRY KAISER. We are doing $6,000,000 worth of business a month in one of these companies now, which has no relation to the Government whatsoever.

Mr. WEICHEL. But you specifically put that in, that you would not be liable in any way?

Mr. HENRY KAISER. My son says that it is a general article, and I will make that statement, in articles of incorporation.

Mr. WEICHEL. You have it in two of these specifically. In the Delaware corporations you have it, and in the other ones you do not specifically have it.

Mr. HENRY KAISER. As a matter of fact, I have never seen the articles of incorporation. I do not look at them.

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Mr. WEICHEL. That is all.

The CHAIRMAN. Mr. Keogh?

Mr. KEOGH. No questions.

The CHAIRMAN. Mr. McConnell, have you any further questions?

Mr. MCCONNELL. No.

The CHAIRMAN. Have you any further questions, Mr. Herter?

Mr. HERTER. No.

The CHAIRMAN. Mr. Hand, have you any further questions?

Mr. HAND. No further questions.

The CHAIRMAN. Mr. Kaiser, Mr. McConnell wants to ask you some further questions. Thank you, Mr. Weichel.

Mr. MCCONNELL. Mr. Kaiser, would it be correct to say, in approching this question, for the sake of the public, that, considering the total volume of contracts with the United States Maritime Commission as being $4,019,256,000, that was taxpayers' money for which they received a certain number of ships? What, in addition to the number of contracts which you received, was put in by the Government? Did the Government build ways?

Mr. HENRY KAISER. Yes.

Mr. MCCONNELL. They did? Do you have the figures on that?

Mr. HENRY KAISER. That is Government facilities, now?

Mr. MCCONNELL. Yes.

Mr. HENRY KAISER. Yes.

Mr. MCCONNELL. I would like to add that to the contract. I would like to know how much public money went into this enterprise for which they received on the other side so many ships. That is one way we might consider this thing. The public put in so much money. They received in return so much. I would like to see if we can work something out in that direction.

Mr. HENRY KAISER. I believe, to the best of my knowledge, with regard to the shipyards themselves, the public put in more money into housing. They put $125,000,000 into shipyards. Do you want the housing? I had better not include the housing, because it is not all for shipbuilding.

Mr. MCCONNELL. Do you have a percentage?

Mr. HENRY KAISER. It is $33,000,000 in housing, but I do not have it broken down.

Mr. MCCONNELL. Part of that $33,000,000 was in connection with your shipbuilding operations?

Mr. HENRY KAISER. A large part of it; yes, sir.

Mr. MCCONNELL. Would you care to give an approximate figure?

Mr. EDGAR KAISER. Probably two-thirds of the housing was occupied by shipyard workers. That is a rough approximation.

Mr. MCCONNELL. About $22,000,000?

Mr. EDGAR KAISER. That is right.

Mr. HENRY KAISER. Then there is transportation, $2,800,000; miscellaneous, $1,200,000; and here is an item of repair facilities that the Navy put in. I presume you would want that, too, in the amount of $4,314,000. It is a total of $167,000,000.

Mr. MCCONNELL. That went in in connection with shipbuilding. That includes ways?

Mr. HENRY KAISER. Those are shipbuilding facilities, including the ways.

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Mr. McCONNELL. That would be in addition, then, to the $4,000,000,000—some of contracts?

Mr. HENRY KAISER. That is right. That is on 58 ways for 7 shipyards.

Mr. McCONNELL. That is the total amount of the people's money?

Mr. HENRY KAISER. And that is for seven shipyards. Those are the figures we have here, that we have furnished here.

Mr. McCONNELL. Now, would we not be correct in saying that the amount of RFC loans that are readjusted downward, or are not paid, should also be added to the amount of money the public puts in your enterprise?

Mr. HENRY KAISER. Not when you have the obligation of paying it back.

Mr. McCONNELL. Yes; but if they readjust it downward?

Mr. HENRY KAISER. If they readjust it downward, which I hope they will do, in order to adjust with the United States Steel, then it would be taken into account.

Mr. McCONNELL. Then you would have to adjust upward the cost of vessels to the people, is that not correct, because extra cost went into it. They did not get it back.

Mr. HENRY KAISER. It would not be charged to ships. If you are taking the over-all Government picture, that is true, but it would not be charged to ships. If you are taking the over-all Government picture, that is true, but if you do that, there were $18,000,000,000 worth of total facilities built. This is only a drop in the bucket of what was built with Government money.

Mr. McCONNELL. Not for you?

Mr. HENRY KAISER. No.

Mr. McCONNELL. I asked you what they built for you.

Mr. HENRY KAISER. Just this drop in the bucket—$167,000,000.

Mr. McCONNELL. But, you see, you borrowed a certain amount of RFC loans. Taking the amount you have set aside, I believe about $80,000,000 would be unpaid. You have set aside some $15,000,000. You paid $27,000,000; you put aside $15,000,000, leaving a net, if I recall, of a little over $80,000,000 that you have not paid back to the RFC.

Mr. HENRY KAISER. That is right.

Mr. McCONNELL. It is your loan, but if you do not pay some part of it back, it then becomes a loss right from the taxpayer, is that not correct?

Mr. HENRY KAISER. That is right, but you must understand that they already have a loss on a similar loan for ships of 80 percent of $200,000,000 in the United States Steel Geneva plant, which also furnished ships, see?

Mr. McCONNELL. Do you not think that we should ourselves delve into that, and make that comparison?

Mr. HENRY KAISER. Pardon me.

Mr. McCONNELL. I am asking you. I am referring to the Kaiser Co., now, and not to United States Steel.

Mr. HENRY KAISER. You are right; I am sorry.

Mr. McCONNELL. Am I correct, then, in saying that we have put in—when I say "we" I mean the taxpayers—over $4,000,000,000 in contracts, and facilities of $100,000,000-some, and we have received back 1,460 ships of all varieties?

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Mr. HENRY KAISER. You cannot charge the steel all against that. I know you want to be fair, and I appreciate how very kind and fair you have been in your questioning, and I want to be very clear in everything I say. The Fontana plant was a tremendous advantage in the producing of steel for shells. When we had that sudden shortage, no one anticipated it. Not only did they come to us and ask us to build shells right there, but we shipped steel East for shells, so you cannot charge all of that to shipbuilding. You would have to make some division from the shell standpoint, because that is an Army matter.

Mr. McCONNELL. But you see, Mr. Kaiser, in that summary I just gave I never mentioned anything in connection with steel. I did not mention the RFC loans.

Mr. HENRY KAISER. I thought you were adding the RFC loans.

Mr. McCONNELL. I said nothing about that on the second summary. I said that if you did not pay that back, that would have to be added also. We do not know whether you are going to pay it all back, because you are seeking to readjust it now.

Mr. HENRY KAISER. If it was not paid back, part of it would have to be charged to shell steel and other steel.

Mr. McCONNELL. And part to shipbuilding.

Mr. HENRY KAISER. And part to shipbuilding. That is right.

Mr. McCONNELL. In spite of that fact, you are taking the complete loss of that right from your shipbuilding profits. You are charging all the losses against your shipbuilding.

Mr. HENRY KAISER. But I could not do otherwise. In the event I got any credit on it at all, it would come back and be taxable.

Mr. McCONNELL. Mr. Kaiser, I have asked for the general cost of the production of ships. I do not have at the present time the average over the country. I have asked the Maritime Commission for it. I would like to bring it in later into this hearing. I want to mention it to you, in all fairness. I want to see whether the 1,460 ships that the public received were of reasonably fair value in consideration of the amount of money that they put out.

Mr. HENRY KAISER. I think you are very fair if you take the money that we have saved as compared with the average cost of all other ships, and get that. We have attempted to give only the Truman committee report, which made a very detailed study. We believe that we have made a tremendous saving in tankers, because we carried the tanker flag for months, and we believe we made a tremendous saving for the Government in C-4's over any other ships, but you must get the comparable ships, and we have tried to get the exact comparable ships.

In some cases our costs—in very few cases, where we built 2 or 10 ships—for instance, we started out with a tremendously low cost in the Vancouver yard, and we were going to make a tremendous record, and all of a sudden they threw in on us, which we objected to but we could not do anything about it, some LST's, some tankers, those big, long, flat tankers that go on the beaches, and they stopped our program entirely. Then we went to the air carrier, which was so essential, so that you have to take that into consideration when you make a comparison. You have to do the same thing for other yards, too.

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For instance, the Bethlehem-Fairfield were in a hot Liberty program, and we were competing with them, and then all of a sudden they threw some LST's at them, and that unbalanced their costs.

But this Truman committee report attempted to arrive at a fair valuation. They did through one year and they did through another.

The CHAIRMAN. While we have a great deal of respect for the Truman committee and for their conclusions, at the same time we have an obligation resting upon this committee.

Mr. MCCONNELL. Mr. Chairman, will it be possible to ask Mr. Kaiser to appear again at some later date if more facts are brought out?

The CHAIRMAN. It will certainly be the disposition of the Chair to bring in any witness desired by any member of the committee, and I would infer from Mr. Kaiser's presence here that he would be very glad to appear.

Mr. HENRY KAISER. I will be delighted. I welcome the opportunity, and I would be delighted.

Mr. HAND. Mr. Chairman, I wonder if I might ask the witness one or two questions.

Mr. Kaiser, do I gather from what you are saying that you feel that you and your companies are entitled to a fee or a profit which is based largely on the amount that you may save the Government in comparison with the operation of other companies?

Mr. HENRY KAISER. No.

Mr. HAND. On what basis do you feel that you are entitled to these rather large fees?

Mr. HENRY KAISER. In the first place, I do not like the words, "Mr. Kaiser, what are you entitled to?" I think we are only entitled to what the Government would give to others on an equitable basis. That is my answer, although I have never discussed fees and I have particularly avoided it with even the Government. I said, "I want to build the ships. You just simply do what you would do equitably, and that is all I care for."

I think we are only entitled to an equitable position. This is a free country, and all men are equal, and they should be treated in equity.

Mr. HAND. How would you base your calculation of the fees to which you are entitled, Mr. Kaiser? Are you basing it largely on a comparison of what was done with other companies, or how your operations compared with other companies?

Mr. HENRY KAISER. No.

Mr. HAND. Where do we get this figure of $192,000,000, or whatever it was?

Mr. HENRY KAISER. That is not my figure.

Mr. HAND. It is what you got, is it not?

Mr. HENRY KAISER. No; we did not get it. We went all over this last night. Those figures stand.

Mr. HAND. What was the fee based on? You must have had something to do with setting that fee.

Mr. HENRY KAISER. No; we did not have anything to do with it at all.

Mr. HAND. Nothing whatever?

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Mr. HENRY KAISER. No.

Mr. HAND. No interest in it?

Mr. HENRY KAISER. We did not have anything to do with it. You asked what we did about it.

Mr. HAND. Was the fee set entirely arbitrarily?

Mr. HENRY KAISER. No; the fee is set under the law. It was set first by the Maritime Commission and then Congress came along, and under seven points set up a Renegotiation Act by which all fees should be renegotiated. Those are the fees we will get. We have nothing to do with that. The renegotiation officer does that.

Mr. HAND. You said some time ago in your testimony, and I am inclined to some extent to agree, that fees and profits should not necessarily be based in a situation like this on capital investment, and I understood you to say a moment or two ago that you thought you were entitled to consider these fees because of the amount of saving that you made through your efficient operations as compared with other operators.

Mr. HENRY KAISER. Just to give you an illustration, the Government did set that program up. The Government set up a basis of fees where they allowed an additional fee for all contractors where there was a fee, a penalty, and a bonus clause, and if you saved time they gave you credit for it and increased your fee. If you saved money, they increased your fee, and they made a contract with you—and with all yards—based upon a penalty.

We did get an increased fee as a result of that bonus and penalty, but the renegotiation officer, when he came in, took a great deal of it away. They did not keep that contract.

Mr. HAND. Would you say that as a result of what the Government set up and what the Maritime Commission set up, and what Congress set up, in many instances the formulas they adopted resulted in extravagant costs to the Government in the prosecution of the war, particularly in the building of ships?

Mr. HENRY KAISER. I cannot answer that question. That is a broad question. In every case, or are you referring just to us?

Mr. HAND. I would rather refer to you, because I would not expect you to know about the others.

Mr. HENRY KAISER. All right. Well now, so far as we are concerned, I have only one thing to say, that I must respect the laws and the intent of Congress, and whatever they expect, I must agree is the right thing.

Mr. HAND. I am not accusing you, Mr. Kaiser, of unlawfully taking something to which you are not entitled. I am trying to find out whether it was not an extravagant thing for the Government to do.

Mr. HENRY KAISER. I do not want to pass judgment. That is Congress' duty. That is what you are here for, to determine whether they did it. It is not my job to do that.

Mr. HAND. Have you ever considered, not as a shipbuilder but as a citizen and a very large taxpayer, the over-all cost of these things done by us as compared with how they did within other countries also prosecuting the war?

Mr. HENRY KAISER. I have considered it. I do not know of any better system. We won the war.

Mr. HAND. We are now concerned with whether or not the system might have been unreasonably extravagant.

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Mr. HENRY KAISER. That is right, and that is for you to determine. All I want to do is to see that you have the facts.

Mr. HAND. I think you referred a few moments ago to I forget how many scores of hundreds of millions as "a drop in the bucket." If the committee were to agree that that is a drop in the bucket, might we not gradually, with that philosophy, get the United States into a little bit of difficulty by thinking of hundreds of millions as "a drop in the bucket"?

The CHAIRMAN. I wonder again if we are not going into a philosophical discussion as compared with facts.

Mr. HENRY KAISER. As compared with $18,000,000, that is why I was saying that was a drop.

The CHAIRMAN. Mr. Weichel has suggested to me that he had omitted, inadvertently, certain questions he wanted to ask. Mr. Weichel.

Mr. WEICHEL. Did you or your group at any time have a brief prepared by attorneys covering the matter that you did not believe that your contracts should be checked by the General Accounting Office? Did you have such a brief prepared and sent in to the Maritime Commission?

Mr. HENRY KAISER. I would not know.

Mr. WEICHEL. And did you later submit a bill for reimbursement for attorney fees covering that?

Mr. HENRY KAISER. I would not know. I would not know to what you are referring.

(Exhibit 35 gives an additional written answer by Mr. Kaiser.)

Mr. WEICHEL. That would be a matter of policy with reference to these six companies and you would know, would you not?

Mr. HENRY KAISER. I do not know. If you have the records I will agree with anything the records show.

Mr. WEICHEL. I merely asked you if you knew.

Mr. HENRY KAISER. No; I do not know. I have an entirely different feeling, because they were in our yards and we asked them to be in our yards.

Mr. WEICHEL. You do not know. That is the important thing.

You said the other day that no member of your family had an interest in the Gilpin Construction Co.?

Mr. HENRY KAISER. That is right.

Mr. WEICHEL. Mr. Casey, of the General Accounting Office, made the statement that the Gilpin Co. is a wholly owned subsidiary of General Construction.

Mr. HENRY KAISER. I do not think it is.

Mr. WEICHEL. He made the statement that it was.

Mr. HENRY KAISER. He made a lot of statements that are not true.

Mr. WEICHEL. Do you dispute that one?

Mr. HENRY KAISER. I do not know. I could not find that out, myself.

Mr. WEICHEL. Do you dispute that the company owned 26 percent of the stock in the Consolidated Building, Inc.?

Mr. HENRY KAISER. I dispute that Gilpin did; yes.

Mr. WEICHEL. And that the company owned 100 percent of all the stock in the Oregon Shipbuilding Corp.?

Mr. HENRY KAISER. What company?

Mr. WEICHEL. Consolidated Building, Inc.

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Mr. HENRY KAISER. Let me get the gentleman straight. What company are you talking about?

Mr. WEICHEL. I will read it over to you again. Do you dispute the statement made by Mr. Casey of the General Accounting Office to the effect that the Gilpin Co. is a wholly owned subsidiary of General Construction Co., and that the company owned 26 percent of the stock in Consolidated Building, Inc., and that company owned 100 percent of the stock in the Oregon Shipbuilding Corp., and that both General Construction Co. and Consolidated Building, Inc., have been associated with you and your various corporations for a number of years? Do you dispute that statement made by Mr. Casey the other day?

Mr. HENRY KAISER. I dispute the statement that I know. I do not know who are the stockholders of Gilpin. I believe that there are a number and that they are, many of them, employees of the General Construction, but I do not know, and I have so stated here before——

The CHAIRMAN. All right.

(Exhibit 35 gives an additional written answer by Mr. Kaiser.)

Mr. HENRY KAISER. That you can get that information from the renegotiation people, because they were renegotiated.

The CHAIRMAN. That is all right.

Mr. WEICHEL. That is all.

The CHAIRMAN. Mr. Bradley?

Mr. BRADLEY. Mr. Kaiser, a few minutes ago, in answer to a question from Mr. McConnell, you brought up the question of participation of Fontana Steel Division in the manufacture of shells. Can you give me some general break-down, the percentage of Fontana's operations that went into the actual production of plates for steel, and how much of it went into ships? Is it 75, 25, or something like that?

Mr. HENRY KAISER. I think we can give it to you. It is during the period of shell production?

(Exhibit 35 gives an additional written answer by Mr. Kaiser.)

Mr. BRADLEY. If this loss should be figured back against ship production, I would like to know how much of it should be figured back to ship production.

Mr. HENRY KAISER. Plate production started in August 1943. There was no shell production up to that time.

Mr. BRADLEY. Plate production started in August of 1943?

Mr. HENRY KAISER. Yes.

Mr. BRADLEY. Most of your ships were actually built in 1943, were they not?

Mr. HENRY KAISER. Five hundred and forty-seven thousand tons of plate. This is wartime production. It was 135,000 tons of shapes. There were 94,000 tons of shell steel and 17,000 tons of bars. Now, they went into other products. I do not know how many of these different products they went into, you see. They allocated them, and you can get that from the War Production Board. That is the total tonnage.

Mr. BRADLEY. Roughly, about three-fifths of the production, then, went into ships, did it?

Mr. HENRY KAISER. No; I think more than that, because some of these bars and shapes went into other things that were vital, too, you see.

It would appear from the records here that there were 94,000 tons of shell steel and 17,000 tons of bars, 135,000 tons of shapes, 547,000

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tons of plates, with 1,200,000 tons of steel ingot over all, divided into these.

Mr. BRADLEY. It was a relatively small proportion, then, on shells?

Mr. HENRY KAISER. On shells. Now, where the bars went and where the shapes went, whether they all went into ships, I am not sure.

Mr. BRADLEY. I just wanted to get that, and then there is one more thing that I wanted to bring up.

Several times you criticized the figures given by Mr. Casey, which of course were the Maritime Commission's figures that he read in his opening statement.

Mr. HENRY KAISER. That is right.

Mr. BRADLEY. But I think you are a little unfair in your attack on him personally, because the very first question that Mr. Coles asked Mr. Casey was this [reading]:

> Are the views which you are going to express today the official views of the Comptroller General and the General Accounting Office?
>
> Mr. CASEY. The Comptroller General has read this prepared statement and says he agrees with it 100 percent.

So I think that any accusation against Mr. Casey personally for submitting wrong figures, saying those do not represent the official views of the General Accounting Office, is a little bit in error.

The CHAIRMAN. I doubt we are concerned with the attack on Mr. Casey. Mr. Casey is a very reputable gentleman, representing the Comptroller General, and we will pass on the facts as presented in the evidence.

Mr. McCONNELL. Mr. Kaiser, at what rate are you depreciating the steel company? At what rate are you writing it off?

Mr. HENRY KAISER. Now?

Mr. McCONNELL. No.

Mr. HENRY KAISER. We are now using a rate permitted by the Internal Revenue Bureau of 4 percent per year, approximately.

Mr. McCONNELL. How much have you depreciated so far?

Mr. HENRY KAISER. The figures are there.

Mr. McCONNELL. I do not know.

Mr. HENRY KAISER. I believe we testified to that yesterday.

Mr. McCONNELL. I do not recall that.

Mr. HERTER. Fifty percent, he said yesterday.

Mr. McCONNELL. About 50 percent has been written off?

Mr. HENRY KAISER. How much?

Mr. McCONNELL. Since when?

Mr. HERTER. You said about 50 percent.

Mr. HENRY KAISER. Yes; about 50 percent—47 percent.

Mr. McCONNELL. Since you obtained it? Since you bought it?

Mr. HENRY KAISER. How?

Mr. McCONNELL. That dates from the time you bought it?

Mr. HENRY KAISER. That is right.

Mr. McCONNELL. Up to now?

Mr. HENRY KAISER. That is right. We are questioning again, you see, that same question, whether it should not be written off 80 percent as the result of our competitors getting the plant at 20 percent.

The CHAIRMAN. I would suggest that if he would answer the questions without the witness injecting remarks, probably we would get along faster.

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Mr. HENRY KAISER. The provision here is for amortization, depreciation, and depletion, $45,927,360.

Mr. McCONNELL. And from now on you are depreciating it at the rate of 4 percent?

Mr. HENRY KAISER. That is right.

Mr. McCONNELL. Would you mind explaining again what was meant by "theoretical tax loss," referred to in yesterday's question?

Mr. HENRY KAISER. Mr. Cox could do it.

The CHAIRMAN. Mr. McConnell yields to Mr. Keogh?

Mr. McCONNELL. I yield to Mr. Keogh.

Mr. KEOGH. I want to get back to this depreciation. In any event, any depreciation that is taken is subject to review by the auditors of the Internal Revenue Bureau?

Mr. HENRY KAISER. Oh, yes.

Mr. KEOGH. All right.

Mr. HENRY KAISER. Absolutely.

Mr. COX. Mr. McConnell, the sheet which is in evidence here before the committee, for Kaiser Co., Inc., I think will demonstrate or clarify the situation which you have with respect to the theoretical taxes. The actual operations of the company as one company in fact included the production of steel for ships and other purposes, and the production of ships as a business operation. For the purposes of every legal provision I know, such as the Renegotiation Act, the Bureau of Internal Revenue, they set up the gross income, and deduct the expenses against that for pay roll, materials, capital-investment charges, such as the payment of interest and amortization, and then you subtract those for the operations of the whole company. They showed an actual loss, and therefore for tax purposes there was no tax paid in the years in which there was a loss.

Now, the theoretical computations which were required on the basis of the questions you asked yesterday were to assume what was not the fact or not the reality, and that is, that there was not a loss. The fact is that there was a loss, so that you only got to a theoretical computation of what the taxes would have been if you assumed the unreal fact that there was not a loss; but the actual fact, any accountant or any lawyer will tell you that you could not make up the real and honest books of the Kaiser Co. without showing the gross income, and the charges against that income, showing the net figure, which in this case in fact was a loss.

Now, that statement is before this committee, and I think if you look at the statement you will see pretty clearly. I think it would make it a little clearer. You may not have seen this sheet.

The CHAIRMAN. Anything further?

Mr. McCONNELL. I do not want to ask anything further.

Mr. COX. If you will look at that sheet, you will see it gives the number of ships delivered in each yard, the gross payments received in the form of fees, or income received from fixed-price contracts, the profits transferred from other shipyards, the amount of nonreimbursable and disallowed items for each yard, which are subtracted from the first gross figure, giving you the gross earnings on United States Maritime Commission yards contracts for each of the three yards, and the total. Then it has added the profits from shipyard operations other than United States Maritime Commission contracts, the iron and

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steel division losses, other corporate income, and the net loss for the five war years, accumulated to May 31, 1946, $18,579,040.26.

The CHAIRMAN. I am afraid the witness should bear in mind, I thought his original statement was very clear, and to make statements with reference to it, we get into confusion worse confounded.

Mr. COX. All right.

The CHAIRMAN. Any other questions you want to ask with reference to that, Mr. McConnell?

Mr. MCCONNELL. No.

The CHAIRMAN. Mr. Kaiser, the members of the committee are tired looking at you. I say that jocularly.

Mr. HENRY KAISER. Thank you.

The CHAIRMAN. I knew you were anxious to get away.

Mr. HENRY KAISER. Thank you very much. I want to thank the committee, as well.

The CHAIRMAN. We are very glad to have had you.

Mr. Coles, the next witness.

(Information furnished by Permanente Metals Corp., Kaiser Fleetwings, Inc., and Oregon Shipbuilding Corp., in response to the committee's questionnaire, was received for the record and marked "Exhibits 11, 12, and 13.")

Mr. COLES. The California Shipbuilding Corp.

The CHAIRMAN. Who is the man?

Mr. COLES. I think it is Mr. Bechtel. Mr. McCone.

The CHAIRMAN. Mr. McCone was sworn yesterday.

TESTIMONY OF JOHN A. McCONE, PRESIDENT, CALIFORNIA SHIPBUILDING CO.

Mr. COLES. Mr. McCone, for the purposes of the record would you give us your full name and title, please.

Mr. MCCONE. John A. McCone, president of the California Shipbuilding Co.

Mr. COLES. Do you have a prepared statement you would care to read, or would you prefer merely being asked questions?

Mr. MCCONE. No; if I may be permitted, I would like to read a statement.

The CHAIRMAN. You furnished, in response to inquiries, I believe, answers that have been submitted.

Mr. MCCONE. Yes. The California Shipbuilding Corp. responded to the inquiry of the committee.

The CHAIRMAN. The facts shown thereon become permissible testimony before the committee, and stand uncontradicted, unless challenged at the hearing.

Mr. MCCONE. As far as we were concerned, that is true; yes, sir.

The CHAIRMAN. All right.

Mr. MCCONE. The purpose of my statement is to give some additional information which I believe will be of interest to the committee, and probably of assistance in examining this matter.

In late December 1940 representatives of a group of western engineering and contracting companies and of the Todd Shipyards Corp., all of whom at that time were jointly interested in the ownership and

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operation of three shipyards in the United States, were asked by the Maritime Commission to meet in Washington to discuss the immediate construction of several emergency yards to be used for the building of merchant ships.

Terminal Island, Los Angeles, was selected by the Commission as one of the desired sites and the group formed the California Shipbuilding Corp. solely for the purpose of building the Terminal Island yard. Subsequently this same corporation was awarded contracts to construct ships in this yard.

The yard grew into one of the largest and one of the most successful of the Nation's emergency yards. It pioneered many of the processes of prefabrication and subassembly that later were accepted as standard by all yards. Many delivery records were established by Calship and costs of ships of all types were exceedingly low in comparison with other shipbuilders.

The stockholders entrusted the sponsorship and management of the yard to the Bechtel-McCone interests and the operating officers were selected from the W. A. Bechtel Co. and the Bechtel-McCone Corp. Contrary to impressions sometimes gathered, the yard was not at any time a Kaiser-managed operation. Mr. Kaiser and his companies never owned more than 16.6 percent of the stock of Calship.

The initial shipbuilding contracts between the California Shipbuilding Corp. and the Maritime Commission stipulated that the corporation should be provided with $800,000 of equity capital subscribed by its stockholders, either in the form of stock subscription or stockholders' loans, subordinated to all of the corporation's obligations including obligations to the Maritime Commission. And, in addition, the corporation should provide another $800,000 of borrowed funds, on which the Maritime Commission would not make interest reimbursement.

Both of these conditions were complied with; $100,000 was subscribed in the form of common stock and $700,000 as non-interest-bearing subordinated stockholders' loans. The Bank of America entered into an agreement with the corporation to loan to it the second $800,000 called for under the contract although this loan soon had to be increased substantially.

After a year's operation, the Todd Shipyards Corp. sold its 50-percent interest in California Shipbuilding Corp. A distribution of surplus was made by way of a dividend in order to facilitate Todd's withdrawal. The remaining stockholders accepted their distribution as a stock dividend and, moreover, loaned to the corporation as an additional subordinated loan, the sum of $500,000, thus replacing funds paid to the retiring stockholder. Therefore, after this transaction was completed, the capital structure of Calship was comprised of $600,000 of common stock and $1,200,000 of stockholder's loans, which were subordinated to all obligations of the corporation, including obligations to the Maritime Commission. I wish to emphasize at this point that subordinated loans of this character are in effect equity capital. Being subordinated, they could not be repaid until shipbuilding operations were completed. The action of the Calship stockholders in providing funds in the above amount far exceeded the contractual obligations imposed upon the corporation by the Maritime Commission with regard to subscribed capital.

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Concurrently, Calship was forced to provide additional capital necessary to finance work in process. This capital was provided through bank loans totaling $4,000,000. These loans were all the direct obligation of the corporation and I believe the character and business standing of the stockholders was the prime consideration of the bank's granting this extensive line of credit.

California Shipbuilding Corp. at no time sought or accepted advances from the Government on its contracts, nor did it arrange Government guaranties of its obligations through the medium of the V-loan. A large portion of the dividends paid out of profits, and on which taxes were paid by the stockholders, were in turn reloaned to the corporation in the form of aditional subordinated stockholders' loans for working-capital purposes.

Subordinated stockholders' loans reached the grand total of $2,700,000, which, together with $600,000 of stock, made a total of $3,300,000 of equity capital. To this must be added $4,000,000 of bank loans—giving a total of $7,300,000 of funds provided by the corporation for working-capital purposes.

The statement made by representatives of the General Accounting Office in Monday's meeting to the effect that the stockholders of the California Shipbuilding Corp. provided only $100,000 for the purpose of this undertaking is not consistent with the facts and I am happy to give the committee the above factual information. I repeat that not $100,000 was provided, but many millions were provided.

The facilities used by California Shipbuilding Corp. were built at Government expense. They were purely emergency in their character. They were built on land leased by the corporation from the City of Los Angeles Harbor Board with the understanding that the facilities would be abandoned and removed and the property restored to the Union Pacific Railroad at the conclusion of the emergency. At no time were the facilities considered as permanent, nor was it considered practical to use them for commercial purposes. Being strictly a war emergency plant, it was not within the province of private capital to provide such facilities, nor did the Commission suggest we do so. Similar emergency plants costing many billions of dollars and used for the manufacture of all types of war materials have been financed exclusively by the Government and operated by private enterprise.

The fees paid on all cost-plus-fixed-fee contracts and the profits earned under selective-price contracts were in accordance with schedules and formulas developed by the Maritime Commission, designed to afford incentive bonuses for rapid and low-cost production, and Calship's outstanding production record earned for them those bonuses. Very substantial reductions in the corporation's earnings resulted from renegotiation.

Facts relating to Calship profits differ from information given to this committee by representatives of the General Accounting Office on Monday and so reported in the press. The gross earnings of the corporation over a 5-year period, after renegotiation and recapture, were $35,541,880.60. Nonreimbursable costs incurred were $4,167,906.48, and taxes paid or accrued were $22,591,110.82, leaving a net after-taxes profit of $8,782,863.50, as contrasted with the $44,423,014 profit reported to you by the General Accounting Office. Net profits

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averaged $1,956,500 per year for the years 1941–1945, inclusive, and during this period the corporation continuously provided up to $7,800,000 for the conduct of this business.

Net profits were 0.89 of 1 percent on the $919,000,000 value of the 467 ships produced by the men and women of the California Shipbuilding Corp. Net profits amounted to less than 1.5 percent of the yard's costs for the work done by us, which figure excludes the value of materials furnished by the Maritime Commission or any other Government agency, or the cost of the facilities.

Those responsible for Calship are proud of its record. Year after year, operating three shifts per day, 7 days a week, we produced ships in unprecedented numbers and at low cost, and delivered them to the armed services when they were needed to carry the fight to the battlefields of the world. In doing so the stockholders placed in the service of the yard a vast number of executives, engineers, superintendents, and workmen, all of whom represented the real assets and resources of this western group. The skill and ability of these men and their sincerity of purpose in serving the country's needs produced the ships without which the war would have been lost.

The CHAIRMAN. Is that the conclusion of your statement?

Mr. McCONE. Yes, sir.

The CHAIRMAN. Mr. Coles, in interrogating the witness, please omit facts already shown by the inquiries and things of that kind. We want to proceed as rapidly as possible.

Mr. COLES. Mr. McCone, are the companies which were the majority stockholders in Calship basically the same companies that were the majority stockholders in the four yards concerning which Mr. Kaiser has testified?

Mr. McCONE. Yes, sir.

Mr. COLES. They are?

Mr. McCONE. I would like to read the names of those companies.

The CHAIRMAN. I think it would be better.

Mr. McCONE. There have been so many different companies, but the companies originally involved in the formation of the Calship were the Todd Shipyard Corp., the Henry J. Kaiser Co., the J. F. Shea Co., Inc., the W. A. Bechtel Co., the General Construction Co., the Kaiser Co., Inc., Bechtel-McCone-Parsons Corp., which incidentally for the record, the name has since then been changed by the deletion of the name Parsons, but it is the same corporation. The Utah Construction Co., Marrison-Knudson Co., Inc., MacDonald & Kahn, Inc., the Pacific Bridge Co.

Mr. COLES. When the company was first incorporated, $100,000 was paid in as capital stock; is that correct?

Mr. McCONE. That is correct.

Mr. COLES. Subsequently, by stock dividend, it was increased to $500,000; is that correct?

Mr. McCONE. That is right—about a year later.

Mr. COLES. And was that stock dividend a transfer of moneys from surplus out of profits into the capital-stock account?

Mr. McCONE. That is correct. Yes.

Mr. COLES. Now, you spoke also of the stockholders' loans originally of $700,000. Was interest paid on those loans?

Mr. McCONE. No; they were non-interest-bearing.

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Mr. COLES. When were they repaid?

Mr. McCONE. I think in December 1945.

Mr. COLES. You also spoke of other stockholders' loans which were paid and made out of dividends. Were those dividends declared out of shipyard profits?

Mr. McCONE. There was an additional loan of $500,000 of subordinated non-interest-bearing loans, which were not paid out of dividends but were additional subscribed capital that came from the stockholders from other sources.

Mr. COLES. And when were those loans repaid?

Mr. McCONE. Those loans were repaid during 1945, I believe.

Mr. COLES. How much money was lent from stockholders' loans paid out on dividends?

Mr. McCONE. There was a million and a half dollars made in the way of stockholders' loans out of dividends.

Mr. COLES. What was the total amount of your bank loans?

Mr. McCONE. $4,000,000.

Mr. COLES. And was interest paid on the bank loans?

Mr. McCONE. Interest was paid on the bank loans in excess of $1,400,000. The interest on the first $1,400,000 was not reimbursed by the Maritime Commission.

Mr. COLES. Was the interest on the other bank loans reimbursed by the Maritime Commission?

Mr. McCONE. On the bank loans in excess of $1,400,000, was reimbursed by the Maritime Commission. Now, may I add, therefore, the Maritime Commission did not reimburse interest on any stockholders' loans nor on the first $1,400,000 of bank loan.

Mr. COLES. What was the total cost to the Government of building your yard?

Mr. McCONE. Some $25,000,000. I think you have the figure.

Mr. COLES. Yes.

Mr. McCONE. The figure in that report is the correct figure.

Mr. COLES. How much of the moneys of your corporation were invested in the physical yard?

Mr. McCONE. Very little, very little.

Mr. COLES. Can you estimate what it was?

Mr. McCONE. I tried to get that figure so I would have it, but I did not get it; but it was a very small amount.

Mr. COLES. So that in effect all of the capital which you have spoken of was used to finance your operations pending reimbursement by the Government, is that correct?

Mr. McCONE. That is correct, and to finance corporate and operating expenses of a nonreimbursable nature.

Mr. COLES. But the nonreimbursements I think you stated were a compartively small amount of your contracts and profits, is that true?

Mr. McCONE. There were $4,100,000. That may be a small amount percentagewise, but it is a good deal of money.

Mr. COLES. Did your contract provide that your company would build the yard for the Maritime Commission, at the Maritime Commission's expense?

Mr. McCONE. Yes; I think that is correct.

Mr. COLES. Did it also provide that you would not be paid any fee or profit for the building of that yard?

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Mr. McCone. $1 or $2; but I do not think that we ever got it.

Mr. Coles. Who did the actual building of the yard?

Mr. McCone. The California Shipbuilding Corp. did a large part of it. The fact is they did it all, subcontracting specialty operations.

Mr. Coles. Did they subcontract part of their building to the Bechtel-McCone-Parsons Corp.?

Mr. McCone. They subcontracted the engineering to the Bechtel-McCone-Parsons Corp.

Mr. Coles. And that corporation was a major stockholder in Calship, was it not?

Mr. McCone. Yes.

Mr. Coles. What fee did they pay the Bechtel-McCone-Parsons Corp. for their engineering?

Mr. McCone. The understanding was that that work would be done at absolute cost. An estimate of the cost was made and a figure of $100,000 was agreed to.

Mr. Coles. As the cost or as a fee?

Mr. McCone. As the cost. There was no fee. Now, after the work was all completed, the Maritime Commission auditors reviewed Bechtel-McCone-Parsons' costs and renegotiated the amount, so that they determined to their satisfaction, and to ours, that the moneys paid to the Bechtel-McCone Corp. were representative of their cost, and cost only, for the work done, with no addition for general or administrative overhead or for profit.

Mr. Coles. Were any fees paid to subcontractors?

Mr. McCone. No; I do not think so.

Mr. Coles. Were any profits paid to subcontractors?

Mr. McCone. Oh, yes. There must have been.

Mr. Coles. Were any of the subcontractors affiliates of any of the stockholders in Calship?

Mr. McCone. No.

Mr. Coles. Now, the figures we have, to get through this rather rapidly, show that the total contracts of your company amounted to $990,000,000, and of those, $170,000,000 were selective-price and $216,000,000 were lump-sum. Were those selective-price or lump-sum contracts conversions from other forms of contract, or were they actually signed after certain ships had been partially or fully completed?

Mr. McCone. The contracts came in three classifications: One was cost-plus-a-fixed-fee contract, which were completed as cost-plus-a-fixed-fee contract. Then we entered a cost-plus-a-fixed-fee contract which was changed very radically during its operation, and the initial part of it was converted into a lump-sum contract after completion of the vessels involved. The balance of it was canceled and the vessels that were canceled were added to a subsequent selective-price contract by amendment.

Mr. Coles. At the time of the conversion was the price of the vessels known, or approximately known?

Mr. McCone. At the time of conversion to the lump-sum contract the price was known.

Mr. Coles. So there was no risk of loss on the lump-sum contract, was there?

Mr. McCone. No; and the earned fees were known, and the lump sum was arrived at by accumulating the cost and adding the earned fees under the fixed-fee contract.

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Mr. COLES. Now, were the cost-plus contracts, 79 ships, converted after 18 of those vessels had been completed, that you can recall?

Mr. McCONE. No.

Mr. COLES. It is a rather difficult question.

Mr. McCONE. No.

Mr. COLES. You cannot recall?

Mr. McCONE. Oh, I can recall. It was not done.

Mr. COLES. Now, of the total cost, I note that $389,000,000 worth of material was supplied by the Government, is that correct, or approximately correct?

Mr. McCONE. Where is the schedule? Yes; that is about right.

Mr. COLES. What was the total of the material and services furnished by the contractor?

Mr. McCONE. About 601 million.

Mr. COLES. Were you reimbursed for that $601,000,000?

Mr. McCONE. Yes.

Mr. COLES. Did that $601,000,000 include all material?

Mr. McCONE. My attorney says the answer to that question was, we were reimbursed, or it was allowed in cost in the selective-price contract.

Mr. COLES. Were you reimbursed, or were all labor costs reimbursed?

Mr. McCONE. Yes, yes.

Mr. COLES. And the interest on borrowed capital, over and above the $1,400,000 bank loans, was reimbursed?

Mr. McCONE. I believe that is correct.

Mr. COLES. Did any of your executives receive management salaries which were reimbursed by the Commission?

Mr. McCONE. The executives of our company that were engaged directly in the operation of the yard, allocating their time to the yard operations and thereby relieving themselves of responsibilities in connection with other operations, were reimbursed in a manner agreed to with the Maritime Commission.

Mr. COLES. And that was paid for with Government funds?

Mr. McCONE. That is correct.

Mr. COLES. Now, how long did it take normally before you were reimbursed for the money you had laid out?

Mr. McCONE. In the early days before procedures were established the delays ran as long as several months. After procedures were established and the Maritime Commission installed reimbursement officers on the west coast, and a few other things, the reimbursement cycle got down to about 3 weeks, I think.

Mr. COLES. Now, during that time, pending reimbursement, you were in the position of a creditor of the Government, much like a bondholder, were you not?

Mr. McCONE. Well, I do not know. We had a claim against the Government. I do not know the status of a bondholder.

Mr. COLES. And the claim against the Government was financed by the money which you had in the corporation, is that correct?

Mr. McCONE. That is correct.

Mr. COLES. I would like to ask the same question that I asked Mr. Kaiser, Mr. McCone: With material supplied by the Government or paid for by the Government, with labor paid for by the Government, with interest on borrowed capital over a certain amount paid for by the

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Government, with management salaries paid for by the Government, with nonreimbursables small and the period of waiting for reimbursement comparatively small, what were the fees and profits paid for?

Mr. McCONE. For building the ships. Now, I would like to reply to that question in this way: that during this war, and during the last war, also, it became obvious that the ships that were needed to win the war could not be built by the old, established shipbuilding industry. There is evidence on top of evidence of the fact that the established shipbuilding industry was not equipped prior to this war, nor were they equipped prior to the last war, to do the job. Therefore, the Maritime Commission was forced to call upon engineering contracting firms. About 75 percent of the entire ships of the maritime program and a great percentage of the Navy's program was handled by engineering contracting companies versus old-line shipbuilders. The same was true in the last war, and you will remember that the Stone-Webster Co., one of the outstanding engineering contracting companies in the United States, built and managed the Hog Island yard, which produced the substantial percentage of the ships during that war. Now, an engineering contracting company is a service company. They provide sufficient money to carry on their business, but they make their profit and they conduct their business on the basis of the service that they are able to offer. Their life in trade is not the money that they have in the bank but is the men and the experience and the know-how that they have, and it is that which the Maritime Commission employed. It was that which Admiral Vickery sought when he sought us, and it was that asset and that asset alone which made the shipbuilding program the success that it was.

Mr. COLES. Mr. McCone, are you not in effect saying that your company was the manager of a Government-owned yard, and this fee was a management fee?

Mr. McCONE. That is one way to put it.

Mr. COLES. Is it a correct way of putting it?

Mr. McCONE. It was more than that.

Mr. COLES. Would you explain in what way it was more?

Mr. McCONE. Well, yes. If you employ a management firm, he puts up no money at all; he puts up no organization at all. He steps in as an employee—a paid employee, really—and for a fee, does a service that a paid manager might do.

The CHAIRMAN. Let us get the facts. Do not argue about what the conclusions are. We can find those. The committee can find those.

Mr. McCONE. So it is not correct to say that this was purely a management fee.

Mr. COLES. It was management plus a return on investment, without risk, is that it?

Mr. McCONE. Plus the employment of a managerial ability and a great experience in technique.

Mr. COLES. Were those managerial salaries not reimbursed by the Commission as salaries?

Mr. McCONE. The job-management salaries were reimbursed, but no salaries were reimbursed at all for the vast amount of executive, planning, engineering, and managerial experience and talent that was devoting its attention to this program, and who were not on the job.

Mr. COLES. So that the $35,000,000 in fees after renegotiation but

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before taxes was paid for that super-holding-company management, is that your thought?

Mr. McCONE. Building the ships is what it was paid for.

Mr. COLES. Well, the thing that I cannot get is, the men in the yard who managed the yard and built the ships were paid salaries and reimbursed by the Commission. Now, I cannot see what the $35,000,000 after renegotiation but before taxes was paid for. I cannot see that, and I wish you would explain it, if you can.

The CHAIRMAN. Isn't that a matter of conclusion to be drawn by the committee rather than the witness?

Mr. COLES. I think so, Mr. Bland, but I thought that the witness's views would be helpful.

The CHAIRMAN. We want to get along. We do not want to waste time.

Mr. McCONE. Of course, may I add that you are overlooking in that line of thought the fact that a substantial percentage of the contracts done in this yard and other yards were on a selective price, which in effect was a fixed-price profit-limited contract on which the contractor took the full responsibility for any overruns.

Mr. COLES. And were those selective-price contracts not converted after part of the ships had been built, so that the approximate cost was known?

Mr. McCONE. No; I do not believe that is correct.

Mr. COLES. Could you give us a break-down of that, in which contracts were converted from different forms of ship contracts?

Mr. McCONE. Well, in the instance of Calship, 18 ships which were under construction were deleted from a cost-plus-a-fixed-fee contract and added to a subsequent selective-price contract, and at the time of that conversion the selected price on those 18 ships was used. Now, as a matter of fact, had those 18 ships been built under the fixed-fee contract, the fees earned on those 18 ships with the bonuses for delivery and man-hour performance would have been $100,000 per ship. Actually the fees on those 18 ships under the selective-price form of contract were $95,330 per ship.

Mr. COLES. Would the cost-plus fees have been subject to renegotiation?

Mr. McCONE. Yes, sir.

Mr. COLES. Were the selective-price fees subject to renegotiation?

Mr. McCONE. No, sir.

Mr. COLES. They were not? In other words, you were removing renegotiation by putting them in, is that correct?

Mr. CHAIRMAN. Next witness.

Mr. McCONE. We were not removing it. The Maritime Commission was removing it.

Mr. COLES. Transferring it? Did you approve conversion to selective price?

Mr. McCONE. After a great deal of resistance. The fact is we resisted it for a year.

Mr. COLES. Mr. McCone, the Government put in $25,000,000 to the building of this yard. At the time of the completion of the contract, was there any Government-owned shipbuilding material in the California Shipbuilding Co.'s yards?

Mr. McCONE. There was.

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Mr. COLES. What was the value of that, approximately, if you can estimate it?

Mr. MCCONE. I cannot estimate it. I do not know.

Mr. COLES. It has been estimated to us as $14,000,000. Would you say that would be an approximation which might be accurate?

Mr. MCCONE. That might be what the original cost of it was, but the value of a large percentage of it was nothing.

Mr. COLES. The original cost?

Mr. MCCONE. The original cost might have been in that order. I do not know that.

Mr. COLES. Did the California Shipbuilding Co. purchase this yard from the Government as surplus property?

Mr. MCCONE. No; we did not purchase it. We did, however, acquire the ownership of the yard and the surplus property of the Government that was at the yard.

Mr. COLES. Did you pay any money for this shipyard and the surplus property in the yard when you acquired it from the Government?

Mr. MCCONE. We relieved the Maritime Commission of all of their obligations and responsibilities for the restoration of the site that was owned by the Los Angeles Harbor Board. Now, I would like to——

Mr. COLES (interposing). May I interrupt for just a moment and ask this question: In agreeing to remove that and relieve the Government of its responsibilities, did you receive in addition to this yard that had cost $25,000,000 and this material which may have cost $14,000,000, an additional sum of $2,500,000 in cash?

Mr. MCCONE. No; we did not receive an additional sum of $2,500,000 in cash, but we did receive a revision of our selective-price contract under which the amount of recapture was reduced by 2½ million dollars.

Mr. COLES. So in effect you got an additional 2½ million dollars, did you?

Mr. MCCONE. You might put it that way.

Mr. COLES. Would you say that for the record?

Mr. MCCONE. Yes, yes; that is right. Now I would like, since you have asked that question—and I do not have much of the detail of this matter in my mind, and so told you before coming here—but I think that the committee should understand that the Government, the Maritime Commission, in entering the contract to build this yard on Terminal Island built it on properties owned by the Harbor Board of the City of Los Angeles. Now, the location of the yard was such that it stood squarely in the way of the planned development of the Los Angeles Harbor. Therefore, there was inserted in a clause in the shipbuilding company's lease with the harbor board a provision to the effect that at the end of the emergency the yard would be removed in its entirety and the ground restored in every detail to its original condition. That clause was worked out by the attorneys for the harbor board and the attorneys for the Maritime Commission and inserted in our contract by agreement between those two groups. Our contracts with the Maritime Commission provided that we would be reimbursed any and all costs involved in complying with that request or with that contract stipulation. That was estimated—and I do not have

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the figures—but many, many millions of dollars, and that consideration was the reason why the Maritime Commission initiated the plan and requested that we take over that yard.

Mr. COLES. Are you going to maintain the yard——

The CHAIRMAN (interposing). I wonder, Counsel, how much longer counsel is going to proceed, because many of these answers will be brought up on interrogatories by members of the committee, and then at the conclusion of their interrogatories, if there is any matter that has not been covered, counsel can then resume.

Mr. COLES. This is my last question, Mr. Chairman.

The CHAIRMAN. Very well.

Mr. COLES. Do you expect to continue the operation of this yard as a shipyard?

Mr. MCCONE. No, sir. In fact, this arrangement of which we are speaking definitely provided that we could not continue it as a shipyard, unless and except with a written authority of the Maritime Commission.

Mr. COLES. And you will return this property in its original condition to the city of Los Angeles?

Mr. MCCONE. Yes; or otherwise dispose of it.

The CHAIRMAN. Mr. Keogh.

Mr. KEOGH. Mr. McCone, was not the conversion of a selective-price contract into a lump-sum contract in effect carrying out the provisions of the selective-price contract, especially when that conversion took place when the costs were known?

Mr. MCCONE. There was no selective-price contract converted into a lump-sum contract, Mr. Keogh.

Mr. KEOGH. I thought I understood there was.

Mr. MCCONE. No; there was a cost-plus-a-fixed-fee contract converted into a lump-sum contract.

Mr. KEOGH. Then proceeding from that, is it not fair for me at least to assume that in the conversion of any contract into a different type of contract, four factors, including the effect of the conversion on the renegotiability of the contract price, were considered by both parties to the contract? Do I make myself clear?

Mr. MCCONE. No; I do not understand your question.

Mr. KEOGH. Whenever a contract was converted from one type into another, is it not fair for me to assume that all factors, including whether any phase of the converted contract was renegotiated or not, were considered by both parties to the original contract in agreeing to the conversion?

Mr. MCCONE. Oh, yes; I think that both parties studied the problems very carefully.

Mr. KEOGH. And that those factors reflected themselves in the final price agreed upon in the converted contract?

Mr. MCCONE. Well, yes; I think that is right; yes. Yes; I think that is right.

Mr. KEOGH. In other words, it was all done after a full and frank and open discussion?

Mr. MCCONE. Oh, yes; that is correct; that is correct.

Mr. KEOGH. No further questions, Mr. Chairman.

The CHAIRMAN. Mr. Bradley.

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Mr. BRADLEY. First of all, Mr. McCone, I want to say that it is very refreshing to have a witness who has seemingly all the facts and figures right at his fingertips and who can answer questions.

Mr. McCONE. Thank you, Mr. Bradley; but I think our picture is not so complicated as some.

Mr. BRADLEY. I am not casting any reflections on anybody, but I am just saying it is refreshing to have a witness who apparently can give us straightforward answers without going afield. I understand that these figures which incidentally were referred to as coming from the General Accounting Office but which actually were submitted to us in a letter from Admiral Smith, Chairman of the Maritime Commission, came from the Maritime Commission. They were referred to by the witness from the General Accounting Office, but they were the Maritime Commission figures, not the General Accounting Office.

Mr. McCONE. Mr. Bradley, I do not want to take exception to either the figures that were presented in any detail—they may be absolutely correct; I do not know that—but this I do know, and that is, that when either the Maritime Commission or the General Accounting Office report to this committee, and also reported in a way that it has spread throughout the Nation on the radio and in the press, the fact that the shipbuilders of this country earned certain profits, and do not include in those figures the proper deductions for renegotiation for nonreimbursable costs, and for taxes in arriving at a net profit figure, that the reporting authorities deliberately mislead the people of this country, and I resent it very much.

Mr. BRADLEY. Very well.

Mr. McCONE. I will say this, Mr. Bradley, if I may add, that if a certified public accountant in reporting on the affairs of a publicly owned corporation reported as many half truths as have been reported to this committee, that certified public accountant would violate a very sacred obligation to the public and would in my opinion be disallowed from further practice in any State in the United States. I cannot understand how any man can come before this committee and report to you and for the benefit of the press that profits run into hundreds of millions of dollars, without at least stating the facts as regards the deductible items, including taxes.

Mr. BRADLEY. I think your statement is very fair, but I also heard statements here in the last 3 days that the General Accounting Office and the Maritime Commission's auditors were above reproach, and they knew all the answers, and everything else to that effect, and that they should have been able to give us an accurate report. It is not our fault that we did not get an accurate report.

Mr. McCONE. Again, I would like to say——

Mr. BRADLEY (interposing). I notice right here, for instance, in the case of your particular yard, under this exhibit 1, that has gone into this record, and included with the letter from Admiral Smith, that your capital is reported under the item "Capital investment of shipyard operator," at $600,000. Now, you have clarified that as far as I am concerned by reporting now, if I understand you correctly, that the total stockholders' capital invested was something like $3,300,000; is that correct?

Mr. McCONE. That is correct; yes, sir.

Mr. BRADLEY. And in addition to that you initially secured something like $4,000,000 of bank loans for working capital.

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Mr. McCONE. That is correct; yes, sir.

Mr. BRADLEY. Which, of course, would be paid back as it was used up and as you submitted your bills to the Maritime Commission, which were later on audited by the General Accounting Office, to make sure the bills were paid in accordance with the law.

Mr. McCONE. That is right.

Mr. BRADLEY. Now, did I understand you correctly that—and as I repeat again, I must apologize for my imperfect hearing, here; I am trying to get that cleared up, and I have been, for 3 days—do I understand that of the $4,000,000, interest was paid on $1,400,000 by you?

Mr. McCONE. No.

Mr. BRADLEY. I did not get that figure.

Mr. McCONE. Interest was paid by us—by the corporation—on the entire $4,000,000.

Mr. BRADLEY. In what amount?

Mr. McCONE. But the interest on the borrowings in excess of $1,400,000 was reimbursed to us as part of the costs.

Mr. BRADLEY. In other words, the increase of $2,600,000 was reimbursed by the Maritime Commission?

Mr. McCONE. Yes; when the figures went up to 4,000,000. Sometimes they would be somewhat less than that.

Mr. BRADLEY. How many ships that you originally had under the cost-plus contract, which, as I understand it, went through under the cost plus, were paid for on that formula?

Mr. McCONE. I will have to do a little addition here. I believe we had 420 ships.

Mr. BRADLEY. Then the original contract was carried out on a cost-plus basis?

Mr. McCONE. On several contracts; yes.

Mr. BRADLEY. They were all Libertys, were they, primarily?

Mr. McCONE. No; there were 306 Libertys, 30 Liberty-type tankers, and 84 Victory ships.

Mr. BRADLEY. And then you had 18 additional that started out at cost-plus and, after they were completed, they were changed to this selective price formula?

Mr. McCONE. No. The cost-plus-fixed-fee contract for the 84 Victory ships went through several changes. First, it was changed from 84 ships, all alike, of the AP–3 type to 32 AP–3's, 34 AP–5 troops transports, and 18 AP–3's. Then it was changed by reducing the 34 transports to 30 transports and reducing the total number from 84 to 80. Then the 18 AP–3's were changed to AP–2's.

Mr. BRADLEY. What is the AP–2?

Mr. McCONE. A Victory ship with a 6,000-horsepower unit in it rather than 8,500-horsepower unit, and somewhat different in its arrangements, and so forth. Then the corporation entered into a contract for 79 additional AP–2's on a selective price basis, and at that time or thereabouts the 18 AP–2's were thrown over and made a part of the selective price contract.

Mr. BRADLEY. But their costs had been established by that time, had they not?

Mr. McCONE. No; they were in process, but they were not at a point where we knew what the cost would be.

Mr. BRADLEY. You must have known pretty close to it, or you would not have gone into these other 79, or whatever it was.

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Mr. McCONE. We had our estimates.

Mr. BRADLEY. You were familiar enough by that time so that you knew——

Mr. McCONE. Oh, yes; we could forecast our costs, barring a great many unforeseens, which we all feared very greatly. But the cost was not established, because it was not accumulated on the completed vessels.

Mr. BRADLEY. We were out there on the west coast in 1943—I was not there at your yard personally, but the rest of the committee were—and you were all bedeviled with this constant changing of design.

Mr. McCONE. Yes.

Mr. BRADLEY. On this question of the removal of the yard, my understanding from questioning by counsel is that it was the Maritime Commission's obligation to restore that yard to its original prewar status. Is that correct?

Mr. McCONE. No; it was the corporation's obligation under the regulations of the harbor board; but it was the Maritime Commission's oblgation to reimburse the corporation for all of its costs incurred in the restoration.

Mr. BRADLEY. On the same basis as it was the Maritime Commission's obligation to reimburse you for constructing the yard in the first place?

Mr. McCONE. That is correct.

Mr. BRADLEY. As directed by the Maritime Commission?

Mr. McCONE. Yes. In the final analysis the restoration would be directed by the Los Angeles Harbor Board; that is, the degree of it.

Mr. BRADLEY. That is in accordance with the terms of the original contract?

Mr. McCONE. That is correct.

Mr. BRADLEY. Did I understand you to say that it was going to cost $25,000,000 to restore the yard?

Mr. McCONE. No; I did not say that.

Mr. BRADLEY. How much do you estimate?

Mr. McCONE. I do not know what the estimates are, but it was many millions. I do not know the figure.

Mr. BRADLEY. According to these Maritime Commission figures, that everybody challenges—they ought to know the cost of the facilities—they put $25,213,000 into that yard. But you have no idea how much it is going to cost to remove that yard and restore things to their original condition?

Mr. McCONE. No; we do not know that and will not know the actual cost for some time, because it involves the removal of the ways and the pulling of thousands and thousands of piles, the removal of thousands of yards of concrete, and taking up all the pavement and all the underground pipe and utilities and railroad tracks; and they may go so far as to have the channel redredged finally after it is all done. I cannot answer that question; I do not know. We hope that it is not going to be too much.

Mr. BRADLEY. I understand you have made a deal with the Maritime Commission to take over that rebuilding?

Mr. McCONE. Yes.

Mr. BRADLEY. Will you repeat that deal?

Mr. McCONE. Yes. The deal that was proposed by the Maritime Commission and accepted by us involved the turning over to us at no

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cost the materials and the facilities to become ours in ownership with Calship accepting the full obligations of the lease, and, moreover, relieving us of $2,500,000 of a recapture that was due the Maritime Commission.

Mr. BRADLEY. In other words, they let you retain that, plus everything in the yard and the facilities themselves?

Mr. McCONE. That is right.

Mr. BRADLEY. Have you made any detailed or even a rough estimate as to the amount of material remaining in the yard that is salable?

Mr. McCONE. No, sir. I do not have those figures. I asked counsel if he wanted me to have them. If so, I wanted to have our man, the men that are handling that. He said, no, that he thought it not necessary, but subsequently, if the committee wished to go into it——

Mr. BRADLEY. I would like very much to have it put into the record later.

Mr. McCONE. I will be very glad to submit it to you.

The CHAIRMAN. Then if we want to examine on the matter, we can.

Mr. BRADLEY. Based on the original cost and the estimated salvage value.

Mr. McCONE. We will give you the full picture. Of course, any figures now are a very rough estimate.

Mr. BRADLEY. Apparently so, according to radio statements and newspaper reports.

Mr. McCONE. The job is not yet done.

Mr. BRADLEY. Again I want to congratulate you on your very straightforward testimony.

That is all.

The CHAIRMAN. Mr. Keogh.

Mr. KEOGH. How long do you think it will take to remove the facilities and restore the property to the harbor commission?

Mr. McCONE. I would think it would take another year; the middle of 1947, anyway.

Mr. KEOGH. That is all.

The CHAIRMAN. Mr. Weichel.

Mr. WEICHEL. Mr. McCone, you had a cost-plus contract, a cost-minus contract, a lump-sum, and selective-price contracts. What is the selective-price contract?

Mr. McCONE. We had no cost-minus contract, Mr. Weichel. A selective-price contract is, in effect, a fixed-price contract, the price of which can be selected within certain limits by the contractor in advance of starting work on any particular ship. Selective price means that the contract price is established, and the higher the price may be the lower the fee or the profit that the contractor is permitted to retain. The lower the price, consequently, the cheaper the cost of the ship to the Government. The higher the profit that the contractor is permitted to retain——

Mr. WEICHEL. You do not mean the more profit; you mean the percent, do you not?

Mr. McCONE. No.

Mr. WEICHEL. The higher the whole cost the less the percent would be, and the less the entire cost the higher the percent would be of the over-all money?

Mr. McCONE. No. Let me explain it this way.

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Mr. WEICHEL. Is it not the way I stated it?

Mr. McCONE. I do not understand it.

Mr. WEICHEL. If the total cost is high, the percent of the total cost or the fee is lower; and, where the total cost is less, the percent of the fee is higher. Is not that the way it is?

Mr. McCONE. No; it is not the way it is.

Mr. WEICHEL. You tell how it is.

Mr. McCONE. Take a hypothetical case, a ship that the Maritime Commission would estimate to cost 2½ million dollars. The contractor would be given authority to select a price between 2¼ millions and 2¾ millions. I am speaking of purely hypothetical figures.

Mr. WEICHEL. The contractor could set a price over it or below it; is that correct? On a 2½-million-dollar ship they would set the price 2¾ millions or 2¼ millions, between those ranges?

Mr. McCONE. That is right.

Mr. WEICHEL. Above and below the estimate?

Mr. McCONE. Yes. If the contractor came in and said he wanted to put a price of 2¾ million dollars on it, then he would be permitted to retain maybe $25,000.

Mr. WEICHEL. Is that on the basis of a percent of the 2¾ millions?

Mr. McCONE. No; it was a fixed amount.

Mr. WEICHEL. Not a percent?

Mr. McCONE. That is right. If he could see that his costs were less than 2¾ million dollars, selective price, then he would be able to retain a stipulated profit over all of his costs——

Mr. WEICHEL. If it was less than the 2¼ or less than the 2¾?

Mr. McCONE. Two and three-quarters. The man would select a price of 2¾ million dollars. That is the price for that contract. Then the shipbuilder and the contractor have a contract to build a ship under conditions where the contractor will receive his costs and a profit agreed upon, which may be $25,000 or $50,000. There was a schedule. If the costs exceeded 2¾ million dollars, the contractor would pay, and would not be reimbursed, for all costs in excess of the 2¾ million dollars. If the costs were less than 2¾ million dollars, the Maritime Commission would recapture the difference between the actual costs and the 2¾ million dollars, the contractor retaining only the agreed fee. Now, if the contractor selected a price of 2¼ million dollars, the fee which he would be permitted to retain would be increased and agreed upon. It may be $125,000. Then if the costs of the contractor exceeded 2¼ million dollars the contractor would be liable for all costs in excess of 2¼ million dollars. If the costs were less than 2¼ million dollars, the Government would recapture the difference between his costs and the 2¼ million dollars, with the contractor retaining only the fee which was agreed upon.

Do I make it clear?

Mr. WEICHEL. You were building Liberty ships out there, were you not?

Mr. McCONE. Yes.

Mr. WEICHEL. How many did you build?

Mr. McCONE. Three hundred and six.

Mr. WEICHEL. On what basis did you build those, at what price—$1,500,000 apiece or what?

Mr. McCONE. They were on a cost-plus-a-fixed-fee basis.

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Mr. WEICHEL. What did you get for each one of the Liberty ships in the way of a fee for each one of those ships that you built out there? What was the fee you got on each ship of those 330?

Mr. McCONE. Well, on the first contracts the fee provided was $110,000, and under a system of bonuses and penalties for overrunning or under running in man-hours and delivery the fee could be increased to $140,000 or decreased, as I remember it, to $60,000. A formula was set up. There was a maximum of $140,000 and a minimum of $60,000.

Mr. WEICHEL. That is on the Liberty ships?

Mr. McCONE. Yes. Now, in subsequent contracts——

Mr. WEICHEL. Wait a moment. I want to ask you right there how many were decreased to $60,000?

Mr. McCONE. On our first 55 ships they were all decreased to $60,000.

Mr. WEICHEL. The first 55 you got $60,000 apiece as a fee?

Mr. McCONE. That is correct.

Mr. WEICHEL. After all expenses and everything else were paid?

Mr. McCONE. No; wait a minue. That was not after all expenses, because there were items of nonreimbursable——

Mr. WEICHEL. You only had $4,000,000 nonreimbursables, and you had fees of $53,000,000. The first 55 you got $60,000 apiece as a fee?

Mr. McCONE. For 55, according to the formula in the contract, we got $60,000 apiece. As a result of renegotiation that was reduced.

Mr. WEICHEL. You got $60,000 apiece in the first instance, and then renegotiation reduced it some more?

Mr. McCONE. Yes; to $49,116.12.

Mr. WEICHEL. There were 330 altogether, you said?

Mr. McCONE. Yes.

Mr. WEICHEL. On the rest of the 330 did you get $150,000 apiece or $110,000 apiece? Which did you say?

Mr. McCONE. On the next contract of 109 ships the fee remained at a minimum of $60,000 and a maximum of $140,000. On a base fee of $110,000 we earned on that contract the maximum fee.

Mr. WEICHEL. On the next 60 you got $140,000 apiece?

Mr. McCONE. No; the next 109.

Mr. WEICHEL. On the next 109 ships you got $140,000 apiece?

Mr. McCONE. We did not get it; we earned it.

Mr. WEICHEL. According to the schedule it was $140,000 for each ship?

Mr. McCONE. Yes; but through renegotiation it was reduced to $76,043.07 per ship.

Mr. WEICHEL. The first ones that you got $60,000 apiece on were reduced to what?

Mr. McCONE. To $49,116.12.

Mr. WEICHEL. And these were reduced from $140,000 to $76,000, about one half?

Mr. McCONE. Yes.

Mr. WEICHEL. Why were they not reduced to $49,000 apiece like the others? You were making them faster and bigger and better, due to this great efficiency of Mr. Kaiser and everything, and you made them so fast that they cut it from $140,000 to $76,000. When your efficiency was not so good and you were just feeling your way, they

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reduced it from $60,000 to $49,000. Why were not all of them cut to $49,000 if everybody was so sincere and earnest in this thing?

Mr. McCONE. The reason was this, that the Renegotiation Board of the Maritime Commission analyzed the performances of all of the yards and related them one to the other in trying to establish some degree of uniformity in this matter of renegotiation. It happened that "Cal Ships'" performance after the first 55 ships was very excellent, as many records will show, and as a consequence, when the renegotiation of the subsequent ships came up in relation to other yards, we were in better shape than we were at first.

Mr. WEICHEL. But if the honest amount was $49,000 for the Government to pay on the ships, and they said $49,000 was enough, I cannot understand increasing it $21,000 apiece, when the Government owned everything, just for your efficiency. If $49,000 was good then, it should have been good in the future.

All right. What was the next contract?

Mr. McCONE. The next contract was for 60 ships.

Mr. WEICHEL. What was the maximum on those?

Mr. McCONE. I do not have that. I will have to get the figures on that.

The CHAIRMAN. Do you have the figures available?

Mr. McCONE. The information on these contracts has been submitted to counsel.

The CHAIRMAN. I know, but the Member desires to have it now. Are the data available so that you can give the facts?

Mr. McCONE. Yes. On that contract the minimum fee was $60,000 per vessel and the maximum fee was $140,000.

Mr. WEICHEL. That is on the third batch of ships. The first was 55, then 109, and now come 60 ships. The maximum was $140,000 each?

Mr. McCONE. That is correct.

Mr. WEICHEL. Was that renegotiated?

Mr. McCONE. That is right.

Mr. WEICHEL. What was that renegotiated to?

Mr. McCONE. It was renegotiated from $140,000 down to $69,499.57.

Mr. WEICHEL. Just 50 cents less than the other ones. All your experience in building 55 ships and getting $60,000 apiece and getting it cut down to $49,000, and then building 109 and cutting it from $140,000 apiece to $70,000 apiece, and then on the next 60, knowing it would be cut to $70,000, they still give you a contract at $140,000, and then they cut it back 50 cents a ship. That is remarkable. Is that true?

Mr. McCONE. May I have the question repeated, please?

Mr. WEICHEL. It is a little more than 50 cents; it is $104. That is what it was cut to on the second 60 ships. With all of the previous building in the two other contracts and all the experience, that was the best they could figure it. Was that third contract forced on you for that amount?

Mr. McCONE. The answer to that, Mr. Weichel, is that these contracts were renegotiated by groups rather than by particular contract, and the division came out in this way.

Mr. WEICHEL. But they forced a third contract on you at $140,000 apiece, having just finished with a contract for 109 ships at $140,000

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apiece which was cut to $70,000; and after this vast Kaiser experience they forced another contract on you for $140,000 apiece. What was the reason for forcing it on you like that?

Mr. McCONE. That yard was producing ships in great number. Those ships were needed, and the Maritime Commission sought to place contracts where they would get the most ships in the shortest time. That was their purpose.

Mr. WEICHEL. But just having built 109 ships at $140,000 apiece, it would seem, with this ingenuity of Mr. Kaiser and the 10 corporations, that when you came to this third batch you would not want $140,000 apiece.

Mr. McCONE. I think you should ask the Maritime Commission about that.

Mr. WEICHEL. This was forced on you by the Maritime Commission like that.

What was the next contract?

Mr. McCONE. I would like to make a correction in the testimony here, so that this written record and what I have said will coincide, because the figures that I have given are the figures after renegotiation and after nonreimbursable expenses.

Mr. WEICHEL. We understand that. It is subject to this little sum of $4,000,000 of nonreimbursable expense as against the $53,000,000.

Mr. McCONE. I did not want it to appear that this written record and the statements I am talking from here are at variance one with the other.

Mr. WEICHEL. We will not forget that.

On the next contract how many ships were there?

Mr. McCONE. There were 112.

Mr. WEICHEL. A hundred and twelve ships. What was the top price on those?

Mr. McCONE. The maximum fee was $70,000.

Mr. WEICHEL. They dropped it one half after three tries; is that it?

Mr. McCONE. The minimum fee was $30,000 and the base fee was $55,000.

Mr. WEICHEL. Was the $70,000 cut?

Mr. McCONE. Yes. That was cut to $59,121.85 after renegotiation and nonreimbursable expenses.

Mr. WEICHEL. What was the date of the first contract for 55 ships?

Mr. McCONE. That was March 14, 1941. I may add that the contract on March 14, 1941, was for 31 ships, and by addendum on May 1 of the same year it was increased by 24 to make the total of 55.

Mr. WEICHEL. That was in 1941?

Mr. McCONE. Yes.

Mr. WEICHEL. When was the contract for the 109 ships?

Mr. McCONE. January 17, 1942.

Mr. WEICHEL. Had you completed any of the 55 and had the figures and costs gone in?

Mr. McCONE. No.

Mr. WEICHEL. Had you completed any of the 55 by January 17, 1942?

Mr. McCONE. No.

Mr. WEICHEL. None of those were completed?

Mr. McCONE. No, sir.

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Mr. WEICHEL. How near were they completed?

Mr. McCONE. We completed our first one on February 12, as I remember it.

Mr. WEICHEL. Of 1942?

Mr. McCONE. Yes.

Mr. WEICHEL. That was just about 3 weeks afterward. So the figures were pretty well up then. That was of the first of the 55?

Mr. McCONE. Yes.

Mr. WEICHEL. Even though the maximum was $60,000 and was cut to $49,000, while the first ones were still being built, some of them, but after the first went off, they raised it to $140,000 maximum in the next contract?

Mr. McCONE. No; that is not correct.

Mr. WEICHEL. According to the dates it would be, would it not?

Mr. McCONE. No. The reason is that no renegotiation was entered into until well after the first five ship contracts had been negotiated and the first three ship contracts had been completed. The fact is I don't believe the renegotiation law was pressed at that date, although I am not sure about that.

Mr. WEICHEL. When you finished five of the ships they were renegotiating the price then, were they not?

Mr. McCONE. No.

Mr. WEICHEL. When were they renegotiating the price?

Mr. McCONE. I think the first renegotiation was in April of 1944.

Mr. WEICHEL. They waited all that time to find out?

Mr. McCONE. Yes.

Mr. WEICHEL. How long after the law passed did they start renegotiating?

The CHAIRMAN. When was the law passed, if anyone knows?

Mr. McCONE. I do not know.

A VOICE. April 1942.

Mr. WEICHEL. The Renegotiation Act was passed in April 1942, and you had a contract already in 1941. When did they start renegotiating the first of these contracts?

Mr. McCONE. I think it was probably in December of 1943 or January of 1944. The renegotiation was completed in April of 1944.

Mr. WEICHEL. When the renegotiation started was there anything done with reference to this contract for 109 ships, where there was a fee of $140,000 apiece, and the contract for 60 ships at $140,000 apiece? Did they not do anything about renegotiating those contracts before running through all the money with them?

Mr. McCONE. The contract for 109 ships was on January 17, 1942, and the contract for 60 ships was on June 16, 1942.

Mr. WEICHEL. You were building those in 1943, were you not?

Mr. McCONE. That is correct; yes.

Mr. WEICHEL. And in 1944. Now, after you had the 112 at $70,000 apiece and it went down to $59,000, what was the next number?

Mr. McCONE. The next number was a contract for Victory ships. That contract started out as 84 AP-3 Victory ships.

Mr. WEICHEL. What was the date of that, roughly?

Mr. McCONE. That was April 20, 1943.

Mr. WEICHEL. What was the basis of the contract on those ships?

Mr. McCONE. It was originally a cost-plus-a-fixed-fee contract.

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Mr. WEICHEL. What was the amount on those? What did it come to on that basis?

Mr. McCONE. As I remember it—it does not appear to be here, because it was converted into a lump-sum contract—as I remember, the minimum fee was $37,000. The base fee was $74,000.

Mr. WEICHEL. What was the maximum?

Mr. McCONE. The maximum was $100,000.

Mr. WEICHEL. It started out that way?

Mr. McCONE. Yes.

Mr. WEICHEL. Then, afterward, it was made a lump-sum contract?

Mr. McCONE. Afterward there were many changes that took place in that contract. As the war went along 32 of the ships were completed as AP–3's as originally planned——

Mr. WEICHEL. On those 32 how much did you get—$100,000 apiece?

Mr. McCONE. No. I will have to answer that question by giving you some additional information. Twenty-one were completed as troop transports; nine were partially completed and were delivered to other yards for completion as troop transports. The 32 and the 21 and the 9—there were so many changes, and so forth—were then consolidated into a lump-sum contract.

Mr. WEICHEL. That takes nearly all of them, the 32, the 21, and the 9.

Mr. McCONE. Yes. That is 62. They were converted into a lump-sum contract.

Mr. WEICHEL. The whole 62?

Mr. McCONE. The whole 62.

Mr. WEICHEL. That was at so much apiece?

Mr. McCONE. No. The whole 62 were converted into a lump-sum contract, and that lump-sum contract was the sum of the accumulated and known costs, because it was converted after the contract was completed—the sum of the known costs plus a fee of $41,505.64 per ship; and that is after nonreimbursable expenses.

Mr. WEICHEL. With reference to the rest of the 84——

Mr. McCONE. Eighteen were canceled from this contract.

Mr. WEICHEL. Which contract?

Mr. McCONE. The contract of which we speak, for 84 ships.

Mr. WEICHEL. You said there were 84, and you had 60. That leaves 24.

Mr. McCONE. Four were canceled completely.

Mr. WEICHEL. On those that were canceled was there any work done at all?

Mr. McCONE. No. Eighteen were canceled from this contract but were added to——

Mr. WEICHEL. Wait a minute. We had 62 here; 62 from 84 leaves 22. You say four were canceled, so that there are 18 left.

Mr. McCONE. Yes. They were changed from AP–3's to AP–2's, a ship of a different class, and then they were deleted, by amendment, from this contract and were added to a subsequent contract on a selective price basis.

Mr. WEICHEL. What did you get for the 18? How was that set up? What was the maximum for the 18?

Mr. McCONE. There is no maximum. That was on a selective-price contract.

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Mr. WEICHEL. Just how much did you get out of each one that way—$50,000 apiece or $70,000 apiece or what? Out of the 18, how much did you get for each ship over and above costs?

Mr. McCONE. $95,330.

Mr. WEICHEL. $95,330 apiece?

Mr. McCONE. That is correct.

Mr. WEICHEL. The price of this efficiency seems to be going up. You started at $49,000, and after four contracts and some years' experience you got to $95,000 apiece.

Mr. McCONE. There are two things that I want to explain.

Mr. WEICHEL. You got $95,000 after all this other experience?

Mr. McCONE. That $95,330 was the limitation to the contractor.

Mr. WEICHEL. That is the most you could get?

Mr. McCONE. Under a fixed-price contract.

Mr. WEICHEL. That is the most you could get?

Mr. McCONE. That is correct. In taking those ships under a selective-price contract we exposed ourselves to risk.

Mr. WEICHEL. What risk?

Mr. McCONE. We might have lost the entire amount, because we told the Government that we would build the ships for $2,625,000 apiece. If they had cost $2,800,000 apiece we would have lost $175,000 instead of making $95,330, which we did, because of our favorable performance. We might have lost it.

Mr. WEICHEL. Yes; you might; but with this great experience that you claim to have, and these 10 corporations set up, and having had three chances already when you did not lose anything, you were pretty sure that you could make the maximum of $95,000 apiece. You did not have any real risk involved; only an imaginary one.

Mr. McCONE. Let me correct that, Mr. Weichel. We were operating a yard with a 2½-million-dollar per week pay roll. If we had had an interruption because a very small portion of our men had gone on strike, such as the crane operators, and shut the yard down—and that was happening regularly—we would have suffered losses far in excess of any figure you and I have been talking about. There was a real and serious risk.

Let us just take the matter of inability to deliver materials. We were dependent upon steel from one source and machinery from a great number of sources. Those materials were supplied to us by the Government. We had no control over them. A failure to receive any of them—and we were constantly short of material—would have so adversely affected our costs that we were always exposed to great risks.

Mr. WEICHEL. Up to now the exposure was very slight, it seems to me. Every time there was a slight exposure to risk the Maritime Commission immediately corrected it and made the contract so that there would not be any risk.

Mr. McCONE. That is not correct.

Mr. WEICHEL. Not exactly correct?

Mr. McCONE. Not at all correct. These contracts were changed in order to try to force onto the contractor more responsibility and expose him to greater risks.

Mr. WEICHEL. When they upped your fee to $70,000 and your third one to $59,000, they were forcing a risk on you?

Mr. McCONE. I am speaking of the selective price.

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Mr. WEICHEL. You would not call the first three much of a forced risk put on you, would you?

Mr. McCONE. I thought we were at great risk many, many times.

Mr. WEICHEL. I fail to see the risk in the first three.

Now, the next one after the 84? What was the next contract?

Mr. McCONE. Seventy-nine AP–2 Victory cargo ships.

Mr. WEICHEL. What was the set-up on those?

Mr. McCONE. That was a selective price contract.

Mr. WEICHEL. What was the high and what was the low and what was in the middle?

Mr. McCONE. There was not any in the selective price contract.

Mr. WEICHEL. On a selective price contract I thought you could select a high price or a low price.

Mr. McCONE. Oh, yes; that is correct. I did not understand you. On that 79, I would like to explain that 69 were built, 10 were canceled because that contract was at the end of the war, and 18 of them were transferred from the previous contract which I have spoken of.

Mr. WEICHEL. On the 69, what was the high?

Mr. McCONE. I will have to find that out. I cannot tell you that.

Mr. WEICHEL. That is the last one you had, and you do not know what the high was there?

Mr. McCONE. That is correct.

Mr. WEICHEL. You cannot remember, although it was the last one, roughly, whether it was $2,000,000 or $3,000,000, or what?

Mr. McCONE. The contract had a scale in it. I will speak purely from memory, if I may. It provided a minimum selective price of $2,175,000, and on that the contractor was able to retain as a gross—I think it was $155,000; maybe $156,000, but right in that range.

Mr. WEICHEL. Roughly?

Mr. McCONE. Yes; the selective price stepped up in increment of $75,000, and for each $75,000 increase the retained gross, permitted the contractor, was decreased about $9,000. Then there was an upper limit of $3,000,000 beyond which you could not go. At that upper limit the retained profit permitted the contractor was $30,000, I believe, something on that order.

Mr. WEICHEL. When was this contract for 79 ships? How long ago was it, roughly?

Mr. McCONE. March 1, 1945, was the date of the contract.

Mr. WEICHEL. Referring to the contract on which you got $95,000 apiece for the ships, was that renegotiated?

Mr. McCONE. No; that was not.

Mr. WEICHEL. Is that the kind of a contract that is not subject to renegotiation?

Mr. McCONE. That is correct.

The CHAIRMAN. Gentlemen, it is now 1 o'clock. We will recess until 2:30 this afternoon.

(Whereupon, at 1 p. m., a recess was taken until 2:30 p. m. of the same day.)

AFTER RECESS

(The hearing was resumed, upon the expiration of the recess.)

The CHAIRMAN. Is Mr. McCone here?

Mr. COLES. Shall we recall Mr. McCone?

The CHAIRMAN. Yes; Mr. Bradley has some further questions.

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TESTIMONY OF JOHN A. McCONE—Resumed

Mr. BRADLEY. Mr. McCone, the question I want to ask has to do with your capitalization. This sheet that we had submitted to us by the Maritime Commission showed a capitalization of $600,000 as capital investment of shipyard operator, and I understood this morning that by various figures which you had recited, due to stockholders' loans and so on, you eventually boosted that up to $3,300,000. I wonder if you would go over that again and explain it to me again?

Mr. McCONE. Yes; I will do that.

In the first place, there was a stipulation in the original contract——

Mr. BRADLEY. To which contract do you refer?

Mr. McCONE. The original contracts between the California Shipbuilding Corp., and the Maritime Commission, that the corporation should be provided with $800,000 of capital subscribed either as stock or as stockholders' loans subordinated to all obligations of the corporation.

Mr. BRADLEY. That is over and above the original $600,000?

Mr. McCONE. No; I am now commenting on the contractual obligation.

Mr. BRADLEY. But I mean you organized originally with a capital stock of $600,000. Is that correct?

Mr. McCONE. No; that is not correct, sir. We organized originally in this way: We subscribed $100,000 as capital stock, and we subscribed $700,000 of subordinated stockholders' loans which were subordinated to all obligations of the corporation, including its obligations to the Maritime Commission.

Mr. BRADLEY. Now, on the books of the State of California—are you incorporated under the laws of California?

Mr. McCONE. No; the laws of Delaware.

Mr. BRADLEY. What does your structure show there as to the capitalization of the California Shipbuilding Co.? Does that show $100,000, or what?

Mr. McCONE. Originally it showed $100,000 subscribed, $100,000 of no par stock subscribed. It shows as $600,000 of no par stock now.

Mr. BRADLEY. Well now, where did the $600,000 come from? Is that a $500,000 stock dividend?

Mr. McCONE. After subscribing the $100,000 of stock and the $700,000 of subordinated loans and about a year later, when the Todd Shipyards Corp., retired, we declared a dividend of $1,000,000, 50 percent of which was paid in cash to the retiring stockholder, who owned 50 percent of the stock, incidentally.

Mr. BRADLEY. In other words, he got $500,000 for his initial investment of $50,000?

Mr. McCONE. That is correct.

Mr. BRADLEY. A 10-to-1 dividend. That is a pretty good dividend.

Mr. McCONE. That is right. Then the other 50 percent was paid in the form of a stock dividend, thereby increasing the stock from $100,000 to $600,000.

Mr. BRADLEY. Everybody got a 10-to-1 cut in the dividend when the lemon was cut up.

Mr. McCONE. It is not correct to say it was 10-to-1, because of the subordinated loans of $700,000 being, in effect, equity capital, because

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they were subordinated to all obligations of the corporation and had the same status as stock.

Mr. BRADLEY. That brings up just the point that I want to get at, and I was confused and confounded yesterday and Monday afternoon. It is this: I cannot see where any of you fellows should have had any difficulty borrowing from the banks, or how you should figure you had risk capital, when you had a bona fide contract with the United States Government through the Maritime Commission to build a certain number of ships on which you were to be paid a fee when you completed those ships. They were to furnish all the material, all the salaries, all wages, the cost of interest in many cases, and so on and so forth. So I do not see how you figured you could lose, nor how the banks figured they could lose, assuming, of course, that you had integrity, that you would fulfill your obligation on a contract, which we appreciate you were all able to do; we have seen one or two where they did not do so well on the contracts, but not many. But were not those stock dividends and everything predicated primarily on the fact that you had a bona fide contract with the United States Government in the amount of many million dollars which made them, in effect, no real risk, no genuine risk, at all?

Mr. MCCONE. I would say this, Mr. Bradley, that on the assumption that the contractor would perform satisfactorily, would manage his business properly, and would administer his affairs in a way so that he would be reimbursed for his costs and everything would be done in an orderly way, there was no particular reason why the contractor should lose any money.

Mr. BRADLEY. Well, Mr. McCone, get right back to that one factor. You certainly would not go to the bank and draw out some money to invest in the California Shipbuilding Co. if you had not known you were going to be president. Mr. Bechtel would not have drawn out money to pay for his stock, if he did not have confidence as a partner, and the rest of your associates in the same way. So I do not see where you can call that legitimate risk capital, because you were taking it out of one pocket and putting it into the other pocket. You had faith that you were going to be able to do your job right unless there was a tornado that would blow you all out.

Mr. MCCONE. Certainly, as a business man you always have faith in your going to do the job you contract for, but lots of them do not work out that way.

Mr. BRADLEY. Where was the risk in this contract you had with the Government which you said you could fulfill and which you did fulfill—and I will say California Shipbuilding Co. did a might, mighty fine job.

Mr. MCCONE. I will point out a few risks. Had we failed to control our costs of facilities so that they were within the limitations——

Mr. BRADLEY. Facilities were being built by the Government.

Mr. MCCONE. So that they were within the limitation of the appropriation, which was definitely stated in the contract, and had our costs overrun the amount stated in that contract, then we would not have been reimbursed for any of that overrun.

Now, that could be a serious risk. I think it is a matter of record that one contractor lost several million dollars on just that one point.

Mr. BRADLEY. Yes; and may I point out right at that point, Mr.

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McCone, that we have had evidence time and again before this committee where other contractors have been given more and more on their facilities contracts by the Maritime Commission when various things came up that perhaps they did not think might come up. Was that not true in the case of Richmond No. 3 Yard, where they had sinking of the land, or something like that—mud encountered, or something? Were they not given additional money?

I am not asking you to speak for them, but if anybody in the room knows, it runs in my mind that they did get additional money for the facility from the Maritime Commission when they encountered that difficulty. So that I think the history of this entire picture would indicate that the Maritime Commission were just as much concerned to get out ships as you were, and when they found that you had underestimated the facilities they were ever willing in most instances, unless it was a case of bad management, to come on and give you some more for the facility. Otherwise it certainly seems to me that the Maritime Commission would not have given any contract for $25,213,177. They would have been more apt to give it for 25,000,000 or 30,000,000.

Mr. McCone. Well, I do not know the Richmond No. 3 story, and cannot comment on it. I know, so far as Calship is concerned, that we were given funds when we could come back and justify the need for them as additional facilities over and above those anticipated.

Mr. Bradley. You had the faith that that would be done by the Maritime Commission, did you not?

Mr. McCone. We got it in advance, before we incurred any expenditures, and were told that if we failed to do that we would not be reimbursed.

Mr. Bradley. You had faith in your ability to perform.

Mr. McCone. And many times we recommended to the Maritime Commission that they spend certain amounts of money for additional facilities in order to expedite or further accelerate the building of ships when they questioned our judgment and did not do it.

Mr. Bradley. Well, I think that is undoubtedly true. But the point I am getting at is that I fail to see where you gentlemen felt that you were taking any severe risk in putting up this additional $700,000 or $800,000, which was a condition of the contract, a condition of signing the contract, we will say, when you yourselves were going to manage the expenditure of your own funds. You certainly had confidence in your ability to perform, so I do not see where there was a great deal of risk in the ordinary sense of the word. You were not in the position of a privately owned shipyard, for instance, which got no money from the Government, if there were any, and I do not know of any offhand, which also had a contract and which had to agree to build a ship at a certain price and had to figure his costs and figure out whether or not he could do it for those costs. That is what I would call real risk.

Here, you fellows were putting out money based on the strength of a contract that meant that the man could go to the bank and say, "Here is this contract, and we are going to perform it, and it is a good risk to loan us this operating capital."

Is that not the general picture? I am pleased to have you on the stand, because I believe you can discuss these things calmly and

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quietly without making a speech about it. If I am wrong, I want to be put right on it. I want to be eminently fair.

Mr. McCONE. All cost-plus-fixed-fee contracts, Mr. Bradley, were free of a great many risks. There is no question about that. The form of cost-plus-fixed-fee contracts used by the Maritime Commission and the Navy and the Ordnance Department and the Air Corps, and so forth, was designed with that in mind, because it was impossible to impose upon the contractor the type of risk that would come with a fixed-price contract.

But likewise, Mr. Bradley, the profits were vastly less, the fees were vastly less, than were allowed on business of greater risk.

Now let us take an example. The Maritime Act of 1936, which provides for the long-term ships to be built under competitive bids and at fixed prices, with all the elements of risk that you can say, limits, as I recall it, the contractor's profit to 11 percent of the cost—10 percent of the contract price or 11 percent of the cost. Now, the fees that were set up in the Maritime contracts, and the earnings, were infinitely less than that. The fact is, they ran some one and one-half percent of cost in the case of Calship, 0.89 percent of the value of the ship.

So, while it is true under the cost-plus-fixed-fee form of contract, whether you are considering it with regard to Maritime, Navy, or Air Corps, that the element of risk was less than in many business ventures, it is likewise true that there was a lot of risk.

The CHAIRMAN. Is Mr. McCone here? Mr. Bradley was examining him. Mr. Weichel, you have not lost your place. All right, Mr. Bradley.

TESTIMONY OF JOHN A. McCONE—Resumed

Mr. BRADLEY. Mr. McCone, you had gotten up to the point now where we had $800,000 in the capital?

Mr. McCONE. That is correct, sir.

Mr. BRADLEY. You were explaining how we got that. Now, will you go on and explain how you get up to $3,300,000, which is the figure I understood you to give this morning?

Mr. McCONE. Yes. Then there was a stock dividend, or a dividend. I think I explained how $100,000 was invested in stock and $700,000 in subordinated loans, which were subordinated to all obligations of the corporation including the Maritime Commission. When Mr. Todd retired approximately a year later, a dividend of $1,000,000 was declared, and $500,000 was paid out in cash through the Todd Shipyards, the retiring stockholders. $50,000 was declared in the form of a stock dividend, thereby increasing the capital stock of the corporation from $100,000 to $600,000, and on top of that was the $700,000 of subordinated loans. At that time the remaining stockholders paid to Todd their share of the subordinated loans, so that Todd would be out of both the stock position and the subordinated loan.

Mr. BRADLEY. In other words, he got 500 plus 350?

Mr. McCONE. He did; yes.

Mr. BRADLEY. $850,000.

Mr. McCONE. That is correct. Now then, because the declaration of that dividend had depleted surplus by Todd having removed the $500,000, the remaining stockholders made an additional subordinated and non-interest-bearing loan of $500,000. At that point there

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was $1,200,000 of subordinated loans, plus $600,000 of capital stock issued. Now, during the next several months the corporation declared two dividends totaling—I have forgotten what they were, but at the time of those dividends $500,000 on one occasion and $1,000,000 on the second occasion was reloaned to the corporation by the stockholders. After they had received the money in dividends, and paid taxes on it incidentally, they reloaned it to the corporation and placed it in a subordinated position, but that totaled $2,700,000 of subordinated loans plus $600,000 in stock, making $3,300,000.

Mr. BRADLEY. All of that money came out of profits?

Mr. McCONE. It might be said, sir, that a million and a half dollars of subordinated loans and $500,000 of stock came out of profits, but I wish to point out that though coming out of profits, taxes were paid on it, and the amount was reloaned.

Mr. BRADLEY. But the original cash investment in the company amounted to $600,000 all told?

Mr. McCONE. No, sir; that is not right. The original cash invested in the company exclusive of any amounts that might be considered as coming from dividends was $1,300,000; $100,000 was stock, $700,000, of subordinated loans.

Mr. BRADLEY. I am not talking about these loans. There was not any stock issued for these loans?

Mr. McCONE. I think, sir, that if you would examine the subordinated-loan agreement, which incidentally was subject to approval by the Maritime Commission, you would readily accept it as equity capital.

Mr. BRADLEY. Yes; but the Maritime Commission gave you the choice between that or finding it at a bank, or some place else?

Mr. McCONE. No; they did not give us the choice of that or finding it at a bank. They gave us the choice of putting up $800,000, either in the form of stock or subordinated loans or both, and they did not care whether it was one or the other, just so the terms of the subordinated loan agreement were worded to their satisfaction, and they were worded so that those loans could not be paid as long as there were shipbuilding obligations existing.

Mr. BRADLEY. The fact of the matter remains that you were then armed with a contract with the Maritime Commission, with not a risk, and incidentally, according to the figures that Mr. Slattery has given, and to get back to another line that we were talking about, when you were explaining the risk and the possibility of risk, here, on your facilities contract, I notice that you actually had three different facilities contracts: the first, issued January 1, 1941, in the amount of $12,478,895; the second one, April 9, 1941, in the amount of $9,397,785, on which vouchers were paid to date, $21,219,704, and then again on June 8 1943, you got another $4,014,080, by which, on that last one $3,993,474 has been paid?

Mr. McCONE. That is correct.

Mr. BRADLEY. So that I repeat what I said this morning: It does not seem to me you were taking much risk on these facilities contracts, because that first contract, just as I said, they did with it as they did with many more, as they found the facilities inadequate; they gave you more money or allocated you more money to put more facilities in, all with the thought in mind of increasing the shipbuilding

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program. I am not finding any fault with that. I am just pointing out what I said this morning, and I did not have these figures, then, and what I said earlier this afternoon, before I got these figures, that they did with you the same as they did with many other shipbuilding fellows; so I was bound to question your statement that you had a risk of nonperformance of your facilities contract, because they have allowed you more money, just as they did in any number of other cases, as they found that they had underestimated or undershot the mark.

Mr. McCONE. No; I would like to explain that, Mr. Bradley. The original Liberty ship program was conceived on the idea that ships would be built in about 125 to 150 days from the time of keel-laying to delivery. That was the Maritime Commission's estimate. That was the estimate of the old-line shipbuilders as to how long it would take to do the work. That was what happened in the last war. Now, the facilities that were provided originally were provided on the basis of doing that much work in that amount of time, you see. Now then, the need for ships came and a great drive was on to see how fast the ships could be delivered and how many ships could be gotten out of a yard. We found that the delivery of ships could be enormously accelerated, but to do it we needed more cranes, we needed more welding machines, we needed more shops, we needed more of everything, and these additional amounts were to cover the additional facilities, which provided the means of reducing the elapsed days from the original estimate of 150 days down to an accomplished 45 or 50 days.

Mr. BRADLEY. I still stick to my basic premise, that I do not think you fellows took any chance or invested any risk capital whatsoever in this program. You were pretty well protected by Uncle Sam, because Uncle Sam had to have the ships, and you fellows were in a position to build them; and I am not finding any fault about it. I just want to find out for my own mind why the Maritime Commission certainly gave us a figure here of $600,000 capital investment, and then you fellows, by mental mathematics, ran the bill up to $3,300,000. That is what I am trying to get straight in my own mind.

Mr. McCONE. I do not think it is mental mathematics. I think it is absolute fact.

Mr. BRADLEY. I know, but you declared a stock dividend, and so on, and then you say it is capital invested, and claiming that you were taking it out of profits and simply using it as working capital, knowing that it is all coming right back to you. You did use plenty of stock dividends.

The CHAIRMAN. Is there anything else?

Mr. BRADLEY. Mr. Herter has a question.

Mr. HERTER. Right along the same line, Mr. Kaiser testified he had an interest in this company; I think it was around 16 percent, through the two Kaiser corporations.

Mr. McCONE. That is right.

Mr. HERTER. And that he disposed of his interest in 1945.

Mr. McCONE. Yes.

Mr. HERTER. Can you tell us under what terms that was disposed of?

Mr. McCONE. I think he disposed of it for $100 a share. He might have that $100 a share plus a repayment to him of his share of these loans that he had advanced.

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Mr. HERTER. That is what I was going to get at.

Mr. McCONE. That is right.

Mr. HERTER. Did the person who bought the stock then put in the subordinated loan to take care of what was repaid to him?

Mr. McCONE. The loans were never taken out. They were just bought from him. The notes were purchased. The acquiring stockholders, who happened to be the W. A. Bechtel Co. and the Bechtel-McCone Corp., acquired the note from Mr. Kaiser at its face value.

Mr. HERTER. And paid for the stock the same amount that he paid?

Mr. McCONE. Yes; and acquired his stock. It was a transaction between two stockholders. It did not enter into the financial structure of the corporation itself.

Mr. HERTER. Was that in any way connected with his acquiring a larger interest in the Permanente Co.?

Mr. McCONE. Yes; at that time, or approximately that time, the Bechtel-McCone Corp. and the W. A. Bechtel Co. sold their entire interest in the Permanente Metals Co.—or, no; I stand corrected. We agreed to sell our entire interest in the Permanente Metals Co., after we had received from Permanente a certain dividend, and that dividend was paid late in 1945, December; and when it was received, then we sold our capital stock in the Permanente Metals Co. to Mr. Kaiser, at par.

Mr. HERTER. At par?

Mr. McCONE. Yes.

Mr. HERTER. So it was really a swapping transaction, each selling to the other their interests in the given corporations at par?

Mr. McCONE. That is right. That is correct.

Mr. HERTER. Had the California Shipbuilding Corp. declared any dividend as a part of that agreement, too?

Mr. McCONE. No, no; it had not declared any dividend.

Mr. HERTER. The California Shipbuilding Co. has no subsidiary interest beyond shipbuilding, has it?

Mr. McCONE. No.

Mr. HERTER. You had no losses you could charge off against profits?

Mr. McCONE. No.

Mr. HERTER. In your tax computation?

Mr. McCONE. No; we won't complicate the meeting in that way.

Mr. HERTER. What is the present status? You are in liquidation, and that is going to be the end of it?

Mr. McCONE. Well, we are not in liquidation. We are liquidating the yard. The corporation is not in liquidation.

Mr. HERTER. It is presumed it will be liquidated?

Mr. McCONE. Well, I do not know that. There has been no action on that.

Mr. HERTER. In liquidation, if you have a good deal of money left in the till, it becomes a capital gain and not a dividend, does it not?

Mr. McCONE. Well, Mr. Bridges, the attorney, tells me that that would be an unwise way to call it, because the tax would be higher if the company were liquidated, rather than distributing the dividend to the corporate stockholders.

Mr. HERTER. I took it that the California fashion now was to organize the so-called Hollywood corporation, which stays in existence a very short time and then liquidates, so that the profits would be charged to capital gains and not as profits.

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Mr. McCONE. We are a Terminal Island corporation. That is quite a long way from Hollywood!

Mr. KEOGH. Mr. Chairman, may I ask? Are you not undertaking some repair work now, on that yard?

Mr. McCONE. Yes, we undertook some repair contracts at the request of the Maritime Commission, and we also undertook a secret project known as the Dagwood project, really for the Navy, although I think the contract was with the Maritime Commission; but that work has all been completed.

Mr. KEOGH. Oh, it has been completed?

Mr. McCONE. It was undertaken only when there was an acute shortage of repair facilities, and we had a few open berths and some manpower, just prior to VJ-day.

Mr. KEOGH. Has your company made any arrangements with the harbor commissions of Los Angeles for the retention of the site or for a part of it?

Mr. McCONE. No. We have had some discussions with them.

Mr. KEOGH. Looking toward the retention by your company of the site, or a part of it?

Mr. McCONE. Yes; we inquired of them regarding retention of the site, and we were told that they would look with favor upon leasing a portion of the site to us for a 5-year term, providing it had certain cancellation provisions in it; and we never went into it in any particular detail.

Mr. KEOGH. You have not terminated any lease?

Mr. McCONE. No; the lease cannot be terminated until the site is clear; so it has some time to run; but it may be that if we carried on in one or two of those buildings, they would like to get the revenue, providing they could remove us at any time; but it is not our present plan to do that.

Mr. KEOGH. It is not your present plan to continue?

Mr. McCONE. In that connection, of course, you understand that the facility cannot be used in shipbuilding and ship repair, by stipulation of the Maritime Commission at the time that they turned the facility over to us, unless they specifically approved any such request, which we have not made of them.

Mr. HERTER. Is it not true that the Maritime Commission has a policy that it will not allow companies using Government-owned facilities any longer to bid competitively for private contracts or Government contracts?

Mr. McCONE. I do not know that that is their policy.

The CHAIRMAN. Mr. Weichel.

Mr. WEICHEL. This morning you said that your company had $4,000,000 nonreimbursables. What were the sizable amounts that were not reimbursable?

Mr. McCONE. The largest single item was about $1,000,000. It was contributed by the corporation to an employees' benefit fund. That benefit fund was set up, with the approval of the Treasury Department, to provide extra compensation at the time of the conclusion of our activities, to some 500 or 600 men who were working 7 days a week and receiving no overtime or no extra consideration for their doing it and who we thought were somewhat underpaid because of the wage stabilization. So what we did was to put in every year to this employees' benefit fund a sum of two or three or four hundred

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thousand dollars, and that went for the benefit of these people. That was one item.

Mr. WEICHEL. What has happened to that money since?

Mr. McCONE. It has been distributed to those people. It was put into an irrevocable trust, so it became a vested interest of the participants in this fund, and as they left the employ of the company they received their proportion in cash.

Mr. WEICHEL. That was a subterfuge to pay higher than the ceiling wage, was it not?

Mr. McCONE. No; it was not a subterfuge; it was a means of paying those men when they left our employ.

Mr. WEICHEL. When you started this fund, you said you felt that they were underpaid?

Mr. McCONE. Yes, sir; we thought they were underpaid.

Mr. WEICHEL. And that was your way of getting around the wage ceilings which everybody else had to pay?

Mr. McCONE. The Wage Stabilization Board did not say that. They agreed to it.

Mr. WEICHEL. It was a subterfuge, though, was it not?

Mr. McCONE. No, sir.

Mr. WEICHEL. You were only supposed to pay them so much. Everybody else was not able to set up a fund; and you tried to get it out of the Government afterward and could not get it. Do you think that is keeping the price ceilings with reference to OPA? By the way, that brings up another question. How many purchases did you have that were over ceiling prices of the OPA through this transaction? Did you ever keep track of that?

Mr. McCONE. You ask me a lot of different questions.

Mr. WEICHEL. I am asking you both of those.

Mr. McCONE. In the first place, to my knowledge——

Mr. WEICHEL. I will waive this one about the OPA. You can take it home with you if you do not know the answer.

Mr. McCONE. I think I know the answer.

Mr. WEICHEL. With reference to the wage business, you said you thought they were not paid enough. So, what it amounted to was a subterfuge to beat the Wage Adjustment Board.

Mr. McCONE. No. We thought the men were not paid enough.

Mr. WEICHEL. A lot of other people thought that their men were not paid enough, but they could not use those subterfuges and try to collect off the Government.

Mr. McCONE. We did not collect off the Government.

Mr. WEICHEL. You tried awfully hard.

Mr. McCONE. No; we did not. We did not try to get it off the Government in any way, shape, or manner, at any time.

Mr. WEICHEL. You asked for reimbursement and did not get it.

Mr. McCONE. No; we did not ask for reimbursement.

Mr. WEICHEL. You said you were not reimbursed for $4,000,000.

Mr. McCONE. That is correct. But that does not mean we asked for reimbursement.

Mr. WEICHEL. Were you told not to ask, in view of the circumstances?

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Mr. McCONE. No. We did not ask. I want to be straight on one question that you asked. You said that we tried to get reimbursement from the Government.

Mr. WEICHEL. You said it was a nonreimbursable.

Mr. McCONE. You said it was a subterfuge.

Mr. WEICHEL. Yes; I still say that.

Mr. McCONE. It was not a subterfuge in the eyes of the Treasury Department and the Wage Stabilization Board, who examined it, and it was discussed very thoroughly, and I therefore want to deny emphatically that it was a subterfuge in any way, shape, or manner.

Mr. WEICHEL. No matter what you say, I think it is a subterfuge, because other people were not able to avail themselves of that kind of trickery to get around it.

Mr. McCONE. Mr. Chairman, I believe that there were many, many corporations that set up benefit funds. The Treasury Department issued printed bulletins advising this procedure or suggesting it.

Mr. WEICHEL. To get around the wage adjustments made?

Mr. McCONE. No.

Mr. WEICHEL. That is what you did.

Mr. McCONE. No; to try to help a lot of people who were helping the Government through this period of reconversion.

Mr. WEICHEL. That was your way. Did you buy any of the material that went into these ships and into the yards?

Mr. McCONE. Yes.

Mr. WEICHEL. How much did you pay over ceiling prices?

Mr. McCONE. Not one cent, to my knowledge.

Mr. WEICHEL. You paid nothing over ceiling prices on anything?

Mr. McCONE. No, sir.

Mr. WEICHEL. Does that go with reference to the construction of facilities and ships?

Mr. McCONE. Yes, sir.

Mr. WEICHEL. With reference to the $4,000,000 of nonreimbursables, what were the amounts?

Mr. McCONE. There was some six or seven hundred thousand dollars that was donated to charities. It was given to the Community Chest, the War Chest, and the Red Cross—such things as that. California Ship tried to take its position as a good member of the community.

Mr. WEICHEL. It did not cost you anything, though. You could not deduct all of it, could you?

Mr. McCONE. There was a substantial amount of disallowed salaries and wages, $290,000. There was $145,000 in executive and engineering and other kinds of travel expenses, expense of a type which the Maritime Commission did not feel was reimbursable.

Mr. WEICHEL. Did you ask to have it reimbursed and it was not reimbursed—$145,000 worth of expense?

Mr. McCONE. As a matter of policy, the directors of the California Shipbuilding Corp. decided, first, that they would not ask for reimbursement for executives and principal officers, nor would they ask for reimbursement of any of the partners, despite the fact that they at the request of the Maritime Commission made many trips in the

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interest of this project; nor would they ask reimbursement for any engineer officer or employee in excess of the amount prescribed and accepted, of $6 or $7 a day.

Mr. WEICHEL. In excess of $25,000 a year, or what? There was $145,000 worth of expense that you could not get reimbursed, traveling expense, over $7 a day. Is that it?

Mr. McCONE. I enumerated the different things that were involved.

Mr. WEICHEL. Was it expense over $7 a day?

Mr. McCONE. Part of it is, and a lot of it is expense——

Mr. WEICHEL. But you did get it up to $6 or $7 a day?

Mr. McCONE. For certain types of employees, yes, within the standard established.

Mr. WEICHEL. $7 a day for room and food, or was it for rooms they allowed, and over that you had to pay it yourself?

Mr. McCONE. I will have to refer you to the standard.

Mr. WEICHEL. I am asking you what you paid. You said you paid it over the amount—what amount?

Mr. McCONE. We make a practice of reimbursing our men for all of their expenses.

Mr. WEICHEL. That is nice. I hope you do. But how much reimbursement did you get out of the Government?

Mr. McCONE. For certain classes of men we make requisitions for reimbursement in the amounts established by the division of the Government we are working for.

Mr. WEICHEL. You were not very big-hearted. You got all you could get from the Government. That is correct, is it not?

The CHAIRMAN. I think you can draw your own conclusions.

Mr. WEICHEL. If he doesn't want to say, then I say that he got all he could from the Government to reimburse himself for expense of travel. That is, $145,000.

Mr. McCONE. $687,000 in donations.

Mr. WEICHEL. $687,000 in donations? How much did the corporation deduct for donations from its income tax, if anything?

Mr. McCONE. I don't know that.

Mr. WEICHEL. How much of this did you deduct as a matter of business? Do you mean the Government would not give you the $687,000 as a reimbursement?

Mr. McCONE. We probably deducted $687,000.

Mr. WEICHEL. The Government would not reimburse you for that?

Mr. McCONE. We requested no reimbursement, sir.

Mr. WEICHEL. Did you deduct that from your income tax?

Mr. McCONE. Of course.

Mr. WEICHEL. What is the difference? You take it away from the Government one place or the other. It doesn't make much difference. The only thing is, you call it charity.

What other big amounts were there?

Mr. McCONE. There was $629,000 for Federal capital stock taxes.

Mr. WEICHEL. Was that chargeable to individuals or chargeable to the corporation?

Mr. McCONE. That was a Federal tax on the corporation.

Mr. WEICHEL. Did you try to get that reimbursed?

Mr. McCONE. I may say we did make an application.

Mr. WEICHEL. But they did not reimburse you for that $629,000?

Mr. McCONE. That is correct.

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There was $290,000 in salaries or wages.

Mr. WEICHEL. That the Government did not reimburse?

Mr. McCONE. Yes.

Mr. WEICHEL. Was that because you paid over $25,000 per person?

Mr. McCONE. No; we paid no one over that amount.

Mr. WEICHEL. What was it for, if it was not for what you could not collect under the amount set by the Maritime Commission?

Mr. McCONE. Some particular salaries that the Maritime Commission did not reimburse in total for. They reimbursed us partially.

Mr. WEICHEL. In other words, you paid the people in salaries $290,000 more than the Government would reimburse you for; in other words, they said they would pay salaries of so much, but you paid $290,000 more?

Mr. McCONE. Yes. And there were some wages, too.

Mr. WEICHEL. But you deducted that from your income as a part of the expense of doing business?

Mr. McCONE. This entire $4,000,000 was deducted from our income taxes.

Mr. WEICHEL. So there were no taxes paid on the amount that was nonreimbursable at all; it was all charged off as an expense of doing business. Is that correct?

Mr. McCONE. That is correct.

There was $106,000 in group insurance premiums. We provided life insurance for our employees and paid a substantial part of the premium. That cost us $106,000.

Mr. WEICHEL. That was in this $4,000,000 that was nonreimbursable?

Mr. McCONE. Yes. There was a substantial item for launching expense, including any gifts we might have given sponsors.

Mr. WEICHEL. What kind of gifts did you give out there? Did you give $5,000 diamond necklaces?

Mr. McCONE. No; we gave $60 cigarette boxes.

Mr. WEICHEL. Was that your top at that time out there?

Mr. McCONE. I think our top was about $800, which was for the first launching.

Mr. WEICHEL. To each person?

Mr. McCONE. No; to the sponsor.

Mr. WEICHEL. You charged that up in your income tax as an expense of doing business?

Mr. McCONE. That was part of the $4,000,000.

Mr. WEICHEL. It would not make much difference whether you got it off the income tax or whether the Government reimbursed you; the Government got cut both ways with it.

Mr. McCONE. If you like, I will leave a copy of this schedule which I think is reasonably correct.

Mr. COLES. I would like to have it.

Mr. WEICHEL. So that your company was reimbursed for all the expenditures, for wages, materials, administrative costs, and everything, excepting $4,000,000; and the $4,000,000 you deducted from income tax, so the Government paid it that way. They did not pay it to you direct, but you deducted it from income tax.

Mr. McCONE. To the extent that it lessened our tax.

Mr. WEICHEL. $4,000,000 is a tidy sum, even around here. So you deducted $4,000,000, which is all right; but as to fees, I think you

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testified that this company received $47,000,000. That is what the Maritime Commission said. And then you claim that you paid some taxes that cut it down to $35,000,000.

Mr. McCONE. Fees and profits.

Mr. WEICHEL. This morning you testified to $35,000,000 gross earnings after renegotiation.

Mr. McCONE. The fees and profits after renegotiation were $35,541,880.60; yes, sir.

Mr. WEICHEL. $35,000,000, roughly?

Mr. McCONE. That is correct.

Mr. WEICHEL. What was the cost of the facilities there?

Mr. McCONE. $25,000,000, approximately.

The CHAIRMAN. I wonder if that has not been gone over.

Mr. WEICHEL. I just want to ask one question on that.

Of the $35,000,000 gross after renegotiation the only thing that you were not reimbursed for was $4,000,000. So that is about the only investment you had. You deducted most of that. So you received more than eight times the amount that you were not reimbursed for in fees, gross—more than 800 percent of what you actually spent; and you did spend all of the $4,000,000. Taxes were to be taken off. The total number ships that were built was 467; the plant cost the Government $25,000,000; there was $14,000,000 worth of property there when it was finished, and you got $2,000,000 credit. That is, roughly, $41,000,000 that your company received, plus $35,000,000 in fees. Is that about right? It cost the Government $25,000,000 for that facility. You got that. You got $14,000,000 in property and you got $2,000,000 credit. That is $41,000,000. The plant cost $25,000,000. That is $66,000,000. You got $35,000,000 in gross fees. That is $91,000,000. All together your company got $91,000,000 for building 467 ships. Roughly, without the deduction of taxes, it cost the Government nearly $200,000 in fees for each ship built by your company. The Todd people, just ahead of you, had, roughly, $11,000,000 in fees and the plant was about $14,000,000. Theirs was about half the cost to the Government. Yours was $200,000 per ship.

Mr. McCONE. Are you asking me a question, sir?

Mr. WEICHEL. Yes.

Mr. McCONE. I think your figures are wrong. My answer is "No."

Mr. WEICHEL. The plant cost $25,000,000. You got that. There was $14,000,000 worth of chattels on the ground; you got that; $2,000,000 credit. That is $41,000,000. You had $35,000,000 in fees after renegotiation——

Mr. KEOGH. You have the plant in there twice.

The CHAIRMAN. It is a matter of argument for the committee, rather than to ask this gentleman the question.

Mr. WEICHEL. I am asking if he got that much.

The CHAIRMAN. It seems to me to be a matter of argument.

Mr. WEICHEL. I am just adding up what the Government paid to this one company either in fees, property, or credit, for which they got 467 ships. The Todd people got $11,000,000 in fees and a plant of about $12,000,000 or $14,000,000, and they built 222 ships.

Mr. McCONE. I cannot follow your figures. I cannot add worn-out facilities and surplus materials that are valueless, and this and that. I just cannot do it. I can say this, however——

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Mr. WEICHEL. You got all of those things, did you not?

Mr. McCONE. No. All I can say is this, Mr. Weichel, and that is that we will stand on the records of the Maritime Commission as regards, first, the cost of the facilities at California Ship on a per way basis or a per ship basis; secondly, on the cost of the ships produced on a basis of either total cost or man-hours. While California Ship, I am sorry to say, was not the lowest-cost yard, it was right down among the low two or three yards, and we are very proud of its record.

The CHAIRMAN. I wonder, gentlemen, if we have not been over that several times. We have Mr. Jones waiting here to be heard. He has an engagement tomorrow and cannot be here. I have no disposition to shut off any testimony.

Mr. WEICHEL. That is all, Mr. Chairman.

Mr. COLES. I have no questions to ask, Mr. Chairman, but I would like to say that we have given a commitment to Mr. Bechtel, who is a very high-ranking officer in the Boy Scouts of America, that he would be able to leave here tonight.

The CHAIRMAN. If that is so, I will stay here until 11 o'clock tonight if necessary. I do not ask the others to do that with me.

Stand aside, Mr. McCone.

Mr. McCONE. Am I excused, sir?

The CHAIRMAN. Yes.

Mr. McCONE. I appreciate this opportunity to appear before the committee.

(Information furnished by the California Shipbuilding Corp., in response to the committee's questionnaire, has been received in the record and marked "Exhibit 14.")

Mr. COLES. Mr. Chairman, may I suggest that the witness from the New England Shipbuilding Corp. now testify, and may I, before calling upon him, introduce Mr. Nathaniel C. W. Gennett, Jr., the assistant general counsel of the committee, who will examine the witness?

The CHAIRMAN. Yes; and I hope examination of counsel will be limited to the minimum, so that we can accommodate these gentlemen who are here. Then, when counsel have laid a foundation for an examination by members of the committee, what they do not cover they can take up again.

Will the witnesses hold up their hands, please? Do you solemnly swear that the evidence that you shall give at these hearings or any future hearings herein will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. STOLER. I do.

TESTIMONY OF MICHAEL L. STOLER, NEW ENGLAND SHIPBUILDING CORP.

Mr. GENNETT. Will you please give us your full name?

Mr. STOLER. Michael N. Stoler, S-t-o-l-e-r.

Mr. GENNETT. And you represent what corporation or company?

Mr. STOLER. We represent the New England Shipbuilding Corp.

Mr. GENNETT. What is your position with that corporation?

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Mr. STOLER. I am a certified public accountant, partner of Henry Brout & Co., of New York City. We have been associated with the New England Shipbuilding Co. from its inception in 1941, not only in the capacity of certified public accountants but advisers and associates with them—not financially, but in business matters.

Mr. GENNETT. Mr. Stoler, will you give us the date of the formation of the corporation, and tell us the State in which it was incorporated?

Mr. STOLER. Yes. The New England Shipbuilding Corp. was formerly the South Portland Shipbuilding Corp., and was organized April 1, 1941, in the State of Maine.

Mr. GENNETT. Who are the chief stockholders of the corporation?

Mr. STOLER. The present chief stockholders are Todd Shipyards Corp., 1 Broadway, 50-percent owner, and Bath Iron Works Corp., of Bath, Maine, 50 percent.

The CHAIRMAN. May I ask right there if that is the same old South Portland that we investigated here at one time, and upon which we made a report?

Mr. STOLER. That is, sir.

Mr. GENNETT. Can you give the date of the corporation's first contract with the Maritime Commission?

Mr. STOLER. Yes; I can. The first contract for ships was entered into on April 28, 1941, and for facilities some time before that. I will get the exact date for you in just a minute.

Mr. GENNETT. How much of the incorporators' money was originally put into the corporation; that is, by Bath Iron Works and Todd Shipyards Corp.?

Mr. STOLER. Well, at the original formation there were more than the Bath Iron Works and Todd Shipyards. We also had the same group in here that Mr. Kaiser had, the 10-corporation group, originally.

Mr. GENNETT. But you stated that the New England Shipbuilding Corp. is owned 50 percent by Bath Iron Works and 50 percent by Todd Shipyards.

Mr. STOLER. At present.

Mr. GENNETT. At the present time?

Mr. STOLER. That is right.

Mr. GENNETT. Then, prior to April 1, 1941, were the 10 Kaiser companies interested in the corporation? Are they the same companies that were interested in the other Kaiser corporations which we mentioned this morning?

Mr. STOLER. Well, we had the same group that were mentioned here previously, plus the Bath Iron Works Corp.

Mr. GENNETT. At what time did the corporation descend fully owned to the Bath Iron Works and Todd Shipyards Corp.?

Mr. STOLER. I believe it was early in 1942.

Mr. GENNETT. What was the amount of capital originally put in this corporation by Todd and Bath Iron Works?

Mr. STOLER. Well, $278,000 in capital stock, $750,000 in subordinated loans at no interest, and, of course, the bank loans of approximately $5,000,000.

Mr. GENNETT. Was interest paid on these bank loans?

Mr. STOLER. Yes; it was.

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Mr. GENNETT. Was the interest reimbursed by the Commission?

Mr. STOLER. Yes; the interest was, but there was a credit commitment by the banks which was not reimbursed by the Commission.

Mr. GENNETT. About what percentage of the total interest on bank loans was reimbursed?

Mr. STOLER. I would say roughly about 85 to 90 percent.

Mr. GENNETT. Were receivables from the Government contracts pledged as security for the bank loans?

Mr. STOLER. Yes; they were.

Mr. GENNETT. Did the corporation put any of its own capital, that is, the $278,000 that you mentioned, actually in the physical shipyard of the corporation?

Mr. STOLER. Well, they did not have it in physical shipyard, actually. They put up the cash plus $750,000 additional cash for working capital.

Mr. GENNETT. What was the $278,000 used for?

Mr. STOLER. That was used for current working expenses, payments prior to the time when the Maritime Commission would reimburse the company.

Mr. GENNETT. Were there any increases in capital through stock dividends?

Mr. STOLER. Yes. When the Kaiser group got out of the company in 1942, a dividend of $40,000 was declared. Twelve thousand dollars was paid in cash to the Kaiser group, and $28,000 in stock to Bath and to Todd Shipyards.

Mr. GENNETT. Which increased the total capital of the corporation to what?

Mr. STOLER. To the present $278,000.

Mr. GENNETT. $278,000?

Mr. STOLER. That's right.

Mr. GENNETT. This increase in capital was paid out of profits made by the corporation prior to that time from its shipbuilding activities?

Mr. STOLER. Yes; that is right.

Mr. GENNETT. What was the total cost of the facilities to the Maritime Commission?

Mr. STOLER. The cost to the Maritime Commission of which we know was $13,520,842, but there were some additional expenditures by the Commission which were not on our records. That is in connection with another shipyard adjacent to our own.

Mr. GENNETT. Were those facilities of the shipyard adjacent to your own shipyard used by your company?

Mr. STOLER. Yes, they were.

Mr. GENNETT. Then the total Government or Maritime Commission money in the yard was substantially in excess of 13½ million dollars?

Mr. STOLER. Yes; it was—probably 22 or 23 million dollars.

Mr. GENNETT. Perhaps I am redundant, but did the corporation have any investment in the yard?

Mr. STOLER. I believe no investment in physical assets, no.

Mr. GENNETT. Was the yard built on a facilities contract by the New England Shipbuilding Corp.?

Mr. STOLER. It was built on a facilities contract; yes.

Mr. GENNETT. I assume that the usual provision against profit was in that contract?

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Mr. STOLER. Yes; there was no profit of any kind.

Mr. GENNETT. Was the work subcontracted?

Mr. STOLER. Yes; the work was subcontracted, but not to affiliates of either company.

Mr. GENNETT. Were fees earned by the subcontractors?

Mr. STOLER. Profits were earned, we believe.

Mr. GENNETT. How many shipbuilding contracts did New England have, Mr. Stoler?

Mr. STOLER. We have had a total of five fixed-fee contracts, one selective-price contract, and one bid contract.

Mr. GENNETT. One bid contract?

Mr. STOLER. One lump-sum contract.

Mr. GENNETT. I understood from the statements furnished us by the corporation that you had cost-plus contracts.

Mr. STOLER. Cost-plus-fixed-fee.

Mr. GENNETT. Do you regard the lump sum as a bid contract.

Mr. STOLER. Right.

Mr. GENNETT. Do you regard the lump-sum as a bid contract.

Mr. STOLER. We did. It did not make any difference. There was very little work done on it.

Mr. GENNETT. Were any of these contracts converted to any other type of contract?

Mr. STOLER. No, sir.

Mr. GENNETT. Can you tell us the total amount of fees paid to or earned by the corporation on these contracts?

Mr. STOLER. I will have to tell you that in two parts, because the company has not as yet been renegotiated, and has not as yet, in fact, received final payment. It has submitted claims for certain amounts. I will give you the amounts that we have received, which is $5,637,000. We have claims, however, for about 5,976,000.

Mr. GENNETT. Therefore approximately 50 percent of your total claims have been renegotiated and allowed?

Mr. STOLER. Not renegotiated. Those were the minimum fees stated in the contract.

Mr. GENNETT. Have you seen exhibit 1 prepared by the Maritime Commission, which estimated the New England Shipbuilding Corp.'s profits at $11,871,840.

Mr. STOLER. No; I did not see that. That is, I did not see that officially. I did see it in the newspapers, and I could not reconcile that with our figures, but came fairly close.

Mr. GENNETT. As you stand at the present time there is very little difference between the Maritime Commission's figures and the figures which you have just given there?

Mr. STOLER. Our figures in total, assuming that all of our claims are allowed and that we keep all of our money in renegotiation, total $11,813,285.50, compared with a figure given here as $11,097,112.

Mr. GENNETT. That does not differ very much from the Maritime Commission's figures.

Do you know the total cost of the contracts to the Maritime Commission?

Mr. STOLER. Yes.

Mr. GENNETT. Would you give us that figure?

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Mr. STOLER. Surely. The total cost of the cost-plus-fixed-fee contracts was $250,923,871.10; the fixed-price contract was $633,544.22; and then the selective-price contract was $8,588,078.34.

Mr. GENNETT. On all of these contracts a portion of the material was supplied by the Government, was it not?

Mr. STOLER. That is right.

Mr. GENNETT. Do you know exactly or nearly so how much that figure would be?

Mr. STOLER. We have no idea as to how much was supplied.

Mr. GENNETT. Were management salaries of the corporation reimbursed by the Maritime Commission?

Mr. STOLER. In part; not wholly.

Mr. GENNETT. Did you have a substantial amount of reimbursable items that were disallowed by the Commission?

Mr. STOLER. Yes. We thought we had, but compared to some of the figures we have heard they are not so great. Our contractors' expenses totaled $667,933.36.

Mr. GENNETT. Normally, however, you were reimbursed promptly by the Commission upon submission of vouchers with the proper certification, were you not?

Mr. STOLER. Yes; after the Commission had its audit procedure set up, we did.

Mr. GENNETT. In this case, as in most of the others, we have seen that management fees were paid; that interest on borrowed capital, or a part of the interest thereon was paid by the Commission; that the corporation was reimbursed promptly for expenses; that a portion of the material and usually the largest portion, was supplied by the Commission; and that the yards and facilities were entirely furnished by the Commission. In light of the fact that facilities, labor, and other costs, as well as materials, were furnished by the Commission what are the fees of $5,637,000 already paid and $5,976,000 estimated to be still due the corporation being paid for?

Mr. STOLER. For delivering 244 vessels.

Mr. GENNETT. Do you know, Mr. Stoler, the percentage of profit made on the capital investment of the corporation as shown by the fees paid or estimated to be paid?

Mr. STOLER. No; I have never worked that out, although I can.

Mr. GENNETT. I have asked a committee accountant to calculate it, and it comes out as 4,055 percent on the original capital.

Mr. STOLER. On the original capital of $278,000?

Mr. GENNETT. On the original capital of $278,000.

Mr. STOLER. Without stockholders' loans or bank loans.

Mr. KEOGH. Mr. Chairman, I am wondering if that is not the kind of computation that Mr. McCone referred to in his testimony this morning. It is a conclusion that is one way of expressing something that is not as complete as it might be.

Mr. GENNETT. Perhaps that is true.

Mr. KEOGH. Do you not think that fairness would impel you to permit all these witnesses to present the alternative computations?

Mr. GENNETT. I do, Mr. Keogh, if they desire to do so.

Mr. KEOGH. May I suggest, then, that that question be withdrawn and deferred?

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The CHAIRMAN. It is withdrawn.

Let us proceed just as far as necessary to let the witness make his statement, and let the members examine. Then counsel will resume the examination.

Mr. GENNETT. Mr. Stoler, will you give us briefly the maximum and minimum fees that were paid on the three contracts that you had with the Commission?

Mr. STOLER. Yes. We had various fees in the various contracts. Under one contract we received no fees. Under one contract we received a basic fee of $60,000, a minimum of $32,750, and a maximum of $76,000.

Mr. KEOGH. To which one are you referring now?

Mr. STOLER. Cost-plus-fixed-fee.

This was also a cost-plus-fixed-fee contract under which we received a basic fee of $55,000, a minimum of $30,000, and maximum of $70,000; and the third type of contract give us a basic fee of $45,000, minimum of $20,000, and maximum of $60,000.

Mr. GENNETT. Can you state the basis for the base figure in these maximum and minimum fees?

Mr. STOLER. No. I do not know. Those were by negotiation.

Mr. GENNETT. I understood you to say some of your contracts had been renegotiated?

Mr. STOLER. No. We had a renegotiation meeting and arrived at some tentative figures, but nothing final.

Mr. GENNETT. None of the contracts has yet been renegotiated?

Mr. STOLER. That is correct.

Mr. GENNETT. The first contract was entered into in 1942?

Mr. STOLER. In '41.

Mr. GENNETT. And it has not yet been renegotiated?

Mr. STOLER. That is right.

Mr. GENNETT. The date of the last contract was what, Mr. Stoler?

The CHAIRMAN. How many contracts were there?

Mr. STOLER. There were five contracts. The date of the last one, subject to renegotiation, is June 17, 1943.

Mr. GANNETT. But none of those contracts has been renegotiated?

Mr. STOLER. That is right.

Mr. GENNETT. That is all, Mr. Chairman.

The CHAIRMAN. Do you have any statement?

Mr. STOLER. No, sir.

Mr. HERTER. Just one question, out of turn. At this point can you tell us what is being renegotiated, profits of what? I may have been out of the room when you gave that.

Mr. STOLER. Yes, sir; I will give you that. The maximum fees that the company has received or is entitled to receive are $11,613,-285.50. That is the figure subject to renegotiation.

Mr. HERTER. On what total dollar volume of business?

Mr. STOLER. On a total volume of $250,873,871.10.

Mr. HERTER. What percentage is that figure, about 4½?

Mr. STOLER. Four and one-half before taxes.

Mr. GENNETT. Mr. Chairman, may I ask the witness if he will furnish for us the percentage earned on invested capital, as Mr. Keogh suggested?

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The CHAIRMAN. I would rather not interrupt the examination being conducted by Mr. Herter.

Mr. GENNETT. Excuse me, sir.

Mr. HERTER. I just thought those figures out to be a part of the preliminary statement so we would know what we are talking about from here on.

That is all.

Mr. GENNETT. Would you do that?

Mr. STOLER. Yes, sir.

Mr. GENNETT. I asked Mr. Stoler if he would give us the percentage earned on invested capital, according to his records.

The CHAIRMAN. He said he would?

(See exhibit 15.)

Mr. HERTER. What taxes did you pay? What is the net?

Mr. STOLER. I have that. We paid taxes on our income received of five-million-six-hundred-thousand-odd dollars of $4,023,000.

Mr. HERTER. That you are deducting from the $11,000,000?

Mr. STOLER. No, sir. I am deducting that from $5,600,000 because we have not received the others.

Mr. HERTER. The other is still subject to renegotiation?

Mr. STOLER. That is right, sir. In other words, the tax rate is about 75 percent on what we earned.

The CHAIRMAN. Mr. Keogh?

Mr. KEOGH. Do I understand from your testimony, Mr. Stoler, that the Maritime Commission owes you upward of $5,000,000, according to your figures, or almost $6,000,000? Is that, in your opinion, ample reserve out of which any recapture by way of renegotiation may be had?

Mr. STOLER. We are hoping that we will get all of that money.

Mr. KEOGH. You are hoping that you will get all of it, but if the Government renegotiates you out of it, it will credit it against what it owes you.

Mr. STOLER. That is correct.

Mr. KEOGH. So it really does not make too much difference that renegotiation is not carried out immediately.

Mr. STOLER. Not in our situation; no, sir.

Mr. KEOGH. I have no further questions.

The CHAIRMAN. Mr. Bradley?

Mr. BRADLEY. No questions.

The CHAIRMAN. Do any other members of the committee have questions?

Mr. BRADLEY. Yes; I have one question, Mr. Chairman.

The CHAIRMAN. Mr. Bradley.

Mr. BRADLEY. Mr. Witness, we went into the old South Portland yard several years ago, you may recall.

Mr. STOLER. Yes, sir.

Mr. BRADLEY. At that time, when that yard was under construction, there was quite a lot of talk about subcontractors being connected with officials in the yards on a subrosa basis and making pretty handsome profits on the rental of machinery and so on and so forth. Do I understand that this is a new set-up entirely of the New England Shipbuilding Co.?

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Mr. STOLER. It is new management.

Mr. BRADLEY. Mr. Newell is not there any more?

Mr. STOLER. He is, of course, interested in Bath Iron Works, which is still 50 percent interested in our company, but the Todd Shipyards has taken over the active management of that yard.

Mr. BRADLEY. As I understand it, this $23,000,000 put into facilities was put into a new yard.

Mr. STOLER. No, sir. Pardon me; I'm sorry. Part of that was put into a new yard. Thirteen-million-odd-dollars was put into the west yard and the other yard, which was built for the Bath Iron Works Corp., which built boats for the British, was taken over by the Maritime Commission at the completion of their contract with the British and used by us. We were told that that was about eight and a half million dollars.

Mr. BRADLEY. Was that the one we had all the fuss about 4 or 5 years ago?

Mr. STOLER. You had the fuss about the west yard, which was built for the company.

Mr. BRADLEY. That does not figure in this picture right today?

Mr. STOLER. Yes, sir. That is $13,800,000-odd, is what that yard cost.

Mr. BRADLEY. I think, then, you perhaps want to correct the statement I understood you to make in answer to Mr. Gennett's question, that none of the subcontractors at that time were connected with officials of the yard—not with the present management, but at that time they were. But that is past history.

Mr. STOLER. That is not a matter of record, so far as I know.

Mr. BRADLEY. It is a matter of record before this committee.

Mr. STOLER. Perhaps.

Mr. BRADLEY. There were very voluminous hearings that we had at that time.

The CHAIRMAN. Very voluminous on the South Portland yard, which resulted in saving, I understand, several million dollars in the settlement that was made afterward.

Mr. BRADLEY. That is all I have.

Mr. HERTER. May I ask one additional question?

The CHAIRMAN. Yes, sir.

Mr. HERTER. As a matter of accounting procedure, I am not clear. When you are renegotiating profit as of a given year, and they are finally determined and a settlement is made, do you pay taxes based on the tax laws as of that given year or do you pay taxes as at the time you receive the money?

Mr. STOLER. As of the given year in which the work was done.

Mr. KEOGH. And as a matter of law, is it not beyond the province of the renegotiators to consider what the tax burden is? Theoretically they are supposed to disregard that.

Mr. STOLER. Theoretically they are.

The CHAIRMAN. Mr. Gennett, have you any further questions?

Mr. GENNETT. I think not, Mr. Chairman.

The CHAIRMAN. If there is nothing else, the witness stands aside. Call your next witness.

(Information furnished by the New England Shipbuilding Corp. in response to the committee's questionnaire has been received for the record and marked "Exhibit 15.")

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Mr. GENNETT. We call the Todd-Houston Shipbuilding Corp.

The CHAIRMAN. Will you solemnly swear that the testimony you will give in this or further hearings on the same subject matter will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. MAIDEN. I do.

TESTIMONY OF NORMAN G. MAIDEN, REPRESENTATIVE OF TODD-HOUSTON SHIPBUILDING CORP.

Mr. MAIDEN. My name is Norman G. Maiden. I am a certified public accountant, partner of Arthur Young & Co. As independent accountants we have been advisers to the company since its inception. I am in charge of the Dallas office.

Mr. GENNETT. So you are familiar with all the corporate details and business affairs of the corporation?

Mr. MAIDEN. I am.

Mr. GENNETT. Would you give us the date of the formation of that corporation and the State in which it was incorporated?

Mr. MAIDEN. January 6, 1941, in the State of Delaware.

Mr. GENNETT. Was its original name Todd-Houston Shipbuilding Corp.?

Mr. MAIDEN. Its original name was Houston Shipbuilding Corp.

Mr. GENNETT. When was it changed to the Todd-Houston Corp.?

Mr. MAIDEN. I do not recall the date. I think you have that. The amendment is filed .

Mr. GENNETT. I have an amendment to the certificate of incorporation which states the date as March 27, 1944.

Mr. MAIDEN. That is right.

Mr. GENNETT. Will you tell us the names of the corporations or individuals who participated in the formation of the Todd-Houston Shipbuilding Corp.?

Mr. MAIDEN. The original stockholders were Todd Shipyards Corp., Henry J. Kaiser Co., the Kaiser Co., Pacific Bridge Co., MacDonald & Kahn, Inc., Utah Construction Co., General Construction Co., Morrison-Knudsen, Inc., J. F. Shea Co., Inc., W. A. Bechtel, and Bechtel-McCone-Parsons Co.

Mr. GENNETT. The corporations or individuals that you have named might be again designated as the Kaiser group?

Mr. MAIDEN. Except Todd Shipyards, of course.

Mr. GENNETT. At the present time, is Todd-Houston Shipbuilding Corp. owned by the list of corporations or companies that you named?

Mr. MAIDEN. No. Todd-Houston Shipbuilding Corp. is owned 100 percent by Todd Shipyards Corp., and has been since February 1942.

Mr. GENNETT. When was the first contract with the Maritime Commission entered into, Mr. Maiden?

Mr. MAIDEN. The first facilities contract was dated January 11, 1941.

Mr. GENNETT. Was this facilities contract performed by the Todd-Houston Corp.?

Mr. MAIDEN. Yes. It was their responsibility.

Mr. GENNETT. Were there any subcontractors?

Mr. MAIDEN. Yes.

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Mr. GENNETT. Were any of those subcontractors related in any manner to the Todd-Houston Corp.?

Mr. MAIDEN. No; not that I know of.

Mr. GENNETT. So the Todd-Houston Corp. built the yard. Was there a provision against profit to the builder of the yard in its facilities contract?

Mr. MAIDEN. That is right—no profit.

Mr. GENNETT. What was the original capital of the company?

Mr. MAIDEN. The original capital of the company was $100,000.

Mr. GENNETT. One hundred thousand dollars was put up in what proportions by what persons or corporations?

Mr. MAIDEN. Fifty percent by Todd Shipyards Corp., 5¼ percent by Henry J. Kaiser Co., 5¼ percent by the Kaiser Co., 2¾ percent by Pacific Bridge Co., 5¼ percent by MacDonald & Kahn, Inc., 5¼ percent by all the others that I named previously.

Mr. GENNETT. When did the corporations which you have named cease to be interested in Todd-Houston, and how was their interest acquired by the Todd-Houston Shipbuilding Corp.?

Mr. MAIDEN. The date, as I recall, was in February 1942. At that time there was a dividend paid of $25,000 in cash and a stock dividend of $46,400.

Mr. GENNETT. The stock dividend, of course, was paid out of the earnings?

Mr. MAIDEN. That is right.

Mr. GENNETT. Were such earnings earned subsequent to the first Maritime Commission contract?

Mr. MAIDEN. That is right.

Mr. GENNETT. At the present time what is the capital of the corporation?

Mr. MAIDEN. At the present time the capital of the corporation is $189,200 in capital stock, and there was a subordinate loan of $500,000, and, of course, there were bank borrowings.

Mr. HERTER. Mr. Chairman, I wonder if counsel would yield for a question at this point.

In all of the testimony that we have had so far with respect to corporations in which the Kaiser interests participated we have found exactly the same type of financing all the way through, usually $100,000 capital stock, usually the formation of the corporation a few days before the first facilities contract was let, usually subordination of certain loans made by the stockholders of approximately the amount that you are now mentioning. In other words, this has been repeated so frequently that I wonder if you can tell us whether that was a standard formula that the Maritime Commission was insisting on with respect to a whole group of corporations.

Mr. HARRY G. HILL. Perhaps I might answer that. The Maritime Commission was insisting that a corporation formed to take on one of these facilities contracts with the hope of later getting a ship contract would be financed to some degree, which would be stated in the contract, and they would give you the alternatives: By share capital, or by subordinated loans. And in each of the corporations in which the Kaiser group and Todd Shipyards Corp. were associated, in each case, I think, we had $100,000 of paid-in capital and subordinated loans sufficient to make up the requirement of the Maritime Commission's contract.

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Mr. HERTER. Then the capitalization was increased by payment from the profits made from other contracts?

Mr. HILL. Yes, sir.

Mr. GENNETT. Your statement that the capital is now $189,200 is a figure that is $89,200 more than it was at the time the corporation was organized. From what source was the additional $89,200 obtained?

Mr. MAIDEN. At the organization, $100,000 in cash was paid in. In December of 1941 there was an additional $42,800 paid in in cash, and there was a stock dividend of $46,400 in February 1942, which makes a total of $189,200.

Mr. GENNETT. Was any money borrowed from the banks in addition to the loans of stockholders?

Mr. MAIDEN. The company had arrangements for loans up to a maximum of $2,600,000 at one time, and there was continual borrowings. The maximum was in May 1942, in the amount of $3,225,000. Later there was a credit arrangement under which they could borrow up to a maximum of $2,000,000, on which there was a commitment fee which was paid by the company and not reimbursed by the Maritime Commission.

Mr. GENNETT. Was interest paid on all of the bank loans?

Mr. MAIDEN. Yes.

Mr. GENNET. Was any of that interest reimbursed by the Commission?

Mr. MAIDEN. Yes, except this commitment fee that I talk of.

Mr. GENNETT. Were any of the corporations interested in Todd-Houston guarantors on these loans?

Mr. MAIDEN. Do you mean, were the loans guaranteed by anyone?

Mr. GENNETT. Yes.

Mr. MAIDEN. Not that I know of. I do not think so. Not that I recall.

Mr. GENNET. Were receivables from the Maritime Commission pledged as security on the bank loans?

Mr. MAIDEN. Not on the original credit agreements, but in the credit agreement dating from October, '43, on, they were.

Mr. GENNET. They were?

Mr. MAIDEN. They were pledged then. At least they were assigned to the banks.

Mr. GENNETT. So they stood——

Mr. MAIDEN. In fact, yes.

Mr. GENNETT. Capital was increased therefore, by stock dividends and reinvested cash dividends from 1941 until the date when the Kaiser interests were eliminated as owners of the corporation?

Mr. MAIDEN. I do not follow you.

Mr. GENNETT. I said, the capital of the corporation, which was originally $100,000, was increased by stock dividends from the time of organization in 1941, until the time that the Kaiser interests were eliminated from Todd-Houston, was it not?

Mr. MAIDEN. The capital stock originally was $100,000, and then additional cash was paid in by the stockholders. That has nothing to do with the earnings of the company. It was paid in by the stockholders to the amount of $42,800.

Mr. GENNETT. But I understand at the present time that there is outstanding $189,200 in no-par stock.

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Mr. MAIDEN. That is right.

Mr. GENNETT. So that $89,200 additional stock has been issued since its incorporation.

Mr. MAIDEN. No. The outstanding capital stock was increased by the payment into the company of an additional $42,800 and a stock dividend of $46,400.

Mr. GENNETT. I understand that. Was the $42,000 paid to the corporation in cash?

Mr. MAIDEN. From the stockholders.

Mr. GENNETT. From the stockholders, and not from profits?

Mr. MAIDEN. Not from profits; no, sir.

Mr. GENNETT. Was there a dividend to the stockholders before that time? Was there a cash dividend or stock dividend?

Mr. MAIDEN. Before the time they paid the $42,000 in?

Mr. GENNETT. Yes.

Mr. MAIDEN. No.

Mr. GENNETT. How much of the corporation's money was put into the physical yard, the shipyard?

Mr. MAIDEN. Into the physical yard?

Mr. GENNETT. Yes.

Mr. MAIDEN. None.

Mr. GENNETT. How much did the yard cost the Maritime Commission?

Mr. MAIDEN. Approximately $40,000,000.

Mr. GENNETT. That includes all charges for the facilities?

Mr. MAIDEN. All charges for the facilities; yes.

Mr. GENNETT. And none of the corporation's capital was used in the yard, either for facilities, equipment, or the like?

Mr. MAIDEN. No.

Mr. GENNETT. What, then, Mr. Maiden, was the capital actually used for?

Mr. MAIDEN. Paid in?

Mr. GENNETT. The paid-in capital.

Mr. MAIDEN. As working capital.

Mr. GENNETT. As part of the working capital, at least. Was the work on the yard subcontracted?

Mr. MAIDEN. Yes; a great portion of it was.

Mr. GENNETT. Were the subcontractors in any way, by stockholding or otherwise, related to Todd-Houston?

Mr. MAIDEN. No.

Mr. GENNETT. Were they related in any way to the stockholders of the corporation?

Mr. MAIDEN. Not that I know of, and I certainly do not think so.

Mr. GENNETT. When was the first shipbuilding contract entered into?

Mr. MAIDEN. March 14, 1941.

Mr. GENNETT. What types of contracts did the corporation hold with the Maritime Commission, Mr. Maiden?

Mr. MAIDEN. Cost-plus-fixed-fee.

Mr. GENNETT. Were all contracts cost-plus contracts?

Mr. MAIDEN. That is right.

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Mr. GENNETT. Can you state how many contracts there were?

Mr. MAIDEN. There were five for Liberty ships and one contract for tankers.

Mr. GENNETT. In addition to the facilities contracts?

Mr. MAIDEN. In addition to the facilities contract.

Mr. GENNETT. Can you tell us the amount of fees paid on these six contracts, not including the facilities contract, which figure you have already given us?

Mr. MAIDEN. The fees paid? There were no fees paid in the facilities contract.

Mr. GENNETT. I understand that.

Mr. MAIDEN. The fees paid amounted to $11,123,475. That is the amounts received or receivable.

Mr. GENNETT. Have any of those fees been renegotiated?

Mr. MAIDEN. Yes. The first five contracts have been renegotiated That is all of the Liberty ship contracts.

Mr. GENNETT. If fees were reduced how much was deducted by the Price Adjustment Board upon renegotiation?

Mr. MAIDEN. $2,554,828.

Mr. GENNETT. Did that deduction of $2,554,828 come out of the $11,000,000?

Mr. MAIDEN. No. Your question was, how much fees had we received?

Mr. GENNETT. That is right.

Mr. MAIDEN. There was $2,500,000 which we never received, which was eliminated.

Mr. GENNETT. Then about 8½ million of the total of 11 million in fees have actually been paid?

Mr. MAIDEN. No.

Mr. GENNETT. Have I got it wrong?

Mr. MAIDEN. Let me put it this way: $7,510,000 were the minimum fees in the contract. The company received that as the launchings and deliveries were made. In addition to that, after renegotiation was completed, we received additional fees of $3,430,000, and have receivable $183,475, so the total amount the company has received in fees was $11,123,475. However, they had earned under the terms of the contracts an additional $2,554,828, which was eliminated by the Renegotiation Board.

Mr. GENNETT. What is the net sum left after renegotiation?

Mr. MAIDEN. The gross fees, the net, is $11,123,475. That is before taxes and before reimbursement, before nonreimbursed expenses.

Mr. GENNETT. Were any of these contracts converted after their origin?

Mr. MAIDEN. No, no.

Mr. GENNETT. Will you tell us the total cost to the Government of all of the shipbuilding contracts?

Mr. MAIDEN. The Liberty Ships, $208,050,600.23. That is as of June 30, 1946; and the tankers, $12,983,883.50, as of June 30, 1946.

Mr. GENNETT. What part of the material was supplied to the corporation by the Maritime Commission?

Mr. MAIDEN. I do not know what the percentage was.

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Mr. GENNETT. Would you determine that for us?

Mr. MAIDEN. That is impossible. It is impossible of determination, in our case.

Mr. GENNETT. You could not determine it?

Mr. MAIDEN. No.

Mr. GENNETT. Under any circumstances?

Mr. MAIDEN. Under any circumstances; in our case, we could not.

Mr. GENNETT. Were the management salaries up to the legal limit reimbursed by the Maritime Commission to the corporation?

Mr. MAIDEN. Most of them.

Mr. GENNETT. Did you have a substantial amount of nonreimbursable items?

Mr. MAIDEN. Approximately $1,000,000.

Mr. GENNETT. Was the normal procedure for reimbursement rapid, was the corporation reimbursed quickly?

Mr. MAIDEN. Not in the beginning.

Mr. GENNETT. Was there any likelihood that the corporation would not be reimbursed for proper items?

Mr. MAIDEN. We hope not.

Mr. GENNETT. There, again, Mr. Maider, we find this situation. The corporation has been paid management fees, fees for building the ships, it has been provided with all the facilities, and had its labor costs paid. What in your opinion was this fee of approximately $11,000,000 paid for?

Mr. MAIDEN. For building the ships.

Mr. GENNETT. Were any of your contracts not subject to audit?

Mr. MAIDEN. No; all subject to audit, and all were audited.

Mr. GENNETT. Have you any idea of the percentage earned on the capital investment, of $189,200.

Mr. MAIDEN. Yes.

Mr. GENNETT. Would you determine that?

Mr. MAIDEN. All right.

Mr. GENNETT. Now, as to the maximum and the minimum fees that were paid under these contracts. Can you state those for the committee?

Mr. MAIDEN. Under the first contract—the first contract provided the minimum fee would be $60,000 per vessel and the maximum fee, $140,000 per vessel. The second contract, for 12 ships, provided the same figures—minimum, $60,000; maximum, $140,000. The third contract, for 32 vessels, minimum 60,000, maximum, $140,000. The fourth contract, for 31 vessels, minimum $30,000, maximum, $70,000. The fifth contract, for 108 vessels, minimum $20,000 per vessel, maximum $60,000 per vessel. Now, the tankers: 14 tankers, minimum $20,000 per vessel, maximum $60,000 per vessel.

Mr. GENNETT. Were there any set-offs of nonshipbuilding losses against shipbuilding profits?

Mr. MAIDEN. No; no.

Mr. GANNETT. I think that will be all, Mr. Chairman.

The CHAIRMAN. Mr. Keogh.

Mr. KEOGH. Mr. Maiden, have you prepared the operating statements of this company?

Mr. MAIDEN. Have I prepared them?

Mr. KEOGH. Yes.

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Mr. MAIDEN. No; I have not prepared them. I have reviewed them. I collaborated in the answers to this questionnaire.

Mr. KEOGH. I wonder, when you submit the figure with respect to the percentage that the fees bear to the invested paid-in capital, would you be good enough to accompany that with a computation of the percentage that those fees bear to the gross business done?

Mr. MAIDEN. Certainly.

Mr. KEOGH. Do you have any personal knowledge of the Todd Shipbuilding Corp.?

Mr. MAIDEN. No.

Mr. KEOGH. Do you have any knowledge of any of the individuals connected with that company?

Mr. MAIDEN. To some extent; yes.

Mr. KEOGH. Do you know John D. Riley, for example?

Mr. MAIDEN. Yes.

Mr. KEOGH. Do you know what position he occupies?

Mr. MAIDEN. Yes.

Mr. KEOGH. What is it?

Mr. MAIDEN. He is president of Todd Shipyards Corp.

Mr. KEOGH. Do you know how long he has been in the shipbuilding business and ship repair business?

Mr. MAIDEN. I should certainly say it is well over 20 years. Mr. Hill can answer that.

Mr. HILL. He has been in the business ever since the formation of Todd Shipyards, Inc., in 1916, which is 30 years.

Mr. KEOGH. Thirty years? Do you know what reputation he bears in the industry?

Mr. HILL. The highest, sir.

Mr. KEOGH. And is it not a fact that the executive officers of the Todd Shipbuilding Corp. are men who have spent the major portion of their adult lives in the shipbuilding business?

Mr. HILL. That is very true, sir, if by the shipbuilding business you include the ship repair business.

Mr. KEOGH. Yes. No further questions.

The CHAIRMAN. Mr. Bradley?

Mr. BRADLEY. I have no questions.

The CHAIRMAN. All right. Mr. Weichel.

Mr. WEICHEL. How many ships do you say your company built altogether? Two contracts of 12, one at 32, and one at 31, and one, 108?

Mr. MAIDEN. We had 208 Liberty ships and 14 tankers.

Mr. WEICHEL. Two hundred and eight Libertys and 14 tankers? On the first, the Government owned the entire facility?

Mr. MAIDEN. That is right, sir.

Mr. WEICHEL. And on the first 12——

Mr. MAIDEN. The first 25.

Mr. WEICHEL. I thought you had one contract at 12, naming the contract.

Mr. MAIDEN. The first contract was for 25, the second was for 12.

Mr. WEICHEL. Oh, the first was 20? Were there two of them for 12?

Mr. MAIDEN. No; 25, 12, 32, 31, and 108.

Mr. WEICHEL. On the first contract for 25 Libertys, what fee did you get? What was that one?

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Mr. MAIDEN. $60,000 per ship. That is, of course, before taxes.

Mr. WEICHEL. Well, I know, but what was the fee? I mean, you got the $60,000, then you had to pay taxes. I just want to know what you got. What was that—selective price?

Mr. MAIDEN. No; that was a cost-plus contract.

Mr. WEICHEL. Cost-plus, and it was $60,000 a ship?

Mr. MAIDEN. That is right.

Mr. WEICHEL. What was that based on? On the cost plus? I mean, you got a percent?

Mr. MAIDEN. No, no; that was the minimum fee stated in the contract. The minimum fee stated in the contract was $60,000 per vessel, and the maximum was $140,000. There was a base fee of $110,000, and the base fee was increased or decreased depending on man-hours or early or late delivery.

Mr. WEICHEL. So you got the minimum on each one of those, $60,000

Mr. MAIDEN. That is right.

Mr. WEICHEL. On the first 25?

Mr. MAIDEN. That is right.

Mr. WEICHEL. Then, on the next 12, what was the contract? $60,000?

Mr. MAIDEN. The same thing.

Mr. WEICHEL. And a minimum of what?

Mr. MAIDEN. $60,000 per vessel.

Mr. WEICHEL. 60 to 100?

Mr. MAIDEN. $140,000, maximum.

Mr. WEICHEL. 60 to 140?

Mr. MAIDEN. The work on these two contracts was performed simultaneously.

Mr. WEICHEL. Well, you got $60,000 apiece then on the next 12?

Mr. MAIDEN. That is right.

Mr. WEICHEL. Were those any different than Kaiser made out there where he only got $49,000 on the first ones, where you got 60? Were they any different in type or anything?

Mr. MAIDEN. Not as far as I know.

Mr. WEICHEL. So Kaiser got $49,000 on his first ones, and you got $60,000 apiece on your first 37?

Mr. MAIDEN. The figure——

Mr. WEICHEL (interposing). Now, the next—the 32.

Mr. MAIDEN. The figure that you are quoting, from Kaiser, may be after taxes. These figures I am giving you are before any deduction whatsoever.

Mr. WEICHEL. Sure! You got the money. I want to know what you got. I expect you to pay taxes for it. Everybody pays taxes.

Mr. MAIDEN. No; the point I am trying to make is, I do not know that you are comparing the proper figure. I do not know what the Kaiser figure was. My figures were without any deduction whatever.

Mr. WEICHEL. I am talking about this amount you collected. I expected you paid taxes, on all this. Everybody does.

Mr. MAIDEN. Yes; I know, but it is the comparing of figures.

Mr. WEICHEL. I know, but you keep on starting "before taxes." Everybody pays taxes on income. On the next, 32, how much did you get?

Mr. MAIDEN. $60,000.

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Mr. WEICHEL. And you got still $60,000? And the next, 31, how much did you get?

Mr. MAIDEN. After renegotiation? $60,000.

Mr. WEICHEL. $60,000? What was that—before renegotiating on all these?

Mr. MAIDEN. On all of those it was.

Mr. WEICHEL. I will take the last, 108, here, now. On that set how much did you get? How much did you get after renegotiation?

Mr. MAIDEN. $44,847 per vessel.

Mr. WEICHEL. 47?

Mr. MAIDEN. $44,847.

Mr. WEICHEL. $44,847? Now, on the first 25, you got $60,000 after renegotiation. What did you get before renegotiation on those?

Mr. MAIDEN. Well, the first, these were renegotiated as a group; in excess of profits on the first four contracts, was $2,500,000.

Mr. WEICHEL. How much did it amount to per ship?

Mr. MAIDEN. I have not calculated it.

Mr. WEICHEL. How much did it amount to per ship?

Mr. MAIDEN. You want me to calculate it?

Mr. WEICHEL. Yes. How much was it before renegotiation for those 25 ships? How much was it a ship? You say it was $60,000 afterward; and how much was it, before?

Mr. MAIDEN. Well, that is the minimum fee. It was $60,000.

Mr. WEICHEL. Well, is that the renegotiated fee?

Mr. MAIDEN. That was the renegotiated fee.

Mr. WEICHEL. Well, what was it before it was renegotiated? How much did you get before it was renegotiated? How much was it said to have been, before—$80,000, or 90, or 110?

Mr. MAIDEN. No.

Mr. WEICHEL. How much was it?

Mr. MAIDEN. No. On that contract we got $60,000, which was the minimum fee.

Mr. WEICHEL. Was that after renegotiation?

Mr. MAIDEN. That is after renegotiation, also.

Mr. WEICHEL. I am asking you how much it was before. How much were you supposed to get? How much were you to make the contract for? And how much did you get? And afterward they had to take it away. I want to know how much they took away from you, per ship.

Mr. MAIDEN. We did not take anything away on that first contract. Nothing was taken away on the first contract.

Mr. WEICHEL. Well, what was the first contract for—$60,000 a ship, or was it 70, or 80, or 90, or 100?

Mr. MAIDEN. No; the minimum fee is what we earned on that first contract, and nothing was taken away.

Mr. WEICHEL. Is that what you charged on it?

Mr. MAIDEN. That is right—$60,000.

Mr. WEICHEL. $60,000? $60,000 a ship, on the first contract?

Mr. MAIDEN. On the first contract.

Mr. WEICHEL. And nothing was taken away? And it was still 60?

Mr. MAIDEN. That is right, sir.

Mr. WEICHEL. Now, on the next 12, what did you charge per ship?

Mr. MAIDEN. The same situation.

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Mr. WEICHEL. You charged the 60?
Mr. MAIDEN. Right.
Mr. WEICHEL. And nothing was taken away?
Mr. MAIDEN. And nothing was taken away.
Mr. WEICHEL. And the next 32; how much did you charge?
Mr. MAIDEN. Same situation.
Mr. WEICHEL. You charged 60?
Mr. MAIDEN. And nothing was taken away in renegotiation.
Mr. WEICHEL. What was this 2½ million you started to talk about before, you said was taken away, or those first 12?
Mr. MAIDEN. That was the third, pardon me. The two-million-five-hundred-odd thousand dollars was taken away in the third contract.
Mr. WEICHEL. On the 32?
Mr. MAIDEN. On the 32; yes, sir.
Mr. WEICHEL. On the 32?
Mr. MAIDEN. Yes, sir.
Mr. WEICHEL. How much did you charge them a ship before it was taken away?
Mr. MAIDEN. All that we had charged them was $60,000. Actually, we never got this $2,500,000.
Mr. WEICHEL. I understand that. I want to know what you charged them, what you tried to get and didn't get. That is what I want to know. I want to give you credit for trying to get it.
Mr. MAIDEN. I will have to calculate that.
Mr. WEICHEL. I beg your pardon?
Mr. MAIDEN. I will have to calculate that.
Mr. WEICHEL. All right.
Mr. KEOGH (presiding). Will you proceed while that calculation is being made? Can you proceed, or does everything depend on that?
Mr. WEICHEL. No, if he is ready.
Mr. KEOGH (presiding). I just wanted to save the time of the committee.
Mr. MAIDEN. Can I give that later?
Mr. WEICHEL. Yes; sure.
Mr. MAIDEN. I mean, can I give that later?
Mr. WEICHEL. Yes. Somebody else can figure that out. I will ask the next question.
Mr. MAIDEN. All right. Figure that out.
Mr. WEICHEL. On the next 31 ships, what did you charge for fees on that, before renegotiation?
Mr. MAIDEN. This is on the 31 ships?
Mr. WEICHEL. Yes, sir.
Mr. MAIDEN. We claim fees of $1,894,348, and the renegotiation took away $34,348.
Mr. WEICHEL. A thousand dollars a ship is all they took away?
Mr. MAIDEN. That is right.
Mr. WEICHEL. So you still got $60,000 on each one of those?
Mr. MAIDEN. That is right.
Mr. WEICHEL. The first contract. Then on the last, of 108, you got $44,000? After renegotiation?
Mr. MAIDEN. That is after renegotiation.
Mr. WEICHEL. What did you ask for, before renegotiation?
Mr. MAIDEN. That is what we asked for.

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Mr. WEICHEL. That is what you asked for?

Mr. MAIDEN. Right.

Mr. WEICHEL. You figured that out in advance, to that, to $44,347?

Mr. MAIDEN. No; they did not take anything away.

Mr. WEICHEL. How?

Mr. MAIDEN. That is what we earned under the terms of the contract, and they did not take anything away in that contract.

Mr. WEICHEL. How was your contract set up? In what way was it set up?

Mr. MAIDEN. The minimum fee was $20,000, and the maximum was $60,000.

Mr. WEICHEL. Were those Liberty ships?

Mr. MAIDEN. These were Liberty ships.

Mr. BRADLEY. Will the gentleman yield there?

Mr. WEICHEL. Yes; go ahead.

Mr. BRADLEY. Does not the Maritime Commission set those fees after the ship has been built, and they make a determination as to the costs and everything, and then tell you what fees you are entitled to?

Mr. MAIDEN. They make a determination of the fees we have earned, under the terms of the contract.

Mr. BRADLEY. It is the Maritime Commission that settles it?

Mr. MAIDEN. Yes.

Mr. BRADLEY. You do not ask for the fees—they tell you what you are going to earn?

Mr. MAIDEN. Yes; they determined the fees.

Mr. BRADLEY. Then they are apt to come around later and renegotiate you and take away something they have already awarded you once before; isn't that the situation?

Mr. MAIDEN. That is the situation.

Mr. BRADLEY. With respect to all these contracts, all the cost-plus contracts?

Mr. MAIDEN. That is what this $2,500,000, which we never did receive, was—a determination that we were entitled to under the terms of the contract to that amount, yet the Renegotiation Board took it away.

Mr. BRADLEY. But I mean, they are the ones who make the determination—not your request. It is a determination by the Maritime Commission that you have earned somewhere between the minimum and the maximum fees?

Mr. MAIDEN. That is right.

Mr. BRADLEY. The minimum charge, they are obligated to pay you, in any event; they may pay you up to the maximum you have earned?

Mr. MAIDEN. That is right.

Mr. BRADLEY. And they determine somewhere in between what the proper fee is?

Mr. MAIDEN. That is right.

Mr. KEOUGH (presiding). Mr. Herter, did you want to ask any questions while Mr. Weichel is waiting?

Mr. HERTER. Yes. In your initial organization, you said the Kaiser interests were associated with the Todd interests; is that correct?

Mr. MAIDEN. Initially, yes.

Mr. HERTER. Initially?

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Mr. MAIDEN. Yes.

Mr. HERTER. And about a year later the Kaiser interests sold out their share to the Todd interests?

Mr. MAIDEN. That is right.

Mr. HERTER. Can you tell us what they sold out the interests for? It was a 50 percent interest, was it not?

Mr. MAIDEN. It was a 50 percent interest.

Mr. HERTER. What did they sell that interest out for?

Mr. MAIDEN. Somebody connected with Todd Shipyards would have to answer that question.

Mr. HERTER. You are representing the Todd-Houston Shipbuilding Corp.?

Mr. MAIDEN. I am representing the Todd-Houston Shipbuilding Corp., but that transaction was between two stockholders of Todd-Houston.

Mr. HERTER. But at that time, when the Todd-Houston Shipbuilding Corp. was organized, there were two sets of stockholders in the Todd-Houston?

Mr. MAIDEN. Yes.

Mr. HERTER. One was Todd Shipbuilding, the other was the Kaiser group?

Mr. MAIDEN. Right.

Mr. HERTER. And you have no idea what the Kaiser group sold out to the Todd interests for?

Mr. MAIDEN. No.

Mr. HILL. I can answer that, I think, sir. The Kaiser interests paid to the Todd Shipyards Corp., I believe, $100 a share, or it was the other way around. Todd Shipyards Corp. paid $100 a share for the shares of stock that were owned by the Kaiser group.

Mr. HERTER. How many shares was that?

Mr. HILL. That was 50 percent of the issued and outstanding shares. What was it; 500 shares? Something like that.

Mr. HERTER. I have here before me the present issued shares of the Todd-Houston Shipbuilding Corp., 1892. Now, they may have been increased at a later time.

Mr. HILL. They were to some extent, sir.

Mr. HERTER. After the Kaiser interests were out, what did it amount to in dollars and cents?

Mr. HILL. Frankly, I think, about $71,000.

Mr. HERTER. As against what they put in? What was paid for that stock in the beginning?

Mr. HILL. Approximately the same amount. They came out clean.

Mr. HERTER. They just sold out for exactly what they had put in?

Mr. HILL. That is correct, sir.

Mr. BRADLEY. What Kaiser interests are you referring to, now?

Mr. HILL. These 10 companies.

Mr. BRADLEY. All right; I just want to know, because Mr. Kaiser did not recognize them.

Mr. KEOGH. Is that part of the deal that has been described before, where the coadventurers disintegrated into two?

Mr. HILL. That is exactly right, sir. It happened in Todd-Houston, which was then Houston Shipbuilding Corp, of which Todd retained the whole ownership thereafter. It happened in the New England

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Shipbuilding Corp. It happened in California Shipbuilding Corp., the Seattle-Tacoma Shipbuilding Corp., which isn't in this investigation; but we just cleaned out our interests at the same rate we paid for the stock.

Mr. HERTER. But in effect the Kaiser group interests swapped the west coast yard interests for the east coast yard interests?

Mr. HILL. That is correct, sir.

Mr. KEOGH (presiding). Mr. Weichel may resume.

Mr. WEICHEL. On that 31—or, which one were you going to look up?

Mr. KEOGH (presiding). Are you waiting for an answer, Mr. Weichel?

Mr. HILL. We were waiting to make some calculations for Mr. Weichel.

Mr. MAIDEN. According to the calculations made by my friends, here, the amount taken away by the Renegotiation Board in the contract amounted to approximately $78,000.

Mr. WEICHEL. That is the one that we had—32 ships?

Mr. MAIDEN. That is right, sir.

Mr. WEICHEL. So you tried to get $138,000, and they cut it to $60,000, is that right?

Mr. MAIDEN. That is right.

Mr. WEICHEL. So then it winds up that the Maritime Commission after giving you a contract whereby you had certain amounts of money, the same Maritime Commission then cut them down for 25 ships to $60,000 apiece, and 12 for $60,000, 32 for $60,000, 31 for $60,000, and 108, from $44,847?

Mr. MAIDEN. That is right, sir.

Mr. WEICHEL. And the total number of ships was 208 and 14 tankers?

Mr. MAIDEN. Two hundred and eight and fourteen tankers. Now, on the 14 tankers it was $20,000 a ship, and that has not yet been renegotiated.

Mr. WEICHEL. That is $20,000 a ship?

Mr. KEOGH (presiding). Excuse me, Mr. Weichel. On that last question of yours, you said "cut down to"?

Mr. WEICHEL. Yes.

Mr. KEOGH (presiding). Is it not a fact that the fees are allowed on four of the five Liberty contracts, and were not changed at all?

Mr. WEICHEL. He said the first 25 were at 60, and that was according to the contract.

Mr. KEOGH (presiding). And that was not cut down?

Mr. WEICHEL. And then the Maritime Commission reviewed it and renegotiated it and did cut it down.

Mr. KEOGH (presiding). Yes.

Mr. WEICHEL. And then that was true with reference to the 12; and with reference to the 32, that is the ones they were going to get $138,000 apiece, and they cut it to 60; and then the 108, they gave them $44,847, after renegotiation. Those were cut down a couple of thousand. Is that right?

Mr. KEOGH (presiding). The only point I made was, your question seemed to include all five contracts, and you asked about the cutting down.

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Mr. WEICHEL. But I did not mean to cut only those that they said. Now, with reference to the facility that you used, how much did the Government set that up as a cost—how many millions would you say?

Mr. MAIDEN. Approximately 14,000,000.

Mr. WEICHEL. Fourteen million? Did your company, your people, buy that in, or has it been for sale?

Mr. MAIDEN. It has not been for sale. At least, I do not know of its having been for sale, but the company certainly hasn't bought it, if it is.

Mr. WEICHEL. Are you still using it and occupying it?

Mr. MAIDEN. No.

Mr. WEICHEL. I mean, you are not using or occupying the Government facility that the $14,000,000 was spent on, where you built these ships?

Mr. MAIDEN. No.

Mr. WEICHEL. You are not in it any more?

Mr. MAIDEN. No; except cleaning out some of the——

Mr. WEICHEL (interposing). Yes.

Mr. MAIDEN. Using the office to a certain extent.

Mr. WEICHEL. And your company received $11,000,000 in fees?

Mr. MAIDEN. That is right.

Mr. WEICHEL. And, of course, you paid taxes on it?

Mr. MAIDEN. Yes.

Mr. WEICHEL. And then you made a statement to counsel that your people were reimbursed for everything except a million dollars?

Mr. MAILEN. Approximately a million.

Mr. WEICHEL. That was for the million dollars that the people used in your company—in other words, all the people in your company were paid for what they did? I mean the president and the secretary and the manager and all the help were paid?

Mr. MAIDEN. Those people on the job; yes.

Mr. WEICHEL. Yes; all people on the job. That was paid by the Government, so that the people who did not work in this company, who were the stockholders, and who were reimbursed for everything except a million dollars, for that million dollars they got $11,000,000 in fees, less taxes; correct?

Mr. MAIDEN. That is right.

Mr. WEICHEL. How?

Mr. MAIDEN. That is right.

Mr. WEICHEL. That's pretty good for having a million. That's 1,100 percent, less taxes, isn't it? I mean, that is what it adds up to?

Mr. MAIDEN. On the basis of your type of calculation.

Mr. WEICHEL. Well, you got $11,000,000 in fees, didn't you? I mean you stated that, yourself. You got $11,000,000 in fees?

Mr. MAIDEN. That is right.

Mr. WEICHEL. And the stockholders of your company were reimbursed for everything excepting a million dollars; so for the $1,000,000 they were not reimbursed for, they got $11,000,000 in fees, less what taxes were paid; that is correct, isn't it?

Mr. MAIDEN. That is right.

Mr. WEICHEL. That is all.

Mr. KEOGH (presiding). Are there any further questions? Mr. Herter.

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Mr. HERTER. What is the present status of the Todd-Houston Shipbuilding Corp.?

Mr. MAIDEN. The present status is that, except for some final accounting—I mean, clearing up final accounting on the contracts—there is no production.

Mr. HERTER. Have the land and facilities been declared surplus?

Mr. MAIDEN. I think so. The matter is now being handled by the Maritime Commission. Up until May 31, 1946, the company had a custodial contract, but since that date the Maritime Commission has taken over the custody and is declaring——

Mr. HERTER. Your last contract was finished, the end of last year, was it not?

Mr. MAIDEN. That is right, sir.

Mr. HERTER. And so today it is lying idle, there; they do not have any ship construction or any construction of anything, now?

Mr. MAIDEN. Yes, sir.

Mr. HERTER. Or repair work?

Mr. MAIDEN. No, nothing. The Todd-Houston Corp. has nothing to do with the custody or anything else.

Mr. HERTER. The custody is in the hands of the Maritime Commission?

Mr. MAIDEN. It is in the hands of the Maritime Commission.

Mr. HERTER. And you are merely winding up?

Mr. MAIDEN. That is right.

Mr. HERTER. You cannot testify then as to whether the Todd Co. intends to continue the shipyard?

Mr. HILL. I can testify as to their present inclination. I do not think we have any intention of continuing the shipyards.

Mr. HERTER. In other words, it was a straight war operation from beginning to end?

Mr. HILL. Yes, sir.

Mr. KEOGH (presiding). Mr. Bradley has one question.

Mr. BRADLEY. Do you happen to know whether or not there was any such agreement made down there, to remove the facilities, as was the case with the California Shipbuilding Corp.? In other words, is the Maritime Commission obligated to tear down those facilities and move off the land that perhaps was leased by them?

Mr. HILL. Can I answer that, Mr. Bradley?

Mr. BRADLEY. Yes.

Mr. HILL. I think the Maritime Commission presently owns all of the land on which the facilities are located.

Mr. BRADLEY. They own the land?

Mr. HILL. They own the land 100 percent, I believe.

Mr. BRADLEY. They bought that as part of the facilities contract?

Mr. HILL. No; I do not believe it happened simultaneously with the facilities contract, but I think during the course of operations the Maritime Commission condemned the property on which the facilities were situated.

Mr. BRADLEY. I see. So they are not obligated to remove anything?

Mr. HILL. Not obligated to remove, as far as I know, sir.

Mr. BRADLEY. Do you happen to know what they have done with any of the material or anything that may have been left in the yard; that is, steel, or anything of that nature; whether they have sold it?

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Mr. HILL. All I know generally is that they have sold some of it. They have shipped. They have used the yard to some extent as a collection point for other places, and shipped material into it, and I think they are presently engaged in disposing of the surplus, although, of course, they know more about that than I.

Mr. BRADLEY. For the sake of the record, Mr. Chairman, I wonder if these gentlemen could tell their names and their companies, and the positions they hold. One of them, I do not think we got at all.

Mr. HILL. My name is Harry G. Hill. I am a director of the Todd-Houston Shipbuilding Corp., and a director in the New England Shipbuilding Corp., and general counsel for Todd Shipyards Corp.

Mr. KEOGH. Of the distinguished firm of Cullen & Dikeman?

Mr. HILL. Cullen & Kikeman, sir.

Mr. KEOGH (presiding). Thank you very much.

Mr. MAIDEN. Thank you.

Mr. KEOGH. And may I express my appreciation to Mr. McCone for permitting these witnesses to go on, before completing his testimony.

Mr. BRADLEY. Have we finished with them?

(Information furnished by the Todd-Houston Shipbuilding Corp., in response to the committee's questionnaire, has been received for the record and marked "Exhibit 16.")

The CHAIRMAN. Mr. Bechtel, you have to leave at what time?

Mr. BECHTEL. As soon as I can get away, Mr. Chairman. I am due to be on the 7 o'clock train.

TESTIMONY OF K. K. BECHTEL, PRESIDENT, MARINSHIP CORP.

The CHAIRMAN. Mr. Coles, please confine your interrogatories to necessary questions.

Mr. GENNETT. Will you give us your full name for the record?

Mr. BECHTEL. K. K. Bechtel.

Mr. GENNETT. And the name of the corporation which you represent?

Mr. BECHTEL. Marinship Corporation.

Mr. GENNETT. Do you have a statement prepared which you would like to read to the committee?

Mr. BECHTEL. With your permission I should like to, sir, briefly.

I came from San Francisco. Before leaving we submitted to this committee all the information asked of us.

There is now in the records of this committee certain data which is incorrect and statements have been made with respect to shipbuilding which we believe to be erroneous. Therefore we ask this opportunity to respectfully submit the following information:

W. A. Bechtel Co. was a long-established engineering-construction firm before the war. It had for many years been one of the group of firms referred to as "The Six Companies." Prior to 1942 these firms were engaged in a number of shipbuilding activities.

As individual firms and in group operations these organizations had for many years before the war been designing and building projects of all types and sizes throughout the United States and foreign countries. These firms were successfully conducting many other busi-

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ness operations, some directly related to the construction industry and others in other business fields.

During the war their operations ranged from successful designing and building of shipyards and ships to airplane construction and modification, massive construction projects in all parts of the world, and manufacturing.

On March 2, 1942, W. A. Bechtel Co. received from Admiral Land a telegram from which I will quote only brief parts. He asked us to submit a proposal for the building and operation of a new shipyard under the conditions of the contracts the Commission was then using for the construction of Liberty ships. He stressed the urgency of building the maximum number of Liberty ships in 1942, and said [reading]:

> We are now relying on you individually in the interests of this emergency to contribute your organization for the purpose of securing completed ships in the present calendar year. The emergency demands all within your power to give your country ships.

He knew our successful record of performance, and that is why he made this appeal.

By telegram we replied that he could rely on us to do our part. This resulted in the building of the Marinship yard and 93 ships between March 1942 and October 1945. We built a shipyard, built 93 ships, and performed other valuable services for the Government.

The initial contracts for building the yard and Liberty ships were awarded to W. A. Bechtel Co. and were performed by it in joint venture or partnership with six other organizations. The Maritime Commission did not expect us to make any investment in the shipyard facilities. It did require that we furnish all working funds necessary to finance the operation.

The firms comprising the Marinship partnership were individually and collectively responsible for the successful completion of these contracts and their entire net worth, estimated then to have been between $15,000,000 and $20,000,000, was behind all commitments of the joint venture.

Although these financial resources were very large, we do not consider those our biggest resources. To us our biggest asset is the reputation and the ability of the people behind these firms. They were known as men who could get things done. Just as big was the key personnel of these seven partner organizations. There were hundreds of experienced, able, devoted managers and supervisors who had helped these particular firms to accomplish their successful performances. A great many of these men were taken from our other operations and assigned to the design and construction and operation of the Marinship yard. They were the nucleus around which a working force of over 20,000 people was built.

The CHAIRMAN. Were you one of the group that was sworn a while ago?

Mr. BECHTEL. No, sir.

The CHAIRMAN. You may be sworn now.

Do you solemnly swear that the testimony which you have given and that which you shall give hereafter in this proceeding now or at

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any future time, has been and is the truth, the whole truth, and nothing but the truth, so help you God?

Mr. BECHTEL. I do.

Admiral Land testified before this committee on June 28, 1943—and, incidentally, I appeared before this committee about the same time—and he said [reading]:

> What we were buying was management brains. I knew the Bechtels and a number of their people. I sent telegrams to about a dozen people asking what they could do. Bechtel called up when he got the telegram and said they were going right to work on it—they made the best record of any of the yards that came in at that time. They were making such a good record that when I saw I had to do something to increase production of tankers I took that yard myself and shifted them into tanker building.

When we switched from Liberties to tanker construction late in 1942 the joint venture was changed to Marinship Corp. After incorporation the partners at all times had a minimum of $1,000,000 at risk which was used as working capital in the performances of shipbuilding contracts.

The stockholders of the corporation were: W. A. Bechtel Co., Bechtel-McCone Corp., Morrison-Knudsen Co., Inc.; MacDonald & Kahn, Inc.; J. H. Pomeroy & Co., Inc., Raymond Concrete Pile Co.

Incidentally, Mr. Kaiser has never had any financial interest in Marinship.

The work done under the Maritime Commission contracts may be summarized as follows:

The partnership had total contracts of $50,032,030. The fees allowed under those contracts totaled $900,000. The contractor's nonreimbursable costs were $178,260. The Federal taxes on the net fees were paid by the joint venturers directly on their own income tax returns, and I have no knowledge of the amount; but they were all very active firms, and I am sure that they paid very substantial amounts of income tax on their share of the joint venture's net profits, which were $771,740, or approximately 1.54 percent of the contract cost before taxes paid by the individual partner firms.

Marinship Corp. had total contract prices of $280,941,573. Its total fees or profits were $11,026,394, out of which it paid nonreimbursable costs of $644,086. It paid or provided to be paid $6,519,574 of income taxes, which reduces to a net fee or profit, after nonreimbursable costs, taxes paid to date of $3,862,734. That is 1⅜ percent of the total contract price.

I will summarize by stating that, first, the contractor's investment in working capital was at all times during the performance of these contracts in excess of $1,000,000.

Second, in the case of Marinship the "knowing how to secure a contract from the Maritime Commission," to which Mr. Casey of the General Accounting Office refers so lightly, consisted of an unsolicited appeal from the Government that we build and operate this shipyard.

Third, the ability and devotion to the task before them shown by the management and supervisors of Marinship furnished the leadership which directed the efforts of many thousands of workmen who built over a million and a quarter dead-weight tons of shipping.

Fourth, the Maritime Commission at no time guaranteed Marinship a profit, as was stated in the Comptroller General's written statement of yesterday.

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The CHAIRMAN. Are there any questions? Counsel will ask only necessary questions.

Mr. GENNETT. I wonder if it is clear to the committee that the witness has recited statistics relating to (1) a partnership called the W. A. Bechtel Co., a joint venture; and (2) the Marinship Corp., a corporation whose stockholders were about 8 or 9 in number. Those stockholders were corporations and one individual, Mr. K. K. Bechtel.

The CHAIRMAN. He has read it to the committee.

Mr. GENNETT. Referring to the Marinship Corp., you stated the capital. I understood that the capital stock of that corporation was $450,000.

Mr. BECHTEL. That is now correct.

Mr. GENNETT. It is now correct?

Mr. BECHTEL. Yes, sir.

Mr. GENNETT. Was it less than that upon organization of this corporation?

Mr. BECHTEL. Yes.

Mr. GENNETT. What was it at that time?

Mr. BECHTEL. $375,000.

Mr. GENNETT. Was the increased capitalization by virtue of a stock dividend or cash dividend paid to stockholders and reinvested by them?

Mr. BECHTEL. No.

Mr. GENNETT. It was an additional cash contribution of the stockholders, I take it?

Mr. BECHTEL. That is correct.

Mr. GENNETT. Was part of the capital which you have indicated was in the possession of the corporation bank borrowings?

Mr. BECHTEL. A very substantial part of the working capital used by this corporation was bank loans; yes.

Mr. GENNETT. Was interest paid on those bank loans?

Mr. BECHTEL. Yes.

Mr. GENNETT. Reimbursed by the Maritime Commission?

Mr. BECHTEL. In part.

Mr. GENNETT. May I ask you, Mr. Bechtel, if you have heard who dictated the telegram which was sent over Admiral Land's signature or who suggested the telegram be sent to Bechtel?

Mr. BECHTEL. No; I have never heard that. I assumed it was dictated by Admiral Land or Admiral Vickery or one of their immediate assistants.

Mr. GENNETT. Have you ever heard that the telegram might have been dictated by Mr. Kaiser or Mr. Calhoun, the vice president of one of the Kaiser corporations?

Mr. BECHTEL. No, sir.

The CHAIRMAN. If you have any evidence as to that, put it on.

Mr. GENNETT. What type were the contracts which you entered into with the Maritime Commission; that is, were they cost-plus, price-minus, or selective price?

Mr. BECHTEL. Cost, cost-plus, lump-sum, price-minus, termination, and fixed price.

Mr. GENNETT. Were any of those contracts converted to another type of contract?

Mr. BECHTEL. Yes.

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Mr. GENNETT. I take it that you remember Mr. Casey stated that some of your contracts were converted to your benefit after the original contract was signed?

Mr. BECHTEL. I have read his written report; yes.

Mr. GENNETT. Is your opinion contrary to Mr. Casey's statement? Do you state that you received no benefit under this conversion from one type of contract to another?

Mr. BECHTEL. My opinion or my firm belief is that Mr. Casey was mistaken.

Mr. GENNETT. Will you give us the total amount of fees received by Marinship?

Mr. BECHTEL. Yes. I will quote from a schedule which is identical with the one given you. It summarizes it. I am now referring to the combined operations, the total operations of the joint venture and the corporation. Subject to confirmation, I believe these are substantially correct.

The CHAIRMAN. Confirmation by whom?

Mr. BECHTEL. I should like the opportunity to check them.

The CHAIRMAN. Subject to correction by you?

Mr. BECHTEL. Yes, sir.

The gross fees on cost-plus or cost-plus-no-fee of contracts which were converted to lump-sum were $4,318,920, out of which we paid $561,000 of nonreimbursable costs, on which we paid $1,881,000 of corporation income tax plus the taxes of the point-venture firms which I am unable to supply you, leaving a net profit of $1,912,000 distributable to these joint venturers or stockholders by Marinship, but out of which, in turn, the joint-venture members must pay their corporation income tax.

Mr. GENNETT. How many of your contracts have been renegotiated at this time?

Mr. BECHTEL. For all practical purposes all of our contracts except our last fixed-price contract. There are a few minor repair and lay-up contracts, which are not large.

Mr. GENNETT. Have you the figures or the results of those renegotiations?

Mr. BECHTEL. Yes.

Mr. GENNETT. Would you state how much was taken away from you by the Price Adjustment Board on renegotiation?

Mr. BECHTEL. They found no excessive profits.

Mr. GENNETT. Then the total of your fees was not reduced by renegotiation?

Mr. BECHTEL. To date; that is correct.

Mr. GENNETT. I think that is all, Mr. Chairman.

The CHAIRMAN. Mr. Keogh?

Mr. KEOGH. No questions.

The CHAIRMAN. Mr. Bradley?

Mr. BRADLEY. Mr. Bechtel, just how fast did you build that plant of yours? I know you built it very, very fast.

Mr. BECHTEL. The plant was conceived, designed, and built in approximately 8 months. We started building ships about 60 days after we started building the yard, and we completed our first ship 244 days after we got the first idea of this yard from Admiral Land.

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Mr. BRADLEY. I know you made a remarkable record out there, and you were handicapped, too, by the change-over from Liberty ships to tankers right in the middle of your program.

Mr. BECHTEL. Yes, sir. That slowed us up and increased our costs.

Mr. BRADLEY. We were out there right about the time you were switching over, plus the change-over from cargo ships to refrigerator ships after they were 90 percent completed, and in several instances you were ordered to shift over to refrigerators, which you did, and then they told you to shift back to half and half.

Mr. BECHTEL. That is correct.

Mr. BRADLEY. That was going on when we were out there. They had you tied in a knot.

I do not want to prolong the questioning, but I thought you testified originally that you got substantially the same amount of profits as shown on this Maritime Commission sheet, exhibit 1, roughly $11,000,000. Now I understand that you cut it down to $4,000,000.

Mr. BECHTEL. Mr. Bradley, the question related to work on which we received a fee for cost-plus work. Those are the figures I have given you to date.

Mr. BRADLEY. Some of your later tanker contracts were fixed-price contracts, were they not?

Mr. BECHTEL. Yes—on which we took all of the risk.

Mr. BRADLEY. I know you did a very good job out there, and you are to be congratulated on it.

That is all I have, Mr. Chairman.

The CHAIRMAN. Mr. Weichel?

Mr. WEICHEL. In reference to the statement of the Maritime Commission, your gross fees were about $11,000,000; is that correct?

Mr. BECHTEL. No.

Mr. WEICHEL. To what sum was the $11,871,840 renegotiated?

Mr. BECHTEL. A part of that amount is fees; a part of it is profits on fixed-price work.

Mr. WEICHEL. I do not care whether it is profit, fees, or anything else. Was the gross amount $11,871,840?

Mr. BECHTEL. That is the approximate amount of our fees and profits.

Mr. WEICHEL. Was this $11,871,840 renegotiated to any other sum?

Mr. BECHTEL. No, sir.

Mr. WEICHEL. Then your company really got $11,871,840; is that correct?

Mr. BECHTEL. No; that is not correct. We have been through renegotiation on all of our cost-plus contracts. They have found no excessive profits. Our fixed-price contracts have not yet been reviewed by the Renegotiation Board.

Mr. WEICHEL. Up to date you really have $11,871,840, and the Renegotiation Board so far has not taken anything away from you?

Mr. BECHTEL. Before taxes and nonreimbursable expenses.

Mr. WEICHEL. Why do you have to say "before taxes"? Everybody expects to pay taxes on income.

Mr. BECHTEL. I want to get the record straight.

Mr. WEICHEL. Just like they talk about risk when they did not have any.

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So the $11,000,000 remains at that. The only thing to renegotiate is the fixed-price contracts?

Mr. BECHTEL. That is right.

Mr. WEICHEL. How many ships did your company build?

Mr. BECHTEL. Ninety-three.

Mr. WEICHEL. With reference to the plant facilities of $16,436,335, does the Government still own them? Did they sell them to you or some of your associates or individuals?

Mr. BECHTEL. To the best of my knowledge, the Government still owns it.

Mr. WEICHEL. Are you operating it any more?

Mr. BECHTEL. We have a few administrative personnel there.

Mr. WEICHEL. Out of this $11,871,840 that you received in profits and fees from the Maritime Commission, you say you paid taxes on that and that you only have $3,000,000 left of it. Is that what you said?

Mr. BECHTEL. That is substantially correct.

Mr. WEICHEL. In other words, out of $11,871,840 you paid $8,000,000 taxes?

Mr. BECHTEL. The taxes paid to date by the corporation are $6,519,000. In addition, the joint-venture members must pay their own taxes.

Mr. WEICHEL. I am talking about this corporation.

Mr. BECHTEL. That is easy.

Mr. WEICHEL. Was that the only business it was in—operating this yard?

Mr. BECHTEL. For all practical purposes; yes.

Mr. WEICHEL. This Marinship Corp.?

Mr. BECHTEL. Yes.

Mr. WEICHEL. They only operated this yard, and they received $11,000,000 and paid $6,000,000 in taxes; is that correct?

Mr. BECHTEL. Yes.

Mr. WEICHEL. So that you have $3,000,000 left after taxes. You originally put in $500,000?

Mr. BECHTEL. We originally put behind this operation between $15,000,000 and $20,000,000.

Mr. WEICHEL. You put $500,000 in the company in cash when you started?

Mr. BECHTEL. We put $375,000 of capital stock, $125,000 of subordinated loans, guaranteed loans of another half a million dollars. In addition to that, the corporation borrowed $700,000 from the bank, which was its sole responsibility.

Mr. WEICHEL. The only investors' money was the paid-in capital stock; the rest of it was borrowed?

Mr. BECHTEL. No, sir.

Mr. WEICHEL. How much capital stock was paid in?

Mr. BECHTEL. Three hundred and seventy-five thousand.

Mr. WEICHEL. The rest of it was borrowed. The investors' stock was $300,000?

Mr. BECHTEL. Yes.

Mr. WEICHEL. $300,000 was paid-in investors' stock. You say you had nonreimbursables of $644,000. What were the major amounts in that? Everything else excepting $644,000 was paid by the Government.

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Mr. BECHTEL. In the corporation the nonreimbursables consisted of automobile expenses, most of which we never asked the Maritime Commission to pay.

Mr. WEICHEL. How much was that?

Mr. BECHTEL. $22,000.

Mr. WEICHEL. The Government did not reimburse you, but you charged that off as expense and paid no income tax on it?

Mr. BECHTEL. It was a cost of doing business.

Salaries, $226,000.

Mr. WEICHEL. The Government did not reimburse you, but you charged off against income tax?

Mr. BECHTEL. That is correct.

Contributions to charity, $121,000.

Mr. WEICHEL. The Government did not reimburse you, but you charged it off on your income tax?

Mr. BECHTEL. Yes.

Launching ceremonial expense, $34,500.

Those are the largest items.

Mr. WEICHEL. The $644,000 you were not reimbursed by the Government for, but it was all charged off as business expenses with reference to your income-tax return. The $644,000 is the only amount you were not reimbursed for, and you got 3,000,000 net; so you made 500 percent on what you were not reimbursed for, and you charged off the $644,000 in income tax.

Mr. BECHTEL. I cannot verify such a computation.

Mr. WEICHEL. You testified to $3,000,000 net, did you not?

Mr. BECHTEL. Yes.

Mr. WEICHEL. And you testified that there were $644,000 of nonreimbursables, did you not?

Mr. BECHTEL. Yes.

Mr. WEICHEL. And the $644,000 was charged off on income tax as business expense. So that, with reference to the actual investors' money of $300,000, that is a thousand percent, if you take it that way. It is a thousand percent on the $300,000 that the investors put in there. On the nonreimbursables which the Government did not give you back it is 500 percent, the net return. One way it is 500 percent and the other way it is a thousand percent, based on what you said.

Mr. BECHTEL. That is not correct, sir.

Mr. WEICHEL. Based on those figures. Did you not give those figures?

Mr. BECHTEL. If the facts as stated by you were correct your answer would be correct, but your facts are mistaken.

Mr. WEICHEL. Is the $3,000,000 correct?

Mr. BECHTEL. Yes.

Mr. WEICHEL. That is net. There was $300,000 actually put in as investors' capital?

Mr. BECHTEL. $375,000 was invested by the stockholders in capital stock.

Mr. WEICHEL. $375,000 invested by the stockholders, and they made $3,000,000 out of it?

Mr. BECHTEL. No, sir; because the stockholders, or some of them, had invested their personal reputations and their own personal liability.

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Mr. WEICHEL. Well, that is a nice price for it. But on the $375,000 invested you got $3,000,000. The rest of it is for their reputation?

Mr. BECHTEL. No, sir.

Mr. WEICHEL. That is what you said.

Mr. BECHTEL. The rest of it is for the risk they undertook, their reputations, their ability to organize and inspire the organization to build 78 ships.

Mr. WEICHEL. The risk they undertook? They were reimbursed for everything but the $644,000. So the risk was paid for 500 percent.

Mr. BECHTEL. I should like to remind you, sir, that Marinship Corp. was forced by the Maritime Commission to take contracts for building 45 ships at a fixed price, under which Marinship took all of the financial risks.

Mr. WEICHEL. A hundred thousand dollars' worth of risks. The investors put in $100,000, and everything else was paid for by the Government, and, by your own figures, they got $3,000,000.

Mr. BECHTEL. No, because the investors had behind Marinship moneys for which they were directly responsible always in excess of a million dollars.

Mr. WEICHEL. They only invested $375,000, and they got $3,000,000 for it. The rest of it is reputation. You say everything was reimbursed except $644,000.

Mr. BECHTEL. Under the fixed-price contract nothing was reimbursed to us. The Commission agreed to pay us so much a ship. We built the ships and they paid us, and, in addition to that, when we undertake a fixed-price contract we consider that the resources and risks consist of all of the money we could lose, and in this case we could have lost approximately $2,000,000, in addition to which there was my own personal guaranty.

Mr. WEICHEL. The result, though, is $3,000,000 net for an investment of $375,000 by the investors.

That is all.

The CHAIRMAN. That is a conclusion.

All right. Stand aside, Mr. Bechtel.

(Information furnished by Marinship Corp., in response to the committee's questionnaire, has been received for the record and marked "Exhibit 17.")

Mr. GENNETT. I will call Mr. Jones.

The CHAIRMAN. Please stand and be sworn, Mr. Jones.

Do you solemnly swear that the evidence you will give will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. JONES. I do.

TESTIMONY OF EDWIN L. JONES, SECRETARY-TREASURER J. A. JONES CONSTRUCTION CO.

Mr. GENNETT. Will you give us your full name for the record, please?

Mr. JONES. Edwin L. Jones.

Mr. GENNETT. What company do you represent?

Mr. JONES. I am secretary-treasurer of the J. A. Jones Construction Co.

Mr. GENNETT. That is a corporation, I take it?

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Mr. JONES. Yes.

Mr. GENNETT. When was it organized?

Mr. JONES. In 1894.

Mr. GENNETT. Its principal business since that time has been what, Mr. Jones?

Mr. JONES. Construction and engineering.

Mr. GENNETT. General construction?

Mr. JONES. That is right.

Mr. GENNETT. When did it enter into the shipbuilding business?

Mr. JONES. In March 1942.

Mr. GENNETT. Its first contract with the Maritime Commission was made in March 1942?

Mr. JONES. Yes, sir.

Mr. GENNETT. What is the capital of the corporation, Mr. Jones?

Mr. JONES. You mean the capital and surplus, or just the capital?

Mr. GENNETT. I would like to know both, but separately, if you please.

Mr. JONES. It is $3,301,000.

Mr. GENNETT. That represents both capital stock and surplus?

Mr. JONES. Yes.

Mr. GENNETT. How much capital stock has been issued and is outstanding?

Mr. JONES. One million dollars.

Mr. GENNETT. What was the original capital paid into the company?

Mr. JONES. At what time?

Mr. GENNETT. Upon organization.

Mr. JONES. Fifty thousand dollars.

Mr. GENNETT. And that was increased from time to time through earnings and out of surplus?

Mr. JONES. And by sale of stock.

Mr. GENNETT. The figures of the Maritime Commission which were entered as exhibit 1 at this hearing show that you had a capital of about $2,000,000. You have just stated something above $3,000,000, Mr. Jones. Can you explain for us the difference in these figures?

Mr. JONES. No; I cannot. We actually used $3,600,000 of our capital in the two shipyards.

Mr. GENNETT. Was any other business besides shipbuilding carried on during the war?

Mr. JONES. This was about one-third of our business during that period.

Mr. GENNETT. Was all of the capital actually used in shipbuilding, or was part of the capital used in other construction work?

Mr. JONES. This much was attributable to shipbuilding.

Mr. GENNETT. The $3,600,000?

Mr. JONES. Yes.

Mr. GENNETT. Then what was the total capitalization of the company?

Mr. JONES. I mean by capital either money which represented capital stock or money which we borrowed to put into our operations.

Mr. GENNETT. There was no difference, then, between total capitalization of $3,600,000 directly used in shipbuilding and the same amount used in construction work; so, in fact, the capital of $3,600,000 was

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the entire capital of the corporation and was used both in shipbuilding and in general construction work?

Mr. JONES. No. I just told you that we used $3,600,000 of our capital in shipbuilding.

Mr. GENNETT. But you did not tell me that you used anything else in the construction business which you carried on.

Mr. JONES. I said we did.

Mr. GENNETT. I am sorry, sir. Would you repeat the amount used in the construction program?

Mr. JONES. It fluctuated. We did not always have $3,600,000. That was the peak in the shipyards. We had, according to my recollection, at one time about $10,000,000 capital both in construction projects and in shipbuilding projects.

Mr. GENNETT. Was part of this amount bank loans?

Mr. JONES. Yes.

Mr. GENNETT. Do you know how much?

Mr. JONES. Around $7,000,000 at one time.

Mr. GENNETT. What was the total paid in value of the stock of the corporation since you entered into the contracts with the Maritime Commission in 1942?

Mr. JONES. I don't believe I understand your question.

Mr. GENNETT. I want to know what the total paid in value of the capital stock now issued and outstanding is.

Mr. JONES. $1,000,000.

Mr. GENNETT. What was it in 1942 when you entered into contracts with the Maritime Commission? Was it less than a million?

Mr. JONES. Yes. I would have to refer to my statements to find out.

Mr. GENNETT. Will you do so, Mr. Jones?

Mr. JONES. At or about the time we entered into these contracts we transferred some of our surplus in the form of a stock dividend; $129,200 of capital stock and surplus of $1,635,393, or a total of $1,764,000.

The CHAIRMAN. It has been suggested that I announce that this will be the last witness for today.

Mr. GENNETT. That is of what date, Mr. Jones?

Mr. JONES. That is December 31, 1942.

Mr. GENNETT. Subsequent to 1942 was a stock dividend issued?

Mr. JONES. Yes.

Mr. GENNETT. On what date was that issued?

Mr. JONES. I might say that was out of surplus or was earned prior to our shipbuilding experience. That seems to have been early in 1944.

Mr. GENNETT. I have taken from your statement, which was sent in on the 20th of August, that as of January 1, 1944, your total paid-in stock value was $206,600.

Mr. JONES. You mean capital and surplus?

Mr. GENNETT. No; the total paid-in value of the stock.

Mr. JONES. How much was that?

Mr. GENNETT. $206,600.

Mr. JONES. That does not exactly agree with what I have here. I have here $246,600. You said $206,600.

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Mr. GENNETT. We are $40,000 apart.

Mr. JONES. That is immaterial.

Mr. GENNETT. It is not significant. However, the main portion of your corporation's capital is at the present time and was at earlier times, including the time when the corporation entered into contracts with the Maritime Commission, primarily in surplus rather than in stock?

Mr. JONES. That is right.

Mr. GENNETT. Although the stock has now been increased to $1,000,000.

Mr. JONES. That is right.

Mr. GENNETT. Do you know the amount of bank loans?

Mr. JONES. Now?

Mr. GENNETT. During the shipbuilding period.

Mr. JONES. It got up to $7,000,000.

Mr. GENNETT. Were receivables from the Government pledged as security for those loans?

Mr. JONES. We are told by our bankers that we are one of the few companies that never pledged a single contract.

Mr. GENNETT. It was all done on your own credit and endorsement?

Mr. JONES. Personal endorsement. We take a great deal of pride in that.

Mr. GENNETT. I believe your corporation operated two shipyards, one at Brunswick, Ga., and the other at Panama City, Fla.?

Mr. JONES. That is correct.

Mr. GENNETT. Did the corporation put in any of its own funds in either of those yards?

Mr. JONES. No. We operated Government-owned facilities.

Mr. GENNETT. Entirely Government-owned facilities?

Mr. JONES. Yes.

Mr. GENNETT. Could you give us the total cost of the two shipyards?

Mr. JONES. Approximately, I believe, around $12,000,000 at Brunswick and $14,000,000 at Panama City, if I am not mistaken.

Mr. GENNETT. Did your corporation perform the facilities contracts?

Mr. JONES. We did at Panama City; we did not at Brunswick.

Mr. GENNETT. I assume that no profit was made on the facilities contracts?

Mr. JONES. That is correct.

Mr. GENNETT. The Brunswick yard which was built by subcontractors received a profit or fees, did they not?

Mr. JONES. That I do not know. The Brunswick yard was started by the Brunswick Marine Shipbuilding Co. and they had the yard practically completed at the time we were asked by the Maritime Commission to take over the management. So I have no knowledge of what their contracts were.

Mr. GENNETT. How many ships were constructed at both those yards?

Mr. JONES. We finished 207.

Mr. GENNETT. Can you tell me the total cost to the Government of the 207 ships?

Mr. JONES. Approximately $277,000,000.

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Mr. GENNETT. How much profit or fees did you receive?

Mr. JONES. In round figures, $9,000,000—just a little bit over, I believe.

Mr. GENNETT. Have any of your contracts been renegotiated?

Mr. JONES. Those for 1943—I believe, 1943 and 1944—have; 1945 has not.

Mr. GENNETT. What proportion of your contracts have been renegotiated, Mr. Jones?

Mr. JONES. Maybe half.

Mr. GENNETT. About half?

Mr. JONES. Yes.

Mr. GENNETT. And the total fees received after renegotiation of the half were how much?

Mr. JONES. As I testified just now, the shipbuilding was only about one-third of our total volume——

Mr. GENNETT. I understand that.

Mr. JONES. And we were renegotiated on an over-all basis, and it is rather hard to pull out a ship and say that is what was renegotiated.

The CHAIRMAN. Were you renegotiated by the Maritime Commission?

Mr. JONES. No, sir. I believe there is a policy between the different governmental agencies to let the agency which has the larger share to renegotiate, which was the War Department. The Maritime Commission had a representative in on the renegotiation, however.

Mr. GENNETT. You cannot very well advise us what part of those fees that had been renegotiated were attributable directly to shipbuilding, then, can you?

Mr. JONES. No, sir; I cannot.

Mr. KEOGH. What percentage did the Board agree with you on, on your over-all volume? What percentage did they allow you?

Mr. JONES. I may have that information here. I will say that I did not know what was to be asked me, so I tried to bring the office with me.

Mr. KEOGH. Was it 6 percent or 8 percent?

Mr. JONES. My recollection is that it was around 8 percent. But I think I can verify that in just a minute.

Mr. KEOGH. My recollection is that you were allowed a gross profit of 8 percent of the business done.

Mr. JONES. I have found the papers, now. In 1943 we returned $4,380,000 on renegotiation. Practically all of it was outside of shipbuilding.

Mr. KEOGH. Did they not agree with you on a percentage when you were renegotiated?

Mr. JONES. Well, it does boil down to a percentage.

Mr. KEOGH. It is the percentage that I would like to have you give me, if you have it.

Mr. JONES. It is 3.981 percent. That was for 1944.

Mr. KEOGH. That is the year you were doing business not only for the Maritime Commission but for the War Department?

Mr. JONES. And the Navy Department.

Mr. KEOGH. In that year when you arrived at your renegotiation did they break down the volume of the various departments and allow you a varying percentage on it?

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Mr. JONES. I have the figures right here. No, sir. It seems to be an over-all figure.

Mr. KEOGH. Excuse me, Mr. Gennett.

The CHAIRMAN. Proceed.

Mr. GENNETT. In these contracts other than ship-building contracts did the corporation have any capital risk?

Mr. JONES. No more than in the shipyard. Wait a minute. On the fixed-fee we were on the same basis. On the lump sum contracts we risked everything we had.

Mr. GENNETT. You say, no more than in a shipbuilding contract.

Mr. JONES. That is, we had fixed-fee contracts with other governmental agencies, and the risk was the same as in the Maritime Commission contracts.

Mr. KEOGH. You also had some lump-sum contracts?

Mr. JONES. Yes, sir. We had one lump-sum contract around $26,000,000; another one around $22,000,000, and so on.

Mr. KEOGH. You said that your company was organized in 1894?

Mr. JONES. Yes, sir.

Mr. KEOGH. Can you tell this committee what your average annual profit was percentagewise to your gross business done over that 50-year period?

Mr. JONES. I am sorry to say, sir, that it has been coming down.

Mr. KEOGH. I appreciate that. What was its range?

Mr. JONES. It has ranged from around 20 percent in the beginning to the figure I just used of around 4 percent.

Mr. KEOGH. In the year that it was 20 percent did you do any Government business?

Mr. JONES. No, sir. Right now I might say we have around $50,000,000 worth of non-Government business, most of which is on a cost-plus-fixed-fee basis.

Mr. KEOGH. Is there a growing tendency now, even in private business, to contract for construction work on a cost-plus-a-fixed-fee basis?

Mr. JONES. I cannot say it is growing, sir. We normally have a large share of our business on that basis.

Mr. KEOGH. But it is more common now than it was prior to the war?

Mr. JONES. I believe it is.

Mr. KEOGH. Would you say that the fact that it is more common now than it was prior to the war is in any wise due to the experience that was gained under such types of contracts during the war?

Mr. JONES. That is my guess.

Mr. KEOGH. In other words, it has been found to be a very satisfactory type of contract on both sides?

Mr. JONES. I might say that within the past 12 months we have been given three contracts by Sears, Roebuck, three by the United States Rubber Co., three by Western Electric, five by the Southern Railway, and other contracts by corporations of similar standing, all on a cost-plus-a-fixed-fee basis.

Mr. BRADLEY. Is not that because you have no possible way of anticipating what the costs are going to be?

Mr. JONES. That is one of the arguments that we put up.

Mr. KEOGH. That is certainly the argument that obtained during the war.

Mr. WEICHEL. May I ask a question there?

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You said something about cost-plus contracts. Private individuals are watching expenditures a little more closely than the Government watched these that we have heard about during the past week?

Mr. JONES. That has not been our experience.

Mr. WEICHEL. Can you charge in $500,000 given to charity and $50,000 for a memory course?

Mr. KEOGH. There has been no evidence introduced at these hearings since I have been here that indicates that any items for charity or any of these other things mentioned have been reimbursed by the Government. In fact, everybody has testified that they are nonreimbursable items.

Mr. WEICHEL. Yes; but they have been charged off.

Mr. BRADLEY. Don't you charge such things off in your income tax?

Mr. WEICHEL. Surely; but they were saying they were giving all this to charity.

(Informal discussion off the record.)

Mr. GENNETT. On capital borrowed from banks was interest paid on the loans?

Mr. JONES. You mean, did we pay it?

Mr. GENNETT. Did the corporation pay it?

Mr. JONES. Yes.

Mr. GENNETT. Was any of that interest reimbursed by the Commission?

Mr. JONES. A very small amount was.

Mr. GENNETT. Part of it?

Mr. JONES. Yes.

Mr. GENNETT. Did you have a substantial amount of items that were not reimbursed by the Commission on your contracts?

Mr. JONES. My recollection is it was around $350,000.

Mr. GENNETT. In proportion to the total dollar volume of these contracts that is rather small, is it not?

Mr. JONES. Yes; the total volume was $277,000,000.

Mr. GENNETT. In your nonshipbuilding operations were there any losses which might have been set off against shipbuilding profits?

Mr. JONES. No, sir; we do have losses on lump-sum contracts. You cannot be in business without having some losses. But there is no way in the world to offset one loss against another gain.

Mr. BRADLEY. Kaiser had a way to do it. He set off the loss in his steel plant against his shipyard gain.

The CHAIRMAN. Let us proceed.

Mr. GENNETT. Your figure of something less than 4 percent on your contract earnings was before taxes, Mr. Jones?

Mr. JONES. That is right.

Mr. GENNETT. I might point out that most of the other figures that have been given today were after taxes. Mr. Jones has given them before taxes.

Mr. JONES. I can give them to you both ways.

Mr. GENNETT. That is all right.

That is all.

Mr. BRADLEY. Let us have those figures.

Mr. JONES. In 1943 it was 6.4 percent before taxes and seven-tenths of 1 percent after taxes.

In 1942 it was 6 percent before taxes and 1.2 percent after taxes.

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In 1944, I do not have the figures here, I think it was 3 percent before taxes and one-half of 1 percent after taxes.

In 1945 it was 1.6 percent before taxes and four-tenths of 1 percent after taxes.

The CHAIRMAN. Mr. Keogh?

Mr. KEOGH. I have no questions.

The CHAIRMAN. Have you any further questions, Mr. Bradley?

Mr. BRADLEY. I do not believe I have any questions, Judge.

The CHAIRMAN. Mr. Weichel?

Mr. WEICHEL. Is that the percent of profit based on the amount that you had invested, on the fees you got from the Government?

Mr. JONES. No, sir; may I make a statement right here?

Mr. WEICHEL. Surely.

Mr. JONES. No construction firm does business on the basis of the amount of money they have got invested. If you ask me to build you a house I will charge you a percentage of the total cost of the house, because the thing I would be furnishing you would be services, and that is what we furnished the Maritime Commission.

Mr. WEICHEL. Based on the money invested, with reference to the fees that you drew from the Government, it would be 500 or 600 percent on the amount invested?

Mr. JONES. No, sir; I just testified that we had at one time $3,600,000 of our money in the two shipyards on which our gross fees were around $9,000,000.

Mr. WEICHEL. Were you using a Government facility?

Mr. JONES. Yes.

Mr. WEICHEL. And you had invested in that Government facility $1,300,000?

Mr. JONES. Yes; reimbursements were slow. We were not sitting right next to the regional office; we were hundreds of miles away.

Mr. WEICHEL. About what is the total fees you drew?

Mr. JONES. $9,000,000.

Mr. WEICHEL. How many nonreimbursables did you have?

Mr. JONES. $350,000, sir.

Mr. WEICHEL. You were reimbursed for everything except $350,000, and you drew $9,000,000 in fees, less taxes; is that correct?

Mr. JONES. That is right.

Mr. WEICHEL. That is all.

(Information furnished by the J. A. Jones Construction Co., in response to the committee's questionnaire, has been received for the record and marked "Exhibit 18.")

The CHAIRMAN. The committee stands adjourned until tomorrow morning at 10 o'clock.

(Whereupon, at 5:40 p. m., an adjournment was taken until tomorrow, Thursday, September 26, 1946, at 10 a. m.)

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INVESTIGATION OF SHIPYARD PROFITS

THURSDAY, SEPTEMBER 26, 1946

HOUSE OF REPRESENTATIVES,
COMMITTEE ON THE MERCHANT MARINE AND FISHERIES,
SUBCOMMITTEE TO STUDY SHIPYARD PROFITS,
Washington, D. C.

The subcommittee met at 10 a. m., pursuant to adjournment, Hon. Schuyler Otis Bland (chairman) presiding.

Present: Representatives Bland (chairman), Bradley, Weichel, and Herter.

Also present: Marvin J. Coles, general counsel for the committee; Nathaniel C. W. Gennett, Jr., associate counsel; Frederick M. Jones, assistant counsel; Reginal S. Losee, chief investigator.

The CHAIRMAN. All right, gentlemen; the committee will come to order.

Proceed, Mr. Coles.

Mr. COLES. Mr. Chairman, as the first witness may we have the representative from the Delta Shipbuilding Corp.?

The CHAIRMAN. Do you swear the testimony you will give at this hearing and any future hearings on this subject will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. GERHAUSER. I do.

TESTIMONY OF W. H. GERHAUSER, PRESIDENT, DELTA SHIPBUILDING CO.

Mr. GENNETT. Would you give your name, please, for the record?

Mr. GERHAUSER. W. H. Gerhauser.

Mr. GENNETT. Mr. Gerhauser, what is your position with the Delta Shipbuilding Co.?

Mr. GERHAUSER. I am president of the Delta Shipbuilding Co., and president of the parent company, the American Shipbuilding Co.

Mr. GENNETT. And the Delta Shipbuilding Co. is a wholly owned subsidiary of American Shipbuilding Co.?

Mr. GERHAUSER. That is correct.

May I make a brief statement before we proceed?

Mr. GENNETT. Certainly.

Mr. GERHAUSER. In the company's reply to the questionnaire submitted by this committee, the company set forth in detail the events leading up to its participation in the Liberty ship construction program and its arrangement with Louisiana Shipyards, Inc., for a division of shipbuilding fees. I presume this information will be made a part of the record and need not be repeated here.

The CHAIRMAN. It is a part of the record.

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Mr. GERHAUSER. The figure of $12,171,811 for Delta Shipbuilding Co., given to this committee by the Maritime Commission in exhibit A attached to letter dated July 13, 1946, under the caption "Estimated profits" should properly be stated as "Fees earned under contracts." This sum was reduced by renegotiation to $9,598,440, which is the amount of fees received by the company for the construction of 188 ships.

This sum was further reduced to $2,017,059, as follows:

Fees received	$9,598,440
Nonreimbursable costs	432,338
Louisiana Shipyard's portion of fees	2,231,442
Federal and State taxes	4,917,601
Total charges	7,581,381
Delta Shipbuilding Co.'s net profit for building 132 Liberty cargo ships, 32 Liberty tankers, and 24 Liberty colliers	2,017,059

These figures have been certified to by the company's auditors, Messrs. Ernst and Ernst.

The following is a statement showing the ships built by the company and the fees received after renegotiation:

Contract No.			*Fees*
MCc 734 (25 ships):			
12 Liberty cargo, $70,648 each		$847,775	
13 Liberty cargo, $80,115 each		1,041,495	
			$1,889,270
MCc 735 (8 ships): 8 Liberty cargo, $80,115 each			640,920
MCc 736 (28 ships):			
6 Liberty cargo, $80,115 each		$480,690	
22 Liberty cargo, $52,255 each		1,149,610	
			1,630,300
MCc 8384 (15 ships):			
1 Liberty cargo	$48,950		
1 Liberty cargo	60,000		
		108,950	
13 Liberty tankers, $81,000 each		1,053,000	
			1,161,950
MCc 13098 (20 ships):			
19 Liberty tankers, $81,000 each		1,539,000	
1 Liberty cargo		60,000	
			1,599,000
MCc 16494 (92 ships):			
68 Liberty cargo, $20,000 each		1,360,000	
24 Liberty colliers, $55,000 each		1,320,000	
			2,680,000
Total			9,601,440
Penalty for 3 days' delay in delivery last ship			3,000
Total fees received			9,598,440

Mr. GENNETT. Mr. Gerhauser, may I ask you if the fee shown as profits earned by Louisiana Shipyard is not a part of the profits earned by Delta?

Mr. GERHAUSER. It is a part of the profit earned on the total contract, correct.

Mr. GENNETT. Then, in fact, the figure of $2,017,000 is not the entire profit received by Delta, because Louisiana Shipyards was an affiliate or an associate of Delta.

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Mr. GERHAUSER. Associate.

Mr. GENNETT. Will you explain the relationship of Louisiana Shipyards to the Delta Co.?

Mr. GERHAUSER. We explained it in our answer to the questionnaire, but I will be very glad to review it.

We were called to Washington in December of 1940 by Admiral Land and Admiral Vickery and asked to participate in the original program to construct the first 200 Liberty ships. We demurred, for the reason that we were shipbuilders in the Great Lakes. We already had Navy contracts, and we felt that we could do our best job by staying on the Lakes, where we had our own plants and our own organization. We were told that it was desired by the Commission that we take a part in this program because of our shipbuilding experience, and we were asked if we would investigate the possible sites at Houston, New Orleans, and Brunswick, and Savannah, Ga. We were also told at this first conference that there had been a company organized in New Orleans, La., shipyards, who had been negotiating with the Commission for a shipyard and the construction of ships. We were asked to confer with that company to see whether or not we would be willing to join with them in the project, as they apparently did not have very much shipbuilding talent associated with them.

We went to Houston, New Orleans, Brunswick, and Savannah, and investigated the sites and reported back to the Commission. We also talked with the officials of Louisiana Shipyards.

We reported back to the Commission that we still felt that we should remain on the Lakes, but that if the Commission were insistent that we join in this program, we preferred to go it alone, that we had the finances and the ability to handle the whole project alone, and we saw no reason why we should join with others, particularly as there was a New York contracting concern affiliated with Louisiana Shipyards.

The matter was dropped at that point, and it was not until some few weeks later that Admiral Land again called me to his office and said that he had been informed that the New York contracting firm had withdrawn, and asked us to reconsider the matter. We then thought that we should confer with the Navy as to their requirements, because we were negotiating with the Navy for mine sweepers and other small craft, so a meeting was arranged with Secretary Knox. The matter was discussed, and the Secretary said that the thing he wanted us to do was to go to New Orleans and build these 25 Liberty ships, which the Commission had asked us to do.

We still were not quite willing to join with someone else. We could not see any reason why we should. But finally Mr. Knudsen, of the Office of Production Management, telephoned and was very insistent that we do, and we finally consented provided that we could make a satisfactory arrangement with Louisiana Shipyards. We were willing to have an associate at that point, but we did not want a partner.

So the question that we had to work out was how we might set up an arrangement with Louisiana Shipyards which would not involve an actual partnership but would enable us to go ahead with the project jointly. It was finally worked out that Louisiana Shipyards would raise cash capital of $750,000, which they did; that they would take a contract with the Maritime Commission to construct the shipyard, and that they would waive their rights under the facilities contract

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to build ships in the yard. We in turn took a contract with the Maritime Commission to build 25 ships in the first instance in that yard. Louisiana agreed to raise the cash capital of $750,000. The American Shipbuilding Co. agreed to organize a wholly owned subsidiary, Delta Shipbuilding Co., and furnish to that company $750,000 cash working capital.

In consideration of Louisiana undertaking the construction of the yard—they did all of that work, supervised it, used their capital for the construction of the yard, they waived their rights to build ships, they agreed to do certain other things in connection with local matters, and the obtaining of trackage and sewer connections and that sort of thing—we agreed that Louisiana would be given 36 percent of the shipbuilding fees received from the first contract.

The yard was originally laid out as a six-way yard, and a little bit later two additional ways were added and a contract was given for eight additional ships, and we agreed to give Louisiana 36 percent of those fees. On all subsequent contracts Louisiana's portion of the fees was reduced to 20 percent.

Louisiana used its $750,000 for the construction of the yard and made that capital available to us after the yard was completed, but in order to avoid any partnership arrangement it was loaned to Delta Shipbuilding Co., but it was raised and put into Louisiana Shipyards' business. American Shipbuilding Co. put $750,000 cash capital into Delta Shipbuilding Co.

In addition to that we had bank loans totaling $2,750,000 at the peak.

Mr. GENNETT. Do I understand, Mr. Gerhauser, that the figure of $750,000 as capital of the Delta Shipbuilding Co. is erroneous? Should Delta's capital be $1,500,000, since American Shipbuilding Co. also put up $750,000.

Mr. GERHAUSER. There is no question but that the million and a half was used in the enterprise, but because of the fact that we borrowed it from Louisiana, Delta Shipbuilding Co. cannot state that its capital was more than $750,000, but Louisiana Shipyards did actually put in $750,000 cash, although it was in the form of a loan to us rather than a participation in the ownership of Delta Shipbuilding Co.

Mr. GENNETT. But you paid interest on the loan made by Louisiana Shipyards at the rate of 36 percent of the profits earned by Delta on the first ships constructed, did you not?

Mr. GERHAUSER. No, sir. American Shipbuilding Co. did not loan any money to Delta Shipbuilding Co.

Mr. GENNETT. Did Delta loan funds to American?

Mr. GERHAUSER. No. American Shipbuilding Co. took $750,000 of its own cash and organized a wholly owned subsidiary, Delta Shipbuilding Co., and bought the capital stock of Delta Shipbuilding Co. with $750,000 cash.

Mr. GENNETT. Yes.

Mr. GERHAUSER. There was no loan involved.

Mr. GENNETT. Now then, Louisiana Shipyards put up $750,000.

Mr. GERHAUSER. That is correct.

Mr. GENNETT. And for that $750,000, what did it receive as compensation?

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Mr. GERHAUSER. It received from us $2,231,442 of the fees which we received for building the ships.

Mr. GENNETT. Then American Shipbuilding borrowed the three-quarters of a million from Louisiana Shipyards?

Mr. GERHAUSER. That is correct in its form; yes. That was a loan to Delta Shipbuilding Co., not American.

Mr. GENNETT. So Delta, in fact, had no money in the shipyard at all?

Mr. GERHAUSER. It had its own money invested in the building of the ships and the financing of the shipbuilding program, $750,000 plus $750,000 supplied by Louisiana Shipyards, plus $2,700,000 at the peak in bank loans. It had no money invested in shipyard facilities. Neither did Louisiana Shipyards.

Mr. GENNETT. For what purpose was Louisiana Shipyards' $750,000 used? You said for the building of the yard?

Mr. GERHAUSER. Yes; to finance the building of the yard.

Mr. GENNETT. I thought this was a Government constructed shipyard.

Mr. GERHAUSER. We had no facilities contract, but it is my understanding that the contractors, the builders, had to finance the building of the yard. They had to pay their contractors and pay their bills, and were reimbursed by the Maritime Commission, which they did without profit, but they needed capital for that purpose.

Mr. GENNETT. Do you have the figure of the total cost of the yard, Mr. Gerhauser?

Mr. GERHAUSER. Delta furnished facilities in the amount of $1,834,897.18. That is, Delta saw to the construction of those facilities, and Louisiana Shipyards has reported to us that their cost of the shipyard facilities which they furnished under their facilities contract was $10,912,927.52, making a total cost of $12,747,824.70.

Mr. GENNETT. Then that three-quarters of a million was not actually put in the building of the yard?

Mr. GERHAUSER. It financed the building of the yard as a revolving fund, to pay contractors and bills until Louisiana was reimbursed by the Maritime Commission, just exactly as the ships were built.

Mr. GENNETT. May I ask you once more, what was Delta's contribution in the way of capital?

Mr. GERHAUSER. $750,000 cash.

Mr. GENNETT. And Louisiana Shipyards' contribution?

Mr. GERHAUSER. $750,000 cash.

Mr. GENNETT. And American Shipbuilding's contribution, the parent company of Delta?

Mr. GERHAUSER. Well, the American Co. bought the entire capital stock of Delta Shipbuilding for $750,000, which provided Delta with $750,000 of cash.

Mr. GENNETT. So that the second $750,000 which you mentioned was just a loan to Delta?

Mr. GERHAUSER. From Louisiana.

Mr. GENNETT. From Louisiana, yes.

Mr. GERHAUSER. Correct.

Mr. GENNETT. Was interest paid to Louisiana on this loan?

Mr. GERHAUSER. It was, at 1½ percent.

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Mr. GENNETT. Interest at the rate of 1½ percent was paid to Louisiana in addition to $2,231,442, representing its share of the fees earned by Delta?

Mr. GERHAUSER. That's right.

Mr. GENNETT. Was this interest of 1½ percent reimbursed by the Commission?

Mr. GERHAUSER. Yes, it was.

Mr. GENNETT. Fully reimbursed?

Mr. GERHAUSER. Fully reimbursed.

Mr. GENNETT. Was the yard built entirely by Louisiana Shipyards?

Mr. GERHAUSER. With the exception of $1,800,000 worth of facilities, which came along later. The original yard was built entirely by Louisiana Shipyards.

Mr. GENNETT. You stated that the total fees received were $9,598,-440 after renegotiation, did you not?

Mr. GERHAUSER. That is correct.

Mr. GENNETT. Were the management salaries of the Delta Shipbuilding Co. reimbursed by the Commission?

Mr. GERHAUSER. Not in full. After June 30, 1943, there was no salary of an officer or top executive reimbursed in full. All salaries were approved by the Maritime Commission, but there was not full reimbursement of that group after June 30, 1943. The highest amount reimbursed by the Maritime Commission for any salary was $18,000 a year, and that to one vice president.

Mr. GENNETT. Can you tell the committee the maximum fees which could have been earned under the terms of the contract for these 92 ships.

Mr. WEICHEL. Is that not the statement of fees attached to this?

Mr. GENNETT. No, sir. These were the fees actually paid, Mr. Weichel. There was a maximum and a minimum fee payable under the contracts. I believe, Mr. Gerhauser, that this is a statement of the fees actually paid.

Mr. GERHAUSER. That is correct, after renegotiation. You are talking about 92 ships?

Mr. GENNETT. The total number of ships, if you please.

Mr. GERHAUSER. The maximum fees which might have been earned were $16,697,654.

Mr. GENNETT. And the minimum figure that might have been earned?

Mr. GERHAUSER. $7,433,184.

Mr. GENNETT. Was there a minimum guaranty, a base figure on these contracts?

Mr. GERHAUSER. In all of them.

Mr. GENNETT. Do you have that figure?

Mr. GERHAUSER. Yes, sir. The minimum fees were $7,433,184. That was the guaranteed floor.

Mr. GENNETT. Then you could not earn less than $7,433,184?

Mr. GERHAUSER. Unless renegotiation took some of it away.

The CHAIRMAN. I wonder if we are not particularly concerned with what was earned, rather than with what might have been.

Mr. GENNETT. Yes, sir; I think that is right.

The CHAIRMAN. I have no objection to it. It is all right.

Mr. GENNETT. I am pointing out, Mr. Chairman, that this company earned something between the maximum and the minimum. In

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this case the maximum was $16,697,654 and the minimum $7,433,184. They earned nine and a half million in fact.

Mr. GERHAUSER. We earned 12, if I may say so.

Mr. GENNETT. Nine after renegotiation.

Mr. GERHAUSER. Nine after renegotiation.

Mr. GENNETT. Would you give the total number of ships built, Mr. Gerhauser?

The CHAIRMAN. Does that appear on his statement? I should think it would be a simple matter of adding the items.

Mr. WEICHEL. Is it on the list?

Mr. GENNETT. The total is not.

Mr. GERHAUSER. The total is 188, and there were three classes of ships in the total—132 Libertys, 32 tankers, and 24 colliers.

Mr. GENNETT. No further questions, Mr. Chairman.

The CHAIRMAN. Mr. Bradley?

Mr. BRADLEY. Mr. Gerhauser, it has always appeared to me that the just figure for determining whether or not there are exorbitant fees paid is the percentage of profit made on the total amount of sales. I think that is usually figured that way, is it not, in most transactions?

According to the figures I have here from the Maritime Commission, including the cost of the yard, they paid you a total of $217,792,948, from which we should properly deduct the $12,804,010 for the yard, which means, roughly, about $205,000,000 paid for the construction of these vessels. According to your statement here, after taxes and everything else you and Louisiana shared in $4,248,501, which is about 2 percent net on the total volume, which I think is not excessive, personally.

Mr. GERHAUSER. Mr. Bradley, I think your figures are not quite correct. The cost of performing the work, of building 188 ships, was $207,883,028, exclusive of fees. If you include the fees, after renegotiation the cost was $217,482,368. The shipyard facilities cost a little bit over $12,000,000, so that the total figure, if you are adding actual cost of work performed, fees and shipyard, would be about $230,000,000.

Mr. BRADLEY. All I have here are the figures supplied by the Maritime Commission.

Mr. GERHAUSER. I can assure you these are correct.

Mr. BRADLEY. If Ernst & Ernst audited it, they must be pretty accurate.

You had some difficulties down there, did you not, with construction, due to terrain, ground difficulties, sinking of piling, and so on?

Mr. GERHAUSER. That was not our difficulty; that was Louisiana Shipyards' headache, but the shipyard was built, as you know, in Louisiana, and the land in the New Orleans region is delta land. It is a marsh, and the shipyard was built on the industrial canal. There is practically no foundation there. There were thousands and thousands of piles that had to be driven to support buildings, and every heavy piece of machinery, all the crane runways, and everything were built on piling.

In addition to that we were unfortunate enough to have torrential rains that spring, which washed everything out, and there was plenty of trouble before we got straightened out.

Mr. BRADLEY. Did that delay your over-all program quite considerably?

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Mr. GERHAUSER. It did delay our start in the yard very considerably.

Mr. BRADLEY. Mr. Chairman, I just want to say for the record that it so happens that I have known Mr. Gerhauser through his association with American Shipbuilding Co. for almost 30 years. He was formerly a purchasing agent, the same as I was, and we used to have frequent battles about the cost of building ships. I am glad to see, Mr. Gerhauser, you have finally brought the cost of ships down to within reason. I congratulate you, sir, and I want to say that the American Shipbuilding Co. on the Great Lakes bears an unblemished reputation all the way through for the quality of the ships they put out.

Mr. GERHAUSER. Thank you very much.

The CHAIRMAN. We are glad to have that statement in the record.

Mr. WEICHEL. Mr. Gerhauser, you spoke about the American Shipbuilding Co. How many years has that company been in the business of building ships?

Mr. GERHAUSER. Forty-seven.

Mr. WEICHEL. How long have you been with them?

Mr. GERHAUSER. Twenty-nine years.

Mr. WEICHEL. Did the American Shipbuilding Co. actually have anybody down in the Delta yard that knew anything about ships, from the American Shipbuilding Co.'s personnel?

Mr. GERHAUSER. Yes, sir. We sent most of our top executives right from our own organization, and supplied other people whom we knew were qualified to do the work, including our chief engineer, Mr. Ackerman, who sits with me here, and he was vice president in charge of the operation. Mr. Ackerman has been with the company for 29 years, as long as I have; and down the line to our superintendents and principal foremen. Which was one reason that we could not do quite as much for the Navy on the Great Lakes as we would have liked to do.

Mr. WEICHEL. Did you say you actually put $750,000 into this company to furnish the stock?

Mr. GERHAUSER. Cash.

Mr. WEICHEL. That is the investment of the American Shipbuilding Co.' You spoke about $750,000 put in by the Louisiana people. You had an arrangement with them, through the Maritime Commission, for paying them a percentage of the fee that the Delta would be paid. Was that all done on the Maritime Commission's suggestion?

Mr. GERHAUSER. With their approval. It was worked out, and they were fully informed as to the negotiations, and after we reached an agreement with the shipyard it was specifically approved in our contract with the Maritime Commission.

Mr. WEICHEL. I think you said that you did not want any partner. Is that what you claim is the reason you had their money in there as a loan and then gave them 36 percent of the fee? Is that the reason?

Mr. GERHAUSER. We did not want a partnership arrangement; and the only way that Louisiana's money could have been put into Delta's business would have been to make a partnership arrangement whereby Louisiana might have put in $750,000 worth of stock, and we might have formed a 1½-million-dollar corporation. But we would have taken them into partnership with us, and we did not want that arrangement, and, therefore, it was a separate company with $750,000

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and Delta was a separate company with $750,000; and part of the agreement with Louisiana and part of the consideration for paying them these fees was that they would make their $750,000 available to us. Therefore, the only way it could be handled was for them to loan us the money instead of becoming stockholders with us.

Mr. WEICHEL. You claim that the American Shipbuilding Co. put in $750,000 to purchase stock, with the Louisiana Shipbuilding Co., with whom you had an arrangement, approved by the Maritime Commission, for a division of the fee, rather than having a partnership, and the $750,000 is claimed to have been put in as a loan, and they received a division of the fee for whatever rights they had in building the facility in the first instance?

Mr. GERHAUSER. And waiving their right to build ships.

Mr. WEICHEL. In other words, was this an understanding with the Maritime Commission that the Louisiana Shipbuilding Co. build the facility, and without any fee, and after it was built the reward was to be a contract to build ships? Is that what those people had? I mean, the Louisiana Shipbuilding Co.

Mr. GERHAUSER. No; I do not think that is correct. Part of Louisiana's obligation was to build the yard, and they took the facilities contract with the Maritime Commission. That was their obligation, to build the yard. They received no fee from the Maritime Commission for building the yard.

Mr. WEICHEL. In other cases, the people who built the yard got a contract to build ships. These people waived their right to that?

Mr. GERHAUSER. Yes, sir.

Mr. WEICHEL. And after waiving their right your company agreed to divide the fee with them?

Mr. GERHAUSER. That is correct. May I just add one thing? Plus their making their $750,000 capital available to us for the construction of ships.

Mr. WEICHEL. As a loan?

Mr. GERHAUSER. Yes.

Mr. WEICHEL. In looking at this attachment here with reference to what your company received for building Liberty ships, and in going over this yesterday, I find that some of the companies progressively went up with reference to their fee, and they wind up, one of them, with $41,000 for building a Liberty ship after renegotiation. Another one winds up with $44,847 apiece for building their last Liberty ships. That was the lowest we had. Then I see here that you built 68 Liberty cargo ships at $20,000 each. Do you mean you only got $20,000 each after renegotiation?

Mr. GERHAUSER. Yes, sir; the last 68 Libertys.

Mr. WEICHEL. The last ones built by some other companies were $44,000 plus, and some were $41,000. I was just wondering if that is a correct statement, that for the 68 last Liberty ships you built the fee was $20,000 apiece. I was wondering if that was a mistake, because the amount is low as compared with what we find for other companies.

Mr. GERHAUSER. That is correct.

Mr. WEICHEL. Yours is lower than the rest. That is all.

Mr. GENNETT. Would you state, Mr. Gerhauser, what type of contracts Delta had with the Maritime Commission?

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Mr. GERHAUSER. That is cost-plus, what I call cost-plus-variable-fee. It was the standard form of contract which provided for a base fee, a maximum fee, and a minimum fee, depending on performance, bonuses for low man-hours and early delivery, and penalties for high man-hours and late delivery.

Mr. GENNETT. Is the contract you have named different from the cost-plus-a-fixed-fee contract?

Mr. GERHAUSER. It is just a difference in terminology or interpretation. I suppose you would call it a fixed fee, but it was not fixed; it was subject to increases and decreases, depending on performance.

Mr. GENNETT. None of these contracts were converted to other type contracts?

Mr. GERHAUSER. No, sir.

Mr. GENNETT. That is all. Thank you, Mr. Gerhauser.

The CHAIRMAN. All right. Stand aside.

Call the next witness.

(Information furnished by the Delta Shipbuilding Co., in response to the committee's questionnaire, was received for the record and marked "Exhibit 19.")

Mr. COLES. The Walsh-Kaiser Co., represented by Mr. MacLeod.

The CHAIRMAN. Mr. MacLeod, you will stand and be sworn.

Do you solemnly swear that the evidence you will give will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. MACLEOD. I do.

TESTIMONY OF CHARLES H. MacLEOD, ADMINISTRATIVE MANAGER AND ASSISTANT SECRETARY, WALSH-KAISER CO.

Mr. COLES. Would you please state your full name?

Mr. MACLEOD. Charles H. MacLeod.

Mr. COLES. What is your capacity with the Walsh-Kaiser Co.?

Mr. MACLEOD. Administrative manager; also assistant secretary.

Mr. COLES. Are you thoroughly familiar with the company's business history and the background of its transactions with the Maritime Commission?

Mr. MACLEOD. I believe so.

Mr. COLES. When was the Walsh-Kaiser Co. formed, Mr. MacLeod?

Mr. MACLEOD. February 10, 1943.

Mr. COLES. Who were the original stockholders in the corporation, and what percentage did they hold?

Mr. MACLEOD. The Walsh Construction Co., 50 percent; Kaiser interests, 40 percent, and Morrison-Knudson, 10 percent.

Mr. COLES. Will you tell us the background of the formation of this company; what causes brought it about?

Mr. MACLEOD. Yes. The Walsh Construction Co. had just finished work for the Government building bases and had personnel available. Kaiser had contracts with the Maritime Commission. Walsh was looking for work. Kaiser and Walsh had been associated before on tunnel work and the Grand Coulee Dam.

Mr. COLES. What did Walsh contribute to the orgnization for its 50 percent share?

Mr. MACLEOD. Fifty percent of the capital, 50 percent of the loan, and all personnel.

Mr. COLES. Did it contribute its construction organization?

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Mr. MacLeod. It did.

Mr. Coles. What did the Kaiser interests contribute for their 40 percent?

Mr. MacLeod. Forty percent of the capital, 40 percent of the loan, and at the beginning they sent over certain of their trained employees to assist us.

Mr. Coles. Did I understand you to say that they had contracts with the Maritime Commission?

Mr. MacLeod. They had built ships for the Maritime Commission.

Mr. Coles. Mr. Kaiser in his testimony did not list the Walsh-Kaiser Co. as one of the four from which he received profits, but Mr. Kaiser received 40 percent of the fees from the Walsh-Kaiser Co.?

Mr. MacLeod. He did.

Mr. Coles. Do you know any reason why he did not list that as one of his companies?

Mr. Weichel. I think, Mr. Chairman, that that would be up to Mr. Kaiser. I don't think the witness should be asked to express an opinion about that.

Mr. Coles. The question just came to me. Let me ask one further question.

Did the Kaiser interest in any way participate in the management of this yard?

Mr. MacLeod. No further than just to assist us at the start.

Mr. Coles. Of what did that assistance consist?

Mr. MacLeod. They sent over individuals from various departments who had experience in the building of ships.

Mr. Coles. And they were entitled to 40 percent of the fees of the Walsh-Kaiser Co.?

Mr. MacLeod. They were, inasmuch as they furnished 40 percent of the capital.

Mr. Coles. What was the total capital originally contributed?

Mr. MacLeod. $300,000.

Mr. Coles. Mr. MacLeod, do you have any idea of what the cost of the shipyard facilities was?

Mr. MacLeod. No; not entirely, because we took over after they had been started. I know what it cost us.

Mr. Coles. These were the facilities originally started by the Rheem Manufacturing Co.?

Mr. MacLeod. Yes, sir.

The Chairman. At Providence, R. I.?

Mr. MacLeod. Yes, sir.

Mr. Coles. These are the facilities for which the Maritime Commission reimbursed Rheem approximately $16,000,000 before you moved in?

Mr. MacLeod. I do not know to what extent they reimbused them.

Mr. Coles. The committee's figures show it was over $16,000,000. Was that shipyard usable as a shipyard, or did you have to put in a good many more millions of dollars' worth of construction work to make it work?

Mr. MacLeod. We had to put in nine-million-and-some-odd dollars.

Mr. Coles. Have you any reason to doubt the figure of the Maritime Commission as to the total amount of investment in this yard, $25,047,000, which would include your share plus Rheem's share?

Mr. MacLeod. I have no reason to contest it.

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Mr. COLES. How much of your company's money actually went into this yard—the physical part of this yard?

Mr. MACLEOD. It went in there to the extent that we purchased materials and we paid for the labor.

Mr. COLES. Were you reimbursed for the materials and labor by the Commission?

Mr. MACLEOD. We were.

Mr. COLES. Is there any Walsh-Kaiser money actually invested in the physical facilities of the yard on a permanent or semipermanent basis?

Mr. MACLEOD. We have no holdings in the capital assets.

Mr. COLES. So the Maritime Commission put up over $25,000,000 in the yard, and the Walsh-Kaiser Co. had no money in the yard?

Mr. MACLEOD. Except to the extent that they paid for the materials.

Mr. COLES. For which they were reimbursed?

Mr. MACLEOD. Yes.

The CHAIRMAN. We cannot hear you very well.

Mr. MACLEOD. I am sorry.

Mr. COLES. Who did the construction work for the Walsh-Kaiser Co. which took up this $9,000,000? By whom was that done?

Mr. MACLEOD. By employees of the Walsh-Kaiser Co.

Mr. COLES. Was there a contract with the Maritime Commission whereby the Walsh-Kaiser Co. would complete its share of the work in the yard without a profit?

Mr. MACLEOD. That is right.

Mr. COLES. Did the Walsh Construction Co. do the work of building this yard, or did the Walsh-Kaiser Co. do the work?

Mr. MACLEOD. The Walsh-Kaiser Co.

Mr. COLES. Did they subcontract any of the work?

Mr. MACLEOD. No further than materials.

Mr. COLES. Were any of those subcontracts to the Walsh Construction Co.?

Mr. MACLEOD. No.

Mr. COLES. Were any of them to any affiliates?

Mr. MACLEOD. They were not.

Mr. COLES. What was the total amount of contracts which that yard had?

Mr. MACLEOD. You mean the total cost?

Mr. COLES. Yes.

Mr. MACLEOD. $178,000,000.

Mr. COLES. Was your yard one of the high-cost producing yards?

Mr. MACLEOD. I would say, over all, yes; but not per ship as compared with other yards and the number built.

Mr. COLES. In Mr. Kaiser's statement he listed one ship as the highest-cost Liberty ship in the program. Was that ship in the Rheem Manufacturing Co.'s yard and built before you took over?

Mr. MACLEOD. The first ship was built before we took over.

Mr. COLES. And that was the highest-cost ship?

Mr. MACLEOD. I would not know.

Mr. COLES. The standard of comparison used in that pamphlet was the highest-cost ship; is that correct?

Mr. MACLEOD. It could be; I don't know.

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Mr. COLES. I notice that your contracts were both cost plus, for $10,000,000, and on the price-minus basis for $160,000,000. Of those price-minus contracts do you have any estimate as to how many of them were previously cost plus and were converted to price minus?

Mr. MACLEOD. As far as we were concerned, they were not converted. They were definitely price minus as we signed the contract. We had no reimbursables.

The CHAIRMAN. What is a price-minus contract?

Mr. COLES. It is where they take an agreed price and then the contractor and the Government share 50–50 in any reduction below the agreed price. As I understand, however, from Mr. Casey's testimony, if they exceed the agreed price the contractor is nevertheless reimbursed, but he does not get his fee.

Am I correct in that, Mr. MacLeod?

Mr. MACLEOD. Correct.

Mr. COLES. The profits made by your company were, according to this list, $3,050,000. Is that correct?

Mr. MACLEOD. I would not say "profits." That is fees.

Mr. COLES. Was Mr. Kaiser entitled to 40 percent of the net?

Mr. MACLEOD. Yes, sir.

Mr. COLES. Do you have any break-down as to what amount of the materials furnished were furnished by the Government?

Mr. MACLEOD. No; I do not. I do not know that anyone else does at this time.

Mr. COLES. Would it be a substantial percentage of the total?

Mr. MCLEOD. I would say it would be a substantial percentage. They are purchased by the Maritime Commission.

Mr. COLES. And given to your yard?

Mr. MACLEOD. Yes.

Mr. COLES. And you were reimbursed for the other materials purchased?

Mr. MACLEOD. For the most part.

Mr. COLES. To what extent were you not reimbursed?

Mr. MACLEOD. For questionable items wherein our judgment did not agree with that of the Maritime Commission, and the cost committee might turn it down.

Mr. COLES. Was that a substantial amount as compared with the total?

Mr. MACLEOD. No; not as compared with the total.

Mr. COLES. Were all labor costs paid for by the Government?

Mr. MACLEOD. No; not entirely.

Mr. COLES. But in the major amount?

Mr. MACLEOD. In the major amount they were.

Mr. COLES. Was the amount not reimbursed a very minor percentage?

Mr. MACLEOD. I would say it amounted to $50,000 or more of the total.

Mr. COLES. Were the executives of the company paid salaries for their management and their work in building ships?

Mr. MACLEOD. Only those who were on the job constantly.

Mr. COLES. Did the general manager receive $18,000 per year which was reimbursed by the Commission?

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Mr. MacLeod. Yes.

Mr. Coles. So that those on the job building ships were paid their salaries?

Mr. MacLeod. To the extent that the Maritime Commission permitted.

Mr. Coles. Up to $18,000 a year?

Mr. MacLeod. Yes, sir.

Mr. Coles. How long did it take you normally before you got reimbursed for the money you laid out?

Mr. MacLeod. At first it took quite awhile; about 2 months. Near the end it was paid fairly quickly.

Mr. Coles. On the average, what would you say?

Mr. MacLeod. I would say 2 weeks.

Mr. Coles. So you financed it for 2 weeks and then were reimbursed by the Government?

Mr. MacLeod. I would say that is right.

Mr. Coles. I would like to ask you a question which I have asked other witnesses before, in order to get your opinion. I suppose all material and labor, and interest on borrowed capital, was paid by the Maritime Commission?

Mr. MacLeod. Not entirely. The interest paid was $2,007. Of course, when you deduct the taxes and nonreimbursables your net would be decreased at least 50 percent. That amount would be for the furnishing of the personnel which had been trained for a number of years and who are carried from time to time when there is not any work, plus the expense of operating your home office, engineering force, plus the risk you take. In this case there was a risk.

Mr. Coles. Will you explain that?

Mr. MacLeod. Yes. I understand that the company that was in that yard before was not reimbursed for all costs.

Mr. Coles. I think the committee reports show that they received an awful lot of money.

Mr. MacLeod. That may be; but, anyway, the banks in this particular case did require that they be protected.

Mr. Coles. Are you aware that the original contract for the construction of this yard provided for $6,000,000 for that yard?

Mr. MacLeod. Yes.

Mr. Coles. And it subsequently took $25,000,000 before it could turn out ships?

Mr. MacLeod. I have no reason to dispute that.

Mr. Coles. When you refer to fees for these other services, you mean for supermanagement over and above the yard management?

Mr. MacLeod. Yes; plus the furnishing of the yard management and skilled mechanics who could do the work. They were available.

Mr. Coles. What they got was their fee, and that applies, I presume, to all the yards. That fee was for the supermanagement and for making available their trained personnel?

Mr. MacLeod. Possibly so, if they had them available.

Mr. Coles. Do I understand that all of your fees were on a maximum or minimum basis? In other words, you got either a maximum or a minimum fee under the contract?

Mr. MacLeod. Not for the first 3½ ships. We picked up 5 ships that had been started, and we probably finished 3½ of those, or 75

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percent, for which we were paid $55,000 per ship, or a price-minus contract.

Mr. COLES. The more efficient you were the higher the amount; and the less efficient, the lower the amount?

Mr. MACLEOD. That is correct.

Mr. COLES. In all cases did you not get the minimum fees?

Mr. MACLEOD. That is right.

Mr. COLES. Indicating no great efficiency?

Mr. MACLEOD. No, sir; indicating that we could not get enough ships of one type to build; and the ships we were given did not have plans available when we started to build them.

Mr. COLES. Have all your contracts been renegotiated up to and including 1945?

Mr. MACLEOD. Yes; the first part of 1945. We still have a little renegotiation going on for the final contract.

Mr. COLES. But substantially all have been renegotiated?

Mr. MACLEOD. That is correct.

Mr. COLES. I understand that on the two contracts available for renegotiation it is your opinion that there will be no further recovery; is that correct?

Mr. MACLEOD. I understand that is true.

Mr. COLES. I have no further questions. Thank you.

The CHAIRMAN. Mr. Weichel? Mr. Bradley is not here at the moment.

Mr. WEICHEL. In the first instance you said your people were construction people not ship people.

Mr. MACLEOD. I am sorry. I did not say that, but it happens to be true.

Mr. WEICHEL. You people did not have the contacts, and Kaiser had the contacts. From the testimony given here in the last few days, he seemed to have all the contacts. So you were one of the last to get the benefit of Kaiser's contacts?

Mr. MACLEOD. No, sir.

Mr. WEICHEL. You were not the last?

Mr. MACLEOD. We figured that the Walsh Construction Co. could make their own contacts.

Mr. WEICHEL. You mean, on building ships?

Mr. MACLEOD. No; not building ships.

Mr. WEICHEL. I am talking about building ships.

Mr. MACLEOD. No; not building ships. Actually there were not many companies building ships prior to the war.

Mr. WEICHEL. Your contacts were all right, except that for the building of ships Kaiser had the contacts in connection with that?

Mr. MACLEOD. Only to the extent that he had been building ships.

Mr. WEICHEL. He had contact with the Maritime Commission, did he not?

Mr. MACLEOD. I do not know to what extent he had contact.

Mr. WEICHEL. Have you been around here for the last 5 days listening?

Mr. MACLEOD. No, sir.

Mr. WEICHEL. The testimony in the last few days revealed the contacts, yard after yard after yard, and this is the last one, evidently,

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that Kaiser was in. I thought maybe you knew that you were the last people to get the benefit of his contact.

Mr. MACLEOD. No, sir; I would not say that.

Mr. WEICHEL. You said that Kaiser got 40 percent of the fee in this arrangement with the Maritime Commission, in answer to counsel's question.

Mr. MACLEOD. Because he was interested in the company to the extent of 40 percent.

Mr. WEICHEL. How much was invested? How much was the stock sold for?

Mr. MACLEOD. There were 3,000 shares originally at $100. Subsequently to that there were $3,000,000 borrowed from banks.

Mr. WEICHEL. There was $300,000 invested capital?

Mr. MACLEOD. Plus $3,000,000 borrowed from banks.

Mr. WEICHEL. I am talking about what you people actually put in yourselves. That was $300,000. The rest of it was bank money. Somebody else risked that.

Mr. MACLEOD. The companies had to risk it in this particular case, because experience prior to that had not been any too good.

Mr. WEICHEL. The stockholders put in $300,000 and the banks loaned the rest. That was not a stockholders' risk when the banks loaned it.

Mr. MACLEOD. It is, very definitely.

Mr. WEICHEL. Did the stockholders guarantee all those loans personally?

Mr. MACLEOD. Yes, sir.

Mr. WEICHEL. All right.

Mr. MACLEOD. Most business is conducted on a credit basis, or we would not build much.

Mr. WEICHEL. There was $300,000 put in, and then all the loans from the banks were endorsed and signed by stockholders personally?

Mr. MACLEOD. There was an agreement that they would reimburse in case of loss.

Mr. WEICHEL. Was it signed on the back of the notes?

Mr. MACLEOD. It was by an agreement which was signed.

Mr. WEICHEL. It was not by endorsement on the notes?

Mr. MACLEOD. That I would not know.

Mr. WEICHEL. What position do you hold with the company?

Mr. MACLEOD. I am the administrative manager and assistant secretary.

Mr. WEICHEL. Would not the secretary know something about the transaction?

Mr. MACLEOD. Yes. I do know that there was an agreement written and signed.

Mr. WEICHEL. But there was no endorsement or guaranty on the individual loans. It was a side agreement of some kind?

Mr. MACLEOD. That I would not know.

Mr. WEICHEL. You would not know about the notes?

Mr. MACLEOD. No, sir.

Mr. WEICHEL. When the company made loans did not the secretary have to sign along with the president?

Mr. MACLEOD. The treasurer did.

Mr. WEICHEL. The secretary was not authorized to sign?

Mr. MACLEOD. He could have, but he did not.

Mr. WEICHEL. He was not authorized?

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Mr. MacLeod. Yes, he was.

Mr. Weichel. With reference to the kind of ships that were built, were there Liberty ships built there?

Mr. MacLeod. Yes, sir. There were 11 built in that yard of which we built 8½.

Mr. Weichel. How many ships were built in that yard all together?

Mr. MacLeod. Sixty-four.

Mr. Weichel. How many of them were Libertys—only 8?

Mr. MacLeod. No; 11 of the 64.

Mr. Weichel. What kind were the rest?

Mr. MacLeod. There were 21 so-called corvettes and 32 combat cargoes.

Mr. Weichel. When were the Libertys built—at the end of the operation?

Mr. MacLeod. No, sir. The first six were Liberties. The next contract was for 21 corvettes, but we had difficulty in obtaining material, particularly engines; and to keep the personnel working so that we would not lose them we were given another contract for five Liberties to fill in.

Mr. Weichel. What fee did you get for the last five Liberties that you built there?

Mr. MacLeod. Thirty thousand dollars.

Mr. Weichel. Was that after renegotiation?

Mr. MacLeod. Before and after.

Mr. Weichel. We have figures now of $20,000 after renegotiation; this is $30,000, and we have figures of $40,000, $41,000, and $45,000 as fees paid for the ships built by various companies. The Kaiser companies were all higher than $30,000.

You said something about plans not being available when you went to work to build ships. You did not mean to say that the Maritime Commission did not have the plans ready?

Mr. MacLeod. I think that might be Government business, but actually we did start building ships before plans had been completed. We experimented as we built the ships.

Mr. Weichel. The Maritime Commission in their statements here before have said that they had the plans and the plans were given to the ship contractors to build ships.

Mr. MacLeod. These were new-type ships.

Mr. Weichel. You were building them before the plans were laid out?

Mr. MacLeod. Yes.

Mr. Weichel. By trial and error?

Mr. MacLeod. That is also true.

Mr. Weichel. You said that Kaiser had some personnel over there when you started in.

Mr. MacLeod. That is right.

Mr. Weichel. And then later he did not have any. Was that personnel paid by the company and reimbursed?

Mr. MacLeod. Yes; they were reimbursed.

Mr. Weichel. So, in this instance Kaiser had some people in the beginning and they were paid out of Walsh-Kaiser funds and reimbursed; so Kaiser was really paid by the Government for whatever service was performed over there except the contact.

Mr. MacLeod. No more than any other personnel would be paid.

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Mr. WEICHEL. What I mean is this——

Mr. MACLEOD. These individuals were workingmen who had had experience in the various departments, engineers, and so forth.

Mr. WEICHEL. Those were people that Mr. Kaiser furnished to the Walsh-Kaiser Co., and they were paid by the Walsh-Kaiser Co., and then the Walsh-Kaiser Co. was reimbursed by the Maritime Commission?

Mr. MACLEOD. That is right.

Mr. WEICHEL. And that is the service that Mr. Kaiser put in for this 40 percent?

Mr. MACLEOD. Again I would say no, sir.

Mr. WEICHEL. Outside of his contact?

Mr. MACLEOD. I don't know anything about his contact. As I stated before, the Walsh Construction Co. could do all right with their own contacts.

Mr. WEICHEL. Outside of ships?

Mr. MACLEOD. I do not see any relationship there.

Mr. WEICHEL. Was not this a ship proposition? That is why he was in on it.

Mr. MACLEOD. No, sir. He had been with the Walsh Construction Co. Associated Contractors had the same stockholders as the Walsh-Kaiser Co. since 1938, at which time it had contracts for building tunnels. Actually Associated Contractors controlled the stock of the Walsh-Kaiser Co., Inc.

Mr. WEICHEL. Kaiser was with the Walsh-Kaiser Co. since 1938 in other building?

Mr. MACLEOD. Yes; in the building of tunnels.

Mr. WEICHEL. He always had 40 percent?

Mr. MACLEOD. That is correct.

Mr. WEICHEL. So that the 40 percent he got out of this transaction was the same as he got out of transactions in 1938 with reference to tunnels and everything else?

Mr. MACLEOD. That is correct.

Mr. WEICHEL. And the people he sent over there were just paid like anybody else and you were reimbursed?

Mr. MACLEOD. That is correct.

Mr. WEICHEL. So in this instance he did not arrange the matter with you as has been shown in other cases; he got a contract and started a separate yard. That was not true in this instance?

Mr. MACLEOD. No.

Mr. WEICHEL. He was in it in 1938 for other business?

Mr. MACLEOD. Yes, sir.

Mr. WEICHEL. That is all.

The CHAIRMAN. Mr. Herter.

Mr. HERTER. I have before me a compilation by the Maritime Commission showing the various contracts you had, the amount of those contracts, and the amounts which have been paid on each contract. They are very different from figures we have had for other companies, in that for your three major contracts apparently the vouchers paid out on those contracts far exceeded the amount of the contracts themselves. I am wondering if you would explain that. For instance, the contract received in March 1943 for 21 corvettes. The contract price was $22,287,000. The vouchers paid on those contracts were $38,000,000. Can you explain what happened, whether there was a

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change in the contract or whether you were allowed by the Maritime Commission to spend that additional money over and above the contract price?

Mr. MacLeod. We were allowed to spend that additional money. The Maritime Commission approved it. In other words, their experience in the building of corvettes proved that the estimate was too low.

Mr. Herter. How were the profits or fees fixed on that type of contract where the costs run 50 percent above the contract price?

Mr. MacLeod. There was provision made in the contract for the payment of all costs plus the fee. It is what we call price-minus.

Mr. Herter. Then on the next contract on the S-4's that you built, the contract price was $77,000,0000 and you actually received $109,000,000.

Mr. MacLeod. I would not say that the contract price was $77,000,000. I would say that was the estimated figure of what it might cost. The contract provided for the payment of all costs, and it was a new ship and there was no way of knowing what it might cost, because we did not know how we were going to get materials or how the engines would work out. It was an assembled ship, and we had to experiment.

Mr. Herter. I can understand that. Then in your last contract for five Liberty ships the contract price—and you must have had pretty good figures by that time—was $5,724,000, and the vouchers paid were $13,500,000, nearly three times the so-called contract price on these five Liberty ships.

Mr. MacLeod. Again I would say that there was no contract price. It was cost-plus; and, again, if the cost was greater than that which was estimated, it was due to the fact that we could not get materials at the time or some other reason. However, I do know this, that the cost of those five Liberties was no greater than the cost of any first five Liberties in any yard.

Mr. Herter. I am talking about the last five Liberties. The first five cost you $10,000,000 and the last cost you $13,500,000. I imagine you completed 3½ of the first 5?

Mr. MacLeod. Yes.

Mr. Herter. On those you were paid only $10,000,000. On the last five you were paid $13,500,000.

Mr. MacLeod. Yes; but on the first Liberty there was material on hand at the yard. For the last we would have to purchase more material.

Mr. Herter. There is something very queer in the figures, because apparently the contract price on the first five was $18,000,000 and the record shows that you spent only $10,000,000. On the second five it shows that the contract price was around $5,000,000 and you spent $13,000,000. I think there is a discrepancy there somewhere.

Mr. MacLeod. I do not think there is a discrepancy. I think the conditions were different.

Mr. Herter. What conditions were different?

Mr. MacLeod. The amount of material available on the yard, for one thing, perhaps.

Mr. Herter. But that is rather a curious accounting procedure, when those vouchers include cost of material.

Mr. MacLeod. Are these figures that you are quoting those which were paid to the Walsh-Kaiser Co?

Mr. Herter. The Walsh-Kaiser payments.

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Mr. WEICHEL. You did not charge your material in the yard in case you did not buy it. Does that account for some of the difference?

Mr. MACLEOD. So far as the books of the Maritime Commission are concerned, it is charged against the ships and the yard. So far as our own books are concerned, they would not reflect that.

Mr. HERTER. Presumably in working out a cost-plus contract the costs as compiled by the Maritime Commission or by your company must have included the cost of materials, whether they were on hand or whether they were to be bought later.

Mr. MACLEOD. It would make a difference as to whether we purchased them or whether the Maritime Commission purchased them, as far as our own record is concerned. The over-all picture would be reflected in the books of the Maritime Commission, but would not be reflected on our own books.

Mr. HERTER. Do you have figures showing what it actually cost to build Liberty ships in that yard as compared with other ships?

Mr. MACLEOD. I think I might have that with me. I find these figures as you quote them to be correct in my own records here. The only answer I can give to you is that the cost in one instance includes the building of five and in the other building of three and one-half.

Mr. HERTER. You mean the $10,000,000 was for the three and one-half ships?

Mr. MACLEOD. Yes.

Mr. HERTER. And the $13,000,000 was for building five?

Mr. MACLEOD. That is right.

Mr. HERTER. So it ran, roughly, $2,500,000 per ship?

Mr. MACLEOD. Yes; roughly.

Mr. HERTER. How does that compare with building ships at other yards?

Mr. MACLEOD. For the first 10, having glanced at the charts, I would say it is comparable.

Mr. HERTER. You feel that if you had been given orders for more ships you would have been able to bring your price down?

Mr. MACLEOD. Definitely; and I think in comparison with any other building we have done we can be compared with any other yard. We reduced the cost by 67 percent on cargo ships, for 32 ships. We built one of the combat cargo ships in less time than any other yard in the country. Figures do not amount to much, because each yard has a certain kind of record. But we are proud of ours.

Mr. HERTER. When you first came into that yard you found a pretty difficult situation, did you not?

Mr. MACLEOD. Yes.

Mr. HERTER. Did not the first ship that was turned out by that yard cost the Government, roughly, $15,000,000?

Mr. MACLEOD. I would not know that. I have no way of knowing what the costs were prior to that or how the yard was being amortized or how overhead was added to the cost of ships.

Mr. HERTER. That was essentially a Maritime Commission transaction with the Rheem Co.?

Mr. MACLEOD. That is right.

Mr. HERTER. That is all.

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Mr. BRADLEY. Getting back to these figures, Mr. MacLeod, that were supplied to each member of the committee by the Maritime Commission, I notice that on the first contract that Rheem had, MCC–2530, the contract price was $32,000,000, and one ship was built under that. The next contract was MCC–16368, for five, in the amount of $18,000,000. Then I see a notation here that the remaining 26 vessels were canceled. So I take it that those original two contracts in the amount of $50,000,000 probably covered 32 ships.

Mr. MACLEOD. It could be.

Mr. BRADLEY. I think that is where the discrepancy comes in that Mr. Herter referred to. It shows the vouchers paid to date on the first ship which was apparently built by Rheem.

Mr. MACLEOD. It was.

Mr. BRADLEY. The voucher paid was $15,556,000— which is probably the reason that Admiral Land and Admiral Vickery went into a huddle and decided they had better get rid of Rheem, and the sooner the better, before that company broke the United States Treasury.

Mr. MACLEOD. I do not know about that.

Mr. BRADLEY. Then it shows here the vouchers paid for the five under the second contract amounted to $10,000,000. That is more nearly in line with prices all over the country. Apparently that first one was the one that they got into a jam with Rheem about and had to get rid of him and find a new manager for the yard.

Mr. MACLEOD. It could be.

Mr. BRADLEY. I think that is where the trouble comes in here. But I cannot reconcile the figures that Mr. Herter referred to on the S–4's. The contract price on a price-minus basis was $77,961.786, for which they paid $109,223,446. Yet you say you reduced the cost tremendously on that. I have been trying to find some more S–4's in here that show a price-minus contract. That figure looks kind of suspicious to me, that it should have gone up so high.

Mr. MACLEOD. There are 289 compartments on a combat cargo ship against probably, at the most, 80 on the Liberty ship. There is at least 3½ times as much wiring on a combat cargo ship.

Mr. BRADLEY. Who else built those S–4's?

Mr. MACLEOD. There were nine different companies.

Mr. BRADLEY. Can you tell me offhand?

Mr. MACLEOD. I think perhaps Mr. Slattery could.

Mr. BRADLEY. We have got figures from every yard in the country here.

(Informal discussion off the record.)

Mr. MACLEOD. Would it not answer the question if Mr. Slattery were to say that our costs are comparable with any of the nine yards?

Mr. BRADLEY. He has not been sworn; so I cannot ask him on the record.

I think I have found the information now. There were 32 S–4's built by Walsh-Kaiser under contract MCC–15961, dated May 15, 1943. According to the Maritime Commission figures your contract price was $77,961,786. The vouchers were $109,233,446.

Another contract dated May 25, 1943, MCC–15951—yours was 15961—10 days after yours, with the Consolidated Steel Corp. Their

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contract price was $84,929,062 for 32 ships. The vouchers paid were $84,929,862, and yours was $109,000,000. So I do not see how you can just quietly say—and I know you would not want to say—that they are in error when the figures show they were about $29,000,000 cheaper than you were on the same kind of ships, and the contracts were 10 days apart.

Mr. MacLeod. I am not trying to alibi; but a great deal depends on the proration of your overhead and what else was going on in the yard.

Mr. Bradley. I appreciate that. But I talking about vouchers paid. That is the "pay-off." The fact remains that I therefore challenge your statement that you reduced the cost more than the other fellows, because I understood you to say—maybe I am wrong——

Mr. MacLeod. No; I said we had reduced other costs.

Mr. Bradley. Oh. I beg your pardon. I stand corrected.

Mr. MacLeod. I believe if you would average all nine you would find that we did better than the average.

Mr. Bradley. I take it they were all building the same type, probably.

Here is another comparison that Mr. Herter just points out to me. Under date of March 9, 1943, contract 13911, you built 21 S-2's at a contract price shown here of $22,287,399. Vouchers paid to date $38,131,496.

The Globe Shipbuilding Co., under contract of December 8, 1942, for 8 S-2's. The contract price was $9,858,705, and the vouchers paid were $7,000,000; in other words, less than a million dollars apiece; and yours were nearly $2,000,000 apiece. So the costs over there were still pretty high in that year.

Mr. MacLeod. That is correct; they were high. We at one time had our yard filled with hulls and no engines. We had difficulty in obtaining materials. After we had received the engines and other parts we had difficulty in assembling them. That is true. We had tremendous trouble.

Mr. Bradley. On this exhibit 1 of the committee, submitted to us by the Maritime Commission, it is shown that your estimated profits were $3,050,795. Is that the correct figure after renegotiation, so far as you know, or is it approximately correct?

Mr. MacLeod. No, sir. You again mention the word "profits." The fees should total $3,050,000.

Mr. Bradley. That is correct as far as the fees are concerned?

Mr. MacLeod. That is correct, as far as I know.

Mr. Bradley. Have you been renegotiated?

Mr. MacLeod. We have. I do not know whether the last contract is completed or not, but I think it has been.

Mr. Bradley. Is that substantially correct after renegotiation?

Mr. MacLeod. Yes, sir.

Mr. Herter. In the fixing of those fees I am not very clear as to what bonuses were paid for performance, from the point of view of speed of delivery, and so on, or whether those fees were regardless of the speed of performance.

Mr. MacLeod. No. If you could reduce the number of days you would be entitled to a bonus. We were not able to take advantage of that. We had all sorts of difficulties. We are not alibiing. We simply experienced them.

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Mr. HERTER. Regardless of the fact that your ships did cost more, whatever your difficulties were, you still got the minimum fee throughout?

Mr. MACLEOD. Yes, sir. Of course in renegotiation we could probably explain why.

Mr. HERTER. After renegotiation they ran around $50,000 per ship for the total number of ships. You built approximately 64 and got something like $3,000,000 for those?

Mr. MACLEOD. That is correct.

Mr. BRADLEY. That yard has always been a poor investment. I congratulate you for being able to get any ship out of there, from what our investigation has shown. I think you deserve credit for getting anything out of the yard.

Mr. MACLEOD. Thank you. We are pretty proud of our work.

Mr. BRADLEY. You did a good job, considering the conditions under which you had to work, according to testimony that we have had before this committee. The yard should never have been started in the first place. It was poorly located.

(Information furnished by the Walsh-Kaiser Co., Inc., in response to the committee's questionnaire, was received for the record and marked "Exhibit 20.")

The CHAIRMAN. The next witness.

Mr. COLES. The North Carolina Shipbuilding Co.

The CHAIRMAN. Hold up your hand, please. You solemnly swear that the testimony you shall give at these hearings or any subsequent hearings shall be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. LANIER. I do.

TESTIMONY OF THOMAS L. LANIER, ASSISTANT COMPTROLLER, NORTH CAROLINA SHIPBUILDING CO.

Mr. GENNETT. Would you give your full name for the record, please.

Mr. LANIER. Thomas L. Lanier.

Mr. GENNETT. What position do you hold with the North Carolina Shipbuilding Co., Mr. Lanier?

Mr. LANIER. I am assistant comptroller.

Mr. GENNETT. Do you have a prepared statement which you would like to offer to the committee?

Mr. LANIER. I have not.

Mr. GENNETT. When was the North Carolina Shipbuilding Co. formed, Mr. Lanier?

Mr. LANIER. In January 1941.

Mr. GENNETT. And who was instrumental in the formation of that company?

Mr. LANIER. It was organized by the Newport News Shipbuilding & Drydock Co.

Mr. GENNETT. Does Newport News own all of the stock in North Carolina?

Mr. LANIER. Except seven shares that were sold to individuals to qualify them as directors.

Mr. GENNETT. When was the first contract with the Maritime Commission made?

Mr. LANIER. The first contract was a facility contract.

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Mr. GENNETT. And what was the total cost of that facilities contract?

Mr. LANIER. The entire cost of the facilities was $20,098,986.

Mr. GENNETT. Was that contract performed by the North Carolina Shipbuilding Co.?

Mr. LANIER. I should explain that there were a total of three facilities contracts. The $20,000,000 figure mentioned was the aggregate of all contracts. The contracts were performed partly by the North Carolina Shipbuilding Co., and a part of the work was subcontracted under competitive bidding.

Mr. GENNETT. Did the subcontractors receive fees or compensation for their part in the construction of the yard?

Mr. LANIER. They were awarded contracts on competitive-bid basis for certain construction work.

Mr. GENNETT. Were any of the subcontractors related by corporate stock ownership or otherwise to the North Carolina Shipbuilding Co.?

Mr. LANIER. They were not, in any way.

Mr. GENNETT. What was the original paid-in capital of the company at the time it entered into its contracts with the Maritime Commission?

Mr. LANIER. Well, during the Newport News Co. put in a total of $3,000,000.

Mr. GENNETT. Was this $3,000,000 paid in for stock?

Mr. LANIER. As consideration, the Newport News Co. received 30,000 shares of $10 par stock. Three hundred thousand dollars was credited to capital stock account, and $2,700,000 to paid-in surplus.

Mr. GENNETT. At the present time, Mr. Lanier, what is the capital of the company?

Mr. LANIER. The paid-in capital remains the same as the original.

Mr. GENNETT. Has earned surplus or paid-in surplus been changed since the organization of the company?

Mr. LANIER. There has been no change in that.

Mr. GENNETT. No change?

Mr. LANIER. The earned surplus has increased by the amount of earnings, less dividends, of course.

Mr. GENNETT. Was any money borrowed from banks to finance the operations on the original contracts of the company or on later contracts?

Mr. LANIER. None at all.

Mr. GENNETT. Was any of the company's money put into the physical yard?

Mr. LANIER. No, the company's money was used solely as working capital. We paid the bills and were reimbursed.

Mr. GENNETT. The total capital of the corporation has increased since 1941 from earnings has it not?

Mr. LANIER. That is correct.

Mr. GENNETT. Have you an idea as to how the record of your company compares so far as the cost of ships is concerned with the Kaiser shipbuilding activities?

Mr. LANIER. Well, according to information which the Maritime Commission furnished to the subcommittee of the Committee on Appropriations at the Seventy-ninth Congress, second session, we were $112,691 below the next best yard.

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Mr. GENNETT. That is per ship?

Mr. LANIER. Per ship; yes.

Mr. GENNETT. How does this figure compare with the Kaiser yards, specifically?

Mr. LANIER. This comparison is on Liberty ships, the total Liberty ships constructed by North Carolina and the total Liberty ships constructed by the Oregon yard?

Mr. GENNETT. By the Oregon yard?

Mr. LANIER. Yes.

Mr. GENNETT. I believe Mr. Edgar Kaiser testified that the Oregon yard constructed ships cheaper than any yard in which they had an interest. Do you know if Oregon's construction costs were Kaiser's lowest?

Mr. LANIER. According to this information which I have before me, that is true.

Mr. GENNETT. How did your costs compare with other Kaiser yards, Mr. Lanier? Do you know that?

Mr. LANIER. Our total Liberty ship costs for 126 Libertys, per ship, was, according to this information, $1,508,090. Oregon's cost was $1,621,597; Permanente was $1,715,573; Kaiser-Vancouver—well, they only built two ships, so that would hardly be a fair comparison. The California yard was $1,811,040; Walsh-Kaiser only built 10 Libertys according to this table, and the cost was $3,918,779.

Mr. GENNETT. How many contracts did your company have with the Maritime Commission?

Mr. LANIER. We had a total of 14 ship contracts.

Mr. GENNETT. And how many vessels were delivered under those contracts?

Mr. LANIER. We have delivered a total of 242 vessels.

Mr. GENNETT. Can you give me the total cost to the Maritime Commission of those 242 vessels?

Mr. LANIER. I cannot, because the last contract is not yet complete. I can give you the cost however on 228 ships, which have been completed.

Mr. GENNETT. Would you do so, please?

Mr. LANIER. In that connection, I think I should explain that we have had different types of contracts down there, and under a part of the contracts we have furnished the materials, acquired the materials ourselves; under others, the Commission furnished the materials; so that I think that information should be segregated.

Mr. GENNETT. All right.

Mr. LANIER. We built a total of 126 Liberty ships.

Mr. GENNETT. Under what type of contract were the Libertys built?

Mr. LANIER. Under a cost-plus-variable-fee contract. That is the usual type of contract that the Commission used, and the total cost of the 126 Liberty ships was $82,362,450.40, or an average per ship of $653,670.24. That is the builder's cost only.

Mr. GENNETT. Have you the cost to the Government of those ships? You said that $653,670.24 was the builder's cost?

Mr. LANIER. That is correct. I will have to do a little addition here in order to get that. The total cost including fees on the 126 Liberty ships paid to North Carolina was $93,030,052.

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Mr. GENNETT. Were there other types of contracts than the cost-plus-fee?

Mr. LANIER. Yes. In addition to these 126 Liberty ships we had 60 C-2-type cargo vessels, which were also built under a cost-plus-fixed-fee contract, and we had a total of 57 ships under the selective-price type of contract.

Mr. GENNETT. Can you give the committee the total fees earned on all of these contracts?

Mr. LANIER. The total fees earned under all of the contracts—that will be completed contracts, which covered 228 ships.

Mr. GENNETT. Yes.

Mr. LANIER. I do not have the fees on the contract which is not yet completed; so the gross profit before nonreimbursable expenses and before income and excess-profits taxes was $22,701,729.

Mr. GENNETT. Have those profits or fees been renegotiated?

Mr. LANIER. That is a profit after renegotiation. Our fees were reduced in renegotiation by $4,931,902.50.

Mr. GENNETT. Leaving the balance after renegotiation of $22,701,-729, which you have just stated?

Mr. LANIER. That is right.

Mr. GENNETT. Would you state the shipbuilding experience background of the North Carolina Shipbuilding Co?

Mr. LANIER. The North Carolina Shipbuilding Co. is managed by officials who for the most part were formerly with the Newport News Shipbuilding Co., and practically all of the men have spent their entire business lives in shipbuilding.

Mr. GENNETT. So the background of North Carolina is in fact the background of the Newport News Shipbuilding Co?

Mr. LANIER. That is correct.

Mr. GENNETT. Newport News built ships during the war for other agencies of the Government, did it not?

Mr. LANIER. That is correct. There was a total of approximately 250 supervisory employees transferred from the Newport News yard to the North Carolina yard.

Mr. GENNETT. On some of these contracts there were, I take it, both a maximum and a minimum fee.

Mr. LANIER. That is correct. That is on the cost-plus contract.

Mr. GENNETT. Can you state whether your company got nearer to the maximum than to the minimum fee on these contracts?

Mr. LANIER. We earned the maximum fees on all contracts.

Mr. GENNETT. To what do you attribute the payment of maximum fees?

Mr. LANIER. Management.

Mr. GENNETT. And efficiency in performance of the contracts?

Mr. LANIER. Correct.

Mr. GENNETT. I would like to introduce a statement prepared by the Maritime Commission as exhibit 21, Mr. Chairman.

The CHAIRMAN. Do you want it introduced as an exhibit or, if it is not too long, read it into the record?

Mr. GENNETT. All right, sir. I will read it into the record, if you please.

Mr. COLES. Mr. Chairman, may I at this time say that we have a number of exhibits that have not been offered here as we went along;

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for example, the reports of various companies. May I have the committee's permission to consider them as part of the record, and may they be subsequently numbered?

The CHAIRMAN. Without objection, that will be done.

Mr. COLES. This statement, Mr. Chairman, has been read in large part by Mr. Lanier; Mr. Gennett has prepared a summary of it, and I think if he reads the summary and then puts this in the record that will be sufficient.

The CHAIRMAN. All right.

(Document so described was received and marked "Exhibit 21.")

Mr. GENNETT. I wish to point out to the committee that the average cost of Liberty ships built by the North Carolina Shipbuilding Co. was $1,508,000 per ship for 126 ships; that the average cost of 306 ships built by California Shipbuilding Corp. was $1,811,000 per ship.

Mr. HERTER. Will you give this North Carolina figure again?

Mr. GENNETT. Yes, sir—$1,508,000.

Mr. HERTER. That was the cost?

Mr. GENNETT. That was the cost to the Government.

Mr. HERTER. That does not agree with the figures we got, in any way, shape, or form. For the last 89 vessels, Liberty ships, built by North Carolina, the vouchers paid on those were $61,000,000, or an average of under $700,000 each.

Mr. COLES. This is the average of all Liberty ships, as I understand it, Mr. Herter. The earlier Liberty ships were a good deal more costly than the later ones.

Mr. HERTER. According to these figures, each of the Liberty ships built by North Carolina was under $1,000,000. Does that eliminate the cost of the materials paid for by the Government?

Mr. LANIER. This cost includes the cost of material furnished by the Maritime Commission.

Mr. HERTER. The figures that are now being read?

Mr. LANIER. Correct.

Mr. HERTER. So that these figures we have before us are exclusive of the cost of material furnished by the Maritime Commission?

Mr. GENNETT. That is right.

Mr. HERTER. Thank you.

Mr. GENNETT. The cost of 15 Liberty ships built by Marinship Corp.—and 15 is a considerably smaller number, so it may not be a fair comparison—was $3,008,000 per ship, or $1,500,000 more per ship than the North Carolina Shipbuilding Co. built such ships for. The Oregon Shipbuilding Corp. built 330 vessels, at an average cost of $1,621,000 per vessel, or $113,000 per vessel more than the cost of Liberty ships built by the North Carolina Shipbuilding Co. The average cost per vessel of 489 Liberty ships built by Permanente Metals Co. was $1,715,000, or $207,000 more than the cost per vessel built by North Carolina Shipbuilding Co. The cost of 10 Liberty ships built by the Walsh-Kaiser Co.—and this again is a small number in comparison with the number of vessels built by certain of the other companies—was $3,918,000 per vessel, or $2,410,000 per vessel more than the cost of the same type of ship the Government purchased from the North Carolina Co. I think this shows the relative efficiency of the designated companies.

Mr. HERTER. Would counsel yield?

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Mr. GENNETT. Certainly.

Mr. HERTER. As I understand it, Mr. Kaiser testified that he had saved us $250,000,000 through the construction of Liberty vessels, below the average costs of Liberty vessels, for all of those that were constructed. I wonder if the present witness has made any calculations as to what he would have saved the Government on the building of Liberty vessels?

Mr. LANIER. I have not made any calculations, sir.

Mr. HERTER. You are not making any claims, then?

Mr. LANIER. We are making no claims.

Mr. HERTER. You are letting the figures speak for themselves?

Mr. LANIER. That is correct.

Mr. GENNETT. No further questions, Mr. Chairman.

The CHAIRMAN. Mr. Bradley?

Mr. BRADLEY. I do not know that I have any questions, Mr. Chairman.

The CHAIRMAN. Mr. Weichel?

Mr. WEICHEL. Did I understand you, when you started off, that this was a wholly owned subsidiary of the Newport News Shipbuilding Co., which has been in business for many years.

Mr. LANIER. That is correct.

Mr. WEICHEL. How much money did you say was put into this company—I mean by the Newport News Co., in the way of invested capital?

Mr. LANIER. $3,000,000.

Mr. WEICHEL. $3,000,000?

Mr. LANIER. Yes.

Mr. WEICHEL. And you received stock for that?

Mr. LANIER. That is correct.

Mr. WEICHEL. Then you also had experienced ship personnel?

Mr. LANIER. That is correct.

Mr. WEICHEL. The comparisons being made here by counsel with reference to the cost in your yard—you had some experienced ship personnel, where these other companies had fellows who worked with plows?

Mr. LANIER. That is correct.

Mr. WEICHEL. And they had to try to make shipbuilders of them?

Mr. LANIER. That is correct.

Mr. WEICHEL. Would that account for some of the difference?

Mr. LANIER. That undoubtedly accounts for a substantial part of it.

Mr. WEICHEL. For the major part of it?

Mr. LANIER. Well, I could not say definitely, because I have not had an opportunity to analyze the costs of the yards.

Mr. WEICHEL. Do you know how many people were engaged in the shipbuilding industry in this country in 1940?

Mr. LANIER. I do not.

Mr. WEICHEL. Do you know how many were engaged in June 1945—May 1945?

Mr. LANIER. I do not.

Mr. WEICHEL. Well, would you say there were 10 times as many people engaged in it? Would that be a fair estimate?

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Mr. LANIER. I do not know.

Mr. WEICHEL. Well, do you know how many companies like your own were building ships in the United States say in 1940?

Mr. LANIER. There were very few.

Mr. WEICHEL. Very few? Then you would know all of them, wouldn't you? You have been in the business a long time. What were there—five or six?

Mr. LANIER. Yes.

Mr. WEICHEL. Five or six. And here we have a list of 19 new ones that the Government put up all the money for. Now, in addition to these 19, do you know about how many others were engaged in the building of ships during the war?

Mr. LANIER. No; I do not.

Mr. WEICHEL. You do not?

Mr. LANIER. There were a number of yards that were engaged entirely on Navy work, and I have no idea how many there were, in the aggregate.

The CHAIRMAN. Right there, I think it may be said that the Newport News job was entirely a Navy job, was it not?

Mr. LANIER. That is correct, sir.

Mr. WEICHEL. What I was trying to get at was, that the expansion with reference to the building of ships was something like five or siv hundred percent.

Mr. LANIER. It probably was at least that much.

Mr. WEICHEL. With reference to the number of yards. And that would be also the expansion of personnel, of trying to teach people to know something about building a ship. Did you build Liberty ships down there?

Mr. LANIER. We built 126 Liberty ships.

Mr. WEICHEL. One hundred and twenty-six.

Mr. LANIER. And we had contracts for 117 of the C–2-type vessels.

Mr. WEICHEL. On the last contract you had for Liberty's, how many were there in that contract?

Mr. LANIER. Thirty-six.

Mr. WEICHEL. Thirty-six? And what fee did your company get for those, per ship?

Mr. LANIER. On the last 36 ships we received, before nonreimbursable expenses and before income taxes, $68,182 a ship.

Mr. WEICHEL. Your fee was $68,000 a ship?

Mr. LANIER. On the last contract; yes.

Mr. WIECHEL. On the last contract? We have some testimony here with reference to the California Shipbuilding Corp., of something like $49,000. We had, for the last ships on another company, $41,000, and on another one, of $44,000 for their last ships, the fees they received.

Mr. BRADLEY. Was that after renegotiation?

Mr. WEICHEL. That is after renegotiation.

Now, with reference to $68,000 a ship, what was it after renegotiation?

Mr. LANIER. It was $68,000 after renegotiation.

Mr. WEICHEL. It was still $68,000?

Mr. LANIER. That is right. We earned the maximum fee of $70,000.

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Mr WEICHEL. Yes; I understand that, but I am getting at the fees that the different people got for the last ships. It seems some people, on the last ships, the higher their experience, the more they got. You got $68,000 after renegotiation, for the last ships. Here is a New York firm got $44,847 for their last Liberty ships. A California firm got $41,505. Another got $49,000. Then we had some testimony here of one getting $20,000. I was just trying to line up the matter of the fees a ship company received for the last Liberty ships that they built, after all their previous experience, and there seems to be a wide variation, from $20,000 a ship to yours, of $68,000.

Mr. LANIER. I think, Mr. Weichel, that was due to efficiency in operation.

Mr. WEICHEL. Yes; but I am saying some people were given more money than the rest of them, for the same thing.

Mr. BRADLEY. Will the gentleman yield for an observation?

Mr. WEICHEL. Yes.

Mr. BRADLEY. Whereas North Carolina got $20,000 more than Calship, let me point out, the gentleman saved the people almost $300,000 in the cost of the ships. Their cost was $1,508,000 as opposed to $1,811,000 of Calship.

Mr. WEICHEL. Yes; I understand.

Mr. BRADLEY. That is why they got the additional money.

Mr. WEICHEL. Yes; but the Government reimbursed everybody for all the material, and some people got a wide difference of 300 percent on fees for doing the same thing. That is what I am talking about. I mean the Government paid for everything, and paid for all the men, and paid for these people who were actually doing the good performance. The fellows who were doing the good performance were the fellows putting the rivets in and that sort of thing, and they were paid by the Government, and the people who were operating the yards, some of them got at least 300 percent more for doing the same thing. That is all.

The CHAIRMAN. Mr. Herter.

Mr. HERTER. One question. In reaching these figures of yours in regard to comparable costs, were the costs of delivery of steel and materials at Newport News lower than they were on the west coast, or did the Maritime Commission charge for material purchased as against your total costs the same amount?

Mr. LANIER. I do not know. I have no information on that.

Mr. HERTER. I wonder whether counsel has any information on that?

Mr. COLES. I do not know that, Mr. Herter. I just wanted to make this one observation. These are the Maritime Commission's figures that Mr. Lanier has been quoting. These were furnished by the Maritime Commission. These are not the figures of the North Carolina Shipbuilding Co.

Mr. HERTER. I think it would be interesting, just from the point of view of comparison, as to whether there were any differences in the costs of materials furnished.

(Discussion off the record.)

The CHAIRMAN. I think Mr. Slattery has been sworn. I do not know whether it was in this hearing or not.

Mr. SLATTERY. Not on this particular hearing, but about a month ago.

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The CHAIRMAN. I mean in this series of hearings.

Mr. SLATTERY. That is right.

The CHAIRMAN. But at any rate, Mr. Slattery, hold up your hand. Do you solemnly swear that the evidence you will give at this hearing or at any other future hearing will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. SLATTERY. That is right.

TESTIMONY OF WILLIAM L. SLATTERY, DIRECTOR, DIVISION OF FINANCE, UNITED STATES MARITIME COMMISSION

Mr. SLATTERY. I want to say, Mr. Herter, that this figure here as to the total cost of the ship is an allocated figure for materials purchased by the Maritime Commission, and in coming to that figure we had to equalize the freight all over the country, because it was not possible to get the thousands of products and show the differentials for freight. This is merely a matter of the cost of the material—the out-of-pocket cost.

Mr. HERTER. Then the figures submitted are on comparable costs, and they are fair figures from the point of view of the different yards?

Mr. SLATTERY. Except for the freight they would be; not for the freight. The freight had to be equalized.

Mr. WEICHEL. Is the freight in these?

Mr. SLATTERY. The freight is in these. The freight is in here, equalized.

Mr. HERTER. These are comparable figures?

Mr. SLATTERY. Oh, yes.

Mr. HERTER. You do not have to make different allowances for differences in steel in the different shipyards; you have already equalized that in your allocation?

Mr. SLATTERY. No; we did not equalize it. We spread it over the whole. We had so much freight and applied it to the tons of freight.

Mr. HERTER. That is what I called equalization.

Mr. SLATTERY. That would show that the North Carolina got a proportion of the total freight paid to the country, the same as any other yard.

Mr. HERTER. That is right. In other words, they were equalized figures, then, or fair figures to be taken for comparison to show from the point of view of comparison the cost to the Government at the different yards?

Mr. SLATTERY. Yes; that is right.

The CHAIRMAN. Are there any other questions?

Mr. COLES. I would like to bring out that the figures are also broken down into the average builder's cost, and the average builder's cost is shown for North Carolina at $651,000 per ship; and the next closest yard is Oregon, which is $766,000 per ship. The others go up.

Mr. HERTER. That is the labor cost?

Mr. COLES. Would you tell us what your average builder's cost is, Mr. Lanier?

Mr. LANIER. That consists of labor, overhead, and a small amount of emergency material.

Mr. BRADLEY. In other words, that is all the costs over and above the materials furnished by the Maritime Commission?

Mr. LANIER. That is correct.

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Mr. BRADLEY. On a comparable basis, between one yard and another?

The CHAIRMAN. Have you any further questions, Mr. Herter?

Mr. HERTER. No.

The CHAIRMAN. Mr. Coles.

Mr. COLES. Just one minute, if you will, Mr. Chairman.

Mr. BRADLEY. May I ask counsel a question, on the record? I should like to ask counsel whether you have comparable figures on all of these six yards that you have mentioned previously, on the total cost, the average contractor's costs that you just gave us, here in connection with the North Carolina, and the next lowest, which you said was lower?

Mr. COLES. Yes; I have, Mr. Bradley.

Mr. BRADLEY. I think those are very interesting figures and are pertinent to the hearing.

Mr. COLES. I think one thing should be noted, that the materials in almost all cases, as Mr. Slattery said, are approximately the same. So efficiency is much better reflected, I would think, in these average costs, of what the contractor spent. At the same time the percentage of difference is a lot higher by taking out that constant amount which materials would effectuate. Now, the figures given are, for North Carolina, $651,000—and I will omit the hundreds; it is 793, there.

Mr. BRADLEY. Let me get these down, here.

Mr. COLES. Yes. $651,000 for North Carolina; Oregon average builder's costs per ship, which is the next closest, is $766,000, or $115,000 higher. Now, you notice the percentage is rather great. The Permanente Co. was $853,000, or $202,000 greater—in other words, about one-third again as high.

Mr. WEICHEL. Mr. Chairman, can't we get from the Maritime Commission—they can make it up for all the companies, what the average costs were, and give us that—bring it up here as an exhibit, rather than taking it piecemeal?

Mr. COLES. This is by the Maritime Commission, Mr. Weichel.

Mr. WEICHEL. Well, I know. I will take it straight from the Maritime Commission.

Mr. COLES. Yes.

Mr. WEICHEL. I think they have the figures, and should make it up, and give us the average cost for every shipyard.

The CHAIRMAN. Can that be done?

Mr. COLES. I think, Mr. Weichel, that has been given us by the Maritime Commission. It includes all yards which built Liberty ships.

Mr. WEICHEL. I know, but this man, here, ought to read it. Let us get that. I would sooner take it from the Maritime Commission. That is where it is supposed to be.

Mr. COLES. This is part of an official document.

The CHAIRMAN. We will possibly save time by Mr. Coles going ahead and giving what he has got, and Mr. Slattery will please supply the information.

Mr. WEICHEL. Yes—for all the shipyards.

The CHAIRMAN. Insert it as one exhibit.

Mr. COLES. The Permanente was $853,000, which is $202,000 greater. The Walsh-Kaiser Co., remembering that they had only 10 ships——

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Mr. BRADLEY (interposing). Well, I think it is not fair to include Walsh-Kaiser in this.

Mr. COLES. No; I think not. And the California Shipbuilding Co. had an average builder's cost of $968,000, or $317,000, or about 50 percent, more than the cost of the North California's builder's costs.

Mr. BRADLEY. These figures show very much divergence from the statement made by Mr. Kaiser, the other day, that he saved us $250,000,000.

The CHAIRMAN. Mr. Slattery will prepare the exhibit, which will be supplied and furnished to the members.

Mr. SLATTERY. May I make a brief statement, Mr. Chairman? Yesterday afternoon, Mr. McConnell asked me to come outside, and asked me for this statement, and I got it ready, here.

The CHAIRMAN. Have you it now?

Mr. SLATTERY. Yes.

The CHAIRMAN. You have?

Mr. SLATTERY. All of the Liberty ships that were built. There were 2,400.

The CHAIRMAN. Will you hand that to Mr. Weichel, and see if that is the statement he wanted?

Mr. SLATTERY. The 2,580 Liberty ships, by contractor, by yard.

The CHAIRMAN. If so, it will be introduced as an exhibit at this time.

Mr. WEICHEL. I will look at this and talk about it later. I do not know.

The CHAIRMAN. All right. Any further questions of the present witness?

Mr. COLES. No further questions.

The CHAIRMAN. All right. Stand aside. Your next witness.

Mr. WEICHEL. Mr. Witness. I mean this exhibit by the Maritime Commission.

The CHAIRMAN. You mean Slattery, or——

Mr. WEICHEL. No.

The CHAIRMAN. Mr. Lanier?

Mr. WEICHEL. Mr. Lanier. The North Carolina as shown by the Maritime Commission, shows an average profit per vessel of 84,699. I presume that is without taxes?

Mr. LANIER. That is before.

Mr. WEICHEL. Before taxes?

Mr. LANIER. Before nonreimbursable expenses and taxes.

Mr. WEICHEL. And taxes? Walsh-Kaiser shows $34,080 without taxes, the average.

The CHAIRMAN. This gentleman is not able to testify as to the Walsh-Kaiser Co.

Mr. WEICHEL. No; but I say that is what it shows.

The CHAIRMAN. That is through no fault on your part.

Mr. WEICHEL. Mr. Chairman, may Mr. Slattery read this into the record, now, with reference to what they say is the average profit per vessel and the average cost for each one of these yards? I would like to have him read that at this point into the record.

The CHAIRMAN. If you are going to have it read at some time, put it in.

Mr. LOSEE. May we have a copy of that?

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Mr. SLATTERY. This is average cost.

(Mr. Slattery thereupon read the tabular statement referred to, which is in the words and figures following:)

EC2–S–C1 costs (estimated), cost-plus contracts

Builder	Number vessels	Average builder's cost	Average profit per vessel	Total cost to USMC per vessel [1]
Alabama	20	$1,125,015 (9)	$60,000	$1,957,459
Beth-Fairfield	384	895,288 (4)	76,927	1,743,043
California	306	968,428 (5)	70,168	1,811,040
Delta	132	1,046,973 (7)	43,102	1,861,664
Jones (Brunswick)	85	1,173,129 (10)	39,067	1,984,640
Jones (Panama)	66	1,221,471 (11)	29,470	2,023,385
Kaiser (Vancouver)	2	1,783,367 (14)	110,000	2,665,811
Marinship	15	2,175,961 (15)	60,000	3,008,405
New England	236	1,070,238 (8)	43,166	1,881,803
North Carolina	126	651,793 (1)	84,669	1,508,906
Oregon	330	766,621 (2)	82,532	1,621,597
Permanente	489	853,674 (3)	89,455	1,715,573
Rheem Manufacturing Co	1	6,388,790 (17)		7,161,234
Southeastern	88	1,236,438 (12)	30,227	2,039,110
St. Johns	82	1,304,202 (13)	23,659	2,100,304
Todd-Houston	208	995,311 (6)	52,144	1,819,899
Walsh-Kaiser	[2] 10	3,112,255 (16)	34,080	3,918,779
Total	2,580	962,322	66,631	1,800,743

[1] Includes USMC furnished material.
[2] Includes 5 vessels under price-minus contract.

[Pencil notation:] 3/19/46.

Mr. HERTER. Mr. Chairman, might I ask Mr. Slattery one question in connection with this comparison?

The CHAIRMAN. Yes, sir.

Mr. HERTER. You testified something to the effect that so far as materials were furnished you equalized the freight rates as between different sections of the country?

Mr. SLATTERY. I would like to make a reservation on that, Mr. Herter, and make sure of it for the record, because it has since occurred to me that there may not have been an equalization of labor rates in the same picture.

Mr. HERTER. I was about to ask you about labor rates, which is an entirely different item from the freight rates in the cost of material.

Mr. SLATTERY. That is right.

Mr. HERTER. On your labor costs there was a great differential; for instance, between the North Carolina wages paid for comparable work and those on the west coast yards.

Mr. SLATTERY. Well, I should say there was a slight—in the beginning, perhaps—a slight margin in favor of North Carolina. There was even a greater margin in the Gulf. As I remember it, the Gulf rates were the lowest, the Atlantic coast's were next, and the Pacific coast was third.

Mr. HERTER. And when you say there was that differential in the beginning, was that equalized at the end, or did it remain all the way through?

Mr. SLATTERY. Well, because of the Wage Stabilization Board and the various things that applied there, I cannot say that—what that figure was. It ought to be filled out in a prepared statement.

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Mr. HERTER. I am wondering again, from he point of view of the fair comparable costs, whether a wage differential for similar work done ought not to be computed.

Mr. SLATTERY. I think it should. It occurred to me after you talked before, and I would like to reserve the correction for the freight rate, too, because that, too, is a complicated thing, and I would like to correct that for the record.

The CHAIRMAN. Are there other questions of the present witness, Mr. Slattery?

Mr. BRADLEY. How long would it take to get that information? Could you get it over the phone, now? Not right now, but I mean this afternoon.

Mr. SLATTERY. I could bring it back with me for the afternoon session.

Mr. BRADLEY. All right. I think that is very important if we do not want to make any unfair comparisons here.

The CHAIRMAN. Any further questions of the present witness, Mr. Lanier? The next witness.

(Information furnished by the North Carolina Shipbuilding Co., in response to the committee's questionnaire, was received for the record and marked "Exhibit 22.")

Mr. COLES. The Consolidated Steel Corp.

The CHAIRMAN. Do you solemnly swear that the evidence you will give at this or any other future hearing will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. KNOEPPEL. I do.

TESTIMONY OF F. J. KNOEPPEL, VICE PRESIDENT, CONSOLIDATED STEEL CORP.

Mr. GENNETT. Would you give your name for the record, and your position with the corporation?

Mr. KNOEPPEL. F. J. Knoeppel, vice president, Consolidated Steel Corp.

Mr. GENNETT. Can you give the committee the date of incorporation of the Consolidated Steel Corp.?

Mr. KNOEPPEL. December 1928.

Mr. GENNETT. What was the primary business of the corporation, until it entered the shipbuilding business?

Mr. KNOEPPEL. Fabricators of heavy steel—structural, plate, pressure vessel, and similar items—any heavy steel products.

The CHAIRMAN. Fabricated steel?

Mr. KNOEPPEL. Fabricators of steel.

Mr. GENNETT. When did the corporation enter into the shipbuilding business, Mr. Knoeppel?

Mr. KNOEPPEL. In 1939.

Mr. GENNETT. Had it had any previous shipbuilding experience?

Mr. KNOEPPEL. It had no prior shipbuilding experience.

Mr. GENNETT. What was the capital of the corporation?

Mr. KNOEPPEL. In 1939, my recollection is it was $4,200,000, approximately, capital and surplus, at the end of December 1939, and about $800,000 of outstanding long-term loans—a gross of $5,000,000.

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Mr. GENNETT. When it entered into the shipbuilding business, was the total capital of the corporation used directly in shipbuilding operations?

Mr. KNOEPPEL. No; it was not. Part of it was used in steel fabrication, although at that time, due to the depression and lack of demand on the west coast, very little of the capital was required for other purposes. Do you want me to enlarge on that?

Mr. GENNETT. That is all right; I will ask you further questions. Was the steel business pursued during the war a substantial part of the total volume of business done by the corporation?

Mr. KNOEPPEL. You mean other than shipbuilding?

Mr. GENNETT. Yes; other than shipbuilding.

Mr. KNOEPPEL. It was a fair amount; not nearly as much as the shipbuilding.

Mr. GENNETT. Are you able to estimate how much of the capital would have been required in operations other than shipbuilding?

Mr. KNOEPPEL. I am afraid that is almost impossible to answer. My guess would be—and that is just a guess—possibly 10 percent, during the war period.

Mr. GENNETT. During the war, only 10 percent of the capital was necessary for the corporation's business other than shipbuilding?

Mr. KNOEPPEL. Let me put it this way: Other than Government work, shipbuilding both for the Navy, the Maritime Commission, and the production of gun mounts for the Navy.

Mr. GENNETT. You had bank loans during the shipbuilding operations?

Mr. KNOEPPEL. That is right.

Mr. GENNETT. Were those interest-bearing loans?

Mr. KNOEPPEL. Those loans were interest bearing.

Mr. GENNETT. Was the interest on the loans reimbursed by the Maritime Commission?

Mr. KNOEPPEL. Only in a very slight degree.

Mr. GENNETT. The balance was paid by the corporation?

Mr. KNOEPPEL. The balance, paid by the corporation.

Mr. GENNETT. Were Government receivables pledged as security for the bank loans?

Mr. KNOEPPEL. No.

Mr. GENNETT. Was any of the corporation's money put into the physical assets of the yard?

Mr. KNOEPPEL. Not on the shipyard as such. The Maritime Commission's shipyard was not a complete shipyard. It required our Maywood facilities of steel production, steel fabrication, to supplement that shipyard. We fabricated heavy steel sections at Maywood, and I took the sections to the shipyard and there assembled them in the shipyard.

Mr. GENNETT. Were the steel fabrication operations during the war profitable operations?

Mr. KNOEPPEL. Why, yes; aside from shipbuilding, you mean?

Mr. GENNETT. What I am driving at is that the Consolidated Steel Corp. shows an increase in capital totaling nearly $4,000,000 between 1942 and 1946. What part of that amount is attributable to the steel fabrication?

Mr. KNOEPPEL. A small part.

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Mr. GENNETT. The balance was earned from shipbuilding operations?

Mr. KNOEPPEL. Shipbuilding and gun-mount production.

Mr. GENNETT. What was the total cost to the Maritime Commission of the yard, Mr. Knoeppel?

Mr. KNOEPPEL. $13,185,000.

Mr. GENNETT. Was this subcontracted, or was it built by the corporation?

Mr. KNOEPPEL. We built it with some subcontract work, such as driving the piling, and so forth. We engineered the yard and the lay-out and handled the entire construction of it as a general contractor would.

Mr. GENNETT. So far as the corporation was concerned, that was a no-fee contract?

Mr. KNOEPPEL. It was a no-fee contract; no profit.

Mr. GENNETT. Were any of the subcontractors affiliated with the corporation?

Mr. KNOEPPEL. No; there was no affiliation of subcontractors.

Mr. GENNETT. Were any of the facilities used in the construction of the yard made by the fabrication section of the corporation?

Mr. KNOEPPEL. Yes; there were. Yes; we fabricated some of the steel that went into the buildings and other items. We did some fabrication work for the shipyard.

Mr. GENNETT. Was a profit paid to the corporation on those fabrications?

Mr. KNOEPPEL. No; there was no profit paid, but cost.

Mr. GENNETT. No fee?

Mr. KNOEPPEL. No fee.

Mr. GENNETT. Then the corporation's steel fabrication section made no profit on this construction?

Mr. KNOEPPEL. It made no profit on that transaction.

Mr. GENNETT. Was the steel made by your corporation and used in the building of the yard sold to the Maritime Commission at a lower price than the steel used in other yards was sold to other shipyard corporations, such as steel sold by the Fontana steel plant?

Mr. KNOEPPEL. No; we were not producers of steel. My recollection is that we agreed with the Maritime Commission upon an out-of-stock price for the steel.

Mr. GENNETT. An out-of-stock price?

Mr. KNOEPPEL. An out-of-stock price.

Mr. GENNETT. What does that phrase mean, Mr. Knoeppel?

Mr. KNOEPPEL. Well, that means that we took it out at the price that we carried our steel in stock—in other words, the cost of the steel plus handling charge and items which are involved in the use of the steel.

Mr. GENNETT. How many shipbuilding contracts did the corporation have with the Maritime Commission?

Mr. KNOEPPEL. Eighteen.

Mr. GENNETT. And what type or types of contracts were these 18?

Mr. KNOEPPEL. We had three types of contracts—lump sum, fixed price, price minus, and selective price.

Mr. GENNETT. Can you state the total cost to the Maritime Commission of all those contracts?

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Mr. KNOEPPEL. Total cost to the Maritime Commission on all the contracts, $549,488,545.

Mr. GENNETT. Do you have the total amount of fees paid on that 500 million in contracts?

Mr. KNOEPPEL. Well, they were fees and profits and losses, all combined—amounted to $13,975,119.

Mr. GENNETT. This is before or after renegotiation?

Mr. KNOEPPEL. This is after renegotiation, except that I have to qualify that. There was something taken in renegotiation in 1944, about $2,000,000, out of our combined operations. Now, we do not know what portion of that is attributable or was attributable to Maritime Commission contracts.

Mr. GENNETT. You have stated, have you not, that only about 10 percent of the volume of business done was other than shipbuilding?

Mr. KNOEPPEL. Well, yes; but shipbuilding included shipbuilding for the Navy, which is not included in here at all.

Mr. GENNETT. What was the total cost of the facilities to the Maritime Commission?

Mr. KNOEPPEL. $13,185,000.

Mr. GENNETT. Was a substantial part of the material used in these contracts supplied by the Maritime Commission?

Mr. KNOEPPEL. They furnished materials on the later contracts to a considerable degree; in fact, completely on the later contracts.

Mr. GENNETT. The labor was paid for by the Government?

Mr. KNOEPPEL. The labor was reimbursed to us by the Government.

Mr. GENNETT. I mean reimbursed to the corporation.

Mr. KNOEPPEL. That is right.

Mr. GENNETT. And part of the interest on borrowed capital was paid?

Mr. KNOEPPEL. A very small part, almost insignficant.

Mr. GENNETT. What about the management salaries of the corporation, were they reimbursed to the corporation?

Mr. KNOEPPEL. They were reimbursed to an amount that was set up by the Maritime Commission as allowable; not fully reimbursed.

Mr. GENNETT. Did you have a substantial amount of nonreimbursable items?

Mr. KNOEPPEL. We did; altogether, slightly over $1,000,000.

Mr. GENNETT. How did that compare with the volume of items that were reimbursed? One million dollars is a small percentage of the total amount paid out by the Commission, is it not?

Mr. KNOEPPEL. Yes; that is right. The total amount reimbursed, about $380,000,000.

Mr. GENNETT. Now, the contracts provided for incentive fees, I take it?

Mr. KNOEPPEL. That is right.

Mr. GENNETT. Maximum and minimum payments for performance?

Mr. KNOEPPEL. They provided for bonus on cost saving and also bonus for early deliveries, as far as the price-minus contracts are concerned.

Mr. GENNETT. Did you earn the maximum fee on any substantial part of your contracts?

Mr. KNOEPPEL. We did on some of our contracts; we earned the maximum; others, we earned part of the maximum; on others, we did not earn any of the so-called bonus.

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Mr. GENNETT. Were you paid only the minimum fee on any of these contracts?

Mr. KNOEPPEL. Yes; we were.

The CHAIRMAN. As far as the evidence is already in the record by way of statements, I hope we will save time.

Mr. GENNETT. All right, sir. I have no further question except one.

The CHAIRMAN. All right.

Mr. GENNETT. I understand that the corporation operated both a shipbuilding division and a steel fabrication division. Was there a loss in the fabrication division, that was set off against shipbuilding profits?

Mr. KNOEPPEL. No; I do not recall any losses in the fabrication end of it.

Mr. GENNETT. There was, then, in both divisions of the corporation, steel fabrication and shipbuilding, a profitable business period during the time the corporation was building ships?

Mr. KNOEPPEL. It would not have been profitable if we had not had the shipbuilding operations to supplement the work in the fabricating plant.

Mr. GENNETT. Nevertheless, you had no nonshipbuilding losses to offset against your shipbuilding profits?

Mr. KNOEPPEL. That is right; we had no losses to offset against the shipbuilding profits.

Mr. GENNETT. This is different from another situation that we have seen where the shipbuilding profits were erased by losses in another division of the corporation.

That is all, Mr. Chairman.

(Information furnished by the Consolidated Steel Corp., in response to the committee's questionnaire, was received for the record and marked "Exhibit 23.")

The CHAIRMAN. Mr. Bradley?

Mr. BRADLEY. Where are your yards located?

Mr. KNOEPPEL. The yard is located at Wilmington, Calif.

Mr. BRADLEY. Did you have any excessive losses in any of your other operations which you used to offset against the profits received from shipbuilding, as was the case with one witness?

Mr. KNOEPPEL. I don't recall any losses that we had that were offset against shipbuilding profits.

Mr. BRADLEY. In other words, this figure that we have here of roughly 16½ million dollars set down here as estimated profit, but let us call it fees, is substantially correct?

Mr. KNOEPPEL. I don't know how the 16,000,000 is arrived at.

Mr. BRADLEY. I don't know.

Mr. KNOEPPEL. I arrive at a profit of $13,975,000.

Mr. BRADLEY. Those are the total fees or profits?

Mr. KNOEPPEL. I think I know what figure is arrived at there. That is on the price-minus contract alone. We earned $16,404,000 before taxes. On our fixed-price contracts we lost $1,818,000, and on a selective-price contract we made $700,000, which is a total of $15,286,000. Then we suffered disallowances of about $1,200,000, which brings it down to the figure I gave, of $13,975,000 from the shipbuilding operations.

Mr. WEICHEL. Is that the so-called renegotiated figure for all your shipyard fees?

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Mr. KNOEPPEL. No. There may be something applicable to that in the renegotiation for 1944. We were renegotiated on an over-all cost basis year for year, and not on individual contracts.

Mr. WEICHEL. Did the Maritime specifically renegotiate your ship fees?

Mr. KNOEPPEL. We were renegotiated by the Navy Price Adjustment Board, not by the Maritime.

Mr. WEICHEL. Your dealings were with the Navy Price Board, and not by the Maritime Price Board?

Mr. KNOEPPEL. That is right.

Mr. BRADLEY. That is because the majority of your business was with the Navy?

Mr. KNOEPPEL. Yes; the preponderance was with the Navy.

Mr. BRADLEY. According to the figures furnished by the Maritime Commission, you did approximately $385,000,000 worth of business for the Maritime Commission.

Mr. KNOEPPEL. Of reimbursable costs.

Mr. BRADLEY. That is in the voucher phase.

Mr. KNOEPPEL. Yes.

Mr. BRADLEY. You must have done a pretty tremendous amount for the Navy to go above that, because that is a very big figure in itself, right there.

Mr. KNOEPPEL. We did. We had a separate yard down at Orange, Tex., building destroyer escorts and landing craft.

Mr. BRADLEY. How much business, in round figures, did you do with the Navy?

Mr. KNOEPPEL. With the Navy? I hesitate to say. It is just a guess now, but I would say about $600,000,000 or better.

Mr. BRADLEY. That is quite a contribution to the war effort—about a billion dollars' worth of work.

Mr. KNOEPPEL. At Maywood we turned out 5-inch twin gun mounts for destroyers.

Mr. BRADLEY. Maywood where?

Mr. KNOEPPEL. Maywood, Calif., where our fabricating plant was located.

Mr. BRADLEY. Have you figured out what the approximate percentage is of fees that you received, or of this $385,000,000?

Mr. KNOEPPEL. On that basis about 3 percent, I believe, before taxes. I know it is less than 1 percent after taxes.

Mr. BRADLEY. Less than 1 percent after taxes?

Mr. KNOEPPEL. Yes.

Mr. BRADLEY. About 3 percent before taxes?

Mr. KNOEPPEL. Yes.

Mr. BRADLEY. You did not make any Libertys, I see.

Mr. KNOEPPEL. I would qualify that. Against the reimbursable cost of $360,000,000-odd the net was slightly over 1 percent. It was slightly under 1 on the total cost, including material.

Mr. BRADLEY. I see you had approximately 25,300 employees?

Mr. KNOEPPEL. About that.

Mr. WEICHEL. Whatever you did for the Maritime was on your own capital that you had in this Consolidated Steel Co.?

Mr. KNOEPPEL. Yes.

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Mr. WEICHEL. I mean, you operated and then were reimbursed. You did not have any special corporation set up for it.

Mr. KNOEPPEL. No; we went in and operated for the Government.

Mr. WEICHEL. You did business with the Maritime Commission, you did business with the Navy, and you did it for other people?

Mr. KNOEPPEL. That is right.

Mr. WEICHEL. You did not build any Liberty ships?

Mr. KNOEPPEL. No, sir.

Mr. HERTER. You operated the Consolidated Steel Corp. in Orange, Tex., at the same time you operated in California?

Mr. KNOEPPEL. That was a division of our corporation—not a separate corporation but the same corporation in Orange, Tex.

Mr. HERTER. Are you familiar with the relative labor costs of the 2 areas?

Mr. KNOEPPEL. I could not tell you the difference, but there is a substantial variation. The west coast is higher than the Gulf.

Mr. HERTER. You do not know, roughly, in percentage what it would be?

Mr. KNOEPPEL. I do not like to guess.

Mr. HERTER. Does that differential still remain?

Mr. KNOEPPEL. Yes.

Mr. HERTER. That is all.

The CHAIRMAN. Are there any further questions?

Mr. GENNETT. No questions.

Mr. HERTER. Might I ask the witness one further question?

I notice that in the C–1 type of ship, of which you built quite a number, that your contract price, although it may have been a different type of contract, between the early ones you built and the last ones you built, showed that your last ones were about half the price of the earlier ones. Is that correct?

Mr. KNOEPPEL. That is probably right. We drove and drove for efficiency, and of course that would be reflected in the downward trend of costs. I do not know whether that proportion is right. I imagine that is true if it is in the record. I know that there was a substantial reduction from the earlier ships to the last ships.

Mr. HERTER. I notice in your early C–1 ships that you built your contract price ran somewhere over $2,000,000, and in the last 28 the contract price ran under $1,000,000.

Mr. KNOEPPEL. I do not know where that $1,000,000 comes from in the contract price. Do you mean the expended money by the contractors?

Mr. HERTER. The last ones were under price-minus contracts. The first one was under an LS contract. The last one shows, in these figures we have, with 28 ships, under the price-minus contract the price was $25,000,000, and the voucher paid to you was about $24,000,000. There again may be an exclusion of materials furnished by the Maritime Commisison. It does not show.

Mr. KNOEPPEL. The last contract for $24,000,000 paid to us was on an AV–1 contract, not a C–1 contract. The last two contracts we had were AV–1 contracts. The last price-minus contract we had on C–1's was MCc7714. There was a total of $12,000,000 reimbursed to us there.

Mr. GENNETT. Perhaps Mr. Slattery could explain this.

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Mr. SLATTERY. That is a typographical error under "Type." That was not a C–1. They just copied the figure above it.

Mr. HERTER. I am sorry. I was misled by that.

Mr. KNOEPPEL. Those were AV–1's; smaller ships.

Mr. HERTER. Thank you very much. That explains it.

The CHAIRMAN. The hearings are adjourned until 2:30 this afternoon.

(Whereupon, at 12:40 p. m., the hearings were recessed until 2:30 p. m. of the same day.)

AFTER RECESS

(The hearing was resumed, pursuant to the taking of the recess.)

The CHAIRMAN. We will come to order.

I want to make the statement that this afternoon, when the subcommittee adjourns, the subcommittee is adjourned for the present investigation, subject to the call of the Chair. That is done for the convenience of members in the various districts and because it will be hardly profitable to carry on with convenience the investigation during the month of October. It will be resumed in November, and at that time the matter will be carried to a completion.

Another thing: The recess is in order to enable the members of the committee, those who are here and who have participated in the investigation and those who are not here, to study the record of the hearings for the last 2 or 3 days.

Mr. Coles, will you proceed?

Mr. COLES. The St. Johns River Shipbuilding Co.

The CHAIRMAN. Do you solemnly swear that the testimony you shall give for this investigation and this hearing and all subsequent hearings on this subject will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. AINSLOW. I do.

TESTIMONY OF ALBERT H. AINSLOW, TREASURER, ST. JOHNS RIVER SHIPBUILDING CO.

Mr. COLES. Would you tell us your name, please?

Mr. AINSLOW. Albert H. Ainslow.

Mr. COLES. Whom do you represent, and in what capacity, Mr. Ainslow?

Mr. AINSLOW. I am representing the St. Johns River Shipbuilding Co., in the capacity of treasurer and director.

Mr. COLES. Do you have a statement to read, Mr. Ainslow?

Mr. AINSLOW. I have, sir.

Mr. COLES. Would you, please?

The CHAIRMAN. Is it contemplated that the gentlemen who are with you will participate in your answers to any inquiries? If so, I would rather swear them at this time.

Mr. AINSLOW. Since it might happen, I think it would be a good idea.

The CHAIRMAN. Do you solemnly swear that the testimony you shall give in this investigation and all subsequent hearings on this subject will be the truth, the whole truth, and nothing but the truth, so help you God?

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Mr. F. D. WHEELER. I do.

Mr. AINSLOW. I should like to refer this committee to certain of the testimony which it developed in its previous hearings, March 22 and 23, 1944, and I believe it to be very pertinent to what has been discussed at these hearings with respect to St. Johns River Shipbuilding Co. I am quoting from Admiral Land's statement certain pertinent excerpts which are contained in pages 7 to 11 of the report of the committee's hearing March 22 and 23, 1944. I quote Admiral Land [reading]:

> It is impossible to overemphasize the problems of securing shipbuilding brains and production management to embark on this new program. There was a bottleneck in brains and know-how, much more serious than any other difficulty. Organizations to man and manage these yards had to be recruited and trained, and the managerial skill of the highest possible type had to be discovered and induced to undertake the task. It was because of the fact that managerial skill and ability have been induced to take part, and not because of any capital investments, that the Commission's shipbuilding program was possible of achievement.
>
> These shipbuilders have done one of the greatest managerial jobs in all history. They have provided the know-how and brought to the task imagination, initiative, and ability that astounded the world with their achievements. If there is to be a percentage basis for paying them, I think it should be a percentage on brains and not a percentage on capital. I wish I knew some way to figure the proper percentage of return on brains.

In the report of the committee's hearing March 22 and 23, on page 17, the admiral refers to his letter of March 21 to Judge Bland, in which he pointed out that the capital of St. Johns should be shown as $600,600 and not as $600.

A further point brought out in your previous hearings was that Congress gave the Commission authority to grant net profits of 7 percent to shipbuilders, not on capital but on volume.

Your previous hearing brought out a fact so far overlooked in this session, namely, that our contract required a minimum capital of $100,000 per way, or an aggregate minimum of $700,000, upon which no interest would be reimbursable, and it further required $1,500,000 in a line of credit for which we paid 4 percent interest and were reimbursed only 2½ percent.

Mr. BRADLEY. How many ways did you have?

Mr. AINSLOW. Six, sir.

The other 1½ percent was absorbed by us as nonreimbursable expense. Incidentally, had we had, instead of shipbuilding and heavy construction know-how, a few million dollars to throw into the capital, we would have avoided paying some half million dollars in taxes back to the Treasury because of the excess-profits credit that such an investment would have permitted.

These remarks have been made to refresh the minds of the committee of the testimony given at its previous hearings, which testimony in my opinion is directly pertinent to the issues discussed during the past week.

I think, however, that you gentlemen will agree that it is very important that any witness in this hearing be fully identified, and when his opinions are requested for the record some evidence of his qualifications should be required.

Since I propose to state several opinions with respect to audit and accounting methods and profits, I wish to announce for the record

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that I have held the degree of certified public accountant in the State of New York for over 10 years, and that consequently I feel qualified to discuss this subject.

I have listened with much professional distaste to opinions concerning accounting and auditing methods loosely stated by people whom the record shows are not accountants. These statements, published by the press throughout the Nation and broadcast on a Nation-wide radio hook-up, have been irresponsible to the extent that much damage has been caused innocent parties. I refer to the fact that our company is controlled by the Merrill family, of Jacksonville, Fla. The Merrill family have been sorely distressed by the flaming headlines to the effect that they made 360,000 percent profit. It must be borne in mind that the Merrill family is still operating Merrill-Stevens Dry Dock & Repair Co. in the city of Jacksonville, and it certainly has not done their labor relations any good to have such inaccurate figures of profit given to the press.

To give you the background of our principal stockholders, the principal stockholders representing the Merrill interests have all been in the shipbuilding and ship repairing business during all of their adult lives. The Merrill family has a history of shipbuilding and repairing dating back before the Civil War. The Merrill-Stevens Engineering Co., predecessor to the present company, built ships for the United States Government during the War with Spain. The successor company, Merrill-Stevens Dry Dock & Repair Co., during World War I repaired ships for the United States Government and organized the Merrill-Stevens Shipbuilding Corp., which built a yard for the Government and constructed vessels for the Government in that yard. Our president, James C. Merrill, Sr., worked in both the repair yard and the construction yard.

After World War I the repair yard was continued as Merrill-Stevens Dry Dock & Repair Co.

The construction of the St. Johns River Shipbuilding Co. yard and vessels which were later built there during World War II resulted directly from a proposal made by James C. Merrill, Sr., to the Government in 1940 that such a facility would prove to be essential to the impending war. The Merrill-Stevens Shipbuilding Co. which he proposed to revive from World War I days, eventually evolved in 1942 as the St. Johns River Shipbuilding Co.

Other people have been unjustly disparaged by the manner in which Mr. Casey, of the General Accounting Office, testified concerning the powers and audit methods of the auditors and accountants employed by his office. His inference that such powers and degree of audit were severely limited is not borne out by the facts in the operation of our yard. All of our records were subjected to an extremely detailed audit by a group of auditors attached to the General Accounting Office of the United States Government, who made their headquarters at our yard. The extent of their audit is best exemplified by the fact that there appears upon every single individual piece of paper that can in any way be described as a financial record the GAO stamp signifying audit and approval.

It has been stated during this hearing on several occasions that the GAO auditors were not permitted to go beyond a most casual examina-

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tion. In our yard that statement is utterly without basis in fact. I believe that it is important to inform you that the extent of the examination by the Audit Section of GAO was so detailed that on occasion we were enabled to secure reimbursement for items which were originally denied by the Maritime Commission, solely because the GAO auditors, upon examination of the facts, recommended to the Commission that such items were properly reimbursable.

The gentleman who is in charge of the Audit Section of the GAO in our yard, and his assistants, are thoroughly familiar with every single financial transaction we have ever made in the history of our company, and these transactions bear the full approval of the GAO.

In addition to the representatives of the Audit Section of the GAO who were permanently stationed at our yard, we have had a thorough going over by representatives of the GAO Investigation Section, and I wish to give as my opinion, for the record, the statement that the regional head of this Investigation Section who conducted the inquiry in our yard is a most able auditor and investigator.

There has been constant reference, both inferred and specific, to the alleged ineptitude of the United States Maritime Commission audit system. I wish to state unequivocally and as a professional certified public accountant that I have never seen records subjected to as intense, detailed an audit as was made daily by the Maritime Commission auditors who were stationed at our yard. The head auditor, who represented the Maritime Commission as resident auditor at our yard during the larger part of our construction activities, is a certified public accountant in the District of Columbia, and he and his assistants subjected each and every one of our financial transactions to a most careful and professional audit.

Their audits resulted in the denial of reimbursement of hundreds of items of cost which we properly incurred in the performance of the contracts, but which were not allowable under regulations issued from time to time by the Commission regardless of the original terms of our contract. I cite this as an example of the risks which the contractor took, the financial risks, under these cost-plus contracts, which so many people seem to think represent mere gratuities paid to the chosen few by an all too beneficent Government, and it is put forward as an example of the extreme care which Maritime Commission employees took to protect Government funds.

The regional auditor is, in my opinion, one of the most competent accountants I have ever met, and in addition is a most zealous defender of the Government's funds. His superior was the general auditor of construction, with whom I had fewer business discussions than with the residents or regional auditors, but who must be an extremely capable accountant, if one may judge by the high quality of the audit in our yard by the men whom he directed.

Mr. Casey, of the General Accounting Office, admitted he was not an accountant, in spite of which he testified at this hearing that our company, St. Johns River Shipbuilding Co., realized a profit of 346,666 percent on our capital investment.

I desire to refer Mr. Casey and the committee to the hearings before this subcommittee conducted March 22 and 23, 1944. In exhibit 9 thereof the capital investment of St. Johns River Shipbuilding Co.

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was clearly demonstrated to be $600,600, and Mr. Casey should be familiar with that fact, and certainly should not have been allowed to make such a gross misrepresentation of facts.

Mr. BRADLEY. Let me repeat that Mr. Casey was repeating Maritime Commission figures. Is that clear to you? They were entered in the record here as exhibit No. 1 by counsel to the committee.

Mr. AINSLOW. I merely wish to point out that this subcommittee had in its previous hearings determined that we had $600,600 in capital.

Mr. BRADLEY. That is not this same subcommittee.

The CHAIRMAN. In any case, we are after the facts now. Whatever will help to establish the facts we want. Use of vilification or anything else does not have any place in these hearings.

Mr. AINSLOW. I would like to review some of the controls which our Federal Government set up to prevent excessive profits being made out of the war effort. As an example, to make it simple——

Mr. WEICHEL (interposing). Is this set up with reference to profits out of shipbuilding?

Mr. AINSLOW. Specifically.

I shall take a typical fee which we at St. Johns received for building a ship—$20,000. Our company would pay back to the United States Government in the form of Federal income and excess profits taxes $14,400 of this $20,000. If, for the purpose of this example, this $5,600 of corporate net income could be distributed to a typical stockholder, it would result in this individual paying back to the United States Government in the form of personal income and surtaxes some $4,480.

It will be manifest that the operation of this preventive legislation voided any possibility of our company's stockholders making excessive profits.

I wish to point out that in this example I have not even given consideration to the nonreimbursable expenses that were necessary to carry out the contracts, but which were disallowed as items of cost by the Commission, and there is a strong probability that some of such items may be disallowed as tax deductions as well.

Transforming this example to the actual over-all financial results of our operations, we find that our stockholders realized not 346,666 percent on their investment but rather a net profit of about 11 percent; or, stated by what I believe to be a better yardstick, in spite of Mr. Coles' aversion to this method of expressing profits, our stockholders realized about one-tenth of 1 percent profit on the volume of business transacted, far less than the 7 percent permitted by law.

I am sure the committee will appreciate that this profit would have been vastly larger had the company had a capital investment of several million dollars instead of its know-how. With such a capital investment our excess-profits taxes would have been avoided.

There has been constant reference to some purely fictional creature in our case in the Maritime Commission who habitually changed contracts to the contractor's advantage and to the detriment of the Federal Government. Our contracts were changed on numerous occasions, and I state unequivocally that each and every change cost us money. In good faith we signed a contract providing for minimum fees of $60,000 per vessel. However, the Maritime Commission arbitrarily cut those fees in half and instead of the $60,000 per vessel minimum fee which we contracted for, we received $30,000 per ship for the first contract of 30 ships.

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However, we found that in spite of the terms of the contract the Maritime Commission had a tendency to look with disfavor upon reimbursement for a very considerable number of expenses that we found necessary for the proper performance of the contract, among which was the $200,000 which we paid as a fee for the construction of the shipyard.

I digress at this moment to point out that Mr. Casey used this transaction as an example which, he says, "only tends to show you that if you had enough of these no-profit contracts you would soon be a millionaire." The fact of the matter is that in the original negotiations Admiral Vickery indicated to Mr. L. J. Fischer, chairman of the board of Thompson-Starrett Co., Inc., one of the better-known and older heavy-construction companies in the world, that the Commission would pay a fee of $400,000 for the construction of the yard—would reimburse a $400,000 fee to be paid to Thompson-Starrett Co. However, when it came down to actual facts the Commission cut that fee to $100,000 which, for the construction of a $16,000,000 facility, Mr. Fischer justifiably said was abnormally small.

He therefore negotiated with the other stockholders of St. Johns River Shipbuilding Co., and as a result a compromise was reached, and our company agreed to pay out of its funds $200,000 in lieu of the $400,000 which Thompson-Starrett had originally been led to believe would be their fee.

After the first 30 ships, minimum fees on our subsequent contracts were reduced to $20,000 per ship.

To demonstrate the absurdity of the statement made before this hearing that we operated on a capital of $600, I have examined our annual reports which were prepared by the well-known firm of public accountants, Peat, Marwick, Mitchell & Co., and I should like to read to the committee tabulations of the amounts due us from the United States Government in connection with our contracts at the end of each of our fiscal years.

On June 30, 1942, our receivables and items in process of billing were $1,391,536.72.

On June 30, 1943, our receivables from the Maritime Commission and unbilled items of cost incurred in the performance of these contracts was $3,781,664.35.

On June 30, 1944, this same balance sheet item was $2,687,148.66.

On June 30, 1945, this item was $982,127.51.

Obviously one could not carry such sums on a mere investment of $600, and as a matter of fact, they could not have been carried on the dollar investment which was made, $600,600. The important factor was that intangible investment, the experience and integrity which made it possible for the principals of our company to secure bank loans to the extent of $2,500,000, and these loans were not guaranteed by any branch of the United States Government. They were purely transactions in private enterprise.

Thank you.

Mr. COLES. Mr. Ainslow, when was the St. Johns River Shipbuilding Co. formed? What is the date of that?

Mr. AINSLOW. Its charter is dated March 9, 1942.

Mr. COLES. When did it receive its first contract from the Maritime Commission?

Mr. AINSLOW. The contract is dated March 4, 1942.

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Mr. COLES. So the St. Johns River Shipbuilding Co. received a contract before it was even formed, is that correct?

Mr. AINSLOW. That is a misstatement, because it is quite customary to be a corporation in fact before you are a corporation at law. Our papers had been filed prior to that.

Mr. COLES. Before you had a legal corporation as such you had a contract with the Maritime Commission, is that correct?

Mr. AINSLOW. May I consult counsel?

Mr. COLES. Surely.

Mr. AINSLOW. I would like to state that a corporation de facto is a perfectly legal entity.

Mr. COLES. Would you read my question, Mr. Reporter?

(The question was read.)

Mr. AINSLOW. That contract, dated March 4, was not actually executed until subsequent to the receipt of our charter.

Mr. COLES. Why is it dated March 4?

Mr. AINSLOW. I can't say, sir.

Mr. COLES. How much money was put into capital stock of this corporation?

Mr. AINSLOW. $600.

Mr. COLES. And was there class A stock?

Mr. AINSLOW. Yes, sir.

Mr. COLES. What was the value of the class A stock?

Mr. AINSLOW. $200.

Mr. COLES. Who owned the class A stock?

Mr. AINSLOW. Thompson-Starrett Co.

Mr. COLES. Originally, until the yard was completed, was that the only voting stock, or did that control the majority of the directors?

Mr. AINSLOW. It controlled five of the nine directors.

Mr. COLES. So Thompson-Starrett controlled five of the nine directors of St. Johns?

Mr. AINSLOW. Yes, sir.

Mr. COLES. You mentioned also that you had $600,000 in stockholders' loans. Is that correct?

Mr. AINSLOW. No, sir; we had $600,000 outstanding in debenture bonds.

Mr. COLES. In debenture bonds? And you feel that that $600,000 should be reflected in your capital?

Mr. AINSLOW. Yes, sir; because it was so completely subordinated to any claim whatsoever.

Mr. COLES. When were those claims paid off?

Mr. AINSLOW. They were paid off progressively over a period ending in October of 1943.

Mr. COLES. Did you neglect to tell the committee when you mentioned Admiral Land's testimony that he had testified that by October, 1943, all of your stockholders' loans had been repaid?

Mr. AINSLOW. I wouldn't say that I neglected to do so. I merely referred the committee to this statement, which says that our original capital was $600,600.

Mr. COLES. So that from October of 1943 until the present the investment of the owners of St. Johns Shipbuilding has been $600 in capital stock, is that correct?

Mr. AINSLOW. Plus surplus.

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Mr. COLES. And that surplus is all from earnings on Government contracts, is that correct?

Mr. AINSLOW. Earnings plowed back, yes, sir.

Mr. COLES. So that actually the statement in the Maritime Commission's report, exhibit 1, that you have but $600 investment in the yard is absolutely correct, is it not?

Mr. AINSLOW. I deny that. We had $600,600.

Mr. COLES. Let us talk of the capital after October 1943. How much capital did you have during the major portion of your contract period?

Mr. AINSLOW. More than $600,000.

Mr. COLES. In what way?

Mr. AINSLOW. In capital and surplus.

Mr. COLES. But the surplus was earned from Government contracts, was it not, with the Maritime Commission?

Mr. AINSLOW. Yes, sir.

Mr. COLES. So that you had $600 plus whatever your share may have been resulting from the earnings on Government contracts.

Mr. AINSLOW. Plus the fact that in order to give us more capital Thompson-Starrett Co., Inc., refrained from requiring us to pay the $200,000 facilities fee until some time later.

Mr. COLES. But that was a debt owed by the corporation. Certainly you are not saying that was capital.

Mr. AINSLOW. It was so subordinated it gave us additional working capital.

Mr. COLES. You mentioned a large number of figures there showing your outstanding accounts and indicated that that could not be financed on a $600 capital. Did you have bank loans?

Mr. AINSLOW. We did.

Mr. COLES. Were those bank loans, Mr. Ainslow, sufficient to handle that amount of outstanding receivables?

Mr. AINSLOW. With the addition of our capital; yes.

Mr. COLES. What was your capital after October 1943?

Mr. AINSLOW. May I finish that last answer?

Mr. COLES. Please.

Mr. AINSLOW. Although we had the privilege of borrowing $2,500,000 from the banks, you must remember that it was costing us 1½ percent interest and it was costing the United States Government 2½ percent interest for us to borrow $1 more than was absolutely necessary to the conduct of the business, consequently all of our funds, plus the profits, were used first in conducting this business, and any balance that was necessary was borrowed.

Mr. COLES. Did you borrow up to $2,500,000 from the banks?

Mr. AINSLOW. Yes, sir.

Mr. COLES. And interest for the use of that money was partially reimbursable?

Mr. AINSLOW. Yes, sir.

Mr. COLES. As a certified public accountant, would you say that that is capital invested in the business?

Mr. AINSLOW. To be very technical about it, it would not go in the capital section of a balance sheet; no. But to be practical about it, it is working capital.

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Mr. COLES. It is working capital borrowed. But would you say that that is investment in the yard of the people who own the yard and have the benefit of its profits?

Mr. AINSLOW. It was not an original investment in the yard as such.

Mr. COLES. Would you repeat my question, please, Mr. Steinko?

(The question was read.)

Mr. AINSLOW. I would say so to this degree, that since these people were stockholders and directors of the corporation, if those bank loans had not been paid the banks would have had recourse to them personally, in spite of the fact that they were not personally endorsed.

Mr. COLES. What grounds would the banks have for recourse to the stockholders of this corporation?

Mr. AINSLOW. I believe that under current law it is possible to go behind the corporate cloak and, in the event that any directors or stockholders had by their actions caused a loss to creditors, those creditors still have recourse to it.

Mr. COLES. If the St. Johns River Corp. had been unable to pay these debts, do you intend to tell this committee that, in spite of the fact that these people had no endorsement on the notes, they would be personally liable for them?

Mr. AINSLOW. If it resulted from their acts as directors or stockholders.

Mr. COLES. We are talking in the normal course of events. Would there be any liability?

Mr. AINSLOW. So am I.

Mr. COLES. Is there anything in your corporate charter which states that the liability of the stockholders shall be limited to the amount of money they have invested in the capital stock?

Mr. AINSLOW. I presume so, but what I am driving at is that it is my recollection that within the last 5 or 10 years the laws have been changed to the degree that when a director or a stockholder performs some pernicious act, fraud, shall we say, creditors can sue him personally.

Mr. COLES. In the event of fraud, you can be sued for anything, irrespective of the notes. But in the normal course of business events, in the absence of fraud, was there any liability for these bank loans upon the incorporators or stockholders of this company?

Mr. AINSLOW. There was no personal endorsement.

Mr. COLES. In other words, the bank loans were the loans which financed those receivables that you spoke of, is that not correct?

Mr. AINSLOW. That is not correct, because, as I told you, in order to save interest for the United States Government and ourselves, we utilized our funds before we utilized the banking agreement.

Mr. Coles. Your funds were the $600 left in capital stock after October 1943, plus the earnings that you made from Government contracts, is that not correct?

Mr. AINSLOW. And plus the $200,000 that Thompson-Starrett put there.

Mr. COLES. Which was not reimbursable from the Government.

Did you pledge for those bank loans any collateral?

Mr. AINSLOW. Yes; we did.

Mr. COLES. What was the collateral you pledged?

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Mr. AINSLOW. We pledged the accounts receivable arising under our contracts.

Mr. COLES. So that actually, as collateral, and the thing for which the bank lent the money, was that they had a lien on receivables from the Government; is that not correct?

Mr. AINSLOW. That is correct.

Mr. COLES. Now, you quoted a moment ago the act which states that you can have 7 percent return on the volume of business you do, is that correct?

Mr. AINSLOW. I did not quote the act. I quoted the committee's report.

Mr. COLES. And that is the Vinson-Trammel Act of 1934, is it not?

Mr. AINSLOW. I believe so.

Mr. COLES. And someone mentioned—I believe it was Mr. Kaiser, a couple of days ago, or Mr. McCone; excuse me—that under the Merchant Marine Act of 1936 you are allowed 10 or 11 percent profit, is that correct?

Mr. AINSLOW. I believe so.

Mr. COLES. You are familiar, I presume, with these hearings in 1944, in which Admiral Land testified?

Mr. AINSLOW. Yes, sir.

Mr. COLES. And you cited to the committee certain facts that Admiral Land stated; is that correct?

Mr. AINSLOW. Yes, sir.

Mr. COLES. Did you neglect to mention what Admiral Land had said about the applicability of the Vinson-Trammell Act and the Merchant Marine Act of 1936 percentages as they referred to these shipbuilding contracts?

Mr. AINSLOW. I do not follow your question.

Mr. COLES. I will rephrase it, because it is complicated.

After referring to the percentage as justification for the situation involving St. Johns, the percentage that they made, you mentioned that the Vinson-Trammell Act allowed a 7-percent profit. Now, you also quoted Admiral Land in several instances, on what his testimony was in 1944. Did you neglect to tell this committee what his testimony was in 1944 concerning the applicability of the Vinson-Trammell Act and its 7 percent on volume?

Mr. AINSLOW. Well, I neglected to tell the committee a great many other things that are contained in that report.

Mr. COLES. Does this refresh your recollection——

Mr. AINSLOW. And I would very much appreciate it if you would tell me what Admiral Land did say.

The CHAIRMAN. I think we had better ask him who said so-and-so.

Mr. COLES. Do you recall Admiral Land having testified as follows [reading]:

Mr. ZINCKE (who was previously general counsel). Admiral, at the time of the passage of the Vinson-Trammell Act and the Merchant Marine Act of 1936, the common and accepted method of contracting for ships was in general a lump-sum contract on bids in a private shipyard, is that correct?

Admiral LAND. That is true—after advertisement. That was a statutory requirement in those days.

Mr. ZINCKE. These were private yards, and the contractor assumed the responsibility for any loss incurred by reason of his construction?

Admiral LAND. That is true.

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Mr. ZINCKE. And the Vinson-Trammell Act and the Merchant Marine Act of 1936 did not refer to the type of construction which would be undertaken in the Liberty yards?

Admiral LAND. Naturally not. That is an axiomatic answer. It did not because we did not have any such conditions existing.

Does that refresh your recollection?

Mr. AINSLOW. I do not recall.

Mr. COLES. It is on page 44 of those hearings.

Mr. BRADLEY. Is it not true that the Vinson-Trammell Act did not say that you should have 7 percent; it said you could not exceed 7 percent of your contract. Is that not correct? I am asking counsel.

Mr. COLES. My recollection is that that is correct, and my recollection is that the 1936 Merchant Marine Act likewise said it shall not exceed 10 percent.

Mr. BRADLEY. It does not guarantee any 7 percent.

Mr. COLES. I think the facts speak for themselves.

Was there any investment by St. Johns in the yard here?

Mr. AINSLOW. Exclusive of property, no.

Mr. COLES. Was there any risk taken under the cost-plus contracts which the St. Johns people had?

Mr. AINSLOW. Yes; very definitely.

Mr. COLES. What was the risk?

Mr. AINSLOW. The risk was that transactions entered into in order to get the ships built often turned out to be nonreimbursable transactions.

Mr. COLES. What was the extent of your nonreimbursable items?

Mr. AINSLOW. $1,185,000.

Mr. COLES. And what were the major nonreimbursable items?

Mr. AINSLOW. They were made up of many hundreds of items.

Mr. COLES. What were the major ones?

Mr. AINSLOW. Some of the captions are "Interest on bank loans," "Interest on debentures."

Mr. COLES. You are contending, are you, that the Government should have paid you interest on the $600,000?

Mr. AINSLOW. I contended no such thing. I said these were our expenses of doing business which were not reimbursable under the contract.

Mr. COLES. This $600,000 was an expense of doing business, rather than an investment?

Mr. AINSLOW. I did not mention $600,000.

Mr. COLES. That is what was invested.

Mr. AINSLOW. The figure happens to be $45,000.

Mr. COLES. You are saying that the interest on the debentures was a cost of doing business?

Mr. AINSLOW. It was part of the cost of handling those contracts.

Mr. COLES. And you still contend that until October 1943 the debentures were an investment of capital?

Mr. AINSLOW. Yes.

Mr. COLES. What are the other major items?

Mr. AINSLOW. The largest one is the $200,000 which I mentioned in my presentation.

Mr. COLES. To a subsidiary company?

Mr. AINSLOW. For getting a yard built.

Mr. COLES. To a company which owned the controlling interest in the stock at the time the yard was built?

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Mr. AINSLOW. Yes.

Mr. COLES. So it is taking it out of one pocket and giving it to another; and you think that is risk?

Mr. AINSLOW. I should not say that it has been taken out of one pocket and given to another. There were other stockholders than Thompson-Starrett involved in the St. Johns River Shipbuilding Co.

Mr. COLES. What percentage of the stock of your company was owned by Thompson-Starrett executives?

Mr. AINSLOW. Thirty-three and one-third percent, for a while.

Mr. COLES. Afterward, how much?

Mr. AINSLOW. None.

Mr. COLES. What are the major nonreimbursables?

Mr. AINSLOW. Organization expense.

Mr. COLES. You feel the Maritime Commission should pay you for organizing the corporation?

Mr. AINSLOW. May I make it clear that in reading these I am not stating in any way that I expected the Maritime Commission to pay them. I merely say that in order to conduct this operation we had to incur these expenses.

Mr. COLES. Are you not saying that these were a risk that you were taking? That is my basic question.

Mr. AINSLOW. I am afraid I did not make myself clear. The risk is not the expenses that we incur in order to carry on this business but which are denied us for reimbursement by the terms of our contract. The risks are the items which we fully expected to be reimbursed for and were not——

Mr. COLES (interposing). And these are the items?

Mr. AINSLOW. They are contained in the figures that I have listed in this statement.

Mr. COLES. I would like to put that in the record, if I may.

The CHAIRMAN. What are you putting in the record?

Mr. COLES. This is the break-down of the nonreimbursables by the St. Johns Shipbuilding Co.

Mr. BRADLEY. Is that agreeable to the witness?

Mr. WEICHEL. That paper belongs to the witness, I think.

Mr. AINSLOW. I prefer that it not be put in there.

Mr. WEICHEL. We can question you about it. That is your paper, and I think you are entitled to it. I do not think we have any right to take it away from you.

Mr. COLES. May we have a copy of it?

Mr. AINSLOW. I would prefer not. I am perfectly willing to read out the figures for your record.

Mr. COLES. What is your objection to its being put in the record?

Mr. WEICHEL. I do not think it makes any difference. That is his own paper.

Mr. COLES. Another thing you stated, to get away from that for a moment, was——

Mr. AINSLOW (interposing). You interrupted me in my last answer.

Mr. COLES. Finish it, if you will.

Mr. AINSLOW. The items of risk were daily occurrences. There was scarcely a day went by that we did not have to argue with the Maritime Commission to be reimbursed for some expense that we in good faith incurred in carrying out the contract. But because of some regulation

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or other, which regulations were constantly being published, the item was considered to be nonreimbursable, and throughout the entire period of our contracts there was the constant threat that the nonreimbursable potential might exceed the profits and consequently go into the capital.

Mr. COLES. Now, Mr. Ainslow, you had cost-plus-fixed-fee contracts; is that correct?

Mr. AINSLOW. We had cost plus variable fees.

Mr. COLES. And those were the only type of contracts you had?

Mr. AINSLOW. Aside from the ones that we are now operating under.

Mr. COLES. Is it your contention that under the cost plus fixed fee, or, as you put it, cost plus variable fee, which I assume is the same thing, you had a substantial risk?

Mr. AINSLOW. I state that very definitely—that we had a substantial risk.

Mr. COLES. You mentioned a few minutes ago that in your opinion the amount of capital invested in the corporation had no bearing whatsoever upon its profits. Did I understand you correctly?

Mr. AINSLOW. Yes.

Mr. COLES. Does the renegotiation law take as one or two of its seven factors the amount of private or public capital invested in the enterprise?

Mr. AINSLOW. Generally; yes.

Mr. COLES. Specifically, does it?

Mr. AINSLOW. In our case I do not believe that that factor had any bearing.

Mr. COLES. I asked you if the renegotiation law includes the amount of capital invested as one of the seven factors.

Mr. AINSLOW. Yes.

Mr. COLES. In figuring excess profits under the excess-profits tax alone are the two bases not (1) invested capital and (2) earnings over the previous base period?

Mr. AINSLOW. Yes.

Mr. COLES. And in your case you had no previous base period for the St. Johns Co.?

Mr. AINSLOW. That is right.

Mr. COLES. So, for the excess-profits law the only base was the amount of invested capital?

Mr. AINSLOW. Yes.

Mr. COLES. After 1943 the only invested capital was $600, plus what you term "earnings from shipbuilding"; is that correct?

Mr. AINSLOW. It is not, to this degree—that in computing excess profits one is given some credit for borrowed capital.

Mr. COLES. But is invested capital not the essential test of the excess-profits law?

Mr. AINSLOW. In our case it was not, because our borrowed capital was so much greater than our invested capital.

Mr. COLES. You also attacked Mr. Casey a moment ago on the ground that he said the Comptroller General's office could not audit your accounts. Did he not merely testify that they could not audit a renegotiation agreement?

Mr. AINSLOW. He may have specifically said that, but the understanding that I got—and I know that my colleague got the same

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understanding from him—the inference was that the GAO auditors were not permitted to audit these records.

Mr. COLES. I suggest that you read Mr. Casey's statement. I believe you will find that he merely stated that they did not have the power to audit renegotiation records. Does anything you say differ with that? Do you know whether or not they audited the renegotiation agreements with St. Johns?

Mr. AINSLOW. We have had only one agreement. If my memory serves me correctly, I furnished to the resident GAO auditor a copy of that agreement.

Mr. COLES. Did they have the power to go back into the figures upon which the renegotiation was based?

Mr. AINSLOW. I don't know.

Mr. COLES. In other words, your attack on Mr. Casey is rather "up in the air"; is that correct?

Mr. AINSLOW. I would not say that. It was my impression——

The CHAIRMAN. I think that is a matter of argument.

Mr. COLES. I just want to be fair to Mr. Casey, Mr. Chairman.

The CHAIRMAN. That may be true, but it is a question of deduction.

Mr. COLES. Now, Mr. Ainslow, the contract between the St. Johns River Shipbuilding Co. and the Maritime Commission provided for the building of a shipyard, did it not?

Mr. AINSLOW. Yes.

Mr. COLES. And did that contract not state that the St. Johns River Shipbuilding Co. should make no profit on the construction of that shipyard?

Mr. AINSLOW. Yes.

Mr. COLES. And did not the St. Johns River Shipbuilding Co. agree to that?

Mr. AINSLOW. Yes.

Mr. COLES. Did Thompson-Starrett have a controlling interest in the St. Johns Co. at the time that contract was entered into?

Mr. AINSLOW. It owned a third of the stock.

Mr. COLES. Was not that the controlling stock at that time?

Mr. AINSLOW. It controlled the board; yes, it did.

Mr. COLES. Did the St. Johns River Shipbuilding Co. not enter into a contract with this controlling parent corporation under which the controlling parent corporation, Thompson-Starrett, would build the yard?

Mr. AINSLOW. Yes.

Mr. COLES. Did not Thompson-Starrett submit a bill of $300,000 for its fee?

Mr. AINSLOW. Rather than stating they submitted a bill, they signed a contract with St. Johns, and that contract bore the full approval of the Maritime Commission and was no different from numerous other subcontracts that were entered into by St. Johns.

Mr. COLES. Did that subcontract provide for the payment of a $300,000 fee?

Mr. AINSLOW. Are you referring to the contract between St. Johns and Thompson-Starrett?

Mr. COLES. I am.

Mr. AINSLOW. I distinguish because there is a subcontract for approval of the Maritime Commission which called for $100,000 fee.

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Mr. COLES. Did the contract between St. Johns and Thompson-Starrett provide that the Thompson-Starrett Co. would receive a $300,000 fee for building the yard?

Mr. AINSLOW. It did.

Mr. COLES. And did the St. Johns Co. not submit this bill to the Maritime Commission and include that $300,000 as an expense of building the facility?

Mr. AINSLOW. It did not.

Mr. COLES. Did it submit $100,000?

Mr. AINSLOW. It did.

Mr. COLES. And was Thompson-Starrett paid $100,000 out of funds supplied by the Maritime Commission, which $100,000 was a fee for building the yard?

Mr. AINSLOW. It was.

Mr. COLES. So that, despite the provision in the contract that St. Johns would not make a profit on the construction of the yard, this controlling parent company made $100,000 on the building of this yard. Is that correct?

Mr. AINSLOW. It did.

Mr. COLES. The Maritime Commission put in $17,000,000, into the building of the yard. Did the St. Johns Shipbuilding Co. put in a penny?

Mr. AINSLOW. No, sir.

Mr. COLES. The $200,000 which was nonreimbursable and, as a matter of fact, all of those nonreimbursables were deducted from your income-tax liability, were they not?

Mr. AINSLOW. It is a far cry from deducting them from your income tax and getting them passed by the Bureau of Internal Revenue.

Mr. COLES. How much of those nonreimbursables were passed by the Bureau of Internal Revenue?

Mr. AINSLOW. We have not yet had an audit conducted by the Bureau for any of our fiscal years.

Mr. COLES. Are you contending that they should be allowed as deductions?

Mr. AINSLOW. I believe they should, because each and every one was a necessary business expense.

Mr. COLES. So that the Government will pay a large percentage if this is allowed as you contend?

Mr. AINSLOW. We can be specific about it. If allowed, 72 percent of it will not be paid in taxes.

Mr. COLES. So that the Government will pay 72 percent if your contentions are agreed to; is that correct?

Mr. AINSLOW. Yes.

Mr. COLES. What are the maximum fees permitted under your contract?

Mr. AINSLOW. At what point and which contract?

Mr. COLES. Under all cost-plus contracts.

Mr. AINSLOW. They were not all the same.

Mr. COLES. What was the total of the fees under all the contracts, the maximum?

Mr. AINSLOW. I am afraid that I will have to refer to the contracts in order to give the maximum.

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Mr. COLES. That can be furnished later, if you wish.

Mr. AINSLOW. I can give you the minimum. The minimum was $900,000 on the 30-ship contract. It was $1,000,000 on the 52-ship contract. It was $240,000 on the 12-ship contract.

Mr. COLES. Making a total of $2,222,000; is that correct?

Mr. AINSLOW. $2,220,000 is correct.

Mr. COLES Mr. Ainslow, you testified that what this company brought was not money to this organization, but it brought the ability and the efficiency of a shipbuilding group. Is that correct?

Mr. AINSLOW. Plus a heavy construction group.

Mr. COLES. So your position is that what they brought was ability to build large ships; is that correct?

Mr. AINSLOW. Yes, sir.

Mr. COLES. Was there a provision in your contracts that for every day which you were late in delivery of a ship there would be a penalty of $400 deducted from your fee?

Mr. AINSLOW. Yes.

Mr. COLES. Was your company, with its shipbuilding efficiency, not 2,940 days late in its delivery of ships?

Mr. AINSLOW. The fact of the matter is that we were several hundred days early.

Mr. COLES. I should like to read into the record, Mr. Chairman, at this time a letter to Mr. W. L. Slattery, general auditor of construction, from Mr. A. D. Burrowes, unit head, dated September 11, 1945, on the subject of renegotiation—St. Johns River Shipbuilding Co.—contract MCc–34743, one of their contracts——

Mr. AINSLOW. May I interrupt? We did not have such a contract.

Mr. BRADLEY. What is that number?

Mr. COLES. 34743.

Mr. BRADLEY. It is not shown on Mr. Slattery's records that he gave the committee.

Mr. COLES. It was furnished me by Mr. Slattery, with a note to Mr. Gennett, saying—

Attached are copies of agreement dated September 11, 1945, re Renegotiation of St. Johns River Shipbuilding Co. contract MCc–34743 as per your telephone request of September 16, 1945.

That is signed "W. L. Slattery, Director, Divisions of Accounts."

Mr. WEICHEL. Mr. Chairman, I think if we are going to make a practice here of putting in exhibits by somebody, having counsel pull them out of his pocket and lay them on the table, we should have the people here who are responsible for those exhibits. I would like to see the people responsible for them placed on the stand and examined.

Mr. BRADLEY. That is the number of the renegotiation contract.

Mr. COLES. I presume that is true.

Mr. BRADLEY. That is the one that was originally MCc–2427.

Mr. COLES. I should like to read the letter. It reads as follows [reading]:

On December 9, 1944—

That is after the debentures had all been paid—

the Commission entered into a clearance agreement with St. Johns River Shipbuilding Company, designated MCc–34743, under which total profits were allowed

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the Shipbuilder in the sum of $900,000 for services performed under Contract MCc-2427, in construction of 30 EC-2 Vessels. The fees allowed represent payment on a minimum basis and the contractor has waived claim for any compensation in excess of that amount.

Article 8, paragraph A, of the Vessel Construction Contract, reads, in part, as follows:

"8 (A) If delivery of any vessel is delayed beyond the delivery date stipulated therefor in Article 5 hereof, then the base fee payable to the Contractor under the provisions hereof with respect to said vessel shall be decreased to cover fixed, agreed, and liquidated damages (and not as a penalty) for delay in delivery of each such vessel an amount equal to $400 for each and every calendar day of such delay: * * *"

Elapsed time between the contract date of delivery of each hull and the actual date of delivery of each hull indicates delayed deliveries in the aggregate of 2,940 days.

That is signed "A. D. Burrowes."

Does that refresh your memory?

The CHAIRMAN. Is that a communication from Mr. Slattery to the witness?

Mr. COLES. No, sir.

The CHAIRMAN. It is a communication to counsel?

Mr. COLES. No, sir. It is a communication to Mr. Slattery from one of his unit heads, which was submitted to the committee upon request of Mr. Gennett, assistant counsel.

The CHAIRMAN. If there is any question about it, it will be introduced by Mr. Slattery presenting himself for cross-examination, and if there are any questions about it he can answer just as he pleases.

Mr. AINSLOW. I would like to make this statement. Although one of the clauses of the contract has been read and one part of this computation has been put into the record, there has been no mention whatsoever of the fact that in our contract there is a force majeure clause and credits are allowed for changes in plans and specifications. Our technical people, working with the technical people of the Maritime Commission, based upon a daily log record of everything that went on in the yard, determined that we actually delivered our ships faster than the contract required. We, however, waived any right to the $400 per day premium for delivering them earlier, and also waived the right to an adjustment of the base fee, a premium of 50 cents for hours saved. That is the whole story of when we delivered our ships.

Mr. COLES. Mr. Chairman, in view of Mr. Weichel's statement and in view of Mr. Ainslow's statement, may I digress for a moment to submit this to Mr. Slattery?

The CHAIRMAN. You can submit it to him, but I am not going to interrupt this hearing now to permit Mr. Slattery to testify. If you have anything to produce you can produce it when Mr. Slattery testifies.

Mr. COLES. This is over Mr. Slattery's signature; so I would like permission to put it into the record.

Mr. AINSLOW. Can I not point out the fact that the Commission has other records to submit——

The CHAIRMAN. I think it is a convenience to show you what they are going to introduce. If you want to make any statement in rebuttal it would be proper testimony. I do not see how we can handle half a dozen witnesses. We tried to do it the other day and there was confusion all the time.

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Mr. AINSLOW. May I not say, again, that if that is to be filed with the record, the force majeure records should go along with it, and the changes in plans and specifications records.

The CHAIRMAN. Anything you specify will be introduced.

Mr. COLES. Will you supply that? Or we can ask the Commission to supply it.

Mr. WEICHEL. Why should not the Commission supply its records? Why should you ask some shipbuilder to come in and supply records that the Government has?

The CHAIRMAN. In my view, it is a convenience to the present witness to give him an opportunity to testify with reference to them; and that is the purpose of counsel's interrogatory to him. It may save him the trouble and expense of coming back if he wants to introduce anything to explain or modify it.

Mr. AINSLOW. I do not wish to introduce anything here. I just believe that the full record should be introduced by counsel, and not one part of it.

Mr. COLES. Mr. Chairman, I assure you that this is the only record I have, the only record I knew of, and the only record I know of at the moment.

Mr. AINSLOW. You read this contract and you knew there were force majeure clauses and changes in plans and specifications clauses.

Mr. COLES. I beg your pardon; the contract has not been read.

Mr. AINSLOW. I should think it would be part of the procedure to read the contract.

Mr. COLES. Is it your contention that this figure of 2,940 days late in delivery of the vessels under this one contract, MCc-2427, is incorrect?

Mr. AINSLOW. I say it is incorrect.

Mr. COLES. Will you offer us any facts you have to substantiate that?

Mr. AINSLOW. I refer you to contract 2427, the force majeure clause and the changes in plans and specifications clauses, all of which must be taken into consideration when you compute whether or not you delivered a ship on time.

Mr. COLES. Were you late in delivery of those ships as provided by the contract date?

Mr. AINSLOW. We were not late as provided by the contract.

Mr. COLES. What was the date of delivery specified in the contract?

The CHAIRMAN. Have you a copy of the contract?

Mr. AINSLOW. I have it right here, sir.

The CHAIRMAN. I am not calling on you to introduce it. If you want it introduced you can do it.

Mr. AINSLOW. The anticipated delivery date, which date was set prior to the commencement of the construction of the yard, stated in the contract for the last of the 30 ships, was December 31, 1943.

I should like to refer to another statement and give you the exact delivery date.

Mr. COLES. Will you do that, please?

Mr. HERTER. May I interrupt with a question at this point?

The CHAIRMAN. Yes.

Mr. HERTER. As I understood the earlier testimony, the renegotiated fees given to this witness in connection with this particular contract were $30,000 per ship.

Mr. COLES. Yes; which was the minimum.

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Mr. HERTER. On the balance of the ships he received $20,000, roughly, on each ship. I am trying to find out what your line of questioning is developing.

Mr. COLES. My point is that Mr. Ainslow brought out, first, that invested capital had no relation to the factor of their profits. I am trying to bring out that it did. He stated that they had more than $600,000 invested, and I am trying to verify the $600,000, and I think I have. Lastly he said that the greatest contribution was their ability to build ships and get them done; and I am showing that they were 2,940 days late on the delivery of those ships.

Mr. HERTER. On the other hand, is it not fair to the witness, if he claims that there was delay in delivery of materials and engines, and so forth ,to permit him to show that he was not late in his deliveries?

Mr. COLES. I think he has an opportunity now to correct it. You understand, of course, that these figures are figures given us by the Maritime Commission, and we are forced to rely upon them. These are not figures that we have drawn out of a hat or picked ourselves.

Have you been able to find the delivery date?

Mr. AINSLOW. Yes; I have it. No one gave us any idea of what papers to bring up here. As I said before, the 30 ships were anticipated to be delivered December 31, 1943. We delivered the whole 30 February 8, 1944.

Mr. COLES. Was that the hull or the completed ship?

Mr. AINSLOW. The ship.

Mr. COLES. What was the estimated date of the delivery of the first ship?

Mr. AINSLOW. Force majeure and changes in plans and specifications shown right in the Maritime Commission records indicate that that ship was delivered earlier than the contract called for.

Mr. COLES. What about the first ship, Mr. Ainslow?

Mr. AINSLOW. The first ship was scheduled for delivery December 15, 1942. The first ship was delivered April 30, 1943. And, again, the records of the Maritime Commission will show that the exercise of force majeure and the changes in plans and specifications indicate that all of these ships were delivered earlier than the contract called for.

Mr. BRADLEY. How many changes were made in the Liberty ships after you started in 1942, outside of putting on gun mounts?

Mr. AINSLOW. Instead of "how many changes" may I answer you by saying that the changes in plans and specifications on the 52 ships, which were later than the 30 ships, required 1,366,000 man-hours in our yard, and the Maritime Commission's records conform to that statement.

Mr. BRADLEY. Were they major changes?

Mr. AINSLOW. They were major and minor and very, very numerous.

Mr. COLES. You spoke of the efficiency of your yard. Let us look at it from another point of view as the reason for its profits. We were told today that the average builder's cost of the North Carolina company was $651,000 per Liberty ship. The St. Johns River average cost per Liberty ship was $1,304,000 per ship. Is that correct?

Mr. AINSLOW. On what ships?

Mr. COLES. On the 82 ships you built, all of them.

Mr. AINSLOW. The figure that I have differs from that, and the source is the final audit report.

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Mr. COLES. What is your figure?

Mr. AINSLOW. On contract 16555 my figure in dollars is $1,037,000.

Mr. COLES. These are Maritime Commission figures which were introduced into the record today. They show not only that the St. Johns River shipyard costs were over double those of North Carolina——

The CHAIRMAN. Are you asking him what his costs were, now?

Mr. COLES. No, sir; I am trying to put before the committee that they were higher.

The CHAIRMAN. It is already before the committee.

Mr. AINSLOW. You started to make a statement that our costs were higher than any other yard.

Mr. COLES. I am not saying that.

Mr. AINSLOW. It is not the truth.

Mr. COLES. I have the Maritime Commission figures here, to verify my statement.

Mr. AINSLOW. What is the date?

Mr. COLES. March 4, 1946.

Mr. HERTER. May I suggest that we refer to the figures that were introduced this morning?

Mr. WEICHEL. All you have to do is to compare the two, North Carolina $651,000 and St. Johns $1,304,000.

Mr. HERTER. On what kind of ships?

Mr. WEICHEL. Liberty ships.

(Informal discussion off the record.)

Mr. AINSLOW. I would like to request counsel to state how many ways there are in the North Carolina yard.

The CHAIRMAN. Counsel is not testifying.

Mr. COLES. What is your Liberty ship cost?

Mr. AINSLOW. I have a final audit report here and I have an average of $1,037,178.58.

Mr. COLES. What does that include?

Mr. AINSLOW. It includes material, labor, and overhead.

Mr. COLES. You mean that you are building a Liberty ship, including everything, for $1,037,000?

Mr. AINSLOW. That is what this says.

Mr. COLES. That would make you the lowest-cost producer in the country, would it not?

The CHAIRMAN. Can we not draw conclusions from the statement?

Mr. COLES. I think we are talking about different figures, and I think it is important to bring out the comparison.

Mr. WEICHEL. Put in the record the Maritime Commission's sheet.

Mr. COLES. It is in the record, Mr. Weichel, as exhibit 21.

Would the committee care to hear what the figures are?

Mr. AINSLOW. With the number of ways. It makes a tremendous amount of difference how many ways you have got.

Mr. COLES. Does the committee care to hear these figures?

Mr. AINSLOW. I would like to have it put into the record and examined.

Mr. WEICHEL. The Maritime Commission should give all the facts before you make any deductions with reference to this man or anybody else. You are pulling papers out of your pocket and asking

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him on 5 minutes' notice. I don't see how anybody could answer, I don't care who he is.

Mr. HERTER. I suggest that counsel read those figures and refer to the page, and may the witness then be allowed to interpret those figures himself?

The CHAIRMAN. I think that is a very good suggestion.

Mr. COLES. These figures appear in the Navy Department appropriation bill for 1947, dated March 4, 1946, at page 159. They are in evidence as exhibit 21. These are the figures that Mr. Lanier testified about this morning.

The CHAIRMAN. I understand you want the witness to make any comment he wants to make.

Does the witness care to make any comment on those figures?

Mr. AINSLOW. I would like to say that to compare North Carolina, with its 12 ways, and St. Johns, with its 6 ways, is most unfair, because, as you all know, the larger the facility the lower the unit cost. The only reason I object to these figures being used is because it is apparently a hearing on an appropriation bill for 1947, and I rather believe that these figures may be estimated. What I am talking about is the Maritime Commission's final audit report on a specific contract, not averages or anything like that.

Mr. HERTER. You were referring to a specific contract you had in your yard for 52 ships?

Mr. AINSLOW. The last 52.

Mr. HERTER. The average taken there is for 82 ships, including the ships in the previous contract?

Mr. AINSLOW. Yes. I note this says 82 ships.

Mr. BRADLEY. The same thing is true of the figures on North Carolina. All these figures are the average cost of all the Liberty ships that were built; an average of 126 ships built by the North Carolina yard.

Mr. AINSLOW. It is on the average of 82 ships built by St. Johns; and I will point out also that the Government expended on the North Carolina yard $20,000,000 and on the yard at St. Johns 16¼ million. There is not a great deal of difference between the two yards.

Mr. WEICHEL. On the statement of Mr. Slattery is shown the average cost of Liberty ships to the Government. That is what we are interested in. There is a column which counsel failed to mention. The figures show higher than the figure mentioned by Mr. Coles.

Mr. AINSLOW. There is one that shows $4,000,000.

The CHAIRMAN. Are there any further questions?

Mr. COLES. Yes, Mr. Chairman.

The CHAIRMAN. Proceed.

Mr. COLES. Mr. Ainslow, did the various officers of this company receive salaries which were reimbursed by the Maritime Commission?

Mr. AINSLOW. Some were not reimbursed at all; others were partially reimbursed.

Mr. COLES. Was the president's salary reimbursed to the extent of $12,000 a year?

Mr. AINSLOW. Yes.

Mr. COLES. Was the vice president reimbursed to the extent of $12,000 per year?

Mr. AINSLOW. One of them was.

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Mr. COLES. Was the chairman of the board reimbursed to the tune of $12,000 per year?

Mr. AINSLOW. Yes, sir.

Mr. COLES. Was the secretary reimbursed to the tune of $12,000 a year?

Mr. AINSLOW. No. The secretary did not get anything.

Mr. COLES. The records show that he did.

Mr. AINSLOW. He happened to be the general manager, and for being general manager he got $12,000.

Mr. COLES. Did the executive vice president get $12,000 a year reimbursed by the Commission?

Mr. AINSLOW. Yes, sir.

Mr. COLES. Did the comptroller and treasurer receive $12,000 per year which was reimbursed by the Commission?

Mr. AINSLOW. Yes.

Mr. COLES. Did other officers receive other moneys which were reimbursed by the Commission?

Mr. AINSLOW. You have neglected to mention one other officer who was not reimbursed—Mr. Benjamin F. Crowley. I would like also to state that most of the people whose names you have not read, but the positions have been read, own no stock in the enterprise.

Mr. COLES. They were the management personnel that ran the yard?

Mr. AINSLOW. Yes.

Mr. COLES. They were the people that did the work in seeing that the ships were turned out?

Mr. AINSLOW. Yes.

Mr. COLES. They were reimbursed by the Maritime Commission?

Mr. AINSLOW. Part of their salaries.

Mr. COLES. They, however, did not participate in the profits?

Mr. AINSLOW. To the extent of a bonus approved by the Stabilization Board.

Mr. COLES. All the profits went to the people who had subscribed the $600?

Mr. AINSLOW. The major profits were plowed back to the Treasury Department.

Mr. COLES. All profits went to the people who had invested a total of $600?

Mr. AINSLOW. One-third of it went to a corporation that put $600,000 in originally.

Mr. COLES. Did the original debentures provide that they be paid back out of the first fees earned by the corporation?

Mr. AINSLOW. They were to be paid back a portion, five-sixths of the original base.

Mr. COLES. Whatever profits were made after taxes were to be distributed to the stockholders?

Mr. AINSLOW. I don't follow you.

Mr. COLES. Will you read the question, Mr. Reporter?

(The pending question was read by the reporter as above recorded.)

Mr. AINSLOW. In the form of dividends; yes.

Mr. COLES. And the only stockholders who will get those profits in the form of dividends are the people who invested $600?

Mr. AINSLOW. No; the corporation that put $600,000 in receives one-third of those profits.

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Mr. COLES. Do they have $600,000 in that corporation now?

Mr. AINSLOW. No.

Mr. COLES. Did they have $600,000 in that corporation after October 1943?

Mr. AINSLOW. I believe so. We can check our balance sheet.

Mr. COLES. Did you not testify a few minutes ago that the debentures had been paid off by October 1943?

Mr. AINSLOW. Yes; but I testified that all of the profits were left in the business, and, consequently, the business did have more than $600,000 in it.

Mr. COLES. If those profits are ultimately distributed, as I assume they will be, in the form of dividends, to whom will they go?

Mr. AINSLOW. One-third to Thompson-Starrett and two-thirds to the company, to the other stockholders.

Mr. COLES. In other words, all the profits will go to the stockholders; is that correct?

Mr. AINSLOW. After taxes; yes.

Mr. COLES. What is the paid-in value of that stock?

Mr. AINSLOW. $600.

Mr. COLES. So that all the profits will go to stockholders that represented an initial investment of $600; is that correct?

Mr. AINSLOW. Plus $600,000 worth of debentures.

Mr. COLES. Is that $600,000 paid off?

Mr. AINSLOW. Yes; it is.

Mr. COLES. Will the division of profits be in relation to the ownership of the $600 in stock?

Mr. AINSLOW. Yes; it will.

Mr. COLES. That is all. Could we not have gotten that a long time ago?

I have another question.

Your first contract, which gave you a profit of $900,000, was renegotiated; is that correct?

Mr. AINSLOW. Yes.

Mr. COLES. Was there any recovery?

Mr. AINSLOW. No. There is so little profit left that there could not possibly have been any recovery.

Mr. COLES. Is it the position of the company that the profits on the other two contracts will not be recovered?

Mr. AINSLOW. We have not yet been renegotiated.

Mr. COLES. Have you made the statement that you did not believe they would be recovered through renegotiation?

Mr. AINSLOW. I wrote you saying that in view of the fact that we received only minimum fees and did not even get the premiums that were coming to us, and the fact that our taxes were paid at the highest possible point, we would probably not be renegotiated.

Mr. COLES. Mr. Ainslow, I have one further question. In addition to the profits and fees already paid your company, do you have a claim pending for an additional $264,000?

Mr. AINSLOW. Yes.

Mr. COLES. That is all. I have no further questions, Mr. Chairman.

The CHAIRMAN. Mr. Bradley?

Mr. BRADLEY. Most of the questions that I had in mind I have asked during the examination.

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The CHAIRMAN. Mr. Weichel?

Mr. WEICHEL. With reference to the organization of the company, how many shares of stock were issued, and was it nonpar or no par?

Mr. AINSLOW. Six hundred shares.

Mr. WEICHEL. And it sold for $1 a share?

Mr. AINSLOW. Yes.

Mr. WEICHEL. Were you one of the original fortunate investors?

Mr. AINSLOW. No, sir; unfortunately.

Mr. WEICHEL. Are you one of the investors in the company now?

Mr. AINSLOW. No, sir.

Mr. WEICHEL. Are you just an employee of the company?

Mr. AINSLOW. Yes.

Mr. WEICHEL. Are you the accountant of this company?

Mr. AINSLOW. I am the treasurer and a director of the company, but I am not a stockholder.

Mr. WEICHEL. Were you just hired by this company when it was organized?

Mr. AINSLOW. I was hired in April 1942.

Mr. WEICHEL. As an accountant?

Mr. AINSLOW. Yes.

Mr. WEICHEL. And you were given this office and then given a share of stock to qualify you? Is that the way you are in on it?

Mr. AINSLOW. No, sir.

Mr. WEICHEL. Are you on a salary basis? You are not one of the owners of the company?

Mr. AINSLOW. I beg your pardon?

Mr. WEICHEL. I say, you are not one of the owners of the company; you are an accountant?

Mr. AINSLOW. That is right; I do not own any of the stock of the company.

Mr. WEICHEL. So you are just speaking for the people who have the $600 investment and you are an accountant hired by the company and are now an officer of the company; is that correct?

Mr. AINSLOW. That is not correct. I have been an officer of the company since we started.

Mr. WEICHEL. You have been put in as an officer; you had no real investment in it. Usually stockholders elect directors. You do not have any investment in the company; you are just in; that is, sort of a dummy director or dummy officer for the real people who own the company? Is that correct? I mean, you have no investment. You just said so.

Mr. AINSLOW. I would like you to be at some of the board meetings, if you think I am just a dummy director.

Mr. WEICHEL. You had no real financial interest in the company?

Mr. AINSLOW. I had the financial interest of earning a salary.

Mr. WEICHEL. Yes; but you had no financial interest in the way of investment?

Mr. AINSLOW. I am not a stockholder and never have been.

Mr. WEICHEL. Are you an officer of the company?

Mr. AINSLOW. I am the treasurer of the company.

Mr. WEICHEL. But you do not have any interest; you are just an employee in this whole thing?

Mr. AINSLOW. Yes, sir.

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Mr. WEICHEL. With reference to your previous statement about Mr. Casey and how the press terribly misquoted you, you read a long statement. Did you give the members of the press and the members of the committee copies of the statement you read so that you might be properly quoted?

Mr. AINSLOW. I have given copies to the press.

Mr. WEICHEL. To all the members of the press?

Mr. AINSLOW. I did not have that many copies.

Mr. WEICHEL. So that if some of them misquote you today it will not be their fault.

Mr. AINSLOW. Are you asking me a question?

The CHAIRMAN. If they misquote him he will have to see them.

Mr. WEICHEL. What was the total amount that your company received of the $2,000,000 after renegotiation? In other words, what did you have after renegotiation?

Mr. AINSLOW. We have got a net of less than $300,000.

Mr. WEICHEL. Was it renegotiated from $2,080,000 to $300,000?

Mr. AINSLOW. It has not yet been renegotiated, nor has the Bureau of Internal Revenue settled the tax returns.

Mr. WEICHEL. How much has the $2,080,000 been cut by renegotiation so far, to what figure?

Mr. AINSLOW. We are going before the Renegotiation Board on October 8 on our last contract; so I do not know what the figure will be.

Mr. WEICHEL. I asked you, to date. Do you know that?

Mr. AINSLOW. To date we have been given clearance on one contract.

Mr. WEICHEL. How much has that been cut down to by renegotiation to date?

Mr. AINSLOW. It has not been renegotiated for the most part. I say it is coming October 8.

Mr. WEICHEL. Has none of it been cut down up to now?

Mr. AINSLOW. It has not.

Mr. WEICHEL. With reference to your statement that you do not expect it to be cut down because you have minimum fees——

Mr. AINSLOW. I believe one of the factors taken into consideration in reconversion is the income-tax base.

Mr. WEICHEL. Do they figure it out backward to see how much income tax you are going to pay?

Mr. AINSLOW. No; there is a very, very definite relationship between the gross base and the net amount that one winds up with.

Mr. WEICHEL. Are you inferring that that is the way they do figure it—figure out how much the income tax is going to be and then work it from that?

Mr. AINSLOW. On the form which we were required to submit to the Renegotiation Board the total fee is asked for on each contract, and right under it the total income tax and excess profits paid. So I assume that is a feature.

Mr. WEICHEL. In the Renegotiation Act did Congress say that they should find out how much income tax was paid and then figure back?

Mr. AINSLOW. I don't know.

Mr. WEICHEL. You don't know what is in the renegotiation law?

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Mr. AINSLOW. No, sir.

Mr. WEICHEL. I do not think it is in there that way.

In reference to nonreimbursables, how much did you have in total amount?

Mr. AINSLOW. We had $1,185,000.

Mr. WEICHEL. Of nonreimbursables?

Mr. AINSLOW. Yes; and our tax bill was $997,000.

Mr. WEICHEL. Your nonreimbursables were about $1,000,000?

Mr. AINSLOW. $1,185,000.

Mr. WEICHEL. What are the big amounts that made up $1,185,000 of nonreimbursables?

Mr. AINSLOW. One quite large cost that has not come out in the previous testimony was the cost we have incurred since last September when we stopped building ships, in the maintenance of the yard. That amounted to $99,000.

Mr. WEICHEL. I mean nonreimbursables.

Mr. AINSLOW. That is nonreimbursable.

Mr. WEICHEL. Is that something since you stopped building ships?

Mr. AINSLOW. You asked me with reference to these fees. That is exactly what I am giving you. The facilities contract required that we, at our own expense, for the most part, maintain the yard for a period up to 2 years after the shipbuilding program was completed.

Mr. WEICHEL. Let us get this straight. These $2,080,000 estimated fees which you say have not been renegotiated are for ships that you built; is that correct?

Mr. AINSLOW. Yes.

Mr. WEICHEL. What were the nonreimbursables with reference to the building of those ships?

Mr. AINSLOW. $1,185,000.

Mr. WEICHEL. Tell me what those were.

Mr. AINSLOW. $36,000 interest on bank loan; $45,000 interest on debentures; $42,000 in nonreimbursable salaries of officers; $1,700 social-security tax. There was a $200,000 cost that we incurred in order to get the yard built.

Mr. WEICHEL. How did you pay $200,000 to get the yard built? You paid it as a fee?

Mr. AINSLOW. We paid it as a fee out of our own pocket.

Mr. WEICHEL. You paid it as a fee to the Thompson-Starrett people?

Mr. AINSLOW. Yes, sir.

Mr. WEICHEL. Who were a 50-percent stockholder in this company?

Mr. AINSLOW. Thirty-three and one-third percent.

Mr. WEICHEL. They put in $333 of the $600, I presume; is that right?

Mr. AINSLOW. They put in $200 plus $600,000.

Mr. WEICHEL. They put in 33⅓, and the $600, with the 33⅓, and then the same company which they had gave them a $200,000 fee to build the yards; is that right?

Mr. AINSLOW. Let me explain this way—that the Thompson-Starrett Co., Inc., is not some individual; they are composed of thousands of stockholders, and obviously the management of Thompson-Starrett Co., Inc., could not very well take on a contract to build the sixteen-

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or seventeen-million-dollar facility and not get any money for it. The management owed it to their stockholders to see that they got a fee for the work done.

Mr. WEICHEL. In other words, these people really hired themselves on this job for the $200,000——

Mr. AINSLOW. I do not agree to that conclusion at all.

Mr. WEICHEL. Through the St. Johns Co., of which they had a third of the stock?

Mr. AINSLOW. I do not agree with that at all.

Mr. WEICHEL. Well, anyhow, you paid them $200,000 by that arrangement for building it?

Mr. AINSLOW. Yes.

Mr. WEICHEL. And what did the St. Johns people get themselves, for building it, from the Government?

Mr. AINSLOW. Nothing.

Mr. WEICHEL. Nothing? But indirectly this stockholder, one-third got $200,000 plus what profit he made from the work in the subletting?

Mr. AINSLOW. This was a no cost, no profit. Your question has me confused. May I hear it again?

Mr. WEICHEL. Yes. The stenographer will read that question, please, to the witness.

(Question read.)

Mr. AINSLOW. You inferred, in addition to the fee there was a profit on doing the work, and I say that is not so. Thompson-Starrett got the fee. They did not make any other profit.

Mr. WEICHEL. Well, the reason I asked that, because of the very close connection of somebody who owns the St. Johns, and you pay him $200,000, then Thompson-Starret employing all these subcontractors—if it was the same kind of close relationship all the way down the line, I am not so sure there wasn't any profit.

Mr. AINSLOW. No, sir.

Mr. WEICHEL. That is what I mean.

Mr. AINSLOW. There was no such relationship there. I can tell you unequivocally that none of the subcontractors were related to Thompson-Starrett.

Mr. WEICHEL. What are the other amounts, now?

Mr. AINSLOW. I beg your pardon?

Mr. WEICHEL. After the $200,000.

Mr. AINSLOW. We figured interest on the facilities fee of $18,000.

Mr. WEICHEL. You mean on the $200,000?

Mr. AINSLOW. Yes, sir.

Mr. WEICHEL. Is that included in those other two items of interest?

Mr. AINSLOW. No, sir.

Mr. WEICHEL. This is the $18,000?

Mr. AINSLOW. Auditing expense, $3,700; organization expense, $1,800.

Mr. WEICHEL. Well, that is for organizing the corporation?

Mr. AINSLOW. That is for organizing the corporation.

Mr. WEICHEL. That being $600, it cost $1,800 to do that?

Mr. AINSLOW. Do not forget that $600. Mr. Weichel, most of that $1,800 was for printing up the debenture agreement of $600,000.

Mr. WEICHEL. That is really all right. Now, after the $1,800?

Mr. AINSLOW. Corporate taxes other than income taxes.

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Mr. WEICHEL. Corporate taxes? What do you mean? Paid to the State, or what? What State was this organized in?

Mr. AINSLOW. This was not a State tax. It was probably the capital-stock tax, that ceased to exist.

Mr. WEICHEL. The what?

Mr. AINSLOW. The capital-stock tax paid to the Federal Government; $30,625.

Mr. WEICHEL. You paid the Federal Government $30,625 on capital-stock tax?

Mr. AINSLOW. Yes, sir.

Mr. WEICHEL. On what basis was that paid?

Mr. AINSLOW. It is based on the estimate of the worth of a company, and invariably we filed an estimate of some $3,000,000.

Mr. WEICHEL. Did you file an estimate that it was worth $3,000,000?

Mr. AINSLOW. Yes, sir.

Mr. WEICHEL. When did you start filing——

Mr. AINSLOW (interposing). Because we had to take into consideration these debentures and bank loans and all of the rest of the capital that we put in beside the six hundred.

Mr. WEICHEL. What I mean is that you had—you really had the $600 paid in. That was the investment, and that is what the company was worth. When did you start telling the Government you were worth $3,000,000?

Mr. AINSLOW. The first year.

Mr. WEICHEL. The first year?

Mr. AINSLOW. We had a 2½ million loan agreement. We had $600,000 in debentures.

Mr. WEICHEL. Yes. Wait a minute, and let's see how. At the end, you started at the six hundred—at the end of the first year you told the Government you were worth $3,000,000?

Mr. AINSLOW. No; we did not do that at the end of the first year, sir. We did that at the beginning.

Mr. WEICHEL. Oh! at the beginning of the first year?

Mr. AINSLOW. Yes.

Mr. WEICHEL. So the Government believed you were worth $3,000,000?

Mr. AINSLOW. And consequently taxed us.

Mr. WEICHEL. And taxed you on $3,000,000; and knowing that this money was going to come in so easy, you were willing to pay it; is that correct?

Mr. AINSLOW. We state that. The money came in as a result of a 24-hour-a-day operation, 7 days a week.

Mr. WEICHEL. But when you tell the Government you are worth—that the company was worth $3,000,000—that is what I am interested in; and you told it to them, not at the end of the first year but at the beginning. You had $600. Now, let us start on from there on, up to the $3,000,000 that you told the Government you were worth, that you paid a tax on, when you were not worth that. What was the next after the $600? I mean, this is interesting.

Mr. AINSLOW. The tax returns were required to be filed at the beginning of the year.

Mr. WEICHEL. Well, I know; but then you said you were worth that much. You had $600. Now, what made up this $3,000,000, now?

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Mr. AINSLOW. How?

Mr. WEICHEL. You told the Government you were worth 3 million. Now, you had $600. Now, what was the next amounts that made, and what made the $3,000,000 worth?

Mr. AINSLOW. We had $600,000 worth of debentures, and we had a loan agreement for 2½ million dollars.

Mr. WEICHEL. Wait a minute. I will take one at a time; $600,000 were debentures?

Mr. AINSLOW. Two and one-half million for loan agreement.

Mr. WEICHEL. And a 2½ million dollar loan. Who was that from?

Mr. AINSLOW. From three banks.

Mr. WEICHEL. From three banks? And the debentures—who did you owe that to?

Mr. AINSLOW. Thompson-Starrett Co., who invested it.

Mr. WEICHEL. The Thompson-Starrett? The debentures, Thompson-Starrett had?

Mr. AINSLOW. Yes, sir.

Mr. WEICHEL. $600,000?

Mr. AINSLOW. That was what they invested.

Mr. WEICHEL. Well, now, wait a minute.

Mr. AINSLOW. They invested $600,200.

Mr. WEICHEL. Well, now, just a minute. I will ask you, and then you can answer this question. You had $600. Now, with reference to the $600,000, those were debentures—those were the same as notes?

Mr. AINSLOW. Somewhat different.

Mr. WEICHEL. Well, it represents, though, that you owed somebody $600,000, didn't it?

Mr. AINSLOW. Under——

Mr. WEICHEL (interposing). Debentures mean owing, do they not—as an accountant?

Mr. AINSLOW. Under an indenture agreement, subordinating them to everybody.

Mr. WEICHEL. Well, no matter what you call it, you owed $600,000, and somebody held them?

Mr. AINSLOW. The company had a debt of $600,000.

Mr. WEICHEL. That is right; and then they had a debt of 2½ million to the three banks?

Mr. AINSLOW. Yes, sir.

Mr. WEICHEL. So, as an accountant, how do you determine the net worth of that company at that time and say it was worth $3,000,000, when they owed $3,000,000?

Mr. AINSLOW. You will recall I said that for declared-value excess-profits-tax purposes we filed a worth of $3,000,000, and I might add that one does not make those figures up as an accountant. If you will remember that tax, it was purely and simply a guess.

Mr. WEICHEL. Well, you paid taxes on what the corporation was worth; and at the time you said it was worth $3,000,000, it was in debt $3,100,000. Now, how did you impress upon the Government that you should pay a tax on being worth $3,000,000 when you were really in debt $3,100,000?

The CHAIRMAN. Maybe the Revenue Department does not care how much you are in debt, just so they get their tax.

Mr. WEICHEL. That is what I was wondering. I mean, is that what you actually did—paid a capital tax of $30,625, by telling the

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Government that you were worth $3,000,000, when in fact you were in debt $3,100,000? Is that the way you normally do business, as an accountant for a company?

Mr. AINSLOW. No; no; you do not, but the declared-value excess-profits tax is a most abnormal thing. That is why I got——

Mr. WEICHEL (interposing). I would say it would be, if you pay——

Mr. AINSLOW (interposing). Well, Congress, you know, voted it out recently.

Mr. WEICHEL. Well, there isn't anything that you pay a tax on your debts. You pay it on your worth, isn't that a fact?

Mr. AINSLOW. Yes, sir.

Mr. WEICHEL. So when you paid $30,625, was that to put up a front to the Maritime Commission that you were worth $3,000,000, where in fact you were in debt, $3,100,000?

Mr. AINSLOW. No, sir. The Maritime Commission probably never saw that tax return, so that certainly was not to put up any front.

Mr. WEICHEL. What would be the purpose of telling the Government that you are worth $3,100,000, and swearing to it, and paying a tax on that, where in truth and in fact you were in debt $3,100,000? What is the purpose of that?

Mr. AINSLOW. The purpose is that Congress passed the declared-value excess-profits tax, and we were required by law to report, and we reported what we considered closest to the truth.

Mr. WEICHEL. I am talking about a capital tax, which is on your worth; I am not talking about excess profits—on your worth. Did you set that up as a worth so that when it came to excess-profits tax you would not have to pay it, so that you would not have to pay profits based on $600, which would be the real investment?

Mr. AINSLOW. If that had been our motive we certainly were unsuccessful, because we paid the highest legal rate of tax that exists in the country.

Mr. WEICHEL. Well, did you pay a tax on an investment of $600, or did you pay a tax based on what you told the Government, that you were worth $3,100,000?

Mr. AINSLOW. We paid a tax based upon the $3,000,000 that we declared as our value.

Mr. WEICHEL. Yes; but you did not have to pay it?

The CHAIRMAN. Well, the Government did not lose anything by it.

Mr. WEICHEL. It was cheaper to represent to the Government that you were worth $3,000,000 and pay a capital tax of $30,625 than it was to represent to the Government that you were worth only $600—which was the truth—and pay income tax on everything over $600?

Mr. AINSLOW. You are asking me if it was cheaper. I say very definitely that it cost us money, because the nature of that tax is such that you had to make a guess, and we guessed.

Mr. WEICHEL. Mr. Herter wants to ask.

Mr. HERTER. I will ask questions about this representation of being worth that much. Mr. Ainslow, in connection with this original stock set-up, the document that I have before me, which is from the Maritime Commission, on the stockholdings, does not show the Thompson-Starrett holdings at all. It shows Mr. Merrill with a full 200 shares of the A stock, and then the B and C stock divided among a number of different individuals. How about the Thompson-Starrett Co.'s acquiring a one-third interest in the stock?

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Mr. AINSLOW. Thompson-Starrett purchased it for cash at the very inception of the company, and I do not know what statement you are referring to there. If I may see it——

Mr. HERTER. Yes. If it is incorrect—I was merely inquiring because I was puzzled as to where Thompson-Starrett came into the picture.

Mr. AINSLOW. Doesn't it show them as holding the entire class A stock issued?

Mr. HERTER. No; it shows Mr. J. C. Merrill holding the entire class A issued.

Mr. AINSLOW. It may be that these figures were gotten up recently; that is, since the shipbuilding program has been finished.

Mr. HERTER. That is what I was wondering, if there had been a transfer.

Mr. AINSLOW. Yes; there had been a transfer; but that was quite recent. What I thought you were referring to was that period of the bulk of our shipbuilding construction, and all during that period Thompson-Starrett owned that 200 shares of class A stock.

Mr. HERTER. Assuming then they held one-third of the $600 worth of capital stock, apparently he put up the full amount of the money for the debentures, is that correct?

Mr. AINSLOW. Not "he"—the corporation, Thompson-Starrett Co., Inc., which has a great many stockholders.

Mr. HERTER. The full new capital of the company that you have been talking about, $600,000, was put up by one-third of the stockholders?

Mr. AINSLOW. Yes, sir.

Mr. HERTER. How does it come that the other two-thirds of the stockholders did not take any risk in there whatsoever but still held their stock? Were the B and C stocks subordinated to the A stock?

Mr. AINSLOW. Yes, during the construction period.

Mr. HERTER. During what?

Mr. AINSLOW. They were subordinated to this extent, that while those debentures were outstanding, the class A stock controlled five of nine directors, so that that gave them the control necessary because of their larger investment.

Mr. HERTER. I see; and as soon as the debentures were paid off they had equal voting rights?

Mr. AINSLOW. Yes, sir.

Mr. HERTER. Did the Maritime Commission say to you that for the purposes of getting a Government contract you must increase your capital, and then give you a choice either of selling new stock or working out the debenture arrangement, or doing what has happened in these other cases, of getting a subordinated loan from the stockholders?

Mr. AINSLOW. The Maritime Commission required in our original contract that we have capital, cash capital of $600,000 minimum, and have loan agreements with banks to a minimum of $1,500,000. As we got into operation we found that it required a considerably larger sum of money to handle the operation, and we consequently changed our loan agreement to $2,500,000, because we did need $3,000,000 in the business.

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Mr. HERTER. I understand.

Mr. AINSLOW. And that is best evidenced by the figures that I gave you earlier in the hearing of how much money was required to be outstanding in order to carry on that business.

Mr. HERTER. Right. Now, a debenture, as I understand it—I assume it is an earnings debenture, is that correct?

Mr. WEICHEL. He said it was a debt.

Mr. AINSLOW. I am not familiar with an "earnings debenture."

Mr. HERTER. The only security that the debenture holder has is the earnings of the company?

Mr. AINSLOW. Oh, yes; yes.

Mr. HERTER. The minute those debentures were paid off—and they were paid off to one-third of the stockholders—then the 66⅔ percent of the stockholders holding the B and C stock, who then came to have an equal voting right with the A stockholders, had a two-thirds interest in the company free and clear of debt, outside of the bank's loan, and were participating in the profits, although their entire capital investment was only $400 and they had never put in a nickel of risk capital?

Mr. AINSLOW. That is true, sir.

Mr. HERTER. In other words, the B and C stockholders, on the investment of $400, have an equity today in distributable profits of perhaps $2,000,0000?

Mr. AINSLOW. No, sir; very definitely not.

Mr. HERTER. I do not know what your figures are.

Mr. AINSLOW. Because the figure may be subject to renegotiation, subject to additional income taxes, subject to additional deletions by the Maritime Commission on the items we previously considered cost. We will net in total some $300,000, so there isn't any $2,000,000 or anything of that sort.

Mr. HERTER. Well, I said "equity before taxes" in that.

Mr. AINSLOW. I did not hear you say "before taxes," I am sorry.

Mr. HERTER. I was just trying to get straightened out about these secondary stockholders. It was the Thompson-Starrett Co. that took all the rest, in supplying these debentures?

Mr. AINSLOW. Yes, sir.

Mr. HERTER. And you think that they are perhaps now out of the picture altogether?

Mr. AINSLOW. They are out.

Mr. HERTER. Just one other question, not connected with that, that perhaps you will not be able to answer. When your facility was built, the Government purchased lands to a value of nearly a million and a half dollars, is that correct?

Mr. AINSLOW. Closer to 1¼.

Mr. HERTER. And then put $16,000,000 worth of facilities, or what was required in the building of the ways, and so forth, there?

Mr. AINSLOW. Yes, sir.

Mr. HERTER. At the time that you ceased operation, there was something for the Government to sell, to dispose of as surplus. What was left on the property?

Mr. AINSLOW. All of the equipment, machinery, buildings, surplus materials, spare parts, operative supplies.

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Mr. HERTER. And those, when the plant was declared surplus was everything that was on the ground declared surplus, with it, as a single unit?

Mr. AINSLOW. Yes, sir.

Mr. HERTER. And that was sold to the Tampa Shipbuilding Co. for $1,926,000?

Mr. AINSLOW. Yes, sir.

Mr. HERTER. Are they planning to use it as a shipbuilding plant?

Mr. AINSLOW. To the best of my knowledge, the facilities that remain at the yard could not possibly be used to build ships.

Mr. HERTER. To build ships?

Mr. AINSLOW. No.

Mr. HERTER. They are inadequate to build ships?

Mr. AINSLOW. Most of it has been disposed of.

Mr. HERTER. Then in effect the Tampa Shipbuilding was buying the land which had originally cost the Government $1,378,000, plus such facilities with their salvage values as were on the property?

Mr. AINSLOW. I beg your pardon?

Mr. HERTER. With such facilities, for their salvage value, which were on the property?

Mr. AINSLOW. Yes, sir.

Mr. HERTER. Is that correct?

Mr. AINSLOW. And materials.

Mr. HERTER. And materials? Well, those materials must have had salvage value.

Mr. AINSLOW. I think so.

Mr. HERTER. Have you any idea as to how much?

Mr. AINSLOW. No intention of evading anything—I think that it would be better to get a representative of Tampa Ship to answer that question.

Mr. HERTER. I was merely inquiring as to what you had left behind at the time.

Mr. AINSLOW. I merely say I prefer not to discuss that subject.

Mr. HERTER. All right.

Mr. AINSLOW. Because we wanted our shipyard.

Mr. HERTER. Were you allowed to bid on it?

Mr. AINSLOW. Yes, sir.

Mr. HERTER. But you did not get it?

Mr. AINSLOW. No, sir.

Mr. HERTER. Were you willing to bid higher than the price for which it was sold?

Mr. AINSLOW. Yes, sir.

Mr. HERTER. And you were not given an opportunity to?

Mr. AINSLOW. No, sir.

Mr. HERTER. By whom was it disposed of?

Mr. AINSLOW. It was disposed of, to the best of my knowledge, by the predecessor of the War Assets Administration, SPA—Surplus Property Administration.

Mr. HERTER. The Maritime Commission was not designated as the disposal agency for this yard?

Mr. AINSLOW. I am not familiar with the procedure. All I know is that the Surplus Property Administration, the Attorney General's Office, the Comptroller General's Office, the RFC, and the Maritime Commission, to whom I went in an effort to buy the yard.

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Mr. HERTER. And you were not allowed to make a bid which would have been higher than those bid figures?

Mr. AINSLOW. We made a bid. Twice we made bids.

Mr. HERTER. Were you given any reason as to why?

Mr. AINSLOW. We subsequently offered to pay more than Tampa Ship's bid. We were not permitted to do so. However, the counsel for all of these Government agencies, including the Attorney General's Office, apparently thought that it was quite legal to sell it to Tampa and not permit us to pay more money for it; and we did not think that. We hired counsel here in Washington.

Mr. HERTER. In other words, you thought it was worth more money than it was sold for?

Mr. AINSLOW. I think that the Maritime Commission got an excellent price for it.

Mr. HERTER. But you would have been willing to pay more?

Mr. AINSLOW. Yes, sir. I do not want to leave the impression with you, sir—I do not want to leave the impression that there would seem to be some inference that we were not permitted to offer to pay money. Now, that is not true. In the Maritime Commission, counsel took the attitude that legally the other company had bought it, but legally we did not think so; but we are not, as I say, crying about it now. It was a great disappointment, of course.

The CHAIRMAN. You came in after the others had made their bid and tried to get it?

Mr. AINSLOW. The argument, Judge, was to this effect: Our counsel contended that they had not put in a formal bid, and our counsel contended that the informality of their bid should have prejudiced it from being accepted, and consequently we were the high bid. However, our counsel did go to the point, with our permission, of saying that if the Maritime Commission would give us an opportunity to make an informal bid, why, we would pay more money.

The CHAIRMAN. Counsel will look into that.

Mr. BRADLEY. Was it advertised for sale, or how were the yards sold? Was it sold on sealed bids after invitation, or what?

Mr. AINSLOW. Finally sold on sealed bids after invitation.

Mr. HERTER. If you had been successful, how were you planning to raise the money with which to pay for it?

Mr. AINSLOW. We planned a corporation with $400,000 in capital stock and a bank loan, through the Atlantic National Bank, in Jacksonville, of $1,600,000.

Mr. HERTER. It would have been the same corporation that would have purchased?

Mr. AINSLOW. I beg your pardon?

Mr. HERTER. You are speaking now for the corporation, St. Johns Shipbuilding Co., that would have purchased it?

Mr. AINSLOW. I am speaking of our people; yes, sir.

Mr. HERTER. Thank you.

Mr. COLES. Mr. Chairman.

Mr. WEICHEL. Mr. Chairman, as a member of the committee I would like to proceed.

Mr. COLES. I beg your pardon. I am sorry, Mr. Weichel; I had assumed you had finished.

Mr. HERTER. Thank you for yielding, Mr. Weichel.

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Mr. WEICHEL. That is all right. Mr. Bradley, have you any more questions?

Mr. BRADLEY. No.

Mr. WEICHEL. Do you know what the rate on the capital-stock tax is—what is the rate per hundred, roughly?

Mr. AINSLOW. A dollar and a quarter.

Mr. WEICHEL. What?

Mr. AINSLOW. A dollar and a quarter.

Mr. WEICHEL. So on $600 you could have got away by paying on your real capital investment, you could have paid $7.25 tax to the Government?

Mr. AINSLOW. That is right; but we made a bad guess, and it cost us money.

Mr. WEICHEL. You made a bad guess?

Mr. AINSLOW. We made a bad guess.

Mr. WEICHEL. You would not say that when you owed $3,100,000, that you were worth 3 million—you would not say that was a bad guess, would you?

Mr. AINSLOW. I can only suggest, Mr. Weichel, that we get out the declared value excess profits tax law, and you will readily understand.

Mr. WEICHEL. Yes, but I am talking, now—you made a statement to the Government that you were worth $3,000,000 at a time when you were only worth $600, and instead of paying $7.25 capital tax you paid $30,625. What was the reason for so stating, falsely, to the Government that you were worth $3,000,000, when in fact you were only worth $600? Why did you do that? Did you do it, by the way, or somebody else?

Mr. AINSLOW. Yes; I did it.

Mr. WEICHEL. You did it?

Mr. AINSLOW. And you infer there is something illegal about doing it, and I was merely following out the terms of the law. The law says——

Mr. WEICHEL (interposing). Following out the terms of the law?

Mr. AINSLOW. Yes. We guessed, and we guessed wrong, and we had to pay more money to the United States Government than we would have if we had guessed right.

Mr. WEICHEL. You guessed that you were worth $3,000,000; is that what you mean?

Mr. AINSLOW. For capital stock tax purposes; yes.

Mr. WEICHEL. At a time when you actually only had $700 and were 3 million in debt; that is correct? All right.

At this point I want to ask the chairman to have the counsel secure photostats of the capital tax return beginning for the first year of the company and from there on down to date, and photostatic copies of the income tax returns of the company from the first year down to date, and to see in what manner this representation was used, whereby you claimed to be worth $3,000,000, and then to see in what manner this representation in the tax return of being worth $3,000,000 when you were only worth $600, as to how it was used, and the records of the Maritime Commission as to what they were worth. (See exhibit 25.)

The CHAIRMAN. Insofar as the information is permissible under the law it will be obtained. I am not familiar with the law, and I do not know to what extent I can exact it.

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Mr. WEICHEL. I mean, the income tax won't——

The CHAIRMAN. Insofar as the legislation permits, it will be gotten.

Mr. WEICHEL. Well, I can ask for an investigation of these particular returns, in view of what was said here, that he represented he was worth $3,000,000 where in fact he only had 600.

The CHAIRMAN. That is right.

Mr. WEICHEL. We can ask for an investigation of the returns, if we can't get them any other way.

The CHAIRMAN. Counsel will comply with the request of the committee member.

Mr. WEICHEL. Now, the $30,000 capital tax return. Now, what was the next? We only got up to a little over $200,000.

Mr. AINSLOW. Mr. Weichel, you asked me if we would furnish our Federal income and excess-profits-tax return, and I want to tell you that I am awfully glad that you did ask.

Mr. WEICHEL. Well, we will get it.

Mr. AINSLOW. And I am offering to you to volunteer them.

(See exhibit 25.)

Mr. WEICHEL. Oh, we will get them. We do not care whether you are happy or not. We are going to have them.

The CHAIRMAN. May I remind counsel, we have a number of others.

Mr. WEICHEL. Now, after that $30,625, what was the next reimbursable amount, reading down, there?

Mr. AINSLOW. Legal expense, $36,000.

Mr. WEICHEL. Legal expense? That is outside the organization?

Mr. AINSLOW. Yes, sir.

Mr. WEICHEL. That is legal expense for what? I mean, with reference to the dealings with the Maritime Commission?

Mr. AINSLOW. No, sir; not at all; entirely in connection with suits and threatened suits arising out of our operation, but deemed nonreimbursable by the Commission. As an example, one of our——

Mr. WEICHEL (interposing). Doesn't the Maritime Commission reimburse for actions that you defend with reference to building ships?

Mr. AINSLOW. Under certain circumstances.

Mr. WEICHEL. But these were actions that the Maritime Commission thought they were not obliged to defend under their contract; is that it?

Mr. AINSLOW. The Maritime Commission has set up—and this is true of the auditing expense, which I referred to before—has set up certain maximums of audit fees or legal expenses which they will bear, and the balance must be borne by the contractor.

Mr. WEICHEL. Well, this was outside of what they felt they were liable for on the contract?

Mr. AINSLOW. As an example, the Maritime Commission permits only $1,000 for an audit, and our audit cost about $4,000. That excess $3,000 is shown here as nonreimbursable expense.

Mr. WEICHEL. All right. What is after legal expense? What is the next item?

Mr. AINSLOW. The expense in connection with launchings.

Mr. WEICHEL. Launchings?

Mr. AINSLOW. $49,000.

Mr. WEICHEL. With reference to launchings, this is what you paid out for launchings? Does this include the gifts?

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Mr. AINSLOW. Yes, sir.

Mr. WEICHEL. Is this the amount that you were not reimbursed for, or is this the total?

Mr. AINSLOW. We are not reimbursed for any launching expenses.

Mr. WEICHEL. You were not reimbursed for any?

Mr. AINSLOW. No, sir.

Mr. WEICHEL. All right; go ahead; the next item.

Mr. AINSLOW. And the gifts were $28 pins, $4 tax.

Mr. WEICHEL. The gifts to the fellows who had that $600,000 were a little bit better than $28 pins?

Mr. AINSLOW. The employees' salaries.

Mr. WEICHEL. Employees? What?

Mr. AINSLOW. $16,000.

Mr. WEICHEL. $16,000. That amounts over and above $25,000 that the Government would allow paid?

Mr. AINSLOW. No, sir; we do not have any employees. Our officers, directors, or stockholders that got $25,000. The maximum salary reimbursed was——

Mr. WEICHEL. This is the amounts the Maritime Commission thought you were not allowable under the contract?

Mr. AINSLOW. Under a system set up by the Maritime Commission's labor relations division, certain classifications were held to lower salaries than the salary stabilization people permitted. The Maritime Commission consequently might reimburse us $350 a month for a purchasing agent, whereas we paid $400 a month, and that $50 is one of the items included in——

Mr. WEICHEL (interposing). And this is to get around the Wage Stabilization Board's orders?

Mr. AINSLOW. No, sir; the Wage Stabilization Board said $400 was proper for that classification. The Maritime Commission said, "Well, maybe that is true, but we cannot afford to pay more than $350 for a wage scale."

Mr. WEICHEL. This is one time where the Maritime was trying to keep the expenses down—at the rate of $50 a month.

Mr. AINSLOW. Mr. Weichel, I have never come across people more loathe to pay out money that they legally owed than in the Maritime Commission.

Mr. WEICHEL. It has not been shown so far here. Let us have the next item now. What are these nonreimbursables after $16,000? Can you call them off?

Mr. AINSLOW. After $16,000? I gave you $38,000 last, didn't I?

Mr. WEICHEL. No—employees, 16, I think.

Mr. AINSLOW. Traveling expenses, $38,000.

Mr. WEICHEL. Traveling, O. K.

Mr. AINSLOW. Donations, $4,500.

Mr. WEICHEL. Donations, $4,500.

Mr. AINSLOW. Ship construction costs, which were nonreimbursable of $232,000.

Mr. WEICHEL. Ship construction costs, $232,000?

Mr. AINSLOW. $232,000.

Mr. WEICHEL. Ship construction what?

Mr. AINSLOW. Costs; nonreimbursable costs—c-o-s-t-s.

Mr. WEICHEL. That means things that you put into the ship material?

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Mr. AINSLOW. Expenses that we incurred in these ships.

Mr. WEICHEL. That would be labor or material?

Mr. AINSLOW. Overhead.

Mr. WEICHEL. All right.

Mr. AINSLOW. Overhead allowance expense. Now, this is what you said wasn't applicable to the ships, but I still say it is; $99,000.

Mr. WEICHEL. Ninety-nine thousand dollars overhead that you spent for operating this corporation?

Mr. AINSLOW. No; the $99,000 is our cost for maintaining the yard during a period from when we stopped building ships, and our bond on this contract required that we do so at the Maritime Commission's order.

Mr. WEICHEL. Is that all of them, now?

Mr. AINSLOW. No; I have got miscellaneous, $31,000.

Mr. WEICHEL. Thirty-one. Is that all of them?

Mr. AINSLOW. And employees' bonus fund, $244,000.

Mr. WEICHEL. Employees, $244,000. What was that for?

Mr. AINSLOW. That was an incentive fund set up to the employees based upon a policy that Thompson-Starrett had had for a great many years, 15-percent bonus fund, and it is fully approved by Salary Stabilization.

Mr. WEICHEL. It was based on what the Thompson-Starrett did? I thought this was a St. Johns company.

Mr. AINSLOW. It is, but since Thompson-Starrett Co. controlled the board, they carried over into this company one of their employee practices that had gone on for a good many years, which was setting up a 15-percent bonus fund for its employees, and it was fully approved by the Salary Stabilization people.

Mr. WEICHEL. All these nonreimbursables—that was all charged up on the income tax as an expense of doing business, was it not?

Mr. AINSLOW. Tentatively.

Mr. WEICHEL. Yes.

Mr. AINSLOW. We haven't had any income-tax audits, yet.

Mr. WEICHEL. You haven't had any income-tax audit, yet? You haven't had any tax to pay, yet?

Mr. AINSLOW. Not yet. No; it is not that we have not had any income tax yet. We have not been audited yet.

Mr. WEICHEL. So this was all as a result of the $600 investment?

Mr. AINSLOW. There is one more item, here, of $55,000, representing miscellaneous stuff.

Mr. WEICHEL. There is the second miscellaneous?

Mr. AINSLOW. Well, it happens to be shown here as surplus items. It did not happen in a current year.

Mr. WEICHEL. So that the estimated fees were all on that $600 investment, less the renegotiation, which has not happened, and less what taxes you will pay—all on $600 invested?

Mr. AINSLOW. Not $600 worth of capital stock—$600,000 worth of debentures, and 2½ million dollars——

Mr. WEICHEL (interposing). Well, those were debts; those were not invested capital, and there wasn't any risk on the part of the investors. The only risk was the $600?

Mr. AINSLOW. $600,000. There was plenty of risk attached to it.

Mr. WEICHEL. Yes; but not by these people who formed the company? The risk was by the fellow who loaned it. These people that

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put in the $600, they did not consider it as a risk at any time, or ask to get it back, or have it sold?

Mr. AINSLOW. That $600, though, invested in Thompson-Starrett was one of these people to whom you just referred.

Mr. WEICHEL. That is all.

The CHAIRMAN. Call your next witness.

Mr. COLES. May I ask one more question, Mr. Chairman? It came up with Mr. Herter's question. I think it rather important. I can phrase it so it just takes a yes or no.

The CHAIRMAN. You will have to put it in one question, and one question only.

Mr. COLES. One question, and one question only, Judge.

The CHAIRMAN. Yes, sir. And I am not going to open it for anybody else. I have been more liberal than I would really wish to be.

Mr. COLES. In response to Mr. Herter, you stated that the Merrill interests had put up $400, and in return for that got a two-thirds equity in this company and whatever profits it might have. You also testified that after taxes, after renegotiation, and after all of those reimbursables, there would probably be about $300,000 remaining for distribution to stockholders. On the $400 which the Merrill interests put up, do they not thus get a net return after taxes, after nonreimbursables, and after renegotiation, of 50000 per cent on that $400 investment?

Mr. AINSLOW. Arithmetically, if you will leave out the years of shipbuilding know-how—right.

Mr. COLES. That is all. Thank you.

(Information furnished by the St. Johns River Shipbuilding Co., in response to the committee's questionnaire, was received for the record and marked "Exhibit 24.")

The CHAIRMAN. Stand aside. Next witness. Thank you very much. Next witness, please.

Mr. GENNETT. The Bethlehem-Fairfield Shipyard.

The CHAIRMAN. Bethlehem-Fairfield Shipyard. Is the representative here? If he is, take the stand. Please come up and be sworn. Is the witness here?

Mr. HOMER. Right here, Judge Bland.

The CHAIRMAN. One or more?

Mr. HOMER. One.

The CHAIRMAN. One? All right. All who are going to testify, now, hold up their hands. You do solemnly swear that the testimony you will give in this hearing and all future hearings on this investigation will be the truth, the whole truth, and nothing but the truth, so help you God.

Mr. HOMER. I do.

TESTIMONY OF ARTHUR B. HOMER, PRESIDENT OF BETHLEHEM-FAIRFIELD SHIPYARDS, INC.

Mr. GENNETT. Will you, sir, give your full name for the record?

Mr. HOMER. Arthur B. Homer.

The CHAIRMAN. Homer?

Mr. HOMER. Homer—H-o-m-e-r.

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The CHAIRMAN. You did not write the Iliad?

Mr. HOMER. No; that came a little before my time.

Mr. GENNETT. What is your position with the Bethlehem-Fairfield Shipyard?

Mr. HOMER. President of Bethlehem-Fairfield Shipyard.

Mr. GENNETT. You were president during the wartime operations of the shipyard?

Mr. HOMER. Yes.

Mr. GENNETT. Can you tell us briefly the circumstances leading to the formation of the Bethlehem-Fairfield yard—which is, I take it, a wholly owned subsidiary of Bethlehem Steel Corp.?

Mr. HOMER. Well, answer your last question, first, yes, it is the wholly owned subsidiary of the Bethlehem Steel Corp.; and, answering your first one, I would like to give you the answer to it in this way.

I understand that the primary interest of the committee at this time is an accurate and detailed accounting of the profits of those companies which were called upon by the Maritime Commission to carry out its wartime emergency cargo vessel construction program.

It has seemed to me that it might be helpful and that it might save the committee's time if I were briefly to summarize our record as it bears upon the construction of ships at Fairfield.

When the Liberty ship construction program was begun early in 1941, the need for a vast and unprecedented addition to the Nation's ocean-cargo fleet was of supreme urgency. It came on top of the already enormous Navy program at a time when all of the privately owned shipbuilding facilities, as well as engine-producing, boiler-producting, and material-producing facilities were all completely committed to the Navy's shipbuilding program, the Maritime Commission's long-range tanker and freighter program, and to other national defense efforts.

When late in 1940, President Roosevelt called upon the Maritime Commission to arrange for the expedited construction of hundreds of additional emergency ocean-going cargo ships, there appear to be no yards in which the ships could be built, and no plants in which the engines, boilers, and materials for them could be produced.

The Maritime Commission called upon Bethlehem Steel to take over a very substantial part of the program.

Bethlehem's long experienced shipbuilding personnel and organization was already engaged in a shipbuilding program for the Navy and the Maritime Commission greater than any single shipbuilding organization ever had undertaken. It immediately agreed to undertake this additional shipbuilding assignment. For this new emergency program, an old, partially completed shipyard, which had never produced a ship, but which included four partially completed shipways and a few small shops, was found at Fairfield, Md., near Baltimore, and near it was a large car-fabricating shop which could be used for fabricating ship material. Our well-established shipbuilding, ship-repairing and steel-making, processing and fabricating personnel and facilities in the Baltimore district were freely called upon to help. We knew that there was available a large though untrained labor supply in that locality from which we could build up a new

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shipyard force, thereby avoiding the necessity of moving labor to an isolated location with the attendant problems and costs of housing and transportation.

It was evident to the Commission that whenever and as soon as the program had been completed, there would be no need for the emergency facilities which would be required to carry out this program, since the capacity of the old established private shipyards had been expanded far beyond any possible peacetime demand for ship construction. The Commission therefore immediately decided that the cost of the emergency shipbuilding facilities would have to be recognized as a part of the cost of building the fleet and undertook to bear the cost of the facilities if Bethlehem would agree to undertake their construction. This we agreed to do without fee.

To the production of the material necessary for the emergency ships, and to the fabrication of the material for the ships and to the construction of the ships, we undertook to devote Bethlehem's construction, production, technical, shipbuilding, and procurement personnel as well as Bethlehem's existing production, fabricating and shipbuilding facilities, and the financial resources which had been invested in Bethlehem by its stockholders.

To perform this vast job in an orderly way, we organized Bethlehem-Fairfield Shipyard, Inc., in January 1941 with a nominal capital of $1,000,000 in cash. After completing the construction of the new emergency shipbuilding facilities our yard at Fairfield in December 1941 delivered America's first Liberty ship, the *Patrick Henry*, 19 days ahead of the contract delivery date.

For the Nation's emergency cargo ship program Bethlehem produced 2,700,000 tons of rolled steel; fabricated 42,000 tons of material; cast or forged and machined 44,000 tons of propellers, shafting, stern frames, and the like; and constructed and delivered 508 ships at Fairfield.

Our yard at Fairfield built more ships than any other single shipyard in the country, and its costs on Victory ships were lower than those of any other yard in the country.

Fairfield's performance in the Nation's LST tank-landing-ship program, which was of vital strategic importance, exceeded that of any yard in the country except Bethlehem's yard at Quincy, Mass., which as you know, is an old and well-established ship-construction yard.

Fairfield consistently delivered ships far ahead of schedule and consistently at low cost.

With this too brief background picture of the task that was put up to us and of our performance of that task, we can now discuss profits, which I shall do in round figures. The average cost of such ships to the Government was $1,900,000. This includes all costs of everything that went into the ships in the way of labor and material. It does not include any part of the cost of the emergency shipbuilding facilities used in building the emergency fleet.

On each such average $1,900,000 per ship, Bethlehem earned a profit after renegotiation and taxes of $28,000. This includes all profit on steel, on forgings, on castings, on fabricated steel material, and on the shipbuilding activities at Fairfield.

A more detailed record as to profits on the various classes of ships built at Fairfield is as follows:

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On LST tank-landing ships, which had a total delivered labor and material cost of $1,576,000 per ship, Bethlehem had a total net profit on shipbuilding work and on material manufactured by it of $15,600.

On Liberty ships, having a total labor and material delivered cost of $1,807,000, Bethlehem had a total net profit of $23,000, and on Victory ships, which had a total labor and material delivered cost of $2,471,000 per vessel, Bethlehem had a total net profit of $51,000.

These figures are average costs for each class of vessels at Fairfield and average profits for each class of vessels, but the profits include the entire profit to Bethlehem on shipbuilding work, material, and everything else. The total cost of the labor and material that went into the 508 ships was almost $1,000,000,000—actually $973,587,128. The aggregate of all profits, after renegotiation and taxes realized on all of the material furnished by Bethlehem for the 508 ships built t Fairfield and on all the work performed by it in building the ships us $14,200,000. Bethlehem's profit was, therefore, about 1.46 percent the delivered cost of the ships.

All of Bethlehem's resources were made available for use in the ergency cargo vessel construction program in common with Bethlem's other vast war programs. Its properties had at that time a gross ost to Bethlehem of about $840,000,000. Bethlehem's cash and curent assets amounted to about $180,000,000, and of this amount over $16,000,000 was used in connection with the operations of Fairfield.

It is, of course, obvious that all of Bethlehem's physical assets and all of Bethlehem's cash and current assets were not used in connection with building the 508 ships, but there is no way of determining exactly which of Bethlehem's own property was involved in the production of the material and the fabrication of parts that went into these ships. But to the extent that Bethlehem's entire assets and organization, including Bethlehem Steel Corp., Bethlehem Steel Co., both ship and steel divisions and other subsidiary companies, were needed in the emergency-cargo program, and to the extent they could be diverted from other war production work, they were wholeheartedly devoted to the efficient prosecution of the emergency cargo ship program. There can be no question that if almost a billion dollars of Bethlehem's productive assets and cash had not been available, it is doubtful if the Nation's emergency cargo shipbuilding program could have been performed.

In addition to the vast amount of cash and material-producing and fabricating facilities which Bethlehem devoted to the successful prosecution of the emergency cargo-ship program, Bethlehem and its stockholders made another equally important and essential contribution to that program.

Over a period of almost 40 years and sometimes at a loss, the stockholders of Bethlehem had financed the organization, development, and maintenance of Bethlehem's fully integrated shipbuilding organization of technical and supervisory forces and of trained workmen, skilled in the shipbuilding crafts and trades, without which America's wartime fleet of ships could not have been produced. No one can build ships without a basic nucleus of trained shipbuilders around which, and by means of which, the general shipyard labor force is developed and coordinated. Bethlehem's trained organization of skilled shipyard workmen and supervisory personnel, and similar organiza-

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tions which had been maintained by the other four or five old-line established shipbuilding companies, were repeatedly turned to and drawn upon to provide the backbone and essential base upon which were established the emergency wartime yards, such as Fairfield and yards managed by general construction companies. Bethlehem made an essential and vital contribution of trained men not only to the Fairfield yard but to many of the other emergency war yards.

At Fairfield we built up our labor force to over 47,000 men through intensive training and job-instruction programs. But without a basic nucleus of from 800 to 900 skilled shipbuilders drawn from Bethlehem's own long-established shipyards, and trained over many years at high cost, all of which was borne by the investments made by Bethlehem's stockholders, the Fairfield shipyard with all of the facilities installed with Government funds could never have built ships upon a successful production basis, unless, of course, we at Fairfield had don what most of the other emergency yards were forced to do—that raid the shipbuilding skills and supervisory forces that are assets some old-line, established shipyard whose basic shipbuilding orga zation had been built up, trained, and maintained at the expense invested funds furnished by stockholders other than our own.

Let me emphasize this one fact. Seaworthy, oceangoing ships cai not be built in America, either in time of war or in time of peace, unless we maintain in America at all times an adequate force of trained shipbuilding skills and it has been our experience in America that the maintenance of the essential basic shipbuilding force in times of peace is a costly and generally unprofitable undertaking, indispensable though is has always been and always will be for the safety of our Nation in times of emergency.

I have been told that I might be asked why Bethlehem was paid a profit for the work we did in connection with the emergency shipbuilding program. In other words, why was it proper for Bethlehem to earn a profit of $28,000 per ship for the material it manufactured and the work it performed to build emergency oceangoing ships, the average delivered cost of which was $1,900,000? What justified that profit of about 1.46 percent?

First. It was a part of a low return on the invested assets of about $1,000,000,000 which were committed by Bethlehem's 80,000 stockholders to the war production effort.

Second: The 1.46-percent profit on the delivered cost of the ships built at Fairfield was partial compensation for the long-term investment which the stockholders of Bethlehem had made in developing and maintaining an essential and substantial part of America's vitally needed shipbuilding skills.

Third. The 1.46-percent profit was compensation for producing materials used in building the emergency cargo ships, fabricating material, organizing the emergency yard, and building the 508 emergency cargo vessels.

Fourth. Let's approach this question from the other direction. Why did the Maritime Commission allow a profit to Bethlehem for the construction of 508 ships of the emergency fleet? Or stated another way—Why did the Commission enter into cost-plus-incentive-fee contracts?

During the negotiation of the contracts for the emergency fleet of cargo ships in 1941, the Commission's representatives recognized that

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the contractors would be confronted by uncertainties as to the amounts of the costs of performing the shipbuilding contracts. The contractors were being asked by the Commission to undertake the construction of hundreds of major oceangoing vessels in yards which not only were not in existence at the time the negotiations were taking place, but which were to be built concurrently with the construction of many of the vessels desired by the Commission. Furthermore, the contractors had not then had the opportunity even to begin to build up the huge untrained labor forces which would be required for such an unprecedented shipbuilding program and, since neither the kind of labor which could be obtained, nor its exact source, were then known, it was not possible to forecast the extent to which labor-training programs would have to be developed and maintained by the contractors in order to create the shipbuilding organizations required to complete the expedited delivery schedules which were made necessary by the Nation's defense necessities. The Commission's representatives also realized that the 1941 wage rates could not be used to determine the costs to be incurred in constructing vessels, since it was even then apparent that wage rates would be increased in unpredictable amounts while the vessels were under construction as a part of a national defense program which would inevitably create serious labor shortages throughout the country. In view of the abnormal costwise uncertainties inherent in undertaking the construction of great numbers of vessels under such circumstances, the Commission recognized that it could not justifiably ask or expect any contractor to undertake the construction of the emergency cargo vessels upon a fixed-price basis, and that whatever the cost of the extraordinary emergency program might be, the cost should be borne by the entire Nation.

The Commission also recognized that the contractor was entitled to some reasonable fee for the extraordinary task that was being undertaken. The Commission also realized that a variable fee based on low-cost efficient performance and speed of delivery was the only effective way that the Commission had of controlling the performance of the tremendous emergency shipbuilding program. It seems clear that if the form of contract had provided for a fixed fee or even for no fee at all, the total cost of the emergency shipbuilding program would have been increased by hundreds of millions of dollars. For if the contract had provided that the contractor would be paid his cost and nothing more, each contractor would have been guided in the performance of his contract solely by his own judgment. Some contractors would have undertaken to build the greatest possible number of ships, completely disregarding cost and adding every possible man, whether competent or incompetent and whether needed for a reasonably full day's work or not, on the theory that no matter how inefficient the additional workmen might be or how overcrowded the yard might be, such additional man might get out a little bit more work. Some contractors might have sought above all else to keep costs low even at a sacrifice of production.

To complete successfully the Commission's program, neither of these approaches could be followed.

What the Commission wanted and what the Nation had to have was a balance between these two approaches; and, by providing for a variable fee based both on efficient low-cost performance and early de-

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livery of ships, the Commission provided automatic controls that substantially contributed to the successful completion of such a vast emergency program.

The correctness of the basis as established has been tested and proven by the extraordinarily successful performance of our emergency shipbuilding program.

I have seen published a figure of about $54,000,000 as representing Bethlehem's profit on the shipbuilding work at Fairfield. Let's see what this figure should be. After renegotiation and taxes, the amount actually realized as profit by Bethlehem on the Fairfield shipbuilding work, excluding profit on Bethlehem manufactured material that went into the ships, was $12,449,968 or 1.3 percent of the delivered cost of the vessels; and the over-all profit to Bethlehem was $14,200,000, or 1.46 percent of the delivered cost of the ships.

The Congress saw to it, at the very beginning, that no excessive or unreasonable profits could be made on this program. It did this by retaining the right to renegotiate (after completion) any contract if unreasonable profit developed, and it taxed the remainder through normal tax, surtax, and excess profits tax. It seems necessary to emphasize this if the public is to obtain an accurate picture of the true net profits of the shipbuilder.

The Government policy of providing emergency capital facilities and letting contracts to private builders on a variable fee basis (dependent upon efficient performance and speed of delivery) not only resulted in a brilliant performance and won the victory, but it also saved vast sums of the taxpayers' money. It automatically set a formula upon which thousands of firms and people could work in the best interests of the Nation as a whole. Any other method would have resulted in uncertainty and delay. I believe the results speak for themselves and that the public appreciates the shipbuilding accomplishments. It was a successful program, gentlemen, and one that can stand as a fine tribute to the intelligent teamwork of Government and industry working together to win a war. Thank you.

The CHAIRMAN. Any questions?

Mr. GENNETT. Mr. Homer, there are a few questions that I would like to ask you.

The CHAIRMAN. Just as few, now, as possible. Go ahead.

Mr. GENNETT. You have commented about the profit of $54,000,000 that you have seen published in the newspaper; the figure is in fact, slightly less than $54,000,000. It was given to us by the Maritime Commission. Now, your own figures, which you forwarded to the committee recently, show that before renegotiation and taxes the profits earned, were $51,851,092.

Mr. BRADLEY. Will counsel yield?

Mr. GENNETT. Yes, sir.

Mr. BRADLEY. I think it is fair to point out, Mr. Homer, that perhaps that term "total profits" on this Maritime Commission chart is a misnomer. It should be "fees paid."

Mr. GENNETT. That is right.

Mr. BRADLEY. Clearly it is not profits, it is fees paid before taxes.

Mr. GENNETT. I put this to you, because in most cases we have obtained figures from various witnesses before taxes and renegotiation, as well as after taxes and renegotiation. I understand from your own

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statement that after renegotiations and disallowed costs the fees and profits earned were $40,911,865, or a total of 8.3 percent on the gross sales value.

The CHAIRMAN. What is the question? Is that the question?

Mr. GENNETT. I am asking if that figure is correct.

Mr. HOMER. Would you mind repeating that question again?

The CHAIRMAN. If you can.

(Question read.)

Mr. HOMER. Did you not also say that this was before Federal taxes, based on income?

Mr. GENNETT. Yes, sir.

Mr. HOMER. $40,911,865, before Federal taxes?

Mr. GENNETT. That is right.

Mr. HOMER. That is what we gave you.

Mr. GENNETT. I stated that it is what you gave me.

Mr. HOMER. You are reading from our statement?

Mr. GENNETT. Yes.

Mr. HOMER. Yes; all right.

Mr. GENNETT. I am pointing out that the figures you gave in your prepared statement of 12 or 14 million—I forget the exact figure—were after taxes. The figures I want now are the total fees and profits paid to you—before taxes and before renegotiation. Further, what was the figure after renegotiation? Is the $40,000,000 after renegotiation of profits?

Mr. HOMER. After renegotiation.

Mr. WEICHEL. May I ask, there, is that after renegotiation of this so-called 53,000,000 in this exhibit 1?

Mr. GENNETT. Exhibit 1, Mr. Weichel, does not quite agree with the figures furnished by the Bethlehem-Fairfield Co., whose figures are $51,851,000.

Mr. WEICHEL. Oh, just for a couple of million, we won't argue with him. After renegotiation, what is the whole thing—this 40?

Mr. GENNETT. Yes, sir.

Mr. HOMER. That is before taxes.

Mr. GENNETT. Yes, sir; you gave us the figures after taxes.

Mr. HOMER. Yes; and after renegotiation.

Mr. GENNETT. And after renegotiation. Now, have you any figure as to the percentage earned on the net volume of business, before renegotiation?

Mr. HOMER. You mentioned some percent, there; I do not know what; and you wanted me to confirm it. I think I had better check it.

Mr. GENNETT. All right, sir. I took the figure of $40,911,865.

Mr. HOMER. Yes.

Mr. GENNETT. Which is fees and profits after renegotiation and disallowed costs, and before taxes, to the total payments of $513,-923,665?

Mr. HOMER. Where did that come from?

Mr. GENNETT. That is on your statement, in column J.

Mr. HOMER. That is the amount paid.

Mr. GENNETT. On the contracts?

Mr. HOMER. Yes; well, that doesn't mean anything. The figure you have given to us is $973,587,128.

Mr. GENNETT. That sum includes Government materials.

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Mr. HOMER. Certainly; that is the cost of the ship.

Mr. GENNETT. Yes; what is it on the amount that Bethlehem put in, then?

Mr. HOMER. What do you mean, "Bethlehem put in"?

Mr. GENNETT. You state that the figure should be 900,000,000. I have taken a much smaller figure of 513,000,000, which gives the difference of——

Mr. HOMER (interposing). Why don't you take 1,000,000 dollars? You will get a higher percentage.

Mr. GENNETT. I am not trying to get a higher percentage. I am merely trying to get the facts.

Mr. HOMER. Well, what is your percentage figure based on?

Mr. GENNETT. My percentage figure is based on——

Mr. HOMER (interposing). I am not supposed to ask you questions; you ask me!

Mr. GENNETT. Well, that will be all right with me.

The CHAIRMAN. That is all right.

Mr. GENNETT. The percentage which I gave, 8.3 percent, is the relation of $40,000,000 to the total payments made by the Commission, 513,000,000, which represent the work performed by the Bethlehem-Fairfield Yards, Inc.

Mr. HOMER. Well, those were payments up to a certain date. They do not represent——

Mr. BRADLEY (interposing). I think the discrepancy, there, Mr. Homer, is due to the fact that in setting up all these figures we have realized in many yards the Maritime Commission purchased the steel and furnished it to the shipbuilder, and then his records show, as for instance mine do, here, given us by the Maritime Commission, that they made you a total payment of 513,000,000 for services performed in the construction of the ships, not including the material.

Mr. GENNETT. Which the Government, of course, furnished, Mr. Bradley.

Mr. BRADLEY. Well, in the case of Bethlehem, you see they furnished the steel, but I mean the Maritime Commission presumably had the Bethlehem Co., and in turn the Bethlehem Steel Co.; the Maritime Commission then furnished it to the Bethlehem-Fairfield. I presume that is the way they did it. That is the way they did everywhere else.

Mr. HOMER. Will you use the total amounts paid, or payable, as your base?

Mr. GENNETT. You mean the 973 million?

Mr. HOMER. No—$534,229,958. That is the total amounts paid, or payable?

Mr. GENNETT. That $534,229,958 includes a portion of the fees, Mr. Homer, and I think that would give a greater percentage figure than the 8.3 percent which I mentioned. I have deducted in this computation fees of 22 million, and nonreimbursed costs of 239 thousand.

Mr. HOMER. Well, your mathematical calculation may be all right, but we did not agree that that is the basis on which you should calculate profit on the work. Now, does that answer your question?

Mr. GENNETT. That is all right. Will you state what basis you think the profit should be calculated upon?

Mr. HOMER. It should be calculated upon the total delivered cost of the vessels to the Government, which would be $973,587,128.

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Mr. GENNETT. And upon that sum——
Mr. HOMER. It is 4.3 percent before taxes.
Mr. GENNETT. Before taxes?
Mr. HOMER. Yes, sir.
Mr. WEICHEL. Does that include what the Government put in, the material that they put in?
Mr. HOMER. The Government did not put anything in. We put it in.
Mr. WEICHEL. This was all reimbursable, that you charged together?
Mr. HOMER. No, no, no; not all of it. To us. The Government furnished some of that material.
Mr. WEICHEL. You are making the base of your figure on the basis that the material that the Government furnished was added to what you furnished?
Mr. HOMER. We are figuring on the base of the delivered cost of the ship; that is, the cost of the ship as we delivered it to the Government.
Mr. WEICHEL. Yes, but about half of that amount was put up by the Government for material. Did you base it on those?
Mr. HOMER. The Government did not put anything in. We put it in. The Government may have purchased it.
Mr. WEICHEL. Well, I mean the Government purchased it. You are making the estimate on the basis of the material—all material bought? Tell us what you did.
Mr. HOMER. That is right, but the cost of a ship is the total cost of the ship, including the material that went into it.
Mr. WEICHEL. But you are basing this on what the Government put in by way of material, which you did not put in? I mean, they bought it—purchased it.
Mr. HOMER. They bought it and furnished it to us to install in the ship or to work into the ship. It went out as part of the ship, and we performed labor in doing that job.
Mr. BRADLEY. May I ask a question, right there, as to the method which you built ships by, Mr. Homer? I ask that for this reason. As I explained to counsel, or explained to you, most of these contractors have all had the material under their standard contracts furnished to them by the Maritime Commission, on these manufactured products. I was wondering whether in the case of Bethlehem-Fairfield perhaps the Maritime Commission were billed the steel by Bethlehem Steel Co., and turned it over to Bethlehem-Fairfield, and the charge, the fees paid to Bethlehem-Fairfield were for the processing or the construction of the ships from that steel. Is that the way it was handled in the case of Bethlehem?
Mr. HOMER. The Maritime purchased the steel.
Mr. BRADLEY. They purchased the steel?
Mr. HOMER. And allocated it to the different yards; but we may have had a large amount of money in the steel that went to Fairfield.
Mr. BRADLEY. I appreciate that.
Mr. HOMER. Because of the stock carried at Fairfield, for which we had not been paid. There is always a lag there, but essentially practically all of the material was furnished by the Maritime Commission under their over-all purchasing plan to buy in quantity and then allocate to the different yards. The only difference between our doing

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it and their doing it was that they set up the purchasing department and said, "We will do it, and your purchasing department won't have to do it"; but everything else was the same, and we had to keep all the records, we had to expedite the material, we had to check to be sure that it was going to get in in time to go into the ship, so that all of the functions normally performed by a shipbuilder in the procurement of material and in the expediting of material and in putting it into the ship was exactly the same except for one thing, that that was only in the fact that instead of having a purchasing agent in the Fairfield, there was a purchasing agent in Washington in the Maritime Commission's office. Now, whether that was a good thing or not the Maritime will have to tell you. I do not know whether they benefited or not, but we had difficulties in procuring and getting material under that system that we probably would not have had if we had handled it ourselves.

Mr. BRADLEY. Of course, you were in a rather different position from most of the other shipbuilders in that you were a subsidiary of the Steel Corp.?

Mr. HOMER. That is right. We had a big purchasing, a country-wide purchasing organization, who was ready to step right in and handle that. As a matter of fact we did help the Maritime Commission in their purchasing personnel. They needed people with experience. They came to us, "Can you help us out?" "Yes." We did. We helped them out.

Mr. BRADLEY. You loaned them some of your own men?

Mr. HOMER. And that was of great value to them and naturally of value to all of the other shipyards to have some experienced people in there to help the material end, because it is vital in the construction of ships, in scheduling that is going to work.

Mr. BRADLEY. I was just trying to clear up any confusion that might exist in your mind, from the way we figure these costs, and in our mind, as to how you operated, because we have been trying to set up a comparison between each of these two companies.

Mr. HOMER. Well, I think the only fair basis of comparison is including the material furnished by the Maritime Commission as part of the cost of the ship, so that the ship as it goes out of the yard is a complete unit, and it cost so much, and turn that out as a complete unit. Now, whether we buy the material or whether somebody else bought it does not make any difference. You should include the value of that.

Mr. BRADLEY. I assure you, sir, we have been doing that in this hearing, with every company that has come in here. We have been reading tables here till we are blue in the face.

Mr. HOMER. It is very confusing to sit here—I do not want to take up your time with a lot of discussion along this line—it is very confusing to use two sets of figures; one: What did the yard actually bill the Maritime Commission, and, What was the total delivered cost of the ship? I can see where a great deal of confusion can come in there, and we are trying to confine it to one place.

Mr. BRADLEY. As far as figuring the profits for ship-building, alone, we have been using this "fees paid to the contractors."

Mr. HOMER. Well, that may or may not be a fair basis. I do not know whether you want me to discuss it or not.

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Mr. BRADLEY. We are just trying to keep everything on a par, here, and trying to get through with these hearings tonight.

Mr. HOMER. I have just suggested I do not feel that is a fair basis, because it is not the basis that has existed for years in the shipbuilding industry or in any other industry in determining profits or percentage of profits.

Mr. BRADLEY. While your contracts on ship construction, MCc contracts, if they are the same, and I assume they are, as they were with other companies, the Maritime Commission agreed to furnish you with all material?

Mr. HOMER. Yes.

Mr. BRADLEY. And you were to furnish the brains and the labor?

Mr. HOMER. Yes.

Mr. BRADLEY. And so on, for putting it together in the form of a ship, as we compare your costs, for instance, with——

Mr. HOMER (interposing). The point I want to make, Mr. Bradley, is this, that even though they did do it, it did not relieve any of the shipyards from the normal functions of procuring, expediting, planning, and scheduling material, which was vital to the performance of any procurement.

Mr. BRADLEY. I can appreciate it would be.

Mr. HOMER. And all that the Maritime performed was a purchasing department. Now, we could have done it, or they could have done it; it did not make any difference, see.

Mr. BRADLEY. That is done, it is over the dam.

Mr. HOMER. It is done, but I bring it up because I do not think the basis is quite fair, to just take the billed value to the Maritime.

The CHAIRMAN. All right, any more questions?

Mr. GENNETT. Mr. Homer, in your statement you mentioned the figure of $12,449,968 as net profit after taxes.

Mr. HOMER. $12,449,968. I guess that checks with my statement, does it?

Mr. GENNETT. Excuse me; I believe your statement referred to $14,000,000.

Mr. HOMER. All right. I mentioned both figures. On page 13 of my statement, I said [reading]:

> After renegotiation and taxes, the amount actually realized as profit by Bethlehem on the Fairfield shipbuilding work, excluding profit on Bethlehem-manufactured material that went into the ships, was $12,449,968, or 1.3 percent of the delivered cost of the vessels; and the over-all profit to Bethlehem was $14,200,000, or 1.46 percent of the delivered cost of the ships.

Mr. GENNETT. Yes, sir.

Mr. HOMER. You understand the difference between the two?

Mr. GENNETT. Will you explain it?

Mr. HOMER. Or shouldn't I ask you that question?

Mr. GENNETT. Will you explain it, please?

Mr. HOMER. The difference is that in the case of the $12,449,968, that is the Bethlehem-Fairfield operation; the $14,200,000 is the over-all Bethlehem profit—includes the profits on materials which we produced and which went into the ships that were built at Fairfield; and I think that is explained in here quite well, as to what we have covered, and that gives you the answer, doesn't it, to what you want?

Mr. GENNETT. Yes. And that $14,200,000 figure, I take it, covers the profit made by the steel company on materials sold to the Maritime

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Commission or allocated to you for your shipbuilding program at Bethlehem-Fairfield?

Mr. HOMER. No, no. The difference between the two covers the profit made by other activities of the Bethlehem Steel Corp. outside of Bethlehem-Fairfield.

Mr. GENNETT. But not the steel-making?

Mr. HOMER. Oh, yes; it includes the steel that we furnished, that went into the ships that we built.

Mr. GENNETT. Well, it includes the steel, just as I said in the first instance, I believe.

Mr. HOMER. Will you repeat your question?

Mr. GENNETT. Will the stenographer read the question?

Mr. HOMER. Your question was this: Does the difference between the 12 million and the 14 million include profit on the steel that went into the ships at Fairfield?

Mr. GENNETT. That is right.

Mr. HOMER. And I said "Yes."

The CHAIRMAN. All right; the next question.

Mr. GENNETT. I have one more question, Mr. Homer, if you please. Did the Bethlehem-Fairfield shipyard find it necessary to borrow funds to finance its shipbuilding program?

Mr. HOMER. We did not borrow any funds outside of the Bethlehem organization. We did borrow funds from the parent organization which were necessary in order to take care of the current expenditures, the difference between what we received from the Maritime Commission and what we had to spend. In other words, it was working funds, and those amounts were supplied by the parent company as we needed them at the Fairfield operation.

Mr. GENNETT. So that all of the shipbuilding operations were in fact supported by the assets and resources of the Bethlehem Steel Corp.?

Mr. HOMER. Exactly.

Mr. GENNETT. And the Bethlehem Steel Co.?

Mr. HOMER. Exactly, as I covered in this statement.

Mr. GENNETT. Yes, sir.

Mr. HOMER. All of the resources, both financial and physical, of the Bethlehem Steel Corp., parent organization, and other companies, subsidiary companies, were available and were to a great extent used to support the operations at the Bethlehem-Fairfield shipyard.

Mr. GENNETT. Although the actual capital of Bethlehem-Fairfield, which you indicated was a nominal capital, was $1,000,000, was it not?

Mr. HOMER. That is right—nominal; $1,000,000 just for the purposes of setting up and starting a company to do this job for the Maritime Commission. That did not mean we were limited to that by any means, because we had the assets of Bethlehem as a whole in back of it solidly.

Mr. GENNETT. Were all the assets of Bethlehem Steel Corp. solidly behind Bethlehem-Fairfield?

The CHAIRMAN. I think he answered.

Mr. HOMER. All I can say there is that any time that Bethlehem-Fairfield needed any money they knew where they could get it without going to any bank or Government agency, and they got it.

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Mr. GENNETT. Then would not Bethlehem Steel Corp. have been liable for suits or actions brought against Bethlehem-Fairfield shipyards?

Mr. HOMER. No; I do not think so; but there was no necessity of anyone's bringing any suits, because there were no creditors. We paid our bills. It never came up.

The CHAIRMAN. There were none brought, were there?

Mr. GENNETT. Were there only losses in the steel-making division which might have been charged against shipbuilding profits of the Bethlehem-Fairfield Shipyard?

Mr. HOMER. I do not know whether I can answer that, without looking at the statement. No; during that period there were none.

Mr. GENNETT. Was there any amortization of steelmaking facilities charged against shipbuilding profits?

Mr. HOMER. There are none.

Mr. GENNETT. Thank you. That is all, Mr. Chairman.

The CHAIRMAN. Mr. Bradley!

Mr. BRADLEY. Is General Construction Co. connected with Bethlehem in any way?

Mr. HOMER. General Construction Co.?

Mr. BRADLEY. General Construction Co.

Mr. HOMER. No, sir.

Mr. BRADLEY. You merely refer to them as another veteran shipbuilding firm, in your remarks?

Mr. HOMER. No; I think you perhaps misunderstood what I said. I said "and other general contracting companies."

Mr. BRADLEY. Oh. I beg your pardon.

Mr. HOMER. I was including the whole field of the contracting industry, members of that, who came into the shipbuilding program—a general term only.

Mr. BRADLEY. I do not believe I have any more, Mr. Chairman.

The CHAIRMAN. Mr. Weichel.

Mr. WEICHEL. The Bethlehem-Fairfield Shipyards, Inc.—there was a million dollars in cash put in that by the Bethlehem Steel Corp., and they owned all the stock?

Mr. HOMER. That is right.

Mr. WEICHEL. What is the investment of the Bethlehem Steel Corp.? What is their total investment?

Mr. HOMER. Are you referring to the present or some particular year, Mr. Weichel?

Mr. WEICHEL. Well, back in the time that you formed this company.

Mr. HOMER. It varies every year.

Mr. WEICHEL. Well, I mean, how much does it vary? By a hundred million a year?

Mr. HOMER. Oh, no.

Mr. WEICHEL. Or how much does it vary? A couple of million?

Mr. HOMER. No.

Mr. WEICHEL. Or how many?

Mr. HOMER. You pick out a year, and I will give it to you.

Mr. WEICHEL. When did you start this company?

Mr. HOMER. In January 1941.

Mr. WEICHEL. What was the investment of Bethlehem Steel Corp. in——

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Mr. HOMER (interposing). '41?

Mr. WEICHEL. Have you got '39, '40, '41, and '42 there?

Mr. HOMER. We gave you, on page 6 of my report, that Bethlehem cash and current assets amounted to about 180 million dollars, and of this amout over 16 million was used in connection with the operations at Fairfield.

Mr. WEICHEL. No; that is not what I want. I want what the Bethlehem Steel Corp. investment is—what it was worth in 1939. What does it show its assets for the Bethlehem Steel Corp., the whole Bethlehem Steel Corp., in 1939, '40, and '41?

Mr. HOMER. Well, I also gave you our gross. The properties and the gross cost were about $840,000,000.

Mr. WEICHEL. What, the Bethlehem Steel Corp. in 1939?

Mr. HOMER. 1939?

Mr. WEICHEL. It was worth how much? How much was its total investment?

Mr. HOMER. Right. Cash?

Mr. WEICHEL. Cash, property, machinery.

Mr. HOMER. Total assets, according to the consolidated balance sheet, fiscal year ending December 31, 1939, as shown in our annual report to stockholders, was $732,932,382.

Mr. WEICHEL. Now, here is what I want to ask: That figure that you gave—is that money in the bank, real property, and chattel property, or is there anything more than that in that? And if there is, what is it? What is in it besides that?

Mr. HOMER. Yes; it is all of the assets of the corporation.

Mr. WEICHEL. I know; but what are they? I mean the assets are money——

Mr. HOMER. You want me to read them all?

Mr. WEICHEL. Real property. No; I do not want you to read them all, but I am asking you this: There is money, cash, real estate?

Mr. HOMER. Look at it.

Mr. WEICHEL. All right; let me have it, and I will.

Mr. HOMER. Save time. I do not know what you are driving at.

Mr. WEICHEL. Well, what are generally these? Are those assets outside of real estate? There is real estate, cash, and chattel property?

Mr. HOMER. They are all listed.

Mr. WEICHEL. How much does that represent, roughly?

Mr. HOMER. They are all listed, right in front of you.

Mr. WEICHEL. Well, how much does it represent, roughly?

Mr. HOMER. Well, you have got it now. Give it back to me and I'll tell you.

Mr. WEICHEL. You interpret your own stuff. You don't know, either, evidently. You are asking me.

Mr. HOMER. Well, it changes every month, every year.

Mr. WEICHEL. Well, I am asking you—like the 732 million.

Mr. HOMER. If you will give me the specific items that you want in 1939 I would be glad to answer your question.

Mr. WEICHEL. All right. I mean just in round figures.

Mr. HOMER. Well, that is not very specific.

Mr. WEICHEL. All right.

Mr. HOMER. Cash?

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Mr. WEICHEL. How much was the cash?
Mr. HOMER. Cash, $75,554,000, in round figures.
Mr. WEICHEL. Now real estate?
Mr. HOMER. Cash on deposit——
Mr. WEICHEL (interposing). I thought you said 75 million was cash. What is the real estate?
Mr. HOMER. Well, what do you want? Current assets? That would give you the whole thing. Total current assets, $244,000,000.
Mr. WEICHEL. Does that include real estate?
Mr. HOMER. No.
Mr. WEICHEL. And machinery?
Mr. HOMER. No.
Mr. WEICHEL. What is in the current assets—bills receivable or something like that? In other words, I want the fixed assets.
Mr. HOMER. Inventories, and so forth?
Mr. WEICHEL. And the value of fixed assets.
Mr. HOMER. The fixed assets? All right. The depreciated value?
Mr. WEICHEL. Yes.
Mr. HOMER. The depreciated value is $462,887,000.
Mr. WEICHEL. Four hundred and sixty-two million?
Mr. HOMER. Property. That is property.
Mr. WEICHEL. Fixed assets, 462 million?
Mr. HOMER. That is the net fixed assets.
Mr. WEICHEL. That is net fixed assets?
Mr. HOMER. That is after reserves for depreciation.
Mr. WEICHEL. Then do you have cash in the bank that you add to that?
Mr. HOMER. Yes; $75,000,000. It would be nearer 78 million.
Mr. WEICHEL. In other words, the investment was about $500,000,000 for the year 1939 in round numbers?
Mr. HOMER. No.
Mr. WEICHEL. Would it be about the same——
Mr. HOMER (interposing). We got inventories of $116,000,000, one of them of accounts and notes receivable of pretty nearly $50,000,000.
Mr. WEICHEL. Well, I am talking about the indebtedness. All cash and fixed property, there would be around $500,000,000 investment; would that be right?
Mr. HOMER. Well, you are investing an awful lot of money in inventories.
Mr. WEICHEL. Well, I mean the inventories. I am just talking about what is invested. The inventories you are going to sell and come in and cash, the next year, are you not?
Mr. HOMER. Well, it is all part of your assets.
Mr. WEICHEL. All right.
Mr. HOMER. You cannot get rid of them. You cannot just say you are not talking about them.
Mr. WEICHEL. What was it for 1940? You gave the total, 1939, of 792 million. What was it for 1940—January 1941?
Mr. HOMER. Total cash as of December 31, 1940, using round figures, $86,000,000; property, depreciated value, $460,000,000.
Mr. WEICHEL. What would be the total, like that 732 million of all assets? How much would that total for '40?
Mr. HOMER. The 732 becomes 763.

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Mr. WEICHEL. Seven hundred and sixty-three in 1940?
Mr. HOMER. Yes.
Mr. WEICHEL. In 1941 was it about the same?
Mr. HOMER. No; I think it has gone up—862.
Mr. WEICHEL. This '39—that was considered wartime. In peacetime you do not have it, back to '36?
Mr. HOMER. No; '39 was not the wartime.
Mr. WEICHEL. 1939 is where you start wartime?
Mr. HOMER. No; I would say we do not start very much until '40.
Mr. WEICHEL. Well, this on '39 would not be twice what it was in '35 or '36, would it?
Mr. HOMER. Let us go back to '38—'36 you want to go back to?
Mr. WEICHEL. I say this '39 would not represent twice an estimate as to what you had, say, in '36, or anything like that?
Mr. HOMER. No. We will give you '36 if you want it.
Mr. WEICHEL. All right. If it is about the same, that is good enough for what I want to ask about.
Mr. HOMER. 1936 was 676 million.
Mr. WEICHEL. Six hundred seventy-six million?
Mr. HOMER. Yes.
Mr. WEICHEL. What percent in 1936 did you earn on the investment—that means with all the brains in the shipbuilding and steel business and all this thing that you referred to—what percent did they earn in 1936?
Mr. HOMER. 1936? What percent? On what?
Mr. WEICHEL. The percent on the investment.
Mr. HOMER. All right; 676 million. You want this after taxes, I assume?
Mr. WEICHEL. How?
Mr. HOMER. You want this after taxes?
Mr. WEICHEL. Well, you can give it. We can give it both ways, if it is convenient. You can take it what it was before taxes and what it is after.
Mr. HOMER. 2.06 percent after taxes.
Mr. WEICHEL. 2.06 after taxes? And before taxes, what was it?
Mr. HOMER. Are the final income taxes out of that, or all taxes?
Mr. WEICHEL. Federal income taxes—income taxes.
Mr. HOMER. Federal taxes?
Mr. WEICHEL. That is the only way you take it, out of income. You pay it on income, don't you, or do you have an income tax?
Mr. HOMER. That is right. I just want to make it clear what we are digging out.
Mr. WEICHEL. Well, income tax.
Mr. HOMER. We take out a Federal income tax?
Mr. WEICHEL. Yes; that is all you take out.
The CHAIRMAN. Is there a State income tax in Pennsylvania?
Mr. WEICHEL. Is there a State income tax in Pennsylvania?
Mr. HOMER. Not in '36.
Mr. WEICHEL. In other words, the percent that you realized on the investment without income taxes off, and what it was with income taxes on.
Mr. HOMER. Before taxes—this is all in 1936.
Mr. WEICHEL. That is right.

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Mr. HOMER. Before taxes, 2.56 percent.

Mr. WEICHEL. 2.56, and after taxes it was 2.06?

Mr. HOMER. After taxes are deducted, 2.06.

Mr. WEICHEL. Now, go to 1941. What did you earn in the way of percent on the investment before taxes and after income taxes?

The CHAIRMAN. I may say for those present that the present witness is the last witness that we will have this evening. We will adjourn the hearing then, to be resumed later, which will be probably sometime in November. I did not know whether any of the audience would want to go, or not.

Mr. HOMER. For 1941 the percentage of profits after taxes, 3.9 percent.

Mr. WEICHEL. 3.9—.09?

Mr. HOMER. 3.9.

Mr. WEICHEL. 3.9?

Mr. HOMER. Yes.

Mr. WEICHEL. Before?

Mr. HOMER. Before taxes, 13.5.

Mr. WEICHEL. 13.5?

Mr. HOMER. You can see what taxes do to you.

Mr. WEICHEL. In the 10 years previous to 1945, that was the highest percent Bethlehem Steel Corp. earned, in the 10 years previous to 1945, on its investment, before taxes?

Mr. HOMER. Average?

Mr. WEICHEL. What was the highest percent?

Mr. HOMER. Average for 10 years, you mean?

Mr. WEICHEL. Yes; the average, or the highest. Well, the average, if you know it. What was it, roughly? You do not have to have the exact percent.

Mr. HOMER. Do you want the highest of any year?

Mr. WEICHEL. Yes; if you can tell me.

Mr. HOMER. Or the average for the highest 10 years?

Mr. WEICHEL. No; if you can, give me the highest in 10 years.

Mr. HOMER. All right.

Mr. WEICHEL. I mean just roughly. I am not going down to real small brackets.

Mr. HOMER. It will take us a few minutes. We will have to work it up. We probably do not have it.

Mr. WEICHEL. I mean the highest. Would you have to work the highest one?

Mr. HOMER. We have got to work the highest up. We are looking for it.

Mr. WEICHEL. Would the highest be over 5 percent before taxes?

Mr. HOMER. I haven't any idea, without going back to the figures.

Mr. WEICHEL. Would you think it would be over 6, before taxes?

Mr. HOMER. I cannot tell you. We will have to work it out. Do you want to spend the time doing it? It may take 15 or 20 minutes.

Mr. WEICHEL. Well, would you think it would be over 10 percent?

Mr. HOMER. I would not venture a guess. I would not want to, without——

Mr. WEICHEL (interposing). Well, I mean, you are familiar with all these years that you got a big percent. This is pretty low, and I was wondering. This is very low.

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Mr. HOMER. What I would like to figure is the high year and the low year, so you will have both, through that 10-year period.

Mr. WEICHEL. That is all right—the high and the low.

Mr. HOMER. Because you have got to offset one with the other.

Mr. WEICHEL. While he is figuring that, I can ask you a few questions, is that all right?

Mr. HOMER. All right.

Mr. WEICHEL. You are not going to do the figuring are you?

Mr. HOMER. I hope not. You won't be able to ask me any questions, if I do. Go ahead.

Mr. WEICHEL. He can figure that all right, can't he?

Mr. HOMER. I think he can.

Mr. WEICHEL. With reference to Bethlehem-Fairfield Shipyards, Inc., the million dollars was put in by the Bethlehem Steel Corp. Now, did the Bethlehem-Fairfield Shipyards engage in any other business except operating Government yards? Was it doing any other business?

Mr. HOMER. No.

Mr. WEICHEL. That was the only business?

Mr. HOMER. That was the only business. It was created for that, and when we finished up, why, we closed up.

Mr. WEICHEL. And the million dollars was put in. Did the parent company charge any interest on the money it loaned, there?

Mr. HOMER. Well, we had loans during the operation, that bore interest.

Mr. WEICHEL. I mean, were they regional loans from banks?

Mr. HOMER. Not from banks; no.

Mr. WEICHEL. But loans from the Bethlehem Steel Corp.?

Mr. HOMER. Yes. Well, there are quite a few notes running over 4 years. They were paid off at certain times, and if you add them all up, it won't give you what you are after.

Mr. WEICHEL. Well, neve rmind that. I am asking you about this: The Bethlehem-Fairfield Corp. got loans from the Bethlehem Steel. Did they pay Bethlehem Steel any interest on those loans?

Mr. HOMER. Yes.

Mr. WEICHEL. Well, that was then reimbursed, wasn't it, or was it?

Mr. HOMER. You mean, if the Bethlehem-Fairfield borrowed money from the Bethlehem Steel Corp., was interest charged?

Mr. WEICHEL. Yes.

Mr. HOMER. The answer is "yes." Was that reimbursable?

Mr. WEICHEL. Yes.

Mr. HOMER. The answer is "yes," on the part of the Maritime Commission. Well, I am informed that everything except $200,000 of principal of the loan, 1½ percent interest was paid on it.

Mr. WEICHEL. All right.

Mr. HOMER. That bore no interest.

Mr. WEICHEL. Well, all the interest that the Fairfield Shipyard paid, that was reimbursed by the Maritime Commission—interest?

Mr. HOMER. On all except on the $200,000.

Mr. WEICHEL. On the 200,000 loan, they did not reimburse any interest on it?

Mr. HOMER. No. No; there was no interest charged or paid on that.

Mr. WEICHEL. Oh, there wasn't any charged? So there would not be any reimbursable?

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Mr. HOMER. None charged.

Mr. WEICHEL. What was the amount of nonreimbursables with reference to Bethlehem-Fairfield? What was the total amount of nonreimbursables?

Mr. HOMER. Nonreimbursables?

Mr. WEICHEL. The total.

Mr. HOMER. That figure is contained on the exhibit that we submitted.

Mr. WEICHEL. I do not have any. We were not given any.

Mr. HOMER. The total, $1,298,707.

Mr. WEICHEL. $1,298,707. What were the amounts? What were the major things that you were not reimbursed for, of the $1,298,000—and the amounts?

Mr. HOMER. You want the totals for all contracts, or the break-down by contracts?

Mr. WEICHEL. No; just the general, what it was; just the totals, what it was for the nonreimbursables—not by contract.

Mr. HOMER. Producers liability insurance premium, $177,684.

Mr. WEICHEL. $177,684 insurance premium, paid on——

Mr. HOMER. Producers liability insurance premium.

Mr. WEICHEL. Paid on whom, was it?

Mr. HOMER. Product liability insurance, general type.

Mr. WEICHEL. I say, who was it at that time on—paid for what purpose? What was the insurance for? Life insurance or annuities, or was it on the officers of the company, on their lives?

Mr. HOMER. No. [Reading:]

Liability of persons engaged in the manufacture or fabrication, distribution, and sale of products, for injuries to third parties, arising from the use of such products.

Mr. WEICHEL. That was the insurance premium—public liability insurance premium paid for injury to third parties using it?

Mr. HOMER. Products liability insurance.

Mr. WEICHEL. What does that mean? I do not know. What does it mean? "Products liability insurance"—what does that mean—that much premium for that, to protect who?

Mr. HOMER. It is damages against the builder for any injuries which may occur to any person due to some defect or accident of the product that is built, on the materials that we make or put into the job.

Mr. WEICHEL. Yes; but the Fairfield Co. did not make any material? All they did was build ships? They did not make materials?

Mr. HOMER. Yes; but we were liable for it, even though we did not make it, but we put it in the job.

Mr. WEICHEL. You mean you put it in the Government? You are liable for it in the Government ship?

Mr. HOMER. Suppose you bought a block, or a pad eye. Suppose you bought a pad eye that was welded to the deck, and a piece of some part of the ship hooked into that pad eye, and that pad eye was manufactured by someone other than yourself, you just went out and bought it on the market. Now, there was a defect in that pad eye, and it let go when the ship was at sea. We would be liable for any damages. It is a product liability.

Mr. WEICHEL. I mean this is an insurance premium paid for possible liability of you, putting defective material into a Government ship?

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Mr. HOMER. No, no; but accidents arising from defective material that may be furnished by others.

Mr. WEICHEL. In other words, this was insurance protection against defective material in the ship?

Mr. HOMER. Against accidents arising from defective material.

Mr. WEICHEL. Well, how could you be liable if the Government put in all its own material, you had nothing to do with it, outside of putting it in place?

Mr. HOMER. Well, that is the thing we have been wondering for a long time, too. I do not know why it should be checked to us; but we are.

Mr. WEICHEL. All right. Next. What is another big amount? I was asking about this cost. I had not heard of anybody else taking out insurance with cash. Did you have it? Does the Bethlehem Steel have any interest in this insurance company, in taking this out?

Mr. HOMER. No.

Mr. WEICHEL. Do they have any interest in the insurance company?

Mr. HOMER. No.

Mr. WEICHEL. No one else ever thought of this.

Mr. HOMFR. Provision for contingencies, $40,000; preparation of the Baltimore yard, operating expense, $28,000. Will I give you round figures? Is that close enough? $28,000. All other direct charges, $37,000.

Mr. WEICHEL. Wait a minute. You mean this $28,000 you were charging against Fairfield from another yard?

Mr. HOMER. Yes. You see, we did work at our Baltimore yard for Fairfield.

Mr. WEICHEL. Oh, you did work at your Baltimore yard?

Mr. HOMER. Yes.

Mr. WEICHEL. What was this contingency business? Something to cover bad guesses, or what?

Mr. HOMER. It had to do with the liability in connection with the product liability insurance.

Mr. WEICHEL. In other words, you set up a contingency of $40,000 because you thought that you might not be able to collect a premium on the product liability insurance, is that it?

Mr. HOMER. That is right.

Mr. WEICHEL. That was double protection?

Mr. HOMER. Well, I do not know. There are all kinds of cases that we had to set up some sort of provision for.

Mr. WEICHEL. You paid the premium on it, and you set up contingencies for the premium?

Mr. HOMER. I think perhaps it might be helpful, if you really want an explanation of this complicated problem, that I would be very glad to call on one of our people to give that to you.

Mr. WEICHEL. You have given us enough explanation.

Mr. HOMER. All right.

Mr. WEICHEL. Let us see what comes after the $28,000. We can guess the rest of it.

Mr. HOMER. What is the 28?

Mr. WEICHEL. What after that? The next big amount?

Mr. HOMER. $37,000, all other direct charges.

Mr. WEICHEL. $37,000, all direct charges.

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Mr. HOMER. All other direct charges; and then I have given you, here, what we call direct charges, then I will give you some more, then I will give you the indirect.

Mr. WEICHEL. Is this $37,000 miscellaneous? What is the description?

Mr. HOMER. They are spread out over each contract. They run $4,000, $3,000, $3,000. Not very much miscellaneous stuff. We threw it all in together.

Mr. WEICHEL. All right.

Mr. HOMER. Launching expense, $361,000.

Mr. WEICHEL. $361,000? And how many ships was it you put out?

Mr. HOMER. Five hundred and eight.

Mr. WEICHEL. Five hundred and eight? What would that be per ship? About? Do you have it there?

Mr. HOMER. It would be about——

Mr. WEICHEL (interposing). That is about 600 a ship. That is all right, isn't it? Three hundred and sixty-one thousand dollars for launching expense. Did you get reimbursed for any launching expense at all? Was launching expense a reimbursable item or a nonreimbursable?

Mr. HOMER. Well, a certain amount of launching expenses were reimbursable.

Mr. WEICHEL. They were?

Mr. HOMER. This was the part that was not.

Mr. WEICHEL. Oh, this is the part that was not?

Mr. HOMER. Yes. It is about $700 a ship, somewhere around there.

Mr. WEICHEL. You mean that was the total? I mean the part that is reimbursable. How much is that a ship? $100 or $5,000—the launching?

Mr. HOMER. The amount reimbursable?

Mr. WEICHEL. The amount that they reimburse you.

Mr. HOMER. $11.

Mr. WEICHEL. Oh, $11. Then this is for the gifts and that sort of thing? This is for the gifts and that sort of thing, which is afterward chargeable off, anyhow, as a business expense. What is after 361?

Mr. HOMER. Federal capital-stock tax, $393,000.

Mr. WEICHEL. $393,000, Federal capital-stock tax; and that $393,000—does that represent from the beginning of the corporation down to date?

Mr. HOMER. I beg pardon?

Mr. WEICHEL. Does that represent from the beginning of the corporation down to 1945?

Mr. HOMER. That is for all contracts.

Mr. WEICHEL. That is for Federal capital-stock tax?

Mr. HOMER. Yes. It runs six contracts. I will say the amount runs from 60 to 90, almost $100,000, somewhere between that range, for each contract, $40,000 to $100,000.

Mr. WEICHEL. That means what you paid on it afterward?

Mr. HOMER. No; you pay it that year.

Mr. WEICHEL. Well, you pay it each year of value? Do you pay it each year of value?

Mr. HOMER. This comes back and it is apportioned on the contracts.

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Mr. WEICHEL. Yes; but I am talking about the Federal capital-stock tax.

Mr. HOMER. So am I.

Mr. WEICHEL. Isn't that paid on the value of the stock each year? Is that paid on the value of the stock?

Mr. HOMER. Paid on a stated amount, and not a value.

Mr. WEICHEL. It is paid on a stated amount of the value of all the stock; is that it?

Mr. HOMER. Stated amount of the stock.

Mr. WEICHEL. It is what?

Mr. HOMER. It is paid on a stated amount for the stock. It hasn't anything to do with the value, I am so informed.

Mr. WEICHEL. Well, you can put down any kind of value for it?

Mr. HOMER. I believe that is right.

Mr. WEICHEL. How?

Mr. HOMER. I believe that is right.

Mr. WEICHEL. Well, I mean you show you have $1,000,000 invested, and at the end of the first year, the capital-stock tax, did you pay on $1,000,000? I mean yours is $393,000 worth. You had some of the detail a while ago.

Mr. HOMER. You want to take the time for an answer to your question, or do you not?

Mr. WEICHEL. Well, if it is going to take a whole lot of time, no.

Mr. HOMER. I would like to ask Mr. Slater to give it to you, if you would like to hear it.

Mr. WEICHEL. I mean, you do not know what it is paid for?

Mr. HOMER. No; I cannot say that I do.

Mr. WEICHEL. All right.

Mr. HOMER. I am not a tax expert.

Mr. WEICHEL. What is the next big item?

Mr. HOMER. Other compensation in excess of the regional limitations. I assume those are some limitations put on by the regional director. Yes; $45,000. Employees' expense vouchers, $50,000; unapproved vendors' charges, $83,000.

Mr. WEICHEL. Vendors' charges? Whose charges would that be? Yours, as a vendor, or someone else as a vendor?

Mr. HOMER. We had to buy some material for these ships, and the materials purchased from these vendors by ourselves, certain items of that were disallowed by the Maritime Commission.

Mr. WEICHEL. Vendors' charge. Was that charge from the selling price, or something like that?

Mr. HOMER. No; I do not think it has any reference to that.

Mr. WEICHEL. What other big amount? Are there any other large amounts?

Mr. HOMER. I can give you the answer to that one in a few words. Sometimes they were very slow in getting material, and we decided we would go out and take a chance on getting reimbursed in order to expedite the ships, so we went out and bought it, and after we had bought it, why, perhaps some of the Maritime Commission's material would come in, and they would say, "Well, we will just allow you that, because we still have our material. You have gone and put this in the ship, so we will cut it out." Now, that perhaps consists of most of that item.

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Mr. WEICHEL. What other large amounts are there?

Mr. HOMER. We were trying to help out, and we got hooked; but that is all right; we do not mind that small item.

Mr. WEICHEL. What other big amounts do you have?

Mr. HOMER. All other indirect charges, $946.

Mr. WEICHEL. That is all the nonreimbursables in big amounts?

Mr. HOMER. Yes.

Mr. WEICHEL. Has he been able to figure that out?

Mr. SLATER. Not yet.

Mr. HOMER. You have been asking questions. He had to dig in with me to help me out. Ten minutes more.

Mr. WEICHEL. Now, with reference to the total fees that this company received, you said after renegotiation it was 40-some dollars, is that correct? I mean, am I stating the right amount—$40,911,000? That is what you stated, at least I thought.

Mr. HOMER. Well, I will go back to the statement. Before Federal taxes——

Mr. WEICHEL. After renegotiation?

Mr. HOMER. And after renegotiation; yes.

Mr. WEICHEL. Yes.

Mr. HOMER. $40,911,000, round figures.

Mr. WEICHEL. How much Federal taxes were paid on the $40,911,000? Federal income tax.

Mr. HOMER. Paid or payable, $28,461,897.

Mr. WEICHEL. Of the 40 million, 28 million was taxes?

Mr. HOMER. That is right. That leaves 12.

Mr. WEICHEL. And this $1,298,000 nonreimbursable, that was charged off in the taxes, in the same taxes, where you paid the 28 million?

Mr. HOMER. Yes.

Mr. WEICHEL. Is that correct?

Mr. HOMER. Yes.

Mr. WEICHEL. And it was 28 million in taxes?

Mr. HOMER. Yes.

Mr. WEICHEL. So that after the taxes there was 12 million?

Mr. HOMER. $12,449,000.

Mr. WEICHEL. And you had invested a million dollars over there, and you had 12 million left. That is 1,200 percent, isn't it? You made 1,200 percent profit on that investment?

Mr. HOMER. No, no.

Mr. WEICHEL. Well, on the investment there is 1,200 percent?

Mr. HOMER. Well, on the nominal capital stock value originally put in.

Mr. WEICHEL. Well, whatever you want to call it, nominal or otherwise, it was a million dollars that was put in, and you netted 12 million dollars for it. That is, 1,200 percent. Now, have you got the figure, a high figure that you had on the investment with reference to Bethlehem Steel Corp.?

Mr. HOMER. Were you present when I read my statement?

Mr. WEICHEL. I am asking for that again. You cannot remember that yourself.

Mr. HOMER. The whole statement?

Mr. WEICHEL. I cannot remember it myself, either.

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Mr. HOMER. You want the whole statement?

The CHAIRMAN. I hope we will not have to.

Mr. WEICHEL. Will you please read the question? Now, just a minute.

Mr. HOMER. It is in the record.

Mr. WEICHEL. Now, just a minute. You made a remark, and you have got four men there, and still you cannot remember, and somebody reads it, and you expect me. Maybe I cannot remember, so I am asking you for it, and ask to repeat it.

Mr. HOMER. I am not objecting to that, at all. I am not objecting to that. I will read to you the whole thing.

Mr. WEICHEL. Have you got the correct figure on the investment of the Bethlehem Steel Corp.?

Mr. SLATER. Not yet.

Mr. HOMER (reading):

All of Bethlehem's resources were made available for use in the emergency cargo vessel construction program.

Mr. WEICHEL. The question that I asked is about this high figure.

Mr. HOMER. Well, I misunderstood what you wanted, then. I thought you wanted me to read my statement that had to do with that particular phase of it.

Mr. WEICHEL. No; I made the other statement. I am asking now for the highest amount that you got on the investment of the Bethlehem Steel in those 10 years.

Mr. HOMER. Oh.

Mr. WEICHEL. That is the one he is still figuring on?

Mr. SLATER. That is right.

Mr. HOMER. You do not want this, then? While we are waiting for that figure—he hasn't quite figured that out—I will try to answer you a little bit without going into this.

Mr. WEICHEL. I haven't asked you any questions. That is the only question before you, now.

Mr. HOMER. Is that the only one?

Mr. WEICHEL. That is the only one.

The CHAIRMAN. I think we had better limit it to the question asked.

Mr. HOMER. I did not know he had withdrawn the other one.

Mr. WEICHEL. I didn't withdraw any.

Mr. HOMER. Well, then, I would just like to say——

Mr. WEICHEL (interposing). I am not asking for any. I am not asking for any volunteer statement. Just answer this question of percentage, then I will ask some more, please.

Mr. HOMER. The answer to your other one is contained in the record. May we have the question again so we can answer it correctly?

Mr. WEICHEL. What is the highest percent that you have earned on the investment of Bethlehem Steel, in the last 10 years previous to 1945?

Mr. HOMER. After taxes?

Mr. WEICHEL. How?

Mr. HOMER. After taxes?

Mr. WEICHEL. I will take it before and after, if you have got it, just like you gave the rest of them; or what do you have?

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Mr. HOMER. Before taxes, the high year appears to be 1942; percentage rate was 16.2.

Mr. WEICHEL. 16.2, is that before taxes?

Mr. HOMER. Before taxes; and after taxes it was 2.6 in the same year.

Mr. WEICHEL. 2.6 in the same year?

Mr. HOMER. Yes; so it is 16.2 and 2.6. That, I want to repeat, was the high year, before taxes percentage.

Mr. WEICHEL. Yes, 16.2?

Mr. HOMER. Yes. Now, the high year, after taxes. You see, we have two figures.

Mr. WEICHEL. Yes.

Mr. HOMER. 1940—and that was 6.3 after taxes.

Mr. WEICHEL. 1940 was 6.3?

Mr. HOMER. And in that same year, before taxes, was 9.3.

Mr. WEICHEL. It was 9.3?

Mr. HOMER. Yes.

Mr. WEICHEL. Not the percents that the Bethlehem Steel Corp. earned on its investment during these war years, the highest amount before taxes was 16.2, in 1942, and the highest on its investment after deduction of taxes, in 1940, of 6.3. Now, in earning this on the total investment, all the brains that you talk about of the Bethlehem Steel Corp., of every kind and description, helped to earn this, and that is what you earned? Now, part of that brains was put over in Bethlehem-Fairfield, along with the million dollars?

Mr. HOMER. Not all of it.

Mr. WEICHEL. Well, part of it was?

Mr. HOMER. Not all of it, by a long shot.

Mr. WEICHEL. Part—part of the brains were put over there, at least by your testimony, plus a million dollars, for which there was $12,000,000 net; that is 1,200 percent. Now, the regular corporation—the Bethlehem Steel—the highest that it earned was 16—no; was 6.3—during any one of these high years, and this is 1,200 percent. Why should you have 1,200 percent for a partial operation—for the partial use of the brains of the Bethlehem Steel—while for the whole organization of all the brains and everything there is 6.3? Why should you have 1,200 percent?

Mr. HOMER. Well, I refer you to my statement that I made when you were out, at which time I endeavored to fully answer that question.

Mr. WEICHEL. Well, if you think that is the full answer, all right. Do you think that you should have 1,200 percent because it is a war operation, where formerly in your operation you had 6 percent?

Mr. HOMER. We did not get—we did not earn——

Mr. WEICHEL (interposing). Why should you have more on a war operation than you had on a peace basis?

Mr. HOMER. We did not earn 6 percent on the basis as we have outlined it here. We had other investments in that operation. You cannot just take the $1,000,000 capital stock and say that is the only investment we had in back of Fairfield. The whole investment of the Bethlehem Steel Corp. and a good many years of experience.

Mr. WEICHEL. You did not put it up? You only put in the million dollars?

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Mr. HOMER. It was there. It was there and usable.

Mr. WEICHEL. You put a million dollars in it, plus some people, and got 1,200 percent for it, where in the whole Bethlehem Steel Corp. you only got 6 percent?

Mr. HOMER. What did we start with?

Mr. WEICHEL. How?

Mr. HOMER. What did we start with, before putting the million dollars in?

Mr. WEICHEL. Well, in one place you got 6 percent, and in the other place you got 16 percent.

Mr. HOMER. What did we start with, before we put the $1,000,000 in?

Mr. WEICHEL. Well, you got 6 percent over there.

Mr. HOMER. We put about 16—let's see where those figures are. [Reading:]

All of Bethlehem's resources were made available for use in the emergency cargo vessel construction program in common with Bethlehem's other vast war programs. Its properties had at that time a gross cost to Bethlehem of about $840,000,000. Bethlehem's cash and current assets amounted to about $180,000,000, and of this amount over $16,000,000 was used in connection with the operations of Fairfield.

Mr. WEICHEL. Well, the fact is you put a million dollars in and got 12 million, net?

Mr. HOMER. No; we had about 16 in, in that particular operation.

Mr. WEICHEL. And in your general corporation where you had the investment you only got 6.3, and I cannot understand why you should have that vast difference. You should have, for the same kind—there is no different brains where you got the 6.3?

Mr. HOMER. The reason why this is not understandable is because you are not using the same basis of comparison.

Mr. WEICHEL. Using it on the basis of the investment, and that's all there was.

That is all.

The CHAIRMAN. Is that all?

Mr. WEICHEL. That is all.

(Information furnished by the Bethlehem-Fairfield Shipyard, Inc., in response to the committee's questionnaire, was received for the record and marked "Exhibit 26.")

(Information furnished by Barrett & Hilp Shipyard, McCloskey & Co., Southeastern Shipbuilding Corp., and East Coast Shipyards, Inc., in response to the committee's questionnaire, was received for the record and marked "Exhibits 27, 28, 29, and 30.")

The CHAIRMAN. The committee stands adjourned, subject to call of the Chair.

(Whereupon, at 6:25 p. m., the committee adjourned, subject to call of the Chair.)

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APPENDIX

EXHIBIT I

UNITED STATES MARITIME COMMISSION,
Washington, July 13, 1946.

Hon. S. O. BLAND,
House of Representatives,
Washington, D. C.

DEAR JUDGE BLAND: Further reference is made to your letter dated June 19, 1946, in which you request that the Maritime Commission bring up to date the figures contained in Committee Document No. 57, relating to fees earned by shipyard operators and their relationship to the capital investments of such operators in shipyard facilities and working capital.

There is enclosed exhibit A, which lists the contractors as outlined in Committee Document No. 57, showing the cost of the facilities, the capital invested by shipyard operators, and the estimated profits earned from the ship construction contracts completed by the respective builders.

The capital investment set forth on the exhibit is not the current invested capital in each case, as in some instances, the capital investments have been reduced by the retirement of capital stock or liquidation.

The profits earned by the builders are captioned "Estimated Profits," because final settlement has not been consummated with respect to many of the contracts. However, the profits are substantially actual. It should also be borne in mind that certain costs have been incurred by contractors which are not reimbursable or allowable by the Commission and must be met out of earned profits under the contracts. The amounts of disallowances are relatively small compared to earned profits.

With reference to your request to include an additional column setting forth the amount of profit remaining after renegotiation, you are advised that many of the contracts completed in 1945 have not been renegotiated. Therefore, we have shown, as per exhibit B attached, profits earned on the contracts which have been renegotiated and profits retained by the contractor after renegotiation, which gives a comparison of profits retained by the contractors to profits earned. Some of the contractors have been renegotiated by other price adjustment boards, and Maritime Commission business has been commingled with business completed for other Government agencies.

Sincerely yours,

W. W. SMITH, *Chairman.*

Attachments.

EXHIBIT A

Fees of shipyard operators in relation to their capital investment under ship construction contracts with the U. S. Maritime Commission, June 30, 1946

Shipyard operator	Cost of facilities	Capital investment of shipyard operator	Estimated profits
Barrett & Hilp Shipyard	$2,430,833	$3,611,664.00	$874,636
Bethlehem-Fairfield Shipyards, Inc	31,303,718	1,000,000.00	53,906,980
California Shipbuilding Corp	25,213,177	600,000.00	44,423,014
Consolidated Steel Corp., Ltd	13,132,308	6,396,011.62	16,445,861
Delta Shipbuilding Co., Inc	12,804,009	750,000.00	12,171,811
East Coast Shipyards, Inc	1,313,742	143,800.00	800,000
J. A. Jones Construction Co., Inc.:			
Brunswick yard	12,840,530	2,000,000.00	4,345,660
Panama City yard	14,906,229		4,680,728

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Fees of shipyard operators in relation to their capital investment under ship construction contracts with the U. S. Maritime Commission, June 30, 1946—Continued

Shipyard operator	Cost of facilities	Capital investment of shipyard operator	Estimated profits
Kaiser Co., Inc.:			
Portland yard	$26, 509, 879	$100, 000. 00	$23, 839, 715
Richmond yard No. 3	52, 381, 944		6, 175, 000
Vancouver yard	34, 920, 887		13, 632, 311
Kaiser Cargo, Inc	1, 323, 877	500, 000. 00	1, 345, 000
McCloskey & Co.:			
San Jacinto yard	2, 563, 793	750, 000. 00	75, 000
Tampa yard	8, 297, 162		961, 368
Marinship Corp	16, 436, 335	500, 000. 00	11, 871, 840
New England Shipbuilding Corp	23, 233, 740	1, 028, 000. 00	11, 097, 112
North Carolina Shipbuilding Corp	20, 360, 248	3, 000, 000. 00	27, 645, 029
Oregon Shipbuilding Corp	22, 684, 157	550, 000. 00	40, 930, 564
Permanente Metals Corp	35, 310, 231	460, 000. 00	58, 840, 885
St. Johns River Shipbuilding Corp	16, 029, 112	600. 00	2, 080, 000
Southeastern Shipbuilding Corp	11, 078, 522	600, 000. 00	3, 135, 000
Todd-Houston Shipbuilding Corp	14, 129, 008	189, 200. 00	13, 678, 303
Walsh-Kaiser Co., Inc	25, 047, 253	300, 000. 00	3, 050, 795
Total	424, 250, 694	22, 979, 275. 62	356, 006, 612

EXHIBIT B

Renegotiated shipbuilding contracts

Contractor	Contractor's profits per contract	Profits after renegotiation
California Shipbuilding Corp	$34, 927, 524	$23, 901, 324
Delta Shipbuilding Co	9, 494, 811	6, 921, 440
North Carolina Shipbuilding Corp	20, 676, 840	16, 194, 970
Oregon Shipbuilding Corp	33, 858, 564	27, 071, 650
Permanente Metals Corp	46, 316, 385	43, 743, 262
St. Johns River Shipbuilding Co	900, 000	900, 000
Southeastern Shipbuilding Corp	2, 660, 000	2, 660, 000

EXHIBIT 2

Fees of shipyard operators in relation to their capital investment under ship contracts with the U. S. Maritime Commission

MAR. 3, 1944.

Shipyard operator	Cost of shipyard to U. S. Government	Capital investment of shipyard operator [1]	Fees earned by shipyard operator to Nov. 30, 1943	Fees earned to Nov. 30, 1943, plus minimum remaining fees
Barrett & Hilp	$3, 017, 811	$3, 611, 664. 00	$121, 500	$351, 050
Bethlehem-Fairfield Shipyards, Inc	33, 432, 496	1, 000, 000. 00	26, 992, 400	29, 748, 400
California Shipbuilding Corp	26, 168, 791	600, 000. 00	31, 089, 244	35, 207, 244
Consolidated Steel Corp., Ltd	12, 167, 615	[2] 6, 396, 011. 62	2, 170, 030	5, 711, 036
Delta Shipbuilding Co., Inc.[3]	12, 915, 523	750, 000. 00	6, 498, 000	8, 683, 000
East Coast Shipyards, Inc	2, 818, 000	43, 800. 00	56, 000	430, 000
Houston Shipbuilding Corp	13, 551, 596	689, 200. 00	8, 100, 300	10, 250, 300
J. A. Jones Construction Co., Inc.:				
Brunswick yard	12, 695, 228	[4] 2, 000, 000. 00	525, 000	2, 100, 000
Panama City yard	12, 111, 785		877, 500	2, 625, 000

[1] Includes capital, paid-in surplus. Figures taken from data supplied by shipyard operators and the Maritime Commission.
[2] $435,553.65 of this amount has been retired.
[3] This company operates facilities of Louisiana Shipyards, Inc.
[4] Includes $1,793.400 of surplus earned over a period of 49 years.

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Fees of shipyard operators in relation to their capital investment under ship contracts with the U. S. Maritime Commission—Continued

Shipyard operator	Cost of shipyard to U. S. Government	Capital investment of shipyard operator	Fees earned by shipyard operator to Nov. 30, 1943	Fees earned to Nov. 30, 1943, plus minimum remaining fees
Kaiser Co., Inc.:				
Portland yard	$22,756,570	$100,000.00	$2,925,000	$6,080,000
Richmond yard No. 3	23,271,819		550,000	3,000,000
Vancouver yard	23,667,802		3,175,000	7,300,000
Kaiser Cargo, Inc	1,276,923	500,000.00	[5] 1,225,000	[5] 3,885,000
McCloskey & Co.:				
San Jacinto yard [6]	2,564,695	750,000.00	38,775	75,000
Tampa yard	6,236,794		127,500	612,000
Marinship Corp	16,215,000	500,000.00	720,000	3,000,000
New England Shipbuilding Corp	22,159,755	1,028,000.00	[7] 3,136,300	[7] 6,171,300
North Carolina Shipbuilding Co	20,002,592	3,000,000.00	13,594,000	15,774,000
Oregon Shipbuilding Corp	16,824,484	550,000.00	32,550,607	36,905,607
Permanente Metals Corp	35,445,420	460,000.00	37,671,100	42,825,100
St. Johns River Shipbuilding Co	15,804,942	600.00	810,000	1,940,000
Southeastern Shipbuilding Corp	11,070,000	600,000.00	1,440,000	2,660,000
Walsh-Kaiser Co., Inc	25,784,472	300,000.00	550,795	2,900,795
Total	371,960,113	22,979,275.62	174,944,051	228,234,832

[5] Includes $525,000 paid to Kaiser Co., Inc., Richmond 3A, a predecessor in interest.
[6] Formerly operated by San Jacinto Shipbuilders, Inc.
[7] Includes $1,558,000 paid to South Portland Shipbuilding Corp. The stockholders of both companies are the same.

EXHIBIT 3

KAISER CO., INC.

Oakland, Calif.

WASHINGTON, D. C., *September 19, 1946.*

MERCHANT MARINE AND FISHERIES INVESTIGATING COMMITTEE,
United States House of Representatives,
House Office Building, Room 228, Washington 25, D. C.

(Attention Mr. Marvin J. Coles, general counsel.)

GENTLEMEN: This will acknowledge receipt of your letter of September 14, 1946, requesting further information relative to the shipbuilding corporations comprising the "Kaiser group."

With respect to the inquiry contained in the second paragraph of your letter, we have prepared and enclose herewith three copies of a chart which we believe discloses the desired information.

Regarding the information requested in the third paragraph of your letter, we wish to advise you that none of the corporations in the Kaiser group now own or have ever owned any interest of any kind in any of the companies listed in the third paragraph of your letter.

In response to the inquiries contained in the fourth paragraph of your letter the following information is presented:

On April 23, 1945, Henry J. Kaiser Co., which owned 473 shares of California Shipbuilding Corp., sold and transferred the same to W. A. Bechtel Co. for a price of $100 per share, or a total of $47,300. On the same day the Kaiser Co., which owned an equal number of shares of stock in said California Shipbuilding Corp., sold and transferred the same to Bechtel-McCone Corp. at a price of $100 per share, or a total of $47,300.

As of the same date, Henry J. Kaiser Co. and the Kaiser Co. each held a promissory note of California Shipbuilding Corp. in the principal amount of $55,020. On April 23, 1945, said notes were sold and transferred by Henry J. Kaiser Co. and the Kaiser Co. to W. A. Bechtel Co. and Bechtel-McCone Corp., respectively, for face value. California Shipbuilding Corp. paid the interest on said notes to April 23, 1945, direct to Henry J. Kaiser Co. and the Kaiser Co., respectively.

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At the same time W. A. Bechtel Co. and Bechtel-McCone Corp. each owning 453 shares of the stock of the Permanente Metals Corp., entered into agreements with Henry J. Kaiser Co. and the Kaiser Co., respectively, whereby the latter corporations agreed to purchase said stock of the Permanente Metals Corp. at a price of $100 per share and the two said Bechtel corporations agreed to sell the same provided each received dividends from the Permanente Metals Corp. on the stock then held by them in said Permanente Metals Corp. in the amount of $387,287.

The total of said dividends so to be received by the two Bechtel companies was approximately equal to dividends which had previously been received by Henry J. Kaiser Co. and the Kaiser Co. on their stock held in California Shipbuilding Corp., the Permanente Metals Corp. during the same period of time not having declared any dividends.

The above transactions arose out of the fact that there were differences of opinion between the Bechtel management and the Kaiser management respecting the future operations of the companies involved, the Bechtel management desiring to engage mainly in construction and the Kaiser management desiring to engage primarily in manufacturing. Therefore it was deemed mutually desirable for the Bechtel interests to withdraw from the Permanente Metals Corp. and for the Kaiser interest to withdraw from California Shipbuilding Corp.

We trust that this gives you the information which you desire.

Yours very truly,

KAISER CO., INC.,
By CHAD F. CALHOUN, *Vice President.*

EXHIBIT 4

REPORT ON KAISER CO., INC., TO MERCHANT MARINE AND FISHERIES INVESTIGATING COMMITTEE, AUGUST 30, 1946

KAISER CO., INC.,
Oakland, Calif., August 29, 1946.

MERCHANT MARINE AND FISHERIES INVESTIGATING COMMITTEE,
House of Representatives, Washington, D. C.

GENTLEMEN: We are pleased to furnish herewith the information requested in your letter of July 27, 1946, concerning the shipbuilding activities of this company, as follows:

1. *Date on which Kaiser Co., Inc., was formed and copy of its corporate charter.*

Kaiser Co., Inc. (hereinafter referred to as the "company"), was incorporated on December 1, 1941, and amended articles of incorporation were filed on January 8, 1942. A copy of the company's articles of incorporation (as amended) are attached as exhibit A.

2. *The total capital of the company, giving a break-down of the types of stock and securities.*

Exclusive of any funds furnished by the Government or loans guaranteed by the Government, the total amount available for the shipbuilding activities of the company was $13,850,000. See exhibit B attached hereto for details.

3. *The names of all officers and directors and a statement of their annual compensation.*

A schedule listing all officers and directors of the company is attached as exhibit C. No officer or director received compensation for holding any office or directorship as such. All compensation was for services rendered as an employee of the company and reference is made to exhibit B attached hereto for a full statement of the compensation paid to such employees.

4. *Names of all officers and employees who have received compensation of over $15,000 per annum, giving the amounts received and the extent to which these amounts were reimbursable by the Maritime Commission.*

Exhibit D contains schedules detailing not only the information requested but also the compensation of all individuals who have been officers and directors of any of the following companies:

Kaiser Co., Inc.
The Permanente Metals Corp.
Richmond Shipbuilding Corp.
Kaiser Fleetwings, Inc. (formerly Kaiser Cargo, Inc.).
Oregon Shipbuilding Corp.

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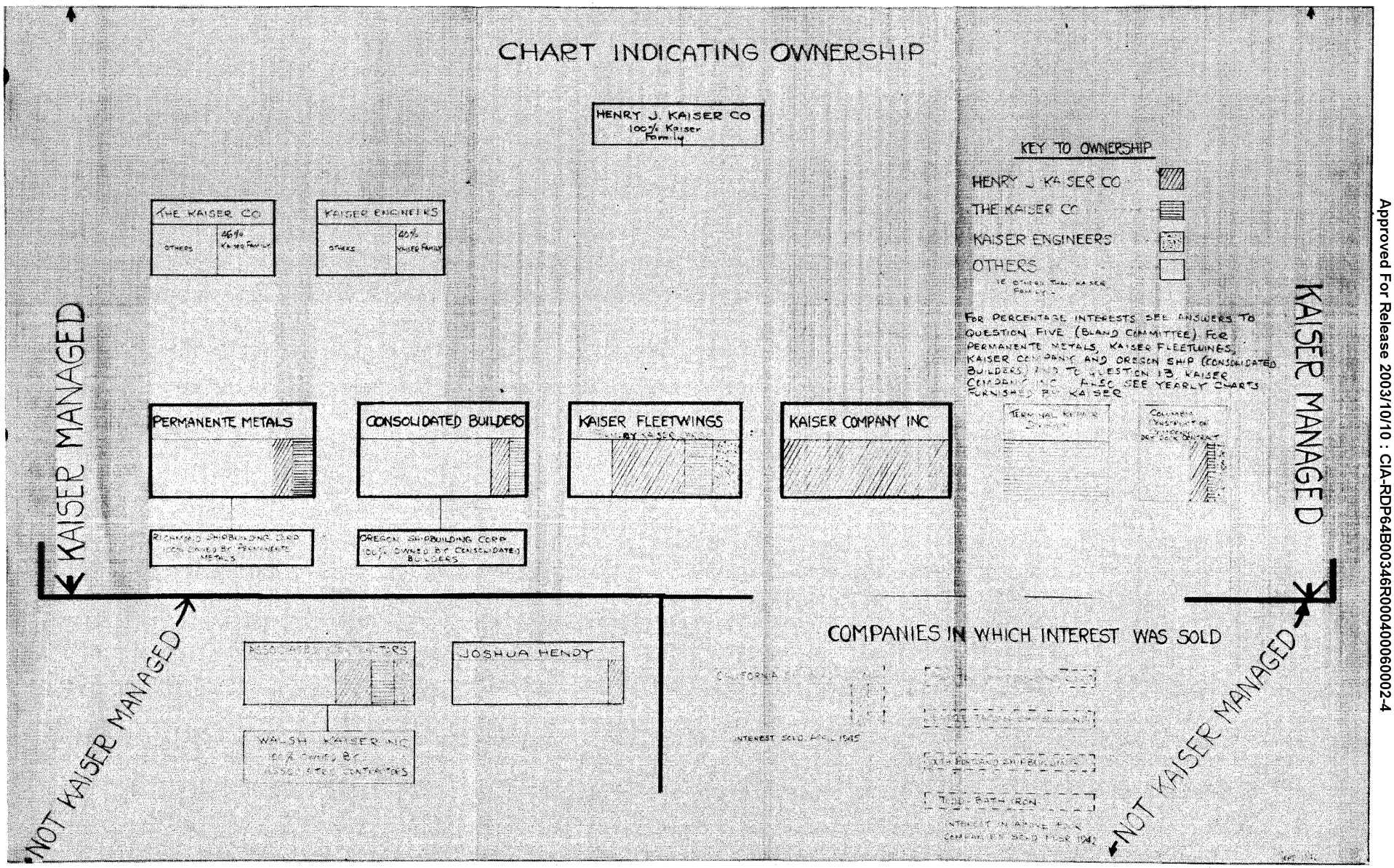
CHART INDICATING OWNERSHIP



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KAISER AFFILIATED SHIPBUILDING COMPANIES

Year 1941

HENRY J. KAISER COMPANY

Henry J. Kaiser	50%
Edgar F. Kaiser	25%
Henry J. Kaiser, Jr.	25%

THE KAISER COMPANY

Henry J. Kaiser	6%
Edgar F. Kaiser	20%
Henry J. Kaiser, Jr.	20%
Others	54%

THE PERMANENTE METALS CORP.

Henry J. Kaiser Co.	8%
The Kaiser Company	8%
W. A. Bechtel Company	8%
Bechtel-McCone-Parsons	8%
General Const. Co.	6%
J. F. Shea Co. Inc.	6%
The Utah Const. Co.	6%
Morrison-Knudsen Co.	6%
MacDonald & Kahn Inc.	6%
Pacific Bridge Co.	3%
Todd Shipyards Corp.	35%

RICHMOND SHIPBUILDING CORP.

(After May 2, 1941)

Henry J. Kaiser Co.	6.16%
The Kaiser Company	6.16%
W. A. Bechtel Co.	6.16%
Bechtel-McCone-Parsons	6.16%
J. F. Shea Co. Inc.	4.61%
General Const. Co.	4.61%
The Utah Const. Co.	4.61%
Morrison-Knudsen Co.	4.61%
MacDonald & Kahn Inc.	4.61%
Pacific Bridge Co.	2.31%
Todd Shipyards Corp.	50.00%

OREGON SHIPBUILDING CORP.

(After Jan. 8, 1941)

Henry J. Kaiser Co.	6.25%
The Kaiser Company	6.25%
J. F. Shea Co. Inc.	10.00%
General Const. Co.	6.25%
W. A. Bechtel Co.	3.85%
Bechtel-McCone-Parsons	3.85%
The Utah Const. Co.	3.85%
Morrison-Knudsen Co.	3.85%
MacDonald & Kahn Inc.	3.85%
Pacific Bridge Co.	2.00%
Todd Shipyards Corp.	50.00%

JOSHUA HENDY IRON WORKS

Henry J. Kaiser Co.	7.5%
Moore Machinery Co.	35.0%
MacDonald & Kahn Inc.	17.5%
The Utah Const. Co.	7.5%
Morrison-Knudsen Co.	7.5%
W. A. Bechtel Co.	7.5%
J. F. Shea Co. Inc.	7.5%
General Const. Co.	7.0%
Pacific Bridge Co.	3.0%

SOUTH PORTLAND SHIPBUILDING CORPORATION

Henry J. Kaiser Co.	3.7%
The Kaiser Company	3.7%
Todd Shipyards Corp.	30.0%
Bath Iron Works Corp.	40.0%
W. A. Bechtel Co.	3.7%
Bechtel-McCone-Parsons	3.7%
The Utah Const. Co.	2.78%
Morrison-Knudsen Co. Inc.	2.78%
J. F. Shea Co. Inc.	2.78%
General Const. Co.	2.78%
Pacific Bridge Company	1.30%

See Note 1

HOUSTON SHIPBUILDING CORP.

Henry J. Kaiser Co.	5.25%
The Kaiser Company	5.25%
Todd Shipyards Corp.	50.00%
J. F. Shea Co. Inc.	5.25%
W. A. Bechtel Co.	5.25%
General Const. Co.	5.25%
Bechtel-McCone-Parsons	5.25%
The Utah Const. Co.	5.25%
MacDonald & Kahn Inc.	5.25%
Morrison-Knudsen Co.	5.25%
Pacific Bridge Co.	2.75

See Note 1

TODD-BATH SHIPBUILDING CORP.

Henry J. Kaiser Co.	4.3125%
The Kaiser Company	4.3125%
Todd Shipyards Corp.	35.0 %
Bath Iron Works Corp.	30.0 %
W. A. Bechtel Co.	4.3125%
Bechtel-McCone-Parsons	4.3125%
General Const. Co.	3.25 %
J. F. Shea Co. Inc.	3.25 %
The Utah Const. Co.	3.25 %
Morrison-Knudsen Co.	3.25 %
MacDonald & Kahn Inc.	3.25 %
Pacific Bridge Co.	1.5 %

See Note 1

SEATTLE-TACOMA SHIPBUILDING CORPORATION

Henry J. Kaiser Co.	3%
The Kaiser Company	3%
Todd Shipyards Corp.	50%
General Const. Co.	9%
J. F. Shea Co. Inc.	7%
MacDonald & Kahn Inc.	6%
The Utah Const. Co.	6%
Morrison-Knudsen Co. Inc.	6%
W. A. Bechtel Company	6%
Pacific Bridge Company	4%

See Note 1

CALIFORNIA SHIPBUILDING CORP.

Henry J. Kaiser Co.	6.25%
The Kaiser Company	6.25%
W. A. Bechtel Co.	6.25%
Bechtel-McCone Corp.	6.25%
J. F. Shea Co. Inc.	4.55%
Morrison-Knudsen Inc.	4.55%
The Utah Const. Co.	4.55%
MacDonald & Kahn Inc.	4.55%
Pacific Bridge Co.	2.25%
General Const. Co.	4.55%
Todd Shipyards Corp.	50.00%

Note 1 - Applies until February, 1942

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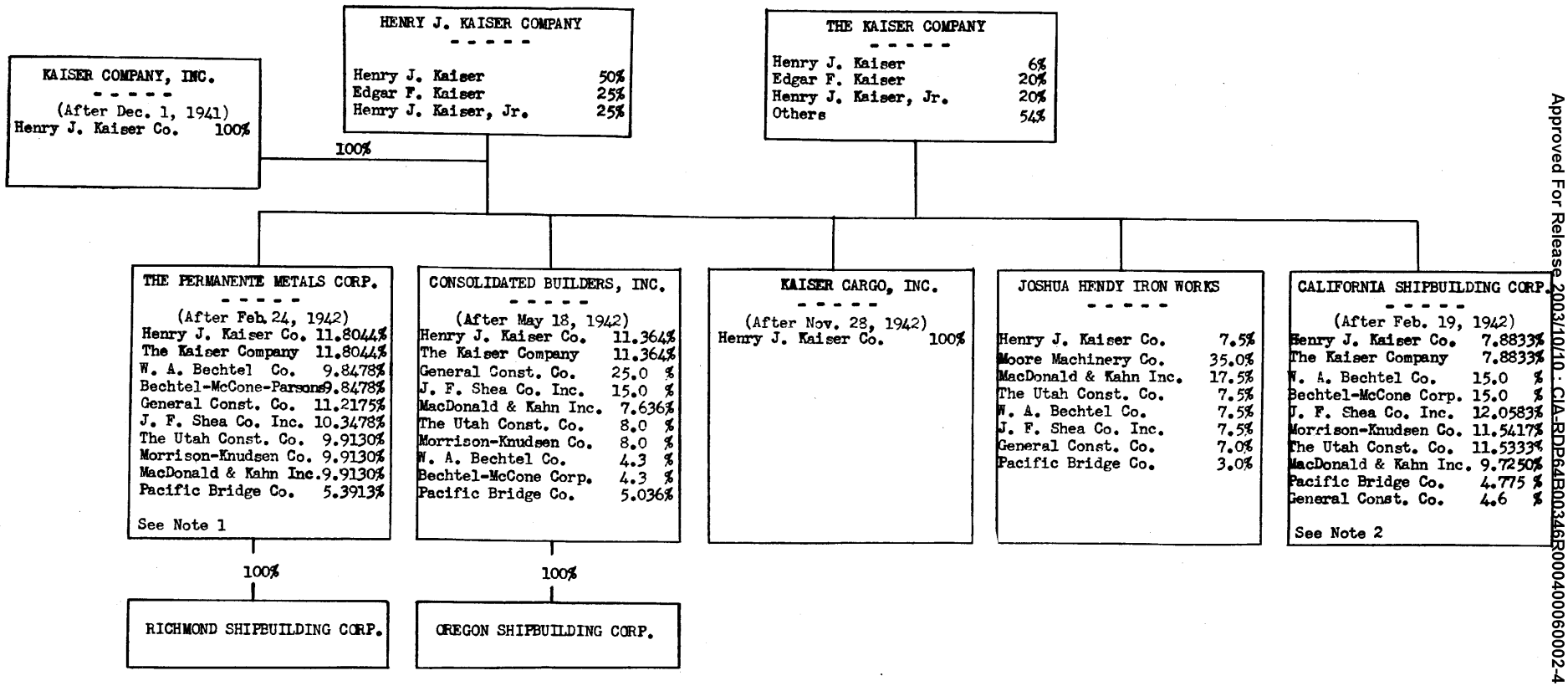
KAISER AFFILIATED SHIPBUILDING COMPANIES

Year 1942



Note 1 - For prior to 2-24-1942 See chart for year 1941
Note 2 - For prior to 2-19-1942 See chart for year 1941

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1943 & 1944

KAISER AFFILIATED SHIPBUILDING COMPANIES

YEARS 1943 and 1944

KAISER COMPANY, INC.

Henry J. Kaiser Co. 100%

HENRY J. KAISER COMPANY

Henry J. Kaiser 50%
Edgar F. Kaiser 25%
Henry J. Kaiser, Jr. 25%

100%

THE KAISER COMPANY

Henry J. Kaiser 6%
Edgar F. Kaiser 20%
Henry J. Kaiser, Jr. 20%
Others 54%

KAISER ENGINEERS, INC.
(Formerly California-Kaiser Company)

Henry J. Kaiser Co. 60%
Others 40%

See Note 4

COLUMBIA CONSTRUCTION COMPANY

Henry J. Kaiser Co. 11.25%
The Kaiser Company 11.25%
MacDonald & Kahn Inc. 22.5 %
The Utah Const. Co. 22.5 %
W. A. Bechtel Co. 22.5 %
Morrison-Knudsen Co. 10 %

THE PERMANENTE METALS CORP.

Henry J. Kaiser Co. 11.8044%
The Kaiser Company 11.8044%
W. A. Bechtel Co. 9.8478%
Bechtel-McCone-Parsons 9.8478%
General Const. Co. 11.2175%
J. F. Shea Co. Inc. 10.3478%
The Utah Const. Co. 9.9130%
Morrison-Knudsen Co. 9.9130%
MacDonald & Kahn Inc. 9.9130%
Pacific Bridge Co. 5.3913%

ASSOCIATED CONTRACTORS, INC.

Henry J. Kaiser Co. 20%
The Kaiser Company 10%
Kaiser Engineers 10%
Walsh Const. Co. 50%
Morrison-Knudsen Co. 10%

CONSOLIDATED BUILDERS, INC.

Henry J. Kaiser Co. 11.364%
The Kaiser Company 11.364%
General Const. Co. 25.0 %
J. F. Shea Co. Inc. 7.636%
The Utah Const. Co. 8.0 %
Morrison-Knudsen Co. 8.0 %
W. A. Bechtel Co. 4.3 %
Bechtel-McCone Corp. 4.3 %
Pacific Bridge Co. 5.036%

KAISER CARGO, INC.

(After July 13, 1943)*
Henry J. Kaiser Co. 45%
The Kaiser Company 15%
Kaiser Engineers, Inc. 15%
Morrison-Knudsen Co. 15%
J. F. Shea Co. Inc. 10%

*See Note 2

JOSHUA HENDY IRON WORKS

Henry J. Kaiser Co. 7.5%
Moore Machinery Co. 35.0%
MacDonald & Kahn Inc. 17.5%
The Utah Const. Co. 7.5%
Morrison-Knudsen Co. 7.5%
W. A. Bechtel Co. 7.5%
J. F. Shea Co. Inc. 7.5%
General Const. Co. 7.0%
Pacific Bridge Co. 3.0%

FLOATING DRYDOCK VENTURE
(After July 27, 1944)

Columbia Const. Co. 44.445%
Henry J. Kaiser Co. 10%
Kaiser Engineers 10%
J. F. Shea Co. Inc. 10
General Const. Co. 10
Pacific Bridge Co. 10
Morrison-Knudsen Co. 5.555%

100%

RICHMOND SHIPBUILDING CORP.

100%

WALSH-KAISER COMPANY, INC.
See Note #1

100%

OREGON SHIPBUILDING CORP.

CALIFORNIA SHIPBUILDING CORP.

Henry J. Kaiser Co. 7.8833%
The Kaiser Company 7.8833%
W. A. Bechtel Co. 15.0 %
Bechtel-McCone Corp. 15.0 %
J. F. Shea Co. Inc. 12.0583%
Morrison-Knudsen Co. 11.5417%
The Utah Const. Co. 11.5333%
MacDonald & Kahn Inc. 9.7250%
Pacific Bridge Co. 4.7750%
General Const. Co. 4.6 %

See Note 3

Note 1 - After July 1, 1943
Note 2 - Henry J. Kaiser Co. 100% 1-1-43 to 3-27-43,
Henry J. Kaiser Co. 85%) 3-27-43 to 7-13-43
Morrison-Knudsen Co., Inc. 15%)
Note 3 - Applies until April 1945
Note 4 - Henry J. Kaiser Co. 40%) After Nov. 1944
Others 60%)

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KAISER AFFILIATED SHIPBUILDING COMPANIES

Year 1945 (November)

KAISER COMPANY, INC.

Henry J. Kaiser Co.	100%

100%

HENRY J. KAISER COMPANY

Henry J. Kaiser	50%
Edgar F. Kaiser	25%
Henry J. Kaiser, Jr.	25%

THE KAISER COMPANY

Henry J. Kaiser	6%
Edgar F. Kaiser	20%
Henry J. Kaiser, Jr.	20%
Others	54%

50%

Terminal Repair Division

The Kaiser Company	50%
Kaiser Engineers	50%

KAISER ENGINEERS, INC.

Henry J. Kaiser Co.	40%
Others	60%

COLUMBIA CONSTRUCTION COMPANY

Henry J. Kaiser Co.	11.25%
The Kaiser Company	11.25%
MacDonald & Kahn, Inc.	22.5 %
The Utah Const. Co.	22.5 %
W. A. Bechtel Co.	22.5 %
Morrison-Knudsen Co.	10 %

FLOATING DRYDOCK VENTURE

Columbia Const. Co.	44.445%
Henry J. Kaiser Co.	10%
Kaiser Engineers, Inc.	10%
J. F. Shea Co. Inc.	10
General Const. Co.	10
Pacific Bridge Co.	10
Morrison-Knudsen Co.	5.555%

THE PERMANENTE METALS CORP.

Henry J. Kaiser Co.	11.8044%
The Kaiser Company	11.8044%
W. A. Bechtel Co.	9.8478%
Bechtel-McCone-Parsons	9.8478%
General Const. Co.	11.2175%
J. F. Shea Co., Inc.	10.3478%
The Utah Const. Co.	9.9130%
Morrison-Knudsen Co.	9.9130%
MacDonald & Kahn, Inc.	9.9130%
Pacific Bridge Co.	5.3913%

100%

RICHMOND SHIPBUILDING CORP.

ASSOCIATED CONTRACTORS, INC.

Henry J. Kaiser Co.	20%
The Kaiser Company	10%
Kaiser Engineers	10%
Walsh Construction Co.	50%
Morrison-Knudsen Co., Inc.	10%

100%

WALSH-KAISER COMPANY, INC.

CONSOLIDATED BUILDERS, INC.

Henry J. Kaiser Co.	11.364%
The Kaiser Company	11.364%
General Const. Co.	25.0 %
J. F. Shea Co. Inc.	15.0 %
MacDonald & Kahn Inc.	7.636%
The Utah Const. Co.	8.0 %
Morrison-Knudsen Co.	8.0 %
W. A. Bechtel Co.	4.3 %
Bechtel-McCone Corp.	4.3 %
Pacific Bridge Co.	5.036%

100%

OREGON SHIPBUILDING CORP.

KAISER CARGO, INC.

Henry J. Kaiser Co.	45%
The Kaiser Company	15%
Kaiser Engineers, Inc.	15%
Morrison-Knudsen Co.	15%
J. F. Shea Co. Inc.	10%

JOSHUA HENDY IRON WORKS

(after Jan. 31, 1945)

Henry J. Kaiser Co.	8.65%
Chas. E. Moore	25.0 %
MacDonald & Kahn Inc.	20.2 %
The Utah Const. Co.	8.65%
Morrison-Knudsen Co.	8.65%
W. A. Bechtel Co.	8.65%
J. F. Shea Co. Inc.	8.65%
General Const. Co.	8.08%
Pacific Bridge Co.	3.47%

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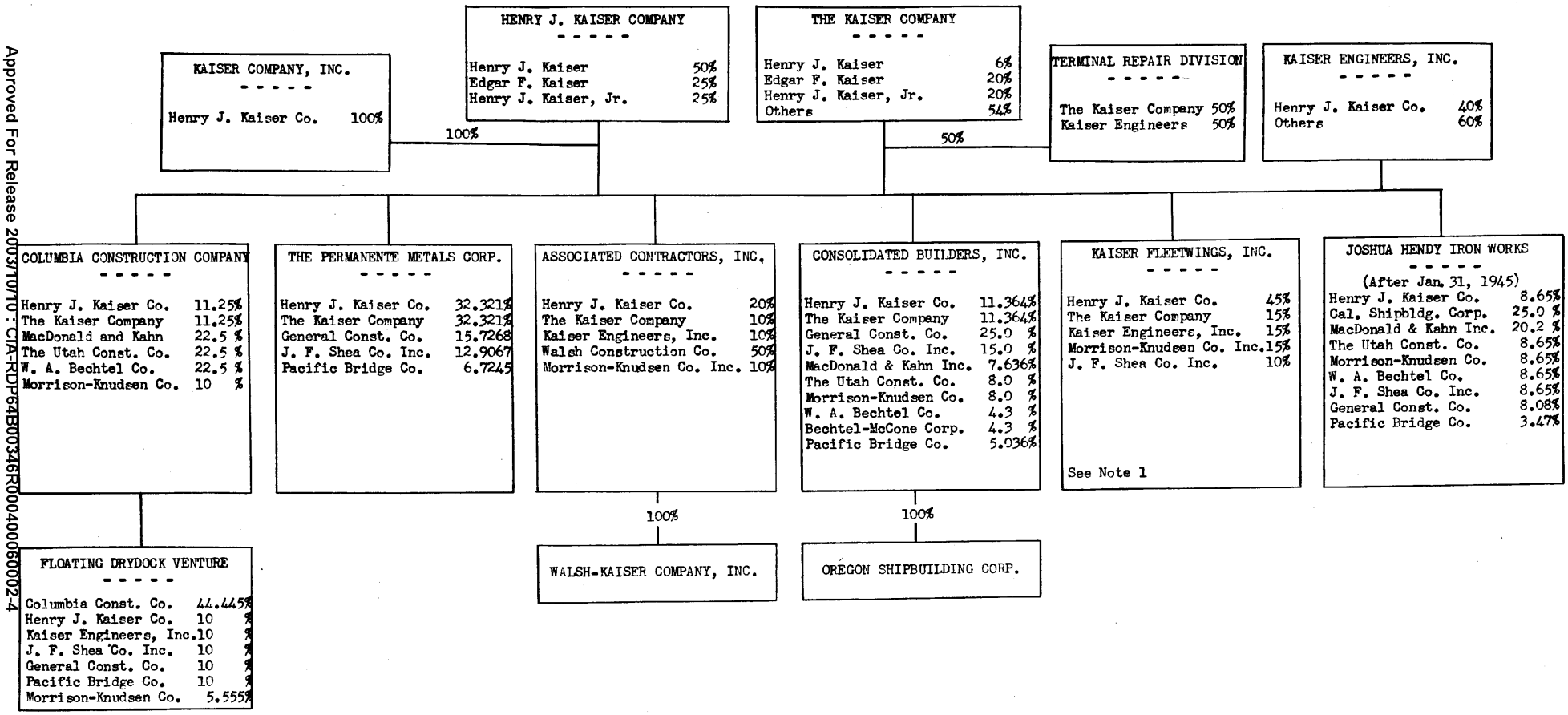
KAISER AFFILIATED SHIPBUILDING COMPANIES

Year 1946



Note 1 - Name changed to Kaiser Fleetwings, Inc., May 29, 1946.

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Only those officers who were employed full time on shipbuilding activities were compensated for services in connection therewith, and the president of the company and many other officers and directors did not receive any compensation whatsoever in connection with the shipbuilding operations, although very considerable time and effort was devoted by them to the shipbuilding activities. During the couse of the shipbuilding program only six persons were ever paid at an annual rate in excess of $15,000 by any of the above-mentioned companies for services performed in the shipbuilding operations, and in only three instances was more than $15,000 reimbursed by the Maritime Commission. One such instance involved Mr. J. F. Reis, administrative manager of all of the shipyards operated by the above companies, who was paid a total of $15,576. in 1944, which was fully reimbursed. Another instance involved Mr. Edgar F. Kaiser, vice president and general manager of the Vancouver and Portland yards of this company and one yard of the Oregon Shipbuilding Corp., who was paid in excess of $15,000 per year, the highest amount being $18,346 in 1943, which was fully reimbursed. The third instance involved Mr. C. P. Bedford, vice president and general manager of one yard of this company at Richmond, Calif., two yards of the Permanente Metals Corp., and one yard of Kaiser Fleetwings, Inc. (formerly Kaiser Cargo, Inc.), who was paid in excess of $15,000 per year, the highest amounts being $26,474 in 1945, of which $16,666 was reimbursed, and $21,154 in 1943, of which $20,307 was reimbursed. Messrs. Edgar F. Kaiser and C. P. Bedford, as general managers, had the direct and primary responsibility for the management and operation of a total of seven shipyards operated by the above-mentioned companies, which employed in excess of 180,000 persons at various times during the course of the war, and produced 1,474 ships for the Maritime Commission.

5. *The names of all persons, associations, or corporations holding 5 percent or more of the capital stock of the company, giving the amounts of capital stock held by each.*

On February 11, 1942, 1,000 shares of no par value capital stock were issued to the Henry J. Kaiser Co. This represents 100 percent of the ownership of the company. The acquisition of the stock was for cash and no change in stock ownership has occurred since that date.

6. *The shipbuilding experience prior to 1941 of all officers, directors, and stockholders holding over 5 percent of the capital stock.*

Prior to 1941, officers and directors of the company had been engaged in heavy construction projects which included, among others, the building of Boulder Dam, Bonneville Dam, Grand Coulee Dam, powerhouses and facilities, and many other projects. Through these activities and over a course of many years prior thereto, an integrated organization was developed which was experienced and efficient in procuring and handling large quantities of materials and in mass production and fabrication methods.

In 1939, Kaiser interests and several associates joined with the Todd Shipbuilding Corp. and founded the Seattle-Tacoma Shipbuilding Corp. In July 1939 this latter company submitted a low competitive bid to the United States Maritime Commission for the construction of five C-1 cargo vessels. These vessels were completed in 1941 in a shipyard privately financed and constructed at Tacoma, Wash. During 1940 this same company was awarded contracts for 30 destroyers by the Navy Department and four C-3 cargo vessels and two C-3 troop transports by the Maritime Commission. Participation in this company continued until February 1942.

Messrs. Henry J. Kaiser, Edgar F. Kaiser, C. P. Bedford, J. F. Reis, George Havas, G. G. Sherwood, and other officers and directors of Kaiser Co., Inc., were also closely connected with or officers or directors of Todd-California Shipbuilding Corp., which received a contract in 1940 from the British Government to build a seven-way shipyard at Richmond, Calif., and construct 30 cargo vessels. All these vesesls were completed prior to the award of any shipbuilding contracts to Kaiser Co., Inc. These same individuals were also connected with Richmond Shipbuilding Corp., Oregon Shipbuilding Corp., and California Shipbuilding Corp., all of which companies had been producing ships ahead of established contract schedules prior to the time any contracts were awarded to Kaiser Co., Inc.

7. *The names of all officers, directors, or stockholders owning more than 5 percent of the capital stock of the company who have held positions as officers or directors of another company which had contracts with the Maritime Commission or the War Shipping Administration.*

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No individual owned any stock of this company; consequently, the answer to the question is "None." For your information, however, a schedule is attached as exhibit E, showing the names of officers or directors holding such positions in more than one of the following corporations which had contracts with the United States Maritime Commission or the War Shipping Administration:

Kaiser Co., Inc.
The Permanente Metals Corp.
Richmond Shipbuilding Corp.
Kaiser Fleetwings, Inc. (formerly Kaiser Cargo, Inc.)
Oregon Shipbuilding Corp.
Columbia Construction Co.

In addition, Messrs, Henry J. Kaiser, G. G. Sherwood, and Edgar F. Kaiser were officers and/or directors of California Shipbuilding Corp. until April 1945.

8. *The names of all officers, directors, or stockholders owning more than 5 percent of the capital stock of the company who have owned 5 percent or more of the capital stock of another company which had contracts with the United States Maritime Commission or the War Shipping Administration.*

No individuals are stockholders of Kaiser Co., Inc., the sole stockholders being Henry J. Kaiser Co. In regard to this latter company and others in which Mr. Kaiser or members of his family owned in excess of 5 percent of the stock, please refer to the answer to question No. 13 which details this information.

9. *Description of all contracts between the company and the United States Maritime Commission.*

A description of all contracts is shown in exhibit F, together with the other detailed information requested. In summary, the total number of ships constructed and delivered was 344. The total volume of work performed amounted to $1,650,810,042. The net profit on this volume of work after applying Federal income taxes would have been $11,311,684, or 0.68 percent of the total contract volume. However, since the over-all operations of the company have resulted in a loss of $18,579,000, no Federal income taxes were paid.

10. *The fees and profits under each contract allowed after renegotiation.*

Please refer to exhibits F and G for this information.

11. *The status of each contract still subject to renegotiation, giving, wherever possible, information showing the opinion of the Price Adjustment Board and of the company as to the fees and profits permissible under each contract.*

The effect of renegotiation on fees and profits and the status of contracts still subject to renegotiation is described in exhibit G attached hereto.

12. *The total cost to the Government of the shipyards and facilities used by your company.*

The total cost of the shipyards and facilities was $75,494,793.89, exclusive of housing and transportation, all of which were constructed without fee or profit. This information is detailed in exhibit H attached hereto.

13. *List all other shipbuilding companies holding contracts with the United States Maritime Commission or the War Shipping Administration in which Henry Kaiser, members of his immediate family, or companies in which he or members of his family owned over 5 percent of the capital stock or had a financial interest in excess of 5 percent of its capital stock, giving—*

(a) The extent of such ownership;
(b) Under and in what manner acquired; and
(c) The amount of dividends received from each of such companies.

Mr. Kaiser and none of his family owned stock in any shipbuilding companies holding contracts with the Maritime Commission or War Shipping Administration. However, he and members of his family own more than 5 percent of the stock of three corporations which had a financial interest in excess of 5 percent in shipbuilding companies holding such contracts and the details with respect to subparagraphs (a) and (b) of this question are set forth in exhibit I attached.

Answering subparagraph (c), the total amount of dividends received by companies in which Mr. Kaiser and his family own over 5 percent of the capital stock amounted to $4,936,000. In this connection, it should be pointed out, however, that Kaiser Co., Inc., which is wholly owned by Henry J. Kaiser Co. and operated three maritime shipyards and a steel plant which supplied plates for the construction of ships, not only did not pay any dividends, but shows a total net loss of $18,579,000.

We shall be pleased to furnish you with any other information you may desire.

Respectfully submitted.

KAISER CO., INC.,
HENRY J. KAISER, *President.*

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Exhibit A

AMENDED ARTICLES OF INCORPORATION OF CALIFORNIA KAISER COMPANY (BEFORE PAYMENT OF ANY PART OF CAPITAL)

First.—The name of this corporation is

KAISER COMPANY, INC.

Second.—Its principal office in the State of Nevada is located at No. 206 North Virginia Street, in the City of Reno, County of Washoe. The name and address of its resident agent is The Corporation Trust Company of Nevada, No. 206 North Virginia Street, Reno, Nevada.

Third.—The nature of the business, or objects or purposes proposed to be transacted, promoted, or carried on are:

To carry on a general contracting and construction engineering business and to excavate, dredge, grade, pave and construct, build, erect, repair, wreck, remodel, and equip in whole or in part buildings of every description; public and private works of all kinds; roads, streets, sidewalks, bridges, viaducts, approaches, pavements, dams, locks, sewers, tunnels, subways, canals, aqueducts, channels and other waterways, foundations, piers, caissons, vaults, wharves, marine ways and docks, ditches, conduits, reservoirs, railways and other systems of transportation, system of waterworks; electric, hydraulic, power, and gas plants, telephone, telegraph, and lighting systems, factories and all structures built in whole or in part of wood, stone, brick, cement, iron, steel, or combinations thereof.

To do all manner of boiler setting and boiler installation and all work incidental thereto; to do all manner of furnace setting and furnace installation and all work incident thereto; and to install automatic stokers and to do all masonwork incidental thereto.

To take over, acquire, purchase, own, sell, lease, hire, hold, control, manage, maintain, and operate mines, quarries, gravel pits, brickyards, lime kilns, refineries, asphalt, cement, and plaster mills, furnaces, sawmills, metal and woodworking plants, pulp and paper mills, factories, lumberyards, timberlands, glass plants, and establishments for the manufacture, preparation, and production of building supplies, material, furnishings, decorations, and furniture.

To manufacture, buy, sell, lease, and deal in lime, cement, plaster, gravel, stone, marble, brick, terra cotta, lumber, timber, glass, paints, oils, varnishes, stains, iron, steel, copper, brass, and other metals, products, combinations, fabrications, or manufactures of any of the foregoing; buildings, and building materials of all kinds; crushing, cutting, lighting, hoisting, elevating, cooling, refrigerating, ventilating, polishing, and cleaning machinery, pipes, wires, apparatus, fixtures, and equipment of all kinds and to install or erect the same; plumbing fixtures, materials, and supplies of all kinds, and to install the same.

To manufacture, produce, assemble, fabricate, and deal in all kinds, forms, and combinations of steel, iron, copper, or other metals or either or any of them.

To carry on the business of consulting and contracting engineers and the preparation of plans and specifications of machinery, buildings, and works.

To do a general wrecking, salvage, and house-moving business; to erect and/or have erected, to construct or have constructed, houses, works, buildings, storage rooms, tenements, edifices, and structures of every description; and to buy, sell, own, use, manage, and lease the same or similar structures.

To acquire by purchase, subscription, or otherwise, and to hold as investment or otherwise, any bonds or other securities or evidences of indebtedness or any shares of capital stock created or issued by any other corporation or other corporations, association or associations, person or persons of the State of Nevada, or any other state, district, territory, or country.

To purchase, underwrite, hold, sell, assign, transfer, mortgage, pledge, or otherwise dispose of any bonds, shares of stock, debentures, or other securities or evidences of indebtedness created or issued by any other corporation or corporations, association or associations, person or persons, of the State of Nevada, or of any other state, district, territory, or country; and while the owner thereof, to exercise all the rights, powers, and privileges of ownership, including the right to vote thereon.

To manufacture, purchase, or otherwise acquire, own, mortgage, pledge, sell, assign, and transfer, or otherwise dispose of, to invest, trade, deal in, and deal with goods, wares, and merchandise and real and personal property of every class and description.

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To acquire, and pay for in cash, stock, or bonds of this corporation, or otherwise, the good will, rights, assets, and property, and to undertake or assume the whole or any part of the obligations or liabilities of any person, firm, association or corporation.

To acquire, hold, use, sell, assign, lease, grant licenses in respect of, mortgage, or otherwise dispose of letters patent of the United States or any foreign country, patent rights, licenses and privileges, inventions, improvements and processes, copyrights, trade-marks and trade names, relating to or useful in connection with any business of this corporation.

To guarantee, purchase, hold, sell, assign, transfer, mortgage, pledge, or otherwise dispose of shares of the capital stock of, or any bonds, securities, or evidences of indebtedness created by any other corporation or corporations organized under the laws of this State or any other state, country, nation, or government, and while the owner thereof to exercise all the rights, powers, and privileges of ownership.

To promote or to aid in any manner, financially or otherwise, any corporation or association; and for this purpose to guarantee or to become surety upon the contracts, dividends, stocks, bonds, notes, and other obligations of such other corporations or associations; and to do any other act or thing designed to protect, preserve, improve, or enhance the value of the stocks, bonds, or other evidences of indebtedness or securities of such other corporations.

To enter into, make, and perform contracts of every kind and description, with any person, firm, association, corporation, municipality, county, state, body politic, or government or colony or dependency thereof.

To become a member of any partnership and to enter into any lawful arrangements for sharing profits and/or losses, union of interests, reciprocal concession, or cooperation, with any corporation, association, partnership, syndicate, person, or governmental, municipal, or public authority, domestic or foreign, in the carrying on of any business which this corporation is authorized to carry on or any business or transaction deemed necessary, convenient, or incidental to carrying out any of the purposes of the corporation.

To act as agent, factor, broker, or representative of corporations, associations, firms, and individuals.

To borrow or raise moneys for any of the purposes of the corporation and, from time to time, without limit as to amount, to draw, make, accept, endorse, execute, and issue promissory notes, drafts, bills of exchange, warrants, bonds, debentures, and other negotiable or nonnegotiable instruments and evidences of indebtedness, and to secure the payment of any thereof and of the interest thereon by mortgage upon or pledge, conveyance, or assignment in trust of the whole or any part of the property of the corporation, whether at the time owned or thereafter acquired, and to sell, pledge, or otherwise dispose of such bonds or other obligations of the corporation for its corporate purposes.

To purchase, hold, sell, and transfer the shares of its own capital stock; provided it shall not use its funds for purchase of its own shares of capital stock when such use of funds or property would cause any impairment of its capital except as otherwise permitted by law, and provided further that shares of its own capital stock belonging to it shall not be voted on directly or indirectly.

To have one or more offices, to carry on all or any of its operations and business and without restriction or limit as to amount to purchase or otherwise acquire, hold, own, mortgage, sell, convey, or otherwise dispose of real and personal property of every class and description in any of the states, districts, territories, or colonies of the United States, and in any and all foreign countries, subject to the laws of such state, district, territory, colony, or country.

In general to carry on any other business in connection with the foregoing, and to have and exercise all the powers conferred by the laws of Nevada upon corporations formed under the act hereinafter referred to, and to do any or all of the things hereinbefore set forth to the same extent as natural persons might or could do.

The objects and purposes specified in the foregoing clauses shall, except where otherwise expressed, be in nowise limited or restricted by reference to, or inference from, the terms of any other clause in these articles of incorporation, but the objects and purposes specified in each of the foregoing clauses of this article shall be regarded as independent objects and purposes.

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Fourth.—The total number of shares which the corporation is authorized to issue is twenty-five thousand (25,000) shares without nominal or par value. Said shares without nominal or par value may be issued by the corporation from time to time for such consideration as may be fixed from time to time by board of directors thereof.

At all elections of directors, each stockholder at the time entitled to vote shall be entitled to as many votes as shall equal the number of his voting shares of stock, multiplied by the number of directors to be elected, and he may cast all of such votes for a single director or may distribute them among the number to be voted for, or any two or more of them, as he may see fit.

Fifth.—The members of the governing board shall be known as directors, and the number thereof shall be not less than three nor more than fifteen, the exact number to be fixed by the bylaws of the corporation; provided, that the number so fixed by the bylaws may be increased or decreased within the limit above specified from time to time by bylaw.

The names and post office addresses of the first board of directors are as follows:

	Post-office addresses
Wm. Woodburn, Jr	206 N. Virginia St., Reno, Nevada.
E. Hana	206 N. Virginia St., Reno, Nevada.
J. P. Thatcher	206 N. Virginia St., Reno, Nevada.
C. Loring	206 N. Virginia St., Reno, Nevada.
V. Birks	206 N. Virginia St., Reno, Nevada.
J. Campbell	206 N. Virginia St., Reno, Nevada.

Sixth.—The capital stock, after the amount of the subscription price has been paid in, shall be subject to no further assessment to pay debts of the corporation.

Seventh.—The names and post-office addresses of each of the incorporators signing these articles of incorporation are as follows:

	Post-office addresses
C. Loring	206 N. Virginia St., Reno, Nevada.
J. Campbell	206 N. Virginia St., Reno, Nevada.
V. Birks	206 N. Virginia St., Reno, Nevada.

Eighth.—This corporation is to have perpetual existence.

Ninth.—In furtherance, and not in limitation, of the powers conferred by statute, the board of directors is expressly authorized:

Subject to the bylaws, if any, adopted by the stockholders, to make, alter, or amend the bylaws of the corporation.

To fix the amount to be reserved as working capital over and above its capital stock paid in, to authorize and cause to be executed mortgages and liens upon the real and personal property of this corporation.

From time to time to determine whether and to what extent, and at what times and places, and under what conditions and regulations, the accounts and books of this corporation (other than the original or duplicate stock ledger), or any of them, shall be open to inspection of stockholders, and no stockholder shall have any right of inspecting any account, book, or document of this corporation except as conferred by statute, unless authorized by a resolution of the stockholders or directors.

By resolution or resolutions, passed by a majority of the whole board, to designate one or more committees, each committee to consist of two or more of the directors of the corporation, which, to the extent provided in said resolution or resolutions, or in the bylaws of the corporation, shall have and may exercise the powers of the board of directors in the management of the business and affairs of the corporation and may have power to authorize the seal of the corporation to be affixed to all papers which may require it. Such committee or committees shall have such name or names as may be stated in the bylaws of the corporation or as may be determined from time to time by resolution adopted by the board of directors.

Pursuant to the affirmative vote of the holders of at least a majority of the stock issued and outstanding, having voting power, given at a stockholders' meeting duly called for that purpose, or when authorized by the written consent of the holders of at least a majority of the voting stock issued and outstanding, the board of directors shall have power and authority at any meeting to sell, lease, or exchange all of the property and assets of this corporation, including its good will and its corporate franchises, upon such terms and conditions as

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its board of directors deem expedient and for the best interests of the corporation.

This corporation may in its bylaws confer powers upon its directors in addition to the foregoing, and in addition to the foregoing, and in addition to the powers and authorities expressly conferred upon them by the statutes.

Tenth.—Meetings of stockholders may be held without the State of Nevada, if the bylaws so provide. The books of this corporation may be kept (subject to the provisions of the statutes) outside of the State of Nevada at such places as may be from time to time designated by the board of directors or in the bylaws of the corporation.

Eleventh.—This corporation reserves the right to amend, alter, change, or repeal any provision contained in these articles of incorporation, in the manner now or hereafter prescribed by statute, or by these articles of incorporation, and all rights conferred upon stockholders herein are granted subject to this reservation.

We, the undersigned, being all of the incorporators of California Kaiser Company, and all of the signers of the original articles of incorporation of said company and of the foregoing amended articles of incorporation of said company, a corporation organized under and in pursuance of the General Corporation Law of the State of Nevada, its articles of incorporation having been duly filed in the office of the Secretary of State of Nevada on December 1, 1941, and a copy thereof having been certified by the Secretary of State of Nevada and filed in the office of the Clerk of Washoe County on December 2, 1941, do hereby certify, acknowledge, and take oath that no part of the capital stock has been paid in; and that no business has been transacted by said corporation; and we, the undersigned, being all of the incorporators of said company and being all of the signers and subscribers to the original articles of incorporation and of the foregoing amended articles of incorporation, do hereby amend said articles of incorporation so that the same shall read as hereinbefore set forth in the foregoing amended articles of incorporation, and do hereunto set our hands and seals.

C. LORING.
J. CAMPBELL.
V. BIRKS.

STATE OF NEVADA, *County of Washoe, ss:*

On this 8th day of January 1942, before me, the undersigned, a notary public in and for the county and state aforesaid, personally appeared C. Loring, J. Campbell, and V. Birks, known to me to be the persons described in and who executed the foregoing instrument and who acknowledged to me that they executed the same freely and voluntarily and for the uses and purposes therein mentioned.

In witness whereof, I have hereunto set my hand and affixed my official seal the day and year in this certificate first above written.

WM. J. FORMAN,
Notary Public in and for the County of Washoe, State of Nevada.

Exhibit B

KAISER CO., INC.

ANSWER TO QUESTION NO. 2 OF QUESTIONNAIRE OF JULY 27, 1946

General:

The capital of the company was segregated as follows:

	Not guaranteed by the U. S. Government
For shipyard uses:	
Bank loans (unguaranteed)	$13,750,000
Capital stock	100,000
	13,850,000

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Fontana operations:
RFC loans secured:
Maximum principal at end of any month ---------- $110,280,000
Principal balance outstanding July 31, 1946 ---------- 95,581,832

Bank loans

General.—The proceeds of these loans were used in connection with the shipyard operations of the company. Due to the magnitude of these operations and the amount of funds required, and due to the limitations imposed by the Federal Government on the amount of loans which banks can make to any one borrower, it was necessary, first, to borrow from more than one bank, and, later, to borrow under the terms of Regulation V. The effect of borrowing under this regulation was to permit greater loans by each bank without their exceeding the maximum limits of their loans to any one borrower.

Bank loans, not guaranteed

(*a*) *Richmond and Portland yards.*—Until December 1942, funds for the Richmond and Portland (Swan Island) yards were secured from the Bank of America without the guaranty of any branch, subdivision, etc. of the Federal Government. Maximum borrowings under this arrangement amounted to $8,750,000.

(*b*) *Vancouver yard.*—Until March 1943, funds for the Vancouver yard were secured under joint commitments, without the guaranty of any branch, subdivision, etc., of the Federal Government, from four banks, as follows:

First National Bank of Portland, Oreg.
United States National Bank of Portland, Oreg.
Seattle (Wash.) First National Bank.
National Bank of Commerce (Seattle, Wash.)

Pending formal completion of the guaranteed loan superseding this arrangement, the Bank of America also made a temporary loan for use at this shipyard.

Maximum borrowings under these arrangements totaled $5,000,000.

Bank loans, guaranteed

(*a*) *Richmond and Portland yards.*—Under date of December 15, 1942, the Bank of America and the company entered into a credit agreement which made available $11,000,000 for use in financing the operations of these two yards. In connection therewith, a "guaranty agreement" was secured by the bank from the United States Maritime Commission wherein the Commission obligated itself to purchase up to 50 percent of the unpaid balance of the loan under certain conditions. This was never necessary as the last of the loans under this arrangement was repaid during June 1945.

Maximum borrowings under this credit agreement were $10,500,000.

(*b*) *Vancouver yard.*—Under date of March 4, 1943, the company entered into a loan agreement with the four Portland and Seattle banks referred to above, which made available $7,000,000 for use in financing the operation of that yard. Later, the Bank of America was substituted for two Seattle banks. In connection with this loan agreement, the banks secured a "guaranty agreement" from the United States Maritime Commission wherein the Commission obligated itself to purchase up to 50 percent of the unpaid balance of the loan under certain conditions. This was never necessary, as the last of the loans under this arrangement was paid during June 1945.

Maximum borrowings under this loan agreement were $6,370,000.

Capital stock

Common, no par value: $100,000.

RFC loans, secured

These loans are secured by mortgages on property, pledge of profits from shipyard contracts, and otherwise. The proceeds of the loans have been and are being used in connection with the Fontana operations of the company. The maximum outstanding principal balance at the end of any one month was $110,280,000. The principal balance remaining at July 31, 1946, was $95,581,832.04.

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Exhibit C

KAISER CO., INC.

List of all officers and directors from date of organization to July 31, 1946,[1] and annual compensation[2]

	Date title held— From	To
PRESENT OFFICERS AND DIRECTORS		
President: Henry J. Kaiser	Jan. 7, 1942	
Vice presidents:		
Edgar F. Kaiser	Jan. 7, 1942	
T. M. Price	Apr. 5, 1944	
E. E. Trefethen, Jr	Jan. 15, 1942	
C. F. Calhoun	Aug. 6, 1943	
C. P. Bedford	June 18, 1943	
A. B. Ordway	do	
T. A. Bedford, Jr	Oct. 18, 1945	
Paul S. Marrin	Aug. 6, 1943	
F. M. Rich	May 1, 1946	
Albert Bauer	July 19, 1946	
Treasurer: G. G. Sherwood	Dec. 2, 1941	
Secretary: G. G. Sherwood	May 1, 1946	
Directors:		
E. E. Trefethen, Jr	Dec. 2, 1941	
Paul S. Marrin	do	
G. G. Sherwood	do	
M. Van Hoesen	do	
T. K. McCarthy	Aug. 6, 1943	
R. L. Bridges	Dec. 2, 1941	
Assistant secretaries:		
T. M. Price	June 11, 1942	
C. F. Calhoun	Apr. 20, 1942	
C. P. Bedford	July 13, 1942	
Paul S. Marrin	Apr. 20, 1942	
J. F. Reis	Jan. 15, 1942	
C. B. Wood	May 1, 1946	
A. E. Beard	Jan. 7, 1942	
Donald Browne	Mar. 18, 1942	
E. R. Ordway	Sept. 23, 1942	
George C. Ober, Jr	June 5, 1942	
Henry J. Kaiser, Jr	Mar. 4, 1943	
William Marks	June 17, 1944	
J. R. Walker	Apr. 18, 1946	
F. H. Bechill	Oct. 18, 1945	
J. E. Lents	Mar. 4, 1946	
Assistant treasurers:		
J. F. Reis	do	
C. B. Wood	Aug. 21, 1944	
PAST OFFICERS AND DIRECTORS		
President: G. G. Sherwood	Dec. 2, 1941	Jan. 7, 1942
Vice president: Peer D. Nielsen	Oct. 18, 1945	Feb. 28, 1946
Secretaries:		
E. E. Trefethen, Jr	Dec. 2, 1941	Jan. 7, 1942
George Havas	Jan. 7, 1942	May 1, 1946
Director: F. Cook	Dec. 2, 1941	July 5, 1943
Assistant secretaries:		
T. A. Bedford, Jr	Oct. 8, 1945	Oct. 18, 1945
G. G. Sherwood	Apr. 20, 1942	May 1, 946
J. L. Friedman	Nov. 15, 1943	Do.
Frank Backman	Aug. 11, 1944	Do.
W. S. Newton	Aug. 30, 1945	Apr. 18, 1946
Do	May 1, 1946	July 19, 1946

[1] Not included: Original directors who resigned prior to any business being transacted.
[2] No officer nor director received compensation for holding any office or directorship; all compensation was for services rendered as an employee of the company.

See exhibit D for details of any salaries paid.

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Exhibit D

KAISER CO., INC.

Salaries [1] paid to (1) officers and directors (regardless of amount), (2) others (over $15,000 annually), (3) individuals who have been officers or directors of Kaiser Co., Inc., The Permanente Metals Co., Richmond Shipbuilding Corp., Kaiser Fleetwings, Inc., or Oregon Shipbuilding Corp.

Name	Operational title	Period covered	Shipbuilding division				Other divisions	Total	Reimbursable [2]
			Vancouver yard	Portland Swan Island yard	Richmond yard	Total shipbuilding			
CALENDAR YEAR 1942									
(1) Officers and directors:									
Edgar F. Kaiser	General manager	Aug. 2 to Dec. 31, 1942	$7,269.36			$7,269.36		$7,269.36	$7,269.36
J. F. Reis	Administrative manager	do	4,846.17			4,846.17		4,846.17	4,846.17
E. R. Ordway	Assistant administrative manager	May 16 to Dec. 31, 1942		$3,103.12		3,103.12		3,103.12	3,103.12
C. B. Wood	Administrative manager	Dec. 11 to Dec. 31, 1942			$323.07	323.07		323.07	323.07
J. L. Friedman	Administrative assistant	June 21 to Dec. 31, 1942			2,808.26	2,808.26		2,808.26	2,808.26
C. F. Calhoun	Project manager (other division)	Mar. 1 to Dec. 31, 1942					$7,155.00	7,155.00	
George Havas	Chief engineer (other division)	do					7,254.00	7,254.00	
Donald Browne	General administration manager (other division).	Sept. 1 to Dec. 31, 1942					1,220.40	1,220.40	
Henry J. Kaiser, Jr	Administrative assistant (other division).	Oct. 1 to Dec. 31, 1942					1,271.00	1,271.00	
Frank Backman	Superintendent (other division)	Apr. 1, to Dec. 31 1942					4,961.70	4,961.70	
(2) Others (over $15,000): None									
(3) Officials of other companies:									
M. Miller	Assistant general manager	Jan. 26 to Dec. 31, 1942	8,764.09			8,764.09		8,764.09	8,764.09
F. R. Browning	Resident administrative manager (other).	Apr. 1 to Dec. 31, 1942					2,646.84	2,646.84	
CALENDAR YEAR 1943									
(1) Officers and directors:									
Edgar F. Kaiser	General manager	Jan. 1 to Dec. 31, 1943	18,346.48			18,346.48		18,346.48	18,346.48
J. F. Reis	Administrative manager	do	13,788.44			13,788.44		13,788.44	13,788.44
E. R. Ordway	Assistant administrative manager	do		6,551.63		6,551.63		6,551.63	6,551.63
A. B. Ordway	Administrative manager	June 25 to Dec. 31, 1943			9,374.95	9,374.95		9,374.95	9,374.95
C. B. Wood	Resident administrative manager	Jan. 1 to Dec. 31, 1943			7,903.80	7,903.80		7,903.80	7,903.80
F. H. Bechill	Administrative assistant	Feb. 1 to Dec. 31, 1943			4,277.50	4,277.50		4,277.50	4,277.50

[1] Includes adjusted compensation (year end "bonus").
[2] Includes reimbursable under cost plus fixed fee or claimed as allowable cost under fixed- or variable-price contracts.

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Exhibit D—Continued

KAISER CO., INC.—Continued

Salaries paid to (1) officers and directors (regardless of amount), (2) others (over $15,000 annually), (3) individuals who have been officers or directors of Kaiser Co., Inc., The Permanente Metals Co., Richmond Shipbuilding Corp., Kaiser Fleetwings, Inc., or Oregon Shipbuilding Corp.—Continued

Name	Operational title	Period covered	Shipbuilding division				Other divisions	Total	Reimbursable
			Vancouver yard	Portland Swan Island yard	Richmond yard	Total shipbuilding			
(1) Officers and directors—Con.									
J. L. Friedman	Executive assistant	Jan. 1 to Dec. 31, 1943			$6,842.60	$6,482.60		$6,482.60	$6,482.60
C. F. Calhoun	Project manager (other)	do					$11,000.00	11,000.00	
George Havas	Chief engineer (other)	do					10,000.00	10,000.00	
T. M. Price	General manager (other)	Sept. 1 to Dec. 31, 1943					4,000.00	4,000.00	
Wm. Marks	Attorney (other)	Apr. 1 to Dec. 31, 1943					4,160.56	4,160.56	
Frank Backman	Superintendent (other)	Jan. 1 to Dec. 31, 1943					8,781.40	8,781.40	
W. S. Newton	Resident administrative manager (other).	Apr. 16 to June 15; Nov. 16 to Dec. 31, 1943.					1,858.16	1,858.16	
(2) Others (over $15,000): None.									
(3) Officials of other companies:									
M. Miller	Assistant general manager	Jan. 1 to Dec. 31, 1943	$9,570.96			9,570.96		9,570.96	9,570.96
H. J. Kaise , Jr	Executive assistant (other)	Jan. 1 to Sept. 30, 1943					3,595.95	3,595.95	
S. D. Hackley	do	Jan. 1 to Aug. 15, 1943					4,549.95	4,549.95	
F. R. Browning	Resident administrative manage (other).	Jan. 1 to Sept. 30, 1943					4,077.50	4,077.50	
CALENDAR YEAR 1944									
(1) Officers and directors:									
Edgar F. Kaiser	General manager	Jan. 11 to Dec. 31, 1944	17,654.16			17,654.16		17,654.16	17,654.16
J. F. Reis	Administrative manager	do	15,576.85			15,576.85		15,576.85	15,576.85
E. R. Ordway	Assistant administrative manager	do		$6,216.08		6,216.08		6,216.08	6,216.08
J. E. Lents	Administrative assistant	Apr. 24 to Dec. 31, 1944		3,373.92		3,373.92		3,373.92	3,373.92
A. B. Ordway	Administrative manager and general manager.	Jan. 1 to Dec. 31, 1944			10,528.79	10,528.79	6,692.32	17,221.11	10,528.79
C. B. Wood	Resident administrative manager	do			8,797.92	8,797.92		8,797.92	8,797.92
F. H. Bechill	Assistant administrative manager	do			5,633.13	5,633.13		5,633.13	5,633.13
J. L. Friedman	Executive engineer	do			7,408.84	7,408.84		7,408.84	7,408.84
C. F. Calhoun	Executive assistant (other divisions).	Jan. 1 to Sept. 30; Nov 1 to Dec. 31, 1944.					11,980.78	11,980.78	
George Havas	Chief engineer (other divisions)	Jan. 1 to Dec. 31, 1944					12,339.74	12,339.74	

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Donald Browne	General manager-administrative (other divisions).	Sept. 1 to Dec. 31, 1944					1,423.20	1,423.20	
T. M. Price	General manager (other divisions)	Jan. 1 to Sept. 30, 1944					9,000.00	9,000.00	
Wm. Marks	Attorney (other divisions)	Jan. 1 to Dec. 31, 1944					1,537.50	1,537.50	
J. R. Walker	Resident administrative manager (other divisions).	May 1 to Dec. 31, 1944					3,267.00	3,267.00	
Frank Backman	Superintendent (other divisions)	Jan. 1 to Dec. 31, 1944					9,471.62	9,471.62	
W. S. Newton	Resident administrative manager (other divisions).	do					6,510.06	6,510.06	
(2) Other (over $15,000): None.									
(3) Officials of other companies: M. Miller.	Assistant general manager	Jan. 1 to Dec. 31, 1944	9,570.96			9,570.96		9,570.96	9,570.96
CALENDAR YEAR 1945									
(1) Officers and directors:									
Edgar F. Kaiser	General manager	Jan. 1 to Dec. 31, 1945	18,000.32			18,000.32		18,000.32	18,000.32
J. F. Reis	Administrative manager	do	14,999.92			14,999.92		14,999.92	14,999.92
E. R. Ordway	Assistant administrative manager	do		7,013.52		7,013.52		7,013.52	7,013.52
J. E. Lents	Administrative assistant	do		5,873.76		5,873.76		5,873.76	5,873.76
T. A. Bedford, Jr	Assistant general manager	Oct. 1 to Dec. 31, 1945			2,126.98	2,126.98		2,126.98	2,126.98
C. B. Wood	Resident administrative manager-controller.	Jan. 1 to Dec. 31, 1945			7,207.76	7,207.76	2,083.35	9,291.11	7,207.76
F. H. Bechill	Assistant administrative manager	do			6,674.42	6,674.42		6,674.42	6,674.42
J. L. Friedman	Executive engineer	do			7,701.48	7,701.48		7,701.48	7,701.48
C. F. Calhoun	Executive assistant (other division).	do					12,426.79	12,426.79	
A. B. Ordway	General manager (other division)	do					22,875.00	22,875.00	
T. M. Price	do	Applies to 1944					5,000.00	5,000.00	
William Marks	Attorney (other division)	Applies to 1944 and 1945					575.00	575.00	
J. R. Walker	Assistant controller (other division)	Jan. 1 to Dec. 31, 1945					6,146.50	6,146.50	
Frank Backman	Superintendent (other division)	Jan. 1 to Oct. 31, 1945					10,821.11	10,821.11	
Peer Nielsen	Works manager (other division)	Oct. 1 to Dec. 31, 1945					5,166.68	5,166.68	
W. S. Newton	Resident administrative manager	Jan. 1 to Dec. 31, 1945					7,654.34	7,654.34	
(2) Other (over $15,000): J. C. McFarland.[3]	General superintendent	Oct. 1, to Dec. 31, 1945			2,126.88	2,126.88		2,126.88	2,126.88
(3) Officials of other companies: M. Miller.	Assistant general manager	Jan. 1 to Dec. 31, 1945	9,216.48			9,216.48		9,216.48	9,216.48

[3] Included to complete 1 year—Above, together with salary paid by the Permanente Metals Co. for balance of year is in excess of $15,000.

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Exhibit F

(Question No. 9)

KAISER CO., INC.

Summary of shipyard income to May 31, 1946

	Shipbuilding (USMC contracts)	Other operations	Total
Total of shipbuilding contracts	$1, 342, 475, 189. 06		
Government furnished materials	316, 334, 853. 65		
Total contract volume	1, 658, 810, 042. 71		
Gross profit before taxes	41, 133, 396. 23	[1] $59, 712, 436. 49	[1] $18, 579, 040. 26
Federal income taxes	29, 821, 712. 27	[1] 29, 821, 712. 27	
Net profit	11, 311, 683. 96	[1] 29, 890, 724. 22	[1] 18, 579, 040. 26
Percent of net profit on total contract volume	0.68		

[1] Red figures.

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Exhibit E

Individuals who have held offices or directorships in more than 1 of following companies: Kaiser Co., Inc., The Permanente Metals Corp., Richmond Shipbuilding Corp., Kaiser Fleetwings, Inc., Oregon Shipbuilding Corp., Consolidated Builders, Inc., (to July 31, 1946)

Officers and directors	Kaiser Co., Inc.		The Permanente Metals Corp.		Richmond Shipbuilding Corp.		Kaiser Fleetwings, Inc.		Oregon Shipbuilding Corp.		Consolidated Builders, Inc.[2]	Columbia Construction Co.[3]
	Position	Status[1]	Position	Status[1]	Position	Status[1]	Position	Status[1]	Position	Status[1]		
Henry J. Kaiser	President	X	President	X	President	X	President	Jan. 15, 1944			President	President.
Do			Director	X	Director	X			Director	X	Director	Director.
Edgar F. Kaiser	Vice president	X	Vice president	X	Vice president	X	Vice president	X	Vice president	X	Vice president	Vice president.
Do			Director	X	Director	X			Director	X	Director	Assistant secretary.
E. E. Trefethen, Jr	do	X	Vice president	X	Vice president	X	President	X	Assistant secretary	X		Vice president.
Do	Director	X	Director	X	Director	X	Director	X				
Do	Secretary	Jan. 7, 1942	Secretary	Feb. 1, 1943	Secretary	Feb. 2, 1943	Vice president	Jan. 15, 1944	Assistant treasurer	X		
C. F. Calhoun	Vice president	X	Vice president	X			do	X				
Do	Assistant secretary	Jan. 7, 1942					Assistant secretary	X				
C. P. Bedford	Vice president	X	Vice president	X	Vice president	X	Vice president	X				Assistant secretary.
Do	Assistant secretary	X	Assistant secretary	X	Assistant secretary	X						
A. B. Ordway	Vice president	X	Vice president	X	Vice president	X	Vice president	X				
T. A. Bedford, Jr	do	X	do	X			do	X				
Do	Assistant secretary	Oct. 18, 1945					Assistant secretary	Oct. 18, 1945				
Paul S. Marrin	Vice president	X	Assistant secretary	X	Assistant secretary	X	Vice president	X	Assistant secretary	X	Assistant secretary	
Do	Director	X			Director	Apr. 25, 1941	Director	X	Director	Jan. 11, 1941		
Do	Assistant secretary	X			Vice president	do	Assistant secretary	X	President	do		Do.
George Havas	Secretary	May 1, 1946	Director	Dec. 9, 1940					Vice president	do		
Do			Secretary treasurer	Dec. 30, 1940					Director	do		Secretary.
G. G. Sherwood	Secretary treasurer	X	do	X	Director	Apr. 25, 1941	Director	X	Treasurer	X	Secretary	
Do	Director	X	Assistant secretary	X	Secretary-treasurer	X	Secretary	X	Assistant secretary	X	Assistant treasurer	
Do	President	Jan. 7, 1942			Assistant secretary	X	Treasurer	X				
Do	Assistant secretary	May 1, 1946										Assistant secretary.
J. F. Reis	do	X	Assistant secretary	X	Assistant secretary	X			Secretary	X	Assistant secretary	Assistant treasurer.
Do	Assistant treasurer	X	Assistant treasurer	X	Assistant treasurer	X					Assistant treasurer	
Do			Vice president	X								
C. B. Wood	Assistant secretary	X	Assistant treasurer	X			Assistant secretary	X				
Do	Assistant treasurer	X					Assistant treasurer	X				
A. E. Beard	Assistant secretary	X			Assistant secretary	Apr. 25, 1941	Assistant secretary	X				
Donald Browne	do	X	Assistant secretary	X								
Do			Assistant treasurer	X								
E. R. Ordway	Assistant secretary	X							Assistant secretary	X	Assistant secretary	
George C. Ober, Jr	do	X	Assistant secretary	X	Assistant secretary	X	Assistant secretary	X	do	X		
F. H. Bechill	do	X	do	X			do	X				
J. E. Lents	do	X							Assistant secretary	X	Assistant secretary	
M. Van Hoesen	Director	X			Director	Apr. 25, 1941	Director	X				
R. L. Bridges	do	X	Assistant secretary	X			Vice president	X	Vice president	X	Vice president	
Do					Director	Apr. 25, 1941	Director	X				
F. Cook	Director	July 5, 1943			do	do						
J. L. Friedman	Assistant secretary	May 1, 1946	Assistant secretary	X			Assistant secretary	X				
Albert Bauer	Vice president	X										
Joseph Haag, Jr			Vice president	Feb. 13, 1942	Vice president	Feb. 25, 1942			Vice president	Feb. 13, 1942		
Do			Director	do	Director	do			Director	do		
C. F. Strenz			do	Dec. 30, 1940	do	do			do	do		
Do			Assistant secretary	Feb. 13, 1942	Assistant secretary	do			Assistant secretary	do		
Do			Assistant treasurer	do	Assistant treasurer	do			Assistant treasurer	do		
E. P. Enfer			Director	Dec. 20, 1940	do	do			do	do		
Do			Assistant secretary	Feb. 13, 1942	Assistant secretary	do			Assistant secretary	do		
Do			Assistant treasurer	do								
R. J. Lamont			Director	Feb. 14, 1942	Director	Feb. 25, 1942			Director	Feb. 13, 1942		
Do									Vice president	do		
J. D. Reilly			Director	Feb. 13, 1942	Director	Feb. 25, 1942			Director	do		
J. H. Todd			do	do	do	do			do	do		
S. D. Bechtel			Vice president	June 20, 1945	Vice president	June 20, 1945						
Do			Director	do	Director	do			Director	X	Director	Director.
J. A. McCone			do	do	do	do			do	X	do	
J. A. McEachern			do	X	do	X			do	X	do	
Do									President	X		
Do									Vice president	Jan. 27, 1942		
C. A. Shea			Director	Jan. 27, 1942	Director	Jan. 27, 1942			Director	do		
Do									President	do		
H. W. Morrison			Director	X	Director	X			Director	X	Director	Vice president.
Do												Director.
L. S. Corey			Director	X					Director	Feb. 13, 1942	Director	Do.
Felix Kahn			do	X	Director	X			do	X	do	Do.
Do											Treasurer	Treasurer.
W. G. Swigert			Director	X	Director	X						
W. S. Newell			do	Feb. 16, 1942	do	June 29, 1941			Director	X	Director	
G. J. Shea			Director	X	do	X			Director	X	Director	
R. E. Dill			Assistant treasurer	Feb. 5, 1945			Vice president	Oct. 31, 1944				
A. Richardson					Director	Apr. 25, 1941	Director	May 4, 1943				
W. Green					do	Feb. 25, 1942			Director	Feb. 13, 1942		
O. M. Lund					do	do			do	do		
H. A. Dick									Vice president	X		
Do									Director	X	Director	
Do									Assistant secretary	X		
Do									Assisant treasurer	X		
M. Miller											Assistant secretary	Vice president.
E. F. Lackey											Assistant treasurer	Assistant secretary.
H. F. Morton									Vice president	X		Do.

[1] Status: (X) indicates still holds position; date indicates date of resignation.
[2] Present officers and directors, only, shown.
[3] Present officers and directors, only, shown. Columbia Construction Co. had only 1 contract with the U. S. Maritime Commission for construction of a floating drydock, which was constructed by the Vancouver yard of Kaiser Co., Inc., under a subcontract.

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(Question No. 9—Schedule 1)

KAISER CO., INC

Summary of shipyard profits (Portland, Richmond, and Vancouver yards) and net loss to May 31, 1946

Item	Portland (Schedule 2)	Richmond yard No. 3 (Schedule 3)	Vancouver (Schedule 4)	Total	Computation of Federal income and excess-profits taxes	
					Percent	Amount
(A), (B), (C), (F), (G) detailed on						
(D) Number of ships delivered	153	50	141	344		
(E) Total amounts paid by U. S. Maritime Commission on contracts	$277,312,009.34	$439,496,161.34	$595,900,883.60	$1,312,709,054.28		
Amounts unpaid (retentions and amounts in process of settlement) (see schedule 6)	2,246,703.39	11,584,911.05	15,934,520.34	29,766,134.78		
Total paid or unpaid	279,558,712.73	451,081,072.39	611,835,403.94	1,342,475,189.06		
(H) Fees, actual (included in (E)):						
Paid by U. S. Maritime Commission	8,260,000.00	854,420.00	9,651,380.00	18,765,800.00		
Unpaid (see schedule 6)	1,031,860.00	317,540.00	1,304,933.00	2,654,333.00		
Total fees	9,291,860.00	1,171,960.00	10,956,313.00	21,420,133.00		
(I) Profits received under fixed-price contracts (included in (E))	10,907,000.00	5,650,000.00	8,580,000.00	25,137,000.00		
Total	20,198,860.00	6,821,960.00	19,536,313.00	46,557,133.00		
Profits and fees transferred from other shipyards for work performed under U. S. Maritime Commission contracts, net, schedule 5		38,624.21	288,000.00	326,624.21		
Total	20,198,860.00	6,860,584.21	19,824,313.00	46,883,757.21		
Less nonreimbursable and disallowed costs under cost-plus and price-minus contracts, and costs not considered allowable under fixed-price contracts, etc	1,939,140.83	1,649,850.60	2,161,369.55	5,750,360.98		
(J) Gross earnings on U. S. Maritime Commission contracts	18,259,719.17	5,210,733.61	17,662,943.45	41,133,396.23	72½	$29,821,712.27
Profits from shipyard operations other than U. S. Maritime Commission contracts, net			1,302,590.55			
Iron and Steel Division—Loss to May 31, 1946 (see schedule 7)			(61,025,499.82)			
Other corporate income			10,472.78	(59,712,436.49)		(29,821,712.27)
Net loss accumulative to May 31, 1946 (per financial report May 31, 1946)				(18,579,040.26)		0

NOTE.—Due to net loss no Federal income taxes were paid on aggregate totals.

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(Question No. 9—Schedule 2)

KAISER CO., INC. (PORTLAND YARD)

Details of contracts with J. S. Maritime Commission, as recorded at May 31, 1946

(A)	(B)	(C)		(D)	(E)			(F)	(G)	(H)			(I)	(J)
		Ships under contracts as amended						Fees						
										Actual—included in (E)				
Contract No.	Type of contract	Number	Type	Number of ships delivered	Total amounts paid by U. S. Maritime Commission (net)	Unpaid (retentions and amounts in process of settlement) [1]	Total paid or unpaid	Maximum	Minimum	Paid by U. S. Maritime Commission	Unpaid [1]	Total paid or unpaid	Profits received under fixed price contracts included in (E)	Total profits and fees
MCc 2393	Cost—facilities				$26,509,879.93	$178,525.65	$26,688,405.58							
MCc 2565	Price—minus	56	T2tankers	56	117,768,688.85	146,851.48	117,915,540.33	$11,200,000	$4,200,000	$4,200,000		$4,200,000		$4,200,000
MCc 16212	do	47	do	47	60,888,561.50	873,937.01	61,762,498.51	4,700,000	1,880,000	3,880,000	$820,000	4,700,000		4,700,000
MCc 19183	Cost—plus-fixed fee.	6	AO tankers.[2]	6	7,510,544.18	1,968.48	7,512,512.66	180,000	180,000	180,000		180,000		180,000
MCc 29039	Fixed price	44	T2tankers	44	[3]60,953,761.53		60,953,761.53						$10,907,000	10,907,000
MCc 36200	Cost plus—ship repair fixed fee.				3,680,573.35	885,872.08	4,566,445.43				211,860	211,860		211,860
MCc 35743	Cost—materials custody.					13,014.96	13,014.96							
MCc 41502	Cost-plus-fixed-fee lay-up.					146,533.73	146,533.73							
Total to schedule 1		153		153	277,312,009.34	2,246,703.39	279,558,712.73			8,260,000	1,031,860	9,291,860	10,907,000	20,198,860

[1] See schedule 6.
[2] Completion only.
[3] See the following:

Total payments by U. S. Maritime Commission	$62,786,800.00
Less repayment to U. S. Maritime Commission on account of recapture	1,833,038.47
Net	60,953,761.53

NOTE.—The above amounts do not include the value of materials, if any, furnished by U. S. Maritime Commission without cost to contractor.

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(Question No. 9—Schedule 3)

KAISER CO., INC. (RICHMOND YARD NO. 3)

Details of contracts with U. S. Maritime Commission, as recorded at May 31, 1946

(A) Contract No.	(B) Type of contract	(C) Ships under contracts as amended: Number	(C) Ships under contracts as amended: Type	(D) Number of ships delivered	(E) Total amounts paid by U. S. Maritime Commission (net)	(E) Unpaid (retentions and amounts in process of settlement)[1]	(E) Total paid or unpaid	(F) Fees: Maximum	(G) Fees: Minimum	(H) Fees: Actual—included in (E): Paid by U. S. Maritime Commission	(H) Fees: Actual—included in (E): Unpaid [1]	(H) Fees: Actual—included in (E): Total paid or unpaid	(I) Profits received under fixed-price contracts included in (E)	(J) Total profits and fees
MCc 2048	Cost—facilities				$51,085,069.44	$91,457.94	$51,176,527.38							
MCc 7495	Price—minus	15	ATL	15	25,652,510.03	15,837.97	25,668,348.00	$1,200,000	$525,000	$525,000		$525,000		$525,000
MCc 28994	Fixed price	35	C4-S-A3	35	347,330,900.00	7,359,100.00	354,690,000.00						$5,650,000	5,650,000
MCc 32032	Cost—facilities				2,620,752.22	32,598.67	2,653,350.89							
MCc 36279	Cost—plus ship repair fixed fee.				12,806,929.65	2,575,070.19	15,381,999.84			329,420	$317,540	646,960		646,960
MCc 41503	Cost—plus facilities lay-up fixed fee.					1,441,339.49	1,441,339.49							
Pending cost—tugboat operation						69,506.79	69,506.79							
Total to schedule 1		50		50	439,496,161.34	11,584,911.05	451,081,072.39			854,420	317,540	1,171,960	5,650,000	6,821,960

[1] See schedule 6.

NOTE.—The above amounts do not include the value of materials, if any, furnished by U. S. Maritime Commission without cost to the contractor.

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(Question No. 9—Schedule 4)

KAISER CO., INC. (VANCOUVER YARD)

Details of contracts with U. S. Maritime Commission as recorded at May 31, 1946

(A)	(B)	(C)		(D)	(E)			(F)	(G)	(H)			(I)	(J)
		Ships under contract as amended						Fees						
										Actual—Included in (E)				
Contract No.	Type of contract	Number	Type	Number of ships delivered	Total amounts paid by U. S. Maritime Commission (net)	Unpaid (retentions and amounts in process of settlement) [1]	Total paid or unpaid	Maximum	Minimum	Paid by U. S. Maritime Commission	Unpaid [1]	Total paid or unpaid	Profits received under fixed-price contracts included in (E)	Total profits and fees
MCc 2047	Cost-plus-fixed-fee	2	EC2—Cargo.	[2] 2	$4,409,597.38	[3] $9,305.50	$4,400,291.88	$281,380	$281,380	$281,380		$281,380		$281,380
MCc 2049	Cost facilities				28,919,583.21	214,759.36	29,134,342.57							
MCc 7467	Price-minus	30	ATL—Tank Lighters.	30	32,141,683.77	7,034.59	32,148,718.36	2,400,000	1,050,000	1,050,000		1,050,000		1,050,000
MCc 7678	Cost-plus-fixed-fee	50	BB3—Escort carriers.	50	284,840,912.42	64,663.05	284,905,575.47	6,250,000	6,250,000	6,250,000		6,250,000		6,250,000
MCc 16250	Price-minus		T2—Tankers.		119,013.76	[3] .12	119,013.64							
MCc 16585	Cost, sea trial				71,689.39	.30	71,689.69							
MCc 23475	Cost-plus-fixed-fee	31	AP5—Transports.	31	83,314,370.95	2,202,696.08	85,517,067.03	4,960,000	1,860,000	1,860,000	$1,304,933	3,164,933		3,164,933
MCc 26725	Lower of fixed price or cost, drydock.				2,855,950.62	[3] 82,869.26	2,773,081.36							
MCc 27050	Cost-plus-fixed-fee conversion.	1	C4	1	603,034.08	34,584.02	637,618.10	15,000	15,000	15,000		15,000		15,000
MCc 28948	Fixed-price	12	C4—Transports.	12	150,871,432.30	13,250,017.70	164,121,450.00						$8,580,000	8,580,000
		8	C4—Cargo	8										
MCc 29089	Cost-plus-fixed-fee conversion.	1	C4	1	462,167.05	30,782.44	492,949.49	10,000	10,000	10,000		10,000		10,000
MCc 29967	do	1	C4	1	614,809.78	28,666.78	643,476.56	10,000	10,000	10,000		10,000		10,000
MCc 34719	Cost-plus-fixed-fee outfitting.	5	AP5	5	6,676,638.89	[3] 46,105.02	6,630,533.87	175,000	175,000	175,000		175,000		175,000
MCc 41495	Cost-plus-fixed-fee facilities lay-up.					239,595.92	239,595.92							
Total to schedule 1		141		141	595,900,883.60	15,934,520.34	611,835,403.94			9,651,380	1,304,933	10,956,313	8,580,000	19,536,313

[1] See schedule 6.
[2] Contract canceled after completion of 2 ships. Fee allowed on 2.558 vessels, including work in process at date of cancellation.
[3] Credits to costs in process of settlement including reallocations among contracts.

NOTE.—The above amounts do not include value of materials, if any, furnished by U. S. Maritime Commission without cost to the contractor.

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(Question No. 9—Schedule 5)

KAISER CO., INC. (PORTLAND, RICHMOND YARD NO. 3 AND VANCOUVER SHIPYARDS)

Transfers of fees and profits to and from shipyards

Contract	Reference	Kaiser Co., Inc., Richmond yard No. 3	Kaiser Co., Inc., Vancouver shipyard	The Permanente Metals Corp., yards Nos. 1 and 2	Oregon Shipbuilding Corp.	Kaiser Fleetwings, Inc., shipbuilding division (formerly Kaiser Cargo, Inc., yard No. 4)
MCc 15762	(1)	$182,502.00		[2]$182,502.00		
Mcc 36279	(3)	[2] 143,877.79		130,819.75		$13,058.04
MCc 8611	(4)		$288,000		[2] $288,000	
Net transfers		38,624.21	288,000	[2] 51,682.25	[2] 288,000	13,058.04

[1] To meet the critical war need for Vc2-S-AP5 Victory transports, Kaiser Co., Inc., with the approval of the Commission, outfitted completely 7 such vessels as subcontractors for the Permanente Metals Corp., the latter building the hulls and procuring the material. The proportionate amount of fees for such work was agreed between the 2 companies as being $182,502, and Permanente Metals Corp. accordingly transferred such amount to Kaiser Co., Inc., and reduced their fee earnings in like amount.

[2] Red figures (from shipyards).

[3] Contract MCc 36279 was issued by the U. S. Maritime Commission to Kaiser Co., Inc., to cover ship repair work for other Government agencies such as War Shipping Administration, U. S. Navy, and U. S. Army. This contract (as amended) authorized Kaiser Co., Inc., to allocate ships to be repaired to the Permanente Metals Corp. and Kaiser Cargo, Inc., as subcontractors. The fees which Kaiser Co., Inc., received for such subcontracted work were transferred to the yards, as shown above with a like reduction in their fee earnings.

[4] In the interest of expediting early delivery, and to utilize facilities then available, the U. S. Maritime Commission authorized Oregon Shipbuilding to subcontract the completion of 8 Liberty ships to Kaiser Co., Inc., Vancouver. Oregon Shipbuilding reduced their fee earnings by transferring $288,000 to Kaiser-Vancouver as fees for performing such work.

Question No. 9—Schedule 6

KAISER CO., INC.

Status of unpaid and unsettled contract amounts

[Supplement to Questions 9 (E) and 9 (H)]

I. Final settlement of unpaid amounts is subject to completion of the following:

1. Payment by the contractor and obtaining final release on all commitments pertaining to the applicable contracts.

2. Subsequent preparation by the contractor of final statements of costs.

3. Audit by representatives of the United States Maritime Commission of contractor's final statement of costs.

4. Resolving the open appeals of the contractor from costs disallowed by the United States Maritime Commission and final negotiation thereof.

5. Final determination of costs and resultant agreement of amounts to be recaptured, by the United States Maritime Commission, and/or amounts due the contractor from the United States Maritime Commission.

Every reasonable effort is being extended by the contractor to complete item 1 so that the other steps listed above may be completed to effect final settlement at the earliest possible date. However, in view of the tremendous volume of purchase orders, subcontracts, and other commitment documents issued, such work is unavoidably slow. In the interim the contractor and the United States Maritime Commission Finance Section are negotiating tentative settlements to cover a substantial portion of the amounts involved, leaving minimum amounts for final future settlement.

II. Unpaid—"retentions" represents at May 31, 1946, the final payments due on fixed-price and lump-sum contracts, withheld by the United States Maritime Commission in accordance with the terms of the respective contracts, until and if the recorded costs justify additional payments.

Included in the total of $29,766,134.78 unpaid contract amounts per schedule 1, is $17,952,839.18, representing such retentions.

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Question No. 9—Schedule 7

KAISER CO., INC.—IRON AND STEEL DIVISION

Loss accumulative to May 31, 1946

Net operating loss	$2,687,392.44
Interest expense	9,383,600.26
Miscellaneous construction expenses and abandonments	3,027,147.06
Net loss before provision for amortization, etc.	15,098,139.76
Provision for amortization, depreciation, and depletion	45,927,360.06
Net loss accumulative to May 31, 1946 (per financial report May 31, 1946, and per schedule 1)	61,025,499.82

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(Question No. 9—Schedule 8)

KAISER CO., INC. (PORTLAND, RICHMOND, AND VANCOUVER YARDS)

Details of contracts with U. S. Maritime Commission

Contract No.	Type of contract	Ships under contracts as amended (type)	Number of ships delivered	Contract value	Commission furnished materials	Total contract volume
MCc-2393	Cost—facilities			$26,688,405.58		$26,688,405.58
NCc-2565	Price minus	T2 tankers	56	117,915,540.33	$82,040,000.00	199,955,540.33
MCc-16212	do	do	47	61,762,498.51	68,855,000.00	130,617,498.51
MCc-19183	Cost—plus fixed fee	AO tankers	[1] 6	7,512,512.66		7,512,512.66
MCc-39039	Fixed price	T2 tankers	44	60,953,761.53	59,177,008.00	120,130,769.53
MCc-36200	(Cost—plus fixed fee.) Ship repair			4,566,445.43		4,566,445.43
MCc-35743	Cost—materials custody			13,014.96		13,014.96
MCc-41502	(Cost—plus fixed fee.) Facilities lay-up			146,533.73		146,533.73
MCc-2048	Cost—facilities			51,176,527.38		51,176,527.38
MCc-7495	Price minus	ATL	15	25,668,348.00	8,294,400.00	33,962,748.00
MCc-28994	Fixed price	C4-S-A3	35	354,690,000.00		354,690,000.00
MCc-32032	Cost—facilities			2,653,350.89		2,653,350.89
MCc-36279	(Cost—plus fixed fee.) Ship repair			15,381,999.84		15,381,999.84
MCc-41503	(Cost—plus fixed fee.) Facilities lay-up			1,441,339.49		1,441,339.49
Pending	(Cost—tugboat operation)			69,506.79		69,506.79
MC-2047	Cost—plus fixed fee	EC2 cargo	2	4,400,291.88	1,484,000.00	5,884,291.88
MCc-2049	Cost—facilities			29,134,342.57		29,134,342.57
MCc-7467	Price minus	ATL (LST)	30	32,148,718.36	16,588,800.00	48,737,518.36
MCc-7678	Cost—plus fixed fee	BB3—escort carriers	50	284,905,575.47	24,000,000.00	308,905,575.47
MCc-16250	Price minus	T2 tankers		119,013.64		119,013.64
MCc-16585	Cost—sea trial			71,689.69		71,689.69
MCc-23475	Cost—plus fixed fee	AP5 transports	31	85,517,067.03	55,862,000.00	141,379,067.03
MCc-26725	(Lwr. of fixed fee or cost—drydock)			2,773,081.36	33,645.65	2,806,727.01
MCc-27050	(Cost—plus fixed fee.) Conversion	C4	[1] 1	637,618.10		637,618.10
MCc-28948	C4-S-A3 fixed price	C4-S-A3	20	164,121,450.00		164,121,450.00
MCc 29089	Cost—plus fixed fee (conversion)	C4	[1] 1	492,949.49		492,949.49
MCc-29967	do	do	[1] 1	643,476.56		643,476.56
MCc-34719	Cost—plus fixed fee (outfitting)	AP5	[1] 5	6,630,533.87		6,630,533.87
MCc-41495	Cost—plus fixed fee, facilities lay-up			239,595.92		239,595.92
Total			344	1,342,475,189.06	316,334,853.65	1,658,810,042.71

[1] These ships converted, completed, or outfitted only. Built elsewhere.

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Exhibit G

(Questions Nos. 10 and 11—Schedule 1)

KAISER CO., INC.

EFFECT OF RENEGOTIATION ON FEES AND PROFITS AND STATUS OF CONTRACTS STILL SUBJECT TO RENEGOTIATION

1. The business of Kaiser Co., Inc., has been renegotiated through the fiscal years ending June 30, 1944, and it was found by the Price Adjustment Board of the United States Maritime Commission that no excessive profits had been realized. Renegotiation agreement No. MCc40480 PABs817 dated August 23, 1945, was executed covering the fiscal year ending June 30, 1944.

2. Renegotiations have not been completed for the fiscal years ending June 30, 1945, and June 30, 1946, but it is obvious that no excessive profits will be found to have been realized during said years, because the contractor realized net losses on the total operations subject to renegotiation.

Exhibit H

(Question No. 12—Schedule 1)

KAISER CO., INC.

Costs of shipyards and facilities to May 31, 1946

Shipyards and facilities:	*Original cost*
Portland	$23, 361, 291. 12
Richmond yard No. 3 [1]	28, 445, 951. 25
Vancouver	23, 787, 490. 52
Total shipyards and facilities	75, 594, 732. 89

[1] The Richmond No. 3 figures include the costs of all shipyards and facilities of Richmond yard No. 4 which was operated by Kaiser Co., Inc., until Apr. 3, 1943, and by Kaiser Fleetwings, Inc., Shipbuilding Division (formerly Kaiser Cargo, Inc.) after that date.

In addition to the shipyards and facilities, the following were also constructed by Kaiser Co., Inc., under the facilities contracts with the U. S. Maritime Commission:

Portland:		
Transportation	$47, 568. 86	
Housing	3, 279, 545. 60	$3, 327, 114. 46
Richmond:		
Transportation	1, 241, 369. 90	
Housing	24, 142, 557. 12	25, 383, 927. 02
Vancouver:		
Housing	4, 215, 908. 72	
Transportation	1, 130, 943. 33	5, 346, 852. 05
Total facilities contracts with the U. S. Maritime Commission		109, 652, 626. 42

NOTE.—No fees or profits of any kind were paid to Kaiser Co., Inc., on any of the above work.

Exhibit I

ANSWER TO QUESTION NO. 13 OF QUESTIONNAIRE OF JULY 27, 1946

General

The attached sheets detail all the information requested insofar as shipbuilding companies are concerned. In addition, corresponding information is given for other companies and organizations which had USMC or WSA contracts. This

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information was not called for in the questionnaire but is added for your information.

These data group themselves naturally into three different categories:

(1) Those shipbuilding companies in which a financial interest is still held:

(*a*) Those in which representatives of the companies covered by question No. 13 have an active management function as well as financial interest:

The Permanente Metals Corp.
Richmond Shipbuilding Corp.
Kaiser Fleetwings, Inc.
Oregon Shipbuilding Corp.

(*b*) Those in which the companies covered by question No. 13 have a financial interest only: Walsh-Kaiser Co., Inc.

(2) Other than shipbuilding companies in which a financial interest is still held:

(*a*) Those in which representatives of the companies covered by question No. 13 have an active management function as well as a financial interest:

Columbia Construction Co.—Vancouver drydock joint venture.
The Kaiser Co.—terminal repair operations.

(*b*) Those in which the companies covered by question No. 13 have a financial interest only: Joshua Hendy Iron Works.

(3) Those shipbuilding companies in which no present financial interest is held. Neither Henry J. Kaiser, nor members of his family, nor companies in which any of them has a financial interest, has any present managerial or financial interest in any of these companies:

(*a*) California Shipbuilding Corp. (all connections severed in April 1945).

(*b*) Companies managed by representatives of Todd Shipyards Corp. and/or Bath Iron Works:

Houston Shipbuilding Corp.
Seattle-Tacoma Shipbuilding Corp.
South Portland Shipbuilding Corp.
Todd-Bath Iron Shipbuilding Corp.

(all connections severed in February 1942).

ANSWER TO QUESTION 13 TO QUESTIONNAIRE OF JULY 27, 1946, AS REGARDS THE PERMANENTE METALS CORP. AND RICHMOND SHIPBUILDING CORP.

General statement

Neither Mr. Kaiser nor members of his immediate family has ever held 5 percent of the stock of Richmond Shipbuilding Corp. or the Permanente Metals Corp. However, two companies in which he and members of his family own in excess of 5 percent of stock did hold in excess of 5 percent of the stock of Richmond Shipbuilding Corp., and do hold in excess of 5 percent of the stock of the Permanente Metals Corp. On December 31, 1941, all of the stockholders of the Permanente Metals Corp. accepted shares of stock of that company in exchange for the stock previously held in Richmond Shipbuilding Corp. The exchange was on a share-for-share basis. After that date Richmond Shipbuilding Corp. was a wholly owned subsidiary of the Permanente Metals Corp.

(*a*) *Event of of ownership.*—

Dates	Henry J. Kaiser Co.	The Kaiser Co.	Total
1. In Richmond Shipbuilding Corp.:	*Percent*	*Percent*	*Percent*
May 2 to Dec. 17, 1941	6.16	6.16	12.32
Dec. 18 to Dec. 22, 1941	7.25	7.25	14.5
Dec. 23 to Dec. 30, 1941	8	8	16
Dec. 31, 1941			
2. In the Permanente Metals Corp.:			
Dec. 19, 1940, to Feb. 23, 1942	8	8	16
Feb. 24, 1942, to Dec. 20, 1945	11.8044	11.8044	23.6088
Dec. 21, 1945,[1] to May 23, 1946	21.6522	21.6522	43.3044
May 24, 1946,[1] to July 4, 1946	27.0065	27.0065	54.013
July 5, 1946	32.321	32.321	64.642

[1] It should be noted that these items occurred after delivery of the last USMC vessel constructed by the company. This last delivery occurred on September 15, 1945.

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(*b*) *When and in what manner acquired.*—

1. Richmond Shipbuilding Corp.: All acquisitions for cash. See comments above re exchange of stock on December 31, 1941.

2. The Permanente Metals Corp.: All acquistions for cash or in exchange for stock of Richmond Shipbuilding Corp. (which was all issued for cash). Increase in ownership May 24, 1946 results from retirement of stock of others by the corporation, rather than acquisition of additional shares by the stockholders. While the acquisition of July 5, 1946 is indicated as having been for cash, the additional shares are being purchased for cash and notes.

(*c*) *Dividends received.*—

1. From Richmond Shipbuilding Corp.: None. On March 19, 1946, all property of this company was transferred to its parent, as a distribution in complete liquidation.

2. From the Permanente Metals Corp.[1] Only dividend was in cash in December 1945:

Portion to:	
Henry J. Kaiser Co	$464,265
The Kaiser Co	464,265
Total	928,530

It was not until December 1945 that the first and only dividend was declared by the company.

As will be noted, the present stock ownership is not representative of the participation during the period of shipbuilding activities.

ANSWER TO QUESTION NO. 13 TO QUESTIONNAIRE OF JULY 27, 1946, AS REGARDS KAISER FLEETWINGS, INC.

General statement

Neither Mr. Kaiser nor members of his immediate family has ever held 5 percent of the stock of Kaiser Fleetwings, Inc. However, three companies in which either he and members of his family own in excess of 5 percent of stock, or in which such companies own in excess of 5 percent of stock, do own in excess of 5 percent of the stock of Kaiser Fleetwings, Inc.

(*a*) *Extent of ownership.*—

Dates	Henry J. Kaiser Co.	The Kaiser Co.	Kaiser Engineers, Inc.	Total
	Percent	*Percent*	*Percent*	*Percent*
Nov. 28, 1942, to Mar. 26, 1943	100			100
Mar. 27 to July 12, 1943	85			85
July 13, 1943	45	15	15	75

(*b*) *When and in what manner acquired.*—All acquisitions for cash.

(*c*) *Dividends received.*—None.

ANSWER TO QUESTION NO. 13, TO QUESTIONNAIRE OF JULY 27, 1946, AS REGARDS OREGON SHIPBUILDING CORP. AND CONSOLIDATED BUILDERS, INC.

General statement

Neither Mr. Kaiser nor members of his immediate family has ever held 5 percent of the stock of Oregon Shipbuilding Corp. or Consolidated Builders, Inc. However, two companies in which he and members of his family own in excess of 5 percent of stock did hold in excess of 5 percent of the stock of Oregon Shipbuilding Corp. and do hold in excess of 5 percent of the stock of Consolidated Builders, Inc. In May of 1942 all of the stock of Oregon Shipbuilding Corp. was purchased by Consolidated Builders, Inc.

[1] It should be noted that these items occurred after delivery of the last USMC vessel constructed by the company. This last delivery occurred on September 15, 1945.

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(*a*) *Extent of ownership.*—

Dates	Henry J. Kaiser Co.	The Kaiser Co.	Total
1. In Oregon Shipbuilding Corp.:	*Percent*	*Percent*	*Percent*
Jan. 8, 1941, to Feb. 18, 1942	6.25	6.25	12.5
Feb. 19, 1942, to May 18, 1942	11.364	11.364	22.728
After May 18, 1942	None	None	None
2. In Consolidated Builders, Inc.:			
Prior to May 18, 1942	5	5	10
After May 18, 1942	11.364	11.364	22.728

(*b*) *When and in what manner acquired.*—

1. Oregon Shipbuilding Corp.: Original purchase of January 8, 1941, was for cash; additional, February 19, 1942, was from a stock dividend of that date. Disposed of for cash, May 18, 1942.

2. Consolidated Builders, Inc.: Original purchase (prior to 1941) was for cash. Additional purchase, May 18, 1942, was for cash.

(*c*) *Dividends received.*—

1. From Oregon Shipbuilding Corp.:

Dates	*Henry J. Kaiser Co.*	*The Kaiser Co.*	*Total*
February 19, 1942, cash	$5,625	$5,625	$11,250
Stock at $100 per share	56,250	56,250	112,500
Total	61,875	61,875	123,750

No further dividends were declared by Oregon Shipbuilding Corp. prior to its becoming a subsidiary of Consolidated Builders, Inc.

2. From Consolidated Builders, Inc.: In order that a clearer picture may be obtained, there are listed below dividends received from Consolidated Builders, Inc., since the date it acquired all of the stock of Oregon Shipbuilding Corp. (May 18, 1942). All were received in cash, although some were reinvested as subordinated stockholders' loans (now repaid):

Date	Henry J. Kaiser Co.	The Kaiser Co.	Total
Nov. 28, 1942	$113,640	$113,640	$227,280
Nov. 27, 1943	227,280	227,280	454,560
Nov. 29, 1944	227,280	227,280	454,560
Dec. 12, 1945	454,560	454,560	909,120
Mar. 25, 1946	227,280	227,280	454,560
Total	1,250,040	1,250,040	2,500,080

ANSWER TO QUESTION NO. 13 TO QUESTIONNAIRE OF JULY 27, 1946, AS REGARDS WALSH-KAISER CO., INC., AND ASSOCIATED CONTRACTORS, INC.

General statement

Neither Mr. Kaiser nor members of his immediate family has ever held 5 percent of the stock of either Walsh-Kaiser Co., Inc., or Associated Contractors, Inc. However, three companies in which either he and members of his family own in excess of 5 percent of stock, or in which such companies own in excess of 5 percent of stock, did own in excess of 5 percent of the stock of Walsh-Kaiser Co., Inc., and do now hold in excess of 5 percent of the stock of Associated Contractors, Inc.

On July 1, 1943, Associated Contractors, Inc., purchased for cash all of the stock of Walsh-Kaiser Co., Inc., and shortly thereafter the stock ownership of the former was rearranged to coincide with the percentage of ownership in the latter prior to July 1, 1943. All stock acquisitions and sales in both cases were for cash.

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(*a*) *Extent of ownership.*—In Walsh-Kaiser Co., Inc., from February 1943 to June 30, 1943; and in Associated Contractors, Inc., from September 1, 1943, to present;

	Percent
Henry J. Kaiser Co	20
The Kaiser Co	10
Kaiser Engineers, Inc	10
Total	40

(*b*) *When and in what manner acquired.*—

1. Re Walsh-Kaiser Co., Inc.: See comments above.

2. Re Associated Contractors, Inc.: Henry J. Kaiser Co. and the Kaiser Co. had held stock (purchased for cash) in Associated Contractors, Inc., prior to 1941. On September 1, 1943, they acquired additional stock, for cash, in an amount which would give them the same percentage of ownership held previous to June 30, 1943, in Walsh-Kaiser Co., Inc., as did Kaiser Engineers, Inc.

(*c*) *Dividends received.*—

1. From Walsh-Kaiser Co., Inc.: No dividends were paid by this company prior to September 1, 1943. All dividends after that date were, of course, received by Associated Contractors, Inc.

2. From Associated Contractors, Inc.: In order that a clearer picture may be obtained, there are listed below the dividends received from Associated Contractors, Inc., after September 1, 1943. All were received in cash.

Date	Henry J. Kaiser Co.	The Kaiser Co.	Kaiser Engineers, Inc.	Total
June, 1945	$120,120	$60,060	$60,060	$240,240
June, 1946	120,120	60,060	60,060	240,240
Total	240,240	120,120	120,120	480,480

ANSWER TO QUESTION NO. 13, TO QUESTIONNAIRE OF JULY 27, 1946, AS REGARDS COLUMBIA CONSTRUCTION CO.

General

Columbia Construction Co. had only one contract for the United States Maritime Commission, the construction of a floating drydock under fixed-price contract No. MCc-31049, dated July 27, 1944. Kaiser Co., Inc., desired to enter into this contract, but the RFC objected to this, as there was the possibility of losses, due to its being a fixed-price contract. Therefore, as an alternative, Columbia Construction Co. entered into the contract and then subcontracted all the construction work to Kaiser Co., Inc., on a reimbursable cost basis after the USMC had approved this procedure. This contract has been completed, but not renegotiated. A joint venture was formed for this project, Columbia Construction Co. retaining an interest of 44.445 percent. Of the remainder, Henry J. Kaiser Co. and Kaiser Engineers, Inc., each have an interest of 10 percent.

Pending final renegotiation, the joint venture has made a cash distribution to the joint venturers of $275,000.

(*a*) *Extent of ownership.*—

1. In Columbia Construction Co.: Neither Henry J. Kaiser nor members of his family has ever held 5 percent of the stock of Columbia Construction Co. However, two companies in which he and members of his family own in excess of 5 percent of stock do hold in excess of 5 percent of the stock of Columbia Construction Co., which was purchased for cash prior to 1941, as follows:

	Percent
Henry J. Kaiser Co	11.25
The Kaiser Co	11.25

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2. In floating drydock joint venture: Ownership affecting Henry J. Kaiser and his family:

	Henry J. Kaiser Co.	The Kaiser Co.	Kaiser Engineers, Inc.	Total
	Percent	*Percent*	*Percent*	*Percent*
Direct interest	10		10	20
Portion of Columbia Construction Co., 44.445 percent	5	5		10
"Effective" interest	15	5	10	30

(*b*) *When and in what manner acquired.*—Covered in comments above.

(*c*) *Dividends received.*—

1. From drydock joint venture: Of profits distributed to date from joint venture:

Henry J. Kaiser Co. received	$27,500
Kaiser Engineers, Inc., received	27,500
	55,000

(These were distributions of estimated profits—not dividends.)

2. From Columbia Construction Co.: No dividends received from Columbia Construction Co. since its entered into this contract.

ANSWER TO QUESTION NO. 13 TO QUESTIONNAIRE OF JULY 27, 1946, AS REGARDS TERMINAL REPAIR DIVISION

General

From June 1945 through May 1946 the Kaiser Co. conducted repair operations at Portland, Oreg. The project was known as the terminal repair division.

These operations were a continuation of those previously carried on by a partnership doing business under the name of Poole, McGonigle & Jennings. As of June 26, 1945, the Kaiser Co. purchased from this partnership all of the equipment, leases, and inventory used in its repair operations.

It did not appear feasible for Kaiser Co., Inc., to make this purchase due to complications arising from RFC loans to that company since it was contemplated that fixed-price work would be done, purchase price and operating needs called for additional cash funds, the purchaser had contingent liabilities regarding leases and subcontracts and was obligated to complete work commenced by the prior owners, etc.

Work consisted of repairing vessels for various Government agencies as well as for private parties.

In this connection, it entered into two contracts with the War Shipping Administration:

WSA-10125 (D. A.—W. S. A.—1631) dated July 1, 1945
WSA-11571 dated November 17, 1945

These operations were conducted under a profit-sharing agreement in which each of the Kaiser Co. and Kaiser Engineers, Inc., had a 50 percent interest.

Although these operations ceased in May 1946, the profits from the project have not been definitely determined at this date (August 6, 1946). Pending such determination, cash distributions of profit have been made in the amount of $50,000, 50 percent to each of the Kaiser Co. and Kaiser Engineers, Inc.

ANSWER TO QUESTION NO. 13 TO QUESTIONNAIRE OF JULY 27, 1946, AS REGARDS JOSHUA HENDY IRON WORKS

General statement

Neither Mr. Kaiser nor members of his family has ever held 5 percent of the stock of Joshua Hendy Iron Works. However, one company, in which he and his family own in excess of 5 percent of the stock, holds in excess of 5 percent of the stock of Joshua Hendy Iron Works.

(*a*) *Extent of ownership.*—

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(b) *When and in what manner acquired.*—

	Percent
Henry J. Kaiser Co.:	
Dec. 19, 1940, to Mar. 27, 1945	7.5
Mar. 28, 1945, to present	8.65

Both acquisitions for cash.

(c) *Dividends received.*—

Monthly, June through November 1942 (except October), $1,875 per month	$9,375
Nov. 30, 1942	28,125
Total at July 31, 1946	37,500

Of this amount $22,500 was returned as stockholders' loan.

ANSWER TO QUESTION NO. 13 TO QUESTIONNAIRE OF JULY 27, 1946, AS REGARDS CALIFORNIA SHIPBUILDING CORP.

General statement

Neither Mr. Kaiser nor members of his family has ever held 5 percent of the stock of California Shipbuilding Corp. However, two companies in which he and members of his family own in excess of 5 percent of stock did hold in excess of 5 percent of the stock of California Shipbuilding Corp.

(a) *Extent of ownership.*—

Dates	Henry J. Kaiser Co.	The Kaiser Co.	Total
	Percent	Percent	Percent
February 1941 to Feb. 24, 1942	6.25	6.25	12.50
Feb. 25, 1942, to April 1945	7.8833	7.8833	15.7666
After April 1945	(1)	(1)	(1)

[1] California Shipbuilding continued its shipbuilding operations after April 1945, but none of the persons or companies covered by question No. 13 has had any financial or managerial interest in the company since April 1945, or approximately 5 months prior to the delivery date of the last ship delivered by that company.

(b) *When and in what manner acquired.*—Original acquisition: For cash. Additional, February 25, 1942: Stock dividend. Disposition, April 1945: For cash.

(c) *Dividends received.*—

	Henry J. Kaiser Co.	The Kaiser Co.	Total
Dates:			
February 1942 (stock at $100 per share)	$62,500.00	$62,500.00	$125,000.00
November 1942 (cash)	78,833.33	78,833.33	157,666.66
August 1943 (cash)	157,666.67	157,666.67	315,333.34
November 1944 (cash)	78,833.33	78,833.33	157,666.66
Total	377,833.33	377,833.33	755,666.66

ANSWER TO QUESTION NO. 13 TO QUESTIONNAIRE OF JULY 27, 1946, AS REGARDS HOUSTON SHIPBUILDING CORP., SEATTLE-TACOMA SHIPBUILDING CORP., SOUTH PORTLAND SHIPBUILDING CORP., TODD-BATH IRON SHIPBUILDING CORP.[1]

General statement

Neither Mr. Kaiser nor members of his immediate family owned in excess of 5 percent of the stock of these companies. However, two companies in which Mr. Kaiser and his family hold in excess of 5 percent of stock, held in excess of 5

[1] While Todd-Bath Iron Shipbuilding Corp. had no contracts with the U. S. Maritime Commission or War Shipping Administration during the period prior to February 1942 it is included here to complete the list of shipbuilding companies, the stock of which was sold to others during February 1942.

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percent of the stock of the above companies until February 1942, at which time all stock was sold to others for cash.

(*a*) *Extent of ownership.*—

	Henry J. Kaiser Co.	The Kaiser Co.	Total
1. Houston Shipbuilding Corp.:	*Percent*	*Percent*	*Percent*
February 1941 to Dec. (?) 1941	5.25	5.25	10.5
Dec. (?) 1941 to February 1942 [1]	3.675	3.675	7.35
2. Seattle-Tacoma Shipbuilding Corp.: (Now Todd-Pacific Shipyards, Inc.), September 1939 to February 1942	3.0	3.0	6.0
3. South Portland Shipbuilding Corp.: May 1941 to February 1942	3.7	3.7	7.4
4. Todd-Bath Iron Shipbuilding Corp.: February 1941 to February 1942	4.3125	4.3125	8.625

[1] Does not represent reduction in shares held; others purchased additional stock, increasing total issued and reducing percentage of total held by above companies.

(*b*) *When and in what manner acquired.*—All acquisitions and dispositions for cash.

(*c*) *Dividends received* (all in cash).—

	Henry J. Kaiser Co.	The Kaiser Co.	Total
1. Houston Shipbuilding Corp	$2,625.00	$2,625.00	$5,250
2. Seattle-Tacoma Shipbuilding Corp	21,000.00	21,000.00	42,000
3. South Portland Shipbuilding Corp	1,480.00	1,480.00	2,960
4. Todd-Bath Iron Shipbuilding Corp.[1]	30,187.50	30,187.50	60,375
Total, 1 through 4, inclusive	55,292.50	55,292.50	110,585

[1] As noted above, Todd-Bath had no U. S. Maritime Commission contracts at this point.

Although it is understood that all of these companies continued in the shipbuilding business, none of the individuals or companies covered by question No. 13 had any managerial or financial interest in the companies listed above after February 1942.

ANSWER TO QUESTION NO. 13 OF THE QUESTIONNAIRE DATED JULY 27, 1946—QUESTION C SUMMARY

Dividends received from companies having USMC or WSA contracts

	Henry J. Kaiser Co.	The Kaiser Co.	Kaiser Engineers, Inc.	Total
The Permanente Metals Corp	$464,265.00	$464,265.00		$928,530.00
Richmond Shipbuilding Corp				
Kaiser Fleetwings, Inc				
Oregon Shipbuilding Corp.[1]	61,875.00	61,875.00		123,750.00
Consolidated Builders, Inc. (after May 1942)	1,250,040.00	1,250,040.00		2,500,080.00
Walsh-Kaiser Co., Inc				
Associated Contractors, Inc. (after September 1943)	240,240.00	120,120.00	$120,120	480,480.00
California Shipbuilding Corp	377,833.33	377,833.33		755,666.66
Houston Shipbuilding Corp	2,625.00	2,625.00		5,250.00
Seattle-Tacoma Shipbuilding Corp.[2]	21,000.00	21,000.00		42,000.00
South Portland Shipbuilding Corp	1,480.00	1,480.00		2,960.00
Todd-Bath Iron Shipbuilding Corp.[2]	30,187.50	30,187.50		60,375.00
Total, shipbuilding	2,449,545.83	2,329,425.83	120,120	4,899,091.66
Joshua Hendy Iron Works	37,500.00			37,500.00
Total, all above	2,487,045.83	2,329,425.83	120,120	4,936,591.66
Kaiser Co., Inc.: This company did not pay any dividends since, as of May 31, 1946, it shows a net loss of				[3] 18,579,040.26

[1] Includes stock dividends of Henry J. Kaiser Co., $56,250; the Kaiser Co., $56,250; total, $112,500.
[2] Not from USMC profits.
[3] Red figures.

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In answer to the telegrams from Marvin J. Coles, addressed to Kaiser Co., Inc., dated October 10 and 11, 1946, we submit the following information:

1. *Average amount of outstanding bank loans of Kaiser Co., Inc.*

The bank loans of Kaiser Co., Inc., fluctuated considerably during the period between the first loan and the last repayment, but the average for said period was as follows:

Richmond Yard 3 (40 months)	$4, 608, 750
Portland Swan Island Yard (35 months)	3, 648, 581
Vancouver, Wash., yard (40 months)	4, 843, 625
Average, all yards (40 months)	12, 644, 875

The above averages were computed from data available on the last day of each month, and not on daily totals.

2. *Excess fees and profits determined by renegotiation of contracts allocated between renegotiated contracts.*

As shown by exhibit G, attached to the original report submitted to the committee, Kaiser Co., Inc., has been renegotiated through the fiscal years ending June 30, 1944, and it was found by the Price Adjustment Board of the United States Maritime Commission that no excessive profits had been realized. Renegotiation of Kaiser Co., Inc., for the fiscal years ending June 30, 1945, and June 30, 1946, has not been completed, but it is anticipated that no excessive profits will be found for said years since Kaiser Co., Inc., suffered net losses and no profits on its total wartime operations subject to renegotiation.

3. *Disallowed costs allocated to applicable contracts.*

The disallowed costs as charged to the various contracts of Kaiser Co., Inc., to May 31, 1946, were as follows:

Portland		Richmond Yard 3		Vancouver	
Contract No.	Amount	Contract No.	Amount	Contract No.	Amount
MCc-2565	$973, 496. 29	MCc-28994	$1, 571, 236. 59	MCc-2047	$52, 006. 32
MCc-16212	313, 224. 32	MCc-36279	14, 474. 46	MCc-7467	214, 810. 83
MCc-19189	20, 530. 62	All other	64, 139. 55	MCc-7678	1, 033, 277. 53
MCc-29039	607, 594. 04			MCc-23475	329, 298. 82
All other	24, 295. 56			MCc-28948	527, 603. 67
				All other	4, 372. 38
Total	1, 939, 140. 83	Total	1, 649, 850. 60	Total	2, 161, 369. 55

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Portland	$1, 939, 140. 83
Richmond Yard 3	1, 649, 850. 60
Vancouver	2, 161, 369. 55
Total	5, 750, 360. 98

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EXHIBIT 5

[Release 10 a. m. EST, Sept. 24, 1946]

SUPPLEMENTARY STATEMENT OF HENRY J. KAISER ON SEPTEMBER 24, 1946, ANSWERING QUESTIONS ASKED BY COMMITTEE COUNSEL ON SEPTEMBER 23, 1946, BEFORE THE HOUSE COMMITTEE ON THE MERCHANT MARINE AND FISHERIES

About 2 months ago, on July 27, 1946, counsel for the committee submitted in writing to Kaiser Co., Permanente Metals Corp., Oregon Shipbuilding, and Kaiser-Fleetwings, a series of detailed questions.

The staffs of these companies, familiar with the detailed accounting data and other information involved, prepared answers to each of the questions for each of the four companies.

These answers comprise over 150 pages of direct answers and exhibits. They were submitted to the counsel for the committee on September 3. Counsel for the committee stated that these answers were the best and most complete submitted by any shipbuilding company.

Subsequent to the submission of these answers, counsel for the committee asked two other series of questions on September 14 and September 16. These were also answered in detail on September 19 and September 21.

At the hearing yesterday, counsel for the committee asked me an additional series of detailed questions which were not previously asked on the three prior occasions when detailed requests for information were made by him. After the hearing, he submitted an additional informal list to our counsel of approximately 50 technical questions for each of the four companies, or a total of 200 questions, most of which were in addition to all of those previously asked. For example, counsel has now asked for the first time about such matters as the circumstances leading up to the organization of each company, the hundreds of personnel of the Maritime Commission with whom we dealt, what part of the work was subcontracted, how much material was supplied by the contractor, how long it took for the Maritime Commission to reimburse us for our expenditures, etc.

We are pleased to answer any and all questions which either the committee counsel or the committee itself wishes to ask. On the last two sets of questions that were put to us late yesterday afternoon, we have tried within all possible human limits, based on the information we have here, to get the answers for the committee today. It is not possible to answer all of the questions put between the time the hearing adjourned yesterday afternoon and today. However, our staff in the West, where the basic factual information is available, is now working on those questions as to which we do not have the available information to answer today. We will submit the answers to these additional questions as soon as it is possible and practicable to do so.

We want this committee to understand that there isn't a single thing we aren't happy to disclose that is in our books and corporate records, but as a practical matter, we have been many weeks preparing answers to highly technical questions asked by the committee counsel. At 4 o'clock yesterday afternoon, he asked us a large number of additional questions about each of four companies. It is going to take a staff of accountants, engineers, and others to answer these additional detailed technical questions accurately.

The detailed and technical information which we have already presented to the committee represents 2 months of intensive work on the part of many key members of the Kaiser organization—men who had to give up their important present tasks of producing aluminum, steel, and automobiles to compile this record. No one man in our organization could testify as to all of these complicated corporate financial and business transactions over a 5-year period. I cannot do it. No one can do it.

All I can do is give you the results of the painstaking work done by the Kaiser organization, represented in these lengthy reports. I have signed these reports, and I now swear that to the best of my knowledge they are true. Counsel for the committee has read them, and he can easily summarize them for the committee. If the committee requests, I will have additional reports prepared. But it is not reasonable to expect me—or any single individual in the Kaiser organization—to answer, without an opportunity for preparation, an endless number of detailed and technical questions about transactions which have occurred over a 5-year period.

All I can say here is that on each new question asked me, I will have the records examined, and I will give you answers which are just as complete as

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those already given, which your counsel has stated are the best prepared by any shipbuilding company.

On the detailed questions asked of me yesterday afternoon, where it was possible to obtain the facts, the answers are as follows:

1. The committee's counsel asked a series of questions about the shipbuilding profits of Kaiser Co., Inc., and how it happened that these profits were set off in renegotiation against the losses suffered by the same company in manufacturing steel for the Government.

Kaiser Co., Inc., operations included the production of steel for ships, for shells, and other war products as well as the production of ships. Both were an integral part of the operations of this one company. As a matter of practical common sense, as well as law, both operations were treated, as they were in fact, as the operations of one company. Under the specific provisions of law passed by Congress—the Renegotiation Act—both operations of the one company are lawfully considered as one in the case of this company, as well as in the case of hundreds of other companies, similarly situated. This is not only our interpretation of the facts and the law, but it is the interpretation of virtually every law officer of Government agencies concerned with this problem, and it was so testified before the House Committee on Ways and Means last year.

In conducting its operations, this one company has suffered losses on the production of steel, and has now incurred an additional loss due to the action of a Government agency in awarding, to a competitor in the West, a Government-owned steel plant at 20 cents on the dollar, when the Kaiser Co. is presently obligated to pay for its steel plant at 100 cents on the dollar, plus interest, thus putting the Kaiser steel plant at a competitive disadvantage. How much of a loss this will result in can only be determined after a long and uneven competitive struggle, but a loss is inevitable due to this action. The United States Steel Co. has just issued a press release stating that the plant which they bought at 20 cents on the dollar is a "dream plant." We cannot therefore, now estimate how this "dream plant" will affect the Kaiser Co., Inc., nor how much of the assets of Kaiser Co., Inc., will have to be dissipated to cover further losses. Nor do we know how much of its commercial income will be needed to compensate for such loss. We do know now that as a result of its integrated operations in war production it did not make a profit, but in fact suffered losses.

2. The committee's counsel asked a series of questions about the investment of Kaiser Co., Inc., in physical facilities, and whether Kaiser Co., Inc., received any profit out of constructing these facilities.

We will check with our staff on the west coast—where the records are located—as to the amount of our investment in physical facilities, and we will furnish the information for the record when it has been gathered together. As for whether or not we received any profits on these facilities our answer is as follows:

Congress authorized numerous agencies such as the Navy Department, War Department, Maritime Commission, Reconstruction Finance Corporation, Defense Plants Corporation, National Housing Agency, and many others to expand existing plants. Where the expansion of existing plants was not sufficient to meet wartime needs, Congress gave these agencies the authority to build completely new facilities.

These agencies contracted to build and expand all types of facilities—shipyards, foundries, steel facilities, airplane plants, machine shops, and other required facilities. Most of these plants were built by contractors on a cost-plus-a-fixed-fee basis. Kaiser-managed shipyards built the majority of their Government-owned facilities with their own forces at no fee. It is generally true that the only time Kaiser-managed shipyards used subcontractors to build facilities was, with the approval of the Maritime Commission, when we did not have either the equipment, tools, or especially skilled labor available in the area. In practically all cases competitive bids were awarded to the lowest bidder. When we did not take competitive bids it was because there was only one contractor in the area who had suitable equipment, and in such cases we negotiated these contracts, again with the approval of the Maritime Commission.

Mr. Chairman, you stated yesterday that the purpose of this investigation was to determine whether or not profits paid to Maritime Commission shipbuilders were excessive or unreasonable. The record will substantiate and prove without question that since we were paid no fees for building facilities there can be no question whatsoever concerning excessive or unreasonable profits on the construction of these facilities.

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3. Counsel for the committee also asked us to furnish some information on fees paid to subcontractors in connection with erecting the yards.

In order that the record may be clear, neither the Kaiser family nor any of the Kaiser companies had any interest, directly or indirectly, in any subcontractor's firm or any subcontractor who built any facilities in the shipyards.

As I have said, moreover, most of the subcontractors' bids were on a fixed-price, competitive-bidding basis. We do not know and cannot know the profits which these subcontractors made, but perhaps you can get that information from the War Contracts Price Adjustment Board. We will be glad to furnish the names of these subcontractors, of whom there were hundreds. There were some cases in which cost-plus-fixed-fee contracts were awarded, and in all such cases the information you request can be obtained from the record. All subcontracts were approved by the Maritime Commission.

4. Counsel for the committee asked me to check whether or not we were the first company to build a yard for the Commission without a fee.

Kaiser Co., Inc., was not the first to do so, but Oregon Shipbuilding Corp., a Kaiser-managed company, was one of the first three companies to make such a contract with the Maritime Commission. All three companies signed their contracts with the Commission on the same day.

5. Counsel for the committee asked whether Kaiser Co., Inc., has paid any income taxes to the Federal Government on shipbuilding earnings.

For the fiscal year ending June 30, 1942, Kaiser Co., Inc., paid $1,064,000 in income taxes. We have applied to the Treasury for a refund of this tax, and have every reason to believe that the refund will be granted. We have therefore stated in the written report to this committee that no income taxes have been paid by Kaiser Co., Inc.

Except for this 1942 tax payment on which we expect to receive a refund, Kaiser Co., Inc., has paid no income taxes, since it has had a net loss in every year of these operations.

6. Counsel for the committee has asked whether or not the Kaiser family had or has any interest in the Gilpin Construction Co.

None of the Kaiser companies and no member of the Kaiser family has any direct or indirect ownership in Gilpin. Any other question on Gilpin ownership should be referred to that company.

In my judgment, the remaining questions asked by counsel for the committee are not the kind that can be answered overnight. For example, counsel has asked whether the shipyard earnings of Kaiser Co., Inc., were pledged to secure the RFC loan on the Fontana steel plant, and if so, whether such a pledge caused any delay in the payment by Kaiser Co., Inc., of its bank loans. To answer this question, it will be necessary to refer to the terms of the RFC loan agreement, a large number of private banking loan agreements and the dates of the payments made thereunder, the terms of our V-loan agreement, and other detailed corporate files and records. Since counsel wants this and other information we will ask our west-coast office to compile the answers and we will furnish them for the record.

As you stated yesterday, Mr. Chairman, the real question is this: Did Kaiser-managed shipyards receive reasonable or unreasonable profits for the work they performed for the Maritime Commission? The answer to that question is not how many total dollars may have been received in fees or profits. That question can only be adequately determined by knowing how much total volume Kaiser-managed shipyards produced for the Maritime Commission, how much their fees or profits were and what percentage their fees or profits were of the total volume. Was it reasonable or unreasonable in comparison to what anyone else received?

The combined net profits after taxes of the four Kaiser shipbuilding companies amounted to less than one-tenth of 1 percent of the total volume of work done for the Maritime Commission, after deducting all losses. Even if the losses on other operations are not deducted, the combined profits are less than 1 percent.

In comparison, for example, Moody's Industrials shows that the net profit of General Motors after taxes and after renegotiation were 6.02 percent of gross sales in 1945 and 4.01 percent in 1944. The figures for Du Pont are 12.27 percent in 1945 and 12.51 percent in 1944, for United States Steel 3.33 percent in 1945 and 2.91 percent in 1944, for Bethlehem Steel 2.63 percent in 1945 and 2.07 percent in 1944, and for Chrysler 3.77 percent in 1945 and 2.26 percent in 1944.

There can be no question as to our efficiency. Where any comparisons are possible, the cost of the work we performed for the Maritime Commission will

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substantiate that Kaiser-built ships were far below the average in cost and thus resulted in substantial savings to the Government. On Liberty ships alone, the Kaiser companies saved the Government more than $260,000,000 under the average cost of Liberty ships built by other yards.

The volume of work was tremendous. The committee should bear in mind that one calendar year's operation during wartime probably amounts to a minimum of five times the normal year's operation because of operations in three shifts and the 56- or 48-hour workweek. It is, therefore, reasonable to say, if any attempt is being made to compare wartime profits with peacetime profits, that in a 4-year period the work accomplished was equal to a 20-year peacetime volume.

There can be no question concerning the speed with which we constructed ships. The Maritime Commission used us to stimulate and needle every shipbuilder in its program. It is only natural that there should be some feeling on the part of established and prewar shipyards concerning Kaiser's record because we were used to prod further production by others and lower their costs. Our building record and our man-hours per ship were forwarded by the Maritime Commission to every yard in the country as an example.

The central question this committee is investigating is a very clear one. Were the profits and fees paid reasonable or unreasonable? Compare them with what other builders received. Compare the costs of the ships and the profits on the contract, and in our opinion the answer will be that Kaiser did not receive as much as other builders in the maritime program. Let me cite just one example. In the case of the 50 escort carriers we received a fixed fee of $125,000 per ship on a ship which cost in excess of $6,000,000. There was a provision in the contract that the Maritime Commission would adjust the fee when the designs of the aircraft carriers were completed and the cost could be estimated, for the contract, was entered into before the ship was designed. This was necessary so that the builder could work with the designer for the utmost speed. When the ship was designed and the cost estimated, no adjustment was made in the fees by the Maritime Commission. The standard practice of the Navy on comparable ships was to pay a fixed fee in the amount of 6 percent of the estimated cost with a bonus provision. Our fee on the 50 aircraft carriers was about 2 percent. The Maritime Commission discriminated against Kaiser, rather than favor him.

So, back to the original question: Were the fees paid reasonable or unreasonable? As for the construction of the yards themselves, it is obvious that the fees or profits of the Kaiser companies were not unreasonable since there were no fees or profits. As for building the ships, the record will show that our speed was greater and our cost was lower and that our fees were, if anything, less than other builders were paid on a comparable basis. What effect did the loss on the Fontana steel plant of Kaiser Co., Inc., have? What effect did the interest we paid to RFC have? Just this: That we were willing to pledge all of our profits and fees, whatever they might be, so that we might borrow the funds to build the steel plant to furnish the steel necessary to build our ships. The law allows that one company report all of its operations—both losses and profits—on a consolidated basis for renegatiation purposes, and this we did. The over-all operation of Kaiser Co., Inc., as of the date the figures were submitted to the committee shows a net loss of $18,000,000.

There is no justification, it appears to me, for this committee, the General Accounting Office, or anyone else to judge profits on the basis of invested capital, when no law or any regulation of Congress or any agency required any invested capital, other than the sum of $100,000 per shipway which we furnished and exceeded. What the Government did require of a shipbuilder was know-how, organization, capacity to produce, the ability to finance the operation, and performance.

The record shows that we did furnish the Government with the know-how, organization, and ability needed to build ships with speed, efficiency, and economy.

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EXHIBIT 6

[Excerpts from War Manufacturing Facilities authorized through August 1944. Listed alphabetically by company and plant location (U. S. War Production Board, Bureau of Program and Statistics, Facilities and Contracts Branch, Facilities Reports Section), Jan. 20, 1945]

United States of America—War Production Board: Authorizations of war manufacturing facilities financed with public and private funds through August 1944

Plant operator, facility, and type of product, 1939	War products and capacity	Capacity symbol	Date available	Employment added	Source of public funds and sponsor	Estimated cost in thousands of dollars								
						Total cost	Publicly financed				Privately financed			
							Total	Structure	Equipment	Other	Total	Structure	Equipment	Other
Barrett & Hilp, San Francisco, Calif.	Concrete barges—19 units per year (1944).	S	June 1944	2,180	Maritime Commission.	3,161	3,161	1,960	1,201					
Bethlehem Fairfield Shipyard, Inc., Baltimore, Md.														
New plant	Cargo ships Ec2—114 units per year (1944).	PD	Sept. 1941											
	Cargo ships VC2—41 units per year (1944).	PD	Sept. 1944	40,000	do	33,623	33,623	20,846	12,777					
Do	Landing ships tank—19 units per year (1945).	PD	Jan. 1943											
California Shipbuilding Corp., Wilmington, Calif.	Cargo ships EC2—31 units per year (1944).	PD	December 1942											
Do	Cargo ships VC2—32 units per year (1944).	S	March 1944	40,000	do	27,594	27,011	16,869	10,142		583	423	160	
Do	Transports—34 units per year (1944).	S	July 1944											
Consolidated Steel Corp. of Texas, Orange, Tex.	Destroyer escorts—57 units per year (1944).	S	March 1943											
New plant	Landing craft infantry—70 units per year (1944).	S	December 1942											
Do	Steel barges 195-foot—8 units per year (1944).	PD	June 1943	19,550	Navy—Ships	11,445	11,445	7,746	3,699					
Do	Destroyers 2,200 ton—1 unit per year (1944).	S	December 1942											

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United States of America—War Production Board: Authorizations offwar manufacturing facilities financed with public and private funds through August 1944—Continued

Plant operator, facility, and type of product, 1939	War products and capacity	Capacity symbol	Date available	Employment added	Source of public funds and sponsor	Estimated cost in thousands of dollars								
						Total cost	Publicly financed				Privately financed			
							Total	Structure	Equipment	Other	Total	Structure	Equipment	Other
Delta Shipbuilding Co., Inc., New Orleans, La.	Cargo ships Ec2—75 units per year (1944).	S	May 1942	19,450	Maritime Commission.	13,072	13,072	7,912	5,160					
Shipbuilding and repair.	Tankers Z-ET1—5 units per year (1944).	PD	June 1943											
East Coast Shipyards, Bayonne, N. J.	Gasoline tankers—26 units per year (1944).	S	August 1943	2,130	do	2,491	2,391	1,482	909		100			100
						25,863	25,838	16,020	9,818		25	25		
J. A. Jones Shipbuilding Co.	EC-2 cargo—56 units per year.	S	1943	15,575	do	13,354	13,354	8,280	5,074					
Brunswick, Ga	EC-2 cargo—67 units per year	S	April 1943	14,970	do	12,509	12,484	7,740	4,744		25	25		
Panama City, Fla	Emergency tank carriers—2 units per year.	PD	do											
						206,785	205,324	156,054	49,270		1,461	1,055	406	
Kaiser, Henry J. Co., Kaiser, Henry J., Richmond, Calif.: Concrete.	Concrete—not reported.		January 1944			60					60	18	42	
						201,034	200,168	152,991	47,177		866	833	33	
Kaiser Co., Inc.: Portland, Oreg	Tankers T2—59 units per year (1944).	S	February 1943	26,175	Maritime Commission.	25,112	24,992	15,495	9,497		120	120		
Richmond, Calif	C-4 troopships—17 units per year (1944).	S	December 1945	28,000	do	28,451	28,261	17,522	10,739		190	157	33	
Vancouver, Wash	Auxiliary aircraft carriers—31 units per year (1944).	S	December 1943	34,510	do	29,215	28,659	17,769	10,890		556	556		
Do	Emergency transports—27 units per year (1944).	S	August 1944											

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Do	Ship repairs—not applicable.	E			Navy—Ships	2,576	2,576	1,597	979					
Kaiser Co., Inc.	Pig iron, 35,000 tons per month.	CA	Sept. 1943		RFC	96,605	96,605	96,605						
Iron and Steel Division, Fontana, Calif.	Ingots—35,000 tons per month.	CA	do											
Do	Steel plate, 25,000 tons per month.	CA	do											
Do	Coke—360,000 tons per year.	CA	June 1943											
Do	Ammonium sulfate—8,760 tons per year.	CA	do	2,400	do	550	550	550						
Do	Sodium phenolate—202 tons per year.	CA	do											
Do	Benzol—1,644,000 gallons per year.	CA	do											
Do	Toluol—435,200 gallons per year.	CA	do											
Shell Division, Fontana, Calif.	Shell forging, 155-millimeter high explosive, 250,000 units per month.	CT		5,000	War—Ordnance	18,525	18,525	18,525	3,453	15,072				
						9,378	9,148	5,672	3,476		230	20	210	
McCloskey & Co., Houston, Tex.	Concrete barges—4 units per year (1944).	S	October 1943		Maritime Commission.	2,405	2,405	1,491	914					
New plant, Tampa, Fla.	Concrete cargo ships C-1—22 units per year (1944).	S	do		do	6,973	6,743	4,181	2,562		230	20	210	
						16,923	16,923	10,492	6,431					
Marinship Corp., Sausalito, Calif.	Tankers—46 units per year (1944).	S	July 1943	17,960	do	14,110	14,110	8,748	5,362					
New England Shipbuilding Corp., South Portland, Maine, shipbuilding and repair.	EC-2 cargo—116 units per year (1944).	S	October 1942	23,000	do / British	9,455	9,455	9,455						
North Carolina Shipbuilding Co., Wilmington, N. C.	C-2 cargo—32 units per year (1944).	S	July 1943	18,000	Maritime Commission.	20,664	20,407	12,653	7,754		257	111		146
Do	C-2-S-AJ3 24 units per year (1944).													
Oregon Shipbuilding Corp., Portland, Oreg.	Cargo ships EC-2—11 units per year (1944).	S	December 1942.		do	22,769	22,409	13,894	8,515		360	360		

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United States of America—War Production Board: Authorizations of war manufacturing facilities financed with public and private funds through August 1944—Continued

Plant operator, facility, and type of product, 1939	War products and capacity	Capacity symbol	Date available	Employment added	Source of public funds and sponsor	Estimated cost in thousands of dollars								
						Total cost	Publicly financed				Privately financed			
							Total	Structure	Equipment	Other	Total	Structure	Equipment	Other
Oregon Shipbuilding Corp., Portland, Oreg.	Cargo VC-2—32 units per year (1944).	S	March 1944	33,660	Maritime Commission.	22,769	22,409	13,894	8,515		360	360		
Do	Victory transports VC-2-S-AP—536 units per year (1944).	S	July 1944			80,439	70,479	42,064	28,415		9,960	1,546	8,335	79
Permanente Metal Corp., Manteca, Calif.	Magnesium metal and alloys—20,000,000 pounds per year.	CA	March 1943	910	DPC—War	6,623	6,623	2,543	4,080					
Moss Landing, Calif.	Magnesium oxide—1,000 tons per quarter.	CT	February 1944			2,000					2,000	133	1,850	17
Natividad Ranch, Calif.	Calcined dolomite—34,200 tons per quarter.	CT	January 1944			2,083					2,083	114	1,910	59
Do	Crushed raw dolomite rock—93,000 tons per quarter.	CT	do											
Permanente, Calif.	Magnesium—20,000,000 pounds per year.	CT	December 1943.		RFC	26,238	26,202	13,481	12,721		36	13	23	
Do	Magnesium oxide—1,000 tons per month.	CT	February 1942			2,180					2,180	564	1,613	3
Do	Ferrosilicon—10,000 gross tons per year.	CT	August 1942											
Do	Portland cement—1,200,000 barrels per quarter.	CT	December 1941.			3,510					3,510	571	2,939	
Shipbuilding Division, Richmond, Calif.	EC-2 cargo—117 units per year (1944).	S	1941	52,000	Maritime Commission.	30,723	30,562	18,948	11,614		151	151		

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Do	VC-2 cargo—47 units per year (1944).	S	May 1944		British	7,092	7,092	7,092						
Do	VC-2 transports—22 units per year (1944).	S	August 1944											
St. Johns River Shipbuilding Co., Jacksonville, Fla.	EC-2 cargo—57 units per year (1944).	S	April 1943	15,410	Maritime Commission.	17,520	17,520	10,862	6,658					
Southeastern Shipbuilding Corp., Savannah, Ga.	EC-2 cargo—52 units per year (1944).	S	February 1943	14,000	do	12,019	12,019	7,452	4,567					
Todd Houston Shipbuilding Corp., Houston, Tex., new plant.	Cargo ships EC-2—78 units per year (1944).	S	October 1942	22,080	do	14,521	14,492	8,985	5,507		29	29		
Walsh-Kaiser Co., Inc., Providence, R. I.	Cargo ships EC-2—5 units per year (1944).	S	April 1943											
Do	Combat loaded cargo—32 units per year (1944).	S	June 1944	17,760	do	29,995	29,950	16,089	9,861		45		45	
Do	Corvettes—15 units per year (1944).	S	July 1943											

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EXHIBIT 7

TERMINATION SETTLEMENT UNITED STATES MARITIME COMMISSION
KAISER CO., INC., RICHMOND, CALIF.

Summary

Under date of May 15, 1945, the Commission's Committee on Awards consisting of H. L. Vickery, R. E. Anderson, William A. Weber, Walston S. Brown, and R. P. Mills, submitted to the Commission recommendations (prepared by Walston S. Brown) that an agreement be entered into with Kaiser Co., Inc., providing a fixed price of $354,690,000 for the construction of 35 C-4 vessels.

The proposed settlement, prepared by Walston Brown and approved by the Committee on Awards is as follows:

"Kaiser Co., Inc., entered into a contract under date of January 9, 1942, which contract, as amended, provided for the construction of 30 design C-4 vessels at the shipyard known as Richmond yard No. 3. Work under this contract will not be completed for several months. Under date of May 4, 1943, the Commission and Kaiser Co., Inc., entered into a letter of intent which provided that a fixed-price contract will be made covering the construction of an additional five C-4 vessels which are now scheduled for delivery during the last half of this year.

"Kaiser Co., proposed, in January of this year, to enter into a fixed-price contract covering the construction of all 35 vessels called for by the existing contract and the letter of intent. After this proposal was received the Finance Division made a careful review of the costs incurred in connection with the construction of the first 30 vessels, the contract for which was on the so-called price-minus basis. As a result of this it was determined that the costs so far incurred, together with the estimated cost of completing the contract work, without allowance for contingencies, was the sum of approximately $303,200,000. Representatives of the contractor agreed to accept a contract price equal to this cost, together with an amount to cover profit and contingencies.

"Under the contract dated Januery 9, 1942, as amended, the minimum fee is $100,000 for each of 10 vessels, and $102,500 for each of the remaining 20 vessels. The maximum fee is $518,000 per vessel. Since the costs definitely exceed the target price of $6,235,000 per vessel stated in the contract, and the actual delivery dates are much later than those set forth, it would appear that the conractor should be entitled to receive as profit not more than the minimum fee, although the increased cost and delays may in large measure be attributable to the numerous changes in plans and specifications made by the Commission at the request of the War Department and later by the Navy Department. It was therefore decided to recommend that the contractor agree to limit the profit on account of the 30 vessels covered by the contract dated January 9, 1942, to the sum of $3,050,000 the minimum fee specified in such contract.

"The contractor has pointed out that this profit is approximately 1 percent of costs incurred, and that on account of the disallowances hereafter referred to it will be reduced to approximate one-half percent of such costs. The contractor therefore contended that a rather liberal contingency should be allowed in the price of the 30 vessels, and asked that such contingency be placed at 1½ percent of the total estimated cost, or approximately the sum of $4,500,000. The committee, in lieu of this, suggested a contingency of approximately $3,800,000 which is acceptable to the contractor. The afore-mentioned contingency does not cover the contractor's liability on account of violations of the Fair Labor Standards Act. These violations which came about by making deductions from the pay of exempt employees at the direction of the Commission, and classifying certain employees as administrative and executive with the approval of the Commission, give rise to a total liability which may equal the sum of $2,000,000. The contractor has requested that this amount be included in the contract price, upon the understanding, however, that if the total payments which it is required to make on account of liabilities incurred under the Fair Labor Standards Act shall actually be less than such amount, the contract price may be correspondingly decreased.

"The contract price for the remaining five vessels should be the same as that recommended for the vessels of identical design to be built by the same company at the Vancouver, Wash., yard. Such price is $8,000,000, but does not include the performance of joiner work by the contractor. The estimated cost of joiner work is $538,000 per vessel, making the total contract price for the last five vessels the sum of $8,538,000 per vessel. Adding such contrast price to the $312,000,000 for the first 30 vessels will make a contract price of $354,690,000.

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"In the memorandum from this committee in regard to an award of contract for the construction of C-4 vessels at Vancouver, Wash., it is recommended that all profits in excess of $520,000 per vessel be subject to recapture. This would equal $2,600,000 for the five vessels at Richmond covered by the letter of intent. Adding this to the minimum fee of $3,050,000 to be allowed as profit on the 30 vessels, the Commission will recapture all profits in excess of $5,650,000.

"In determining costs for recapture the contractor should not have substantially more favorable treatment in respect of the costs incurred for the construction of the 30 vessels than it would have under the price-minus contract. There have been disallowed from costs, or withheld by the contractor from applications for payments, to date, charges amounting to $1,597,504.20. The Finance Division has reviewed these disallowances and determined the charges totaling $231,228.25 included therein should have been allowed. It is therefore recommended that the contract provide that both parties agree for the purpose of determining profits, the sum of $1,366,276 shall be disallowed from cost on account of the disallowances heretofore made by the Commission.

"As has been pointed out above the contract price recommended contains a substantial allowance to cover contingencies. In view of this, and the fact that Kaiser Co., Inc., is engaged in other activities, it is believed that special provisions should be made for withholding, at the Commission's option, a sufficient amount to protect recapture, rather than to make the usual provisions for payment of the full amount of the contract price upon delivery of the last vessel. Such provision should have the effect of permitting the Commission to withhold (i) part or all of the $5,800,000 contingency which includes that for restitution paid, contained in the unadjusted price for the 30 vessels, (ii) the sum of $1,600,000 which represents the normal hold-back from the contract price specified for the five vessels, and (iii) such additional amount as the Commission may determine at any time to be necessary in order to protect its rights of recapture, but not to exceed the sum of $3,000,000.

"Recommendation: It is recommended that the Commission enter into a contract with Kaiser Co., Inc., in accordance with the provisions outlined in this memorandum."

Although the letter of intent states that the contract will be dated as of May 2, 1944, and numbered MCc-28994, such contract is dated as of April 1, 1945, but was actually approved by the Commission May 17, 1945.

As of May 17, 1945, progress of completion of the 35 vessels was as follows:

Vessels delivered	26
Hulls launched	5
Keels laid	3
Keel unlaid	1

The progress reports reflect percentages of completion of the vessels as of April 30, 1945, and May 31, 1945, as follows:

Hull No.	Percentage of completion—			Hull No.	Percentage of completion—		
	As of Apr. 30, 1945	As of May 31, 1945	Month of May 1945		As of Apr. 30, 1945	As of May 31, 1945	Month of May 1945
653	100	100	0	706	100	100	0
654	100	100	0	707	100	100	0
655	100	100	0	708	100	100	0
656	100	100	0	709	100	100	0
657	100	100	0	710	100	100	0
658	100	100	0	711	100	100	0
659	100	100	0	712	100	100	0
660	100	100	0	713	96.8	100	3.2
661	100	100	0	714	87.0	98.5	11.5
662	100	100	0	715	83.0	85.1	2.1
663	100	100	0	716	79.8	81.0	1.2
664	100	100	0	2383	56.2	71.7	15.5
665	100	100	0	2384	48.8	63.0	14.2
666	100	100	0	2385	38.6	53.6	15.0
667	100	100	0	2386	29.0	45.4	16.4
702	100	100	0	2387	25.4	33.9	8.5
703	100	100	0				
704	100	100	0	Total	3,144.6	3,232.2	87.6
705	100	100	0	Average	89.8	92.3	2.5

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The progress report (No. 89 for May 1945 contains footnotes as follows:

Hulls 653–659: Delivered as incomplete. Conversion work completed outside builders yard under Navy contract.

Hull 660: Delivered as incomplete. Completion of conversion by Kaiser-Vancouver contract MCc–29967.

Hulls 661–662: Delivered as incomplete. Completion of conversion by Kaiser-Three contract MCc–29942.

Hulls 665–666: Outfitted by Kaiser-Vancouver contract MCc–2046, addendum No. 8.

Hulls 702–703: Delivered as incomplete. Completion of conversion by Kaiser-Vancouver contracts MCc–27050 and 29089.

Hulls 704–706: Delivered as incomplete. Completion of conversion by Kaiser-Three contract MCc–29942.

In the event the vessels were delivered as incomplete (progress reports show 100 percent complete) there may exist an overlapping of payments under the contracts and settlements thereunder.

Attention is invited to the statement in the first paragraph of the memorandum—

"Under date of May 4, 1943, the Commission and Kaiser Co., Inc., entered into a letter of intent which provided that a fixed price contract will be made covering the construction of additional 5 C4 vessels * * *."

The letter of intent referred to is dated May 4, 1944, and provides for the construction of 10 additional C4 vessels (hulls 2383 to 2392), 5 of which (hulls 2388 to 2392) were canceled, and said letter of intent provides that the contract will be either upon a fixed price or the so-called price-minus basis.

It will be noted that as a result of establishing a fixed price contract for the last 5 vessels, the contractor is allowed a profit thereon of $520,000 per vessel as compared with $100,000 per vessel for the first 10 and $102,700 per vessel for the next 20 vessels. In other words the contractor is allowed a profit per vessel on the last 5 vessels which exceeds the profit per vessel on the first 30 vessels by more than 5 times as follows:

Group	Vessels	Profit or fee per vessel	Total
1	10	$100,000	$1,000,000
2	20	102,500	2,050,000
3	5	520,000	2,600,000
Total	35		5,650,000

The records of the Commission show that as of May 17, 1945, keels for four of the last five vessels had been laid and one hull had been launched.

EXHIBIT 8

SEPTEMBER 17, 1946.

MR. MARVIN J. COLES,
General Counsel, Merchant Marine and Fisheries
Investigating Committee, House of Representatives.

DEAR MR. COLES: As requested in your letter of September 13, 1946, and in accordance with conversations at our meeting in my office on that date with Mr. Sidney T. Thomas, Chief of the Tax Amortization Branch of this Admin-

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istration, I am furnishing below for the use of the Merchant Marine and Fisheries Investigating Committee a brief description of the necessity certificates issued to the Kaiser Co., Inc., the Permanente Corp., and the Permanente Metals Corp. The identifying serial numbers assigned to these cases begin with the letters WD–N where the certificates were issued by the War Department and ND–N where the Navy Department issued the certificate. Certificates issued by the War Production Board are identified by the letters NC. The list and description of facilities together with the approximate dollar cost follows:

Serial No.	Description	Approximate cost
	THE PERMANENTE CORP.	
ND–N–1497	Bulk cement storage and transfer facilities Honolulu, T. H.	$118, 247. 54
ND–N–4221	Filter equipment—Permanente cement plant, Permanente, Calif.	143, 017. 45
WD–N–4091	Lime kiln conversion, track hopper and conveying equipment—Permanente, Calif.	157, 345. 68
WD–N–480	Complete magnesium oxide and metallic magnesium plants—Santa Clara County, Calif.	[1] 6, 500, 000. 00
WD–N–1323	Excavation kiln piers, kilns, building alterations, boiler system, etc., for magnesium oxide plant—Santa Clara County, Calif.	1, 508, 059. 32
ND–N–687	Mills, pumps, separators, piping, etc., for cement plant, Santa Clara County, Calif.	500, 871. 07
	KAISER CO., INC.	
ND–N–4896	Open hearth plant expansion, buildings and shops, soaking pits, slow-cooling ingot pits, structural mill, foundry additions, merchant mill, alloy finishing facilities and yard development for steel plant—Fontana, Calif.	30, 679, 654. 58
ND–N–4728	Buildings, shops, miscellaneous items for production of coal—Sunnyside, Utah.	120, 223. 68
ND–N–3645	Coal-tar plant, tank cars, bagging equipment for production of creosote and heavy oils and ammonium sulphate—Fontana, Calif.	520, 262. 23
ND–N–2997	Roads, buildings, mining equipment, trucks, crushing equipment, etc., for producing iron ore near Kelso, Calif.	889, 498. 98
ND–N–2706	Machinery, supplies and equipment for coal mine—Carbon County, Utah.	1, 068, 277. 19
ND–N–2389	Land, coke plant, blast furnace, power plant, yard development, etc., for steel plant—Fontana, Calif.	53, 048, 866. 34
	THE PERMANENTE METALS CORP.	
WD–N–7456	Arc furnaces, furnace building, conveyor, etc.	2, 033, 695. 28
WD–N–7023	Magnesium plant in Monterey County, Calif.	2, 232, 612. 89
WD–N–7455	Buildings and equipment for a calcining plant at Monterey County, Calif.	1, 907, 048. 38
WD–N–26372	Building, electrical distribution system, laboratory, and processing equipment; Permanente, Calif.	215, 942. 37
WD–N–21597	Furnaces—Permanente, Calif.	299, 006. 97
NC–877	Processing equipment and machinery—Permanente, Calif.	242, 874. 09

[1] Estimated.

According to our records, Federal funds were loaned by the Reconstruction Finance Corporation for the construction of the Iron and Steel Division plants of the Kaiser Co., Inc., at Fontana, Calif., and for certain plants of the Permanente Metals Corp. I would suggest that you address any request for information regarding these loans to the Reconstruction Finance Corporation.

I trust that the above information will serve your purpose.

Very truly yours,

FRANCESCO M. BIANCO,
Acting Director, Financial Policy Division.

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EXHIBIT 9

Number and average time to complete Liberty ships constructed by each shipyard

Shipyard	Number of ways	Date first keel laid	Number completed						Average number days to complete each vessel [1]
			1941	1942	1943	1944	1945	Total	
ATLANTIC COAST									
Bethlehem-Fairfield Shipyard, Baltimore, Md	16	Apr. 30, 1941	1	[2] 77	[2] 192	114	------	384	53.8
J. A. Jones Construction Co., Brunswick, Ga	6	July 6, 1942	------	------	21	53	11	85	79.7
New England Shipbuilding Corp., South Portland, Maine, west yard	6	Sept. 24, 1941	------	12	40	48	12	112	77.2
New England Shipbuilding Corp., [3], South Portland, Maine, east yard	7	Sept. 8, 1942	------	2	51	52	27	132	70.4
North Carolina Shipbuilding Co., Wilmington, N. C	9	May 22, 1941	------	51	75	------	------	126	64.8
St. John's River Shipbuilding Co., Jacksonville, Fla	6	Aug. 15, 1942	------	------	25	51	6	82	77.6
Southeastern Shipbuilding Co., Savannah, Ga	6	May 22, 1942	------	------	36	44	8	88	85.6
Walsh-Kaiser Co., Providence, R. I	6	June 27, 1942	------	------	[4] 6	5	------	11	208.7
Total	62		1	142	446	367	64	1,020	68.4
GULF COAST									
Alabama Drydock & Shipbuilding Co., Mobile, Ala	12	July 28, 1941	------	[5] 18	2	------	------	20	137.5
Delta Shipbuilding Co., New Orleans, La	8	Oct. 1, 1941	------	28	[5] 35	60	9	[6] 132	82.8
J. A. Jones Construction Co., Panama City, Fla	6	July 9, 1942	------	------	21	53	28	102	83.3
Todd Houston Shipbuilding Corp., Houston, Tex	9	July 18, 1941	------	32	74	83	19	208	68.4
Total	35		------	78	132	196	56	462	78.8
PACIFIC COAST									
California Shipbuilding Corp., Los Angeles, Calif	14	May 24, 1941	------	109	[5] 166	31	------	[7] 306	60.7
Kaiser Co., Vancouver, Wash	12	Apr. 15, 1942	------	[4] 2	8	------	------	10	80.4
Marinship Corp., San Francisco, Calif	6	June 27, 1942	------	5	[5] 10	------	------	15	112.2
Oregon Shipbuilding Corp., Portland, Oreg	11	May 19, 1941	1	113	197	11	------	322	44.9
Permanente Metals Corp., yard No. 1 [3]	7	May 12, 1942	------	30	92	16	------	138	48.3
Permanente Metals Corp., yard No. 2	12	Sept. 17, 1941	------	63	187	101	------	351	41.1
Total	62		1	322	660	159	------	1,142	49.6
Grand total	159		2	542	1,238	722	120	2,624	62.0

[1] Time to construct includes the day of keel laying.
[2] Facilities employed part of year on special naval type ships.
[3] Yard previously built 30 similar ships for Great Britain.
[4] Part of contract suspended to permit construction of special Navy type vessels
[5] Part of contract canceled to permit tanker construction.
[6] Does not include 32 Liberty type tankers constructed, and 24 Liberty colliers.
[7] Does not include 30 Liberty type tankers constructed.

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Liberty EC-2 cargo ships completed each month and average number of days to build

Month	Number of yards producing	Number built each month	Monthly average time to complete	Cumulative number of ships constructed	Cumulative average time to complete
1941—December	2	2	236.0	2	236.0
1942—January	2	3	241.3	5	239.8
February	5	12	227.8	17	232.1
March	5	16	217.7	33	225.6
April	5	26	179.2	59	205.6
May	8	43	155.4	102	184.7
June	9	51	122.4	153	164.3
July	10	52	108.4	205	150.4
August	11	57	82.9	262	136.0
September	10	67	70.1	329	122.8
October	11	65	66.0	394	113.6
November	11	68	56.0	462	102.0
December	12	82	55.0	544	97.9
1943—January	13	79	52.6	623	92.3
February	14	81	62.1	704	88.9
March	14	103	59.5	807	85.2
April	15	110	58.1	917	81.9
May	15	120	57.6	1,037	79.1
June	15	115	56.1	1,152	76.8
July	15	109	53.8	1,261	74.4
August	14	110	46.8	1,371	72.1
September	12	106	42.2	1,477	70.0
October	12	98	42.6	1,575	68.3
November	11	89	43.2	1,664	66.9
December	12	118	42.0	1,782	65.3
1944—January	12	73	44.0	1,855	64.5
February	13	78	50.7	1,933	63.9
March	13	83	55.2	2,016	63.5
April	13	79	55.1	2,095	63.2
May	12	67	54.5	2,162	63.0
June	10	55	51.4	2,217	62.7
July	10	51	59.5	2,268	62.6
August	9	50	61.6	2,318	62.6
September	9	43	58.1	2,361	62.5
October	9	51	56.9	2,412	62.4
November	8	48	53.1	2,460	62.2
December	8	44	48.8	2,504	62.0
1945—January	8	32	54.0	2,536	61.9
February	8	30	55.4	2,566	61.8
March	6	21	60.2	2,587	61.8
April	3	8	66.2	2,595	61.8
May	4	6	76.1	2,601	61.8
June	2	7	73.8	2,608	61.8
July	1	2	70.0	2,610	61.9
August	2	6	86.0	2,616	61.9
September	2	4	97.2	2,620	62.0
October	2	4	105.7	2,624	62.0

NOTE.—These figures do not include 62 Liberty ship tankers and 24 Liberty ship colliers.

EXHIBIT 10

KAISER COMPANIES

ADJUSTMENTS TO REPORTED PROFIT RATES

An analysis of the reported contract volume and fees and profits earned before and after Federal income taxes by the six so-called Kaiser companies reveals that the percentages of profits reported by these companies were less than the profits

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actually earned on Maritime Commission contracts because of the inclusion of the following items:

A. Inclusion in contract volume of amounts which do not represent costs of construction, i. e., cost-type contracts on which no fees or profits were paid, retention of amounts in process of settlement, as well as fees and profits paid.

B. Inclusion of Government-furnished materials.

C. Inclusion in income taxes of the estimated amount of taxes which would have accrued but for the deduction of losses sustained from operations other than ship construction.

The above-named items have been deducted from the reported costs and profits; unpaid fees have also been excluded and the adjusted profit rates computed for each of the six companies and totaled for all six companies in the following tables.

Adjusted summaries of shipyard income to May 31, 1946

KAISER COMPANIES—TOTAL

	Per report	Adjustments	As adjusted
Total of shipbuilding contracts	$3,488,139,399	($493,855,601)	$2,994,283,738
Government-furnished materials	$1,703,274,630	($1,703,274,630)	
Total contract volume	$5,191,413,969	($2,197,130,231)	$2,994,283,738
Profit before taxes:			
Amount	$170,154,382	($3,654,333)	$166,500,049
Rate (percent)	3.3		5.6
Federal income taxes	$118,051,101	($46,066,150)	$71,984,951
Profit after taxes:			
Amount	$52,103,281	$42,411,817	$94,515,098
Rate (percent)	1.0		3.2

PERMANENTE METALS CORP.

Total of shipbuilding contracts	$726,802,282	($92,821,877)	$633,980,405
Government-furnished materials	$542,214,500	($542,214,500)	
Total contract volume	$1,269,016,782	($635,036,377)	$633,980,405
Profit before taxes:			
Amount	$53,509,637	($1,000,000)	$52,509,637
Rate (percent)	4.2		8.3
Federal income taxes	$37,692,071	($16,244,438)	$21,447,633
Profit after taxes:			
Amount	$15,817,566	$15,244,438	$31,062,004
Rate (percent)	1.3		4.9

KAISER CO., INC.

Total of shipbuilding contracts	$1,342,475,189	($185,731,859)	$1,156,743,330
Government-furnished materials	$316,334,854	($316,334,854)	
Total contract volume	$1,658,810,043	($502,066,713)	$1,156,743,330
Profit before taxes:			
Amount	$41,133,396	($2,654,333)	$38,479,063
Rate (percent)	2.5		3.3
Federal income taxes	$29,821,712	($29,821,712)	
Profit after taxes:			
Amount	$11,311,684	$27,167,379	$38,479,063
Rate (percent)	.7		3.3

OREGON SHIPBUILDING CORP.

Total of shipbuilding contracts	$527,670,561	($70,584,708)	$457,085,853
Government-furnished materials	$435,917,000	($435,917,000)	
Total contract volume	$963,587,561	($506,501,708)	$457,085,853
Profit before taxes:			
Amount	$40,281,080		$40,281,080
Rate (percent)	4.2		8.9
Federal income taxes	$27,169,588		$27,169,588
Profit after taxes:			
Amount	$13,111,492		$13,111,492
Rate (percent)	1.4		2.9

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Adjusted summaries of shipyard income to May 31, 1946—Continued

KAISER FLEETWINGS, INC.

	Per report	Adjustments	As adjusted
Total of shipbuilding contracts	$108, 594, 076	($55, 532, 267)	$53, 061, 809
Government-furnished materials	19, 248, 000	($19, 248, 000)	
Total contract volume	$127, 842, 076	($74, 780, 267)	$53, 061, 809
Profit before taxes:			
Amount	$1, 047, 301		$1, 047, 301
Rate (percent)	.8		2.0
Federal income taxes	$776, 619		$776, 619
Profit after taxes:			
Amount	$270, 682		$270, 682
Rate (percent)	.2		.5

CALIFORNIA SHIPBUILDING CORP.

Total of shipbuilding contracts	$601, 278, 431	($76, 605, 013)	$524, 673, 418
Government-furnished materials	$389, 560, 276	($389, 560, 276)	
Total contract volume	$990, 838, 707	($466, 165, 289)	$524, 673, 418
Profit before taxes:			
Amount	$31, 433, 815		$31, 433, 815
Rate (percent)	3.2		6.0
Federal income taxes	$22, 591, 111		$22, 591, 111
Profit after taxes:			
Amount	$8, 842, 704		$8, 842, 704
Rate (percent)	.9		1.7

WALSH-KAISER CO., INC.

Total of shipbuilding contracts	$181, 318, 800	($12, 579, 677)	$168, 739, 123
Government-furnished materials			
Total contract volume	181, 318, 800	(12, 579, 677)	168, 739, 123
Profit before taxes:			
Amount	2, 749, 153		2, 749, 153
Rate (percent)	1.5		1.6
Federal income taxes [1]			
Profit after taxes: [1]			
Amount			
Rate (percent)			

[1] Not furnished.

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Adjustments to summaries of shipyard income to May 31, 1946

KAISER COMPANIES

	Total	Permanente Metals Corp.	Kaiser Co., Inc.	Oregon Shipbuilding Corp.	Kaiser Fleetwings, Inc.	California Shipbuilding Corp.	Walsh-Kaiser Co., Inc.
Total of shipbuilding contracts: Cost-type contracts on which no fees or profits were paid	$254,044,457	$31,014,219	$112,062,924	$22,684,157	$53,458,285	$25,391,140	$9,433,732
Retentions and amounts in process of settlement	37,139,736	3,819,716	29,766,135	2,782,153	[1] 728,982	42,750	----------
Fees, actual	202,671,408	43,743,262	18,765,800	27,235,611	360,000	51,171,123	3,145,945
Profits		14,244,680	25,137,000	17,882,987	985,000		
Total	493,855,601	92,821,877	185,731,859	70,584,908	55,532,267	76,605,013	12,579,677
Government-furnished materials	1,703,274,630	542,214,500	316,334,854	435,917,000	19,248,000	389,560,276	----------
Profit before taxes: Unpaid fees	3,654,333	1,000,000	2,654,333	----------	----------	----------	----------
Federal income taxes:							
Computed on profits from Maritime Commission work	118,051,101	37,692,071	29,821,712	27,169,588	776,619	22,591,111	----------
Paid	71,984,951	21,447,633	----------	27,169,588	776,619	22,591.111	----------
Tax savings resulting from deductible losses from other operations	46,066,150	16,244,438	29,821,712	----------	----------	----------	----------

[1] Less agency cash, $68,863.

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Cost-type contracts on which no fees or profits were paid

Company	Contract No.	Amount paid
Permanente Metals Corp.	MCc 16227	$667,795
	MCc 18932	5,850,332
	MCc 40300	542,693
	DA-MCc 2&732	23,953,399
Total		31,014,219
Kaiser Co., Inc.	MCc 2393	26,509,880
	MCc 2048	51,085,069
	MCc 32032	2,620,752
	MCc 2049	28,919,583
	MCc 16585	71,689
	MCc 26725	2,855,951
Total		112,062,924
Oregon Shipbuilding Corp.	MCcESP-598, MCcESP-2	18,165,778
	MCc 17510	4,518,379
Total		22,684,157
Kaiser Fleetwings, Inc.	MCc-13181	53,458,285
California Shipbuilding Corp.	MCc 33932	103,707
	MCc 36035	56,179
	MCc (ESP) 1&597	21,219,978
	MCc 16830	4,011,276
Total		25,391,140
Walsh-Kaiser Co.	MCc 13637	9,433,732

EXHIBIT 11

REPORT OF THE PERMANENTE METALS CORP. AND RICHMOND SHIPBUILDING CORP. TO MERCHANT MARINE AND FISHERIES INVESTIGATING COMMITTEE, AUGUST 30, 1946

AUGUST 29, 1946.

MERCHANT MARINE AND FISHERIES INVESTIGATING COMMITTEE,
House of Representatives, Washington 25, D. C.

GENTLEMEN: Reference is made to your letter dated July 27, 1946, in which you request that certain information be furnished concerning the operation of each of the shipyards of this company.

The Permanente Metals Corp. acquired 100 percent of the stock of Richmond Shipbuilding Corp. as of December 31, 1941. Richmond Shipbuilding Corp. was thereafter dissolved as of March 19, 1946, and the assets and liabilities of the said Shipbuilding Corp. were transferred to The Permanente Metals Corp. The managing personnel of Richmond Shipbuilding Corp. and the Permanente Metals Corp. were at all times identical. The Government contracts held by both corporations were renegotiated by the United States Maritime Commission on a consolidated basis. Both corporations used jointly the facilities designated as Richmond Shipyards No. 1 and No. 2 and the prefabrication plant. For these reasons we are submitting herewith separate answers for each of the two companies respecting questions 1 to 8, inclusive, of your letter, and answers to questions 9 to 12, inclusive, will be summarized in tabulations covering both companies.

INFORMATION CONCERNING THE PERMANENTE METALS CORP.

1. *Date on which the company was formed and a copy of its corporate charter.*—This company was incorporated on December 9, 1940, as the Todd-California Shipbuilding Corp. The name of the company was changed to the Permanente Metals Corp. on November 8, 1941. A copy of the certificate of incorporation as amended is attached hereto as exhibit A.

2. *The total capital of the company, giving a break-down of the types of stock and securities.*—The capitalization of the company was $460,000 represented by no-par common stock, but the funds therefrom were used in the operations of another division of the company. The total amount available for shipbuilding

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operations of the company was $8,500,000 comprised of loans and advances without interest from its wholly owned subsidiary in the amount of $2,500,000 and private bank loan commitments in the total amount of $6,000,000, although such bank loans never actually exceeded $5,000,000. These bank loans were never guaranteed by the Government or any agency thereof. (Please refer to exhibit B, attached, for further details.)

3. *The names of all officers and directors and a statement of their annual compensation.*—The names of all officers and directors are shown on exhibit C, attached hereto. No officer or director received compensation for holding any office or directorship as such with the exception of Mr. Joseph Haag, Jr., for a short period of time. All compensation was for services rendered as an employee of the company and reference is made to exhibit D, attached hereto, for a full statement of the compensation paid such employees.

4. *The names of all officers and employees who have received compensation of over $15,000 per annum, giving the amounts received and the extent to which such payments were reimbursable by the Maritime Commission.*—Exhibit D attached contains schedules detailing not only the information requested but also the compensation of all individuals who have been officers or directors of any of the following companies:

Kaiser Co., Inc.
The Permanente Metals Corp.
Richmond Shipbuilding Corp.
Kaiser Fleetwings, Inc. (formerly Kaiser Cargo, Inc.).
Oregon Shipbuilding Corp.

Only those officers or directors who were employed full time on shipbuilding activities were compensated for services in connection therewith, and the president of the company and many other officers and directors did not receive any compensation whatsoever in connection with the shipbuilding operations although very considerable time and effort was devoted by them to the shipbuilding business. During the course of the shipbuilding program only six persons were ever paid at an annual rate in excess of $15,000 by any of the above-mentioned companies for services performed in the shipbuilding operations and in only three instances was more than $15,000 reimbursed by the Maritime Commission. One such instance involved Mr. J. F. Reis, administrative manager of all of the shipyards operated by the above companies, who was paid a total of $15,576 in 1944 which was fully reimbursed. Another instance involved Mr. C. P. Bedford, vice president and general manager of two yards of this company, one yard of Kaiser Co., Inc., and one yard of Kaiser Fleetwings, Inc. (formerly Kaiser Cargo, Inc.), who was paid in excess of $15,000 per year, the highest amounts being $26,474 in 1945 of which $16,666 was reimbursed and $21,154 paid in 1943 of which $20,307 was reimbursed. A third instance involved Mr. Edgar F. Kaiser, general manager of yards operated in Oregon and Washington by Oregon Shipbuilding Corp. and Kaiser Co., Inc., and is therefore not involved here but reference is made to the reports of these companies being submitted simultaneously herewith for further particulars. Messrs. Edgar F. Kaiser and C. P. Bedford as general managers had the direct and primary responsibility for the management and operation of a total of 7 shipyards operated by the above-mentioned companies which employed in excess of 180,000 persons at various times during the course of the war and produced 1,474 ships for the Maritime Commission.

5. *The names of all persons, associations, or corporations holding 5 percent or more of the capital stock of the company, giving the amounts of capital stock held by each.*—Please see exhibit E, attached, for complete information.

6. *The shipbuilding experience prior to 1941 of all officers, directors, and stockholders holding over 5 percent of the capital stock.*—Prior to 1941, officers, directors, and stockholders of the company had been engaged in heavy construction projects which included, among others, the building of Boulder Dam, Bonneville Dam, Grand Coulee Dam, power houses and facilities, and many other projects. Through these activities and over the course of many years prior thereto, an integrated organization was developed which was experienced and proficient in procuring and handling large quantities of materials and in mass production and fabrication methods.

In 1939 the Kaiser interests and several associates joined with the Todd Shipbuilding Corp. in forming the Seattle-Tacoma Shipbuilding Corp. In July 1939 said company submitted the low competitive bid to the United States Maritime Commission for the construction of five C-1 cargo vessels. These vessels were

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completed in 1941 in a shipyard privately financed and constructed at Tacoma, Wash. During 1940 this same company was awarded contracts for 30 destroyers by the Navy Department and four C-3 cargo vessels and two C-3 troop transports by the Maritime Commission. Participation in this company by the Kaiser interests and associates continued until February 1942.

Messrs. J. H. Todd, J. D. Reilly, Joseph Haag, Jr., R. J. Lamont, C. F. Strenz, and Walter Green representing the Todd interests and all fully experienced in shipbuilding operations over a period of many years, served as officers and/or directors of Seattle-Tacoma Shipbuilding Corp. In addition, Mssrs. J. A. McEachern, C. A. Shea, Felix Kahn, Henry J. Kaiser, and G. G. Sherwood representing the Kaiser interests and associates also served as officers and/or directors of said corporation, Mr. McEachern and Mr. Sherwood having served respectively as vice president and treasurer. All of these latter individuals became officers and/or directors of the Permanente Metals Corp. Mr. McEachern and Mr. Shea had previously obtained shipbuilding experience during World War I. Mr. Shea was associated with the North Pacific Shipbuilding Co. through the firm of Twohy and Erickson, which shipbuilding company produced steel ships in Seattle during the last war. The J. A. McEachern Co. built wooden ships during the last war at Astoria, Oreg.

In December 1940 the Kaiser interests and associates again joined with the Todd Shipbuilding Corp. in forming Todd-California Shipbuilding Corp., of which Mr. Henry J. Kaiser was president and which contracted with the British Government to build a seven-way shipyard at Richmond, Calif., and 30 cargo ships. This yard was completed in August 1941 and in February 1942 the Todd interests in this corporation were acquired, the name of the corporation having been changed to the Permanente Metals Corp. and the British contract was completed by this company under the sponsorship and management of the Kaiser interests.

Through participation and association in the early shipbuilding activities of Seattle-Tacoma Shipbuilding Corp. and Todd-California Shipbuilding Corp. by individuals who later became or continued as officers, directors, or key personnel of this company, shipbuilding experience and "know-how" was obtained which was manifested early in 1942 when this company and Oregon Shipbuilding Corp. attained and thereafter maintained shipbuilding production records which set the pace in liberty ship construction for the entire Nation.

7. *The names of all officers, directors, or stockholders owning more than 5 percent of the capital stock of the company who have held positions as officers or directors of another company which had contracts with the Maritime Commission or the War Shipping Administration.*—No individual owns any of the stock of this company. For your information, however, a schedule is attached as exhibit F which shows the names of officers and directors holding such positions in one or more of the following corporations which had contracts with the United States Maritime Commission or the War Shipping Administration:

Kaiser Co., Inc.
The Permanente Metals Corp.
Richmond Shipbuilding Corp.
Kaiser Fleetwings, Inc. (formerly Kaiser Cargo, Inc.)
Oregon Shipbuilding Corp.
Columbia Construction Co.

In addition, Messrs. Henry J. Kaiser, G. G. Sherwood, and Edgar F. Kaiser were officers and/or directors of California Shipbuilding Corp. until April 1945.

8. *The names of all officers, directors or stockholders owning more than 5 percent of the capital stock of the company who have owned 5 percent or more of the capital stock of another company which had contracts with the United States Maritime Commission or the War Shipping Administration.*—No individuals owned any stock in this company, all stockholders being corporations. For a schedule of all corporations which have ever owned stock in this company, please refer to the answer to question 5. Of the corporations listed in the answer to question 5, we only have information respecting Henry J. Kaiser Co. and the Kaiser Co. The requested information in regard to these companies is included in the answer to question 13 of a similar questionnaire addressed by your committee to Kaiser Co., Inc. Reference is made to the report of Kaiser Co., Inc., in answer to said questionnaire being submitted simultaneously herewith. As to other corporations involved, this company does not have the requested information nor the means of securing it.

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INFORMATION PERTAINING TO BOTH THE PERMANENTE METALS CORP. AND RICHMOND SHIPBUILDING CORP.

9. *Description of all contracts between the company and Maritime Commission.*—Please refer to exhibit G for information pertaining to all Maritime Commission contracts of the Permanente Metals Corporation and its subsidiary, Richmond Shipbuilding Corporation, which also shows the allocation of the contracts between the respective companies. In summary, the total number of ships constructed and delivered by the two companies was 631. The total volume of work performed for the Maritime Commission by the two companies was $1,269,016,782. The total profit on this volume of work, after Federal income taxes, was $15, 817, 506, or 1.25 percent. However, losses on other operations of the company reduced the profit to $8,999,715 or 0.71 percent of the total volume of shipbuilding work.

10. *The fees and profits under each of the aforementioned contracts allowed after renegotiation.*—Please refer to exhibits G and H for this information.

11. *The status of each contract still subject to renegotiation giving, wherever possible, information showing the opinion of the Price Adjustment Board and your company as to the fees and profits permissible under each contract.*—All contracts of the Permanente Metals Corp. and Richmond Shipbuilding Corp. were renegotiated by the United States Maritime Commission on a consolidated basis and reference is made to exhibit H for the requested information concerning both companies.

12. *The total cost to the Government of the shipyards and facilities used by the company.*—The total cost of the shipyards and facilities used by the Permanente Metals Corp. and Richmond Shipbuilding Corp. was $35,421,775.59, all of which were constructed by the companies without fee or profit being paid by the Maritime Commission. For further details, please refer to exhibit I, attached.

INFORMATION CONCERNING THE RICHMOND SHIPBUILDING CORP.

1. *The date on which the company was formed and a copy of its corporate charter.*—Richmond Shipbuilding Corp. was incorporated on April 1, 1941. A copy of its certificate of incorporation is attached hereto as exhibit J.

2. *Total capital of the company, giving a break-down of the types of stock and securities.*—The total amount available for shipbuilding operations of this company was $2,360,000, comprised of $360,000 in capital stock and $2,000,000 in private bank loans not guaranteed by the Government or any agency thereof. See exhibit K, attached, for further particulars.

3. *The names of all officers and directors and a statement of their annual compensation.*—The names of all officers and directors are shown on exhibit L attached hereto. No officer or director received compensation for holding any office or directorship as such. All compensation was for services rendered as an employee of the company and reference is made to exhibit M, attached hereto, for a full statement of the compensation paid such employees.

4. *The names of all officers and employees who have received compensation of over $15,000 per annum, giving the amounts received and the extent to which such payments were recompensable by the Maritime Commission.*—Exhibit M, attached hereto, contains schedules showing not only the information requested, but also the compensation of all individuals who have been officers or directors of any of the following companies:

The Permanente Metals Corp.
Kaiser Co., Inc.
Oregon Shipbuilding Corp.
Kaiser Fleetwings, Inc.
Richmond Shipbuilding Corp.

Please refer to the answer to question 4 respecting the Permanente Metals Corp. for further information relative to compensation paid to officers, directors, or employees.

5. *The names of all persons, associates, or corporations holding 5 percent or more of the capital stock of the company, giving the amounts of capital stock held by each.*—Please refer to exhibit N for this information.

6. *The shipbuilding experience prior to 1941 of all officers, directors, and stockholders holding over 5 percent of the capital stock of the company.*—The answer to this question is the same for both the Permanente Metals Corp. and this company. Therefore, please refer to the answer to question 6, submitted herewith, respecting the Permanente Metals Corp.

7. *The names of all officers, directors, or stockholders owning more than 5 percent of the capital stock of the company who have held positions as officers*

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or directors of another company which had contracts with the Maritime Commission or the War Shipping Administration.—The answer to this question is the same for both the Permanente Metals Corp. and this company. Therefore, please refer to the answer to question 6, submitted herewith, respecting the Permanente Metals Corp.

8. *The names of all officers, directors, or stockholders owning more than 5 percent of the capital stock of the company who have owned 5 percent or more of capital stock of another company which had contracts with the Maritime Commission or the War Shipping Administration.*—The sole stockholder of Richmond Shipbuilding Corp. is the Permanente Metals Corp. No individual has owned in excess of 5 percent of the stock of the Permanente Metals Corp., all of which is held by various other corporations. Please refer to exhibits E and N and to the answer to question 8, submitted herewith, respecting the Permanente Metals Corp. for further particulars.

We shall be pleased to furnish you with any other information you may desire.

Respectfully submitted.

THE PERMANENTE METALS CORP.,
By HENRY J. KAISER, *President.*

Exhibit A

AMENDED CERTIFICATE OF INCORPORATION OF TODD-CALIFORNIA SHIPBUILDING CORPORATION, BEFORE PAYMENT OF CAPITAL

First.—The name of the corporation is Todd-California Shipbuilding Corporation.

Second.—Its principal office in the State of Delaware is located at No. 100 West Tenth Street, in the City of Wilmington, County of New Castle. The name and address of its resident agent is The Corporation Trust Company, No. 100 West Tenth Street, Wilmington, Delaware.

Third.—The nature of the business, or objects or purposes to be transacted, promoted, or carried on are:

To build, equip, operate, maintain, buy, sell, deal in and with, own, charter, and otherwise dispose of ships, vessels, and boats of every nature and kind whatsoever, together with all materials, articles, tools, machinery, and appliances entering into or suitable and convenient for the construction or equipment thereof, together with engines, boilers, machinery, appurtenances, tackle, apparel, and furniture of all kinds; to buy, lease, or otherwise acquire, construct, maintain, and operate wharves, piers, docks, and warehouses; to construct and maintain for the use of the company or for letting out on hire, graving and other docks and other conveniences for the building, repairing, or docking of ships and other vessels, and to aid in or contribute to the construction of any such works; to buy or otherwise acquire ships and vessels, complete or not complete, sound, or out of repair, for the purpose of improving, reselling, chartering, or otherwise making a profit out of the same, to carry on a general contracting business.

To manufacture, buy, or otherwise acquire, own, mortgage, sell, assign, transfer, or otherwise dispose of, trade and deal in and with goods, wares, and merchandise and personal property of every class and description.

To take, own, hold, deal in, mortgage, or otherwise give liens against, and to lease, sell, exchange, transfer or in any manner whatever, to dispose of real property.

To acquire and pay for in cash, stock, or bonds of this corporation, the goodwill, rights, assets, and property, and to undertake or assume the whole or any part of the obligations or liabilities of any person, firm, association, or corporation.

To acquire, hold, use, sell, lease, grant licenses in respect of, mortgage or otherwise dispose of, letters patent of the United States or any foreign country, patent rights, licenses, privileges, inventions, improvements, and processes, copyrights, trademarks, and trade names, relating to or useful in connection with any business of this corporation.

To loan money, to guarantee, purchase, hold, sell, assign, transfer, mortgage, pledge, or otherwise dispose of (as principal or agent) shares of the capital stock of, or any bonds, securities, or evidences of indebtedness created by any other corporation or corporations organized under the laws of this state or any other state, country, nation, or government, and while the owner thereof to exercise all the rights, powers, and privileges of ownership.

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To promote or to aid in any manner, financially or otherwise, any corporation or association, and for this purpose guarantee or become a surety upon the contracts, dividends, stock, bonds, notes, or other obligations of such other corporations or associations, and to do any other acts or things designed to protect, preserve, improve, or enhance the value of the stock, bonds, or other evidences of indebtedness or securities of such other corporation.

To enter into any lawful arrangements for sharing profits and/or losses, union of interests, reciprocal concessions or cooperation with any corporation, association, partnership, syndicate, person, governmental, municipal, or public authority, domestic or foreign, in the carrying on of any business which this corporation is authorized to carry on, or any business or transaction deemed necessary, convenient, or incidental to carrying out any of the purposes of the corporation.

To borrow money for any of the purposes of this corporation, and to issue bonds, debentures, notes, or other obligations therefor, and to secure the same by pledge or mortgage of the whole or any part of the property of this corporation, whether real or personal, or to issue bonds, debentures, notes, or other obligations without any such security.

To purchase, hold, sell, and transfer the shares of its own capital stock; provided it shall not use its funds for the purchase of its own shares of capital stock when such use would cause any impairment of its capital; and provided further, that shares of its own capital stock belonging to it shall not be voted upon directly or indirectly.

To carry on any other lawful business whatsoever which may seem to the corporation capable of being carried on in connection with the above, or calculated directly or indirectly to promote the interests of the corporation, or to enhance the value of its properties; and to have, enjoy, and exercise all the rights, powers, and privileges which are now or which may hereafter be conferred upon corporations organized under the same statutes as this corporation.

The foregoing clauses shall be construed both as objects and powers, and it is hereby expressly provided that the foregoing enumeration of specific powers shall not be held to limit or restrict in any manner the powers of this corporation.

Fourth.—The total number of shares of stock which the corporation shall have authority to issue is five thousand (5,000); all of such shares shall be without par value.

At all elections of directors of this corporation each holder of record of stock possessing voting power shall be entitled to as many votes as shall equal the number of shares of his stock multiplied by the number of directors to be elected and he may cast all of such votes for a single director or he may distribute them among the number to be voted for or any two or more of them as he may see fit, and thus exercise the right of cumulative voting.

Fifth.—The amount of capital with which the corporation will commence business is One Thousand Dollars ($1,000.00).

Sixth.—The names and places of residence of the incorporators are as follows:

Names	*Residences*
R. F. Lewis	Wilmington, Delaware
L. H. Herman	Wilmington, Delaware
Walter Lenz	Wilmington, Delaware

Seventh.—The corporation is to have perpetual existence.

Eighth.—The private property of the stockholders shall not be subject to the payment of corporate debts to any extent whatever.

Ninth.—In furtherance, and not in limitation of the powers conferred by statute, the board of directors is expressly authorized:

To make, alter, or repeal the bylaws of the corporation.

To authorize and cause to be executed mortgages and liens upon the real and personal property of the corporation.

To set apart out of any of the funds of the corporation available for dividends a reserve or reserves for any purpose or to abolish any such reserve in the manner in which it was created.

By resolution or resolutions, passed by a majority of the whole board to designate one or more committees, each committee to consist of two or more of the directors of the corporation, which, to the extent provided in said resolution or resolutions or in the bylaws of the corporation, shall have and may exercise the powers of the board of directors in the management of the business and affairs of the corporation, and may have power to authorize the seal of the corporation

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to be affixed to all papers which may require it. Such committee or committees shall have such name or names as may be stated in the bylaws of the corporation or as may be determined from time to time by resolution adopted by the board of directors.

When and as authorized by the affirmative vote of the holders of two-thirds of the stock issued and outstanding having voting power given at a stockholders' meeting duly called for that purpose, or when authorized by the written consent of the holders of two-thirds of the voting stock issued and outstanding, to sell, lease or exchange all of the property and assets of the corporation, including its good will and its corporate franchises, upon such terms and conditions and for such consideration, which may be in whole or in part shares of stock in, and/or other securities of, any other corporation or corporations, as its board of directors shall deem expedient and for the best interests of the corporation.

The corporation may in its by-laws confer powers upon its board of directors in addition to the foregoing, and in addition to the powers and authorities expressly conferred upon it by statute.

Tenth.—In the event that any authorized but unissued stock or any new class of stock shall be created, or the authorized number of shares of stock of the corporation shall be increased, or there shall be issued any bonds, notes, debentures, or other securities other than stock, convertible into stock, the holders of shares of stock of the corporation outstanding at the time such authorized but unissued stock or new class of stock, or such increase, is offered for subscription, shall have the right to subscribe for the shares of such new class of stock and for any shares of such increased stock so to be issued, or notes, debentures or other securities other than stock convertible into stock, before the same is offered for public subscription, in proportion to the number of shares owned respectively by each of the holders of such stock.

Eleventh.—The corporation may enter into contracts or transact business with one or more of its directors, or with any firm of which one or more of its directors are members, or with any corporation or association in which any one of its directors is a stockholder, director or officer, and such contact or transaction shall not be invalidated or in any wise affected by the fact that such director or directors have or may have interests therein which are or might be adverse to the interests of the corporation, even though the vote of the director or directors having such adverse interest shall have been necesary to obligate the corporation upon such contract or transaction; and no director or directors having such adverse interest shall be liable to the corporation or to any stockholder or creditor thereof, or to any other person, for any less incurred by it under or by reason of any such contract or transaction; nor shall any such director or directors be accountable for any gains or profits realized thereon: Always provided, however, that such contract or transaction shall at the time at which it was entered into have been a reasonable one to have been entered into and shall have been upon terms that at the time were fair.

Twelfth.—Whenever a compromise or arrangement is proposed between this corporation and its creditors or any class of them and/or between this corporation and its stockholders or any class of them, any court of equitable jurisdiction within the State of Delaware may, on the application in a summary way of this corporation or of any creditor or stockholder thereof, or on the application of any receiver or receivers appointed for this corporation under the provisions of Section 4407 of the Revised Code of 1935 of said State, or on the application of trustees in dissolution or of any receiver or receivers appointed for this corporation under the provisions of Section 43 of the General Corporation Law of the State of Delaware, order a meeting of the creditors or class of creditors, and/or of the stockholders or class of stockholders of this corporation, as the case may be, to be summoned in such manner as the said Court directs. If a majority in number representing three-fourths in value of the creditors or class of creditors, and/or of the stockholders or class of stockholders of this corporation, as the case may be, agree to any compromise or arrangement and to any reorganization of this corporation as consequence of such compromise or arrangement, the said compromise or arrangement and the said reorganization shall, if sanctioned by the Court to which the said application has been made, be binding on all the creditors or class of creditors, and/or on all the stockholders or class of stockholders, of this corporation, as the case may be, and also on this corporation.

Thirteenth.—Meetings of stockholders may be held without the State of Delaware, if the bylaws so provide. The books of the corporation may be kept (subject to any provision contained in the statutes) outside of the State of

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Delaware at such place or places as may be from time to time designated by the board of directors.

Fourteenth.—The corporation reserves the right to amend, alter, change or repeal any provision contained in this certificate of incorporation, in the manner now or hereafter prescribed by statute, and all rights conferred upon stockholders herein are granted subject to this reservation.

We, the undersigned, being each of the incorporators of Todd-California Shipbuilding Corporation, a corporation heretofore formed in pursuance of the General Corporation Law of the State of Delaware, being Chapter 65 of the Revised Code of Delaware and the acts amendatory thereof and supplemental thereto, and being the incorporators named in the original certificate of incorporation thereof, which was duly filed in the office of the Secretary of State on the 9th day of December, 1940, and a certified copy thereof recorded in the Recorder's office at Wilmington, Delaware, on the 9th day of December 1940, and no part of the capital of said corporation having been paid, do hereby pursuant to the provisions of Section 25 of said General Corporation Law, *Amend* said original certificate of incorporation so that the same shall read as hereinbefore set forth; and accordingly we do hereby set our hands and seals this 16th day of December A. D. 1940.

R. F. LEWIS. [SEAL]
L. H. HERMAN. [SEAL]
WALTER LENZ. [SEAL]

In the presence of—
HAROLD E. GRANTLAND.

STATE OF DELAWARE,
County of New Castle, ss:

Be it remembered, that on this 16th day of December A. D. 1940, personally appeared before me, Harold E. Grantland, a Notary Public for the State of Delaware, R. F. Lewis, L. H. Herman, and Walter Lenz, all of the parties to the foregoing amended certificate of incorporation, known to me personally to be such, and severally acknowledged the said amended certificate to be the act and deed of the signers respectively and that the facts therein stated are truly set forth.

Given under my hand and seal of office the day and year aforesaid.

HAROLD E. GRANTLAND, *Notary Public.*

Appointed January 10, 1939, State of Delaware, term two years.

CERTIFICATE OF AMENDMENT OF AMENDED CERTIFICATE OF INCORPORATION, OF TODD-CALIFORNIA SHIPBUILDING CORPORATION

Todd-California Shipbuilding Corporation, a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware, does hereby certify:

First.—That the Board of Directors of said corporation, at a meeting duly convened and held, adopted a resolution proposing and declaring advisable the following amendment to the Amended Certificate of Incorporation of this corporation:

> *Resolved*, That the Amended Certificate of Incorporation of Todd-California Shipbuilding Corporation be amended by changing the article thereof numbered "First" so that, as amended, the said article shall be and read as follows:
>
> "*First.*—The name of this corporation is the Permanente Metals Corporation."

Second.—That the said amendment has been consented to and authorized by the holders of all the issued and outstanding stock, entitled to vote, by a written consent given in accordance with the provisions of Section 81 of the General Corporation Law of Delaware, and filed with the corporation on the 8th day of November 1941.

Third.—That the aforesaid amendment was duly adopted in accordance with the applicable provisions of Sections 26 and 81 of the General Corporation Law of Delaware.

Fourth.—That said amendment does not effect any change in the issued shares of said corporation.

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In witness whereof, the said Todd-California Shipbuilding Corporation has caused its corporate seal to be hereunto affixed and this certificate to be signed by Edgar F. Kaiser, its Vice-President, and E. E. Trefethen, Jr., its Secretary, this 8th day of November 1941.

[TODD-CALIFORNIA SHIPBUILDING CORPORATION
CORPORATE SEAL
1940
DELAWARE]

TODD-CALIFORNIA SHIPBUILDING CORPORATION.
By EDGAR F. KAISER, *Vice President.*
By E. E. TREFETHEN, JR., *Secretary.*

STATE OF CALIFORNIA,
County of Alameda, ss:

Be it remembered, that on this 8th day of November, 1941, personally came before me, Nellie I. Phillips, a Notary Public, in and for the County and State aforesaid, Edgar F. Kaiser, Vice-President of Todd-California Shipbuilding Corporation, a corporation of the State of Delaware, the corporation described in and which executed the foregoing certificate, known to me personally to be such, and he, the said Edgar F. Kaiser, as such Vice-President, duly executed said certificate before me and acknowledged the said certificate to be his act and deed and the act and deed of said corporation; that the signatures of the said Vice-President and of the Secretary of said corporation to said foregoing certificate are in the handwriting of the said Vice-President and Secretary, respectively, of said corporation, and that the seal affixed to said certificate is the common or corporate seal of said corporation.

NELLIE I. PHILLIPS,
Notary Public in and for the County of Alameda, State of California.

My commission expires April 17, 1944.

EXHIBIT B

THE PERMANENTE METALS CORP.

ANSWER TO QUESTION NO. 2 OF QUESTIONNAIRE OF JULY 27, 1946

General

This company consists of various divisions, of which the U. S. M. C. Shipbuilding Division is one. Capital employed varied for each various division:

U. S. M. C. Shipbuilding Division.—Capital employed in the U. S. M. C. shipbuilding division consisted of:

	Maximum commitment	*Maximum used*
Bank loans (not guaranteed)	$6,000,000	$5,000,000
Loans and Advances for Subsidiary Company		2,500,000
		$7,500,000

Other divisions.—Capital employed in other divisions included:

	Maximum outstanding
RFC loans, secured	$28,475,000
Capital stock	460,000
	$28,935,000

Over-all operations.—It should be noted that in addition to the above, no dividends were paid until after completion of the shipbuilding program, all available funds being employed in the operations of the business or to reduce borrowings.

Details

Shipbuilding division.—

Bank loans: These funds were borrowed from Bank of America. They were not guaranteed by any branch, agency, subdivision, etc. of the U. S. Government. The maximum commitment at any one time was $6,000,000. Maximum borrowings were $5,000,000. All of these loans have been repaid.

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Loans and advances from subsidiary company: These loans and advances were secured from Richmond Shipbuilding Corporation after it had become a wholly owned subsidiary, and represented temporarily surplus funds. Rather than increase bank borrowings, these funds were made available without interest. All of these advances have now been liquidated.

Other divisions.—

RFC loans, secured: In connection with the Permanente Magnesium operations, the company borrowed a maximum of $28,475,000 from the RFC. These loans were secured by mortgages on property, pledge of profits from U. S. M. C. and other shipyard profits, pledge of stock of Richmond Shipbuilding Corporation, partial guaranty by that company, and otherwise.

These loans have all been paid, together with interest at 4%. Final payment was well in advance of due date.

Capital stock.—All common, no par value.

Amounts:

December 1940 to December 1941	$100,000
December 1941 to May 1946	460,000
May 1946 to present	368,800

Over-all operations.—As noted above, all earnings were held available for use in reducing mortgage and bank obligations, and to supply working capital to replace such borrowings, no dividends being paid until after completion of the shipbuilding program.

Exhibit C

THE PERMANENTE METALS CORP.

List of all officers and directors from date of organization to July 31, 1946, and annual compensation [1]

	Date title held	
	From	To
Present officers and directors:		
President: Henry J. Kaiser	Dec. 9, 1940	
Vice presidents:		
E. F. Kaiser	Dec. 30, 1940	
C. P. Bedford	July 7, 1943	
E. E. Trefethen, Jr	Jan. 27, 1942	
J. F. Reis	Feb. 27, 1942	
C. F. Calhoun	Nov. 27, 1942	
T. A. Bedford, Jr	Oct. 18, 1945	
D. A. Rhoades	Mar. 19, 1946	
A. B. Ordway	July 7, 1943	
Secretary: G. G. Sherwood	Feb. 1, 1943	
Treasurer: G. G. Sherwood	Dec. 30, 1940	
Directors:		
Henry J. Kaiser	Dec. 9, 1940	
E. F. Kaiser	Dec. 20, 1940	
J. A. McEachern	do	
H. W. Morrison	do	
L. S. Corey	do	
F. Kahn	do	
W. G. Swigart	do	
E. E. Trefethen, Jr	Feb. 25, 1942	
G. J. Shea	Jan. 27, 1942	
Assistant secretaries:		
C. P. Bedford	Dec. 30, 1940	
G. G. Sherwood	do	
J. F. Reis	do	
P. S. Marrin	Feb. 25, 1942	
G. C. Ober, Jr	Nov. 24, 1942	
H. V. Lindbergh	Feb. 14, 1944	
R. L. Bridges	July 22, 1944	
J. P. Lyman	Aug. 21, 1944	
Donald Browne	July 7, 1943	
J. L. Friedman	Nov. 22, 1943	
F. H. Beebill	Oct. 18, 1945	
Assistant treasurers:		
J. F. Reis	Dec. 30, 1940	
C. B. Wood	Aug. 21, 1944	
Donald Browne	July 7, 1943	

See footnote at end of table.

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List of all officers and directors from date of organization to July 31, 1946, and annual compensation[1]*—Continued*

	Date title held	
	From	To
Past officers and directors:		
Vice presidents:		
J. Haag, Jr	Dec. 9, 1940	Feb. 13, 1942
S. D. Bechtel	Dec. 30, 1940	June 20, 1945
Secretaries:		
George Havas	Dec. 9, 1940	Dec. 30, 1940
E. E. Trefethen, Jr	Dec. 30, 1940	Feb. 1, 1943
Treasurer: George Havas	Dec. 9, 1940	Dec. 30, 1940
Directors:		
Joseph Haag, Jr	do	Feb. 13, 1942
George Havas	do	Dec. 9, 1940
C. F. Strenz	do	Dec. 30, 1940
E. P. Enfer	do	Dec. 20, 1940
S. Dreska	do	Do.
H. J. Lamont	Dec. 20, 1940	Feb. 14, 1942
J. D. Reilly	do	Feb. 13, 1942
J. H. Todd	do	Do.
S. D. Bechtel	do	June 20, 1945
J. A. McCone	do	Do.
C. A. Shea	do	Jan. 27, 1942
W. S. Newell	do	Feb. 16, 1942
Assistant secretaries:		
C. F. Strenz	Dec. 9, 1940	Feb. 13, 1942
E. P. Enfer	do	Do.
Assistant treasurers:		
C. F. Strenz	do	Do.
E. P. Enfer	do	Do.
R. E. Dill	Aug. 21, 1944	Feb. 5, 1945

[1] No officer nor director received compensation for holding any office or directorship; all compensation was for services rendered as an employee of the company, during period of USMC shipbuilding operations. The only paid officer during any period resigned and was taken off the pay roll prior to USMC operations. See exhibit D for details of any salaries paid.

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Exhibit D

THE PERMANENTE METALS CORP.

Salaries [1] paid to (1) officers and directors (regardless of amount), (2) others (over $15,000 annually), (3) individuals who have been officers or directors of Kaiser Cargo Inc., The Permanente Metals Corp., Richmond Shipbuilding Corp., Kaiser-Fleetwings, Inc., Oregon Shipbuilding Corp.

Name	Operational title	Period covered	USMC shipbuilding division	Other divisions	Total	Reimbursable [2]
1941						
(1) Officers and directors:						
C. P. Bedford	General superintendent (British)	Jan. 1 to Dec. 31, 1941		$9,934.67	$9,934.67	
F. H. Bechill	Chief cost accountant	Jan. 25 to Dec. 31, 1941		2,751.85	2,751.85	
J. L. Friedman	Administrative assistant	Jan. 7 to Dec. 31, 1941		3,769.60	3,769.60	
J. F. Reis	General auditor	Dec. 29, 1940 to Feb. 11, 1941		830.76	830.76	
Jos. Haag, Jr	Consulting engineer	Apr. 1 to Dec. 31, 1941		2,187.58	2,187.58	
(2) Others (over $15,000): None						
(3) Officials of other companies: None						
1942						
(1) Officers and directors:						
C. P. Bedford	General superintendent	Jan. 1 to Dec. 31, 1942	$9,230.88	4,679.51	13,910.39	$8,346.30
T. A. Bedford, Jr	Assistant general superintendent	Sept. 6 to Dec. 31, 1942	2,761.10		2,761.10	2,761.10
J. F. Reis	Administrative manager	do	923.04		923.04	923.04
F. H. Bechill	Chief cost accountant	Jan. 1 to Dec. 31, 1942	2,384.66	1,667.50	4,052.16	2,384.66
J. L. Friedman	Administrative assistant	Jan. 1 to June 29, 1942	415.36	2,325.09	2,740.45	415.36
Jos. Haag, Jr	Consulting engineer	Jan. 1 to Mar. 25, 1942		360.60	360.60	
C. F. Calhoun	Project manager (mg.)	Jan. 1 to Mar. 15, 1942		3,540.00	3,540.00	
D. A. Rhoades	do	Apr. 13 to Dec. 31, 1942		9,193.20	9,193.20	
(2) Others (over $15,000): None			None	None	None	None
(3) Officials of other companies:						
Henry J. Kaiser, Jr	Administrative assistant	Sept. 6 to Sept. 26, 1942	369.76		369.76	369.76
1943						
(1) Officers and directors:						
C. P. Bedford	General manager	Jan. 1 to Dec. 31, 1943	21,154.10		21,154.10	20,307.98
T. A. Bedford, Jr	Assistant general manager	do	9,748.20		9,748.20	9,748.20
J. F. Reis	Administrative manager	Jan. 1, July 6, 1943	1,644.17		1,644.17	1,644.17
F. H. Bechill	Chief cost accountant	Jan. 1 to Feb. 1, 1943	537.89		537.89	537.89
D. A. Rhoades	Project manager (mg.)	Jan. 1 to Dec. 31, 1943		10,115.43	10,115.43	None
(2) Others (over $15,000): None						

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(3) Officials of other companies:						
J. R. Walker	Chief accountant (Manteca)	July 6 to Dec. 31, 1943		1,575.00	1,575.00	None
W. S. Newton	Office manager (Manteca)	June 15 to Nov. 15, 1943		2,000.00	2,000.00	None
1944						
(1) Officers and directors:						
C. P. Bedford	General manager	Jan. 1 to Dec. 31, 1944	19,615.62		19,615.62	19,615.62
T. A. Bedford, Jr	Assistant general manager	do	9,039.34		9.039.34	9,039.34
C. F. Calhoun	Executive assistant	do		2,000.00	2,000.00	
J. P. Lyman	Office manager (Firelands)	Apr. 1 to Aug. 31, 1944		2,761.93	2,761.93	
D. A. Rhoades	Project manager (manager)	Jan. 1 to Dec. 31, 1944		10,346.16	10,346.16	
(2) Others (over $15,000): None						
(3) Officials of other companies: J. R. Walker	Office manager (Manteca)	Jan. 1 to May 6, 1944		1,485.00	1,485.00	
1945						
(1) Officers and directors:						
C. P. Bedford	General manager	Jan. 1 to Dec. 31, 1945	26,474.59		26,474.59	16,666.86
T. A. Bedford, Jr	Assistant general manager	do	17,005.32		17,005.32	8,005.32
F. H. Bechill	Administrative assistant	do	2,500.00		2,500.00	
J. L. Friedman	Executive engineer	do	3,000.00		3,000.00	
E. E. Trefethen, Jr	General manager (other divisions)	do		15,000.00	15,000.00	
C. F. Calhoun	Executive assistant	do		7,500.00	7,500.00	
A. B. Ordway	Administrative manager	do		5,000.00	5,000.00	
C. B. Wood	Resident administrative manager	do		5,000.00	5,000.00	
D. A. Rhoades	Project manager (manager)	do		20,399.65	20,399.65	
(2) Others (over $15,000): J. C. McFarland [3]	Yard superintendent	Jan. 1 to Oct. 1, 1945	14,973.62		14,973.62	7,473.62
(3) Officials of other companies:						
Henry J. Kaiser, Jr	Administrative assistant (other divisions).	Jan. 1 to Dec. 31, 1945		5,000.00	5,000.00	
Paul E. Rogers	Controller (management division)	do		3,000.00	3,000.00	

[1] Includes adjusted compensation (year-end "bonus").
[2] Includes: Reimbursable under cost-plus-fixed-fee or claimed as allowable cost under fixed- or variable-price contracts.
[3] Not paid over $15,000 by this company. Included here since if had been on pay roll at comparable rate, would have been in excess of $15,000.

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Exhibit E

Participation in the Permanente Metals Corp. (formerly Todd-California Shipbuilding Corp. from organization to and including July 5, 1946)

	Original Dec. 19 and 20, 1940 [1]		Dec. 31, 1941 [2]		Feb. 24, 1942 [3]		Dec. 21, 1945 [3]		May 24, 1946 [4]		July 5, 1946 [3]	
	Number of shares	Percent	Number of shares	Percent	Number of shares	Percent	Number of shares	Percent	Number of shares	Percent	Number of shares	Percent
Todd-Shipyards Corp	350	35	1,610	35	0	0	0	0	0	0	0	0
Henry J. Kaiser Co	80	8	368	8	543	11.8044	996	21.6522	996	27.0065	1.192	32.3210
The Kaiser Co	80	8	368	8	543	11.8044	996	21.6522	996	27.0065	1.192	32.3210
W. A. Bechtel Co	80	8	368	8	453	9.8478	0	0	0	0	0	0
Bechtel-McCone-Parsons Corp	80	8	368	8	453	9.8478	0	0	0	0	0	0
General Construction Co	60	6	276	6	516	11.2175	516	11.2175	516	13.9914	580	15.7268
J. F. Shea Co., Inc	60	6	276	6	476	10.3478	476	10.3478	476	12.9067	476	12.9067
The Utah Construction Co	60	6	276	6	456	9.9130	456	9.9130	456	12.3644	0	0
Morrison-Knudsen Co., Inc	60	6	276	6	456	9.9130	456	9.9130	0	0	0	0
MacDonald & Kahn, Inc.[5]	60	6	276	6	456	9.9130	456	9.9130	0	0	0	0
Pacific Bridge Co	30	3	138	3	248	5.3913	248	5.3913	248	6.7245	248	6.7245
Total	1,000	100	4,600	100	4,600	100	4,600	100	3,688	100	3,688	100

[1] Issued for cash.
[2] Issued on share-for-share basis in exchange for stock of Richmond Shipbuilding Corp. (stock of which was issued for cash).
[3] Purchase and sale between stockholders. No additional stock issued.
[4] Stock repurchased by corporation for cash.
[5] Transferred to individuals Apr. 12, 1946.

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Exhibit F

Individuals who have held offices or directorships in more than 1 of following companies: Kaiser Co., Inc., the Permanente Metals Corp., Richmond Shipbuilding Corp., Kaiser Fleetwings, Inc., Oregon Shipbuilding Corp., Consolidated Builders, Inc., (to July 31, 1946)

Officers and directors	Kaiser Co., Inc.		The Permanente Metals Corp.		Richmond Shipbuilding Corp.		Kaiser Fleetwings, Inc.		Oregon Shipbuilding Corp.		Consolidated Builders, Inc.[2]	Columbia Construction Co.[2]
	Position	Status[1]	Position	Status[1]	Position	Status[1]	Position	Status[1]	Position	Status[1]		
Henry J. Kaiser	President	X	President	X	President	X	President	Jan. 15, 1944			President	President.
Do			Director	X	Director	X			Director	X	Director	Director.
Edgar F. Kaiser	Vice president	X	Vice president	X	Vice president	X	Vice president	X	Vice president	X	Vice president	Vice president.
Do			Director	X	Director	X			Director	X	Director	Assistant secretary.
E. E. Trefethen, Jr	Vice president	X	Vice president	X	Vice president	X	President	X	Assistant secretary	X		Vice president.
Do	Director	X	Director	X	Director	X	Director	X				
Do	Secretary	Jan. 7, 1942	Secretary	Feb. 1, 1943	Secretary	Feb. 2, 1943	Vice president	Jan. 15, 1944	Assistant treasurer	X		
C. F. Calhoun	Vice president	X	Vice president	X			do	X				
Do	Assistant secretary	Jan. 7, 1942					Assistant secretary	X				
C. P. Bedford	Vice president	X	Vice president	X	Vice president	X	Vice president	X				
Do	Assistant secretary	X	Assistant secretary	X	Assistant secretary	X						Assistant secretary.
A. B. Ordway	Vice president	X	Vice president	X	Vice president	X	Vice president	X				
T. A. Bedford, Jr	do	X	do	X			do	X				
Do	Assistant secretary	Oct. 18, 1945					Assistant secretary	Oct. 18, 1945				
Paul S. Marrin	Vice president	X	Assistant secretary	X	Assistant secretary	X	Vice president	X	Assistant secretary	X	Assistant secretary	
Do	Director	X			Director	Apr. 25, 1941	Director	X	Director	Jan. 11, 1941		
Do	Assistant secretary	X			Vice president	do	Assistant secretary	X	President	do		
George Havas	Secretary	May 1, 1946	Director	Dec. 9, 1940					Vice president	do		Do.
Do			Secretary treasurer	Dec. 30, 1940					Director	do		
G. G. Sherwood	Secretary treasurer	X	do	X	Director	Apr. 25, 1941	Director	X	Treasurer	X	Secretary	Secretary.
Do	Director	X	Assistant secretary	X	Secretary-treasurer	X	Secretary	X	Assistant secretary	X	Assistant treasurer	
Do	President	Jan. 7, 1942			Assistant secretary	X	Treasurer	X				
Do	Assistant secretary	May 1, 1946										
J. F. Reis	do	X	Assistant secretary	X	Assistant secretary	X			Secretary	X	Assistant secretary	Assistant secretary.
Do	Assistant treasurer	X	Assistant treasurer	X	Assistant treasurer	X					Assistant treasurer	Assistant treasurer.
Do			Vice president	X								
C. B. Wood	Assistant secretary	X	Assistant treasurer	X			Assistant secretary	X				
Do	Assistant treasurer	X					Assistant treasurer	X				
A. E. Beard	Assistant secretary	X			Assistant secretary	Apr. 25, 1941	Assistant secretary	X				
Donald Browne	do	X	Assistant secretary	X								
Do			Assistant treasurer	X								
E. R. Ordway	Assistant secretary	X										
George C. Ober, Jr	do	X	Assistant secretary	X	Assistant secretary	X	Assistant secretary	X	Assistant secretary	X	Assistant secretary	
F. H. Bechill	do	X	do	X			do	X	do	X		
J. E. Lents	do	X										
M. Van Hoesen	Director	X			Director	Apr. 25, 1941	Director	X	Assistant secretary	X	Assistant secretary	
R. L. Bridges	do	X	Assistant secretary	X			Vice president	X				
Do					Director	Apr. 25, 1941	Director	X	Vice president	X	Vice president	
F. Cook	Director	July 5, 1943			do	do						
J. L. Friedman	Assistant secretary	May 1, 1946	Assistant secretary	X			Assistant secretary	X				
Albert Bauer	Vice president	X										
Joseph Haag, Jr			Vice President	Feb. 13, 1942	Vice president	Feb. 25, 1942			Vice president	Feb. 13, 1942		
Do			Director	do	Director	do			Director	do		
C. F. Strenz			do	Dec. 30, 1940	do	do			do	do		
Do			Assistant secretary	Feb. 13, 1942	Assistant secretary	do			Assistant secretary	do		
Do			Assistant treasurer	do	Assistant treasurer	do			Assistant treasurer	do		
E. P. Enfer			Director	Dec. 20, 1940	do	do			do	do		
Do			Assistant secretary	Feb. 13, 1942	Assistant secretary	do			Assistant secretary	do		
Do			Assistant treasurer	do								
R. J. Lamont			Director	Feb. 14, 1942	Director	Feb. 25, 1942			Director	Feb. 13, 1942		
Do									Vice president	do		
J. D. Reilly			Director	Feb. 13, 1942	Director	Feb. 25, 1942			Director	do		
J. H. Todd			do	do	do	do			do	do		
B. D. Bechtel			Vice president	June 20, 1945	Vice president	June 20, 1945						
Do			Director	do	Director	do			Director	X	Director	Director.
A. McCone			do	do	do	do			do	X	do	
A. A. McEachern			do	X	do	X			do	X	do	
Do									President	X		
Do									Vice president	Jan. 27, 1942		
C. A. Shea			Director	Jan. 27, 1942	Director	Jan. 27, 1942			Director	do		
Do									President	do		
H. W. Morrison			Director	X	Director	X			Director	X	Director	Vice president.
Do												Director.
L. S. Corey			Director	X								Do.
Felix Kahn			do	X	Director	X			Director	Feb. 13, 1942	Director	Do.
Do									do	X	do	Treasurer.
W. G. Swigert			Director	X	Director	X					Treasurer	
W. S. Newell			do	Feb. 16, 1942	do	June 29, 1941			Director	X	Director	
G. J. Shea			Director	X	do	X						
R. E. Dill			Assistant treasurer	Feb. 5, 1945					Director	X	Director	
A. Richardson							Vice president	Oct. 31, 1944				
W. Green					Director	Apr. 25, 1941	Director	May 4, 1943				
O. M. Lund					do	Feb. 25, 1942			Director	Feb. 13, 1942		
H. A. Dick					do	do			do	do		
Do									Vice president	X		
Do									Director	X	Director	
Do									Assistant secretary	X		
M. Miller									Assisant treasurer	X		
E. F. Lackey											Assistant secretary	Vice president.
H. F. Morton											Assistant treasurer	Assistant secretary.
									Vice president	X		Do.

[1] Status: (X) indicates still holds position; date indicates date of resignation.
[2] Present officers and directors, only, shown.

[2] Present officers and directors, only, shown. Columbia Construction Co. had only 1 contract with the U. S. Maritime Commission for construction of a floating drydock, which was constructed by the Vancouver yard of Kaiser Co., Inc., under a subcontract.

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Exhibit G

(Question No. 9)

THE PERMANENTE METALS CORPORATION (INCLUDING RICHMOND SHIPBUILDING CORPORATION)

Summary of shipyard income to May 31, 1946

	Shipbuilding USMC contracts	Operations	Total
Total of shipbuilding contracts (see schedule 1)	$726, 802, 282. 01		
Government furnished materials (see schedule 7)	542, 214, 500. 00		
Total contract volume (see schedule 7)	1, 269, 016, 782. 01		
Gross profit before taxes (see schedule 1)	53, 509, 636. 88	[1] $23, 062, 288. 48	$30, 447, 348. 40
Federal income taxes (see schedule 1)	37, 692, 071. 01	16, 244, 437. 57	21, 447, 633. 04
Net profit (see schedule 1)	15, 817, 565. 87	[1] 6, 817, 850. 91	8, 999, 714. 96
Percent of net profit on total contract volume	1. 25		

[1] Red figures.

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(Question No. 9—Schedule 1)

THE PERMANENTE METALS CORP.

Summary of shipyard profits and net income to May 31, 1946

Item	The Permanente Metals Corp. yards Nos. 1 and 2	Richmond Shipbuilding Division (formerly Richmond Shipbuilding Corp.)	Total	Apportionment of Federal income and excess-profits taxes	
				Percent	Amount
(A), (B), (C), (F), (G) detailed on	(Schedule 2)	(Schedule 3)			
(D) Number of ships delivered	595	36	631		
(E) Total amounts paid by U. S. Maritime Commission on contracts	$649,430,110.50	$73,552,455.38	$722,982,565.88		
Amounts unpaid (retentions under contracts and amounts in process of settlement) (see schedule 5)	3,815,423.80	4,292.33	3,819,716.13		
Total paid or unpaid	653,245,534.30	73,556,747.71	726,802,282.01		
(H) Fees, actual (included in (E)):					
Paid by U. S. Maritime Commission	39,812,377.00	2,930,885.00	42,743,262.00		
Unpaid (see schedule 5)	1,000,000.00		1,000,000.00		
Total fees	40,812,377.00	2,930,885.00	43,743,262.00		
(I) Profits received under fixed-price contracts (included in (E))	14,244,679.83		14,244,679.83		
	55,057,056.83	2,930,885.00	57,987,941.83		
Profits and fees transferred to other shipyards for work performed under U. S. Maritime Commission contracts, net, schedule 4	51,682.25		51,682.25		
	55,005,374.58	2,930,885.00	57,936,259.58		
Less: Nonreimbursable and disallowed costs under cost-plus contracts, and costs not considered allowable under fixed-price contracts, etc	4,075,924.48	350,698.22	4,426,622.70		
(J) Gross earnings on U. S. Maritime Commission contracts	50,929,450.10	2,580,186.78	53,509,636.88	175.74	$37,692,071.01
Profits on shipyard operations other than U. S. Maritime Commission contracts, net		$106,280.65			
Net loss of magnesium division (see schedule 6)		(28,454,486.62)			
Profits from other operations		5,285,917.49			
			(23,062,288.48)	(75.74)	(16,244,437.57)
Gross income			30,447,348.40	100	21,447,633.44
Less: Federal income and excess-profits taxes			21,447,633.44		
Net income accumulative to May 31, 1946 (per financial report, May 31, 1946)			8,999,714.96		

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(Question No. 9—Schedule 2)

THE PERMANENTE METALS CORP. (RICHMOND YARDS 1 AND 2)

Details of contracts with U. S. Maritime Commission, as recorded at May 31, 1946

(A) Contract No.	(B) Type of contract	(C) Ships under contracts as amended: Number	(C) Ships under contracts as amended: Type	(D) Number of ships delivered	(E) Total amounts paid by U. S. Maritime Commission (net)	(E) Unpaid (retentions and amounts in process of settlement)[1]	(E) Total paid or unpaid	(F) Fees: Maximum	(G) Fees: Minimum	(H) Fees: Actual—included in (E): Paid by U. S. Maritime Commission	(H) Fees: Actual—included in (E): Unpaid [1]	(H) Fees: Actual—included in (E): Total paid or unpaid	(I) Profits received under fixed-price contracts included in (E)	(J) Total profits and fees
MCc 2115	Cost—plus fixed fee.	187	EC-2	187	$202,524,430.95	$126,651.08	$202,651,082.03	$26,180,000	$11,220,000	$23,606,877		$23,606,877		$23,606,877.00
MCc 8265	do	40	do	40	32,841,524.33	96,958.38	32,938,482.71	2,800,000	1,200,000	2,800,000		2,800,000		2,800,000.00
MCc 13102	do	89	do	89	73,563,093.38	215,674.60	73,778,767.98	6,230,000	2,670,000	6,230,000		6,230,000		6,230,000.00
MCc 15761	do	137	do	137	102,218,141.58	1,394,284.20	103,612,425.78	8,220,000	2,740,000	7,175,500	$1,000,000	8,175,500		8,175,500.00
MCc 15762	Fixed price	22 10	Vc2-S-AP5. Vc2-S-AP3.	22 10	89,000,000.00	500,000.00	89,500,000.00						$1,690,000.00	1,690,000.00
MCc 16227	Agency—tugboat operations.				667,795.17	7,063.40	674,858.57							
MCc 18932	Cost facilities				5,850,332.40	104,009.84	5,954,342.24							
MCc 36452	Selective price	110	Vc2-S-AP2	110	141,616,425.81	1,281,574.19	142,898,000.00						12,524,500.00	12,524,500.00
MCc 36453	Cost materials custody.					81,674.13	81,674.13							
MCc 40300	Fixed-price caissons.				542,693.34		542,693.34						30,179.83	30,179.83
DA-MCc 2 and 732.	Transfer from Richmond Shipbuilding Corp.—facilities.				605,673.54	7,533.98	613,207.52							
Total to schedule 1		595		595	649,430,110.50	3,815,423.80	653,245,534.30			39,812,377	1,000,000	40,812,377	14,244,679.83	55,057,056.83

[1] See schedule 5.

NOTE.—The above amounts do not include the value of materials, if any, furnished by U. S. Maritime Commission without cost to the contractor.

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(Question No. 9—Schedule 3)

THE PERMANENTE METALS CORP., RICHMOND SHIPBUILDING DIVISION (FORMERLY RICHMOND SHIPBUILDING CORP.)

Details of contracts with U. S. Maritime Commission, as recorded at May 31, 1946

(A)	(B)	(C)		(D)	(E)			(F)	(G)	(H)	(I)	(J)
		Ships under contract as amended						Fees				
Contract No.	Type of contract	Number	Type	Number of ships delivered	Total amounts paid by U. S. Maritime Commission (net)	Unpaid (retentions and amounts in process of settlement) [1]	Total paid or unpaid	Maximum	Minimum	Actual paid by U. S. Maritime Commission included in (E)	Profits received under fixed price contracts included in (E)	Total profit and fees
DAMCe 2 and 732	Cost—facilities				$23, 347, 725. 83		$23, 347, 725. 83					
MCc 1795	Cost—plus fixed fee	12	EC-2	12	15, 336. 815. 95	$4, 292. 33	15, 341, 108. 28	$1, 680, 000	$720, 000	$1, 450, 942		$1, 450, 942
MCc 7787	do	24	do	24	34, 867, 913. 60		34, 867, 913. 60	3, 360, 000	1, 440, 000	1, 479, 943		1, 479, 943
Total to schedule 1		36		36	73, 552, 455. 38	4, 292. 33	73, 556, 747. 71			2, 930, 885		2, 930, 885

[1] See schedule 5.

NOTE.—The above amounts do not include the value of materials, if any, furnished by U. S. Maritime Commission without cost to the contractor.

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(Question No. 9—Schedule 4)

THE PERMENENTE METALS CORP. YARDS NOS. 1 AND 2

Transfers of fees and profits to and from shipyards

Contract	Kaiser Co., Inc., Richmond yard No. 3	The Permanente Metals Corp. yards Nos. 1 and 2
MCc 15762	[1] $182,502.00	[1] [2] $182,502.00
MCc 36279	[2] [3] 130,819.75	[3] 130,819.75
Net transfers	51,682.25	[2] 51,682.25

[1] To meet the critical war need for Vc2-S-AP5 Victory transports, Kaiser Co., Inc., with the approval of the Commission, outfitted completely seven such vessels as subcontractors for The Permanente Metals Corp., the latter building the hulls and procuring the material. The proportionate amount of fees for such work was agreed between the two companies as being $182,502, and The Permanente Metals Corp. accordingly transferred such amount to Kaiser Co., Inc., and reduced their fee earnings in like amount.

[2] Red figures (from shipyards).

[3] Contract MCc 26279 was issued by the U. S. Maritime Commission to Kaiser Co., Inc., to cover ship repair work for other Government agencies such as War Shipping Administration, U. S. Navy and U. S. Army. This contract (as amended) authorized Kaiser Co., Inc., to allocate ships to be repaired, to The Permanente Metals Corp. and Kaiser Cargo, Inc., as subcontractors. Kaiser Co., Inc., reduced its fee earnings by transferring $130,819.75 to The Permanente Metals Corp.

(Question No. 9—Schedule 5)

THE PERMANENTE METALS CORP. YARDS NOS. 1 AND 2 AND RICHMOND SHIPBUILDING DIVISION (FORMERLY RICHMOND SHIPBUILDING CORP.)

Status of unpaid and unsettled contract amounts

[Supplement to 9 (E) and 9 (H)]

I. Final settlement of unpaid amounts is subject to completion of the following:

1. Payment by the contractor and obtaining final release on all commitments pertaining to the applicable contracts.
2. Subsequent preparation by the contractor of final statements of costs.
3. Audits by representatives of the United States Maritime Commission of contractor's final statement of costs.
4. Resolving the open appeals of the contractor from costs disallowed by the United States Maritime Commission and final negotiation thereof.
5. Final determination of costs and resultant agreement of amounts to be recaptured, by the United States Maritime Commission, and/or amounts due the contractor from the United States Maritime Commission.

Every reasonable effort is being extended by the contractor to complete item 1 so that the other steps listed above may be completed to effect final settlement at the earliest possible date. However, in view of the tremendous volume of purchase orders, subcontracts, and other commitment documents issued, such work is unavoidably slow. In the interim, the contractor and the United States Maritime Commission Finance Section are negotiating tentative settlements to cover a substantial portion of the amounts involved, leaving minimum amounts for final future settlement.

II. Unpaid—"Retentions" represents at May 31, 1946, the final payments due on fixed price and lump sum contracts, withheld by the United States Maritime Commission in accordance with the terms of the respective contracts, until and if the recorded costs justify additional payments.

Included in the total of $3,819,716.13 unpaid contract amounts per schedule 1 is $1,400,000 representing such retentions.

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(Question No. 9—Schedule 6)

THE PERMANENTE METALS CORP.—MAGNESIUM DIVISION

Loss accumulative to May 31, 1946

Net operating profit		$2,031,332.00
Interest expense	$3,646,026.65	
Loss on abandonments	1,422,595.23	
		5,068,621.88
Net loss before provision for amortization, etc		3,037,289.88
Provision for amortization, depreciation, and depletion		25,417,196.74
Net loss accumulative to May 31, 1946 (per financial report May 31, 1946, and per schedule 1)		28,454,486.62

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(Question No. 9—Schedule 7)

THE PERMANENTE METALS CORP.—SHIPBUILDING DIVISION (INCLUDING RICHMOND SHIPBUILDING CORP.)

Details of contracts with U. S. Maritime Commission

Contract No.—	Type of contract	Ships under contracts as amended (type)	Number of ships delivered	Contract value	Commission furnished material	Total contract volume
MCc-2115	Cost—plus fixed fee	EC-2	187	$202,651,082.03	$138,754,000	$341,405,082.03
MCc-8265	do	do	40	32,938,482.71	29,680,000	62,618,482.71
MCc-13102	do	do	89	73,778,767.98	66,380,000	140,158,767.98
MCc-15761	do	do	137	103,612,425.78	101,654,000	205,266,425.78
MCc-15762	Fixed price	VC2-S-AP5	22	89,500,000.00	44,278,000	133,778,000.00
		VC2-S-AP3	10			
MCc-16227	Agency—tugboat operations			674,858.57		674,858.57
MCc-18932	Cost—facilities			5,954,342.24		5,954,342.24
MCc-36452	Selective price	VC2-S-AP2	110	142,898,000.00	129,250,000	272,148,000.00
MCc-36453	Cost—materials custody			81,674.13		81,674.13
MCc-40300	Fixed price—caissons			542,693.34		542,693.34
DA-MCc2 and 732	Transfer from Richmond Shipbuilding Corp.—facilities.			613,207.52		613,207.52
Subtotal, Permanente Metals Corp., yards Nos. 1 and 2.			595	653,245,534.30	509,996,000	1,163,241,534.30
DA-MCc2 and 732	Cost—facilities			25,347,725.83		23,347,725.83
MCc-1795	Cost—plus fixed fee	EC-2	12	15,341,108.28	8,904,000	24,245,108.28
MCc-7787	do	do	24	34,867,913.60	17,808,000	52,675,913.60
Subtotal, Richmond Shipbuilding Corp.			36	73,556,747.71	26,712,000	100,268,747.71
USMC purchase of British yard 1 facilities.					5,506,500	5,506,500.00
Combined total			631	726,802,282.01	542,214,500	1,269,016,782.01

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Exhibit H

(Questions Nos. 10 and 11—Schedule 1)

PERMANENTE METALS CORP. AND RICHMOND SHIPBUILDING CORP.

EFFECT OF RENEGOTIATION ON FEES AND PROFITS AND STATUS OF CONTRACTS STILL SUBJECT TO RENEGOTIATION

1. Fees and profits as shown on schedules under questions 9 represent net fees after renegotiation.

2. Renegotiation agreement No. MCc33776 PABs573 was entered into under date of November 14, 1944, in which excessive profits for the fiscal years ending May 31, 1942, and May 31, 1943, for Permanente Metals Corp. and for the fiscal years ending November 30, 1941, and November 31, 1942, for Richmond Shipbuilding Corp. were determined to be $1,527,590.66 for Permanente Metals Corp. and no excessive profits for Richmond Shipbuilding Corp. The excessive profits for Permanente Metals Corp. were allocated as follows: $36,640.00 to its fiscal year ended May 31, 1942, $1,490,950.66 to its fiscal year ended May 31, 1943.

In addition, this same agreement determined that there were $1,045,532 of excessive profits for the fiscal year ended May 31, 1944, subject to such additional amounts for the same year as might be determined for other contracts.

All of the above excessive profits, totaling $2,573,122.66, were allocated against contract No. MCc2115.

Subsequently, under date of June 18, 1945, renegotiation agreement No. MCc40018 PABs752 was entered into, in which it was determined that no additional excessive profits had been earned for the fiscal year ended May 31, 1944. Contracts No. MCc8265, MCc13102, and MCc15761 were substantially completed during this fiscal year.

3. Renegotiation has not yet been completed for the fiscal year ended May 31, 1945. However, during that period the only vessels constructed under a contract subject to renegotiation were 62 vessels constructed under contract No. MCc15762, under which the total profit allowed as a lump sum under addendum No. 3 was $1,690,000. As only the minimum fees were allowed under this contract and addendum, it is understood that there will be no excessive profits.

4. Contract No. MCc36452 is a selective price contract and according to its terms not subject to renegotiation. Contract No. MCc40300 was a fixed-price contract involving only a profit of $41,669.87.

Exhibit I

(Question No. 12—Schedule 1)

PERMANENTE METALS CORP.

Costs of shipyards and facilities to May 31, 1946

	Original cost
Shipyards and facilities:	
Richmond Shipyards Nos. 1 and 2	$5,954,342.24
Richmond Shipbuilding Division (formerly Richmond Shipbuilding Corp.)	[1] 29,467,433.35
Total shipyards and facilities	35,421,775.59

[1] Includes $5,506,500 paid by United States Maritime Commission to British Purchasing Mission for shipyard and facilities Richmond Yard No. 1 under contract MCc2757.

CECTIFICATE OF INCORPORATION OF RICHMOND SHIPBUILDING CORP.

First.—The name of the corporation is Richmond Shipbuilding Corporation.

Second.—Its principal office in the State of Delaware is located at No. 100 West Tenth Street, in the City of Wilmington, County of New Castle. The name and address of its resident agent, is The Corporation Trust Company, No. 100 West Tenth Street, Wilmington, Delaware.

Third.—The nature of the business, or objects or purposes to be transacted, promoted or carried on are:

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To build, equip, operate, maintain, buy, sell, deal in and with, own, charter and otherwise dispose of ships, vessels and boats of every nature and kind whatsoever, together with all materials, articles, tools, machinery and appliances entering into or suitable and convenient for the construction or equipment thereof, together with engines, boilers, machinery, appurtenances, tackle, apparel and furniture of all kinds; to buy, lease or otherwise acquire, construct, maintain and operate wharves, piers, docks and warehouses; to construct and maintain for the use of the company or for letting out on hire, graving and other docks and other conveniences for the building, repairing or docking of ships and other vessels, and to aid in or contribute to the construction of any such works; to buy or otherwise acquire ships and vessels, complete or not complete, sound or out of repair, for the purpose of improving, reselling, chartering or otherwise making a profit out of the same, to carry on a general contracting business.

To manufacture, buy or otherwise acquire, own, mortgage, sell, assign, transfer or otherwise dispose of, trade and deal in and with goods, wares and merchandise and personal property of every class and description.

To take, own, hold deal in, mortgage or otherwise give liens against, and to lease, sell, exchange, transfer or in any manner whatever, to dispose of real property.

To acquire and pay for in cash, stock or bonds of this corporation, the good will, rights, assets and property, and to undertake or assume the whole or any part of the obligations or liabilities of any person, firm, association or corporation.

To acquire, hold, use, sell, lease, grant licenses in respect of mortgage or otherwise dispose of, letters patent of the United States or any foreign country, patent rights, licenses, privileges, inventions, improvements and processes, copyrights, trademarks and trade names, relating to or useful in connection with any business of this corporation.

To loan money, to guarantee, purchase, hold, sell, assign, transfer, mortgage, pledge or otherwise dispose of (as principal or agent) shares of the capital stock of, or any bonds, securities or evidences of indebtedness created by any other corporation or corporations organized under the laws of this state or any other state, country, nation or government, and while the owner thereof to exercise all the rights, powers and privileges of ownership.

To promote or to aid in any manner, financially or otherwise, any corporation or association; and for this purpose guarantee or become a surety upon the contracts, dividends, stock, bonds, notes or other obligations of such other corporations or associations; and to do any other acts or things designed to protect, preserve, improve, or enhance the value of the stock, bonds, or other evidences of indebtedness or securities of such other corporation.

To enter into any lawful arrangements for sharing profits and/or losses, union of interest, reciprocal concessions or cooperation with any corporation, association, partnership, syndicate, person, governmental municipal or public authority, domestic or foreign, in the carrying on of any business which this corporation is authorized to carry on, or any business or transaction deemed necessary, convenient or incidental to carrying out any of the purposes of the corporation.

To borrow money for any of the purposes of this corporation, and to issue bonds, debentures, notes or other obligations therefor, and to secure the same by pledge or mortgage of the whole or any part of the property of this corporation, whether real or personal, or to issue bonds, debentures, notes or other obligations without any such security.

To purchase, hold, sell, and transfer the shares of its own capital stock; provided it shall not use its funds for the purchase of its own shares of capital stock when such use would cause any impairment of its capital; and provided further, that shares of its own capital stock belonging to it shall not be voted upon directly or indirectly.

To carry on any other lawful business whatsoever which may seem to the corporation capable of being carried on in connection with the above, or calculated directly or indirectly to promote the interests of the corporation, or to enhance the value of its properties; and to have, enjoy and exercise all the rights, powers and privileges which are now or which may hereafter be conferred upon corporations organized under the same statutes as this corporation.

The foregoing clauses shall be construed both as objects and powers; and it is hereby expressly provided that the foregoing enumeration of specific powers shall not be held to limit or restrict in any manner the powers of this corporation.

Fourth.—The total number of shares of stock which the corporation shall

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have authority to issue is ten thousand (10,000); all of such shares shall be without par value.

At all elections of directors of this corporation each holder of record of stock possessing voting power shall be entitled to as many votes as shall equal the number of shares of his stock multiplied by the number of directors to be elected and he may cast all of such votes for a single director or he may distribute them among the number to be voted for or any two or more of them as he may see fit, and thus exercise the right of cumulative voting.

Fifth.—The amount of capital with which the corporation will commence business is One Thousand Dollars ($1,000.00).

Sixth.—The names and places of residence of the incorporators are as follows:

Names	*Residences*
R. F. Lewis	Wilmington, Delaware.
L. H. Herman	Wilmington, Delaware.
Walter Lenz	Wilmington, Delaware.

Seventh.—The corporation is to have perpetual existence.

Eighth.—The private property of the stockholders shall not be subject to the payment of corporate debts to any extent whatever.

Ninth.—In furtherance, and not in limitation of the powers conferred by statute, the board of directors is expressly authorized:

To make, alter, or repeal the bylaws of the corporation.

To authorize and cause to be executed mortgages and liens upon the real and personal property of the corporation.

To set apart out of any of the funds of the corporation available for dividends a reserve or reserves for any proper purpose or to abolish any such reserve in the manner in which it was created.

By resolution or resolutions, passed by a majority of the whole board to designate one or more committees, each committee to consist of two or more of the directors of the corporation, which, to the extent provided in said resolution or resolutions or in the bylaws of the corporation, shall have and may exercise the powers of the board of directors in the management of the business and affairs of the corporation, and may have power to authorize the seal of the corporation to be affixed to all papers which may require it. Such committee or committees shall have such name or names as may be stated in the bylaws of the corporation or as may be determined from time to time by resolution adopted by the board of directors.

When and as authorized by the affirmative vote of the holders of a majority of the stock issued and outstanding having voting power given at a stockholders' meeting duly called for that purpose, or when authorized by the written consent of the holders of a majority of the voting stock issued and outstanding, to sell, lease or exchange all of the property and assets of the corporation, including its good will and its corporate franchises, upon such terms and conditions and for such consideration, which may be in whole or in part shares of stock in, and/or other securities of, any other corporation or corporations, as its board of directors shall deem expedient and for the best interests of the corporation.

The corporation may in its bylaws confer powers upon its board of directors in addition to the foregoing, and in addition to the powers and authorities expressly conferred upon it by statute.

Tenth.—In the event that any authorized but unissued stock or any new class of stock shall be created, or the authorized number of shares of stock of the corporation shall be increased, or there shall be issued any bonds, notes, debentures, or other securities other than stock, convertible into stock, the holders of shares of stock of the corporation outstanding at the time such authorized but unissued stock or new class of stock, or such increase, is offered for subscription, shall have the right to subscribe for the shares of such new class of stock and for any shares of such increased stock so to be issued, or notes, debentures or other securities other than stock convertible into stock, before the same is offered for public subscription, in proportion to the number of shares owned respectively by each of the holders of such stock.

Eleventh.—The corporation may enter into contracts or transact business with one or more of its directors, or with any firm of which one or more of its directors are members, or with any corporation or association in which any one of its

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directors is a stockholder, director, or officer, and such contract or transaction shall not be invalidated or in anywise affected by the fact that such director or directors have or may have interests therein which are or might be adverse to the interests of the corporation, even though the vote of the director or directors having such adverse interest shall have been necessary to obligate the corporation upon such contract or transaction; and no director or directors having such adverse interest shall be liable to the corporation or to any stockholder or director thereof, or to any other person, for any loss incurred by it under or by reason of any such contract or transaction; nor shall any such director or directors be accountable for any gains or profits realized thereon; Always provided, however, that such contract or transaction shall at the time at which it was entered into have been a reasonable one to have been entered into and shall have been upon terms that at the time were fair.

Twelfth.—Whenever a compromise or arrangement is proposed between this corporation and its creditors or any class of them and/or between this corporation and its stockholders or any class of them, any court of equitable jurisdiction within the State of Delaware may, on the application in a summary way of this corporation or of any creditor or stockholder thereof, or on the application of any receiver or receivers appointed for this corporation under the provisions of Section 4407 of the Revised Code of 1935 of said State, or on the application of trustees in dissolution or of any receiver or receivers appointed for this corporation under the provisions of Section 43 of the General Corporation Law of the State of Delaware, order a meeting of the creditors or class of creditors, and/or of the stockholders or class of stockholders of this corporation, as the case may be, to be summoned in such manner as the said Court directs. If a majority in number representing three-fourths in value of the creditors or class of creditors, and/or of the stockholders or class of stockholders of this corporation, as the case may be, agree to any compromise or arrangement and to any reorganization of this corporation as consequences of such compromise or arrangement, the said compromise or arrangement and the said reorganization shall, if sanctioned by the Court to which the said application has been made, be binding on all the creditors or class of creditors, and/or on all the stockholders or class of stockholders, of this corporation, as the case may be, and also on this corporation.

Thirteenth.—Meetings of stockholders may be held without the State of Delaware, if the bylaws so provide. The books of the corporation may be kept (subject to any provision contained in the statutes) outside of the State of Delaware at such place or places as may be from time to time designated by the board of directors.

Fourteenth.—The corporation reserves the right to amend, alter, change, or repeal any provision contained in this certificate of incorporation, in the manner now or hereafter prescribed by statute, and all rights conferred upon stockholders herein are granted subject to this reservation.

We, the undersigned, being each of the incorporators hereinbefore named for the purpose of forming a corporation in pursuance of the General Corporation Law of the State of Delaware, do make this certificate, hereby declaring and certifying that the facts herein stated are true, and accordingly have hereunto set our hands and seals this 1st day of April A. D. 1941.

R. F. LEWIS. [SEAL]
L. H. HERMAN. [SEAL]
WALTER LENZ. [SEAL]

STATE OF DELAWARE,
County of New Castle, ss:

Be it remembered, That on this 1st day of April A. D. 1941, personally came before me, Harold E. Grantland, a Notary Public for the State of Delaware, R. F. Lewis, L. H. Herman, and Walter Lenz, all of the parties to the foregoing certificate of incorporation, known to me personally to be such, and severally acknowledged the said certificate to be the act and deed of the signers respectively and that the facts therein stated are truly set forth.

Given under my hand and seal of office the day and year aforesaid.

HAROLD E. GRANTLAND, *Notary Public.*

Appointed January 11, 1941, State of Delaware, term two years.

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Exhibit K

RICHMOND SHIPBUILDING CORP.

ANSWER TO QUESTION NO. 2 OF QUESTIONNAIRE OF JULY 27, 1946

General

Capital of the company consisted of capital stock, bank loans.

Maximum of the above at any one date: $2,360,000.

Capital stock (all common, no par value).—

May 1941 to Dec. 17, 1941	$250,000
Dec. 18 to Dec. 22, 1941	306,000
Dec. 23 to Mar. 19, 1946	360,000

On March 19, 1946, all stock was cancelled as a part of the complete liquidation of the company.

Bank loans.—None of these were guaranteed by the United States Government, its agencies, subdivisions, departments, etc. The maximum borrowings were $2,000,000, all of which were repaid prior to liquidation.

Exhibit L

RICHMOND SHIPBUILDING CORP.

List of all officers and directors from date of organization to July 31, 1946, and annual compensation [1]

	Date title held	
	From—	To—
Present officers and directors:		
President: Henry J. Kaiser	Apr. 10, 1941	
Vice presidents:		
E. F. Kaiser	do	
E. E. Trefethen, Jr	Jan. 27, 1942	
C. P. Bedford	Oct. 13, 1943	
A. B. Ordway	do	
Secretary: G. G. Sherwood	Feb. 2, 1943	
Treasurer: G. G. Sherwood	Apr. 10, 1941	
Directors:		
Henry J. Kaiser	Apr. 1, 1941	
E. F. Kaiser	Feb. 25, 1942	
E. E. Trefethen, Jr	do	
J. A. McEachern	Apr. 25, 1941	
H. W. Morrison	do	
F. Kahn	do	
W. G. Swigert	Feb. 25, 1942	
C. J. Shea	Jan. 27, 1942	
Assistant secretaries:		
P. S. Marrin	Feb. 25, 1942	
G. G. Sherwood	Apr. 10, 1941	
C. P. Bedford	do	
J. F. Reis	do	
G. C. Ober, Jr	Feb. 14, 1944	
Assistant treasurer: J. F. Reis	Apr. 10, 1941	
Past officers and directors:		
Vice presidents:		
P. S. Marrin	do	Apr. 25, 1941
S. D. Bechtel	do	June 20, 1945
J. Haag, Jr	do	Feb. 25, 1942
Secretary: E. E. Trefethen, Jr	do	Feb. 2, 1943
Directors:		
M. Thelen	Apr. 1, 1941	Apr. 25, 1941
P. S. Marrin	do	Do.
R. L. Bridges	do	Do.
M. Van Hoesen	do	Do.
J. W. Manual	do	Do.

[1] Other than Joseph Haag, Jr., no other officer nor director received any compensation for holding any office or directorship; compensation to all others was for services rendered as an employee of the company. Mr. Haag's salary was as follows:

Apr. 1 to Dec. 31, 1941, inclusive	$1,025.71
Jan. 1 to Feb. 25, 1942, inclusive	408.68
Before or after above dates	None

See Exhibit D for details of any salaries paid.

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List of all officers and directors from date of organization to July 31, 1946, and annual compensation—Continued

	Date title held	
	From—	To—
Past officers and directors—Continued		
Directors—Continued		
A. Richardson	Apr. 1, 1941	Apr. 25, 1941
B. Phelps	do	Do.
M. Filben	do	Do.
F. Cook	do	Do.
J. Needham	do	Do.
S. D. Bechtel	do	June 20, 1945
E. F. Kaiser	do	June 29, 1941
G. G. Sherwood	do	Apr. 25, 1941
E. E. Trefethen Jr	do	Do.
J. Haag Jr	Apr. 25, 1941	Feb. 25, 1942
C. F. Strenz	June 29, 1941	Do.
J. D. Reilly	Apr. 25, 1941	Do.
J. H. Todd	do	Do.
R. J. Lamont	do	Do.
J. A. McCone	do	June 29, 1941
Do	Feb. 25, 1942	June 20, 1945
C. A. Shea	Apr. 25, 1941	Jan. 27, 1942
W. G. Swigert	do	June 29, 1941
W. S. Newell	do	Do.
W. Green	June 29, 1941	Feb. 25, 1942
O. M. Lund	do	Do.
Assistant secretaries:		
C. F. Strenz	Apr. 10, 1941	Do.
E. P. Enfer	do	Do.
A. E. Beard	do	Apr. 25, 1941
Assistant treasurers:		
C. F. Strenz	do	Feb 25, 1942
E. P. Enfer	do	Do.

Exhibit M

RICHMOND SHIPBUILDING CORP.

Salaries paid to (1) officers and directors (regardless of amount); (2) others (in excess of $15,000 annually); (3) individuals who have been officers or directors of Kaiser Co., Inc., The Permanente Metals Corp., Richmond Shipbuilding Corp., Kaiser Fleetwings, Inc., Oregon Shipbuilding Corp.

Name	Managerial title	Period employed	Total wages paid	Amount
CALENDAR YEAR 1941				
(1) Officers and directors:				
C. P. Bedford	General superintendent	Mar. 29 to Dec. 31, 1941	$6,634.69	$5,900.75
J. F. Reis	Administrative manager	Apr. 1 to Dec. 31, 1941	2,147.18	2,147.18
Jos. Haag, Jr	Consulting engineer	do	1,025.71	1,025.71
Total			9,807.58	9,073.64
(2) Others (over $15,000): None			None	
(3) Officers or directors of other companies: Henry J. Kaiser, Jr.	Administrative assistant, chief engineer.	Apr. 3 to Dec. 31, 1941	2,434.57	2,434.57
CALENDAR YEAR 1942				
(1) Officers and directors:				
C. P. Bedford	General manager	Jan. 1 to Sept. 6, 1942	6,923.16	6,230.88
J. F. Reis	Administrative manager	do	2,192.22	2,192.22
Jos. Haag, Jr	Vice president	Jan. 1 to Feb. 25, 1942	408.68	408.68
Total			9,524.06	8,831.78
(2) Others (over $15,000): None			None	
(3) Officers and directors of other companies:				
T. A. Bedford, Jr	Construction superintendent.	Jan. 1 to Sept. 6, 1942	3,526.78	3,526.78
Henry J. Kaiser, Jr	Administrative assistant.	do	3,417.20	3,417.20

[1] Either reimbursable under cost plus fixed fee or claimed as cost under fixed or variable fee.

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Exhibit N

RICHMOND SHIPBUILDING CORP.

Stock ownership during life of corporation

Stockholders	Original May 2, 1941 [1]		Dec. 18, 1941 [1]		Dec. 23, 1941 [1]		Dec. 31, 1941 [2]	
	Shares	Percent	Shares	Percent	Shares	Percent	Shares	Percent
Todd Shipyards Corp	1,250	50	1,260	41.18	1,260	35		
Henry J. Kaiser Co	154	6.16	221.76	7.25	288	8		
The Kaiser Co	154	6.16	221.76	7.25	288	8		
W. A. Bechtel Co	154	6.16	221.76	7.25	288	8		
Bechtel-McCone-Parsons Corp	154	6.16	221.76	7.25	288	8		
J. F. Shea Co., Inc	115.25	4.61	165.96	5.42	216	6		
General Construction Co	115.25	4.61	165.96	5.42	216	6		
The Utah Construction Co	115.25	4.61	165.96	5.42	216	6		
Morrison-Knudsen Co., Inc	115.25	4.61	165.96	5.42	216	6		
MacDonald & Kahn, Inc	115.25	4.61	165.96	5.42	216	6		
Pacific Bridge Co	57.75	2.31	83.16	2.72	108	3		
The Permanente Metals Corp							3,600	100
Total	2,500	100	3,060	100	3,600	100	3,600	100

[1] Issued for cash.
[2] Exchanged on share-for-share basis for stock of The Permanente Metals Corp.

NOVEMBER 13, 1946.

In answer to the telegram from Marvin J. Coles, addressed to The Permanente Metals Corp., dated October 11, 1946, we submit the following information:

1. *Average amount of outstanding bank loans to The Permanente Metals Corporation.*

The bank loans to The Permanente Metals Corp. fluctuated considerably during the period between the first loan and the last repayment, but the averages during said 36-month period were as follows:

For 8 months, May through December 1942	$2,000,000
For the year 1943	3,183,333
For the year 1944	4,125,000
For 4 months, January through April 1945	3,250,000

The maximum bank loan at any one time was $5,000,000.

Richmond Shipbuilding Corp. loans averaged $1,237,500 for 4 months, September through December 1942, while it was engaged in shipbuilding operations.

2. *Disallowed costs allocated to applicable contracts.*

The disallowed costs as charged to the various contracts of The Permanente Metals Corp. were as follows:

Contract MCc-2115	$945,354.45
Contract MCc-8265	108,757.43
Contract MCc-13102	268,396.60
Contract MCc-15761	1,119,380.43
Contract MCc-15762	404,877.90
Contract MCc-36452	1,228,864.66
Contract MCc-40300	293.01
Total	4,075,924.48

Disallowed costs of the Richmond Shipbuilding Division (formerly Richmond Shipbuilding Corp.) of The Permanente Metals Corp. were as follows:

Contract MCc-1795 and Contract MCc-1787	350,698.22
Total disallowed costs of The Permanente Metals Corp	4,426,622.70

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There was no separate allocation of disallowed costs as between contracts of the Richmond Shipbuilding Division Nos. MCc–1795 and MCc–7787 since these were the same type of ships, all of which were being constructed in the same yard, and therefore disallowed costs under both contracts were combined.

The above allocation of costs between contracts was based on the major contract in force for ship construction at the time the expense was incurred or the disallowance was made. No allocation of disallowed costs was made on facilities contracts on which no fee or profit was paid.

3. *Amount of bank loans secured by pledge of Government contracts.*

A maximum of $5,000,000 in private bank loans was obtained by The Permanente Metals Corp. to be used in its shipbuilding activities. None of the Government shipbuilding contracts of The Permanente Metals Corp. were pledged or assigned to the bank as security for these loans.

EXHIBIT 12

REPORT OF KAISER FLEETWINGS, INC., FORMERLY KAISER CARGO, INC., TO MERCHANT MARINE AND FISHERIES INVESTIGATING COMMITTEE, AUGUST 30, 1946

KAISER FLEETWINGS, INC. (FORMERLY KAISER CARGO, INC.)

AUGUST 29, 1946.

MERCHANT MARINE AND FISHERIES INVESTIGATION COMMITTEE,
House of Representatives, Washington 25, D. C.

GENTLEMEN: By letters dated July 27, 1946, you requested certain information from Kaiser Co., Inc., Oregon Shipbuilding Corp., and The Permanente Metals Corp. concerning their shipbuilding activities. While no questionnaire was addressed to Kaiser Fleetwings, Inc. (formerly Kaiser Cargo, Inc.) hereinafter referred to as the "company," yet, since this company operated a shipyard and constructed vessels for the Maritime Commission during the war, we are pleased to furnish herewith information concerning the shipbuilding activities of this company. For convenience, the information is being submitted in answer to the same questionnaire which was transmitted to the other companies mentioned above.

1. *The date on which the company was formed and a copy of its corporate charter.*

This company was incorporated on November 17, 1942, as Kaiser Cargo, Inc. The name of the company was changed to Kaiser Fleetwings, Inc., on May 29, 1946. A copy of the articles of incorporation of the company and a certificate of amendment of said articles are attached hereto as exhibit A.

2. *The total capital of the company, giving a break-down of the types of stock and securities.*

The total capital of the company is $500,000.00, represented by common shares of no par value. The total amount available for the shipbuilding activities of the company was $1,000,000.00 in private bank loans not guaranteed by the Government or any agencies thereof until June 1943. Thereafter, the total amount available for said shipbuilding operations was $1,500,000.00 in private bank loans which were not guaranteed by the Maritime Commission but by another agency of the Government. Please refer to exhibit B for further details.

3. *The names of all officers and directors and a statement of their annual compensation.*

The names of all officers and directors are shown on exhibit C attached hereto. No officer or director received compensation for holding any office or directorship as such. All compensation, if any, was for services rendered as an employee of the company and reference is made to exhibit D attached hereto for a statement of the compensation paid such employees.

4. *The names of all officers and employees who have received compensation of over $15,000 per annum, giving the amounts received and the extent to which such payments were reimbursable by the Maritime Commission.*

Exhibit D contains schedules detailing not only the information requested but also the compensation of all individuals who have been officers or directors of any of the following companies:

Kaiser Co., Inc.
The Permanente Metals Corp.

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Richmond Shipbuilding Corp.
Kaiser Fleetwings, Inc. (formerly Kaiser Cargo, Inc.)
Oregon Shipbuilding Corp.

Only those officers who were empolyed full time on shipbuilding activities were compensated for services in connection therewith and the president of the company and many other officers and directors did not receive any compensation in connection with the shipbuilding operations although very considerable time and effort was devoted by them to the company's shipbuilding business. During the course of the shipbuilding program, only six persons were ever paid at an annual rate in excess of $15,000 by any of the above-mentioned companies for services performed in the shipbuilding operations, and in only three instances was more than $15,000 reimbursed by the Maritime Commission. One such instance involved Mr. J. F. Reis, administrative manager of all seven yards operated by the above companies, who was paid a total of $15,576 in 1944, which was fully reimbursed. Another instance involved Mr. C. P. Bedford, vice president and general manager of the shipyard of this company, two yards of the Permanente Metals Corp. and one yard of Kaiser Co., Inc. at Richmond, Calif., who was paid in excess of $15,000 per year, the highest amounts being $26,474 in 1945, of which $16,666 was reimbursed, and $21,154 paid in 1943, of which $20,307 was reimbursed. The third instance involved Mr. Edgar F. Kaiser, vice president and general manager of yards operated in Oregon and Washington by Oregon Shipbuilding Corp. and Kaiser Co., Inc. and is, therefore, not involved here, but reference is made to the reports of those companies being submitted simultaneously herewith for further information.

Messrs. Edgar F. Kaiser and C. P. Bedford, as general managers, had the direct and primary responsibility for the management and operation of a total of seven shipyards operated by the above-mentioned companies which employed in excess of 180,000 persons at various times during the course of the war, and produced 1,474 ships for the Maritime Commission.

5. *The names of all persons, associations, or corporations holding 5 percent or more of the capital stock of the company, giving the amounts of capital stock held by each.*

All of the stock of the company is owned by five corporations. Exhibit E attached details the additional information requested.

6. *The shipbuilding experience prior to 1941 of all officers, directors, and stockholders holding over 5 percent of the capital stock.*

The officers and directors of the company who were responsible for its shipbuilding operations were also, in the majority of cases, officers or directors of The Permanente Metals Corp., Kaiser Co., Inc., and Oregon Shipbuilding Corp., which three companies had been engaged in shipbuilding operations and were actually producing ships for the Maritime Commission at rates ahead of contract schedules prior to the time any contracts for shipbuilding were let to this company. For further information relating to the experience of said officers and directors, please refer to the answer to question 6 contained in the reports being submitted by Oregon Shipbuilding Corp., The Permanente Metals Corp., and Kaiser Co., Inc., simultaneously herewith.

7. *The names of all officers, directors, or stockholders owning more than 5 percent of the capital stock of the company who have held positions as officers or directors with another company which had contracts with the Maritime Commission or the War Shipping Administration.*

No individual holds any stock of this company, the same being owned by five corporations. For your information, however, a schedule is attached as exhibit F, showing the names of officers or directors holding such positions in more than one of the following corporations which had contracts with the United States Maritime Commission or the War Shipping Administration:

Kaiser Co., Inc.
The Permanente Metals Corp.
Richmond Shipbuilding Corp.
Kaiser Fleetwings, Inc. (formerly Kaiser Cargo, Inc.).
Oregon Shipbuilding Corp.
Columbia Construction Co.

In addition, Messrs. Henry J. Kaiser, G. G. Sherwood, and Edgar F. Kaiser were officers and/or directors of California Shipbuilding Corp., until April 1945.

8. *The names of all officers, directors, or stockholders owning more than 5 percent of the capital stock of the company who have owned 5 percent or more of the capital stock of another company which had contracts with the Martime Commission or the War Shipping Administration.*

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As previously mentioned, there are no individual stockholders of the company, all of the stock being owned by corporations. A schedule, showing the names and percentage interests of these corporations, is contained in exhibit E referred to in question 5. Respecting Henry J. Kaiser Co., the Kaiser Co., and Kaiser Engineers, Inc., the information requested is covered in the answer to question 13 submitted by Kaiser Co., Inc., in its report to your committee simultaneously herewith and reference is made to said report for further information. Respecting the other corporate stockholders involved, this company does not have the requested information or the means of securing it.

9. *A description of all contracts between the company and the Maritime Commission.*

Please see exhibit G and schedules attached thereto for the requested information. In summary, the total number of ships constructed and delivered was 36. The total volume of work performed amounted to $127,842,065. The total profit on said work, after Federal income taxes, was $270,682, or 0.21 percent of the total volume of work performed.

10. *The fees and profits under each of the afore-mentioned contracts allowed after renegotiation.*

Please refer to exhibits G and H and schedules attached thereto for this information.

11. *The status of each contract still subject to renegotiation, giving, wherever possible, information showing the opinion of the Price Adjustment Board and of the company as to the fees and profits permissible under each contract.*

This information is shown on exhibit H attached hereto.

12. *The total cost to the Government of the shipyards and facilities used by the company.*

Richmond shipyard No. 4 and facilities used by the shipbuilding division of this company in the performance of its contracts with the United States Maritime Commission was constructed by Kaiser Co., Inc., under contracts with the United States Maritime Commission and this yard and facilities were used by Kaiser Co., Inc., until April 3, 1943, after which they were used by this company in its shipbuilding operations. The total cost of shipyard No. 4 and its facilities is included in the total cost of shipyards and facilities as shown by Kaiser Co., Inc., in its report answering question 12 of your inquiry which is being submitted simultaneously herewith, and to which reference is hereby made.

We shall be pleased to furnish you with any further information you may desire.

Respectfully submitted.

KAISER FLEETWINGS, INC.,
(Formerly Kaiser Cargo, Inc.),
E. E. TREFETHEN, Jr., *President.*

Exhibit A

ARTICLES OF INCORPORATION OF KAISER CARGO, INC.

Know All Men by These Presents:

That we, the undersigned, have this day voluntarily associated ourselves together for the purpose of forming a corporation under the Laws of the State of California, and we do hereby certify as follows:

First.—That the name of said corporation shall be Kaiser Cargo, Inc.

Second.—That the purposes for which it is formed are:

To carry on a general contracting and construction engineering business and to excavate, dredge, grade, pave and construct, build, erect, repair, wreck, remodel, and equip, in whole or in part, buildings of every description; public and private works of all kinds; roads, streets, sidewalks, bridges, viaducts, approaches, pavements, dams, locks, sewers, tunnels, subways, canals, aqueducts, channels and other waterways, foundations, piers, caissons, vaults, wharves, marine ways and docks, ditches, conduits, reservoirs, railways and other systems of transportation, system of water works; electric, hydraulic, power and gas plants, telephone, telegraph, and lighting systems, factories, and all structures built in whole or in part of wood, stone, brick, cement, iron, steel, or combinations thereof.

To do all manner of boiler setting and boiler installation and all work incidental thereto; to do all manner of furnace setting and furnace installation and all work incident thereto; and to install automatic stokers and to do all mason work incidental thereto.

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To take over, acquire, purchase, own, sell, lease, hire, hold control, manage, maintain, and operate mines, quarries, gravel pits, brickyards, lime kilns, refineries, asphalt, cement, and plaster mills, furnaces, saw mills, metal and woodworking plants, pulp and paper mills, factories, lumber yards, timber lands, glass plants, and establishments for the manufacture, preparation, and production of building supplies, material, furnishings, decorations, and furniture.

To manufacture, buy, sell, lease, and deal in lime, cement, plaster, gravel, stone, marble, brick, terra cotta, lumber, timber, glass, paints, oils, varnishes, stains, iron, steel, copper, brass, and other metals, products, combinations, fabrications or manufactures of any of the foregoing; buildings, and building materials of all kinds; crushing, cutting, lighting, hoisting, elevating, cooling, refrigerating, ventilating, polishing, and cleaning machinery, pipes, wires, apparatus, fixtures, and equipment of all kinds and to install or erect the same; plumbing fixtures, materials and supplies of all kinds, and to install the same.

To manufacture, produce, assemble, fabricate, and deal in all kinds, forms, and combinations of steel, iron, copper, or other metals, or either or any of them.

To carry on the business of consulting and contracting engineers, and the preparation of plans and specifications of machinery, buildings, and works.

To do a general wrecking, salvage, and house moving business; to erect and/or have erected, to construct or have constructed houses, works, buildings, storage-rooms, tenements, edifices, and structures of every description; and to buy, sell, own, use, manage, and lease the same or similar structures.

To acquire by purchase, subscription or otherwise, and to hold as investment or otherwise, any bonds or other securities or evidences of indebtedness or any shares of capital stock created or issued by any other corporation or other corporations, association or associations, person or persons of the State of California, or any other state, district, territory or country.

To purchase, underwrite, hold, sell, assign, transfer, mortgage, pledge, or otherwise dispose of any bonds, shares of stock, debentures, or other securities or evidences of indebtedness created or issued by any other corporation or corporations, association or associations, person or persons, of the State of California, or of any other state, district, territory or country; and while the owner thereof, to exercise all the rights, powers, and privileges of ownership including the right to vote thereon.

To manufacture, purchase, or otherwise acquire, own, mortgage, pledge, sell, assign, and transfer, or otherwise dispose of, to invest, trade, deal in, and deal with goods, wares, and merchandise and real and personal property of every class and description.

To acquire, and pay for in cash, stock, or bonds of this corporation, or otherwise, the good will, rights, assets, and property, and to undertake or assume, the whole or any part of the obligations or liabilities of any person, firm, association, or corporation.

To acquire, hold, use, sell, assign, lease, grant licenses in respect of, mortgage, or otherwise dispose of letters patent of the United States or any foreign country, patent rights, licenses and privileges, inventions, improvements and processes, copyrights, trade-marks and trade names, relating to or useful in connection with any business of this corporation.

To guarantee, purchase, hold, sell, assign, transfer, mortgage, pledge, or otherwise dispose of shares of the capital stock of, or any bonds, securities, or evidences of indebtedness created by any other corporation or corporations organized under the laws of this State or any other state, country, nation, or government, and while the owner thereof to exercise all the rights, powers, and privileges of ownership.

To promote or to aid in any manner, financially or otherwise, any corporation or association; and for this purpose to guarantee or to become surety upon the contracts, dividends, stocks, bonds, notes, and other obligations of such other corporations or associations; and to do any other act or thing designed to protect, preserve, improve, or enhance the value of the stocks, bonds, or other evidences of indebtedness or securities of such other corporations.

To enter into, make, and perform contracts of every kind and description, with any person, firm, association, corporation, municipality, county, state, body politic, or government or colony or dependency thereof.

To become a member of any partnership and to enter into any lawful arrangements for sharing profits and/or losses, union of interests, reciprocal concession or cooperation with any corporation, association, partnership, syndicate, person, or governmental, municipal, or public authority, domestic or foreign, in the carrying on of any business which this corporation is authorized to carry

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on or any business or transaction deemed necessary, convenient, or incidental to carrying out any of the purposes of the corporation.

To act as agent, factor, broker, or representative of corporations, associations, firms, and individuals.

To borrow or raise moneys for any of the purposes of the corporation and, from time to time, without limit as to amount, to draw, make, accept, endorse, execute, and issue promissory notes, drafts, bills of exchange, warrants, bonds, debentures, and other negotiable or nonnegotiable instruments and evidences of indebtedness, and to secure the payment of any thereof and of the interest thereon by mortgage upon or pledge, conveyance, or assignment in trust of the whole or any part of the property of the corporation, whether at the time owned or thereafter acquired, and to sell, pledge, or otherwise dispose of such bonds or other obligations of the corporation for its corporate purposes.

To purchase, hold, sell, and transfer the shares of its own capital stock; provided, it shall not use its funds for purchase of its own shares of capital stock when such use of funds or property would cause any impairment of its capital except as otherwise permitted by law, and provided further that shares of its own capital stock belonging to it shall not be voted on directly or indirectly.

To have one or more offices, to carry on all or any of its operations and business and without restriction or limit as to amount to purchase or otherwise acquire, hold, own, mortgage, sell, convey, or otherwise dispose of real and personal property of every class and description in any of the States, districts, Territories, or colonies of the United States, and in any and all foreign countries, subject to the laws of such state, district, territory, colony, or country.

To do any and all things, necessary, suitable, convenient, or proper for, or in connection with, or incidental to, the accomplishment of any of the purposes or attainment of any one or more of the objects herein enumerated, or designed directly or indirectly to promote the interests of this corporation, or to enhance the value of any of its properties; and in general to do any and all things and exercise any and all powers which it may now or hereafter be lawful for the corporation to do or to exercise under the laws of the State of California that may now or hereafter be applicable to the corporation.

The business or purpose of this corporation is, from time to time and at any time, to do one or more of the acts and things herein set forth, and to have all the powers, rights, and privileges now or hereafter conferred by the laws of the State of California upon corporations organized under the laws of California authorizing the formation of corporations; providing, however, that nothing herein contained shall be deemed to authorize this corporation to construct, hold, maintain, or operate in California urban railroads, or interurban or street railways or telephone lines, or to carry on within said state, the business of a gas, electric, steam, heat, or power company, or to carry on within said State any other public utility business.

The objects and purposes specified in the foregoing clauses shall, except where otherwise expressed, be in nowise limited or restricted by reference to, or inference from, the terms of any other clause in these articles of incorporation, but the objects and purposes specified in each of the foregoing clauses of this article shall be regarded as independent objects and purposes.

Third.—That the principal office for the transaction of the business of said corporation shall be located in Alameda County, State of California.

Fourth.—The total number of shares of stock which the corporation shall have authority to issue is ten thousand (10,000); all of such shares shall be without par value and of one class.

Such shares may be issued for such consideration as from time to time may be determined by the board of directors.

Fifth.—The number of its directors is five (5) and the names and addresses of the persons who are appointed to act as the first board of directors are as follows:

Names	*Addresses*
Mynderse Van Hoesen	111 Sutter Street, San Francisco, California
C. William Maxeiner	111 Sutter Street, San Francisco, California
Lauffer T. Hayes	111 Sutter Street, San Francisco, California
Bruce Walkup	111 Sutter Street, San Francisco, California
A. Richardson	111 Sutter Street, San Francisco, California

The number of directors may be changed from time to time by a bylaw designating, fixing, or changing the number duly adopted by the shareholders.

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Sixth.—Subject to the right of shareholders to adopt, amend or repeal bylaws, bylaws other than a bylaw or amendment thereof changing the authorized number of directors, may be adopted, amended, or repealed by the board of directors.

This corporation may in its bylaws confer powers upon its directors in addition to the foregoing and in addition to the powers and authorities expressly conferred upon them by statute.

Seventh.—This corporation reserves the right to amend, alter, change, or repeal any provision contained in these articles of incorporation in the manner now or hereafter prescribed by statute, and all rights conferred upon shareholders herein are granted subject to this reservation.

In witness whereof, we have hereunto set our hand and seals this 16th day of November A. D. 1942.

MYNDERSE VAN HOESEN.
C. WILLIAM MAXEINER.
LAUFFER T. HAYES.
BRUCE WALKUP.
A. RICHARDSON.

STATE OF CALIFORNIA,
City and County of San Francisco, ss:

On this 16th day of November 1942, before me, a Notary Public, in and for the City and County of San Francisco, State of California, personally appeared Mynderse Van Hoesen, C. William Maxeiner, Lauffer T. Hayes, Bruce Walkup, and A. Richardson, known to me to be the persons whose names are subscribed to and who executed the within instrument, and acknowledged to me that they executed the same, and that they are the directors named therein.

In witness whereof, I have hereunto set my hand and affixed by official seal the day and year above written.

[SEAL]

LULU P. LOVELAND,
Notary Public, in and for the City and County of San Francisco, State of California.

My commission expires December 8, 1942.

CERTIFICATE OF AMENDMENT OF ARTICLES OF INCORPORATION OF KAISER CARGO, INC.

The undersigned, A. B. Ordway and G. G. Sherwood, do hereby certify that they are, respectively, and have been at all times herein mentioned, the duly elected and acting Vice President and Secretary of Kaiser Cargo, Inc., a California corporation, and further that:

One.—At a special meeting of the board of directors of said corporation duly held at Room 2125, One Eleven Sutter Building, San Francisco, California, at 5:00 o'clock P. M., on the 24th day of May 1946, at which meeting there was at all times present and acting a quorum of the members of said board, the following resolution was duly adopted:

"*Resolved*, that Article '*First*' of the Articles of Incorporation of Kaiser Cargo, Inc., be amended to read as follows:

"'*First.*—That the name of said corporation shall be Kaiser Fleetwings, Inc.'"

Two.—The number of shares of said corporation consenting to such amendment of its Articles of Incorporation is 3,750, and the following is a copy of the form of written consent executed by the holders of said shares:

WRITTEN CONSENT OF SHAREHOLDERS TO AMENDMENT OF ARTICLES OF INCORPORATION OF KAISER CARGO, INC.

Whereas, at a special meeting of the board of directors of Kaiser Cargo, Inc., a California corporation, duly held at "Room 2125, One Eleven Sutter Building, San Francisco, California, at 5:00 o'clock P. M., on the 24th day of May 1946, at which meeting a quorum of the members of said board was at all times present and acting, an amendment of the articles of incorporation of said corporation was adopted and approved by resolution of said board amending Article "*First*" of said articles of incorporation to read as follows:

"*First.*—That the name of said corporation shall be Kaiser Fleetwings, Inc."

Now, therefore, each of the undersigned shareholders of said corporation does hereby adopt, approve, and consent to the foregoing amendment of said articles of incorporation and does hereby consent that Article "*First*" of said articles of incorporation be amended to read as herein set forth.

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In witness whereof, each of the undersigned stockholders has caused these presents to be executed by its officers thereunto duly authorized and its corporate seal to be hereunto affixed, and, following its name, the date of signing and the number of shares of said corporation held by it of record on said date entitled to vote upon amendments of said articles of incorporation of the character of the foregoing amendment.

[SEAL] HENRY J. KAISER CO.,
By E. E. TREFETHEN, JR.,
Vice President.
By G. G. SHERWOOD,
Secretary.
Date: May 24, 1946.
Number of shares: 2,250.

[SEAL] THE KAISER CO.,
By G. G. SHERWOOD,
Vice President.
By E. E. TREFETHEN, JR.,
Secretary.
Date: May 24, 1946.
Number of shares: 750.

[SEAL] KAISER ENGINEERS, INC.,
By E. E. TREFETHEN, JR.
Vice President.
By G. G. SHERWOOD,
Secretary.
Date: May 24, 1946.
Number of shares: 750.

Three.—The total number of shares of said corporation entitled to vote on or consent to the adoption of such amendment is 5,000.

In witness whereof, the undersigned have executed this certificate of amendment this 27th day of May 1946.

A. B. ORDWAY,
Vice President of Kaiser Cargo, Inc.
G. G. SHERWOOD,
Secretary of Kaiser Cargo, Inc.

STATE OF CALIFORNIA,
County of Alameda, ss:

A. B. Ordway and G. G. Sherwood, being first duly sworn, each for himself deposes and says:

That A. B. Ordway is, and was at all the times mentioned in the foregoing Certificate of Amendment, the Vice President of Kaiser Cargo, Inc., the California corporation therein mentioned, and G. G. Sherwood is, and was at all of said times, the Secretary of said corporation; and each has read said Certificate and that the statements therein made are true of his own knowledge, and that the signatures purporting to be the signatures of said Vice President and Secretary thereto are the genuine signatures of said Vice President and Secretary, respectively.

A. B. ORDWAY.
G. G. SHERWOOD.

Subscribed and sworn to before me this 27 day of May 1946.

[SEAL] PAUL E. ROGERS,
Notary Public in and for the County of Alameda, State of California.

Exhibit B

KAISER FLEETWINGS, INC. (FORMERLY KAISER CARGO, INC.)

ANSWER TO QUESTION NO. 2 OF QUESTIONNAIRE OF JULY 27, 1946

General

This company consists of two divisions: Shipbuilding division, Richmond and Oakland, Calif.; Fleetwings division, Bristol, Pa.

Maximum capital in use at any one time:

Shipbuilding division:	
Bank loans:	
To June 1943 (unguaranteed)	$1,000,000
After June 1943 (guaranteed, but not by U. S. Maritime Commission)	1,500,000
Fleetwings division:	
Bank loans, guaranteed	10,500,000
RFC loan, secured	1,000,000
Stockholders' loans, subordinated	250,000
Capital stock	500,000

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Bank loans.—Not guaranteed, guaranteed: Until June 17, 1943, the funds necessary for the operations of the shipbuilding division were supplied by open bank loans from Bank of America. Maximum bank loans under this arrangement were $1,000,000. None of these loans were guaranteed by any branch, agency, department, etc., of the Federal Government.

Under date of June 17, 1943, the company and the Bank of America entered into a credit agreement under which the maximum commitment for the entire company was $11,500,000. Of this amount, $2,500,000 was available for its shipbuilding operations. The allocation for shipyard operations was subsequently reduced to $1,500,000.

In connection with this credit agreement, the bank obtained a guaranty agreement from the War Department under the provisions of regulation V. The United States Maritime Commission was not a party to the agreements.

Not only were the loans from stockholders to the company subordinated to this loan, but the stockholders agreed to provide additional subordinated funds under certain conditions.

As of January 5, 1945, a new credit agreement and guaranty agreement were entered into by the same parties to replace the loan of June 17, 1943. The guaranty agreement in this loan was pursuant to regulation VT.

The maximum commitment under this credit agreement was $11,000,000, with no allocation as between divisions of the company.

The last bank borrowings of the shipbuilding division were repaid in May 1945.

Since that date the loans under the credit agreement of January 5, 1945, have been paid off and the agreement has been terminated. The War Department was never called upon to assume its obligations in connection with the guaranty agreement, and the company at no time requested any of the relief provisions possible under the regulation VT loans.

Bank borrowings since the termination of the credit agreement of January 5, 1945, have been without benefit of guaranties to the company or the bank by any branch, etc., of the Federal Government.

RFC loan, secured.—This loan, now fully repaid, together with interest at 4 percent, used by the Fleetwings division, was repaid well ahead of maturity date. The maximum principal amount was $1,000,000.

Stockholders' loans.—These amount to $250,000. During all periods of bank borrowings these loans were subordinated to all bank claims. These funds are in use for other than shipyard purposes.

Capital stock (all common, no par value).—

November 1942 to February 1943	$100,000
February 1943	500,000

Exhibit C

KAISER FLEETWINGS, INC.

List of all officers and directors from date of organization to July 31, 1946, and annual compensation [1]

	Date title held	
	From—	To—
Present officers and directors:		
President: E. E. Trefethen Jr.	Jan 15, 1944	
Vice presidents:		
Edgar F. Kaiser	Nov. 17, 1942	
C. P. Bedford	do	
P. S. Marrin	do	
R. L. Bridges	do	
C. F. Calhoun	Aug. 6, 1943	
W. B. Stitt	June 16, 1943	
T. A. Bedford Jr.	Oct. 18, 1945	
S. D. Hackley	Sept. 20, 1943	
A. B. Ordway	June 16, 1943	

[1] No officer nor director received compensation for holding any office or directorship; all compensation was for services rendered as an employee of the company. See schedule D for details of any salaries paid.

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List of all officers and directors from date of organization to July 31, 1946, and annual compensation—Continued

	Date title held	
	From—	To—
Present officers and directors—Continued		
Secretary: G. G. Sherwood	Nov. 17, 1942	
Treasurer: G. G. Sherwood	do	
Directors:		
P. S. Marrin	May 4, 1943	
E. E. Trefethen Jr	do	
R. L. Bridges	do	
M. Van Hoesen	Nov. 16, 1942	
G. G. Sherwood	Nov. 17, 1942	
Assistant secretaries:		
P. S. Marrin	Mar. 6, 1944	
G. C. Ober Jr	Nov. 17, 1942	
A. E. Beard	do	
C. F. Calhoun	Mar. 2, 1943	
P. E. Rogers	Mar. 20, 1943	
J. L. Friedman	Dec. 13, 1943	
S. Siegel	Aug. 22, 1944	
F. R. Browning	May 20, 1946	
F. H. Bechill	Oct. 18, 1945	
J. L. McClane	May 20, 1946	
Assistant treasurers:		
C. B. Wood	Sept. 1, 1944	
F. L. Wilmoth	May 20, 1946	
Past officers and directors:		
President: Henry J. Kaiser	Nov. 17, 1942	Jan. 15, 1944
Vice presidents:		
E. E. Trefethen, Jr	do	Do.
F. de Ganahl	Mar. 26, 1943	Aug. 18, 1943
R. E. Dill	Sept. 20, 1943	Oct. 31, 1944
Secretaries: None		
Treasurers: None		
Directors:		
C. W. Maxeiner	Nov. 16, 1942	May 4, 1943
L. T. Hayes	do	Do.
B. Walkup	do	Do.
A. Richardson	do	Do.
Assistant secretaries:		
W. B. Stitt	Mar. 20, 1943	June 16, 1943
M. Fricke	Mar. 26, 1943	May 29, 1944
C. L. Nielsen	do	Nov. 10, 1943
E. S. Kearns	June 16, 1943	Aug. 22, 1944
M. E. Brennan	do	Aug. 18, 1943
W. G. Stilson	Nov. 10, 1943	Mar. 18, 1944
S. H. Wilde	Mar. 18, 1944	Sept. 19, 1945
R. E. Knight	Jan. 31, 1945	Do.
W. E. Lucie	do	Oct. 18, 1945
J. Birdsall	Sept. 19, 1945	Feb. 14, 1946
L. J. Kelly	do	May 11, 1946
T. A. Bedford, Jr	Oct. 8, 1945	Oct. 18, 1945
Assistant treasurers:		
C. L. Nielsen	Mar. 26, 1943	Nov. 10, 1943
W. G. Stilson	Nov. 10, 1943	Mar. 18, 1944
F. R. Browning	Aug. 24, 1944	Sept. 19, 1945
L. J. Kelly	Sept. 19, 1945	May 11, 1946

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Exhibit D

KAISER FLEETWINGS, INC. (FORMERLY KAISER CARGO, INC.)

Salaries [1] paid to (1) officers and directors (regardless of amount) (2) others (over $15,000 annually), (3) individuals who have been officers or directors of Kaiser Co., Inc., The Permanente Metals Corp., Richmond Shipbuilding Corp., Kaiser Fleetwings, Inc., or Oregon Shipbuilding Corp.

Name	Occupational title (all applicable to other division)	Period covered	Shipbuilding division	Fleetwings division	Total	Reimbursable by U. S. Maritime Commission [2]
1943						
(1) Officers and directors:						
R. E. Dill	Chief administrative manager.	July 20 to Dec. 31, 1943		$9,615.50	$9,615.50	None.
F. de Ganahl	General manager	Mar. 29 to Dec. 31, 1943		26,307.78	26,307.78	Do.
C. L. Nielson	Controller	do		11,365.70	11,365.70	Do.
M. E. Brennan	Executive secretary	do		1,495.00	1,495.00	Do.
S. D. Hackley	Chief operation manager	Aug. 15 to Dec. 31, 1943		6,154.02	6,154.02	Do.
W. G. Stillson	Administrative assistant	Sept. 1 to Dec. 31, 1943		2,755.00	2,755.00	Do.
S. H. Wilde	Executive assistant	Aug. 22 to Dec. 31, 1943		4,154.00	4,154.00	Do.
(2) Others (over $15,000): None						
(3) Officials of other companies: None						
1944						
(1) Officers and directors:						
R. E. Dill	Chief administrative manager.	Jan. 1 to Oct. 31, 1944		16,666.86	16,666.86	None.
S. D. Hackley	General manager	Jan. 1 to Dec. 31, 1944		15,750.28	15,750.28	Do.
W. G. Stillson	Administrative assistant	Jan. 1 to June 22, 1944		1,885.00	1,885.00	Do.
S. H. Wilde	Operations manager	Jan. 1 to Dec. 31, 1944		12,461.58	12,461.58	Do.
F. R. Browning	Executive assistant	Feb. 21 to Dec. 31, 1944		7,307.63	7,307.63	Do.
(2) Others (over $15,000): Carl de Ganahl	Director research and development.	Jan. 1 to Dec. 31, 1944		18,642.10	18,642.10	Do.
(3) Officials of other companies: None						

[1] Includes adjusted compensation (year-end "bonus").

[2] The shipbuilding division of Kaiser Fleetwings, Inc., paid no salaries to its top management personnel but did share in such salaries through U. S. Maritime Commission approved prorations of charges applicable to all 4 Richmond, Calif., shipyards, which were jointly managed. The total amount reimbursed by the U. S. Maritime Commission, regardless of who claimed reimbursement, is shown in the "Reimbursable" column of the same answer to question by the company who made the payment.

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1945						
(1) Officers and directors:						
S. D. Hackley	General manager	Jan. 1 to Dec. 31, 1945		20,153.65	20,153.65	None.
S. H. Wilde	Operations manager	Jan. 1 to Feb. 4 and June 18 to Sept. 16, 1945.		6,153.86	6,153.86	Do.
F. R. Browning	Executive assistant	Jan. 1 to Sept. 30, 1945		9,022.54	9,022.54	Do.
(2) Others (over $15,000): Carl de Ganahl	Director research and development.	Jan. 1 to Dec. 31, 1945		18,345.95	18,345.95	Do.
(3) Officials of other companies: None						

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Exhibit E

KAISER FLEETWINGS, INC. (FORMERLY KAISER CARGO, INC.)

Stock ownership from organization, July 31, 1946

Stockholders	Nov. 28, 1942 [1]		Feb. 2, 1943 [1]		Mar. 27, 1943 [1]		July 13, 1943 [2]	
	Shares	Percent	Shares	Percent	Shares	Percent	Shares	Percent
Henry J. Kaiser Co.	250	100	500	100	4,250	85	2,250	45
Morrison-Knudsen Co., Inc.					750	15	750	15
The Kaiser Co.							750	15
Kaiser Engineers, Inc.[3]							750	15
J. F. Shea Co., Inc.							500	10
Total	250	100	500	100	5,000	100	5,000	100

[1] Issued for cash.
[2] Issued or transferred between stockholders for cash.
[3] Formerly California Kaiser Co.

Exhibit G

(Question No. 9)

KAISER FLEETWINGS, INC.—SHIPBUILDING DIVISION (FORMERLY KAISER CARGO, INC., YARD NO. 4)

Summary of shipyard income to May 31, 1946

	Shipbuilding (USMC contracts)
Total of shipbuilding contracts (see schedule 1)	$108,594,076.10
Government furnished materials (see schedule 5)	19,248,000.00
Total contract volume (see schedule 5)	127,842,076.10
Gross profit before taxes (see schedule 1)	1,047,301.39
Federal income taxes (see schedule 1)	776,619.18
Net profit (see schedule 1)	270,682.21
Percent of net profit on total contract volume	.21

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Exhibit F

Individuals who have held offices or directorships in more than 1 of following companies: Kaiser Co., Inc., The Permanente Metals Corp., Richmond Shipbuilding Corp., Kaiser Fleetwings, Inc., Oregon Shipbuilding Corp., Consolidated Builders, Inc., (to July 31, 1946)

Officers and directors	Kaiser Co., Inc.		The Permanente Metals Corp.		Richmond Shipbuilding Corp.		Kaiser Fleetwings, Inc.		Oregon Shipbuilding Corp.		Consolidated Builders, Inc.[2]	Columbia Construction Co.[3]
	Position	Status[1]	Position	Status[1]	Position	Status[1]	Position	Status[1]	Position	Status[1]		
Henry J. Kaiser	President	X	President	X	President	X	President	Jan. 15, 1944			President	President.
Do			Director	X	Director	X			Director	X	Director	Director.
Edgar F. Kaiser	Vice president	X	Vice president	X	Vice president	X	Vice president	X	Vice president	X	Vice president	Vice president.
Do			Director	X	Director	X			Director	X	Director	Assistant secretary.
E. E. Trefethen, Jr	Vice president	X	Vice president	X	Vice president	X	President	X	Assistant secretary	X		Vice president.
Do	Director	X	Director	X	Director	X	Director	X				
Do	Secretary	Jan. 7, 1942	Secretary	Feb. 1, 1943	Secretary	Feb. 2, 1943	Vice president	Jan. 15, 1944	Assistant treasurer	X		
C. F. Calhoun	Vice president	X	Vice president	X			do	X				
Do	Assistant secretary	Jan. 7, 1942					Assistant secretary	X				
C. P. Bedford	Vice president	X	Vice president	X	Vice president	X	Vice president	X				Assistant secretary.
Do	Assistant secretary	X	Assistant secretary	X	Assistant secretary	X						
A. B. Ordway	Vice president	X	Vice president	X	Vice president	X	Vice president	X				
T. A. Bedford, Jr	do	X	do	X			do	X				
Do	Assistant secretary	Oct. 18, 1945					Assistant secretary	Oct. 18, 1945				
Paul S. Marrin	Vice president	X	Assistant secretary	X	Assistant secretary	X	Vice president	X	Assistant secretary	X	Assistant secretary	
Do	Director	X			Director	Apr. 25, 1941	Director	X	Director	Jan. 11, 1941		
Do	Assistant secretary	X			Vice president	do	Assistant secretary	X	President	do		
George Havas	Secretary	May 1, 1946	Director	Dec. 9, 1940					Vice president	do		Do.
Do			Secretary treasurer	Dec. 30, 1940					Director	do		
G. G. Sherwood	Secretary treasurer	X	do	X	Director	Apr. 25, 1941	Director	X	Treasurer	X	Secretary	Secretary.
Do	Director	X	Assistant secretary	X	Secretary-treasurer	X	Secretary	X	Assistant secretary	X	Assistant-treasurer	
Do	President	Jan. 7, 1942			Assistant secretary	X	Treasurer	X				
Do	Assistant secretary	May 1, 1946										
J. F. Reis	do	X	Assistant secretary	X	Assistant secretary	X			Secretary	X	Assistant secretary	Assistant secretary.
Do	Assistant treasurer	X	Assistant treasurer	X	Assistant treasurer	X					Assistant treasurer	Assistant treasurer.
Do			Vice president	X								
C. B. Wood	Assistant secretary	X	Assistant treasurer	X			Assistant secretary	X				
Do	Assistant treasurer	X					Assistant treasurer	X				
A. E. Beard	Assistant secretary	X			Assistant secretary	Apr. 25, 1941	Assistant secretary	X				
Donald Brown	do	X	Assistant secretary	X								
Do			Assistant treasurer	X								
E. R. Ordway	Assistant secretary	X							Assistant secretary	X	Assistant secretary	
George C. Ober, Jr	do	X	Assistant secretary	X	Assistant secretary	X	Assistant secretary	X	do	X		
F. H. Bechill	do	X	do	X			do	X				
J. E. Lentis	do	X							Assistant secretary	X	Assistant secretary	
M. Van Hoesen	Director	X			Director	Apr. 25, 1941	Director	X				
R. L. Bridges	do	X	Assistant secretary	X			Vice president	X	Vice president	X	Vice president	
Do					Director	Apr. 25, 1941	Director	X				
F. Cook	Director	July 5, 1943			do	do						
J. L. Friedman	Assistant secretary	May 1, 1946	Assistant secretary	X			Assistant secretary	X				
Albert Bauer	Vice president	X										
Joseph Haag, Jr			Vice President	Feb. 13, 1942	Vice president	Feb. 25, 1942			Vice president	Feb. 13, 1942		
Do			Director	do	Director	do			Director	do		
F. Strenz			do	Dec. 30, 1940	do	do			do	do		
Do			Assistant secretary	Feb. 13, 1942	Assistant secretary	do			Assistant secretary	do		
Do			Assistant treasurer	do	Assistant treasurer	do			Assistant treasurer	do		
E. P. Enfer			Director	Dec. 20, 1940	do	do			do	do		
Do			Assistant secretary	Feb. 13, 1942	Assistant secretary	do			Assistant secretary	do		
Do			Assistant treasurer	do								
R. J. Lamont			Director	Feb. 14, 1942	Director	Feb. 25, 1942			Director	Feb. 13, 1942		
Do									Vice president	do		
J. D. Reilly			Director	Feb. 13, 1942	Director	Feb. 25, 1942			Director	do		
J. H. Todd			do	do	do	do			do	do		
S. D. Bechtel			Vice president	June 20, 1945	Vice president	June 20, 1945						
Do			Director	do	Director	do			Director	X	Director	Director.
J. A. McCone			do	do	do	do			do	X	do	
J. A. McEachern			do	X	do	X			do	X	do	
Do									President	X		
Do									Vice president	Jan. 27, 1942		
C. A. Shea			Director	Jan. 27, 1942	Director	Jan. 27, 1942			Director	do		
Do									President	do		
H. W. Morrison			Director	X	Director	X			Director	X	Director	Vice president.
Do												Director.
L. S. Corey			Director	X					Director	Feb. 13, 1942	Director	Do.
Felix Kahn			do	X	Director	X			do	X	do	Do.
Do											Treasurer	Treasurer.
W. G. Swigert			Director	X	Director	X			Director	X	Director	
W. S. Newell			do	Feb. 16, 1942	do	June 29, 1941						
G. J. Shea			do	X	do	X			Director	X	Director	
R. E. Dill			Assistant treasurer	Feb. 5, 1945			Vice president	Oct. 31, 1944				
A. Richardson					Director	Apr. 25, 1941	Director	May 4, 1943				
W. Green					do	Feb. 25, 1942			Director	Feb. 13, 1942		
O. M. Lund					do	do			do	do		
H. A. Dick									Vice president	X		
Do									Director	X	Director	
Do									Assistant secretary	X		
Do									Assisant treasurer	X		
M. Miller											Assistant secretary	Vice president.
E. F. Lackey											Assistant treasurer	Assistant secretary.
H. F. Morton									Vice president	X		Do.

[1] Status: (X) indicates still holds position; date indicates date of resignation.
[2] Present officers and directors, only, shown.
[3] Present officers and directors, only, shown. Columbia Construction Co. had only 1 contract with the U. S. Maritime Commission for construction of a floating drydock, which was constructed by the Vancouver yard of Kaiser Co., Inc., under a subcontract.

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(Question No. 9—Schedule 1)

KAISER FLEETWINGS, INC.—SHIPBUILDING DIVISION (FORMERLY KAISER CARGO, INC., YARD NO. 4)

Statement of contracts with U. S. Maritime Commission as recorded at May 31, 1946

(A)	(B)	(C)		(D)	(E)			(F)	(G)	(H)	(I)	(J)
		Ships under contracts as amended						Fees				
Contract No.	Type of contract	Number	Type	Number of ships delivered	Total amounts paid by U. S. Maritime Commission (net)	Unpaid [1] (retentions and amounts in process of settlement)	Total paid or unpaid	Maximum	Minimum	Actual paid by U. S. Maritime Commission included in (E)	Profits received under fixed-price contracts included in (E)	Total profits and fees
MCc 8719	Price, minus	12	S2-S2-AQ1	12	$22,594,408.85	$12,186.02	$22,606,594.87	$720,000	$360,000	$360,000		$360,000.00
MCc 18182	Fixed price	12	C1-M-AV1	12	18,250,000.00	750,000.00	19,000,000.00				$240,000	240,000.00
MCc 29034	Selective price	12	C1-M-AV1	12	13,493,536.94	100,000.00	13,593,536.94				745,000	745,000.00
MCc 13181	Cost: Engineering and design.		Agency contract (see schedule 2.		53,458,285.17	[2] 64,340.88	53,393,944.29					
Total		36		36	107,796,230.96	797,845.14	108,594,076.10			360,000	985,000	1,345,000.00

Add fees transferred from other shipyards for work performed under U. S. Maritime Commission contracts (schedule 3)	13,058.04
	1,358,058.04
Less nonreimbursable and disallowed expenses under price-minus contracts, and costs not considered allowable under fixed-price contracts, etc	310,756.65
Gross earnings on U. S. Maritime Commission contracts	1,047,301.39
Less Federal income and excess-profits taxes thereon	776,619.18
Net income accumulative to May 31, 1946 (per financial report May 31, 1946)	270,682.21

[1] See schedule 4.

[2] See the following:

Agency cash on deposit	$68,863.36
Less unbilled reimbursable costs	4,522.48
Remainder	64,340.88

NOTE.—The above amount do not include the value of materials, if any, furnished by U. S. Maritime Commission without cost to the contractor.

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(Question No. 9—Schedule 2)

KAISER FLEETWINGS, INC.—SHIPBUILDING DIVISION (FORMERLY KAISER CARGO, INC., YARD NO. 4)

CONTRACT MCC 13181

I. Under the terms of this contract, Kaiser Cargo, Inc.—

(*a*) Prepared working plans, specifications, requisitions, and bills of materials, etc., for up to 100 vessels in accordance with plans and specifications designated "Design S2–S2–AQ–1." Of this number only 12 were to be constructed by Kaiser Cargo, Inc., with the balance to be constructed by various other unrelated shipyards.

(*b*) Purchased for the account of and as agent of the United States Maritime Commission materials and equipment necessary for the construction of such vessels for delivery to it and all the other shipyards holding contracts under this program.

II. To pay for all of the material and equipment under such purchasing program, the Commission deposited $4,000,000 in a special revolving fund bank account from which withdrawals were made only by checks signed jointly by an authorized representative of both the company and the regional auditor of the United States Maritime Commission.

III. The company furnished the necessary working capital to cover the pay rolls and office expenses of the project.

IV. The company was paid no fee or profits directly or indirectly for this engineering design and procurement. Certain expenses which were determined to be nonreimbursable by the Finance Section of the Commission were charged against the profits from shipbuilding operations.

(Question No. 9—Schedule 3)

KAISER FLEETWINGS, INC.—SHIPBUILDING DIVISION (FORMERLY KAISER CARGO, INC., YARD NO. 4)

TRANSFERS OF FEES FROM OTHER SHIPYARD

Contract MCC 36279 was issued by the United States Maritime Commission to Kaiser Co., Inc., to cover ship-repair work for other Government agencies, such as War Shipping Administration, United States Navy, and United States Army. This contract (as amended) authorized Kaiser Co., Inc., to allocate ships to be repaired to the Permanente Metals Corp. and Kaiser Cargo, Inc., as subcontractors. Kaiser Co., Inc., reduced its fee earnings by transferring $13,508.04 to Kaiser Cargo, Inc.

(Question No. 9—Schedule 4)

KAISER FLEETWINGS, INC.—SHIPBUILDING DIVISION (FORMERLY KAISER CARGO, INC., YARD NO. 4)

STATUS OF UNPAID AND UNSETTLED CONTRACT AMOUNTS

[Supplement to 9 (E)]

I. Final settlement of unpaid amounts is subject to completion of the following:

1. Payment by the contractor and obtaining final release on all commitments pertaining to the applicable contracts.
2. Subsequent preparation by the contractor of final statements of costs.
3. Audit by representatives of the United States Maritime Commission of contractor's final statement of costs.
4. Resolving the open appeals of the contractor from costs disallowed by the United States Maritime Commission and final negotiation thereof.

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5. Final determination of costs and resultant agreement of amounts to be recaptured by the United States Maritime Commission and/or amounts due the contractor from the United States Maritime Commission.

Every reasonable effort is being extended by the contractor to complete item 1 so that the other steps listed above may be completed to effect final settlement at the earliest possible date. However, in view of the tremendous volume of purchase orders, subcontracts, and other commitment documents issued, such work is unavoidably slow. In the interim, the contractor and the United States Maritime Commission Finance Section are negotiating tentative settlements to cover a substantial portion of the amounts involved, leaving minimum amounts for final future settlement.

II. Unpaid—"Retentions" represents at May 31, 1946, the final payments due on fixed price and lump-sum contracts, withheld by the United States Maritime Commission in accordance with the terms of the respective contracts, until and if the recorded costs justify additional payments. Included in the net total of $797,845.14 unpaid contract amounts per schedule 1 is $850,000 representing such retentions.

(Question No. 9—Schedule 5)

KAISER FLEETWINGS, INC.—SHIPBUILDING DIVISION (FORMERLY KAISER CARGO, INC., YARD NO. 4)

Statement of contracts with U. S. Maritime Commission

Contract No.—	Type of contract	Ships under contracts as amended (type)	Number of ships delivered	Contract value	Commission furnished materials	Total contract volume
MCc-8719	Price minus	S2-S2-AQ1	12	$22,606,594.87	(1)	$22,606,594.87
MCc-18182	Fixed price	C1-M-AV1	12	19,000,000.00	$9,624,000	28,624,000.00
MCc-29034	Selective price	do	12	13,593,536.94	9,624,000	23,217,536.94
MCc-13181	Cost—engineering and design.	Agency contract (see schedule 2).		53,393,944.29		53,393,944.29
Total			36	108,594,076.10	19,248,000	127,842,076.10

[1] Commission furnished materials. Cost included in contract MCc-13181 in amount of $6,320,527.83.

Exhibit H

(Questions Nos. 10 and 11—Schedule 1)

KAISER FLEETWINGS, INC.—SHIPBUILDING DIVISION (FORMERLY KAISER CARGO, INC., YARD NO. 4)

EFFECT OF RENEGOTIATION ON FEES AND PROFITS AND STATUS OF CONTRACTS STILL SUBJECT TO RENEGOTIATION

1. The Price Adjustment Board of United States Maritime Commission has found that no excessive profits were realized for the fiscal years ending October 31, 1943, and October 31, 1944.

2. Renegotiation has not yet been completed for the fiscal year ending October 31, 1945. However, as the vessels constucted by the shipbuilding division for the fiscal year ending October 31, 1945, were constructed under a selective price contract, which is not subject to renegotiation, it is obvious that there will be no excessive profits allocable to shipbuilding operations.

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NOVEMBER 13, 1946.

In answer to the telegrams from Marvin J. Coles, addressed to Kaiser Fleetwings, Inc. (formerly Kaiser Cargo, Inc.), dated October 10 and 11, 1946, we submit the following information:

1. *Average amount of applicable paid-in capital.*

As mentioned in exhibit B of the report originally submitted to the committee, the capital of the company from November 1942 to February 1943 was $100,000, represented by issued and fully paid capital stock. In February 1943 the capital of the company was increased to $500,000 and still remains the same. This capital is represented by capital stock of the company which has been issued and fully paid. In addition to the capital represented by this stock, there were subordinated stockholders' loans made to the corporation in the amount of $250,000. As mentioned in the report originally submitted to the committee none of the above-mentioned capital was applicable to the shipbuilding activities of the company but was used in its aircraft-manufacturing activities. The amount available for the shipbuilding activities of the company was $1,000,000 in private bank loans not guaranteed by the Government or any agencies thereof until June 1943. Thereafter, the total amount available for such shipbuilding operations was $1,500,000 in private-bank loans, which were not guaranteed by the Maritime Commission but by another agency of the Government.

2. *Average amount of outstanding bank loans.*

The bank loans to Kaiser Fleetwings, Inc. (formerly Kaiser Cargo, Inc.) fluctuated between $1,000,000 and $1,500,000 during the period of its shipbuilding activities. The first loans for shipbuilding purposes were obtained in April 1943 and the final payment was made in April 1945. The average of said loans for the elapsed period of 25 months was $1,388,000.

3. *Excess fees and profits determined by renegotiation of contracts allocated between renegotiated contracts.*

As mentioned in exhibit N attached to the original report submitted to the committee, the Price Adjustment Board has found upon renegotiation of Kaiser Fleetwings, Inc. (formerly Kaiser Cargo, Inc.) that no excessive profits were realized for the fiscal years ending October 31, 1943, and October 31, 1944. Renegotiation of the company for the fiscal year ending October 31, 1945, has not yet been completed. However, all vessels constructed by the company during the fiscal year ending October 31, 1945, were constructed under a selective price contract which is not subject to renegotiation.

4. *Disallowed costs allocated to applicable contracts.*

Disallowed costs allocated to contracts of Kaiser Fleetwings, Inc. (formerly Kaiser Cargo, Inc.) were as follows:

MCc-8719	$197,047.15
MCc-18182	73,415.52
MCc-29034	40,293.98
Total	310,756.75

Allocattion of disallowed costs was based on the major contract in force for ship construction at the time the expense was incurred or the disallowance was made. No allocation was made to an engineering and design contract upon which no fee or profit was paid.

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EXHIBIT 13

REPORT OF OREGON SHIPBUILDING CORP., TO MERCHANT MARINE AND FISHERIES, INVESTIGATING COMMITTEE, AUGUST 30, 1946

OREGON SHIPBUILDING CORP.,
Portland 3, Oreg., August 29, 1946.

MERCHANT MARINE AND FISHERIES INVESTIGATING COMMITTEE,
House of Representatives, Washington 25, D. C.

GENTLEMEN: We are pleased to furnish herewith the information requested in your letter of July 27, 1946, concerning the shipbuilding activities of this corporation as follows:

1. *Date on which the company was formed and a copy of its corporate charter.*

Oregon Shipbuilding Corp. (hereinafter referred to as the "company") was incorporated on January 6, 1941. A copy of its certificate of incorporation together with a copy of an amendment thereof, are attached hereto as exhibit A.

2. *The total capital of the company, giving a break-down of the types of stock and securities.*

The total amount available for the shipbuilding operations of this company was $6,950,000, comprised of $550,000 in capital stock; $3,000,000 in loans by stockholders which were subordinated at all times to any bank loans, and $3,400,000 in private bank loans not guaranteed by the Government or any agencies thereof. See exhibit B attached hereto for particulars.

3. *The names of all officers and directors and a statement of their annual compensation.*

The names of all officers and directors are shown on exhibit C attached hereto. No officer or director received compensation for holding any office or directorship as such, except for Mr. Joseph Haag, Jr., during a short period of time. All compensation was for services rendered as an employee of the company and reference is made to exhibit D attached hereto for a full statement of the compensation paid such employees.

4. *The names of all officers and employees who have received compensation over $15,000 per annum, giving the amounts received and the extent to which such payments were reimbursable by the Maritime Commission.*

Exhibit D contains schedules detailing not only the information requested, but also the compensation of all individuals who have been officers or directors of any of the following companies:

Kaiser Co., Inc.
The Permanente Metals Corp.
Richmond Shipbuilding Corp.
Kaiser Fleetwings, Inc. (formerly Kaiser Cargo, Inc.).
Oregon Shipbuilding Corp.

Only those officers who were employed full time on shipbuilding activities were compensated for services in connection therewith, and the president of the company and many other officers and directors did not receive any compensation in connection with the shipbuilding operations, although very considerable time and effort was devoted by them to the company's shipbuilding business. During the course of the shipbuilding program only six persons were ever paid at an annual rate in excess of $15,000 by any of the above-mentioned companies for

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services performed in the shipbuilding operations and in only three instances was more than $15,000 reimbursed by the Maritime Commission. One such instance involved Mr. J. F. Reis, administrative manager of all seven yards operated by the above companies, who was paid a total of $15,576 in 1944, which was fully reimbursed. Another instance involved Mr. Edgar F. Kaiser, vice president and general manager of the shipyards of this company and the Vancouver and Portland yards of Kaiser Co., Inc., who was paid in excess of $15,000 per year, the highest amount being $18,346 paid in 1943 by Kaiser Co., Inc., which was fully reimbursed by the Maritime Commission. The third instance involved Mr. C. P. Bedford, general manager of yards operated in California by the Permanente Metals Corp., Kaiser Co., Inc., and Kaiser Fleetwings, Inc., and is, therefore, not involved here, but reference is made to the reports of those companies being submitted simultaneously herewith for further information. Messrs. Edgar F. Kaiser and C. P. Bedford, as general managers, had the direct and primary responsibility for the management and operation of a total of seven shipyards operated by the above-mentioned companies, which employed in excess of 180,000 persons at various times during the course of the war and produced 1,474 ships for the Maritime Commission.

5. *The names of all persons, associations, or corporations holding 5 percent or more of the capital stock of the company, giving the amounts of capital stock held by each.*

Since May 18, 1942, all of the stock of this company has been owned by Consolidated Builders, Inc., the stock of which, in turn, is, and since said date has been, owned in varying percentages by 10 corporations. Please refer to exhibit E for further information.

6. *The shipbuilding experience prior to 1941 of all officers, directors, and stockholders holding over 5 percent of the capital stock.*

Prior to 1941, officers, directors, and stockholders of the company had been engaged in heavy construction projects which included, among others, the building of Boulder Dam, Bonneville Dam, Grand Coulee Dam powerhouses and facilities, and many other projects. Through these activities and over the course of many years prior thereto, an integrated organization was developed which was experienced and efficient in procuring and handling large quantities of materials and in mass production and fabrication methods.

In 1939 the Kaiser interests and several associates joined with the Todd Shipbuilding Corp. in forming the Seattle-Tacoma Shipbuilding Corp. In July 1939 said company submitted the low competitive bid to the United States Maritime Commission for the construction of five C-1 cargo vessels. These vessels were completed in 1941 in a shipyard privately financed and constructed at Tacoma, Wash. During 1940 this same company was awarded contracts for 30 destroyers by the Navy Department and 4 C-3 cargo vessels and 2 C-3 troop transports by the Maritime Commission. Participation in this company by the Kaiser interests and associates continued until February 1942.

Messrs. J. H. Todd, J. D. Reilly, Joseph Haag, Jr., R. J. Lamont, C. F. Strenz, and Walter Green, representing the Todd interests and all fully experienced in shipbuilding operations over a period of many years, served as officers and/or directors of Seattle-Tacoma Shipbuilding Corp. In addition, Messrs. J. A. McEachern, C. A. Shea, Felix Kahn, Henry J. Kaiser, and G. G. Sherwood, representing the Kaiser interests and associates, also served as officers and/or directors of said company, Mr. McEachern and Mr. Sherwood having served, respectively, as vice president and treasurer. All of these individuals later became officers and/or directors of Oregon Shipbuilding Corp., Mr. Shea having served as the first president of the company until January 1942 and Mr. McEachern having served thereafter as president. Both Mr. McEachern and Mr. Shea had previously obtained shipbuilding experience during World War I. Mr. Shea was associated with the North Pacific Shipbuilding Co. through the firm of Twohy & Erickson, which shipbuilding company produced steel ships in Seattle during the last war. The J. A. McEachern Co., built wooden ships during the last war at Astoria, Oreg.

In December 1940 the Kaiser interests and associates again joined with the Todd Shipbuilding Corp. in forming Todd-California Shipbuilding Corp., of which Mr. Henry J. Kaiser was president and which contracted with the British Government to build a seven-way shipyard at Richmond, Calif., and 30 cargo ships. This yard was completed in August 1941 and in February 1942 the Todd interests in this corporation were acquired, the name of the corporation changed to the

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Permanente Metals Corp., and the British contract completed under the sole sponsorship and management of the Kaiser interests.

Through participation and association in the early shipbuilding activities of Seattle-Tacoma Shipbuilding Corp., and Todd-California Shipbuilding Corp. by individuals who later became officers, directors, or key personnel of this company, shipbuilding experience and know-how was obtained which was manifested early in 1942 when this company and the Permanent Metals Corp. attained, and thereafter maintained, shipbuilding production records which set the pace in Liberty-ship construction for the entire Nation.

7. *The names of officers, directors, or stockholders owning more than 5 percent of the capital stock of your company, who have held positions as officers or directors of another company which had contracts with the United States Maritime Commission or the War Shipping Administration.*

No individual owned any stock of this company. For your information, however, a schedule is attached as exhibit F, showing the names of officers or directors holding such positions in more than one of the following corporations which had contracts with the United States Maritime Commission or the War Shipping Administration:

Kaiser Co., Inc.
The Permanente Metals Corp.
Richmond Shipbuilding Corp.
Kaiser Fleetwings, Inc. (formerly Kaiser Cargo, Inc.).
Oregon Shipbuilding Corp.
Columbia Construction Co.

In addition, Messrs. Henry J. Kaiser, G. G. Sherwood and Edgar F. Kaiser were officers and/or directors of California Shipbuilding Corp. until April 1945.

8. *The names of all officers, directors, or stockholders owning more than 5 percent of the capital stock of the company who have owned 5 percent or more of the capital stock of another company which had contracts with the Maritime Commission or the War Shipping Administration.*

As mentioned above, the sole stockholder of Oregon Shipbuilding Corp. is Consolidated Builders, Inc. No individual has owned in excess of 5 percent of stock of the latter corporation, but various corporations own in excess of that percentage. A schedule showing the names and percentage interests of these corporations is contained in exhibit E referred to in question 5. As regards Henry J. Kaiser Co. and the Kaiser Co., the information requested is covered in the answer to question No. 13 submitted by Kaiser Co., Inc., in its report to your committee being submitted simultaneously herewith, and reference is made to said report for further information. Respecting the other corporate stockholders involved, this company does not have the requested information or the means of securing it.

9. *A description of all contracts between the company and the Maritime Commission.*

Please see exhibit G and schedules attached thereto for the requested information. In summary, the total number of ships constructed and delivered was 463. The total volume of work performed amounted to $963,587,560. The net profit on this volume of work, after Federal income taxes, was $13,111,491, or 1.36 percent of the total volume.

10. *The fees and profits under each of the afore-mentioned contracts allowed after renegotiation.*

Please refer to exhibits G and H and schedules attached thereto for this information.

11. *The status of each contract still subject to renegotiation, giving, wherever possible, information showing the opinion of the Price Adjustment Board and of the company as to fees and profits permissible under each contract.*

This information is shown on exhibit H attached hereto.

12. *The total cost to the Government of the shipyards and facilities used by your company.*

The total cost of the shipyard and facilities used by this company was $20,107,408.67, excluding transportation and housing, all of which were constructed by the company without fee or profit. For further details, please refer to exhibit I.

We shall be pleased to furnish you with any other information you may desire.

Respectfully submitted.

OREGON SHIPBUILDING CORP.,
HENRY J. KAISER, *Director.*

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Exhibit A

CERTIFICATE OF INCORPORATION OF OREGON SHIPBUILDING CORPORATION

First.—The name of the corporation is Oregon Shipbuilding Corporation.

Second.—Its principal office in the State of Delaware is located at No. 100 West Tenth Street, in the City of Wilmington, County of New Castle. The name and address of its resident agent is The Corporation Trust Company, No. 100 West Tenth Street, Wilmington, Delaware.

Third.—The nature of the business, or objects or purposes to be transacted, promoted or carried on are:

To build, equip, operate, maintain, buy, sell, deal in and with, own, charter and otherwise dispose of ships, vessels and boats of every nature and kind whatsoever, together with all materials, articles, tools, machinery and appliances entering into or suitable and convenient for the construction or equipment thereof, together with engines, boilers, machinery, appurtenances, tackle, apparel and furniture of all kinds; to buy, lease or otherwise acquire, construct, maintain and operate wharves, piers, docks and warehouses; to construct and maintain for the use of the company or for letting out on hire, graving and other docks and other conveniences for the building, repairing or docking of ships and other vessels, and to aid in or contribute to the construction of any such works; to buy or otherwise acquire ships and vessels, complete or not complete, sound or out of repair, for the purpose of improving, reselling, chartering or otherwise making a profit out of the same, to carry on a general contracting business.

To manufacture, buy or otherwise acquire, own mortgage, sell, assign, transfer or otherwise dispose of, trade and deal in and with goods, wares and merchandise and personal property of every class and description.

To take, own, hold, deal in, mortgage or otherwise give liens against, and to lease, sell, exchange, transfer or in any manner whatever, to dispose of real property.

To acquire and pay for in cash, stock or bonds of this corporation, the good will, rights, assets and property, and to undertake or assume the whole or any part of the obligations or liabilities of any person, firm, association or corporation.

To acquire, hold, use, sell, lease, grant licenses in respect of, mortgage or otherwise dispose of, letters patent of the United States or any foreign country, patent rights, licenses, privileges, inventions, improvements and processes, copyrights, trade-marks and trade names, relating to or useful in connection with any business of this corporation.

To loan money, to guarantee, purchase, hold, sell, assign, transfer, mortgage, pledge or otherwise dispose of (as principal or agent) shares of the capital stock of, or any bonds, securities or evidences of indebtedness created by any other corporation or corporations organized under the laws of this state or any other state, country, nation or government, and while the owner thereof to exercise all the rights, powers and privileges of ownership.

To promote or to aid in any manner, financially or otherwise, any corporation or association; and for this purpose guarantee or become a surety upon the contracts, dividends, stock, bonds, notes or other obligations of such other corporations or associations; and to do any other acts or things designed to protect, preserve, improve or enhance the value of the stock, bonds, or other evidences of indebtedness or securities of such other corporation.

To enter into any lawful arrangements for sharing profits and/or losses, union of interests, reciprocal concessions or cooperation with any corporation, association, partnership, syndicate, person, governmental, municipal or public authority, domestic or foreign, in the carrying on of any business which this corporation is authorized to carry on, or any business or transaction deemed necessary, convenient or incidental to carrying out any of the purposes of the corporation.

To borrow money for any of the purposes of this corporation, and to issue bonds, debentures, notes or other obligations therefor, and to secure the same by pledge or mortgage of the whole or any part of the property of this corporation, whether real or personal, or to issue bonds, debentures, notes or other obligations without any such security.

To purchase, hold, sell and transfer the shares of its own capital stock; provided it shall not use its funds for the purchase of its own shares of capital stock when such use would cause any impairment of its capital; and provided further, that shares of its own capital stock belonging to it shall not be voted upon directly or indirectly.

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To carry on any other lawful business whatsoever which may seem to the corporation capable of being carried on in connection with the above, or calculated directly or indirectly to promote the interests of the corporation, or to enhance the value of its properties; and to have, enjoy and exercise all the rights, powers and privileges which are now or which may hereafter be conferred upon corporations organized under the same statutes as this corporation.

The foregoing clauses shall be construed both as objects and powers; and it is hereby expressly provided that the foregoing enumeration of specific powers shall not be held to limit or restrict in any manner the powers of this corporation.

Fourth.—The total number of shares of stock which the corporation shall have authority to issue is five thousand (5,000); all of such shares shall be without par value.

At all elections of directors of this corporation each holder of record of stock possessing voting power shall be entitled to as many votes as shall equal the number of shares of his stock multiplied by the number of directors to be elected and he may cast all of such votes for a single director or he may distribute them among the number to be voted for or any two or more of them as he may see fit, and thus exercise the right of cumulative voting.

Fifth.—The amount of capital with which the corporation will commence business is One Thousand Dollars ($1,000.00).

Sixth.—The names and places of residence of the incorporators are as follows:

Names	*Residences*
R. F. Lewis	Wilmington, Delaware
L. H. Herman	Wilmington, Delaware
Walter Lenz	Wilmington, Delaware

Seventh.—The corporation is to have perpetual existence.

Eighth.—The private property of the stockholders shall not be subject to the payment of corporate debts to any extent whatever.

Ninth.—In furtherance, and not in limitation of the powers conferred by statute, the board of directors is expressly authorized:

To make, alter, or repeal the bylaws of the corporation.

To authorize and cause to be executed mortgages and liens upon the real and personal property of the corporation.

To set apart out of any of the funds of the corporation available for dividends a reserve or reserves for any proper purpose or to abolish any such reserve in the manner in which it was created.

By resolution or resolutions, passed by a majority of the whole board to designate one or more committees, each committee to consist of two or more of the directors of the corporation, which, to the extent provided in said resolution or resolutions or in the bylaws of the corporation, shall have and may exercise the powers of the board of directors in the management of the business and affairs of the corporation, and may have power to authorize the seal of the corporation to be affixed to all papers which may require it. Such committee or committees shall have such name or names as may be determined from time to time by resolution adopted by the board of directors.

When and as authorized by the affirmative vote of the holders of two-thirds of the stock issued and outstanding having voting power given at a stockholders' meeting duly called for that purpose, or when authorized by the written consent of the holders of two-thirds of the voting stock issued and outstanding, to sell, lease, or exchange all of the property and assets of the corporation, including its good will and its corporate franchises, upon such terms and conditions and for such consideration, which may be in whole or in part shares of stock in, and/or other securities of, any other corporation or corporations, as its board of directors shall deem expedient and for the best interests of the corporation.

The corporation may in its bylaws confer powers upon its board of directors in addition to the foregoing, and in addition to the powers and authorities expressly conferred upon it by statute.

Tenth.—In the event that any authorized but unissued stock or any new class of stock shall be created, or the authorized number of shares of stock of the corporation shall be increased, or there shall be issued any bonds, notes, debentures, or other securities other than stock, convertible into stock, the holders of shares of stock of the corporation outstanding at the time such authorized but unissued stock or new class of stock, or such increase, is offered for subscription, shall have the right to subscribe for the shares of such new class of stock and for any shares

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of such increased stock so to be issued, or notes, debentures or other securities other than stock convertible into stock, before the same is offered for public subscription, in proportion to the number of shares owned respectively by each of the holders of such stock.

Eleventh.—The corporation may enter into contracts or transact business with one or more of its directors, or with any firm of which one or more of its directors are members, or with any corporation or association in which any one of its directors is a stockholder, director, or officer, and such contract or transaction shall not be invalidated ro in anywise affected by the fact that such director or directors have or may have interests therein which are or might be adverse to the interests of the corporation, even though the vote of the director or directors having such adverse interest shall have been necessary to obligate the corporation upon such contract or transaction; and no director or directors having such adverse interest shall be liable to the corporation or to any stockholder or creditor thereof, or to any other person, for any loss incurred by it under or by reason of any such contract or transaction; nor shall any such director or directors be accountable for any gains or profits realized thereon: Always provided, however, that such contract or transaction shall at the time at which it was entered into have been a reasonable one to have been entered into and shall have been upon terms that at the time were fair.

Twelfth.—Whenever a compromise or arrangement is proposed between this corporation and its creditors or any class of them and/or between this corporation and its stockholders or any class of them, any court of equitable jurisdiction within the State of Delaware may, on the application in a summary way of this corporation or of any creditor or stockholder thereof, or on the application of any receiver or receivers appointed for this corporation under the provisions of Section 4407, of the Revised Code of 1935 of said State, or on the application of trustees in dissolution or of any receiver or receivers appointed for this corporation under the provisions of Section 43 of the General Corporation Law of the State of Delaware, order a meeting of the creditors or class of creditors, and/or of the stockholders or class of stockholders of this corporation, as the case may be, to be summoned in such manner as the said Court directs. If a majority in number representing three-fourths in value of the creditors or class of creditors, and/or of the stockholders or class of stockholders of this corporation, as the case may be, agree to any compromise or arrangement and to any reorganization of this corporation as a consequence of such compromise or arrangement, the said compromise or arrangement, and the said reorganization shall, if sanctioned by the Court to which the said application has been made, be binding on all the creditors or class of creditors, and/or on all the stockholders or class of stockholders, of this corporation, as the case may be, and also on this corporation.

Thirteenth.—Meetings of stockholders may be held without the State of Delaware, if the bylaws so provide. The books of the corporation may be kept (subject to any provision contained in the statutes) outside of the State of Delaware at such place or places as may be from time to time designated by the board of directors.

Fourteenth.—The corporation reserves the right to amend, alter, change or repeal any provision contained in this certificate of incorporation, in the manner now or hereafter prescribed by statute, and all rights conferred upon stockholders herein are granted subject to this reservation.

We, the undersigned, being each of the incorporators hereinbefore named for the purpose of forming a corporation in pursuance of the General Corporation Law of the State of Delaware, do make this certificate, hereby declaring and certifying that the facts herein stated are true, and accordingly have hereunto set our hands and seals this 6th day of January, A. D. 1941.

R. F. LEWIS. [SEAL]
L. H. HERMAN. [SEAL]
WALTER LENZ. [SEAL]

In presence of—
HAROLD E. GRANTLAND.

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STATE OF DELAWARE,
County of New Castle, ss:

Be it remembered, that on this 16th day of January A. D. 1941, personally appeared before me, Harold E. Grantland, a Notary Public for the State of Delaware, R. F Lewis, L. H. Herman, and Walter Lenz, all of the parties to the foregoing certificate of incorporation, known to me personally to be such, and severally acknowledged the said certificate to be the act and deed of the signers respectively and that the facts therein stated are truly set forth,

Given under my hand and seal of office the day and year aforesaid.

HAROLD E. GRANTLAND, *Notary Public.*

Appointed January 10, 1939, State of Delaware, term two years.

CERTIFICATE OF AMENDMENT OF CERTIFICATE OF INCORPORATION OF OREGON SHIPBUILDING CORPORATION

Oregon Shipbuilding Corporation, a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware, does hereby certify:

First.—That the Board of Directors of said corporation, at a meeting duly convened and held, adopted a resolution proposing and declaring advisable the following amendment to the certificate of incorporation of said corporation:

"*Resolved,* That the Certificate of Incorporation of Oregon Shipbuilding Corporation be amended by changing the article thereof numbered 'Fourth' so that, amended, the said article shall be and read as follows:

" '*Fourth.*—The total number of shares of stock which the corporation shall have authority to issue is ten thousand (10,000); all of such shares shall be without par value.'

"At all elections of directors of this corporation each holder of record of stock possessing voting power shall be entitled to as many votes as shall equal the number of shares of his stock multiplied by the number of directors to be elected and he may cast all of such votes for a single director or he may distribute them among the number to be voted for or any two or more of them as he may see fit, and thus exercise the right of cumulative voting."

Second.—That the said amendment has been consented to and authorized by the holders of all the issued and outstanding stock, entitled to vote, by a written consent given in accordance with the provisions of Section 81 of the General Corporation Law of Delaware, and filed with the corporation on the 29th day of March 1941.

Third.—That the aforesaid amendment was duly adopted in accordance with the applicable provisions of Sections 26 and 81 of the General Corporation Law of Delaware.

Fourth.—That said amendment does not effect any change in the issued shares of said corporation.

In witness whereof, the said Oregon Shipbuilding Corporation has caused its corporate seal to be hereunto affixed and this certificate to be signed by Charles A. Shea, its President, and G. G. Sherwood, its Assistant Secretary, this 7th day of May 1941.

OREGON SHIPBUILDING CORPORATION,
By CHARLES A. SHEA, *President.*
By G. G. SHERWOOD, *Assistant Secretary.*

STATE OF OREGON,
County of Multnomah, ss:

Be it remembered that on this 7th day of May 1941, personally came before me, Arthur H. Lewis, a Notary Public in and for the County aforesaid, Charles A. Shea, President of Oregon Shipbuilding Corporation, a corporation of the State of Delaware, the corporation described in and which executed the foregoing certificate, known to me personally to be such, and he, the said Charles A. Shea, as

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such President, duly executed said certificate before me and acknowledged the said certificate to be his act and deed and the act and deed of said corporation; that the signatures of the said President and of the Assistant Secretary of said corporation to said foregoing certificate are in the handwriting of the said President and Assistant Secretary, respectively, of said corporation, and that the seal affixed to said certificate is the common or corporate seal of said corporation.

In witness whereof, I have hereunto set my hand and seal of office the day and year aforesaid.

ARTHUR H. LEWIS,
[SEAL] *Notary Public in and for the County of Multnomah, State of Oregon.*

My commission expires August 1, 1941.

Exhibit B

OREGON SHIPBUILDING CORP.

ANSWER TO QUESTION NO. 2 OF QUESTIONNAIRE OF JULY 27, 1946

General

Capital consisted of capital stock; stockholders' loans, subordinated; bank loans.

Total of above (maximum): $6,950,000.

Stock (all common, no par value).—

Original: January 1941	$100,000
Increase, February 1942	450,000
Total, February 1942 to present	550,000

Stockholders loans, subordinated.—These loans from stockholders were at all times subordinate to any bank claim.

Original: April 1941	$700,000
Additional, February 1942	540,000
February 1942 to November 1942	1,240,000
Additional, November 1942	1,000,000
November 1942 to August 1943	2,240,000
Repaid September 1943	1,240,000
September 1943 to November 1943	1,000,000
Additional, November 1943	2,000,000
November 1943 to March 1944	3,000,000

These loans were repaid in full during March 1944.

Bank loans.—These were secured from three banks in Portland, Oreg.:

Bank of California	$1,400,000
First National Bank of Portland	1,000,000
The U. S. National Bank of Portland	1,000,000
	3,400,000

None of these loans was guaranteed in any way by the United States Government or any of its agencies, subdivisions, departments, etc.

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Exhibit C

OREGON SHIPBUILDING CORP.

List of all officers and directors from date of organization to July 31, 1946, and annual compensation [1]

	Date title held	
	From—	To—
Present officers and directors:		
President: J. A. McEachern	Jan. 27, 1942	
Vice presidents:		
Edgar F. Kaiser	Jan. 11, 1941	
H. F. Morton	do	
H. A. Dick	Feb. 13, 1942	
R. L. Bridges	Apr. 6, 1944	
Secretary: J. F. Reis	Jan. 11, 1941	
Treasurer: G. G. Sherwood	do	
Directors:		
Henry J. Kaiser	do	
S. D. Bechtel	do	
J. A. McEachern	do	
Edgar F. Kaiser	Feb. 13, 1942	
H. A. Dick	do	
Felix Kahn	Jan. 11, 1941	
H. W. Morrison	do	
G. J. Shea	Jan. 27, 1942	
W. G. Swigert	Feb. 13, 1942	
J. A. McCone	do	
Assistant secretaries:		
P. S. Marrin	do	
G. G. Sherwood	Mar. 29, 1941	
H. A. Dick	Jan. 11, 1941	
E. E. Trefethen, Jr	Jan. 17, 1942	
G. C. Ober, Jr	Aug. 26, 1942	
E. R. Ordway	Nov. 24, 1942	
J. E. Lents	Mar. 19, 1946	
Assistant treasurers:		
H. A. Dick	Jan. 11, 1941	
E. E. Tfetheren, Jr	Feb. 13, 1942	
Past officers and directors:		
Presidents:		
P. S. Marrin	Jan. 8, 1941	Jan. 11, 1941
C. A. Shea	Jan. 11, 1941	Jan. 27, 1942
Vice presidents:		
George Havas	Jan. 8, 1941	Jan. 11, 1941
H. C. Hill	do	Do.
J. Haag, Jr	Jan. 11, 1941	Feb. 13, 1942
J. A. McEachern	do	Jan. 27, 1942
R. J. Lamont	do	Feb. 13, 1942
Secretary: H. C. Hill	Jan. 8, 1941	Jan. 11, 1941
Treasurer: H. C. Hill	do	Do.
Directors:		
P. S. Marrin	Jan. 6, 1941	Do.
George Havas	do	Do.
H. C. Hill	do	Do.
J. C. Byrne	do	Do.
F. W. Short	do	Do.
J. D. Reilly	Jan. 11, 1941	Feb. 13, 1942
J. Haag, Jr	do	Do.
R. J. Lamont	do	Do.
C. F. Strenz	do	Do.
J. H. Todd	do	Do.
W. L. Green	do	Do.
O. M. Lund	do	Do.
L. S. Corey	do	Do.
C. A. Shea	do	Jan. 27, 1942
Assistant secretaries:		
C. F. Strenz	do	Feb. 13, 1942
E. P. Enfer	do	Do.
Assistant treasurers:		
C. F. Strenz	do	Do.
E. P. Enfer	do	Do.

[1] Other than Joseph Haag, Jr., no other officer nor director received any compensation for holding any office or directorship; compensation to all others was for services rendered as an employee of the company. Mr. Haag's salary was as follows:

Apr. 1 to Dec. 31, 1941, inclusive	$1,867.09
Jan. 1 to Feb. 25, 1942, inclusive	432.72
Before or after these dates	None

See exhibit D for details of any salaries paid.

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Exhibit D

OREGON SHIPBUILDING CORP.

Salaries[1] paid to (1) Officers and directors (regardless of amount), (2) others (in excess of $15,000 annually), (3) individuals who have been officers or directors of Kaiser Co., Inc., the Permanente Metals Corp., Richmond Shipbuilding Corp., Kaiser Fleetwings, Inc., or Oregon Shipbuilding Corp.

Name	Occupational title	Period covered	Total wages paid	Amount[2]
CALENDAR YEAR 1941				
(1) Officers and directors:				
Edgar F. Kaiser	General manager	Apr. 1 to Dec. 31, 1941	$13,442.53	$13,442.53
J. F. Reis	Administrative manager	Feb. 9 to Dec. 31, 1941	10,615.42	10,615.42
Joseph Haag, Jr	Vice president	Apr. 1 to Dec. 31, 1941	1,867.09	1,867.09
(2) Other (over $15,000): None.				
(3) Officials of other companies:				
Albert Bauer	Chief engineer	Feb. 9 to Dec. 31, 1941	8,019.36	8,019.36
M. Miller	Executive assistant	Sept. 21 to Dec. 31, 1941	1,615.32	1,615.32
CALENDAR YEAR 1942				
(1) Officers and directors:				
Edgar F. Kaiser	General manager	Jan. 1 to Aug. 1, 1942	10,730.96	10,730.96
J. F. Reis	Administrative manager	do	7,807.82	7,807.82
J. E. Lents	Chief accountant	Jan. 19 to Dec. 31, 1942	3,847.36	3,847.36
Joseph Haag, Jr	Vice president	Jan. 1 to Feb. 13, 1942	432.72	432.72
(2) Others (over $15,000): None.				
(3) Officials of other companies:				
Albert Bauer	Assistant general manager.	Jan. 1 to Dec. 31, 1942	9,474.16	9,474.16
M. Miller	Executive assistant	Jan. 1 to Jan. 24, 1942	538.44	538.44
CALENDAR YEAR 1943				
(1) Officers and directors:				
J. E. Lents	Assistant office manager	Jan. 1 to Dec. 31, 1943	4,718.93	4,718.93
(2) Other (over $15,000): None.				
(3) Officials of other companies: Albert Bauer.	Assistant general manager.	Jan. 1 to Dec. 31, 1943	9,570.96	9,570.96
CALENDAR YEAR 1944				
(1) Officers or directors:				
J. E. Lents	Assistant office manager	Jan. 1 to Apr. 23, 1944	1,678.56	1,678.56
(2) Other (over $15,000): None.				
(3) Officials of other companies: Albert Bauer.	Assistant general manager.	Jan. 1 to Dec. 31, 1944	9,039.24	9,039.2
CALENDAR YEAR 1945				
(1) Officers and directors:				
G. G. Sherwood	Comptroller	Jan. 1 to Dec. 31, 1945	10,000.00	None
E. R. Ordway	Administrative assistant.	do	3,000.00	None
J. E. Lents	do	do	1,800.00	None
(2) Others (over $15,000):				
R. A. Hoffman	General superintendent	do	17,070.96	9,570.96
(3) Officials of other companies: Albert Bauer.	Assistant general manager.	do	15,570.96	9,570.96

[1] Includes adjusted compensation (year-end cash "bonus").
[2] Reimbursable under cost plus a fixed fee or claimed as allowable cost under fixed or variable price.

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Exhibit F

Individuals who have held offices or directorships in more than 1 of following companies: Kaiser Co., Inc., The Permanente Metals Corp., Richmond Shipbuilding Corp., Kaiser Fleetwings, Inc., Oregon Shipbuilding Corp., Consolidated Builders, Inc., (to July 31, 1946)

Officers and directors	Kaiser Co., Inc.		The Permanente Metals Corp.		Richmond Shipbuilding Corp.		Kaiser Fleetwings, Inc.		Oregon Shipbuilding Corp.		Consolidated Builders, Inc.[2]	Columbia Construction Co.[3]
	Position	Status[1]	Position	Status[1]	Position	Status[1]	Position	Status[1]	Position	Status[1]		
Henry J. Kaiser	President	X	President	X	President	X	President	Jan. 15, 1944			President	President.
Do			Director	X	Director	X			Director	X	Director	Director.
Edgar F. Kaiser	Vice president	X	Vice president	X	Vice president	X	Vice president	X	Vice president	X	Vice president	Vice president.
Do			Director	X	Director	X			Director	X	Director	Assistant secretary.
E. E. Trefethen, Jr.	Vice president	X	Vice president	X	Vice president	X	President	X	Assistant secretary	X		Vice president.
Do	Director	X	Director	X	Director	X	Director	X				
Do	Secretary	Jan. 7, 1942	Secretary	Feb. 1, 1943	Secretary	Feb. 2, 1943	Vice president	Jan. 15, 1944	Assistant treasurer	X		
C. F. Calhoun	Vice president	X	Vice president	X			do	X				
Do	Assistant secretary	Jan. 7, 1942					Assistant secretary	X				
C. P. Bedford	Vice president	X	Vice president	X	Vice president	X	Vice president	X				
Do	Assistant secretary	X	Assistant secretary	X	Assistant secretary	X						Assistant secretary.
A. B. Ordway	Vice president	X	Vice president	X	Vice president	X	Vice president	X				
T. A. Bedford, Jr.	do	X					do	X				
Do	Assistant secretary	Oct. 18, 1945					Assistant secretary	Oct. 18, 1945				
Paul S. Marrin	Vice president	X	Assistant secretary	X	Assistant secretary	X	Vice president	X	Assistant secretary	X	Assistant secretary	
Do	Director	X			Director	Apr. 25, 1941	Director	X	Director	Jan. 11, 1941		
Do	Assistant secretary	X			Vice president	do	Assistant secretary	X	President	do		
George Havas	Secretary	May 1, 1946	Director	Dec. 9, 1940					Vice president	do		Do.
Do			Secretary-treasurer	Dec. 30, 1940					Director	do		
G. G. Sherwood	Secretary-treasurer	X	do	X	Director	Apr. 25, 1941	Director	X	Treasurer	X	Secretary	Secretary.
Do	Director	X	Assistant secretary	X	Secretary-treasurer	X	Secretary	X	Assistant secretary	X	Assistant treasurer	
Do	President	Jan. 7, 1942			Assistant secretary	X	Treasurer	X				
Do	Assistant secretary	May 1, 1946										
J. F. Reis	do	X	Assistant secretary	X	Assistant secretary	X			Secretary	X	Assistant secretary	Assistant secretary.
Do	Assistant treasurer	X	Assistant treasurer	X	Assistant treasurer	X					Assistant treasurer	Assistant treasurer.
Do			Vice president	X								
C. B. Wood	Assistant secretary	X	Assistant treasurer	X			Assistant secretary	X				
Do	Assistant treasurer	X					Assistant treasurer	X				
A. E. Beard	Assistant secretary	X			Assistant secretary	Apr. 25, 1941	Assistant secretary	X				
Donald Browne	do	X	Assistant secretary	X								
Do			Assistant treasurer	X								
E. R. Ordway	Assistant secretary	X							Assistant secretary	X	Assistant secretary	
George C. Ober, Jr.	do	X	Assistant secretary	X	Assistant secretary	X	Assistant secretary	X	do	X		
F. H. Bechill	do	X	do	X			do	X				
J. E. Lents	do	X							Assistant secretary	X	Assistant secretary	
M. Van Hoesen	Director	X			Director	Apr. 25, 1941	Director	X				
R. L. Bridges	do	X	Assistant secretary	X			Vice president	X	Vice president	X	Vice president	
Do					Director	Apr. 25, 1941	Director	X				
F. Cook	Director	July 5, 1943			do	do						
J. L. Friedman	Assistant secretary	May 1, 1946	Assistant secretary	X			Assistant secretary	X				
Albert Bauer	Vice president	X										
Joseph Haag, Jr.			Vice president	Feb. 13, 1942	Vice president	Feb. 25, 1942			Vice president	Feb. 13, 1942		
Do			Director	do	Director	do			Director	do		
C. F. Strenz			do	Dec. 30, 1940	do	do			do	do		
Do			Assistant secretary	Feb. 13, 1942	Assistant secretary	do			Assistant secretary	do		
Do			Assistant treasurer	do	Assistant treasurer	do			Assistant treasurer	do		
E. P. Enfer			Director	Dec. 20, 1940	do	do			do	do		
Do			Assistant secretary	Feb. 13, 1942	Assistant secretary	do			Assistant secretary	do		
Do			Assistant treasurer	do								
R. J. Lamont			Director	Feb. 14, 1942	Director	Feb. 25, 1942			Director	Feb. 13, 1942		
Do									Vice president	do		
J. D. Reilly			Director	Feb. 13, 1942	Director	Feb. 25, 1942			Director	do		
J. H. Todd			do	do	do	do			do	do		
S. D. Bechtel			Vice president	June 20, 1945	Vice president	June 20, 1945						
Do			Director	do	Director	do			Director	X	Director	Director.
J. A. McCone			do	do	do	do			do	X	do	
J. A. McEachern			do	X	do	X			do	X	do	
Do									President	X		
Do									Vice president	Jan. 27, 1942		
C. A. Shea			Director	Jan. 27, 1942	Director	Jan. 27, 1942			Director	do		
Do									President	do		
H. W. Morrison			Director	X	Director	X			Director	X	Director	Vice president.
Do												Director.
L. S. Corey			Director	X					Director	Feb. 13, 1942	Director	Do.
Felix Kahn			do	X	Director	X			do	X	do	Do.
Do											Treasurer	Treasurer.
W. G. Swigert			Director	X	Director	X					Director	
W. S. Newell			do	Feb. 16, 1942	do	June 29, 1941			Director	X		
G. J. Shea			do	X	do	X						
R. E. Dill			Assistant treasurer	Feb. 5, 1945			Vice president	Oct. 31, 1944	Director	X	Director	
A. Richardson					Director	Apr. 25, 1941	Director	May 4, 1943				
W. Green					do	Feb. 25, 1942			Director	Feb. 13, 1942		
O. M. Lund					do	do			do	do		
H. A. Dick									Vice president	X		
Do									Director	X	Director	
Do									Assistant secretary	X		
Do									Assistant treasurer	X		
M. Miller											Assistant secretary	Vice president.
E. F. Lackey											Assistant treasurer	Assistant secretary.
H. F. Morton									Vice president	X		Do.

[1] Status: (X) indicates still holds position; date indicates date of resignation.
[2] Present officers and directors only, shown.
[3] Present officers and directors only, shown. Columbia Construction Co. had only 1 contract with the U. S. Maritime Commission for construction of a floating drydock, which was constructed by the Vancouver yard of Kaiser Co., Inc., under a subcontract.

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Exhibit E

OREGON SHIPBUILDING CORP.

Stock ownership from organization, July 31, 1946

	Original, Jan. 8–11, 1941 [1]		Feb. 19, 1942 [2]		Feb. 24, 1942 [3]		May 18, 1942 [4]	
	Shares	Percent	Shares	Percent	Shares	Percent	Shares	Percent
Todd Shipyards Corp	500.0	50.00	500	9.091	0	0	0	0
J. F. Shea Co., Inc	100.0	10.00	1,000	18.181	825.0	15	0	0
Henry J. Kaiser Co	62.5	6.25	625	11.364	625.0	11.364	0	0
The Kaiser Co	62.5	6.25	625	11.364	625.0	11.364	0	0
General Construction Co	62.5	6.25	625	11.364	1,375.0	25	0	0
W. A. Bechtel Co	38.5	3.85	385	7	236.5	4.30	0	0
Bechtel-McCone-Parsons Corp.[5]	38.5	3.85	385	7	236.5	4.30	0	0
The Utah Construction Co	38.5	3.85	385	7	440.0	8	0	0
Morrison-Knudsen Co., Inc	38.5	3.85	385	7	440.0	8	0	0
MacDonald & Kahn, Inc	38.5	3.85	385	7	420.0	7.636	0	0
Pacific Bridge Co	20.0	2.00	200	3.636	277.0	5.036	0	0
Consolidated Builders, Inc							5,500	100
Total	1,000.0	100.00	5,500	100	5,500.0	100	5,500	100

[1] Issued for cash.
[2] Additional represents stock dividend.
[3] No new issue. All transfers for cash.
[4] No new issue. All transfers for cash; present percentage participation in Consolidated Builders, Inc., is identical to Oregon Shipbuilding Corp. percentage at Feb. 24, 1942.
[5] Now Bechtel-McCone Corp.

Exhibit G

(Question No. 9)

OREGON SHIPBUILDING CORP.

Summary of shipyard income to May 31, 1946

	Shipbuilding U. S. Maritime Commission contracts	Other operations	Total
Total of shipbuilding contracts [1]	$527,670,560.78		
Government furnished materials [2]	435,917,000.00		
Total contract volume [2]	963,587,560.78		
Gross profit before taxes [1]	40,281,079.86	$46,259.39	$40,327,339.25
Federal income taxes [1]	27,169,588.37	30,103.97	27,199,692.34
Net profit [1]	13,111,491.49	16,155.42	13,127,646.91
Percent of net profit on total contract volume	1.36		

[1] See schedule 1.
[2] See schedule 4.

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(Question No. 9—Schedule 1)

OREGON SHIPBUILDING CORP.

Statement of contracts with U. S. Maritime Commission and net income to May 31, 1946

(A)	(B)	(C)		(D)	(E)			(F)	(G)	(H)	(I)	(J)
		Ships under contracts as amended						Fees				
Contract No.	Type of contract	Number	Type	Number of ships delivered	Total amounts paid by U. S. Maritime Commission (net)	Unpaid [1] (retentions and amounts in process of settlement)	Total paid or unpaid	Maximum	Minimum	Actual paid by U. S. Maritime Commission included in (E)	Profits received under fixed-price contracts included in (E)	Total profits and fees
MCc-ESP-2	Cost facilities				$18,165,778.29	$106.81	$18,165,885.10					
MCc-ESP-598	Cost facilities											
MCc-ESP-11	Cost-plus-fixed-fee	43	EC2—Cargo	43	55,639,704.58	[2] 44.57	55,639,660.01	$6,020,000	$2,580,000	$5,278,716.41		$5,278,716.41
MCc-ESP-595	Cost-plus-fixed-fee											
MCc-ESP-596	do	88	do	88	80,968,324.49	[3] 793.11	80,967,531.38	12,320,000	5,280,000	8,515,944.73		8,515,944.73
MCc-7950	do	42	do	42	30,607,245.41	1,889.60	30,609,135.01	5,880,000	2,520,000	3,360,913.15		3,360,913.15
MCc-8611	do	8	do	8	11,474,948.18	21,310.70	11,496,258.88	1,120,000	480,000	480,036.31		480,036.31
MCc-13101	do	96	do	96	64,700,829.84	3,329.06	64,704,158.90	6,720,000	2,880,000	6,420,000.00		6,420,000.00
MCc-15750	do	53	do	53	37,095,848.72	21,518.51	37,117,367.23	3,180,000	1,060,000	3,180,000.00		3,180,000.00
MCc-15751	Fixed price	32 30	AP3—Cargo AP5—Transport.	32 30	118,640,000.00	1,360,000.00	120,000,000.00				$7,072,000.00	7,072,000.00
MCc-17510	Cost facilities				4,518,379.17	2.66	4,518,381.83					
MCc-33822	Cost materials custody.					10,131.32	10,131.32					
MCc-34763	Selective price	67 4 3	AP3—Cargo AP5—Transport. AP7	67 4 0	103,077,349.47	947,182.55	104,024,532.02				10,810,986.75	10,810,986.75
MCc-35984	Cost materials custody.					34,597.72	34,597.72					
MCc-41480	Cost-plus facilities. fixed-fee lay-up.					382,921.38	382,921.38					
Total		466		463	524,888,408.15	2,782,152.63	527,670,560.78			27,235,610.60	17,882,986.75	45,118,597.35
Less fees transferred to other shipyards for work performed under U. S. Maritime Commission contracts, schedule 2										288,000.00		288,000.00
										26,947,610.60	17,882,986.75	44,830,597.35

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Less nonreimbursable and disallowed costs under cost-plus contracts and costs not considered allowable under fixed-price contracts, etc	4,549,517.49
Gross earnings on contracts with U. S. Maritime Commission	40,281,079.86
Profits on shipyard operations other than contracts with U. S. Maritime Commission	46,259.39
Gross profits from shipyard operations	40,327,339.25
Less Federal income and excess-profits taxes	27,199,692.34
Net income accummulative to May 31, 1946 (per financial report May 31, 1946)	13,127,646.91

[1] See schedule 3.
[2] Credits to costs in process of settlement, including reallocations among contracts.

NOTE.—The above amounts do not include the value of materials, if any, furnished by U. S. Maritime Commission without cost to the contractor.

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(Question No. 9—Schedule 2)

OREGON SHIPBUILDING CORP.

TRANSFERS OF FEES TO OTHER SHIPYARD

In the interest of expediting early delivery, and to utilize facilities then available, the United States Maritime Commission authorized Oregon Shipbuilding to subcontract the completion of eight Liberty ships to Kaiser Co., Inc., Vancouver. Oregon Shipbuilding reduced their fee earnings by transferring $288,000 to Kaiser-Vancouver as fees for performing such work

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(Question No. 9—Schedule 3)

OREGON SHIPBUILDING CORP.

STATUS OF UNPAID AND UNSETTLED CONTRACT AMOUNTS

[Supplement to 9 (E)]

I. Final settlement of unpaid amounts is subject to completion of the following:

1. Payment by the contractor and obtaining final release on all commitments pertaining to the applicable contracts.
2. Subsequent preparation by the contractor of final statements of costs.
3. Audit by representatives of the United States Maritime Commission of contractor's final statement of costs.
4. Resolving the open appeals of the contractor from costs disallowed by the United States Maritime Commission and final negotiation thereof.
5. Final determination of costs and resultant agreement of amounts to be recaptured by the United States Maritime Commission, and/or amounts due the contractor from the United States Maritime Commission.

Every reasonable effort is being extended by the contractor to complete item 1 so that the other steps listed above may be completed to effect final settlement at the earliest possible date. However, in view of the tremendous volume of purchase orders, subcontracts, and other commitment documents issued, such work is unavoidably slow. In the interim, the contractor and the United States Maritime Commission Finance Section are negotiating tentative settlements to cover a substantial portion of the amounts involved, leaving minimum amounts for final future settlement.

II. Unpaid "retentions" represents at May 31, 1946, the final payments due on fixed-price and lump-sum contracts, withheld by the United States Maritime Commission in accordance with the terms of the respective contracts, until and if the recorded costs justify additional payments.

Included in the total of $2,782,152.63 unpaid contract amounts per schedule 1 is $2,056,776.57 representing such retentions.

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(Question No. 9—Schedule 4)

OREGON SHIPBUILDING CORP.

Statement of contracts with U. S. Maritime Commission

Contract No.—	Type of contract	Ships under contracts as amended (type)	Number of ships delivered	Contract value	Commission furnished material	Total contract volume
MCc-ESP-2	Cost—facilities			$18,165,885.10		$18,165,885.10
MCc-ESP-598						
MCc-ESP-11	Cost—plus fixed fee					
MCc-ESP-595		EC2—cargo	43	55,639,660.01	$31,906,000	87,545,660.01
MCc-ESP-596	do	do	88	80,967,531.38	65,296,000	146,263,531.38
MCc-7950	do	do	42	30,609,135.01	31,164,000	61.773,135.01
MCc-8611	do	do	8	11,496.258.88	5,936,000	17,432,258.88
MCc-13101	do	do	96	64,704,158.90	71,232,000	135,936,158.90
MCc-15750	do	do	53	37,117,367.23	39.326,000	76,443,367.23
MCc-15751	Fixed price	AP3—cargo AP5—transport	32 30	120,000,000.00	96,012,000	216,012.000.00
MCc-17510	Cost—facilities			4,518,381.83		4,518.381.83
MCc-33822	Cost—materials custody			10,131.32		10,131.32
MCc-34763	Selective price	AP3—cargo AP5—transport AP7	67 4 0	104,024,532.02	95,045,000	199,069,532.02
MCc-35984	Cost—materials custody			34,597.72		34,597.72
MCc-41480	Cost—plus fixed fee facilities lay-up			382,921.38		382,921.38
Total			463	527,670,560.78	435,917,000	962,587,560.78

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Exhibit H

(Questions Nos. 10 and 11—Schedule 1)

OREGON SHIPBUILDING CO.

EFFECT OF RENEGOTIATION ON FEES AND PROFITS AND STATUS OF CONTRACTS STILL SUBJECT TO RENEGOTIATION

1. Fees and profits as shown on schedules under question 9 represent net fees after renegotiation.

2. Renegotiation Agreement No. MCc26699 PABs331 was entered into under date of February 23, 1944, in which excessive profits for the fiscal years ending November 30, 1942, and November 30, 1943, were determined to be $6,322,954.08 and allocated as follows: $3,025,157.34 to the contractor's taxable year ended November 30, 1942; $3,297,796.74 to the contractor's taxable year ended November 30, 1943. Allocation of such excessive profits to specific contract numbers is detailed on schedule 2 following.

3. Renegotiation Agreement No. MCc33658 PABs568W was entered into under date of October 25, 1944, in which excessive profits for the contractor's fiscal year ending November 30, 1942, were determined to be $300,000. Allocation of such excessive profits to specific contract numbers is detailed on schedule 2 following.

4. The only remaining shipbuilding contract subject to renegotiation is contract No. MCc15751 entered into under date of March 1, 1945, under which the total profit allowable as a lump sum under addendum No. 3 is $7,072,000. We have been advised by the Price Adjustment Board of the United States Maritime Commission that said Board has found that no excessive profits were realized under the above contract.

5. Contract No. MCc34763 is a selective-price contract and according to its terms not subject to renegotiation.

(Questions Nos. 10 and 11—Schedule 2)

OREGON SHIPBUILDING CORP.

Allocation of excess profits as determined by Price Adjustment Board

FISCAL YEARS NOV. 30, 1942, AND NOV. 30, 1943

Contract No.	Fees earned	Allocation of excessive profits			Net fees paid per schedule 1, question 9
		On fees earned	Less items adjusted in renegotiation	Net amount of excessive profits	
MCc ESP11	$5,260,607.34	$127,697.34	$145,806.41	[1] $18,109.07	$5,278,716.41
MCc ESP595	12,320,000.00	3,821,260.00	17,204.73	3,804,055.27	8,515,944.73
MCc ESP596	5,880,000.00	2,520,000.00	913.15	2,519,086.85	3,360,913.15
MCc ESP7950	497,957.34	17,957.34	36.31	17,921.03	480,036.31
MCc ESP8611					
Total	23,958,564.68	6,486,914.68	163,960.60	6,322,954.08	17,635,610.60

FISCAL YEAR NOV. 30, 1944

MCc 13101	$6,720,000.00	$300,000.00		$300,000.00	$6,420,000.00
MCc 15750	3,180,000.00				3,180,000.00
Total	9,900,000.00	300,000.00		300,000.00	9,600,000.00

[1] Credit.

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Exhibit I

(Question No. 12—Schedule 1)

OREGON SHIPBUILDING CORP.

Costs of shipyards and facilities to May 31, 1946

		Original cost
Shipyards and facilities		$20,107,408.67
In addition to the shipyards and facilities, the following were also built by Oregon Shipbuilding Corp.,[1] under the facilities contracts with the U. S. Maritime Commission:		
Transportation	$397,180.72	
Housing	2,179,677.54	
		2,576,858.26
Total of all facilities contracts with U. S. Maritime Commission		22,684,266.93

[1] No fees or profits of any kind were paid to Oregon Shipbuilding Corp. on any of above work.

NOVEMBER 13, 1946.

In answer to the telegram from Marvin J. Coles, addressed to Oregon Shipbuilding Corp., dated October 11, 1946, we submit the following information:

1. *Average amount of outstanding bank loans.*

The average amount of bank loans of Oregon Shipbuilding Corp. during the period it was engaged in shipbuilding activities were as follows:

February through December 1941	$1,472,727
Full year 1942	2,242,750
Full year 1943	2,975,000
Full year 1944	3,150,000
January and February 1945	3,400,000
The combined average for the full period from February 1941 to and including February 1945 was	2,518,633

2. *Disallowed costs allocated to applicable contracts.*

Disallowed costs allocated to the various contracts of Oregon Shipbuilding Corp. were as follows:

Contract MCc-ESP-11 and Contract MCc-ESP-595	$627,427.77
Contract MCc-ESP-596	606,276.82
Contract MCc-7950	198,973.74
Contract MCc-8611	10,161.64
Contract MCc-13101	274,967.61
Contract MCc-15750	398,666.60
Contract MCc-15751	1,341,171.03
Contract MCc-34263	1,091,872.28
Total	4,549,517.49

The above allocations were based on the major contract in force for ship construction at the time the expense was incurred or the disallowance made. No allocation was made for facility contracts under which no fee or profit was paid.

3. *Amount of bank loans secured by pledge of Government contracts.*

A maximum of $3,400,000 in private bank loans was obtained by Oregon Shipbuilding Corp. to be used in its shipbuilding activities. None of the Government shipbuilding contracts of Oregon Shipbuilding Corp. were pledged or assigned to the bank as security for these loans.

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EXHIBIT 14

QUESTIONS AND ANSWERS RELATING TO CALIFORNIA SHIPBUILDING CORP.

Question 1. The date on which your company was formed, and a copy of its corporate charter.

Answer 1. California Shipbuilding Corp. was incorporated on January 6, 1941. A copy of its charter is attached hereto.

Question 2. The total capital of your company, giving a break-down of the types of stock and securities.

Answer 2. (A) As of November 30, 1945,[1] there were issued and outstanding 6,000 shares of nopar common stock. At a stated value of $100 per share, this represented $600,000 of capital.

(B) In addition, the stockholders loaned the corporation in proportion to their stockholdings the sum of $700,000 making the total available capital funds of $1,300,000.

(C) In addition to the capital funds invested, the corporation used its credit to finance its operations whereby $4,000,000 was made available to this corporation through bank credits.

Question 3. The names of all officers and directors, and a statement of their annual compensation.

Answer 3. (A) Names of officers and directors:

	Officers	Directors
S. D. Bechtel	Chairman of the board	Director.
John A. McCone	President	Do.
J. A. McEachern	Vice president	Do.
K. K. Bechtel	do	Do.
L. S. Corey		Do.
Felix Kahn	Treasurer	Do.
H. W. Morrison		Do.
W. G. Swigert		Do.
Gilbert J. Shea		Do.
Jerome K. Doolan	Vice president	
J. M. Warfield	Vice president, assistant secretary and assistant treasurer	
J. S. Sides	Vice president	
Robert L. Bridges	Secretary	
W. E. Waste	Assistant secretary and assistant treasurer	
G. G. Sherwood	do	
Russell A. Bergemann	do	
T. P. Loach	do	
Paul S. Marrin	Assistant secretary	
George E. Walling	do	

[1] [Penned notation:] 100,000 originally.

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(B) None of the officers or directors received compensation from the corporation except as follows:

	1941	1942	1943	1944	1945
S. D. Bechtel, director and chairman of the board:					
Salary					
Bonus					$4,500.00
Total					4,500.00
John A. McCone, director and president:					
Salary	$12,057.55	$18,692.10	$17,999.80	$17,999.80	12,174.67
Bonus					8,000.00
Total	12,057.55	18,692.10	17,999.80	17,999.80	20,174.67
Jerome K. Doolan, vice president:					
Salary	8,864.11	17,394.15	18,216.12	18,216.12	5,340.84
Bonus					2,500.00
Total	8,864.11	17,394.15	18,216.12	18,216.12	7,840.84
J. M. Warfield, vice president, general manager, assistant secretary, and assistant treasurer:					
Salary	2,307.60	9,407.74	10,384.74	13,041.39	15,333.54
Bonus					5,000.00
Total	2,307.60	9,407.74	10,384.74	13,041.39	20,333.54
J. S. Sides, vice president and production manager:					
Salary	3,164.75	9,868.10	10,639.46	10,469.98	15,859.85
Bonus		1,699.36	2,045.76	2,216.24	5,000.00
Total	3,164.75	11,567.46	12,685.22	12,686.22	20,859.85
W. E. Waste, assistant secretary and assistant treasurer:					
Salary	10,490.38	4,748.73			
Bonus					
Total	10,490.38	4,748.73			
Russell A. Bergemann, assistant secretary and assistant treasurer:					
Salary	1,726.91	4,690.02	5,825.66	6,757.62	7,044.05
Bonus					2,500.00
Total	1,726.91	4,690.02	5,825.66	6,757.62	9,544.05
T. P. Loach, administrative manager, assistant secretary, and assistant treasurer:					
Salary		2,430.73	6,455.16	7,197.96	10,180.55
Bonus			416.42		2,500.00
Total		2,430.73	6,871.58	7,197.96	12,680.55

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Question 4. The names of all officers and employees who have received compensation of over $15,000 per annum, giving the amounts received and the extent to which such payments were reimbursable by the Maritime Commission.

Answer 4:

	1941	1942	1943	1944	1945 [1]
John A. McCone, president:					
Salary reimbursed	$12,057.55	$18,692.10	$7,615.30	$13,499.85	$205.34
Salary not reimbursed			10,384.50	4,499.95	11,869.33
Bonus not reimbursed					8,000.00
Total	12,057.55	18,692.10	17,999.80	17,999.80	20,074.67
Jerome K. Doolen, vice president:					
Salary reimbursed	8,846.11	14,095.68	14,871.58	9,560.41	34.22
Salary not reimbursed		3,298.47	3,344.54	8,655.71	5,306.62
Bonus not reimbursed					2,500.00
Total	8,846.11	17,394.15	18,216.12	18,216.12	7,840.84
J. S. Sides, vice president and production manager:					
Salary reimbursed	3,164.75	9,868.10	10,639.46	10,469.98	2,693.19
Salary not reimbursed		1,699.36	2,045.76	2,216.24	13,166.66
Bonus not reimbursed					5,000.00
Total	3,164.75	11,567.46	12,685.22	12,686.22	20,859.85
J. M. Warfield, vice president and general manager:					
Salary reimbursed	2,307.60	9,407.74	9,859.09	10,825.15	3,367.01
Salary not reimbursed			525.65	2,216.24	11,966.53
Bonus not reimbursed					5,000.00
Total	2,307.60	9,407.74	10,384.74	13,041.39	20,333.54
A. O. Pegg, technical consultant and manager of outfitting:					
Salary reimbursed		9,508.35	10,026.89	10,000.12	2,639.37
Salary not reimbursed		779.22	2,189.47	2,216.24	10,203.46
Bonus not reimbursed					2,500.00
Total		10,287.57	12,216.36	12,216.36	15,342.83
W. C. Ryan, chief engineer:					
Salary reimbursed	7,276.91	9,721.94	11,222.06	10,469.98	2,639.37
Salary not reimbursed		2,045.50	994.30	2,216.24	10,164.31
Bonus not reimbursed					2,500.00
Total	7,276.91	11,767.44	12,216.36	12,686.22	15,303.68

[1] For the year 1945, the salaries shown as "Salary not reimbursed" includes salaries charged to "Fixed price contracts."

Question 5. The names of all persons, associations, or corporations holding 5 percent or more of the capital stock of your company, giving the amounts of capital stock held by each.

Answer 5. Stockholders holding 5 percent or more of capital stock at November 30, 1945:

Stockholders	Number of shares	Percentage of stock held [1]
W. A. Bechtel Co	1,373	22.883
Bechtel McCone Corp	1,373	22.883
J. F. Shea Co., Inc	725½	12.058
Morrison-Knudsen Co., Inc	692½	11.543
The Utah Construction Co	692	11.533
MacDonald & Kahn, Inc	583½	9.725
Pacific Bridge Co	286½	4.775
General Construction Co	276	4.6
Total outstanding capital stock	6,000	100.

[1] [Penned notation:] Kaiser held stock until April 1945.

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Question 6. The shipbuilding experience prior to 1941 of all officers, directors, and stockholders holding over 5 percent of your capital stock.

Answer 6. *General.*—Prior to 1941 various stockholders of the corporation were participants of several shipbuilding corporations then existing. This participation started with Seattle-Tacoma Shipbuilding Corp. in 1939 and extended to the Todd-California Shipbuilding Corp. and the Todd-Bath Iron Shipbuilding Corp. in 1940. The latter two contracts were with the British Purchasing Commission. Several of the stockholders (W. A. Bechtel Co., MacDonald & Kahn, Inc., Morrison-Knudsen Co., Inc., Utah Construction Co., and J. F. Shea Co., Inc.) took a prominent part in the building of Boulder Dam and powerhouses which contained a great many of the elements that make up a vessel such as steel fabrication, assembly and erection, piping fabrication, and installation, electrical installation, and machinery installation. Boulder Dam was just one of many such large projects built individually or in combinations by these stockholders.

W. A. Bechtel Co.—The W. A. Bechtel Co. is an old-established engineering and construction company with years of experience in the building of large structures such as dams, bridges, highways, buildings, railways, etc. Mr. S. D. Bechtel, its president, and also chairman of the board of California Shipbuilding Corp., has for 20 years served in an executive capacity in connection with the planning and execution of the above types of work, all of which involved similar management and physical problems to those encountered in the construction of ships. Mr. S. D. Bechtel was a director of the Seattle-Tacoma, Todd-California, and Todd-Bath Shipbuilding Corps., in 1940 and prior to the inauguration of Calship.

MacDonald & Kahn, Inc.—Felix Kahn, president of MacDonald & Kahn, Inc., was general manager of the San Francisco Shipbuilding Co. during World War I, when he was in charge of designing and building a shipyard at Government Island on the estuary at Oakland, Calif., and building 7,000-ton concrete tanker ships for the Emergency Fleet Corporation. Also, under his supervision the first self-propelled concrete ship, *Faith*, was designed and built.

Bechtel-McCone Corp.—Bechtel McCone Corp. have had extensive experience in design and erection of some of the west coast's largest oil refineries and refinery units.

While John A. McCone was executive vice president and general manager of the Consolidated Steel Corp., he had extensive experience over a period of years in steel fabrication, in steel erection, and building machinery. Consolidated Steel Corp. was one of the largest fabricators and erectors of steel machinery in the United States. Bechtel-McCone Corp., with the aid of personnel from the W. A. Bechtel Co., engineered and constructed shipyards and facilities at Orange, Tex., for the Consolidated Steel Corp.

General Construction Co.—The principal officers and major stockholders of General Construction Co. were the operating heads of McEachern-Clarkson-Standifer, a shipbuilding company organized during World War 1, which constructed wooden vessels for the Norwegian firm of O. A. Anderson Co. Such shipbuilding operations were carried on for a year or more after the end of the First World War.

Pacific Bridge Co.—In 1917, 1918, and 1919 the operating heads of Pacific Bridge Co. built and operated a shipyard known as the Standifer Shipyard at Vancouver, Wash. Such shipyard was constructed and operated as a private yard.

J. F. Shea Co., Inc.—The predecessor of J. F. Shea Co., Inc., was, during World War I, a subcontractor of North Pacific Shipbuilding Co., and fabricated and installed all of the piping and similar work in connection with the construction of eight steel vessels at a shipyard in Seattle, Wash.

Admiral Land and Admiral Vickery called upon this group to build and operate a shipyard, because they knew of the experience and capacity of the group in planning, organizing, administering, and executing large projects.

Question 7. The names of all officers, directors, or stockholders owning more than 5 percent of the capital stock of your company, who have held positions as officers or directors of another company which had contracts with the Maritime Commission or the War Shipping Administration.

Answer 7. You will note from answer 5 that all stockholders are corporations; therefore, no officer, director, or stockholder owning more than 5 percent of the capital stock of the corporation held positions as officer or director of another company which had contracts with the Maritime Commission or the War Shipping Administration.

Question 8. The names of all officers, directors, or stockholders owning more than 5 percent of the capital stock of your company who have owned 5 percent

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or more of the capital stock of another company which had contracts with the Maritime Commission or the War Shipping Administration. [Penned notation: No break-down—get.]

Answer 8. W. A. Bechtel Co., Bechtel-McCone Corp., Morrison-Knudsen Co., Inc., MacDonald & Kahn, Inc., the Utah Construction Co., and J. F. Shea Co., Inc.

Question 9. A description of all contracts with your company and the Maritime Commission giving—

(*a*) The serial number of each contract.
(*b*) The type of contracts (i. e., whether cost plus, lump sum, or price minus).
(*c*) The number and type of ships covered by each contract.
(*d*) The number of ships constructed and delivered under each contract.
(*e*) The total amounts paid by the Maritime Commission under each contract. (If final settlement has not been reached, please give status of negotiations, the amounts in dispute, and the amounts already paid.)
(*f*) The maximum fee payable under each contract.
(*g*) The minimum fee payable under each contract.
(*h*) The actual fee paid under each contract. (If final settlement of fees has not been reached, please give details as to amounts paid, amounts in dispute, etc.)
(*i*) The profits received on each lump-sum contract.
(*j*) The total of all fees and profits received by your company under contracts with the Maritime Commission.

Answer 9. I. (*a*) Contract Mcc 7785 (formerly ESP-10), dated March 14, 1941, with addenda Nos. 1, 2, 3, 4, and 5, dated March 19, 1941, May 1, 1941, May 1, 1941, March 2, 1944, and April 10, 1944, respectively.
(*b*) A cost-plus-fixed-fee contract.[1]
(*c*) Thirty-one EC2-S-C1 cargo vessels.
(*d*) Thirty-one vessels constructed and delivered.
(*e*) See II.
(*f*) See II.
(*g*) See II.
(*h*) See II.
(*i*) See II.
(*j*) See XVI.

II. (*a*) Contract MCc 7786 (formerly DA-16), dated May 1, 1941, with addenda Nos. 1, 2, and 3, dated May 1, 1941, March 2, 1944, and April 10, 1944, respectively.
(*b*) A cost-plus-fixed-fee contract.
(*c*) Twenty-four EC2-S-C1 cargo vessels.
(*d*) Twenty-four vessels constructed and delivered.
(*e*) Total amounts paid by the U. S. M. C., $88,178,588.45, not including $1,442.56 which has not been received. Final settlement in process.
(*f*) Maximum fee payable, $140,000 per vessel.
(*g*) Minimum fee payable, $60,000 per vessel.
(*h*) Actual fee paid, $65,409.53 per vessl or a total of $3,597,524.[2]
(*i*) None.
(*j*) See XVI.

III. (*a*) Contract MCc 2128, dated January 17, 1942, with addenda Nos. 1 and 2, dated March 2, 1944, and April 10, 1944, respectively.
(*b*) A cost-plus-fixed-fee contract.
(*c*) One hundred nine EC2-S-C1 cargo vessels.
(*d*) One hundred nine vessels constructed and delivered.
(*e*) Total amounts paid by the U. S. M. C., $110,858,437.91, not including $5,274.34 which has not been received. Final settlement in process.
(*f*) Maximum fee payable, $140,000 per vessel.
(*g*) Minimum fee payable, $60,000 per vessel.
(*h*) Actual fee paid, $81,218.17 per vessel or a total of $8,852,780.24.
(*i*) None.
(*j*) See XVI.

IV. (*a*) Contract MCc 7834, dated June 16, 1942, with addenda Nos. 1, 2, and 3, dated May 15, 1943, March 2, 1944, and April 10, 1944, respectively.

[1] For accounting purposes contracts MCc 7785 and MCc 7786, 56 ships together.
[2] Includes 31 vessels under contract CMc7785.

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(*b*) A cost-plus-fixed-fee contract.
(*c*) Sixty SC2-S-C1 cargo vessels.
(*d*) Sixty vessels constructed and delivered.
(*e*) Total amounts paid by the U. S. M. C., $49,074,066.12, not including $5,442.95 which has not been received. Final settlement pending.
(*f*) Maximum fee payable, $140,000 per vessel.
(*g*) Minimum fee payable, $60,000 per vessel.
(*h*) Actual fee paid, $69,499.57 per vessel or a total of $4,101,020.
(*i*) None.
(*j*) See XVI.

V. (*a*) Contract MCc 13097, dated December 24, 1942, with addenda Nos. 2, 3, and 4, dated April 20, 1943, November 1, 1944, and November 7, 1944, respectively. Addendum No. 1 never executed because contract contained exact language specified in the addendum.
(*b*) A cost-plus-fixed-fee contract.
(*c*) Original contract for 62 EC2-S-C1 vessels, increased to 112 EC2 vessels by addendum No. 2, 30 of which were completed as Z-ETI-S-C3 tankers.
(*d*) One hundred twelve vessels constructed and delivered.
(*e*) Total amounts paid by the U. S. M. C., $103,672,480.12, not including $12,964.74 which has not been paid. Final settlement pending.
(*f*) Maximum fee payable, per addendum No. 3 $70,000 per vessel for 32 EC2 vessels, $60,000 per vessel for 50 EC2 vessels, and $81,000 per vessel for 30 tankers.
(*g*) Minimum fee payable, per addendum No. 3, $30,000 per vessel for 32 EC2 vessels, $20,000 for 50 EC2 vessels, and $35,000 per vessel for 30 ETI tankers.
(*h*) Actual fee paid, $65,625 per vessel or a total of $7,350,000.
(*i*) None.
(*j*) See XVI.

VI. (*a*) Contract MCc 15740, dated April 20, 1943, with addendum No. 1, dated March 1, 1945.
(*b*) Originally a cost-plus-fixed-fee contract, converted to a lump-sum contract by addendum No. 1.
(*c*) Original contract called for 84 VC2-S-AP3 cargo vessels, changed by addendum No. 1 to 32 VC2-S-AP3 Victory-type cargo vessels and 30 VC2-SAP5 transports.
(*d*) Fifty-three vessels constructed and delivered, nine vessels delivered partially complete.
(*e*) Total amounts paid by the U. S. M. C., $135,236,338.40 less retained percentage of $1,200,000.
(*f*) None.
(*g*) None.
(*h*) None.
(*i*) Profits received, $3,562,157.37, of which $302,157.37, as of this date, is indicated as subject to recapture. Final settlement in process.
(*j*) See XVI.

VII. (*a*) Contract MCc 30603, dated July 18, 1944.
(*b*) A cost-plus-fixed-fee contract.
(*c*) Forty-five VC2-S-AP2 Victory-type cargo vessels, incorporated into contract MCc 34764 mentioned below.

VIII. (*a*) Contract MCc 33932, dated November 14, 1944.
(*b*) Cost only, no fees or profits allowed.
(*c*) Contract provided for the custody of unused EC2 materials.
(*d*) None.
(*e*) Total amounts paid by the U. S. M. C., $103,706.65. Final settlement in process.
(*f*) None.
(*g*) None.
(*h*) None.
(*i*) None.
(*j*) See XVI.

IX. (*a*) Contract MCc 34764, dated March 1, 1945, with addenda Nos. 1, 2, and 3, dated May 17, 1945, October 2, 1945, and December 1, 1945, respectively.
(*b*) A selective price contract.
(*c*) Seventy-nine VC2-S-AP2 Victory-type cargo vessels.

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(*d*) Sixty-nine vessels constructed and delivered, completion of the last 10 vessels of the contract terminated.

(*e*) Total amounts paid by the U. S. M. C., $171,700,000 less a retained percentage of $700,000.

(*f*) Maximum profit which could be earned was originally $12,024,590 which was subsequently reduced to $10,502,490 due to outright cancellation of 10 vessels.

(*g*) No minimum profit assured.

(*h*) None.

(*i*) Profits received, $11,459,774.81 of which $3,100,884.81, as of this date, is indicated as subject to recapture. Final settlement in process.

(*j*) See XVI.

X. (*a*) Contract MCc 36035, dated March 1, 1945.

(*b*) Cost only, no fees or profits allowed.

(*c*) Contract provided for the handling of unused Victory and transport materials.

(*d*) None.

(*e*) Total amounts paid by the U. S. M. C., $56,178.52. Final settlement in process.

(*f*) None.

(*g*) None.

(*h*) None.

(*i*) None.

(*j*) See XVI.

XI. (*a*) Contract MCc 40183, dated July 10, 1945.

(*b*) Cost-plus variable fee.

(*c*) Contract provided for use of facilities for repair of vessels and performance or repair work.

(*d*) No vessels constructed and delivered, 20 vessels repaired and delivered, and 13 other repairs jobs handled.

(*e*) Total amounts paid by the U. S. M. C., $433,240.04. Final settlement pending.

(*f*) Fees determined by a sliding scale computed against the estimated cost of the repair work. Maximum fee per vessel subject to negotiation if estimated cost exceeds $1,000,000.

(*g*) Minimum fee, zero as to vessel repairs costing less than $5,000 per vessel.

(*h*) Actual fees paid, $19,708.40.

(*i*) None.

(*j*) See XVI.

XII. (*a*) Contract MCc 40309, dated September 18, 1945.

(*b*) Provides payment of fair compensation of work performed under letter of intent, dated July 25, 1945, calling for the construction of 12 barges under the United States Navy Dagwood project.

(*c*) Twelve barges.

(*d*) None. (Work terminated August 15, 1945.)

(*e*) Total amounts paid by the U. S. M. C., $35,535.61 received in final settlement of this contract.

(*f*) None mentioned.

(*g*) None mentioned.

(*h*)

(*i*) $1,957.96.

(*j*) See XVI.

XIII. (*a*) Contract MCc 1284 (formerly ESP–1), dated January 11, 1941, with addenda Nos. 1 and 2, dated January 25, 1945, and March 24, 1941, respectively.

(*b*) Cost only.

(*c*) Facilities contract to construct eight shipways and facilities.

(*d*) None.

(*e*) Total amount paid by U. S. M. C., see XIV.

(*f*) None.

(*g*) None.

(*h*) None.

(*i*) None.

(*j*) See XVI.

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Schedule A

CALIFORNIA SHIPBUILDING CORP. (WILMINGTON, CALIF.)

A description of all contracts between California Shipbuilding Corp. and the U. S. Maritime Commission

[Figures shown are as of May 31, 1946]

(a) The serial number of each contract	MCc 7785 and MCc 7786	MCc 2128	MCc 7834	MCc 13097	MCc 15740	MCc 34764	MCc 33932	MCc 36035	MCc 40183	MCc 40309	MCc (ESP) 1 and MCc (ESP) 597	MCc 16830	Total
(b) Type of contract	Cost plus a fixed fee	Cost plus a fixed fee	Cost plus a fixed fee	Cost plus a fixed fee	Lump sum	Selective price	Cost—no fees or profits allowed	Cost—no fees or profits allowed	Cost plus a variable fee	Terminated	Cost—no fee or profit allowed	Cost—no fee or profit allowed	
(c) The number and type of ships covered by each contract	55 EC2-S-C1 cargo vessels	109 EC2-S-C1 cargo vessels	60 EC2-S-C1 cargo vessels	82 EC2-S-C1 cargo vessels and 30 Z-ET1-S-C3 tankers	32 VC2-S-AP3 cargo vessels and 30 VC2-S-AP5 transports	79 VC2-S-AP2 cargo vessels	Material custody	Material custody	Ship repair	12 caissons	Facilities construction	Facilities construction	
(d) The number of ships constructed and delivered under each contract:													
1. Constructed and delivered	55	109	60	112	62	69							
2. Ships repaired									20				
3. Repair jobs									13				
(e) Total amount paid by Maritime Commission under each contract	$88,178,588.45	$110,858,437.91	$49,074,066.12	$103,672,480.12	$134,036,338.40	$89,573,286.96	$103,706.65	$56,178.52	$433,434.73	$35,535.61	$21,219,977.91	$3,993,650.29	$601,235,681.67
Amount unpaid	1,442.56	5,274.34	5,442.95	12,964.74								17,625.25	42,749.84
Cost of material furnished by Maritime Commission as specified in contract						80,520,276.00							80,520,276.00
Estimated cost of material furnished by Maritime Commission	40,700,000.00	80,660,000.00	44,400,000.00	60,680,000.00	82,600,000.00								309,040,000.00
Total estimated value of contracts	128,880,031.01	191,523,712.25	93,479,509.07	164,365,444.86	216,636,338.40	170,093,562.96	103,706.65	56,178.52	433,434.73	35,535.61	21,219,977.91	4,011,275.54	990,838,707.51
Profit for purpose of recapture or determination of contract price	3,597,524.00	15,260,000.00	8,400,000.00	7,670,000.00	4,762,157.37	11,459,774.81			19,708.40	1,957.96			51,171,122.54
Estimated recapture or retention by U. S. M. C.		6,407,219.76	4,298,980.00	320,000.00	1,502,157.37	3,100,884.81							15,629,241.94
Profit or fees allowed to contractor	3,597,524.00	8,852,780.24	4,101,020.00	7,350,000.00	3,260,000.00	8,358,890.00			19,708.40	1,957.96			35,541,880.60
Additional contractor's costs not allowed for purpose of recapture or determination of contract costs	896,137.26	564,085.95	344,941.20	728,353.01	686,650.13	883,071.09			4,273.07	553.80			4,108,065.51
Provision for Federal taxes on income	1,941,454.67	5,956,986.47	2,699,449.37	4,758,899.32	1,849,436.09	5,372,782.55			11,093.20	1,009.15			22,591,110.82
Total	2,837,591.93	6,521,072.42	3,044,390.57	5,487,252.33	2,536,086.22	6,255,853.64			15,366.27	1,562.95			26,699,176.33
Contractor's net profit	759,932.07	2,331,707.82	1,056,629.43	1,862,747.67	723,913.78	2,103,036.36			4,342.13	395.01			8,842,704.27
Percentage of net profit to contract value	0.589	1.217	1.130	1.133	0.334	1.236			1.002	1.112			0.892

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XIV. (*a*) Contract MCc-597 (formerly DA-4), dated April 9, 1941.
(*b*) Cost only.
(*c*) Contract to construct six additional shipways and facilities.
(*d*) None.
(*e*) Total amount paid by U. S. M. C. includes amount under contract MCc-1284, $21,219,977.91.
(*f*) None.
(*g*) None.
(*h*) None.
(*i*) None.
(*j*) See XVI.

XV. (*a*) Contract MCc 16830, dated June 8, 1943, with addenda Nos. 1 and 2, dated December 21, 1943, and March 1, 1945, respectively.
(*b*) Cost only.
(*c*) Contract to construct additional facilities for Victory and transport vessel construction.
(*d*) None.
(*e*) Total amounts paid by the U. S. M. C., $3,993,650.29.
(*f*) None.
(*g*) None.
(*h*) None.
(*i*) None.
(*j*) See XVI.

XVI. All contracts.
(*j*) See schedule A attached.

Question 10. The fees and profits under each of the aforementioned contracts allowed after renegotiation.

Contract	Number of vessels	Fees earned	Excessive profits determined in renegotiation	Fees allowed in renegotiation
MCc-7785	55	$3,597,524	None	$3,597,524.00
MCc-7786				
MCc-2128	109	15,260,000	$6,407,219.76	8,852,780.24
MCc-7834	60	8,400,000	4,230,025.41	4,101,020.00
MCc-13097	112	7,670,000	320,000.00	7,350,000.00

Renegotiation has not been completed on contracts MCc 15740, MCc 34764, MCc 40183, and MCc 40309. Contract MCc 34764 is by its terms not subject to renegotiation.

Question 11. The status of each contract still subject to renegotiation, giving, wherever possible, information showing the opinion of the Price Adjustment Board and of your company as to the fees and profits permissable under each contract.

Answer 11. Opinion of the Price Adjustment Board regarding permissable fees and profits on contracts still subject to renegotiation is not known. The opinion of the corporation is that no part of the fees and profits received and due on each contract are excessive and all are permissable.

Question 12. The total cost to the Government of the shipyards and facilities used by your company.

Answer 12. $25,213,628.20.

CALIFORNIA SHIPBUILDING CORP.,
Wilmington, Calif., October 15, 1946.

Mr. MARVIN J. COLES,
General Counsel, Merchant Marine and Fisheries Investigating Committee, House of Representatives, Washington, D. C.

DEAR MR. COLES: Complying with your telegraphic request of October 10, you will find hereinbelow the information you requested.

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1. *Actual amount of loans from stockholders.*—

Year and month	Non-interest-bearing	Interest-bearing	Total	Monthly average
1941—February				
March				
April				
May	$700,000		$700,000	
June	700,000		700,000	
July	700,000		700,000	
August	700,000		700,000	
September	700,000		700,000	
October	700,000		700,000	
November	700,000		700,000	
Monthly average				$700,000
December	700,000		700,000	
1942—January	700,000		700,000	
February	700,000		700,000	
March	1,200,000		1,200,000	
April	1,200,000		1,200,000	
May	1,200,000		1,200,000	
June	1,200,000		1,200,000	
July	1,200,000		1,200,000	
August	1,200,000		1,200,000	
September	1,200,000		1,200,000	
October	1,200,000		1,200,000	
November	1,200,000		1,200,000	
Monthly average				1,075,000
December	1,200,000	$500,000	1,700,000	
1943—January	1,200,000	500,000	1,700,000	
February	1,200,000	500,000	1,700,000	
March	1,200,000	500,000	1,700,000	
April	1,200,000	500,000	1,700,000	
May	1,200,000	500,000	1,700,000	
June	1,200,000	500,000	1,700,000	
July	1,200,000	500,000	1,700,000	
August	1,200,000	500,000	1,700,000	
September	1,200,000	1,500,000	2,700,000	
October	1,200,000	1,500,000	2,700,000	
November	1,200,000	1,500,000	2,700,000	
Monthly average				1,950,000
December	1,200,000	1,500,000	2,700,000	
1944—January	1,200,000	1,500,000	2,700,000	
February	1,200,000	1,500,000	2,700,000	
March	1,200,000	1,500,000	2,700,000	
April	1,200,000	1,500,000	2,700,000	
May	1,200,000	1,500,000	2,700,000	
June		700,000	700,000	
July		700,000	700,000	
August		700,000	700,000	
September		700,000	700,000	
October		700,000	700,000	
November		700,000	700,000	
Monthly average				1,700,000
December		700,000	700,000	
1945—January		700,000	700,000	
February		700,000	700,000	
March		700,000	700,000	
April		700,000	700,000	
May		700,000	700,000	
June		700,000	700,000	
July		700,000	700,000	
August		700,000	700,000	
September		700,000	700,000	
October		700,000	700,000	
November				700,000
Monthly average				
December		(1)	(1)	(1)

1 $700,000 paid in December 1945.

Your attention is called to the increase of equity in capital stock subscribed to by the stockholders in March 1942 from $700,000 to $1,200,000. This additional loan of $500,000 of subordinated, non-interest-bearing was not paid out of dividends but was additional subscribed capital that came from the stockholders from other sources.

In December 1942 the subordinated loans were increased by $500,000 and in September 1943 the subordinated loans from the stockholders were again increased by $1,000,000, making a grand total of $2,700,000 in subordinated loans from the stockholders. This last million and one-half dollars ($500,000 in December 1942 and $1,000,000 in September 1943) represented loans by the stock-

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holders after the payment of dividends and naturally upon which the stockholders had paid Federal income taxes prior to having made the loans to Calship.

2. *Actual amount of outstanding bank loans.*—In the review of the following schedule of bank loans, your attention is called to the fact that up to February 1942 Calship had an open line of credit through a contract with the bank up to $3,000,000, but in March 1943 the corporation provided an additional $1,000,000 through a contract with the bank, increasing the open line of credit from $3,000,000 to $4,000,000.

Bank loans, Bank of America

Year and month	Amount of loan	Monthly average
1941—February	$100,000	
March	300,000	
April	700,000	
May	500,000	
June	1,100,000	
July	1,500,000	
August	2,500,000	
September	2,500,000	
October	3,000,000	
November	1,700,000	
Average for 1941		$1,390,000.00
December	1,500,000	
1942—January	2,250,000	
February	2,750,000	
March	2,000,000	
April	3,500,000	
May	3,000,000	
June	3,000,000	
July	3,000,000	
August	3,000,000	
September	3,000,000	
October	3,000,000	
November	3,000,000	
Average for 1942		2,750,000.00
December	3,000,000	
1943—January	3,000,000	
February	3,000,000	
March	3,750,000	
April	3,750,000	
May	3,750,000	
June	3,750,000	
July	3,750,000	
1943—August	$3,750,000	
September	3,000,000	
October	2,750,000	
November	2,750,000	
Average for 1943		$3,333,333.33
December	2,750,000	
1944—January	2,500,000	
February	2,500,000	
March	2,500,000	
April	2,500,000	
May	2,500,000	
June	2,500,000	
July	2,250,000	
August	2,250,000	
September	2,250,000	
October	2,250,000	
November	2,250,000	
Average for 1944		2,416,666.67
December	2,250,000	
1945—January	2,250,000	
February	2,250,000	
March		
April		
May	1,000,000	
June	1,000,000	
July	1,000,000	
August	1,000,000	
September	1,000,000	
October		
November		
Average for 1945		979,166.67

If there is any additional information you require we shall be glad to forward it to you upon request.

Very truly yours,

CALIFORNIA SHIPBUILDING CORP.,
J. M. WARFIELD,
Vice President and General Manager.

EXHIBIT 15

HENRY BROUT & CO.,
New York 17, N. Y., August 15, 1946.

Mr. MARVIN J. COLES, Esq.,
General Counsel, Merchant Marine and Fisheries Investigating Committee,
Washington 25, D. C.

DEAR SIR: At the request of the New England Shipbuilding Corp., we have prepared the enclosed reply to your letter of July 27, 1946.

We shall be pleased to cooperate with you should there be any additional information you may require in connection with this matter.

Very truly yours,

HENRY BROUT & CO.

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HENRY BROUT & CO.,
New York 17, N. Y., August 9, 1946.

Mr. MARVIN J. COLES, Esq.,
General Counsel, Merchant Marine and Fisheries Investigating Committee,
Washington 25, D. C.

DEAR SIR: In reply to your letter of July 27, 1946, we are pleased to inform you as follows:

1. The New England Shipbuilding Corp., formerly the South Portland Shipbuilding Corp., was organized on April 1, 1941 (a copy of the corporate charter is submitted herewith).

2. The total capital stock of the company consists of a single issue of 2,780 shares of common stock of $100 par value, for a total of $278,000. In addition, the stockholders of the company furnished to it as working capital non-interest-bearing loans in the sum of $750,000 fully subordinated to bank loans which from time to time exceeded $2,000,000.

3. See schedule A attached.

4. See schedule B attached.

5. The capital stock of the New England Shipbuilding Corp. is owned 50 percent by Bath Iron Works Corp., Bath, Maine, and 50 percent by Todd Shipyards Corp., No. 1 Broadway, New York, N. Y.

6. Both corporate stockholders have been engaged in shipbuilding or in ship-repair work for many years. The Bath Iron Works Corp. was organized in 1927 to engage in the shipbuilding business. It acquired the shipyard and some of the personnel of a corporation of the same name engaged in the shipbuilding business for several decades. Todd Shipyards Corp. was organized on June 14, 1916, and since that date, either by itself or through subsidiary or affiliated corporations, has been engaged in the ship repair and conversion business and during World Wars I and II in the shipbuilding industry.

7. No stockholders other than the corporate stockholders, Bath Iron Works Corp. and Todd Shipyards Corp., held more than 5 percent of the capital stock of New England Shipbuilding Corp.

8. The capital stock of the New England Shipbuilding Corp., as stated in answer to question 5, is wholly owned by the Bath Iron Works Corp. and Todd Shipyards Corp., both of which had other contracts with the Maritime Commission and/or the War Shipping Administration.

9. See schedule attached. The company has submitted figures on all contracts subject to renegotiation, but has not as yet received notice of the determination of the Price Adjustment Board as to any of the contracts. The company is of the opinion that it is entitled to the fees as they are computed under the various contracts.

10. The contracts held by New England Shipbuilding Corp. are in the course of renegotiation (see 9 above).

11. Data has been submitted to the Price Adjustment Board on all contracts subject to renegotiation including the following:

DA-MCc-19
DA-MCc-733
DA-MCc-739.
MCc-2602
MCc-15449
MCc-17295

The fees allowable to this company under these contracts are under review by the Price Adjustment Board. As stated above, the company is of the opinion that it is entitled to fees computed in accordance with the aforesaid contracts.

12. See schedule attached.

Should there be any further information required by you in connection with the foregoing, please do not hesitate to get in touch with us.

Very truly yours,

HENRY BROUT & CO.

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(Question No. 3—Schedule A)

Duly elected officers and directors as of Oct. 31, 1945 (date of delivery of last vessel under Government contracts)

	Annual salary
Officers:	
Andrew B. Sides, president	$20,000
Walter L. Green, vice president, general manager	18,000
Joseph Haag, Jr., vice president	2,500
W. R. Bennett, Jr., secretary	6,000
Wadleigh B. Drummond, assistant secretary	0
Emile P. Enfer, assistant secretary	0
Charles F. Strenz, assistant secretary	0
Josiah H. Drummond, clerk	0
Wadleigh B. Drummond, assistant clerk	0
A. C. Corbin, comptroller	12,000
John E. Sturm, treasurer	7,500
Emile P. Enfer, assistant treasurer	0
Charles F. Strenz, assistant treasurer	0
Directors:	
Wadleigh B. Drummond	(1)
Joseph Haag, Jr	
Mortier D. Harris	
Harry G. Hill	
W. S. Newell	
J. D. Reilly	
A. B. Sides	
F. J. Smyth	
G. F. Strenz	
J. Herbert Todd	
G. Vincent Pach	

[1] No compensation other than as indicated above.

(Question 4—Schedule B)

Officers and employees who received more than $15,000 per annum and extent reimbursed by U. S. Maritime Commission

	Title	Date title held		Annual salary	Total salary	
		From—	To—		Paid by New England Shipping Corp.	Reimbursed by U. S. Maritime Commission
W. S. Newell	President	June 1, 1941	Dec. 1, 1942	$10,000	$15,000.00	$15,000.00
		Dec. 1, 1942	Dec. 31, 1942	20,000	1,666.67	1,666.67
C. E. Klitgaard	Deputy president	Apr. 20, 1942	Dec. 1, 1942	10,000	6,111.10	6,111.10
		Dec. 1, 1942	Dec. 31, 1942	20,000	1,666.67	1,666.67
W. L. Green	Vice president and general manager.	Jan. 1, 1944	Nov. 19, 1945	18,000	36,074.90	33,950.00
A. B. Sides	Secretary	Jan. 1, 1943	Sept. 28, 1943	12,000	9,000.00	9,000.00
	Executive vice president.	Sept. 28, 1943	Feb. 10, 1944	12,000	4,500.00	4,500.00
	President	Feb. 10, 1944	Nov. 9, 1945	20,000	37,154.06	34,793.06
J. William Schulze	Comptroller	Jan. 1, 1943	Feb. 10, 1944	18,000	20,250.00	20,250.00
	Vice president and comptroller.	Feb. 10, 1944	May 31, 1945	18,000	23,250.00	23,250.00
F. M. Kramer	Works manager	Jan. 1, 1943	Apr. 16, 1944	20,000	25,833.31	25,833.31
		Apr. 16, 1944	Feb. 28, 1945	8,100	7,087.50	7,087.50
G. V. Pach	Vice president in charge of finance.	May 1, 1941	Aug. 1, 1941	8,000	1,999.98	1,999.98
		Aug. 1, 1941	Dec. 1, 1942	8,000	10,666.64	10,666.64
		Dec. 1, 1942	Jan. 31, 1943	12,500	2,083.33	1,041.67

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(Question No. 9)

NEW ENGLAND SHIPBUILDING CORP.

Reconciliation of book cost and public vouchers (cost plus and facilities contracts), as at June 30, 1946, with subsequent adjustments

	Total	DA-MCc-19	DA-MCc-738	DA-MCc-739
Cost per public vouchers	$264, 400, 488. 66	$28, 012, 000. 00	$12, 426, 306. 90	$32, 012, 728. 87
Reimbursed minimum fees	5, 637, 000. 00	0	262, 000. 00	884, 250. 00
Total reimbursement	270, 037, 488. 66	28, 012, 000. 00	12, 688, 306. 90	32, 896, 978. 87
Subsequent adjustments and payments made to be reflected on public vouchers	[1] 384, 796. 58	20, 174. 63		
	269, 652, 692. 08	28, 032, 174. 63	12, 688, 306. 90	32, 896, 978. 87
Add: Unbilled reimbursable:				
Cost $46, 617. 26		2, 412. 91		
Accruals 2, 237. 29				
Unclaimed wages 60, 000. 00				
	108, 854. 55			
Adjusted cost per public vouchers	269, 761, 546. 63	28, 034, 587. 54	12, 688, 306. 90	32, 896, 978. 87
Cost per books, June 30, 1946	269, 738, 878. 60	28, 034, 587. 54	12, 688, 306. 90	32, 896, 978. 87
Subsequent adjustments	22, 668. 03			
Adjusted cost per books	269, 761, 546. 63	28, 034, 587. 54	12, 688, 306. 90	32, 896, 978. 87
Fee per vessel:				
Basic		(2)	60, 000. 00	60, 000. 00
Minimum		(2)	32, 750. 00	32, 750. 00
Maximum		(2)	76, 000. 00	76, 000. 00

	MCc-2602	MCc-15449	MCc-17295	Facilities—no profit to company—MCc-1676, 7807
Cost per public vouchers	$41, 187, 084. 01	$38, 584, 634. 51	$98, 835, 876. 27	$13, 341, 858. 10
Reimbursed minimum fees	1, 080, 750. 00	1, 110, 000. 00	2, 300, 000. 00	0
Total reimbursement	42, 267, 834. 01	39, 694, 634. 51	101, 135, 876. 27	13, 341, 858. 10
Subsequent adjustments and payments made to be reflected on public vouchers			[1] 404, 971. 21	
	42, 267, 834. 01	39, 694, 634. 51	100, 730, 905. 06	13, 341, 858. 10
Add: Unbilled reimbursable:				
Cost			44, 204. 35	
Accruals			2, 237. 29	
Unclaimed wages			60, 000. 00	
Adjusted cost per public vouchers	42, 267, 834. 01	39, 694, 634. 51	100, 837, 346. 70	13, 341, 858. 10
Cost per books, June 30, 1946	42, 267, 834. 01	39, 694, 634. 51	100, 814, 678. 67	13, 341, 858. 10
Subsequent adjustments			22, 668. 03	
Adjusted cost per books	42, 267, 834. 01	39, 694, 634. 51	100, 837, 346. 70	13, 341, 858. 10
Fee per vessel:				
Basic	60, 000. 00	55, 000. 00	45, 000. 00	
Minimum	32, 750. 00	30, 000. 00	20, 000. 00	
Maximum	76, 000. 00	70, 000. 00	60, 000. 00	

[1] Red figures.
[2] Contract DA-MCc-19 was amended on Jan. 20, 1943, whereby the company agreed to waive its right to fee income of $60,000 minimum per vessel and the U. S. Maritime Commission agreed to reimburse the company for items which prior to Jan. 1, 1943, had been deemed nonreimbursable.

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(Question No. 9)

NEW ENGLAND SHIPBUILDING CORP.

Statement of all contracts with the U. S. Maritime Commission, Apr. 28, 1941, to June 30, 1946

Contract No.	Date of contract	Subject	Vessels delivered
MC-7817 (formerly DA-9)	Apr. 28, 1941	Construction of facilities—west yard	(1)
MCc 1676	Sept. 2, 1941	Construction of facilities—west yard Thompson's Point and Cushing's Point.	(1)
DA-MCc-19	Apr. 28, 1941	Construction of 16 Liberty ships (EC-2)	16
DA-MCc-738	Oct. 28, 1941	Construction of 8 Liberty ships (EC-2)	8
DA-MCc-739	Jan. 17, 1942	Construction of 27 Liberty ships (EC-2)	27
MCc-2602	do	Construction of 33 Liberty ships (EC-2)	33
MCc-15449	Apr. 9, 1943	Construction of 37 Liberty ships (EC-2)	37
MCc-17295	June 17, 1943	Construction of 115 Liberty ships (EC-2)	115
MCc-34761	Apr. 10, 1945	Construction of 12 Z-EC-2-C5 ships	[2] 8
DA-MCc-864	Apr. 7, 1945	Construction of 12 T-1-M-BK1 tankers	[3] 0
MCc-40728	Nov. 8, 1945	Maintenance of yard on lay-up basis	(4)

[1] The 2 facilities contracts were cost-type contracts with no profit to the company.
[2] This is a selective-price contract, terminated Aug. 14, 1945, with 8 hulls completed by Oct. 31, 1945, and 4 hulls canceled.
[3] This is a lump-sum contract, canceled Aug. 14, 1945, in its entirety.
[4] This is a lay-up contract MCc-40728 for term of 2 years canceled on Apr. 19, 1946.

Except as noted, all of the other contracts for the construction of 236 vessels were on a cost-plus-fixed-fee basis.

(Question No. 9)

NEW ENGLAND SHIPBUILDING CORP.

Cost of lay-up contract MCc 40728, as at June 30, 1946

Billed to USMC on public vouchers	$947, 508. 18
Unbilled reimbursable cost	186, 562. 11
Total cost incurred	1, 134, 070. 29

Lump-sum contract DA-MCc-864

Total cost	$582, 878. 11
Estimated profit on termination claim	11, 375. 22

Selective-price contract MCc-34761

Total cost:	
8 hulls	$7, 670, 026. 61
4 hulls	581, 134. 81
Total	8, 251, 161. 42
Retainable profit	572, 160. 00
Estimated profit on terminated portion	40, 214. 61

(Question No. 12)

NEW ENGLAND SHIPBUILDING CORP.

Cost of shipyard facilities (contracts MCc-7817, 1676), as at June 30, 1946

Contractor constructed facilities under said contracts (no profit to contractor)[1]	$13, 341, 858. 10

[1] Certain additional shipyard facilities consisting of a seven-way basin yard and partially supporting facilities were purchased by the Maritime Commission and made available to the company. Other facilities consisting of a housing project and a ferry project were initiated by the Commission, and the cost thereof allocated to the shipbuilding project at this yard. The total cost of all these shipyard facilities and other projects as per information supplied by the Maritime Commission amounts to $9,874,190.40.

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HENRY BROUT & CO.,
New York 17, N. Y., October 10, 1946.

Mr. MARVIN J. COLES, Esq.,
General Counsel, Merchant Marine and Fisheries Investigating Committee, Washington 25, D. C.

DEAR SIR: In accordance with your request of September 25, 1946, we are submitting herewith some financial data respecting the income and operation of the New England Shipbuilding Corp., South Portland, Maine, on all of its contracts with the United States Maritime Commission for the years 1941 to 1945, inclusive.

Total net income for fiscal years ended Nov. 30, 1941, to Nov. 30, 1945	$5, 616, 875
Less: Federal income and excess-profits taxes paid	4, 023, 650
Net income after taxes for the 5 years	1, 593, 225

The above figures do not include claims against the United States Maritime Commission for $5,976,285.50. If, eventually, these claims will be allowed in full by the Commission, the net income retainable by the company will be $1,643,479 after paying Federal income and excess profits taxes at the effective rate of 72.5 percent.

The capital investment by the stockholders was $278,000 plus loans by stockholders (at no interest) of $750,000 and maximum bank loans of $5,000,000, which made total working capital available to the corporation of $6,028,000. Therefore, the percentage return on the total capital contributed originally and borrowed is as follows:

	Percent
On the net earnings of the company after taxes (an average of 5.29 percent per annum on the total capital employed)	26. 43
On the maximum earnings which can be retained by the company, assuming all claims are allowed (for an average of 10.14 percent per annum on the capital employed)	53. 69

In the above calculations we do not give effect to the factor of retained net earnings during each year of operations, a condition normal to business. If, on any basis, the retained earnings of each year were added to the totals of capital employed, the above percentage returns would be materially decreased.

Very truly yours,

HENRY BROUT & CO.

HENRY BROUT & CO.,
New York 17, N. Y., October 11, 1946.

MR. MARVIN J. COLES, ESQ.,
General Counsel, Merchant Marine and Fisheries Investigating Committee, Washington 25, D. C.

DEAR SIR: In reply to your telegram of October 10, 1946, addressed to the New England Shipbuilding Corp., Portland, Maine, we are pleased to submit the following information to you with respect to the ship construction for the Maritime Commission:

1. The average amounts of outstanding bank loans for each of the fiscal years ended November 30, 1941, through 1945 follows:

For the fiscal years ended Nov. 30—	
1941	$105, 600. 77
1942	1, 384, 684. 93
1943	2, 957, 534. 24
1944	673, 497. 27
1945	147, 945. 20

2. The disallowed costs on cost-plus-fixed-fee contracts totaled $667,933.36.

Very truly yours,

HENRY BROUT & CO.

Copies to Messrs. H. Hill, A. C. Corbin, C. Strenz.

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EXHIBIT 16

ARTHUR YOUNG & CO.,
Dallas 1, Tex., August 26, 1946.

MR. MARVIN J. COLES,
General Counsel, Merchant Marine and Fisheries Investigating Committee, House Office Building, Washington 25, D. C.

DEAR SIR: At the request of the officials of Todd Houston Shipbuilding Corp., we have collaborated with them in the preparation of the answers to the questions contained in your letter of July 27, 1946. We enclose herewith a copy of such answers, which we trust you will find in order.

Should you require any further data, we will be glad to arrange to have same prepared and submitted to you at the earliest possible moment.

Yours very truly,

ARTHUR YOUNG & CO.

TODD HOUSTON SHIPBUILDING CORP.

ANSWERS TO QUESTIONS CONTAINED IN LETTER DATED JULY 27, 1946, FROM MARVIN J. COLES, GENERAL COUNSEL, MERCHANT MARINE AND FISHERIES INVESTIGATING COMMITTEE, HOUSE OF REPRESENTATIVES

Question 1. The date on which your company was formed, and a copy of its corporate charter.

Answer 1. The company was incorporated on January 6, 1941. A copy of its certificate of incorporation, together with copies of amendments thereto, are enclosed.

Question 2. The total capital of your company, giving a break-down of the types of stock and securities.

Answer 2. The authorized capital stock of the company consists of 10,000 shares of common stock without par value. The number of shares issued and outstanding is 1,892 shares with stated value of $189,200.

The company also held a non-interest-bearing fully subordinated loan from its stockholders of $500,000 from May 1941, to February 1946.

The company, in order to finance its operations, made bank borrowings from time to time, the largest amount of such borrowings being $2,325,000 in May 1942. From October 1943 to completion of ship construction in December 1945, it had a credit arrangement with certain banks whereby it could borrow to a maximum of $2,000,000. The commitment fee in respect of the credit agreement was not allowed by the Maritime Commission as a reimbursable cost.

Question 3. The names of all officers and directors, and a statement of their annual compensation.

Answer 3. As of December 13, 1945, date of completion of the last construction contract DA-MCc-859, the following is a list of the officers and directors and the rate of their annual compensation:

Name	Title	Rate of annual compensation
Officers:		
J. L. Lawder	President	None
R. J. Vanderwende	Senior vice president and comptroller	$20,000
Joseph Haag, Jr	Vice president	2,500
A. S. Hebble	do	None
Frank A. Liddell	Vice president and secretary	None
Charles F. Strenz	Treasurer	None
E. P. Enfer	Assistant secretary and assistant treasurer.	None
Harry G. Hill	do	None
Joseph P. Reynolds	do	8,000
Directors: James E. Barnes, E. P. Enfer, Francis J. Gilbride, Joseph Haag, Jr., A. S. Hebble, Fred D. Hesley, Harry G. Hill, R. J. Lamont, J. L. Lawder, Frank A. Liddell, John D. Reilly, Arthur Stout, J. Herbert Todd, and R. J. Vanderwende.	Directors	(1)

[1] The directors, as such, did not receive compensation.

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Question 4. The names of all officers and employees who have received compensation of over $15,000 per annum, giving the amounts received and the extent to which such payments were reimbursable by the Maritime Commission.

Answer 4.

Name	Title	Annual compensation	Period paid	Amount paid	Reimbursed by Maritime Commission
Arthur W. Stout	General manager	$18,000	Nov. 16, 1941, to Apr. 14, 1942	$7,437.35	$7,437.35
	Vice president and general manager.	20,000	Apr. 15, 1942, to Aug. 31, 1943	27,596.50	27,596.50
	President	23,000	Sept. 1, 1943, to Aug. 31, 1944	22,999.92	22,999.92
J. L. Lawder	Senior vice president and comptroller.	17,250	Sept. 1, 1943, to June 30, 1945	31,625.00	31,625.00
R. W. Copeland	General superintendent.	15,348	Aug. 1, 1942, to Aug. 31, 1943	16,627.00	16,627.00
	Vice president and works manager.	17,650	Sept. 1 to Dec. 31, 1943	5,883.32	5,883.32
R. J. Vanderwende	Senior vice president and comptroller.	20,000	July 1, 1945, continuing	[1] 22,499.91	[1] 6,875.00

[1] The amount of $22,499.91 shown as paid to R. J. Vanderwende covers the period from July 1, 1945, to Aug. 15, 1946. The amount reimbursed ($6,875) in respect of R. J. Vanderwende's compensation is computed at the rate of $15,000 per annum and covers the period from July 1, 1945, to Dec. 15, 1945, on which date the custodial contract became effective and reimbursement ceased.

Question 5. The names of all persons, associations, or corporations holding 5 percent or more of the capital stock of your company, giving the amounts of capital stock held by each.

Answer 5. Todd Shipyards Corp. holds 1,892 shares, being all of the capital stock issued and outstanding.

Question 6. The shipbuilding experience prior to 1941 of all officers, directors, and stockholders holding over 5 percent of your capital stock.

Answer 6. Todd Shipyards Corp. and its affiliated companies and the predecessors thereof have been engaged for a period of over 50 years in the repair, conversion, and reconditioning of all types of marine vessels. During the First World War certain subsidiaries were extensively engaged in the construction of vessels. This activity ceased with the completion and delivery of the last of these vessels in 1923. The corporation reentered the shipbuilding industry in the fall of 1939.

Question 7. The names of all officers, directors, or stockholders owning more than 5 percent of the capital stock of your company, who have held positions as officers or directors of another company which had contracts with the Maritime Commission or the War Shipping Administration.

Answer 7. As set forth in the answer to question 5, all of the capital stock of Todd Houston Shipbuilding Corp. is owned by Todd Shipyards Corp., which corporation and its subsidiaries had contracts with the Maritime Commission or the War Shipping Administration.

Question 8. The names of all officers, directors, or stockholders owning more than 5 percent of the capital stock of your company who have owned 5 percent or more of the capital stock of another company which had contracts with the Maritime Commission or the War Shipping Administration.

Answer 8. As set forth in the answer to question 7 above, Todd Shipyards Corp. (which company owns 100 percent of the capital stock of Todd Houston Shipbuilding Corp.) and its subsidiaries have and have had contracts with the United States Maritime Commission and the War Shipping Administration.

Question 9. A description of all contracts between your company and the Maritime Commission.

Answer 9. See schedule A attached hereto.

Question 10. The fees and profits under each of the aforementioned contracts allowed after renegotiation.

Answer 10. Although the company and the Price Adjustment Board have reached an agreement in respect of the renegotiation of the first five ship-construction contracts enumerated on schedule A attached (EC2–S–C1 cargo ships),

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formal renegotiation contracts have not yet been executed with respect to these or any other of the company's contracts (See answer to Question No. 11 following).

Question 11. The status of each contract still subject to renegotiation, giving, wherever possible, information showing the opinion of the Price Adjustment Board and of your company as to the fees and profits permissible under each contract.

Answer 11. As to the first four ship-construction contracts enumerated in schedule A attached, the company and the Price Adjustment Board have agreed, as a result of renegotiation pursuant to the Renegotiation Act, that of the gross fees earned and claimed by the company and allowed by the United States maritime regional director in the sum of $8,554,828, the sum of $2,554,828 shall be eliminated, leaving a balance of gross fees to be allowed the company in renegotiation (including minimum fees heretofore paid) in the sum of $6,000,000; likewise, the company and the Price Adjustment Board have agreed, in respect of the fifth ship-construction contract enumerated on schedule A (MCc-15923), that the gross fees to be allowed the company in renegotiation shall be the sum of $4,843,475 (including minimum fees heretofore paid), and that no excessive profits within the meaning of said Renegotiation Act are included within said gross fees. Formal renegotiation contracts in respect of said five ship-construction contracts are now being prepared by the Price Adjustment Board for execution.

None of the other contracts of the company enumerated on schedule A have as yet been renegotiated but inasmuch as only minimum fees have been claimed, the company is of the opinion that such minimum fees are permissible under each of said contracts and that no excessive fees or prifits exist with respect thereto.

Question 12. The total cost to the Government of the shipyards and facilities used by your company.

Answer 12:

Recorded costs as of June 30, 1946	$13,081,267.95
Facilities disposed of prior to June 30, 1946, by the Maritime Commission, either by sale or transfer to other shipyards	1,275,863.68
	14,357,131.63

Prior to the completion of the ship-construction contracts, the United States Maritime Commission instituted condemnation proceedings against the lands covered by leases upon which the shipyard and facilities were located. These condemnation proceedings have not been finally terminated and the company is not informed as to the amount of any additional cost involved.

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Schedule A

TODD HOUSTON SHIPBUILDING CORP.

Answer to question No. 9

(a) The serial number of each contract	(b) The type of contracts	(c) The number and type of ships covered by each contract	(d) The number of ships constructed and delivered under each contract	(e) Recorded costs as of June 30, 1946 [1]	(f) The maximum fee payable under each contract	(g) The minimum fee payable under each contract	(h) The actual fee paid under each contract as of June 30, 1946 [2]	(i) The profits received on each lump sum contract	(j) The total of all fees and profits received by the company to June 30, 1946, under contracts with the Maritime Commission [2]
Ship construction:									
MCc-ESP-12	Cost-plus	25 EC2-S-C1	25	$34,586,494.42	$3,500,000	$1,500,000	$1,500,000	None	$1,500,000
MCc-ESP-602	do	12 EC2-S-C1	12	16,447,537.33	1,680,000	720,000	720,000	None	720,000
MCc-ESP-603	do	32 EC2-S-C1	32	33,333,892.35	4,480,000	1,920,000	1,920,000	None	1,920,000
MCc-13099	do	31 EC2-S-C1	31	32,293,383.60	2,170,000	930,000	930,000	None	930,000
MCc-15923	do	108 EC2-S-C1	108	91,389,292.53	6,480,000	2,160,000	2,160,000	None	2,160,000
Inventories				1,549,980.38					
Insurance deposit as advance on estimated premium.				69,123.15					
Total				209,669,703.76	18,310,000	7,230,000	7,230,000	None	7,230,000
DA-MCc-859	Cost-plus	14 T1-M-BT2	14	12,983,883.50	840,000	280,000	280,000	None	280,000
Inventories				178,971.32					
Total				13,162,854.82	840,000	280,000	280,000	None	280,000
Shifting 12 T1-M-BT2 tankers from Houston to Beaumont: Letter of intent dated Nov. 5, 1945, MCc-40640	Cost	None	None	37,587.05	None	None	None	None	None
Custodial: MCc-40987 [3]		do	None	572,307.96	None	None	None	None	None
Facilities: [4]									
MCc-ESP-3	do	do	None	$13,081,267.95	None	None	None	None	None
MCc-ESP-604									
MCc-19054									
Total				[5] 236,523,721.54	19,150,000	7,510,000	7,510,000	None	7,510,000

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[1] A reconciliation of the payments received from the Maritime Commission from inception of operations to June 30, 1946, with the recorded costs as of June 30, 1946, as shown in column (e), is submitted in schedule A-1. As far as is known at this time none of the items included in the reconciliation are in dispute.

While every effort has been made to accrue costs as they were incurred, additional costs, charges, and/or adjustments applicable to the period prior to June 30, 1946, may arise and/or hereafter be established.

The custodial contract was terminated as of May 31, 1946, but certain accounting costs, in connection with the closing of the contracts, are still being currently incurred.

[2] The Maritime Commission Price Adjustment Board and the company have informally agreed that in respect of the first 4 ship construction contracts the company will be entitled to receive additional fees in the gross amount of $930,000 and, in respect of contract MCc-15923, gross additional fees of $2,683,475. The company has received from the Maritime Commission payments on account of these fees, viz: $750,000 on Aug. 5, 1946, in respect of the first 4 ship construction contracts and $2,680,000 on Aug. 8, 1946, in respect of contract MCc-15923.

[3] Under the terms of the custodial contract MCc-40987 the Maritime Commission agreed to pay the company the cost of performing the work called for by the agreement, except that there would not be included in the determination of such costs any charge or expense on account of which payment would be made under the provisions relating to the general overhead allowance.

The Maritime Commission agreed to pay the company an amount (called the General overhead allowance) to cover all the administrative costs as well as expenses of this company incurred in connection with the maintenance of offices outside of the shipyard, salaries or other compensation paid to the principal officers, executive, and supervisory employees of the company above the grade of foreman, as well as so-called nonreimbursable expenditures the cost of which would not be paid under the terms of the agreement. During the life of this contract the company received general overhead allowances aggregating $15,350. The costs incurred by the company and not reimbursed exceeded the general overhead allowance as of June 30, 1946, by $29,478.40, which represented a loss to the company.

[4] The recorded costs as of June 30, 1946, in respect of facilities as shown in column (e) exclude $1,275,863.68 in respect of property disposed of by the Maritime Commission either by sale or transfer to other shipyards.

[5] Expenses not reimbursable and costs disallowed by the Maritime Commission from the commencement of operations to June 30, 1946, amounted to $1,006,868.32.

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Schedule A-1

TODD HOUSTON SHIPBUILDING CORP.

Reconciliation of payments received from the Maritime Commission with the recorded costs as of June 30, 1946

	EC2-S-C1 ships [1]	T1-M-BT2 tankers	Shifting tankers	Custodial	Facilities	Total
Payments received (exclusive of property transfers and sales made by the Maritime Commission but including minimum fees received) from inception of operations to June 30, 1946, as shown on last public vouchers reimbursed in June 1946	$216,922,972.59	$13,297,537.06	$37,572.25	$538,991.27	$14,099,709.53	$244,896,782.70
Deduct:						
Minimum fees received	7,230,000.00	280,000.00				7,510,000.00
Transfer value of property transferred by the Maritime Commission prior to June 30, 1946, deductible from public vouchers submitted after that date	371,601.69	9,771.19			1,027,611.06	1,408,983.94
	7,601,601.69	289,771.19			1,027,611.06	8,918,983.94
	209,321,370.90	13,007,765.87	37,572.25	538,991.27	13,072,098.47	235,977,798.76
Add:						
Public vouchers receivable at June 30, 1946	60,234.31	15,289.24		4,467.70		79,991.25
U. S. Maritime Commission journal vouchers given effect to in above public vouchers		(154.16)		154.16		
Reimbursable costs accrued not billed	288,098.55	139,953.87	14.80	28,694.83	9,169.48	465,931.53
Recorded costs as of June 30, 1946, per schedule A	209,669,703.76	13,162,854.82	37,587.05	572,307.96	13,081,267.95	236,523,721.54

[1] The costs of EC2-S-C1 ship contracts (including inventories and the insurance deposit) are not billed separately but are reimbursed on common public voucher.

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ARTHUR YOUNG & Co.,
Dallas 1, Tex., October 17, 1946.

MARVIN J. COLES, Esq.,
General Counsel, Merchant Marine and Fisheries Investigating Committee, Room 228, House Office Building, Washington, D. C.

DEAR SIR: At the request of the officials of Todd Houston Shipbuilding Corp., we now submit additional information which was requested by you and by members of the committee at the hearing held on September 25, 1946.

(1) Percentage of net income ($2,751,630) to recorded costs of all contracts as of June 30, 1946, ($236,523,722), 1.163 percent.

Net income of $2,761,630 consists of net income for the period from January 6, 1941 (date of incorporation), to June 30, 1946, plus additional fees allowable in renegotiation and accrued in August 1946, less income taxes and other adjustments applicable thereto. It may be that subsequent adjustments will reduce the amount of the net income.

(2) Percentage of gross fees ($11,123,475) to recorded costs of all contracts as of June 30, 1946 ($236,523,722), 4.703 percent.

Gross fees of $11,123,475 include additional fees allowable in renegotiation and accrued in August 1946, in which month a substantial payment on account was received.

(3) Percentage of net income ($2,751,630) to recorded costs (including inventories) of ship construction contracts as of June 30, 1946 ($222,832,559), 1.235 percent.

(4) Percentage of gross fees ($11,123,475) to recorded costs (including inventories) of ship construction contracts as of June 30, 1946 ($322,832,559), 4.994 percent.

(5) Percentage of net income ($2,751,630) to recorded costs (including inventories) of all contracts as of June 30, 1946 ($236,523,722), plus fees ($11,123,475), 1.111 percent.

(6) Percentage of net income ($2,751,630) to recorded costs (including inventories) of ship construction contracts as of June 30, 1946 ($222,832,559), plus fees ($11,123,475), 1.176 percent.

(7) Percentage of net income to invested capital (exclusive of bank loans), 399.25 percent.

The invested capital used in this calculation was $689,200, no consideration having been given to bank loans nor to the fact that most of the company's earnings were left in the business as working capital.

(8) Percentage of gross fees received or receivable to invested capital (exclusive of bank loans), 1,613.97 percent.

The above percentage is based on gross fees received or receivable of $11,123,475 and invested capital of $689,200; that is, capital stock outstanding of $189,200 plus a non-interest-bearing fully subordinated loan from stockholder of $500,000.

It is requested that these computations be made a part of the record of the proceedings before the committee.

Very truly yours,

ARTHUR YOUNG & Co.,
By NORMAN G. MAIDEN,
General Partner.

ARTHUR YOUNG & Co.,
Dallas 1, Tex., October 24, 1946.

Mr. MARVIN J. COLES,
General Counsel, Merchant Marine and Fisheries Investigating Committee, Room 228, House Office Building, Washington, D. C.

DEAR SIR: At the request of officials of Todd Houston Shipbuilding Corp., we now submit the additional information requested by you in your telegram dated October 14, 1946.

Average amount of outstanding bank loans.—The average amount of outstanding bank loans is shown in the following tabulation:

Jan. 6, to Nov. 30, 1941	$515,178
Year ended Nov. 30, 1942	1,245,836
Year ended Nov. 30, 1943	571,983

From October 1943 to completion of ship construction in December 1945 the company also had a credit arrangement with certain banks whereby it could borrow to a maximum of $2,000,000.

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Total net fees and profits after income tax.—The net income of the company for the period from January 6, 1941 (date of incorporation), to June 30, 1946, plus additional fees allowable in renegotiation and accrued in August 1946, less income taxes and other adjustments applicable thereto, aggregated $2,751,629.98. It may be that subsequent adjustments will reduce the amount of the net income.

Total amount of Federal income and excess-profits taxes.—The total amount of Federal income and excess-profits taxes (net of postwar refund credit) for the fiscal years 1941 to 1945, inclusive, was $7,341,027.55. The estimated carry-back in respect of the net operating loss for the 7 months ended June 30, 1946, is $228,019.70. The tax returns since the commencement of operations in 1941 are subject to final review by the Internal Revenue Department.

Disallowed costs allocated to applicable contracts.—The company has not allocated its disallowed costs to individual contracts and it is not possible, without unreasonable effort and expense, to do so at this time.

Expenses not reimbursable and costs disallowed by the Maritime Commission from the commencement of operations to June 30, 1946, after taking into consideration interest paid on additional taxes in August 1946, amounted to $1,258,837.17.

Yours very truly,

ARTHUR YOUNG & CO.,
By NORMAN G. MAIDEN,
General Partner.

EXHIBIT 17

MARINSHIP CORP.,
Sausalito, Calif., August 23, 1946.

Subject: Investigation of Wartime Profits Made by Shipyards under Contracts with the Maritime Commission.

Mr. MARVIN J. COLES,
General Counsel, House of Representatives,
United States Merchant Marine and Fisheries Investigation Committee,
Washington 25, D. C.

DEAR SIR: We have received your letter dated July 27, 1946, relative to an investigation of wartime profits made by shipyards under contracts with the Maritime Commission and are attaching hereto our reply covering Marinship Corp.

In the interests of reporting full information on the shipyard, according to your letter we are also attaching a report on W. A. Bechtel Co. (Marin Shipbuilding Division), a joint venture, supplementing the report on the joint venture forwarded to you on November 20, 1942.

Our effort has been to set forth detailed and complete answers throughout. If, however, additional information is desired, please advise us and it will be provided.

Very truly yours,

MARINSHIP CORP.,
K. K. BECHTEL,
President.

QUESTIONS AND ANSWERS RELATING TO MARINSHIP CORP., AUGUST 24, 1946

Question 1. The date on which your company was formed, and a copy of its corporate charter.

Answer 1. Date of incorporation, September 2, 1942. Photostatic copy of charter attached hereto.

Question 2. The total capital of your company, giving a break-down of the types of stock and securities.

Answer 2. (*a*) As of November 30, 1945, 4,500 shares of no par common stock had been issued and was outstanding. At a stated value per share of $100 this represented $450,000 of paid in capital.

(*b*) The corporation in addition to its paid-in capital of $450,000 created a private line of credit in amount of $2,000,000 of which $500,000 was guaranteed by the stockholders.

(*c*) During the shipbuilding period of the corporation borrowings against the revolving credit reached a maximum of $1,300,000 which was used as additional working capital beyond the paid-in capital.

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Question 3. The names of all officers and directors, and a statement of their annual compensation.

Answer 3. (*a*) Names of officers and directors:

	Officers	Directors
K. K. Bechtel	President	Director.
S. D. Bechtel	Vice president	Do.
J. A. McCone	do	Do.
W. E. Waste	do	Do.
B. M. Eubanks	Secretary	Do.
R. L. Bridges	Treasurer-assistant secretary	Do.
R. Digges	Assistant secretary-assistant treasurer	
G. L. Johnson	Assistant secretary	
Felix Kahn		Do.
J. H. Pomeroy		Do.
W. V. McMenimem		Do.
W. H. Morrison		Do.
W. C. Ryan	Assistant secretary	

(*b*) None of the officers or directors received compensation from the corporation except as follows:

	1942	1943	1944	1945
W. E. Waste, vice president and general manager:				
Salary	$2,933	$15,673	$15,143	$14,568
Bonus		3,400	5,000	5,000
Total	2,933	19,073	20,143	19,568
Robert Digges, assistant secretary, assistant treasurer, and administrative manager:				
Salary	1,996	10,658	10,168	10,201
Bonus		1,700	3,000	4,500
Total	1,996	12,358	13,168	14,701

Question 4. The names of all officers and employees who have received compensation of over $15,000 per annum, giving the amounts received and the extent to which such payments were reimbursable by the Maritime Commission.

Answer 4:

	1943	1944	1945 [1]
W. E. Waste, general manager:			
Salary reimbursed	$12,673	$13,112	$300
Salary not reimbursed	3,000	2,031	14,268
Bonus not reimbursed	3,400	5,000	5,000
Total	19,073	20,143	19,568
R. L. Hamilton, production manager:			
Salary reimbursed		10,106	
Salary not reimbursed		128	
Bonus not reimbursed		5,000	
Total		15,234	

[1] For the year 1945 the salaries shown as "Salary not reimbursed" include all salaries charged to fixed price contracts. The only contract performed during 1945 which provided for any substantial reimbursement of costs was a repair contract. The other contracts were fixed price under which costs were not reimbursable. The volume of work under the fixed-price contracts was much greater than that under the repair contract, consequently only a small portion of officers and employees' salaries was charged to the repair contract.

Question 5. The names of all persons, associations, or corporations holding 5 percent or more of the capital stock of your company giving the amounts of capital stock held by each.

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Answer 5. Stockholders holding 5 percent or more of capital stock as at November 30, 1945:

	Shares	Percent
W. A. Bechtel Co	1,375	30.56
Bechtel McCone Corp	1,375	30.56
MacDonald & Kahn, Inc	375	8.33
Morrison-Knudsen Co., Inc	375	8.33
Raymond Concrete Pile Co	250	5.56
J. H. Pomeroy & Co., Inc	250	5.55
K. K. Bechtel	500	11.11
Total outstanding capital stock	4,500	100.00

Question 6. The shipbuilding experience prior to 1941 of all officers, directors, and stockholders holding over 5 percent of your capital stock.

Answer 6. *General.*—Prior to 1941 various stockholders of the corporation were participants in several shipbuilding corporations then existing. This participation started with Seattle-Tacoma Shipbuilding Corp. in 1939, and extended to the Todd-California Shipbuilding Corp. and the Todd-Bath Iron Shipbuilding Corp. in 1940, the latter two having contracts with the British Purchasing Commission.

Several of the stockholders (W. A. Bechtel Co., MacDonald & Kahn, Inc., and Morrison-Knudsen Co., Inc.) took a prominent part in the building of Boulder Dam and powerhouses which contained a great many of the elements that make up a vessel such as steel fabrication, assembly, and erection, piping fabrication and installation, electrical installation, and machinery installation. Boulder Dam was just one of many such lrage projects built individually or in combination by these stockholders.

MacDonald & Kahn, Inc.—MacDonald & Kahn, Inc., had extensive experience in the design, planning, organizing, engineering, and erection of large office and industrial buildings on the west coast.

Felix Kahn, president of MacDonald & Kahn, Inc., was general manager of the San Francisco Shipbuilding Co. during World War I where he was in charge of designing and building a shipyard at Government Island on the estauary at Oakland, Calif., and building 7,000-ton concrete tanker ships for the Emergency Fleet Corporation. Also under his supervision the first self-propelled concrete ship *Faith* was designed and built.

Bechtel-McCone Corp.—Bechtel-McCone Corp. was experienced in the planning, organizing, engineering, execution, and erection of many of the west coast's largest oil refineries and other industrial projects of large magnitude and varied nature.

While John A. McCone was executive vice president and general manager of the Consolidated Steel Corp., he had extensive experience over a period of years in steel fabrication, in steel erection and building machinery. Consolidated Steel Corp. was one of the largest fabricators and erectors of steel machinery in the United States.

Bechtel-McCone Corp., with the aid of personnel from the W. A. Bechtel Co., engineered and constructed shipyards and facilities at Orange, Tex., for the Consolidated Steel Corp.

Raymond Concrete Pile Co.—Raymond Concrete Pile Co. was experienced in planning, organizing, engineering, design, and costruction of shipyards and shipways for the Navy, United States Maritime Commission, private shipbuilders, and shipping operators.

W. A. Bechtel Co.—This company and its organization were experienced for many years in planning, procurement of materials, and execution in practically all kinds of private and public projects of all types.

J. H. Pomeroy & Co., Inc.—J. H. Pomeroy & Co., Inc., have been noted for many years on the west coast for their abilities in steel assembly and erection.

Mr. J. H. Pomeroy, president of the J. H. Pomeroy & Co., Inc., during World War I was general superintendent of construction for the Grant Smith Co. at Portland, Oreg., where he was in charge of building marine ways and other general shipyard construction, including pile driving and marine diving. During this period this company built 42 ships of the Huff type. Work was done for the Emergency Fleet Corporation.

Morrison-Knudsen Co., Inc.—Morrison-Knudsen Co., Inc., has operated for many years and very extensively in public and private engineering and construction field. Its organization was thoroughly experienced in the organizing and

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handling of large quantities of men, materials, and equipment required in these projects.

K. K. Bechtel.—K. K. Bechtel had been associated with construction projects and engaged in construction activities for about 20 years. For 15 years of that time he had been acting in an executive capacity.

Admiral Land and Admiral Vickery called upon this group to build and operate a shipyard because they knew of the experience and capacity of the group in planning, organizing, administering, and executing large projects.

Question 7. The names of all officers, directors, or stockholders owning more than 5 percent of the capital stock of your company, who have held positions as officers or directors of another company which had contracts with the Maritime Commission or the War Shipping Administration.

Answer 7. The only officer, director, or stockholder owning more than 5 percent of the capital stock of Marinship Corp. who held position as officer or director of another company which had contracts with the Maritime Commission or the War Shipping Adminstration was K. K. Bechtel.

Question 8. The names of all officers, directors, or stockholders owning more than 5 percent of the capital stock of your company who have owned 5 percent or more of the capital stock of another company which had contracts with the Maritime Commission or the War Shipping Administration.

Answer 8. The following officers, directors, or stockholders owning more than 5 percent of the capital stock of Marinship Corp. have owned 5 percent or more of the capital stock of another company which had contracts with the Maritime Commission or the War Shipping Administration: W. A. Bechtel Co., Bechtel-McCone Corp., Morrison-Knudsen Co., Inc., MacDonald & Kahn, Inc., K. K. Bechtel.

Question 9. A description of all contracts between your company and the Maritime Commission giving:

(*a*) The serial number of each contract.

(*b*) The type of contracts (i. e., whether cost plus, lump sum, or price minus).

(*c*) The number and type of ships covered by each contract.

(*d*) The number of ships constructed and delivered under each contract.

(*e*) The total amounts paid by the Maritime Commission under each contract. (If final settlement has not been reached, please give status of negotiations, the amounts in dispute, and the amounts already paid.)

(*f*) The maximum fee payable under each contract.

(*g*) The minimum fee payable under each contract.

(*h*) The actual fee paid under each contract. (If final settlement of fees has not been reached, please give details as to amounts paid, amounts in dispute, etc.).

(*i*) The profits received on each lump-sum contract.

(*j*) The total of all fees and profits received by your company under contracts with the Maritime Commission.

Answer 9.

I. (*a*) Contract MCc 8164, dated October 9, 1942, plus addenda Nos. 1, 2, and 3 dated December 15, 1942, July 20, 1943, and September 30, 1943, respectively.

(*b*) Price minus.

(*c*) Twenty-two T2-SE-A2 10,000 horsepower merchant tankers, of which nine were converted to Navy-type AO oilers.

(*d*) Twenty-two ships constructed and delivered.

(*e*) The total contract price is $94,752,700 in accordance with article 6 (d) of the contract. Materials and equipment acquired from the Commission are fixed at $29,865,297 in accordance with article 16 of the contract. The balance of $64,887,403 has been paid. The contractor claims an additional amount of $3,835 not received, of which $3,296 is in dispute and $539 is unbilled. Final setlement in process.

(*f*) Maximum fee payable $140,000 per ship.

(*g*) Minimum fee payable $60,000 per ship.

(*h*) Actual fee paid was $60,000 per ship or a total of $1,320,000.

(*i*) See exhibit A.

(*j*) See exhibit A.

II. (*a*) Contract MCc 17032, dated June 10, 1943, plus addenda Nos. 1 and 2, dated September 30, 1943, and March 1, 1945, respectively.

(*b*) Originally price minus but converted to lump sum by addendum No. 2.

(*c*) Eighteen T2-SE-A2 10,000-horsepower merchant tankers, of which 6 were converted to Navy-type AO oilers.

(*d*) Eighteen ships constructed and delivered.

(*e*) The total contract price is $68,115,407 as established under various articles of the contract and subsequent changes in scope of work performed. Materials

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and equipment acquired from the Commission are fixed at $24,969,800 in accordance with article 16 of the contract. The balance of $43,145,607 has been paid with the exception of $1,333,607 which was retained as a percentage by the Commission, and of the amount paid $273,850 is of this date indicated as subject to recapture. Final settlement in process.

(*f*) Maximum fee payable is $100,000 per ship on T2–SE–A2 tankers and $160,000 per ship on Navy-type AO oilers.

(*g*) Minimum fee payable is $40,000 per ship on T2–SE–A2 tankers and $70,000 per ship on Navy-type AO oilers.

(*h*) As of March 1, 1945, the Commission and the contractor agreed on a total allowable profit of $2,098,920, with the contractor agreeing that the Commission could recapture all profits earned under the contract in excess of such amount.

(*i*) See exhibit A.

(*j*) See exhibit A.

III. (*a*) Contract MCc 17033, dated June 10, 1943, plus addendum No. 1, dated September 30, 1943. Originally a price-minus contract for construction and delivery of 24 T2–SE–A1 6,000-horsepower merchant tankers. This contract later incorporated into contract MCc 33546 mentioned below.

IV. (*a*) Contract MCc 26947 dated March 28, 1944, plus addendum No. 1, dated December 21, 1944.

(*b*) Cost with no fee.

(*c*) An agreement providing for operation and maintenance of a tugboat.

(*d*) None.

(*e*) None.

(*f*) None.

(*g*) None.

(*h*) None.

V. (*a*) Contract MCc 30127, dated June 8, 1944. Originally a price-minus contract for construction and delivery of eight T2–SE–A1 6,000-horsepower merchant tankers. This contract later incorporated into contract MCc 33546 mentioned below.

VI. (*a*) Contract MCc 33546, dated March 1, 1945, plus addendum No. 1, dated October 2, 1945.

(*b*) Fixed price.

(*c*) Forty-one T2–SE–A1 6,000-horsepower merchant tankers and four Navy-type AO oilers of 10,000 horsepower.

(*d*) Thirty-eight ships constructed and delivered plus partial completion of two more. Of those ships delivered 34 were 6,000-horsepower T2–SE–A1 merchant tankers, 1 was a Navy-type AO oiler of 10,000 horsepower, and 3 were 10,000-horsepower Navy-type AO oilers converted to merchant tankers.

(*e*) The total contract price is $116,900,000 in accordance with addendum No. 1 to the contract. Materials and equipment acquired from the Commission are fixed at $51,050,200 in accordance with article 4 of the contract. The balance of $65,849,800 paid includes $407,928 in dispute and on appeal and $2,862,730 indicated as of this date as subject to recapture. Final settlement in process.

(*f*) Maximum profit which could be earned was originally $8,800,000, which was subsequently reduced to $7,552,920 due to outright cancellation of five vessels and only partial completion of two other vessels.

(*g*) No minimum profit accrued. Whether a profit was earned or a loss suffered depended entirely on contractor's performance as this is a fixed-price contract.

(*h*) Profit earned for purpose of recapture was $7,552,920, which was further reduced by $178,163.21 of additional costs and $4,654,160.71 for taxes, leaving a net profit of $2,720,596.08.

(*i*) See exhibit A.

(*j*) See exhibit A.

VII. (*a*) Contract MCc 36334, dated March 1, 1945.

(*b*) Cost with no fee.

(*c*) An agreement making provision for the disposition of the vessel property.

(*d*) None.

(*e*) None.

(*f*) None.

(*g*) None.

(*h*) None.

VIII. (*a*) Contract MCc 40037, dated June 22, 1945.

(*b*) Cost plus a sliding scale of fees.

(*c*) An agreement providing for use of facilities for repair of vessels and compensation for repair work performed.

(*d*) No ships constructed and delivered but 20 ships repaired and delivered.

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(*e*) $790,046.16 received to date and $235.23 billed but not yet received. Final settlement in process.

(*f*) Fees determined by a sliding scale computed against estimated cost of repair work. Maximum fee per vessel subject to negotiation if estimated cost of repairs is more than $1,000,000.

(*g*) Minimum fee is zero on each vessel when estimated cost of repairs is less than $5,000.

(*h*) Actual fees paid amounted to $42,215.

IX. (*a*) Contract MCc 40310, dated September 18, 1945.

(*b*) An agreement to make provision for fair compensation to the contractor on account of the work performed by it under the letter of intent dated July 25, 1945.

(*c*) Letter of intent covered construction of 12 caissons for the Dagwood project.

(*d*) None.

(*e*) $11,431.52 received to date in final settlement of this contract.

(*f*) Not mentioned.

(*g*) Not mentioned.

(*h*) Actual fee paid was $647.07.

(*i*) See exhibit A.

(*j*) See exhibit A.

X. (*a*) Contract MCc 40683, dated December 13, 1945.

(*b*) Cost plus a fixed fee.

(*c*) An agreement providing for conditioning of T2 tankers for temporary lay-up and for the protection and the maintenance of the same during such lay-up at the shipyard; also provides for work performed and to be performed in laying up, preserving, and maintaining the shipyard, the handling, storage, and shipment of surplus materials and equipment; and to complete the final accounting under all contracts previously entered into between the parties in connection with the shipyard or work performed.

(*d*) Four vessels were conditioned for temporary lay-up and/or maintained.

(*e*) $33,474.94 received to date; $339,771.98 is billed but not received, of which $19,955.04 is in dispute. Final settlement in process.

(*f*) Maximum fee payable is $10,750 plus $1,000 per month for each month work was performed after April 30, 1946.

(*g*) Minimum fee payable is $10,750.

(*h*) No fees actually received to date.

(*i*) See exhibit A.

(*j*) See exhibit A.

Question 10. The fees and profits under each of the afore-mentioned contracts allowed after renegotiation.

Answer 10. On contract MCc 8164 the gross amount of allowed fee was $1,320,000 which resulted in a net profit of $496,522.45 after deduction of contractor's additional costs and taxes.

On contract MCc 17032 the gross amount of allowed profit was $2,098,920 which resulted in a net profit of $655,633.14 after deduction of contractor's additional costs and taxes.

Renegotiation has not been completed on any other contracts between the Maritime Commission and Marinship Corp.

Question 11. The status of each contract still subject to renegotiation, giving wherever possible, information showing the opinion of the Price Adjustment Board and of your company as to the fees and profits permissible under each contract.

Answer 11. Meetings with the Price Adjustment Board have been scheduled as follows: October 1, 1946, for fiscal year ending April 30, 1946; October 15, 1946, for fiscal year ending April 30, 1945. We have been advised by the Price Adjustment Board, United States Maritime Commission, that they have found no excess profits earned on contracts MCc 8164 and MCc 17032 and they have requested that the War Contracts Price Adjustment Board cancel the assignment of such contracts. Opinion of the Price Adjustment Board regarding permissible fees and profits under other contracts is not known. The opinion of the corporation is that no part of the fees and profits received and due on each contract are excessive and all are permissible.

Question 12. The total cost to the Government of the shipyards and facilities used by your company.

Answer 12. $16,404,257.24.

93486—46——33

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Exhibit A

MARINSHIP CORP., SAUSALITO, CALIF.

A description of contracts between Marinship Corp., and the Maritime Commission

[Figures shown are as of May 1, 1946]

(a) The serial number of each contract	MCc 8164	MCc 17032	MCc 33546	MCc 40037	MCc 40310	MCc 40683	
(b) Type of contract	Price minus	Lump sum	Fixed price	Cost plus variable fee	Termination	Cost plus	
(c) The number and type of ships covered by each contract	22 T2-SE-A2 tankers	12 T2-SE-A2 tankers 6 Navy oilers	41 T2-SE-A1 tankers 4 Navy oilers	Repair	12 caissons	Lay-up of yard and ships	Summary
(d) The number of ships constructed and delivered under each contract:							
1. Constructed and delivered	22	18	38				78
2. Repaired				20			20
3. Prepared for temporary lay-up						4	4
(e) The total amounts paid by the Maritime Commission under each contract:							
Total contract price	$94,752,699.92	$68,115,407.34	$116,900,000.00	$790,281.39	$11,431.52	$371,753.07	$280,941,573.24
Cost of performance:							
Cost of matrials furnished by USMC as specified in contract	29,865,296.95	24,969,800.29	51,050,200.00				105,885,297.24
Contractors other accrued costs	63,567,402.97	39,446,525.61	55,821,990.31	748,066.39	10,784.45	360,061.30	159,954,831.03
Total cost of performance	93,432,699.92	64,416,325.90	106,872,190.31	748,066.39	10,784.45	360,061.30	265,840,128.27
Profit for purpose of recapture or determination of contract price	1,320,000.00	3,699,081.44	10,027,809.69	42,215.00	647,07	11,691.77	15,101,444.97
Estimated recapture or retention by USMC		1,600,161.44	2,474,889.69				4,075,051.13
Profit or fees allowable to contractor	1,320,000.00	2,098,920.00	7,552,920.00	42,215.00	647.07	11,691.77	11,026,393.84
Additional contractor's costs not allowed for purpose of recapture or determination of contract costs	242,483.45	141,627.74	178,163.21	6,165.56		75,645.54	644,085.50
Provision for Federal taxes on income	580,994.10	1,301,659.12	4,654,160.71	21,990.00	394.00	[1] 39,624.00	6,519,573.93
Contractor's net profit	496,522.45	655,633.14	2,720,596.08	14,059.44	253.07	[1] 24,329.77	5,862,734.41
Percent net profits to total contract price	*Percent* 0.524	*Percent* 0.963	*Percent* 2.337	*Percent* 1.779	*Percent* 2.214	*Percent* [1] 6.545	*Percent* 1.375

[1] Red figures.

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QUESTIONS AND ANSWERS RELATING TO W. A. BECHTEL CO. (MARIN SHIPBUILDING DIVISION), A JOINT VENTURE, AUGUST 24, 1946

Question 1. The date on which your company was formed, and a copy of its corporate charter.

Answer 1. The contracts were executed by the W. A. Bechtel Co. March 12, 1942, on behalf of a joint venture designated as W. A. Bechtel Co. (Marin Shipbuilding Division) constituted as in anwser to question 2.

Question 2. The total capital of your company, giving a break-down of the types of stock and securities.

Answer 2. (*a*) Joint-venture capital contributions:

W. A. Bechtel Co.	$25,000
J. H. Pomeroy & Co., Inc	5,000
Bechtel-McCone-Parsons Corp	25,000
Bechtel-McCone group	25,000
Morrison-Knudsen Co., Inc	7,500
MacDonald & Kahn, Inc	7,500
Raymond Concrete Pile Co	5,000
	100,000

(*b*) In addition $2,000,000 was made available to the joint venture through bank credit for which the joint venturers were jointly and severally liable.

(*c*) During the period of construction of facilities and the building of ships borrowings against the revolving bank credit reached a maximum of $1,700,000 which was used as additional working capital in performance of work under these contracts in addition to joint-venture capital contributions.

Question 3. The names of all officers and directors, and a statement of their annual compensation.

Answer 3. Not applicable.

Question 4. The names of all officers and employees who have received compensation of over $15,000 per annum, giving the amounts received and the extent to which such payments were reimbursable by the Maritime Commission.

Answer 4. None of the employees received compensation in excess of $15,000 per annum from the joint venture.

Question 5. The names of all persons, associations, or corporations holding 5 percent or more of the capital stock of your company giving the amounts of capital stock held by each.

Answer 5. Not applicable, see question 2.

Question 6. The shipbuilding experience prior to 1941 of all officers, directors, and stockholders holding over 5 percent of your capital stock.

Answer 6. *General.*—Prior to 1941 various of the joint venturers were participants in several shipbuilding corporations then existing. This participation started with Seattle-Tacoma Shipbuilding Corp. in 1939, and extended to the Todd-California Shipbuilding Corp. and the Todd-Bath Iron Shipbuilding Corp. in 1940, the latter two having contracts with the British Purchasing Commission.

Several of the joint venturers (W. A. Bechtel Co., MacDonald & Kahn, Inc., and Morrison-Knudsen Co., Inc.) took a prominent part in the building of Boulder Dam and powerhouses which contained a great many of the elements that make up a vessel such as steel fabrication, assembly and erection, piping fabrication and installation, electrical installation, and machinery installation. Boulder Dam was just one of many such large projects built individually or in combination by these joint venturers.

MacDonald & Kahn, Inc.—MacDonald & Kahn, Inc., had extensive experience in the design, planning, organizing, engineering, and erection of large office and industrial buildings on the west coast.

Felix Kahn, president of MacDonald & Kahn, Inc., was general manager of the San Francisco Shipbuilding Co. during World War I where he was in charge of designing and building a shipyard at Government Island on the estuary at Oakland, Calif., and building 7,000-ton concrete tanker ships for the Emergency Fleet Corporation. Also under his supervision the first self-propelled concrete ship *Faith* was designed and built.

Bechtel-McCone Corp.—Bechtel-McCone Corp. was experienced in the planning, organizing, engineering, execution, and erection of many of the west coast's largest oil refineries and other industrial projects of large magnitude and varied nature.

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While John A. McCone was executive vice president and general manager of the Consolidated Steel Corp., he had extensive experience over a period of years in steel fabrication, in steel erection, and building machinery. Consolidated Steel Corp. was one of the largest fabricators and erectors of steel machinery in the United States.

Bechtel-McCone Corp., with the aid of personnel from the W. A. Bechtel Co., engineered and constructed shipyards and facilities at Orange, Tex., for the Consolidated Steel Corp.

Raymond Concrete Pile Co.—Raymond Concrete Pile Co. was experienced in planning, organizing, engineering, design, and construction of shipyards and shipwalls for the Navy, United States Maritime Commission, private shipbuilders, and shipping operators.

W. A. Bechtel Co.—This company and its organization were experienced for many years in planning and execution in practically all kinds of private and public projects of all types.

J. H. Pomeroy & Co., Inc.—J. H. Pomeroy & Co., Inc., have been noted for many years on the west coast for their abilities in steel assembly and erection.

Mr. J. H. Pomeroy, president of the J. H. Pomeroy & Co., Inc., during World War I was general superintendent of construction for the Grant Smith Co., at Portland, Oreg., where he was in charge of building marine ways and other general shipyard construction, including pile driving and marine diving. During this period this company built 42 ships of the Huff type. Work was done for the Emergency Fleet Corporation.

Morrison-Knudsen Co., Inc.—Morison-Knudsen Co., Inc., has operated for many years and very extensively in public and private engineering and construction fields. Its organization was thoroughly experienced in the organizing and handling of large quantities of men, materials, and equipment required in these projects.

Admiral Land and Admiral Vickery called upon this group to build and operate a shipyard because they knew of the experience and capacity of the group in planning, organizing, administrating, and executing large projects.

Question 7. The names of all officers, directors, or stockholders owning more than 5 percent of the capital stock of your company, who have held positions as officers or directors of another company which had contracts with the Maritime Commission or the War Shipping Administration.

Answer 7. No stock issued.

Question 8. The names of all officers, directors, or stockholders owning more than 5 percent of the capital stock of your company who have owned 5 percent or more of the capital stock of another company which had contracts with the Maritime Commission or the War Shipping Administration.

Answer 8. No stock issued.

Question 9. A description of all contracts between your company and the Maritime Commission giving:

(*a*) The serial number of each contract.

(*b*) The type of contracts (i. e., whether cost-plus, lump sum, or price minus).

(*c*) The number and type of ships covered by each contract.

(*d*) The number of ships constructed and delivered under each contract.

(*e*) The total amounts paid by the Maritime Commission under each contract. (If final settlement has not been reached, please give status of negotiations, the amounts in dispute, and the amounts already paid).

(*f*) The maximum fee payable under each contract.

(*g*) The minimum fee payable under each contract.

(*h*) The actual fee paid under each contract. (If final settlement of fees has not been reached, please give details as to amounts paid, amounts in dispute, etc.).

(*i*) The profits received on each lump-sum contract.

(*j*) The total of all fees and profits received by your company under contracts with the Maritime Commission.

Answer 9.

I. (*a*) Contracts MCc 2473 dated March 12, 1942, plus addendums Nos. 1 and 2 dated January 1, 1943, and August 14, 1943, respectively.

(*b*) Cost without fee.

(*c*) An agreement providing for construction and maintenance of shipyard facilities.

(*d*) None.

(*e*) $16,404,257.24 paid to date. Final settlement in process.

(*f*) No fee.

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(*g*) No fee.
(*h*) No fee.
(*i*) See III.
(*j*) See III.

II. (*a*) Contract MCc 2474 dated March 12, 1942, plus addendum No. 1 dated October 9, 1942.
(*b*) Cost plus a variable fee.
(*c*) Thirty-four EC-2 Liberty ships, revised to 15 EC-2 Liberty ships by addendum No. 1.
(*d*) Fifteen EC-2 Liberty ships constructed and delivered.
(*e*) $33,596,986.67 received to date; $863.13 not received and in dispute. Final settlement in process.
(*f*) Maximum fee payable $140,000 per vessel.
(*g*) Minimum fee payable $60,000 per vessel.
(*h*) Actual fee paid was $60,000 per vessel for the 15 completed vessels.
(*i*) See III.
(*j*) See III.

III. All contracts.
(*i*) There were no lump-sum contracts.
(*j*) Total gross fee received was $900,000 which resulted in a net profit of $771,740.48 after deduction of contractor's additional costs and before taxes.

Question 10. The fees and profits under each of the afore-mentioned contracts allowed after renegotiation.

Answer 10. On Contract MCc 2474 the gross amount of allowed fee was $900,000 which resulted in a net profit of $771,740.48 after deduction of contractor's additional costs and before taxes.

Question II. The status of each contract still subject to renegotiation giving, wherever possible, information showing the opinion of the Price Adjustment Board and of your company as to the fees and profits permissible under each contract.

Answer 11. There are no fees involved or subject to renegotiation on contract MCc 2473. In regard to contract MCc 2474, renegotiation clearance agreement No. MCc 30129, PAB-443, dated June 10, 1944, states that no excessive profits have been received or accrued under this contract.

Question 12. The total cost to the Government of the shipyards and facilities used by your company.

Answer 12. (*a*) Cost $16,404,257.24.
(*b*) These facilities were not constructed for the benefit of this one ship contract only. The facilities were later used by Marinship Corp. for the construction of 78 tankers of several types for the Commission, the repair of vessels for the War Shipping Administration and the Navy, and for other uses pertinent to the defense program.

MARINSHIP CORP.,
Sausalito 1140, October 23, 1946.

Mr. MARVIN J. COLES,
General Counsel, House of Representatives Merchant Marine and Fisheries Investigation Committee,
Washington 25, D. C.

DEAR SIR: In accordance with your telegram of October 10, 1946, we submit the following information:

1. The average amount of outstanding bank loans used in connection with the operations at the shipyard at Sausalito, Calif., was as follows:

Period	*Amount*
May 14 to October 31, 1942	$965,497
Nov. 1, 1942, to Apr. 30, 1943	1,447,790
May 1, 1943, to Apr. 30, 1944	1,200,956
May 1, 1944, to Apr. 30, 1945	1,232,877

As of May 1, 1945, outstanding bank loans totaled $1,300,000. Thereafter, and during the first 6 months of the succeeding fiscal year, shipbuilding operations were brought to a close, and the bank loans, of course, were reduced to zero.

During the period in which operations were carried on as a joint venture, all of the assets of each of the individual joint venturers totaling approximately $20,000,000 were liable for the obligations of the shipbuilding operations.

During the period of operations carried on by Marinship Corp. $500,000 of the bank credit was individually guaranteed by the stockholders.

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2. Amount of bank loans secured by pledge of Government contracts, or guaranteed in whole or in part by the Government—none.

If any further information is desired, kindly advise.

Yours very truly,

MARINSHIP CORP.,
By ROBERT L. BRIDGES, *Treasurer.*

Copies to Messrs. Digges, Bechtel.

EXHIBIT 18

J. A. JONES CONSTRUCTION CO.,
Charlotte 1, N. C., August 20, 1946.

Special delivery.

MERCHANT MARINE AND FISHERIES INVESTIGATING COMMITTEE,
House of Representatives, Washington 25, D. C.

Attention: Mr. Marvin J. Coles, General Counsel.)

DEAR MR. COLES: As requested in your letter of July 27, we attach hereto the information which we have compiled as completely and fully as we know how. If there is any other information you need or that we might be able to get, please call on us for same.

We tried to mail this to you by the time requested, that is, August 15, but had to wait on a certified copy of our corporation charter which is attached hereto.

Trusting this will give you the desired information we are

Sincerely yours,

J. A. JONES CONSTRUCTION CO.,
By EDWIN L. JONES.

1. J. A. Jones Construction Co. was organized in 1894, or 52 years ago. It was incorporated in 1920. Certified copy of charter is attached hereto.

2. Capital of the J. A. Jones Construction Co. as of January 1, 1946:

Common stock (6,000 shares, $100 par)	$600,000.00
Preferred stock (4,000 shares, $100 par)	400,000.00
Surplus	2,301,052.07
Total	3,301,052.07

3. Officers and directors and their annual compensation in 1946:

J. A. Jones, president and director	$50,000
Raymond A. Jones, vice president and director	50,000
Emil J. Kratt, vice president	[1] 24,000
H. V. Appen, vice president	[1] 24,000
Harry W. Loving, vice president	[1] 15,000
J. J. Allinson, vice president	[1] 15,000
John E. Davidson, vice president	[1] 15,000
Edwin L. Jones, secretary and treasurer and director	50,000
John S. Stafford, assistant secretary	[1] 9,000
Paul S. Jones, assistant secretary and director	15,000
F. C. Assenheimer, assistant secretary	7,500
George H. Buchanan, assistant secretary	[1] 9,000

[1] Plus bonus.

4. Officers and employees with compensation over $15,000 per annum and amounts of same reimbursed by Maritime Commission: See attached exhibit A.

	Percent of stock
5. J. A. Jones, president	29.5
Edwin L. Jones, secretary-treasurer	10.58
Raymond A. Jones, vice president	12.78

6. The officers and directors of the J. A. Jones Construction Co. are all seasoned experienced construction men. They have not had any previous shipbuilding experience, but found that shipbuilding was very similar to problems encountered in the construction of large intricate construction jobs. For instance, drafting; procurement; flow of materials; fabrication and erection of steel; installation of plumbing, piping, electric, machinery, joinery, equipment, etc., is no different in shipbuilding than in construction.

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In addition our executives were able to take into the shipyards a large following of construction labor that was quickly trained and adapted to ship construction.

7. None.

8. None.

9. See attached exhibit B.

10. Contracts MCc 2640 and 2567 are the only contracts which have been renegotiated. All other contracts were finished in the year 1945 and 1946, renegotiation of which has not been completed.

The renegotiation of the J. A. Jones Construction Co. contracts is made on an over-all basis. Therefore, the only way we can answer is as follows:

Contract MCc 2640 fee	$1,604,680.00
Contract MCc 2567 fee	900,000.00
Total	2,504,680.00
Balance after pro rata share of overhead expense, renegotiation, income, and excess profits taxes	564,428.95

11. Contracts MCc 15769 and DAMCc 680 are in the process of settlement and have not been closed. Renegotiation has not been started on this contract.

Contract MCc 15770 has been closed with the Maritime Commission, but renegotiation has not been started.

Contracts MCc 34762, 34758, and 29895 have been closed with the Maritime Commission and are not subject to renegotiation.

12. Total cost of shipyard facilities:

Wainwright Yard, Panama City, Fla	$14,906,229.79
Brunswick Shipyard, Brunswick, Ga	12,818,593.37

We want to emphasize the fact that our company was perhaps the last company to be called in on ship construction. As a result, we started shipbuilding at a time when the industry was expanded to the limit, all available trained shipbuilders were busy in other yards. Yet our construction men, building ships, achieved costs and time records comparable to yards started earlier and under better conditions.

For instance, compare our construction curve for time and for costs with other yards on similar ships.

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Exhibit A

(Questions Nos. 3 and 4)

J. A. JONES CONSTRUCTION CO.

	1942		1943		1944		1945		1946	
	Salary	Reimbursed by Maritime Commission	Salary	Reimbursed by Maritime Commission	Salary	Reimbursed by Maritime Commission	Salary	Reimbursed by Maritime Commission	Salary	Reimbursed by Maritime Commission
J. A. Jones, president	$50,000.00	0	$50,000.00	0	$50,000.00	0	$50,000	0	$50,000	0
Raymond A. Jones, vice president	50,000.00	$14,777.92	50,000.00	$20,000.00	50,000.00	$20,000.00	50,000	$20,000	50,000	0
Edwin L. Jones, secretary-treasurer	50,000.00	0	50,000.00	0	50,000.00	0	50,000	0	50,000	0
Emil J. Kratt, vice president	57,386.35	0	39,000.00	18,333.26	39,000.00	20,000.00	50,000	0	[1] 24,000	0
H. V. Appen, vice president	29,399.75	13,100.00	30,000.00	12,550.00	30,000.00	0	0	0	[1] 24,000	0
John E. Davidson, vice president	----------	0	[2] 5,730.55	0	15,000.00	0	16,000	0	[1] 9,000	0
Harry W. Loving, vice president	----------	0	0	0	1,250.00	0	16,000	0	[1] 15,000	0
J. J. Allinson, vice president	----------	0	0	0	0	0	[2] 3,750	0	15,000	0
Paul S. Jones, assistant secretary	15,000.00	0	15,000.00	0	15,000.00	0	15,000	0	15,000	0
John S. Stafford, assistant secretary	----------	0	8,250.00	200.00	8,500.00	0	9,000	0	[1] 6,000	0
John D. Pellett, assistant secretary and assistant manager	14,383.33	0	12,800.00	5,850.00	13,400.00	8,400.00	14,000	9,000	[1] 9,000	0
George H. Buchanan, assistant secretary	9,100.00	0	8,375.00	5,475.00	7,800.00	6,500.00	8,800	7,500	10,000	$3,750
Joe Lindsay, assistant secretary	5,965.00	4,000.00	7,240.00	7,240.00	7,800.00	7,800.00	7,800	0	7,800	0
F. C. Assenheimer, assistant secretary	----------	0	0	0	[2] 1,000.00	1,000.00	7,800	7,800	7,800	3,900
G. N. McIlhenny, superintendent, ship construction	----------	0	18,766.83	9,383.42	11,457.90	[2] 5,728.95	0	0	0	0
Karl French, superintendent, ship construction	7,500.00	6,000.00	0	0	0	0	0	0	0	0
Wm. A. Kennedy, superintendent, ship construction	13,150.00	5,000.00	7,545.97	4,311.97	0	0	0	0	0	0
Gordan T. Granger	----------	----------	----------	----------	----------	----------	3,750	0	15,000	0

[1] Bonus has been paid in future years. None has been included in this amount.
[2] Employed for part of year.

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Exhibit B

(Question No. 9)

J. A. JONES CONSTRUCTION CO.

	Contract No. (a)	Type of contract (b)	Number of ships	Type (c)	Ships delivered (d)	Amount paid by Maritime Commission (e)	Maximum fee (f)	Minimum fee (g)	Fee paid (h)	Profit on lump sum (i)	Total fees and profits (j)
WAINWRIGHT YARD, PANAMA CITY, FLA.											
Contract facilities	MCc 2639	Cost fee	0		0	$14, 906, 229. 79	$2	$2	0	0	0
Contract ships	MCc 2640	Cost plus fixed fee	25	Cargo-EC-2-S-C1	33	56, 293, 264. 09	4, 079, 680	1, 604, 680	$1, 604, 680. 00	0	$1, 604, 680. 00
			8	Tank carriers, Z-EC-2-5-02.							
Do	MCc 15769	do	41	Cargo-EC-2-S-C1	57	56, 880, 950. 83	3, 604, 048	1, 201, 344	1, 201, 344. 00	0	[1] 1, 201, 344. 00
			16	Airplane transports, Z-EC2-S-C5.							
Do	DAMCc 860	do	6	Tankers T1-M-BT2	6	5, 801, 821. 34	360, 000	120, 000	120, 000. 00	0	120, 000. 00
Do	MCc 34762	Selective price	12	Airplane transports, Z-EC2-S-C5.	12	11, 354, 334. 61	1, 344, 000	0	992, 000. 00	0	992, 000. 00
Do	MCc 40035	do	6	Tankers C1-M-AV1	0	0	672, 000	0	0	0	0
Termination contract	MCc 40481	Cost plus percentage.	0	(Termination of contract 40035).	0	273, 657. 61	0	0	0	0	0
Stand-by contract	MCc 40723	Cost plus fixed and overhead (but no profit or fee).	0	(Stand-by contract)	0	601, 835. 85	0	0	0	0	0
Total, Wainwright Yard, ships					108	131, 205, 864. 33	10, 059, 728	2, 926, 024	3, 918, 024. 00	0	3, 918, 024. 00
BRUNSWICK SHIPYARD, BRUNSWICK, GA.											
Contract facilities	MCc 2566	Cost				12, 818, 593. 37	0	0	0	0	0
Contract ships	MCc 2567	Cost plus fixed fee	30	Cargo EC-2-S-C1	30	51, 269, 336. 40	4, 200, 000	900, 000	900, 000. 00	0	900, 000. 00
Do	MCc 15770	do	55	do	55	52, 461, 518. 15	3, 300, 000	1, 100, 000	2, 375, 601. 17	0	2, 375, 601. 17
Do	MCc 29895	Selective price	12	Cargo C1-M-AV1	12	11, 431, 720. 54	1, 100, 000	0	725, 000. 00	0	725, 000. 00
Do	MCc 34758	do	14	do	3	4, 125, 837. 01	1, 400, 000	0	375, 000. 00	0	375, 000. 00
Contract stand-by	MCc 40729	Cost plus fixed overhead (but no profit or fee).	0	Stand-by		[2] 620, 000. 00					
Total					100						

[1] Employed for part of year.

[2] Approximate.

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EXHIBIT 19

DELTA SHIPBUILDING CO.,
Cleveland, Ohio, August 20, 1946.

MARVIN J. COLES,
General Counsel, Merchant Marine and Fisheries Investigating Committee,
Washington 25, D. C.

DEAR SIR: In reply to your questionnaire of July 26, 1946, receipt of which has been previously acknowledged, we submit the following:

HISTORICAL

In December 1940 Commissioner Vickery asked the American Ship Building Co. to send its representatives to Washington to discuss the possible participation of the company in the then-projected program of the United States Maritime Commission to build 200 Liberty ships.

The writer and Mr. M. E. Farr, a director and former president of the company, met with Admirals Land and Vickery on December 30, 1940, at which time they explained the Commission's plan to utilize the organizations of some of the old-established shipbuilding companies for the building of a number of new shipyards in which the 200 Liberty ships were to be constructed. They stated that Bethlehem Steel Corp., Newport News Shipbuilding & Dry Dock Co., Todd Shipyards, Inc., and Alabama Dry Dock & Shipbuilding Co. had tentatively agreed to participate and that several sites had already been selected. They urged the American Ship Building Co. to join in the program and to build a new shipyard for the Commission either in Houston, Tex., New Orleans, La., or some other suitable southern city.

The company's representatives explained that the company operated two shipconstruction yards and five repair yards on the Great Lakes; that it was already engaged in the construction of small vessels for the Navy; and that it believed that because of its comparatively small organization it should concentrate its efforts on the Great Lakes. Admiral Vickery stressed the Commission's desire to use the shipbuilding experience of existing organizations and pointed out that the Commission had been negotiating with a newly organized shipbuilding company, Louisiana Shipyards, Inc., in New Orleans, but that there was little shipbuilding talent connected with that company and that the Commission was unwilling to go ahead with them until such talent was provided. He suggested that the American Ship Building Co. might be willing to join with Louisiana Shipyards, Inc., in the shipbuilding program and asked that we discuss the matter with their officers.

Accordingly, representatives of the American Ship Building Co. immediately inspected the proposed sites in Houston and New Orleans and also sites in Savannah, Ga., and Brunswick, Ga. Discussions were had with representatives of Louisiana Shipyards, Inc., in New Orleans, and it developed that they had made tentative arrangements with a New York contracting firm to join with Louisiana Shipyards, Inc., in the shipbuilding enterprise. After serious consideration we then advised the Maritime Commission that we believed we could contribute more to the war effort by utilizing our facilities and organization on the Great Lakes but that if the Commission were insistent that we participate in the Liberty ship program we were financially able and willing to undertake the project alone and did not care to join with others. At this point negotiations with the Commission were dropped.

On January 15, 1941, Admiral Land called the writer to his office and stated that he was informed that the New York contracting firm had withdrawn from its planned participation with Louisiana Shipyards, Inc., and asked that we reconsider the matter. We were then engaged in discussions with the Navy Department concerning the building of a number of naval vessels in our Great Lakes yards. We thought it desirable to consult with the Secretary of the Navy as to the Navy's plans and requirements for the building of naval craft on the Great Lakes. A conference was held with the Secretary on January 23, 1941, and he advised that it was most important that we participate in the Liberty ship program and that the Navy Department would not impose an unduly large program on our Great Lakes yards should we do so. Our board of directors was still reluctant to join with any other company, but on January 30, 1941, Mr.

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Knudsen, then Chairman of the Office of Production Management, personally requested and even insisted that we go into New Orleans to build ships. We then agreed to go ahead on condition that a satisfactory agreement could be reached with Louisiana Shipyards, Inc.

After considerable negotiation between Louisiana Shipyards, Inc., the Maritime Commission, and ourselves, it was agreed that Louisiana Shipyards, Inc., would provide cash capital of $750,000 and additional credit of $250,000 and would enter into a facilities contract with the Maritime Commission to build for it a 6-way shipyard in New Orleans and would waive its rights to build ships therein. The American Ship Building Co. agreed to organize a wholly owned subsidiary, Delta Shipbuilding Co., Inc., having paid-in cash capital of $750,000, which company would enter into a contract with the Maritime Commission for the building of 25 Liberty ships in the shipyard. It was further agreed that Delta was to make the general yard lay-out and specify the buildings and equipment required but had no further responsibility for the building of the yard; also that Louisiana would use its capital for the construction of the shipyard and that upon completion of the yard it would make its capital and credit available to Delta for the construction of ships.

For these and other considerations, Delta agreed to pay to Louisiana approximately 36 percent of the fees earned in the construction of the 25 ships. This percentage applied also to contract DA–MCc No. 735 but was reduced to 20 percent on all subsequent ship-construction contracts. All of these arrangements were approved in writing by the Maritime Commission.

Louisiana signed its facilities contract with the Commission on February 12, 1941, and Delta its ship-construction contract on April 1, 1941. Actual work of building the shipyard started on April 8, 1941.

Delta's ship construction program, which started with contract DA–MCc No. 734 for 25 vessels, was augmented by adding contract DA–MCc No. 735, for 8 vessels; DA–MCc No. 736, for 28 vessels; DA–MCc No. 8384, for 15 vessels; DA–MCc No. 13098, for 20 vessels; and DA–MCc No. 16494 for 92 vessels, making a total of 188, all of which were delivered by October 13, 1945.

Answer to question 1: Feb. 15, 1941. Copy of charter attached.

Answer to question 2: 7,500 shares of common stock of $100 each, $750,000.

Answers to questions 3 and 4:

Directors

W. H. Gerhauser, since March 18, 1941.
E. P. Farley, since March 18, 1941.
G. W. Cottrell, since June 18, 1941.
John Sherwin, since February 15, 1944.
J. W. Powell, since October 11, 1944.
R. C. Norton, since November 27, 1955.
Charles Follett, from March 18, to April 8, 1941.
Peter Reed, from March 18 to June 12, 1941.
H. P. Isham, from March 18, 1941, to February 15, 1944.
N. O. Pedrick, from April 8, 1941, to December 10, 1942.
Theodore Brent, from February 11, 1943, to November 27, 1945.

Officers

W. H. Gerhauser, president since March 18, 1941. Salary at $18,000 per annum to October 31, 1945. The Maritime Commission reimbursed salary at $12,500 per annum to October 31, 1945.

R. B. Ackerman, vice president and treasurer since March 18, 1941. Salary at $18,000 per annum to June 30, 1943; at $24,000 per annum from July 1, 1943, to October 31, 1945. The Maritime Commission reimbursed salary at $18,000 per annum to October 31, 1945.

E. B. Williams, vice president in charge of engineering, from March 18, 1941, to October 11, 1945. Salary at $12,500 per annum to June 30, 1943, and at $17,000 per annum to October 31, 1945. The Maritime Commission reimbursed salary at $12,500 per annum to October 31, 1945.

J. E. Steinman, vice president, consultant on operating matters, from April 8, 1941, to October 11, 1945. Salary at $10,000 per annum to June 30, 1945, which the Maritime Commission reimbursed to August 31, 1943.

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J. M. Dalzell, vice president in charge of operations from July 1, 1944, to October 11, 1945. Salary at $10,000 per annum to June 30, 1943, and at $16,000 per annum to October 31, 1945. The Maritime Commission reimbursed salary at $10,000 per annum to October 31, 1945.

W. A. Rowe, comptroller and assistant secretary, from June 18, 1941, to July 31, 1946. Salary at $7,500 per annum to December 31, 1941; at $8,400 per annum to June 30, 1943; and at $12,500 per annum from July 1, 1943, to July 31, 1946. The Maritime Commission reimbursed salary at $7,500 per annum to December 31, 1941, and at $8,400 per annum from January 1, 1942, to October 31, 1945.

G. W. Cottrell, general counsel since March 18, 1941. His firm, McKeehan, Merrick, Arter & Stewart and George William Cottrell, has been and is being paid an annual retainer fee of $5,000. Such fee, plus charges for additional services as have been necessitated by the several contracts, have been reimbursed by the Maritime Commission.

Peter Reed, secretary since March 18, 1941, has served without compensation as such. He is a member of the firm of McKeehan, Merrick, Arter & Stewart and George William Cottrell.

G. C. Sheidler, assistant treasurer and assistant secretary since March 18, 1941, has served without compensation. He is secretary and assistant treasurer of the American Ship Building Co. (parent).

Answer to question 5: A wholly owned subsidiary of the American Ship Building Co., Cleveland, Ohio.

Answer to question 6: The American Ship Building Co. was organized March 17, 1899. It came into being by reason of a consolidation of experienced shipbuilding and ship repair companies on the Great Lakes and has carried on as shipbuilders and repairers since that time.

Top management and administrative personnel of Delta were furnished out of the organization of the American Ship Building Co. and consisted of individuals who (except for accounting officers), for the most part, had been directly engaged in the shipbuilding business most of their business careers.

Answer to question 7: None.

Answer to question 8: See attached.

Answer to question 9: Contracts:

DA-MCc No. 734	$1,889,270
DA-MCc No. 735	640.920
DA-MCc No. 736	1,630,300
DA-MCc No. 8384	1,161,950
DA-MCc No. 13098	1,599,000
DA-MCc No. 16494	2,677,000
Total	9,598,440

Answer to question 10. All of the ship-construction contracts have been renegotiated and settled by final contracts, with the result indicated in the answer to No. 9.

Answer to question 11:

Cost of facilities furnished by Louisiana Shipyards, Inc., under contracts Nos. MCc-ESP-7 and MCc-ESP-601 and addendums thereto, as per audit report of C. W. Iiams, resident auditor, U. S. Maritime Commission, dated Nov. 11, 1944	$10,912,927.52
Cost of facilities furnished by Delta Shipbuilding Co. under contract No. MCc-8383	1,834,897.18
Total	12,747,824.70

Respectfully submitted.

DELTA SHIPBUILDING COMPANY, INC.,
By W. M. GERHAUSER, *President*.

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(Answer to question 8)

Ship construction contracts

	Total	DA-MCc No. 734 Cost plus variable fee 25 EC2-S-C1	DA-MCc No. 735 Cost plus variable fee 8-EC2-S-C1	DA-MCc No. 736 Cost plus variable fee 28-EC2-S-C1	DA-MCc No. 8384 Cost plus variable fee 2 EC2-S-C1 13 Z-ET1-S-C3	DA-MCc No. 13098 Cost plus variable fee 1 EC2-S-C1 19 Z-ET1-S-C3	DA-MCc No. 16494 [1] Cost plus variable fee 68 EC2-S-C1 24 EC2-S-AW1
(a)							
(b)							
(c)							
(d)	188	25	8	28	15	20	92
(e)	$207,883,928.20 9,598,440.00	Reimbursed cost $31,753,697.38 Amount of fee 1,889,270.00	Reimbursed cost $9,203,955.77 Amount of fee 640,920.00	Reimbursed cost $27,343,129.40 Amount of fee 1,630,300.00	Reimbursed cost $19,662,792.13 Amount of fee 1,161,950.00	Reimbursed cost $22,879,117.79 Amount of fee 1,599,000.00	Reimbursed cost $97,041,235.73 Amount of fee 2,677,000.00
	217,482,368.20	33,642,967.38	9,844,875.77	28,973,429.40	20,824,742.13	24,478,117.79	99,718,235.73
(f)	16,697,654.00	16 at $140,000 2,240,000.00 9 at $120,000 1,080,000.00 3,320,000.00	8 at $120,000 960,000.00 960,000.00	28 at $120,000 3,360,000.00 3,360,000.00	2 at $120,000 240,000.00 13 at $139,003 1,807,039.00 2,047,039.00	1 at $70,000 70,000.00 19 at $81,085 1,540,615.00 1,610,615.00	68 at $60,000 4,080,000.00 24 at $55,000 1,320,000.00 5,400,000.00
(g)	7,433,184.00	16 at $60,000 960,000.00 9 at $50,000 450,000.00 1,410,000.00	8 at $50,000 400,000.00 400,000.00	28 at $50,000 1,400,000.00 1,400,000.00	2 at $50,000 100,000.00 13 at $57,918 752,934.00 852,934.00	1 at $30,000 30,000.00 19 at $34,750 660,250.00 690,250.00	68 at $20,000 1,360,000.00 24 at $55,000 1,320,000.00 2,680,000.00
(h) Fees earned	12,171,811.00	2,062,100.00	835,774.00	3,360,000.00	1,626,322.00	1,610,615.00	2,677,000.00
(i) No lump-sum contracts.							
(j)	9,598,440.00	1,889,270.00	640,920.00	1,630,300.00	1,161,950.00	1,599,000.00	2,677,000.00
Note.—Fees eliminated by renegotiation	2,573,371.00	172,830.00	194,854.00	1,729,700.00	464,372.00	11,615.00	

In Jan. 13, 1944, the company was directed by the U. S. Maritime Commission to prepare a new design, all working drawings and bills of material for the construction of so-called Liberty colliers (EC2-S-AW1) and thereafter addendum No. 1 to contract No. 16494 was entered into. Contract No. 16494 covered the construction of 92 Liberty cargo ships (EC2) and addendum No. 1 provided that 24 Liberty colliers (EC2-S-AW1) were to be substituted for the last 24 Liberty cargo vessels called for by that contract. A flat fee of $55,000 per collier was provided for. All of these colliers were built and delivered to the Maritime Commission. The company expanded its engineering and drafting departments to accomplish the collier design work which consisted of a complete new design and involved as much work as the development of the original Liberty cargo ship plans (EC2) prepared by Gibbs & Cox. The cost of designing and preparing the collier plans was approximately $420,000, all of which has been reimbursed to the company, but the company did not ask for nor receive any fee for performing this unusual task.

FACILITIES—CONTRACT NO. MCc-8383

This contract was entered into with the U. S. Maritime Commission Sept. 22, 1942. Its purpose was to have the shipbuilder (Delta) procure and install, without profit, all shipyard facilities from that date forward. Previous to Sept. 22, 1942, all shipyard facilities were procured and installed by Louisiana Shipyards, Inc., under contracts between that company and the Maritime Commission Nos. MCc-ESP-7 and MCc-ESP-601, dated Feb. 12, 1941, and Sept. 2, 1941, respectively.

ENGINEERING—CONTRACT NO. MCc-16996

On Dec. 24, 1942, the Maritime Commission directed Delta to alter contracts MCc Nos. 8384 and 13098 by substituting the construction of 13 oil tankers under the former and 19 under the latter, for an equal number of Liberty ships. The directive provided also that Delta design and do all engineering work required to build such tankers. Pursuant to this instruction, Delta entered into a separate contract, identified as MCc No. 16996, under date of June 19, 1943, under the terms of which Delta agreed to do all of the design work, necessary engineering, and the development of working plans and bills of materials for the tankers. Under this contract, Delta was to be reimbursed only for its costs. The contract did not provide for, nor did Delta receive, any profit or compensation under this contract other than its reimbursed cost. The work involved was substantially equivalent to the design of a new ship and, under direction from the Maritime Commission, Delta made all of this work available to California Shipbuilding Co., which in turn built 30 more tankers from the design and drawings so furnished.

MAINTENANCE AND PRESERVATION—CONTRACT NO. MCc-40631

This contract was entered into with the U. S. Maritime Commission on Sept. 28, 1945, and provided for the maintenance and preservation of materials and facilities beginning Nov. 1, 1945, and ending Apr. 30, 1946. It provided also that Delta would furnish such other services as the Maritime Commission might require. Thereafter, Delta placed the entire yard in stand-by condition, prepared an inventory of both materials and facilities, and declared as surplus the greater part thereof. It also shipped and otherwise disposed of, on appropriate property removal notices, a very large amount of the material and facilities so declared, all pursuant to Commission directives. For these services, Delta was reimbursed its costs, other than administrative costs, in the amount of $632,720.41 without any profit or other compensation to Delta. In addition, Delta was paid a flat allowance of $35,000 in lieu of administrative costs, of which amount Delta expended $22,982.42, leaving an indicated profit (but subject to reduction by reason of subsequent costs) of $12,017.58.

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EXHIBIT 20

WALSH-KAISER COMPANY, INC.

SHIPBUILDING DIVISION

1 Washington Avenue, Providence, R. I.

NEW YORK 17, N. Y., *September 5, 1946.*

MR. MARVIN J. COLES,
General Counsel, Merchant Marine and Fisheries Investigating Committee,
House of Representatives, United States,
House Office Building, Room 228, Washington 25, D. C.

DEAR SIR: In response to your letter of August 26, 1946, and the previous questionnaire letter dated July 27, 1946, we report as follows:

From your letter we understand that our report is made pursuant to House Resolution 38, Seventy-ninth Congress, in accordance with which the Committee on the Merchant Marine and Fisheries is undertaking an investigation of wartime profits made by shipyards under contracts with the Maritime Commission. The Walsh-Kaiser Co., Inc., operated the United States Maritime Commission shipyard at Providence, R. I., from February 28, 1943, to June 30, 1946, including a period of maintenance during the year 1946 after completion of all ships construction.

1. The date on which your company was formed and a copy of its corporate charter.

Answer: Walsh-Kaiser Co., Inc., was organized under the laws of the State of Delaware on February 19, 1943. Copy of corporate charter enclosed. (Parent company, Associated Contractors, Inc., was organized under the laws of the State of Delaware on July 21, 1938.)

2. The total capital of your company, giving a break-down of the types of stock and securities.

Answer: Capital stock—3,000 shares common stock at $100, $300,000. In addition to paid-in capital stock, Walsh-Kaiser Co., Inc., borrowed up to $3,000,000 from private banking institutions supported by stockholders' agreements to reimburse. No United States Government loans were used in financing.

3. The names of all officers and directors and a statement of their annual compensation.

Answer:

Walsh-Kaiser Co., Inc.

	Annual compensation
Officers:	
President: T. J. Walsh	None
Vice president: Henry J. Kaiser	None
Vice president: Edgar Kaiser	None
Vice president and assistant secretary: W. A. Durkin	None
Vice president and general manager: J. S. Macdonald, per year	$18,000
Vice president: H. W. Morrison	None
Secretary and treasurer: F. B. Smith	None
Assistant secretary and administrative manager: C. H. MacLeod, per year	12,000
Assistant secretary: J. F. Reis	None
Assistant secretary and assistant treasurer: G. G. Sherwood	None
Directors:	
T. J. Walsh	None
Henry J. Kaiser	None
Edgar Kaiser	None
W. A. Durkin	None
J. S. Macdonald	None
H. W. Morrison	None

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Associated Contractors, Inc.

Officers:
President: T. J. Walsh.
Vice president: Henry J. Kaiser.
Vice president: W. A. Durkin.
Vice president: J. H. Gill.
Vice president: J. S. Macdonald.
Secretary: F. B. Smith.
Treasurer: E. P. Walsh.
Assistant treasurer: F. B. Smith.

Directors:
T. J. Walsh.
W. A. Durkin.
T. M. Price.
(Vacancy.)

4. The names of all officers and employees who have received compensation of over $15,000 per annum, giving the amounts received and the extent to which such payments were reimbursable by the Maritime Commission.

Answer: J. S. Macdonald, as general manager for full-time service at the yard, $18,000 per year, reimbursable by the Maritime Commission, plus a bonus of $2,000 paid by the company for the year 1944.

5. The names of all persons, associations, or corporations holding 5 percent or more of the capital stock of your company, giving the amounts of capital stock held by each.

Walsh-Kaiser Co., Inc.

	Percent
All stock owned by Associated Contractors, Inc., 1 East 43d St., New York	100
Walsh Construction Co	35
J. H. Gill, vice president of Walsh Construction Co. (J. H. Gill, personal, 1.154 percent, wife, 3.846 percent)	5
J. S. Macdonald, vice president of Walsh Construction Co. (J. S. Macdonald, personal, 1.154 percent, wife, 3.846 percent)	5
F. B. Smith, treasurer of Walsh Construction Co. (F. B. Smith, personal, 1.154 percent, wife, 3.846 percent)	5
	50
Henry J. Kaiser	20
The Kaiser Co	10
California Kaiser Co. (Kaiser Engineers, Inc.)	10
Morrison-Knudsen Co., Inc	10

6. The shipbuilding experience prior to 1941 of all officers, directors, and stockholders holding over 5 percent of your capital stock.

Answer: None of the officers, directors, and stockholders holding over 5 percent of the capital stock had actual shipbuilding experience as such prior to 1941, however, all of them have had from 25 to 40 years of very active and definite experience in other lines of construction and management which fully qualified them for accepting the performance of this shipbuilding program.

7. The names of all officers, directors, or stockholders owning more than 5 percent of the capital stock of your company, who have held positions as officers or directors of another company which had contracts with the Maritime Commission or the War Shipping Administration.

Answer: (*a*) Walsh Construction Co., stockholders: T. J. Walsh, chairman of the board of Walsh Construction Co.; W. A. Durkin, president of Walsh Construction Co.; J. S. Macdonald, vice president of Walsh Construction Co., and F. B. Smith, treasurer of Walsh Construction Co.

Above company and individuals had no other contracts with the Maritime Commission or the War Shipping Administration and do not hold positions as officers or directors in other companies having such contracts. Walsh Construction Co. did have contracts with the Navy Department for construction of small invasion landing craft, etc.

(*b*) Henry J. Kaiser Co., The Kaiser Co., California Kaiser Co., Henry J. Kaiser, Edgar Kaiser, J. F. Reis, G. G. Sherwood.

These companies and individuals as officers of other companies did have other contracts with the Maritime Commission but at this time the detail information is not known to Walsh-Kaiser Co., Inc., and the individuals preparing this report. The information will be obtained from the Kaiser interests and supplemental report will follow.

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(c) Morrison-Knudsen Co., Inc., H. W. Morrison.

Information as to interest in other contracts by Maritime Commission not known at this time to Walsh-Kaiser Co., Inc., and the individuals preparing this report. Detail information will be obtained and furnished in supplemental report.

8. The names of all officers, directors, or stockholders owning more than 5 percent of the capital stock of your company who have owned 5 percent or more of the capital stock of another company which had contracts with the Maritime Commission or the War Shipping Administration.

Answer: Same as response to question No. 7.

9. A description of all contracts between your company and the Maritime Commission.

Answer: Detail statement in schedule attached.

10. The fees and profits under each of the afore-mentioned contracts allowed after renegotiation.

Answer: Contract Nos. MCc–13637, MCc–13638, MCc–13911, MCc–18012. These contracts were completed during the fiscal years ended June 30, 1943, 1944, and 1945, and all renegotiation reports have been filed in detail, reviewed, and accepted by the Price Adjustment Board and release agreements signed stating the determination that "no profits, which pursuant to the Renegotiation Act should be eliminated, have been received or accrued. * * *." The facts and figures, including net profits before income tax as reviewed for renegotiation, are the same as those shown in schedule statement attached and have not changed.

11. The status of each contract still subject to renegotiation, giving, wherever possible, information showing the opinion of the Price Adjustment Board and of your company as to the fees and profits permissible under each contract.

Answer: Contract Nos. MCc–15961, MCc–40390. These contracts were completed during the fiscal year ended June 30, 1946. Submission of "Standard Form of Contractor's Report" to the Renegotiation Board, including income tax return, etc., is in process of preparation. It is the opinion of the contractor that the fees and profits under these contracts are nominal and not excessive and the Price Adjustment Board has indicated the same opinion covering that part of the accounts for these contracts which they have seen in other previous audits.

12. The total cost to the Government of the shipyards and facilities used by your company.

Answer: Walsh-Kaiser Co., Inc., does not have knowledge as to the total cost to the Government of the shipyard and facilities at Providence. The cost of facilities as constructed by this contractor under contract No. MCc–13637 was $9,433,731.

Our office at Providence has been closed and we will appreciate your addressing any further communication to us at 1 East Forty-third Street, New York 17, N. Y.

We regret that there has been delay in answering your questionnaire and trust it has not seriously inconvenienced the committee.

When the enclosed copy of certificate of incorporation has served your purpose, we will appreciate your returning it to us at 1 East Forty-third Street, New York 17, N. Y.

Yours very truly,

WALSH-KAISER, CO., INC.,
F. B. SMITH, *Treasurer.*

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(Question No. 9)

WALSH-KAISER CO., INC.

Report to Merchant Marine and Fisheries Investigating Committee

(a)	(b)	(c)	(d)	(e)		(f)	(g)	(h)	(i)	(j) Total fees and profits		
Contract No.	Type of contract	Number and type of ships	Constructed and delivered	Total amounts paid by Maritime Commission		Maximum fee payable	Minimum fee payable	Actual fee paid	Profits lump-sum contracts	Fees received	Nonreimbursable cost against fee	Net job profit
MCc13637	Cost	Facilities		Cost	$9,433,731.64	None	None	None		None		None
MCc13638	Cost-plus-fixed-fee.	5, EC-2 cargo	5 delivered 3.469 constructed 1.531 by Rheem Manufacturing.	Cost Fee Total	9,886,880.16 190,795.00 10,077,675.16	$190,795	$190,795	$190,795		$190,795	$25,700.51	$165,094.59
MCc13911	Price-minus	21, S2-S2-AQ1 escort vessels.	21 constructed 21 delivered	Cost Fee Total	37,501,495.98 630,000.00 38,131,495.98	1,890,000	630,000	630,000		630,000	64,727.63	565,272.37
MCc18012	do	5, EC-2 cargo	5 constructed 5 delivered	Cost Fee Total	13,370,829.28 150,000.00 13,520,829.28	390,000	150,000	150,000		150,000	20,988.50	129,011.50
MCc15961	do	32, S4-SE2-BE1 combat-cargo.	32 constructed 32 delivered	Cost Fee Total	107,153,446.05 2,080,000.00 109,233,446.05	5,280,000	2,080,000	2,080,000		2,080,000	204,198.91	1,875,801.09
MCc40390	Maintenance and protection.			Cost Fee general overhead. Total	826,471.72 95,150.00 921,621.72	95,150	95,150	95,150		95,150	81,176.59	13,973.41
	Grand total as of July 31, 1946.			Cost Fees Total	178,172,854.83 3,145,945.00 181,318,799.83	7,845,945	3,145,945	3,145,945	None	3,145,945	396,792.14	2,749,152.96

NOTES.—1. Walsh-Kaiser will have further nonreimbursable cost in closing and maintaining records and accounts. 2. No salaries or fees of any kind have been paid to corporate officers (except to Mr. J. S. Macdonald, as indicated, for full-time service as general manager at job site.) 3. No fees or overhead compensation paid to corporate stockholders. 4. No income taxes included in above costs.

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WALSH-KAISER CO., INC.

SHIPBUILDING DIVISION

1 Washington Avenue, Providence, R. I.

NEW YORK, 17, N. Y., *October 16, 1946.*

Mr. MARVIN J. COLES,
General Counsel, Merchant Marine and Fisheries, Investigating Committee,
House of Representatives, United States,
House Office Building, Room 228, Washington 25, D. C.

DEAR MR. COLES: In response to your telegram dated October 14, 1946, we give the following answers to your questions with respect to ship construction for the Maritime Commission at Providence, R. I. yard:

(1) Average amount of outstanding bank loans?

Answer: $2,718,785 average amount.

(2) Total net fees and profits after income taxes?

Answer: $1,517,710 as of July 31, 1946 (profit after taxes: .852 percent of cost, .837 percent of sales).

(3) (*a*) Amount of bank loans secured by pledge of Government contracts?

Answer: None, except all fee collections to be deposited at the bank in special account, and said account to the extent of $500,000 was assigned to and pledged to the bank as security for the loans. Fee collections over $500,000 were used for working funds or to reduce loans.

(*b*) Amount of bank loans guaranteed in whole or in part by the Government?

Answer: None.

(4) Total amount of Federal income and excess profits taxes?

Answer: $1,231,443.29.

The above profit figures will be further reduced by cost of closing out records and accounts.

The above figures are from Walsh-Kaiser Co., Inc., records and to not include any costs for overhead and taxes of the stockholding corporations, which contributed a large amount of supervision and management.

Yours very truly,

WALSH-KAISER CO., INC.,
F. B. SMITH, *Treasurer.*

EXHIBIT 21

[Information appearing on p. 159 of pt. 2, hearings before the subcommittee of the Committee on Appropriations, 79th Cong., 2d sess., as presented by the Maritime Commission]

EC2-S-C1 costs (estimated), cost-plus contracts

Builder	Number of vessels	Average builder's cost	Average profit per vessel	Total cost to U. S. Maritime Commission per vessel [1]
Alabama	20	$1,125,015	$60,000	$1,957,459
Beth-Fairfield	384	893,288	76,927	1,743,043
California	306	968,428	70,168	1,811,040
Delta	132	1,046,973	43,102	1,861,664
Jones (Brunswick)	85	1,173,129	39,067	1,984,640
Jones (Panama)	66	1,221,471	29,470	2,023,385
Kaiser (Vancouver)	2	1,783,367	110,000	2,665,811
Marinship	15	2,175,961	60,000	3,008,405
New England	236	1,070,238	43,166	1,881,803
North Carolina	126	651,793	84,669	1,508,906
Oregon	330	766,621	82,532	1,621,597
Permanente	489	853,674	89,455	1,715,573
Rheem Manufacturing Co	1	6,388,790		7,161,234
Southeastern	88	1,236,438	30,227	2,039,110
St. Johns	82	1,304,202	23,659	2,100,304
Todd-Houston	208	995,311	52,144	1,819,899
Walsh-Kaiser	[2] 10	3,112,255	34,080	3,918,779
Total	2,580	962,322	66,631	1,800,743

[1] Includes U. S. Maritime Commission furnished material.
[2] Includes 5 vessels under price-minus contract.

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EXHIBIT 22

NORTH CAROLINA SHIPBUILDING CO.,
Wilmington, N. C., August 8, 1946.

Mr. MARVIN J. COLES,
General Counsel, Merchant Marine and Fishery Investigating Committee.
House of Representatives, Washington 25, D. C.

DEAR SIR: We have prepared and submit the information requested in your letter of July 27, 1946, as follows:

(1) The North Carolina Shipbuilding Co. was organized in January 1941. (See photostatic copy of the charter attached hereto.)

(2) The total capital of the North Carolina Shipbuilding Co. as of December 31, 1945, was $6,462,585 and consisted of the following:

Capital stock: Authorized 50,000 shares of the par value of $10 per share; issued, 30,000 shares	$300,000
Paid-in surplus	2,700,000
Earned surplus	3,462,585
Total	6,462,585

(3) The names and compensation of all officers and directors are as follows:

Name	Position	Annual compensation
Homer L. Ferguson	Chairman of the board	$1,500
Roger Williams	Director and president	5,000
John B. Woodward, Jr.	Director	1,500
William E. Blewett, Jr.	do	1,500
Edmund F. Heard	do	1,500
Edward J. Robeson, Jr.	do	1,500
J. Laurence Sprunt	do	1,500
P. F. Halsey	Director, vice president, and general manager	20,000
Robert I. Fletcher	Director and comptroller	3,000
Thos. L. Lanier	Assistant comptroller	12,000
J. M. Waterman	do	7,200
W. Graham Scott	Treasurer	2,000
Paul A. Wilson	Secretary and assistant treasurer	9,000
W. S. McMahon	Assistant secretary	8,000
F. A. Matthes, Jr.	Assistant treasurer	5,700
Kemper L. Kellogg	Assistant secretary	1,200

(4) P. F. Halsey, director, vice president, and general manager, is the only officer or employee of the company who has received in excess of $15,000 per annum. Mr. Halsey has been paid at the rate of $20,000 per annum since July 1, 1943, and such payment has been reimbursed in full by the United States Maritime Commission.

(5) The Newport News Shipbuilding & Dry Dock Co., Newport News, Va., owns 29,993 shares of the outstanding capital stock of the North Carolina Shipbuilding Co. The remaining 7 shares of stock were sold to certain individuals to qualify them to act as directors, as required by law.

(6) The Newport News Shipbuilding & Dry Dock Co., which owns 99.9767 percent of the capital stock of the North Carolina Shipbuilding Co., was founded in 1886 and has been engaged in ship-construction work since about 1890.

(7) The Newport News Shipbuilding & Dry Dock Co. (a Virginia corporation) is principal stockholder of the North Carolina Shipbuilding Co.; therefore, it has held no position as officer or director of another company which has had contracts with the United States Maritime Commission and the War Shipping Administration.

(8) The Newport News Shipbuilding & Dry Dock Co. (a Virginia corporation) is principal stockholder of the North Carolina Shipbuilding Co. It does not own 5 percent or more of any other company which has had contracts with the United States Maritime Commission and the War Shipping Administration. However, the Newport News Shipbuilding & Dry Dock Co., itself, has had contracts with the United States Maritime Commission and the War Shipping Administration.

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(9) Attached is a description of contracts between the North Carolina Shipbuilding Co. and the United States Maritime Commission, as follows:

(*a*) Ship-construction contracts.

(*b*) Other contracts.

(10) The fees and profits under each of the afore-mentioned contracts are shown on the attached description of ship-construction contracts.

(11) Renegotiation proceedings have been completed in respect of all contracts subject to renegotiation.

(12) The total cost to the Government of the shipyards and facilities used by this company is summarized as follows:

Shipyard site [1]	$334, 486. 89
Preparation of site and facilities	20, 098, 986. 73
Total	20, 433, 473. 62

[1] Exclusive of 2 small lots acquired through condemnation proceedings, the cost of which was paid directly by the Government and is not available from our records.

Very truly yours,

THOS. L. LANIER,
Assistant Comptroller.

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NORTH CAROLINA SHIPBUILDING CO.

Description of ship-construction contracts between North Carolina Shipbuilding Co. and U. S. Maritime Commission

(a) Contract No.	(b) Type of contract	(c) Ships: Number	(c) Ships: Type	(d) Ships constructed and delivered	(e) Paid on contracts	(f) Maximum fees	(g) Minimum fees	(h) Actual fees paid	(i) Profits recorded on lump-sum contracts	(j) Total fees and profits received	Fees and profits after renegotiation
MCc-7815	Cost-plus-fee [1]	25	EC2-S-C1	25	$21,525,000.00	$3,500,000	$1,500,000	$4,069,302.09		$4,069,302.09	$4,069,302.09
MCc-7816	do.[1]	12	EC2-S-C1	12	10,332,000.00	1,680,000	720,000				
MCc-2155	do.[1]	53	EC2-S-C1	53	36,946,407.83	7,102,000	2,862,000	4,143,748.05		4,143,748.05	4,143,748.05
MCc-13100	do.[1]	36	EC2-S-C1	36	24,226,644.37	2,520,000	1,080,000	2,454,551.66		2,454,551.66	2,454,551.66
MCc-8266	do.[1 2]	31 5 24	C2-S-AJ1 C2-S-AJ2 C2-S-AJ3	60	73,584,408.13	5,874,840	2,611,020	5,077,335.70		5,077,335.70	5,077,335.70
MCc-15631	Selective price [3]	4	C2-S-AJ3	4	10,005,557.36				$726,845.27	726,845.27	
MCc-16770	do.[3]	4	C2-S-AJ3	4	12,096,999.21				843,756.96	843,756.96	
MCc-16771	do.[3]	7	C2-S-AJ1	7	14,302,810.17				1,097,715.58	1,097,715.58	
MCc-16772	do.[3]	5	C2-S-AJ1	5	11,086,602.96				783,292.59	783,292.59	
MCc-16773	do.[3]	7	C2-S-AJ1	7	15,997,407.83				1,088,891.84	1,088,891.84	
MCc-30588	do.[3]	5	C2-S-AJ1	5	10,593,621.68				779,594.22	779,594.22	
MCc-30611	do.[3]	5	C2-S-AJ1	5	10,945,256.03				818,630.07	818,630.07	
MCc-30612	do.[3]	4 1	C2-S-AJ1 C2-S-AJ5	5	11,106,753.85				818,064.98	818,064.98	
MCc-34767	do.[3 4]	9 6	C2-S-AJ5 C2-S-AJ4	12	41,695,705.89						
	Total	243		240	304,445,175.31			15,744,937.50	6,956,791.51	22,701,729.01	

[1] It was the policy of the company to record during construction only the minimum fees, ½ of which became due at launching and the balance at delivery. Amounts received in excess of minimum fees were determined in renegotiation proceedings and were recorded in the respective years in whicc the contracts were completed.

[2] Additional costs of $2,137.16 remain to be billed on contract MCc-8266.

[3] "Selective price" type contracts are, by their terms, not subject to statutory renegotiation. Profits on these contracts are recorded upon completion of the respective contracts. Final settlements of the selective price contracts have not yet been made. The recorded profits shown above represent estimated retainable profits. With the possible exception of contract MCc-34767, which is still in progress, refunds of excessive profits will be required by the terms of the contracts.

[4] As of Aug. 12, 1946, 3 ships remained to be completed and delivered under contract MCc-34767. The profit on this contract will be recorded upon completion of the contract.

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NORTH CAROLINA SHIPBUILDING CO.

Description of other contracts with U. S. Maritime Commission

Contract No.	Type of contract	Total paid on contracts
Facilities contracts:		
MCc-ESP-6	Reimbursement of cost	$7,373,101.00
MCc-ESP-605	do	3,932,691.00
MCc-ESP-624	do	8,793,194.73
Total		20,098,986.73
Real-estate contracts:		
MCc-8700	Reimbursement of cost	124,888.39
MCc-26733	do	[1] 209,598.50
Total		334,486.89
Preparation of ship storage basin: MCc-40738.	Cost plus a fee (Contract not yet executed—work performed under letter of intent dated Nov. 23, 1945.)	[2] 374,829.19
Rental contracts:		
MCc-ESP-16	Lease of real estate later acquired—see above	
MCc-ESP-623	do	

[1] Includes $62,201.14 billed under lease agreements listed below.
[2] Includes $4,703.31 billed Aug. 2, 1946, not yet collected.

NORTH CAROLINA SHIPBUILDING CO.,
WILMINGTON, N. C., *October 11, 1946.*

MR. MARVIN J. COLES,
General Counsel, Merchant Marine and Fisheries Investigating Committee, House of Representatives, Washington 25, D. C.

DEAR MR. COLES: We have prepared and enclose herewith a schedule of the information requested in your telegram of October 10, 1946.

It is believed that you will be able to reconcile the information on the enclosed statement with the summary of income from inception to December 31, 1945, submitted in the course of my testimony on September 26, 1946.

Very truly yours,

THOS. L. LANIER,
Assistant Comptroller.

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North Carolina Shipbuilding Co.

Summary of information requested in telegram of Oct. 10, 1946

	Column 1		Column 2		Column 3		Column 4		Column 5	
	Total net fees and profits after income taxes	Average per ship	Estimated cost of Government-furnished material [1]	Average per ship	Disallowed costs [2]	Average per ship	Excess fees and profits determined by renegotiation	Average per ship	Federal income and excess-profits taxes	Average per ship
Cost-plus-fee contracts:										
Liberty ships:										
MCc-7815 and 7816	$1,019,689.27	$27,559.17			$194,439.88	$5,255.14	$1,110,697.91	$30,018.86	$2,619,091.41	$70,786.25
MCc-2155	1,047,843.83	19,770.64			129,715.66	2,447.47	2,985,251.95	55,816.07	2,724,745.51	51,410.29
MCc-13100	616,176.74	17,116.02			89,373.55	2,482.60	65,448.34	1,818.01	1,607,114.71	44,642.08
Total	2,683,709.84	21,299.28	$97,327,944.00	$772,444.00	413,529.09	3,281.98	4,134,398.20	32,812.68	6,950,951.63	55,166.29
C2 ships of varying types: MCc-8266	1,273,145.41	21,219.09	77,267,688.00	1,287,794.80	172,937.85	2,882.30	797,504.30	13,291.75	3,335,863.68	55,597.73
Total	3,956,855.25	21,273.41			586,466.94	3,153.05	4,931,902.50	26,515.61	10,286,815.31	55,305.46
Selective price contracts:										
MCc-15631	183,438.54	45,859.63	Material furnished by company				Contracts not subject to renegotiation		488,222.79	122,055.70
MCc-16770	212,944.28	53,236.07							566,752.50	141,688.12
MCc-16771	277,037.42	39,576.77							737,336.79	105,333.83
MCc-16772	197,684.50	39,536.90							526,138.52	105,227.70
MCc-16773	274,810.52	39,258.65							731,409.87	104,487.12
MCc-30588	196,751.12	39,350.22							523,654.31	104,730.86
MCc-30611	206,602.84	41,320.57							549,874.74	109,974.95
MCc-30612	206,460.23	41,292.04							549,495.17	109,899.03
Total	1,755,729.45	41,803.08							4,672,884.69	111,259.16
Grand total	5,712,584.70	25,055.20					4,931,902.50	26,515.61	14,959,700.00	65,612.72

[1] Estimated cost of Liberty ship materials computed from data on p. 159 of hearings before the subcommittee of the Committee on Appropriations, House of Representatives, 79th Cong., 2d sess., on the Navy Department appropriation bill for 1947. Estimated cost of C2 ship materials obtained from U. S. Maritime Commission.

[2] Disallowed costs shown above do not include miscellaneous income deductions of $115,977.37 and State income taxes of $1,327,000, which were not charged to costs.

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EXHIBIT 23

CONSOLIDATED STEEL CORP.,
Los Angeles 22, August 30, 1946.

HOUSE OF REPRESENTATIVES,
United States Merchant Marine and Fisheries
Investigating Committee, Washington 25, D. C.
(Attention Martin J. Coles, general counsel.)

GENTLEMEN: In your letter of July 27, 1946, you requested certain data pertaining to contracts between the United States Maritime Commission and Consolidated Steel Corp. The compilation of all of the data requested has not been completed; however, we submit herewith as much as we have been able to complete and will forward the remainder at a later date.

Item 1: Consolidated Steel Corp. was formed December 18, 1928. A copy of the original articles of incorporation is enclosed herewith. A copy showing all amendments to date is being prepared and will be forwarded to you at a later date.

Item 2: In a report filed with the Committee on the Merchant Marine and Fisheries of the House of Representatives in 1942 similar data pertaining to the total capital of this company giving a break-down of the types of stock and securities was requested and submitted and is summarized in the following together with a forward analysis to June 30, 1946.

Preferred shares, assessable, no par $1.75 dividend cumulative prior to July 1, 1935, and after Mar. 31, 1939 (noncumulative during the interval) authorized 200,000 shares, issued 197,586 shares, purchased and retired 55,397 shares, outstanding 142,189 shares as at July 31, 1942		$3, 554, 725
Common shares, assessable, no par authorized 690,000 shares, issued and outstanding 241,617 shares as at July 31, 1942		232, 241
Surplus:		
Free surplus	$673, 593	
Appropriated surplus	1, 431, 726	
Total surplus as at July 31, 1942		2, 105, 319
Total capital as at July 31, 1942		5, 892, 285
Loans outstanding under bank credit agreement as at July 31, 1942, due on or before Oct. 1, 1944		6, 000, 000

A similar summary as at June 30, 1946, is as follows:

Preferred shares, nonassessable (assessable prior to Apr. 23, 1945) no par $1.75 dividend cumulative prior to July 1, 1935, and after Mar. 31, 1939 (noncumulative during the interval) authorized 200,000 shares, issued 197,586 shares, purchased and retired 88,585 shares, authorized to be redeemed July 1, 1946, at redemption price of $32.81¼ per share pursuant to art. 6 of the articles of incorporation, as amended, 109,001 shares. Stated value of $2,725,025 for 109,001 shares transferred to stated value of common shares. Total redemption cost of $3,226,594 charged to surplus	0
Common shares, nonassessable (assessable prior to Apr. 23, 1945) no par, authorized 690,000 shares, issued and outstanding 241,617 shares as at June 30, 1946 after transfer of $2,725,025 stated value from stated value of preferred shares as above	5, 141, 195
Earned surplus, after charge of $3,226,594 for payment made to bank for redemption of 109, 001 preferred shares as above	4, 313, 560
Total capital as at June 30, 1946	9, 454, 755
Loans outstanding under bank credit agreement as at June 30, 1946, payable in semiannual installments of $300,000 (proceeds of loans used as required to retire 109,001 preferred shares as above)	3, 000, 000

Item 3: Data pertaining to this item will be forwarded later.

Item 4: Data pertaining to this item will be forwarded later.

Item 5: In the report filed with the Committee on the Merchant Marine and Fisheries of the House of Representatives in 1942, Pioneer Securities Co., 621 South Hope Street, Los Angeles, Calif., was shown as owning 5.6 percent of the outstanding shares of the preferred capital stock of Consolidated Steel Corp.

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during 1941 and 1942. Subsequent to 1942, to the best of our knowledge, there have been no persons, associations, or corporations holding 5 percent or more of either the common or preferred shares of outstanding capital stock of this company.

Item 6: Consolidated Steel Corp. entered into the shipbuilding business in 1939 and all of its officers and directors, except for some few subsequent additions or changes, therefore had some shipbuilding experience prior to 1941. Also, Mr. H. B. Hird, who became associated with Consolidated Steel Corp. in 1939 and later became a vice president and director was an officer in the United States Navy from 1904 to 1939 when he retired from the Navy with the rank of captain. During his active duty with the Navy he served for a number of years in the Bureau of Engineering and during the last 4 years was manager of the Navy yard at Pearl Harbor.

Item 7: To the best of our knowledge prior to December 20, 1945, there were no officers, directors, or stockholders owning more than 5 percent of the capital stock of Consolidated Steel Corp. who have held positions as officers and directors of another company which had contracts with the Maritime Commission or the War Shipping Administration. On December 20, 1945, Mr. F. S. Howard and Mr. L. N. Slater, officers and directors of Western Pipe & Steel Co. of California, were elected directors of Consolidated Steel Corp.

Item 8: To the best of our knowledge, there are no officers, directors, or stockholders owning more than 5 percent of the capital stock of Consolidated Steel Corp. who have owned 5 percent or more of the capital stock of another company which had contracts with the Maritime Commission or the War Shipping Administration.

Item 9: Enclosed herewith are individual schedules giving a description of part of the contracts between the United States Maritime Commission and Consolidated Steel Corp. Data pertaining to some of the later contracts is being compiled and will be forwarded to you later.

Items 10 and 11: It is not possible to ascertain the amount of fees and profits allowed after renegotiation under each of the individual contracts with the United States Maritime Commission, inasmuch as renegotiation has not been conducted on an individual contract basis but on an over-all basis. The contractor did under renegotiation forward pricing agreement voluntarily reduce the amount of allowable bonus under contracts MCc 7713 and MCc 7714 by $2,185,048 and $373,578, respectively. Renegotiation agreements have been entered into for all of the contractor's fiscal years to and including that ended August 31, 1945, and in addition to the forward pricing reductions made by the contractor as referred to above allowable retainable profits on an over-all renegotiation for the fiscal year ended August 31, 1944, were reduced by $2,345,789. We are informed that this elimination was on an over-all basis and is not upon individual contracts.

Item 12: The total cost to the United States Maritime Commission of the shipyards and facilities used by Consolidated Steel Corp. amounted to $13,212,408.71.

Very truly yours,

CONSOLIDATED STEEL CORP.
F. J. Knoeppel
F. J. KNOEPPEL,
Vice President.

Item 9–1

(*a*) Contract serial number: MCc 412.
(*b*) The type of contract: Lump sum.
(*c*) The number and type of ships covered by above contract: 1 C–1B full scantling type turbine propulsion vessel.
(*d*) The number of ships constructed and delivered under above contract: 1 C–1B full scantling type turbine propulsion vessel.
(*e*) The total amounts paid by the Maritime Commission under above contract: Final contract price, $2,150,814.96.
(*f*) The maximum fee payable under above contract: None.
(*g*) The minimum fee payable under above contract: None.
(*h*) The actual fee paid and unpaid under above contract: None.
(*i*) The profits received on above lump-sum contract: Loss, $278,171.97.

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Item 9–2

(*a*) Contract serial number: MCc 413.
(*b*) The type of contract: Lump sum.
(*c*) The number and type of ships covered by above contract: 1 C–1B full scantling type turbine propulsion vessel.
(*d*) The number of ships constructed and delivered under above contract: 1 C–1B full scantling type turbine propulsion vessel.
(*e*) The total amounts paid by the Maritime Commission under above contract: Final contract price, $2,248,486.96.
(*f*) The maximum fee payable under above contract: None.
(*g*) The minimum fee payable under above contract: None.
(*h*) The actual fee paid and unpaid under above contract: None.
(*i*) The profits received on above lump-sum contract: Loss, $157,457.05.

Item 9–3

(*a*) Contract serial number: MCc 414.
(*b*) The type of contract: Lump sum.
(*c*) The number and type of ships covered by above contract: 1 C–1B full scantling type turbine propulsion vessel.
(*d*) The number of ships constructed and delivered under above contract: 1 C–1B full scantling type turbine propulsion vessel.
(*e*) The total amounts paid by the Maritime Commission under above contract: Final contract price, $2,248,486.96.
(*f*) The maximum fee payable under above contract: None.
(*g*) The minimum fee payable under above contract: None.
(*h*) The actual fee paid and unpaid under above contract: None.
(*i*) The profits received on above lump-sum contract: Loss, $20,358.79.

Item 9–4

(*a*) Contract serial number: MCc 415.
(*b*) The type of contract: Lump sum.
(*c*) The number and type of ships covered by above contract: 1 C–1B full scantling type turbine propulsion vessel.
(*d*) The number of ships constructed and delivered under above contract: 1 C–1B full scantling type turbine propulsion vessel.
(*e*) The total amounts paid by the Maritime Commission under above contract: Final contract price $2,386,408.97.
(*f*) The maximum fee payable under above contract: None.
(*g*) The minimum fee payable under above contract: None.
(*h*) The actual fee paid and unpaid under above contract: None.
(*i*) The profits received on above lump-sum contract: Loss, $63,230.03.

Item 9–5

(*a*) Contract serial number: MCc 1275.
(*b*) The type of contract: Lump sum.
(*c*) The number and type of ships covered by above contract: 1 P1–S2–L2 twin screw transport, turbine propulsion.
(*d*) The number of ships constructed and delivered under above contract: 1 P1–S2–L2 twin screw transport, turbine propulsion.
(*e*) The total amounts paid by the Maritime Commission under above contract: Final contract price, $5,808,149.22.
(*f*) The maximum fee payable under above contract: None.
(*g*) The minimum fee payable under above contract: None.
(*h*) The actual fee paid and unpaid under above contract: None.
(*i*) The profits received on above lump-sum contract: Loss, $992,646.47.

Item 9–6

(*a*) Contract serial number: MCc 1276.
(*b*) The type of contract: Lump sum.

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(c) The number and type of ships covered by above contract: 1 P1–S2–L2 twin screw transport, turbine propulsion.

(d) The number of ships constructed and delivered under above contract: 1 P1–S2–L2 twin screw transport, turbine propulsion.

(e) The total amounts paid by the Maritime Commission under above contract: Final contract price $5,760,072.99.

(f) The maximum fee payable under above contract: None.

(g) The minimum fee payable under above contract: None.

(h) The actual fee paid and unpaid under above contract: None.

(i) The actual fee paid and unpaid under above contract: None; loss $306,194.28.

Item 9–7

(a) Contract serial number: MCc 1953 and MCc 1675.

(b) The type of contract: Cost only, no fee.

(c) The number and type of ships covered by above contract: Acquisition and installaton of plant equipment and facilities for the construction of vessels.

(d) The number of ships constructed and delivered under above contract: None (contract for facilities to construct ships).

(e) The total amounts paid by the Maritime Commission under above contract (the amounts in dispute, and the amounts not yet paid, are also shown):

Cost reimbursed to contractor	$13,133,630.60
Allowable cost not under dispute but not yet paid to contractor by by Maritime Commission	52,660.83
Cost not allowable and not claimed by contractor to be reimbursable by Maritime Commission	4,137.60
Cost claimed as allowable by contractor but not yet allowed by Maritime Commission	26,717.28

(f) The maximum fee payable under above contract: None.

(g) The minimum fee payable under above contract: None.

(h) The actual fee paid and unpaid under above contract: None.

(i) The profits received on above lump-sum contract: No fee provided for in this contract and disallowed costs under (e) become loss to the contractor.

Item 9–8

(a) Contract serial number: MCc 1520.

(b) The type of contract: Price minus.

(c) The number and type of ships covered by above contract: Four C–1B full scantling turbine propulsion vessels.

(d) The number of ships constructed and delivered under above contract: Four C–1B full scantling turbine propulsion vessels.

(e) The total amounts paid by the Maritime Commission under above contract (the amounts in dispute, and the amounts not yet paid are also shown):

Value of material furnished by Maritime Commission	$1,670,680
Cost reimbursed to contractor	11,023,540
Fixed fee paid to contractor	246,544
Bonus earned for early delivery paid to contractor	74,500
Additional cost, not in dispute, to be paid to contractor	514
Contractor's cost disallowed for reimbursement by Maritime Commission but protested by contractor	42,898
Contractor's cost not allowable as cost for reimbursement and not claimed by contractor	12,613

(f) The maximum fee payable under above contract:

Fixed fee	$246,544
Maximum allowable bonus for cost savings and early delivery	575,276

(g) The minimum fee payable under above contract: Fixed fee, $246,544.

(h) The actual fee paid and unpaid under above contract:

Fixed fee	$246,544
Early delivery bonus	74,500

Disallowed costs under (e) act to reduce the contractor's profit as otherwise reflected above.

(i) The profits received on each lump-sum contract: Not applicable to this contract.

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CONSOLIDATED STEEL CORP.,
Los Angeles 22, September 12, 1946.

HOUSE OF REPRESENTATIVES, UNITED STATES,
Merchant Marine and Fisheries Investigating Committee,
Washington 25, D. C.

(Attention Marvin J. Coles, General Counsel.)

GENTLEMEN: Under date of August 30, 1946, we submitted to you certain data pertaining to contracts between United States Maritime Commission and Consolidated Steel Corp. as requested under item 9 of your letter of July 27, 1946.

In our letter of August 30 we indicated that data pertaining to other contracts were being compiled and would be forwarded at a later date. These data are now submitted herewith.

To complete your request there now only remains to be submitted to you the amended copy of our articles of incorporation as referred to in item 1 of our letter of August 30, 1946.

Very truly yours,

CONSOLIDATED STEEL CORP.,
F. J. KNOEPPEL, *Vice President.*

Item 9–9

(*a*) Contract serial number: MCc 1790.

(*b*) The type of contract: Price minus.

(*c*) The number and type of ships covered by above contract: Nine C–1B full scantling turbine propulsion vessels.

(*d*) The number of ships constructed and delivered under above contract: Nine C–1B full scantling turbine propulsion vessels.

(*e*) The total amounts paid by the Maritime Commission under above contract (the amounts in dispute and the amounts not yet paid are also shown):

Value of material furnished by Maritime Commission	$5,279,836
Cost reimbursed to contractor	20,620,570
Fixed fee paid to contractor	554,724
Additional cost, not in dispute, to be paid to contractor	2,325
Contractor's cost disallowed for reimbursement by Maritime Commission but protested by contractor	90,737
Contractor's cost not allowable as cost for reimbursement and not claimed by contractor	44,478

(*f*) The maximum fee payable under above contract:

Fixed fee	$554,724
Maximum allowable bonus for cost savings and early delivery	[1] 1,295,376

[1] Addenda to contracts MCc 1790, 1791, 1792, 2235, 7713, and 7714 provide that a deduction of $2,242 per vessel shall be made from the maximum allowable bonus; provided, however, that the aggregate amount deducted from all affected contracts shall not exceed 50 percent of the payments made to the contractor for certain additional facilities, under the facilities contract, estimated to cost $300,452.

(*g*) The minimum fee payable under above contract: Fixed fee, $554,724.

(*h*) The actual fee paid and unpaid under above contract: Fixed fee, $554,724.

Disallowed costs under (*e*) act to reduce the contractor's profit as otherwise reflected above.

(*i*) The profits received on each lump-sum contract: Not applicable to this contract.

Item 9–10

(*a*) Contract serial number: MCc 1791.

(*b*) The type of contract: Price minus.

(*c*) The number and type of ships covered by above contract: Nine C–1B full scantling turbine propulsion vessels.

(*d*) The number of ships constructed and delivered under above contract: Nine C–1B full scantling turbine propulsion vessels.

(*e*) The total amounts paid by the Maritime Commission under above contract (the amounts in dispute and the amounts not yet paid are also shown):

Value of material furnished by Maritime Commission	$5,279,836
Cost reimbursed to contractor	18,632,834
Fixed fee paid to contractor	554,724
Bonus earned for early delivery paid to contractor	68,600

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Bonus earned for early delivery but not yet paid to contractor	$4,200	
Bonus earned for cost savings but not yet paid to contractor	13,478	
Total	17,678	
Less facilities adjustment [1]	19,204	($1,526)

[1] Addenda to contracts MCc 1790, 1791, 1792, 2235, 7713, and 7714 provide that a deduction of $2,242 per vessel shall be made from the maximum allowable bonus; provided, however, that the aggregate amount deducted from all affected contracts shall not exceed 50 percent of the payments made to the contractor for certain additional facilities, under the facilities contract, estimated to cost $300,452.

Additional cost, not in dispute, to be paid to contractor	1,199
Contractor's cost disallowed for reimbursement by Maritime Commission but protested by contractor	88,885
Contractor's cost not allowable as cost for reimbursement and not claimed by contractor	33,563

(*f*) The maximum fee payable under above contract:

Fixed fee	$554,724
Maximum allowable bonus for cost savings and early delivery	[1] 1,295,376

(*g*) The minimum fee payable under above contract: Fixed fee, $554,724.

(*h*) The actual fee paid and unpaid under above contract:

Fixed fee	$554,724
Early delivery bonus	68,600
See (*e*) for additional bonus	(1,526)

Disallowed costs under (*e*) act to reduce the contractor's profit as otherwise reflected above.

(i) The profits received on each lump-sum contract: Not applicable to this contract.

Item 9–11

(*a*) Contract serial number: MCc 1792.

(*b*) The type of contract: Price minus.

(*c*) The number and type of ships covered by above contract: Eight C–1B full scantling turbine propulsion vessels.

(*d*) The number of ships constructed and delivered under above contract: Eight C–1B full scantling turbine propulsion vessels.

(*e*) The total amounts paid by the Maritime Commission under above contract (the amounts in dispute and the amounts not yet paid are also shown):

Value of material furnished by Maritime Commission		$4,693,188
Cost reimbursed to contractor		15,278,468
Fixed fee paid to contractor		493,088
Bonus earned for early delivery paid to contractor		226,800
Bonus earned for cost saving paid to contractor		550,000
Bonus earned for cost saving not yet paid to contractor	$151,638	
Less facilities adjustment [1]	17,070	134,568
Additional cost, not in dispute, to be paid to contractor		49
Contractor's cost disallowed for reimbursement by Maritime Commission but protested by contractor		84,341
Contractor's cost not allowable as cost for reimbursement and not claimed by contractor		33,406

(*f*) The maximum fee payable under above contract:

Fixed fee	493,088
Maximum allowable bonus	[1] 1,150,546

[1] Addenda to contracts MCc 1790, 1791, 1792, 2235, 7713, and 7714 provide that a deduction of $2,242 per vessel shall be made from the maximum allowable bonus; provided, however, that the aggregate amount deducted from all affected contracts shall not exceed 50 percent of the payments made to the contractor for certain additional facilities, under the facilities contract, estimated to cost $300,452.

(*g*) The minimum fee payable under above contract: Fixed fee, $493,088.

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(*h*) The actual fee paid and unpaid under above contract:

Fixed fee	$493,088
Early delivery bonus	226,800
Cost savings bonus	550,000
See (*e*) for additional bonus not yet paid	134,568

Disallowed costs under (*c*) act to reduce the contractor's profit as otherwise reflected above.

(*i*) The profits received on each lump-sum contract: Not applicable to this contract.

Item 9–12

(*a*) Contract serial number: MCc 2235.

(*b*) The type of contract: Price minus.

(*c*) The number and type of ships covered by above contract: Four C–1B full scantling turbine propulsion vessels.

(*d*) The number of ships constructed and delivered under above contract: Four C–1B full scantling turbine propulsion vessels.

(*e*) The total amounts paid by the Maritime Commission under above contract (the amounts in dispute and the amounts not yet paid are also shown):

Value of material furnished by Maritime Commission		$2,346,594
Cost reimbursed to contractor		8,078,381
Fixed fee paid to contractor		246,544
Bonus earned for early delivery paid to contractor		31,000
Bonus earned for cost saving paid to contractor		170,000
Bonus earned for cost saving not yet paid to contractor	$76,940	
Bonus earned for early delivery not yet paid to contractor	6,800	
Total	83,740	
Less facilities adjustment [1]	8,535	
		75,205
Additional cost, not in dispute, to be paid to contractor		21
Contractor's cost disallowed for reimbursement by Maritime Commission but protested by contractor		12,657
Contractor's cost not allowable as cost for reimbursement and not claimed by contractor		16,299

(*f*) The maximum fee payable under above contract:

Fixed fee	$246,544
Maximum allowable bonus	[1] 589,820

[1] Addenda to contracts MCc 1790, 1791, 1792, 2235, 7713, and 7714 provide that a deduction of $2,242 per vessel shall be made from the maximum allowable bonus; provided, however, that the aggregate amount deducted from all affected contracts shall not exceed 50 percent of the payments made to the contractor for certain additional facilities, under the facilities contract, estimated to cost $300,452.

(*g*) The minimum fee payable under above contract: Fixed fee, $246,544.

(*h*) The actual fee paid and unpaid under above contract:

Fixed fee	$246,544
Early delivery bonus	31,000
Cost savings bonus	170,000
See (e) for additional bonus not yet paid	75,205

Disallowed costs under (*e*) act to reduce the contractor's profits as otherwise reflected above.

(*i*) The profits received on each lump-sum contract: Not applicable to this contract.

Item 9–13

(*a*) Contract serial number: MCc 7713.

(*b*) The type of contract: Price minus.

(*c*) The number and type of ships covered by above contract: Eighteen C–1B full scantling turbine propulsion vessels, thirteen troopships, two hulls in an uncompleted state (hospital ships).

(*d*) The number of ships constructed and delivered under above contract: Eighteen C–1B full scantling turbine propulsion vessels, thirteen troopships, two hulls in an uncompleted state (hospital ships).

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(*e*) The total amounts paid by the Maritime Commission under above contract (the amounts in dispute and the amounts not yet paid are also shown):

Value of material furnished by Maritime Commission		$19,359,400
Cost reimbursed to contractor		69,785,093
Fixed fee paid to contractor		2,315,249
Bonus earned for early delivery paid to contractor		1,079,400
Bonus earned for cost saving paid to contractor		1,750,000
Bonus earned for early delivery and cost savings not yet paid to contractor	$83,992	
Less facilities adjustment [1]	66,148	
		17,844
Additional cost, not in dispute, to be paid to contractor		3,109
Contractor's cost disallowed for reimbursement by Maritime Commission but protested by contractor		128,349
Contractor's cost not allowable as cost for reimbursement and not claimed by contractor		89,529

(*f*) The maximum fee payable under above contract:

Fixed fee	[2] $2,201,630
Maximum allowable bonus	[1] 2,913,392

[1] The maximum allowable bonus provided for 18 C–1B cargo vessels and 13 troopships was $5,098,440. In August of 1944 this amount was reduced to $2,913,392 upon offer of the contractor under renegotiation forward pricing agreement. No bonus is applicable to the 2 hospital ships.

Addenda to contracts MCc 1790, 1791, 1792, 2235, 7713, and 7714 provided that a deduction of $2,242 per vessel shall be made from the maximum allowable bonus; provided, however, that the aggregate amount deducted from all affected contracts shall not exceed 50 percent of the payments made to the contractors for certain additional facilities, under the facilities contract, estimated to cost $300,452.

[2] The fixed fee of $2,201,630 is based on 18 C–1B type vessels at $61,636 each and 13 troopships at $84,014 each. The contractor shall also be paid a fixed fee for each of the 2 hospital ships, delivered in an uncompleted state, in an amount equal to the sum of $132,733 multiplied by the percentage of completion of such vessel.

(*g*) The minimum fee payable under above contract: Fixed fee, $2,201,630.

(*h*) The actual fee paid and unpaid under above contract:

Fixed fee	$2,315,249
Bonus for early delivery	1,079,400
Bonus for cost savings	1,750,000
See (*e*) for additional bonus not yet paid	17,844

Disallowed costs under (*e*) act to reduce the contractor's profits as otherwise reflected above.

(*i*) The profits received on each lump-sum contract: Not applicable to this contract.

Item 9–14

(*a*) Contract serial number: MCc 7714.

(*b*) The type of contract: Price minus.

(*c*) The number and type of ships covered by above contract: Six C–1B full scantling turbine propulsion vessels, one hull in an uncompleted state (hospital ship).

(*d*) The number of ships constructed and delivered under above contract: Six C–1B full scantling turbine propulsion vessels, one hull in an uncompleted state (hospital ship).

(*e*) The total amounts paid by the Maritime Commission under above contract (the amounts in dispute and the amounts not yet paid are also shown):

Value of material furnished by Maritime Commission		$4,106,539
Cost reimbursed to contractor		12,762,850
Fixed fee paid to contractor		426,360
Bonus earned for early delivery paid to contractor		112,200
Bonus earned for cost saving paid to contractor		350,000
Bonus earned for cost saving but not yet paid to contractor	$35,896	
Less facilities adjustment	12,803	
		23,093
Additional cost, not in dispute, to be paid to contractor		None
Contractor's cost disallowed for reimbursement by Maritime Commission but protested by contractor		31,773

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(*f*) The maximum fee payable under above contract:

Fixed fee	[1] $369,816
Maximum allowable bonus	[2] 498,096

[1] The fixed fee of $369,816 is for six C-1B type vessels. The contractor shall also be paid a fixed fee for the hospital ship, delivered in an uncompleted state, in an amount equal to the sum of $132,733 multiplied by the percentage of completion of such vessel.

[2] The maximum allowable bonus of $871,674, as provided for in the original contract, was reduced in August 1944 to $498,096 upon offer by the contractor under renegotiation forward pricing agreement. No bonus is applicable to the hospital ship. Addenda to contracts MCc 1790, 1791, 1792, 2235, 7713, and 7714 provide that a deduction of $2,242 per vessel shall be made from the maximum allowable bonus, provided, however, that the aggregate amount deducted from all affected contracts shall not exceed fifty (50) percent of the payments made to the contractor for certain additional facilities, under the facilities contract, estimated to cost $300,452.

(*g*) The minimum fee payable under above contract: Fixed fee, $369,816.

(*h*) The actual fee paid and unpaid under above contract:

Fixed fee	$426,360
Bonus for early delivery	112,200
Bonus for cost savings	350,000
See (*e*) for additional bonus not yet paid	23,093

Disallowed costs under (*e*) act to reduce the contractor's profits as otherwise reflected above.

(*i*) The profits received on each lump-sum contract: Not applicable to this contract.

Item 9-15

(*a*) Contract serial number: MCc 8524.

(*b*) The type of contract: Price minus.

(*c*) The number and type of ships covered by above contract: 18 S2-S2-AQ-1 steel escort vessels.

(*d*) The number of ships constructed and delivered under above contract: 18 S2-S2-AQ-1 steel escort vessels.

(*e*) The total amounts paid by the Maritime Commission under above contract (the amounts in dispute, and the amounts not yet paid are also shown):

Value of material furnished by Maritime Commission	$11,505,493
Cost reimbursed to contractor	17,668,228
Fixed fee paid to contractor	540,000
Bonus earned for cost saving paid to contractor	500,000
Bonus earned for cost saving but not yet paid to contractor	363,456
Additional cost, not in dispute, to be paid to contractor	101
Contractor's cost disallowed for reimbursement by Maritime Commission but protested by contractor	34,071
Contractor's cost not allowable as cost for reimbursement and not claimed by contractor	12,776

(*f*) The maximum fee payable under above contract:

Fixed fee	$540,000
Maximum allowable bonus	1,080,000

(*g*) The minimum fee payable under above contract: Fixed fee, $540,000.

(*h*) The actual fee paid and unpaid under above contract:

Fixed fee	$540,000
Bonus for cost savings	500,000
See (*e*) for additional bonus not yet paid	363,456

Disallowed costs under (*e*) act to reduce the contractor's profits as otherwise reflected above.

(*i*) The profits received on each lump-sum contract: Not applicable to this contract.

Item 9-16

(*a*) Contract serial number: MCc 15951.

(*b*) The type of contract: Price minus.

(*c*) The number and type of ships covered by above contract: 32 S4-SE2-BD1 transports.

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(*d*) The number of ships constructed and delivered under above contract: 32 S4-SE2-BD1 transports.

(*e*) The total amounts paid by the Maritime Commission under above contract (the amounts in dispute, and the amounts not yet paid are also shown):

Value of material furnished by Maritime Commission	$62,936,438
Cost reimbursed to contractor	82,294,862
Fixed fee paid to contractor	2,240,000
Bonus earned for early delivery paid to contractor	314,200
Bonus earned for cost saving paid to contractor	80,000
Bonus earned for cost saving but not yet paid to contractor	187,868
Additional cost, not in dispute, to be paid to contractor	2,372
Contractor's cost disallowed for reimbursement by Maritime Commission but protested by contractor	125,048
Contractor's cost not allowable as cost for reimbursement and not claimed by contractor	64,733

(*f*) The maximum fee payable under above contract:

Fixed fee	$2,240,000
Maximum allowable bonus	3,360,000

(*g*) The minimum fee payable under above contract: Fixed fee, $2,240,000

(*h*) The actual fee paid and unpaid under above contract:

Fixed fee	$2,240,000
Bonus for early delivery	314,200
Bonus for cost savings	80,000
See (*e*) for additional bonus not yet paid	187,868

Disallowed costs under (*e*) act to reduce the contractor's profit as otherwise reflected above.

(*i*) The profits received on each lump-sum contract: Not applicable to this contract.

12. Facilities cost incurred in construction of yard (cost plus, no fee) Land

Item 9-17

(*a*) Contract serial number: MCc 26055.

(*b*) The type of contract: Price minus.

(*c*) The number and type of ships covered by above contract: 27 C1-M-AV1 vessels.

(*d*) The number of ships constructed and delivered under above contract: 27 C1-M-AV1 vessels.

(*e*) The total amounts paid by the Maritime Commission under above contract (the amounts in dispute, and the amounts not yet paid are also shown):

Value of material furnished by Maritime Commission	$16,908,485
Cost reimbursed to contractor	28,460,197
Fixed fee paid to contractor	540,000
Contractor's cost disallowed for reimbursement by Maritime Commission but protested by contractor	57,069
Contractor's cost not allowable as cost for reimbursement and not claimed by contractor	29,640

(*f*) The maximum fee payable under above contract:

Fixed fee	$540,000
Maximum allowable bonus	1,350,000

(*g*) The minimum fee payable under above contract: Fixed fee $540,000

(*h*) The actual fee paid and unpaid under above contract: Fixed fee $540,000

Disallowed costs under (e) act to reduce the Contractor's profit as otherwise reflected above.

(*i*) The profits received on each lump-sum contract: Not applicable to this contract.

Item 9-18

(*a*) Contract serial number: DA MCc 857.

(*b*) The type of contract: Price minus.

(c) The number and type of ships covered by above contract: 30 C1-M-AV1 vessels.

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(*d*) The number of ships constructed and delivered under above contract: 28 C1-M-AV1 vessels (work on 2 vessels terminated for the convenience of the Maritime Commission).

(*e*) The total amounts paid by the Maritime Commission under above contract (the amounts in dispute, and the amounts not yet paid are also shown):

Value of material furnished by Maritime Commission	$18,260,986
Cost reimbursed to contractor	24,300,455
Fixed fee paid to contractor on 28 completed vessels	560,000
Termination fee paid to contractor on canceled vessels	56,500
Bonus earned for cost saving but not yet paid to contractor	1,400,000
Contractor's cost disallowed for reimbursement by Maritime Commission but protested by contractor	80,460
Contractor's cost not allowable as cost for reimbursement and not claimed by contractor	18,815

(*f*) The maximum fee payable under above contract:

Fixed fee	$600,000
Maximum allowable bonus	1,500,000

(*g*) The minimum fee payable under above contract: Fixed fee $600,000

(*h*) The actual fee paid and unpaid under above contract:

Fixed fee on 28 vessels completed	$560,000
Termination fee on 2 canceled vessels	56,500
See (e) for cost saving bonus not yet paid	1,400,000

Disallowed costs under (e) act to reduce the contractor's profit as otherwise reflected above.

(*i*) The profits received on each lump-sum contract: Not applicable to this contract.

Item 9-19

(*a*) Contract serial number: MCc 34768.

(*b*) The type of contract: Selective price.

(*c*) The number and type of ships covered by above contract: 10 C2-S-B1 Vessels; 6 R2-S-BV1 vessels.

(*d*) The number of ships constructed and delivered under above contract: 10 C2-S-B1 vessels (work on 6 R2-S-BV1 vessels terminated for the convenience of the Maritime Commission).

(*e*) The total amounts paid by the Maritime Commission under above contract (the amounts in dispute, and the amounts not yet paid are also shown):

Progress payments made to contractor	$37,920,515
Estimated additional payments to be made to contractor	289,119

(*f*) The maximum fee payable under above contract: Not applicable as this is not a fixed-fee contract.

(*g*) The minimum fee payable under above contract: Not applicable as this is not a fixed-fee contract.

(*h*) The actual fee paid and unpaid under above contract: Not applicable as this is not a fixed-fee contract.

(*i*) The profits received on each lump-sum contract: Retainable profit and termination fee approximately (settlement not arrived at) $700,000

CONSOLIDATED STEEL CORPORATION,
Los Angeles 22, Calif., September 4, 1946.

HOUSE OF REPRESENTATIVES, UNITED STATES,
Merchant Marine and Fisheries Investigating Committee,
Washington 25, D. C.

(Attention of Marvin J. Coles, general counsel.)

GENTLEMEN: This supplements our letter of August 30, 1946, replying in part to your inquiry letter of July 27, 1946, and is in response to item questions numbered 3 and 4.

Item 3: Since the item does not stipulate a given time, the annual compensation, set forth below, is that prevailing at the time of the inquiry. Directors, including officers-directors, are paid a fee of $50 for attendance at meetings, which are customarily held monthly. Certain directors (six in number) comprise an executive committee. This committee, created by the board, with

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delegated authority, has generally met on an approximate average of three to four times monthly, and for attendance at such meetings the above stated fee is paid. A like fee is paid to nonmember directors specifically requested to attend an executive committee meeting. The directors are:

Clarence J. Coberly	Preston Hotchkis	Stuart O'Melveny
W. H. Comstock	F. S. Howard	James R. Page
Lloyd R. Earl [1]	John E. Jardine, Sr.	Joseph D. Peeler
O. C. Field	F. J. Knoeppel [2]	Alden G. Roach [1]
S. M. Haskins	Wayland A. Morrison	L. N. Slater

The following lists the officers of Consolidated Steel Corp. and their annual compensation:

A. G. Roach, president	$62,500
Lloyd R. Earl, vice president	44,000
F. J. Knoeppel, vice president	25,000
H. C. Cranfill, vice president	23,000
C. W. Crawford, vice president	14,300
E. H. LeBreton, treasurer	17,500
John M. Robinson, Jr., secretary	14,200
O. I. Albera, assistant secretary	6,084
C. W. Giegerich, assistant secretary	10,084
W. F. Pruden, assistant secretary	10,500
M. J. Tavis, assistant secretary	9,456
F. J. Lackey, assistant secretary	12,300
T. J. White, assistant secretary	8,872

Item 4: There was no compensation to employees over $15,000 which was in any part reimbursable by the Maritime Commission. Listed below are the amounts of annual compensation of more than $15,000 paid to any officer together with the amounts thereof as restricted, either by regulation or by decision (protested) of the Maritime Commission, for allocation, in proportion each month to the relative direct labor employed on Maritime Commission contracts, as cost reimbursable by the Maritime Commission. Less than 50 percent of the allocable amounts was reimbursable by the Maritime Commission. The amounts given below are the amounts paid during the two fiscal years ended August 31, 1944, and August 31, 1945, averaged for a single year to give proper effect to certain salary adjustments. The allocable amounts were fixed and the same in each year.

	Total	*Allocable*
A. G. Roach, president	$62,500	$25,000
L. R. Earl, vice president	44,000	18,000
F. J. Knoeppel, vice president	25,000	15,000
H. C. Cranfill, vice president	23,000	None
E. H. LeBreton, treasurer and assistant to president	17,500	12,000

The foregoing does not include H. B. Hird, who resigned about August 31, 1944. Mr. Hird's annual compensation was $36,000 but no part of his compensation was in any way charged or chargeable to Maritime Commission contracts.

Further reply to your letter of July 27, 1946, will be made shortly.

Very truly yours,

E. J. KNOEPPEL.

[Telegram]

MAYWOOD, CALIF., *September 18, 1946.*

NATHANIEL C. W. GENNETT, Jr.,
Assistant General Counsel,
Merchant Marine and Fisheries Investigation Committee,
House of Representatives, United States:

Retel September 17. Total all fees and profits earned under United States Maritime Commission contracts, $13,975,119 before Federal income and excess-profits taxes; approximately $4,200,000 net after taxes. Both amounts without reduction for profits eliminated under renegotiation agreement. Please see second last sentence our answer, items 10 and 11.

CONSOLIDATED STEEL CORP.

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[1] Also officer of Consolidated Steel Corp. and member of executive committee.
[2] Also officer of Consolidated Steel Corp.

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[Consolidated Steel Corp.—Confirmation of telegram]

Mr. MARVIN J. COLES,
General Counsel, House of Representatives
Merchant Marine and Fisheries Investigating Committee,
Washington 25, D. C.:

Reurtel of October 10, 1946, total paid-in capital, 1928, was $6,396,012, but average for 5 years ended August 31, 1945, was $5,868,277, devoted in major part to Maritime Commission work. However, total capital, including earned surplus and contingency reserves, averaged $9,828,627 for same period, devoted to variety of work for both Navy and Maritime Commission and to minor amount of other work. Bank loans averaged $3,688,333 for same period, and probably close to one-half thereof was applicable to United States Maritime Commission work. Total net fees and profits after taxes on Maritime work approximated $4,200,000, and Federal income and excess-profits taxes approximated $10,000,000, both affected presumably by unascertainable applicable amount of profits returned to Government as result of renegotiation. Total work reported here was performed beginning late 1939 and through June 30, 1946, but important volume was performed during 5 years ended August 31, 1945.

CONSOLIDATED STEEL CORP,
F. J. KNOEPPEL, *Vice President.*

EXHIBIT 24

ST. JOHNS RIVER SHIPBUILDING CO.,
Jacksonville 1, Fla., August 14, 1946.

Mr. MARVIN J. COLES,
General Counsel, United States House of Representatives,
Merchant Marine and Fisheries Investigating Committee,
Washington, D. C.

DEAR MR. COLES: Reference is made to your letter of July 27, 1946. The information requested therein is listed categorically in accordance therewith:

1. The company was incorporated March 9, 1942, and a copy of its charter is attached hereto as rider 1.

2. The company's original capital was 600 shares, divided into classes A, B, and C; 200 shares each for which a cash consideration of $1 per share was received, together with debenture bonds for which a cash consideration of $600,000 was received, and additional working capital was provided by banking arrangements providing for cash loans to be available in the amount of $2,500,000.

3. See rider 2, attached.

4. The maximum compensation reimbursed by the Maritime Commission to any of our officers or employees was $12,000 per annum. See rider 2, attached.

5. See rider 3, attached.

6. The organization represented a combination of shipbuilding know-how and construction know-how. The stockholders representing the Merrill interests have all been in the shipbuilding and ship-repairing business during all of their adult lives. The Merrill family has a history of shipbuilding and repairing dating back before the Civil War. The Merrill-Stevens Engineering Co., predecessor to the present company, built ships for the United States Government during the war with Spain. The successor company, Merrill-Stevens Dry Dock & Repair Co., during World War I repaired ships for the United States Government and organized the Merrill-Stevens Shipbuilding Corp., which built a yard for the Government and constructed vessels for the Government in that yard. Our president, James C. Merrill, Sr., worked in both the repair yard and the construction yard. After World War I the repair yard was continued as Merrill-Stevens Dry Dock & Repair Co. The construction of the St. Johns River Shipbuilding Co. yard and vessels which were later built there during World War II resulted directly from a proposal made by Mr. James C. Merrill, Sr., to the Government in 1940 that such a facility would prove to be essential to the impending war. The Merrill-Stevens Shipbuilding Corp., which he proposed to revive from World War I days, eventually evolved in 1942 as the St. Johns River Shipbuilding Co.

The Thompson-Starrett Co., Inc., has bene well known in the construction business for a great many years.

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Harry M. Hope is an architect with considerable experience in maritime work.

Mr. B. F. Crowley has not, to our knowledge, had any previous shipbuilding experience.

7. James C. Merrill, Sr., Merrill-Stevens Dry Dock & Repair Co.
8. James C. Merrill, Sr., Merrill-Stevens Dry Dock & Repair Co.
9. See rider 4, attached.
10. See rider 5, attached.
11. See rider 6, attached.
12. See rider 7, attached.

Very truly yours,

ST. JOHNS RIVER SHIPBUILDING CO.,
A. H. AINSLOW, *Treasurer*.

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St. Johns River Shipbuilding Co.

Rider 2

Name	Office	Tenure	Salary rate per annum			
			1942	1943	1944	1945
James C. Merrill, Sr.[1]	President and director	Mar. 24, 1942, to present	$25,000	$25,000	$25,000	$25,000
Walter F. Rogers	Counsel	do	[2] 9,000	[2] 9,000	[2] 9,000	[2] 9,000
Harry M. Hope	Vice president and director	Mar. 24 to May 13, 1942	0	0	0	0
Kenneth A. Merrill[1] (representing Thompson-Starrett Co., Inc., interests).	do	Mar. 24, 1942, to present	15,000	15,000	15,000	15,000
Leo J. Fischer[1]	Director and chairman of board	Mar. 24, 1942, to Apr. 10, 1945	25,000	25,000	25,000	25,000
George Atwell	Director	Mar. 24, 1942, to Sept. 8, 1943	0	0	0	0
P. W. Eller (replaced Atwell)	do	Sept. 9, 1943, to Jan. 10, 1945	0	0	0	0
W. W. Westfall (representing Eller)	do	Jan. 10 to Apr. 10, 1945	0	0	0	0
T. W. Ryan, Jr.[1]	do	Mar. 24, 1942, to Aug. 15, 1945	0	0	0	0
	Executive vice president	Feb. 17, 1944, to Apr. 10, 1945			15,000	15,000
	Vice president	Apr. 10, 1945, to Aug. 15, 1945			(3)	4,500
V. H. Wiese	Director and treasurer	Mar. 24, 1942, to Apr. 10, 1945	0	0	0	0
	Resigned as treasurer	May 13, 1942				
D. J. O'Mahoney	Director and secretary	Mar. 24, 1942, to Aug. 10, 1943	12,000	12,000	12,000	12,000
	General manager and secretary	Sept. 9, 1942, to Apr. 10, 1945			(3)	4,000
	Resigned as director	Aug. 10, 1943				
J. W. Garrett II (representing O'Mahoney)	Director	Aug. 10, 1943, to Feb. 8, 1944	0	0	0	0
R. N. Broad (representing Garrett)	do	Feb. 8, 1944, to Apr. 10, 1945	0	0	0	0
B. F. Crowley[4]	Director and vice president	Mar. 24, 1942, to July 11, 1945	12,000	12,000	12,000	12,000
Earl D. Page	Comptroller and treasurer[5]	Apr. 9, 1942, to Aug. 15, 1944	12,000	12,000	(3)	9,000
A. H. Ainslow	Treasurer and comptroller	Aug. 16, 1944, to present	0	0	12,000	0
	Director	Apr. 10, 1945, to present			10,000	12,000
					(3)	3,500

[1] Only $12,000 each reimbursed by U. S. Maritime Commission.
[2] Retainer.
[3] Bonus.
[4] Nothing reimbursed by U. S. Maritime Commission. The bonuses shown on the first page were not reimbursed by the U. S. Maritime Commission.
[5] Became treasurer on May 13, 1942, when V. H. Wiese resigned that office.

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ST. JOHNS RIVER SHIPBUILDING CO.—Continued

Rider 2—Continued

COMPLETE REORGANIZATION ON APR. 10, 1945

Name	Office	Tenure	Salary rate per annum			
			1942	1943	1944	1945
James C. Merrill, Sr	Director and president	April 10, 1945, to present	(6)	(6)	(6)	(6)
Kenneth A. Merrill	Director and vice president	do	(6)	(6)	(6)	(6)
T. W. Ryan, Jr	do	April 10 to August 15, 1945	(6)	(6)	(6)	(6)
B. F. Crowley	do	April 10 to July 11, 1945	(6)	(6)	(6)	(6)
A. H. Ainslow	Director and treasurer and comptroller	April 10, 1945, to present	(6)	(6)	(6)	(6)
Alex Balfe	Director	do				0
Gardner T. Gillette	do	do				0
Walter F. Rogers	Director and general counsel	do	(6)	(6)	(6)	(6)
James C. Merrill, Jr	Director	do				0
D. J. O'Mahoney	Vice president in charge of production and secretary and director.[7]	do	(6)	(6)	(6)	(6)

[6] See above.
[7] Became director on July 18, 1945, when B. F. Crowley resigned that office.

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ST. JOHNS RIVER SHIPBUILDING CO.

Rider 3

	To whom issued	Date
Class A stock: 200 shares	Thompson-Starrett Co., Inc	Mar. 23, 1942
Class B stock: 100 shares	James C. Merrill, Sr	Do.
Class C stock:		
33 shares	Margaret W. Crowley	Mar. 30, 1942
39 shares	Benjamin F. Crowley	Do.
45 shares	Edith M. Hope	Mar. 23, 1942
45 shares	Harry M. Hope	Do.

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ST. JOHNS RIVER SHIPBUILDING CO.

Rider 4

Description of all ship contracts [1]

(A) Serial number of contracts	MCc 2427.	MCc 16555.	MCc 30837.
(B) Type of contracts	Cost plus, fixed fee.	Cost plus, fixed fee.	Cost plus, fixed fee.
(C) Number and type of ships	30 type EC2-S-C1.	52 type EC2-S-C1.	12 type T1-M-BT1.
(D) Number constructed and delivered	30.	52.	12 launched, 4 delivered.
(E) Total paid by Maritime Commission	$53,824,850.87.	$54,973,286.20.	$12,361,347.47.
(F) Maximum fee	$2,099.994.	$3,120,000.	$720,000.
(G) Minimum fee	$900,000.	$1,040,000.	$472,500 (see note).
(H) Actual fees paid	$900,000.	$1,040,000.	$282,000.
(H-1) Claim for additional fees now being adjudicated		$264,223.	
(I) Profits received on each lump-sum contract: All cost-plus-fixed-fee contracts.			
(J) Total of all fees and profits received under contracts with Maritime Commission	$900,000.	$1,040,000.	$282,000.

[1] Minimum cancellation $45,000 per ship—equivalent of 10½ ships completed when work ceased result of VJ-day.

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ST. JOHNS RIVER SHIPBUILDING CO.

Rider 5

10. Fees and profits under each contract allowed after renegotiation:
MCc 2427: $900,000.
MCc 16555: Not yet renegotiated.
MCc 30837: Not yet renegotiated.

Rider 6

11. To the best of our knowledge the permissible fees are as shown on rider 4.

Rider 7

12. Facilities cost incurred in construction of yard (cost plus, no fee)	$16,189,189.26
Land purchased directly by Government at cost we believe to be	1,246,361.50
	17,435,550.76

ST. JOHNS RIVER SHIPBUILDING CO.,
Jacksonville 1, Fla., October 23, 1946.

Mr. MARVIN J. COLES,
General Counsel, United States House of Representatives,
Merchant Marine and Fisheries Investigating Committee,
Washington 25, D. C.

DEAR MR. COLES: In response to your telegram of October 11, 1946, which was received by this office on October 14, we furnish below the information requested:

1. Average amount of outstanding bank loans:

Year ending June 30—	
1943	$1,486,000
1944	1,032,000
1945	284,000

2. Total net fees and profits after income taxes: $338,178.94.
3. Total approximate cost of Government-furnished material used in construction each type of ship: Unknown.
4. Total amount of Federal income and excess profits taxes: $1,042,653.18.
5. Disallowed costs allocated to applicable contracts:

MCc-2427	$273,283.20
MCc-16555	473,695.37
MCc-30837	95,655.86
Total	842,634.43

In addition to the above information, we request that the record also include the following fact: On November 19, 1945, we submitted our summary of force majeure claims indicating that we had delivered our first 30 hulls 1,995 days ahead of contract delivery stipulation. In a letter dated December 7, 1945, our force majeure claim was approved in full by the Technical Division of the Maritime Commission. It is pertinent that we waived the premium fees arising out of the early delivery of these vessels, although we requested and received recognition of the fact that we had made delivery of the 30 ships 1,995 days earlier than the contract delivery stipulated.

We are attaching hereto, expense accounts incurred by our representatives in connection with your requirement that we be available for examination by the Bland committee during the week beginning September 22, 1946. Our actual expenditures in connection therewith aggregated some $477, but we have prepared these attached accounts in accordance with usual governmental procedure and they are as follows:

A. H. Ainslow, treasurer	$197.43
F. D. Wheeler, counsel	157.01
Total	354.44

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Attached to these accounts are photostats of the travel accommodations.

We shall appreciate any steps you may take to put these accounts in line for early payment.

Very truly yours,

ST. JOHNS RIVER SHIPBUILDING CO.,
A. H. AINSLOW, *Treasurer.*

EXHIBIT 25

ST. JOHNS RIVER SHIPBUILDING CO.,
Jacksonville 1, Fla., October 18, 1946.

Mr. MARVIN J. COLES,
General Counsel, Merchant Marine and Fisheries Investigating Committee,
United States House of Representatives, Washington, D. C.

DEAR MR. COLES: Reference is made to your letter of October 14, 1946. We regret that our receipt of this letter was delayed due to its having been delivered erroneously to the War Assets Administration, which is now renting the building formerly occupied by our offices.

We are enclosing copies of our tax returns as requested in your letter.

Since the only pertinent information sought from our capital stock tax returns would be the amount of the declared value of capital stock filed annually, we are listing these amounts below by years:

1945	$3,000,000
1944	7,500,000
1943	10,000,000
1942	4,000,000

The information requested in your telegram of October 11, 1946, which, again, was very much delayed in delivery, is being prepared and will be airmailed within the next day or so.

Very truly yours,

ST. JOHNS RIVER SHIPBUILDING CO.,
A. H. AINSLOW, *Treasurer.*

ST. JOHNS RIVER SHIPBUILDING CO.,
Jacksonville 1, Fla., October 24, 1946.

Mr. MARVIN J. COLES,
General Counsel, United States House of Representatives,
Merchant Marine and Fisheries Investigating Committee,
Washington 25, D. C.

DEAR MR. COLES: In compliance with your request of October 21, 1946, please find enclosed photostatic copies of our capital-stock-tax returns for 1942, 1943, 1944, and 1945.

Very truly yours,

A. H. AINSLOW, *Treasurer.*

Enclosures.

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(FOR USE OF COLLECTORS)

(Collection district)

(Month) (Year)

(Page) (Line)

1942 RETURN
OF
CAPITAL-STOCK TAX
For Year Ended June 30, 1942

DOMESTIC CORPORATIONS
(Chapter 6, Internal Revenue Code, as amended)

This return must be filed, in triplicate, and received with remittance by the Collector for your district on or before Nov. 28, 1942. (See instruction 7, page 8.)

Form 707
TREASURY DEPARTMENT
INTERNAL REVENUE SERVICE

OFFICE COPY

(To be stamped above by Collector, showing district and date received)

1. Name St. Johns River Shipbuilding Company
(Print name of corporation, joint-stock company, or association)
2. Address Jacksonville, Florida (Cor. Adams St. & Florida Ave.)
(The address must be that of the principal place of business. Give "street and number," "city or town," and "State")
3. Incorporated or organized in State of Florida Month March Day 9 Year 1942
4. Was a 1941 capital-stock tax return filed? No Name under which filed. (If different, attach statement explaining fully.)
(District .....)
5. Was an income-tax return filed for the last income-tax year ended prior to July 1, 1942? Yes Name under which filed St. Johns River Shipbuilding Company (District Florida)
6. Nature of business in detail Building "Liberty" Ships
7. Name of parent company, if any None (District .....)
8. Name of subsidiary, if any None Number of shares held .....
(If more than one, attach list and state number of shares held by parent; also districts where filed)
(District .....)

9. DECLARED VALUE OF ENTIRE CAPITAL STOCK . . . . . $ 4,000,000.00
(The value declared must be definite and unqualified. A value must be declared in every case regardless of whether exemption is claimed. See instructions 1 and 2)

10. EXEMPTIONS.—The law provides for exemption from the tax only on the grounds indicated below. Corporations claiming exemption must (1) declare a value for the capital stock under item 9, (2) check the appropriate block under item 10 showing the basis of the claim, and (3) submit with the return a full statement of the evidence specified under the block checked.

☐ Corporation exempt from income tax under section 101, Internal Revenue Code. Furnish information required by instruction 4.

☐ Insurance company subject to tax under section 201, 204, or 207, Internal Revenue Code. State which section .....

☐ Corporation not doing business. Furnish information required by instruction 6.

Computation of Tax	For Use of Taxpayer	For Use of Department
11. Declared value (must be identical figure entered in item 9)	$ 4 000 000 00	$
12. Tax at rate of $1.25 for each full $1,000 in item 9	5 000 00	
13. Penalty of ..... percent for delinquency in filing return	-0-	
14. Interest at 6 percent per annum beginning Nov. 29, 1942	-0-	
15. Total tax, penalty, and interest	$ 5 000 00	$

James C. Merrill President

Earl D. Page Treasurer

DUPLICATE

27th November 42

D. A. Smith, Jr. (S)

James C. Merrill (S) President

Earl D. Page (S) Treasurer

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1943 RETURN
OF
CAPITAL-STOCK TAX
For Year Ended June 30, 1943

DOMESTIC CORPORATIONS
(Chapter 6, Internal Revenue Code, as amended)

This return must be filed, in triplicate, and received with remittance by the Collector for your district on or before July 31, 1943. (See instruction 7, page 8.)

Form 707
TREASURY DEPARTMENT
INTERNAL REVENUE SERVICE

(To be stamped above by Collector, showing district and date received)

1. Name St. Johns River Ship Bldg. Co.
(Print name of corporation, joint-stock company, or association)
2. Address Cor. Adams and Fla. Ave. Jacksonville, Fla.
(The address must be that of the principal place of business. Give "street and number," "city or town," and "State")
3. Incorporated or organized in State of Florida Month March Day 9 Year 1942
4. Was a 1942 capital-stock tax return filed? Yes Name under which filed. (If different, attach statement explaining fully.) Same (District Fla.)
5. Was an income-tax return filed for the last income-tax year ended prior to July 1, 1943? Yes Name under which filed Same (District)
6. Nature of business in detail Shipbuilding
7. Name of parent company, if any None (District)
8. Name of subsidiary, if any None Number of shares held
(If more than one, attach list and state number of shares held by parent; also districts where filed)
(District)

9. **DECLARED VALUE OF ENTIRE CAPITAL STOCK** $10,000,000.00
(The value declared must be definite and unqualified. A value must be declared *in every case* regardless of whether exemption is claimed. See instructions 1 and 2)

10. **EXEMPTIONS.**—The law provides for exemption from the tax only on the grounds indicated below. Corporations claiming exemption must (1) declare a value for the capital stock under item 9, (2) check the appropriate block under item 10 showing the basis of the claim, and (3) submit with the return a full statement of the evidence specified under the block checked.

☐ Corporation exempt from income tax under section 101, Internal Revenue Code. Furnish information required by instruction 4.

☐ Insurance company subject to tax under section 201, 204, or 207, Internal Revenue Code. State which section

☐ Corporation not doing business. Furnish information required by instruction 6.

Computation of Tax	For Use of Taxpayer	For Use of Department
11. Declared value (must be identical figure entered in item 9)	$ 10 000 000 00	$
12. Tax at rate of $1.25 for each full $1,000 in item 9	12 500 00	
13. Penalty of ..... percent for delinquency in filing return		
14. Interest at 6 percent per annum beginning Aug. 1, 1943		
15. Total tax, penalty, and interest	$ 12 500 00	$

We, the undersigned J. C. Merrill, President
(Print plainly name of president, vice president, or other principal officer) (Title)
and E. D. Page, Treasurer, of the corporation for which this
(Print plainly name of treasurer, assistant treasurer, or chief accounting officer) (Title)
return is made, being severally duly sworn, each for himself deposes and says that this return, including any accompanying schedules and statements, has been examined by him and is, to the best of his knowledge and belief, a true and complete return, made in good faith, for the taxable year stated, pursuant to Chapter 6, Internal Revenue Code, as amended.

Sworn to and subscribed before me this 28th day of July, 1943

NOTARIAL SEAL

D. A. Smith Jr.
(Signature of officer administering oath)
Notary Public, State of Florida at large
My commission expires Aug. 20, 1945.
Bonded by Fidelity Surety Co. of N. Y.

CORPORATE SEAL

[signature] President
(Signature) (Title)

Earl D. Page Treasurer
(Signature) (Title)

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1944 RETURN
OF
CAPITAL-STOCK TAX
For Year Ended June 30, 1944

DOMESTIC AND FOREIGN CORPORATIONS
(Chapter 6, Internal Revenue Code, as amended)

This return must be filed, in triplicate, and received with remittance by the Collector on or before July 31, 1944. (See instruction 7, page 8.)

FORM 707
TREASURY DEPARTMENT
INTERNAL REVENUE SERVICE

File Copy
Filed 7/31

(To be stamped above by Collector, showing district and date received)

1. Name St. Johns River Shipbuilding Company
(Print name of corporation, joint-stock company, or association)
2. Address Corner Adams Street and Fla. Avenue, Jacksonville, Florida
(Street and number, city and State, of principal place of business, if domestic corporation; or of U. S. office, if foreign corporation)
3. Incorporated or organized in State of Florida Month March Day 9 Year 1942
(State or country)
4. Was a 1943 capital-stock tax return filed? Yes Name under which filed. (If different, attach statement explaining fully)
Same (District Florida)
5. Was an income-tax return filed for the last income-tax year ended prior to July 1, 1944? Yes Name under which filed
Same (District Florida)
6. Nature of business in detail Shipbuilding
7. Name of parent company, if any None (District)
8. Name of subsidiary, if any None Number of shares held
(If more than one, attach list and state number of shares held by parent; also districts where filed)
(District)

9. **DECLARATION OF VALUE AND COMPUTATION OF TAX**
(A definite and unqualified value must be *declared in every case* regardless of whether exemption is claimed. See instructions 1 and 2)

Domestic Corporation: Declared value of capital stock	$ 7,500,000.00
Foreign Corporation: Declared value of capital employed in the transaction of its business in the United States	

Tax at rate of $1.25 for each full $1,000 of the value declared above	$	9	375	00
Penalty of ..... percent for delinquency in filing return				
Interest at 6 percent per annum beginning Aug. 1, 1944				
Total tax, penalty, and interest	$	9	375	00

10. **EXEMPTIONS.**—The law provides for exemption from the tax only on the grounds indicated below. Corporations claiming exemption must (1) declare a value under item 9, (2) check the appropriate block under item 10 showing the basis of the claim, and (3) submit with the return a full statement of the evidence specified under the block checked.
- ☐ Corporation exempt from income tax under section 101, Internal Revenue Code. Furnish information required by instruction 4.
- ☐ Insurance company subject to tax under section 201, 204, or 207, Internal Revenue Code. State which section
- ☐ Corporation not doing business. Furnish information required by instruction 6.

We, the undersigned James C. Merrill (Print plainly name of president, vice president, or other principal officer)*, President (Title) and Earl D. Page (Print plainly name of treasurer, assistant treasurer, or chief accounting officer), Treasurer (Title), of the corporation for which this return is made, being severally duly sworn, each for himself deposes and says that this return, including any accompanying schedules and statements, has been examined by him and is, to the best of his knowledge and belief, a true and complete return, made in good faith, for the taxable year stated, pursuant to Chapter 6, Internal Revenue Code, as amended.

Sworn to and subscribed before me this ..... day of July, 19 44

NOTARIAL SEAL — (Signature of officer administering oath) — (Official capacity)

CORPORATE SEAL — (Signature) President (Title)* — (Signature) Treasurer (Title)

*A duly authorized agent may execute the return of a foreign corporation. See Instruction 8.

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16—80370-1 ☆ U. S. GOVERNMENT PRINTING OFFICE: 1944

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(Collection district)

(Month) (Year)

(Page) (Line)

1945 RETURN
OF
CAPITAL-STOCK TAX
For Year Ended June 30, 1945

DOMESTIC AND FOREIGN CORPORATIONS
(Chapter 6, Internal Revenue Code, as amended)

This return must be filed, in triplicate, and received with remittance by the Collector on or before July 31, 1945. (See instruction 7, page 8.)

FORM 707
TREASURY DEPARTMENT
INTERNAL REVENUE SERVICE

(To be stamped above by Collector, showing district and date received)

1. Name ST. JOHNS RIVER SHIPBUILDING COMPANY
(Print name of corporation, joint-stock company, or association)
2. Address Cor. Adams St. & Florida Ave., Jacksonville, Florida
(Street and number, city and State, of principal place of business, if domestic corporation; or of U. S. office, if foreign corporation)
3. Incorporated or organized in Florida (State or country) Month March Day 9 Year 1942
4. Was a 1944 capital-stock tax return filed? Yes Name under which filed. (If different, attach statement explaining fully)
Same (District Florida)
5. Was an income-tax return filed for the last income-tax year ended prior to July 1, 1945? Yes Name under which filed
Same (District .....)
6. Nature of business in detail Shipbuilding
7. Name of parent company, if any None (District .....)
8. Name of subsidiary, if any None Number of shares held .....
(If more than one, attach list and state number of shares held by parent; also districts where filed)
(District .....)

9. **DECLARATION OF VALUE AND COMPUTATION OF TAX**
(A definite and unqualified value must be declared in any place regardless of whether exemption is claimed. See instructions 1 and 2, page 8)

Domestic Corporation: Declared value of capital stock Foreign Corporation: Declared value of capital employed in the transaction of its business in the United States	$ 3,000,000.00			
Tax at rate of $1.25 for each full $1,000 of the value declared above	$	3	750	00
Penalty of ..... percent for delinquency in filing return				
Interest at 6 percent per annum beginning Aug. 1, 1945				
Total tax, penalty, and interest	$	3	750	00

10. EXEMPTIONS.—The law provides for exemption from the tax only on the grounds indicated below. Corporations claiming exemption must (1) declare a value under item 9, (2) check the appropriate block under item 10 showing the basis of the claim, and (3) submit with the return a full statement of the evidence specified under the block checked.

☐ Corporation exempt from income tax under section 101, Internal Revenue Code. Furnish information required by instruction 4, page 8.
☐ Insurance company subject to tax under section 201, 204, or 207, Internal Revenue Code. State which section .....
☐ Corporation not doing business. Furnish information required by instruction 6, page 8.

We, the undersigned James C. Merrill, President (Title)
(Print plainly name of president, vice president, or other principal officer)*
and A. H. Ainslow, Treasurer (Title), of the corporation for which this
(Print plainly name of treasurer, assistant treasurer, or chief accounting officer)
return is made, being severally duly sworn, each for himself deposes and says that this return, including any accompanying schedules and statements, has been examined by him and is, to the best of his knowledge and belief, a true and complete return, made in good faith, for the taxable year stated, pursuant to Chapter 6, Internal Revenue Code, as amended.

Sworn to and subscribed before me this ..... day of July, 1945

CORPORATE SEAL

(Signature) President (Title)
(Signature) Treasurer (Title)

NOTARIAL SEAL

(Signature of officer administering oath)

(Official capacity)

*A duly authorized agent may execute the return of a foreign corporation. See instruction 8, page 8.

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Form 1120
Treasury Department
Internal Revenue Service

Page 1

UNITED STATES
CORPORATION INCOME AND DECLARED VALUE EXCESS-PROFITS TAX RETURN 1942

For Calendar Year 1942

or fiscal year beginning July 1, 1942, and ending June 30, 1943

PRINT PLAINLY CORPORATION'S NAME AND ADDRESS

St. Johns River Shipbuilding Company (Name)

Florida Avenue and Adams Street (Street and number)

Jacksonville (Post office) Duval (County) Florida (State)

Kind of business: Contractor for Construction of Vessels for U. S. Maritime Commission

Business group serial number (from instruction N) 194

File Code
Serial No.
District (Collector's stamp)

Cash Check M. O.
First Payment $

NORMAL-TAX NET INCOME COMPUTATION

Item and Instruction No.			
	GROSS INCOME		
1.	Gross sales (where inventories are an income-determining factor) $; Less: Returns and allowances $	$	
2.	Less: Cost of goods sold. (From Schedule A)		
3.	Gross profit from sales	$	
4.	Gross receipts (where inventories are not an income-determining factor) $		
5.	Less: Cost of operations. (From Schedule B)		
6.	Gross profit where inventories are not an income-determining factor		
7.	Interest on loans, notes, mortgages, bonds, bank deposits, etc. (Less: Amortizable Bond Premium)		
8.	Interest on corporation bonds, etc. $ $		
9.	(a) Interest on United States savings bonds and Treasury bonds owned in excess of the principal amount of $5,000 issued prior to March 1, 1941. (From Schedule M, line 15 (a) (3) (iii))		
	(b) Interest on Treasury notes issued on or after December 7, 1942, and obligations issued on or after March 1, 1941, by the United States or any agency or instrumentality thereof. (Submit schedule)		
10.	Rents		
11.	Royalties		
12.	(a) Net gain from sale or exchange of capital assets. (From Schedule C)		
	(b) Net gain (or loss) from sale or exchange of property other than capital assets. (From Schedule D)		
13.	Dividends. (From Schedule E)		
14.	Other income. (State nature)		
15.	Total income in items 3, and 6 to 14, inclusive SEE SCHEDULE 1 ATTACHED		$
	DEDUCTIONS		
16.	Compensation of officers. (From Schedule F)	$	
17.	Salaries and wages (not deducted elsewhere)		
18.	Rent		
19.	Repairs		
20.	Bad debts. (From Schedule G)		
21.	Interest		
22.	Taxes. (From Schedule H) (Deduct declared value excess-profits tax as item 34)		
23.	Contributions or gifts paid. (From Schedule I)		
24.	Losses by fire, storm, shipwreck, or other casualty, or theft. (Submit schedule)		
25.	Depreciation. (From Schedule J)		
26.	Depletion of mines, oil and gas wells, timber, etc. (Submit schedule)		
27.	Net operating loss deduction. (Submit statement)		
28.	Amortization of emergency facilities. (Submit schedule)		
29.	Other deductions authorized by law. (From Schedule K)		
30.	Total deductions in items 16 to 29, inclusive		
31.	Net income for declared value excess-profits tax computation (Item 15 minus item 30)		$ None
32.	Add: Interest on obligations of certain instrumentalities of the United States issued prior to March 1, 1941. (From Schedule M, line 15 (a) (3) (ii)) $ Less amortizable bond premiums, $		
33.	Total of lines 31 and 32		$
34.	Less: Declared value excess-profits tax		
35.	Net income		$
36.	Less: Interest on certain obligations of the United States and its instrumentalities issued prior to March 1, 1941. (Enter total of lines 9 (c) and 32)		
37.	Adjusted net income		$
38.	Less: Income subject to excess profits tax	$	
39.	Dividends received credit (85 percent of column 2, Schedule E, but not in excess of 85 percent of item 37 minus item 38, above)		
40.	Normal-tax net income		$ None
	TOTAL INCOME AND DECLARED VALUE EXCESS-PROFITS TAXES		
41.	Total income tax (line 28 or 50, page 2, whichever is applicable)	$	
42.	Less: Credit for income taxes paid to a foreign country or United States possession allowed a domestic corporation		
43.	Balance of income tax		$ None
44.	Total declared value excess-profits tax (line 8, page 2)		
45.	Total income and declared value excess-profits taxes due		$ None

AFFIDAVIT. (See instruction E)

We, the undersigned, president (or vice president, or other principal officer) and treasurer (or assistant treasurer, or chief accounting officer) of the corporation for which this return is made, being severally duly sworn, each for himself deposes and says that this return (including any accompanying schedules and statements) has been examined by him and is, to the best of his knowledge and belief, a true, correct and complete return, made in good faith, for the taxable year stated, pursuant to the Internal Revenue Code and the regulations issued thereunder.

Subscribed and sworn to before me this ..... day of September, 1943

President (President or other principal officer) (State title)

NOTARIAL SEAL (Signature of officer administering oath) (Title)

CORPORATE SEAL

Treasurer (Treasurer, Assistant Treasurer, or Chief Accounting Officer) (State title)

AFFIDAVIT. (See instruction E)

I/we swear (or affirm) that I/we prepared this return for the person named herein and that the return (including any accompanying schedules and statements) is a true, correct, and complete statement of all the information respecting the tax liability of the person for whom this return has been prepared of which I/we have any knowledge.

Subscribed and sworn to before me this ..... day of September, 1943

(Signature of person preparing the return)

(Signature of person preparing the return)

NOTARIAL SEAL (Signature of officer administering oath) (Title)

St. Johns River Shipbuilding Co (Name of firm or employer, if any)

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DECLARED VALUE EXCESS-PROFITS TAX COMPUTATION. (See Computation Instructions)

Line No.		Column 1	Col. 2 Rate	Column 3 Amount of Tax
1.	Net income for declared value excess-profits tax computation (Item 31, page 1)	$ None		
2.	Value of capital stock as declared in your capital stock tax return for the year ended June 30, 1943 (or for year ended June 30, 1942, if your income tax fiscal year begins in 1942 and ended on or after July 31, 1943) $			
3.	10 percent of line 2 $			
4.	Dividends received credit (85 percent of column 2, Schedule E, but not in excess of 85 percent of item 37 minus item 38, page 1)			
5.	Balance subject to declared value excess-profits tax (line 1 minus total of lines 3 and 4)	$		
6.	Amount taxable at 6.6 percent (5 percent of line 2, but not more than line 5); and tax		6.6%	$
7.	Balance taxable at 13.2 percent (line 5 minus line 6, column 1); and tax	$	13.2%	
8.	Total declared value excess-profits tax (total of line 6, column 3, and line 7, column 3)			$ None

INCOME TAX COMPUTATION. (See Computation Instructions)

	NORMAL TAX COMPUTATION — DOMESTIC CORPORATIONS WITH NORMAL-TAX NET INCOMES NOT OVER $25,000			
9.	Normal-tax net income (item 40, page 1)	$		
10.	Portion of line 9 (not in excess of $5,000); and tax at 15 percent	$	15%	$
11.	Portion of line 9 (in excess of $5,000 and not in excess of $20,000); and tax at 17 percent		17%	
12.	Portion of line 9 (in excess of $20,000 and not in excess of $25,000); and tax at 19 percent		19%	
13.	Portion of line 9 (in excess of $25,000); and tax at 31 percent		31%	
14.	Total normal tax (total tax in column 3 of lines 10, 11, 12, and 13)			$ None
	DOMESTIC CORPORATIONS WITH NORMAL-TAX NET INCOMES OF OVER $25,000 AND FOREIGN CORPORATIONS ENGAGED IN BUSINESS WITHIN THE UNITED STATES (IRRESPECTIVE OF AMOUNT OF NORMAL-TAX NET INCOME)			
15.	Normal-tax net income (item 40, page 1)	$		
16.	Normal tax (24 percent of line 15)		24%	$
	SURTAX COMPUTATION			
17.	Net income (item 35, page 1)	$ None		
18.	Less: Income subject to excess profits tax $			
19.	Dividends received credit (85 percent of column 2, Schedule E (excluding certain dividends received on preferred stock of a public utility), but not in excess of 85 percent of line 17 minus 18)			
20.	Dividends paid on certain preferred stock if taxpayer is a public utility			
21.	Surtax net income	$		
	CORPORATIONS WITH SURTAX NET INCOMES NOT OVER $50,000			
22.	Portion of line 21 (not in excess of $25,000); and tax at 10 percent (or 12 percent in the case of a consolidated return)	$	10%	$
23.	Portion of line 21 (in excess of $25,000 and not in excess of $50,000); and tax at 22 percent (or 24 percent in the case of a consolidated return)		22%	
24.	Total surtax in column 3 of lines 22 and 23			$ None
	CORPORATIONS WITH SURTAX NET INCOMES OF OVER $50,000			
25.	Surtax net income (line 21 above)	$		
26.	Surtax (16 percent of line 25) (or in the case of a consolidated return, 18 percent of the consolidated surtax net income)		16%	$
27.	Total normal and surtax (line 14 or 16, plus line 24 or 26, whichever is applicable)			$
28.	Total tax (line 27 or line 33, Schedule C)			$
	TAX COMPUTATION FOR REGULATED INVESTMENT COMPANIES			
29.	Adjusted net income (item 37, page 1, but computed without regard to section 47 (c))	$		
30.	Add: Net operating loss deduction (item 27, page 1)			
31.	Total of lines 29 and 30	$		
32.	Less: Excess of net long-term capital gain over short-term capital loss. (From Schedule C)			
33.	Adjusted net income (after applying section 362 (b) (1))	$		
34.	Less: Basic surtax credit (excluding capital gain dividends) computed without regard to paragraphs (2) and (3) of section 27 (b). (Submit schedule)			
35.	Supplement Q net income	$		
36.	Normal tax (24 percent of line 35)		24%	$
37.	Net income (item 35, page 1, but computed without regard to section 47 (c))	$		
38.	Add: Net operating loss deduction (item 27, page 1)			
39.	Total of lines 37 and 38	$		
40.	Less: Excess of net long-term capital gain over short-term capital loss. (From Schedule C)			
41.	Net income (after applying section 362 (b) (2))	$		
42.	Less: Dividends (other than capital gain dividends) paid including consent dividends credit. (Submit schedule)			
43.	Supplement Q surtax net income	$		
44.	Surtax (16 percent of line 43)		16%	
45.	Net long-term capital gain. (From Schedule C)	$		
46.	Less: Net short-term capital loss. (From Schedule C) $			
47.	Capital gain dividends paid. (Submit schedule)			
48.	Excess subject to tax	$		
49.	Tax (25 percent of line 48)		25%	
50.	Total tax in lines 36, 44, and 49			$

Schedule A.—COST OF GOODS SOLD. (See Instruction 2) (Where inventories are an income-determining factor)		Schedule B.—COST OF OPERATIONS (Where inventories are not an income-determining factor)	
Inventory at beginning of year	$	Salaries and wages	$
Material or merchandise bought for manufacture or sale		Other costs (to be detailed):	
Salaries and wages		(a)	
Other costs per books. (Attach itemized schedule)		(b)	
Total	$	(c)	
Less: Inventory at end of year		(d)	
Cost of goods sold (enter as item 2, page 1)	$	(e)	
		Total (enter as item 5, page 1)	$

Schedule C.—Separate Schedule C (Form 1120) should be prepared and used in reporting sales and exchanges of capital assets and filed with and as a part of this return.

Schedule D.—GAINS AND LOSSES FROM SALES OR EXCHANGES OF PROPERTY OTHER THAN CAPITAL ASSETS. (See Instruction 12)

1. Description of Property	2. Date Acquired	3. (From Sales Price (Contract price)	4. Cost or Other Basis	5. Expense of Sale and Cost of Improvements Subsequent to Acquisition or March 1, 1913	6. Depreciation Allowed (or allowable) since Acquisition or March 1, 1913 (Furnish details)	7. Gain or Loss (subtract 3 plus subtract 4 minus the sum of columns 4 and 5)
		$	$	$	$	$
Total net gain (or loss). (Enter as item 12 (b), page 1)						$

Supplemental information required for Schedule D

State with respect to each item of property reported in Schedule D: (1) how property was acquired ..... (2) number at time of sale or exchange, (a) purchaser owned directly or indirectly more than 50 percent in value of your outstanding stock, (b) where purchaser was a corporation, more than 50 percent in value of its capital stock and 50 percent this value of your capital stock was owned directly or indirectly, by or for the same individual or his family, and (c) where purchaser was a partnership, whether more than 50 percent in value of its capital stock was owned directly or indirectly by you ..... If so, state name and address of purchaser .....

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Schedule E.—INCOME FROM DIVIDENDS Page 3

1. Name and Address of Paying Corporation	2. *Domestic Corporations Taxable Under Chapter 1, Internal Revenue Code	3. Foreign Corporations	4. Other Corporations
	$	$	$
Totals	$	$	$
Total of columns 2, 3, and 4. (Enter as item 13, page 1)			$

*Exempt dividends received from corporations organized under the China Trade Act, 1922, and corporations entitled to the benefits of section 251 of the Internal Revenue Code, which dividends should be entered in column 4.

Dividends on share accounts in Federal savings and loan associations at date of share account issue 1 prior to March 29, 1942, should not be listed, but the amount should be included in items 23 and 36, page 1. Dividends on share accounts issued on or after March 29, 1942, should be reported in column 4.

Schedule F.—COMPENSATION OF OFFICERS

1. Name and Address of Officer	2. Official Title	3. Time Devoted to Business	Percentage of Corporation's Stock Owned: 4. Common	5. Preferred	6. Amount of Compensation
SCHEDULE ATTACHED					$
Total compensation of officers. (Enter as item 16, page 1)					$

NOTE.—Schedule F-1 (IN DUPLICATE) also must be filed with this return if compensation in excess of $75,000 was paid to any officer or employee.

Schedule G.—BAD DEBTS. (See Instruction 20) (See notes 1 and 2)

1. Taxable Year	2. Net Income Reported	3. Sales on Account	4. Bad Debts of Corporation If No Reserve Is Carried on Books (See note 2)	If Corporation Carries a Reserve— 5. Gross Amount Added to Reserve	6. Amount Charged Against Reserve
1938	$	$	$	$	$
1939					
1940					
1941					
1942					

1. Check whether deduction claimed represents worthless debts charged off ☐, or is an addition to a reserve ☐.
2. Not including securities which are capital assets and which became worthless within the taxable year. Such securities which became worthless within the year should be reported in Schedule C.

Schedule H.—TAXES. (See Instruction 22)

Nature	Amount
	$
Total. (Enter as item 22, page 1)	$

Schedule I.—CONTRIBUTIONS OR GIFTS PAID. (See Instruction 23)

Name and Address of Organization	Amount
	$
Total. (Enter as item 23, page 1, subject to 5 percent limitation.) (See Instruction 23)	$

Schedule J.—DEPRECIATION. (See Instruction 25)

1. Kind of Property (If buildings, state material of which constructed)	2. Date Acquired	3. Cost or Other Basis (Do not include land or other nondepreciable property)	4. Assets Fully Depreciated in Use at End of Year	5. Depreciation Allowed (or allowable) in Prior Years	6. Remaining Cost or Other Basis To Be Recovered	7. Estimated Life Used in Accumulating Depreciation	8. Estimated Remaining Life From Beginning of Year	9. Depreciation Allowable This Year
		$	$	$	$			$
Total. (Enter as item 25, page 1)								$

Schedule K.—OTHER DEDUCTIONS. (See instruction 29)

QUESTIONS

1. Date of incorporation March 9, 1942
2. State or country Florida
3. State collector's office where the corporation's return for the preceding year was filed Jacksonville, Florida
4. The corporation's books are in care of Earl D. Page Treasurer
   Located at Jacksonville, Florida
5. Number of places of business one
6. Did the corporation during the taxable year have any Government contracts or subcontracts? (Answer "yes" or "no") Yes If answer is "yes," state the approximate aggregate gross dollar amount billed during the taxable year under all such contracts and/or subcontracts. (See Instruction G-(3).) $34,900.00
7. Is the corporation a personal holding company within the meaning of section 501 of the Internal Revenue Code? No (If so, an additional return on Form 1120 H must be filed.)
8. Is this a consolidated return? No (If so, procure from the collector of internal revenue for your district Form 851, Affiliations Schedule, which shall be filled in, sworn to, and filed as a part of this return.)
9. If this is not a consolidated return: (a) did you own at any time during the taxable year 50 percent or more of the voting stock of another corporation either domestic or foreign? No; or (b) did any corporation, individual, partnership, trust, or association own at any time during the taxable year 50 percent or more of your voting stock? No (If either answer is "yes," attach separate schedule showing: (1) Name and address; (2) percentage of stock owned; (3) date stock was acquired; and (4) the collector's office in which the income tax return of such corporation, individual, partnership, trust, or association for the last taxable year was filed.)
10. Is this return made on the basis of cash receipts and disbursements? No If not, describe fully in separate statement.
11. Did the corporation at any time after October 3, 1942, and before the end of its taxable year have in its employ more than eight individuals? (Answer "yes" or "no") Yes If answer is "yes," has the corporation in this return taken a deduction for any amount of wages or salaries representing an increase or decrease in rate after October 3, 1942? (Answer "yes" or "no") Yes If answer to second question is "yes," attach statement explaining all such increases or decreases. If any of such increases or decreases required the prior approval of the National War Labor Board or the Commissioner of Internal Revenue as stated in Instruction 16, attach also a copy of the authorization for each of such increases or decreases.
12. State whether the inventories at the beginning and end of the taxable year were valued at cost, or cost or market, whichever is lower Not Applicable If other basis is used, explain fully in separate statement, giving date inventory was last reconciled with stock.
13. Did the corporation make a return of information on Forms 1096 and 1099 for the calendar year 1942 (see Instruction G-(1))? Yes
14. Did the corporation at any time during the taxable year own directly or indirectly any stock of a foreign corporation? (Answer "yes" or "no") No (If answer is "yes," attach statement as required by Instruction K-(8).)

* Accrual Basis--Vessel Income Accrued on Basis of Ships Launched and Delivered

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Schedule L.—BALANCE SHEETS. (See Instruction L)

ASSETS	Beginning of Taxable Year: Amount	Beginning of Taxable Year: Total	End of Taxable Year: Amount	End of Taxable Year: Total
1. Cash	$	$	$	$
2. Notes and accounts receivable	$			
Less: Reserve for bad debts				
3. Inventories (itemize in separate schedule)				
4. Investments in governmental obligations:				
(a) Obligations of a State, Territory, or political subdivision thereof, or the District of Columbia, or United States possessions	$		$	
(b) Obligations of the United States:				
(1) Obligations issued on or before September 1, 1917; all postal savings bonds; Treasury notes issued prior to December 1, 1940, and Treasury bills issued prior to March 1, 1941				
(2) United States savings bonds and Treasury bonds issued prior to March 1, 1941				
(3) Treasury notes issued on or after December 1, 1940, and all other obligations of the United States issued on or after March 1, 1941				
(c) Obligations of instrumentalities of the United States:				
(1) Obligations of Federal land banks, joint stock land banks, and Federal intermediate credit banks issued prior to March 1, 1941				
(2) Obligations issued by other instrumentalities of the United States prior to March 1, 1941				
(3) Obligations of all instrumentalities of the United States issued on or after March 1, 1941				
5. Other investments (itemize)				
6. Capital assets:				
(a) Depreciable assets (itemize in separate schedule)	$		$	
Less: Reserve for depreciation				
(b) Depletable assets	$		$	
Less: Reserve for depletion				
(c) Land	$		$	
7. Other assets (itemize)				
8. TOTAL ASSETS		$		$
LIABILITIES				
9. Accounts payable		$		$
10. Bonds, notes, and mortgages payable:				
(a) With original maturity of less than 1 year	$		$	
(b) With original maturity of 1 year or more	$		$	
11. Accrued expenses (itemize)				
12. Other liabilities (itemize)	$		$	
13. Surplus reserves (itemize in separate schedule)				
14. Capital stock:				
(a) Preferred stock	$		$	
(b) Common stock				
15. Paid-in or capital surplus				
16. Earned surplus and undivided profits				
17. TOTAL LIABILITIES		$		$

Schedule M.—RECONCILIATION OF NET INCOME AND ANALYSIS OF EARNED SURPLUS AND UNDIVIDED PROFITS

1. Total distributions to stockholders charged to earned surplus during the taxable year:		
(a) Cash	$	
(b) Stock of the corporation		
(c) Other property		
2. Contributions (excess over 5 percent limitation)		
3. Federal income and excess-profits taxes		
4. Income taxes claimed as a credit in whole or in part in Item 42, page 1		
5. Federal taxes paid on tax-free covenant bonds		
6. Excess of capital losses over capital gains		
7. Additions to surplus reserves (list separately):		
(a) Organization Expense	1,145	00
(b)		
8. Other unallowable deductions:		
(a)		
(b)		
9. Adjustments not recorded on books (itemize):		
(a)		
(b)		
10. Sundry debits to earned surplus (itemize):		
(a)		
(b)		
11. Earned surplus and undivided profits at close of the taxable year (Schedule L)	24,650	71
12. Total of lines 1 to 11	$ 25,795	71

13. Earned surplus and undivided profits at close of preceding taxable year (Schedule L)	$ 68,977	07
14. Adjusted net income (item 37, page 1)	None	
15. Nontaxable and partially exempt income:		
(a) Interest on:		
(1) Obligations of a State, Territory, or political subdivision thereof, or the District of Columbia, or United States possessions		
(2) Obligations of the United States:		
(i) Obligations issued on or before September 1, 1917; all postal savings bonds; Treasury notes issued prior to December 1, 1940; and Treasury bills issued prior to March 1, 1941		
(ii) United States savings bonds and Treasury bonds owned in the principal amount of $5,000 or less, issued prior to March 1, 1941		
(iii) United States savings bonds and Treasury bonds owned in excess of the principal amount of $5,000 issued prior to March 1, 1941		
(3) Obligations of instrumentalities of the United States:		
(i) Obligations of Federal land banks, joint stock land banks, and Federal intermediate credit banks issued prior to March 1, 1941		
(ii) Obligations issued by other instrumentalities of the United States prior to March 1, 1941		
(b) Other nontaxable income (itemize):		
(1)		
(2)		
16. Charges against surplus reserves (itemize):		
17. Adjustments not recorded on books (itemize):		
Net Operating Loss deduction	45,271	36
18. Sundry credits to earned surplus (itemize):		
19. Total of lines 13 to 18	$ 23,705	71

EXCESS PROFITS TAX. (See Instructions for Form 1121)

(a) Is an excess profits tax return on Form 1121 being filed for the taxable period covered by this return? No

(b) If a personal service corporation (other than a member of an affiliated group of corporations filing a consolidated return) signifies below its desire not to be subject to the excess profits tax, it shall be exempt from such tax and the provisions of Supplement S, Chapter 1, shall apply to the shareholders in such corporation who were such shareholders on the last day of the taxable year of the corporation. (Attach Form 1121PS)

(c) If corporation claims exemption under section 727 of the Internal Revenue Code, state basis of claim

(d) If an excess profits tax return is not being filed for the reason that it is claimed that the excess profits net income computed under the invested capital method is not greater than $5,000, the following Schedule N should be filled in. The completion of Schedule N does not constitute the filing of an excess profits tax return.

Schedule N.—EXCESS PROFITS NET INCOME COMPUTATION

1. Normalized net income (computed without credit for income subject to excess profits tax) (Item 40 plus item 28, page 1)	$ 33,040	02
2. Net short-term capital loss (Enter zero if short-term capital loss)	See Schedule 2	
3. 50 percent of interest on borrowed capital	23,968	47
4. Adjustment to net operating loss deduction under section 711 (b) (2) (D)	2,808	93
5. Total of lines 1 to 4	$ 4,731	38

6. Dividends received credit adjustment (item 11, page 1, excluding the sum of (a) dividends received (before or excluded from income pursuant to section 26(b)) and (b) dividends received on stock held primarily for sale to customers by a dealer in securities (item 10, page 1))	$	
7. Net gain from sale or exchange of capital assets (item 12 (c), page 1)		
8. Income from retirement or discharge of bonds, etc		
9. Refunds and interest on Agricultural Adjustment Act taxes		
10. Recoveries of bad debts		
11. Total of lines 6 to 10	$	
12. Excess profits net income (for purpose of determining necessity for filing return) (line 5 minus line 11)	$ 4,731	38

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Schedule L—Balance sheets

St. Johns River Shipbuilding Co. (Jacksonville, Fla.) corporation income tax return for fiscal year ended June 30, 1943

	Beginning of taxable year		End of taxable year	
ASSETS				
Cash	$18,327.85			$162,466.76
Accounts receivable	1,391,536.72			3,954,241.73
Miscellaneous accounts receivable	1,312.34			7,715.15
Total assets	1,411,176.91			4,124,423.64
LIABILITIES				
Accounts payable	414,695.45			870,694.22
Notes payable	427,457.80			869,716.26
6 percent serial debentures payable not later than Apr. 1 1944	600,000.00			289,528.11
Trust account:				
Liability for purchase of war bonds for employees			$94,262.59	
Less: Funds on deposit in Atlantic National Bank in trust for this purpose			94,262.59	
Accrued liabilities:				
Salaries and wages	$9,576.24		1,102,638.84	
Taxes (other than corporate income tax)	2,150.33		925,046.15	
Interest on bank loans	572.80		1,450.77	
Interest on 6 percent serial debentures	7,101.36		21,600.00	
Insurance premiums	18,000.00		61,000.00	
Rent		37,400.73	7,000.00	2,118,735.76
Capital stock—common		600.00		600.00
Deficit		68,977.07		24,850.71
Total liabilities		1,411,176.91		4,124,423.64

ST. JOHNS RIVER SHIPBUILDING CO. JACKSONVILLE, FLA.

Schedule 1

Gross income from fees billed to U. S. Maritime Commission:		
Launching—7 vessels		$210,000.00
Delivery—4 vessels		120,000.00
Total		330,000.00
Charges incurred in construction of shipyard facilities and vessels not reimbursable as costs:		
Officers' salaries	$40,999.70	
Salaries	2,741.84	
Interest on bank loans	13,898.19	
Interest on 6 percent serial debentures	34,026.75	
Facilities subcontract fee to Thompson-Starrett Co., Inc	148,000.00	
Federal capital stock tax (including $5,000 for preceding fiscal period)	17,500.00	
Legal expense	11,602.72	
Social security taxes	107.56	
Ceremonial launching expense	7,294.72	
Miscellaneous expense	8,557.16	
Net operating loss deduction (see schedule No. 2 attached)	45,271.36	
		330,000.00
Net income		0

ST. JOHNS RIVER SHIPBUILDING CO. (JACKSONVILLE, FLA.) NET OPERATING LOSS STATEMENT, FISCAL YEAR ENDING JUNE 30, 1942

Schedule 2

Gross income		None
Charges incurred in construction of shipyard not reimbursable as costs:		
Charges in excess of amounts reimbursable:		
Salaries	$10,561.09	
Social-security taxes	132.44	

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Changes incurred in construction, etc.—Continued		
Charges in excess of amounts reimbursable—Continued		
Interest on bank loans	$516.49	
Subcontractors fee to Thompson-Starrett Co., Inc., for construction of shipyard	50,000.00	
Charges not reimbursable: Interest on 6-percent serial debentures	7,101.36	
		$68,311.38
Net loss		68,311.38
Net operating loss for fiscal year ending June 30, 1942		68,311.38
Less amount used, schedule 1		45,271.36
Amount used, schedule N of return		23,040.02

ST. JOHNS RIVER SHIPBUILDING CO. (JACKSONVILLE, FLA.) CORPORATION INCOME-TAX RETURN FOR FISCAL YEAR ENDED JUNE 30, 1943

STATEMENT WITH RESPECT TO CHANGES AFTER OCTOBER 3, 1942, IN WAGES OR SALARIES AS REQUIRED BY QUESTION 11, PAGE 3, FORM 1120

The taxpayer, since October 3, 1942, has increased the wage or salary rate of numerous employees. Such increases which required the prior approval of the National War Labor Board or the Commissioner of Internal Revenue have had such approval, and such increases which required no prior approval of the National War Labor Board or the Commissioner of Internal Revenue have been made in accordance with the terms of a salary agreement or salary rate schedule and as a result of reasons or circumstances prescribed in orders, rulings, or regulations, promulgated under authority of the act of October 2, 1942. No wage or salary decreases in contravention of the orders, rulings, or regulations, promulgated under authority of the act of October 3, 1942, have been made by the taxpayer since October 3, 1942.

I certify that, to the best of my knowledge and belief, the foregoing is a true and correct statement. I further certify that data and information with respect to such increases are available for examination by authorized representatives of the Bureau of Internal Revenue.

ST. JOHNS RIVER SHIPBUILDING CO.,
——— ———, *Treasurer.*

St. Johns River Shipbuilding Co. (Jacksonville, Fla.) corporation income tax return for fiscal year ended June 30, 1943—Compensation of officers

Name and address of officer	Official title	Time devoted to business	Percentage of corporation's common stock owned	Reimbursed by U. S. Maritime Commission	Not reimbursable by U. S. Maritime Commission	Total
Leo J. Fischer, Jacksonville, Fla.	Chairman of board.	Part		$12,000	$12,999.85	$24,999.85
James C. Merrill, Jacksonville, Fla.	President	do	16⅔	12,000	12,999.85	24,999.85
Kenneth A. Merrill, Jacksonville, Fla.	Vice president	do	4⅙	12,000	3,000.00	15,000.00
Benjamin F. Crowley, Jacksonville, Fla.	do	do	6½		12,000.00	12,000.00
Earl D. Page, Jacksonville, Fla.	Treasurer	Full		12,000		12,000.00
A. H. Ainslow, Jacksonville, Fla.	Assistant treasurer.	do		6,375		6,375.00
D. J. O'Mahoney, Jacksonville, Fla.	Secretary and general manager.	do		7,000		7,000.00
Total				61,375	40,999.70	102,374.70

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Form 1121
Treasury Department
Internal Revenue Service

UNITED STATES
CORPORATION EXCESS PROFITS TAX RETURN
For Calendar Year 1943

or fiscal year beginning July 1, 1943, and ending June 30, 1944

PRINT PLAINLY CORPORATION'S NAME AND ADDRESS

St. Johns River Shipbuilding Company (Name)

Adams Street and Florida Avenue (Street and number)

Jacksonville (City or Town) Florida (State)

Business group serial number entered on page 1, Form 1120 194

Page 1

1943

File Code
Serial No.
District
(Cashier's stamp)

Cash Check M. O.
First payment
$

EXCESS PROFITS TAX COMPUTATION

Item and Instruction No.	Column 1 Income Credit Method	Column 2 Invested Capital Credit Method
1. Excess profits net income (line 16, Schedule A)	$	$
2. Specific exemption	$ 5,000	$ 5,000
3. Excess profits credit—based on income (line 46, Schedule B)		XXXXXXX XX
4. Excess profits credit—based on invested capital (line 41, Schedule C)	XXXXXXX XX	
5. Unused excess profits credit adjustment (attach schedule)		
6. Total of items 2 to 5	$	$
7. Difference between item 1 and item 6	$	$
8. Adjusted excess profits net income (item 7, column 1, or item 7, column 2, whichever is applicable)		$
9. 90 percent of item 8		$
10. Net income (computed without regard to the credit provided by section 26 (c)) (item 35, page 1, Form 1120)		$
11. Less: (a) Dividends received credit (85 percent of total of column 2, Schedule E, Form 1120 (excluding dividends received on certain preferred stock of a public utility), but not in excess of 85 percent of item 10 above)	$	
(b) Dividends paid on certain preferred stocks if taxpayer is a public utility (line 20, page 2, Form 1120)		
12. Surtax net income (computed without regard to the credit provided by section 26 (c))		$
13. 80 percent of item 12		
14. Income tax under Chapter 1 (other than section 102) for the taxable year (item 41, page 1, Form 1120)		
15. Excess of item 13 over item 14		$
16. Item 9, or item 15, whichever is lesser		$
17. Amount deferred by reason of the application of section 710 (a) (5) (relating to administration under section 722) (attach schedule) SCHEDULE ATTACHED		$
18. Excess profits tax:		
(a) Item 16 minus item 17	$	
(b) If schedule is filed under question (g), page 2, amount of tax as computed in such schedule		
(c) Item 18 (a) or item 18 (b), whichever is applicable		$510,490 84
19. Less: Credit for income taxes paid to a foreign country or United States possession allowed to a domestic corporation (portion not used in computing item 42, page 1, Form 1120)		None
20. Item 18 (c) minus item 19		$510,490 84
21. Less: Credit for debt retirement (item 28, below)		51,049 08
22. Item 20 minus item 21		$459,441 76
23. Amount, if any, due to application of section 734 (adjustment in case of position inconsistent with prior income tax liability) (attach schedule)		None
24. Excess profits tax due (item 22 plus item 23, or item 22 minus item 23, whichever is applicable)		$459,441 76

POST-WAR REFUND OF EXCESS PROFITS TAX AND CREDIT FOR DEBT RETIREMENT

25. Balance of excess profits tax (item 18 (c), above)	$510,490 84
26. Credit allowable under sections 780 and 781 (10 percent of item 25) (but in cases where item 19 is applicable, see Specific Instructions 27–28)	$ 51,049 08
27. Lesser of amounts paid on indebtedness or net reduction in indebtedness under section 783 (b) (2) 499,844 57	
28. Credit for debt retirement allowable under section 783 (40 percent of item 27, but not in excess of 10 percent of item 25)	51,049 08
29. Net post-war refund credit (item 26 minus item 28)	$ None

We, the undersigned, president (or vice president, or other principal officer) and treasurer (or assistant treasurer, or chief accounting officer) of the corporation for which this return is made, being severally duly sworn, each for himself deposes and says that this return (including any accompanying schedules and statements) has been examined by him and is, to the best of his knowledge and belief, a true, correct, and complete return, made in good faith, for the taxable year stated, pursuant to the Internal Revenue Code and the regulations issued thereunder.

Subscribed and sworn to before me this 15th day of September, 1944

J. C. Merrill President
(President or other principal officer) (Signature)

NOTARIAL SEAL

S. G. Lovell (N.P.)
(Signature of officer administering oath) (Title)

CORPORATE SEAL

A. H. Ainslow Treasurer
(Treasurer, Assistant Treasurer, or Chief Accounting Officer) (Signature)

I/we swear (or affirm) that I/we prepared this return for the person named herein and that the return (including any accompanying schedules and statements) is a true, correct, and complete statement of all the information respecting the excess profits tax liability of the person for whom this return has been prepared of which I/we have any knowledge.

Subscribed and sworn to before me this ..... day of ....., 194.....

NOTARIAL SEAL

(Signature of person preparing the return)

(Signature of person preparing the return)

(Signature of officer administering oath) (Title)

16—22310-2 (Name of firm or employer, if any)

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QUESTIONS

(a) Date of incorporation March 9, 1942 (b) State or country Florida

(c) Collector's office in which your income tax return for the taxable year was filed Jacksonville, Florida

(d) Is this a consolidated return? No If so, procure from the collector Form 851, Affiliations Schedule, which shall be filled in, sworn to, and filed as a part of the consolidated income tax return.

(e) In computing the excess profits credit under the invested capital method, do you elect to include in excess profits net income interest received on, reduced by the amount of amortizable bond premium under section 125 attributable to, all Government obligations described in section 22 (b) (4) of the Internal Revenue Code? (Answer "yes" or "no") No

(f) Are you a transferor or transferee upon an exchange as defined in section 760 or 761 of the Internal Revenue Code? (Answer "yes" or "no") No

(g) Does this return involve an adjustment of the excess profits tax liability due to the application of the sections specified in (1) below? (Answer "yes" or "no") No. If answer "yes":

(1) [illegible] 721 ☐; 722 ☐; 731 ☐; 733 ☐; [illegible]

(2) [illegible]

(3) [illegible] 721, $; 731, $; 73[illegible], $; [illegible], $ 3,265,029.35

(h) State amount of total assets at the end of the taxable year [illegible]

Schedule A.—EXCESS PROFITS NET INCOME COMPUTATION

Line No.		Column 1	Column 2
1.	Normal-tax net income computed without [illegible] (line 27, page 1, Form 1120)		$ 683,070 72
2.	Net short-term capital gain [illegible]		None
3.	Adjustment to [illegible] deduction — See Schedule Attached		27,771 40
4.	[illegible]		None
5.	[illegible] borrowed capital		9,372 81
6.	Interest on Government obligations [illegible]		None
7.	Total of lines 1 to 6		$ 720,214 93
8.	Net gain from sale or exchange of capital assets (line 17 (a), page 1, Form 1120)		None
9.	Income from retirement or discharge of bonds, etc.		None
10.	Refunds and interest on Agricultural Adjustment Act taxes		None
11.	Recoveries of bad debts		None
12.	Income from [illegible]		None
13.	(a) Dividends [illegible] (b) [illegible]		None
			None
14.	Nontaxable income of certain industries with depletable resources		None
15.	Total of lines 8 to 14		$ None
16.	Excess profits tax net income computed [illegible] (line 7 minus line 15)	$	$ 720,214 93
17.	Deductions applicable [illegible]		None
18.	Excess profits net income [illegible] (line 16, or line 16 [illegible] line 17 [illegible])	$	$ 720,214 93

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Schedule C.—EXCESS PROFITS CREDIT—BASED ON INVESTED CAPITAL

Line No.	Equity Invested Capital at the Beginning of the Taxable Year (See instructions for Schedule C, lines 1 to 12, inclusive)		
1.	Money paid in for stock, or as paid-in surplus, or as a contribution to capital		$ 600 00
2.	Property paid in for stock, or as paid-in surplus, or as a contribution to capital		None
3.	Distributions of earnings and profits in stock of the corporation		None
4.	(a) Accumulated earnings and profits	$ None	
	(b) Adjustment for transferor's deficit under section 718 (c) (5)	$ None	
	(c) Increase or decrease under section 761 (d) (1) on account of intercorporate liquidation	$ None	
	(d) Accumulated earnings and profits (item 4 (a)) as adjusted by item 4 (b) and (c)		None
5.	25 percent of new capital paid in during a taxable year beginning after December 31, 1940		None
6.	Increase on account of intercorporate liquidation under section 761 (d) (2)		None
7.	Deficit in earnings and profits of another corporation under section 718 (a) (7)		None
8.	Total of lines 1 to 7		$ 600 00
9.	Less: Distributions made prior to the taxable year not out of accumulated earnings and profits	$ None	
10.	Earnings and profits of another corporation required to be deducted by section 718 (b) (3)	None	
11.	Decrease on account of intercorporate liquidation under section 761 (d) (2)	None	
12.	Deficit in earnings and profits in invested capital of another corporation (section 718 (b) (5))	None	
13.	Total of lines 9 to 12		None
14.	Equity invested capital at beginning of taxable year (line 8 minus line 13)		$ 600 00
	Average Addition to Equity Invested Capital During the Taxable Year (See instructions for Schedule C, lines 1 to 12, inclusive)		
15.	Money paid in for stock, or as paid-in surplus, or as a contribution to capital	$ None	
16.	Property paid in for stock, or as paid-in surplus, or as a contribution to capital	None	
17.	Distributions of earnings and profits (other than earnings and profits of the taxable year) in stock of the corporation (see line 24, below)	None	
18.	25 percent of new capital	None	
19.	Increase on account of intercorporate liquidation under section 761 (d) (2)	None	
20.	Deficit in earnings and profits of another corporation under section 718 (a) (7)	None	
21.	Total additions in lines 15 to 20		None
22.	Total of lines 14 and 21		$ 600 00
	Average Reduction in Equity Invested Capital During the Taxable Year (See instructions for Schedule C, lines 1 to 12, inclusive)		
23.	Distributions not out of earnings and profits of the taxable year	$ None	
24.	Stock distributions from accumulated earnings and profits at beginning of year (see line 17, above)	None	
25.	Decrease on account of intercorporate liquidation under section 761 (d) (2)	None	
26.	Deficit in earnings and profits included in invested capital of another corporation (section 718 (b) (5))	None	
27.	Total reductions in lines 23 to 26		None
	(See instructions for Schedule C, lines 28 to 41, inclusive)		
28.	Average equity invested capital (line 22 minus line 27)		$ 600 00
29.	Average borrowed capital (attach schedule)	$ 1,032,349 77	
30.	Average borrowed invested capital (50 percent of line 29)		516,174 89
31.	Average invested capital (line 28 plus line 30)		$ 516,774 89
32.	Total inadmissible assets	$ None	
33.	Total admissible and inadmissible assets	$ None	
34.	Percentage which line 32 is of line 33	0 %	
35.	Reduction on account of inadmissible assets (..... percent of line 34)		None
36.	Invested capital (line 31 minus line 35)		$ 516,774 89
37.	Portion of line 36 (not in excess of $5,000,000); and credit at 8 percent	$ 516,774 89 — 8%	$ 41,341 99
38.	Portion of line 36 (over $5,000,000, but not over $10,000,000); and credit at 7 percent	7%	
39.	Portion of line 36 (over $10,000,000, but not over $200,000,000); and credit at 6 percent	6%	
40.	Portion of line 36 (over $200,000,000); and credit at 5 percent	5%	
41.	Excess profits credit—based on invested capital (total of lines 37 to 40)		$ 41,341 99

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[Page 1]

St. Johns River Shipbuilding Co. corporation excess-profits-tax return, fiscal year beginning July 1, 1943, and ending July 30, 1944

Item and instruction number	Computation under 1942 act		Computation under 1943 act	
1. Excess-profits net income (line 16, schedule A)		$720, 214. 93		$720, 214. 93
2. Specific exemption	$5, 000. 00		$10, 000. 00	
4. Excess-profits credit—based on invested capital (line 41, schedule C)	41, 341. 99		41, 341. 90	
5. Unused excess-profits credit adjustment (attach schedule)	78, 230. 24	124, 572. 23	78, 230. 24	129, 572. 23
8. Adjusted excess-profits net income		595, 642. 70		590, 642. 70
9. Tax rate under 1942 act—90 percent		536, 078. 43		
Tax rate under 1943 act—95 percent				561, 110. 57
10. Net income (computed without regard to the credit provided by sec. 26 (e))		683, 070. 72		683, 070. 72
11. Less:				
(a) Dividends received credit		None		None
(b) Dividends paid on certain preferred stocks		None		None
12. Surtax net income		683, 070. 72		683, 070. 72
13. 80 percent of item 12		546, 456. 58		546, 456. 58
14. Income tax under ch. 1		34, 971. 20		36, 971. 20
15. Excess of item 13 over item 14		511, 485. 38		509, 485. 38
16. Item 9 or item 15, whichever is lesser		511, 485. 38		509, 485. 38
17. Amount deferred by reason of application of sec. 710		None		None
18. Excess-profits tax:				
(a) Item 16 minus item 17		511, 485. 38		509, 485. 38
(b) If schedule is filed under question (g), p. 2, amount thereof		None		None
(c) Item 18 (a) or item 18 (b), whichever is applicable		511, 485. 38		509, 485. 38
Number of days in each year		184		182
Portion of tax under 1942 act—184/366			257, 140. 19	
Portion of tax under 1943 act—182/366			253, 350. 65	
			510, 490. 84	
21. Less: Credit for debt retirement (item 28 below)			51, 049. 08	
22. Item 20 minus item 21			459, 441. 76	
23. Amount, if any, due to application of sec. 734			None	
24. Excess-profits tax due			459, 441. 76	

[Line 3, page 2]

St. Johns River Shipbuilding Co. adjustment to net operating loss deductions, fiscal year beginning July 1, 1943, and ending June 30, 1944

50 percent interest on borrowed capital, 1941	$3, 808. 93
50 percent interest on borrowed capital, 1942	23, 962. 47
Total adjustment	27, 771. 40

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Schedule C

Computation of excess-profits credit based on invested capital and summary of bank loans and outstanding debenture bonds

	Fiscal year ended June 30, 1942	Fiscal year ended June 30, 1943	Fiscal year ended June 30, 1944
Contract No. 2308	$93,325.66	$344,755.61	
Contract No. 2427		576,254.15	$965,810.62
6 percent serial debentures	373,684.21	565,336.21	66,539.15
Total	467,009.87	1,486,345.97	1,032,349.77
50 percent thereof	233,504.94	743,172.98	516,174.89
Capital stock	600.00	600.00	600.00
Equity invested capital	234,104.94	743,772.98	516,774.89
Excess-profits credit, 8 percent	18,728.40	59,501.84	41,341.99

[Page 1]

St. Johns River Shipbuilding Co., corporation income and declared value excess-profits tax return for fiscal year beginning July 1, 1943, and ending June 30, 1944

Gross income from fees billed to U. S. Maritime Commission:		
Launching—41 vessels		$420,000.00
Delivery—41 vessels		480,000.00
Total		900,000.00
Charges incurred in construction of shipyard facilities and vessels not reimbursable as costs:		
Officers' salaries	$41,000.00	
Bonus expense	59,715.11	
Employees' salaries	4,778.00	
Interest on bank loans	14,686.82	
Interest on 6-percent serial debentures	4,058.81	
Facilities subcontract fee to Thompson-Starrett Co., Inc	2,000.00	
Accrued interest on facilities fee	10,200.00	
Federal capital-stock tax	9,375.00	
Legal expense	11,735.60	
Social-security taxes	168.66	
Ceremonial launching expense	21,581.43	
Baseball expense	139.00	
Auditing expense	1,117.21	
Miscellaneous expense	13,333.62	
Net operating loss deduction (see schedule)	23,040.02	
		216,929.28
Net income		683,070.72

[Page 1]

St. Johns River Shipbuilding Co., net operating loss statement, fiscal year ended June 30, 1944

Net loss, fiscal year ended June 30, 1942	$68,311.38
Deduct amount used as net operating loss deduction in return for fiscal year ended June 30, 1943	45,271.36
Net loss carry-over to fiscal year ended June 30, 1944	23,040.02

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Form 1120
Treasury Department
Internal Revenue Service

UNITED STATES
CORPORATION INCOME AND DECLARED VALUE EXCESS-PROFITS TAX RETURN 1943
For Calendar Year 1943
or fiscal year beginning July 1 1943, and ending June 30, 1944

PRINT PLAINLY CORPORATION'S NAME AND ADDRESS

St. Johns River Shipbuilding Company
Adams Street and Florida Avenue
Jacksonville Florida

Kind of business: Contractor for Construction of Vessels for U. S. Maritime Commission

Business code number (from Form 1120) 194

NORMAL TAX NET INCOME COMPUTATION

GROSS INCOME

DEDUCTIONS

SCHEDULE ATTACHED

$683,070	72
None	
$683,070	72
None	
$683,070	72
None	
$683,070	72

SEE SCHEDULE

TOTAL INCOME AND DECLARED VALUE EXCESS-PROFITS TAXES

$35,965	74
None	
$35,965	74
None	
$35,965	74

AFFIDAVIT (See Instruction E)

15th day of September 1944 J. C. Merrill President
G. Lovell (N.P.) A. E. Winslow Treasurer

AFFIDAVIT (See Instruction E)

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DECLARED VALUE EXCESS-PROFITS TAX COMPUTATION. (See Computation Instructions)

$ 685,070 72

$10,000,000.00

$ 1,000,000.00

None

1,000,000.00

None

INCOME TAX COMPUTATION. (See Computation Instructions)

SEE SCHEDULE

SEE SCHEDULE

See Schedule 35,965 74

See Schedule 35,965 74

Schedule A.—COST OF GOODS SOLD. (See Instruction 2)

Schedule B.—COST OF OPERATIONS

Schedule D.—GAINS AND LOSSES FROM SALES OR EXCHANGES OF PROPERTY OTHER THAN CAPITAL ASSETS. (See Instruction 12)

Supplemental information required for Schedule D

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Schedule E.—INCOME FROM DIVIDENDS

Schedule F.—COMPENSATION OF OFFICERS

SEE SCHEDULE

Schedule G.—BAD DEBTS. (See Instruction 20) (See notes 1 and 2)

Schedule H.—TAXES (See Instruction 21)

Schedule I.—CONTRIBUTIONS OR GIFTS PAID. (See Instruction 22)

Schedule J.—DEPRECIATION. (See Instruction 23)

Schedule K.—OTHER DEDUCTIONS. (See Instruction 24)

QUESTIONS

March 9, 1942
Florida
Jacksonville, Florida
A. H. Alanlow
Treasurer
Jacksonville, Florida
Gas
Yes
$4,617,673.70
No
No
No
No
Yes
Yes
Yes
No
Not Applicable
Yes
No

*Accrual Basis-Vessel Income Accrued on Basis of Ships Launched and Delivered.

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Schedule C. BALANCE SHEETS. (See Instruction 1)

ASSETS

1. Cash
2. Notes and accounts receivable
   Less: Reserve for bad debts
3. Inventories (cost or market, whichever is lower)
4. Investments in securities (see instruction 2)
   (a) Obligations of the United States and instrumentalities thereof
   (b) Other obligations
   (c) Stock in affiliated corporations
   (d) Other investments
5. Other investments
6. Capital assets
   (a) Depreciable assets (see instruction 3)
   Less: Reserve for depreciation
   (b) Depletable assets
   Less: Reserve for depletion
   (c) Land
7. Other assets (specify)

SEE SCHEDULE

8. Total Assets

LIABILITIES

9. Accounts payable
10. Bonds, notes and mortgages payable
    (a) With original due date of 1 year or more
    (b) With original due date of less than 1 year
11. Accrued payroll (specify)
12. Other liabilities (specify)
13. Reserve for contingencies
14. Capital stock
    (a) Preferred stock
    (b) Common stock
15. Earned surplus and undivided profits
16. Capital surplus and other surplus (specify)
17. Total Liabilities

Schedule M.—RECONCILIATION OF NET INCOME (OR LOSS) AND ANALYSIS OF EARNED SURPLUS AND UNDIVIDED PROFITS

1. Total income (including the value of goods or services received in kind)			
(a) Cash	None	14. Earned surplus and undivided profits at beginning of taxable year (Schedule C, line 15)	661,070 72
(b) Value of the same or similar goods or services received in kind	None		
(c) Other property	None		
2. Contributions (except those deductible under section 23 (o))	None		
3. Interest (accrued and received) on obligations of the United States and instrumentalities thereof	None		
4. Income (accrued and received) on stock in affiliated corporations (see instruction 4)	497,000 00		None
5. Interest (accrued and received) on all other investments (except those in item 4)	None		
6. Excess of capital losses over capital gains	None		
7. Adjustments (or adjustment reserves) (not included in item 1)	None		None
(a)	None		
(b)	None		
8. Other nontaxable income (specify)	None		None
(a)	None		
(b)	None		
9. Adjustments (or reserves) not included in Schedule C (specify)	None		None
(a)	None		
(b)	None		
10. Reserve adjustments (or net change in reserve)	None		None
(a)	None		
(b)	None		None
11. Earned surplus and undivided profits at the beginning of the taxable year (Schedule C, line 15)	164,260 03	15. Other earned surplus and undivided profits (specify)	None
12. Total of lines 1 to 11	661,260 03	16. Charges (or credits) against reserve (specify)	None
		17. Adjustments (or credits) to earned surplus (specify)	None
		Net operating loss deduction	53,040 00
		18. Total of lines 13 to 17	661,260 03

EXCESS PROFITS TAX. (See Instructions for Form 1120)

19. Is an income or profits tax return (Form 1121) or a joint return (Form 1122) filed for the taxable year by the corporation or by any other corporation which is a member of an affiliated group of which the corporation is a member?	Yes
20. Is the corporation a member of a controlled group of corporations (as defined in section 1561) for the taxable year?	
21. If the corporation is a member of a controlled group of corporations, enter the following information in accordance with section 1561 (a) (1)	

Schedule N.—EXCESS PROFITS NET INCOME (CONTINUED)

1. Net income (or loss) (Schedule M, line 18)		8. Net income (or loss) (Schedule L, line 9)	
2. Net operating loss deduction (section 23 (s))		9. Refund or credit of excess profits taxes (section 711 (a) (2) (D))	
3. Net income (or loss) (Form 1121, line 1)		10. Excess profits credit	
4. Adjustments (or reserves) (section 711 (a) (2) (A))		11. Net income (or loss) (line 7 minus line 10)	
5. Total of lines 1 to 4		12. Excess profits net income (line 11 minus line 9)	
6. Adjustments (or reserves) (section 711 (a) (2) (B))			
7. Total of lines 5 and 6			

13. Excess profits net income (or net loss) of the corporation for the taxable year (see section 711)

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[Page 1]

St. Johns River Shipbuilding Co. corporation income and declared value excess-profits-tax return, fiscal year beginning July 1, 1943, and ending June 30, 1944

Item and instruction No.	Computation under 1942 act		Computation under 1943 act	
37 Adjusted net income		$683,070.72		$683,070.72
38 Less: Income subject to excess-profits tax	$595,642.70		$590,642.70	
39 Dividends received credit	None		None	
		595,642.70		590,642.70
40 Normal-tax net income		87,428.02		92,428.02

[Page 2]

NORMAL TAX COMPUTATION: DOMESTIC CORPORATIONS WITH NORMAL TAX, NET INCOMES OF OVER $50,000				
15 Normal-tax net income (item 40, p. 1)	$87,428.02		$92,428.02	
16 Normal tax (24 percent of line 15)		$20,982.72		$22,182.72
SURTAX COMPUTATION: CORPORATIONS WITH SURTAX NET INCOMES OF OVER $50,000				
25 Surtax net income	87,428.02		92,428.02	
26 Surtax (16 percent of line 25)		13,988.48		14,788.48
27 Total normal and surtax		34,971.20		36,971.20
Number of days in each year		184		182
Portion of tax under 1942 act, 184/366			17,581.15	
Portion of tax under 1943 act, 182/366			18,384.59	
Total normal and surtax			35,965.74	

Schedule F

St. Johns River Shipbuilding Co. corporation income-tax return for fiscal year beginning July 1, 1943 and ending June 30, 1944—Compensation of officers

Name and address of officer	Official title	Time devoted to business	Percentage of corporation's common stock owned	Reimbursed by U. S. Maritime Commission	Not reimbursed by U. S. Maritime Commission	Total
Leo J. Fischer, Jacksonville, Fla.	Chairman of board	Part		$12,000.00	$12,999.85	$24,999.85
James C. Merrill, Jacksonville, Fla.	President	do	16⅔	12,000.00	12,999.85	24,999.85
Kenneth A. Merrill, Jacksonville, Fla.	Vice president	do	4⅓	12,000.00	3,000.00	15,000.00
Benjamin F. Crowley, Jacksonville, Fla.	do	do	5½		12,000.00	12,000.00
T. W. Ryan, Jacksonville, Fla.	do	Full			5,428.57	5,428.57
Earl D. Page, Jacksonville, Fla.	Treasurer	do		12,000.00		12,000.00
A. H. Ainslow, Jacksonville, Fla.	Assistant treasurer	do		7,788.46		7,788.46
D. J. O'Mahoney, Jacksonville, Fla.	Secretary and general manager.	do		12,000.00		12,000.00
				67,788.46	46,428.27	114,216.73

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ST. JOHNS RIVER SHIPBUILDING CO. (JACKSONVILLE, FLA.) CORPORATION INCOME TAX RETURN FOR FISCAL YEAR ENDED JUNE 30, 1944

STATEMENT WITH RESPECT TO CHANGES AFTER OCTOBER 3, 1942, IN WAGES OR SALARIES AS REQUIRED BY QUESTION 11, PAGE 3, FORM 1120

The taxpayer, since October 3, 1942, has increased the wage or salary rate of numerous employees. Such increase which required the prior approval of the National War Labor Board or the Commissioner of Internal Revenue have had such approval with the following exception:

A bonus plan was inaugurated and approved by the board of directors and the stockholders June 10, 1942. No payments have been made, but an amount representing 15 percent of the net profits has been accrued and deducted in this tax return in accordance therewith. Final payment is awaiting approval of the salary stabilization unit.

Such increases which required no prior approval of the National War Labor Board or the Commissioner of Internal Revenue have been made in accordance with the terms of a salary agreement or salary rate schedule and as a result of reasons or circumstances prescribed in orders, rulings, or regulations, promulgated under authority of the act of October 2, 1942. No wage or salary decreases in contravention of the orders, rulings, or regulations, promulgated under authority of the act of October 2, 1942, have been made by the taxpayer since October 3, 1942.

I certify that, to the best of my knowledge and belief, the foregoing is a true and correct statement. I further certify that data and information with respect to such increases are available for examination by authorized representatives of the Bureau of Internal Revenue.

ST. JOHNS RIVER SHIPBUILDING CO.,
——— ——— *Treasurer.*

Schedule L—Balance sheets

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St. Johns River Shipbuilding Co., fiscal year beginning July 1, 1943, and ending June 30, 1944

	Beginning of taxable year		End of taxable year	
ASSETS				
Cash		$162,466.76		$437,578.80
Accounts receivable		3,954,241.73		2,784,390.42
Miscellaneous accounts receivable		7,715.15		43,060.13
Total assets		4,124,423.64		3,265,029.35
LIABILITIES				
Accounts payable		870,694.22		549,935.20
Notes payable		869,716.26		660,000.00
6 percent serial debentures, payable not later than Apr. 1, 1944		289,528.11		
Trust accounts: Liability to employees:				
For purchase of war bonds	$94,262.59		$203,695.67	
For payment unclaimed wages	———		6,093.89	
	94,262.59		209,789.56	
Deduct: Funds on deposit in Atlantic National Bank in trust:				
War bond trustee account	94,262.59		203,695.67	
Unclaimed wages trustee account	———		6,093.89	
Total	94,262.59		209,789.56	
Accrued liabilities:				
Salaries and wages	1,102,638.84		620,471.29	
Taxes (other than corporation income tax)	925,046.15		589,894.39	
Income and excess profits tax	———		497,000.00	
Interest on bank loans	1,450.77		73.33	
Interest on debentures	21,600.00		———	
Insurance	61,000.00		29,830.00	
Rent	7,000.00		8,000.00	
Bonus fund	———		124,965.11	
		2,118,735.76		1,870,234.12
Capital stock—common	600.00		600.00	
Earned surplus	24,850.71		184,260.03	
		24,250.71		184,860.03
Total liabilities		4,124,423.64		3,265,029.35

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Form 1120
Treasury Department
Internal Revenue Service

UNITED STATES
CORPORATION EXCESS PROFITS TAX RETURN
For Calendar Year 1944

Page 1
1944

or fiscal year beginning July 1, 1944, and ending June 30, 1945

PRINT PLAINLY CORPORATION'S NAME AND ADDRESS

St. Johns River Shipbuilding Company
Name

Adams St. and Florida Avenue
Street and number

Jacksonville, Florida
City or town, county and State

Business place of taxpayer shown on page 1, Form 1120 1935

Date
Check
Check
M. O.
Post-marked

EXCESS PROFITS TAX COMPUTATION

Do not write in:

1. Excess profits net income (line 18, Schedule A)
2. Specific exemption
3. Excess profits credit—based on income (line 16, Schedule B)
4. Excess profits credit—based on invested capital (line 40, Schedule C)
5. Unused excess profits credit adjustment (attach schedule)
6. Total of items 2 to 5
7. Difference between item 1 and item 6
8. Adjusted excess profits net income (lines 16 to 7, column 4, or item 7, column 3, whichever is less)
9. 95 percent of item 8
10. Net income (line 25, page 1, Form 1120)
11. Less: (a) Dividends received credit (85 percent of total of column 5, Schedule A, Form 1120, including [illegible] received on certain preferred stock of a public utility, but not in excess of 50 percent of line 10 above)
(b) Credit for dividends paid on certain preferred stock of a public utility (50 percent of line 25, page 1, Form 1120)
12. Surtax net income (computed without regard to the credit provided in section 26 (b) of the Internal Revenue Code, page 1, Form 1120) and without regard to 50 percent of the credit provided in section 26 (b)
13. 60 percent of item 12
14. Income tax under Chapter 1 (other than section 102) for the taxable year (line 43, page 1, Form 1120)
15. Excess of item 13 over item 14
16. Item 8, or item 15, whichever is lower
17. Amount deducted by reason of the application of section 710 (a) (2) relating to abnormality under section 710 (a) (1) (attach schedule)
18. Excess profits tax
(a) Item 16 minus item 17
(b) If schedule A, line 6, or the question on page 2, relating to tax as computed in prior years, [illegible]
(c) Item 16 or item 18 (b), whichever is larger, but [illegible]
19. Less: Credit for income taxes paid to a foreign country or United States possession [illegible]
Overtime and [illegible] computed on page 2, Form 1120
20. Item 18 (c) minus item 19
21. Less: Credit for [illegible] (attach item 24, below)
22. Item 20 minus item 21
23. Amount, if any, by which [illegible] exceed [illegible] (attach schedule)
24. Excess profits tax due (line 22 plus item 23) or [illegible]
25. Payment of excess profits tax (line 19 (c), above)
26. Credit allowable under section 26(a) and 711 (b) [illegible]
27. Lesser of amounts paid on [illegible]
28. Credits for [illegible] allowable under [illegible]
29. Net overpayment refund credit (item 25 minus [illegible])

Subscribed and sworn to before me this day of 194

Notary Public

Subscribed and sworn to before me this day of 194

Notary Public

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QUESTIONS

(a) Date of incorporation March 9, 1942 (b) State or country Florida

(c) Collector's office in which your income tax return for the taxable year was filed Jacksonville, Florida

(d) Is this a consolidated return? No If so, procure from the collector Form 851, Affiliations Schedule, which shall be filled in, sworn to, and filed as a part of the consolidated income tax return.

(e) In computing the excess profits credit under the invested capital method, do you elect to include in excess profits net income interest received on, reduced by the amount of amortizable bond premium under section 125 attributable to, all Government obligations described in section 22(b)(4) of the Internal Revenue Code? (Answer "yes" or "no") No

(f) Are you a transferor or transferee upon an exchange as defined by section 760 or 761 of the Internal Revenue Code? (Answer "yes" or "no") No

(g) Does this return involve an adjustment of the excess profits tax liability due to the application of the sections specified in (1) below? (Answer "yes" or "no") No If answer is "yes":

(1) Check the appropriate sections and submit schedules showing computation: 710(a)(4) ☐; 721 ☐; 726 ☐; 731 ☐; 735(b) ☐; 735(c) ☐; 736(a) ☐ 736(b) ☐. (See General Instructions E, F, G, H, and I.) (Enter amount of excess profits tax as Item 18 (b), page 1.)

(2) From the schedules submitted under (1) above, enter any tax adjustment which results from the application of each of the following sections: 721, $; 726, $; 731, $

(3) From the schedules submitted under (1) above, enter any income adjustment which results from the application of each of the following sections: 721, $; 731, $; 735(b), $; 735(c), $

(h) State amount of total assets as of the end of the taxable year. (From Form 1120, page 4, line 8, last column), $ 1,407,942.74

(i) Has a constructive average base period net income under section 722 been used in computing the excess profits credit used on this return? No If the answer is "yes," was such constructive average base period net income finally determined? Or, if not finally determined, is it used pursuant to permission granted by the Commissioner? If the answer to the first question is "yes," the following questions should be answered and the required information furnished:

(1) Is the amount of the constructive average base period net income so used the same as that which was finally determined or permitted? If the answer is "no," attach statement setting forth reasons for the variance and the amount thereof.

(2) Is the constructive average base period net income resulted from the application of section 722 (b) (4) or (5) or section 722 (c), are the facts and circumstances different in the taxable year from the facts and circumstances with respect to which the claim for relief was first allowed? If so, attach statement containing a brief description of the difference and an account of its effect upon the business of the taxpayer for the taxable year.

(3) State the amount of the excess profits credit for the taxable year computed without regard to section 722. $

(j) Is any unused excess profits credit adjustment computed with the use of a constructive average base period net income? No If the answer is "yes," attach schedule showing computation.

Schedule A.—EXCESS PROFITS NET INCOME COMPUTATION

Line No.	Column 1 Income Credit Method		Column 2 Invested Capital Credit Method	
1. Normal-tax net income (computed without allowance of credit for income subject to excess profits tax and without allowance of dividends received credit) (Item 38, page 1, Form 1120)	$		$ 568,698	70
2. Net short-term capital gain (do not enter net short-term capital loss)				
3. Adjustment to net operating loss deduction				
4. Decrease in deductions limited by income				
5. 50 percent of interest on borrowed capital	x x x x x x x	x x	2,156	69
6. Interest on Government obligations (see question (e) above, for election)	x x x x x x x	x x		
7. Total of lines 1 to 6	$		$ 570,855	69
8. Net gain from sale or exchange of capital assets (item 17 (a) plus item 33, page 1, Form 1120)	$		$	
9. Income from retirement or discharge of bonds, etc.				
10. Refunds and interest on Agricultural Adjustment Act taxes				
11. Recoveries of bad debts				
12. Increase in deductions limited by income				
13. (a) Dividends received credit adjustment (Item 13, page 1, Form 1120, excluding dividends received from foreign corporations)			x x x x x x x	x x
(b) Dividends received credit adjustment (Item 13, page 1, Form 1120, excluding dividends received from foreign personal holding companies and dividends received on stock held primarily for sale to customers by a dealer in securities)	x x x x x x x	x x		
14. Nontaxable income of certain industries with depletable resources				
15. Total of lines 8 to 14	$		$	
16. Excess profits tax net income computed without regard to deductions applicable to life insurance companies (line 7 minus line 15)	$		$	
17. Deductions applicable to life insurance companies				
18. Excess profits net income computed under income credit method or invested capital credit method (line 16, or line 16 minus line 17 in case of a life insurance company)	$		$ 570,855	69

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Schedule B—EXCESS PROFITS CREDIT—BASED ON INCOME

Page 2

Items	Calendar year 19 or fiscal year beginning 19 and ending 19			
	Two years	3 Year Average	Two years	3 Year Average
1. Normal tax (or surtax) net income				
2. Net income (or loss) as computed (line 1)				
3. Excess profits credit carry-back attributable to unused excess profits credit (excess of line 23 over line 22) for taxable years beginning after December 31, 1939				
4. Net gain from sale or exchange of property (other than capital assets) attributable to taxable years beginning after December 31, 1939				
5. Net loss from sale or exchange of property (other than capital assets) attributable to taxable years beginning after December 31, 1939				
6. Total of lines 2 to 5				
7. Net capital gain (section 117) (line 1)				
8. Net gain from sale or exchange of property (other than capital assets) (section 117) (line 1) attributable to taxable years beginning after December 31, 1939				
9. Net gain from sale or exchange of property (other than capital assets) (section 117) (line 1) attributable to taxable years beginning after December 31, 1939				
10. Total of lines 7 to 9				
11. Difference between line 6 and 10				
12. Net gain from sale or exchange of capital assets of the taxable year (net capital gain) (line 7 minus line 9)				
13. Net gain from sale or exchange of depreciable property (section 117) (line 1)				
14. Total of lines 11 to 13				
15. Net loss from sale or exchange of depreciable property (section 117) (line 1)				
16. Net loss from sale or exchange of capital assets (section 117) (line 1)				
17. Total of lines 15 and 16				
18. Net income (line 14 minus line 17) (line 14 minus line 15 if line 15 exceeds line 17)				
19. Net income (line 11 minus line 18) (line 11 minus line 15 if line 15 exceeds line 17)				
20. Dividends received from domestic corporations				
21. Deductions not allowable (section 24) (section 23) (section 24)				
22. Capacity for contribution to excess profits credit (line 19 minus line 20 minus line 21)				
23. Excess profits credit (section 710)				
24. Excess of capacity for contribution (line 22 minus line 23)				
25. Contribution to excess profits credit (line 24 minus line 23)				
26. Total of lines 18 to 25				
27. Income from government contracts (section 710)				
28. Dividends received from domestic corporations				
29. Net gain from sale or exchange of capital assets (section 117) (line 1)				
30. Total of lines 27 to 29				
31. Excess profits net income (line 26 minus line 30)				
32. Net aggregate of columns 1, 2, 3, and 4				
33. Increase in excess profits credit (line 32 minus line 31)				
34. Total of lines 32 and 33				
35. Average base period net income—General average (line 34 divided by number of periods)				
36. Net aggregate of columns 1 and 2 (line 31)				
37. Net aggregate of columns 1 and 2 (line 34)				
38. Excess of line 36 over line 37				
39. One-half of line 38				
40. Line 36 (or line 39)				
41. Line 40 divided by number of months covered by line 40				
42. Average base period net income—General average (line 35 divided by number of months)				
43. 85 percent of line 41 or line 42, whichever is greater				
44. Net capital addition				
45. 3 percent of line 44 (line 44 divided by 33 1/3 percent of line 44)				
46. Excess profits credit—General average (line 43 plus line 45)				

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Schedule C.—EXCESS PROFITS CREDIT—BASED ON INVESTED CAPITAL

Line No.					
	Equity Invested Capital at the Beginning of the Taxable Year (See instructions for Schedule C, lines 1 to 13, inclusive)				
1.	Money paid in for stock, or as paid-in surplus, or as a contribution to capital			$ 600	00
2.	Property paid in for stock, or as paid-in surplus, or as a contribution to capital			None	
3.	Distributions of earnings and profits in stock of the corporation			None	
4.	(a) Accumulated earnings and profits	$ 184,860	03		
	(b) Adjustment for transferor's deficit under section 718 (c) (5)	$			
	(c) Increase or decrease under section 761 (d) (1) on account of intercorporate liquidation	$			
	(d) Accumulated earnings and profits (item 4 (a)) as adjusted by item 4 (b) and (c)			184,860	03
5.	25 percent of new capital paid in during a taxable year beginning after December 31, 1940				
6.	Increase on account of intercorporate liquidation under section 761 (d) (2)				
7.	Deficit in earnings and profits of another corporation under section 718 (a) (7)				
8.	Total of lines 1 to 7			$ 184,860	03
9.	Less: Distributions made prior to the taxable year not out of accumulated earnings and profits	$			
10.	Earnings and profits of another corporation required to be deducted by section 718 (b) (3)				
11.	Decrease on account of intercorporate liquidation under section 761 (d) (2)				
12.	Deficit in earnings and profits included in invested capital of another corporation (section 718 (b) (5))				
13.	Total of lines 9 to 12				
14.	Equity invested capital at beginning of taxable year (line 8 minus line 13)			$ 184,860	03
	Average Addition to Equity Invested Capital During the Taxable Year (See instructions for Schedule C, lines 1 to 12, inclusive)				
15.	Money paid in for stock, or as paid-in surplus, or as a contribution to capital	$			
16.	Property paid in for stock, or as paid-in surplus, or as a contribution to capital				
17.	Distributions of earnings and profits (other than earnings and profits of the taxable year) in stock of the corporation (see line 24, below)				
18.	25 percent of new capital				
19.	Increase on account of intercorporate liquidation under section 761 (d) (2)				
20.	Deficit in earnings and profits of another corporation under section 718 (a) (7)				
21.	Total additions in lines 15 to 20				
22.	Total of lines 14 and 21			$ 184,860	03
	Average Reduction in Equity Invested Capital During the Taxable Year (See instructions for Schedule C, lines 1 to 12, inclusive)				
23.	Distributions not out of earnings and profits of the taxable year	$			
24.	Stock distributions from accumulated earnings and profits at beginning of year (see line 17, above)				
25.	Decrease on account of intercorporate liquidation under section 761 (d) (2)				
26.	Deficit in earnings and profits included in invested capital of another corporation (section 718 (b) (5))				
27.	Total reductions in lines 23 to 26				
	(See instructions for Schedule C, lines 28 to 46, inclusive)				
28.	Average equity invested capital (line 22 minus line 27)			$ 184,860	03
29.	Average borrowed capital (attach schedule)	$ 284,090	15		
30.	Average adjusted invested capital (50 percent of line 29)			142,045	08
31.	Average invested capital (line 28 plus line 30)			$ 326,905	11
32.	Total inadmissible assets	$			
33.	Total admissible and inadmissible assets	$			
34.	Percentage which line 32 is of line 33		%		
35.	Reduction on account of inadmissible assets (..... percent of line 31)				
36.	Invested capital (lines 31 minus line 35)			$ 326,905	11
37.	Portion of line 36 (not over $5,000,000); and credit at 8 percent	$	8%	$ 26,152	41
38.	Portion of line 36 (over $5,000,000, but not over $10,000,000); and credit at 6 percent		6%		
39.	Portion of line 36 (over $10,000,000); and credit at 5 percent		5%		
40.	Excess profits credit—based on invested capital (total of lines 37 to 39)			$ 26,152	41

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ST. JOHNS RIVER SHIPBUILDING CO.

Computation of average borrowed capital, fiscal year July 1, 1944, to June 30, 1945

Date	Amount	Number of days unchanged	Product
1944			
June 30	$660,000.00	1	$660,000.00
July 1	658,244.57	4	2,632,978.28
July 5		1	
July 6	560,000.00	2	1,120,000.00
July 8	433,450.86	4	1,733,803.44
July 12		1	
July 13	708,000.00	6	4,248,000.00
July 19		1	
July 20	652,000.00	1	652,000.00
July 21	538,263.32	5	2,691,341.60
July 26		1	
July 27	1,056,000.00	4	4,224,000.00
Aug. 2	561,710.46	2	1,123,420.92
Aug. 2		1	
Aug. 3	772,000.00	1	772,000.00
Aug. 4	652,213.45	1	652,213.45
Aug. 5	614,153.96	5	3,070,769.80
Aug. 10	700,000.00	2	1,400,000.00
Aug. 12	497,540.18	4	1,990,160.72
Aug. 16		1	
Aug. 17	636,000.00	4	2,544,000.00
Aug. 21	519,192.19	1	519,192.19
Aug. 22	510,120.75	1	510,120.75
Aug. 23		1	
Aug. 24	620,000.00	2	1,240,000.00
Aug. 26	484,675.07	5	2,423,375.35
Aug. 31	556,000.00	2	1,112,000.00
Sept. 2	421,846.83	3	1,265,540.49
Sept. 5	416,565.33	1	416,565.33
Sept. 6		1	
Sept. 7	532,000.00	2	1,064,000.00
Sept. 9	467,160.58	4	1,868,642.32
Sept. 13		1	
Sept. 14	636,000.00	1	636,000.00
Sept. 15	578,903.03	3	1,736,709.09
Sept. 18	577,495.90	2	1,154,991.80
Sept. 20		1	
Sept. 21	628,000.00	5	3,140,000.00
Sept. 26	491,140.42	1	491,140.42
Sept. 27		1	
Sept. 28	600,000.00	2	1,200,000.00
Oct. 1	462,926.36	4	1,851,705.44
Oct. 4		1	
Oct. 5	548,000.00	1	548,000.00
Oct. 6	520,280.18	1	520,280.18
Oct. 7	468,859.65	4	1,875,438.60
Oct. 11	636,000.00	3	1,908,000.00
Oct. 14	575,443.93	4	2,301,775.72
Oct. 18		1	
Oct. 19	744,000.00	2	1,488,000.00
Oct. 21	512,230.11	4	2,048,920.44
Oct. 25		1	
Oct. 26	1,080,000.00	2	2,160,000.00
Oct. 28	984,988.05	2	1,969,976.10
Oct. 30	481,628.92	3	1,444,886.76
Nov. 2	616,000.00	2	1,232,000.00
Nov. 4	552,201.30	2	1,104,402.60
Nov. 6	529,910.08	2	1,059,820.16
Nov. 8		1	
1944			
Nov. 9	572,000.00	4	2,288,000.00
Nov. 13	488,087.74	2	976,175.48
Nov. 15		1	
Nov. 16	468,000.00	2	936,000.00
Nov. 18	385,678.14	4	1,542,712.56
Nov. 22	528,000.00	3	1,584,000.00
Nov. 25	425,201.48	4	1,700,805.92
Nov. 29	620,000.00	3	1,860,000.00
Dec. 2	528,714.22	3	1,586,142.66
Dec. 5	493,840.15	1	493,840.15
Dec. 6		1	
Dec. 7	424,000.00	2	848,000.00
Dec. 9	365,382.50	4	1,461,530.00
Dec. 14		1	
Dec. 15	564,000.00	2	1,128,000.00
Dec. 16	361,708.93	4	1,446,835.72
Dec. 20		1	
Dec. 21	528,000.00	5	2,640,000.00
Dec. 26	386,078.63	2	772,157.26
Dec. 28	432,000.00	5	2,160,000.00
1945			
Jan. 2	362,746.39	2	725,492.78
Jan. 4	212,000.00	1	212,000.00
Jan. 5	200,977.00	1	200,977.00
Jan. 6	107,906.10	4	431,624.40
Jan. 10		1	
Jan. 11	340,000.00	2	680,000.00
Jan. 13	238,758.68	4	955,034.72
Jan. 17		1	
Jan. 18	308,000.00	2	616,000.00
Jan. 20	186,180.30	2	372,360.60
Jan. 22	181,220.40	2	362,440.80
Jan. 24		1	
Jan. 25	690,000.00	2	1,380,000.00
Jan. 27	541,286.39	2	1,082,572.78
Jan. 29	66,934.87	2	133,869.74
Jan. 31		1	
Feb. 1	160,000.00	4	640,000.00
Feb. 5	104,105.21	2	208,210.42
Feb. 7		1	
Feb. 8	112,000.00	2	224,000.00
Feb. 10	32,225.49	4	128,901.96
Feb. 14		1	
Feb. 15	116,000.00	4	464,000.00
Feb. 19		24	
Mar. 15	148,000.00	2	296,000.00
Mar. 17	109,706.72	4	438,826.88
Mar. 21		29	
Apr. 19	100,000.00	1	100,000.00
Apr. 20	54,700.57	3	164,101.71
Apr. 23		2	
Apr. 25	125,000.00	3	375,000.00
Apr. 28	90,373.65	3	271,120.95
May 1		60	
Total	38,609,964.04	365	103,692,906.44

Average daily capital (365 days), $284,090.15.

St. Johns River Shipbuilding Co. corporation income and declared value excess-profits tax return for fiscal year beginning July 1, 1944, and ending June 30, 1945

Gross income from fees billed to U. S. Martime Commission:	
Launching 41 vessels	$410,000.00
Delivery 37 vessels	370,000.00
Total fees	780,000.00
Other income	30.50
Total income	780,030.50

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Charges incurred in construction of shipyard facilities and vessels not reimbursable as costs:		
Officers' salaries	$50, 226. 50	
Bonus expense	77, 482. 97	
Employees salaries	5, 186. 41	
Interest on bank loans	4, 317. 39	
Accrued interest on facilities fee	8, 350. 02	
Federal capital stock tax	3, 750. 00	
Legal expense	7, 199. 10	
Social security taxes	1, 722. 46	
Ceremonial launching expense	16, 810. 13	
Auditing expense	2, 643. 34	
Traveling expense	17, 103. 84	
Donations	2, 300. 00	
Miscellaneous expense	14, 239. 64	
		211, 331. 80
Net income		568, 698. 70

Schedule I—Contributions

St. Johns River Shipbuilding Co. corporation income and declared value excess-profits tax return for fiscal year beginning July 1, 1944, and ending June 30, 1945

American merchant marine	$250
Tuberculosis Association	50
American Legion Post, No. 9	100
Community War Chest	500
Seamen's Town House	100
American Red Cross	200
Jacksonville Safety Council	100
Church of the Good Shepherd	1, 000
Total	2, 300

Schedule F—Compensation of officers

St. Johns River Shipbuilding Co. corporation income and declared value excess-profits-tax return for fiscal year beginning July 1, 1944, and ending June 30, 1945

Name and address of officer	Official title	Time devoted to business	Percentage of corporation's stock owned		Amount of compensation		Total
			Common	Preferred	Reimbursed by U. S. M. C.	Not reimbursed by U. S. M. C.	
Leo J. Fischer, 444 Madison Ave., New York, N. Y.	Chairman of board.	Part	None	None	$9, 333. 33	$10, 111. 11	$19, 444. 44
James C. Merrill, Jacksonville, Fla.	President	Part	53½	None	12, 000. 00	13, 000. 00	25, 000. 00
Kenneth A. Merrill, Jacksonville, Fla.	Vice president	Part	4⅓	None	12, 000. 00	3, 000. 00	15, 000. 00
Benjamin F. Crowley, Jacksonville, Fla.	do	Part	5½	None		21, 000. 00	21, 000. 00
T. W. Ryan, Jacksonville, Fla.	do	Full	None	None	12, 346. 14	3, 115. 39	15, 461. 53
A. H. Ainslow, Jacksonville, Fla.	Treasurer	Full	None	None	11, 172. 14		11, 172. 14
D. J. O'Mahoney, Jacksonville, Fla.	Secretary	Full	None	None	12, 461. 53		12, 461. 53
H. M. Heckman, Jackville, Fla.	Assistant treasurer.	Full	None	None	5, 600. 16		5, 600. 16
C. A. O'Connor, Jacksonville, Fla.	do	Full	None	None	5, 279. 26		5, 279. 26
					80, 192. 56	50, 226. 50	130, 419. 06

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Form 1120
Treasury Department
Internal Revenue Service

UNITED STATES
CORPORATION INCOME AND DECLARED VALUE EXCESS-PROFITS TAX RETURN 1944
For Calendar Year 1944

or fiscal year beginning July 1, 1944, and ending June 30, 1945

PRINT PLAINLY CORPORATION'S NAME AND ADDRESS

St. Johns River Shipbuilding Company
(Name)

Adams Street and Florida Avenue
(Street and number)

Jacksonville, Florida
(City or town, postal zone number) (State)

Kind of business: Shipbuilding

Business group serial number (from instructions): 164

File Code
Serial No.
District
(Collector's name)

Cash Check M.O.
Fee Payment

NORMAL-TAX NET INCOME COMPUTATION

GROSS INCOME

Less: Returns and allowances $

SCHEDULE ATTACHED

$ 750,030 50

DEDUCTIONS

SCHEDULE ATTACHED

211,331 80

$ 568,698 70

$ 568,698 70

$ 568,698 70

$ 568,698 70

$ 534,703 18

None

$ 534,703 18

$ 33,995 52

TOTAL INCOME AND DECLARED VALUE EXCESS-PROFITS TAXES

$ 11,517 62

None

$ 11,517 62

$ 11,517 62

AFFIDAVIT. (See instruction F)

Subscribed and sworn to before me this ... day of September, 1945

President
(President or other principal officer) (State title)

Treasurer
(Treasurer, Assistant Treasurer, or Chief Accounting Officer)

NOTARIAL SEAL

CORPORATE SEAL

AFFIDAVIT. (See instruction F)

Subscribed and sworn to before me this ... day of ... 194..

(Signature of person preparing the return)

(Signature of person preparing the return)

(Name of firm or employer, if any)

NOTARIAL SEAL

(Signature of officer administering oath) (Title) (Jurisdiction)

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Page 2

DECLARED VALUE EXCESS-PROFITS TAX COMPUTATION. (See Computation Instructions)

Line No.		Column 1	Col. 2 Rate	Column 3 Amount of Tax
1. Net income for declared value excess-profits tax computation (item 31, page 1)		$ 568,698 70		
2. Value of capital stock as declared in your capital stock tax return for the year ended June 30, 1944 (or for year ended June 30, 1945, if your income tax fiscal year began in 1944 and ended on or after July 31, 1944)	$ 7,500,000 00			
3. 10 percent of line 2	$ 750,000 00			
4. Dividends received credit (85 percent of column 2, Schedule E, but not in excess of 85 percent of item 38 minus item 39, page 1)	None	750,000 00		
5. Balance subject to declared value excess-profits tax (line 1 minus total of lines 3 and 4)		None		
6. Amount taxable at 6.6 percent (5 percent of line 2, but not more than line 5); and tax			6.6%	$
7. Balance taxable at 13.2 percent (line 5 minus line 6, column 1); and tax		$	13.2%	
8. Total declared value excess-profits tax (total of line 6, column 3, and line 7, column 3)				

INCOME TAX COMPUTATION. (See Computation Instructions)

NORMAL TAX COMPUTATION

DOMESTIC CORPORATIONS WITH NORMAL-TAX NET INCOMES NOT OVER $50,000

9. Normal-tax net income (item 41, page 1)	$ 33,995 52			
10. Portion of line 9 (not in excess of $5,000); and tax at 15 percent	$ 5,000 00	15%	$ 750 00	
11. Portion of line 9 (in excess of $5,000 and not in excess of $20,000); and tax at 17 percent	15,000 00	17%	2,550 00	
12. Portion of line 9 (in excess of $20,000 and not in excess of $25,000); and tax at 19 percent	5,000 00	19%	950 00	
13. Portion of line 9 (in excess of $25,000); and tax at 31 percent	8,995 52	31%	2,788 61	
14. Total normal tax (total tax in column 3 of lines 10, 11, 12, and 13)			$ 7,038 61	

DOMESTIC CORPORATIONS WITH NORMAL-TAX NET INCOMES OF OVER $50,000 AND FOREIGN CORPORATIONS ENGAGED IN BUSINESS WITHIN THE UNITED STATES IRRESPECTIVE OF AMOUNT OF NORMAL-TAX NET INCOME

15. Normal-tax net income (item 41, page 1)	$			
16. Normal tax (24 percent of line 15)			24%	$

SURTAX COMPUTATION

17. Net income (item 36, page 1)		$ 568,698 70		
18. Less: Adjusted excess profits net income (item 39, page 1)	$ 534,703 18			
19. Dividends received credit (85 percent of column 2, Schedule E, but not in excess of 85 percent of line 17 minus 18 (excluding from the computation certain dividends received on preferred stock of a public utility))	None			
20. Dividends paid on certain preferred stock if taxpayer is a public utility		534,703 18		
21. Surtax net income		$ 33,995 52		

CORPORATIONS WITH SURTAX NET INCOMES NOT OVER $50,000

22. Portion of line 21 (not in excess of $25,000), and tax at 10 percent (or 12 percent in the case of a consolidated return)	$ 25,000 00	10%	$ 2,500 00	
23. Portion of line 21 (in excess of $25,000 and not in excess of $50,000); and tax at 22 percent (or 24 percent in the case of a consolidated return)	8,995 52	22%	1,979 01	
24. Total surtax in column 3 of lines 22 and 23			$ 4,479 01	

CORPORATIONS WITH SURTAX NET INCOMES OF OVER $50,000

25. Surtax net income (line 21 above)	$			
26. Surtax (16 percent of line 25) (or 18 percent in the case of a consolidated return)			16%	$
27. Total normal tax and surtax (line 14 or 16, plus line 24 or 26, whichever is applicable)				$ 11,517 62
28. Total tax (line 27, or line 31 Schedule C)				$ 11,517 62

TAX COMPUTATION FOR REGULATED INVESTMENT COMPANIES

29. Adjusted net income (item 38, page 1, but computed without regard to section 47 (c))	$			
30. Add: Net operating loss deduction (item 27, page 1)				
31. Total of lines 29 and 30				
32. Less: Excess of net long-term capital gain over net short-term capital loss. (From Schedule C)	$			
33. Adjusted net income (computed under section 362 (b) (1))				
34. Less: Basic surtax credit (excluding capital gain dividends) computed without regard to paragraphs (2) and (3) of section 27 (b). (Submit schedule)	$			
35. Supplement Q net income				
36. Normal tax (24 percent of line 35)			24%	$
37. Net income (item 36, page 1, but computed without regard to section 47 (c))	$			
38. Add: Net operating loss deduction (item 27, page 1)				
39. Total of lines 37 and 38				
40. Less: Excess of net long-term capital gain over net short-term capital loss. (From Schedule C)	$			
41. Net income (computed under section 362 (b) (2))				
42. Less: Dividends (other than capital gain dividends) paid including consent dividends credit. (Submit schedule)	$			
43. Supplement Q surtax net income				
44. Surtax (16 percent of line 43)			16%	
45. Net long-term capital gain. (From Schedule C)	$			
46. Less: Net short-term capital loss. (From Schedule C)				
47. Capital gain dividends paid. (Submit schedule)				
48. Excess subject to tax	$			
49. Tax (25 percent of line 48)			25%	
50. Total tax in lines 36, 44 and 49				$

Schedule A.—COST OF GOODS SOLD. (See Instruction 2)
(Where inventories are an income-determining factor)

Inventory at beginning of year	$	
Material or merchandise bought for manufacture or sale		
Salaries and wages		
Other costs per books. (Attach itemized schedule)		
Total	$	
Less: Inventory at end of year		
Cost of goods sold (enter as item 2, page 1)	$	

Schedule B.—COST OF OPERATIONS
(Where inventories are not an income-determining factor)

Salaries and wages	$	
Other costs (to be detailed):		
(a)		
(b)		
(c)		
(d)		
(e)		
Total (enter as item 5, page 1)	$	

Schedule C.—Separate Schedule C (Form 1120) should be secured and used in reporting sales and exchanges of capital assets and filed with and as a part of this return.

Schedule D.—GAINS AND LOSSES FROM SALES OR EXCHANGES OF PROPERTY OTHER THAN CAPITAL ASSETS. (See Instruction 12)

1. Description of Property	2. Date Acquired	3. Gross Sales Price (Check net price)	4. Cost or Other Basis	5. Expense of Sale and Cost of Improvements Subsequent to Acquisition or March 1, 1913	6. Depreciation Allowed (or allowable) Since Acquisition or March 1, 1913 (Furnish details)	7. Gain or Loss (column 3 plus column 6 minus the sum of columns 4 and 5)
		$	$	$	$	$
Total net gain (or loss). (Enter as item 13 (b), page 1)						$

Supplemental information required for Schedule D

State with respect to each item of property reported in Schedule D: (1) how property was acquired ..... (2) whether at time of sale or exchange (a) Purchaser owned directly or indirectly more than 50 percent in value of your outstanding stock; (b) where purchaser was a corporation, more than 50 percent in value of its capital stock was in persons in value of your capital stock was owned directly or indirectly by or for the same individual or his family, and (c) where purchaser was a corporation, whether more than 50 percent in value of its capital stock was owned directly or indirectly by you ..... If so, state name and address of purchaser .....

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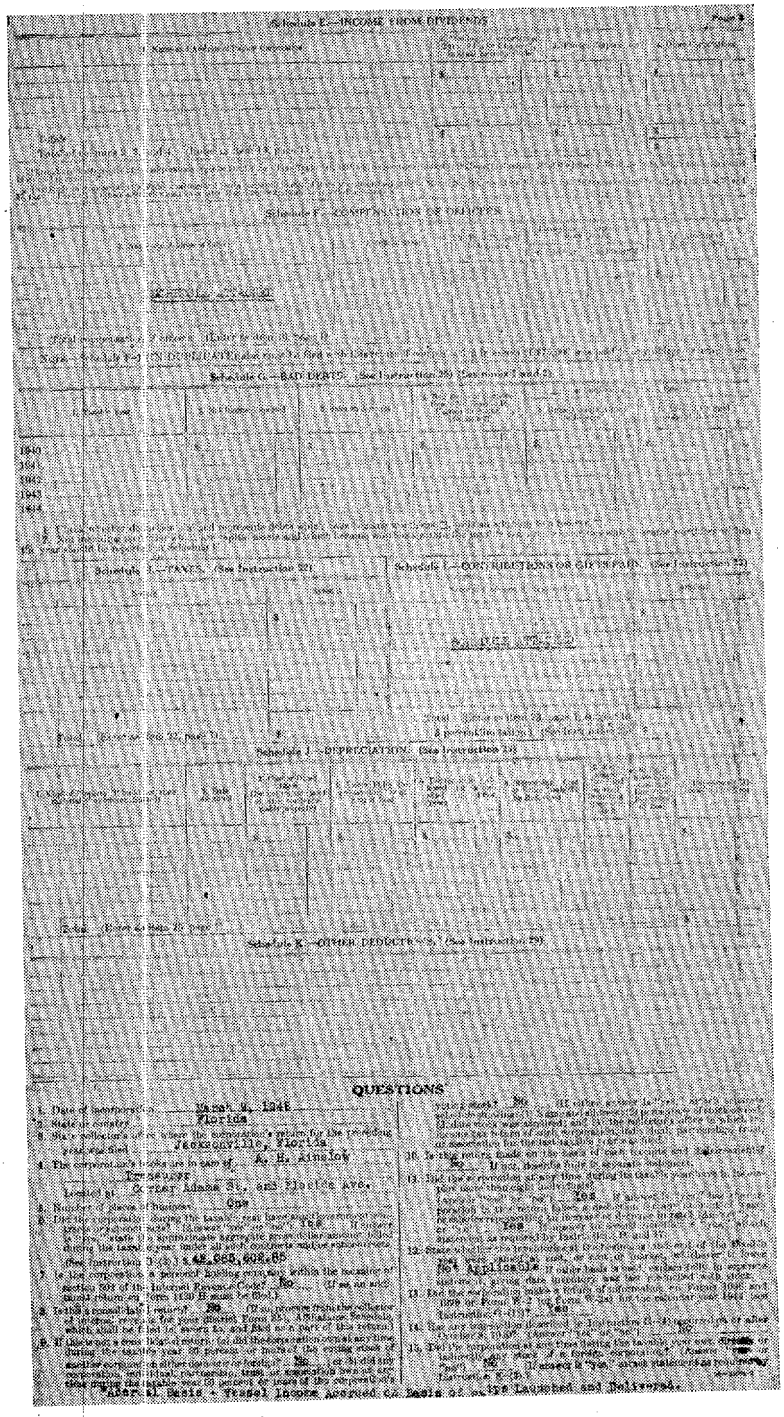

Schedule E—INCOME FROM OTHER FORMS

Schedule F—CONTRIBUTIONS OR GRATUITIES

Schedule G—BAD DEBTS (See Instruction 20) (See reverse side)

Schedule I—TAXES (See Instruction 22)

Schedule J—CONTRIBUTIONS OR GIFTS PAID (See Instruction 23)

Schedule I—DEPRECIATION (See Instruction 24)

Schedule K—OTHER DEDUCTIONS (See Instruction 25)

QUESTIONS

1. Date of incorporation: March 4, 1941
2. State or country: Florida
3. State whether corporation is organized for the trading year end: Jacksonville, Florida
4. The corporation is owned or controlled by: A. B. Ainslay

Incorporated

Located at: Forsyth Street S., and Florida Ave.

5. Number of shares issued: One
6. Is the corporation a personal holding company within the meaning of section 501 of the Internal Revenue Code? YES (If answer is yes, complete schedule on page 2 of this return and attach to this return.)
7. Total income for the year: $45,865,608.65
8. Is any part of the income for the year within the meaning of section 501 of the Internal Revenue Code? No (If yes, see section 102 of the Internal Revenue Code.)
9. Is this a consolidated return? No (If yes, complete Schedule on page 2 of this return and attach to this return.)
10. If this is a consolidated return, do all the corporations included in the return for the taxable year, or persons or trusts, the voting stock of which is owned or controlled by the same interests, or a majority of the corporations included in the return, have the same fiscal year? No (If not, see Schedule on page 2 of this return.)
11. Is this a consolidated return? No (If yes, see Schedule on page 2 of this return.)
12. Is this a consolidated return? No (If yes, see Schedule on page 2 of this return.)
13. Is this a consolidated return? No (If yes, see Schedule on page 2 of this return.)
14. Is this a consolidated return? No (If yes, see Schedule on page 2 of this return.)
15. Is this a consolidated return? No (If yes, see Schedule on page 2 of this return.)

Alter it Basis - Vessel Income Accrued on Basis of Completed Launched and Delivered.

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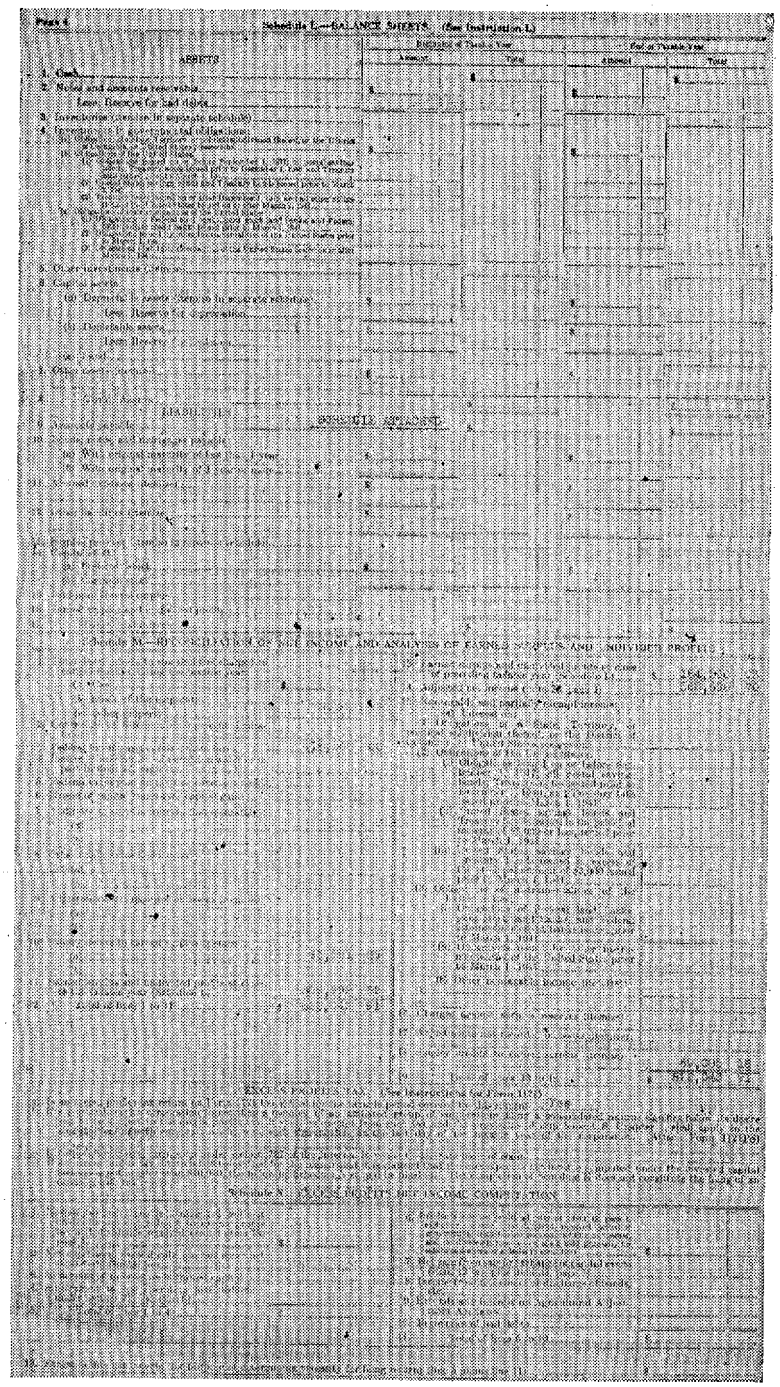

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ST. JOHNS RIVER SHIPBUILDING CO. (JACKSONVILLE, FLA.) CORPORATION INCOME TAX RETURN FOR FISCAL YEAR ENDED JUNE 30, 1945

STATEMENT WITH RESPECT TO CHANGES AFTER OCTOBER 3, 1942, IN WAGES OR SALARIES AS REQUESTED BY QUESTION 11, PAGE 3, FORM 1120

The taxpayer, since October 3, 1942, has increased the wage or salary rate of numerous employees. Such increases which required the prior approval of the National War Labor Board or the Commissioner of Internal Revenue have had such approval with the following exception:

A bonus plan was inaugurated and approved by the board of directors and the stockholders, June 10, 1942. A payment was made in accordance with a letter of authorization from the Salary Stabilization Unit for the year 1944. There is accrued and deducted in this return an amount representing 15 percent of the profits, which will be paid when approval by the Salary Stabilization Unit has been received.

Such increases which required no prior approval of the National War Labor Board or the Commissioner of Internal Revenue have been made in accordance with the terms of a salary agreement or salary rate schedule, and as a result of reasons or circumstances prescribed in orders, rulings or regulations, promulgated under authority of the act of October 2, 1942. No wage or salary decreases in contravention of the orders, rulings or regulations, promulgated under authority of the act of October 2, 1942, have been made by the taxpayer since October 3, 1942.

I certify that, to the best of my knowledge and belief, the foregoing is a true and correct statement. I further certify that data and information with respect to such increases are available for examination by authorized representatives of the Bureau of Internal Revenue.

ST. JOHNS RIVER SHIPBUILDING CO.,
——— ———, *Treasurer.*

Schedule L— Balance sheets

St. Johns River Shipbuilding Co. corporation income and declared value excess-profits-tax return for fiscal year beginning July 1, 1944, and ending June 30, 1945

	Beginning of taxable year		End of taxable year	
ASSETS				
Cash		$437,578.80		$160,683.79
U. S. Government bonds		----------		250,000.00
Accounts receivable		2,784,390.42		914,916.53
Miscellaneous accounts receivable		43,060.13		81,289.97
Furniture and equipment		----------		1,052.45
Total assets		3,265,029.35		1,407,942.74
LIABILITIES				
Accounts payable		549,935.20		83,219.26
Notes payable		660,000.00		----------
Trust accounts:				
Liability to employees:				
For purchase of war bonds	$203,695.67		$60,585.03	
For payment of unclaimed wages	6,093.89		16,406.48	
	209,789.56		76,991.51	
Deduct: Funds on deposit in Atlantic National Bank in trust:				
War bond trustee account	203,695.67		60,585.03	
Unclaimed wages trustee account	6,093.89		16,406.48	
	209,789.56		76,991.51	

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St. Johns River Shipbuilding Co. corporation income and declared value excess-profits-tax return for fiscal year beginning July 1, 1944, and ending June 30, 1945—Continued

	Beginning of taxable year		End of taxable year	
LIABILITIES—continued				
Accrued liabilities:				
Salaries and wages	$620,471.29		$262,062.83	
Taxes (other than corporation income tax)	589,894.39		239,775.71	
Income and excess-profits tax (current year)	497,000.00		418,500.00	
Income and excess-profits tax (prior year)			202.82	
Interest on bank loans	73.33			
Insurance	29,830.00		17,670.00	
Rent	8,000.00		7,500.00	
Bonus fund	124,965.11	$1,870,234.12	68,419.60	$1,014,130.96
Capital stock—common	600.00		600.00	
Earned surplus	184,260.03	184,860.03	309,992.52	310,592.52
Total liabilities		3,265,029.35		1,407,942.74

Schedule M

St. Johns River Shipbuilding Co., reconciliation of earned surplus, as at June 30, 1945

	Debit	Credit	Balance
Balance at credit, July 1, 1944			$184,260.03
Items applicable to fiscal year ended June 30, 1944, which have been charged in accordance with the tax credit letter under sec. 3806	$93,348.57		
Tax applicable to above charge		$67,210.98	
Charges applicable to fiscal year ended June 30, 1944, which have been recognized as items of cost by the U. S. Maritime Commission and reimbursed during the current fiscal year		281.70	
Reserve for income tax applicable to above items	202.82		
Adjustment of amount in excess of actual tax liability for the fiscal year ended June 30, 1944		1,592.50	
	93,551.39	69,085.18	24,466.21
Net profit after income and excess-profits tax for fiscal year ended June 30, 1945			159,793.82
			150,198.70
Balance at credit, June 30, 1945			309,992.52

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Form 1121
Treasury Department
Internal Revenue Service

UNITED STATES CORPORATION EXCESS PROFITS TAX RETURN
For Calendar Year 1945

or fiscal year beginning JULY 1, 1945, and ending JUNE 30, 1946

Page 1

1945

File Code
Serial No.
District
(Cashier's stamp)

Cash Check M. O.
First payment
$

PRINT PLAINLY CORPORATION'S NAME AND ADDRESS

ST. JOHNS RIVER SHIPBUILDING COMPANY
(Name)

POST OFFICE BOX 1049
(Street and number)

JACKSONVILLE, FLORIDA
(City or town, postal zone number) (State)

Business group serial number entered on page 1, Form 1120 194

EXCESS PROFITS TAX COMPUTATION

Item and Instructions No.	Column 1 Income Credit Method		Column 2 Invested Capital Credit Method	
1. Excess profits net income (line 18, Schedule A)	$		$ 156,719	54
2. Specific exemption	$		$ 10,000	00
3. Excess profits credit—based on income (line 46, Schedule B)			x x x x x x x	x x
4. Excess profits credit—based on invested capital (line 40, Schedule C)	x x x x x x x	x x	28,183	22
5. Unused excess profits credit adjustment (attach schedule)				
6. Total of items 2 to 5	$		$ 38,183	22
7. Difference between item 1 and item 6	$		$ 118,536	32
8. Adjusted excess profits net income (item 7, column 1, or item 7, column 2, whichever is applicable)			$ 118,536	32
9. 95 percent of item 8			$ 112,609	50
10. Net income (item 36, page 1, Form 1120)			$ 155,895	49
11. Less: (a) Dividends received credit (85 percent of total of column 2, Schedule F, Form 1120, but not in excess of 85 percent of item 10 above (excluding from the computation dividends received on certain preferred stock of a public utility))	$			
(b) Credit for dividends paid on certain preferred stocks if taxpayer is a public utility (20 percent of line 20, page 2, Form 1120)				
12. Surtax net income (computed without regard to the credit provided in section 26 (e) (sum of lines 18 and 21, page 2, Form 1120) and without regard to 80 percent of the credit provided in section 26 (h))			$ 155,895	49
13. 80 percent of item 12			124,716	39
14. Income tax under Chapter 1 (other than section 102) for the taxable year (item 42, page 1, Form 1120)			13,300	36
15. Excess of item 13 over item 14			$ 111,416	03
16. Item 9, or item 15, whichever is lesser			$ 111,416	03
17. Amount deferred by reason of the application of section 710 (a) (5) (relating to abnormality under section 722) (attach schedule)			$	
18. Excess profits tax: (a) Item 16 minus item 17	$ 111,416	03		
(b) If schedule is filed under question (g), page 2, amount of tax as computed in such schedule				
(c) Item 18 (a) or item 18 (b), whichever is applicable			$ 111,416	03
19. Less: Credit for income taxes paid to a foreign country or United States possession allowed to a domestic corporation (portion not used in computing item 43, page 1, Form 1120)				
20. Item 18 (c) minus item 19			$ 111,416	03
21. Less: Credit against excess profits tax (10% of item 18 (c))			11,141	60
22. Item 20 minus item 21			$ 100,274	43
23. Amount, if any, due to application of section 734 (adjustment in case of position inconsistent with prior income tax liability) (attach schedule)				
24. Excess profits tax due (item 22 plus item 23, or item 22 minus item 23, whichever is applicable) 184/365ths or 50.411%			50,549	34

We, the undersigned, president (or vice president, or other principal officer) and treasurer (or assistant treasurer, or chief accounting officer) of the corporation for which this return is made, being severally duly sworn, each for himself deposes and says that this return (including any accompanying schedules and statements) has been examined by him and is, to the best of his knowledge and belief, a true, correct, and complete return, made in good faith, for the taxable year stated, pursuant to the Internal Revenue Code and the regulations issued thereunder.

Subscribed and sworn to before me this ..... day of September, 194 6

President
(President or other principal officer) (State title)

NOTARIAL SEAL

(Signature of officer administering oath) Notary Public (Title)

CORPORATE SEAL

Treasurer
(Treasurer, Assistant Treasurer, or Chief Accounting Officer) (State title)

I/we swear (or affirm) that I/we prepared this return for the person named herein and that the return (including any accompanying schedules and statements) is a true, correct, and complete statement of all the information respecting the excess profits tax liability of the person for whom this return has been prepared of which I/we have any knowledge.

Subscribed and sworn to before me this ..... day of ....., 194.....

(Signature of person preparing the return)

(Signature of person preparing the return)

NOTARIAL SEAL

(Signature of officer administering oath) (Title)

16—41112-2 (Name of firm or employer, if any)

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QUESTIONS

(a) Date of incorporation March 9, 1942 (b) State or country Florida

(c) Collector's office in which your income tax return for the taxable year was filed Jacksonville, Florida

(d) Is this a consolidated return? No If so, procure from the collector Form 851, Affiliations Schedule, which shall be filed in, sworn to, and filed as a part of the consolidated income tax return.

(e) In computing the excess profits credit under the invested capital method, do you elect to include in excess profits net income interest received on, reduced by the amount of amortizable bond premium under section 125 attributable to, all Government obligations described in section 22(b)(4) of the Internal Revenue Code? (Answer "yes" or "no") No

(f) Are you a transferor or transferee upon an exchange as defined by section 760 or 761 of the Internal Revenue Code? (Answer "yes" or "no") No

(g) Does this return involve an adjustment of the excess profits tax liability due to the application of the sections specified in (1) below? (Answer "yes" or "no") No If answer is "yes":

(1) Check the appropriate sections and submit schedules showing computation: 710(a)(4) ☐; 721 ☐; 726 ☐; 731 ☐; 735(b) ☐; 735(c) ☐; 736(a) ☐ 736(b) ☐. (See General Instructions E, F, G, H, and I.) (Enter amount of excess profits tax as Item 18 (b), page 1.)

(2) From the schedules submitted under (1) above, enter any tax adjustment which results from the application of each of the following sections: 721, $; 726, $; 731, $

(3) From the schedules submitted under (1) above, enter any income adjustment which results from the application of each of the following sections: 721, $; 731, $; 735(b), $; 735(c), $

(h) State amount of total assets as of the end of the taxable year. (From Form 1120, page 4, line 8, last column), $ 670,426.97

(i) Has a constructive average base period net income under section 722 been used in computing the excess profits credit used on this return? No If the answer is "yes," was such constructive average base period net income finally determined? Or, if not finally determined, is it used pursuant to permission granted by the Commissioner? If the answer to the first question is "yes," the following questions should be answered and the required information furnished:

(1) Is the amount of the constructive average base period net income so used the same as that which was finally determined or permitted? If the answer is "no," attach statement setting forth reasons for the variance and the amount thereof.

(2) If the constructive average base period net income resulted from the application of section 722 (b) (4) or (5) or section 722 (c), are the facts and circumstances different in the taxable year from the facts and circumstances with respect to which the claim for relief was first allowed? If so, attach statement containing a brief description of the difference and an account of its effect upon the business of the taxpayer for the taxable year.

(3) State the amount of the excess profits credit for the taxable year computed without regard to section 722. $

(j) Is any unused excess profits credit adjustment computed with the use of a constructive average base period net income? No If the answer is "yes," attach schedule showing computation.

Schedule A.—EXCESS PROFITS NET INCOME COMPUTATION

Line No.	Column 1 Income Credit Method		Column 2 Invested Capital Credit Method	
1. Normal-tax net income (computed without allowance of credit for income subject to excess profits tax and without allowance of dividends received credit) (item 38, page 1, Form 1120)	$		$ 155,895	49
2. Net short-term capital gain (do not enter net short-term capital loss)				
3. Adjustment to net operating loss deduction				
4. Decrease in deductions limited by income				
5. 50 percent of interest on borrowed capital				
6. Interest on Government obligations (see question (e) above, for election)	x x x x x x x x x x x x x x	x x x x	824	05
7. Total of lines 1 to 6	$		$ 156,719	54
8. Net gain from sale or exchange of capital assets (item 12 (a) plus item 33, page 1, Form 1120)	$		$	
9. Income from retirement or discharge of bonds, etc.				
10. Refunds and interest on Agricultural Adjustment Act taxes				
11. Recoveries of bad debts				
12. Increase in deductions limited by income				
13. (a) Dividends received credit adjustment (item 13, page 1, Form 1120, excluding dividends received from foreign corporations)				
(b) Dividends received credit adjustment (item 13, page 1, Form 1120, excluding dividends received from foreign personal holding companies and dividends received on stock held primarily for sale to customers by a dealer in securities)	x x x x x x x x x x x x x x	x x	x x x x x x x x x x x x x x	x x
14. Nontaxable income of certain industries with depletable resources				
15. Total of lines 8 to 14	$		$	
16. Excess profits tax net income computed without regard to deductions applicable to life insurance companies (line 7 minus line 15)	$		$ 156,719	54
17. Deductions applicable to life insurance companies				
18. Excess profits net income computed under income credit method or invested capital credit method (line 16, or line 16 minus line 17 in case of a life insurance company)	$		$ 156,719	54

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Schedule B.—EXCESS PROFITS CREDIT—BASED ON INCOME

Taxable Years Beginning After December 31, 1935, and Before January 1, 1940
(If additional columns are required, attach separate schedule)

Line No.		1. Year Ended ..., 19..	2. Year Ended ..., 19..	3. Year Ended ..., 19..	4. Year Ended ..., 19..
1.	Normal-tax (or special-class) net income	$	$	$	$
2.	Net capital loss used in computing line 1				
3.	Securities which are capital assets deducted in computing line 1 as bad debts or as stock determined to be worthless (for taxable years beginning prior to January 1, 1938)				
4.	Net loss from sale or exchange of property other than capital assets deducted in computing line 1 (for taxable years beginning after December 31, 1937)				
5.	Net loss from involuntary conversion of property deducted in computing line 1				
6.	Total of lines 1 to 5	$	$	$	$
7.	Net capital gain used in computing line 1	$	$	$	$
8.	Net gain from sale or exchange of property other than capital assets used in computing line 1 (for taxable years beginning after December 31, 1937)				
9.	Net gain from involuntary conversion of property used in computing line 1				
10.	Total of lines 7 to 9	$	$	$	$
11.	Difference between lines 6 and 10	$	$	$	$
12.	Net gain from sale or exchange of capital assets after considering net capital loss carry-over				
13.	Net gain from sale, exchange, or involuntary conversion of property other than capital assets				
14.	Total of lines 11 to 13	$	$	$	$
15.	Net loss from sale, exchange, or involuntary conversion of property other than capital assets	$	$	$	$
16.	Stock and securities of affiliated corporations which became worthless during the taxable year (if included in line 2, 3, or 7)				
17.	Total of lines 15 and 16	$	$	$	$
18.	Normal-tax (or special-class) net income after applying section 711 (b) (2) (line 14 minus line 17)	$	$	$	$
19.	Net short-term capital gain after considering net capital loss carry-over (do not enter net short-term capital loss)				
20.	Dividends received credit				
21.	Deductions on account of retirement or discharge of bonds, etc				
22.	Casualty, demolition, and similar losses not taken into account in computing line 12, 13, or 15				
23.	Repayment of processing tax to vendee				
24.	(a) Abnormal judgment liabilities, etc. (attach statement)				
	(b) Abnormal expenditures for intangible drilling and development costs (attach statement)				
	(c) Other abnormal deductions (attach statement)				
25.	Capitalization of expenditures for advertising or promotion of goodwill (attach statement)				
26.	Total of lines 18 to 25	$	$	$	$
27.	Income from retirement or discharge of bonds, etc	$	$	$	$
28.	Dividends received from domestic corporations				
29.	Net gain from sale or exchange of capital assets after considering net capital loss carry-over (line 12, above)				
30.	Total of lines 27 to 29	$	$	$	$
31.	Excess profits net income (line 26 minus line 30)	$	$	$	$
32.	Net aggregate of columns 1, 2, 3, and 4				$
33.	Increase in lowest year in base period (attach statement)				
34.	Total of lines 32 and 33				$
35.	Average base period net income—General average (line 34 divided by number of months in base period, multiplied by 12)				$

(Fill in lines 36 to 42 for computation of average base period net income where there are increased earnings in last half of base period)

36.	Net aggregate of columns 3 and 4, line 31 (see instruction regarding limitation applicable to taxable year ending after May 31, 1940)	$	
37.	Net aggregate of columns 1 and 2, line 31	$	
38.	Excess of line 36 over line 37		
39.	One-half of line 38	$	
40.	Line 36 plus line 39	$	
41.	Line 40 divided by number of months in second half of base period, multiplied by 12	$	
42.	Average base period net income—Increased earnings in last half of base period (line 41, or the highest excess profits net income for any taxable year in the base period, whichever is lesser)		$
43.	95 percent of line 35 or line 42, whichever is greater		$
44.	Net capital addition, $.....; or net capital reduction, $..... (attach statement).		
45.	8 percent of line 44, if a net capital addition (or 6 percent of line 44, if a net capital reduction)		
46.	Excess profits credit—based on income (line 43 plus line 45, if a net capital addition) (or line 43 minus line 45, if a net capital reduction)		$

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Schedule C.—EXCESS PROFITS CREDIT—BASED ON INVESTED CAPITAL

Line No.					
	Equity Invested Capital at the Beginning of the Taxable Year (See Instructions for Schedule C, lines 1 to 12, inclusive)				
1.	Money paid in for stock, or as paid-in surplus, or as a contribution to capital			$ 600	00
2.	Property paid in for stock, or as paid-in surplus, or as a contribution to capital				
3.	Distributions of earnings and profits in stock of the corporation				
4.	(a) Accumulated earnings and profits	$ 318,914	30		
	(b) Adjustment for transferor's deficit under section 718 (c) (5)	$			
	(c) Increase or decrease under section 761 (d) (1) on account of intercorporate liquidation	$			
	(d) Accumulated earnings and profits (item 4 (a)) as adjusted by item 4 (b) and (c)			318,914	30
5.	25 percent of new capital paid in during a taxable year beginning after December 31, 1940				
6.	Increase on account of intercorporate liquidation under section 761 (d) (2)				
7.	Deficit in earnings and profits of another corporation under section 718 (a) (7)				
8.	Total of lines 1 to 7			$ 319,514	30
9.	Less: Distributions made prior to the taxable year not out of accumulated earnings and profits	$			
10.	Earnings and profits of another corporation required to be deducted by section 718 (b) (3)				
11.	Decrease on account of intercorporate liquidation under section 761 (d) (2)				
12.	Deficit in earnings and profits included in invested capital of another corporation (section 718 (b) (5))				
13.	Total of lines 9 to 12				
14.	Equity invested capital at beginning of taxable year (line 8 minus line 13)			$ 319,514	30
	Average Addition to Equity Invested Capital During the Taxable Year (See Instructions for Schedule C, lines 1 to 12, inclusive)				
15.	Money paid in for stock, or as paid-in surplus, or as a contribution to capital	$			
16.	Property paid in for stock, or as paid-in surplus, or as a contribution to capital				
17.	Distributions of earnings and profits (other than earnings and profits of the taxable year) in stock of the corporation (see line 24, below)				
18.	25 percent of new capital				
19.	Increase on account of intercorporate liquidation under section 761 (d) (2)				
20.	Deficit in earnings and profits of another corporation under section 718 (a) (7)				
21.	Total additions in lines 15 to 20				
22.	Total of lines 14 and 21			$ 319,514	30
	Average Reduction in Equity Invested Capital During the Taxable Year (See Instructions for Schedule C, lines 1 to 12, inclusive)				
23.	Distributions not out of earnings and profits of the taxable year. SCHEDULE II Attached	$ 961	80		
24.	Stock distributions from accumulated earnings and profits at beginning of year (see line 17, above)				
25.	Decrease on account of intercorporate liquidation under section 761 (d) (2)				
26.	Deficit in earnings and profits included in invested capital of another corporation (section 718 (b) (5))				
27.	Total reductions in lines 23 to 26			961	80
	(See Instructions for Schedule C, lines 28 to 40, inclusive)				
28.	Average equity invested capital (line 22 minus line 27)			$ 318,552	50
29.	Average borrowed capital (attach schedule) SCHEDULE I Attached	$ 67,475	43		
30.	Average borrowed invested capital (50 percent of line 29)			33,737	72
31.	Average invested capital (line 28 plus line 30)			$ 352,290	22
32.	Total inadmissible assets	$			
33.	Total admissible and inadmissible assets	$			
34.	Percentage which line 32 is of line 33		%		
35.	Reduction on account of inadmissible assets (..... percent of line 31)				
36.	Invested capital (line 31 minus line 35)			$ 352,290	22
37.	Portion of line 36 (not over $5,000,000); and credit at 8 percent	$ 352,290 22	8%	$ 28,183	22
38.	Portion of line 36 (over $5,000,000, but not over $10,000,000); and credit at 6 percent		6%		
39.	Portion of line 36 (over $10,000,000); and credit at 5 percent		5%		
40.	Excess profits credit—based on invested capital (total of lines 37 to 39)			$ 28,183	22

Schedule I

St. Johns River Shipbuilding Co. computation of average borrowed capital, fiscal year July 1, 1945, to June 30, 1946

Date	Amount	Number days unchanged	Total	Date	Amount	Number days unchanged	Total
June 30, 1945		17		Sept. 28, 1945	$283,079.45	4	$1,132,317.80
July 17, 1945	$43,500.00	9	$391,500.00	Oct. 2, 1945	265,922.59	1	265,922.59
July 26, 1945	243,500.00	1	243,500.00	Oct. 3, 1945	43,500.00	37	1,609,500.00
July 27, 1945	205,928.17	3	617,784.51	Nov. 9, 1945		80	
July 30, 1945	43,500.00	45	1,957,500.00	Jan. 28, 1946	25,000.00	10	250,000.00
Sept. 13, 1945	163,500.00	4	654,000.00	Feb. 7, 1946		36	
Sept. 17, 1945	143,421.91	1	143,421.91	Mar. 15, 1946	125,000.00	91	11,375,000.00
Sept. 18, 1945	142,421.17	3	427,263.51	June 14, 1946	250,000.00	16	4,000,000.00
Sept. 21, 1945	242,421.17	4	969,684.68				
Sept. 25, 1945	224,979.06	1	224,979.06	Total		365	24,628,532.96
Sept. 26, 1945	183,079.45	2	366,158.90	Average			67,475.43

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Form 1120
Treasury Department
Internal Revenue Service

Page 1

UNITED STATES CORPORATION INCOME AND DECLARED VALUE EXCESS-PROFITS TAX RETURN 1945

For Calendar Year 1945

or fiscal year beginning JULY 1, 1945, and ending JUNE 30, 1946

PRINT PLAINLY CORPORATION'S NAME AND ADDRESS

ST. JOHNS RIVER SHIPBUILDING COMPANY (Name)

POST OFFICE BOX 1049 (Street and number)

JACKSONVILLE, FLORIDA (City or town, postal zone number) (State)

Kind of business: Shipbuilding

Business group serial number (from Instruction N) 194 Number of places of business 1

File Code

Serial No.

District (Collector's stamp)

Cash Check M. O. Find Payment $

Item and Instruction No.			
GROSS INCOME			
1. Gross sales (where inventories are an income-determining factor) $; Less: Returns and allowances $	$		
2. Less: Cost of goods sold. (From Schedule A)			
3. Gross profit from sales	$		
4. Gross receipts (where inventories are not an income-determining factor) $			
5. Less: Cost of operations. (From Schedule B)			
6. Gross profit where inventories are not an income-determining factor			
7. Interest on loans, notes, mortgages, bonds, bank deposits, etc.			
8. Interest on corporation bonds, etc. $ Less: Amortizable Bond Premium $			
9. (a) Interest on United States savings bonds and Treasury bonds owned in excess of the principal amounts of $5,000 issued prior to March 1, 1941. (From Schedule M, line 15 (a) (3) (ii)) SCHEDULE ATTACHED			
(b) Interest on Treasury notes issued on or after December 1, 1940, and obligations issued on or after March 1, 1941, by the United States or any agency or instrumentality thereof. (Submit schedule)			
10. Rents			
11. Royalties			
12. (a) Excess of net short-term capital gain over net long-term capital loss. (From Schedule C)			
(b) Net gain (or loss) from sale or exchange of property other than capital assets. (From Schedule D)			
13. Dividends. (From Schedule E)			
14. Other income. (State nature)			
15. Total income in items 3, and 6 to 14, inclusive		$535,680	39
DEDUCTIONS			
16. Compensation of officers. (From Schedule F)	$		
17. Salaries and wages (not deducted elsewhere)			
18. Rent			
19. Repairs			
20. Bad debts. (From Schedule G)			
21. Interest			
22. Taxes. (From Schedule H) (Deduct declared value excess-profits tax as item 35)			
23. Contributions or gifts paid. (From Schedule I)			
24. Losses by fire, storm, shipwreck, or other casualty, or theft. (Submit schedule)			
25. Depreciation. (From Schedule J)			
26. Depletion of mines, oil and gas wells, timber, etc. (Submit schedule)			
27. Net operating loss deduction. (Submit statement)			
28. Amortization of emergency facilities. (Submit schedule)			
29. (a) Advertising			
(b) Amounts contributed under a pension, annuity, stock bonus, or profit-sharing plan, etc.			
(c) Other deductions authorized by law. (From Schedule K)			
30. Total deductions in items 16 to 29, inclusive		379,784	90
31. Net income for declared value excess-profits tax computation (item 15 minus item 30)		$155,895	49
32. Add: Interest on obligations of certain instrumentalities of the United States issued prior to March 1, 1941. (From Schedule M, line 15 (a) (3) (iii)) $ Less amortizable bond premiums, $			
33. Excess of net long-term capital gain over net short-term capital loss. (From Schedule C)			
34. Total of lines 31, 32, and 33		$155,895	49
35. Less: Declared value excess-profits tax		$155,895	49
36. Net income			
37. Less: Interest on certain obligations of the United States and its instrumentalities issued prior to March 1, 1941. (Enter total of lines 9 (a) and 32)		$155,895	49
38. Adjusted net income			
39. Less: Adjusted excess profits net income from Form 1121. (See instruction on page 6)	$118,536 32		
40. Dividends received credit (85 percent of column 2, Schedule E, but not in excess of 85 percent of item 38 minus item 39, above)		118,536	32
41. Normal-tax net income		$37,359	17
TOTAL INCOME AND DECLARED VALUE EXCESS-PROFITS TAXES			
42. Total income tax (line 28 or 50, page 2, whichever is applicable)	$13,300 36		
43. Less: Credit for income taxes paid to a foreign country or United States possession allowed a domestic corporation		$13,300	36
44. Balance of income tax			
45. Total declared value excess-profits tax (line 8, page 2)			
46. Total income and declared value excess-profits taxes due 184/365ths or 50.411%		$6,704	54

AFFIDAVIT. (See Instruction E)

We, the undersigned, president (or vice president, or other principal officer) and treasurer (or assistant treasurer, or chief accounting officer) of the corporation for which this return is made, being severally duly sworn, each for himself deposes and says that this return (including any accompanying schedules and statements) has been examined by him and is, to the best of his knowledge and belief, a true, correct, and complete return, made in good faith, for the taxable year stated, pursuant to the Internal Revenue Code and the regulations issued thereunder.

Subscribed and sworn to before me this ..... day of September, 1946

PRESIDENT (President or other principal officer) (State title)

TREASURER (Treasurer, Assistant Treasurer, or Chief Accounting Officer) (State title)

NOTARIAL SEAL (Signature of officer administering oath) Notary Public (Title) CORPORATE SEAL

AFFIDAVIT. (See Instruction E)

I/we swear (or affirm) that I/we prepared this return for the person named herein and that the return (including any accompanying schedules and statements) is a true, correct, and complete statement of all the information respecting the tax liability of the person for whom this return has been prepared of which I/we have any knowledge.

Subscribed and sworn to before me this ..... day of ....., 194...

(Signature of person preparing the return)

(Signature of person preparing the return)

(Name of firm or employer, if any)

NOTARIAL SEAL (Signature of officer administering oath) (Title)

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DECLARED VALUE EXCESS-PROFITS TAX COMPUTATION. (See Computation Instructions)

Line No.		Column 1	Col. 2 Rate	Column 3 Amount of Tax
1. Net income for declared value excess-profits tax computation (Item 31, page 1)		$ 155,895.49		
2. Value of capital stock as declared in your capital stock tax return for the year ended June 30, 1945 (or for year ended June 30, 1946, if your income tax fiscal year began in 1945 and ended on or after July 31, 1946)	$ 3,000,000.00			
3. 10 percent of line 2	$ 300,000.00			
4. Dividends received credit (35 percent of column 2, Schedule E, but not in excess of 85 percent of item 38 minus item 39, page 1)		300,000.00		
5. Balance subject to declared value excess-profits tax (line 1 minus total of lines 3 and 4)		$ NONE		
6. Amount taxable at 6.6 percent (6 percent of line 2, but not more than line 5); and tax			6.6%	$
7. Balance taxable at 13.2 percent (line 5 minus line 6, column 1); and tax		$	13.2%	
8. Total declared value excess-profits tax (total of line 6, column 3, and line 7, column 3)				$

INCOME TAX COMPUTATION. (See Computation Instructions)

NORMAL TAX COMPUTATION

DOMESTIC CORPORATIONS WITH NORMAL-TAX NET INCOMES NOT OVER $50,000

9. Normal-tax net income (Item 41, page 1)	$ 37,359.17			
10. Portion of line 9 (not in excess of $5,000); and tax at 15 percent	$ 5,000.00	15%	$ 750.00
11. Portion of line 9 (in excess of $5,000 and not in excess of $20,000); and tax at 17 percent	15,000.00	17%	2,550.00
12. Portion of line 9 (in excess of $20,000 and not in excess of $25,000); and tax at 19 percent	5,000.00	19%	950.00
13. Portion of line 9 (in excess of $25,000); and tax at 31 percent	12,359.17	31%	3,831.34
14. Total normal tax (total tax in column 3 of lines 10, 11, 12, and 13)			$ 8,081.34

DOMESTIC CORPORATIONS WITH NORMAL-TAX NET INCOMES OF OVER $50,000 AND FOREIGN CORPORATIONS ENGAGED IN BUSINESS WITHIN THE UNITED STATES IRRESPECTIVE OF AMOUNT OF NORMAL-TAX NET INCOME

15. Normal-tax net income (Item 41, page 1)	$			
16. Normal tax (24 percent of line 15)			24%	$

SURTAX COMPUTATION

17. Net income (Item 36, page 1)	$ 155,895.49			
18. Less: Adjusted excess profits net income (Item 30, page 1)	$ 118,536.32			
19. Dividends received credit (85 percent of column 2, Schedule E, but not in excess of 85 percent of line 17 minus 18 (exclusive of the computation dividends received on certain preferred stock of a public utility))				
20. Dividends paid on certain preferred stock if taxpayer is a public utility		118,536.32		
21. Surtax net income		$ 37,359.17		

CORPORATIONS WITH SURTAX NET INCOMES NOT OVER $50,000

22. Portion of line 21 (not in excess of $25,000); and tax at 10 percent (or 12 percent in the case of a consolidated return)	$ 25,000.00	10%	$ 2,500.00
23. Portion of line 21 (in excess of $25,000 and not in excess of $50,000); and tax at 22 percent (or 24 percent in the case of a consolidated return)	12,359.17	22%	2,719.02
24. Total surtax in column 3 of lines 22 and 23			$ 5,219.02

CORPORATIONS WITH SURTAX NET INCOMES OF OVER $50,000

25. Surtax net income (line 21 above)	$		
26. Surtax (16 percent of line 25) (or 18 percent in the case of a consolidated return)		16%	$
27. Total normal tax and surtax (line 14 or 16, plus line 24 or 26, whichever is applicable)			$ 13,300.36
28. Total tax (line 27, or line 31 Schedule C)			$

TAX COMPUTATION FOR REGULATED INVESTMENT COMPANIES

29. Adjusted net income (Item 38, page 1, but computed without regard to section 47 (c))	$		
30. Add: Net operating loss deduction (Item 27, page 1)			
31. Total of lines 29 and 30	$		
32. Less: Excess of net long-term capital gain over net short-term capital loss. (From Schedule C)			
33. Adjusted net income (computed under section 362 (b) (1))	$		
34. Less: Basic surtax credit (excluding capital gain dividends) computed without regard to paragraphs (2) and (3) of section 27 (b). (Submit schedule)			
35. Supplement Q net income	$		
36. Normal tax (24 percent of line 35)		24%	$
37. Net income (Item 36, page 1, but computed without regard to section 47 (c))	$		
38. Add: Net operating loss deduction (Item 27, page 1)			
39. Total of lines 37 and 38	$		
40. Less: Excess of net long-term capital gain over net short-term capital loss. (From Schedule C)			
41. Net income (computed under section 362 (b) (2))	$		
42. Less: Dividends (other than capital gain dividends) paid including consent dividends credit. (Submit schedule)			
43. Supplement Q surtax net income	$		
44. Surtax (16 percent of line 43)		16%	
45. Net long-term capital gain. (From Schedule C)	$		
46. Less: Net short-term capital loss. (From Schedule C)	$		
47. Capital gain dividends paid. (Submit schedule)			
48. Excess subject to tax	$		
49. Tax (25-percent of line 48)		25%	
50. Total tax in lines 30, 44, and 49			$

Schedule A.—COST OF GOODS SOLD. (See Instruction 2)
(Where inventories are an income-determining factor)

Inventory at beginning of year	$	
Material or merchandise bought for manufacture or sale		
Salaries and wages		
Other costs per books. (Attach itemized schedule)		
Total	$	
Less: Inventory at end of year		
Cost of goods sold (enter as item 2, page 1)	$	

Schedule B.—COST OF OPERATIONS
(Where inventories are not an income-determining factor)

Salaries and wages	$	
Other costs (to be detailed):		
(a)		
(b)		
(c)		
(d)		
(e)		
Total (enter as item 5, page 1)	$	

Schedule C.—Separate Schedule C (Form 1120) should be secured and used in reporting sales and exchanges of capital assets and filed with and as a part of this return.

Schedule D.—GAINS AND LOSSES FROM SALES OR EXCHANGES OF PROPERTY OTHER THAN CAPITAL ASSETS. (See Instruction 12)

1. Description of Property	2. Date Acquired	3. Gross Sales Price (Contract price)	4. Cost or Other Basis	5. Expense of Sale and Cost of Improvements Subsequent to Acquisition or March 1, 1913	6. Depreciation Allowed (or allowable) Since Acquisition or March 1, 1913 (Furnish details)	7. Gain or Loss (column 3 plus column 6 minus the sum of columns 4 and 5)
		$	$	$	$	$
Total net gain (or loss). (Enter as item 12 (b), page 1)						$

Supplemental information required for Schedule D

State with respect to each item of property reported in Schedule D: (1) how property was acquired ..... (2) whether at time of sale or exchange did purchaser own stock directly or indirectly more than 50 percent in value of your outstanding stock; (3) where purchaser was a corporation, more than 50 percent in value of its capital stock and 50 percent in value of your capital stock was owned directly or indirectly by or for the same individual or his family, and (4) where purchaser was a corporation, whether more than 50 percent in value of its capital stock was owned directly or indirectly by you ..... If so, state name and address of purchaser .....

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Schedule E.—INCOME FROM DIVIDENDS

1. Name and Address of Paying Corporation	2. *Domestic Corporations Taxable Under Chapter 1, Internal Revenue Code	3. Foreign Corporations	4. Other Corporations
	$	$	$
Totals	$	$	$
Total of columns 2, 3, and 4. (Enter as item 13, page 1)			$

*Exempt dividends received from corporations organized under the China Trade Act, 1922, and corporations entitled to the benefits of section 251 of the Internal Revenue Code, which dividends should be entered in column 4.
Dividends on share accounts in Federal savings and loan associations in case of share accounts issued prior to March 28, 1945, should not be listed, but the amount should be included in items 32 and 37, page 1; dividends on share accounts issued on or after March 28, 1945, should be reported in column 4.

Schedule F.—COMPENSATION OF OFFICERS

1. Name and Address of Officer	2. Official Title	3. Time Devoted to Business	Percentage of Corporation's Stock Owned: 4. Common	5. Preferred	6. Amount of Compensation
					$
Total compensation of officers. (Enter as item 16, page 1)					$

NOTE.—Schedule F-1 (IN DUPLICATE) also must be filed with this return if compensation in excess of $75,000 was paid to any officer or employee.

Schedule G.—BAD DEBTS. (See Instruction 20) (See notes 1 and 2)

1. Taxable Year	2. Net Income Reported	3. Sales on Account	4. Bad Debts of Corporation If No Reserve is Carried on Books. (See note 2)	If Corporation Carries a Reserve— 5. Gross Amount Added to Reserve	6. Amount Charged Against Reserve
1941	$	$	$	$	$
1942					
1943					
1944					
1945					

1. Check whether deduction claimed represents debts which have become worthless ☐, or is an addition to a reserve ☐.
2. Not including securities which are capital assets and which became worthless within the taxable year. Such securities which became worthless within the year should be reported in Schedule C.

Schedule H.—TAXES. (See Instruction 22)

Nature	Amount
	$
Total. (Enter as item 27, page 1)	$

Schedule I.—CONTRIBUTIONS OR GIFTS PAID. (See Instruction 23)

Name and Address of Organization	Amount
Tuberculosis Assoc., of America	$ 50 00
Total. (Enter as item 28, page 1, subject to 5 percent limitation.) (See Instruction 23).	$ 50 00

Schedule J.—DEPRECIATION. (See Instruction 25)

1. Kind of Property (If building, state material of which constructed)	2. Date Acquired	3. Cost or Other Basis (Do not include land or other nondepreciable property)	4. Assets Fully Depreciated in Use at End of Year	5. Depreciation Allowed (or allowable) in Prior Years	6. Remaining Cost or Other Basis To Be Recovered	7. Estimated Life Used in Accumulating Depreciation	8. Estimated Remaining Life From Beginning of Year	9. Depreciation Allowable This Year
		$	$	$	$			$
Total. (Enter as item 25, page 1)								$

Schedule K.—OTHER DEDUCTIONS. (See Instruction 29)

QUESTIONS

1. Date incorporated 3/9/42 2. State or country Florida
3. If incorporated in 1945, indicate whether (a) completely new business ☐, or (b) successor to previously existing business, which was organized as (1) corporation ☐, (2) partnership ☐, or (3) sole proprietorship ☐, or (4) other (indicate) ..... If successor to previously existing business, give name and address of the previous business organization .....
4. Collector's office where the corporation's return for the preceding year was filed Jacksonville, Florida
5. Enter amount of income (or deficit) from Item 34, page 1, Form 1120 for 1944 $ 568,698.70
6. The corporation's books are in care of A. H. Ainslie, Treas. Located at Corner Adams and Florida Avenues
7. Enter the approximate number of stockholders at the close of the taxable year 8AGAR
8. Did the corporation during the taxable year have any Government contracts or subcontracts? (Answer "yes" or "no") ..... If answer is "yes," state the approximate aggregate gross dollar amount billed during the taxable year under all such contracts and/or subcontracts. (See Instruction G-(3).) $4,513,242.42 C.P.F.F.
9. Is the corporation a personal holding company within the meaning of section 501 of the Internal Revenue Code? No ..... (If so, an additional return on Form 1120 H must be filed.)
10. Is this a consolidated return? No (If so, procure from the collector of internal revenue for your district Form 851, Affiliations Schedule, which shall be filled in, sworn to, and filed as a part of this return.)
11. If this is not a consolidated return: (a) did the corporation own at any time during the taxable year 80 percent or more of the voting stock of another corporation either domestic or foreign? No ..... ; or (b) did any corporation, individual, partnership, trust, or association own at any time during the taxable year 80 percent or more of the corporation's voting stock? No (If either answer is "yes," attach separate schedule showing: (1) Name and address; (2) percentage of stock owned; (3) date stock was acquired; and (4) the collector's office in which the income tax return of such corporation, individual, partnership, trust, or association for the last taxable year was filed.)
12. Is this return made on the basis of cash receipts and disbursements? No (If not, describe fully in separate statement.)
13. Has the corporation in this return taken a deduction for any amount of wages or salaries representing an increase or decrease in rate? (Answer "yes" or "no") Yes. If so, attach statement as required by Instructions 16 and 17.
14. State whether the inventories at the beginning and end of the taxable year were valued at cost, or cost or market, whichever is lower not applicable If other basis is used, explain fully in separate statement, giving date inventory was last reconciled with stock.
15. Did the corporation make a return of information on Forms 1096 and 1099 or Form W-2s for the calendar year 1945 (see Instruction G-(1))? Yes
16. Has any transaction described in Instruction G-(4) occurred on or after October 8, 1940? No
17. Did the corporation at any time during the taxable year own directly or indirectly any stock of a foreign corporation? No (If so, attach statement as required by Instruction K-(3).)

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Schedule L.—BALANCE SHEETS. (See Instruction L)

ASSETS	Beginning of Taxable Year: Amount	Beginning of Taxable Year: Total	End of Taxable Year: Amount	End of Taxable Year: Total
1. Cash		$		$
2. Notes and accounts receivable	$		$	
Less: Reserve for bad debts				
3. Inventories (itemize in separate schedule)				
4. Investments in governmental obligations:				
(a) Obligations of a State, Territory, or political subdivision thereof, or the District of Columbia, or United States possessions	$		$	
(b) Obligations of the United States:				
(1) Obligations issued on or before September 1, 1917; all postal savings bonds; Treasury notes issued prior to December 1, 1940; and Treasury bills issued prior to March 1, 1941				
(2) United States savings bonds and Treasury bonds issued prior to March 1, 1941				
(3) Treasury notes issued on or after December 1, 1940; and all other obligations of the United States issued on or after March 1, 1941				
(c) Obligations of instrumentalities of the United States:				
(1) Obligations of Federal land banks, joint stock land banks, and Federal intermediate credit banks issued prior to March 1, 1941				
(2) Obligations issued by other instrumentalities of the United States prior to March 1, 1941				
(3) Obligations of all instrumentalities of the United States issued on or after March 1, 1941		SCHEDULE ATTACHED		
5. Other investments (itemize)				
6. Capital assets:				
(a) Depreciable assets (itemize in separate schedule)	$		$	
Less: Reserve for depreciation				
(b) Depletable assets	$		$	
Less: Reserve for depletion				
(c) Land				
7. Other assets (itemize)	$		$	
8. TOTAL ASSETS		$		$
LIABILITIES				
9. Accounts payable		$		$
10. Bonds, notes, and mortgages payable:				
(a) With original maturity of less than 1 year	$		$	
(b) With original maturity of 1 year or more				
11. Accrued expenses (itemize)	$		$	
12. Other liabilities (itemize)	$		$	
13. Surplus reserves (itemize in separate schedule)				
14. Capital stock: Number of shares at end of year—				
(a) Preferred stock ( )	$		$	
(b) Common stock ( )				
15. Paid-in or capital surplus				
16. Earned surplus and undivided profits				
17. TOTAL LIABILITIES		$		$

Schedule M.—RECONCILIATION OF NET INCOME AND ANALYSIS OF EARNED SURPLUS AND UNDIVIDED PROFITS

1. Total distributions to stockholders charged to earned surplus during the taxable year:		13. Earned surplus and undivided profits at close of preceding taxable year (Schedule L)	$
(a) Cash	$	14. Adjusted net income (item 38, page 1)	
(b) Stock of the corporation		15. Nontaxable and partially exempt income:	
(c) Other property		(a) Interest on:	
2. Contributions (excess over 5 percent limitation)		(1) Obligations of a State, Territory, or political subdivision thereof, or the District of Columbia, or United States possessions	
3. Federal income and excess-profits taxes		(2) Obligations of the United States:	
4. Income taxes claimed as a credit in whole or in part in Item 48, page 1		(i) Obligations issued on or before September 1, 1917; all postal savings bonds; Treasury notes issued prior to December 1, 1940; and Treasury bills issued prior to March 1, 1941	
5. Federal taxes paid on tax-free covenant bonds		(ii) United States savings bonds and Treasury bonds owned in the principal amount of $5,000 or less, issued prior to March 1, 1941	
6. Excess of capital losses over capital gains		(iii) United States savings bonds and Treasury bonds owned in excess of the principal amount of $5,000 issued prior to March 1, 1941	
7. Additions to surplus reserves (list separately):		(3) Obligations of instrumentalities of the United States:	
(a)		(i) Obligations of Federal land banks, joint stock land banks, and Federal intermediate credit banks issued prior to March 1, 1941	
(b)		(ii) Obligations issued by other instrumentalities of the United States prior to March 1, 1941	
8. Other unallowable deductions:		(b) Other nontaxable income (itemize):	
(a)		(1)	
(b)		(2)	
9. Adjustments not recorded on books (itemize):		16. Charges against surplus reserves (itemize):	
(a)		17. Adjustments not recorded on books (itemize):	
(b)		18. Sundry credits to earned surplus (itemize):	
10. Sundry debits to earned surplus (itemize):			
(a)			
(b)			
11. Earned surplus and undivided profits at close of the taxable year (Schedule L)		19. Total of lines 13 to 18	$
12. Total of lines 1 to 11	$		

EXCESS PROFITS TAX. (See Instructions for Form 1121)

(a) Is an excess profits tax return on Form 1121 being filed for the taxable period covered by this return? .....Yes.....

(b) If a personal service corporation (other than a member of an affiliated group of corporations filing a consolidated return) signifies below its desire not to be subject to the excess profits tax, it shall be exempt from such tax and the provisions of Supplement S, Chapter 1, shall apply to the shareholders in such corporation who were such shareholders on the last day of the taxable year of the corporation. (Attach Form 1121PS)

(c) If corporation claims exemption under section 727 of the Internal Revenue Code, state basis of claim .....

(d) If an excess profits tax return is not being filed for the reason that it is claimed that the excess profits net income computed under the invested capital method is not greater than (1) $10,000 for a taxable year ending in 1945, or (2) an amount equal to the sum of the portion of $10,000 applicable to the part of the year falling in 1945 and the portion of $25,000 applicable to the part of the year falling in 1946, in case of a taxable year beginning in 1945 and ending in 1946, the following Schedule N should be filled in. The completion of Schedule N does not constitute the filing of an excess profits tax return.

Schedule N.—EXCESS PROFITS NET INCOME COMPUTATION

1. Normal-tax net income (computed without credit for income subject to excess profits tax and dividends received credit) (item 38, page 1)	$	6. Dividends received credit adjustment (Item 13, page 1, excluding the sum of (a) dividends received (actual or constructive) from foreign personal holding companies, and (b) dividends received on stock held primarily for sale to customers by a dealer in securities)	$
2. Net short-term capital gain (do not enter net short-term capital loss)		7. Net gain from sale or exchange of capital assets (item 12 (c), plus Item 33, page 1)	
3. 50 percent of interest on borrowed capital		8. Income from retirement or discharge of bonds, etc.	
4. Adjustment to net operating loss deduction under section 711 (a) (2) (D)		9. Refunds and interest on Agricultural Adjustment Act taxes	
5. Total of lines 1 to 4	$	10. Recoveries of bad debts	
		11. Total of lines 6 to 10	$

12. Excess profits net income (for purpose of determining necessity for filing return) (line 5 minus line 11) ..... $ .....

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St. Johns River Shipbuilding Co. computation of tax January 1, 1946, through June 30, 1946

	Percent	
Normal tax net income (item 38, page 1, form 1120)		$155,895.49
Normal tax	24	
Surtax	14	
Total	38	59,240.29
Total due 181/365 or 49.589 percent		29,376.67

SUMMARY OF TAXES

July 1, 1945, to December 31, 1945:	
Income and surtaxes	$6,704.84
Excess profits tax	50,549.34
	57,254.18
January 1, 1946, to June 30, 1946: As above	29,376.67
Total	86,630.85

[Form 1120, page 1, items 1–31]

St. Johns River Shipbuilding Co. corporation income and declared value excess-profits tax return for fiscal year beginning July 1, 1945, and ending June 30, 1946

Income from construction fees and custody allowances	$423,000.00	
Interest received	8,924.91	
Income from repair contracts	33,669.07	
Miscellaneous	3,694.93	
Recovery of items declared nonreimbursable in prior years	66,391.48	
Total income		$535,680.39
Costs and expenses:		
Officers' salaries	$62,959.94	
Employees' salaries and wages	257,046.73	
Interest on bank loans	1,648.09	
Social security taxes	6,331.03	
Legal expense	13,964.43	
Ceremonial launching expense	3,200.32	
Insurance	829.79	
Material used on repair contracts	10,490.83	
Travel and entertainment	9,912.04	
Miscelalneous	13,351.70	
Donations	50.00	
Total expenses		379,784.90
Net income		155,895.49

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Schedule F—Compensation of officers

St. Johns River Shipbuilding Co. corporation income and declared value excess-profits-tax return for fiscal year beginning July 1, 1945, and ending June 30, 1946

Name and address of officer	Official title	Time devoted to business	Percentage of corporation's stock owned		Amount of compensation
			Common	Preferred	
James C. Merrill, Jacksonville, Fla	President	Part	16⅔	None	$23,000.00
Kenneth A. Merrill, Jacksonville, Fla.	Vice president	do	2½	None	13,000.00
D. J. O'Mahoney, Jacksonville, Fla	Vice president and secretary.	Full	None	None	10,000.00
H. M. Heckman, Jacksonville, Fla	Assistant treasurer	do	None	None	6,626.61
A. H. Ainslow, Jacksonville, Fla	Treasurer	do	None	None	10,333.33
					62,959.94

Schedule L—Balance sheet

St. Johns River Shipbuilding Co. corporation income and declared value excess-profits-tax return for fiscal year beginning July 1, 1945, and ending June 30, 1946

	Beginning of taxable year		End of taxable year	
ASSETS				
Cash		$160,683.79		$57,957.35
U. S. Government bonds		250,000.00		500,000.00
Accounts receivable		914,916.53		64,218.55
Miscellaneous accounts receivable		81,289.97		48,251.07
Furniture and equipment		1,052.45		----------
Total assets		1,407,942.74		670,426.97
LIABILITIES				
Accounts payable		83,219.26		1,865.00
Notes payable		----------		450,000.00
Trust accounts: Liabilities to employees:				
Unclaimed wages	$16,406.48		$4,557.64	
For purchase of war bonds	60,585.03		----------	
Total	76,991.51		4,557.64	
Deduct funds on deposit in Atlantic National Bank in trust:				
War bond trustee account	60,585.03		----------	
Unclaimed wages trustee account	16,406.48		4,557.64	
Total	76,991.51		4,557.64	
Accrued liabilities:				
Salaries and wages	262,062.83		1,021.68	
Taxes (other than corporation income tax)	239,775.71		1,616.61	
Income and excess-profits tax (current year)	418,500.00		86,630.85	
Income and excess-profits tax (prior year)	202.82		[1] 15,826.11	
Insurance	17,670.00		----------	
Rent	7,500.00		----------	
Bonus fund	68,419.60		----------	
		1,014,130.96		73,443.03
Capital stock, common	600.00		313.00	
Earned surplus	309,992.52		144,805.94	
		310,592.52		145,118.94
Total liabilities		1,407,942.74		670,426.97

[1] Red figures

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Schedule M

St. Johns River Shipbuilding Co. reconciliation of earned surplus as at June 30, 1946

		Debit	Credit	Balance
Balance at credit, July 1, 1945				$309,992.52
Items applicable to prior years covered by tax credit letters dated Apr. 1, 1946		$2,498.92		
Tax thereon			$1,799.22	
Items charged off prior years (but not taken as tax deductions) which have been recognized by the United States Maritime Commission as items of cost and reimbursed by the U. S. Maritime Commission in current year			6,482.82	
Tax thereon		4,667.63		
Reverse prior year schedule M		281.70	202.82	
Adjustment of amount in excess of actual tax liability for the fiscal year ended June 30, 1945			7,885.17	
		7,448.25	16,370.03	8,921.78
Adjusted surplus, July 1, 1945				318,914.30
Net profit after income and excess profits tax for fiscal year ended June 30, 1946			69,264.64	
Less:				
Repurchase and cancellation (287 shares June 26, 1946)	$143,500.00			
Less: Par value	287.00			
		143,213.00		
Distribution in liquidation, June 26, 1946		100,160.00	[1] 243,373.00	[2] 174,108.36
Balance at credit, June 30, 1946				144,805.94

[1] Item No. 23, page 4, form 1121: 4/365 of $143,500 plus $100,160 above, less current profit, $155,895.49, equals reduction in equity invested capital, $961.80.
[2] Red figures.

ST. JOHNS RIVER SHIPBUILDING CO. (JACKSONVILLE, FLA.) CORPORATION INCOME TAX RETURN FOR FISCAL YEAR ENDED JUNE 30, 1946

STATEMENT WITH RESPECT TO CHANGES AFTER OCTOBER 3, 1942, IN WAGES OR SALARIES AS REQUIRED BY QUESTION 13, PAGE 3, FORM 1120

The taxpayer, since October 3, 1942, has increased the wage or salary rate of numerous employees. Such increases which required the prior approval of the National War Labor Board of the Commissioner of Internal Revenue have had such approval.

Such increases which required no prior approval of the National War Labor Board of the Commissioner of Internal Revenue have been made in accordance with the terms of a salary agreement or salary rate schedule, and as a result of reasons or circumstances prescribed in orders, rulings, or regulations promulgated under authority of the act of October 2, 1942. No wage or salary decreases in contravention of the oders, rulings, or regulations promulgated under authority of the act of October 2, 1942, have been made by the taxpayer since October 3, 1942.

I certify that, to the best of my knowledge and belief, the foregoing is a true and correct statement. I further certify that data and information with respect to such increases are available for examination by authorized representatives of the Bureau of Internal Revenue.

ST. JOHNS RIVER SHIPBUILDING CO.,
——— ———, *Treasurer.*

EXHIBIT 26

BETHLEHEM-FAIRFIELD SHIPYARD, INC.,
Bethlehem, Pa., August 14, 1946.

MERCHANT MARINE AND FISHERIES INVESTIGATING COMMITTEE,
House of Representatives, United States,
Washington 25, D. C.
(Attention Marvin J. Coles, Esq., general counsel.)

GENTLEMEN: In response to your letter of July 27, 1946, we are enclosing herewith the information requested therein, except for that with respect to three of

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the items. We are presently engaged in assembling the data required in connection with those items and hope to be able to submit the remainder of the information within 3 weeks.

Very truly yours,

BETHLEHEM-FAIRFIELD SHIPYARD, INC.,
W. H. VANNATTA, *Assistant Comptroller.*

BETHLEHEM-FAIRFIELD SHIPYARD, INC.

ANSWER TO QUESTIONNAIRE OF THE MERCHANT MARINE AND FISHERIES INVESTIGATING COMMITTEE, UNITED STATES HOUSE OF REPRESENTATIVES, DATED JULY 27, 1946

Item 1: *The date on which your company was formed, and a copy of its corporate charter.*

Answer: Bethlehem-Fairfield Shipyard, Inc., was incorporated in the State of Maryland on January 21, 1941. A copy of its corporate charter is submitted herewith.

Item 2: *The total capital of your company, giving a break-down of the types of stock and securities.*

Answer: The total capital stock of the company consists of 10,000 shares of $100 par value each.

Item 3: *The names of all officers and directors, and a statement of their annual compensation.*

Answer:

A. B. Homer, director and president, February 3, 1941, to date.

R. E. McMath, director, vice president, and secretary, February 3, 1941, to date.

C. R. Holton, director, vice president, and purchasing agent,[1] February 3, 1941, to date.

J. M. Larkin, director and vice president, February 3, 1941, to date.

F. A. Shick, director, vice president, and comptroller, February 3, 1941, to date.

J. M. Willis, vice president and general manager, February 3, 1941, to date.

W. H. Collins, vice president, December 21 ,1945, to date.

W. H. Johnstone, assistant secretary, February 3, 1941, to date.

W. M. Driver, assistant secretary, February 3, 1941, to date.

A. J. Slater, assistant secretary, February 3, 1941, to date.

A. A. Jenkins, assistant secretary, May 4, 1942, to date.

W. J. Brown, assistant secretary and assistant treasurer, February 3, 1941, to date.

J. P. Bender, treasurer, February 3, 1941, to date.

C. E. Snyder, assistant treasurer, March 2, 1942, to date.

R .H. Schlottman, assistant comptroller, February 3, 1941, to date.

W. H. Vannatta, assistant comptroller, July 19, 1943, to date.

H. J. Harper, assistant comptroller, July 19, 1943, to date.

P. S. Killian, purchasing agent, February 14, 1944, to date.

Only two of the above-named officers and/or directors received compensation from the Bethlehem-Fairfield Shipyard, Inc. Such compensation was as follows:

A. B. Homer, president:	
1941	$25,000.00
1942	20,416.67
1943	20,000.00
1944	20,000.00
1945	20,000.00
1946	None

J. M. Willis, vice president and general manager:	
1941	[1] $20,833.30
1942	25,000.00
1943	25,000.00
1944	25,000.00
1945	25,000.00
1946	None

[1] From Mar. 1.

Item 4: *The names of all officers and employees who have received compensation of over $15,000 per annum, giving the amounts received and the extent to which such payments were reimbursable by the Maritime Commission.*

[1] Purchasing agent to February 14, 1944.

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Answer:

Name	Position	Year	Compensation paid	Total amount reimbursable by Maritime Commission
A. B. Homer	President	1941	$25,000.00	None
		1942	20,416.67	None
		1943	20,000.00	None
		1944	20,000.00	None
		1945	20,000.00	None
		1946	None	None
J. M. Willis	Vice president and general manager	1941	20,833.30	$7,891.30
		1942	25,000.00	18,796.00
		1943	25,000.00	20,409.00
		1944	25,000.00	19,495.00
		1945	25,000.00	16,371.00
		1946	None	None
T. S. McElroy	Yard manager	1942	25,279.00	18,000.00
		1943	16,190.00	13,500.00
W. C. Reynolds	Production engineer yard manager	1942	16,193.00	12,000.00
		1944	18,935.00	18,000.00
		1945	19,325.00	16,120.00
		1946	None	None
G. J. McVicar	General superintendent	1942	24,822.00	15,000.00
		1943	20,826.00	15,000.00
		1944	19,142.00	15,000.00
A. M. Clark	Yard superintendent	1942	15,035.00	15,035.00
		1945	20,349.00	20,029.00
		1946	None	None

Item 5: *The names of all persons, associations, or corporations holding 5 percent or more of the capital stock of your company, giving the amounts of capital stock held by each.*

Answer: All of the outstanding capital stock of Bethlehem-Fairfield Shipyard, Inc., is held by Bethlehem Steel Corp., a Delaware corporation.

Item 6: *The shipbuilding experience prior to 1940 of all officers, directors, and stockholders holding over 5 percent of your capital stock.*

Answer: Bethlehem Steel Corp., a New Jersey corporation, and Bethlehem Steel Corp., a Delaware corporation, its successor, through one or more subsidiary companies (including Bethlehem-Fairfield Shipyard, Inc.), have been engaged in the shipbuilding and ship-repairing business since the incorporation of the New Jersey corporation in 1904. Prior to 1941 such subsidiaries constructed over 900 naval and commercial vessels of all types and sizes, including battleships, aircraft carriers, heavy and light cruisers, destroyers, submarines, naval tugs, passenger liners, cargo and cargo-passenger ships, tankers, trawlers, ferries, yachts, and dredges.

A. B. Homer, director and president, and now president, of Bethlehem Steel Corp. and of all its subsidiary companies engaged in the shipbuilding and ship-repairing business, has, following a period of submarine service with the Navy, been actively engaged in a supervisory capacity with one or more of such subsidiary companies since 1919, and, in his 21 years of service prior to 1941, has covered all phases of such business with the Bethlehem organization.

W. H. Collins, vice president, and now vice president in charge of all shipbuilding and ship-repairing activities of the subsidiary companies of Bethlehem Steel Corp., has been almost continuously engaged in the shipbuilding and ship-repairing business since his graduation from college in 1915.

J. M. Willis, vice president and general manager, was in direct charge of all operations of the Fairfield yard. For a period of 43 years prior to 1941 he held various positions in commercial and navy yards, and, for the last 26 of those 43 years, he was the manager of various shipbuilding and ship-repair yards.

All the other officers and directors hold similar offices in the other shipbuilding and ship-repairing subsidiary companies of Bethlehem Steel Corp. Their length of service prior to 1941 with one or more of such shipbuilding and ship-repairing subsidiaries, and with companies the assets of which were acquired by one or more of such subsidiaries, is shown below:

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Name	Position	Length of service prior to 1941 (years)
R. E. McMath	Director, vice president, and secretary	23
C. R. Holton	Director, vice president, and purchasing agent	35
J. M. Larkin	Director and vice president	37
F. A. Shick	Director, vice president, and comptroller	34
W. H. Johnstone	Assistant secretary	16
W. M. Driver	do	11
A. J. Slater	do	8
A. A. Jenkins	do	6
W. J. Brown	Assistant secretary and assistant treasurer	23
J. P. Bender	Treasurer	28
C. E. Snyder	Assistant treasurer	7
R. H. Schlottman	Assistant comptroller	28
W. H. Vannatta	do	22
H. J. Harper	do	23
P. S. Killian	Purchasing agent	24

Item 7: *The names of all officers, directors, or stockholders owning more than 5 percent of the capital stock of your company, who have held positions as officers or directors of another company which had contracts with the Maritime Commission or the War Shipping Administration.*

Answer: None; on the assumption that this item refers to other companies which are not part of the Bethlehem organization.

Item 8: *The names of all officers, directors, or stockholders owning more than 5 percent of the capital stock of your company who have owned 5 percent or more of the capital stock of another company which had contracts with the Maritime Commission or the War Shipping Administration.*

Answer: Bethlehem Steel Corp. owns all the capital stock of Bethlehem-Fairfield Shipyard, Inc. It also owns all the capital stock of three other shipbuilding and ship-repairing subsidiaries of Bethlehem Steel Corp. which had contracts with the Maritime Commission or the War Shipping Administration. To the best of our knowledge and belief, no officer or director of Bethlehem-Fairfield Shipyard, Inc. has held 5 percent or more of the capital stock of another company which had contracts with the Maritime Commission or War Shipping Administration.

Item 9: *A description of all contracts between your company and the Maritime Commission giving—*

(*a*) *The serial number of each contract.*

(*b*) *The type of contracts (i. e., whether cost-plus, lump-sum, or price-minus).*

(*c*) *The number and type of ships covered by each contract.*

(*d*) *The number of ships constructed and delivered under each contract.*

(*e*) *The total amounts paid by the Maritime Commission under each contract. (If final settlement has not been reached, please give status of negotiations, the amounts in dispute, and the amounts already paid.)*

(*f*) *The maximum fee payable under each contract.*

(*g*) *The minimum fee payable under each contract.*

(*h*) *The actual fee paid under each contract. (If final settlement of fees has not been reached, please give details as to amounts paid, amounts in dispute, etc.)*

(*i*) *The profits received on each lump-sum contract.*

(*j*) *The total of all fees and profits received by your company under contracts with the Maritime Commission.*

Answer: The material required to answer this item is now being assembled and the answer will be furnished as promptly as possible.

Item 10: *The fees and profits under each of the aforementioned contracts allowed after renegotiation.*

Answer: See answer to item 9.

Item 11: *The status of each contract still subject to renegotiation, giving, wherever possible, information showing the opinion of the Price Adjustment Board and of your company as to the fees and profits permissible under each contract.*

Answer: See answer to item 9.

Item 12: *The total cost to the Government of the shipyards and facilities used by your company.*

Answer: This company expended $31,380,524 in providing the shipyards and facilities used by it, and has been reimbursed by the Government in the amount of $31,375,897 to July 27, 1946.

AUGUST 14, 1946.

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Exhibit A

BETHLEHEM-FAIRFIELD SHIPYARD, INC.

Answers to items 9 and 10 of questionnaire, dated July 27, 1946, of Merchant Marine and Fisheries Committee of the House of Representatives' United States

	(a) The serial number of each contract							(j) Total
	MCc-7797-8	MCc-2181	MCc-13096	MCc-15734	MCc-7466	MCc-15735	MCc-35191	
ITEM 9—VESSEL CONSTRUCTION CONTRACTS WITH MARITIME COMMISSION								
(b) Type of contract	Cost-plus-fee	Cost-plus-fee	Cost-plus-fee	Cost-plus-fee	Cost-plus-fee	Cost-plus-fee	Lump sum	
(c) Number and type of ships:								
(1) Number	62	110	99	114	30	53	64	532
(2) Type	EC2 Liberty	EC2 Liberty	EC2 Liberty	EC2 Liberty	[1] LST	VC2 Victory	VC2 Victory	
(d) Number of ships constructed and delivered [2]	62	110	[3] 98	114	30	53	[4] 41	508
(e) Total amounts paid or payable [5] under terms of contracts (before renegotiation):								
(1) Amounts paid to Aug. 31, 1946	$67,781,146	$109,368,191	$89,831,349	$97,841,459	$31,212,485	$69,587,017	$48,302,018	$513,923,665
(2) Balance unpaid as of Aug. 31, 1946 [6]								
Unreimbursed cost				80,997	21,082	137,872		239,951
Fees	2,490,707	8,758,158	3,920,000		750,000	3,318,924		19,237,789
Portion of contract price (on basis of information available Aug. 31, 1946)							828,553	828,553
Total amounts paid or payable	70,271,853	118,126,349	93,751,349	97,922,456	31,983,567	73,043,813	49,130,571	534,229,958
(f) Maximum fee, as provided by contracts	8,680,000	15,400,000	6,860,000	6,840,000	2,400,000	5,300,000		45,480,000
(g) Minimum fee, as provided by contracts	3,720,000	6,600,000	2,940,000	2,280,000	1,050,000	1,987,500		18,577,500
(h) Actual fee paid or payable under terms of contract (before renegotiation):								
(1) Paid to Aug. 31, 1946	3,720,000	6,600,000	2,940,000	6,704,700	1,050,000	1,961,000		22,975,700
(2) Balance unpaid as of Aug. 31, 1946 [6]	2,490,707	8,758,158	3,920,000		750,000	3,318,728		19,237,593
Total	6,210,707	15,358,158	6,860,000	6,704,700	1,800,000	5,279,728		42,213,293
Portion of fee paid or payable to subcontractors for outfitting work					−480,000			−480,000
(i) Profits on lump-sum contract (before renegotiation) [7]							10,117,799	10,117,799
(j) Total of all fees and profits earned (before renegotiation)	6,210,707	15,358,158	6,860,000	6,704,700	1,320,000	5,279,728	10,117,799	51,851,092

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ITEM 10—FEES AND PROFITS ALLOWED, AFTER RENEGOTIATION, ON VESSEL-CONSTRUCTION CONTRACTS								
Total delivered cost of vessels (including estimated cost of materials purchased by Maritime Commission)	121,771,853	204,677,484	174,971,349	192,622,456	47,283,567	135,318,813	96,941,606	973,587,128
Total fees and profits earned, before renegotiation	6,210,707	15,358,158	6,860,000	6,704,700	1,320,000	5,279,728	10,117,799	51,851,092
Less reduction on account of renegotiation		4,748,865	980,000				3,911,655	9,640,520
Balance, fees and profits allowed, after renegotiation	6,210,707	10,609,293	5,880,000	6,704,700	1,320,000	5,279,728	6,206,144	42,210,572
Less disallowed cost	224,332	312,434	280,836	236,150	92,424	152,531		1,298,707
Net fees and profits earned (after renegotiation) before Federal taxes based on income	5,986,375	10,296,859	5,599,164	6,468,550	1,227,576	5,127,197	6,206,144	40,911,865
Deduct estimated Federal income and excess-profits taxes	4,304,571	7,442,933	4,048,948	4,727,127	887,759	2,561,320	4,489,239	28,461,897
Balance, net income after taxes:								
Amount	1,681,804	2,853,926	1,550,216	1,471,423	339,817	2,565,877	1,716,905	12,449,968
Percent of delivered cost as shown above	1.4	1.4	0.9	0.9	0.7	1.9	1.8	1.3

[1] Tank landing ships.
[2] Includes 24 vessels, on which Maritime Commission revised types at varying degrees of completion (ranging from 65.4 percent to 95 percent), and on which delivery was required by the Commission before completion.
[3] 1 vessel canceled and scrapped.
[4] 23 vessels canceled on Aug. 14, 1945.
[5] Amounts in respect of cost-plus-fixed-fee contracts do not include any provision for or estimate of costs undetermined as of Aug. 31, 1946.
[6] Payment withheld by Maritime Commission pending final accounting.
[7] Since the amount in respect of contract MCc-35191 is based on cost expended to Aug. 31, 1946, with no allowance for contingencies, such amount is subject to reduction by the amount of all cost expenditures subsequent to that date.

	Average per vessel		
	Libertys	Victorys	Tank landing ships
Delivered cost of vessels (including estimated cost of materials purchased by Maritime Commission)	$1,807,404	$2,470,855	$1,576,119
Net fee or profit earned (after renegotiation) before Federal taxes based on income	73,831	120,567	40,919
Net income after taxes:			
Amount	20,384	45,562	11,327
Percent of delivered cost of vessels	1.1	1.8	0.7

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BETHLEHEM-FAIRFIELD SHIPYARD, INC.,
Bethlehem, Pa., September 20, 1946.

Reference: Our letter of September 19, 1946, file BFB-4607-E

MERCHANT MARINE AND FISHERIES INVESTIGATING COMMITTEE,
House of Representatives, United States, Washington 25, D. C.
(Attention of Marvin J. Coles, Esq., general counsel.)

GENTLEMEN: Subsequent to the mailing, last evening, of the remaining data required in answer to your letter of July 27, 1946, we have made a complete verification of the information furnished therein and have found that the amount of $1,987,500 shown under contract MCc-15735 opposite line (g) (minimum fee, as provided by contracts) of item 9 should have been $1,961,000. The total, $18,577,500, shown opposite the same line should, therefore, have been $18,551,000. There is no change in the remainder of the information.

You are respectfully requested to make the above-mentioned changes in the copies of the statements furnished to you. We trust that such changes will not create any inconvenience with respect to data already compiled by you.

Very truly yours,

BETHLEHEM-FAIRFIELD SHIPYARD, INC.,
F. A. SHICK, *Comptroller.*

BETHLEHEM-FAIRFIELD SHIPYARD, INC.,
New York 4, N. Y., October 16, 1946.

MERCHANT MARINE AND FISHERIES INVESTIGATING COMMITTEE,
House of Representatives, United States, Washington 25, D. C.
(Attention of Marvin J. Coles, Esq., general counsel.)

GENTLEMEN: Receipt of your telegram of October 10, 1946, in which you request certain information regarding loans from stockholders and affiliated companies with respect to ship construction for the Maritime Commission, is hereby acknowledged.

We are submitting herewith in duplicate a list of the notes given by Bethlehem-Fairfield Shipyard, Inc., to its sole stockholder, Bethlehem Steel Corp., to evidence advances made by such stockholder to Bethlehem-Fairfield Shipyard, Inc.

Various other advances were made by such stockholder and Bethlehem-Fairfield's affiliated companies with respect to the Commission's Liberty and Victory ship programs. In one month (July 1943), during the critical period between March 1943 and June 1944, in which Fairfield delivered 260 ships there was an aggregate of $17,183,232 of unpaid advances due such stockholder and affiliated companies, representing Fairfield's unpaid notes to its parent corporation, and unpaid advances by affiliates in the form of credits extended for materials furnished by such affiliates with respect to Liberty and Victory ship construction for the Maritime Commission. Over the year 1943 the average monthly amount represented by those unpaid items alone was $14,310,410.

These figures, of course, do not include any amount to reffect the nominal capital investment of $1,000,000 made by Bethlehem Steel Corp. in the stock of Bethlehem-Fairfield Shipyard, Inc., nor do they include any amount to reflect the primary investment made by Bethlehem Steel Corp. in the production of Liberty, Victory, and tank landing ships. Bethlehem's primary investment in the production of such ships was the long-term investment, which it had made over a period of more than 40 years at great risk and cost and at times at substantial losses, in developing and maintaining its fully integrated shipbuilding organization of technical and supervisory forces and of trained workmen, skilled in the shipbuilding crafts and trades, without which America's wartime fleet of ships could not have been produced. Bethlehem's privately owned assets of over $200,000,000 of quick current assets plus its privately owned fixed assets which cost in excess of $850,000,000 not only made possible Bethlehem's primary investment in the Commission's shipbuilding programs but all of such assets to the fullest extent required were wholeheartedly devoted to the successful completion of such shipbuilding programs. Without full consideration of Bethlehem's total investment in the Commission's shipbuilding programs any attempt to relate the earnings of Bethlehem's Fairfield yard to anything other than the gross value of the finished vessel product produced by the yard is without meaning. It is, therefore, to be understood that the figures referred to above, which are submitted as special and strictly limited accounting detail in response to your telegram, are not in any sense to be used as standards for gaging the limited fees based on production

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performance which were provided for as compensation for outstanding construction productivity at Bethlehem's Fairfield yard under the terms of the yard's contracts with the Maritime Commission.

Very truly yours,

A. B. HOMER, *President.*

BETHLEHEM-FAIRFIELD SHIPYARD, INC.

Detail of notes payable to Bethlehem Steel Corp., parent corporation and holder of all the outstanding capital stock of Bethlehem Steel Corp.

Note No.	Issued		Paid	
	Date	Amount	Date	Amount
1	May 27, 1941	$200,000	Nov. 16, 1945	$200,000
2	do	300,000	Oct. 29, 1941	300,000
3	June 19, 1941	500,000	June 3, 1943	500,000
4	July 21, 1941	400,000	Mar. 16, 1942	400,000
5	Aug. 22, 1941	1,000,000	June 3, 1943	1,000,000
6	Sept. 22, 1941	500,000	Sept. 17, 1943	500,000
7	Oct. 9, 1941	500,000	Oct. 29, 1941	500,000
8	Nov. 13, 1941	500,000	Sept. 17, 1943	500,000
9	Dec. 3, 1941	250,000	Mar. 16, 1942	250,000
10	Dec. 29, 1941	650,000	Sept. 24, 1943	650,000
11	Apr. 29, 1942	500,000	Oct. 14, 1943	500,000
12	July 2, 1942	500,000	do	500,000
13	July 23, 1942	750,000	Oct. 28, 1943	750,000
14	July 30, 1942	750,000	Apr. 10, 1944	750,000
15	Aug. 13, 1942	750,000	May 11, 1944	750,000
16	Nov. 4, 1942	500,000	May 31, 1944	500,000
17	Apr. 14, 1943	1,500,000	June 27, 1944	1,500,000
18	May 12, 1943	1,000,000	do	1,000,000
19	June 20, 1944	4,000,000	July 6, 1944	1,000,000
			Aug. 28, 1944	1,000,000
			Nov. 16, 1945	2,000,000
20	June 15, 1945	1,000,000	do	1,000,000
Total		16,050,000		16,050,000

EXHIBIT 27

BARRETT & HILP,
San Francisco 7, Calif., September 4, 1946.

Mr. MARVIN J. COLES,
General Counsel, Merchant Marine and Fisheries Investigating Committee, House of Representatives, United States, Washington 25, D. C.

DEAR MR. COLES: In answering your letter of July 27 we would advise you that Barrett & Hilp shipyard was not a new corporation formed for building concrete ships.

Our firm is a limited partnership consisting of J. F. Barrett and H. H. Hilp; Lawrence Livingston, trustee, and E. J. Barrett, trustee, and has been operating since the year 1912 in the construction of buildings, concrete dams, and bridges.

Our capital is in excess of $1,000,000 with very little, if any, money invested in stocks and securities. The Belair ship operation was just one of our numerous activities and no outside interests were given to anyone. No salaries were over $15,000 per annum—the largest salary paid was $12,000 per annum and reimbursed entirely by the Maritime Commission.

Our firm had no shipbuilding experience prior to 1941.

In connection with paragraph 9 of your letter, we submit the following information:

(*a*) Serial Nos. MCc-7856, MCc-7857.

(*b*) Cost plus.

(*c*) Twenty-six concrete ship-shape barges, eventually cut to 20.

(*d*) Twenty ships.

(*e*) The total amount paid by the Maritime Commission under this contract was $27,893,538.50. This amount has all been paid with the exception of approximately $100,000, upon which negotiations are in progress at this time.

(*f*) The maximum fee payable under contract was $1,150.

(*g*) The minimum fee payable under contract: $840,000.

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(*h*) Final fees have been agreed upon.
(*i*) The profits received on contract: $874,636.17.
(*j*) Total of all fees and profits received: $874,636.17.
No negotiation has taken place.
No. 11. Completed.
No. 12. $3,000,000.
Very truly yours,

BARRETT & HILP,
By J. F. BARRETT.

[Telegram]

SAN FRANCISCO, CALIF., *October 15, 1946.*

MARVIN COLES,
Care Committee on Merchant Marine and Fisheries,
House Office Building, Washington, D. C.:

In accordance with your telegram supplemented by conversation between Mr. Jones and our attorney, Mr. Lawrence Livingston, we submit the following information: We are disregarding years 1942 and 1945 because we did not conduct or make any profit on shipbuilding operations in these years. In 1942 we constructed shipyard facilities for Maritime Commission at actual cost of approximately $2,900,000 without any profit whatsoever. With reference to question 1: We are a limited copartnership and not a corporation. Members of the partnership during 1943 and 1944 were J. F. Barrett and H. H. Hilp, general partners, and Lawrence Livingston, trustee and E. J. Barrett, trustee, limited partners. On January 1, 1943, the net worth of the partnership was $3,879,931.36. At the beginning of 1944 the net worth of the partnership was $1,698,276.21. Since shipyard operations comprised approximately 50 percent of our work in 1943 and 1944 it is believed that we should allocate 50 percent of our capital investment to ship contract instead of paid-in capital as mentioned in your telegram. Therefore capital applicable to Maritime Commission contracts in 1943 was $1,939,965.68 and in 1944 $849,138.10. Question 2: The average amount of outstanding bank loans directly applicable to shipbuilding operations in 1943 was $1,654,166 and 1944 $637,500. Question 3: We have no method of answering your question 3 exactly but can give you the following information: In 1943 we earned a net amount of $465,760.78 from the Maritime Commission, comprising fees less nonreimbursable costs. In 1944 we earned a net amount of $240,041.80, comprising fees less nonreimbursable costs. In 1943 average income-tax rates paid by partners were as follows: J. F. Barrett, 24.62 percent; H. H. Hilp, 24.62 percent; E. J. Barrett, trustee, 60.65 percent; Lawrence Livingston, trustee, 65.71 percent. The respective shares of the net fees earned in 1943 was as follows: J. F. Barrett, 30 percent or $139,728.23; H. H. Hilp, 30 percent or $139,728.23; E. J. Barrett, trustee, 20 percent or $93,152.16; Lawrence Livingston, trustee, 20 percent or $93,152.16. Therefore in 1943 on an average basis J. F. Barrett actually received after income taxes 75.38 percent of fee or $105,327.14; H. H. Hilp, 75.38 percent of fee or $105,327.14; E. J. Barrett, trustee, 93.35 percent of fee or $36,655.32; and Lawrence Livingston, trustee, 34.29 percent of fee or $31,941.88. The reason for differential in 1943 income-tax rates is that the year 1943 was the forgiveness year for individual partners but not limited partners. In 1944 average income-tax rates paid by partners were as follows: J. F. Barrett, 51.13 percent; H. H. Hilp, 57.87 percent; E. J. Barrett, trustee, 26.10 percent; and Lawrence Livingston, trustee, 29.85 percent. The respective shares of the net fees earned in 1944 was as follows: J. F. Barrett, 30 percent or $72,012.54; H. H. Hilp, 30 percent or $72,012.54; E. J. Barrett, trustee, 20 percent or $48,008.36; and Lawrence Livingston, trustee, 20 percent or $48,008.36. Therefore in 1944 on an average basis J. F. Barrett actually received after income taxes 48.87 percent of fee or $35,192.53; H. H. Hilp, 42.13 percent of fee or $30,338.88; E. J. Barrett, trustee, 73.90 percent of fee or $35,478.18; Lawrence Livingston, trustee, 70.15 percent of fee or $33,677.86. Question 4: The original Maritime Commission contract called for construction of 26 vessels of which 6 were canceled. No materials were furnished by the Government on this contract. We bought and paid for all materials and were later reimbursed by the Maritime Commission. We were later employed to reconvert 14 vessels and for this contract the Government supplied materials at an estimated value of $1,600,000. Question 5: Nonreimbursable costs on Maritime Commission contracts totaled approximately $200,000 to $250,000. Question 6: We have been renegotiated for the years 1943 and 1944 and our profits were con-

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sidered reasonable and we were notified that no refunds would be requested for these years. Question 7: As to Federal income taxes see answer to question 3. We paid no excess-profits tax because we are a copartnership. Please advise whether this gives you everything you need.

BARRETT & HILP.

EXHIBIT 28

McCLOSKEY & Co.,
Philadelphia, August 13, 1946.

MARVIN J. COLES, Esq.,
General Counsel, Merchant Marine and Fisheries Investigating Committee, House of Representatives, Washington 25, D. C.

DEAR SIR: This will acknowledge receipt of your letter of July 27, 1946, requesting certain information with respect to this company and its operations, more particularly the contracts entered into between the Maritime Commission and ourselves.

In reply thereto, we are furnishing you with the following information:

1. April 30, 1930.

2. Authorized 10,000 shares, at $100 per share (only one class), $1,000,000; issued 7,500 shares, at $100 per share (no other securities), $750,000.

3 and 4:

	Paid	Reimbursed
M. H. McCloskey, Jr., president:		
1942	$156,000.00	$12,424.99
1943	156,000.00	25,000.00
1944	156,000.00	18,000.00
1945	26,000.00	12,250.00
James C. McCloskey, vice president:		
1942	18,846.36	4,905.00
1943	20,494.48	14,431.25
1944	25,155.00	14,386.25
1945	25,155.00	9,608.00
Jacob J. Creskoff, resident vice president:		
1942	5,120.00	None
1943	10,000.00	None
1944	10,000.00	None
1945	3,333.33	None
Edward J. Mingey, secretary and assistant treasurer (approval pending for retainer fee as attorney, $2,500 per annum):		
1942	2,500.00	None
1943	2,500.00	None
1944	2,500.00	None
1945	2,500.00	None
M. H. McCloskey III, treasurer:		
1942	$4,941.66	None
1943	2,500.00	None
1944	13,300.00	None
1945	13,300.00	None
E. A. Kennedy, assistant secretary:		
1942	18,846.36	$2,616.98
1943	10,844.48	7,696.66
1944	8,688.39	7,672.68
1945	7,500.00	4,792.92
Agnes McCloskey, assistant secretary and assistant treasurer:		
1942	245.00	204.26
1943	1,820.00	1,750.77
1944	2,430.00	2,235.01
1945	2,440.00	1,584.18

Directors: M. H. McCloskey, Jr., H. T. McCloskey, Edw. J. Mingey.

5. M. H. McCloskey, Jr., president and director, 2,671 14/16 shares; H. T. McCloskey, director, 3,268 2/16 shares.

6. None

7 and 8. M. H. McCloskey, Jr.,

9. See schedule A attached.

10. Approved and allowed as paid.

11. Year 1945 under consideration by Price Adjustment Board. We believe clearance will be given by Board.

12. $7,581,218.73 including 500-unit housing project $1,863,737.45, adjacent to shipyard site, for workers.

We have endeavored to submit this information to you to the best of our ability, but in the event that there is additional information detail required, please so advise and we will be pleased to supplement any or all of the matters herein and referred to in your communication of July 27, 1946.

Very truly yours,

McCLOSKEY & Co.,
J. C. McCLOSKEY, *Vice President.*

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Schedule A

	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
Government-owned facilities	MCc-7551	Cost only			$7,581,218.73	None	None		None	
	MCc-7552	Price—minus	24 (C1-S-D1)	24	48,200,646.98	632,570	632,570	632,570	None	632,570
Purchase McCloskey & Co. owned plant	MCc-18288	Cost only			499,769.07	None	None		None	
Additional Government-owned facilities	MCc-30656	Cost only			227,785.24	None	None		None	
	DA-MCc-852	Price—minus	15 (N3-S-A2)	15	12,314,599.39	300,000	300,000	300,000	None	300,000
Government-owned facilities	MCc-8223	Cost only			2,513,793.58	None	None		None	
	MCc-8224	Price—minus	15 concrete barges	None	1,706,229.63	65,000	65,000			65,000

Remarks: On contracts MCc-7551, MCc-7552 and DA-MCc-852 exceptions have been taken approximately $100,000 to our costs which are presently pending before Cost Committee of the USMC in Washington, D. C. Contract MCc-8224 canceled. Compromise fee settlement.

Outfitting work—canceled	MCc-40570	C1-M-AV1	Four	None	Total billing	5,416.47
					Costs	4,780.17
					Profits	636.30
Maintenance—Government-owned		Cost plus administrative allowance				
Facilities—canceled	MCc-40552	Administrative allowance approximately excess of administrative costs.	$7,500			

War Shipping repair contracts:	
Total billings (approximate)	$671,756.07
Costs	522,173.92
Fees	52,217.39
Excess of costs plus 10 percent	97,364.76

Final audit not made by WSA auditors.

Financial statement requested and submitted to WSA for year 1944. No request for 1945 figures to date.

San Jacinto Shipbuilders, Inc. (capital stock owned wholly by McCloskey & Co.). Had contract MCc-1870 for 5 concrete barges. Contract canceled and delivery made of 4 barges. Fee, $75,000 paid under compromise settlement.

In assembling our organization for the prosecution of work under the above contracts we were aided by 2 independent firms successful in their fields as electrical and mechanical contractors, namely: The Howard P. Foley Co., 2020 Eye St. NW., Washington, D. C., and Mehring & Hanson Co., 162 North Clinton St., Chicago, Ill., respectively. McCloskey & Co. paid to these firms fees as follows: The Howard P. Foley Co., $15,000 and Mehring & Hanson, $50,000. These fees were not reimbursable or included in our cost to the USMC, but were paid by us from fees included in above schedule (J).

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McCLOSKEY & Co.,
Philadelphia, Pa., November 9, 1946.

Hon. MARVIN J. COLES,
General Counsel, Merchant Marine and Fisheries Committee,
House of Representatives, Washington, D. C.

DEAR SIR: In accordance with the request contained in your telegram of October 10, 1946, we are attaching hereto, a schedule, in triplicate, covering the eight items referred to in your telegram.

We have attempted to give you this information in accordance with our understanding of your wire, and if there is additional information required, please be good enough to so advise us and it will be submitted promptly.

Very truly yours,

McCLOSKEY & Co.,
J. C. McCLOSKEY,
Vice President.

JCM:mmh.
encls.

Schedule of information as required by telegram October 10, 1946, from Marvin J. Coles, General Counsel, Merchant Marine and Fisheries Committee

[Page 1]

Item No.		McCloskey & Co.	San Jacinto Shipbuilders, Inc.
1	Average amount of applicable paid-in capital	$750,000.00	$100,000.00
2	Average amount of loans from stockholders of affiliated companies	None	None
3	Average amount of outstanding bank loans:		
	Forty (40) months' period	743,125.00	
	Sixteen (16) months' period		293,000.00
4	Total net fees and profits after income taxes:		
	(A) U. S. M. C. (only)	997,570.00	75,000.00
	(B) All operations McCloskey & Co.; no allocation to U. S. M. C. contracts (see page 2)	408,817.91	11,060.27
5	Amount of bank loans secured by pledge of Government contracts or guaranteed in whole or part by the Government:		
	(A) Receivables (U. S. M. C.) pledged	743,125.00	293,000.00
	(B) Guaranteed	None	None
6	Total approximate cost of Government furnished material used in construction of each type of ship:		
	C1-S-D1 (see page 2)	None	
	N3-S-A2 (see page 2)	7,028,400.00	
	B7-A1 (see page 2)		None
7	Excess fees and profits determined by renegotiation of contracts allocated between renegotiated contracts	None	None
8	Total amount of Federal income and excess-profits taxes	587,208.42	3,984.65

[Page 2]

Item No.	Period January 1, 1942, to December 31, 1945	McCloskey & Co.	San Jacinto Shipbuilders Inc.
4.	Gross fees: U. S. M. C	$997,570.00	$75,000.00
	Overhead reimbursements, U. S. M. C	282,539.31	
		1,280,109.31	75,000.00
	Direct expenses, U. S. M. C. contracts	328,808.77	59,955.08
	Net fees received, U. S. M. C	951,300.54	15,044.92
	Add other income: Other construction accounts, etc	1,430,158.73	
	Gross profit	2,381,459.27	15,044.92
	Deduct overhead expense	1,491,591.76	
	Net income before taxes	889,867.51	15,044.92
	Deduct:		
	Federal income and excess-profits taxes	587,208.42	3,984.65
	Other taxes, State	9,060.52	
	Postwar refund Federal excess-profits taxes	[1] 115,219.34	
	Net profit after taxes	408,817.91	11,060.27

[1] Red figures.

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6. *C1-S-D-1.*—U. S. M. C. furnished main engines and allowance list. These items not included in contract MCc-7552 but we are informed they represented a cost to the U. S. M. C. of $90,884 per vessel, or $2,181,216 total.

N3-S-A2.—Contract DA-MCc852 includes estimated cost of material and equipment furnished by the Government at $350,000 per vessel, or $5,250,000 total. We are informed these materials including inspection fees and allowance list represents actual cost to the Government of $468,560 per vessel, or $7,028,400 total.

B7-A1.—Allowance list as furnished by the Government represents cost to the Government of $3,124 per vessel, or $12,496 total, according to information furnished by the U. S. M. C.

SAR.

EXHIBIT 29

SOUTHESTERN SHIPBUILDING CORP.,
Savannah, Ga., August 15, 1946.

MARVIN J. COLES, Esq.,
General Counsel, Merchant Marine and Fisheries Investigating Committee, House of Representatives, Washington, D. C.

DEAR MR. COLES: In accordance with your request of July 27, we list hereafter the following information concerning this corporation. Certain information was furnished your committee under date of January 19, 1944, but since such date there have been a number of changes in capitalization and stock holdings.

Because of the liquidation of this company, as hereafter explained, it has been difficult to obtain some of the information requested by you. We have not had an opportunity to send questionnaires out to all former officers and directors of the company and the information given, particularly in response to your questions 5, 6, 7, and 8, has been supplied by the writer after consultation with several of the officers and directors of the company. As such, we believe it is true and complete, but if it is important that such information be unqualifiably accurate, it would be necessary for us to make specific inquiries of each of the individuals concerned.

1. Our company was formed February 3, 1942. Copy of the application for charter of the company is hereto attached, marked "Exhibit 1."

2. The original paid-in capital of the company was $600,000 and in addition certain stockholders agreed to and did obtain for the company a line of credit of $900,000 in order to assure an investment of $250,000 per way as desired by the United States Maritime Commission.

The original $600,000 paid-in capital consisted of 4,000 shares of $1 par value ($100 paid in per share) $4.50 cumulative dividend preferred stock, 18,000 shares of 10 cents par value ($10 paid-in per share) class A stock, and 2,000 shares of 10 cents par value ($10 paid-in per share) class B stock. The cumulative preferred stock was redeemed on November 6, 1944, at $100 per share, plus accrued dividends, one-half of the class A stock was redeemed at $11.10 a share, plus accrued dividends, on March 15, 1945, and the remaining one-half of such class A stock was redeemed at the same price on February 8, 1946. The class B stock was all changed into common stock on February 26, 1946, on the basis of four shares of common for each share of class B.

Charleston Shipbuilding & Drydock Co. previously owned some of the stock of this company and in 1946 it acquired all of the capital stock of this company in exchange for preferred shares of Charleston Shipbuilding & Drydock Co. pursuant to a plan of reorganization adopted by this company and Charleston Shipbuilding & Drydock Co. Subsequently, all assets of this company have now been transferred to Charleston Shipbuilding & Drydock Co. in consideration of the cancellation of the capital stock of this company.

3A. Attached hereto, marked "Exhibit 3A," is a list of all directors of the company, setting forth the date of their election, the date of resignation as to certain directors, and the aggregate amount of directors' fees paid to each of them during each of the years from 1942 to 1946, inclusive. In addition to such fees, the directors were paid traveling expenses. In the cases of Mr. Bullock and Mr. Dunn attorney's fees were paid to the firm of Taft, Stettinius & Hollister, of Cincinnati, Ohio, and Anderson, Cann & Dunn, of Savannah, Ga. (later changed to Anderson, Connerat, Dunn & Hunter), in which firms Mr. Bullock and Mr. Dunn were partners, respectively, and which firms acted as general

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counsel and Savannah counsel, respectively, for the company. The amount of such attorneys' fees paid to the firm of Taft, Stettinius & Hollister, by the company for each of the years was as follows:

1942	$10,000	1945	15,000
1943	15,000	1946	6,250
1944	15,000		

and the amount of such attorneys' fees paid to Anderson, Connerat, Dunn & Hunter was as follows:

1942	$9,166.66	1945	12,000.00
1943	10,000.00	1946	3,000.00
1944	11,000.00		

plus for each year the actual out-of-pocket expenses of such firms.

3B. Attached hereto, marked "Exhibit 3B," is a list of officers, showing their respective dates of employment and resignation and salary rate.

4. Attached hereto, marked "Exhibit 4," is a list of all officers and employees who have received compensation of over $15,000 per annum, showing the amounts received and the extent to which such payments were reimbursed by the Maritime Commission.

5. Of the original capitalization of the company, First York Corp. owned all (4,000 shares) of the $4.50 cumulative dividend preferred stock and one-half of the class A and class B stock. General Machinery Corp. owned one-fourth of the class A stock and one-fourth of the class B stock and Charleston Shipbuilding & Drydock Co. likewise owned one-fourth of the class A stock and one-fourth of the class B stock. Subsequently, Charleston Shipbuilding & Drydock Co. distributed this 25 percent interest in the class A and class B stock to Bunnell T. Falconer, trustee for its stockholders, but no stockholders of Charleston Shipbuilding & Drydock Co. had a beneficial interest equal to 5 percent of any class of the capital stock of this company.

General Machinery Corp. and Charleston Shipbuilding & Drydock Co. subsequently purchased the class B stock of this company owned by First York Corp. and Charleston Shipbuilding & Drydock Co. sold 200 shares of the stock so purchased from First York Corp. to General Machinery Corp. General Machinery Corp., Charleston Shipbuilding & Drydock Co., and Bunnell T. Falconer, trustee, being all of the owners of class B stock of the company (the only type stock then outstanding) later exchanged their stock holdings for common stock.

Pursuant to the recent plan of reorganization of Charleston Shipbuilding & Drydock Co. and Southeastern Shipbuilding Corp., Charleston Shipbuilding & Drydock Co. issued its $4 convertible preferred stock, convertible into common stock at any time prior to December 31, 1948, at seven shares of common stock for one share of preferred stock, on a share-for-share basis to the holders of common stock of Southeastern Shipbuilding Corp.

As above pointed out, this company has now been liquidated, all assets of the company having been transferred to Charleston Shipbuilding & Drydock Co., which has assumed all obligations of this company, and the capital stock of this company has now been canceled.

With the exception of First York Corp., General Machinery Corp., Charleston Shipbuilding & Drydock Co., and Bunnell T. Falconer, trustee, as above explained, no individual, association, or corporation has ever held 5 percent of any class of stock of this company.

6. Prior to 1941, certain officers and directors (none of whom ever held 5 percent of the capital stock of the company) had shipbuilding experience as hereafter listed:

William H. Smith, connected for many years with the Todd shipbuilding organization, as was Thomas R. Lilly.

L. Louis Green, a registered naval architect and for many years vice president and chief operating officer of Charleston Shipbuilding & Drydock Co.

J. F. McInnis, for many years with the United States Maritime Commission and prior to that time he was connected with various shipbuilding companies.

William Perrott, had been engaged in ship-engineering work and shipbuilding work for many years prior to 1941, working for various companies including the United States Lines.

G. A. Rentschler, while having no direct connection with the shipbuilding industry, was for many years prior to 1941 president of General Machinery Corp., an important manufacturer of Diesel and steam reciprocating engines.

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T. Rieber, while not directly engaged in shipbuilding, had had years of experience as an operator of large ships.

G. H. Lundbeck, Jr., has been connected for many years with the Swedish American Line and is now United States managing director.

J. E. Peterson, likewise had been connected with General Machinery Corp. for many years.

Leo W. Grothaus, had had many years of service with Allis-Chalmers Manufacturing Co., manufacturers of ship propulsion machinery, related components and ship auxiliaries.

Charleston Shipbuilding & Drydock Co., which at all times was a substantial stockholder of the company and which this year acquired all the stock of Southeastern Shipbuilding Corp., has operated a shipbuilding and ship repair yard at Charleston, S. C., for many years.

7. To the best of the writer's knowledge, the officers, or directors (none of whom ever held 5 percent of the capital stock of the company), who have held positions as officers and directors of another company, which had contracts with the United States Maritime Commission or the War Shipping Administration, are the following:

G. A. Rentschler, chairman of the board of directors, was president (now chairman of the board) of General Machinery Corp., which built more than 800 steam reciprocating engines in World War II for the propulsion of Liberty ships. Such company likewise manufactured Diesel engines for ships of the AV1 type and many Diesel engines for Navy and Army use. Mr. Rentschler is also a director of Charleston Shipbuilding & Drydock Co.

J. E. Peterson, for many years has been a vice president and director of General Machinery Corp.

T. Rieber, is president of Barber Asphalt Corp., which acts as general agent for the War Shipping Administration in tanker operations. Mr. Rieber is also a director of Charleston Shipbuilding & Drydock Co.

Leo W. Grothaus and L. Louis Green, are officers of Charleston Shipbuilding & Drydock Co., which while primarily doing work for the Navy Department did considerable repair work for War Shipping Administration. Mr. Grothaus is also a director of General Machinery Corp.

Wallace E. Harper, prior to coming with the company was a part of the Kaiser organization and Mr. Perrott prior to coming with the company had been connected with various companies, including the United States Lines.

General Machinery Corp. and Charleston Shipbuilding & Drydock Co. are the only stockholders owning more than 5 percent of the capital stock of the company which have had contracts with the United States Maritime Commission or the War Shipping Administration.

8. To the best of the knowledge and belief of the writer, none of the officers, directors, or stockholders listed in answer 7 owned more than 5 percent of the capital stock of another company which had contracts with the Maritime Commission or the War Shipping Administration except Mr. G. A. Rentschler, who owns slightly more than 5 percent of the capital stock of General Machinery Corp.

9. Attached hereto, marked "Exhibit 9," is a description of all contracts between this company and the Maritime Commission.

10. The fees and profits allowed the company after renegotiation are shown in exhibit 9, which lists the clearance agreements applicable to contracts MCc-2162 and MCc-15978. No profits were earned under the facilities contract (MCc-2163) nor under the contract for post-operational plant maintenance (MCc-40715) and the selective price contract (MCc-34759) was expressly made no subject to renegotiation.

11. As above set forth in the answers to questions 9 and 10, the company has no contracts still open as to renegotiation.

12. The total cost to the Government of the shipyard and facilities used by this company, as reflected on the books of this company, was $11,031,157.81, being the amount reimbursed to this company under its facilities contract MCc-2163. However, additional funds had been expended on the facilities by the Maritime Commission prior to the facilities being taken over by this company under contract MCc-2163.

We trust this gives you the information you desire.

Sincerely yours,

SOUTHEASTERN SHIPBUILDING CORP.,
By L. R. PORTNEY, *Secretary.*

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Exhibit 3A

Southeastern Shipbuilding Corp. record of directors

		Resignation	Fees				
			1942	1943	1944	1945	1946
Feb. 19, 1942	G. A. Rentschler		$450	$400	$400	$350	$250
Do	T. Rieber		600	500	350	300	100
Do	William H. Smith		250	500	450	350	100
Do	G. H. Lundbeck, Jr	Feb. 6, 1945	550	350	500	100	
Do	D. M. Milton	do	150	450	300	50	
Do	A. F. Milton	do	300	550	650	150	
Apr. 9, 1942	C. S. Atwell		250	250	550	300	50
July 10, 1942	H. M. Dunn	June 1, 1946	250	550	550	350	100
Feb. 6, 1945	L. W. Grothaus					300	200
Do	J. R. Bullock					300	150
Do	J. E. Peterson					300	150
June 1, 1945	J. F. McInnis					250	100

Exhibit 3B

Southeastern Shipbuilding Corp. record of rates paid to officers

[6 percent bonus paid 1943–1944–1945, exclusive of William Perrott]

	Effective date	Position	Annual rate
William H. Smith	Feb. 1, 1942	President	$18,000
	July 14, 1944	Resigned.	
Charles S. Atwell	Feb. 1, 1942	Vice president	6,000
	Apr. 16, 1942	do	15,000
	Feb. 6, 1943	Executive vice president	15,000
	Nov. 30, 1945	Resigned.	
L. Louis Green	Feb. 1, 1942	Vice president	5,000
	Apr. 15, 1942	Resigned.	
David M. Milton	Feb. 1, 1942	Vice president and secretary	6,000
	July 10, 1942	Resigned.	
	Mar. 31, 1944	Vice president	3,600
	Feb. 6, 1945	Resigned.	
Albert F. Milton	Feb. 1, 1942	Treasurer and assistant secretary	6,000
	June 17, 1943	Vice president, treasurer, and assistant secretary.	6,000
	Apr. 1, 1944	do	4,000
	Feb. 6, 1945	Resigned.	
Leo R. Portney	Feb. 1, 1942	Assistant secretary and assistant treasurer.	7,800
	June 1, 1942	do	9,000
	Mar. 4, 1943	Comptroller and assistant secretary	9,000
	Dec. 3, 1943	Comptroller, assistant treasurer, and assistant secretary.	9,000
	Aug. 1, 1944	do	10,000
	Feb. 6, 1945	Comptroller, secretary, and treasurer	10,000
	June 1, 1945	do	12,000
R. S. Elliott, Jr	Feb. 1, 1942	Assistant secretary	1,200
	June 16, 1942	Secretary	2,800
	Feb. 6, 1945	Resigned.	
William F. Best	Feb. 1, 1942	Assistant treasurer	1,200
	June 16, 1942	do	2,800
	Feb. 6, 1945	Resigned.	
L. P. Carron	June 16, 1942	Assistant secretary	2,800
	Apr. 1, 1944	do	1,200
	Feb. 6, 1945	Resigned.	
William Perrott	Feb. 6, 1943	Vice president and general manager	15,000
	Feb. 7, 1944	Resigned (served as employee to Nov. 26, 1944).	
Peter J. Clausen	Mar. 4, 1943	Assistant treasurer and assistant to vice president	8,400
	Mar. 3, 1944	Resigned.	
Thomas R. Lilly	Mar. 3, 1944	Assistant treasurer and assistant to vice president	7,200
	Mar. 31, 1945	Resigned.	
Wallace E. Harper	May 22, 1944	General manager	18,000
	June 4, 1945	Resigned.	

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Southeastern Shipbuilding Corp. record of rates paid to officers—Continued

	Effective date	Position	Annual rate
Robert E. Banks	Nov. 3, 1944	Assistant secretary, industrial relations	$6,000
	June 1, 1945	Assistant secretary and assistant to managing director	6,600
	Nov. 30, 1945	Resigned.	
William B. Wise	Feb. 6, 1945	Assistant treasurer and chief accountant	5,700
	June 16, 1945	do	6,600
	July 31, 1946	Resigned.	
Leo W. Grothaus	Mar. 1, 1945	Vice president	6,000
	Nov. 30, 1945	Resigned.	
	Feb. 26, 1946	Vice president	(1)
John F. McInnis	May 1, 1946	Managing director	18,000
	July 31, 1946	Resigned.	

[1] No salary.

Exhibit 4

Southeastern Shipbuilding Corp. officers and employees receiving over $15,000 per annum

	Amount	Type	Reimbursed
1942			
William H. Smith	$16,500.00	11 months' salary	[1] $16,350.00
Charles S. Atwell	11,875.00	do	[1] 11,825.00
1943			
William H. Smith	18,000.00	1 year's salary	18,000.00
Charles S. Atwell	15,000.00	do	[2] 10,500.00
William Perrott	13,541.67	10 25/30 months' salary	13,541.67
1944			
William H. Smith	1,080.00	6 percent bonus 1943	
	9,700.00	6 14/30 months' salary	9,700.00
	1,250.00	Advisory services	
	12,030.00		
Charles S. Atwell	900.00	6 percent bonus 1943	
	900.00	6 percent bonus 1944	
	15,000.00	1 year's salary	[3] 14,416.67
	16,800.00		
William Perrott	2,333.33	1 27/30 months' salary	2,333.33
	6,208.34	Advisory services	
	8,541.67		
Wallace E. Harper	657.00	6 percent bonus 1944	
	10,950.00	7 9/30 months' salary	10,950.00
	11,607.00		
1945			
Charles S. Atwell	13,750.00	11 months' salary	[4] 13,125.00
	1,069.44	Vacation	1,069.44
	1,250.00	1 month's termination	
	16,069.44		
Wallace E. Harper	7,000.00	4 29/30 months' salary	7,000.00
	700.00	Vacation	700.00
	7,700.00		
J. F. McInnis	12,000.00	8 months' salary	[5] 9,750.00
	720.00	6 percent bonus 1945	
	12,720.00		
William H. Smith	7,500.00	Advisory services	

[1] Feb. 1 to Feb. 3 not reimbursed.
[2] With Rubber Development Corporation Apr. 5 to July 22.
[3] 14 days South America.
[4] Nov. 16 to Nov. 30 general overhead allowance.
[5] Nov. 16 to Dec. 31 general overhead allowance.

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Southeastern Shipbuilding Corp. officers and employees receiving over $15,000 per annum—Continued

	Amount	Type	Reimbursed
1946			
Charles S. Atwell	$4,750.00	Termination	
J. F. McInnis	700.00	Vacation	$408.33
	10,500.00	7 months' salary	(6)
	1,500.00	1 month termination	
	12,700.00		
William H. Smith	1,250.00	Advisory services	

6 All absorbed by company—Jan. 1 to Apr. 19 through general overhead allowance.

Exhibit 9

SOUTHEASTERN SHIPBUILDING CO.

Contract No.	Type	(c) Number of ships per contract	(d) Number of ships delivered	(e) Amounts paid by U. S. Maritime Commission (excluding fees or profit)	(f) Maximum fee payable	(g) Minimum fee payable	(h) [1] Actual fees or profit paid
MCc-2162	Cost plus fixed fee EC2-S-C1 Liberty	36	36.00	$54,651,451.50	[2] $100,000	[2] $45,000	$1,620,000
MCc-2163	Facilities construction			11,031,157.81			
MCc-15978	Cost plus fixed fee EC2-S-C1 Liberty	52	52.00	54,500,934.12	[2] 60,000	[2] 20,000	1,040,000
MCc-34759	Selective price C1-M-AV1 coastal cargo	34	[3] 10.00 [5] 18.00	[4] 19,812,199.73	[2] 100,000	[2] 25,000	1,000,315
	Equivalent		19.76				
MCc-40715	Plant maintenance			420,535.25			
	General overhead allowance			14,440.00			
				434,975.25			
	Total						(j) 3,660,315

1 (i) Included in (h).
2 Per ship.
3 Delivered.
4 Including reserve.
5 Launched.

Contract No.	Profit and fees allowed after renegotiation	Clearance agreement No.
MCc-2162	$1,620,000	MCc-31967 PABs-535-W.
MCc-15978	1,040,000	MCc-40622 PABs-878-W.
MCc-34759	Not subject	

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SOUTHEASTERN SHIPBUILDING CORP.

SAVANNAH, GA.

NEW YORK, N. Y., *October 31, 1946.*

MARVIN J. COLES, Esq.,
General Counsel, Merchant Marine and Fisheries Investigating Committee, House of Representatives, Washington 25, D. C.

DEAR MR. COLES: Reference is made to your telegram of October 14, requesting additional information with respect to ship construction for the Maritime Commission to be furnished to the Committee on the Merchant Marine and Fisheries.

As I explained to you by telephone on October 18, and as we originally advised you in our letter of August 15, 1946, the Southeastern Shipbuilding Corp. was liquidated as of July 31, 1946. All of our records are stored at the Charleston Shipbuilding & Drydock Co. in Charleston, S. C., and it was necessary for me to make a special trip there to assemble the information you required, which explains the delay in furnishing the same. However, in the course of our telephone conversation you agreed that it would be acceptable if you received this information by November 1.

1. The original paid-in capital of this company was $600,000, and in order to assure an investment of $250,000 per way, as requested by the United States Maritime Commission, a line of credit of $900,000 was obtained at a stand-by charge of one-fourth of 1 percent. Subsequently, and because of the requirements of our operations, this line of credit was increased to $1,500,000, though at no one time did we actually borrow in excess of $1,200,000. Actual loans obtained under this line of credit bore interest of 2¼ percent per annum and were repaid as promptly as possible. The average amount of outstanding bank loans for each of our fiscal years determined under the average borrowed capital method used for income-tax purposes is detailed below:

Fiscal year ending—	*Average borrowed capital*
August 31, 1942	$42,857.14
August 31, 1943	580,958.90
August 31, 1944	236,065.57
August 31, 1945	183,561.64
July 30, 1946	----------

On two occasions in 1943 sums of $300,000 were lent to the corporation by shareholders of the company, which were repaid within 60 days.

2. All of our operations were under contracts with the United States Maritime Commission; and our total net fees and profits, after income taxes, for the entire period of our operations from February 4, 1942, to July 30, 1946, amounted to $907,032.12.

Our last ship construction contract, MCc-34759, which was a selective price basis, has not as yet been fully settled with the Maritime Commission, and it is possible that subsequent adjustments will affect the above-mentioned figure. It is not anticipated, however, that such adjustments will be material.

3. All of our bank loans were secured by the assignment to the bank of all public vouchers covering payments to be made to us under our contracts. Checks drawn by the Government for these public vouchers were made payable to the bank as our assignees and mailed directly to the bank. The bank, in turn, deducted the amount of outstanding loans and credited our bank account for the balance. We are detailing below the amount of bank loans obtained by us in the course of our performance of Government contracts.

Fiscal year ending	Number of loans	Total of loans	Average
Aug. 31, 1942	4	$625,000	$156,250
Aug. 31, 1943	46	19,800,000	430,435
Aug. 31, 1944	39	22,800,000	584,615
Aug. 31, 1945	31	19,400,000	625,806
Total	120	62,625,000	521,875

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None of our borrowings were guaranteed directly by the Government.

4. We were never supplied with any actual figures in connection with the cost of Government-furnished material used in ship construction; however, we were advised that for contract purposes the value of the Commission-furnished material for contract MCc–2162 amounted to $699,400 per ship (Liberty EC2), and contract MCc–34759 stipulated an amount of $802,000 per ship as the cost of Government-furnished material used in the construction of C1–M–AV1 vessels. The indicated figures for contract MCc–2162 would probably apply to contract MCc–15978, as Liberty ships were constructed under both contracts.

5. In connection with our entire operations the following income taxes were paid:

Federal income and excess-profit taxes	$2, 260, 483. 02
Georgia State taxes	101, 463. 24
Total	2, 361, 946. 26

6. Cost incurred by us during our operations for which reimbursement was not requested under our cost-plus contracts or which were disallowed as items of cost under our contracts amounted to $391,336.62 and are allocated to applicable contracts as follows:

Contract MCc–2162	$142, 537. 28
Contract MCc–15978	144, 325. 12
Contract MCc–34759	104, 474. 22
Total	391, 336. 62

It is possible that at the time of final closing of our contracts there may be made certain adjustments, either plus or minus, in these figures.

We believe that the foregoing furnishes the additional information you desire.

Very truly yours,

SOUTHEASTERN SHIPBUILDING CORP.,
By L. R. PORTNEY, *Secretary-Treasurer.*

EXHIBIT 30

EAST COAST SHIPYARDS, INC.,
New York 4, N. Y., August 28, 1946.

HOUSE OF REPRESENTATIVES,
Merchant Marine and Fisheries Investigating Committee,
Washington, D. C.

(Attention: Mr. Marvin J. Coles, general counsel.)

GENTLEMEN: Referring to your letter of July 26, requesting information relative to this company's affairs, the following is a reply to the questions submitted.

1. The date on which your company was formed, and a copy of its corporate charter.

Answer: The company was formed on the 10th day of February 1943, and a copy of the certificate of incorporation is enclosed, enclosure A.

2. The total capital of your company, giving a break-down of the types of stock and securities.

Answer: There is enclosed, enclosure B, copy of the letter addressed to Judge Bland giving such information.

3. The names of all officers and directors, and a statement of their annual compensation.

Answer: There is enclosed, enclosure C, a list of the officers and directors showing their annual compensation.

4. The names of all officers and employees who have received compensation of over $15,000 per annum, giving the amounts received and the extent to which such payments were reimbursable by the Maritime Commission.

Answer: The only officer or director receiving compensation in excess of $15,000 per annum was J. E. Otterson, president. His annual salary was $25,000, $15,000 of which was reimbursed by the Maritime Commission.

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5. The names of all persons, associations, or corporations holding 5 percent or more of the capital stock of your company, giving the amounts of capital stock held by each.

Answer. The answer to this question is contained in enclosure B.

6. The shipbuilding experience prior to 1941 of all officers, directors, and stockholders holding over 5 percent of your capital stock.

Answer. The only officer or director having prior shipbuilding experience is J. E. Otterson, president.

J. E. Otterson is a graduate of the Naval Academy, class of 1904, did post-graduate work in naval architecture at Massachusetts Institute of Technology, and served subsequently as a naval constructor in the United States Navy until 1915.

7. The names of all officers, directors, or stockholders owning more than 5 percent of the capital stock of your company, who have held positions as officers or directors of another company which had contracts with the Maritime Commission or the War Shipping Administration. The names of all officers, directors, or stockholders owning more than 5 percent of the capital stock of your company who have owned 5 percent or more of the capital stock of another company which had contracts with the Maritime Commission or the War Shipping Administration.

Answer. So far as is known none of the officers, directors, or stockholders owning more than 5 percent of the capital stock held positions as officers or directors of another company which had contracts with the Maritime Commission or the War Shipping Administration, or owned 5 percent or more of the capital stock of another company having contracts with the Maritime Commission or the War Shipping Administration.

8. A description of all contracts between your company and the Maritime Commission.

Answer. There is enclosed enclosure D, a tabulation giving the answers to these questions.

9. The fees and profits under each of the afore-mentioned contracts allowed after renegotiation.

Answer. There is enclosed enclosure E, a tabulation showing the income, costs, fees, and profits under each of our contracts, which is the statement that we have furnished the Renegotiation Board (Price Adjustment Board).

Answer: This statement is made upon the assumption that all of our claims are granted and therefore represents our total income and fees and profits, including all of our claims now under consideration.

10. The status of each contract still subject to renegotiation, giving, wherever possible, information showing the opinion of the Price Adjustment Board and of your company as to the fees and profits permissible under each contract.

Answer: After a consideration of our statement the Price Adjustment Board ruled: "This office recommended to the War Contracts Price Adjustment Board that your assignment to this office for renegotiation be canceled." This action was contained in three letters dated June 7, 1946, relating to the years 1943, 1944, and 1945, respectively. Copies of these letters are enclosed, enclosure F.

It should be noted that our profits after taxes are less than one-half of 1 percent of our gross volume of business.

11. The total cost to the Government of the shipyards and facilities used by your company.

Answer: The total cost of the facilities is shown on enclosure D, contract No. MCc 15615. These facilities were engineered, installed, and financed at cost without profit to the company.

Very truly yours,

EAST COAST SHIPYARDS, INC.,
J. E. OTTERSON, *President*.

Enclosure B

FEBRUARY 1, 1944.

The Honorable S. O. BLAND,
Chairman, Committee on the Merchant Marine and Fisheries,
House of Representatives, Washington 3, D. C.

DEAR REPRESENTATIVE BLAND: Receipt is acknowledged of your letter of January 26, calling for certain information relative to this company's corporate affairs.

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The following information is furnished in accordance with your request:

1. Total capitalization of the company

Bank loans		$700,000
5 percent subordinated debentures		100,000
Deferred income after taxes [1]		15,800
Surplus reserve for postwar adjustments [1]		75,000
Preferred stock, 5 percent cumulative, $100 par: Authorized stock, 3,000 shares; issued and outstanding, 413 shares	$41,300	
Common stock without par value: Authorized, issued, and outstanding, at $2.50 per share, 1,000 shares	2,500	
		43,800
		934,600
Reserve for Federal taxes [1]		287,500
Total		1,222,100

[1] Preliminary figures subject to final audit and the year-end adjustments.

2. Paid-in value of stock, if any

Paid-in value of stock $43,800

3. Number of shares of stock issued

	Shares
Preferred stock	413
Common stock	1,000

4. Names, addresses, and holdings of all stockholders owning more than 5 percent of the total capital stock

	Number of shares
Common stock:	
John E. Otterson, 77 Edgehill Rd., New Haven, Conn	758
Emerson F. Davis, 60 Broadway, New York, N. Y	1
Walter W. Clark, 11 Broadway, New York, N. Y	1
Clarence Y. Palitz and family, 120 Broadway, New York, N. Y	200
American Rediscount Corp., 120 Broadway, New York, N. Y	39
Eliot B. Berkwit, 1045 Garrison Ave., Teaneck, N. J	1
Preferred stock:	
Walter W. Clark, 11 Broadway, New York, N. Y	38
M. Joseph Borst, 974 Darien Ter., Teaneck, N. J	36
William H. Healey, 28 Norwood St., Dorchester, Mass	34
A. G. Hobson, 74 Hillcrest Ave., Great Kills, Staten Island	50
William M. Merrick, 53 East Beachcroft Rd., Short Hills, N. J	47
William Mulheron, 661 Carlton Rd., Westfield, N. J	35
J. I. McClain, 824 Hobart Ave., Plainfield, N. J	34
Valere G. Savage, 49 Highfield Lane, Rutherford, N. J	40
R. D. Weyerbacher, Hotel Vanderbilt, 34th St. and Park Ave., New York	75
Thomas J. Durkin, 77 West 85th St., New York, N. Y	24

I believe the above information will answer your inquiry. If you desire any further information regarding the company affairs, please command me.

Very truly yours,

EAST COAST SHIPYARDS, INC.,
J. E. OTTERSON, *President.*

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Enclosure C

Officers and directors of East Coast Shipyards, Inc.

	Annual compensation
Officers:	
President: John E. Otterson	$25,000
Treasurer: Walter W. Clark	11,250
Secretary:	
Jan. 19, 1946: Thomas J. Durkin	8,250
June 23, 1943 to Jan. 14, 1946: Albert H. Barclay Jr	6,500
Feb. 16 to June 23, 1943: Emerson F. Davis	0
Directors:	
John E. Otterson	Above
Walter W. Clark	Above
Emerson F. Davis	0
Clarence Y. Palitz: Feb. 16, 1943 to Dec. 31, 1945	15,000
Hamilton G. Scott: Feb. 16 to Nov. 1, 1943	2,500
Eliot E. Berkwit: Jan. 11, 1944 to Sept. 26, 1945	2,400
Henry Schwartz: Sept. 26 to Dec. 31, 1945	0

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Enclosure D

EAST COAST SHIPYARDS, INC.

A. Serial number of each contract	U. S. Maritime Commission MCc-13568	U. S. Maritime Commission MCc-13233	U. S. Maritime Commission MCc-15615	WSA-4818-DA-290 WSA-4425-DA-245	W30-179-tc-127
B. Type of contract	C. P. F. F.	Price minus	Cost, no profit	Adjusted billing rate (WSA standard contract)	Price negotiate
C. Number and type of ships	4 tankers—conversion and complete construction	26 tankers—construction	Facilities	1,334 ship repairs and conversion	1 conversion
D. Ships constructed and delivered	4	26	Complete	1,334	1
E. Amounts paid by Maritime Commission plus material purchased by Government	$4,180,087.67	$39,143,004.99	$1,314,091.84	$7,523,044.70	$1,181,179.21
Cost awaiting approval U. S. Maritime Commission	14,579.27	121,830.06		31,243.80	4,466.88
F. Maximum fee payable	(1)	(2)		(3)	(3)
G. Minimum fee payable	219,000.00	1,014,000.00			[4] 46,986.95
H. Actual fees paid	56,000.00	715,000.00		593,962.49	[4] 46,986.95
I. Profits received on lump-sum contracts				(5)	
J. Total of all fees received under Maritime Commission contracts	56,000.00	715,000.00		593,962.49	[4] 46,986.95
Profit after deducting nonreimbursables and taxes	6,964.72	64,022.32		77,414.23	

[1] 7 percent of estimated cost.
[2] 3 percent of estimated cost plus bonus for szvings.
[3] 10 percent of cost.
[4] Denotes red figure.
[5] Included in H.

AUGUST 5, 1946.

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Enclosure E

EAST COAST SHIPYARDS, INC.

Data for renegotiation statement for the period Feb. 19, 1943, to Dec. 31, 1945

	MCc-13568	MCc-13233	WSA-4818-DA-290 WSA-4425-DA-245	W30-179-tc 127	Non-Government	Total
Gross income	$3,399,087.67	$28,405,004.99	$8,117,007.19	$1,160,408.82	$1,345,736.07	$42,427,244.74
Material furnished by U. S. Maritime Commission	$1,000,000.00	$9,152,000.00				$10,152,000.00
Material furnished by U. S. Navy	(1)	$2,600,000.00				$2,600,000.00
Gross income plus Government-furnished material	$4,399,087.67	$40,157,004.99	$8,117,007.19	$1,160,408.82	$1,345,736.07	$55,179,244.74
Costs reimbursed	$3,180,087.67	$27,391,004.99	$7,523,044.70	$1,181,179.21	$1,179,556.15	$40,454,872.72
Cost of Government-furnished material	$1,000,000.00	$11,752,000.00				$12,752,000.00
Total cost reimbursed plus Government-furnished material	$4,180,087.67	$39,143,004.99	$7,523,044.70	$1,181,179.21	$1,179,556.15	$53,206,872.72
Gross fees or profit	$219,000.00	$1,014,000.00	$593,962.49	[2] $20,770.39	$166,179.92	$1,972,372.02
Percentage to gross income plus Government-furnished material	4.978	2.525	7.318		12.349	3.574
Percentage to cost plus Government-furnished material	5.239	2.590	7.895		14.088	3.706
Nonreimbursables	$27,686.38	$326,042.57	$123,614.15	$26,216.56	$20,416.43	$523,976.09
Net profit	$191,313.62	$687,957.43	$470,348.34	[2] $46,986.95	$145,763.49	$1,448,395.93
Percentage to gross income plus Government-furnished material	4.349	1.713	5.794		10.831	2.625
Percentage to cost plus Government-furnished material	4.577	1.758	6.252		12.357	2.722
Profit after taxes	$31,488.06	$113,230.14	$77,414.23		$23,991.15	$246,123.58
Percentage to gross income plus Government-furnished material	.716	.282	.953		1.783	.446
Percentage to cost plus Government-furnished material	.753	.289	1.029		2.034	.462

[1] Not available.
[2] Denotes red figures.

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Enclosure F

UNITED STATES MARITIME COMMISSION,
Washington, June 7, 1946.

EAST COAST SHIPYARDS, INC.,
New York, N. Y.

DEAR SIR: Upon review of the information submitted by you in connection with renegotiation under the Renegotiation Act, as amended, this office recommended to the War Contracts Price Adjustment Board that your assignment to this office for renegotiation be canceled for your fiscal year ending December 31, 1945.

This office is advised that such assignment has been canceled in accordance with its recommendation.

While such cancellation does not operate as a release of liability under the renegotiation statute, nevertheless, in the absence of further developments no further action is contemplated.

This cancellation does not release you from any obligation which you may have to file the mandatory financial statement and other information required by the Renegotiation Act or the Renegotiation Regulations. (See sec. 2 of ch. II of the Renegotiation Regulations.)

Very truly yours,

R. STEAD, Jr.,
(For John R. Paull, Price Adjustment Board.)

UNITED STATES MARITIME COMMISSION,
Washington, June 7, 1946.

EAST COAST SHIPYARDS, INC.,
New York, N. Y.

DEAR SIR: Upon review of the information submitted by you in connection with renegotiation under the Renegotiation Act, as amended, this office recommended to the War Contracts Price Adjustment Board that your assignment to this office for renegotiation be canceled for your fiscal year ending December 31, 1943.

This office is advised that such assignment has been canceled in accordance with its recommendation.

While such cancellation does not operate as a release of liability under the renegotiation statute, nevertheless, in the absence of further developments no further action is contemplated.

This cancellation does not release you from any obligation which you may have to file the mandatory financial statement and other information required by the Renegotiation Act or the Renegotiation Regulations. (See sec. 2 of ch. II of the Renegotiation Regulations.)

Very truly yours,

JOHN R. PAULL,
Price Adjustment Board.

EAST COAST SHIPYARDS, INC.,
New York 4, N. Y., October 11, 1946.

MR. MARVIN J. COLES,
General Counsel, Merchant Marine and Fisheries Committee,
House of Representatives, Washington, D. C.

DEAR MR. COLES: Referring to your telegram of October 10, the following information is furnished you in reply:

Average amount of outstanding bank loans, $700,000.

We had no loans, guaranties, or advances from the Government. Our bank loans were not secured by pledge of Government contracts, but were secured by an assignment of receivables.

Very truly yours,

EAST COAST SHIPYARDS, INC.,
J. E. OTTERSON, *President.*

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EXHIBIT 31

JULY 27, 1946.

MARINSHIP CORP.,
Sausalito, Calif.

GENTLEMEN: Pursuant to House Resolution 38, Seventy-ninth Congress, the Committee on the Merchant Marine and Fisheries is undertaking an investigation of wartime profits made by shipyards under contract with the Maritime Commission. In order that the committee may have full information concerning each of the shipyards involved, it is requested that you furnish us with the following information.

1. The date on which your company was formed, and a copy of its corporate charter.
2. The total capital of your company, giving a break-down of the types of stock and securities.
3. The names of all officers and directors, and a statement of their annual compensation.
4. The names of all officers and employees who have received compensation of over $15,000 per annum, giving the amounts received and the extent to which such payments were reimbursable by the Maritime Commission.
5. The names of all persons, associations, or corporations holding 5 percent or more of the capital stock of your company giving the amounts of capital stock held by each.
6. The shipbuilding experience prior to 1941 of all officers, directors, and stockholders holding over 5 percent of your capital stock.
7. The names of all officers, directors, or stockholders owning more than 5 percent of the capital stock of your company, who have held positions as officers or directors of another company which had contracts with the Maritime Commission or the War Shipping Administration.
8. The names of all officers, directors, or stockholders owning more than 5 percent of the capital stock of your company who have owned 5 percent or more of the capital stock of another company which has contracts with the Maritime Commission or the War Shipping Administration.
9. A description of all contracts between your company and the Maritime Commission giving:
   (*a*) The serial number of each contract.
   (*b*) The type of contracts (i. e., whether cost-plus, lump-sum, or price-minus).
   (*c*) The number and type of ships covered by each contract.
   (*d*) The number of ships constructed and delivered under each contract.
   (*e*) The total amounts paid by the Maritime Commission under each contract. (If final settlement has not been reached, please give status of negotiations, the amounts in dispute, and the amounts already paid.)
   (*f*) The maximum fee payable under each contract.
   (*g*) The minimum fee payable under each contract.
   (*h*) The actual fee paid under each contract. (If final settlement of fees has not been reached, please give details as to amounts paid, amounts in dispute, etc.).
   (*i*) The profits received on each lump-sum contract.
   (*j*) The total of all fees and profits received by your company under contracts with the Maritime Commission.
10. The fees and profits under each of the afore-mentioned contracts allowed after renegotiation.
11. The status of each contract still subject to renegotiation, giving, wherever possible, information showing the opinion of the Price Adjustment Board and of your company as to the fees and profits permissible under each contract.
12. The total cost to the Government of the shipyards and facilities used by your company.

While I realize that some of the information mentioned above may be difficult to compile, the committee is anxious to hold hearings not later than early September. Would you, therefore, please make every effort to return this information prior to August 15, 1946? In the event that all of the information cannot be compiled by that time, would you please forward the facts requested that can be furnished with a statement as to the earliest possible date that the remaining matters can be forwarded?

Your cooperation will be appreciated.

Sincerely yours,

MARVIN J. COLES, *General Counsel.*

[Penned notation:] (Similar questionnaires sent to all operators of Government-owned shipyards.)

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EXHIBIT 32

SEPTEMBER 9, 1946.

MARINSHIP CORP.,
Sausalito, Calif.

GENTLEMEN: Thank you for forwarding the financial data concerning your company requested by my letter of July 27. The information which you have furnished will be presented to the committee at its next series of hearings.

Hearings on the question of shipyard profits will be held by a special subcommittee during the week beginning Monday, September 23, in room 217 of the Old House of Representatives Office Building. It is probable that members of the subcommittee will have numerous questions concerning your company and other companies which participated in the shipbuilding program. It would be appreciated, therefore, if you could arrange to have a representative of your company, fully conversant with its financial history and status, available to testify before the subcommittee during that week.

Would you please inform me as promptly as possible the name of the man designated to represent your company?

Very truly yours,

MARVIN J. COLES, *General Counsel.*

[Penned notation:] (Similar letters sent to all operators of Government-owned shipyards.)

EXHIBIT 33

SEPTEMBER 11, 1945.

To: W. L. Slattery, General Auditor of Construction.
From: A. D. Burrowes, Unit Head.
Subject: Renegotiation—St. Johns River Shipbuilding Co.—Contract MCc-34743.

On December 9, 1944, the Commission entered into a clearance agreement with St. Johns River Shipbuilding Co., designated "MCc-34743," under which total profits were allowed the shipbuilder in the sum of $900,000 for services performed under contract MCc-2427, in construction of 30 EC-2 vessels. The fees allowed represent payment on a minimum basis and the contractor has waived claim for any compensation in excess of that amount.

Article 8, paragraph A, of the vessel-construction contract reads, in part, as follows:

"8 (A) If delivery of any Vessel is delayed beyond the delivery date stipulated therefor in Article 5 hereof, then the base fee payable to the Contractor under the provisions hereof with respect to said Vessel shall be decreased to cover fixed, agreed, and liquidated damages (and not as a penalty) for delay in delivery of each such Vessel an amount equal to $400 for each and every calendar day of such delay; . . ."

Elasped time between the contract date of delivery of each hull and the actual date of delivery of each hull indicates delayed deliveries in the aggregate of 2,940 days.

A. D. BURROWES.

EXHIBIT 34

UNITED STATES MARITIME COMMISSION,
OFFICE OF THE CHAIRMAN,
Washington, October 22, 1946.

Hon. MARVIN J. COLES,
Merchant Marine and Fisheries Investigating Committee,
Washington 25, D. C.

DEAR MR. COLES: Reference is made to your letter dated September 11, 1946, with regard to the 19 companies which operated Government-built shipyards. You

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state that your attention has been called to the fact that there are other wholly built shipyards with Government funds which were omitted from the previous list, and you state MacEvoy Shipbuilding Co. as an example.

You are advised that the MacEvoy Shipbuilding Co. owned a shipyard prior to the date that any Government-owned facilities were installed. This is borne out by the fact that the first contract for ship construction was awarded to the MacEvoy Shipbuilding Co. dated November 17, 1941. The facilities contract was not awarded to MacEvoy until May 12, 1942, which is also the date of the award of the second ship-construction contract to this company.

According to Commission records, the 19 yards originally listed are the only yards completely constructed with Government funds. There are several additional shipyards where the Commission has expended substantial funds in increasing shipbuilding facilities at existing shipyards.

The information requested with regard to privately owned shipyards and for those for which some Government-constructed facilities were built is now being prepared and will be furnished you as soon as completed.

Sincerely yours,

W. W. SMITH, *Chairman.*

EXHIBIT 35

COX, LANGFORD, STODDARD & CUTLER,
Washington 6, D. C., October 30, 1946.

MARVIN COLES, Esq.,
Counsel, Merchant Marine and Fisheries Committee,
House of Representatives, Washington, D. C.

DEAR MR. COLES: In accordance with our telephone conversation of this morning, I am sending you the answers of Mr. Kaiser to the questions in volume I of the record of the Bland committee hearings. The answer to the question on page 140 is still being prepared and will be forwarded to you as soon as possible.

As you know, an entire staff of people on the coast has been engaged in gathering the information with which to answer these questions. The answers to the balance of the questions are expected to be completed by the end of this week.

I firmly believe, as I stated to you over the telephone this morning, that the answers should be printed in the record as Chairman Bland suggested, namely, at the point in the record where the question was asked.

Sincerely yours,

OSCAR COX.

ANSWERS

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Mr. COLES. Mr. Kaiser, what was the total investment of yourself or the Kaiser affiliated companies in the physical plants of * * * the four (shipyards) that you say you controlled or managed?

Mr. KAISER. Though totals varied considerably during the period 1942–46 inclusive, the maximum and minimum investments by Kaiser-managed shipbuilding companies in land and buildings, furniture and fixtures and automobiles at the

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various yards operated by the companies to the latest dates available were as follows:

	Maximum	Minimum
	June 1943	June 1946
Kaiser Co., Inc.:		
Land and buildings [1]	$376,487.17	
Furniture and fixtures	5,936.23	$24,740.92
Automobiles	54,790.10	70,091.04
Total	437,213.50	94,831.96
	December 1943	July 1946
Oregon Shipbuilding Corp.:		
Land and buildings	$135,764.74	$93,903.71
Furniture and fixtures	6,909.08	7,565.33
Automobiles	32,015.99	33,188.13
Total	174,689.81	134,657.17
	December 1945	August 1946
The Permanente Metals Corp.:		
Furniture and fixtures	$2,793.75	$1,636.23
Automobiles	60,104.56	28,186.24
Total	62,898.31	29,822.47
	October 1944	August 1946
Kaiser Fleetwings, Inc. (formerly Kaiser Cargo, Inc.):		
Automobiles	$1,601.32	
Total	1,601.32	
Total maximum all yards	676,402.94	

[1] Title to land and buildings was held in Kaiser Co., Inc., for a considerable period of time until legal technicalities for transfer from the original owner to Maritime Commission could be worked out.

See exhibit 6; pages 407-411.

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Mr. COLES. Were you a personal endorser of those loans of ($13,750,000) to the (Kaiser Co., Inc.)?

Mr. KAISER. Those loans of $13,750,000 were made to Kaiser Co., Inc., by private banks upon the credit of the company and without any guarantee by the Government. I was not a personal endorser in a strict legal sense, but all of the loans were made to the company upon the basis of my character, reputation, and past accomplishments established by punctually meeting all terms and conditions of every loan obtained over a period of approximately 40 years in private business during which time companies managed by me had completed $383,000,000 worth of work.

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Mr. COLES. Was interest paid on those loans (of $13,750,000)?

Mr. KAISER. Yes, it was, at a rate of 2½ percent per annum.

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Mr. COLES. When was this loan (of $13,750,000) originally floated? Do you remember?

Mr. KAISER. The first loan under the credit agreements for the Vancouver yard and Richmond No. 3 yard was made in February 1942. The first loan under the credit agreement for the Portland Swan Island yard was made in April 1942.

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Mr. COLES. Mr. Chairman, I find some difficulty in locating this on the record, but the record furnished by the Kaiser Co. (Inc.) shows that in December 1942 and

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March 1943, up to those dates $13,750,000 had been borrowed by the company and was not guaranteed. On those two dates new arrangements were made in the amount of almost $18,000,000 guaranteed by the Government. Is that correct, Mr. Kaiser?

Mr. KAISER. I find upon examining the report originally filed with the committee by Kaiser Co., Inc., and particularly exhibit B attached thereto, that the answer to the above question is yes. The new arrangements were necessary because of the magnitude of the operations. In the first instance, it was necessary for Kaiser Co., Inc., to borrow from several banks so that no one of them would exceed the limitations imposed by the Federal Government on loans which banks can make to any one borrower. Later, with increased operations, it was necessary to borrow under regulation V, which loans were guaranteed by the Government so that the effect of borrowing under this regulation was to permit larger loans by each bank without exceeding their maximum limits on loans to any one borrower. I might add that regulation V loans were not only authorized by Federal law but their use was encouraged by the Government to further the war effort.

Page 52

Mr. COLES. Do you have any personal or legal obligations on those loans (of $10,500,000 borrowed from the Bank of America under the credit agreement of December 15, 1942)?

Mr. KAISER. As of this time I could not have any personal or legal obligations under said loans because the last of them were paid in full in June 1945. However, I never had any personal legal obligation in the strict sense but my personal character and reputation were nevertheless at risk so that I could not have permitted any default on the loans to occur if I expected to carry on business in the future.

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Mr. COLES. Did you endorse any of those loans (of $10,500,000 borrowed from the Bank of America under the credit agreement of December 15, 1942) with your personal signature?

Mr. KAISER. No; but those loans were "character endorsed" by me in the same manner as the private unguaranteed loans of $13,750,000 as mentioned in answers to previous questions.

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Mr. COLES. Were receivables from the Government pledged as security for those (bank) loans?

Mr. KAISER. With respect to the private unguaranteed loans in the amount of $13,750,000, neither the Government contracts nor any receivables thereunder were pledged or assigned as security for such loans. Respecting Government guaranteed loans in the amount of $16,870,000, actually borrowed under loan agreement permitting $18,000,000 to be borrowed, all receivables including fees under the contracts were assigned to the banks as required by Government regulations covering such guaranteed loans.

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Mr. KAISER. Except we put some private profit from other things into this company.

Mr. COLES. What were those things?

Mr. KAISER. I would have to get a list of them. Now we are losing because of the fact that we cannot get that ship settlement with our shipyard No. 3 which you are familiar with and saw and I thought it ought to be straightened out when I talked to you about it.

Mr. COLES. You said "other profits." Were you referring then to profits put into Kaiser Co., Inc.?

Mr. KAISER. Yes; or other work.

Mr. COLES. And was that other work mainly for Government contracts?

Mr. KAISER. No; not all. Mainly, perhaps. I do not know definitely.

(For the purposes of the record, the following is offered as a further answer to the above series of questions:)

Mr. KAISER. We put other work in addition to shipbuilding into Kaiser Co., Inc. This other work consisted generally of the following:

Richmond Yard No. 3: A Navy contract for militarization of floating drydocks, two ship-repair contracts with War Shipping Administration, a ship-repair contract with the War Department, a contract with the Navy for disarmament and storage, a Navy contract for ship repair, miscellaneous

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repair, scrapping, and construction contracts for private parties, repair work for the Maritime Commission on both fixed-price and cost-plus-fixed-fee basis.

Portland (Swan Island) Yard: Two ship-repair contracts with the War Shipping Administration, two ship-repair contracts with the Navy, one ship-repair contract with the War Department, miscellaneous ship-repair work for private parties and foreign governments, ship-repair work for the Maritime Commission.

Vancouver Yard: A contract with the Navy for the construction of eight carriers. Due to the end of the war no vessels were completed under this contract. This was a fixed-price contract subject to redetermination. The total contract price was $88,000,000.

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Mr. COLES. So that you put in $100,000 in the Kaiser Co., Inc., originally. What other money did you put into that company?

Mr. KAISER. As mentioned previously, profits from work other than shipbuilding were made by Kaiser Co., Inc. No other money was put into Kaiser Co., Inc., but it borrowed $13,750,000 from private banks without Government guarantee for use in its shipbuilding activities.

Mr. COLES. Was there any increase in the Kaiser Co. (Inc.) through stock dividends?

Mr. KAISER. No; there was not.

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Mr. COLES. Was the capital of this Kaiser Co. (Inc.) used to advance any of your other shipbuilding operations?

Mr. KAISER. No; not in a direct way. However, all of the shipyards operated by Kaiser-managed companies were conducted at the behest of the Maritime Commission in such manner as to obtain the best over-all production records. This sometimes entailed a yard operated by one Kaiser-managed company doing work for a yard operated by another Kaiser-managed company. For example, Oregon Shipbuilding Corp., completed two Liberty vessels which the Vancouver yard of Kaiser Co., Inc., had started under its original contract but which Kaiser Co., Inc., allowed to be canceled so that Kaiser Co., Inc., could convert and use the facilities on the LST program.

Later in the program when the Vancouver yard of Kaiser Co., Inc., had excess capacity temporarily, it partially completed eight vessels for Oregon Shipbuilding Corp.

Richmond Shipyard No. 3 operated by Kaiser Co., Inc., also outfitted numerous victory ships for the Permanente Metals Corp.

In the above manner working funds of Kaiser Co., Inc., were tied up in accounts receivable for work done by yards operated by other Kaiser-managed companies and vice versa, and in this sense and to foster the greatest production of ships, capital of Kaiser Co., Inc., was used in other shipbuilding operations.

Pages 55–56

Mr. COLES. Were the shipyard profits guaranteed to pledge the loan on your steel company?

Mr. KAISER. Yes.

Mr. COLES. As a result of pledging those (ship) profits (for repayment of the Fontana steel loan) was it impossible for Kaiser Co., Inc., to pay up its bank loans?

Mr. KAISER. No. The bank loans have been paid in full in accordance with the loan agreements.

Mr. COLES. Was the payment of those bank loans delayed because the profits were pledged to (the Reconstruction Finance Corporation to secure repayment of the loan to) the steel company?

Mr. KAISER. No. Repayment of the bank loans was in no way delayed by the fact that shipbuilding fees were pledged as security for repayment of the loan of the Reconstruction Finance Corporation on the Fontana steel plant.

Mr. COLES. As a result of any delay which may have occurred would the Government continue to have to pay half the interest, reimbursing the shipyard profit loans?

Mr. KAISER. No, sir. No delay occurred.

Mr. COLES. Does that infer that the loan must have been paid off sooner?

Mr. KAISER. The question is indefinite because it is not clear whether reference is made to the bank loans or the Reconstruction Finance Corporation loan on

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the Fontana steel plant. Apparently, counsel is concerned with or wishes to establish through the foregoing series of questions that the Government had to reimburse a greater amount of interest on the bank loans obtained for shipbuilding purposes because of the pledge of the shipbuilding fees as security for the RFC loan on the steel plant. Actually the opposite is the case. The bank loans applicable to particular contracts were in all instances paid off before any shipbuilding fees were applied on the RFC steel-plant loan, and, in fact, after it was necessary to use Government-guaranteed bank loans all receivables from the shipbuilding contracts, including fees, were assigned to the bank and were applied first in repayment of the bank loans as soon as the funds were disbursed by the Government in payment of work on the contract. Therefore, the only additional interest which might have accrued on the bank loans resulted from delays of the Government in paying invoices under the shipbuilding contracts after they were submitted, and the pledge of the shipbuilding fees as security for the steel-plant loan in no way affected repayment of the bank loans. On the other hand, through this arrangement earned shipbuilding fees were held by the bank until the particular contract under which they were earned was completed so that during this interim period the fees could not be applied on the steel-plant loan, thus actually resulting in increased interest which Kaiser Co., Inc., had to pay to RFC.

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Mr. COLES. Let us go on, Mr. Kaiser, to the Government investment in the Kaiser Co. (Inc.) (yard). How much did the Government invest in the Kaiser companies' shipyards?

Mr. KAISER. I will furnish it. Exhibit H, attached to the report submitted to the committee, shows that the Government invested a total of $75,594,732.89 in the three yards operated by Kaiser Co., Inc. In addition, the Government invested a total of $34,057,893.53 in housing and transportation facilities at the three yards operated by Kaiser Co., Inc., making, in all, a total investment by the Government of $109,652,626.42, all of which was constructed by Kaiser Co., Inc., without any fee or profit on the work.

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Mr. COLES. The total figure you gave us is for the yards themselves, $75,594,000. When you include housing in the yards and transportation to the yards, $109,652,000—are those figures correct?

Mr. KAISER. To the best of my knowledge, they are. I have previously answered this in your preceding question.

Pages 57–58

Mr. COLES. I will show you here a copy of a record prepared by the War Production Board which shows the total private investment in all your yards, and call attention to the Kaiser shipbuilding activities, which shows that in the Portland yard you had $120,000 invested. Is that correct?

Mr. KAISER. Our records show that we had a low of $104,827.88 in September 1942 and a high of $376,487.17 in June 1943, invested in land and buildings at the Portland Swan Island yard, operated by Kaiser Co., Inc. After June 1943 legal technicalities were worked out so that the land and buildings could be transferred from the original owners to the Maritime Commission, and Kaiser Co., Inc., had no further investment therein. The above figures do not include Kaiser Co., Inc.'s investment in furniture, fixtures, and automobiles used at the yard, which varied between a minimum of $4,458.68 in April 1942 and a maximum of $53,336.75 in October 1945. The investment in the items mentioned above varied considerably during the period 1942–46, and, while the date of the WPB report is not given, we are unable to find any combination of figures representing investment in land and buildings, furniture and fixtures, or automobiles, during the period 1942–46 which we can reconcile with the $120,000 figure quoted from the WPB report.

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Mr. COLES. Did you (Kaiser Co., Inc.) have as much as $1,000,000, or 1 percent of the Government's investment, invested?

Mr. KAISER. No. As mentioned in an answer to a previous question, Kaiser Co., Inc., had a maximum of $437,213.50 invested in yards operated by it at any one time. However, it should be pointed out that all of the yards, except possibly Richmond Yard No. 3, were highly specialized plants, built to meet a wartime emergency, and it was not contemplated that they could be used in private

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industry after the war. Richmond Yard No. 3, the only one which could be considered as of a permanent nature, is actually being held by the Maritime Commission to meet possible future emergency shipbuilding needs of the Government. Under these circumstances, the Government did not expect or require private investment in the yards themselves any more than private investment in hundreds of other emergency plants built during the war was expected or required. Kaiser Co., Inc., was, however, required to provide adequate equity capital which, in earlier Maritime contracts with other operators, had been fixed at a minimum of $100,000 per way. Using this standard, Kaiser Co., Inc., actually provided more than five times the minimum equity capital per way which had previously been fixed by the Maritime Commission with respect to other yards.

Page 59

Mr. COLES. Are you inferring that yours was the first Maritime yard built?

Mr. KAISER. Kaiser Co., Inc., was not the first to do so but Oregon Shipbuilding Corp., a Kaiser-managed company, was one of the first three companies to make such a contract with the Maritime Commission. All three companies signed their contracts with the Commission on the same day in January 1941.

Pages 59–60

Mr. COLES. I would like to find out, if you will, what the total fees paid to subcontractors in the construction of the yard(s) (of Kaiser Co., Inc.) amounted to. Can you furnish that tomorrow?

Mr. KAISER. In the construction of Richmond Shipyards 3 and 4, Kaiser Co., Inc., paid a total of $300,000 in fees to Arthur Rousseau, Louis C. Dunn, and Robert McCarthy Co. on cost-plus-fixed-fee contracts performed by those contractors amounting to a total of $13,667,492.06, including the above-mentioned fees. All other subcontracts for work in connection with yards 3 and 4 in the total amount of $15,152,326.46 were on a lump sum or fixed price basis and the amount of profits or losses sustained by such subcontractors cannot be ascertained by us. There were a very great number of such subcontractors and we presume that the committee will be able to develop this information through the War Contracts Price Adjustment Board if desired.

In the construction of the Vancouver yard, Kaiser Co., Inc., paid a fee of $13,300 to Gilpin Construction Co. under a contract with that company. All other work in connection with this yard in the total amount of $11,850,856.11, including the above-mentioned fee, was subcontracted on a lump sum or fixed price basis and again we have no way of ascertaining the profit or loss which may have been sustained by the numerous subcontractors performing such work.

In the construction of the Swan Island yard, Kaiser Co., Inc., paid one fixed fee amounting to $12,000 to Reimers & Jolivette under one cost-plus-fixed-fee contract with that firm in the total amount of $137,569.84 including said fee. In connection with construction of the Swan Island yard several fees for professional engineering and architectural services were paid to Miles Cooper, Wolff & Phillips, John W. Cunningham, Kaiser Engineers, Inc., and H. R. Cedergren in the total amount of $52,555.08. Only one subcontract was made with Kaiser Engineers, Inc., an affiliate of Kaiser Co., Inc., and a so-called fee of $2,843.78 was paid to Kaiser Engineers, Inc., under said contract but this only represented direct costs which were audited by the Maritime Commission and did not include anything for overhead or profit. We have no way of determining the actual profits made by other subcontractors performing these professional services.

With the exception of the one cost-plus-fixed-fee contract and the fees as noted above all other subcontracts at the Swan Island yard, totaling $9,153,709.53, were let on a lump sum or fixed price basis and we have no way of determining the amount of profits or losses which may have been sustained by the numerous subcontractors involved.

All subcontracts which were awarded by Kaiser Co., Inc., for construction of the yards were submitted to and approved by the Maritime Commission.

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Mr. COLES. Were you paid over $40,000,000 in fees and profits for your shipbuilding operations?

Mr. KAISER. Exhibit F, schedule 1 of the report previously submitted by Kaiser Co., Inc., to the committee prior to the September 1946 hearings shows that to May 31, 1946, Kaiser Co., Inc., had been paid $44,229,424.21 in gross fees before deduction of $5,750,360.98 in nonreimbursable costs and before final settlement of amounts which remained unpaid by the Maritime Commission under certain of Kaiser Co., Inc.'s contracts in the total sum of $29,766,134.78 which said amounts are now in process of settlement. Until such settlement is completed, the total

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amount of gross fees which Kaiser Co., Inc., will have received and retained from shipbuilding operations will not be known.

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Mr. COLES. How much taxes did you pay in 1941 of the 46 million dollars in fees and profits?

Mr. KAISER. In the first place, Kaiser Co., Inc., was not formed until December 1941 so it had no fees or profits in that year. In the second place, throughout the entire period of the operations of Kaiser Co., Inc., it could not be said that it had $46,000,000 in fees and profits no matter what basis is used for the computation. Schedule I attached to exhibit F of the report originally submitted to the committee shows that after deducting nonreimbursables, Kaiser Co., Inc., had gross earnings from shipbuilding contracts of $41,133,396.23. Said schedules show that in the operation of the steel plant Kaiser Co., Inc., sustained a gross loss of $59,712,436.49, resulting in a net loss of $18,579,040.26 to May 31, 1946. Under these circumstances, no income taxes were payable by Kaiser Co., Inc.

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Mr. COLES. Very good. Now, Mr. Kaiser, did you pay a penny of taxes on the shipbuilding profits made by the Kaiser Co., Inc.?

Mr. KAISER. Kaiser Co., Inc., paid taxes in its first year of operation, but a claim for refund has been made since the company has shown a net loss on an over-all basis from the beginning. This being the case, no taxes were chargeable to the company.

For the fiscal year ending June 30, 1942, Kaiser Co., Inc., has paid $1,064,000 in income taxes. We have applied to the Treasury for a refund of this tax, and have every reason to believe that a refund will be granted. We have therefore stated in the written report to this committee that no income taxes have been paid by Kaiser Co., Inc.

Except for this 1942 tax payment on which we expect to receive a refund Kaiser Co., Inc., has paid no income taxes, since it has had a net loss in every year of these operations.

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Mr. COLES. Now, let me go back to that and put it in a rather lengthy question, and perhaps we can get a yes or no answer, Mr. Kaiser. The Government lent you money and charged you interest on it, that money being lent to the steel plant. The Government gave you contracts for ships and gave you profits for building those ships. When it came to renegotiating or paying taxes, you deducted from the profits you made on those ships certain expenses or losses of your steel company, which included $9,000,000 and because of that loss including the $9,000,000 you were not renegotiated out of that portion of the profits and you paid no taxes on the profits.

Mr. KAISER. Let me answer that question in this way. Early in 1942 when Kaiser Co., Inc., started its operations, German submarine warfare was seriously depleting all the small merchant fleet which our country had at that time. Ships in quantity were needed at an unprecedented rate to get munitions and supplies to the fighting fronts. From past experience with other Kaiser-managed companies, it had been found that we were unable to obtain steel in sufficient quantities from existing sources to meet the desired ship delivery schedules. After exhausting every possibility of a Government-owned DPC steel plant on the coast to meet the critical steel shortage and being flatly refused, I finally approached the RFC and obtained a loan to construct a steel plant on the coast. This was not done through any particular desire to enter the steel business but to assist in the war effort, and particularly in the delivery of ships which were so vitally needed. Therefore, the steel plant was directly related to the shipbuilding program and actually could be considered an integral part of it.

As you know, taxes are only payable if a company has profits on its entire operations, and as shown by schedule I attached to exhibit F of the report which we recently submitted to your committee, Kaiser Co., Inc., sustained a loss in the operation of its steel plant as of May 31, 1946, of $59,712,436.49 which exceeded by $18,579,040.26 the estimated gross earnings on shipbuilding contracts. Therefore, because of this loss, no taxes were payable. Similarly, since the over-all operations of Kaiser Co., Inc., resulted in a loss and it was engaged almost exclusively in war work, both in its steel operations and shipbuilding operations, there were no excessive profits to be recaptured through renegotiation. As matters now stand, Kaiser Co., Inc., has made nothing whatever from the war effort, but on the contrary shows in excess of $18,000,000 loss on its books and holds pos-

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session of a steel plant upon which approximately $90,000,000, exclusive of interest, and after application of shipyard earnings when received, still must be paid and which, under such circumstances, is a liability rather than an asset. Assuming for the moment that Kaiser Co., Inc., had never operated the steel plant, the profit on the shipbuilding operations alone amounted to only 68/100 of 1 percent of the total contract volume after applying Federal income taxes which would have been applicable had there been only shipyard earnings, and we know of no instance where such a low percentage of profit has been deemed "excessive" in any renegotiation proceeding by the War Contracts Price Adjustment Board.

ANSWERS

Page 69

Mr. COLES. Mr. Kaiser, I think we had best go back to yesterday's questions and ask again, what was the total investment in the physical facilities of the Kaiser yards, those are the six yards including in that group California and the Walsh-Kaiser companies?

Page 69

Mr. COLES. Will you tell us then in short, what the total investments of the Kaiser companies in those six yards were?

Mr. KAISER. The Kaiser interests were only stockholders in California Shipbuilding Corp. and Walsh-Kaiser Co., Inc., and did not take any active part in the management of the shipbuilding operations of those companies. Therefore, we do not have the figures relative to the investment of those companies in the yards which they operated.

The Kaiser interests managed the shipbuilding activities of Oregon Shipbuilding Corp., the Permanente Metals Corp., including shipbuilding operations of Richmond Shipbuilding Corp. which were later taken over by the Permanente Metals Corp., Kaiser Co., Inc., and Kaiser Fleetwings, Inc. (formerly Kaiser Cargo, Inc.).

As mentioned in answer to a prior question,[1] Oregon Shipbuilding Corp. had a maximum of $174,689.81 invested in land and buildings, furniture and fixtures and automobiles, and a minimum of $134,657.17 invested in said items during the period 1942 to 1946; the Permanente Metals Corp., including Richmond Shipbuilding Corp., had a maximum of $62,898.31 invested in furniture and fixtures and automobiles and a minimum of $29,822.47 invested in said items during the period 1942 to 1946; Kaiser Co., Inc., had a maximum of $437,213.50 invested in land and buildings, furniture and fixtures and automobiles, and a minimum of $94,831.96 invested in furniture and fixtures and automobiles during the period 1942 to 1946; and Kaiser Fleetwings, Inc. (formerly Kaiser Cargo, Inc.) had a maximum of $1,601.32 invested in automobiles and a minimum of nothing during the period 1942 to 1946.

The investment by the various companies in the items mentioned varied considerably during the period from 1942 to 1946, and it should be pointed out that the investment of approximately $376,000 in land and buildings by Kaiser Co., Inc., was carried for considerable time but only until legal technicalities for the transfer of the land from the original owner to the Maritime Commission could be worked out.

Again I wish to stress, however, that the Government did not require or expect private investment in temporary, emergency yards operated by these companies. Investment by the contractor in plant facilities is only one of many factors which are to be considered by the War Contracts Price Adjustment Board under the specific provisions of the Renegotiation Act as a guide in determining the reasonableness of profits which contractors are permitted to retain, and I feel sure that the renegotiation authorities have given full consideration to the fact that these companies admittedly only had relatively small amounts invested in yard facilities. I am also certain that the Government authorities in charge of renegotiation have given full weight to the mandates of the Renegotiation Act passed by the Congress of the United States which require that other important factors such as the quantity and quality of production, economies, and savings to the Government be given full consideration. Thus far counsel for the committee seems to have avoided any questions or evidence which would bring out these other important factors.

Page 70

Mr. COLES. Now, taking the Kaiser Co. alone—Kaiser Co., Inc.—which is one of the six yards, have you been able to discover what the total of your investment in that yard was?

[1] On p. 48.

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Mr. COLES. Mr. Kaiser, you stated that you do not know the total amount of the investment of the six yards. Do you know your total investment in Kaiser Co., Inc., one of the six yards?

Mr. KAISER. Kaiser Co., Inc., operated Richmond No. 3 yard and for a short time Richmond No. 4 yard, the Vancouver yard and the Portland Swan Island yard. As mentioned in answer to a previous question,[2] the amount invested by Kaiser Co., Inc., in said yards during the period 1942 to 1946 varied considerably between a maximum in June 1943 of $376,487.17 invested in land and buildings; $5,936.23 invested in furniture and fixtures, and $54,790.10 invested in automobiles, or a total of $437,213.50, and a minimum of $94,831.96 invested as of June 1946, of which $24,740.92 was invested in furniture and fixtures and $70,091.04 was invested in automobiles.

The investment by Kaiser Co., Inc., in land and buildings as mentioned above was carried by the company for considerable time but only until legal technicalities could be worked out so that the property could be transferred from the original owner to the Maritime Commission.

From the number of times counsel has repeated this question, it appears that he considers private investment as perhaps the main factor in determining whether profits made by contractors are reasonable. I wish to point out that this is only one of many factors which Congress has recognized under the Renegotiation Act. Other factors to be fully considered as stipulated in the act are the efficiency and inventiveness of the contractor, the quantity and quality of production, and economies to the Government. Because no questions relating to these factors have been asked, I wish to point out at this time that Kaiser-managed shipyards saved the Government millions of dollars and 2 years in time in the Liberty-ship program alone, according to the facts developed by the Truman committee.

(The answer to the question on p. 75 and the answers to the questions on some of the questions on subsequent pages will be found on p. 645 and following of this appendix.)

Page 86

Mr. COLES. How many Joshua Hendy engines were installed at Kaiser yards and what was the average cost of those engines to the Maritime Commission? Was Joshua Hendy Co. given a profit on the engines so purchased for the account of the Maritime Commission? If Joshua Hendy received a profit on the engines, is it not correct that on the engines which were then sent over to the Kaiser yards, the Kaiser yards received another profit?

Mr. KAISER. It is quite difficult to give a definite or accurate figure of the number of Liberty-ship engines built by Joshua Hendy and installed in Liberty ships, constructed by the Kaiser yards. If I may suggest I believe the correct figure could be obtained quite readily and most accurately directly from the Joshua Hendy Co. in Sunnyvale, Calif.

It is our belief that the Joshua Hendy Co. made a profit on the engines which it built for the Maritime Commission. Again, may we suggest that the accurate information on this can be obtained from the Contract Price Adjustment Board which handled the Joshua Hendy renegotiation.

None of the Kaiser shipyards or the companies operating the Kaiser shipyards, which may have installed Joshua Hendy Liberty-ship engines, received another profit or any profit on these engines.

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Mr. COLES. * * * Was the interest on borrowed capital (Kaiser Co., Inc.) paid for by the Government?

Mr. EDGAR KAISER. I do not know the answer to that question. I think the answer is, to be the best of my knowledge, the same as we gave yesterday * * * about half of it.

Mr. COLES. About half of it?

Mr. EDGAR KAISER. Might have been a little less. We are checking that question and will furnish the answer.

I find on checking that Kaiser Co., Inc., paid a total of $1,173,544.22 as interest on bank loans for shipyard purposes, of which $438,902.69 was not reimbursed.

[2] Pp. 48 and 70.

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Answer to question on page 87

KAISER CO., INC.

Summary of nonreimbursable and disallowed costs, Portland, Richmond, and Vancouver yards, as of May 31, 1946

Description of costs not claimed by contractor as reimbursable or allowable and costs disallowed by U. S. Maritime Commission	Portland	Richmond yard No. 3	Vancouver	Total
Contributions to employees' benefit trust fund including payments into fund established with the approval of the Bureau of Internal Revenue and the Salary Stabilization Unit and minor expenses of administering fund	$697,837.94	$501,512.53	$697,751.45	$1,897,101.92
Labor recruitment and employee relations, including costs in excess of amounts allowed by the Maritime Commission to cover: Losses on loans made to recruited employees for transportation and initial sustenance, athletic and recreational programs, hospital and medical service, operation of child service center, publication of shipyard periodicals, vocational training, in-yard production incentive programs, employees' picnics, and other like items	453,643.12	206,319.78	372,574.64	1,032,537.54
Salaries and wages, including the salaries and wages (and pay-roll taxes and compensation insurance thereon) for employees hired in positions not authorized by the Commission, termination pay, employees paid salaries or wages in excess of amounts approved by the Maritime Commission, employees claimed by Maritime Commission to be working out of classification, nonrecoverable overpayments due to clerical errors, and other like items	78,065.25	295,140.79	115,134.30	488,340.34
Interest expense, including interest paid on bank loans and tax returns	120,144.16	167,435.42	161,266.50	448,846.08
Contributions and donations, including contributions to American Red Cross, community and war chests, entertainment and transportation furnished to USO, photographs, ship models, and shipbuilding data furnished to rehabilitation hospitals, educational institutions, and to guests of the shipyard; and other like items	133,247.52	78,551.85	173,507.10	385,306.47
Employees' travel and sustenance, including the actual cost of travel paid employees in excess of the fixed per diem rate established by the Maritime Commission; the cost of trips not authorized by Maritime Commission; moving-in expense of supervisors and key employees; and other like items	66,950.82	65,035.47	149,300.75	281,267.04
Ceremonial launching expenses, including flowers, photographs, gifts for sponsors, music and program expense at launching, luncheons and dinners following launchings, and other like expenses	87,957.08	28,507.83	145,575.77	262,040.68
Auto expense, covering all costs of operating company-owned cars including depreciation thereon	69,158.31	44,006.91	58,981.76	172,146.98
Purchase and rental of equipment, materials, and supplies, including purchases and rentals not authorized by, or in excess of amount authorized by, Maritime Commission; overpayments or cash discounts not taken due to clerical errors; and other like items	19,555.11	38,733.22	94,771.16	153,059.49
Auditing and legal expense, including all auditing expense of corporation employed certified public accountant, legal expenses in excess of amount authorized by Maritime Commission, legal expenses not pertaining to shipbuilding operations, and other like items	48,838.12	41,898.88	53,681.42	144,418.42
Public relations expense, including meals at shipyard and on trial runs for honored guests (i. e., delegates to United Nations Conference at San Francisco, other shipyard builders and industrialists, educators, press representatives, vendors, etc.); luncheon and dinner conferences elsewhere with important visitors, members of the press, etc.; and other like items	34,002.61	42,985.07	18,248.65	95,236.33

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Summary of nonreimbursable and disallowed costs, Portland, Richmond, and Vancouver yards, as of May 31, 1946—Continued

Description of costs not claimed by contractor as reimbursable or allowable and costs disallowed by U. S. Maritime Commission	Portland	Richmond yard No. 3	Vancouver	Total
Superintendents and executive dining-room expenses, including the cost of daily luncheon conferences of yard superintendents and masters and administrative and management staff	$13,301.38	$30,787.34	$37,876.69	$81,965.41
Engineering studies of postwar utilization of shipyards, including salaries and wages, blueprinting, photostating, outside services, and other like items	30,277.01	24,139.71	17,250.68	71,667.40
Depreciation and other costs of company-purchased furniture, fixtures, alterations and other facilities, including depreciation on all company-owned facilities except automobiles and the costs of alterations of offices, dining rooms, etc., not authorized by the Maritime Commission	33,969.28	22,122.52	7,058.20	63,150.00
Corporate taxes, including State and Federal taxes not considered a cost of shipbuilding activities	10,246.13	10,907.18	16,964.08	38,117.39
Insurance premiums, including the premiums on company-owned facilities and other insurance not authorized by the Maritime Commission	7,710.16	2,141.18	6,849.27	16,700.61
Corporate organization expenses, including costs of preparing and filing corporate charter			607.81	607.81
All other expenses, including telephone and telegraph, printing and advertising, courtesy flowers, chauffeurs' uniforms, uncollectable back charges to vendors and other miscellaneous accounts receivable, membership and association dues and expenses, and other like items	34,256.83	49,624.92	33,969.32	117,851.07
Total	1,939,140.83	1,649,850.60	2,161,369.55	5,750,360.98

ALLOCATION TO CONTRACTS

[Based on major contract in force for ship construction at time expense incurred and/or disallowance made. No allocation made to facility contracts on which no fee was earned or minor contracts]

Portland		Richmond Yard No. 3		Vancouver	
Contract No.—	Amount	Contract No.—	Amount	Contract No.—	Amount
MCc-2565	$973,496.29	MCc-28994	$1,571,236.59	MCc-2047	$52,006.32
MCc-16212	313,224.32	MCc-36279	14,474.46	MCc-7467	214,810.83
MCc-19189	20,530.62	All other	64,139.55	MCc-7678	1,033,277.53
MCc-29039	607,594.04			MCc-23475	329,298.82
All other	24,295.56			MCc-28948	527,603.67
				All other	4,372.38
Total	1,939,140.83	Total	1,649,850.60	Total	2,161,369.55

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Mr. COLES. Was there any personal endorsement on those loans (of $32,000,000)?

Mr. KAISER. All of the companies operated by the Kaiser interests which included Oregon Shipbuilding Corp., Kaiser Co., Inc., the Permanente Metals Corp., Richmond Shipbuilding Corp., and Kaiser Fleetwings, Inc. (formerly Kaiser Cargo, Inc.), provided in excess of $32,000,000 in equity capital. I presume this is the figure to which you refer and it was comprised of the investment by the stockholders in capital stock of the companies, subordinated stockholders' loans and loans obtained from private banks without any guarantee by the Government.

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Now, coming to your specific question, there were no personal endorsements of any of these bank loans, in the strict legal sense, but they were made upon the basis of the character, reputation, and accomplishments of the stockholders and management of the companies which had been established with the banks through years of successful private operations prior to the war, during which time $383,000,000 worth of work had been completed.

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Mr. COLES. In summary, for the Kaiser Co., then, we can say that there was 40-odd million made as profit, none recovered back so far in renegotiation, and no taxes paid. Is that correct?

The CHAIRMAN. Is that shown by the statement that has been filed?

Mr. COLES. Yes, sir.

The CHAIRMAN. It stands proven. Why ask him if it is correct?

Mr. KAISER. It is not correct. Kaiser Co., Inc., does not show a forty-odd million profit or any profit. The statement referred to (Kaiser Co., Inc., exhibit F, in answer to committee's question No. 9) shows a net loss to May 31, 1946, of $18,579,040.20.

There is a loss and not a profit as stated by Mr. Coles.

Pages 92 and 94

Mr. COLES. What was the original amount of capital stock (of the Permanente Metals Corp.)?

Mr. COLES. Will you check whether it was a smaller amount and was increased to $460,000 and let us know later?

Mr. COLES. You stated that the stock was originally $100,000 but was increased to $460,000. Was the $360,000 a stock dividend or was that from profits that had been earned, profits from the Government, or was that a new payment of $360,000 in cash?

Mr. KAISER. The Permanente Metals Corp. originally had capital paid in by the stockholders in return for its stock in the amount of $100,000 cash. Richmond Shipbuilding Corp. originally had capital paid in by the stockholders in return for its stock in the amount of $250,000 cash. Additional stock in Richmond Shipbuilding Corp. was issued for cash which increased its capitalization to $360,000. Thereafter, in December 1941, the stockholders of the Permanente Metals Corp. exchanged the shares of stock which they held in Richmond Shipbuilding Corp. for additional shares of the Permanente Metals Corp. on a dollar for dollar basis, so that Richmond Shipbuilding Corp. became a wholly owned subsidiary of the Permanente Metals Corp., and thus the capital of the Permanente Metals Corp. became $460,000, represented by $100,000 originally paid in cash and $360,000 worth of capital stock of the Permanente Metals Corp. in exchange for a like amount of stock of Richmond Shipbuilding Corp.

Mr. COLES. But was it not from a stock dividend of December 1941?

Mr. KAISER. No; there was no stock dividend.

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Mr. COLES. Was interest paid on these loans (to the Permanente Metals Corp.)? If it was, was it later reimbursed by the Government?

Mr. EDGAR KAISER. Of the $7,500,000 loaned to the Permanente Metals Corp., $2,500,000 of that amount was loaned by its wholly owned subsidiary and the balance of $5,000,000 was loaned by private banks without Government guaranty. The loan by the subsidiary was made interest-free. Bank loans to the Permanente Metals Corp. bore interest at 3 percent, and of the total interest paid on bank loans $245,559.46 was reimbursed by the Maritime Commission and $57,245.82 was not reimbursed. Bank loans to Richmond Shipbuilding Corp. bore interest at 2½ percent, and interest on the total amount of loans obtained while it was engaged in shipbuilding activities was $49,253.45, which was reimbursed. Richmond Shipbuilding Corp. had no nonreimbursable interest on bank loans.

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Mr. COLES. Were you personally guarantor of any of these loans?

Mr. EDGAR KAISER. I presume the question refers to private bank loans made to the Permanente Metals Corp. and its subsidiary, Richmond Shipbuilding Corp. I was not a personal guarantor or endorser of any of these loans, in the strict

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legal sense, nor was any other individual, but they were made by the banks because of the character, reputation, and accomplishments of the stockholders and managements of the companies which had been established and were well known to the banks because of the punctual repayment of all prior loans, with interest, which were made in connection with private operations before the war, during which time $383,000,000 worth of work had been completed by Kaiser-managed companies.

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Mr. COLES. How much of the corporation's money was invested in the Permanente Metals shipyard? The War Production Board's records show $151,000 Do you have any reason for disputing that?

Mr. EDGER KAISER. During the period from 1942 to 1946 the Permanente Metals Corp. had a maximum of $62,898.31 invested in furniture and fixtures and automobiles in Richmond yards 1 and 2, which the company operated, and a minimum of $29,222.47. The investment of the company in this type of property varied from time to time during the 1942 to 1946 period. While we do not know the date of the War Production Board records referred to, we cannot reconcile the $151,000 figure with our records.

It is also apparent that the company had no investment in actual yard facilities, such as land, buildings, or manufacturing equipment, but we again wish to point out that the Government did not require or expect private investment in these temporary emergency yards. Furthermore, we believe that in the Merchant Marine Act, the Vinson-Trammell Act, and the War Powers Act, which latter act reduced the fixed fee which could be paid under negotiated contracts to 7 percent of the estimated costs, Congress recognized, and at least tacitly approved, the fact that there was no definite relationship between a shipbuilder's profit and his invested capital. Also Congress provided in the Renegotiation Act that private investment by the contractor in war facilities was only one of many factors to be considered in determining the reasonableness of profits which contractors would be permitted to keep upon renegotiation of their contracts. Some of the other factors which have not been touched upon with respect to the Kaiser-managed shipyards involve the efficiency of the contractor, with particular regard to the attainment of quantity and quality production, reduction of costs and economy, the nature and extent of contribution to the war effort, including inventive and developmental contributions, and cooperation with the Government and other contractors in supplying technical assistance.

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Mr. COLES. The Maritime Commission's investment in the yard is $35,000,000, which includes $5,000,000 paid by the British. What part of that work was subcontracted?

Mr. EDGAR KAISER. Our records show that the total amount invested by the Government in the Richmond 1 and 2 yards, operated by the Permanente Metals Corp., was $35,421,775.59, of which the Permanente Metals Corp. and Richmond Shipbuilding Corp., which constructed the yards, subcontracted $6,246,846.88 worth of the work.

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Mr. COLES. Will you get us what the total bids were, the total amounts, and the total amount paid to the Gilpin Construction Co. for the construction of the Oregon shipyard?

Mr. KAISER. The Gilpin Construction Co. did not construct the Oregon Shipbuilding Corp.'s shipyard. Gilpin was a subcontractor on less than 5 percent of the shipyard facility cost. Any statement or representation of the Renegotiation Board that committee counsel refers to, that Gilpin built the Oregon shipyard, is wholly false and untrue. The Oregon Shipbuilding Corp.'s shipyard facilities cost of $22,684,266.93, according to exhibit I in our replies to question 12 of this committee's questionnaire and the total volume of the Gilpin work was only $1,106,686.63 according to our records, or less than 5 percent. Committee counsel has referred to the chart shown on page 138 of the hearings on H. R. 2628, April 12, 13, and 16, 1945, titled "1945 Extension of Termination Date of Renegotiation Act." The statement on that chart that Gilpin constructed the Oregon yard is not correct. To repeat, Gilpin was a subcontractor on less than 5 percent of the facility cost. A detailed report on the subcontracts performed by Gilpin for Oregon Shipbuilding Corp. follows. This report shows that, of the total of $1,106,-

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686.63, that with one minor exception the contracts performed by Gilpin were on a lump-sum or fixed-unit-price basis and were awarded to Gilpin following the receipt of competitive bids. The one exception was a fixed-fee contract, No. 11, totaling $15,182.20, for which a fee of $819.39 was paid to Gilpin.

Summary of subcontracts for facilities performed by Gilpin Construction Co. for Oregon Shipbuilding Corp.

	Total amount of subcontract
Subcontracts 3 and 3A (Feb. 17, 1941)	$307,037.51
For driving and cutting off piles in building ways, outboard ways, gantry runways, fitting out dock, and foundations of several buildings; construction catwalk and dolphins. Submitted for competitive bids to following firms: 1. Gilpin Construction Co. 2. Jacobsen Construction Co. 3. Parker-Schram Co. 4. Kern & Kibbe. Only bid received was from Gilpin Construction Co. Prices for piles were on a unit price basis. Piling furnished by Oregon Shipbuilding Corp.	
Subcontract 3B (Jan. 5, 1942)	9,429.00
For furnishing necessary material, equipment and driving and cutting fir piles for the new pipe shop and for timber work and hardware in connection with capping the piles. Competitive bids on unit price basis. Firms submitting bids were: 1. Gilpin Construction Co. 2. Portland Tug & Barge Co.	
Subcontract Nos. 7 and 7A (Mar. 3, 1941)	673,963.90
For timber work for shipways, outboard ways, crane piers, assembly platforms and plate yard whirley track. Competitive bids. The following firms submitted bids. Gilpin was low bidder. 1. George H. Buckler Co. 2. Kuckenberg Construction Co. 3. Morrison-Knudsen Co. 4. Gilpin Construction Co. 5. Tavares Construction Co.	
Subcontract No. 11 Jan. 12, 1941	15,182.20
For furnishing engineering and contracting services and purchasing and payment of pay rolls, social-security, taxes, workmen's compensation insurance premiums, materials, supplies, equipment, and other expenses. The engineering and administration departments were the first to be established at Oregon Shipbuilding Corp. In order to purchase supplies and equipment and to meet the pay roll, the Gilpin Construction Co.'s pay roll and accounting departments were utilized until Oregon Shipbuilding Corp. established these departments. The actual costs were incurred by Oregon Shipbuilding Corp. and charged to the account of the Gilpin Construction Co. This period extended from Jan. 15, to Feb. 20, 1941. The fee for the above-mentioned service was $819.39.	
Subcontract No. 19B (Dec. 20, 1941)	333.71
For placing 392.6 cubic yards of riprap for Craneway No. 1. This was on a unit price basis. Bids were submitted to following firms: Gilpin Construction Co. Williamette Tug & Barge Co.	
Subcontract No. 20B (Nov. 12, 1942)	1,020.00
For removal of approximately 3,000 cubic yards of material from east end of the outfitting basin. Unit price per hour of derrick operation.	

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Summary of subcontracts for facilities performed by Gilpin Construction Co. for Oregon Shipbuilding Corp.—Continued

	Total amount of subcontract
Subcontract No. 35 (May 16, 1941)	$234.52
To extract one caterpillar tractor, owned by the Oregon Shipbuilding Corp., from a hole on the shipyard site.	
Negotiated on unit price per hour of equipment time, plus lump sum to clean tractor. Gilpin had equipment at site which was utilized due to emergency.	
Subcontract No. 92 (July 31, 1942)	17,619.64
Furnish material, labor and equipment and construct a wharf and 7 dolphins in fitting basin at Oregon Shipbuilding Corp.	
Competitive bids, low bidder:	
Gilpin Construction Co.	
Geo. H. Buckler Co.	
The Hart Construction Co.	
Subcontract No. 107 (Oct. 9, 1942)	81,866.15
For construction of ferry slip at Oregon Shipbuilding Corp.	
Competitive bids:	
Gilpin Construction Co.	
George Buckler Co.	
Portland Tug & Barge (no bid).	
Award to low bidder.	
Total	1,106,686.63

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Mr. BRADLEY. Who, in Kaiser, Inc., would endorse the original note, as I understand it, for the shipyard venture of $11,000,000?

Mr. KAISER. I think our treasurer would probably do that, although endorsing or signing of any notes would be done by the officer or officers authorized by the board of directors to do so. It would not be done by me personally.

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Mr. WEICHEL. What yards did (Kaiser Co., Inc.) operate that it partly owned?

Mr. EDGAR KAISER. Well, we had some investment in each of the three Government-owned yards. Kaiser Co., Inc., operated via Swan Island at Portland, Oreg.; Vancouver, at Vancouver, Wash., and Richmond No. 3, at Richmond, Calif.

Kaiser Co., Inc., operated Richmond No. 3 yard and for a short time Richmond No. 4 yard, the Vancouver yard, and the Portland Swan Island yard. As mentioned in answer to a previous question, the amount invested by Kaiser Co., Inc., in said yards during the period 1942 to 1946 varied considerably between a maximum in June 1943 of $376,487.17 invested in land and buildings, $5,936.23 invested in furniture and fixtures, and $54,790.10 invested in automobiles, or a total of $437,213.50, and a minimum of $94,831.96 invested as of June 1946, of which $24,740.92 was invested in furniture and fixtures and $70,091.04 was invested in automobiles.

The investment by Kaiser Co., Inc., in land and buildings as mentioned above was carried by the company for considerable time but only until legal technicalities could be worked out so that the property could be transferred from the original owner to the Maritime Commission.

Pages 116 and 117

Mr. WEICHEL. In that $22,000,000 yard, you claim that the Oregon Shipbuilding Co., physically owned some of the facilities?

Mr. WEICHEL. Did the company own anything? Did this Oregon Shipbuilding Corp., own anything in this plant outside of some land?

Mr. KAISER. The investment of Oregon Shipbuilding Corp., in land and buildings, furniture and fixtures, and automobiles during the period 1942 to 1946

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varied some. The maximum investment of the corporation was in December 1943, when it had $135,764.74 invested in land and buildings, $6,909.08 invested in furniture and fixtures, and $32,015.99 in automobiles, or a total of $174,689.81. The minimum investment of the corporation, according to the latest records available, was in July 1946, when the corporation had $93,903.81 invested in land and buildings, $7,565.33 invested in furniture and fixtures, and $33,188.13 invested in automobiles, or a total of $134,657.17.

I realize that by comparison with the Government investment in the yard the investment of the corporation was relatively small, but I again wish to state that the Government did not require or expect private investment in these temporary emergency shipbuilding yards which were constructed for war purposes. As has been mentioned, in answer to previous questions, Congress recognized that there was no definite relationship between a shipbuilder's profit and his invested capital, and the Renegotiation Act specifically states that such investment is only one of the numerous factors which should be considered in determining the reasonableness of profits. Some of the other factors which Congress has specified in the Renegotiation Act as having a bearing upon the reasonableness of profits are the efficiency and inventiveness of the contractor, the quantity and quality of production, and economies to the Government. I believe all of these pertinent factors should be given consideration and not merely the amounts invested in the yards by the shipbuilders.

Pages 118, 120 and 122

Mr. WEICHEL. Did the Oregon Shipbuilding Corp., own 100 acres of land and some machinery, and if so was it worth $300,000?

Mr. WEICHEL. How much was that land worth an acre? * * * How much did you pay for this hundred acres?

Mr. WEICHEL. Well, how did you get the 100 acres? You only started now with $100,000. How many pieces of machinery did you buy with the $100,000?

Mr. EDGAR KAISER. The peak cost of company-owned fixed assets at Oregon Shipbuilding Corp., was in December 1943. Detailed, they were:

LAND

Date purchased	Purchased from—	Acres	Cost
1941–43	Wm. Gatton Estate Co	154.590	$73,350.02
1941	Terminal Flour Mills Co	11.396	39,070.27
1942	Electro-Metallurgical Co	1.380	1,445.09
1942	Clark County Abstract & Title Co	13.000	13,195.78
1943	Frances E. Freum and others	9.880	8,703.58
(1941?)	Acreage exchanged with Northwest Terminal & Northwest Oil Co.:		
	Received (Acres 10.430)		
	Released (Acres 12.230)	(−1.800)	0
	Total, land	188.466	135,764.74
	FURNITURE AND EQUIPMENT		
	Office		3 633.08
	Sky room		3,276.00
	Autos		32,015.99
	Total, furniture and equipment		38,925.07
	Total fixed assets (cost)		174,689.81

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Mr. WEICHEL. Do you dispute the statement made by Mr. Casey of the General Accounting Office to the effect that the Gilpin Co. is a wholly owned subsidiary of the General Construction Co., and that the company owned 26 percent of the stock in Consolidated Building, Inc., and that company owned 100 percent of the Oregon Shipbuilding Corp., and that both General Construction Co. and Consolidated Building, Inc., have been associated with you and your various corporations for a number of years?

Mr. KAISER. I do not know whether the Gilpin Co. is a wholly owned subsidiary of the General Construction Co. or not. It has been my understanding that there

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is a close relationship between the General Construction Co. and the Gilpin Co. but as to its exact ownership or relationship, I do not know. The General Construction Co. owned 6.25 percent of the Oregon Shipbuilding Corp. during most of the time that the Oregon Shipbuilding Corp. shipyard was being constructed. Later, sometime in 1942, after most of the shipyard had been completed, Oregon Shipbuilding Corp. ownership was transferred to Consolidated Builders, Inc., in which the General Construction Co. owned 25 percent. The General Construction Co. has been associated with me on many major projects in the West for many years prior to the war. Consolidated Builders, Inc., was the company formed by myself and associates and which submitted the low competitive bid to the Government for the constructio of the major portion of the Grand Coulee Dam and then proceeded to carry out and complete this most important project. The major portion of this work was completed prior to the war.

It has been previously stated here in this hearing yesterday by your counsel, Mr. Coles, that the Renegotiation Board says that Gilpin Construction Co. built the Oregon Shipbuilding Corp. yard. That is wholly untrue. Gilpin was a subcontractor on part of the work only. The amount of his subcontract on building a portion of the Oregon Shipbuilding Corp. yard has been furnished to your committee. The amount of the Gilpin Co. profit on this work is not known to us, nor do we have any means of determining it. We have previously suggested to your committee that this information could perhaps be readily obtained from the Contract Price Adjustment Board which renegotiated Gilpin. I would like to point out that perhaps there has been some confusion and misunderstanding created by the use of an inaccurate chart which appeared on page 138 of the record of the hearings on H. R. 2628, 1945 Extension of Termination Date of Renegotiation Act (April 12–13, and 16, 1945), which your counsel has referred to. This chart contains a wholly untrue and inaccurate statement that "Gilpin Construction Co. built the Oregon facilities." To repeat, Gilpin only built a portion of the facilities under subcontract with Oregon Shipbuilding Corp.

Pages 186–187

Mr. BRADLEY. It was a relatively small proportion, then, on shells?

Mr. KAISER. On shells. Now, where the bars went and where the shapes went, whether they all went into ships, I am not sure. The Controlled Materials Plan (CMP) of the War Production Board regulated the distribution of steel produced at Fontana. In accordance with its established procedures authorized under the War Powers Acts no steel could be distributed or used without a CMP rating. CMP ratings were given only for needed war work. Thus all of the steel produced was channeled into war work.

The Plate and Shape and Bar Sections of the War Production Board, Steel Division, each month allocated the forecasted Fontana production to the various claiming agencies such as Maritime Commission, Navy and War Departments, and Office of Civilian Defense. These claiming agencies then distributed their allocations to the various contractors of the agency in accordance with the agencies determination of need.

On the whole, the greater part of the Fontana steel plate, structural shapes and bars was allocated to Maritime Commission ship construction although some was sent to navy yards and a relatively small amount was directed by WPB or claiming agencies for other uses. The amount of steel billets used for making artillery shells has been stated.

If it is important that the actual use of the steel produced at Fontana in wartime be determined, may I suggest that such information can be obtained more quickly and more accurately from the War Production Controlled Material Plan records. We do not have at our ready command such information. Our voluminous shipping records would show only the destination of the steel, the purchaser and the CMP rating. To compile this from the thousands of shipments would be a tremendous and tedious task. Inasmuch as the CMP records of the War Production Board are on an over-all tonnage basis for the wartime using agencies, their records would, I am sure, give you the information desired.

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Mr. E. F. KAISER. The letter of intent—regarding the construction of C–4 Transports—to the best of my knowledge, was never changed. The letter of intent was issued upon a fixed price or a price-minus basis.

Mr. BRADLEY. Well, it was at that time a fixed price or price minus?

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Mr. E. F. KAISER. The letter of intent authorized either way that could be. To the best of my knowledge the contract was signed as a fixed price contract. It was signed after some of the ships had been delivered, whether it was 26, 10—I do not remember. We can furnish that.

(The answer to the above questions and those preceding the same, commencing at p. 74, is as follows.)

It should be borne in mind that Kaiser Co., Inc., contracted with the United States Maritime Commission to build a total of 60 C-4-type vessels: 35 of these were assigned to the Richmond (California) Shipyard No. 3 and 25 to the Vancouver (Washington) Shipyard. These contracts were:

Richmond Yard 3 (35 vessels): Original Contract MCc-2046 for 30 vessels and a subsequent letter of intent for 5 vessels combined into 1 contract, No. 28994.

Vancouver (25 vessels): Contract No. MCc-28948.

The following information relates only to the 35 C-4 transports constructed by Kaiser Co., Inc., at Richmond Shipyard No. 3. For further information relative to the 25 C-4 vessels contracted for the Vancouver (Washington) Shipyard (Contract No. MCc-28948), see the supplemental answer to the question on page 76 of the transcript.

Contract No. MCc-2046

Contract No. MCc-2046, dated January 9, 1942, was a price-minus form of contract, providing, after amendments, for the construction of 30 C-4-S-A1 troop transports, at a minimum allowable profit of $100,000 per ship on 10 of the vessels and $102,500 for the remaining 20 vessels which were to be converted to Navy specifications, and which provided a maximum allowable profit of $566,818 per vessel.

LETTER OF INTENT

On May 4, 1944, a letter of intent was executed providing for the execution as of May 2, 1944, of Contract MCc-28994 on either a price-minus or fixed-price basis, which said letter of intent, after amendment, provided for the construction of a total of five C-4-S-A3 troop transports.

Contract No. MCc-28994

Contract No. MCc-28994 was dated April 1, 1945. This was a fixed-price contract for 35 vessels, including the 30 C-4-type transports originally covered by Contract MCc-2046 and the five C-4-type transports covered by the letter of intent, and provided for profit limitations as follows:

On 10 ships a maximum profit of $100,000 per vessel.
On 20 ships a maximum profit of $102,500 per vessel.
On 5 ships a maximum profit of $520,000 per vessel.

This contract decreased the maximum profit allowable for the original 30 vessels under Contract MCc-2046 from $566,818 per vessel to $100,000 per vessel (plus $2,500 per vessel for conversion of 20 such vessels) and the guaranteed minimum was entirely eliminated. For the 5 new vessels to be constructed under this contract, the maximum profit was fixed at $520,000 per vessel as against a maximum of $566,818 per vessel, as provided in Contract MCc-2046 for the original 30 vessels, and there was no guaranteed minimum profit.

Under Contract MCc-28994, the contractor was limited to a total allowable profit of $5,650,000 and any amount of profit in excess thereof was recapturable by the Maritime Commission. On the other hand, through the elimination of any minimum profit, a loss could and would have been sustained if total costs had exceeded the total fixed price in the contract.

As of May 4, 1944 (the date of the letter of intent covering five C-4-type transports), 10 vessels had been completed and delivered under the original Contract MCc-2046.

As of April 1, 1945 (the date of Contract MCc-28994), 24 vessels had been completed and 22 had been delivered under Contract MCc-2046.

A question has been raised as to why the original Contract MCc-2046, which was on a price-minus basis, was later converted into Contract MCc-28994 on

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a fixed-price basis at a time when numerous ships had already been completed. A further question has been raised as to why the contractor was limited to $100,000 profit per vessel on 10 ships and $102,500 on 20 ships (including conversion) and was then allowed $520,000 on each of the additional C-4-type transports. From these questions and statements which have been made, an unfounded implication has arisen that the contractor obtained some undue advantage and increase in earnings through the conversion of the contract. We believe the following facts answer the questions and entirely refute any such implication:

1. For a considerable period of time prior to April 1, 1945, the Maritime Commission had been strenuously endeavoring to convert all cost-plus-fixed-fee- and price-minus-type contracts to fixed-price contracts in accordance with a policy which had been established by the Maritime Commission. This policy was developed within the Commission and other Government agencies, so we understand, and we are not familiar with the reasons for it except to say that insofar as we know, the policy was not initiated or pressed by the contractors.

2. Because of the above-mentioned policy, the Maritime Commission desired, and practically insisted, that the additional five C-4's be constructed on a fixed-price basis. Since the additional vessels were to be built in Richmond Yard No. 3, the same yard which was constructing the original 30 C-4's, it was imperative, from an accounting standpoint, that all of the vessels be constructed under the same type of contract since otherwise accounting and cost allocations as between differing types of contracts would have presented an intolerable problem. Therefore, it was deemed expedient to cover all 35 vessels under one contract.

3. In order for the Commission to determine whether the allowable profit under the Contract MCc-28994 had been exceeded, it reserved the right to audit the costs under this contract, and the Commission actually performed an audit in exactly the same manner and under the same regulations as it audited all costs under price-minus or cost-plus-fixed-fee contracts, and the same type of disallowances were made.

4. It will be noted from the above contract data that the original Contract MCc-2046 for 30 vessels provided a minimum allowance for profit per ship and also a maximum profit allowance of $566,818, so that under said contract, as originally written, the contractor could have made up to the maximum profit.

At the time Contract MCc-2046 was made, no one had ever before constructed this type of ship; the costs of construction were purely guesswork and the Maritime Commission arbitrarily fixed a target price of $6,235,000 as a basis upon which the maximum profit could be computed and allowed. During the course of the contract there were innumerable changes in design and additional construction ordered by the Maritime Commission as a result of the fact that the ships were of a new type being constructed for the first time and also as a result of the fact that first they were to be Army transports, then Navy transports and a great number of additions and changes were made to comply with specifications desired, first by the Army and then by the Navy. After the design was generally frozen to the specifications desired by the Army, the Navy took over and required numerous changes. There were 39 major changes in the vessels to comply with Navy requirements. Each of the 39 major changes involved further changes, additions, and deletions of varying degrees. For example, three of these major changes involved changes and additions to the second deck forward, second deck amidship, and second deck aft. These three major items necessitated changes or additions to approximately 30 submajor items which submajor items involved changes in a great number of lesser items.

Similar changes were made in the entire superdeck, upper deck, and third deck and changes of various kinds were also made on all of the other decks of the ship.

Our operating personnel in the yard have estimated that the first C-4 vessel was built and rebuilt the equivalent of four to six times, due to specification and design changes. Hulls 11 to 16 had been entirely completed and delivered before the 39 major design and specification changes were required by the Navy so that it was necessary to tear out the work which had been done and replace it with work conforming to the changes.

Due to these factors and the consequent loss of labor efficiency, the cost of the 24 ships which had been completed when Contract MCc-28994 became

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finalized exceeded the target price of $6,235,000 per vessel which had been arbitrarily set by the Maritime Commission in the first place.

Under the contract the amount of additional costs caused by these changes should have been added to the target price specified in the contract. However, rather than going through all of these numerous changes to determine the cost applicable to each for the purpose of raising the target price, and hence the allowable profit to which we might have been entitled, we agreed to settle the matter on the basis that the target price had been exceeded, though not through our fault, and therefore we would accept merely the minimum profit allowance on the first 30 vessels. Thus, the profit allowance which we agreed to accept on the first 30 vessels was exceedingly low in view of the volume of work performed, and was not pertinent as a precedent for the five additional C–4 transports.

5. The five additional C–4 transports were a different type of C–4 and had somewhat different specifications than the original 30 vessels.

6. The maximum allowable profit of $520,000 for each of the five additional vessels under Contract MCc–28994 was actually $48,818 less than the maximum allowable profit which had been specified under Contract MCc–2046 for the original 30 vessels, and the fact that this profit of $520,000 per ship was specified as an allowable maximum did not mean that it would be paid. It had to be earned first.

7. Under Contract MCc–28994, there was a definite risk that the final costs of the 35 C–4's might exceed the total contract price, in which event our company would not only have failed to realize any portion of the allowable profit but would have sustained a loss. This risk was assumed not only on the additional five vessels but also on the original 30 since on April 1, 1945, when the terms of Contract MCc–28994 were agreed upon, only 24 of the 30 original vessels had been completed and not even the costs of the vessels which had been completed were finally determined by that date. Despite this risk, the contract was unilateral in favor of the Government, since any amount of profit which might have been realized through efficiency and reduction of costs over and above the maximum allowable profit was recapturable by the Maritime Commission. It is probable that there will be such recapture in a sizable amount when the contract is finally settled due to the fact that on the last few ships where the design was not continually changing (though changed considerably on the last two ships) we were able to substantially reduce costs.

8. Assuming that Kaiser Co., Inc., earns the full maximum profit of $5,650,000 allowable under the contract and that there were no nonreimbursable costs, the earnings would amount to approximately 1½ percent of the contract price. However, as of April 1, 1945, the date of Contract MCc–28994, it was recognized that there was $1,366,276 in nonreimbursable costs to that date, and further nonreimbursable costs have accrued since that date. Consequently, even though the company earns the full allowable profit, it will actually retain somewhere between three and four million dollars, which will be in the neighborhood of 1 percent of the contract price before renegotiation and taxes which would have been applicable had Kaiser Co., Inc., made an over-all profit on its various operations, which was not the case.

For clarity we again emphasize that the above pertains only to the 35 C–4 vessels constructed at Kaiser Co., Inc., Richmond (California) Shipyard No. 3. Twenty-five additional C–4 vessels were contracted to be built at the Vancouver (Washington) Shipyard by Kaiser Co., Inc., under Contract No. MCc–28948.

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Mr. COLES. So that you made $520,000 (Kaiser Co., Inc.) per vessel at Vancouver and returned the excess. Is that correct?

Mr. E. F. KAISER. Yes; and I think that applies to the troop transports, and I am not sure about the recapturable profit. I do not think it was $520,000 on the cargo vessels, but it might have been. I am not sure.

(By way of further explanation of the above question and answer, please see the following additional information.)

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This is in regard only to the Contract No. MCc–28948 of Kaiser Co., Inc., for the construction of 25 C–4-type transport vessels at the Vancouver (Washington) Shipyard and does not pertain to the contract for constructing 35 C–4 type vessels at the Kaiser Co., Inc., Richmond (California) Yard No. 3.

On May 4, 1944, a letter of intent was issued to Kaiser Co., Inc., providing for the construction of a total of 25 C–4-type transport vessels at the Vancouver (Washington) Yard on either a price-minus or fixed-price basis. Operations under this letter of intent were carried on until May 28, 1945, when Contract No. MCc–28948 for said 25 C–4-type vessels was signed. This was a fixed-price contract and provided for maximum allowable profit of $520,000 per vessel. There was no guaranteed minimum profit, and any profit made by the contractor in excess of the maximum of the $520,000 per vessel was recapturable by the Maritime Commission. If the cost of the 25 vessels exceeded the fixed price, the contractor would sustain a loss.

As of August 14, 1945, the Maritime Commission terminated all work on five of the vessels covered by said contract and subsequently changed eight vessels to cargo-type ships, and the maximum profits finally allowable under the contract were as follows:

For 12 vessels completed as C–4's: $520,000 per vessel.

For 8 vessels completed as cargo vessels: $260,000 per vessel.

For 5 C–4's, upon which work was terminated August 14, 1945, a lump sum termination settlement of $260,000 for all 5 of said vessels.

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Mr. COLES. Under the contracts of Kaiser Co., Inc., for 35 C–4's, was the contingency allowance allowed under these contracts for the fixed price actually to be paid?

Mr. COLES. Was that contingency allowance included in the total profits which you show or not?

Mr. COLES. Was there any surplus of those contingency funds over and above your actual expenditures?

(In answer to the above questions please see the following information.)

Under Contract No. MCc–28994, eventually covering 35 C–4's, the profit on 30 of the vessels was limited to the minimum fee specified under the original contracts since the target price for the vessels completed to the date of said contract had been exceeded not through fault on our part but rather because of numerous design and specification changes. Because of this low profit allowance, the amount of $5,800,000 was set up under the contract as a contingency to cover retroactive wage adjustments which had not yet been finally approved by Government agencies, liability on account of violations of the Fair Labor Standards Act, which occurred during the performance of the contract, by making deductions from the pay of exempt employees at the direction of the Maritime Commission, and classifying certain employees as administrative and executive personnel with the approval of the Commission, and other contingent but undetermined items for which payment might have to be made in the future when the issues respecting such items were finally settled.

The full amount set up for said contingencies was withheld by the Commission and was only to be paid to Kaiser Co., Inc., to such extent as might be necessary up to but not exceeding the total contingency if the total audited and allowable costs of performing the contract, plus allowable profit, exceeded the contract price, less the amount of said contingency.

To date no payments have been made to Kaiser Co., Inc., on account of the contingency allowance. At this time the final audit of costs has progressed sufficiently so that it is almost certain that it will never be necessary for any part of the contingency allowance to be paid. Therefore, the contingency allowance is not included in and has had no bearing on the total profits shown by Kaiser Co., Inc. From all indications, the total amount of the contingency allowance will be retained by the Maritime Commission, and in this sense the entire amount may be considered as surplusage.

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Mr. COLES. How many of your [The Permanente Metals Corp.'s] fixed price and selected price contracts were converted from other forms or entered into after all the ships had been completed?

Mr. COLES. Were those fixed price contracts of yours changed after they had been originally made?

Mr. COLES. Will you tell us at what stage of the record they were so changed, if so?

Mr. COLES. In most cases, were the fixed-price contracts signed after the ships had been built?

Mr. COLES. In most cases, the cost of the ships was known before the contract was signed?

Attached please find schedules showing all contracts of Richmond Shipbuilding Corp. and The Permanente Metals Corp., which were converted from one type of contract to another.

As has been mentioned before, early in 1944 the Maritime Commission and other Government agencies adopted a policy of converting all existing cost-plus-fixed-fee contracts to fixed-price or selective-price contracts wherever possible and a policy of letting all new war contracts on a fixed-price basis.

Following the adoption of this policy, discussions between the shipbuilding contractors and Commission representatives were carried on over a period of about 9 months but, due to numerous procedural and administrative difficulties, the actual conversion of contracts lagged. Finally, in December 1944, the Commission, in order to force the issue, went so far as to send wires to all shipbuilding contractors, stating that further contracts were anticipated but they would only be awarded on a fixed-price basis.

This necessitated immediate conversion of existing contracts, it being recognized by all concerned that it would be impracticable for any one yard to construct the same type of ship under cost-plus-fixed-fee contracts and fixed-price contracts at the same time, since the problems of inventory controls and cost allocations between the two types of contracts would have been practically insurmountable. Therefore, in order to effectuate the policy requirements of the Maritime Commission in an orderly manner, it was necessary to approach the conversion of contracts in stages as follows:

(*a*) All existing cost-plus-fixed-fee contracts at a given yard which had only recently been entirely completed were converted to lump-sum contracts. In making this conversion, the lump sum was made up of recorded costs to a given date which had been audited and approved by the Maritime Commission and were either audited or available for audit by the General Accounting Office, plus the fee actually earned by the contractor in the performance of the cost-plus-fixed-fee contract, whether minimum, maximum, or somewhere between these limits.

These conversions were only made to carry renegotiation into effect and, as a part of the transaction, any excessive profits which were found were eliminated and the lump sum contracts evidenced the renegotiation settlement as finally agreed upon.

As a part of the above procedure, the amount of disallowed costs to date of the renegotiation settlement was definitely settled and fixed although in every instance we were required to forego certain costs which we believed to be reimbursable under the law and regulations. For example, the Maritime Commission flatly refused to allow other than a negligible amount of capital-stock taxes paid by the company which amounted to a sizeable sum. The United States Court of Claims has recently held that all such capital-stock taxes are reimbursable costs under the law and cost-plus-fixed-fee regulations. The contracts of Richmond Shipbuilding Corp. and The Permenente Metals Corp. falling within the category mentioned in this subparagraph (*a*) and shown in the attached schedules are MCc–7787, MCc–1795, and MCc–2115, covering ship construction, and DA–MCc–2 and DA–MCc–732, covering facilities construction, under which said contracts no fee or profit whatever was paid.

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From the above it is clear that the contractor obtained no increased profit or other advantage to which it would not have been entitled had the conversion never been made.

(*b*) A second stage in the conversion involved cost-plus-fixed-fee contracts which had not been entirely completed. As shown on the attached schedule The Permanente Metals Corp. had one such contract bearing No. MCc–15762. This contract originally covered 45 VC2–S–AP2 vessels, 10 VC2–S–AP3 vessels, and 22 VC2–S–AP5 vessels. At the time of the conversion the 10 AP3's and 22 AP2's had been completed and therefore the contract as to these 32 vessels was converted to a lump-sum contract on the same basis as other contracts were converted as outlined in subparagraph (*a*) above except that a contingency allowance was included in the lump sum to cover unknown unrecorded and contingent costs which might develop after the cost cut-off date used in arriving at the lump sum. This contingency allowance was retained by the Maritime Commission and was payable by the Commission up to but not exceeding the amount thereof only in the event the costs recorded or accruing after the cut-off date were properly reimbursable under cost-plus-fixed-fee cost regulations and the Commission reserved the right to audit all such costs to determine their reimbursability. This contingency allowance could in no way increase the contractor's profit. Likewise, this conversion differed from those mentioned in subparagraph (*a*) in that it was not made as a part of renegotiation.

The remaining 45 VC2–S–AP2 type vessels, though some of them were completed, were, nevertheless, transferred to and became a part of selective fixed price Contract No. MCc–36452.

(*c*) All VC2–S–AP2 vessels originally covered by cost-plus-fixed-fee Contract MCc–15762, totaling 45, and cost-plus-fixed-fee Contract MCc–30602, totaling 65, whether completed or not, were converted to selective-price Contract MCc–36452, as shown in the attached schedules. At the time of the conversion to the latter contract, 53 of the 110 vessels covered by said contract had been completed. This permitted the Commission to have reasonably accurate cost data on this type of ship so that it could set realistic maximum and minimum prices for selection by the contractor as a basis for the profit allowance under the selective contract arrangement. Under the selective fixed price form of contract a schedule is incorporated in the contract specifying various prices of ships between a maximum and minimum and the amount of the profit allowable under such prices so specified. For the maximum price, the contractor receives the minimum allowable profit, and the lower the price the greater the allowable profit. The contractor is then given the right at any time to select a price to apply on all vessels for which keels have not yet been laid and the allowable profit is fixed according to the schedule, depending upon the price selected. If the contractor selects prices, and costs exceed the prices so selected, a loss may be sustained. Any profit in excess of the profit allowable for the prices selected is recapturable by the Commission. Thus the contractor is not permitted to make more than a maximum allowable profit though taking an unlimited risk of loss.

As mentioned above, at the time of the conversion to selective fixed price Contract MCc–36452, 53 ships had been completed and keels for 27 others had been laid, making a total of 80 ships. With respect to these 80 ships, the contractor was permitted to select a price for all of them from the schedule in the contract and the same price was selected for 9 additional ships.

On the last 21 of the 110 ships covered by this contract, the contractor selected the lowest price under the schedule prior to the keel laying and, thereby, became entitled to the maximum allowable profit permitted under the contract, provided costs did not exceed the price selected.

The net results of this conversion were as follows:

1. The contractor had to purchase and assume the risk of all inventory.

2. The contractor selected a price of $2,550,000 on each of the first 89 ships and the contractor thereby assumed the risks of contingent, unknown, and unrecorded costs with respect to 53 vessels which had been completed, and the risk that eventual costs on these ships as well as costs on the 36 remaining ships, 9 of which had not yet been commenced would exceed the price selected. In this connection it should be pointed out that even respecting the ships included in the contract which had been completed, the actual costs were not known and the prices for selection specified in the contract were at best only estimates. From past experience it had been found that additional costs applicable to a

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particular contract would not become known for as long as 2 years or more after the contract was entirely completed. As an example, due to the number of employees at the various yards, there were innumerable applications which had to be made to the Government agencies for approval of wage and salary adjustments, and the amount eventually payable to employees pursuant to these applications, many of which were retroactive to the date of application, was entirely dependent upon the action of the governmental agency involved. Action on many of these applications was delayed for months so that the determination and payment of actual costs was delayed correspondingly. As another example, delays of years occurred in obtaining final decisions by Government agencies relative to restitution and other matters under the wages and hours law.

3. On all of said 89 vessels, contractor was entitled to a maximum allowable profit of $104,810 each if earned, and the excess, if any, was recapturable by the Commission. This amounted to an increased allowable profit of $4,810 over the maximum fee which would have been payable under the original cost-plus-fixed-fee contract and which maximum fee was being earned by contractor at the time of conversion.

4. On the last 21 ships, contractor selected a price of $2,175,000, the lowest price specified in the contract, and was entitled to a maximum allowable profit of $152,210 per ship if earned. At this extremely low price, the risk of loss was, of course, greatly increased. This maximum allowable profit was $52,210 in excess of the maximum fee permissible under the original cost-plus-fixed-fee contract.

In consideration of a relatively small increase in the maximum allowable profit applicable to the lower brackets of the price schedule under the selective price contract over and above the maximum fee which would have been payable under the cost-plus-fixed-fee contract, the Government benefited as follows:

(*a*) All risk of loss was transferred to the contractor.

(*b*) The Government obtained cheaper ships, as illustrated by the fact that on the last 21 ships the Government saved at least $375,000 per ship as against an outlay of $52,210 in maximum allowable profit per ship over the cost-plus-fixed-fee maximum fee.

(*c*) The Government obtained a fixed price without the usual corresponding benefit to the contractor of unlimited profit through lowered costs since the profit allowance was fixed at a maximum and anything in excess was recapturable. From indications to date, it appears that said recapturable profits may amount to as much as $5,000,000 when finally settled.

(*d*) The Government saved in expenses of the Maritime Commission through reduced auditing costs.

(*e*) Greater production speed was accomplished through elimination of the necessity for prior approvals of all purchases. In this connection it was once estimated that it required an average of 7 days to obtain all necessary approvals under cost-plus-fixed-fee contracts.

Schedule No. D1

RICHMOND SHIPBUILDING CORP. (RICHMOND SHIPYARD NO. 2), RICHMOND, CALIF.

OCTOBER 15, 1946.

Data concerning change of U. S. M. C. contracts from cost plus or price minus to lump sum, fixed price, or selective price

[Foreword: Data submitted for each contract includes the original contract and all addenda thereto, except where the type of contract is changed by addenda, in which case such addenda are treated as a new or converted contract. Amounts shown for fees and profit are before deduction of any disallowed or nonreimbursable expense]

Original Contract

Contract number	MCc-7787.
Date	May 1, 1941.
Purpose (vessels or facilities)	Vessels construction.
Type of contract	Cost plus a fee.
Number and type of vessels to be constructed	24 EC2.
Minimum fee or profit for contract	$1,440,000.00.
Maximum fee or profit for contract	$3,360,000.00.

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Converted To

Contract number	MCc-7787 (MCc-33845).
Date	November 14, 1944.
Type of contract	Lump sum. (See Remarks.)
Number and type of vessels	24.
Vessels completed	24.
Equivalent vessels in process	
Equivalent vessels to be completed	
Minimum fee or profit for contract	
Maximum fee or profit for contract	
Actual fee or profit, if determined	$1,479,943.00.

Remarks: Agreement MCc-33776, dated November 14, 1944, was entered into to effect renegotiation of MCc-7787 and Agreement MCc-33845 dated November 14, 1944, was entered into changing MCc-7787 from cost plus to lump sum for costs recorded as of June 30, 1944.

Renegotiation and conversion of this contract was made at a date subsequent to the completion of the vessels constructed thereunder. The conversion to lump sum for cost was only for cost recorded as of a specific date, which cost had been audited and approved by the United States Maritime Commission and was either audited or available for audit by the General Accounting Office.

Schedule No. D2

RICHMOND SHIPBUILDING CORP. (RICHMOND SHIPYARD NO. 2), RICHMOND, CALIF.

OCTOBER 16, 1946.

Data concerning change of U. S. M. C. contracts from cost plus or price minus to lump sum, fixed price or selective price

[Foreword: Data submitted for each contract includes the original contract and all addenda thereto, except where the type of contract is changed by addenda, in which case such addenda are treated as a new or converted contract. Amounts shown for fees and profit are before deduction of any disallowed or nonreimbursable expense]

Original Contract

Contract number	MCc-1795.
Date	October 15, 1941.
Purpose (vessels or facilities)	Vessels construction.
Type of contract	Cost plus a fee.
Number and type of vessels to be constructed	12 EC2.
Minimum fee or profit for contract	$720,000.00.
Maximum fee or profit for contract	$1,680,000.00.

Converted To

Contract number	MCc-1795 (MCc-33845).
Date	October 15, 1941.
Type of contract	Lump sum. (See Remarks.)
Number and type of vessels	12.
Vessels completed	12.
Equivalent vessels in process	
Equivalent vessels to be completed	
Minimum fee or profit for contract	
Maximum fee or profit for contract	
Actual fee or profit, if determined	$1,450,942.00.

Remarks: Agreement MCc-33776, dated November 14, 1944, was entered into to effect renegotiation of MCc-1795 and Agreement MCc-33845 dated November 14, 1944, was entered into changing MCc-1795 from cost plus to lump sum for costs recorded as of June 30, 1944.

Renegotiation and conversion of this contract was made at a date subsequent to the completion of the vessels constructed thereunder. The conversion to lump sum for cost was only for cost recorded as of a specific date, which cost had been audited and approved by the United States Maritime Commission and was either audited or available for audit by the General Accounting Office.

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Schedule No. D3

RICHMOND SHIPBUILDING CORP. AND THE PERMANENTE METALS CORP., RICHMOND, CALIF.

OCTOBER 15, 1946.

Data concerning change of U. S. M. C. contracts from cost plus or price minus to lump sum, fixed price, or selective price

[Foreword: Data submitted for each contract includes the original contract and all addenda thereto, except where the type of contract is changed by addenda, in which case such addenda are treated as a new or converted contract. Amount shown for fees and profit are before deduction of any disallowed or nonreimbursable expense]

Original contract

Contract number	DA-MCc-2 and DA-MCc-732.
Date	April 10, 1941, and Sept. 9, 1941.
Purpose (vessels or facilities)	Facilities construction.
Type of contract	Cost plus a fee.
Number and type of vessels to be constructed	
Minimum fee or profit for contract	$4. 00
Maximum fee or profit for contract	$4. 00.

Converted to

Contract number	DA-MCc-2 and DA-MCc732 (MCc-33845).
Date	November 14, 1944.
Type of contract	Lump sum. (See Remarks.)
Number and type of vessels	
Vessels completed	
Equivalent vessels in process	
Equivalent vessels to be completed	
Minimum fee or profit for contract	
Maximum fee or profit for contract	
Actual fee or profit, if determined	$0.

Remarks: Agreement MCc-33845 which was made pursuant to Agreement MCc-33776, which effected renegotiation of Vessels Contracts MCc-2115, MCc-1795, and MCc-7787, changed Contracts DA-MCc-2 and DA-MCc-732 from cost plus to lump sum for costs recorded as of June 30, 1944.

Renegotiation and conversion of these contracts was made at a date subsequent to the completion of the vessels constructed thereunder. The conversion to lump sum for cost was only for cost recorded as of a specific date, which cost had been audited and approved by the United States Maritime Commission and was either audited or available for audit by the General Accounting Office.

Schedule No. D4

THE PERMANENTE METALS CORP. (RICHMOND SHIPYARDS NO. 1 AND NO. 2), RICHMOND, CALIF.

OCTOBER 15, 1946.

Data concerning change of U. S. M. C. contracts from cost plus or price minus to lump sum, fixed price, or selective price

[Foreword: Data submitted for each contract includes the original contract and all addenda thereto, except where the type of contract is changed by addenda, in which case such addenda are treated as a new or converted contract. Amounts shown for fees and profit are before deduction of any disallowed or nonreimbursable expense]

Original contract

Contract number	MCc-2115.
Date	January 17, 1942.
Purpose (vessels or facilities)	Vessels construction.
Type of contract	Cost plus a fee.
Number and type of vessels to be constructed	187 EC2.
Minimum fee or profit for contract	$11, 220, 000. 00.
Maximum fee or profit for contract	$26, 180, 000. 00.

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Converted to

Contract number	MCc-2115 (MCc-33845).
Date	November 14, 1944.
Type of contract	Lump sum. (See Remarks.)
Number and type of vessels	187 EC2.
Vessels completed	187.
Equivalent vessels in process	
Equivalent vessels to be completed	
Minimum fee or profit for contract	
Maximum fee or profit for contract	
Actual fee or profit, if determined	$23, 606, 877. 00.

Remarks: Agreement MCc-33776 dated November 14, 1944, was entered into to effect renegotiation of MCc-2115 and Agreement MCc-33845 dated November 14, 1944, was entered into changing MCc-2115 from cost plus to lump sum for costs recorded as of June 30, 1944.

Renegotiation and conversion of this contract was made at a date subsequent to the completion of the vessels constructed thereunder. The conversion to lump sum for cost was only for cost recorded as of a specific date, which cost had been audited and approved by the United States Maritime Commission and was either audited or available for audit by the General Accounting Office.

Schedule No. D5

THE PERMANENTE METALS CORP. (RICHMOND SHIPYARDS NO. 1 AND NO. 2), RICHMOND, CALIF.

OCTOBER 15, 1946.

Data concerning change of U. S. M. C. contracts from cost plus or price minus to lump sum, fixed price, or selective price

[Foreword: Data submitted for each contract includes the original contract and all addenda thereto, except where the type of contract is changed by addenda, in which case such addenda are treated as a new or converted contract. Amounts shown for fees and profit are before deduction of any disallowed or nonreimbursable expense]

Original contract

Contract number	MCc-15762.
Date	April 22, 1943.
Purpose (vessels or facilities)	Vessels construction.
Type of contract	Cost plus a fee.
Number and type of vessels to be constructed	45 design VC2-S-AP2. 10 design VC2-S-AP3. 22 design VC2-S-AP5.
Minimum fee or profit for contract	$3,355,000.00.
Maximum fee or profit for contract	$9,020,000.00.

Converted to

Contract number	MCc-15762, Addendum 3.
Date	April 1, 1945.
Type of contract	Lump sum.
Number and type of vessels	10 VC2-S-AP3. 22 VC2-S-AP5.
Vessels completed	32.
Equivalent vessels in process	
Equivalent vessels to be completed	
Minimum fee or profit for contract	
Maximum fee or profit for contract	$1,690,000.00.
Actual fee or profit, if determined	$1,690,000.00.

Remarks: 45 vessels of VC2-S-AP2 design were transferred to Contract MCc-36452 (selective price).

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Schedule No. D6

THE PERMANENTE METALS CORP. (RICHMOND SHIPYARDS NO. 1 AND NO. 2), RICHMOND, CALIF.

OCTOBER 15, 1946.

Data concerning change of U. S. M. C. contracts from cost plus or price minus to lump sum, fixed price, or selective price

[Foreword: Data submitted for each contract includes the original contract and all addenda thereto, except where the type of contract is changed by addenda, in which case such addenda are treated as a new or converted contract. Amounts shown for fees and profit are before deduction of any disallowed or nonreimbursable expense]

Original contract

Contract number	MCc-30602.
Date	July 18, 1944.
Purpose (vessels or facilities)	Vessels construction.
Type of contract	Cost plus a fee.
Number and type of vessels to be constructed	65 design VC2-S-AP2.
Minimum fee or profit for contract	$2,405,000.00.
Maximum fee or profit for contract	$6,500,000.00.

	Converted to	From MCc-30602	From MCc-15762
Contract number	MCc-36452.		
Date	Apr. 1, 1945.		
Type of contract	Selective price.		
Number and type of vessels—Design VC2-S-AP2	110	65	45
Vessels completed	53	14	39
Equivalent vessels in process	29.745	24.479	5.266
Equivalent vessels to be completed	27.255	26.521	.734
Keels laid at Mar. 31, 1945	80.		
Minimum fee or profit for contract	0.		
Maximum fee or profit for contract based on prices available for selection.	$12,951,100.00.		
Actual fee or profit, if determined	$12,524,500.00.		

Remarks: 45 AP2 vessels were transferred to MCc-36452 from MCc-15762. Minimum profit is shown as zero, although it was entirely possible for the Contractor to sustain a loss under the selective-price contract.

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Mr. COLES. Were any of the contracts of the Oregon Shipbuilding Company on a fixed price or selected-price basis changed from the former basis?

Mr. COLES. Will you give us all the changes for the record?

Attached please find schedules showing all contracts of Oregon Shipbuilding Corp. which were converted from one type of contract to another.

As has been mentioned before, early in 1944 the Maritime Commission and other Government agencies adopted a policy of converting all existing cost-plus-fixed-fee contracts to fixed-price or selective-price contracts wherever possible and a policy of letting all new war contracts on a fixed-price basis.

Following the adoption of this policy, discussions between the shipbuilding contractors and Commission representatives were carried on over a period of about 9 months but, due to numerous procedural and administrative difficulties, the actual conversion of contracts lagged. Finally, in December 1944, the Commission, in order to force the issue, went so far as to send wires to all shipbuilding contractors, stating that further contracts were anticipated but they would only be awarded on a fixed-price basis.

This necessitated immediate conversion of existing contracts, it being recognized by all concerned that it would be impracticable for any one yard to construct the same type of ship under cost-plus-fixed-fee contracts and fixed-price contracts at the same time since the problems of inventory controls and cost allocations between the two types of contracts would have been practically insurmountable.

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Therefore, in order to effectuate the policy requirements of the Maritime Commission in an orderly manner, it was necessary to approach the conversion of contracts in stages as follows:

(*a*) All existing cost-plus-fixed-fee contracts at a given yard which had only recently been entirely completed were converted to lump-sum contracts. In making this conversion, the lump sum was made up of recorded costs to a given date which had been audited and approved by the Maritime Commission and were either audited or available for audit by the General Accounting Office, plus the fee actually earned by the contractor in the performance of the cost-plus-fixed-fee contract, whether minimum, maximum, or somewhere between these limits.

These conversions were only made to carry renegotiation into effect and, as a part of the transaction, any excessive profits which were found were eliminated and the lump sum contracts evidenced the renegotiation settlement as finally agreed upon.

As a part of the above procedure, the amount of disallowed costs to the date of the renegotiation settlement was definitely settled and fixed although in every instance we were required to forego certain costs which we believed to be reimbursable under the law and regulations. For example, the Maritime Commission flatly refused to allow other than a negligible amount of capital-stock taxes paid by the company which amounted to a sizable sum. The United States Court of Claims has recently held that all such capital-stock taxes are reimbursable costs under the law and cost-plus-fixed-fee regulations. The contracts of Oregon Shipbuilding Corp. falling within the category mentioned in this subparagraph (*a*) and shown in the attached schedules are MCc–ESP–11, MCc–ESP–595, MCc–596, MCc–7950, MCc–8611, MCc–13101, and MCc–15750.

Through the above conversions to accomplish renegotiation, contractor received exactly the same profit that it was entitled to under the cost-plus-fixed-fee contracts, less amounts recovered by the Government because of the renegotiation, and likewise there were no other advantages accruing to the contractor because of the conversions.

(*b*) The second stage in the conversion involved cost-plus-fixed-fee contracts which had not been completed. As shown on the attached schedules, Oregon Shipbuilding Corp. had two such contracts, bearing Nos. MCc–15751 and MCc–30601, and a letter of intent bearing No. MCc–34763. Contract MCc–15751 originally covered 75 VC2–S–AP3 vessels and 30 VC2–S–AP5 vessels. At the time of conversion, all 30 of the AP5 vessels had been completed and these, together with 32 of the AP3 vessels which had been completed, were included in Addendum No. 3 to said contract, which converted the contract to a lump-sum basis in the same manner as described in subparagraph (*a*) above, except that a contingency allowance was included in the lump sum to cover unknown unrecorded, and contingent costs which might develop after the cost cut-off date used in arriving at the lump sum. This contingency allowance was retained by the Maritime Commission and was payable by the Commission up to but not exceeding the amount thereof only in the event the costs recorded or accruing after the cut-off date were properly reimbursable under cost-plus-fixed-fee cost regulations, and the Commission reserved the right to audit all such costs to determine their reimbursability. This contingency allowance could in no way increase the contractor's profit. Likewise this conversion differed from those mentioned in subparagraph (*a*) in that it was not made as a part of renegotiation.

The remaining vessels originally covered by Contract MCc–15751, MCc–30601, and the letter of intent bearing No. MCc–34763 are discussed below.

(*c*) The remaining 43 AP3 vessels originally covered by MCc–15751, 15 of which had been completed, along with all 20 AP3 vessels originally covered by Contract MCc–30601, work under which had only barely commenced, and all 25 vessels originally covered by letter of intent No. MCc–34763, work upon which had only barely commenced, were all transferred to and included in Definitive Contract No. MCc–34763, a selective fixed-price contract. By including 15 of the AP3 vessels which were completed and had originally been covered by Contract No. MCc–15751, the Commission was able to obtain reasonably accurate cost data on these ships so that it could set realistic maximum and minimum prices for selection by the contractor as a basis for the profit allowance under the selective price contract arrangement. Under the selective fixed-price form of contract a schedule is incorporated in

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the contract specifying various prices of ships between a maximum and minimum and the amount of the profit allowable under such price so specified. For the maximum price, the contractor receives the minimum allowable profit and the lower the price the greater the allowable profit. The contractor is then given the right at any time to select a price to apply on all vessels for which keels have not yet been laid and the allowable profit is fixed according to the schedule, depending upon the price selected. If the contractor selects prices, and costs exceed the prices so selected, a loss may be sustained. Any profit in excess of the profit allowable for the prices selected is recapturable by the Commission. Thus the contractor is not permitted to make more than a maximum allowable profit though taking an unlimited risk of loss.

As mentioned above, at the time of the conversion to selective fixed-price Contract MCc–34763, 15 ships had been completed and keels for 12 others had been laid. Thus a total of 27 ships were commenced or completed. With respect to these 27 ships, the contractor was permitted to select a price for all of them from the schedule in the contract and the contractor selected a price of $2,700,000 each, although the maximum price which could have been selected was $3,300,000. Later the contractor selected a price of $2,550,000 for 35 ships and finally selected a price of $2,325,000, the lowest price under the schedule on the last 13 of the ships, and thereby became entitled to the maximum allowable profit permitted under the contract on these last ships provided costs did not exceed the price selected.

The net results of this conversion were as follows:

1. The contractor had to purchase and assume the risk of all inventory.

2. In selecting a price of $2,700,000 on each of the first 27 ships, the contractor thereby assumed the risk of contingent unknown and unrecorded costs with respect to 15 of said vessels which had been completed and the risk that eventual costs on these ships, as well as costs on the remaining 12 ships covered by the original selection, most of which had barely been commenced, would exceed the price selected. In this connection it should be pointed out that even respecting the ships included in the contract which had been completed, the actual costs were not known and the prices for selection specified in the contract were at best only estimates. From past experience it had been found that additional costs applicable to a particular contract would not become known for as long as 2 years or more after the contract was entirely completed. As an example, due to the number of employees at the various yards, there were innumerable applications which had to be made to the Government agencies for approval of wage and salary adjustments, and the amount eventually payable to employees pursuant to these applications, many of which were retroactive to the date of application, was entirely dependent upon the action of the governmental agency involved. Action on many of these applications was delayed for months so that the determination and payment of actual costs was delayed correspondingly. As another example, delays of years occurred in obtaining final decisions by Government agencies relative to restitution and other matters under the wages-and-hours law.

3. On all of said 27 vessels contractor was entitled to a maximum allowable profit of $116,000 each, if earned, and the excess, if any, was recapturable by the Commission. This amounted to an increased allowable profit of $16,000 over the maximum fee which would have been payable under the original cost-plus-fixed-fee contracts, which maximum fee was being earned by the contractor at the time of conversion.

4. On the next 35 ships contractor selected a price of $2,550,000, and on the remaining 13 ships a price of $2,325,000, the lowest price specified in the contract. For the $2,550,000 price selected, the contractor was entitled to a maximum allowable profit of $134,700, $34,700 per ship in excess of the maximum fee allowable under the cost-plus-fixed-fee contracts, and for the ships subject to the price of $2,325,000, the contractor became entitled to a maximum allowable profit of $162,750, the highest permissible profit under the contract, which was $62,750 more than the maximum fee permissible under the original cost-plus-fixed-fee contract. At these lower prices, the risk of loss was, of course, greatly increased.

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5. As shown by the schedules attached, certain ships were cancelled out of the contract and others of a different type were added, so that in all a total of 74 ships have been or will be completed under the contract. The last three of the ships have not yet been completed and delivered.

In consideration of an increase in the maximum allowable profit applicable to the lower brackets of the price schedule under the selective-price contract over and above the maximum fee which would have been payable under the cost-plus-fixed-fee contracts, the Government benefited as follows:

(*a*) All risk of loss is transferred to the contractor.

(*b*) The Government obtained cheaper ships, as illustrated by the fact that the contractor selected and constructed ships at prices considerably below those believed possible at the time of the original conversion.

(*c*) The Government obtained a fixed price without the usual corresponding benefit to the contractor of unlimited profit through lowered costs, since the profit allowance was fixed at a maximum and anything in excess was recapturable. From indications to date it appears that said recapturable profits may amount to in excess of $2,000,000 when finally settled.

(*d*). The Government saved in expenses of the Maritime Commission through reduced auditing costs.

(*e*) Greater production speed was accomplished through elimination of necessity for prior approvals of all purchases. In this connection it was once estimated at a comparable yard that it required an average of 7 days to obtain all necessary approvals to purchase under cost-plus-fixed-fee contracts.

Schedule No. D10

OREGON SHIPBUILDING CORP., PORTLAND, OREG.

OCTOBER 16, 1946.

Data concerning change of U. S. M. C. contracts from cost plus or price minus to lump sum, fixed price or selective price

[Foreword: Data submitted for each contract includes the original contract and all addenda thereto, except where the type of contract is changed by addenda, in which case such addenda are treated as a new or converted contract. Amounts shown for fees and profit are before deduction of any disallowed or nonreimbursable expense]

Original Contract

Contract number	MCc-15751.
Date	April 20, 1943.
Purpose (vessels or facilities)	Vessels construction.
Type of contract	Cost plus fee.
Number and type of vessels to be constructed	75 Design VC2-S-AP3. 30 Design VC2-S-AP5.
Minimum fee or profit for contract	$4,575,000.00.
Maximum fee or profit for contract	$12,300,000.00.

Converted To

Contract number	MC-15751—Addendum 3.
Date	March 1, 1945.
Type of contract	Lump sum.
Number and type of vessels	32 Design VC2-S-AP3. 30 Design VC2-S-AP5.
Vessels completed	62.
Equivalent vessels in process	
Equivalent vessels to be completed	
Minimum fee or profit for contract	$1,360,000.00.
Maximum fee or profit for contract	$7,072,000.00.
Actual fee or profit, if determined	$7,072,000.00.

Remarks: 43 AP3 vessels transferred from Contract MCc-15751 to contract MCc-34763.

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Schedule No. D11

OREG SHIPBUILDING CORP., PORTLAND, OREG.

OCTOBER 16, 1946.

Data Concerning Change of U. S. M. C. Contracts From Cost Plus or Price Minus to Lump Sum, Fixed Price, or Selective Price

[Foreword: Data submitted for each contract includes the original contract and all addenda thereto, except where the type of contract is changed by addenda, in which case such addenda are treated as a new or converted contract. Amount shown for fees and profit are before deduction of any disallowed or nonreimbursable expense]

Original contract

Contract number	MCc-30601.
Date	July 18, 1944.
Purpose (vessels or facilities)	Vessels construction.
Type of contract	Cost plus a fee.
Number and type of vessels to be constructed	20 Design VC2-S-AP3.
Minimum fee or profit for contract	$740,000.00.
Maximum fee or profit for contract	$2,000,000.00.

Converted to

Contract number	MCc-34763. (See sheet on MCc-34763 for detail.)
Date	
Type of contract	
Number and type of vessels	
Vessels completed	
Equivalent vesels in process	
Equivalent vessels to be completed	
Minimum fee or profit for contract	
Maximum fee or profit for contract	
Actual fee or profit, if determined	

Remarks: ———.

Schedule No. D12

OREG SHIPBUILDING CORP., PORTLAND, OREG.

OCTOBER 16, 1946.

Data Concerning Change of U. S. M. C. Contracts From Cost Plus or Price Minus to Lump Sum, Fixed Price, or Selective Price

[Foreword: Data submitted for each contract includes the original contract and all addenda thereto, except where the type of contract is changed by addenda, in which case such addenda are treated as a new or converted contract. Amounts shown for fees and profit are before deduction of any disallowed or nonreimbursable expense]

Original contract

Contract number	MCc-34763 (letter of intent).
Date	December 29, 1944.
Purpose (vessels or facilities)	Vessels construction.
Type of contract	Not specified.
Number and type of vessels to be constructed	25 Design VC2-S-AP3.
Minimum fee or profit for contract	Not specified.
Maximum fee or profit for contract	Not specified.

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	Converted to	From letter of intent	From MCo-15751	From MCo-30601	Addendum 1 July 19, 1945	Cancellation, Aug. 14, 1945	Addendum 3, Dec. 63, 1945
Contract number	MCo-34763.						
Date	Mar. 1, 1945.						
Type of contract	Selective price.						
Number and type of vessels	67 VC2-S-AP3	25	43	20	[1] 12	[1] 9	------
	4 VC2-S-AP5	------	------	------	12	[1] 8	------
	3 VC2-S1-AP7	------	------	------	------	------	3
Vessels completed at Mar. 1, 1945	15 VC2-S-AP3	------	15	0	------	------	------
	0 VC2-S-AP5	------	------	------	------	------	------
	0 VC2-S1-AP7	------	------	------	------	------	------
Equivalent vessels in process at Mar. 1, 1945.	20.173 VC2-S-AP3	0.077	17.243	2.853	------	------	------
	VC2-S-AP5	------	------	------	------	------	------
	VC2-S1-AP7	------	------	------	------	------	------
Equivalent vessels to be completed at Mar. 1, 1945.	31.827 VC2-S-AP3	24.923	10.757	17.147	[1] 12	[1] 9	------
	4. VC2-S-AP5	------	------	------	12	8	------
	3. VC2-S1-AP7	------	------	------	------	------	
Minimum fee or profit for contract	0.						
Maximum fee or profit for contract	$11,168,750.00.						
Actual fee or profit if determined	Not determined.						

[1] Red figures.

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Schedule No. 13

OREGON SHIPBUILDING CORP., PORTLAND, OREG.

OCTOBER 16, 1946.

DATA CONCERNING CHANGE OF U. S. M. C. CONTRACTS FROM COST PLUS OR PRICE MINUS TO LUMP SUM, FIXED PRICE, OR SELECTIVE PRICE

[Foreword: Data submitted for each contract includes the original contract and all addenda thereto, except where the type of contract is changed by addenda, in which case such addenda are treated as a new or converted contract. Amounts shown for fees and profit are before deduction of any disallowed or nonreimbursable expense]

Original contract

Contract number	MCc-ESP-11.	MCc-ESP-595.	MCc-ESP-596.	MCc-7950.	MCc-8611.	MCc-13101.	MCc-15750.
Date	Mar. 14, 1941.	May 1, 1941.	Jan. 17, 1942.	May 8, 1942.		Dec. 24, 1942.	Apr. 20, 1943.
Purpose	Vessels.	Vessels.	Vessels.	Vessels.	Vessels.	Vessels.	Vessels.
Type of contract	Cost plus.	Cost plus.	Cost plus.	Cost plus.	Cost plus.	Cost plus.	Cost plus.
Number and type of vessels	31 EC2.	12 EC2.	88 EC2.	42 EC2.	8 EC2.	96 EC2.	53 EC2.
Minimum fee or profit for contract	$1,860,000.00.	$720,000.00.	$5,280,000.00.	$2,520,000.00.	$480,000.00.	$2,880,000.00.	$1,060,000.00.
Maximum fee or profit for contract	$4,340,000.00.	$1,680,000.00.	$12,320,000.00.	$5,880,000.00.	$1,120,000.00.	$6,720,000.00.	$3,180,000.00.

Converted to

Contract number	MCc-ESP-11.	MCc-ESP-595.	MCc-ESP-596.	MCc-7950.	MCc-8611.	Add. No. 2.	Add. No. 2.
Date	Feb. 23, 1944.	Feb. 23, 1944.	Feb. 23, 1944.	Feb. 23, 1944.	Feb. 23, 1944.	Oct. 25, 1944.	Oct. 25, 1944.
Type of contract	Lump sum.	Lump sum.	Lump sum.	Lump sum.	Lump sum.	Lump sum.	Lump sum.
Number and type of vessels	31 EC2.	12 EC2.	88 EC2.	42 EC2.	8 EC2.	96 EC2.	53 EC2.
Vessels completed	31.	12.	88.	42.	8.	96.	53.
Minimum fee or profit for contract							
Maximum fee or profit for contract							
Actual fee or profit of determined	$3,700,470.00	$1,432.440.00	$8,498.740.00	$3.360,000.00	$480,000.00	$6,420,000.00	$3,180,000.00

Agreement MCc-26699 which effected renegotiation of contracts MCc-ESP-11, MCc-ESP-595, MCc-ESP-596, MCc-7950, and MCc-8611, also changed those contracts from cost plus to lump sum for cost recorded as of January 31, 1944.

Addenda No. 2, respectively, to contract MCc-13101 and MCc-15750, together with agreement MCc-35658, dated October 25, 1944, effected renegotiation of those contracts and also changed them from cost plus to lump sum for costs recorded as of June 30, 1944.

Renegotiation and conversion of these contracts was made at a date subsequent to the completion of the vessels constructed thereunder. The conversion to lump sum for cost was only for cost recorded as of a specific date, which cost had been audited and approved by the United States Maritime Commission and was either audited or available for audit by the General Accounting Office.

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Mr. KAISER. This is in further answer to the letter of Congressman Woodruff, read into the record by Congressman Bradley.

Congressman Woodruff does not appear to have the complete picture regarding the pledging of ship earnings as collateral for RFC loans.

Three, only, of the shipbuilding companies in which I was interested had loans with RFC and assigned shipbuilding earnings as collateral to RFC. It appears that Congressman Woodruff has included in his statements several other companies of entirely different ownership whose earnings were never pledged to RFC.

Here are the facts:

Permanente Metals Corp. borrowed a total of $28,475,000 from RFC, beginning early in 1941, for the construction and operation of a wartime magnesium plant and appurtenant facilities. This loan has been repaid in full, with interest at 4 percent. The shipyard earnings of Permanente Metals were assigned in writing by documents drawn up by the RFC legal department and adequately protected the Government. In addition, all other earnings were assigned and RFC held a mortgage on the facilities.

Kaiser Cargo, Inc. (Fleetwings), borrowed a total of $1,000,000 from RFC under similar conditions. This loan has long since been repaid in full, with interest at 4 percent.

Kaiser Co., Inc., borrowed in wartime a total of $111,805,000 from the RFC for the construction and operation of a sorely needed west-coast steel plant. The earnings from three Kaiser Co., Inc., operated shipyards, viz, Swan Island (Portland, Ore.), Vancouver (Vancouver, Wash.) and Richmond No. 3 (Richmond, Calif.) were assigned as collateral to RFC in addition to steel-plant earnings and a mortgage to RFC on the facilities. RFC specified in legal documents the terms and conditions under which the shipyard earnings of Kaiser Co., Inc., were to be paid directly to RFC. Payments to RFC in accordance with these written agreements have been made and will continue to be made in accordance with those written agreements.

I only resorted to an RFC loan for the steel plant after all my efforts to have the Government build the west-coast steel plant had been defeated. The shortage of steel was very acute then and was sorely needed for wartime ship construction and other war purposes. The Government had authorized over a billion dollars for steel expansion, including the $200,000,000 plant for U. S. Steel at Geneva, Utah, but I was excluded from this favored list. Even though Fontana was a wartime plant, built in wartime at high cost, and built as a one-purpose plant to produce primarily steel plate, and even though I was forced to use a costly obsolete method, because I could not obtain the priorities for modern equipment, I nevertheless proceeded to take the obligation to build the plant and produce the needed wartime steel. The wartime costs of the plant have been clearly proven by the prices obtained for surplus Government-owned plants, particularly the plant at Geneva, Utah, which was told to U. S. Steel last May at an 80-percent discount of its wartime cost, or at a sales price of 20 cents on the dollar.

No interest was charged U. S. Steel for this 80 percent or $160,000,000 write-down of the wartime cost of the plant. Kaiser Co. is still obligated to pay the full wartime cost of 100 cents on the dollar for the Fontana plant even though interest has been waived on a portion, approximately $34,000,000, which RFC arbitrarily set up as due to wartime costs. Perhaps the $160,000,000 write-down to U. S. Steel of this Geneva plant is really the typical "get-rich-quick U. S. Steel style" at the expense of the taxpayers.

Congressman Woodruff's reference to the refinancing of this Fontana steel plant RFC loan is wholly unfair and at variance with the facts. All of the shipyard earnings assigned as collateral to RFC from the three Kaiser Co., Inc., operated yards have been paid or will shortly be paid directly to RFC in accordance with all agreements. The amounts assigned were not in excess of the loans as stated by Congressman Woodruff.

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Mr. WEICHEL. Did you or your group at any time have a brief prepared by attorneys covering the matter that you did not believe that your contracts should be checked by the General Accounting Office? Did you have such a brief prepared and sent into the Maritime Commission?

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Mr. WEICHEL. And did you later submit a bill for reimbursement for attorneys' fees covering that?

Mr. KAISER. We never had a brief prepared to the effect that our contracts should not be checked by the General Accounting Office. I believe you must have reference to an opinion which was prepared by counsel for Oregon Shipbuilding Corp. regarding approvals by the Maritime Commission. The facts in connection with this opinion are as follows:

On July 12, 1941, Mr. J. A. Honsick, who was then Chief of the Construction Audit Section of the Division of Finance of the Maritime Commission, wrote a letter to Oregon Shipbuilding Corp., which contained the following statement: "It is noted that both the vendor's invoice and expense voucher forms have printed thereon a place for approval by United States Maritime Commission representatives and that the expense voucher form is marked for the approval of the resident plant engineer. We request that these be deleted from both forms when next printed as it is impossible for any United States Maritime Commission representative to approve other than purchases, and then only as to necessity and price. Any other approval, which is contingent upon final action by the General Accounting Office and therefore invalid, only serves to complicate matters."

It is to be noted that Mr. Honsick took the position in this letter that the General Accounting Office and not the Maritime Commission would pass finally on the items under the contracts which would be reimbursable as costs. This matter was of very great importance to Oregon Shipbuilding Corp. It was making expenditures and incurring costs amounting to millions of dollars. A part of these required prior approval by the Commission's representatives. If the position taken in Mr. Honsick's letter was correct, the approval of the Commission's representatives was not final and the company would, therefore, be in a position where it might expend millions of dollars after approval by the representatives of the Commission and in reliance thereon, and then later have these same costs disallowed by the Comptroller General as improper. Under the circumstances, it was imperative that the matter be clarified and, therefore, Oregon Shipbuilding Corp. referred the matter to its counsel for an opinion. Counsel rendered an opinion to the effect that it was the duty and obligation of the Maritime Commission under the law and the contracts to decide what costs were reimbursable and what costs were not reimbursable and that if the Commission decided that a cost was reimbursable, such a decision could not be reversed by the Comptroller General. It was recognized in this opinion, however, that the Comptroller General has the right to audit the accounts of the Commission but his power is confined to auditing the Commission's accounts and does not extend to disallowing costs which the Commission had previously approved and allowed as reimbursable.

This opinion was based upon a number of decisions of the United States Supreme Court and the Court of Claims. At a later conference between officials of Oregon Shipbuilding Corp. and Admiral Vickery and Mr. J. E. Schmeltzer, of the Maritime Commission, it was requested that Oregon Shipbuilding Corp. submit its views in writing and, based upon the opinion which had been rendered by counsel, a letter on the subject was written to the Commission.

Again it should be pointed out that the company did not and has never taken the position that the General Accounting Office should not check the contracts or audit the accounts of the Maritime Commission relating to the contracts. The company only took the position that under the contracts and the law it was the duty of the Commission and not the General Accounting Office to determine what were and what were not reimbursable costs under the contracts.

Attorneys for Oregon Shipbuilding Corp. submitted a bill for $697.50 for the above-mentioned opinion. We believe this was a proper cost of performing the contracts and consequently the bill was presented to the Maritime Commission for payment, but was disallowed, and has never been reimbursed.

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KAISER CO., INC.

1522 Latham Square Building, Oakland 12, Calif.

WASHINGTON 6, D. C., *November 12, 1946.*

Mr. MARVIN J. COLES,
Counsel, House Merchant Marine Committee,
Old House Office Building, Washington, D. C.

MY DEAR MR. COLES: The stenographic transcript of the September hearings shows that, after Mr. Kaiser had completed his testimony, members of the committee expressed some doubt regarding the accuracy of Mr. Kaiser's statement that the Kaiser-managed shipyards saved the Government approximately $250,000,000 on the construction of Liberty ships.

We would therefore greatly appreciate it if you could print this letter, as part of the record of the hearing, so that the committee will have before it the facts on the basis of which Mr. Kaiser's statement was made.

Mr. Kaiser's statement was based on information contained in the report of the Truman committee on construction of ships and shipyards up to June 1, 1944. The statement was that the Kaiser yards built Liberty ships and shipyards at considerably less than the *average* cost for all Liberty shipbuilders, and thereby saved the Government more than $250,000,000 over what the same ships and shipbuilding facilities would have cost if they had been built at the *average* cost for all other shipbuilders. It was not claimed then, nor is it now claimed, that the Kaiser shipyards produced ships at a lower cost per ship than any other shipyard.

The figures supporting the above claim of savings, based on the Truman report, are as follows:

COST OF SHIPYARD FACILITIES PER LIBERTY SHIP PRODUCED

	Total cost of Liberty yards to June 1, 1944	Number Libertys built to June 1, 1944	Average cost per Liberty ship of Liberty yards to June 1, 1944
Other Liberty yards	$180,076,262	1,330	$135,396
Kaiser Liberty yards	40,440,000 [1] 5,506,500		
	45,946,500	807	56,935
Saving per Liberty ship			78,461
Total saved Government by Kaiser yards on Liberty shipyards alone, to June 1, 1944 ($78,461×807)			63,318,027

[1] Cost of Richmond Yard I purchased from British, which was omitted from Truman reports.

AVERAGE COST OF LIBERTY SHIPS PRODUCED, BASED ON "BUILDERS' COST"

Other Liberty yards	$1,374,964,877	1,330	$1,033,808
Kaiser Liberty yards	631,594,020	807	782,644
Saving per Liberty ship			251,164
Total saved Government by Kaiser yards on Liberty ships alone, to June 1, 1944 ($251,164×807)			202,689,348

SUMMARY

Total saved on shipyards, based on Liberty ships produced to June 1, 1944	$63,318,027
Total saved on costs of Liberty ships produced to June 1, 1944	202,689,348
Total saved on Liberty ships and shipyards by Kaiser to June 1, 1944	266,007,375

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It is, of course, well known that additional Liberty ships were built after June 1, 1944, but no comparative figures on identical ship costs were available, at the time the statement in question was made, on the cost of these additional ships.

After Mr. Kaiser had testified before this committee, additional cost data were given to the committee by Mr. Slattery, of the Maritime Commission, going past June 1, 1944, and covering the entire Liberty-ship program. Mr. Slattery's figures referred only to the cost of ships built and did not add any information to the data on facilities costs contained in the Truman committee report. However, since all facilities were largely completed before June 1, 1944, no substantial change in facilities cost figures is likely. Using the new figures introduced by Mr. Slattery on ship costs, the above tabulation can be revised as follows:

Average cost of Liberty ships produced, based on "builders' cost"

	Total cost	Number of ships	Average cost
Other Liberty yards	$1,808,791,984	1,759	$1,028,306
Kaiser yards	673,998,250	821	820,947
Saving per Liberty ship			207,359
Total saved ($207,359×821)			170,241,739

SUMMARY

Total saved on shipyards to June 1, 1944	$63,318,027
Total saved on Liberty ships to end of program	170,241,739
Total saved on Liberty ships and shipyards by Kaiser	233,559,766

Mr. Kaiser has never stated, before this committee or elsewhere, that the Kaiser-managed yards built Liberty ships at a lower average cost per ship than any other yard. There is one shipyard, operated by North Carolina Shipbuilding Co., which produced Liberty ships at a lower average cost per ship than the Kaiser-managed yards. On the same basis that the Kaiser-managed yards saved the Government $170,241,739 on building Liberty ships, North Carolina likewise saved money for the Government. Their average cost per Liberty ship as given by Mr. Slattery is $651,793, which is $326,473 below the average for all other Liberty shipbuilders, $978,266. The total saved for the 126 ships which they built is $41,135,598.

Without attempting to detract in any way from the magnificent job done by North Carolina Shipbuilding Co., it should be pointed out that the differential in cost between Kaiser-managed shipyards and the North Carolina Shipbuilding Co. is attributable in part to the difference in labor rates between the Atlantic coast and the Pacific coast.

As was brought out by Congressman Herter's questions at the hearings, the average costs of the west-coast shipyards would be substantially reduced after adjustment for the labor differential. It is our understanding that the size of the differential is being computed by the Maritime Commission at the committee's request.

Sincerely yours,

CHAD F. CALHOUN,
Vice President, Kaiser Co., Inc.

KAISER CO., INC.
1522 Latham Square Building, Oakland, Calif.

WASHINGTON 6, D. C., *November 16, 1946.*

MARVIN J. COLES, Esq.,
Counsel, House Merchant Marine and Fisheries Committee,
Room 228, Old House Office Building, Washington, D. C.

DEAR MR. COLES: We have just seen for the first time the memorandum dated July 17, 1945, signed by T. H. Reavis, General Accounting Office, which appears as part of exhibit 36 in the printed appendix to the record of the committee's hearings on shipyard profits. The memorandum deals with the selective-price type of contract employed by the Maritime Commission, and gives several examples of the prices selected by various contractors.

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We would like to call your attention to an error in this memorandum.

In discussing the prices selected by various contractors on contracts for building type VC-2S-AP2 vessels, the memorandum states that California Shipbuilding Co., Los Angeles, Calif., selected a price of $2,175,000 per vessel, while Permanente Metals Corp., Richmond, Calif., selected a price of $2,550,000 for the same type of vessel. The memorandum then comments on this fact as follows:

> "Note Kaiser Co., at Los Angeles, Calif., selected a price of $2,175,000 per vessel whereas the Kaiser Co., at Richmond, Calif. (San Francisco), selected a price of $2,550,000 for vessels of the same design."

Presumably, the phrase "Kaiser Co., at Los Angeles, Calif." refers to California Shipbuilding Co.

As Mr. Kaiser and Mr. John A. McCone, president of California Shipbuilding Co., testified on several occasions before the committee, the Kaiser interests never participated actively in the management of the shipyards operated by California Shipbuilding Co. Those shipyards were managed throughout the war by the Bechtel-McCone interests, and the operating officers were selected from the W. A. Bechtel Co. and the Bechtel-McCone Corp. The yard was not at any time a Kaiser-managed operation.

The Kaiser interests did own stock in California Shipbuilding Co. until April 1945, but their stock holdings never exceeded 16.6 percent of the total stock outstanding. In April 1945 Kaiser interests disposed of their stock holdings in California Shipbuilding Co., under the circumstances set forth in my letter to you dated September 19, 1946, which is printed as exhibit 3 in the appendix.

Since the memorandum prepared by Mr. Reavis has been made a part of the record, we feel sure that, in the interests of accuracy, you will want to have this letter printed in the record immediately following the memorandum.

Sincerely,

CHAD F. CALHOUN,
Vice President, Kaiser Co., Inc.

BOOKLET ENTITLED "FACTS IN BRIEF ABOUT HENRY J. KAISER"

Preface

The Bland committee[1] has asked certain questions of Kaiser-managed companies, in writing, which have been answered in full. On or after September 23, 1946, Henry J. Kaiser is to appear personally before the Bland committee.

Committee hearings, with time limitations thereon, do not always raise questions which develop complete facts. Information contained in this booklet, therefore, is being presented to the Bland committee as supplementary material.

Mr. Kaiser is intent upon full public disclosure of prewar, wartime, and postwar Kaiser-managed activities. To this end, this brief booklet has been prepared to record the facts for every person interested, as well as for the Bland committee.

SEPTEMBER 19, 1946.

Hon. SCHUYLER O. BLAND,
Chairman, House Merchant Marine and Fisheries Committee,
Washington, D. C.

DEAR JUDGE BLAND: Attached is a document to be presented by me to the Committee on Merchant Marine and Fisheries. The document, in summary, establishes these facts:

1. *War Production.*—During the war Kaiser enterprises produced, in addition to many other products and services:

Ships	number	1,490
Steel ingot	tons	1,236,000
Magnesium ingot	pounds	20,595,528
Incendiary material	do	82,000,000
Aircraft, parts and accessories	worth	73,000,000
Bulk cement for Pacific war theater installations	do	15,000,000

[1] House Merchant Marine and Fisheries Committee; Schuyler Otis Bland, chairman, which is now investigating the World War II shipbuilding program.

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2. *Dollar savings to the Government.*—Compared with costs of items produced by other companies, Kaiser enterprises engaged in war production saved the Government, according to accurate available comparisons:

On Liberty ships and shipyards to June 1, 1944	$266,007,000
On magnesium metal	7,000,000
On incendiary material	15,000,000
On steel	170,469,000
On bulk cement	7,448,000
Total of partial savings	465,924,000

3. *Time saved on war production.*—The speed of Kaiser operations was of incalculable value to the war effort. In the building of 819 Liberty ships alone, Kaiser saved more than one-third the time required, on the average, by other Liberty shipbuilders, Maritime Commission progress reports show that—

Average days saved per Liberty ship constructed by Kaiser, over the average of all other Liberty shipbuilders	27.26 days.
Additional time it would have taken others to build 819 Liberty ships on the same 30 shipways operated by Kaiser	2 years, 14 days.

4. *Financing.*—Kaiser enterprises were never, and are not now, financed in disproportionate amounts by the Government. All prewar operations were financed by private capital.

Kaiser's prewar volume of business totaled	$383,000,000
Private operating funds used in wartime shipbuilding alone were	32,000,000

Most Kaiser war projects were privately financed. Fontana steel, Permanente magnesium, and Fleetwings aircraft were partially financed by RFC loans, on bankers' terms. For these three, Kaiser borrowed a total of $152,780,000. Two of these loans, totaling $29,475,000 were fully repaid with interest *6 years ahead of time.* On the one loan remaining, $27,227,220 has been paid and $15,600,000 is now set aside for payment when due.

5. *Profits.*—The combined net profits of the corporations operating the seven Kaiser-managed shipyards during wartime amounted to less than one-tenth of 1 percent of dollar volume including materials costs, after taxes and after deducting losses of Kaiser Co., Inc., which built and operated Fontana to produce wartime steel for ships and shells. Kaiser enterprises performed over $210,000,000 of construction for the Government without fee or profit, including $125,000,000 worth of shipyards. Many other activities were without fee or profit, including 7 months' management of the Brewster Aeronautical Corp. for the Navy.

6. *Favoritism.*—Neither Kaiser nor any enterprises with which he was associated were the objects of Government favoritism. On the contrary, obstacles were often placed in Kaiser's way, and more onerous burdens and terms imposed upon him than upon other enterprises with which his were comparable.

7. *Postwar production.*—Today Kaiser enterprises, *privately financed,* are producing in quantity a great variety of products sorely needed by our economy: aluminum, automobiles, homes, home appliances, cement, building materials, and many other products.

In summary: great war production, great savings in time and dollars, comparatively small Government financing, small profits, no favoritism. On this record Kaiser enterprises stand . . . and look forward to a great future.

Sincerely yours,

HENRY J. KAISER.

SECTION I. WAR SAVINGS

WAR SAVINGS

Question 1. *Did Henry J. Kaiser's wartime operations cost too much?*

Answer. In reply, let these figures speak. They show only a part of what Kaiser-managed operations saved the U. S. Government in wartime:

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Summary of partial savings

	Saved
On Liberty ships and shipyards to June 1, 1944	$266,007,000
On magnesium metal	7,000,000
On incendiary goop	15,000,000
On steel	170,469,000
On bulk cement	7,448,000
Total	465,924,000

These savings are merely indicative. They do not include millions saved in other war construction performed by Kaiser interests without fee or profit. They do not include operating deficiencies on child-welfare centers paid for by Kaiser out of shipyard earnings. They do not include savings effected at the Brewster aircraft plant, or any losses sustained by Kaiser on his health and welfare programs.

Liberty Ship Program[1]

Average cost per ship in 12 other Liberty yards, including cost per ship of shipyards	$1,169,204	
Average cost per ship in 3 Kaiser Liberty yards, including cost per ship of shipyard	839,579	
Saved per ship	329,625	
Total saved U. S. Government on 807 Liberty ships built by Kaiser to June 1, 1944, at $329,625 per ship		Saved $266,007,000

[1] Source for computations: Truman committee reports to 78th Cong., Rept. No. 10, pts. 8 and 18. These reports cover investigation of Liberty ship program to June 1, 1944. (See sec. II, question 22, for computations.)

MAGNESIUM METAL

Cost per pound to Government for magnesium ingot produced by Government plants during war, including plant investment and interest, from	70.3 Cents to 116.1	
Cost per pound to Government for magnesium ingot produced during war by Kaiser's Permanente plant	33.8	
Savings to Government on ingot produced by Permanente (total of 20,597,528 pounds) from $7,000,000 to		Saved $17,000,000
Interest paid to Government on Permanente magnesium plant investment	$3,262,000	

INCENDIARY GOOP[2]

During war, Permanente produced over 82,000,000 pounds of incendiary "goop" material, which it delivered to the Government for	$15,000,000	
A synthetic product containing like quantities of magnesium powder made from ingot, plus chemicals and oils thoroughly mixed would have cost the Government at least[3]	30,000,000	
Savings to the Government because of Permanente goop, at least		Saved $15,000,000

[2] Permanente originated, developed, and was the only plant in America capable of producing this special material, which contained 24,000,000 pounds of a miscroscopically fine magnesium dust.
[3] Based upon actual quotations received by Permanente Metals Corp.

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STEEL

2 steel plants were built in the West during the war to supply needed steel for ship construction:

Geneva, Utah, plant (Government owned).

Fontana plant (privately owned by Kaiser interests).

Geneva plant cost U. S. Government [4]	$191,210,000
Geneva plant sold to U. S. steel for [4]	40,000,000
Loss	151,210,000
Less: Operating income (before depreciation)	8,109,000
	143,101,000
Interest lost [5]	19,121,000
Total net U. S. Government loss on Geneva facilities	162,222,000
Geneva produced, to June 1946, 1,148,600 tons of steel ingot; above loss, per ton of steel ingot, equal to	141
Fontana plant cost U. S. Government	0
Fontana produced 1,209,000 tons of steel ingot for war (prior to Aug. 31, 1945); compared with Geneva costs, Fontana savings to Governmnt were ($141×1,209,000) [6]	*Saved* $170,469,000

[4] Source: Surplus Property Subcommittee Report on War Plants Disposal, Acceptance of Bid of U. S. Steel Corporation for Geneva Plant.

[5] No interest was received by Government for investment made at Geneva. At 4 percent per annum (the rate paid by Fontana) during 2½ years, such interest would have amounted to approximately $19,121,000.

[6] (1) In addition to the above comparative savings, Fontana has paid interest to RFC of $9,383,000. (2) A similar comparison with Geneva could be made by other privately owned plants. What makes Kaiser's case unique is that he was forced to take the private risk to build Fontana during wartime and for war purposes. (3) The $170,469,000 saving indicated above will be reduced by the amount the Government may adjust the Fontana loan.

BULK CEMENT [7]

Average cost per barrel of sacked cement delivered to Pacific war theater	$3.1534
Average cost per barrel of bulk cement delivered by Permanente to Pacific war theater	2.12
Saved per barrel of bulk cement	1.0334
Savings on Permanente bulk cement delivered to Pacific war theater (7,207,487 barrels, at $1.0334)	*Saved* $7,448,000

[7] Permanente furnished all the bulk cement to the Pacific war theater. In the above figures, tremendous savings in ship-hours are not shown, nor are the savings in man-hours which resulted from bulk handling. In dollars, the man-hour savings alone can be conservatively estimated at double the above figures.

SECTION II. KAISER ENTERPRISE AT WAR

WAR ASSOCIATES

Question 1. *With whom was Kaiser associated and who was associated with Kaiser in his wartime projects?*

Answer. J. F. Shea Co., Inc., Utah Construction Co., Walsh Construction Co., Morrison-Knudsen Co., Inc., Pacific Bridge Co., MacDonald & Kahn, Inc., W. A. Bechtel Co., Bechtel-McCone Corp., General Construction Co., Brown & Root-Bellows, Howard R. Hughes, Todd Shipyards Corp., and others.

FAVORITISM OR DISCRIMINATION

Question 2. *Are critics correct when they call Henry J. Kaiser "the coddled darling of the New Deal?"*

Answer. To answer that question fully, the following questions and answers contain some excellent examples of wartime Government reaction to Kaiser enterprise:

Question 3. *Was Kaiser favored by the Government in the steel industry?*

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Answer. No. The steel industry did not deliver enough steel for Kaiser's shipbuilding program. Kaiser, through 1940 and 1941, repeatedly urged construction of an integrated steel plant on the Pacific coast at Government expense. All his proposals were denied. Instead, the Government put $200,000,000 into a DPC plant at Geneva, Utah. In 1942, Kaiser was forced to borrow RFC funds at his own risk and at 4 percent interest to get the needed steel plant built. As security, he pledged not only the plant but plant earnings and all earnings of three shipyards operated by Kaiser Co., Inc.

Question 4. *Why does Kaiser say he was discriminated against and forced to borrow money to build a needed steel plant?*

Answer. After Pearl Harbor, Kaiser renewed his proposals. He was referred to William Allen, adviser to Jesse Jones. Allen turned down Kaiser's proposals completely. Later, in sworn testimony before the board of supervisors in San Bernardino County, Calif., Mr. Allen stated:

"In 1941 I was retained by Mr. Jesse Jones of the RFC as steel consultant to him, charged with the responsibility of negotiating for the Defense Plant Corporation of all the steel expansion that was contemplated in this country."

He further stated in his evidence:

"Now, it was maintained by those who visited Washington that the future industrial development of the Pacific coast made it essential that steel from raw materials * * * be produced on the Pacific Coast."

Continuing sworn testimony, he said:

"We then approached various steel companies whom we thought perhaps were best able to carry that venture out. I think, almost without exception, those steel companies who were familiar with the territory and large enough to carry out a large program of this kind on the Pacific coast, were very loathe and unwilling to do it."

Allen added:

"I was unwilling to approve the building of a blast furnace plant for using iron ore and coals of this district, if some other method could be found to supply the Pacific coast with steel."

And Allen stated:

"The Columbia Steel Co. [Editor: Subsidiary of United States Steel] was a going organization that had been making steel for years, who had been supplying many plants steel plates, and it was my judgment it was wiser to use the Government's money where the factors were all known, than to venture a hazard here in this community."

The community Mr. Allen referred to was San Bernardino County, Calif. Allen also stated at the above hearing:

"I thought there was a possibility that the venture might be successful, but the facts were not sufficiently clear to me to take the responsibility for gambling our Government's money, your money, and my money, on that."

At the hearing at which Allen gave the above testimony, Kaiser gave sworn testimony in which he stated:

"I listened to this for 2 hours in Washington, and his position [Editor: Mr. Allen's position] definitely was that, as far as he was concerned, he would not recommend one dime of the United States' money going into a defense-plant ownership of the Government, under the information he had, and he gave that opinion with great clarity to me."

Kaiser added:

"So that you may understand, just as soon as I found out that Mr. Allen would not support any Defense Plant money * * * I then cast around to see what could be done to have a steel plant."

Kaiser, in the same hearing, made this point:

"I think I could show you 100,000 tons of steel, in all the yards, that I call dead steel, because you cannot build a ship when you haven't got the decks and only the keel plates, and vice versa. In other words, there is no consecutive shipment of steel to us."

At this point:

"My real feeling was that, if we could really get those odd sizes for this coast, we could keep this coast in the shipbuilding business and deliver more ships. And it will not be very long when the yards with which I am associated on the coast—and I think it will be this year—will deliver 1,000 ships, so you can readily see the tremendous and vital interest."

Question 5. *Why does Kaiser charge the Government has discriminated unfairly between himself and United States Steel?*

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Answer. Because of these comparisons:

Government-owned Geneva plant, operated by United States Steel without risk, was permitted to install all needed equipment, had the complete cooperation of all Government agencies.	Kaiser was denied the right to install a blooming mill and other desired facilities at Fontana, nor was he permitted by WPB to purchase steel-plant equipment from certain established manufacturers (in particular: Mesta, United Engineering, Allis-Chalmers, Westinghouse, General Electric, Alliance Machine Works, and others).
Geneva plant, Fontana's primary competitor, has now been sold to United States Steel Corp. for approximately 20 cents on the dollar, the Government absorbing 80 percent of cost of the plant.	Kaiser payments on Fontana already have exceeded 20 cents on the dollar, yet Kaiser remains obligated to complete payment at 100 cents on the dollar, plus several million dollars in interest.
In the sale of Geneva to United States Steel the Government absorbed wartime fixed charges in its 80-percent write-off.	Kaiser is carrying the full wartime burden of fixed charges on Fontana, which was not designed for peacetime competition.

This inequity between Geneva and Fontana, if allowed to continue by reason of the Government's failure to adjust the Fontana loan, can destroy Fontana's otherwise competitive position and force the closing of the plant. If Fontana is forced out of business by abnormal fixed charges:

1. The Government loses any further benefits from Kaiser Steel operations.
2. The West loses the uninterrupted productive capacity of the plant and the benefits of its competitive force.
3. Kaiser loses his investment in Fontana, which is already proportionately greater than the total price paid by United States Steel for Geneva.

As matters now stand, this is the "favoritism" Kaiser has enjoyed at Fontana:

1. The opportunity to take private risk during wartime when the Government refused to take that risk.
2. The privilege of paying over $27,000,000 to date on Fontana.
3. The opportunity to pay, for Fontana, more than five times the proportionate price which the Government accepted from United States Steel for Geneva.

Question 6. *Was Kaiser favored in the escort-carrier program?*

Answer. No. In 1942 Kaiser initiated the program for small aircraft carriers, mass-produced, to help combat the submarine menace. Government and Navy high command originally rejected this proposal. Other men than Kaiser discussed Kaiser's escort-carrier program with President Roosevelt. As a result, the USMC was directed to produce 100 such carriers, and replaced Kaiser's Vancouver Yard Liberty contract with a carrier contract. But the Navy still opposed the idea of mass-produced small carriers, and had the contract cut to 50 carriers; also the Navy allocated a portion of the carriers to the British. Kaiser delivered carriers at the rate of one per week for 1 year. High Navy officers later testified to the decisive effect of these carriers; the Navy later rescinded allocations to the British. (If, as has been rumored, Kaiser was interested solely in profits, he would not have initiated and urged the escort-carrier program, since this required him to discontinue, at Vancouver, the building of Liberty ships on which his earnings would have been far greater.)

Question 7. *Did Kaiser receive special Government encouragement to enter the magnesium business?*

Answer. No. Kaiser applied for RFC financing to build the Permanente plant at private risk in 1940, realizing magnesium's importance in war. Government and military authorities said, "No"; claimed existing production of 6,000 tons yearly was enough. Months later, when the Government finally allowed a loan to Kaiser for Permanente, it also began construction of Government-owned plants with a capacity of 263,000 tons per year. Kaiser's program, initially opposed all the way by Government officials, resulted in Permanente magnesium becoming available during the critical period when Government plants were slow in getting into operation.

Question 8. *Did the Government favor Kaiser in the production of incendiaries?*

Answer. No. Kaiser technicians perfected goop at Kaiser expense, repeatedly calling the Government's attention to its value in incendiaries. Not until late

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in the war did the Government give the go-ahead on goop. Goop-filled bombs raised havoc in the last days of Germany, and are credited with being a great factor in reducing Japanese resistance, even before the use of atomic bombs. As the war ended, the Government was considering building, at its own cost, a second carbothermic plant for making goop, so successful had this Kaiser-weapon been proved.

Question 9. *Did Kaiser receive special privilege in the copper, nickel, or rubber industries?*

Answer. No. During the critical copper shortage of 1943, General Somervell, on his own initiative, asked Kaiser to develop marginal copper properties in Arizona and Washington. Somervell's reason: Copper interests were mining low-grade ores, preserving their high-grade ores, thus depressing production. Kaiser tackled the copper problem. Copper interests became alarmed at his threat of competition, and increased their production satisfactorily. At General Somervell's request, Kaiser bowed out.

The same story can be repeated of the nickel industry at a time when cannon barrel and aircraft engine production was restricted by the nickel industry's reluctance to increase production. And a similar story can be told about producers of petroleum-synthetic rubber. Kaiser was likewise used as a threat[1] to stimulate production in this vital industry.

OPERATING ON GOVERNMENT MONEY?

Question 10. *Have most of Kaiser's operations been carried on with United States Government money?*

Answer. No. This has been much misrepresented. An insignificant part has been carried on with United States Government funds.

Question 11. *Is it true that Kaiser suddenly emerged from nothing to become a large individual operator with the help of Government loans?*

Answer. No. Before the war, Kaiser and associates completed projects totaling $383,000,000. Most of this was on heavy construction, with extensive risk involved. All this was financed 100 percent from private sources.

Question 12. *It has been frequently stated that Kaiser made millions of dollars by using only $100,000 of private funds during wartime activities. Is this correct?*

Answer. No. As submitted to the Committee on the Merchant Marine and Fisheries, which is investigating the shipbuilding activities of the various companies managed by Kaiser organizations, there was over $32,000,000 in private funds used as operating capital for ship construction alone. Itemized, private funds for shipyard operating capital were as follows:

The Permanente Metals Corp	$8,500,000
Richmond Shipbuilding Corp	2,360,000
Oregon Shipbuilding Corp	6,950,000
Kaiser Co., Inc	13,850,000
Kaiser Fleetwings, Inc	1,000,000
Total	32,660,000

Question 13. *What were the total dividends received by companies in which Mr. Kaiser and his immediate family owned over 5 percent interest, from shipbuilding companies holding contracts from the Maritime Commission?*

Answer. The total dividends, before corporation or individual taxes, received from shipbuilding companies holding contracts with the USMC, by companies in which Kaiser and his immediate family owned over 5 percent interest, amounted to	$4,936,000
Of the above dividends ($4,936,000) stockholders other than the Kaiser family participated to the extent of	1,353,000
Total	3,583,000

NOTE.—The above is in answer to a written question asked by the Bland committee. The Bland committee, however, asked only about those shipbuilding companies (in which the Kaiser family held over 5 percent interest) which re-

[1] The "threat" to the rubber industry consisted of a letter of intent from Jesse Jones' Rubber Reserve Corporation. On the basis of this commitment Kaiser organized for the manufacture of rubber at a cost of thousands of dollars. Billing to Rubber Reserve Corporation for this amount has never been paid.

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ceived dividends. It did not ask about shipbuilding companies (in which the Kaiser family held over 5 percent interest) which sustained losses. In this regard, the question which follows should be on the record:)

Question 14. *What losses were incurred by companies engaged in shipbuilding operations for the Maritime Commission, in which Mr. Kaiser and his immediate family owned over 5 percent interest?*

Answer. Kaiser Co., Inc., wholly owned by Henry J. Kaiser Co. (owned by members of the Kaiser family), operated three USMC shipyards and the Fontana steel plant, built primarily to supply plate and other steel for ships. Kaiser Co., Inc., sustained these losses:

Operating losses, all divisions and before interest costs (during war only)	$9,196,000
Plus interest costs (Fontana loan)	9,383,000
Total net loss	18,579,000

(NOTE.—The Kaiser family consists of Henry J. Kaiser, Mrs. Henry J. Kaiser, Edgar F. Kaiser, Henry J. Kaiser, Jr.)

Question 15. *Did loans to Kaiser represent a major part of loans made by RFC?*

Answer. No. Kaiser interests borrowed one-half of 1 percent of the total RFC loans issued to VJ-day. (This computation made from RFC quarterly report to Congress covering period from inception of RFC to September 30, 1945.)

Question 16. *In the financing of how many Kaiser projects did RFC participate?*

Answer. There were loans on three projects, which were borrowed in the same manner as if borrowed from a bank. Kaiser interests signed promissory notes agreeing to repay all money with interest. They mortgaged their plants to RFC, and pledged fees and earnings from contracts as security for repayment. The three groups of loans to Kaiser interests were:

(1) $28,475,000 to construct Permanente magnesium, ferrosilicon, dolomite, and magnesia plants. This was a 10-year loan at 4 percent. It was repaid in full, with interest, in 4 years.

(2) $1,000,000 to expand Kaiser Fleetwings war production. This was a 10-year loan at 4 percent. It was repaid in full, with interest, in less than 4 years.

(3) $123,305,000[1] to build, operate, and partially convert for peacetime the Kaiser Steel plant at Fontana. Total repaid on loan to date, including interest, $27,227,220. Total set aside from shipyard earnings for payment when due, approximately $15,600,000.

KAISER CONTRIBUTIONS TO VICTORY

Question 17. *What did Kaiser contribute to the war as a producer?*

Answer. His record-breaking shipbuilding program is best known. Besides ships, however, he sent aircraft, aircraft parts, magnesium, incendiary material, artillery shells, iron and steel, ferroalloys, cement, chemicals, and other products into the world's battle.

Question 18. *What did Kaiser contribute to war as a builder?*

Answer. He constructed shipyards, air bases, drydocks, metals plants, munitions plants, war housing, hospitals, and child welfare centers. Of this construction over $210,000,000 worth, not including the Fontana steel plant or the Permanente magnesium plant, was constructed without fee or profit. Besides building and producing, Kaiser devoted his energies to experimental research, design, and engineering of ships, aircraft, plants, and facilities. Much of this, although performed at the request of the Government, was without financial compensation.

[1] This $123,000,000 loan was necessary because additional steel was needed for ships and shells, and because the Government would not allow Kaiser the same treatment as United States Steel Corp., to whom the Government furnished $200,000,000, without interest, for building the steel plant at Geneva.

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Question 19. *How did costs of Kaiser war enterprises compare generally with costs of other enterprises in the same fields?*

Answer. In the largest volume of his production, Kaiser's costs were lower. Fontana mill operated at a loss during its starting months; Kaiser Co., Inc., suffered that loss. (Fontana's costs are now comparable to the average for the industry, and RFC consultants have formally reported that Fontana, with the addition of needed equipment, can become one of the lowest-cost producers of all steel plants.)

SHIPBUILDING

Question 20. *How did Kaiser become a major factor in the emergency shipbuilding program?*

Answer. At the request of United States Maritime Commission officials. An excerpt from testimony of Admiral Land before a congressional committee follows:

"He certainly was one of the keymen in Six Companies, and it took us 2 years to hook him. He came down to my office at least three times, and I do not know how many times to Admiral Vickery's office, before we could get them mixed up in the shipbuilding business."

Question 21. *How many wartime shipyards were Kaiser-managed?*

Answer. Seven. Four at Richmond, Calif.; two at Portland, Oreg.; one at Vancouver, Wash. Total shipways operated: 58. These seven shipyards and appurtenant facilities were constructed for the Government at cost, without fee or profit. Cost exceeded $125,000,000.

Question 22. *Were Marinship and Calship Kaiser enterprises?*

Answer. No. Kaiser had no connection with Marin Shipbuilding Corp. and had no part in the management of California Shipbuilding Co. Kaiser companies held a 15.76 percent financial interest in Calship until April 1945, when this interest was sold and Kaiser severed all connection with California Shipbuilding Co.

Question 23. *How did Kaiser shipyard and shipbuilding costs compare with others?*

Answer. From the Truman committee reports to the Seventy-eighth Congress comparative figures are available on 15 United States Maritime Commission yards built for Liberty-ship construction. Three of these were Kaiser-managed yards. (While they investigated Liberty ships and shipyard construction only to June 1, 1944, these are the only known official public reports in which all factors are available for comparison on shipbuilding.) From the Truman committee reports, based on intensive investigation, these clear-cut comparisons follow:

Cost of shipyard facilities per Liberty ship produced

[To June 1, 1944, end date of Truman reports]

	Total cost of Liberty yards to June 1, 1944	Number Libertys built to June 1, 1944	Average cost per Liberty ship of Liberty yards to June 1, 1944
Other Liberty yards	$180,076,262	1,330	$135,396
Kaiser Liberty yards	40,440,000		
	[1] 5,506,500		
	45,946,500	807	56,935
Saving per Liberty ship			[2] 78,461

[1] Cost of Richmond Yard I purchased from British, which was omitted from Truman reports.
[2] It is well known that additional Liberty ships were built after the Truman reports, but no comparative figures on identical ship costs are available. Therefore, statistics have been limited to those contained in he Truman report.

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Average cost of Liberty ships produced

Total saved Government by Kaiser yards on Liberty shipyards alone, to June 1, 1944 ($78,461×807) $63, 318, 627

[To June 1, 1944, end date of Truman reports]

	Total cost of Liberty ships produced to June 1, 1944	Number of Liberty ships produced to June 1, 1944	Average cost per Liberty ship produced to June 1, 1944
Other Liberty yards	$1, 374, 964, 877	1, 330	$1, 033, 808
Kaiser Liberty yards	631, 594, 020	807	782, 644
Saving per Liberty ship			251, 164

Total saved Government by Kaiser yards on Liberty ships alone, to June 1, 1944 ($251,164 x 807) $202, 689, 348

RECAPITULATION

Total saved on shipyards based on Liberty ships produced to June 1, 1944 ..... $63, 318, 027
Total saved on costs of Liberty ships produced to June 1, 1944 ..... 202, 689, 348

Total saved on Liberty ships and shipyards by Kaiser to June 1, 1944 ..... 266, 007, 375

Man-hours on Liberty ships

[As of June 1, 1944, end date of Truman reports]

	Total man-hours to June 1, 1944	Number Liberty ships produced	Man-hours per Liberty ship
Other Liberty yards	894, 461, 259	1, 330	672, 527
Kaiser Liberty yards	369, 156, 331	807	457, 443
Saved per ship			215, 084

Total man-hours saved by Kaiser yards (215,084 × 807) 173, 572, 788

This equals the time that would be worked by 69,540 men, 48 hours per week, for the period of one year (52 weeks).

Average number of Liberty ships produced per month on each shipbuilding way[1]

[To June 1, 1944, end date of Truman reports]

	Total number Liberty ships to June 1, 1944	Number Liberty ships produced per month on each shipbuilding way
Kaiser Liberty yards	807	0. 981
Other Liberty yards	1, 330	. 562
Liberty ships produced per month on Kaiser ways over average all others		. 419

[1] Actual keel laying, launching and delivery dates obtained from USMC progress reports.

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Question 24. *What was the average construction time on Liberty ships?*

Answer. 1,889 Liberty ships built by non-Kaiser yards on 103 shipways required an average of 70.43 days, from keel-laying to delivery,[2] 819 Liberty ships built on the 30 shipways operated by Kaiser-managed yards required an average of 43.17 days, from keel-laying to delivery, or an average saving per ship of 27.26 days.[2]

Question 25. *How much longer would it have taken other shipyards to build 819 Liberty ships on the same 30 shipways operated by Kaiser organization?*

Answer. Two years and 14 days longer. (819 ships at 27.26 additional days on 30 shipways equal 744 days.)

Question 26. *How many and what type ships did Kaiser yards build for war?*

Answer. British cargo vessels (built under contract with British Government) 30.

EC2-s-C1 (Liberty cargo) vessels	821
VC2-s-AP3 (Victory cargo) vessels	109
VC2-s-AP2 (Victory cargo) vessels	110
VC2-s-AP5 (troop transport) vessels	87
C4-s-A3 (troop transport) vessels	15
S4-M2-K2 (LST) landing ship tank vessels	45
S2-S2-AQ1 frigates	12
C1-M-AV1 (coastal cargo) vessels	24
S4-S2-BB3 (aircraft carriers)	50
T2-SE-A1 tankers	147
C4-S-A1 troop transports	30
C4-S-A4 cargo vessels	10
Total	1,490

(1,460 ships built under the USMC program.)

Kaiser yards produced 27.06 percent of total deadweight tonnage in USMC program, 1941 through 1945.

Kaiser yards produced 25.73 percent of number of ships in USMC program, 1941 through 1945.

In addition to the 1,490 ships actually built and delivered, Kaiser shipyards have completed the outfitting of 6 naval auxiliary tankers which were launched by Marin Shipbuilding Corp., and 5 Victory transport vessels launched by California Shipbuilding Corp.

There are three combination passenger and cargo vessels now under construction by Oregon Shipbuilding Corp. for Alcoa Steamship Co. These three vessels are not included in the above totals.

Question 27. *What was total dollar volume of Kaiser ship construction?*

Answer. As of May 31, 1946, total dollar volume of contracts with the United States Maritime Commission was $4,019,256,000. Of this amount, 62.3 percent was completed on a cost-plus-fixed-fee basis; 37.7 percent was completed on a fixed-price basis under which Kaiser yards assumed as large a measure of risk as is present in peacetime competitive contracts.

Question 28. *Did Kaiser originate the frigate-building program?*

Answer. No. But Kaiser cargo engineers designed the S2-S2-AQ1 frigates and Kaiser's Richmond Yard 4 acted as "lead yard" in their construction. In addition, purchasing and expediting delivery of materials for the entire program in all yards was done by Kaiser without fee. One Kaiser yard and eight non-Kaiser yards participated; 96 frigates were built in 1943-44, Richmond Yard 4 built 12.

Question 29. *Why were frigates important to the war effort?*

Answer. As escorts for convoys, they relieved destroyers for battle duty.

Question 30. *Did Kaiser yards conduct battle-damage repair during wartime?*

Answer. Yes. Yard 3 at Richmond, Calif., and Swan Island Yard at Portland not only did a substantial amount of battle damage repair but also pioneered a new type of ship-repair contract which increased the incentive to reduce costs and resulted in a substantially lower fee to the contractor than the standard "master repair contract."

[2] Computed from USMC progress reports of vessels completed.

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Question 31. *What was the combined net profits of the corporations operating these seven yards?*

Answer. Less than one-tenth of 1 percent of dollar volume including material costs, after taxes, and after deducting loss of the Kaiser Co., Inc., which built and operated Fontana. All fees from five of the seven Kaiser-managed yards were pledged 100 percent to the United States Government through Reconstruction Finance Corporation as follows:

Yard 3, Richmond: On Fontana loan.
Swan Island Yard, Portland: On Fontana loan.
Vancouver Yard, Vancouver: On Fontana loan.
Yard 1, Richmond: On Permanente Magnesium Plant loan.
Yard 2, Richmond: On Permanente magnesium Plant loan.

Question 32. *Under cost-plus-fixed-fee contracts, was the contractor obliged to keep costs at a minimum?*

Answer. Yes. Under this type of contract, the Government disallows any costs considered excessive or nonessential. Any disallowed expenditure automatically constitutes a loss to the contractors. In addition, fees are reduced if man-hour costs and delivery times exceed certain limitations.

Question 33. *Did the Government maintain a check on shipyard operations?*

Answer. Hundreds of USMC auditors and inspectors were maintained at all yards at all times checking all expenditures, accounting, and operations.

Question 34. *It has been said that Henry J. Kaiser preferred operating on a cost-plus basis. Is this true?*

Answer. In reply, there follows Kaiser's letter to the President of the United States, dated March 17, 1944. It was Kaiser's belief that the competitive force resulting from fixed-price contracts would make management less apt to hoard and waste labor. In this regard, Kaiser also appealed to Donald Nelson and C. E. Wilson of the War Production Board, and to War Manpower Administrator Paul McNutt.

MARCH 17, 1944.

The Honorable FRANKLIN D. ROOSEVELT,
President of the United States,
The White House, Washington, D. C.

MY DEAR MR. PRESIDENT: I hesitate to encroach upon your time, but the importance of getting young industrial workers into the army without reducing war production prompts me in requesting a discussion of it with you. It is only because I believe a solution to the problem is possible that I wish to bring it to your attention.

The solution very briefly stated is this:

The Government procurement agencies return to the practice of competitive bids and eliminate cost-plus fixed-fee and negotiated price contracts.

This will result in—

(*a*) More efficient management in order to meet competition.
(*b*) Less man-hours per product and the elimination of present hoarding of labor with resulting liberation of many workers.
(*c*) Sustained war production from fewer men.
(*d*) Provide young men for the army from these liberated workers.

I may be reached through Mr. Calhoun in our Washington office, DIstrict 3718.

Yours respectfully,

HENRY J. KAISER.

MAGNESIUM

Question 35. *What did Kaiser's magnesium plant produce?*

Answer. 20,597,528 pounds of magnesium ingot during a critical war period when it was most urgently needed. 82,000,000 pounds of "goop" incendiary material. Magnesium castings and other products.

Question 36. *Did the Permanente magnesium plant result in a net loss to the Government?*

Answer. No. The RFC loan was paid in full November 1945. Subsidies paid on Permanente magnesium ingot, over ceiling price, amounted to a total of $2,735,361. Against this Permanente paid to the Government $3,262,761 in interest on its loan.

Question 37. *How did costs of magnesium metal produced by Permanente compare with costs of magnesium produced by Government plants?*

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Answer. The Government invested $370,000,000 (exclusive of interest) in DPC Government-owned plants. Including these facilities' costs plus interest, Government production compared with Permanente production as follows:

	Permanente plant	Government plants
Per pound magnesium ingot	33.8 cents	From 70.3 cents to $1.161.
Per 20,597,528 pounds ingot (Permanente's production)	$6,961,964	From $14,480,062 to $23,913,730.

Net savings on Permanente ingot: From $7,518,098 to $16,951,766.

Question 38. *What was "Permanente Goop"?*

Answer. "Goop" was the secret magnesium dust material used in the highest-type incendiary bombs developed. In any other United States magnesium plant, producing the same material would have been prohibitive in cost, if not impossible, but Permanente furnished it for an average of 18.3 cents per pound. The Chemical Warfare Service, in 1944, insisted that Permanente abandon all other production in favor of producing goop. Permanente produced 82,000,000 pounds of this material, for bombs which were used against Germany and to burn out the heart of Japan. Capt. G. E. Dawson, Chemical Warfare Service, United States Army, publicly declared on August 29, 1945: "The goop bomb was really the fourth and highest step in the development of incendiaries for the Army and Navy Air Forces. To shorten up a long story, the goop bomb and other incendiaries did so well against the industrial strongholds of Japan that nearly 160 square miles of industrial areas were bombed out. You [he referred to Kaiser workers] helped immensely to shorten the war and save thousands of American lives."

Question 39. *Were Kaiser magnesium interests confined to the Permanente plant?*

Answer. No. In addition to the private operation at Permanente, the Permanente Metals Corp. constructed and operated the Government-owned DPC plant at Manteca, Calif. This plant, costing $6,224,000, was built for the Government on a nonprofit basis without a fee. Magnesium was produced 3 months after award of the construction contract. In 2 years of operation it produced over 24,500,000 pounds and reached production 15 percent in excess of its rated capacity. Manteca employed the ferrosilicon process, as distinguished from the carbothermic process used at the Permanente plant. When the emergency need for magnesium was past, Manteca and other Government magnesium plants were closed by the Defense Plant Corporation.

AIRCRAFT

Question 40. *What were Kaiser's wartime activities in connection with aircraft?*

Answer. (1) In 1943 purchased with private capital Fleetwings plant at Bristol, Pa., from private interests. In addition borrowed $1,000,000 from RFC at 4 percent, for purpose of expanding war production. Paid off loan in full, with interest.

(2) Reorganized management, labor, and industrial relations of Brewster Aeronautical Corp.

(3) Struggled to get aircraft industry and Government to cooperate on building fleet of giant cargo planes. When his efforts resulted only in a contract for building experimental planes, shared by Howard Hughes, he shortly withdrew. He left the experimental project to Hughes with the understanding of both the Government and Hughes that Kaiser interests would undertake quantity production of these planes if the Government required.

Question 41. *What did Fleetwings manufacture?*

Answer. Wing and control parts, surfaces, and small parts for Corsairs, Avengers, Flying Fortresses, Havocs, Sea Wolf, and Hughes F-11. Made hydraulic valves. Made various aircraft, including still confidential dive-bomber, experimental helicopter, several experimental planes, a secret radio-controlled flying bomb. Made fuel and oil tanks, half-pontoons, pylons for helicopters, etc. Dollar volume of Fleetwing's war business: $73,000,000.

Question 42. *What was Kaiser's interest in Brewster Corp.?*

Answer. No financial interest. After seven managers had resigned, he took over as board chairman of Brewster at the urgent request of the Navy, managed Brewster 7 months, left with production exceeding Navy quotas. His time, that

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of his son, and considerable expense incurred, were entirely donated, because Brewster was in a production snarl and the Navy needed Corsair fighters.

During Kaiser management of Brewster:

Employees reduced: From approximately 22,000 to approximately 11,500.

Corsair production increased: From token hand-made production[1] to 120 per month.

Bank loan reduced: From $50,000,000 to $25,000,000.

Executive and administrative pay roll reduced by approximately $2,750,000 per year.

CEMENT

Question 43. *What was Permanente Cement's part in the war?*

Answer. Permanente took the initiative in 1940–41 to build up its production, shipping and distribution facilities in the United States and Honolulu, to provide for Pacific supply. All this was done with private capital. Use of bulk cement was then opposed by the Navy, which was induced to use bulk cement only when Permanente contracted to guarantee quality of cement as delivered at construction site. When Pearl Harbor was attacked, 65,000 barrels of cement were available in the Pacific area. Most of this was in Permanente's privately owned storage facilities in Honolulu. That amount helped put Honolulu airfields back into action fast, but it was a drop in the bucket to what became needed. In 1942 the Kaiser-directed company was given the contract to supply all bulk cement for Pacific airfields, fortifications, and other wartime installations. Before receiving the contract and after, here is how it met the Pacific challenge:

(1) Using private capital, bought and refitted two steamships as bulk carriers.

(2) Using private capital, expanded original Permanente plant capacity from 7,000 to 14,000 barrels per day. (Most of this was accomplished prior to Pearl Harbor.

(3) Using private capital, installed docks and fast bulk cement handling plants (prior to and after Pearl Harbor).

(4) Led many convoys with privately owned ships, never missed a convoy, delivered average 5,000 barrells daily from Honolulu during critical 1942–43 war period, exceeded rated plant capacity in 1942. In addition to Pacific export, Permanente had large commitments within the United States, including the contract to supply all cement for Shasta Dam.

Question 44. *How was the Shasta Dam cement contract awarded?*

Answer. By competitive bidding. Six other companies combined to submit a joint figure on 5,800,000 barrels. Kaiser's Permanente Cement Co. was the only other bidder on this amount.

	Per barrel	Total bid [1]
Permanente (Kaiser)	$1.19	$6,902,000.00
Beaver, Calaveras, Monolith, Santa Cruz, Pacific, Yosemite joint bid	1.482	8,595,866.80

[1] California-Portland and Riverside-Portland also submitted bids, but on the basis of smaller quantities.

On the Shasta Dam contract, Kaiser saved the United States Bureau of Reclamation the difference between his and the next closest bid, or $1,693,866.80.

Question 45. *Was the Permanente Cement plant Government subsidized?*

Answer. No. The original plant, designed and built by Kaiser engineers in 1939, was a privately financed venture. The RFC approved this project for a loan, but Kaiser chose to and did finance it privately. No Government financing was used. Later war expansion was likewise privately financed. All cement was made at private risk, delivered under contract, delivered on time.

Question 46. *What was the approximate dollar volume of Permanente bulk cement delivered to the Pacific during wartime?*

Answer. Dollar volume of sales to Pacific exceeded $15,000,000.

Question 47. *How much did Kaiser save the Government by the use of bulk facilities for Pacific wartime operations?*

[1] Total produced in over 1 year: 8.

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Answer. $7,448,217 in actual savings in price over sacked cement. This does not take into account the savings which bulk operations accomplished in ship-hours, which were huge; nor does it take into account the man-hours necessary for handling sacked cement. The dollar value of the precious man-hours saved by this operation can be estimated, at a minimum, as double that of the savings in actual price of the product.

IRON AND STEEL

Question 48. *Why was Kaiser's Fontana steel mill built?*

Answer. Steel-producing corporations did not supply sufficient steel on time for wartime shipbuilding, especially for west-coast shipyards. Kaiser built the Fontana plant to meet that need. For doing so, the Kaiser Co., Inc., shows a loss of $18,000,000.

Question 49. *Was Kaiser offered a Government-owned steel plant on the same basis as United States Steel Corporation?*

Answer. No. Kaiser repeatedly urged Government agencies to authorize him to construct, at Government expense, a Government-owned plant on the west coast to provide sorely needed steel for ships. Kaiser was flatly refused. But the Defense Plant Corporation did authorize construction of the $200,000,000 Geneva, Utah, plant by the United States Steel Corp., at Government expense. United States Steel built and operated Geneva during wartime, assuming no financial risk. Later United States Steel bought Geneva from the Government for $40,000,000, or approximately 20 cents on the dollar. On Fontana, built by Kaiser at private risk, Kaiser is paying off a 100 cents on the dollar, plus interest, unless and until some adjustment is made on the loan.

Question 50. *What did Kaiser's Fontana plant produce for war?*

Answer. 1,209,000 tons of steel ingot, from which Fontana made: 547,000 tons of plate, 135,000 tons of shapes, 94,000 tons of shell steel, 17,000 tons of bars.

Question 51. *Where was Kaiser steel used?*

Answer. Ship steel for 230 ships; shell steel for 155-millimeter, 90-millimeter, and 8-inch shells; 155,000 tons ingot to England during crucial period in 1943; remainder to various war uses, including the filling of critical shortages of sizes needed for ships in various shipyards.

Question 52. *How did Fontana operations compare to Geneva operations?*

Answer. Thus:

	Fontana	Geneva (78 percent greater capacity)
Authorized	March 1942	September 1941.
Built and operated by	Kaiser (private risk)	United States Steel (Government risk).
Total plant and equipment cost	$96,250,000	$191,210,000.[1]
Plate mill began production	August 1943	April 1944.
Total tons of steel ingot produced for war effort.	1,209,000 tons	1,148,600 tons.[2]

[1] Taken from Surplus Property Subcommittee Report on War Plant Disposal. War Production Board report of June 14, 1945, when the plant was 95 percent complete, showed cost of $202,493,208. Also the Surplus Property Board report to Congress of October 1945 showed a total cost of $202,493,208.

[2] To June 1946.

WAR HOUSING AND TRANSPORTATION

Question 53. *Did Kaiser build war housing and transportation?*

Answer. Yes. In connection with the shipyards, the Kaiser organization built housing projects in the amount of $33,818,000 and transportation facilities costing $2,817,000. These were built under United States Maritime Commission contracts without fee. The Kaiser organization also built housing projects costing $36,269,000 for FPHA. This work was also done without fee. These housing projects were located in the Richmond, Calif., Portland, Oreg., and Vancouver, Wash., areas. They included recreational facilities, child-welfare centers, and necessary civic buildings. The total of housing and transportation facilities built at cost, and without fee, amounted to $72,904,000.

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HEALTH

Question 54. *How did Kaiser become identified with health programs?*

Answer. Kaiser had been interested in problems of health and industrial accidents for many years. On his heavy-construction operations, which were often in isolated areas, he learned the importance of efficient medical facilities in the field. At Grand Coulee he became acquainted with Dr. Sidney Garfield, who was in charge of medical facilities on this project. Dr. Garfield was made medical director of the Kaiser companies, organizing their medical services.

Question 55. *What is the Permanente Foundation and when was it formed?*

Answer. It is a nonprofit charitable trust established in 1942 by Mr. and Mrs. Henry J. Kaiser to set up modern hospitalization facilities in which to conduct medical research and medical care.

Question 56. *Why was the Permanente Foundation formed at that time?*

Answer. To provide adequate and economical medical care for employees of Kaiser shipyards and their families in the Oakland-Richmond area. The tremendous influx of war workers to this area had badly overtaxed local medical facilities.

Question 57. *How were Permanente Foundation hospitals financed and built?*

Answer. With more than $600,000 of private funds as follows: $375,000 borrowed from bank to buy and equip an idle Oakland hospital; $200,000 borrowed from bank to build a new hospital wing, which became necessary 8 months later (both the above loans have been repaid in full, with interest); $40,000 invested in equipment and facilities out of operating revenue.

In 1943 the Federal Works Administration developed field-hospital facilities at Richmond, which the Permanente Foundation undertook to operate on a rental agreement. Subsequently, during 1944, additions were made to the Oakland hospital by the FWA on a rental-purchase agreement.

Question 58. *Were operations of the Oakland and Richmond hospitals Government subsidized?*

Answer. No. They have always operated entirely on private funds. Such operation has been made possible through the strong support of membership in their prepaid health program.

Question 59. *What did the prepaid health program cost members?*

Answer. Fifty cents per week, for which they were guaranteed complete medical care and hospitalization for virtually all nonindustrial illness and accident.

Question 60. *How was a member financially protected against industrial illness and accident?*

Answer. By insurance carried by Kaiser shipyards in accordance with State compensation laws. The Oakland-Richmond hospitals treated practically all such cases among Kaiser shipyard employees, on contract with the insurance carriers.

Question 61. *How large was membership in the prepaid health program?*

Answer. Average membership during 1943-44 was 65,000.

Question 62. *How much medical service was performed by the Oakland-Richmond program?*

Answer. In 1943-44 alone:

Major and minor operations performed	8,500
First-aid treatments inside shipyards	2,115,000
Out-patient visits	805,000
Patient-days in hospital	136,000
House calls	24,000

Question 63. *How is income from the health program used?*

Answer. 1. To pay for and improve facilities.

2. To pay for free treatment of charity patients.[1]

3. To pay for medical research.[1]

4. To pay salaries of doctors, nurses, and staff, and other ordinary hospital operating expenses. (The board of trustees, including Mr. Kaiser, have never drawn compensation for their services.)

Question 64. *When was the Northern Permanente Foundation formed?*

Answer. In 1942, in Vancouver, Wash.

Question 65. *How does it operate?*

[1] For these the foundation expended $40,000 in 1944 alone. Research has been productive of several advances in medical techniques, as for example in the new method of ulcer treatment at the foundation, which was recently announced.

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Answer. In a similar fashion to the Oakland health plan. It had about one-third as many war workers to care for as the Permanente Foundation in Oakland.

Question 66. *Did Northern Permanente Foundation receive Government funds during the war?*

Answer. Yes. $220,000 was granted outright by the Federal Works Administration in its Lanham fund program of fostering schools and hospitals where needed. However, approximately $800,000 of private funds were used.

Question 67. *When was Southern Permanente Hospital built?*

Answer. The Southern Permanente Hospital was built on the grounds of the Fontana steel mill during wartime, to care for Fontana workers with a health program similar to that in Oakland. It was a much smaller project, however, since it was designed to handle 3,500 employees and their families at Fontana, while Permanente Foundation in Oakland handled medical care for about 90,000 shipyard workers.

Question 68. *Did the Government finance Southern Permanente Hospital?*

Answer. All operations of the hospital and health program were financed with private funds. Buildings and equipment costing approximately $200,000 were paid for out of the total RFC loans on the Fontana steel plant. Buildings and equipment are owned by Kaiser Co., Inc., from which they are leased by the physician operating the health program.

WELFARE

Question 69. *Where did Kaiser establish child-service centers?*

Answer. At Portland, Oreg., where he established two such centers near Kaiser shipyards.

Question 70. *How did they operate?*

Answer. With a staff of 100 specially trained teachers, 10 registered nurses, a medical consultant, and 5 child nutritionists. Buildings were specially designed, hot meals, naps, and play specially supervised. They were open to children 18 months to 6 years old. Attendance at each center averaged 275 daily in 1944.

Question 71. *What did this service cost parents?*

Answer, $5 per week for one child; $3.75 per week each for additional children.

Question 72. *What did these centers cost Kaiser?*

Answer. An operating deficit of $643,000 was paid by Kaiser out of shipyard earnings.

Question 73. *Of what value were these child centers to the war effort?*

Answer. Aside from their inestimable value to children receiving care, they saved an estimated total of 2,150,000 child-care hours. If translated into man-hours, this was enough to build 6.5 Liberty ships in Kaiser shipyards.

SECTION III. KAISER POSTWAR ACTIVITIES

VOLUME PRODUCTION FOR PEACE

Question 1. *What has Kaiser accomplished since VJ-day?*

Answer 1. Production of (*a*) rock products, (*b*) aircraft, (*c*) ships, (*d*) housing, (*e*) automobiles, (*f*) iron, steel, and byproducts, (*g*) cement, (*h*) refractories, (*i*) gypsum, (*j*) aluminum, (*k*) magnesium products, (*l*) numerous other allied products and byproducts.

2. Ship repair.
3. Operation of health plans, hospitals.
4. Experimental research, design, and engineering.
5. Engineering surveys.

Today Henry J. Kaiser is busy with 28 enterprises, ranging from autos to aluminum, cement to chemicals, ships to steel, hospitals to housing. Today Kaiser-directed interests operate more than 50 plants, grouped in 5 major regional centers, and producing 130 different products for the market.

ALUMINUM

Question 2. *When did Kaiser enter the aluminum business?*

Answer. February 1946, when he signed letters of intent with War Assets Administration by which he leased two Government-owned plants in Spokane, Wash. He later leased a Government plant at Baton Rouge, La. By July 1946 he and his organization had entered production and were marketing aluminum.

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Question 3. *How did Kaiser interests finance their aluminum business?*

Answer. Operating funds of approximately $20,000,000 were obtained from bank loans and other private sources.

Question 4. *At what terms did Kaiser lease Government plants?*

Answer. According to a pattern established by War Assets Administration, requiring fixed minimum annual payments based on 70 percent of wartime costs of the plants. Minimum rentals are $1,000,500 for the first year, increasing to $4,167,900 per year in the fifth year. In addition, Kaiser pays all taxes, insurance and maintenance. Plants are leased for 5 years, with options on renewal or purchase.

Question 5. *Was Kaiser given a favored opportunity to lease these plants?*

Answer. No. Shortly after VJ-day, RFC (then the disposal agency) wired 224 leading companies in the metal and metal-working industry, inviting leasing proposals.

Question 6. *Is Kaiser manufacturing aluminum only for his own industries?*

Answer. No. Most of his initial production has gone to outside industries, 50 percent of them on the west coast. Kaiser aluminum is appearing throughout American households and industry, can already be found in products ranging from aircraft, ships and automobiles to commercial refrigerators, appliances and air-conditioning systems. Kaiser will make full use of aluminum in his own automobile, housing, shipbuilding, and aircraft enterprises.

Question 7. *Is Kaiser a major competitor in aluminum?*

Answer. Yes. Annual capacity of his three integrated plants is equal to 70 percent of total prewar annual consumption. His operations are third largest among three national competitors. His plants soon will produce 24,000,000 pounds per month.

Kaiser has obtaind privately owned bauxite rights in South America. The Baton Rouge plant can convert bauxite into 1,000,000,000 pounds of alumina annually; the Mead reduction plant at Spokane can reduce alumina to aluminum ingot at the rate of 216,000,000 pounds each year; the Trentwood rolling mills at Spokane can finish 288,000,000 pounds of plate, sheet and strip yearly. At peak opration, the 3 plants will employ 4,500.

Question 8. *Is Kaiser meeting his announced production schedules?*

Answer. Yes, and better:

	Production	
	Scheduled	Actual
	Pounds	*Pounds*
July 1946	4,000,000	4,020,000
August 1946	8,000,000	9,064,000

HOUSING

Question 9. *Has Kaiser entered postwar housing on a large scale?*

Answer. Yes, by forming a company known as Kaiser Community Homes with Fritz B. Burns, a prominent Los Angeles builder.

Question 10. *What is the program of Kaiser Community Homes?*

Answer. (1) To build low-cost houses, on lots developed by Kaiser Community Homes from raw acreage. Kaiser and Burns have announced their intentions of creating houses for average families which are structurally sound, functionally efficient, economical, more productive of satisfying living than the small home has ever been.

(2) To build not only better houses, but better communities. Whole communities are being erected, complete with shopping centers, providing planned areas for churches, playgrounds and schools for full living.

Question 11. *Is Kaiser Community Homes building homes now?*

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Answer. Yes:

Construction under way on over 1,000 homes.

Foundations being poured at rate of 20 per day.

Los Angeles plant (largest of its kind in world) producing subassemblies for 10 homes per day.

By mid-October this production will increase to 20 homes per day.

Question 12. *Where are homes being constructed?*

Answer. Kaiser Community Homes building on large tracts at San Jose, Calif., Santa Clara, Calif., Ontario, Calif., North Hollywood, Calif., Los Angeles, Calif. (Westchester), Los Angeles, Calif. (West Side Terrace).

Affiliated companies building at Portland, Oreg., Willow Run, Mich.

Sites bein gprepared by Kaiser Community Homes at Monterey Park, Calif., Compton, Calif., Oakland Area, Calif.

Total land holdings of Kaiser Community Homes and affiliates, including land being built upon and land being developed: 11,500 lots.

Question 13. *Has Kaiser Community Homes completed any homes?*

Answer. Over 200 homes completed for veterans' program. (As called for by Wilson Wyatt, National Housing Administrator, Kaiser Community Homes is now building exclusively for veterans.)

Question 14. *Are any of these homes occupied?*

Answer. All of them. Veterans are moving in as fast as homes are completed.

Question 15. *Is Kaiser Community Homes' program in compliance with Wilson Wyatt's program?*

Answer. Yes. It is building two- and three-bedroom homes for veterans at the lowest possible cost during the current price and material situation. Homes are selling for $7,000 to $8,500, including house, lot, garage, complete street improvements and utilities.

Question 16. *How many houses will Kaiser Community Homes build this year and next?*

Answer. 2,000 homes in 1946, 10,000 homes in 1947 (200 per week) despite:

1. Materials shortages.
2. Erecting a plant from scratch.
3. Irreducible 6 to 9 months time needed to prepare community building sites.

Question 17. *How is Kaiser Community Homes being financed?*

Answer. $5,000,000 of private funds now invested in—

Land and street improvements	$3,000,000
Materials and payrolls	1,500,000
Plant and equipment	500,000

Question 18. *Has Kaiser Community Homes received Government aid?*

Answer. It is 100 percent privately financed. No subsidies, RFC loans, or other Government funds have been sought.

Question 19. *How large is the Los Angeles plant?*

Answer. Largest preassembly plant in existence, and also the largest woodworking plant west of Chicago. It occupies 15 acres, has been completely built and equipped in the period since March 1946.

Question 20. *How does it operate?*

Answer. The main part of the home, i.e., the chassis, is made up of subassemblies built in the plant, loaded on trucks, shipped to community sites and assembled on the foundations. Subassemblies are skilfully adapted to site, erected under highly engineered and mechanized precision techniques. Roof, garage, porches, exterior surfaces, plumbing, electrical installations and general completion are site-operations. This method introduces economy plus quality in structure and individual styling.

Question 21. *How many workmen are employed by Kaiser Community Homes?*

Answer. Over 1,000, in plant and field. All are employed under A. F. of L. union contracts.

IRON AND STEEL

Question 22. *Has peacetime reduced operations at Fontana?*

Answer. No. Fontana is now operating at capacity, with its output contracted to peacetime users well into 1947. Every major steel fabricator and distributor on the west coast is a Fontana customer. Revisions to rolling mills should be completed this year. Set for completion by June 1947 are a pipe mill for making urgently needed ½-inch to 4-inch butt-weld pipe, and cold-rolling facilities. In

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addition to marketing a dozen byproducts, Fontana has recently contracted to furnish slag to a mineral-insulation manufacturer employing a new process.

Question 23. *Is Fontana important to western economy?*

Answer. Vitally so, and therefore important to the Nation since national economy cannot be sectionalized. The fact has been repeatedly published by impartial industrial and Government authorities. Steel is now short in supply, shipments from eastern plants have decreased, while, in the face of an expanding economy, the capacity of eastern plants is descending due to attrition.

Question 24. *Is Fontana producing steel economically?*

Answer. Yes. Its present operating cost, without abnormal fixed charges is below or equal to the average of all steel plants in the United States. With needed improvements to correct war-built deficiencies (part of which are now being constructed), it will become one of the lowest-cost plants in the Nation, and it is located in its primary market.

Question 25. *Why does Kaiser call fixed charges at Fontana "abnormal"?*

Answer. Because they are carried over from wartime, on facilities dictated by wartime requirements and War Production Board restrictions. Payment at 100 cents on the dollar for wartime installations constitutes an abnormal charge against Fontana's peacetime operations, according to the judgment of impartial engineering sources. In competition with the Geneva plant, sold to United States Steel Corp. for 20 cents on the dollar, Fontana can be forced out of business by the burden of its present fixed charges.

Question 26. *It has been said that there are not sufficient ore reserves available to support this plant. Is this true?*

Answer. No. California ore reserves in Eagle Mountain alone are sufficient to operate Fontana for over 50 years. Eagle Mountain, near Fontana, was recently purchased by Kaiser.

AUTOMOBILES

Question 27. *Did Willow Run involve Government financing?*

Answer. No. Kaiser-Frazer was financed by public stock issues which were heavily oversubscribed. The Willow Run plant was leased for manufacturing, and a portion of the Douglas Aircraft plant at Long Beach, Calif., was leased for assembly of cars and other products. Both plants were leased from the Government.

Question 28. *Is Willow Run in production?*

Answer. Yes. Eight months after Kaiser-Frazer engineers entered the bare plant, Willow Run was producing automobiles. Distribution from production lines is now being made to dealers, at completion of which delivery will begin to the public. Of the total Willow Run production, two-thirds are Kaiser Specials, one-third are Frazers.

Question 29. *Will buyers of Kaiser and Frazer cars have service and parts ready available to them?*

Answer. Yes. The Kaiser-Frazer service and marketing organization has been carefully established. 4,200 independently financed dealers in the United States were chosen out of 40,000 applicants primarily for their auto experience. The Kaiser Special car is distributed direct from the factory. The Frazer car is marketed through 157 distributors. Each distributor maintains a complete warehouse of parts for both cars. Each dealer maintains full service facilities. The Kaiser-Frazer dealer organization is already equal to national marketing organizations which have taken other big car manufacturers years to build.

MAGNESIUM

Question 30. *Will Kaiser continue in the magnesium business in peacetime competition?*

Answer. Yes, he is aiming at active competition with Dow, who is presently the sole producer of prime magnesium.

Question 31. *What are the resources of Kaiser and his associates in this field?*

Answer. The following plants: Permanente magnesium plant, Permanente, Calif.; Magnesium-oxide plant, Moss Landing, Calif.; Dolomite plant, Natividad, Calif.

Fixed assets, machinery, and equipment of the above plants were valued at over $20,000,000 as of July 31, 1946. In addition, Permanente has an investment of $750,000 in patent rights and assignments.

Question 32. *Are the costs involved in Permanente's carbothermic process adverse to competition with Dow's electrolytic process?*

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Answer. No. An improved carbothermic process has been developed over the past 18 months and at private expense at Permanente. It is now being adapted to full-scale operation. Under this improved process, production costs attained will be competitive with the Dow process.

Question 33. *Why is the improved process more economical than before?*

Answer. In effect, the improved process intercepts the product in the middle of the former process, after which the magnesium is removed as a liquid in a simple, continuous furnace. The former batch process involved the operation of a large amount of equipment and necessitated repeated rehandling of the product. This has now been eliminated.

Question 34. *Does Kaiser plan large-scale magnesium-producing operations?*

Answer. Yes. He is convinced that a substantial market for magnesium will be developed. Consumption of magnesium now shows a steady monthly increase. Its future is encouraged by—

(1) Unlimited supply of magnesium raw materials.
(2) One-third lighter than aluminum.
(3) Welds, casts, machines easily, as compared to other materials.

Question 35. *Where does he consider that magnesium will be used in quantity?*

Answer. In anything that moves or is movable. Extensive uses can be developed in the transportation field alone. (Kaiser has used 60 percent magnesium in the body of his recently completed 60-foot articulated bus.)

GYPSUM

Question 36. *When did Kaiser enter the gypsum field?*

Answer. In 1944, when he concluded an agreement with Standard Gypsum Co., Inc., a long-established gypsum plaster company in southern California. Assuming control under the agreement, Kaiser is building west-coast gypsum plants and other improvements costing in excess of $1,000,000.

Question 37. *What will Standard Gypsum produce?*

Answer. The modernized plaster mill at Long Beach, Calif., will shortly be in production of a full line of gypsum plasters. A new mill for making gypsum wallboard, lath, and sheathing is under construction, due for completion in January 1947. Civilian Production Administration has approved continuation of construction since products from these facilities will help alleviate serious building material shortages.

Question 38. *Was this company privately financed?*

Answer. Entirely.

CEMENT

Question 39. *Have Kaiser cement operations retrenched since VJ-day?*

Answer. No. The Permanente Cement plant (world's largest) is operating at capacity for peacetime users. New distribution facilities at Seattle have just been completed which include a dock, silos, sacking plant, railroad spurs, office building. These supplement facilities already established at Redwood City and Merced, Calif., and Honolulu. In continuous production since it was built, Permanente had produced over 25,000,000 barrels, as of July 31, 1946.

HEALTH

Question 40. *Have the Kaiser nonprofit health programs been made available to the public?*

Answer. Yes; at both Permanente Foundation (Oakland) and Northern Permanente (Vancouver). A public program soon will be made available at Fontana.

Question 41. *Has the public responded?*

Answer. Yes. Public membership has been subscribed largely by industrial and union groups. Members of the prepaid health program who are not Kaiser employees comprise 85 percent of those treated in Oakland, 70 percent of those treated in Vancouver and Portland. In Vancouver, veterans are being hospitalized on a contract basis with the Veterans' Administration, which provides that 50 percent of Northern Permanente's 300 beds will be available at all times for veterans.

Question 42. *Are Kaiser hospital facilities being enlarged?*

Answer. Yes. The Oakland Permanente Hospital has been expanded. In July 1946 the Permanente Foundation purchased with private funds a $200,000 hotel for a nurses' home and training center. Temporary facilities are being

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used in Portland, Oreg., while a new $75,000 clinic is being built in that city. Postwar public enrollment in the Kaiser prepaid health programs indicates that continued expansion of facilities will be necessary.

Question 43. *Has Kaiser interested himself in a paralysis cure?*

Answer. Yes; with Dr. Herman Kabat. Following a 4-year development of a new therapy involving the drug prostigmin and a new type muscle reeducation, Dr. Kabat and Mr. Kaiser announced the establishment in July of 1946 of the Kabat-Kaiser Institute for Neuromuscular Rehabilitation. The institute is sponsored by the Permanente Foundation. A 60-room apartment house in Washington, D. C., has been purchased to serve as the institute's first hospital and clinic.

Dr. Kabat's treatment is for rehabilitation of persons incapacitated by strokes, infantile paralysis, multiple sclerosis, certain forms of arthritis, and brain injuries at birth.

OTHER POSTWAR ACTIVITIES

Question 44. *Has Kaiser continued shipyard operations since VJ-day?*

Answer. Yes. Drydocking, repair work, and conversion have been carried on at Richmond Yard 3 and at Swan Island Yard, Portland. From January 1945 to July 1946 approximately $38,000,000 of ship repairs were completed. Four other yards which he operated in wartime have been or are being turned back to WAA for disposal. Kaiser has made plans for shipbuilding, repair, and salvage in the Richmond yard and Swan Island yard and has planned creation of other industries at the Richmond and Swan Island yards. These plans are subject to the Government's action in making the yards available for lease or purchase.

Question 45. *What is Fleetwings makings today?*

Answer. Military aircraft, aircraft subassemblies, stainless-steel specialties, household appliances, automobile parts, and miscellaneous aluminum products.

Question 46. *How active is Kaiser in the rock products field?*

Answer. He operates sand and gravel plants at Pleasanton, Antioch, Upton, Felton, and Oroville, Calif., and one at Seattle, Wash. He has been a leader in this field many years. Production innovations which he installed 15 years ago are now standard practice in the industry. In addition to his producing units, Kaiser operates four major batching and ready-mix concrete plants on the west coast, and several others in conjunction with building-materials dealers. Over a period of 20 years, sales from the above operations total over $20,000,000 to date.

Question 47. *What other products are marketed by Kaiser interests?*

Answer. Chemicals, ferroalloys, refractories, limes, machinery, fertilizers, dolomite products, and others. Kaiser interests are actively engaged in the contracting field. Kaiser Engineers, Inc., a large firm incorporating top talent in all heavy-engineering fields, is presently engaged in projects and studies in the United States and foreign countries. The experimental division of Henry J. Kaiser Co. is engaged in research on plastics, building materials, mechanical cores for modern homes, aluminum applications, private planes, household appliances, etc.

SECTION IV. PREWAR KAISER ACTIVITIES

PERSONAL HISTORY

Question 1. *When and where was Henry John Kaiser born?*

Answer. May 9, 1882, Sprout Brook, N. Y.

Question 2. *Who were his parents?*

Answer. Mother, Mary Kaiser; father, Francis (Frank) J. Kaiser.

Question 3. *What was his father's occupation?*

Answer. Shoe factory mechanic.

Question 4. *What was the financial situation of his family?*

Answer. Moderate means.

Question 5. *What was the extent of Henry Kaiser's schooling?*

Answer. Formal education stopped just before the eighth grade.

Question 6. *What was his religious training and what are his present church affiliations?*

Answer. Henry Kaiser was christened in the Lutheran Church. He and all the members of his family were confirmed in the Episcopal Church on July 30, 1939.

Question 7. *What are his political affiliations?*

Answer. None.

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Question 8. *Whom did he marry?*
Answer. Bessie Fosburgh, of Boston, Mass., on April 8, 1907.
Question 9. *Do they have any children?*
Answer. Edgar F. Kaiser, born Spokane, Wash., July 29, 1908; Henry J. Kaiser, Jr., born Everett, Wash., February 18, 1917.
Question 10. *Where does he live?*
Answer. Oakland, Calif.

EARLY BUSINESS

Question 11. *What training did he have before entering business for himself?*
Answer. (1) Cash boy and later salesman at J. B. Wells Dry Goods Store, Utica, N. Y.
(2) General work at F. E. Colwell Co., wholesale and retail dealers in photographic supplies, Utica, N. Y.
(3) Shipping and billing clerk, later salesman for W. A. Semple, wholesale and retail dealer in photographic supplies, Utica, N. Y.
(4) Junior partner in photographic firm of Brownell & Kaiser, Lake Placid, N. Y. Became sole owner in about a year and opened shops in Daytona Beach and Miami, Fla.
(5) Salesman for McGowan Bros. Hardware Co., Spokane, Wash.
(6) Salesman for Hawkeye Fuel Co., Spokane, Wash.
(7) Salesman and manager of paving contracts for A. J. Hill Co. (later taken over by Canadian Mineral Rubber Co.), Spokane, Wash.

KAISER VENTURES

Question 12. *What was Mr. Kaiser's experience after entering business for himself (1914–31)?*
Answer. (1) From 1914 to 1916 he carried on paving operations in British Columbia under the name of Henry J. Kaiser Co., Ltd. Approximate dollar volume $325,000.
(2) From 1916 to 1921, paving operations, under the name of Kaiser Paving Co., in Washington and Idaho. Approximate dollar volume $2,500,000.
(3) From 1921 to 1928, paving operations in California, under the name of Kaiser Paving Co. Approximate dollar volume $4,800,000.
(4) From 1927 to 1930, paving opertions in Cuba, under the name of Kaiser Paving Co. Approximate dollar volume $20,000,000.
(5) During the period of highway construction in California (1923–30) the Kaiser Paving Co. built two earthfill dams, one at Vallejo and one near Stirling City, Calif. Approximate dollar volume $543,000.
(6) In 1928, 1929, and 1930, Kaiser Paving Co. built levees on the Mississippi River. Approximate dollar volume $185,000.
(7) From 1931 to 1933 the firm of Bechtel-Kaiser Co., Ltd., constructed the following pipe lines:

A. Dodge City, Kans., line (1930), about 140 miles between Garfield, Kans., and Beaver City, Okla., for the Continental Construction Corp. Approximate dollar volume $897,000.

B. 77 miles of natural-gas pipe line between Dumas and Lefors, Tex., for the Texoma Natural Gas Co. (1930–31). Approximate dollar volume $496,000.

C. 290 miles of pipe line running through Texas, New Mexico, Arizona, and Mexico, for the Western Gas Co. (1931). Approximate dollar volume $1,389,000.

D. 199 miles from Elliston to Butte and Anaconda, Mont., for Phoenix Utility Co. (1931). Approximate dollar volume $403,000.

E. 217 miles in the State of Arizona for Western Gas Co. (1933). Approximate dollar volume $776,000.

All of the above construction contracts were performed with private financing.
Question 13. *When did he enter the sand and gravel business?*
Answer. From the earliest paving operations he supplied much of the required sand and gravel. Commercial production began at Black Butte, Calif., in connection with paving operations there. This plant operated from 1921 to 1930. Sales totaled approximately $278,000.
Sand and gravel operations were established as an independent enterprise for the first time at Livermore, Calif., in 1923. This plant operated until 1931, during which period it produced more than 3,000,000 tons. Sales were in excess of $1,375,000.

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Question 14. *Does he still engage in this business?*

Answer. (1) Yes. The Radum plant at Pleasanton, Calif., has processed more than 17,900,000 tons of material since 1931. It continued to operate and its sales to date are in excess of $13,000,000.

(2) Sand plants at Antioch and Felton, Calif., have processed more than 2,000,000 tons and sales have aggregated more than $900,000.

(3) The Upton Rock plant, near Oakland, Calif., began operations in 1939 and has processed approximately 1,000,000 tons. Sales approximate $640,000. The Oroville, Calif., rock plant has processed in excess of 3,300,000 tons of ballast and commercial rock. Sales have totaled about $1,700,000.

(4) A number of disturbing units for aggregates and ready-mixed concrete trucks are maintained. Sales from distributing facilities to date approximate $3,300,000.

Question 15. *When did Kaiser enter the cement business?*

Answer. In 1939, when Kaiser and his associates formed the Permanente Corp., which later became the Permanente Cement Co. The plant was designed and built by Kaiser engineers. Construction began June 1939 and cement was produced December 1939. Plant was originally constructed to supply 7,000 barrels per day for Shasta Dam contract. It was enlarged to 14,000 barrels per day (5,000,000 per year) during war to supply all bulk requirements of Pacific war theater, as well as domestic contracts and installations in Panama Canal Zone.

Question 16. *Did Kaiser enter the shipbuilding business before World War II?*

Answer. Yes; as follows:

(1) In 1939 Kaiser and associates joined 50–50 with Todd Shipyards and founded the Seattle-Tacoma Shipbuilding Corp. This company submitted a low competitive bid to the United States Maritime Commission in July 1939 for construction of five C–1 cargo vessels. In a shipyard privately constructed at Tacoma, the five vessels were completed September 1941.

The five vessels were part of USMC's prewar long-range program of constructing 50 ships per year in accordance with the Merchant Marine Act of 1936.

In addition to Kaiser, who served as a director, J. A. McEachern and C. A. Shea served as vice president and director, respectively, of Seattle-Tacoma. Both these men had shipbuilding experience and had participated in the World War I shipbuilding program. Shea was associated with North Pacific Shipbuilding Co., McEachern headed the J. A. McEachern Co.; both companies built ships in the northwest during the first world war.

(2) In December 1940 Kaiser and associates joined with Todd to form Todd-California Shipbuilding Corp. and contracted with the British Government to build a 7-way shipyard and 30 cargo ships. The yard was completed at Richmond, August 1941. In February 1942 the operation of the yard and the ship contract were absorbed by Kaiser and associates when they bought out Todd. The yard became Richmond Yard 1. It completed the 30 ships for the British in 1942.

(3) Participation and association with the above companies and early shipbuilding, by Kaiser and others who later became officers and directors of the various Kaiser shipbuilding companies, resulted in "know-how" demonstrated in 1942 when Kaiser yards broke shipbuilding records.

Question 17. *What were Henry Kaiser's other prewar business activities?*

Answer. They consisted of a large number of construction projects carried on as joint venture or syndicate operations with other contracting firms.

JOINT VENTURES AND SYNDICATE OPERATIONS

Question 18. *What is meant by the "joint venture" or "syndicate" operations so often mentioned in Kaiser construction activities?*

Answer. The original syndicate agreement to which Henry Kaiser was a party covered the association of contractors known as "Six Companies, Inc." for the construction of Boulder Dam. The companies participating were the following: The Utah Construction Co., MacDonald & Kahn Co., Ltd., Morrison-Knudson Co., J. F. Shea Co., Inc., Pacific Bridge Co., W. A. Bechtel Co., and Henry J. Kaiser Co., Sidney Ehrman, Graeme MacDonald.

Under this agreement, the various phases of the work were allotted to the member firms. Executive responsibilities were exercised by an executive committee of the board of directors. The construction of Boulder Dam was the only syn-

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dicate in which no single party to the agreement sponsored or managed the entire effort. In subsequent syndicates one of the companies known as a "sponsor" assumed full responsibility for operations and for the management of the project to its completion. The other syndicate members had only financial participation. Profits were distributed in proportion to the investment without additional compensation to the sponsor of the project.

Question 19. *What was Henry Kaiser's part in the Six Companies, Inc., as regards the Boulder Dam Contract?*

Answer. He was chairman of the executive committee and he held that office until the completion of the Boulder Dam contract.

Question 20. *Henry Kaiser's name is often associated with three of the major flood control and irrigation projects in the West which followed the building of the Boulder Dam. What part did he have in the building of the dams on Bonneville, Grand Coulee, and Shasta?*

Answer. (1) The Bonneville Dam near Portland, Oreg., was a syndicate operation performed by the Columbia Construction Co., consisting of W. A. Bechtel Co., the Utah Construction Co., MacDonald & Kahn, Inc., Morrison-Knudson Co., Inc., Henry J. Kaiser Co., and the Kaiser Co., under the management and sponsorship of Henry J. Kaiser, as described above (June 1934 to March 1938). The contract volume of this project was in excess of $16,500,000.

(2) The project at Grand Coulee was carried on under two separate and distinct contracts: (*a*) The low dam, which brought the structure above the stream level; (*b*) the high dam, or superstructure.

The underwater construction of the Grand Coulee Dam was performed by Mason-Walsh-Atkinson-Kier Co. Neither Henry Kaiser nor any of his former associates in Six Companies, Inc., had any part in this phase of the work. The contract for the superstructure, including the power houses and the pumping plant foundation, was awarded to the Consolidated Builders, Inc., in February 1938. This organization included the following principals: Henry J. Kaiser Co., the Kaiser Co., Pacific Bridge Co., MacDonald & Kahn, Inc., the Utah Construction Co., Morrison-Knudsen Co., Inc., J. F. Shea Co., Inc., General Construction Co., and Mason-Walsh-Atkinson-Kier Co. The Henry J. Kaiser Co. was the sponsor and manager. This contract involved the pouring of 5,500,000 cubic yards of mass concrete. The total dollar volume was nearly $41,000,000. The work was completed in December 1942.

(3) Although Henry Kaiser did not participate in the contract for the construction of the Shasta Dam, he was awarded the contracts for the cement and for the aggregates on this project. On his low bid for cement alone, he saved the United States Bureau of Reclamation $1,693,866.80. The aggregate contract was undertaken by the Columbia Construction Co., Inc., which again included the principals of the original Six Companies together with certain other associates. This work was under the sponsorship of the Henry J. Kaiser Co. The contract involved the processing of more than 12,500,000 tons of sand and gravel and the expenditure of approximately $7,700,000. This was the contract on which a 9.6-mile belt conveyor was constructed by Kaiser engineers in order to expedite the delivery of sand and gravel, at a substantial saving to the Government.

Question 21. *Were these the only syndicate projects which he sponsored and managed?*

Answer. No. He also sponsored the following:

	Volume
1. Bonneville Lock Approach Canal, Bonneville, Oreg. (1935–36)	$324,000
2. Gray's Harbor Jetty No. 1, Gray's Harbor, Wash. (1935–36)	397,000
3. Gray's Harbor Southern Jetty No. 2, Gray's Harbor, Wash. (1936–40)	4,607,000
4. Columbia River Rock Jetty, Ilwace, Wash. (1937–39)	1,188,000
5. Gray's Harbor Northern Jetty, Hoquiam, Wash. (1940–42)	1,720,000
6. Shore Facilities, Mare Island, Calif. (1940–43)	9,632,000
7. Los Angeles and Long Beach Breakwater (1941–42)	8,700,000
8. Mare Island shipyard construction, Vallejo, Calif. (1941–43)	7,922,000
9. Drydock, Vancouver, Wash. (1944–45)	2,900,000

Questin 22. *Were these the only syndicates in which Kaiser was interested?*

Answer. No. He participated financially and shared the risk in about 75 other projects sponsored by his associates.

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Question 23. *Did the public save money on Kaiser's prewar operations as well as his wartime operations?*

Answer. Here are but three examples of savings on prewar public projects completed by Kaiser and his associates:

Boulder Dam	$5,000,000 below next lowest bid.
Bonneville Dam	500,000 below next lowest bid.
Grand Coulee Dam	7,250,000 below next lowest bid.

The competitive enterprise of Kaiser and his associates resulted in similar savings on most of their prewar projects. Such projects, in total, amounted to nearly $400,000,000.

EXHIBIT 36

GENERAL ACCOUNTING OFFICE,
OFFICE OF COMPTROLLER GENERAL,
Washington 25, June 16, 1945.

In reply quote initials
B-37430
B-37463
B-37485

MEMORANDUM

During the past it has been the practice of both the Navy and the United States Maritime Commission to use exceedingly high estimates of cost for the construction of vessels, which practice redounds to the benefit of contractors, particularly in connection with contracts containing penalty and bonus provisions, such as contained in the so-called "price-minus" form of contract. The higher the estimate the greater the saving of which the contractor receives 50 percent.

Now the so-called "selective price" form of contract has been placed in operation. This form of contract has a range of prices and under the terms of the contract the contractor is required to select the price at which he will construct a vessel before the keel is laid (in some instances, however, the contractor has been permitted to select the price on many vessels which have been completed under other contracts and the vessels were sailing the high seas at the time of transfer to the "selective price" form of contract. See B-37430, Pennsylvania Shipyards, Inc., B-37463, California Shipbuilding Corp., and B-37485, Oregon Shipbuilding Corp.), and the lower the price selected, the higher the guaranteed profit. Therefore through the establishment of a high price range the contractor is placed in the position of being able to select the maximum profit.

The price and profit ranges on three specific contracts are as follows:

Pennsylvania Shipyards, Inc. (contract MCc-34973)

Unadjusted vessel price	*Maximum vessel profit*	*Unadjusted vessel price*	*Maximum vessel profits*
$2,200,000	$25,000	$1,900,000	55,000
$2,150,000	30,000	$1,850,000	66,000
$2,100,000	35,000	$1,800,000	77,500
$2,050,000	40,000	$1,750,000	89,000
$2,000,000	45,000	$1,700,000	100,000
$1,950,000	50,000		

The contractor selected the price of $2,100,000 for the first nine hulls (several of which had been completed and delivered at the time of execution of the contract) with a profit of $35,000 per vessel, and for the remaining 10 vessels the contractor selected the minimum price of $1,700,000 per vessel with a profit of $100,000 each or a profit increase of $65,000 per vessel (or approximately 95 percent increase in profit).

California Shipbuilding Corp (contract MCc-34764)

Unadjusted vessel price	*Maximum vessel profit*	*Unadjusted vessel price*	*Maximum vessel profits*
$3,075,000	$38,450	$2,550,000	104,810
$3,000,000	47,930	$2,475,000	114,200
$2,925,000	57,410	$2,400,000	123,770
$2,850,000	66,890	$2,325,000	133,250
$2,775,000	76,370	$2,250,000	142,730
$2,700,000	85,850	$2,175,000	152,210
$2,625,000	95,330		

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The contractor selected prices as follows:

Date of selection	Selected price	Profit per vessel	Total profit	Number of vessels
Mar. 1, 1945	$2,625,000	$95,330	$3,717,870	39
Mar. 14, 1945	2,400,000	123,770	866,390	7
Apr. 11, 1945	2,325,000	133,250	1,332,500	10
May 25, 1945	2,175,000	152,210	3,500,830	23
Total			9,417,590	79

Many of the vessels had been completed and delivered at the time of execution of the contract.

Oregon Shipbuilding Corp. (Contract MCc-34763)

Unadjusted vessel price	*Maximum vessel profit*	*Unadjusted vessel price*	*Maximum vessel profit*
$3,300,000	$41,200	$2,775,000	$106,650
$3,225,000	50,550	$2,700,000	116,000
$3,150,000	59,900	$2,625,000	125,350
$3,075,000	69,250	$2,550,000	134,700
$3,000,000	78,600	$2,475,000	144,050
$2,925,000	87,950	$2,400,000	153,400
$2,850,000	97,300	$2,325,000	162,750

The contractor selected the price of $2,700,000 and a profit of $116,000 each for the first 40 vessels, and $2,550,000 and a profit of $134,700 per vessel for the remaining 48 vessels. The contractor may further increase his profits by selecting a lower price before the keels are laid and in view of the high price range the prospects are that the contractor will select the minimum price for some of the vessels and thereby increase his profits to $162,750 each on such vessels as to which the minimum price is selected. It should be noted that 17 vessels had been delivered (and sailing the high seas), 9 hulls launched, and 11 keels laid at the time of execution of the contract.

In view of the inventory situation and the lack of cost information, the Government is at the mercy of contractors under such contracts. The Commission has little or no information on costs, which is clearly demonstrated by the terms of the contracts.

T. H. REAVIS.

GENERAL ACCOUNTING OFFICE,
OFFICE OF INVESTIGATIONS,
June 20, 1945.

B-37463

REPORT ON MARITIME COMMISSION SELECTIVE PRICE CONTRACTS WITH CALIFORNIA SHIPBUILDING CORPORATION

Examination of the records of the United States Maritime Commission reveals that as of March 1, 1945, the Commission entered into contract No. MCc-34764 (selective-price contract) with the California Shipbuilding Corp. for the construction of 79 (design VC2-SAP-2) vessels. Eighteen of the vessels were originally covered by, and practically completed under, contract No. MCc-15740 dated April 20, 1943, and 45 of the vessels were originally covered by, and partially completed under contract MCc-30603 dated July 18, 1944.

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There follows a tabulation showing progress of construction of the vessels as of March 1, 1945, date of the consolidation under selective-price contract No. MCc-34764, and as of May 1, 1945.

Contract No.—	Hull No.—	Keel laid	Launched	Delivered
MCc-15740	MCV-67	Oct. 15, 1944	Dec. 6, 1944	Jan. 15, 1945
Do	68	Oct. 19, 1944	Dec. 12, 1944	Jan. 20, 1945
Do	69	Oct. 26, 1944	Dec. 15, 1944	Jan. 24, 1945
Do	70	Dec. 29, 1944	Dec. 19, 1944	Jan. 27, 1945
Do	71	Oct. 31, 1944	Dec. 22, 1944	Jan. 29, 1945
Do	72	Nov. 3, 1944	Dec. 27, 1944	Jan. 31, 1945
Do	73	Nov. 6, 1944	Dec. 29, 1944	Feb. 8, 1945
Do	74	Nov. 13, 1944	Jan. 9, 1945	Feb. 13, 1945
Do	75	Nov. 20, 1944	Jan. 11, 1945	Feb. 16, 1945
Do	76	Nov. 21, 1944	Jan. 13, 1945	Feb. 18, 1945
Do	77	Nov. 25, 1944	Jan. 16, 1945	Feb. 20, 1945
Do	78	Nov. 29, 1944	Jan. 19, 1945	Feb. 22, 1945
Do	79	Dec. 1, 1944	Jan. 24, 1945	Feb. 23, 1945
Do	80	Dec. 2, 1944	Jan. 27, 1945	Feb. 26, 1945
Do	81	Dec. 6, 1944	Jan. 31, 1945	*Feb. 28, 1945*
Do	82	Dec. 12, 1944	Feb. 2, 1945	Mar. 5, 1945
Do	83	Dec. 15, 1944	Feb. 9, 1945	Mar. 8, 1945
Do	84	Dec. 19, 1944	Feb. 13, 1945	Mar. 12, 1945
MCc-30603	767	Dec. 22, 1944	Feb. 16, 1945	Mar. 15, 1945
Do	768	Dec. 28, 1944	Feb. 22, 1945	Mar. 19, 1945
Do	769	Dec. 29, 1944	Feb. 24, 1945	Mar. 22, 1945
Do	770	Jan. 9, 1945	*Feb. 28, 1945*	Mar. 36, 1945
Do	771	Jan. 11, 1945	Mar. 2, 1945	Mar. 28, 1945
Do	772	Jan. 13, 1945	Mar. 6, 1945	Mar. 30, 1945
Do	773	Jan. 16, 1945	Mar. 9, 1945	Apr. 3, 1945
Do	774	Jan. 19, 1945	Mar. 14, 1945	Apr. 7, 1945
Do	775	Jan. 24, 1945	Mar. 17, 1945	Apr. 12, 1945
Do	776	Jan. 27, 1945	Mar. 22, 1945	Apr. 14, 1945
Do	777	Jan. 31, 1945	Mar. 26, 1945	Apr. 18, 1945
Do	778	Feb. 2, 1945	Mar. 30, 1945	Apr. 23, 1945
Do	779	Feb. 9, 1945	Apr. 2, 1945	Apr. 25, 1945
Do	780	Feb. 13, 1945	Apr. 5, 1945	Apr. 28, 1945
Do	781	Feb. 16, 1945	Apr. 11, 1945	----------
Do	782	Feb. 22, 1945	Apr. 14, 1945	----------
Do	783	Feb. 25, 1945	Apr. 19, 1945	----------
Do	784	*Feb. 28, 1945*	Apr. 23, 1945	----------
Do	785	Mar. 2, 1945	Apr. 27, 1945	----------
Do	786	Mar. 6, 1945	Apr. 30, 1945	----------
Do	787	Mar. 9, 1945	----------	----------
Do	788	Mar. 14, 1945	----------	----------
Do	789	Mar. 17, 1945	----------	----------
Do	790	Mar. 22, 1945	----------	----------
Do	791	Mar. 27, 1945	----------	----------
Do	792	Mar. 30, 1945	----------	----------
Do	793	Apr. 3, 1945	----------	----------
Do	794	Apr. 5, 1945	----------	----------
Do	795	Apr. 11, 1945	----------	----------
Do	796	Apr. 14, 1945	----------	----------
Do	797	Apr. 24, 1945	----------	----------
Do	798	Apr. 27, 1945	----------	----------
Do	799-811	----------	----------	----------
MCc-34764	885-900	----------	----------	----------
Progress Mar. 1, 1945	79	36	22	15
Progress May 1, 1945	79	50	38	32

It will be noted that as of the date (March 1, 1945) of contract MCc-34764, 36 keels had been laid, 22 hulls launched, and 15 vessels delivered under cost-plus contracts MCc-15740 and MCc-30603.

Article 4 of the "selective price" contract (MCc-34764) provides:

"The Commission will furnish at the Shipyard to the Contractor the principal items of material, machinery and equipment and certain subcontract work to be incorporated in the construction of each Vessel, which items are listed on Exhibit 'A' attached hereto and made a part hereof. Such items shall be furnished for the agreed sum of $1,175,000 per Vessel, which amount shall be deducted from the amounts otherwise payable under the terms of this contract. In the event that any changes are made in the plans and specifications pursuant to the provisions of Article 3 hereof and the Commission, by reason thereof, shall furnish any other or different items of material, machinery and equipment,

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or shall not be required to furnish any such item, no adjustments will be made in the afore-mentioned agreed sum of $1,175,000 and in the event that any such changes result in an adjustment of the contract price under the provisions of Article 9 hereof, the items of material, machinery and equipment to be purchased by the Contractor from the Commission and required for any such change shall be deemed to have been furnished to the Contractor at the same cost as if the change had not been made. All such items to be furnished by the Commission shall be delivered at the Shipyard as and when they are needed for the orderly prosecution of the contract work in accordance with the schedule of delivery dates set forth in Article 5 hereof, and if the Commission shall fail to so furnish any of such items it shall pay the Contractor an amount equal to the actual net increase in the cost of the performance of work hereinunder due to such failure. The Commission will also pay to the Contractor the cost to it of correcting deficiencies in any items so furnished provided that the Contractor shall have obtained the permission of the Commission's duly authorized representative to correct such deficiencies and shall make available to the Commission, or its representative, all information necessary for the prosecution by the Commission of any claim against the seller or manufacturer of the item found to be deficient, and the Commission shall also pay the cost of removing and reinstalling any item furnished by it in those cases where the moving and reinstalling any item furnished by it in those cases where the defect therein was not discovered until after it had been installed on board a Vessel. The Commission reserves the right to direct the Contractor to purchase directly any item listed on said Exhibit 'A' and will pay to the Contractor the actual net cost, after deducting all rebates and refunds which have accrued to the benefit of the Contractor, of the item so purchased in accordance with such directions. The payments, if any to be made by the Commission under the terms of this Article shall be in addition to and not on account of the contract price or the payments to be made thereof under Article 7 of this contract. In the event that any of the material furnished by the Commission to the Contractor pursuant to the provisions of this Article shall become scrap or excess, the Contractor shall, pursuant to directions of the Commission, sell such material and pay to the Commission an amount equal to the net proceeds of the sale less all expenses incurred by the Contractor in connection therewith."

By addendum No. 1 dated as of May 17, 1945, the amount to be deducted for material furnished by the Government was reduced to $1,082,546.

In view of the provisions of article 4 of the contract an inventory of the material and equipment which had been purchased and paid for by the Government (incorporated into the vessels and balance on hand at the time of execution of contract MCc-34764) appears of prime importance if the interest of the United States is to be adequately protected. Efforts to locate such inventory to date have been unavailing.

In the absence of accurate inventories of material incorporated into the hulls and on hand at the time of execution of contract MCc-34764 (March 1, 1945), the contractor will no doubt be placed in an advantageous position inimical to the interest of the United States in view of the provisions of article 10 (d) and (e) of the contract which provide:

"(d) Prior to laying the keel of any one or more of the vessels to be constructed hereunder, the Contractor may decrease or increase the unadjusted vessel price for each of the vessels the keels of which have not then been laid in the sum of $75,000 or any multiple thereof, provided that no increase may be made which will cause such unadjusted vessel price to exceed the sum of $3,075,000. The Contractor may thereafter from time to time in like manner and subject to like limitations decrease or increase the unadjusted vessel price for each of the Vessels the keels of which have not then been laid. In the event of any such decrease or increase, the contract price shall be decreased or increased, as the case may be, by an amount equal to the decrease or increase in the unadjusted vessel price multiplied by the number of vessels, the keels of which have not then been laid. The contract price as so adjusted shall be subject to the further adjustments theretofore made or thereafter to be made, pursuant to the provisions of the preceding Articles 8 and 9 hereof. Each notice of election to decrease or increase the unadjusted vessel price as aforesaid shall be given by the Contractor in writing to the Commission and sent by registered mail, addressed to the Secretary, United States Maritime Commission, Washington, D. C., which notice shall be effective upon mailing.

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"(e) The term 'Maximum vessel profit' as used herein shall mean an amount based on the unadjusted vessel price determined in accordance with the following table:

Unadjusted vessel price	*Maximum vessel profit*	*Unadjusted vessel price*	*Maximum vessel profit*
$3, 075, 000	$38, 450	$2, 550, 000	$104, 810
$3, 000, 000	47, 930	$2, 475, 000	114, 290
$2, 925, 000	57, 410	$2, 400, 000	123, 770
$2, 850, 000	66, 890	$2, 325, 000	133, 250
$2, 775, 000	76, 370	$2, 250, 000	142, 730
$2, 700, 000	85, 850	$2, 175, 000	152, 210
$2, 625, 000	95, 330		

In the event of a decrease in the unadjusted vessel price made pursuant to the provisions of paragraph (d) hereof, the maximum profit shall be increased by the difference between the maximum vessel profit shown on the preceding table for the unadjusted vessel price in effect prior to the decrease and that shown on such table for the unadjusted vessel price subsequent to such decrease, multiplied by the number of Vessels the keels of which have not been laid. In the event of any increase in the unadjusted vessel price made as aforesaid, the maximum profit shall be decreased by an amount equal to the difference between the maximum vessel profit shown in the preceding table for the unadjusted vessel price as so increased and that shown for the unadjusted vessel price as in effect prior to the increase, multiplied by the number of Vessels the keels of which have not been laid. In no event, however, shall the maximum profit as adjusted under the provisions hereof exceed the sum of $12,024,590."

Article 32 of the contract provides:

"(a) The Commission and its Chairman have determined that the profits to be derived by the Contractor hereunder can be determined with reasonable certainty when the contract price specified was established, and has exempted this contract from the provisions of subparagraphs 1 and 2 of paragraph (b) of Section 403 of the Sixth Supplemental National Defense Appropriation Act (Public 528, 77th Congress, 2nd Session) as amended by Title VIII of Public Law 753 (77th Congress, 2nd Session) and Public Law 235 (78th Congress). It is hereby agreed that the contract price hereunder shall not be subject to renegotiation, nor shall the Commission have any right to retain amounts otherwise due the Contractor or require the repayment by the Contractor of any profits, except as hereinbefore otherwise expressly provided."

Article 32 of the contract appears to be inconsistent with the provisions of article 10, particularly in view of a cost spread of $900,000 ($3,075,000—$2,175,000) and a profit spread of $113,760 ($152,210—$38,450) per vessel and the provisions of subsection (a) of said article 10, as follows:

"* * * The amonunt of such profit shall be determined by the Commission pursuant to the provisions of its 'Regulations Prescribing the Method of Determining Profit, Adopted May 4, 1939' including amendments and annotations to September 1, 1941, and for the purpose of such determination the contractor shall make such statements and returns to the Commission as it shall direct and shall also make available to inspection and audit by representatives of the Commission all books, files, and other records of the contractor."

The records show that prices were selected as follows:

Date of selection	Selected price	Profit per vessel	Total profit	Number of vessels
Mar. 1, 1945	$2, 625, 000	$95, 330	$3, 717, 870	39
Mar. 14, 1945	2, 400, 000	123, 770	866, 390	7
Apr. 11, 1945	2, 325, 000	133, 250	1, 332, 500	10
May 25, 1945	2, 175, 000	152, 210	3, 500, 830	23
Total			9, 417, 590	79

The records also show that at the time (March 1, 1945) the contract was executed 36 keels had been laid, 22 hulls launched, and 15 vessels delivered, which indicates that the contractor knew or should have known the cost of the vessels before the contract was executed.

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That the price range is too high is indicated by the fact that on May 25, 1945, the contractor selected the minimum unadjusted vessel price of $2,175,000 and the maximum profit of $152,210 per vessel, and in view of the foregoing it appears that the contractor, instead of receiving the maximum profit of $7,531,070 as limited by article 10 (c), will receive a profit of $9,417,590 under article 10 (e).

The statement of contracts renegotiated shows that profits were allowed the contractor in the amount of $23,901,325 for the construction of 336 vessels under contracts as follows:

Contract No.	Number of vessels	Renegotiation contract No.	Profit allowed
MCc-7785	31	MCc 29119-330W	16,551,325
MCc-7786	24		
MCc-2128	109		
MCc-7834	60		
MCc-13097	112	MCc 33693-570W	7,350,000
Total	336		23,901,325
Average profit per vessel allowed Under MCc-29119-330W (224 vessels)			73,890
Average profit per vessel allowed under MCc-33693-570W (112 vessels)			65,625
Average profit per vessel allowed for the total of 336 vessels			71,135

The records indicate that profits will accrue to the contractor under selective-price contract MCc 34764 as follows:

Number of vessels	Total profit	Profit on vessel
39	$3,717,870	$95,330
7	866,390	123,770
10	1,332,500	133,250
23	3,500,830	152,210
79	9,417,590	
Average profit per vessel		119,210

It will be noted that the average profit allowance per vessel under the selective-price contract is 67 percent greater than the average profit allowed per vessel for the 326 vessels covered by the renegotiation agreements. While a portion of the increase may be accounted for due to the decrease in deliveries under the selective-price contract, the records indicate that such decrease does not exceed 25 percent.

It is also to be noted that the maximum fees allowable under the contracts for the construction of the 336 EC-2 vessels was $140,000 each, which amount was reduced to an average of $71,135 each under the hereinbefore referred to renegotiation agreements, as compared with a maximum profit of $152,210 per vessel under the selective-price contract, which profit is, under article 32 of said selective-price contract, exempted from the provisions of the renegotiation statute.

In connection with the matter, attention is invited to office letter dated June 7, 1945 (B-37430), relating to a similar contract with the Pennsylvania Shipyards, Inc. There also appears for consideration the contractor's investment as compared with that of the Government and the profit limitation of 10 percent of the contract price contained in section 505 (b) of the Merchant Marine Act, 1936, as amended, where the entire capital investment is supplied by the contractor.

T. H. REAVIS.

GENERAL ACCOUNTING OFFICE,
OFFICE OF THE COMPTROLLER GENERAL,
Washington, July 17, 1945.

In reply quote initials

B-37407
B-37427
B-37430
B-37463 } United States Maritime Commission.
B-37485
B-39846
B-39865

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MEMORANDUM

It appears that shipbuilders will be granted an undue advantage of the Government under the so-called selective-price form of contract due to the high and wide range of contract prices from which the contractors may select prices. There follows a statement of the low prices selected for vessels of two designs:

Design C1-M-AV1

The price and profit ranges in the contracts are as follows:

Unadjusted vessel price	*Maximum vessel profit*	*Unadjusted vessel price*	*Maximum vessel profit*
$2,200,000	$25,000	$1,900,000	$55,000
$2,150,000	30,000	$1,850,000	66,000
$2,100,000	35,000	$1,800,000	77,500
$2,050,000	40,000	$1,750,000	89,000
$2,000,000	45,000	$1,700,000	100,000
$1,950,000	50,000		

Prices selected by three contractors are as follows:

	Vessel price	Profit	Commission material
Pennsylvania Shipyards, Beaumont, Tex	$1,700,000	$100,000	$802,000
Globe Shipbuilding Co., Superior, Wis	1,850,000	66,000	773,000
Froemming Bros., Inc., Milwaukee, Wis	2,200,000	25,000	802,000

Note the wide difference in contract prices for vessels of the same design. The contractors assume no risk. If they guess too low on the first keel the price may be raised on subsequent keels and recoup any losses. The contractors know they can make a profit of $25,000 per vessel, which amount may be increased as construction goes on based on cost experience. The Government gains nothing from the cast experience unless it can be said that the shipbuilders have no regard for costs when the Government is paying the bill.

Design VC-2S-AP2

The price and profit ranges are as follows:

Unadjusted vessel price	*Maximum vessel profit*	*Unadjusted vessel price*	*Maximum vessel profit*
$3,075,000	$38,450	$2,550,000	$104,810
$3,000,000	47,930	$2,475,000	114,290
$2,925,000	57,410	$2,400,000	123,770
$2,850,000	66,890	$2,325,000	133,250
$2,775,000	76,370	$2,250,000	142,730
$2,700,000	85,850	$2,175,000	152,210
$2,625,000	95,330		

Note the wide price range to select from—high $3,075,000, low $2,175,000—a spread of $900,000.

Prices selected by three contractors are as follows:

	Vessel price	Profit	Commission material
Bethlehem-Fairfield, Baltimore, Md	$2,475,000	$114,290	$1,175,000
California Shipbuilding Corp., Los Angeles, Calif	2,175,000	152,210	1,175,000
Permanente Metals Corp., Richmond, Calif	2,550,000	104,810	1,175,000

Note Kaiser Co. at Los Angeles, Calif., selected a price of $2,175,000 per vessel whereas the Kaiser Co., at Richmond, Calif. (San Francisco), selected a price of $2,550,000 for vessels of the same design.

The so-called selective-price contract is nothing more than a cost-plus contract with provision for increasing profits through reduction of the admittedly high costs. The selective-price contract is similar to the so-called price-minus contract, the only difference being that under the latter savings under the esti-

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mated cost (selected price) are divided after audit with the contractor on 50–50 basis, whereas under the selective-price contract the portion of the savings payable to the contractor is fixed in the contracts, based on costs as estimated by the contractor.

Since the selective-price contracts contain an escalator clause for labor and material and practically all material is supplied by the Government at a fixed price stipulated in the contract, regardless of cost, the contractor not only assumes no risk, but is, in effect, guaranteed excessive profits based on their capital invested as compared with the taxpayers, investment.

T. H. REAVIS.

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